

Smith David Ross
Form 4
February 28, 2019

FORM 4 UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Smith David Ross

2. Issuer Name and Ticker or Trading Symbol
CHARLES RIVER LABORATORIES INTERNATIONAL INC [CRL]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

Director 10% Owner
 Officer (give title below) Other (specify below)
Corporate Executive VP & CFO

(Last) (First) (Middle)

3. Date of Earliest Transaction (Month/Day/Year)
02/26/2019

251 BALLARDVALE STREET
(Street)

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 Form filed by More than One Reporting Person

WILMINGTON, MA 01887

(City) (State) (Zip)

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)			
			Code	V	Amount	(D)	Price			
Common Stock	02/26/2019		M		4,187	A	\$ 73.7	24,270	D	
Common Stock	02/26/2019		S ⁽¹⁾		100	D	\$ 139.32	24,170	D	
Common Stock	02/26/2019		S ⁽¹⁾		100	D	\$ 139.46	24,070	D	
Common Stock	02/26/2019		S ⁽¹⁾		100	D	\$ 139.51	23,970	D	
Common Stock	02/26/2019		S ⁽¹⁾		100	D	\$ 139.56	23,870	D	

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Common Stock	02/26/2019	<u>S</u> ⁽¹⁾	100	D	\$ 139.57	23,770	D
Common Stock	02/26/2019	<u>S</u> ⁽¹⁾	100	D	\$ 139.58	23,670	D
Common Stock	02/26/2019	<u>S</u> ⁽¹⁾	100	D	\$ 139.59	23,570	D
Common Stock	02/26/2019	<u>S</u> ⁽¹⁾	100	D	\$ 139.61	23,470	D
Common Stock	02/26/2019	S	750	D	\$ 139.6184	22,720	D
Common Stock	02/26/2019	<u>S</u> ⁽¹⁾	100	D	\$ 139.64	22,620	D
Common Stock	02/26/2019	<u>S</u> ⁽¹⁾	100	D	\$ 139.65	22,520	D
Common Stock	02/26/2019	S	300	D	\$ 139.69	22,220	D
Common Stock	02/26/2019	S	400	D	\$ 139.7	21,820	D
Common Stock	02/26/2019	<u>S</u> ⁽¹⁾	100	D	\$ 139.75	21,720	D
Common Stock	02/26/2019	<u>S</u> ⁽¹⁾	100	D	\$ 139.77	21,620	D
Common Stock	02/26/2019	<u>S</u> ⁽¹⁾	100	D	\$ 139.79	21,520	D
Common Stock	02/26/2019	<u>S</u> ⁽¹⁾	100	D	\$ 139.8	21,420	D
Common Stock	02/26/2019	<u>S</u> ⁽¹⁾	100	D	\$ 139.82	21,320	D
Common Stock	02/26/2019	<u>S</u> ⁽¹⁾	100	D	\$ 139.85	21,220	D
Common Stock	02/26/2019	<u>S</u> ⁽¹⁾	100	D	\$ 139.88	21,120	D
Common Stock	02/26/2019	<u>S</u> ⁽¹⁾	100	D	\$ 139.92	21,020	D
Common Stock	02/26/2019	<u>S</u> ⁽¹⁾	100	D	\$ 139.94	20,920	D
Common Stock	02/26/2019	<u>S</u> ⁽¹⁾	100	D	\$ 139.98	20,820	D
Common Stock	02/26/2019	<u>S</u> ⁽¹⁾	100	D	\$ 140.03	20,720	D
	02/26/2019	<u>S</u> ⁽¹⁾	100	D	\$ 140.1	20,620	D

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Common Stock							
Common Stock	02/26/2019	S ⁽¹⁾	100	D	\$ 140.19	20,520	D
Common Stock	02/26/2019	S ⁽¹⁾	100	D	\$ 140.26	20,420	D
Common Stock	02/26/2019	S ⁽¹⁾	100	D	\$ 140.27	20,320	D
Common Stock	02/26/2019	S ⁽¹⁾	100	D	\$ 140.3	20,220	D

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474
(9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. D S (I)	
				Code	V (A) (D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Stock Options (Right to Buy)	\$ 73.7	02/26/2019		M	4,187	02/26/2017	02/26/2021	Common Stock	4,187

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Smith David Ross 251 BALLARDALE STREET WILMINGTON, MA 01887			Corporate Executive VP & CFO	

Signatures

/s/ David R.
Smith

02/27/2019

__Signature of
Reporting Person

Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) This sale occurred pursuant to a 10b5-1 Trading Plan.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. tations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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

Tel-Aviv, Israel
April 30, 2019

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Ituran de Argentina S.A.

Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of Ituran de Argentina S.A. (the “Company”) as of December 31, 2018, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in the 2013 Internal Control—Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the financial statements of the Company as of and for the year ended December 31, 2018, and our report dated January 28, 2019 expressed an unqualified opinion on those financial statements.

Basis for opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Financial Statements. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and limitations of internal control over financial reporting

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

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

Gustavo Chesta
Estudio Urien & Asociados
Buenos Aires, Argentina
January 28, 2019

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

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

ITEM 16B. CODE OF ETHICS

In 2005, we adopted a Code of Ethics that applies to our senior management, including chief executive officer, chief financial officer, internal auditor and other individuals performing similar functions. Code of Business Conduct and Ethics was revised on February 26, 2017 as part of our Internal Compliance Program. The amendments were imposing on our employee’s stricter rules on compliance with Intellectual properties laws, compliance with Foreign Corrupt Practices Act, restrictions and rules on posting information on Ituran on social media and online networking websites, adding additional disciplinary measures and providing contact details of our compliance officer. The Code of Business Conduct and Ethics has been posted on our website at www.ituran.com.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Fahn Kanne & Co. Grant Thornton Israel (“Grant Thornton”), has served as our independent auditors. On December 12, 2018 they have been re-elected by our shareholders to serve as our independent auditors for the year 2018, until the next general meeting of the shareholders. The following table presents aggregate fees for professional audit services and other services rendered by Grant Thornton, for 2017 and 2018:

	2017	2018
	(in thousands, USD)	
Audit Fees ^{(1) (3)}	307	381
Tax Fees ⁽²⁾	7	6
Total	314	387

The audit fees for the years ended December 31, 2017 and 2018 respectively, were for professional services (1) rendered for the audits of our annual consolidated financial statements, review of consolidated quarterly financial statements, statutory audits of Ituran.

(2) Consists of all tax related services.

(3) The majority of the increase in audit fees relate to the acquisition of RTH.

Our audit committee has approved the above audit and non-audit services provided by Grant Thornton, during the years 2017 and 2018.

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

Not applicable.

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

Explanation of Responses:

During 2018, the Company did not purchase any of its shares.

ITEM 16F. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

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

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

See “Item 18—Financial Statements.”

ITEM 18. FINANCIAL STATEMENTS

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

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ITEM 19. EXHIBITS

Description of Document

- 1.1 Amended and Restated Articles of Association of the Company ⁽⁷⁾
- 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, Information,
- 2.1 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⁾
Addendum to February 7, 2002 Unprotected Lease Agreement, by and between Mofari Ltd. and the Registrant, dated October 31, 2012. ⁽⁶⁾
- 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. ⁽⁷⁾
- 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. ⁽⁷⁾
- 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 Addendum dated April 4, 2017 to the Service Agreement, dated as of February 1, 2014, by and among Ituran
(a) Location & Control Ltd., ORAS Capital Ltd. and Eyal Sheratzky. ⁽⁷⁾
- 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 Addendum dated April 4, 2017 to the Service Agreement, dated as of February 1, 2014, by and among Ituran
(a) Location & Control Ltd., Galnir Management and Investments Ltd. and Nir Sheratzky. (7)

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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 Addendum dated April 4, 2017 to the Service Agreement, dated as of February 1, 2014, by and among (a) E-Com Global Electronic Commerce Ltd., ZERO-TO-ONE S.B.L. INVESTMENTS LTD. and Gil Sheratzky. (7)

4.13 Purchase Agreement, dated as of July 23, 2018, by and among Ituran Location & Control Ltd. and Yomuna Investments S.L., Viatka Investments S.L., I-Gelt Holdings, LLC, East Holdings, LLC and Road Track Holding S.L.***

8 List of significant subsidiaries.

12.1 Certifications by co-chief executive officers as required by Rule 13a-14(a).

12.2 Certification by person serving in the capacity of chief financial officer as required by Rule 13a-14(a).

13 Certifications by the co-chief executive officers and the person serving in the capacity of chief financial officer as required by Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code.

14.1 Consent of independent registered accounting firm to incorporation by reference.

14.2 Consent of independent registered public accounting firm to incorporation by reference.

(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.

(7) Filed as an exhibit to the annual report on Form 20-F for the year ended December 31, 2016 and incorporated herein by reference.

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

** Previously filed

*** Certain portions of this exhibit have been omitted.

ITURAN LOCATION AND CONTROL LTD.

Consolidated Financial Statements
as of December 31, 2018

ITURAN LOCATION AND CONTROL LTD.

Consolidated Financial Statements
as of December 31, 2018

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
Board of Directors and Shareholders
ITURAN LOCATION AND CONTROL LTD.

Fahn Kanne & Co.
Head Office
32 Hamasger Street
Tel-Aviv 6721118,
ISRAEL
PO Box 36172,
6136101

T +972 3 7106666
F +972 3 7106660
www.gtfk.co.il

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of Ituran Location and Control Ltd. and subsidiaries (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Ituran de Argentina S.A. (Ituran Argentina), a wholly owned subsidiary of the Company, which statements reflect total assets constituting 2.2% and 5.0%, respectively, of consolidated total assets as of December 31, 2018 and 2017, and revenues of 4.2%, 6.5% and 7.4%%, respectively, of consolidated total revenues for the years ended December 31, 2018, 2017 and 2016. Those statements were audited by other auditors, whose report thereon has 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 also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2018, 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 30, 2019 expressed an unqualified opinion.

Basis for opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

Certified Public Accountants

Fahn Kanne & Co. is the Israeli member firm of Grant Thornton International Ltd
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We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

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

We have served as the Company's auditor since 1997.

Tel-Aviv, Israel
April 30, 2019

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders Ituran de Argentina S.A.

Opinion on the financial statements

We have audited the accompanying balance sheets of Ituran de Argentina S.A. (the “Company”) as of December 31, 2018 and 2017, the related statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, 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) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2018, 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 January 28, 2019 expressed an unqualified opinion.

Basis for opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2006.

Gustavo Chesta
Estudio Urien & Asociados
Buenos Aires, Argentina
January 28, 2019

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ITURAN LOCATION AND CONTROL LTD.

CONSOLIDATED BALANCE SHEETS

(in thousands)	US dollars	
	December 31, 2018	2017
Current assets		
Cash and cash equivalents	51,398	36,906
Investment in marketable securities	1,897	3,559
Accounts receivable (net of allowance for doubtful accounts)	54,261	41,009
Other current assets (Note 2)	52,983	41,394
Inventories (Note 4)	28,367	14,244
	188,906	137,112
Long-term investments and other assets		
Investments in affiliated companies (Note 5A)	4,872	14,839
Investments in other companies (Note 5B)	2,772	1,382
Other non-current assets (Note 6)	3,222	939
Deferred income taxes (Note 16)	12,127	8,398
Funds in respect of employee rights upon retirement	9,497	9,627
	32,490	35,185
Property and equipment, net (Note 7)	50,460	39,047
Intangible assets, net (Note 8)	39,040	38
Goodwill (Note 9)	62,896	3,777
Total assets	373,792	215,159

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

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ITURAN LOCATION AND CONTROL LTD.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	US dollars	
	December 31, 2018	2017
Current liabilities		
Credit from banking institutions (Note 10)	10,559	48
Accounts payable	23,987	23,264
Deferred revenues	37,671	12,796
Other current liabilities (Note 11)	32,475	29,644
	104,692	65,752
Long-term liabilities		
Deferred income taxes (Note 16)	6,458	-
Loan from bank institution (Note 10)	62,622	-
Liability for employee rights upon retirement	14,801	14,062
Provision for contingencies	201	400
Deferred revenues	8,221	1,241
Other non-current	325	475
Obligation to purchase non-controlling interests ((Notes 1Y,3)	16,272	-
	108,900	16,178
Contingent liabilities (Note 12)		
Equity:		
Stockholders' equity (Note 13)		
Share capital – ordinary shares of NIS 0.33 par value:	1,983	1,983
Authorized – December 31, 2018 and 2017 – 60,000,000 shares		
Issued and outstanding – December 31, 2018 and 2017 – 23,475,431 shares		
Additional paid- in capital	78,680	71,550
Accumulated other comprehensive income	(20,604)	(9,754)
Retained earnings	129,580	92,065
Purchase price adjustment to be settled in shares (Note 3)	(10,800)	-
Treasury stock at cost – December 31, 2018 and 2017 – 2,133,825 shares	(25,146)	(30,054)
Stockholders' equity	153,693	125,790
Non-controlling interests	6,507	7,439
Total equity	160,200	133,229
Total liabilities and equity	373,792	215,159

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

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ITURAN LOCATION AND CONTROL LTD.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands except earnings per share)	US dollars		
	Year ended December 31,		
	2018	2017	2016
Revenues:			
Telematics services	181,357	169,752	141,940
Telematics products	71,978	64,884	57,634
	253,335	234,636	199,574
Cost of revenues:			
Telematics services	70,329	60,256	50,633
Telematics products	55,678	54,996	46,910
	126,007	115,252	97,543
Gross profit	127,328	119,384	102,031
Research and development expenses	6,223	3,160	2,895
Selling and marketing expenses	11,340	12,246	10,074
General and administrative expenses	47,693	47,590	40,228
Other expenses (income), net	(306)	(147)	836
Operating income	62,378	56,535	47,998
Other income, net (Note 14)	13,138	-	-
Financing income (expenses), net (Note 15)	717	(989)	2,056
Income before income tax	76,233	55,546	50,054
Income tax expenses (Note 16)	(17,273)	(17,705)	(14,877)
Share in gains (losses) of affiliated companies, net (Note 5A)	4,219	8,520	(449)
Net income for the year	63,179	46,361	34,728
Less: Net income attributable to non-controlling interest	(2,504)	(2,567)	(2,589)
Net income attributable to the Company	60,675	43,794	32,139
Basic and diluted earnings per share attributable to Company's stockholders (Note 17)	2.88	2.09	1.53
Basic and diluted weighted average number of shares outstanding	21,077	20,968	20,968

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

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ITURAN LOCATION AND CONTROL LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)	US dollars		
	Year ended December 31,		
	2018	2017	2016
Net income for the year	63,179	46,361	34,728
Other comprehensive gain (loss), net of tax:			
Foreign currency translation adjustments	(12,807)	4,238	5,558
Unrealized gains (losses) in respect of derivative financial instruments designated for cash flow hedge	1,615	(441)	(50)
Reclassification of net gains realized to net income	(385)	(10)	(731)
Other comprehensive gain (loss), net of tax	(11,577)	3,787	4,777
Comprehensive income	51,602	50,148	39,505
Less: comprehensive income attributable to non-controlling interests	(1,777)	(3,141)	(2,813)
Comprehensive income attributable to the Company	49,825	47,007	36,692

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

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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	Total
US dollars (except for number of shares)	of shares	capital amount	paid in capital	other comprehensive income	earnings	stock	interests	
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 income	-	-	-	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
Changes during 2017:								
Net income	-	-	-	-	43,794	-	2,567	46,361
Other comprehensive income	-	-	-	3,213	-	-	574	3,787
Dividend paid to non-controlling interests	-	-	-	-	-	-	(1,644)	(1,644)
Dividend paid	-	-	-	-	(18,452)	-	-	(18,452)
Dividend declared	-	-	-	-	(4,994)	-	-	(4,994)
Balance as of December 31, 2017	23,476	1,983	71,550	(9,754)	92,065	(30,054)	7,439	133,229

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	Purchase price adjustment to be settled in shares	Non-controlling interests	Total
US dollars (except for number of shares)									
Balance as of January 1, 2018	23,476	1,983	71,550	(9,754)	92,065	(30,054)	-	7,439	133,229
Impact of change in accounting policy (Note 1Q)	-	-	-	-	(2,972)	-	-	-	(2,972)
As adjusted balance as of January 1, 2018	23,476	1,983	71,550	(9,754)	89,093	(30,054)	-	7,439	130,257
Changes during 2018:									
Issuance of treasury shares (Note 3)	-	-	7,130	-	-	4,908	(10,800)	-	1,238
Net income	-	-	-	-	60,675	-	-	2,504	63,179
Other comprehensive income	-	-	-	(10,850)	-	-	-	(727)	(11,577)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	(2,709)	(2,709)
Dividend paid	-	-	-	-	(15,366)	-	-	-	(15,366)
Dividend declared	-	-	-	-	(4,822)	-	-	-	(4,822)
Balance as of December 31, 2018	23,476	1,983	78,680	(20,604)	129,580	(25,146)	(10,800)	6,507	160,200

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

	US dollars		
	Year ended December 31,		
(in thousands)	2018	2017	2016
Cash flows from operating activities			
Net income for the year	63,179	46,361	34,728
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation, amortization and impairment of goodwill and other intangibles	14,608	13,519	11,635
Interest on long term credit	88	-	-
Gains in respect of trading marketable securities	(166)	(397)	(115)
Increase in liability for employee rights upon retirement	491	1,025	890
Share in losses (gains) of affiliated companies, net	(4,219)	(8,520)	449
Deferred income taxes	2,346	(516)	(1,114)
Capital loss (gain) on sale of property and equipment, net	85	(1)	(52)
Gain from measurement of previously held interests at acquisition date fair value	(14,677)	-	-
Decrease (increase) in accounts receivable	6,182	(4,769)	(4,552)
increase in other current and non-current assets	(10,656)	(11,517)	(5,033)
Decrease (increase) in inventories	3,580	1,632	(1,424)
Increase (decrease) in accounts payable	(3,837)	3,751	5,884
Increase (decrease) in deferred revenues	(3,479)	2,238	(1,122)
Increase (decrease) in other current and non-current liabilities	(780)	1,101	1,298
Increase in Obligation to purchase non-controlling interests	519	-	-
Net cash provided by operating activities	53,264	43,907	41,472
Cash flows from investment activities			
Increase in funds in respect of employee rights upon retirement, net of withdrawals	(576)	(844)	(644)
Capital expenditures	(21,744)	(16,159)	(13,645)
Investment in affiliated company	(1,250)	(900)	(8,920)
Investment in marketable securities	(8,100)	(8,623)	(3,154)
Repayment of loans from affiliated companies	7,317	6,982	1,512
Proceeds from long - term deposit	10	450	16
Investments in other companies	(1,517)	(1,274)	-
Proceeds from sale of property and equipment	381	315	342
Sale of marketable securities	9,594	5,368	4,633
Acquisition of subsidiary (Appendix A)	(68,969)	-	-
Net cash used in investment activities	(84,854)	(14,685)	(19,860)
Cash flows from financing activities			
Repayment of long term loan	(7,994)	-	-
Receipt of long term credit from bank institution	81,695	-	-
Short term credit from banking institutions	(1,004)	23	(152)
Dividend paid	(20,219)	(22,645)	(17,088)
Dividend paid to non-controlling interests	(2,709)	(1,644)	(994)
Net cash provided by (used in) financing activities	49,769	(24,266)	(18,234)

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Effect of exchange rate changes on cash and cash equivalents	(3,687)	863	693
Net increase in cash and cash equivalents	14,492	5,819	4,071
Balance of cash and cash equivalents at beginning of year	36,906	31,087	27,016
Balance of cash and cash equivalents at end of year	51,398	36,906	31,087

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

During the years, 2018 and 2017, the Company purchased property and equipment in an amount US\$ 11 thousand and US\$ 373 thousand, respectively, using a directly related liability.

In November 2018, the Company declared a dividend in the amount of US\$ 5 million. The dividend was paid in January 2019.

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 - Acquisitions of a subsidiary

(in thousands)	US dollars September 13, 2018
Working capital (excluding cash and cash equivalents and deferred revenues), net	34,576
Intangible assets, net	38,583
Property and equipment, net	11,014
Liability for employee rights upon retirement	(1,337)
Goodwill	59,402
Consideration paid by issuance of treasury stock, as adjusted	(12,038)
Amount to be received as purchase price adjustment	10,800
Deferred income taxes	763
Other non-current assets	2,132
Fair value of previous investments in acquired companies	(24,734)
Deferred revenues (including current portion)	(34,048)
Obligation to purchase non-controlling interests	(16,144)
Net cash used to pay for the Acquisition	68,969

Supplementary disclosure of cash flow information

(in thousands)	US dollars		
	Year ended December 31,		
	2018	2017	2016
Interest paid	1,266	2,651	324
Income taxes paid, net of refunds	15,533	22,891	17,699

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

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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 Telematics services and machine-to-machine Telematics products for use in stolen vehicle recovery, fleet management and other applications.

On September 13, 2018 the company closed the acquisition of 81.3% of the shares of Road Track Holding S.L (“Road Track”), a telematics’ company operating primarily in the Latin American region.

The company paid the shareholders of Road Track \$91.7 million for 81.3% of the company's shares, valuing the company at approximately \$113 million. Of this, \$75.7 million was paid in cash, through a debt facility provided by Ituran’s lending bank (See Note 10). An additional \$12 million was paid in the company shares. The remaining \$4 million will be paid out of the company’s equity as a bonus over the coming three years to the senior management of Road Track who will remain with the company through the end of that period. The final consideration paid to the sellers was subject to downward adjustments depending on the full year 2018 performance of Road Track (See Note 3).

2. Functional currency and translation to the reporting currency

The functional currency of the Company and its subsidiaries located in Israel (except those that are held through the subsidiary “Road track”) is the New Israeli Shekel (“NIS”), which is the local currency in which those entities operate. The functional currency of the foreign subsidiaries located in Brazil is the Brazilian Real and the functional currency of the rest of the subsidiaries is the US Dollar.

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).

When an economy in which a foreign entity of the group operates, becomes highly inflationary environment (an economy with a cumulative inflation rate of approximately 100% or more over a three-year period), the financial statements of that foreign entity are remeasured as if its functional currency is the reporting currency of its parent.

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

A. General (cont.)

2. Functional currency and translation to the reporting currency (cont.)

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:

	Exchange rate of one US dollar			Israeli CPI ^(*)
	NIS	Real	Argentinian Pezo (**)	
At December 31,				
2018	3.748	3.8748	37.801	113.95 points
2017	3.467	3.3080	18.774	113.05 points
2016	3.845	3.2591	15.850	112.59 points
Increase (decrease) during the year:				
2018	8.10 %	17.13 %	101.35 %	0.8 %
2017	(9.83)%	1.50 %	18.45 %	0.4 %
2016	(1.46)%	(16.54)%	21.87 %	(0.2)%

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

(**)commencing the third quarter of 2018 the Argentinian economy declared as a hyperinflationary economy (See above).

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, valuation of goodwill and intangibles, impairment of goodwill, obligation to purchase non-controlling interests, revenue recognition and related deferred expenses (contract costs), deferred taxes and tax liabilities.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

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

Until December 31, 2017, The Company accounted for investments in debt and equity securities in accordance with ASC Topic 320-10, "Investments - Debt and Equity Securities" (“ASC Topic 320-10”).

According to ASC Topic 320, investments in securities that are categorized as trading securities are stated at market value and the changes in market value are charged to financing income or expenses. Management determined the appropriate classification of such investments in debt and equity securities at the time of purchase and reassessed such determination at each balance sheet date.

Commencing January 1, 2018 and upon the adoption of ASU 2016-01- Financial Instruments—Overall (Subtopic 825-10), the Company continue to account for its investments in debt securities in accordance with ASC Topic 320-10, which is now applicable to Debt Securities only, while equity securities are accounted for in accordance with ASC Topic 321-10, "Investments - Equity Securities" (“ASC Topic 321-10”).

According to ASC Topic 321-10, equity securities with readily determinable fair value are measured upon initial recognition and in subsequent periods at fair value with gains and losses reported periodically in earnings as financing income or expenses.

The investments in debt and equity securities that were held by the Company during the reported periods and were subject to the provisions of ASC Topic 320-10 were designated by management as trading securities.

Changes in fair value measurement of debt and equity securities for the years 2018, 2017 and 2016 amounted to approximately US\$ 166,000, US\$ 397,000 and US\$ 115,000, 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 (cont.)

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 past due, the customer's current ability to pay and available information about the credit risk on such customers. See also Note 20A.

The allowance in respect of accounts receivable at December 31, 2018 and 2017 was US\$ 3,512,000 and US\$ 2,532,000, respectively.

G. Inventories

Inventories are stated at the lower of cost or net realizable value. 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.

When the company obtain control of an affiliated company that was accounted for by the equity method, the investment is then remeasured at its fair value as of the date of which control was obtained and any remeasurement gain or loss 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 2018 and 2017, 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

Until December 31, 2017, Non-marketable investments in shares of other companies without readily determinable fair values (in which the Company does not have a controlling interest nor significant influence) was accounted for at cost, net of write down for any permanent decrease in value.

Upon the adoption of ASU 2016-01 Financial Instruments—Overall (Subtopic 825-10):

Recognition and Measurement of Financial Assets and Financial Liabilities, equity investments without readily determinable fair values are measured at cost, less impairment, and plus or minus subsequent adjustments for observable price changes. Periodic changes in the basis of these equity investments are reported in current earnings. In addition, at each reporting period a qualitative assessment is performed to identify impairment. When a qualitative assessment indicates an impairment exists, the Company estimates the fair value of the investment and recognize in current earnings an impairment loss equal to the difference between the fair value and the carrying amount of the equity investment.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

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 (forward exchange contracts) which are mostly 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 were determined to qualify as cash flow hedges under ASC Topic 815.

Until December 31, 2017 (the date of early adoption of ASU 2017-12 - see Note 1AA), the effective portion of the changes in fair value of the derivative instruments designated for hedging purposes was 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 was reclassified to the statements of income when the hedged transaction realizes. During the reporting periods, up and until December 31, 2017, the gains or losses required to be recognized in earnings for hedge ineffectiveness were insignificant.

Commencing January 1, 2018, the entire changes in fair value of the derivative instruments designated for hedging purposes that were determined as qualifying for hedging purposes (including the ineffective components of the hedging relationship) were 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 were reclassified to the statements of income when the hedged transaction realizes.

See also Note 20B for further information regarding the hedging activities of the Company.

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).

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

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.

Following the initial application of ASU 2015-17 which became effective on January 1, 2017, deferred tax balances are presented as non-current amounts.

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 elected to perform the goodwill annual impairment test for its operating units as follows:

An amount of approximately \$59.4 million (resulted from the acquisition described in Note 3) will be tested on June 30, of each year, or more often if indicators of impairment are present. As of the date of issuance of the 2018 consolidated financial statements, the company did not complete the assignment of such goodwill to the reporting units. The allocation will be completed before the performance of the next annual impairment test.

An amount of approximately \$3.5 million relates to two different reporting units (resulted from past acquisitions) are tested 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.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

N. Goodwill and intangible assets (cont.)

1. (cont.)

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, 2018, the Company had two reporting units (related to its previous business) that include goodwill (two in 2017 and two in 2016). As described above, the company did not complete the assignment of goodwill resulted from the acquisition described in Note 3, which is expected to be allocated to new reporting units under the existing reporting segments.

The Company performed a qualitative assessment for two reporting units as of December 31, 2018 and 2017, 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.

Intangible assets with finite lives (As of December 31,2018, the Balance of intangible assets consist of customer 2.relationship, technology and others) 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 a part of the acquisition of describe in Notes 1A,3 the company got control over intangible assets in a fair value of approximately US\$ 38,583 thousand.

As of December 31, 2018, the intangible assets are amortized as follows:

	Years
Customer relationship	8
Technology services	8
Other	5

Recoverability of intangible assets is measured as described in Note 1L above.

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.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

P. Funds in respect of, and liability for employee rights upon retirement (cont.)

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, 2018, 2017 and 2016, amounted to US\$ 1,461,000, US\$ 1,309,000 and US\$ 1,087,000, respectively.

Q. Revenue recognition

The Company and its subsidiaries generate revenue from subscriber fees for the provision of services and sales of systems and products, mainly in respect of fleet management services, stolen vehicle recovery services and other value-added services. To a lesser extent, revenues are also derived from technical support services. The Company and its subsidiaries sell the systems primarily through their direct sales force and indirectly through resellers.

Revenue recognition accounting policy applied until December 31, 2017 (prior to the adoption of ASC Topic 606);

Revenues were recognized when delivery has occurred and, where applicable, after installation has been completed, there was persuasive evidence of an arrangement, the fee was fixed or determinable and collection of the related receivable was reasonably assured and no further obligations existed. In cases where delivery has occurred but the required installation has not been performed, the company did not recognize the revenues until the installation was completed.

The Company's revenues were recognized as follows:

1. Revenues from sales were recognized when title and risk of loss of the product passed to the customer (usually upon delivery).

The Company applied the provisions of ASC Topic 605-25, "Revenue Recognition - Multiple-Element Arrangements", as amended. ASC Topic 605-25 provided 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 was accounted for as a separate unit when it provided the customer value on a stand-alone basis and if an arrangement included a right of return relative to a delivered item, delivery or performance of the undelivered item or items was 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 existed, the Company was required to develop a best estimate of the selling price of the deliverables and the entire arrangement consideration was 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 was recognized ratably on a straight-line basis over the subscription period.

Explanation of Responses:

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, were recognized ratably on a straight-line basis over the subscription period, since the amount allocated to the company, 3. was contingent upon the delivery of the SVR services. As the insurance company was the primary obligor of the insurance component, the company recognized only the net amounts as revenues, after deduction of amounts related to the insurance component.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

Q. Revenue recognition (cont.)

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

5. Extended warranty

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

Revenue recognition accounting policy applied from January 1, 2018 (following the adoption of ASC Topic 606);

On January 1, 2018, the Company adopted ASC Topic 606, Revenue from Contracts with Customers (“ASC 606”) to all contracts, using the modified retrospective method. Under such method of adoption, the results for reporting periods beginning after January 1, 2018 are presented in accordance with ASC Topic 606, while prior period amounts were not adjusted and are reported in accordance with the previous accounting treatment required under ASC Topic 605.

The cumulative impact of the adoption in an amount of approximately US\$3 million (net of tax), was recognized as an adjustment to retained earnings as of January 1, 2018 (see 1AA below).

In accordance with ASC 606, The Company determines revenue recognition through the following five steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, the Company satisfies a performance obligation.

A contract with a customer exists when all of the following criteria are met: the parties to the contract have approved it (in writing, orally, or in accordance with other customary business practices) and are committed to perform their respective obligations, the Company can identify each party’s rights regarding the distinct goods or services to be transferred (“performance obligations”), the Company can determine the transaction price for the goods or services to be transferred, the contract has commercial substance and it is probable that the Company will collect substantially all of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

Upon each contract inception, the Company assesses the goods or service promised in a contract with a customer and identifies the performance obligations. With respect to contracts that are determined to have multiple performance obligations, such as contracts that combine product with services (mostly SVR services) customer support, the Company allocates the contract’s transaction price to each performance obligation using its best estimate of the relative

standalone selling price of each distinct good or service in the contract. The primary method used to estimate the relative standalone selling price is expected costs of satisfying a performance obligation and an appropriate margin for that distinct good or service. In assessing whether to allocate variable consideration to a specific part of the contract, the Company considers the nature of variable payment (if any) and whether it relates specifically to its efforts to satisfy a specific part of the contract.

Revenues are recognized when, or as, control of services or products is transferred to the customers at a point in time or over time, as applicable to each performance obligation.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

Q. Revenue recognition (cont.)

Revenues are recorded in the amount of consideration to which the Company expects to be entitled in exchange for performance obligations upon transfer of control to the customer, excluding amounts collected on behalf of other third parties and sales taxes.

The Company does not adjust the amount of consideration for the effects of a significant financing component since the Company expects, at contract inception, that the period between the time of transfer of the promised goods or services to the customer and the time the customer pays for these goods or services to be generally one year or less, based on the practical expedient. The Company's credit terms to customers are, on average, between thirty and ninety days.

In accordance with ASC 606, the Company's revenues are recognized as follows:

1. Revenues from sales of AVL products are recognized when the control of the product passed to the customer (usually upon delivery).
2. Revenues from provision of SVR services are recognized over time, as the customers simultaneously receive and consume the benefits provided by the Company performance as the Company performs.

For arrangements that involve the delivery or performance of multiple products (mostly, AVL products), services (such as SVR services) and/or rights to use assets, the Company analyzes whether the goods or services that were promised to the customer are distinct. A good or service promised to a customer is considered 'distinct' if both of the following criteria are met: 1. The customer can benefit from the good or service, either on its own or together with other resources that are readily available to the customer; and, 2. The Company's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract. When the above criteria are met the revenue recognition for the related products and/or services are recognized as described in 1 and 2 above, as applicable.

With respect to arrangement that are determined to have multiple performance obligations that are distinct, the Company allocates the contract's transaction price to each performance obligation using its best estimate of the relative standalone selling price of each distinct good or service in the contract. The primary method used to estimate the relative standalone selling price is the expected costs of satisfying the performance obligation with an appropriate margin for that distinct good or service.

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 performance obligation, since the installation services element was determined not to be 'distinct'. Accordingly, the entire contract fee for the two deliverables was recognized over time, on a straight-line basis over the subscription period.

4. Amounts earned by certain 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 (see 3 above), since the amount allocated to the company (for the SVR services subscription, installation services and for arranging the transaction), was contingent upon the delivery of the SVR services. As the insurance

company is acting as a principal with respect to the insurance component, the company recognized only the net amounts as revenues, after deduction of amounts related to the insurance component.

Deferred revenues include unearned amounts received from customers (mostly for the provision of installation, 5. future subscription services and extended warranty) but not yet recognized as revenues. Such deferred revenues are recognized as described in paragraph 3 above or paragraph 6 below, as applicable.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

Q. Revenue recognition (cont.)

6. Extended warranty

In the majority of countries, in which the Company operates, the statutory warranty period is one year, and the extended warranty covers periods beyond year one. Revenues from extended warranty include warranty services which were sold separately for a monthly fee, or warranty services that were determined to represent a separate performance obligation and were sold together with an AVL unit. Such revenues are recognized over the duration of the warranty periods.

Below is a description of the effect of the adoption of ASC 606 on the consolidated balance sheet

	US dollars		
	December 31, 2017		
		New	
	Balances	Revenue	Adjusted
(in thousands)	as	Standard	balances
	reported	Adjustment	
Liabilities			
Deferred revenues (including current portion)	(14,037)	(3,911)	(17,948)
Deferred income Tax	8,398	939	9,337
Shareholders' Equity			
Accumulated Deficit	(92,065)	2,972	(89,093)

The following table summarize the impacts of adopting Topic 606 on the Company's consolidated financial statements for the year ended December 31, 2018:

	US dollars		
	Year ended December 31, 2018		
		New	Balances
	as	Revenue	as if
	reported	Standard	Topic
(in thousands except earnings per share)		Adjustment	606 was
			not
			adopted
Revenues:			
Telematics services	181,357	-	181,357
Telematics products	71,978	166	72,144
	253,335	166	253,501
Cost of revenues	(126,007)	-	(126,007)
Research and development expenses	(6,223)	-	(6,223)
Selling and marketing expenses	(11,340)	-	(11,340)
General and administrative expenses	(47,693)	-	(47,693)
Other income, net	306	-	306

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Other income, net	13,138	-	13,138
Financing income, net	717	-	717
Income tax expenses	(17,273)	(464)	(17,737)
Share in gains of affiliated companies, net	4,219	-	4,219
Net income for the year	63,179	(298)	62,881

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

Q. Revenue recognition (cont.)

The following is a description of principal activities separated by reportable segments from which the Company generates its revenue. For more detailed information about reportable segments including geographic segregation of revenues based on customers location, see Note 19.

In the following table, revenue is disaggregated by primary major product line, and timing of revenue recognition:

(in thousands)	US dollars		
	Reportable segments results of operations		
	Year ended December 31, 2018		
Liabilities	Telematics services	Telematics products	Total
At a point of time	-	70,133	70,133
Over a period of time	181,357	1,845	183,202
	181,357	71,979	253,335

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 related to the standard warranty period have not been material.

S. Research and development costs

1. Research and development costs (other than computer software related expenses) are expensed as incurred.

2. Software Development Costs

All research and development costs incurred in the process of software development before establishment of technological feasibility are charged to expenses as incurred. Costs incurred subsequent to the establishment of technological feasibility are capitalized according to the principles set forth in ASC Topic 985-20, "Costs of Software to be Sold, Leased or Marketed".

Capitalized software costs are amortized on a product by product basis by the straight-line method over the estimated useful life of the software product (approximately 5 years).

The Company assesses the recoverability of these intangible assets on a regular basis by assessing the net realizable value of such intangible assets based on the estimated future gross revenues from each product net of the estimated

future costs of completing and disposing of that product (including the estimated costs of performing maintenance and customer support over the remaining economical useful life), cost of completion of products and cost of delivery to customers over its remaining economical useful life. During the years ended December 31, 2018, no such unrecoverable amounts were identified (prior to January 1, 2018, software development costs that were capitalized were in insignificant amount).

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

T. Advertising costs

Advertising costs are expensed as incurred.

Advertising expenses for the years ended December 31, 2018, 2017 and 2016 amounted to US\$ 8.1 million, US\$ 8.5 million and US\$ 6.9 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 20C.

The Company also measures certain non-financial assets, consisting mainly goodwill and intangible assets at fair value on a nonrecurring basis. These assets are adjusted to fair value when they are considered to be impaired (see 1N

and 1L above).

As a part of the acquisition describe in Notes 1A,3 the company recognized goodwill in an amount of approximately US\$ 59.4 million. As required by ASC Topic 350 the company will test the goodwill for impairment on June 2019.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

W. Deferred installation expenses and prepaid expenses

Direct installation expenses incurred at the inception of specific subscription arrangements in certain subsidiary in Brazil with specific customers, to enable the Company's subsidiary in Brazil to perform under the terms of the arrangement.

Such installation activities were determined not to represent a separate performance obligation for revenue recognition purposes in accordance with the principles of ASC 606, as they were determined not to be considered 'distinct' (see Note 1Q above).

The Company has determined that such expenses relate directly to obtaining or fulfilling contract with a specific subscriber, they generate or enhance the Company resources and are expected to be recovered.

In accordance with ASC 340-40, Other Assets and Deferred Costs: Contracts with Customers, such installation costs are capitalized and presented as "Deferred installation expenses" within the balances "Other current assets" and "Other non-current assets", as applicable.

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 certain 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 to 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 termination of the transaction 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.

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 18C 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. Obligation to purchase non-controlling interests

An obligation to acquire shares of a subsidiary held by Non-controlling interests at a stated future date, represents liability under ASC Topic 480. Upon initial recognition such liability is measured at fair value in accordance with ASC Topic 480-10-30-3 at the amount of cash that would be paid under the conditions specified in the contract if the shares were repurchased immediately and in subsequent periods at the amount of cash that would be paid under the conditions specified in the contract if settlement occurred at the reporting date with any change in value from the previous reporting date recognized as interest cost. In addition, the Non-controlling interests subject to such obligation are not recognized and no earnings are allocated to them.

Z. 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.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

AA. Recently issued accounting pronouncements

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

Commencing January 1, 2018, the Company adopted Accounting Standard Update 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09").

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

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

In accordance with an amendment to ASU 2014-09, introduced by Accounting Standard 2015-14, "Revenue from contracts with Customers – Deferral of the Effective Date", for a public entity, the amendments in ASU 2014-09 became 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).

The Company has established a process of evaluation of the impact of ASU 2014-09 on its revenue streams and selling contracts and transactions, if any, and on its financial reporting and disclosures, business processes, systems and controls. In such evaluation, management has considered, among other things, the opinion of third party professional accounting advisors.

Based on its evaluation, management concluded that the standard did not have significant effect on the timing of recognizing revenues from SVR services subscription fees, as such services are recognized monthly, or on the timing of recognizing revenues from sales of wireless communications products. However, the standard affected the timing of revenues from certain warranty services related to wireless communications products that the Company provides for periods beyond the period required by law (i.e. one year). Under the previous GAAP, such revenues were regarded as standard warranties as they are not separately priced and the company's business practice is to provide a three-year warranty as a standard to certain customers.

Under the new guidance, the warranty services exceeding one year are considered as a separate performance obligation ('a service-type warranty') and a portion of the transaction price, is allocated to such service, based on the standalone selling price of the warranty. The total amount of revenue recognized from these contracts will not change. However, the revenue allocated to the warranty services is deferred and recognized over the related warranty period on a straight-line basis.

As a result of the above change the company recorded deferred revenues related to the service type warranty as a cumulative adjustment to retained earnings in an amount of approximately US\$3 million (net of tax) as of January 1, 2018.

In addition, management has determined that the previous accounting treatment of deferred installation expenses, prepaid and similar expenses will not change significantly, as such expenses are considered under the new guidance as incremental costs of obtaining contracts which are expected to be recovered, Accordingly, they are accounted for as an asset as before.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

AA. Recently issued accounting pronouncements (cont.)

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.

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.

In July 2018, the FASB issued amendments in ASU 2018-11, which provide a transition election to not restate comparative periods for the effects of applying the new standard. This transition election permits entities to change the date of initial application to the beginning of the earliest comparative period presented, or retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment.

The Company expects to adopt the new standard on January 1, 2019 and to as the effective date as the date of initial application. Consequently, the effect of the adoption will be reflected through a cumulative-effect adjustment, financial information for comparative periods will not be updated and the disclosures required under the new standard will not be provided for dates and periods before January 1, 2019.

The new standard provides a number of optional practical expedients in transition some of which, if elected, are required to be applied as a package (package of practical expedients) while other expedients can be applied on a stand-alone basis. Such package permits the Company not to reassess its prior conclusions regarding lease identification, lease classification and initial direct costs under the new standard. The company currently believes that the most significant impact will be reflected in: (i) the recognition of right-of-use assets and lease liabilities on the company's balance sheet for its operating leases of facilities, base stations and motor vehicles, and (ii) the requirement to provide significant new disclosures regarding leasing activities. The Company, however, does not expect a material

impact to its consolidated statements of income and consolidated statements of cash flow.

Following adoption of the new standard, the Company expects to recognize additional operating liabilities in an estimated amount of \$8 to \$10 million, with corresponding right-of-use assets of approximately the same amount based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases.

In addition, the adoption is not expected to have significant effect on the Company's ability to comply with the covenants of its liabilities outstanding as of the adoption date.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

AA. Recently issued accounting pronouncements (cont.)

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

The new standard also provides practical expedients for an entity's ongoing accounting. The company expects to elect the short-term lease recognition exemption for all leases that qualify. This means, for those leases, right-of-use assets or lease liabilities will not be recognized (including right-of-use assets or lease liabilities for existing short-term leases of those assets in transition).

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.

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.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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

AA. Recently issued accounting pronouncements (cont.)

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

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.

Accounting Standards Update 2017-12 “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities”

In August 2017, the FASB issued ASC Update 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. (ASU 2017-12)”

ASU 2017-12, amends the hedge accounting recognition and presentation requirements in ASC 815 in order to (1) improve the transparency and understandability of information conveyed to financial statement users about an entity’s risk management activities by better aligning the entity’s financial reporting for hedging relationships with those risk management activities and (2) reduce the complexity of and simplify the application of hedge accounting by preparers.

ASU 2017-12 eliminates the concept of separately recognizing periodic hedge ineffectiveness for cash flow and net investment hedges. Accordingly, the impact of both the effective and ineffective components of a hedging relationship will be recognized in the same financial reporting period and in the same income statement line item. Also, the guidance in ASU 2017-12 includes certain targeted improvements to existing guidance on quantitative and qualitative assessments of initial and ongoing hedge effectiveness.

The transition guidance in ASU 2017-12 requires an entity to apply the amendments using a modified retrospective approach to hedging relationships that exist as of the date of adoption by recording a cumulative-effect adjustment to the opening balance of retained earnings as of the most recent period presented. Entities must apply the new and modified disclosure requirements prospectively from the date of adoption.

For public business entities, the guidance in ASU 2017-12 is effective for fiscal years beginning after December 15, 2018 and for interim periods within those fiscal years. Early application of the guidance is permitted, including in an interim reporting period.

The Company elected to early apply ASU 2017-12, commencing January 1, 2018. The transition guidance in ASU 2017-12 requires an entity to apply the amendments using the modified retrospective approach to hedging relationships that exist as of the date of adoption. However, due to the limited hedging activities of the Company as of the date of adoption, the adoption did not affect the consolidated financial statements.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 2 - OTHER CURRENT ASSETS

(in thousands)	US dollars	
	December 31, 2018	2017
Prepaid expenses	32,898	27,805
Government institutions	6,994	6,340
Deferred installation expenses	7,742	5,659
Advances to suppliers	3,061	221
Employees	430	308
Others	1,858	1,061
	52,983	41,394

NOTE 3 - ACQUISITION OF BUSINESS

On September 13, 2018 the company closed the acquisition of 81.3% of the shares of Road Track Holding S.L (“Road Track”), a telematics’ company operating primarily in the Latin American region.

The company paid the shareholders of Road Track \$91.7 million for 81.3% of the company valuing the company at approximately \$113 million. Of this, \$75.7 million was paid in cash, through a debt facility provided by Ituran’s lending bank (See Note 10). An additional \$12 million was paid in the company's shares. The remaining \$4 million will be paid out of the company’s equity as a bonus over the coming three years to the senior management of Road Track who will remain with the company through the end of that period. The final consideration paid to the sellers was subject to downward adjustments depending on the full year 2018 performance of Road Track.

As part of the acquisition transaction, the Company is obligated to purchase the remaining 18.7% of the shares currently held by Non-controlling interests on July, 2021 (unless such date shall be accelerated in accordance with the terms of the transaction). The consideration related to such obligation will be based on a fair value estimate that will be determined at that time. Such obligation to acquire shares of a subsidiary held by Non-controlling interests at a stated future date, was determined to represent a liability under ASC Topic 480. Upon initial recognition such liability was measured at fair value in accordance with ASC Topic 480-10-30-3 at the amount of cash that would be paid under the conditions specified in the contract if the shares were repurchased immediately at the closing of the acquisition.

The Company considered approximately US\$ 1.5 million as transaction costs in 2018. Those expenses were fully recognized as an expense in the statements of comprehensive income for the year ended December 31, 2018 (See Note 14)

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 3 - ACQUISITION OF BUSINESS (cont.)

Following is a description of the fair value of the consideration, the Company previous investment in Road Track and the assets acquired and liabilities assumed which were determined by management which used the assistance of an outside independent appraisal evaluation and the purchase price allocation of the acquired business:

(in thousands)	US dollars September 13, 2018
Cash paid	75,700
Consideration paid by issuance of treasury stock (1)	12,038
Amount to be received as purchase price adjustment (5)	(10,800)
Total acquisition price	76,938
Fair value of previous investment in acquired companies	24,734
Obligation to purchase non-controlling interests	16,144
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	6,731
Working capital (excluding cash and cash equivalents and deferred revenues)	34,576
Intangible assets, net (2)	38,583
Property and equipment, net	11,014
Liability for employee rights upon retirement	(1,337)
Deferred income taxes	763
Other non-current assets	2,132
Deferred revenues (including current portion)	(34,048)
Net assets acquired	58,414
Goodwill	59,402

(1) Based on 373,489 shares of common stock of the Company at September 13, 2018.

The fair value adjustment estimate of identifiable intangible assets were determined using the “income approach, (2) which is a valuation technique that estimates the fair value of an asset based on market participants’ expectations of the cash flows an asset would generate over its remaining useful life.

As part of the purchase price allocation for the acquisition, the Company recorded goodwill in the amount of \$59.4 million. Goodwill reflects the value or premium of the acquisition price in excess of the fair values assigned to (3) specific tangible and intangible assets. Goodwill has an indefinite useful life and therefore is not amortized as an expense (the goodwill balance is not deductible for income tax purposes), but is reviewed annually for impairment of its fair value to the Company. The purchase price intrinsically recognizes the benefits of the broadened depth of new markets and management team and is primarily attributable to expected synergies.

Upon obtaining control over Road Track, the Company previous holdings (50%) which were accounted for until (4) that date by the equity method, the investment was premeasured at its fair value and a remeasurement gain in an amount of \$14.7 million was recorded.

(5) The amount of consideration was adjusted based on fiscal 2018 results of Road Track business. Such amount will be paid back to the company in Iturans Shares (300,472 shares out of 373,489 shares that we reissued as part of the consideration). As the purchase price adjustment will be settled by respite of the companies shares issued to the sellers, the amount to be received was presented as a deduction from equity.

The consolidated results of operations do not include any revenues or expenses related to Road Track business on or prior to September 13, 2018, the closing date of the acquisition.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 3 - ACQUISITION OF BUSINESS (cont.)

The following table provides pro forma information as if the Road Track combinations had occurred on January 1, 2017:

(in thousands)	US dollars	
	Year ended December 31,	
	2018	2017
	(Unaudited)	(Unaudited)
Net revenue from Telematics services	234,871	236,957
Net revenue from Telematics products	111,146	130,825
Net income attributable to the Company	51,609	47,138
Basic and diluted earnings per share attributable to Company's stockholders based on attributing of shares in the acquisition	2.42	2.21

The above doesn't contain other income related to the transaction

The unaudited supplemental pro forma data reflects the historical information of the Company and Road Track adjustments for depreciation and amortization of the tangible and intangible assets acquired in the transaction, and additional finance expenses incurred as a result of borrowings used to finance the acquisition as if it had been entered into on January 1, 2017, and with consequential tax effects.

The unaudited pro-forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which would have actually resulted had the acquisition occurred on January 1, 2017, nor to be indicative of future results of operations.

NOTE 4 - INVENTORIES

(in thousands)	US dollars	
	December 31,	
	2018	2017
Finished products	21,660	7,722
Raw materials	6,707	6,522
	28,367	14,244

NOTE 5 - INVESTMENTS IN AFFILIATED AND OTHER COMPANIES

A. Investment in affiliated companies

(in thousands)	US dollars	
	December 31,	
	2018	2017
Bringg (see 1 below)	4,823	6,090
Lumax	49	-
RTI (see 2.2 below)	-	4,621

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IRT (see 2.1 below)	-	2,734
IRTA (see 2.3 below)	-	(301)
HK (see 2.4 below)	-	1,695
	4,872	14,839

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 5 - INVESTMENTS IN AFFILIATED AND OTHER COMPANIES (cont.)

A. Investment in affiliated companies
(cont.)

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

In December 2013, the Company invested US\$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. According to the agreement with Bringg, the Company invested in January and July 2015 additional amounts of US\$1.1 million and US\$2 million, respectively. As of December 31, 2018 and 2017, the company holds 46% of Bringg ordinary shares and approximately 1.2 Million series A preferred shares.

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.

As a result of the acquisition described in Notes 1A,3 the Company gained control over the companies describe in this paragraph and started to consolidate their financial statement. The Company also recorded onetime gain in the amount of approximately \$14.7 million from measurement of the previous investment in this Companies at the acquisition date to fair value. The gain was recorded under other non-operational income (See Note 14).

These services were provided through a joint venture (until the acquisition describe in Notes 1A,3) as follows:

2.1 ITURAN ROAD TRACK MONITORAMENTO De Veiculos Ltda. ("IRT")

In February 2015, IRT was established as a joint venture between the Company and Road Track in order to offer Ituran's services to the Brazilian market. Since IRT's inception and until September 13, 2018 (the acquisition closing date described in Notes 1A, 3), Ituran held 50% of the shares of IRT which was jointly controlled and therefore was not consolidated in the company's financial statements. . Since the acquisition closing date, the company gained control over IRT and started to consolidated IRT in the Company's financial statements.

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

In March 2015, RTI was established as a joint venture between the Company 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 until September 13, 2018 (the acquisition closing date described in Notes 1A,3) , Ituran held 50% of the shares of RTI which was jointly controlled and therefore was not consolidated in the company's financial statements. Since the acquisition closing date, the company gained control over RTI and started to consolidated RTI in the Company's financial statements.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 5 - INVESTMENTS IN AFFILIATED AND OTHER COMPANIES (cont.)

A. Investment in affiliated companies
(cont.)

2.3 ITURAN ROAD TRACK ARGENTINA S.A ("IRTA")

In October 2015, IRTA was established as a joint venture between the Company and Road Track in order to offer Ituran's services in the Argentinian market. Since IRTA's inception until September 13, 2018 (the acquisition closing date described in Notes 1A,3), Ituran held 50% of the shares of IRTA which was jointly controlled and therefore was not consolidated in the company's financial statements. Since the acquisition closing date, the company gained control over IRTA and started to consolidated IRTA in the Company's financial statements.

2.4 GLOBAL TELEMATIC SOLUTIONS HK, LIMITED ("HK")

In October 2017, HK was established as a joint venture between the Company 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 HK's inception until September 13, 2018 (the acquisition closing date described in Notes 1A, 3), Ituran held 50% of the shares of HK which was jointly controlled and therefore was not consolidated in the company's financial statements. Since the acquisition closing date, the company gained control over HK and started to consolidated HK in the Company's financial statements.

B. Investment in other companies

In March 2018 the company acquired the remainder shares of. Locationet Systems Ltd. ("Locationet") for NIS 1.2 million (approximately \$340 thousands) As of December 31, 2018 and 2017 the Company holds 100% and 19.15% of the shares of Locationet Systems Ltd. ("Locationet") respectively. Since the acquisition date, Locationet is controlled by the company and consolidated in the company's financial statements.

During the years 2017-2018, the company made additional investments in three Israeli companies, two of the investments were in Israeli startups (from mobile app development and visual sectors)

The total investments in these companies were approximately US\$ 2.8 million

NOTE 6 - OTHER NON-CURRENT ASSETS

	US dollars	
	December	
	31,	
(in thousands)	2018	2017
Deferred installation expenses (*)	2,904	552
Deposits	318	387
	3,222	939

(*)See Note 1W.

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 7 - PROPERTY AND EQUIPMENT, NET

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

(in thousands)	US dollars	
	December 31, 2018	2017
Cost :		
Operating equipment (*)	59,074	52,096
Office furniture, equipment and computers	42,754	33,913
Land	1,879	1,022
Buildings	6,415	2,205
Vehicles	7,910	6,799
Leasehold improvements	7,410	5,780
	125,442	101,815
Less – accumulated depreciation and amortization (**)	(74,982)	(62,768)
Total property and equipment, net	50,460	39,047

(*) As December 31, 2018 and 2017, an amount of US\$ 28.8 million and US\$ 30.4 million is subject to operating lease transactions, respectively.

(**) As at December 31, 2018 and 2017, an amount of US\$ 13.0 million and US\$ 15.9 million is subject to operating lease transactions, respectively.

In the years ended December 31, 2018, 2017 and 2016, depreciation expense was US\$ 13.4 million, US\$ 13.5 million and US\$ 11.6 million, respectively and additional equipment was purchased in an amount of US\$ 20.1 million, US\$ 16.2 million and US\$ 13.6 million, respectively.

NOTE 8 - INTANGIBLE ASSETS, NET

(in thousands)	US dollars					
	December 31, 2017	December 31, 2018	Year ended December 31, 2018		December 31, 2018	
	Opening balance	Acquisition	amortization	Additions	Translation differences	Closing balance
Customer relationship	-	24,696	(540)	-	(23)	24,133
Technology	-	11,286	(556)	1,578	(23)	12,285
Others	38	2,601	(84)	90	(23)	2,622
	38	38,583	(1,180)	1,668	(69)	39,040

As of December 31, 2018, the estimated aggregate amortization of intangible assets for the next five years is as follows: 2019- US\$ 6,488 thousand, 2020- US\$ 6,488 thousand, 2021- US\$ 6,488 thousand, 2022- US\$ 6,488 thousand and 2023 – US\$ 5,922 thousand.

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 9 - GOODWILL

The changes in the carrying amount of goodwill for the years ended December 31, 2018 and 2017 are as follows:

(in thousands)	US dollars		Total
	Telematic services	Telematics products	
Balance as of January 1, 2017 (*)	1,562	1,844	3,406
Changes during 2017:			
Translation differences	170	201	371
Balance as of December 31, 2017	1,732	2,045	3,777
Changes during 2018:			
Acquisition of subsidiary	53,584	5,818	59,402
Translation differences	(247)	(36)	(283)
Balance as of December 31, 2018	55,069	7,827	62,896

(*) The accumulated amount of goodwill impairment loss as of December 31, 2018, 2017 and 2016 was US\$ 7,098,000.

During the years ended December 31, 2018, 2017 and 2016 the company didn't recorded any impairment of goodwill.

NOTE 10 - CREDIT FROM BANKING INSTITUTIONS

A. Short term loans:

(in thousands)	US dollars	
	December 31, 2018	2017
Short-term loans - linked to the Colombian Pezo	599	-
Short-term loans - linked to the Mexican Pezo	1,526	-
Current maturities of long-term loan (note 10B)	8,350	-
Others	84	48
	10,559	48

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 10 - CREDIT FROM BANKING INSTITUTIONS (cont.)

B. Long term loan:

In August 2018, the company signed on Loan Agreement (the “Loan agreement”) with commercial Israeli bank (the “Bank”) under which the company has received an amount of approximately \$81.7 million (296 million Nis) (the “Loan”) from the bank for a period of 5-years that bears an annual interest rate of Prime rate (as of December 31, 2018 the prime rate was 1.75%) + 0.53%. In December 2018 the company repaid to the bank in an early repayment an amount of approximately \$8.0 million (30 million NIS).

According to the loan agreement the company was obligated to comply with the following covenants (the “Loan Covenants”):

- Equity to total assets Ratio - The Ratio will not be less than 30%.
- Total equity - Total equity will not be less than \$15 million.
- Net debt to EBITDA Ratio - The Ratio will not exceed 4.
- EBITDA - EBITDA will not be less than \$10 million.

The company is required to submit calculation of the covenants to the bank once a year based on the audited financial statement by the end of April of each year

Upon non compliance with any of the above covenants, the bank shell have the right to demand immediate repayment of the remaining balance of the loan.

As of December 31, 2018, the company is in compliance with the loan covenants

C. Maturity dates:

	US dollars December 31, 2018
(in thousands)	
First year - current maturities	8,350
Second year	16,700
Third year	16,700
Fourth year	16,700
Fifth year	12,522
	70,972

D. Lines of credit:

Unutilized short-term lines of credit of the Group as of December 31, 2018, aggregated to US\$ 1.9 million.

NOTE 11 - OTHER CURRENT LIABILITIES

Explanation of Responses:

Composition:

(in thousands)	US dollars	
	December 31, 2018	2017
Accrued expenses	10,281	12,753
Accrued payroll and related taxes	7,231	7,392
Government institutions	6,629	3,907
Accrued dividend	4,822	4,994
Others	3,512	598
	32,475	29,644

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 12 - CONTINGENT LIABILITIES

A. Claims

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 Monitamento 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 unfavorable 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. The Special Appeal lodged by Ituran Brazil was not accepted by the Superior Court of Tax Appeals. Ituran Brazil 1. 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 September 2016 we filed counterarguments and request for the drafting of an accounting report to be made by a court-appointed expert. On April 3, 2017 the judge analyzed our request and granted the accounting report by a court – appointed expert. The expert filed his report and we are currently waiting for the first level Judiciary venue. Based on the legal opinion of the subsidiary's Brazilian legal counsel we believe that such claim is without merit (therefore, the Company has not made any provision in its consolidated financial statements in respect to this claim), as the assessment is 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 2018, the aggregate sum claimed pursuant to the tax assessment (principal amount, interest and penalties) is estimated at R\$12.3 million (approximately US\$ 3.18 million).

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 2018 to R\$ 3,388,290 (approximately US\$ 874,000) 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 2018 amounts to R\$ 5,094,959 (approximately US\$ 1,315,000), to FUST tax assessment for the year 2010 which including interest and penalties, on December 2018 amounts to R\$ 3,545,193 (approximately US\$915,000) and to FUST tax assessment 2 for the year 2011 (and January 2012) which including interest and penalties, on December 2018 amounts to R\$ 3,529,073 (approximately US\$ 911,000). Due to the such last tax assessment, on December 2018, the aggregate amount claimed by Anatel increased to approximately R\$ 15.56 million (approximately US\$ 4.02 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").

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 12 - CONTINGENT LIABILITIES (cont.)

A. Claims (cont.)

2. (cont.)

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 (therefore, the Company has not made any provision in its consolidated financial statements in respect to this claim), 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. We have filed our 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.

As the FUST are levied at a fixed rate on the gross revenues, the company accounted for such matter in accordance with the provisions of ASC Topic 450-20 contingencies - loss contingencies.

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 2018 amounts to R\$ 1,410,615 (approximately US\$ 364,000) 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 2018 amounts to R\$ 953,971 (approximately US\$ 246,000), to FUNTELL tax assessment for the year 2008 which including interest and penalties, on December 2018 amounts to R\$ 938,442 (approximately US\$ 242,000), to FUNTELL tax assessment for the year 2010 which including interest and penalties, on December 2018 amounts to R\$ 1,316,771 (approximately US\$ 340,000) and 2011 which on December 2018 amounts to R\$ 1,310,806 (approximately US\$ 338,000) including interest and penalties. Due to the such last tax assessment, on 3. December 2018 the aggregate amount claimed by Anatel increased to approximately R\$ 5.93 million (approximately US\$ 1.53 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 (therefore, the Company has not made any provision in its consolidated financial statements in respect to this claim), 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.

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. On March 27, 2018 the Administrative published a decision which rejected our defense for year 2011 and on April 25, 2018 we filed an appeal. We are currently awaiting the Administrative decisions on all the aforementioned FUNTELL claims.

As the FUNTELL are levied at a fixed rate on the gross revenues, the company accounted for such matter in accordance with the provisions of ASC Topic 450-20 contingencies - loss contingencies.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 12 - CONTINGENT LIABILITIES (cont.)

A. Claims (cont.)

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, by one plaintiff who is a subscriber of the Company, alleging that the Company, which was declared a monopoly under the Israeli Antitrust 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 US\$ 80 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. A class action lawsuit based on similar claims, against the Company, which was filed 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 US\$ 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 (therefore, the Company has not made any provision in its consolidated financial statements in respect to this claim), 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.

On July 19, 2018 we received two class action lawsuits that were filed against the Company, alleging that the Company violated the Protection of Privacy Law, 5741 – 1981 and the Protection of Privacy Regulations (Data Security) 5777-2017. The plaintiffs request that the lawsuits will be approved as a class action and allege that The Company did not secure customer information properly, as required by the law, and that the lack of information security procedures allowed hacking into the company's website, which caused to exposure of customers sensitive personal information. The lawsuits are yet to be approved as a class action lawsuit. The total amount claimed if the lawsuits are to be approved as a class action were estimated by the plaintiffs to be approximately NIS 600 million (approximately US\$ 160 million) Our defense against the approval of the class action lawsuits was filed on December 13, 2018.

Based on an opinion of our legal counsels, and at this preliminary stage, the Company has good defense arguments in respect of claims made by the plaintiffs and the chances that the lawsuits will not be approved as a class action lawsuit are significantly higher than it will be approved (therefore, the Company has not made any provision in its consolidated financial statements in respect to this claim). While we cannot predict the outcome of these cases, if we are not successful in defending these claims, 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 12 - 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, to the consolidated financial statements as a whole.

The Company was declared a monopoly under the Israeli Antitrust 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, 2018, minimum future rentals under operating leases of buildings and base station sites for periods were as follows: 2019 – US\$ 6.1 million, 2020 – US\$ 3.2 million, 2021 – US\$ 1.5 million, 2022 – US\$ 1.0 million and 2023 – US\$ 1.0 million, 2024 and thereafter – US\$ 2.1 million.

The leasing fees expensed in each of the years ended December 31, 2018, 2017 and 2016, were US\$ 3.1 million, US\$ 3.2 million and US\$ 2.6 million, respectively.

NOTE 13 - STOCKHOLDERS' EQUITY

A. Share capital:

1. Composition:

	December 31, 2018 and 2017	Registered	Issued and
	Ordinary shares of NIS 0.33	each 60,000,000	outstanding
			23,475,431

Since May 1998, the Company has been trading its shares on the Tel-Aviv Stock Exchange (“TASE”). On February 24, 2015 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.

3. On September 2005, the Company registered its Ordinary shares for trade in the United States.

4. 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.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 13 - STOCKHOLDERS' EQUITY (cont.)

A. Share capital (cont.):

5. As of December 31, 2017, and 2016, 2,507,314 ordinary shares representing 10.7% of the share capital of the Company was held by the company as treasury shares.

As a result of the Acquisition described in Notes 1A, 3 during September 2018 the company reissued 373,489 ordinary shares to the previous shareholders of Road Track (as part of the consideration paid to the sellers). The final consideration paid to the sellers was subject to downward adjustments depending on the full year 2018 performance of Road Track.

During March 2019 the company received the full year 2018 performance of Road Track business and according to Road Track results the price adjustment that will be paid back to Ituran in Ituran's shares is approximately \$11 million (300,472 shares out of 373,489 shares that we reissued)

As of December 31, 2018, 2,133,825 ordinary shares representing 9.1% of the share capital of the Company is held by the company as treasury shares.

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

B. Retained earnings

1. In determining the amount of retained earnings available for distribution as a dividend, the Israeli Companies Law stipulates that the cost of the Company's shares acquired by the Company and its subsidiaries (presented as a separate item in the statement of changes in equity) must be deducted from the amount of retained earnings.

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

3. 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 became effective 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 2016, the Company declared dividends in an amount of approximately US\$ 18.2 million. These dividends were paid during 2016 and January 2017.

6. During 2017, the Company declared dividends totaling an amount of approximately US\$ 23.5 million. These dividends were paid during 2017 and January 2018.

7. During 2018, the Company declared dividends totaling an amount of approximately US\$ 20.0 million. These dividends were paid during 2018 and January 2019.

8. In March 2019, the Company declared a dividend in the amount of US 0.23 dollar per share, totaling approximately US\$ 5 million. The dividend was paid in April 2019.

9. During the years ended December 31, 2018, 2017 and 2016, the Company declared dividends in the amount of US\$ 0.95, US\$ 1.12 and US\$ 0.86, per share.

NOTE 14 - OTHER (INCOME) EXPENSES, NET) non-operational(

(in thousands)	US dollars		
	Year ended December 31,		
	2018	2017	2016
expenses relate to Road Track acquisition	(1,539)	-	-
Gain from measurement of previously held interests at acquisition date fair value (*)	14,677	-	-
	13,138	-	-

(*) As a result of the acquisition described in Notes 1A, 3 the company gained control over certain companies (see Note 4.2) that previously were accounted under the equity method (“JV's”) and started to consolidate their financial statements. The company recorded one time gain in the amount of approximately \$14.7 million from measurement of the JV's at the acquisition date to fair value.

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 15 - FINANCING INCOME (EXPENSES), NET

(in thousands)	US dollars		
	Year ended December 31,		
	2018	2017	2016
Short-term interest income, (expenses) commissions and other	64	258	46
Gains in respect of marketable securities	166	397	115
Interest income (expenses) in respect of long-term loans	(528)	1	225
Interest income in respect of deposits	640	1,415	1,944
Income (expenses) related to taxes positions	210	(2,246)	-
Exchange rate differences and others, net	165	(814)	(274)
	717	(989)	2,056

NOTE 16 - INCOME TAX

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

(in thousands)	US dollars		
	Year ended December 31,		
	2018	2017	2016
Income taxes (tax benefit):			
Current taxes:			
In Israel	6,622	6,251	5,581
Outside Israel	8,325	10,308	10,303
	14,947	16,559	15,884
Deferred taxes:			
In Israel	781	(1,982)	91
Outside Israel	1,565	(169)	(1,179)
	2,346	(2,151)	(1,088)
Taxes in respect of prior years:			
In Israel (*)	(20)	1,775	81
Outside Israel (**)	-	1,522	-
	(20)	3,297	81
	17,273	17,705	14,877

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 16 - INCOME TAX (cont.)

A. Taxes on income included in the statements of income (cont.):

During November 2017, the Company has received from the Israeli tax authority ("ITA") tax assessments for the years 2013-2015 amounting to NIS 11.3 million (approximately US\$ 3.1 million). An amount of NIS 7.2 million (approximately US\$ 2 million) due to the timing differences related to the deduction of certain expenses for tax (*) purposes, which was agreed to be deducted in the coming years. Accordingly, the Company recorded an amount of NIS 6.2 million (approximately US\$ 1.8 million) as tax expense related to prior periods and a deferred tax benefit in a similar amount. In addition, the Company was required to pay the ITA an amount of NIS 1.8 million (approximately US\$ 0.5 million) as interest expense. Such amount was recognized as part of financing income, net.

During November 2017, one of our subsidiaries in Brazil has received from the Brazilian tax authority ("RFB") a tax assessment for the years 2012-2014 amounting to BRL 10.3 million (approximately US\$ 3.1 million), mainly (***) due to an undeductable expenses. Accordingly, our subsidiary recorded an amount of BRL 4.8 million (approximately US\$ 1.5 million) as tax expense related to prior periods. In addition, our subsidiary was required to pay an amount of BRL 3.6 million (approximately US\$ 1.1 million) as penalty and BRL 1.7 (approximately US\$ 0.5 million) as interest expense. Such amount was recognized as part of financing income, net.

B. Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985 (the "Inflationary Adjustment Law")

Until December 31, 2007, the Company and its Israeli subsidiaries reported income for tax purposes in accordance with the provisions of the Inflationary Adjustments Law, whereby taxable income was measured in NIS, adjusted for changes in the Israeli Consumer Price Index where results of operations for tax purposes were measured in terms of earnings in NIS after adjustments for changes in the Israeli Consumer Price Index ("CPI"). Commencing January 1, 2008, this law became void and in its place, there are transition provisions, whereby the results of operations for tax purposes are measured on a nominal basis.

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

On December 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, 1. 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.

2. As of December 31, 2018, only one Israeli subsidiary is entitled to a "Preferred Company" status pursuant to the investment law.

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 16 - INCOME TAX (cont.)

D. Israeli corporate tax rates

On January 4, 2016, the full plenum of the Israeli parliament passed the second and third readings of the Amendment to the Israel Income Tax Ordinance (Amendment No. 216) – 2016 (hereinafter – the “Amendment to the Law”) and on January 5, 2016, the Amendment to the Law was publicized in the Official Gazette. The Amendment to the Law stipulates, among other things, that the corporate tax rate would be lowered from 26.5% to 25% commencing from January 1, 2016.

On December 22, 2016, the Israeli parliament (the "Knesset") passed the Law for Economic Efficiency (Legislative Amendments to Achieve Budgetary Goals for the 2017 and 2018 Budget Years) – 2016 (hereinafter – the “Economic Efficiency Law”) and on December 29, 2016, it was publicized in the Official Gazette. The Economic Efficiency Law stipulates, among other things, that the corporate tax rate would be reduced from a rate of 25% to 23% from January 1, 2018 and thereafter. Regarding the period from the date on which the Economic Efficiency Law went into effect (January 1, 2017) until December 31, 2017, a temporary provision was set down whereby the corporate tax rate will be 24%. In addition, the tax rate on capital gains in real terms and the tax rate applicable to the amount of a betterment in real terms were reduced by the same percentages.

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

E. Non-Israeli subsidiaries

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

F. Use of assumptions and 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

The Company and a certain Israeli subsidiary have received final tax assessments through the 2015 tax year. One of the subsidiaries in Israel has received final tax assessments through the 2016 tax year. One of the subsidiaries in Brazil has received final tax assessments through the 2015 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, 2018, 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.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 16 - INCOME TAX (cont.)

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, 2018		2017		2016	
Pretax income	76,233		55,546		50,054	
Statutory tax rate	23	%	24	%	25	%
Tax computed at the ordinary tax rate	17,534		13,331		12,514	
Nondeductible expenses (income)	(2,785)		(815)		766	
Losses in respect of which no deferred taxes were generated (including changes in valuation allowance)	(236)		243		(151)	
Deductible financial expenses recorded to other comprehensive income	(177)		(113)		90	
Tax adjustment in respect of different tax rates	2,384		3,119		2,040	
Taxes in respect of withholding at the source from royalties and dividends	31		542		95	
Adjustment in respect of tax rate deriving from "approved enterprises"	(100)		(436)		(501)	
Others	622		1,834		24	
	17,273		17,705		14,877	

J. Summary of deferred taxes

Composition:

(in thousands)	US dollars	
	Year ended December 31,	
	2018	2017
Deferred taxes		
Provision for vacation, recreation and bad debt	258	276
Provision for legal obligation and other	5,500	6,262
Provision for employee related obligations	1,147	849
Carry forward tax losses and foreign tax credit	3,600	3,600
Temporary differences, net	(1,360)	887
	9,145	11,874
Valuation allowance	(3,476)	(3,476)
	5,669	8,398
	US dollars	
	Year ended December 31,	
(in thousands)	2018	2017
Deferred income taxes included in long-term investments and other assets	12,127	8,398
Deferred income taxes included in long-term liabilities	(6,458)	-
	5,669	8,398

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 16 - INCOME TAX (cont.)

K. Income before income taxes is composed as follows:

	US dollars		
	Year ended December 31,		
(in thousands)	2018	2017	2016
The Company and its Israeli subsidiaries	46,138	22,138	22,634
Non-Israeli subsidiaries	30,095	33,408	27,420
	76,233	55,546	50,054

NOTE 17 - 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, 2018, 2017 and 2016, are as follows:

	US dollars		
	Year ended December 31,		
(in thousands)	2018	2017	2016
Net income attributable to stockholder's used for the computation of basic and diluted earnings per share	60,675	43,794	32,139
(in thousands)	Number of shares		
	Year ended December 31,		
	2018	2017	2016
Weighted average number of shares used in the computation of basic and diluted earnings per share	21,077	20,968	20,968

NOTE 18 - 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 2018, US\$ 311 thousand and US\$ 228 thousand, respectively (In 2017 US\$ 327 thousand and US\$ 152 thousand, respectively.)

Tzivtit Insurance is entitled to commissions in an aggregate amount of NIS 340 thousand (US\$ 95 thousand) to be paid to Tzivtit Insurance by the insurance company on account of these policies, (US\$ 53 thousand and US\$ 96 thousand in 2017 and 2016, respectively).

B. In accordance with an agreement with a related party (as amended), Prof. Yehuda Kahane, for financial consulting, the Company is required to pay the consultant monthly consulting fees of NIS 15,000 (US\$ 4,000) a month, linked

to the Israeli Consumer Price Index. The aggregate amount paid to Professor Kahane in each of the years 2018, 2017 and 2016 was approximately US\$ 61,000, US\$ 65,000 and US\$ 52,000, respectively.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 18 -RELATED PARTIES (cont.)

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 C.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 (US\$60,000, US\$47,000, US\$47,000 and US\$33,000 respectively) 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, the 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.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 18 - 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 US\$ 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 18 - 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 2017 and 2016 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)	2018	2017	2016
Izzy Sheratzky	2,859	3,202	1,874
Eyal Sheratzky	2,224	2,337	1,672
Nir Sheratzky	2,208	2,312	1,478
Gil Sheratzky	1,039	1,379	1,118

NOTE 19 - SEGMENT REPORTING

A. General information:

The operations of the Group (including the companies we acquired control over on September 2018 as describe in notes 1A, 3) 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.

Telematics services:

The telematics services segment consists predominantly of regionally- based stolen vehicle recovery (SVR) services, fleet management services and value-added services comprised of personal advanced locator services and concierge services.

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

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 19 - SEGMENT REPORTING (cont.)

A. General information (cont.):

Telematics products:

The telematics 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
	Telematics services	Telematics products	
Year ended December 31, 2018			
Revenues	181,357	71,978	253,335
Operating income	56,913	5,465	62,378
Assets	101,305	36,355	137,660
Goodwill	55,069	7,827	62,896
Expenditures for assets	15,677	537	16,214
Depreciation and amortization	8,630	486	9,116
Year ended December 31, 2017			
Revenues	169,752	64,884	234,636
Operating income	55,012	1,523	56,535
Assets	95,384	17,192	112,576
Goodwill	1,732	2,045	3,777
Expenditures for assets	9,346	681	10,027
Depreciation and amortization	10,030	328	10,358
Year ended December 31, 2016			
Revenues	141,940	57,634	199,574
Operating income	44,045	3,953	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

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 19 - SEGMENT REPORTING (cont.)

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

(in thousands)	US dollars		
	2018	2017	2016
Total revenues of reportable segment and consolidated revenues	253,335	234,636	199,574
Operating income			
Total operating income for reportable segments	62,378	56,535	47,998
Unallocated amounts:			
Financing income, net	717	(989)	2,056
Other income, net	13,138	-	-
Consolidated income before taxes on income	76,233	55,546	50,054
Assets			
Total assets for reportable segments (*)	200,556	116,353	103,976
Other unallocated amounts:			
Current assets	103,994	59,412	43,874
Investments in affiliated and other companies	7,644	16,221	12,060
Property and equipment, net	20,074	15,092	10,912
Other unallocated amounts	41,524	8,081	7,197
Consolidated total assets (at year end)	373,792	215,159	178,019
Other significant items			
Total expenditures for assets of reportable segments	16,214	10,027	9,331
Unallocated amounts	5,168	6,281	4,498
Consolidated total expenditures for assets	21,382	16,308	13,829
Total depreciation, amortization and impairment for reportable segments	9,116	10,358	9,160
Unallocated amounts	5,492	3,161	2,475
Consolidated total depreciation, amortization and impairment	14,608	13,519	11,635

(*)Including goodwill.

ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 19 - SEGMENT REPORTING (cont.)

E. Geographic information

	Revenues		
	Year ended December 31,		
(in thousands)	2018	2017	2016
Israel	116,186	116,391	101,273
United States	8,873	8,537	8,697
Brazil	90,842	89,455	70,982
Argentina	13,643	15,211	14,772
Mexico	7,889	-	-
Ecuador	8,362	-	-
Colombia	2,450	-	-
Others	5,090	5,042	3,850
Total	253,335	234,636	199,574

	Property and equipment, net		
	December 31,		
(in thousands)	2018	2017	2016
Israel	16,478	16,757	11,973
United States	142	118	106
Brazil	24,562	17,969	19,188
Argentina	3,820	4,203	4,377
Mexico	3,285	-	-
Ecuador	1,530	-	-
Colombia	303	-	-
Other	340	-	-
Total	50,460	39,047	35,644

-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 2018, 2017 and 2016, there were no sales exceeding 10% of total revenues to none of our customers.

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 20 - FINANCIAL INSTRUMENTS AND RISKS MANAGEMENT

A. Concentrations of credit risks

Financial instruments that potentially subject the Company and its subsidiaries to concentrations of credit risk consist principally of cash and cash equivalents, accounts receivables, 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, 2018 and 2017, 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, Mexico, Ecuador, Colombia and the United States to a large number of customers, including insurance companies and Car manufacturers. 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, management believes that the Group's trade receivables do not represent a substantial concentration of credit risk.

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.

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 2017 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 of the purchasing entity, will be affected by changes in exchange rates. As of December 31, 2018, 10 transactions that originated in 2017 remain outstanding.

During 2016, 2017 and 2018, 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, 2018	Assets derivatives Thousands of US dollars	
		Fair
	Balance sheet location	value
Derivatives designated as hedging instruments:		
Foreign exchange contracts	Other current Assets	1,019
As of December 31, 2017	Liability derivatives Thousands of US dollars	

	Balance sheet location	Fair value
Derivatives designated as hedging instruments:		
Foreign exchange contracts	Other current Liabilities	580

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ITURAN LOCATION AND CONTROL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 20 - FINANCIAL INSTRUMENTS AND RISKS MANAGEMENT (cont.)

B. Foreign exchange risk management (cont.)

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, 2018		
Foreign exchange contracts	Cost of revenues	385
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, 2017		
Foreign exchange contracts	Cost of revenues	10

As of December 31, 2018, the notional amount of forward exchange contract with respect to cash flow hedge of anticipated transactions amounted to US\$ 15 million (US\$ 1.5 million per month for the next 10 months).

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 and marketable derivatives 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.

The fair value of the long-term liability (loans from bank institutions) approximates its fair value, as the loan carries variable interest rate and as the loan was received close to the balance sheet date.

See Note 1N regarding non-recurring measurement of the fair value of certain non-financial assets (mainly goodwill and other definite-life intangible assets).

See also Note 1V.

The Company's financial assets (liabilities) measured at fair value on a recurring basis, consisted of the following types of instruments as of December 31, 2018 and 2017:

(in thousands)	December 31, 2018		
	Level 1	Level 2	Level 3
Trading securities	1,897	-	-
Derivatives designated as hedging instruments	-	1,019	-
Total	1,897	1,019	-

(in thousands)	December 31, 2017		
	Level 1	Level 2	Level 3
Trading securities	3,559	-	-
Derivatives designated as hedging instruments	-	(580)	-
Total	3,559	(580)	-

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

ITURAN LOCATION AND CONTROL LTD.

(Registrant)

By: /s/ Eyal Sheratzky /s/ Nir Sheratzky
Eyal Sheratzky Nir Sheratzky
Co-Chief Executive Officers

Dated: April 30, 2019

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