Ituran Location & Control Ltd.
Form 20-F
June 29, 2007

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

Commission file no. 001-32618

ITURAN LOCATION AND CONTROL LTD.

(Exact name of Registrant as specified in its charter and
translation of Registrant s name into English)

Israel
(Jurisdiction of incorporation or organization)

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

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

Title of each class	Name of each exchange on which registered
Ordinary Shares, par value NIS 0.33$^{1}/_{3}$ per share	**Nasdaq National Market**

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

None
(Title of Class)

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

None

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

23,321,507 Ordinary Shares

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act

Yes o No x

If this report is an annual or transition report, indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Yes o No x

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the proceeding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (check one):

Large Accelerated Filer o Accelerated Filer x Non-accelerated filer o

Indicate by check mark which financial statement item the Registrant has elected to follow:

Item 17 o Item 18 x

If this is an annual report, indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

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USE OF CERTAIN TERMS

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

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

FORWARD LOOKING STATEMENTS

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

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

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

Our selected consolidated statements of operations data for the years ended December 31, 2004, 2005 and 2006 and our selected consolidated balance sheet data as of December 31, 2005 and 2006 have been derived from our consolidated financial statements, included elsewhere in this report. The selected consolidated statements of operations data for each of the years ended December 31, 2002 and 2003 and the selected consolidated balance sheet data as of December 31, 2002, 2003 and 2004 are derived from other audited financial statements not included in this report.

Selected Financial Data Under U.S. GAAP:

Consolidated Statements of Operations

	Year Ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
	In USD				
	In thousands, except per share amounts				
Revenues:					
Location based services	54,048	44,128	36,549	32,088	24,053
Wireless communications products	50,004	43,806	33,461	23,527	17,782
Other	-	2,192	7,916	8,456	7,856
Total Revenues	104,052	90,126	77,926	64,071	49,691
Cost of Revenues:					
Location based services	18,419	14,987	12,944	12,258	12,159
Wireless communication products	35,434	30,956	23,224	19,071	12,928
Other	-	1,643	5,720	6,119	5,746
Total cost of revenues	53,853	47,586	41,888	37,448	30,833
Gross profits	50,199	42,540	36,038	26,623	18,858
Operating Expenses:					
Research and development expenses	2,682	2,799	2,020	1,692	1,717
Selling and marketing expenses	5,123	4,876	4,074	2,888	2,365
General and administrative expenses	17,659	14,959	11,693	11,443	9,757
Other expenses (income), net	3	(16)	(12)	314	740
Total operating expenses	25,467	22,618	17,775	16,337	14,579
Operating Income (loss)	24,732	19,922	18,263	10,286	4,279
Financing income (expenses), net	1,886	906	(2,059)	(616)	(6,039)
Other non-operating expenses, net	-	-	-	-	528
Income (loss) before taxes on income	26,618	20,828	16,204	9,670	(2,288)
Taxes on (income) loss	(6,581)	(5,295)	(4,423)	(3,417)	2,955
Income (loss) after tax on income	20,037	15,533	11,781	6,253	667
Share in losses of affiliated companies, net	(213)	(355)	(324)	(235)	(529)
Minority interest in income (losses) of subsidiaries	(565)	(803)[1]	(238)	(173)	731
Net income (loss)	19,259	14,375	11,219	5,845	869
Earning per share[2]					
Basic	0.83	$ 0.73	$ 0.60	$ 0.32	$ 0.05
Diluted	0.82	$ 0.71	$ 0.58	$ 0.31	$ 0.05
Weighted average number of shares outstanding[2]					
Basic	23,194	19,736	18,585	18,273	17,634
Diluted	23,457	20,254	19,192	19,086	18,264

[1] including $287 thousand for prior years (a decrease of $0.02 earning per share) as a result of recalculation of minority interests in income from subsidiaries, which does not have a material effect on our financial results.

(2)Earning per share and weighted average number of shares outstanding were adjusted to reflect the three to one share split of our ordinary shares that was affected on September 22, 2005.

Consolidated Balance Sheets Data

	As of December 31,				
	2006	2005	2004	2003	2002
	In USD				
	In thousands, except per share amounts				
Cash & Cash Equivalent	59,846	58,429	4,604	3,918	1,327
Working Capital	73,434	60,995	2,508	(3,624)	(11,650)
Total Assets	144,839	116,484	59,023	54,731	54,412
Total Liabilities	47,968	40,722	44,022	50,942	57,333
Retained Earnings (accumulated deficit)	19,604	4,048	(7,630)	(17,522)	(23,367)
Shareholders Equity (deficit)	96,871	75,762	15,001	3,789	(2,921)

Other Data:

	As of December 31,				
	2006	2005	2004	2003	2002
	(unaudited)				
Subscribers of our location-based services[(1)]	396,000	339,000	262,000	210,000	178,000
Average monthly churn rate	1.8%	1.5%	1.5%	1.4%	1.0%

(1) Number of subscribers is approximate

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

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

RISKS RELATED TO OUR BUSINESS

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

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

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

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

Therefore, we rely on insurance companies continued practice of:

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

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

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

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

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

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

In the event that we are not successful in penetrating the Chinese and South Korean markets, as a result of contractual or governmental constraints, or if our relevant counterparties are not able or willing to effectively market location-based services in China or South Korea, we will not be able to implement a substantial portion of our current growth strategy.

In 2004 we entered into material agreements for the sale of our AVL infrastructure and end-units in China and South Korea. See Item 10.C Additional Information under the caption Material Contracts below. Our current growth strategy depends, in large part, on our ability to maximize our opportunities pursuant to such agreements. Performance under such agreements is subject to various contractual and governmental constraints, including the receipt of various licenses and permits required for the establishment of our AVL infrastructure and specialized approvals, such as the Telecommunication Equipment Network Access Type Approval in China and the Business License and Spectrum License in South Korea, some of which are difficult to obtain or require a substantial time investment. In addition, our ability to sell our products in the relevant markets is dependent upon the local operators ability to effectively provide location-based services based on our AVL infrastructure or market our end-units in China and South Korea. Their failure to provide any such services or market our products effectively, or such operators failure to obtain any necessary governmental licenses, would preclude us from being able to optimize our growth in China and South Korea.

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

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

Over 90% of the automatic meter reading market, which we refer to as the AMR market, exists in the United States, where we compete with a number of established companies with greater financial resources. The radio frequency identification market, which we refer to as the RFID market, in the United States is characterized by a small number of established and accepted providers, including Mark IV, the provider of the E-ZPass solution, many of which have greater experience and name recognition in this market than we do. Many of our current and potential competitors in all of the markets in which we operate have significantly greater name recognition, larger customer base and greater financial, technical, manufacturing, marketing and other resources than we do. If our competitors succeed in marketing products more effectively than we do, our results of operations could be adversely affected.

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

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

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

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

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

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

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

We license from Teletrac, Inc. some of the technology that we need in order to provide our SVR services and market and sell some of our AVL products. In the event that such licenses were to be terminated, or if such licenses were rendered unenforceable or invalid, we would not be able to license similar technology from other parties, which would require us, at a minimum, to obtain rights to a different technology and reconfigure our AVL products accordingly. Our license agreements with Teletrac are perpetual in term unless terminated by mutual agreement or for breach, including bankruptcy, dissolution or insolvency. As a result, our failure to maintain our intellectual property licenses from Teletrac could preclude us from providing our SVR services or market and sell some of our AVL products, which would adversely affect our revenues.

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

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

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

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

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

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

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

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

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

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

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

We have entered into the following agreements that include restrictions on our ability to sell certain of our services and products:

- We have granted Korean Location Information and Communications Company Ltd., a South Korean company, a right of first refusal to provide location-based services, based on AVL infrastructure and end-units supplied by us, in the far east and south-east Asia, including Japan, but excluding China, Hong Kong, Macao and Taiwan.

- We have granted Golden Net Communication Technology Ltd., a Chinese company, the exclusive rights to provide SVR services, based on an AVL infrastructure and AVL end-units supplied by us, in China, Hong Kong, Macao and Taiwan. In addition, once we receive $150 million in revenues from sales of our AVL products to Golden Net, we are obligated to transfer title and ownership to all of our intellectual property rights, including know-how, patents and source code, relating to our AVL system to Golden Net for its use in China, Hong Kong, Macao and Taiwan.

- We have granted Arad Technologies Ltd. the exclusive right (subject to certain limited exceptions) to purchase our AMR products. As a result, we are not permitted to independently market our AMR products to any entity other than Arad Technologies. Furthermore, Arad Technologies currently uses our AMR products only with respect to water meter products and applications and not in the gas and electricity meter markets, which we believe to be potential new markets for our AMR products.

These agreements restrict our ability to expand our business and operations in certain markets, which could adversely affect our growth potential.

We rely on a single customer for the sale of our AMR products and the loss of such customer or such customer s failure to effectively market and sell our AMR products could have an adverse effect on our revenues and growth potential.

We sell our AMR products exclusively to Arad Technologies who incorporates our AMR products into a water meter product that it markets and distributes to utilities in the United States through its wholly-owned subsidiary Master Meter, Inc. Therefore, the volume of our existing AMR products sales is wholly dependent upon Arad Technologies demand for our products, which demand may not match or exceed historical levels. Any factors that adversely impact the operations of Arad Technologies, or result in our loss of its business, could adversely impact our AMR business. For example, Arad Technologies exclusively sells our AMR products to customers in the utility industry where sales cycles are often long and unpredictable. Furthermore, because we sell our AMR products exclusively to Arad Technologies, we rely on Arad Technologies for the effective marketing and sale of our AMR products to end-users. The failure of Arad Technologies to maintain or increase current demand for its products that incorporate our AMR products could have an adverse effect on our revenues and growth potential.

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

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

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

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

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

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

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

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

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

Our contracts with third-party providers for the establishment of AVL systems in China and South Korea represent important growth opportunities for the sale of our AVL infrastructure and AVL end-units. The expansion into these new markets involves challenges and risks, including tariffs, trade restrictions and foreign import export regulations as well as weak intellectual property law protection in China, and restrictive regulatory schemes or local customs in South Korea.

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

Specifically, with regard to our operations in China, China s economy differs from the economies of most developed countries in many respects, including with respect to the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the Chinese economy has experienced significant growth in the past 20 years, growth has been uneven across different regions and among various economic sectors of China. In recent years the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises. However, a substantial portion of the productive assets in China is still owned by the Chinese government. Additionally, our partner in China has informed us that the Chinese government may hold a direct or indirect interest in the local operating companies established by our Chinese partner and that it has a controlling interest in the operating company in Shanghai, Shanghai Golden Net Location & Measurement Co. Ltd. As of the date of this report, we do not know what the scope of such interest will be or what control or influence the Chinese government will exercise over the other operating companies that will be formed. Any such exercise or control may adversely impact the business activities of these operating companies, and thus adversely impact our growth potential and revenues derived pursuant to our contractual arrangements with our Chinese partners. In addition, a change in policies by the Chinese government could adversely affect the operations of our Chinese partner, by, among other things, imposing confiscatory taxation, restricting currency conversion, imports and sources of supplies, or expropriating private enterprises, which may adversely impact our growth potential and revenues derived pursuant to our contractual arrangements with our Chinese partners. Although the Chinese government has been pursuing economic reform policies for nearly two decades, no assurance can be given that the Chinese government will continue to pursue such policies or that such policies may not be significantly altered, especially in the event of a change in leadership or other social or political disruption.

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

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

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

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

We may not be able to offset the loss of revenues from the decline in our cellular services, which would adversely affect our results of operations when compared to results of operations of prior periods.

We derived 10.2%, 2.4% and 0% of our total revenues in 2004, 2005 and 2006, respectively, from the provision of our cellular services. Our revenues from such services have declined significantly due to the expiration and non-renewal of our agreement with Partner Communications Co., Ltd. as of March 31, 2005, which agreement was the source of a significant portion of our revenues for this business. If we are unable to substitute these revenues, in whole or in part, with increasing revenues from our existing business segments, our results of operations will decline when compared to our results of operations for prior periods.

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

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

We are subject to litigation that could result in significant costs to us, a reduction in the price of our ordinary shares or dilution of our shareholders ownership percentage.

We are a party to a litigation between us and Leonardo L.P. (and certain of its related parties) arising from a financial transaction concluded in February 2000. Pursuant to such transaction, Leonardo invested $12 million in our company in return for notes that were convertible into our ordinary shares. We believe that the terms of the transaction dictated that the notes could be converted into a maximum of 2,250,000 of our ordinary shares and that upon conversion of the notes, the notes would be fully discharged and we would have no further obligation to the holders of the notes. Through the maturity date of the notes, March 3, 2003, Leonardo exercised its right to convert the notes into 2,241,594 of our ordinary shares. Immediately following the maturity date of the notes, however, Leonardo sent us a demand to repay in cash the balance of the notes plus accrued interest which had not been previously converted into our ordinary shares, which, according to Leonardo, was approximately $6.2 million. We subsequently commenced this litigation to obtain a judicial determination of the proper disposition of the Leonardo notes and to obtain a declaration that our sole remaining obligation under the notes was to issue 8,406 of our ordinary shares. In its pleadings, Leonardo is seeking alternative remedies and relief, including, among others, (a) the repayment in cash of the balance of the notes in the amount of approximately $6.2 million plus interest and expenses, (b) the delivery to Leonardo of the maximum number of our ordinary shares into which the notes could have been converted on the maturity date without regard to the 2,250,000 share limitation, or 3,516,462 ordinary shares, plus additional monetary damages, or (c) the payment of a cash amount equal to the amount obtained by multiplying the 3,516,462 shares mentioned in the preceding clause by the highest trading price of our ordinary shares between the maturity date and the date of the court s decision, plus interest or expenses. In addition, in June 2006, Leonardo was initially permitted to amend its claim to add an additional cause of action, claiming that on January 29, 2002 we also breached the same agreement because Moked Ituran Ltd. distributed some of our shares to other parties, in violation of the covenant that entitles Leonardo the option to redeem the notes Moked Ituran to maintain at least 70% of the number of our shares that it held at the time we entered into the financial transaction with Leonardo. Based on such alleged breach, Leonardo is seeking an additional alternative remedy of $9.6 million, plus interest and expenses. We successfully appealed the decision of the court that permitted Leonardo to amend its claim, and the appeals court reversed the decision withdrew Leonardo s permission to amend its claim. Leonardo subsequently filed a request for leave to appeal such decision to the Israeli Supreme Court, which request was denied. Although there can be no assurances as to the final outcome of this litigation, we believe that the maximum liability that we could have in this matter, assuming that a court rejects our interpretation of the agreements or determines that we have otherwise defaulted on the notes, is approximately $9.6 million plus interest and expenses. We intend to vigorously defend ourselves in this litigation. While we cannot predict the outcome of this litigation at this time, if Leonardo prevails, the award to Leonardo of damages, either in cash or by delivery of our ordinary shares, could result in significant costs to us, adversely affecting our results of operations. In addition, the issuance of our ordinary shares to Leonardo may impact the share price of our ordinary shares and would dilute our shareholders ownership percentage. See also Item 8.A Consolidated Statements and other Financial Information under the caption Legal Proceedings below.

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

The provision of our SVR services depends upon adequate network coverage for accurate tracking information. In Israel, we have installed 93 base sites that provide complete communications coverage in Israel. Similarly, we have established complete communications coverage in Sao Paulo, Brazil, Buenos Aires, Argentina and Miami, Florida. The installation and operation of most of our base sites require building permits from local or regional zoning authorities as well as a number of additional permits from governmental and regulatory authorities.

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

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

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

RISKS RELATED TO OUR OPERATIONS IN ISRAEL

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

Our headquarters and sole research and development facilities are located in Israel and our key employees, officers and directors are residents of Israel. Accordingly, security, political and economic conditions in Israel directly affect our business. Over the past several decades, a number of armed conflicts have taken place between Israel and its Arab neighbors. Since 2000, hostilities have increased in intensity and regional political uncertainty has also increased. The establishment in 2006 of a government in the Palestinian Authority by representatives of the Hamas militant group, and the virtual take-over of the Gaza Strip by Hamas in June 2007 has created unrest and uncertainty in the region. Furthermore, in the summer of 2006, Israel was engaged in an armed conflict with Hezbollah, a Lebanese Islamist Shiite militia group, which involved thousands of missile strikes and disrupted most day-to-day civilian activity in northern Israel. Continued or increased hostilities, future armed conflicts, political developments in other states in the region or continued or increased terrorism could make it more difficult for us to conduct our operations in Israel, which could increase our costs and adversely affect our financial results.

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

We receive tax benefits that may be reduced or eliminated in the future, which reduction or elimination could result in us paying increased taxes thereby adversely affecting our results of operations.

Some of our operations in Israel have been granted approved enterprise status by the Investment Center in the Israeli Ministry of Industry and Trade that resulted in us being eligible for tax benefits under the Israeli Law for Encouragement of Capital Investments, 1959. The availability of these tax benefits is subject to certain requirements, including, among other things, making specified investments in fixed assets and equipment, financing a percentage of those investments with our capital contributions, compliance with our marketing program which was submitted to the Investment Center, filing of certain reports with the Investment Center and compliance with Israeli intellectual property laws. If we do not meet these requirements in the future, these tax benefits may be cancelled and we could be required to refund any tax benefits that we have already received plus interest and penalties thereon. The tax benefits that our current approved enterprise program receives may not be continued in the future at their current levels or at all. If these tax benefits were reduced or eliminated, the amount of taxes that we pay would likely increase, which could adversely affect our cash from operations. See Item 10.E. Taxation under the caption Israeli Tax Considerations below.

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

We have been declared a monopoly under the Israeli Restrictive Trade Practices Law, 1988, in the market for the provision of systems for the location of vehicles. Under Israeli law, a monopoly is prohibited from taking certain actions, such as predatory pricing and the provision of loyalty discounts, which prohibitions do not apply to other companies. The Israeli antitrust authority may further declare that we have abused our position in the market. Any such declaration in any suit in which it is claimed that we engage in anti-competitive conduct would serve as *prima facie* evidence that we are a monopoly or that we have engaged in anti-competitive behavior. Furthermore, we may be ordered to take or refrain from taking certain actions, such as set maximum prices, in order to protect against unfair competition. Restraints on our operations as a result of being considered a monopoly in Israel could adversely affect our ability to grow our business in Israel.

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

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

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

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

Israeli corporate law regulates mergers, requires tender offers for acquisitions of shares above specified thresholds, requires special approvals for transactions involving directors, officers or significant shareholders and regulates other matters that may be relevant to these types of transactions. In addition, our articles of association contain, among other things, provisions that may make it more difficult to acquire our company, such as classified board provisions. In the future, we may amend our articles of association to include certain additional provisions that may be required by the Ministry of Communications limiting the voting power that could be acquired, absent Ministry of Communications approval, by any person other than our founding shareholders. Furthermore, Israeli tax considerations may make potential transaction structures involving the acquisition of our company unappealing to us or to some of our shareholders. See Item 10.B. Our Corporate Practices under Israeli Law under the caption Approval of Transactions under Israeli law and Item 10.E. Taxation under the caption Israeli Tax Considerations for additional discussion about some anti-takeover effects of Israeli law. These provisions of Israeli law and our articles of association may delay, prevent or otherwise encumber a merger with, or an acquisition of, our company or any of our assets, which could have the effect of delaying or preventing a change in control of our company, even when the terms of such a transaction could be favorable to our shareholders.

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

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

RISKS RELATED TO THE MARKET AND OUR ORDINARY SHARES

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

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

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

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

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

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

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

Our directors and officers, in the aggregate, currently beneficially own or control approximately 29.65% of our outstanding ordinary shares. Other than applicable regulatory requirements under applicable law, these shareholders are not prohibited from selling a controlling interest in our company to a third party. These shareholders, acting together, could exercise significant influence over our operations and business strategy and may use their voting power to influence all matters requiring approval by our shareholders, including the ability to elect or remove directors, to approve or reject mergers or other business combination transactions, the decision to raise additional capital and the amendment of our articles of association that govern the rights attached to our ordinary shares. In addition, this concentration of ownership may delay, prevent or deter a change in control, or deprive our shareholders of a possible premium for ordinary shares as part of a sale of our company.

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

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

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

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

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

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

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Our History

We are mainly engaged in the area of location-based services, consisting of stolen vehicle recovery and tracking services. We also provide wireless communication products used in connection with our location-based services and various other applications, including automatic meter reading and radio frequency identification. We currently provide our services and sell our products in Israel, Brazil, Argentina and the United States. In addition, we have entered into contracts to deploy our automatic vehicle location, infrastructure and sell our end-units in China and South Korea, and commenced deploying such infrastructure in China in 2004 and in South Korea in 2005. In 2006 we acquired 51% of the issued share capital of ERM Electronic Systems Limited (ERM) for $2.8 Million. ERM develops, manufactures, and markets innovative vehicle security, tracking, and management GSM based communication solutions for the international market. The ERM acquisition adds a number of cutting edge security and tracking solutions to our existing product portfolio. In 2007 we entered into an agreement with the shareholders of Mapa (the Mapa Group). Pursuant to the agreement we purchased the full share capital of Mapa Group for approx. US$9.9 million. In addition, we paid an additional sum of approx. US$3.1 million to the Mapa Group, which was used to repay Mapa Group s loans to its shareholders. Upon closing of the transaction, we own 100% of the issued share capital of the Mapa Group. The Mapa Group is the leading and largest provider of geographic information (GIS) in Israel and owner of geographic information database for navigation in Israel, GISrael.

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

In May 1998, we completed the initial public offering of our ordinary shares in Israel and our ordinary shares began trading on the Tel-Aviv Stock Exchange. In September 2005, we began trading on the New York Stock Exchange and our ordinary shares are quoted on the Nasdaq under the symbol ITRN . The address of our principal executive office is 3 Hashikma Street, Azour 58001, Israel. Our telephone number is 972-3-557-1333. Our agent in the United States is Ituran USA Inc., 3330 N.W. 53rd Street, Suite 302, Fort Lauderdale, Florida 33355.

Capital Expenditures and Divestitures

We had capital expenditure of $12.1 million in 2006, $3.5 million in 2005 and $2.4 million in 2004. We have financed our capital expenditure with cash generated from operations.

Our capital expenditures in 2006, 2005 and 2004 consisted primarily of acquisition of operational equipment for $3.1 million, $2.4 million and $1.3 million, respectively.

B. BUSINESS OVERVIEW

OVERVIEW

We believe we are a leading provider of location-based services, consisting predominantly of stolen vehicle recovery and tracking services. We also provide wireless communications products used in connection with our location-based services and for various other applications, including automatic meter reading and radio frequency identification. We currently provide our services and sell our products in Israel, Brazil, Argentina and the United States. In addition, we have entered into contracts to deploy our automatic vehicle location infrastructure and sell our end-units in China and South Korea, and commenced deploying such infrastructure in China in 2004 and in South Korea in 2005, which we expect will initially be used to provide primarily SVR services in China and primarily personal tracking services in South Korea. We utilize technologies that enable precise and secure high-speed data transmission and analysis. Some of the technology underlying our products was originally developed for the Israeli Defense Forces in order to locate downed pilots.

We generate our revenues from subscription fees paid for our location-based services and from the sale of our wireless communications products. Since 1998, we have achieved sequential growth in quarterly revenues from subscription fees. Our revenues and net income have increased from $49.7 million and $0.9 million in 2002, to $104.1 million and $19.3 million in 2006, representing growth rates of 109% and 2044%, respectively.

We were incorporated in Israel in 1994 and began marketing our location-based services and wireless communications products in 1995. In May 1998, we completed the initial public offering of our ordinary shares in Israel and our ordinary shares began trading on the Tel Aviv Stock Exchange. In September 2005, we completed the initial public offering of our ordinary shares in the United States and our ordinary shares began trading on the Nasdaq National Market.

Location-Based Services

In 2006, 52% of our revenues were attributable to our location-based services. As of December 31, 2006, we provided our services in Israel, Brazil, Argentina and the United States to approximately174,000, 125,000, 80,000 and 17,000subscribers, respectively.

Stolen vehicle recovery services

Our stolen vehicle recovery and tracking services, which we refer to as SVR services, enable us to locate, track and recover stolen vehicles for our subscribers. Our customers include both individual vehicle owners who subscribe to our services directly and insurance companies that either require their customers to install a security system or offer their customers financial incentives to subscribe to SVR services such as ours. In certain countries, insurance companies directly subscribe to our SVR services and purchase automatic vehicle location products supporting these SVR services from us on behalf of their customers. In 2006, we recovered 5,271 vehicles with a total value of approximately $110 million. We have been experiencing strong penetration in Brazil and Argentina where we have grown our subscriber base from approximately 25,000 and 5,000 in 2002 to approximately 125,000 and 80,000 in 2006, representing an increase of 400% and 1,500% respectively over such 4 year period. Over the last four years, our monthly subscriber churn rates have averaged under 1.6% per month, our stolen vehicle recovery rates have averaged approximately 85%, based on the total number of our subscribers vehicles stolen and recovered in cases of either a real time call is made by our subscriber advising us of the theft or a call is received from our control center in the markets we serve, and our average vehicle recovery time, from the time an unauthorized entry is confirmed or reported to the time the vehicle is recovered, has, based on our records, averaged approximately 20 minutes..

Fleet management services

Our fleet management services enable corporate customers to track and manage their vehicles in real time. Our services improve appointment scheduling, route management and fleet usage tracking, thereby increasing efficiency and reducing operating costs for our customers. We market and sell our services to a broad range of vehicle fleet operators in different geographic locations and industries. As of December 31, 2006, we provided our services to approximately 36,000 end-users through 3,000 corporate customers in Israel, Brazil, Argentina and the United States.

Value-added services

Our Personal Advanced Locator, which we refer to as PAL, services allow customers to protect valuable merchandise and equipment, as well as track individuals. In addition, through a call center we provide 24-hour on-demand navigation guidance, information and assistance to our customers. We currently provide our PAL services in Israel only and, as of December 31, 2006, we had approximately 5,800 subscribers to this service. In addition, through a call center, we provide 24-hour on-demand navigation guidance, information and assistance to our customers. Such services include the provision of traffic reports, help with directions and information on the location gas stations, car repair shops, post offices, hospitals and other facilities. We provide our concierge services to our subscribers in Israel ,Argentina and Brazil. As of December 31, 2006, we had approximately 11,500 subscribers to our concierge service in Israel.

Wireless Communications Products

In 2006, 48% of our revenues were attributable to the sale of our wireless communications products. Our wireless communications products employ short- and medium-range communication between two-way wireless modems and are used for various applications, including:

- automatic vehicle location, which we refer to as AVL;
- automated meter reading, which we refer to as AMR; and
- radio frequency identification, which we refer to as RFID.

Our AVL products enable the location and tracking of vehicles, as well as assets and persons, and are used by us primarily to provide SVR and fleet management services to our customers. Each subscriber to our SVR services has our AVL end-unit installed in his or her vehicle. Subscribers to services for locating persons will either use our PAL product or will have our end-unit installed in a watch or other accessory, an additional option currently under development. As part of our expansion into new markets, we entered into contracts with third-party service providers who intend to provide location-based services in China and South Korea, and acquired control of E.R.M. Electronic Systems Limited (ERM), a developer, manufacturer, and marketer of innovative vehicle security, tracking, and management GSM based communication solutions for the international market.. The contract with third-party service providers in China and South Korea involve the setting up and deployment of the necessary terrestrial network and base stations throughout the relevant regions, establishing the control centers and providing the necessary end-units to be installed in vehicles, watches or other accessories, or PAL products. In 2004, we commenced deploying our AVL infrastructure in China and in 2005, we commenced deploying our AVL infrastructure in South Korea. Once the infrastructure for our AVL system is established in these regions, we expect a significant increase in sales of our end-units, initially in China and, at a later stage, in South Korea. We expect that the relevant third-party operators will initially provide primarily SVR, fleet management and personal tracking services in China and primarily vehicle and personal tracking services in South Korea. In 2006 we completed the delivery of infrastructure equipment for phase 1 of the project in Korea. The operating company started to provide location based services with our system. We detected that In Band interference generating stations, which are not related to our system, in the greater Seoul area, reduces the effectiveness of these services and as a result we have initiated a system improvement effort to overcome said disturbances. The operator is also working on the regulatory level to shut down the interfering stations. As a result of the above, the deployment of Phase 2 and 3 of the program will be delayed. We estimate that it will still be able to complete the majority, if not all, of the project in 2007 and recognize the associated revenue.

Our AMR products enable the remote reading of water meters from a range of up to 1,000 feet. This allows the operator to extract information by walking or driving by the water meter, thus reducing the time and manual labor required to obtain the necessary information. In addition, our AMR wireless transmitter is integrated into the water meter, as opposed to systems where the transmitter and the water meter are separate components connected by a wire, which makes our system less susceptible to damage and tampering. As a result, we believe that our AMR products improve billing accuracy, reduce costs and increase reliability of collecting consumer usage data. We sell our AMR products exclusively to Arad Technologies that incorporates our AMR products into a water meter product that it markets and distributes to utilities in the United States through its wholly-owned subsidiary, Master Meter. In 2006 we introduced several new product lines in the Water AMR business area that are expected to increase Master Meter market share.

Our RFID products enable high-speed communication between mobile transponders and roadside readers and are primarily used for electronic toll collection systems. Other applications of our RFID products include electronic security seals for containers and border crossings, and electronic weigh station devices. We sell our electronic toll collection devices to Derech Eretz, the sole toll road operator in Israel, and to the transit authority of the State of Minnesota. We sell our electronic weigh station devices to ACS-SLS, a subsidiary of ACS, and to Norpass, a provider of mainline screening systems at weigh stations. In addition, we are currently engaged as the sole technology provider in several pilot programs for our RFID products with various federal and state governmental agencies, such as the United States Department of Homeland Security and the United States Customs and Border Protection Agency. We were selected to participate in these pilot programs on the basis of our competitive bids to provide our RFID products in response to requests for proposal made by the relevant federal or state governmental agencies or through third-party bidders or pilot program participants seeking to outsource the production of RFID products for use in their RFID-based systems. We believe our selection for these pilot programs represents a first step in our attempt to penetrate the radio frequency identification market in the United States and is strategically important for producing revenue-generating contracts. In 2006 we dominated the US market for Weigh In Motion (WIM) tag and roadside readers.

Industry Overview and Trends

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

(a) Location-based services

Stolen vehicle recovery

The demand for vehicle security products and services is driven by vehicle theft rates, increasing security awareness among customers and insurance companies efforts to reduce incidents of loss. According to a 2003 report by Ward s Communication, an independent provider of automobile industry research, approximately 55 million vehicles were sold globally in 2002 According to a March 2005 report by the Insurance Information Institute, in the United States alone, vehicle thefts accounted for 2% of the premiums paid for private passenger car insurance in 2003, or $3 billion. According to a March 2004 report by the Freedonia Group, an independent market research firm, the United States market for vehicular security monitoring services, which includes dedicated alarm monitoring and integrated telematics systems, was valued at $800 million in 2003 and is expected to increase to $2.2 billion in 2008, representing an average annual growth rate of 22.4%, at which time the market is expected to support 7.9 million subscribers for these services. In some of our markets, demand for SVR services has been further enhanced by incidents of carjackings and car-related kidnappings that have increased consumers perceived crime risk. Additionally, theft of trucks carrying valuable or hazardous cargo (e.g., microchips and chemicals) represents a threat to commercial, industrial, public and personal safety and security.

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

1) Traditional products, such as locks, alarms and traditional immobilizers. These devices are limited in their effectiveness as most can be disarmed easily and typically require the driver to activate the device upon leaving the vehicle. Also, unmonitored alarms that set off sirens are routinely ignored by people as the incidence of false alarms has been historically high. Furthermore, these products can only help in preventing theft and not in recovering the vehicle once it is stolen.

2) More sophisticated products that include some form of remote monitoring and communication. This category can be further separated into devices that simply provide information on the general direction of the vehicle and those that enable the location, tracking and recovery of the vehicle in real time.

AVL technology is typically used to report stolen vehicles to police, provide real-time location and tracking information and immobilize the vehicle if necessary. The application of AVL technology has proven to be effective in increasing the recovery rates of stolen vehicles. As a result, many insurance companies in countries such as Israel, Brazil and Argentina either offer discounts between 15% and 25% on insurance premiums for vehicles equipped with AVL systems or require customers to install such AVL systems in vehicles above a pre-determined value.

Fleet management

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

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

(b) Wireless communications products

Automatic vehicle location

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

Typical AVL applications include:

Security	**Transportation**	**Emergency and health care**	**Telecommunication services**	**Government**
Vehicle tracking	Fleet management	Patient tracking	Maintenance vehicle tracking	Government vehicle tracking
Personal tracking Asset tracking	Parcel tracking Public transit	Ambulance tracking		

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

- Terrestrial network triangulation uses the wireless signals transmitted by an end-unit in the vehicle and received by a network of land-based wireless antennas (base stations) installed in the relevant coverage region in order to determine the precise location of the transmitter.

- GPS-based systems utilize specially designed GPS devices in the vehicle that receive data from three or more satellites in order to determine the location of the device. Once located, GPS-based systems require a cellular or another wireless network to communicate with a remote control center.

- Network-based cellular systems utilize signals between the wireless device and the cellular operator s network of land-based antennas in order to triangulate the location of the relevant device. These systems require two-way communication between the device and antennas and, therefore, both a transmitter and receiver need to be installed in the vehicle.

- RF-based homing systems utilize direction-finding technology based on a tracking signal transmitted by the end-unit in the vehicle, which is activated by a unique radio signal from the tracking unit once the vehicle is reported stolen.

Automatic meter reading

The AMR market includes systems that enable water, gas and electricity meters to be read remotely. Drive-by and walk-by systems are the primary AMR market segments today and are most economical for rural and suburban areas. The overall benefit of AMR technology is the enhanced access to data relating to the use of the relevant utility at a lower cost. Demand for AMR products is primarily driven by the potential for utilities to improve billing accuracy, reduced costs and increased reliability.

We estimate that the United States represents a significant portion of the global market for AMR products. Demand for AMR systems in the United States is driven by the approximate five- to seven-year replacement cycle for existing water meters, the trend towards automatic meter readers versus legacy meters and the increase in the number of customers as a result of increased levels of housing starts since 2001.

Radio frequency identification

The segment of the RFID market that we address includes three principal applications: electronic toll collection, electronic security seals and electronic weigh stations. Wireless communications technology is used in RFID applications where data exchange is rapid, communication zones are dynamically and rapidly changing and where battery life of months or even years is desirable.

Electronic toll collection is a technology that allows for electronic payment of highway tolls and replaces the need for manual collection tollbooths. In addition, it can allow such transactions to be performed while vehicles travel at near-highway cruising speeds. Electronic toll collection systems are a significant improvement over conventional toll collection techniques because such systems reduce lines at toll plazas, reduce toll collection costs, save fuel, reduce mobile emissions by reducing or eliminating waiting times, and enhance audit control by centralizing user accounts. In the United States, the increase in the overall number of vehicles has led to growing congestion on roads and an increase in the average time a commuter spends sitting idle in the car due to traffic jams. This has led to an increased demand for paid express lanes, which enable paying commuters to save time and avoid traffic jams. Approximately 25 states in the United States have passed legislation allowing some form of private toll roads, including the transit authority of the State of Minnesota, which is converting car pool lanes on Interstate 394 into paid express lanes.

Electronic sealing is commonly used as a freight security system where transponders are used to automatically identify individual containers or trucks at border entry points. The growth of the RFID market for this application in the United States has largely been driven by the recent standardization of the communications protocols on which RFID technology operates. Such standardization increases the interoperability of devices which, in turn, increases demand for such products from various organizations, including the United States Department of Homeland Security and the United States Customs and Border Protection Agency.

Electronic weigh stations allow for identification and weighing of trucks in real time at near-highway cruising speeds, thus allowing trucks that comply with the weight limitations to bypass conventional weigh stations.

Products

Location-based services

Stolen vehicle recovery

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

Fleet management

We are among the few companies that offer their customers the use of a comprehensive application for fleet management both by using an Internet site and workstations. Our system allows our customers 24-hour access to information on their fleets through our active control center and also provides alerts on vehicle temperature and driver emergencies.

Value-added services

Personal advanced locator services. Our services allow consumers to protect valuable merchandise and equipment, as well as to track individuals. Currently, we provide our PAL services in Israel and Argentina only.

The PAL device is a two-way pager that helps us determine the location of the relevant equipment or person being tracked. Our PAL services, which are based on terrestrial network triangulation, have numerous applications, including location of patients with amnesia, portable distress buttons for the elderly and children, theft protection for valuable equipment and merchandise and other assets, such as computer equipment and beehives. In addition, there has been an increased use of our PAL devices in vehicles as back-up to our AVL systems.

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

Wireless communications products

Our wireless communications products are used for various applications in the AVL, AMR and RFID markets.

Automatic vehicle location

Our AVL products enable the location and tracking of vehicles, as well as assets or persons, and are primarily used by us in providing our SVR and fleet management services. Each subscriber to our SVR services has one of our end-units installed in his or her vehicle. Subscribers to services for locating persons will either use our PAL product or will have our end-unit installed in a watch or other accessory, an additional option currently under development. We have entered into two contracts with third-party service providers for the deployment of our turn-key location-based solution consisting of our AVL infrastructure and end-units that includes the deployment of a network of base stations throughout a region, the establishment and operation of a control center, the supply and installation of end-units and a range of value-added services, in China and South Korea and we are currently in the set-up and network deployment phase in Beijing, Shanghai and Seoul. We expect that the relevant third-party operators will initially provide primarily SVR, fleet management and personal tracking services in China and primarily vehicle and personal tracking services in South Korea. Our key wireless communications products for AVL applications include:

- **TULIP:** a transmitter installed in vehicles that sends a signal to the base site, enabling the location of a vehicle;
- **MAPLE:** an alarm system that identifies an intruder and activates the transmitter to send a signal to the base site;
- **PAL**: a portable transmitter located on an asset or on an individual that sends a signal to the base site, enabling the location of the asset or individual;
- **Base Site**: a radio receiver, which includes a processor and a data computation unit to collect and send data to and from transponders and send that data to control centers as part of the terrestrial infrastructure of the location system; and
- **Control Center**: a center consisting of software used to collect data from various base sites, conduct location calculations and transmit location data to various customers and law enforcement agencies.

Automatic meter reading

Our AMR products enable the remote reading of water meters. Our AMR systems include wireless modems that are installed inside water meters and transmit relevant metering data for the purposes of automatic billing, prevention of leaks and the preparation of on-line reports. Our AMR products, which were jointly developed by Arad Technologies and us, are commercially named Dialog-3G. Our key AMR products include:

- **TMW**: a transponder installed inside a water meter for the purpose of receiving measurement data and wirelessly transmitting such data to the MMR;
- **UNIVERSAL**: a transponder functionally similar to the TMW, but which is installed outside the relevant water meter for add-on applications;
- **MMR**: a transceiver that is used for remote reception of the TMW s transmission data, either as a hand-held or drive-by unit; and
- **DS Line of Products**: a new product line launched in the second quarter of 2005, functionally parallel to the TMW, UNIVERSAL and MMR devices, but with further reception range and improved resistance to interference.

Radio frequency identification

Our RFID products enable communication between mobile transponders and roadside readers and are primarily used for electronic toll collection systems. Other emerging applications include electronic security seals for containers and border crossings, and electronic weigh stations. Our key RFID products include:

- **FP-100AT**: a transponder designed to send signals to the FP-300 or FP100RA reader for use on toll roads and at border crossings and electronic weigh stations;

- **FP-300/FP100RA**: a transceiver/reader that is used for remote reception of the FP-100AT transponders that are installed along the relevant roadside, border crossings and weigh stations;

- **Electronic Seal for Containers FP-200SA**: these products are used for the identification and reporting of unauthorized entry to containers in transit that employs such systems and are interoperable with FP-300, FP100RA, FP-200HH readers; and

- **FP-200HH**: a hand-held transceiver used primarily at border crossings and for other short distance reading and programming.

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

Country	Services offered or intended to be offered	Products sold or intended to be sold
Israel	SVR Fleet management Value-added services	AVL RFID
Brazil	SVR Fleet management Value-added services	AVL
Argentina	SVR Value-added services	AVL
United States	SVR Fleet management	AVL AMR RFID
China[(1)]	SVR Fleet management Value-added services	AVL[(2)]
South Korea[(1)]	SVR Fleet management Value-added services	AVL[(2)]

(1) Location-based services to be provided by third parties.

(2) Includes sale of AVL infrastructure and end units.

The following is a short description of key operating statistics about our location-based services in the countries in which we operate:

- **Israel:** We commenced operations in Israel in 1995 and we had approximately 174,000 subscribers as of December 31, 2006. We maintain 93 base stations in Israel, which provide complete coverage within the country. Our control center operates 24 hours a day, 365 days a year and is located in Azour. In addition, our RFID products are used in the Derech Eretz toll road.

- **Brazil:** We commenced operations in Brazil in 2000 and we had approximately 125,000 subscribers as of December 31, 2006. We currently operate only in the metropolitan areas of Sao Paulo and Campinas and Rio de Jenero.

- **Argentina:** We commenced operations in Argentina in 2002 and we had approximately 80,000 subscribers as of December 31, 2006. We currently operate only in the metropolitan area of Buenos Aires.

- **United States:** We commenced operations in the United States in 2000 and until 2004 we operated only in Florida. As of December 31, 2006, we had 17,000 subscribers for our location-based services in the United States.

Customers, Marketing and Sales

We market and sell our products and services to a broad range of customers that vary in size, geographic location and industry. In 2004, other than Arad Technologies, which represented 10.2% of our revenues in 2004, no single customer or group of related customers comprised more than 10% of our total revenues. In 2005, no single customer or group of related customers comprised more than 10% of our total revenues. In 2006, other than Arad Technologies, which represented 12.7% of our revenues in 2006, no single customer or group of related customers comprised more than 10% of our total revenues.

(A) Location-based services

Stolen vehicle recovery

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

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

In Israel, Brazil and Argentina, we focus our marketing efforts primarily on insurance companies. In the United States, we believe that insurance companies do not constitute a material influence in the marketing of SVR services or AVL products. Most of our sales in the United States are made through car dealers for new or used cars. Our customers in the SVR market include insurance companies as well as individual vehicle owners. As of December 31, 2006, we had approximately 396,000 subscribers.

Fleet management

Vehicle fleet management systems are marketed through a vehicle fleets department, which is a part of our marketing department. We conduct in-depth research to identify companies that will gain efficiency and cost savings through the implementation of our products and services, and conduct targeted marketing campaigns to these companies. In addition, we participate in professional conventions and advertise in professional publications and journals designed for our target customers. Currently, our fleet management services are also marketed by the sales force of one of the largest cellular service providers in the United States. Our customers in the fleet management market include small-, mid- and large-size enterprises. As of December 31, 2006, approximately 3,000 corporate customers had installed our wireless communications products in approximately 36,000 vehicles in industries such as telecommunications, courier/delivery, field service, distribution, construction, security, facilities/waste management, cable/broadband, freight and passenger transportation and utilities.

Value-added services

Our concierge services are provided to existing SVR customers. As of December 31, 2006, we had approximately 11,500 subscribers to our concierge service in Israel and approximately 5,800 of our PAL devices were installed in valuable merchandise and equipment, or carried by individuals.

(B) Wireless communications products

Our AVL end-units are primarily used by us in providing our location-based services in Israel, Brazil, Argentina and the United States. In China and South Korea, we plan to sell our AVL end-units, including our PAL products, to third parties who intend to provide location-based services based on these products.

Our AMR products are incorporated into products of Arad Technologies, which, through its wholly-owned subsidiary Master Meter, markets and distributes its products independently. Our exclusive agreement with Arad Technologies is in effect until 2009 and covers, in addition to water meters, electricity, gas meters and other applications using AMR technology.

In Israel, Derech Eretz undertakes marketing and distribution of our RFID products. In the United States, we market our RFID products independently, focusing our efforts on corporations and/or integrators that market our products to consumers and state agencies.

Historically, we only provided our AVL products in connection with our own SVR services. However, we signed an agreement with third-party service providers in China and South Korea to provide a turn-key location-based solution consisting of deploying our AVL infrastructure and selling our end-units. We are currently in the set-up and deployment phase of our infrastructure in Shanghai, Beijing and Seoul. We commenced initial sales of our end-units in Beijing in the second quarter of 2006, in Seoul in the last quarter of 2006 and will commence in Shanghai in the second quarter of 2007.

We believe that we have sold our AMR products to over 1,000 water utilities through Master Meter, a wholly-owned subsidiary of Arad Technologies, with whom we have an exclusive agreement. Our RFID products are sold in Israel and the United States. Our electronic toll collection devices are deployed by Derech Eretz, the sole toll road operator in Israel, and by the transit authority of the State of Minnesota and we sell our electronic weigh station devices to ACS-SLS, a subsidiary of ACS, and Norpass. In addition, we are currently engaged as the sole technology provider in several pilot programs for our RFID products with various federal and state governmental agencies, including the United States Department of Homeland Security and the United States Customs and Border Protection Agency. Although these pilot programs do not currently represent a material portion of our business or revenues, and we do not know if they may lead to revenue-generating contracts in the future, we believe our selection for these pilot programs represents a first step in our attempt to penetrate the RFID market in the United States.

Our selling and marketing objective is to achieve broad market penetration through targeted marketing and sales activities. December 31, 2006, our selling and marketing team consisted of 72 employees.

Competition

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

(A) Location-based services

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

Stolen vehicle recovery

The specific competitive challenges we face in each geographic region that we operate in are described below:

- **Israel.** Our primary competitors in Israel are Eden Telecom Ltd. (Pointer) and Rav-Bariah Satellite Location Ltd.

- **Brazil.** Brazil is a highly fragmented market with many companies selling competing products and services (including immobilizers and other less-sophisticated vehicle security systems). Our main competitors in Brazil are LoJack Corporation, Car System, Sascar Corporation and Auto track (fleet management).

- **Argentina.** Argentina is also a highly fragmented market with many companies selling competing products and services (including immobilizers and other less-sophisticated vehicle security systems). Our principal competitors in Argentina are LoJack Corporation, Ubi Car, Pointer Telocation Ltd. and Hawk Corporation.

- **United States.** In the United States, there are at least three major companies offering various theft protection and recovery products that compete with our product and service offerings, including LoJack Corporation, OnStar Corporation and Air Cept Corporation.

We are currently unable to provide market share information other than our market share information for the vehicle location market in Israel for various reasons, including the broad range of services and products that compete in these markets, the non-existence of trade publications with respect to the products and services we offer in such markets and the lack of meaningful or accurate market research or data available to us.

Fleet Management

The vehicle fleet management market is highly fragmented with many corporations offering location products and services. Our major competitors in the United States are @Road, Navtrack and Teletrac. In Brazil, our main competitors are Autotrack, Controlsat and Omnilink.

(B) Wireless communications products

Automatic vehicle location

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

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

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

Automatic meter reading

Our AMR product, which is marketed through Master Meter, competes with products developed and marketed by Hexagram Inc., Itron Inc. Invensys, Neptune Technology Group, Inc., Datamatic, Ltd., Ramar Technology Ltd., American Meter Company and DSCI Corp. Our AMR products enable the remote reading of water meters from a range of up to 1,000 feet. This allows the operator to extract information by walking or driving by the water meter, thus reducing the time and manual labor required in order to obtain the information. In addition, our AMR wireless transmitter is integrated into the water meter, as opposed to systems where the transmitter and the water meter are separate components connected by a wire, which makes our system less susceptible to damage and tampering.

Radio frequency identification

In the United States, the principal market in which we operate, our primary competitors are Mark IV (the provider of the E-ZPass product), Delco and Raytheon. Our RFID products are characterized by the ability of the reader to process transmissions from the in-vehicle unit, even when the vehicle is traveling at speeds of as high as 120 miles per hour. This eliminates the need for the vehicle to slow down in the toll booth area, as is required with currently available electronic toll products, such as the E-ZPass product in the United States.

Manufacturing Operations and Suppliers

Most of our wireless communications products are manufactured and assembled by a limited number of unaffiliated manufacturers in Israel. We usually engage with our manufacturers either on a full turn-key basis, where we supply detailed production files and materials list and receive a final product that we sell directly to our clients, or on a partial turn-key basis in which we purchase the raw materials and deliver them to our manufacturers that do the manufacturing, assembly and quality assurance checks. We do not depend on a single manufacturer for the production of our products. Our main manufacturers are R.H. Electronics, Ltd., an enterprise located in Nazareth, Israel, and Teliran, Ltd., an enterprise located in Petach Tikva, Israel.

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

Some of our products (principally the integration and testing of base sites, which are manufactured in low quantities and tend to be more technically sophisticated) are manufactured by us in Telematics Wireless facilities in Holon.

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

Our engagements in China and South Korea require us to gradually commence manufacturing activity of our AVL products in both countries, which we intend to do once the performance of these contracts progresses.

Proprietary Rights

We seek to protect our intellectual property through patents, trademarks, contractual rights, trade secrets, know-how, technical measures and confidentiality, non-disclosure and assignment of inventions agreements and other appropriate protective measures to protect our proprietary rights in the primary markets in which we operate. We do not believe that our viability or profitability substantially depends on any single patent, trademark, trade secret, know-how or other piece of intellectual property other than some of the licenses obtained from Teletrac.

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

Our stolen vehicle recovery system is based on three main components: (i) an AVL end-unit that is installed in the vehicle, the components of which were originally developed by Tadiran and were acquired and improved by us, (ii) a network of base stations that relay information between the vehicle location units and the control center, certain components of which were developed by Teletrac and are currently licensed to us by Teletrac and (iii) a 24-hour manned control center consisting of software used to manage communications and the exchange of information among the hardware components of the AVL system, certain components of which were developed by Teletrac and licensed to us under exclusive and non-exclusive licenses.

Certain technology for our AVL end-units is subject to the terms of a grant Telematics Wireless received from the Israeli Office of Chief Scientist to partially fund the development of certain components of our AVL system. Pursuant to the terms of this grant, which required repayment and has already been paid in full, we are not permitted to transfer the relevant technology to a foreign entity without the prior approval of the Israeli Office of Chief Scientist.

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

Regulatory Environment

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

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

Our frequency licenses in all of the locations where we operate are secondary or joint , which means that the government may grant another person or persons, typically a cellular operator, a primary license to the same frequencies and, to the extent our operations interfere with the operations of the other person, we would have to modify our operations to accommodate the joint use of the frequencies. In our discussions with the Ministry of Communications, the Ministry notified us that in connection with the granting of the new license they may require us, as licensees, to amend our articles of association to add several provisions, including, among other things, a provision whereby if any person, other than our founding shareholders, acquires 25% or more of our outstanding share capital without obtaining the Ministry s approval, any shares owned by such person in excess of such 25% threshold will not have any voting rights. The Ministry has also informed us that the new license may impose certain conditions on the ability of persons to serve as directors and officers of our Company, including a requirement that some (as many as a majority) of our directors and officers be residents and citizens of the State of Israel and that they be pre-approved by the Israeli security authorities in advance. We cannot be certain that any of these requirements will be included in the new license or that additional requirements may not be imposed on us in connection therewith or when the new license will be granted, if at all. All of these licenses are also subject to revocation, alteration or limitation by the respective authority granting them. While any events that would cause us to change frequencies or to modify our operations could have a material adverse effect on us, we do not believe that this is a likely event in any of the locations where we provide our SVR services.

Our frequency license in Israel was extended until June 29, 2007. Our frequency licenses in Brazil expire in 2009 and, in Miami and Orlando, our licenses expire between 2009 and 2013. We have options to extend all of our frequency licenses for periods ranging from three- to 10-year periods.

In Israel and Brazil, like our competitors and most cellular operators, we are not in compliance with all relevant laws and regulations in connection with the erection of transmission antennas (our base sites). As of, 2007, most of our base sites in Israel and Brazil are operating without local building permits. Currently, there is heightened awareness of this issue in Israel, particularly in connection with base sites of cellular providers, and possible sanctions could include fines and even the closure or demolition of these base sites. However, we do not believe this is likely. Obtaining such required permits may involve additional fees as well as payments to the Land Administration Authority.

In Israel the required permits and approvals include:

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

We are currently in the process of obtaining the relevant permits required for the construction of our base sites in Israel, however, to date, we have been issued 7 of these permits. With respect to the general permit from Israel s Land Administration, in 2005, we entered into an agreement with the Israel s Land Administration, effective until December 31, 2008, pursuant to which the general permit has been issued to us against an annual consideration based on the date of approval of our base sites. . The process for obtaining these approvals in Israel is generally a time-consuming, highly bureaucratic and lengthy process. As a result, it is common practice among providers of wireless telecommunications services in Israel to continue operations while engaged in the approval process.

In Brazil, very few providers of wireless telecommunications services obtain the required permits due to the nature of the approval process. We have applied for the necessary permits, but do not expect to receive such permits in the near future. In Brazil, we try to minimize our risk by locating most of our equipment in sub-leased sites which are already used by other telecommunication service providers, such as cellular operators.

In Brazil the required permits includes:

Anatel (National Agency for Telecommunication)
IBAMA (Environment national agency)
Municipal permits
Fire department.
COMAR (Aviation authorities)

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

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

C. ORGANIZATIONAL STRUCTURE

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

List of Significant Subsidiaries

Name of Subsidiary	Country of Incorporation	Proportion of Ownership Interest
Telematics Wireless Ltd.	Israel	97%
Ituran Cellular Communication Ltd.	Israel	100%*
Hotas Holding Ltd.	Israel	100%**
Ituran USA Inc.	USA	100%
Ituran NY Corporation	USA	100%***
Ituran Beheer B.V.	The Netherlands	100%
Ituran Florida Corporation	USA	94%****
Ituran License Corp.	USA	100%*****
Ituran de Argentina S.A.	Argentina	91%******
Ituran Sistemas de Monitoramento Ltda.	Brazil	97.5%*******
Teleran Holding Ltda.	Brazil	99.99%********
E.R.M. Electronic Systems Limited	Israel	51%
Mapa Internet Ltd.	Israel	100%
Mapa Mapping & Publishing Ltd.	Israel	100%

*55% of the shares are directly owned by us. Another 45% of the shares are owned by Ituran Network Ltd. (of which we own all of the shares, other than one share that is owned by Moked Ituran).
**wholly owned subsidiary of Ituran Cellular Communication Ltd.
*** a wholly owned subsidiary of Ituran USA Inc. which is our wholly owned subsidiary.
**** 94% of the shares are held by Ituran U.S.A. Inc. which is our wholly owned subsidiary.
***** our shares are held through Ituran U.S.A. Inc., which is our wholly owned subsidiary.
****** our shares are held through Ituran U.S.A. Inc., which is our wholly owned subsidiary, with the remaining shares owned by Mr. Avi Anais, the CEO of Ituran de Argentina.
******* we indirectly hold 97.5% of the shares with one share being held by Mr. Avner Kurz, the President of Teleran Holding Ltda.
******** one share (quota) is held by the Mr. Avner Kurz, President of Teleran Holding Ltda.

D. PROPERTY, PLANTS AND EQUIPMENT

As of the date of this report, we do not own any real estate, other than a property consisting of an office building of 8 floors in the area of approximately 5,356 sqm which was purchased by our subsidiary Ituran Sistemas de Monitoramento Ltda (Ituran Brazil) in Sao Paulo, Brazil in June 2006 for the total acquisition price of 7.5 million Brazilian Reals (approximately $3.3 million). We financed the acquisition of the property from self-means.

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

In 2006 we leased an aggregate of approximately 26,180 square feet of office space in Azour, Israel. In 2006, annual lease payments for this facility were approximately $386,000. This lease expires on March 31, 2008 and may be renewed by us for an additional 48-month period, subject to a 10% increase in the amount of rent and maintenance payments. These premises include our executive offices and the administrative and operational centers for our operations as well as our customer service, value-added services and technical support centers for the Israeli market.

Our subsidiary Telematics Wireless currently leases approximately 17,600 square feet of office space and other facilities in Holon, Israel. Annual lease payments for this space in 2006 were approximately $150,000. This lease expired on November 30, 2006 and was automatically extended at Telematics Wireless election, for successive two-year periods, until November 30, 2016. In addition, Ituran Cellular Communication Ltd. leases 8,800 square feet of office space and other facilities in Holon, Israel, at an annual rent of approximately $73,800. This lease expired in February 2006 and was automatically extended for additional successive two-year periods until February 2012. Both facilities in Holon are leased from a related party. See Item 7.B. Transactions with related parties below.

In Brazil, until our recent purchase of the new premises (September 2006), we leased approximately 11,440 square feet of office space and our control center for approximately $354,000 annually.

In Buenos Aires, Argentina, we lease approximately 6,435 square feet of office space for approximately $ 63,000 annually, approximately 715 square feet for our control center for approximately $ 7,000 annually and approximately 5,348 square feet for our own installation center for approximately $ 60,000 annually and approximately 2,167 square feet for our own warehouse for approximately $ 14,000 annually

We lease approximately 7,500 square feet for our offices and control center in Florida for an approximate monthly rate of $7,530, subject to a 3% annual increase.

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

The size of our base station sites varies from approximately one to eight square feet. In Israel, we have 93 base stations and we rent most base station sites independently for a monthly rate ranging from $100 to $1,400 per site depending on the location, size and other factors; for certain sites we do not pay any rent. The typical duration of a lease agreement for our base stations in Israel is five years and we generally have a right to renew the term of the lease agreements for a period ranging between two and five years. In Brazil, we have 96 base station sites, of which 33 sites are leased from the same entity for a monthly rate ranging from $534 to $1490 per site and the duration of each lease is 10 years. The remaining 63 sites are leased independently for an annual rate ranging from $100 to $685 depending on the location, size and other factors, and the typical duration for these leases is five years. In Argentina, we have 24 base station sites, all of which are leased from two entities for a monthly rate ranging from $250 to $660 per site. The duration of the lease ranges from two to three years. In Florida, we have 18 base station sites, leased primarily from property management companies. The annual rental rates vary from $3,829 to $26,709 and the duration of most leases is between three and five years, typically with options to renew for additional similar periods.

We do not believe that we have a legal retirement obligation associated with the operating leases for our base sites pursuant to FAS No. 143, Accounting for Asset Retirement Obligations, since we do not own any real property. However, we are obligated pursuant to certain of the operating leases for our base sites, mainly for base sites in Israel, Brazil and Argentina, to restore facilities or remove equipment at the end of the lease term. Since the restoration is limited to any construction or property installed on the property, which in our case is only the installed antennas, we do not believe that these obligations, individually or in the aggregate, will result in us incurring a material expense.

ITEM 4.A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5: OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. OPERATING RESULTS

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

Introduction

We believe we are a leading provider of location-based services, consisting predominantly of stolen vehicle recovery, which we refer to as SVR, and tracking services. We also provide wireless communications products used in connection with our SVR services and for various other applications, including automatic meter reading, which we refer to as AMR, and radio frequency identification, which we refer to as RFID. We currently provide our services and sell our products in Israel, Brazil, Argentina and the United States. In addition, in 2004 we have entered into contracts to deploy our automatic vehicle location, which we refer to as AVL, infrastructure and sell our end-units in China and South Korea, and commenced deploying such infrastructure in China in 2004 and in South Korea in 2005. In 2006, we began selling our products in China and South Korea.

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

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

Our wireless communications products segment consists of our short- and medium-range two-way wireless communications products that are used for various applications, including AVL, AMR, and RFID. We sell our AVL end-units to customers that subscribe to our SVR services, as well as to third-party operators of location-based services in China and in South Korea. We sell our AMR products exclusively to Arad Technologies Ltd. that incorporates our AMR products into a water meter product that it markets and distributes to utilities in the United States through its wholly-owned subsidiary Master Meter, Inc. We sell our RFID products to toll road and weigh station operators in the United States and Israel.

Outlook

We have historically experienced significant growth in the markets in which we provide our location-based services. Going forward, the Brazilian and Argentine markets continue to represent significant growth potential for our location-based services. These markets are characterized by high car theft rates and insurance companies that are seeking solutions to limit their actual losses resulting from car theft. The growth in subscribers within our location-based services segment also has a direct impact on the sale of our AVL products, as they are an integral component of our location-based services and are installed in each subscriber s vehicle. In addition, our recent contracts with third-party service providers for the deployment of our AVL infrastructure and the subsequent sale of our end-units in China and South Korea represent important growth opportunities for the sale of these products.

As of December 31, 2006, we had approximately 205,000 subscribers in Brazil and Argentina. We estimate that the total addressable market in our current coverage areas of Sao Paulo,Rio de Janeiroand Buenos Aires is several million vehicles, and therefore we have a significant opportunity to grow our subscriber base and increase sales of our AVL products.

We expect growth over the next 12 months in our location-based services segment to be driven by increased demand from existing insurance company customers in Brazil and Argentina, as a result of our strong operating results and their increased familiarity with and confidence in our services, as well as additional insurance companies who could seek to establish relationships with us, as well as increased direct sales of SVR services to individual subscribers in Brazil who, due to prevailing high insurance costs, are self-insured and represent an additional market opportunity for our SVR services and AVL products. In connection with such potential markets and additional growth opportunities, we are looking to enhance our brand recognition through additional advertising efforts that we started in 2004. We expect our growing representation in the SVR market in Brazil and Argentina to result in additional revenues from sales of our AVL products. We commenced providing SVR and fleet management services in Rio de Janeiro in 2006 and expect to increase revenues from such operations in future periods.

We intend to develop our location-based services and products businesses in new geographic markets either by selling our AVL infrastructure and end-units to third party providers of location-based services, as is the case currently in China and South Korea, or by providing our SVR services and selling our AVL end-units directly, as is the case currently in Israel, Sao Paulo, Buenos Aires and Miami. Selling our AVL infrastructure and end-units to third party providers of location-based services will result in increased short-term revenues from the sale of our AVL infrastructure and some long-term revenues from the sale of wireless communications products without any material increase in corresponding costs. Expanding to new markets to provide our location-based services and end-units directly will increase our short-term costs associated with obtaining licenses, permits and establishing an infrastructure and operating system and result in increased long-term revenues from subscription fees from our location-based services and sales of our end-units. The prevalence of one business approach over the other is dependent upon the particular opportunities that may arise from time to time and the prevailing circumstances in the different geographic markets into which we expand.

The AMR market also has significant growth potential. Demand for AMR systems in the United States, the principal AMR market, is driven by the approximate five- to seven-year replacement cycle for existing water meters, the trend towards automatic meter readers versus legacy meters and the increase in number of consumers as a result of increased levels of housing starts since 2001. Products integrating our AMR technology provide an attractive solution for utilities looking to upgrade their technology and address their need to improve billing accuracy, reduce costs and increase reliability. Since we started selling AMR products at the end of 2001, we have experienced increased demand from Arad Technologies. We believe that such increased demand has resulted from increased market awareness in the United States for the integrated meter product marketed by Master Meter and its technological advantages and benefits. We expect this trend to continue in the future.

The market for our RFID products principally addresses three main areas: electronic toll collection, electronic security seals and electronic weigh stations. Recent legislative changes in the United States regarding the promotion of private toll road operations represent significant growth potential for the sale of our RFID products. Increased demand for security products in the United States by federal and state governmental agencies, including the United States Department of Homeland Security, also represents a potential market opportunity for our RFID products. We sell our electronic toll collection devices to Derech Eretz Highways (1997) Ltd., the sole toll road operator in Israel, and to the transit authority of the State of Minnesota. We sell our electronic weigh station devices to ACS-SLS, Inc., a subsidiary of Affiliated Computer Services, Inc., and to Norpass, Inc., a provider of mainline screening systems at weigh stations. We expect these orders, our first outside of Israel for our RFID products, to result in additional revenues over the next 12 months. In addition, we are currently engaged as the sole technology provider in several pilot programs for our RFID products with various federal and state governmental agencies, such as the United States Department of Homeland Security and the United States Customs and Border Protection Agency. Although these pilot programs do not currently represent a material portion of our business or revenues and we do not know if they may lead to revenue-generating contracts in the future, we believe our selection for these pilot programs represents a first step in our attempt to penetrate the RFID market in the United States.

Geographical breakdown

Location-based services subscriber base

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

	As of December 31,			
	2006	**2005**	**2004**	**2003**
Israel	174,000	161,000	146,000	142,000
Brazil	125,000	107,000	75,000	42,000
Argentina	80,000	61,000	36,000	22,000
United States	17,000	10,000	5,000	4,000
Total[(1)]	396,000	339,000	262,000	210,000

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

Revenues

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

	Year ended December 31,					
	2006		2005 In USD, in Millions		2004	
	Location based services	Wireless communications products	Location based services	Wireless communications products	Location based services	Wireless communications products
Israel	24.2	$ 15.3	$ 22.2	$ 16.3	$ 23.2	$ 16.6
Brazil	21.1	4.8	14.7	6.3	8.2	4.8
Argentina	6.9	2.9	5.6	3.5	3.8	1.6
United States..	1.8	18.1	1.6	12	1.4	9.8
China	--	1.7	--	3.1	--	0.7
South Korea	--	7.2	--	2.6	--	--
Total[(1)]	54.0	50.0	$ 44.1	$ 43.8	$ 36.5	$ 33.5

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

The above table does not include revenues from our cellular services, which no longer constitute a reportable segment. See Note 19 to our consolidated financial statements appearing elsewhere in this report.

We attribute revenues to countries based on the location of the customer. Revenues from sales to Arad Technologies are included in US sales.

Revenues

Location-based services segment

We generate revenues from sales of our SVR, fleet management and value-added services. A majority of our revenues represent subscription fees paid to us by our customers, predominately subscribers in Israel and the United States, and insurance companies in Brazil and Argentina. We recognize revenues from subscription fees on a monthly basis. Our customers are free to terminate their subscription at any time. In the absence of such termination, the subscription term continues automatically. We also generate subscription fees from our fleet management services. Assuming no additional growth in our subscriber base and based on our historical churn rates of under 2% per month in this segment, we can anticipate that at least 90% of our subscription fees generated in a prior quarter will recur in the following quarter.

Wireless communications products segment

We generate revenues from the sale of our AVL, AMR and RFID products to customers in Israel, Brazil, Argentina, the United States, China and South Korea. We currently sell our AVL end-units in each of the above regions. Growth in our subscriber base is the principal driver for the sale of our AVL products. In addition, in 2004 entered into contracts for the sale of our AVL infrastructure and end-units in China and South Korea to third-party operators that would likely result in growth of our end-units sales that will not be related to any increase in our subscriber base. We commenced sales to China and South Korea during the fourth quarter of 2004 and the second quarter of 2005, respectively, for deployment of our AVL infrastructure in connection with the initial set-up and deployment of the terrestrial network and base stations throughout the coverage region. We sell our AMR products exclusively to Arad Technologies that incorporates our AMR product into a water meter product that it markets and distributes to utilities in the United States through its wholly-owned subsidiary Master Meter. We sell our RFID products to the sole toll road operator in Israel, the transit authority of the State of Minnesota, ACS-SLS, a subsidiary of ACS, and Norpass. We recognize revenues from sales of our wireless communications products upon delivery.

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Other

We also generated revenues from the provision of our cellular services, consisting predominately of installation and repair fees for mobile phone hands-free car kit devices manufactured by third parties. Revenues are recognized upon installation of the device or sale of phone cards. Revenues from our cellular services have declined significantly as a result of the expiration and non-renewal of our agreement with Partner Communications as of March 31, 2005.

Cost of revenues

Location-based services segment

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

Wireless communications products segment

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

Other

The cost of revenues for our cellular services consists primarily of installation costs and commissions.

Operating expenses

Research and development

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

Selling and marketing

Our selling and marketing expenses have historically consisted primarily of advertising, salaries, commissions and other employee expenses related to our selling and marketing team and promotional and public relations expenses. We anticipate an increase in such costs, specifically in advertising costs related to our efforts to increase our subscriber base and enhance our brand recognition in Brazil and Argentina and to maintain our market leading position in Israel with respect to our location-based services.

General and administrative

Our general and administrative expenses consist primarily of salaries, bonuses, accounting and other general corporate expenses. We expect our general and administrative expenses to increase in future periods, in absolute terms, although we do not expect them to increase , as a percentage of our total revenues, due to the expansion of our business as well as anticipated increased compliance costs as a result of becoming a publicly traded company in the United States.

Operating Income

Location-based services segment

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

Wireless communications products segment

Operating income in our wireless communications products segment is primarily affected by our ability to increase sales of our higher margin AMR products as well as sales of AVL products in connection with turn-key solutions such as China and South Korea. While we expect the market for AMR products to grow in the foreseeable future, we expect sales of AVL infrastructure products in connection with our existing projects to end some time in 2007.

Other

Operating income for our cellular services is primarily affected by the margins of the different products that we sell.

Financing expenses, net

Financing expenses, net, include short- and long-term interest expenses and gains and losses from currency fluctuations from dollar-denominated loans and the conversion of monetary balance sheet items denominated in currencies other than the dollar. Financing expenses, net, also include gains or losses from currency swaps and other derivatives that do not qualify for hedge accounting under FAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, or which have not been designated as hedging instruments.

Taxes on income

Income earned from our services and product sales is subject to tax in the country in which we provide our services or from which we sell our products. In Israel, the current corporate tax rate is 29%, however, this tax rate is expected to be reduced in the coming years. In addition, some of the operations of our subsidiary Telematics Wireless Ltd. have been exempt or subject to reduced tax rates and we expect to maintain such benefits for some period of time, see Item 10.E. Taxation under the caption Corporate tax below.

Critical Accounting Policies and Estimates

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

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

Revenue recognition

We recognize revenues in accordance with Staff Accounting Bulletin No. 104 Revenue Recognition. For each of our segments we recognize revenues as follows:

- from sales to subscribers of our location-based services, on a monthly basis;
- from sales of our wireless communications products, when title and risk of loss of the applicable product pass to the relevant customer, which occurs upon delivery; and
- from sales of our cellular services, when the installation of the relevant unit is completed.

We recognize revenues from certain long-term contracts in accordance with Statement of Position, which we refer to as SOP, 81-1, *Accounting for Performance of Construction-Type and Certain Production Type Contracts*. Pursuant to SOP 81-1, revenue is recognized pursuant to the percentage of completion method. We measure the percentage of completion based on output criteria in contracts that require network construction before end-units are sold, such as the number of end-units delivered or the progress of the work, based on input from engineers or other related professionals. Provisions for estimated losses on incomplete contracts are made during the period in which such losses are first identified, in the amount of the estimated loss on the entire contract.

We recognize revenues as gross or net in accordance with EITF 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*. In most of our business arrangements, we contract directly with our end-users, we are the primary obligor and we carry all risk of collections. Revenues under these arrangements are recorded on a gross basis.

Accounting for income taxes

As part of the process of preparing our consolidated financial statements we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process requires us to estimate our actual current tax exposure and make an assessment of temporary differences resulting from differing treatment of items, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, we establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in the consolidated statement of income. Significant management judgment is required in determining our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We have recorded a valuation allowance of $1.4 million in 2006, which indicates that our management cannot determine that it is more likely than not that we will be able to realize this tax asset in the future. In the event that we generate taxable income in the jurisdictions in which we operate and in which we have net operating loss carry-forwards, we may be required to adjust our valuation allowance.

Derivative instruments

We maintain a risk management strategy that incorporates the use of currency hedges to minimize significant fluctuations in cash flows and/or earnings that are caused by exchange rate volatility. As a result, we engage in transactions involving foreign exchange derivative financial instruments, principally forward exchange contracts, which are designed to hedge our expected cash flows from revenues resulting from subscription fees denominated in currencies other than NIS. Such transactions are designed to qualify as cash flow hedges under FAS No. 133. FAS No. 133 establishes accounting and reporting standards for derivative instruments (including certain derivative instruments embedded in other contracts). Changes in fair value of instruments that qualify for hedging accounting under FAS No. 133 are reported as other comprehensive income under gains in respect of derivative instruments designated for cash flow hedge, net of related taxes , and are recognized in the statements of income when the hedged transaction affects earnings. Derivatives which do not qualify for hedge accounting under FAS No. 133, or which have not been designated as hedging instruments, are recognized in the balance sheet at their fair value, with changes in the fair value carried to the statements of income and included in financing expenses, net.

Allowance for doubtful accounts

We are required to perform ongoing credit evaluations of our trade receivables and maintain an allowance for doubtful accounts, based upon our judgment as to our ability to collect outstanding receivables. In determining the relevant allowance amounts, we analyze our historical collection experience, current economic trends and the financial position of our customers. Our allowance policy is to define a flat percentage of our accounts receivable as the ongoing reserve and to reserve a higher amount for certain customers that we believe have a higher risk of default. In 2005 and 2006, our allowance for doubtful accounts was $548,000 and $532,000 and our trade receivables (net of allowance for doubtful accounts) were $22.8 million and $29.8 million, respectively. To date, based on our past experience, our allowances for doubtful accounts have been sufficient.

Goodwill and other intangible assets

Under FAS No. 142, *Goodwill and Other Intangible Assets*, goodwill acquired in a business combination that closes on or after July 1, 2001 is deemed to have indefinite life and will not be amortized. FAS No.142 requires goodwill to be tested for impairment on adoption and at least annually thereafter or between annual tests in certain circumstances, and written down when impaired, rather than being amortized as previous accounting standards required. Goodwill is tested for impairment by comparing the fair value of the reporting unit with its carrying value. Fair value is determined using the income approach. Significant estimates used in the methodologies included estimates of future cash flows and estimates of discount rates. We have performed impairment tests on our goodwill and in 2005 and 2006, no impairment losses have been identified. In 2005 and 2006, we had total goodwill of $2.8 million and $4.5 million, respectively, on our balance sheet. In assessing the recoverability of our goodwill and other intangible assets, we must make assumptions regarding the estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for these assets.

Results of Operations

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

	Year ended December 31,		
Consolidated statements of operations data:	**2006**	**2005**	**2004**
Revenues:			
Location-based services	51.9%	49.0%	46.9%
Wireless communications products	48.1	48.6	42.9
Other	-	2.4	10.2
Total revenues	100	100.0	100.0
Cost of revenues:			
Location-based services	17.7	16.6	16.6
Wireless communications products	34.1	34.3	29.8
Other	-	1.9	7.4
Total cost of revenues	51.8	52.8	53.8
Gross profit	48.2	47.2	46.2
Operating expenses:			
Research and development expenses	2.6	3.1	2.6
Selling and marketing expenses	4.9	5.4	5.2
General and administrative expenses (and other expenses (income), net)	17.0	16.6	15.0
Total operating expenses	24.5	25.1	22.8
Operating income	23.7	22.1	23.4
Financing income (expenses), net	1.8	1.0	(2.6)
Other expenses, net	-	-	-
Income before taxes on income	25.5	23.1	20.8
Taxes on income	(6.3)	(5.9)	(5.7)
Share in losses of affiliated companies, net	(0.2)	(0.4)	(0.4)
Minority interest in income of subsidiaries	(0.5)	(0.8)	(0.3)
Net income	18.5%	16.0%	14.4%

Analysis of our Operation Results for the Year ended December 31, 2006 as compared to the year ended December 31, 2005

Revenues

Total revenues increased from $90.1 million in 2005 to $104.1 million in 2006, or 15.5%. This increase consisted of $9.9 million from subscription fees from our location-based services and $6.2 million from sales of our wireless communications products. This increase was partially offset by a decline of $2.2 million in sales of our cellular services resulting from the expiration of our agreement with Partner Communications as of March 31, 2005.

Location-based services segment

Revenues in our location-based services segment increased from $44.1 million in 2005 to $54.0 million in 2006, or 22.4%. This increase was primarily due to an increase in the number of the average subscribers from approximately 300,000 in 2005 to approximately 368,000 in

2006, or 22.6%.

Wireless communications products segment

Revenues in our wireless communications products segment increased from $43.8 million in 2005 to $50.0 million in 2006, or 14.1%. This increase was primarily due to an increase in sales of our AMR products and an increase in revenues from our deployment projects in China and South Korea, this increase was offset by a decrease in the AVL products as a results of free lease transactions in Brazil.

Other

Revenues from our cellular services decreased from $2.2 million in 2005 to none in 2006, this decrease was due to a decline in sales resulting from the expiration of our agreement with Partner Communications as of March 31, 2005.

Cost of revenues

Total cost of revenues increased from $47.6 million in 2005 to $53.9 million in 2006, or 13.2%. This increase consisted of an increase of $3.4 million in our location-based services segment and $4.5 million in our wireless communications products segment. This increase was partially offset by a decline of $1.6 million in sales of our cellular services. As a percentage of total revenues, cost of revenues decreased from 52.8% in 2005 to 51.8% in 2006.

Location-based services segment

Cost of revenues for our location-based services segment increased from $15.0 million in 2005 to $18.4 million in 2006, or 22.9%. This increase was primarily due to the increase in our subscriber base and due to our penetration to new region (Rio de Janeiro). As a percentage of total revenues for this segment, cost of revenues increase slightly from 34.0% in 2005 to 34.1% in 2006.

Wireless communications products segment

Cost of revenues for our wireless communications products segment increased from $31.0 million in 2005 to $35.4 million in 2006, or 14.5%. As a percentage of total revenues for this segment, cost of revenues increased slightly from 70.7% in 2005 to 70.8% in 2006.

Other

Cost of revenues from our cellular services decreased from $1.6 million in 2005 to $0 in 2006. This decrease was due to the decline in revenues resulting from the expiration of our agreement with Partner Communications as of March 31, 2005.

Operating expenses

Research and development

Research and development expenses decreased from $2.8 million in 2005 to $2.6 million in 2006, or 7%.

Selling and marketing

Selling and marketing expenses increased from $4.9 million in 2005 to $5.1 million in 2006, or 5.1%. This increase was due to additional advertising expenses in Brazil and Argentina for the principal purpose of increasing our brand recognition in such markets. As a percentage of total revenues, selling and marketing expenses decreased from 5.4% in 2005 to 4.9% in 2006.

General and administrative

General and administrative expenses increased from $15.0 million in 2005 to $17.7 million in 2006, or 18.0%. This increase was due to an additional $0.5 million of bonus payments to senior management, an increase in salary expenses of $1 million as a result of the hiring of additional employees, mainly in Brazil. As a percentage of total revenues, general and administrative expenses increased from 16.6% in 2005 to 17.0% in 2006. Additionally, we incurred additional significant accounting, legal and other expenses that we did not incur before our offering on the NASDAQ, such as costs associated with corporate governance requirements, including requirements under Section 404 and other provisions of the Sarbanes-Oxley Act of 2002, as well as rules implemented by the SEC and The Nasdaq Global Market. Such rules and regulations have lead to an increase in our legal and financial compliance costs, introduced new costs such as investor relations, stock exchange listing fees and shareholder reporting, and to made some activities more time consuming and costly. The implementation and testing of such processes and systems required us to hire outside consultants and incur other significant costs.

Operating income

Total operating income increased from $19.9 million in 2005 to $24.7 million in 2006, or 24.1%. This increase consisted of $3.6 million increase in our location-based services segment, a $1.4 million increase in our wireless communications products segment, which was partially offset by a $0.2 million decrease from our cellular services.

Location-based services segment

Operating income in our location-based services segment increased from $13.0 million in 2005 to $16.6 million in 2006, or 27.8%. This increase was primarily due to an increase in our revenues from $44.1 million in 2005 to $54.0 million in 2006.

Wireless communications products segment

Operating income in our wireless communications products segment increased from $6.6 million in 2005 to $8.0 million in 2006. This increase was primarily due to an increase in revenues for this segment of $6.2 million and an increase in cost of revenues of $4.5 million (as a percentage of revenues from 70.7% in 2005 to 70.8% in 2006).

Other

Operating income from our cellular services declined from $0.2 million in 2005 to $0 in 2006. This decline was due to the expiration and the non-renewal of our agreement with Partner Communications as of March 31, 2005.

Financing expenses (income), net

Financing income, net, increased from $0.9 million in 2005 to $1.9 million in 2006 or 111%. This increase was mainly due to our last IPO on September 2005.

Taxes on income

Taxes on income increased from $5.3 million in 2005 to $6.6 million in 2006, or 24.3%. This increase was primarily due to the increase in our taxable income over such period. Total income tax expense in 2005 was 25.4% of pre-tax income, while in 2006 it was 24.7% of pre-tax income. This decrease is primarily due to the decrease in the applicable income tax rate in Israel from 34% in 2005 to 31% in 2006.

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Analysis of our Operation Results for the Year ended December 31, 2005 as compared to the year ended December 31, 2004

Revenues

Total revenues increased from $77.9 million in 2004 to $90.1 million in 2005, or 15.6%. This increase consisted of $7.6 million from subscription fees from our location-based services and $10.3 million from sales of our wireless communications products. This increase was partially offset by a decline of $5.7 million in sales of our cellular services.

Location-based services segment

Revenues in our location-based services segment increased from $36.5 million in 2004 to $44.1 million in 2005, or 20.8%. This increase was primarily due to an increase in the number of our Brazilian and Argentine subscribers, from approximately 111,000 in 2004 to approximately 168,000 in 2005, or 51.4%.

Wireless communications products segment

Revenues in our wireless communications products segment increased from $33.5 million in 2004 to $43.8 million in 2005, or 30.7%. This increase was primarily due to an increase in sales of our AVL products, which resulted from an increase in our subscriber base and an increase in revenues from our deployment projects in China and South Korea.

Other

Revenues from our cellular services decreased from $7.9 million in 2004 to $2.2 million in 2005, or 72.1%. This decrease was due to a decline in sales resulting from the expiration of our agreement with Partner Communications as of March 31, 2005.

Cost of revenues

Total cost of revenues increased from $41.9 million in 2004 to $47.6 million in 2005, or 13.6%. This increase consisted of an increase of $2.1 million in our location-based services segment and $7.7 million in our wireless communications products segment. This increase was partially offset by a decline of $4.1 million in sales of our cellular services. As a percentage of total revenues, cost of revenues decreased from 53.8% in 2004 to 52.8% in 2005.

Location-based services segment

Cost of revenues for our location-based services segment increased from $12.9 million in 2004 to $15 million in 2005, or 16.3%. This increase was primarily due to the significant increase in our subscriber base. As a percentage of total revenues for this segment, cost of revenues declined from 35.4% in 2004 to 34% in 2005, primarily due to our ability to increase our subscribers without a commensurate increase in related costs.

Wireless communications products segment

Cost of revenues for our wireless communications products segment increased from $23.2 million in 2004 to $31 million in 2005, or 33.6%. This increase was primarily due to increased sales of our AVL products, including PAL. As a percentage of total revenues for this segment, cost of revenues increased from 69.4% in 2004 to 70.7% in 2005. This increase was due to an increase in the proportion of sales of our lower-margin AVL products out of the total mix of products sold, compared to sales of higher margin AMR and RFID products.

Other

Cost of revenues from our cellular services decreased from $5.7 million in 2004 to $1.6 million in 2005, or 71.9%. This decrease was due to the decline in revenues. As a percentage of total revenues from our cellular services, cost of revenues decreased from 72.3% in 2004 to 75% in 2005.

Operating expenses

Research and development

Research and development expenses increased from $2.0 million in 2004 to $2.8 million in 2005, or 38.5%. This increase was due to the hiring of additional personnel in Telematics Wireless in 2005. As a percentage of total revenues, research and development expenses increased from 2.6% in 2004 to 3.1% in 2005.

Selling and marketing

Selling and marketing expenses increased from $4.1 million in 2004 to $4.9 million in 2005, or 19.5%. This increase was due to additional advertising expenses in Brazil and Argentina for the principal purpose of increasing our brand recognition in such markets. As a percentage of total revenues, selling and marketing expenses increased from 5.2% in 2004 to 5.4% in 2005.

General and administrative

General and administrative expenses increased from $11.7 million in 2004 to $14.9 million in 2005, or 27.3%. This increase was due to an additional $0.5 million of bonus payments to senior management, one time expense of $0.3 million due to options that were granted to our two Co-CEO s, an increase in salary expenses of $1 million as a result of the hiring of additional employees, mainly in Brazil and Argentina and a one time expenditure of $0.3 million on an event marking our tenth anniversary. As a percentage of total revenues, general and administrative expenses increased from 15.0% in 2004 to 16.6% in 2005.

Operating income

Total operating income increased from $18.3 million in 2004 to $19.9 million in 2005, or 8.7%. This increase consisted of $2 million increase in our location-based services segment, a $0.6 million increase in our wireless communications products segment, which was partially offset by a $1 million decrease from our cellular services.

Location-based services segment

Operating income in our location-based services segment increased from $11.0 million in 2004 to $13 million in 2005, or 18.2%. This increase was primarily due to an increase in our revenues from $36.5 million in 2004 to $44.1 million in 2005 and a decline in cost of revenues as a percentage of revenues for this segment from 35.4% in 2004 to 34% in 2005.

Wireless communications products segment

Operating income in our wireless communications products segment increased from $6.0 million in 2004 to $6.6 million in 2005. This increase was primarily due to an increase in revenues for this segment of $10.3 million and an increase in cost of revenues of $7.7 million (as a percentage of revenues from 69.4% in 2004 to 70.7% in 2005). This increase was partially offset by additional research and development costs.

Other

Operating income from our cellular services declined from $1.2 million in 2004 to $0.2 million in 2005, or 83%. This decline was due to the expiration and the non-renewal of our agreement with Partner Communications as of March 31, 2005.

Financing expenses (income), net

Financing expenses, net, decreased from $2.1 million expenses in 2004 to $0.9 million income in 2005 or 143%. This increase was due to exchange rate differences on the principal of our NIS-denominated loans that resulted in a $1.4 million gain in 2005 compared to a $0.1 million loss in 2004 and to a decrease in our interest expenses. Our interest expenses decreased from $1.2 million in 2004 to $0.5 million in 2005 or 58.3% and an increase in the results of forward exchange derivative transactions that we entered into that did not qualify for hedge accounting under FAS No. 133, from a loss of $0.7 million in 2004 to a gain of $0.1 million in 2005.

Taxes on income

Taxes on income increased from $4.4 million in 2004 to $5.3 million in 2005, or 20.4%. This increase was primarily due to the increase in our taxable income over such period. Total income tax expense in 2004 was 27.3% of pre-tax income, while in 2005 it was 25.4% of pre-tax income. This decrease is primarily due to the application of certain Israeli government tax incentives to a business operation in Telematics Wireless that qualified as an approved enterprise under Israeli law, and a decrease in the applicable income tax rate in Israel from 35% in 2004 to 34% in 2005.

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

Although we report our consolidated financial statements in dollars, in 2004, 2005 and 2006, a portion of our revenues and expenses was derived in other currencies. For fiscal years 2004, 2005 and 2006, we derived approximately 45.6%, 48.9% and 53.2% of our revenues in dollars, 33.3%, 20.4% and 14.3% in NIS, 15.8%, 23.3% and 24.8% in Brazilian Reals and 5.3%, 7.4% and 7.6% in Argentine Pesos, respectively. In fiscal years 2004, 2005 and 2006, 43.5%, 44.2% and 42.9% of our expenses were incurred in dollars, 41.5%, 35.2% and 31% in NIS, 11.2%, 15.5% and 21.5% in Brazilian Reals and 3.8%,5.1% and 4.6% in Argentine Pesos, respectively.

Exchange differences upon conversion from our functional currency to dollars are accumulated as a separate component of accumulated other comprehensive income under shareholders equity. In the year 2006, accumulated other comprehensive income decreased by $6.4 million compared to the year 2005. In the year 2005, accumulated other comprehensive income increased by $0.9 million compared to the year 2004. In 2004, accumulated other comprehensive income decreased by $0.2 million compared to the year 2003. In 2003, accumulated other comprehensive income increased by $0.5 million compared to the year 2002. Exchange differences upon conversion from the functional currency from our other selling and marketing subsidiaries to dollars are reflected in our income statements under financing expenses, net.

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

	Year Ended December 31,							
	2003		2004		2005		2006	
	Actual	At 2002 exchange rates(1)	Actual	At 2003 exchange rates(1)	Actual	At 2004 exchange rates(1)	Actual	At 2005 exchange rates(1)
	(In thousands)							
Revenues	$ 64,071	$ 63,440	$ 77,926	$ 77,263	$ 90,126	$ 86, 653	$ 104,052	$ 101,605
Gross profit	26,623	26,947	36,038	35,895	42,540	40,761	50,199	49,037
Operating income	10,286	10,929	18,263	18,370	19,922	19,065	24,732	24,406

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

Our policy remains to reduce exposure to exchange rate fluctuations by entering into foreign currency forward transactions that qualify as hedging transactions under FAS No. 133, the results of which are reflected in our income statements as revenues. The result of these transactions, which are affected by fluctuations in exchange rates, could cause our revenues, gross profit and operating income to fluctuate.

In addition, due to increased fluctuations in the exchange rate of the US dollar vis-a-vis the Israeli Shekel in 2002, in December 2002 we commenced acquiring derivative financial instruments in order to convert currency fluctuation risks related to our US dollar denominated loans from the US dollar to other currencies which we thought would be more stable. We do not anticipate entering into such transactions in the future unless we incur significant debt in currencies that are different from the functional currency of the entity within our group incurring such debt, and any decision to enter into such transactions will require the approval of our Board of Directors and will only be made after consulting with our advisors. Gains or losses from such derivative financial instruments do not qualify for hedge accounting under FAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and are reflected in financing expenses, net. As of June 2007, we have no more open positions on such derivative financial instruments and any remaining effects on our financial results from such derivative financial instruments are reflected in our financial results for the year 2006 and will not affect our results of operations for any subsequent period.

B. LIQUIDITY AND CAPITAL RESOURCES

Since our inception, we funded our operations primarily from cash generated from operations, borrowings under our credit facilities with banks, proceeds from the initial public offering of our ordinary shares in Israel and the proceeds received from other public or private sales of our equity and debt instruments. In 2004, 2005 and 2006, we had $4.6 million, $58.4 million and $59.8 million in cash and marketable securities and $2.5 million, $61 million and $73.4 million in working capital, respectively. In addition, in 2004, 2005 and 2006, we had $10.1 million, $3.5 million and $0.3 million, respectively, of outstanding long-term borrowings from banks, of which $6.5 million, $3.1 million and $0.3 million, respectively, were current, in 2004, 2005 and 2006, we also had $1.5 million, 1.1 million and $1.4 million, respectively, available to us under existing lines of credit of which we were utilizing $0.1 million, $0.2 million and non, respectively. Our long-term loans are secured by liens on all of our assets and properties in Israel.

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

We had long-term liabilities in 2004, 2005 and 2006 of $4.3 million, $4.5 million and $5.3 million, respectively, for employee pension costs for certain of our employees that become payable upon their retirement. Our Israeli employees are entitled to one month s salary, equal to the applicable monthly salary at the time of such employee s retirement, for each year of employment, or a portion thereof, upon retirement. This liability is partially funded by deposit balances maintained for these employee benefits in the amount of $2.9 million, $3.0 million and $4 million in 2004, 2005 and 2006, respectively. The deposited funds include profits accumulated up to the balance sheet date and may be withdrawn upon the fulfillment of the obligation pursuant to Israeli severance pay laws or labor agreements.

As of December 31, 2006, we had outstanding capital notes. The holder of these capital notes and the Company are currently involved in legal proceedings over the terms of the notes. We believe that these notes may only be converted into approximately 2,802 of our ordinary shares (pre-split) and are not otherwise required to be repaid by us. The holder of these notes has made various alternative demands including the repayment in cash of the balance of the notes in the amount of approximately $6.2 million (plus accrued interest and expenses) and the payment of a cash amount equal to the amount obtained by multiplying 1,172,154 of our ordinary shares (pre-split) by the highest trading price of our ordinary shares between the maturity date and the date of a court decision, plus interest and expenses. Although we cannot predict the outcome of the litigation proceedings at this time, if the holder of these notes prevails, the award of damages could result in significant costs to us. See Item 8.A. Consolidated Statements and other Financial Information under the caption Legal Proceedings below.

On January 29, 2004, we adopted a dividend policy providing for an annual dividend distribution in an amount equal to 25% of our net profits, calculated based on our financial statements for the period ending on December 31 of the fiscal year with respect to which the relevant dividend is proposed to be paid. Pursuant to such policy, we distributed NIS 11.8 million (approximately, $2.7 million) on April 28, 2005 and NIS 17.6 million (approximately, $3.8 million), on April 4, 2006 and NIS 20.1 million (approximately, $4.8 million), on April 4, 2007

On July 17, 2006, the board of the Company authorized the repurchase of ordinary shares up to $10 million. As of to day the company has purchased approximately 60 thousands ordinary shares equal to $0.9 million.

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

	Year ended December 31,		
	2006	2005	2004
	(In thousands)		
Net cash provided by operating activities	18,254	$ 17,758	$ 17,674
Net cash used in investing activities	(29,940)	(4,893)	(2,910)
Net cash provided by (used in) financing activities	(8,162)	41,255	(14,142)
Effect of exchange rate changes on cash and cash equivalents	5,231	(295)	64
Net increase in cash and cash equivalents	(14,617)	$ 53,825	$ 686

Years ended December 31, 2006, December 31, 2005 and December 31, 2004

Net cash provided by operating activities

Our operating activities provided cash of $17.7 million in 2004, $17.8 million in 2005 and $18.3 in 2006.

The increase of approximately $0.5 million in cash from operating activities in 2006 as opposed to 2005 was due primarily to:

Cash from operating activities as follows:
- Increase in our net profit in an amount of approximately $4.9 million;
- Increase in accounts payable in an amount of approximately $2.2 million;
- Decrease in accounts receivable in an amount of approximately $1.2 million.

Cash used for operating activities as follows:
- Increase in inventory and contracts in process in an amount of approximately $4.2 million;
- Decrease in other current liabilities in an amount of approximately $2.3 million.

The minor increase of approximately $0.1 million in cash from operating activities in 2005 as opposed to 2004 was due primarily to:

Cash from operating activities as follows:
- Increase in our net profit in an amount of approximately $3.2 million;
- Increase in other current liabilities in an amount of approximately $1.2 million;
- Decrease in inventory and contracts in process in an amount of approximately $1 million.

Cash used for operating activities as follows:
- Decrease in accounts receivable in an amount of approximately $1.9 million;
- Decrease in accounts payable in an amount of approximately $2.1 million;
- Decrease in deferred taxes in an amount of approximately $0.9 million;
- Decrease in deferred revenue balances in an amount of approximately $0.7 million;

The increase of approximately $1.9 million in cash from operating activities in 2004 as opposed to 2003 was due primarily to:

Cash from operating activities as follows:

Increase in our net profit in an amount of approximately $5.4 million;
Increase in accounts payable in an amount of approximately $3.4 million;
Increase in exchange rate differentials on deposits in an amount of approximately $1.2 million;
Increase in deferred revenue balances in an amount of approximately $0.8 million

Cash used for operating activities as follows:

Increase in inventory and contracts in process in an amount of approximately $4.9 million.
Increase in accounts receivable in an amount of approximately $2.4 million.
Increase in other current assets in an amount of approximately $1.3 million

Net cash used in investing activities Net cash used in investing activities in an amount of approximately $29.9 was used primarily for the purchase of fixed assets in an amount of $12.1 million (of which $3.3 million was used to acquire the office building in Brazil), investment in securities in an amount of approximately $15 million and the acquisition of a subsidiary for the amount of approximately $2.2 million.

Our investing activities used cash of $4.9 million in 2005 primarily due to the purchase of property and equipment and purchase of intangible assets and minority interest for $4.3 million and an increase in funds with respect to employee rights upon retirement of $0.3 million. Our investing activities used cash of $2.9 million in 2004 primarily due to the purchase of property and equipment for $2.4 million and an increase in funds with respect to employee rights upon retirement of $0.4 million. Our investing activities used cash of $2.2 million in 2003, primarily due to the purchase of property and equipment for $2.3 million and proceeds from the sale of property and equipment for $0.1 million.

Net cash provided by (used in) financing activities

Net cash used in financing activities in an amount of approximately $8.2 million consisted primarily of a long-term loan repayment in the amount of $3.2 million, a cash dividend payment in the amount of $3.7 million and purchase of treasury shares in an amount of $0.9 million.

Our financing activities provided cash of $41.3 million in 2005 primarily from issuance of capital shares of $50 million which was partially offset by repayment of our short-term and long-term loans totaling $6.1 million and a dividend payment of $2.7 million paid during such period. Our financing activities used cash of $14.1 million in 2004 primarily for repayment of our short-term and long-term loans totaling $23.6 million and a dividend payment of $1.3 million paid during such period which was partially offset by the incurrence of new loans totaling $9.4 million. Our financing activities in 2003 used cash of $11.1 million primarily for repayment of our short-term and long-term loans totaling $16.2 million, which was partially offset by the incurrence of new long-term loans totaling $5.1 million.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

All of our research and development activities take place in Israel. Our Research and Design department is currently working on expanding our AMR product lines to include fixed area network systems and to adapt the Dialog 3G product lines for the electrical power and natural gas meter industry. Expenditures for research and development activities engaged by us were approximately US$2.7 million in 2006, US$ 2.8 million in 2005 and US$ 2.0 million.

D. TREND INFORMATION

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

E. OFF-BALANCE SHEET ARRANGEMENTS

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

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

Contractual obligations and commercial commitments

The following table summarizes our material contractual obligations as of December 31, 2006:

	Payments due by period				
Contractual obligations[1]	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
			(In thousands)		
Operating leases	6,406	1,044	1,901	1,856	1,605
Long-term loans	341	341	-	-	-
Total	6,747	1,385	1,901	1,856	1,605

[1] We may have to commence paying royalties at the rate of 3% with respect to revenues derived from services provided and products sold in Brazil and Argentina pursuant to the terms of royalty provisions in some of our license agreements with Teletrac if we elect to retain our exclusive rights in these countries.

G. SAFE HARBOR

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

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

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

Name (1)	Age	Position
Izzy Sheratzky	61	Chairman of the Board of Directors
Yehuda Kahane	63	Director
Ze'ev Koren(1)	62	Director

Name (1)	Age	Position
Avner Kurz	54	Director
Amos Kurz	51	Director
Yigal Shani	63	Director
Eyal Sheratzky	39	Co-Chief Executive Officer and Director
Nir Sheratzky	35	Co-Chief Executive Officer and Director
Gil Sheratzky	30	Director
Yoav Kahane	33	Director
Orna Ophir(1)	57	Director
Israel Baron(1)	54	Director
Eli Kamer	41	Executive Vice President, Finance; Chief Financial Officer
Guy Aharonov	42	General Counsel
Eddy Kafry	55	President & Chief Executive Officer of Telematics Wireless

(1) Member of our audit committee and an independent director under the Nasdaq National Market listing requirements.

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

Yehuda Kahane is a co-founder of our company and has served as a director since its acquisition from Tadiran in 1995. Professor Kahane is a full-time professor at the Faculty of Management, Tel Aviv University. Professor Kahane founded and served as the first Dean of the Israeli Academic School of Insurance until 2000. In addition, he was the co-founder and co-owner of the managing firm of the first balanced pension fund in Israel, Teshura, a co-owner of the technological incubators Weizman, Ofakim and Katzrin, and is involved in the formation, seed investment and management of start-up companies. Professor Kahane serves as an actuarial consultant to various companies and organizations. and has been providing financial consulting services to our company since 1998. Professor Kahane also serves as a director of Telematics Wireless and of Moked Ituran. He is a director in Tachlit Investment House Ltd. and Capital Point Ltd. and in a large number of private technological companies unrelated to us. He is the chairman of an association for the visually impaired of Hertzelia and Sharon District and a board member of the umbrella organization for the visually impaired in Israel. Professor Kahane holds a BA degree in Economics and Statistics, an MA degree in Business Administration and a PhD in Finance from the Hebrew University of Jerusalem. He is the father of Yoav Kahane.

Zeev Koren has served as a director of our company since 2006. In 1988 Brigadier Gen. (Res) Koren retired from the Israel Defense Forces after a career of 26 years, where in his final position he served as the head of human resources planning for the general staff division. Since then he has served in senior capacity in companies in the fields of international forwarding and medical services. He holds a B.A. in Political Science and Criminology from Bar Ilan University.

Avner Kurz has served as a director of our company since its acquisition in 1995. Mr. Kurz is the Chairman and director of F.K. Generators & Equipment Ltd. and serves as a Chief Executive Officer of Teleran Holding, our subsidiary in Brazil. Mr. Kurz also serves as a director of Telematics Wireless, El-Ram, Moked Ituran, Totam Plus, Expandis and several other private companies abroad. Mr. Kurz is the brother of Amos Kurz.

Amos Kurz has served as a director of our company since its acquisition in 1995. Mr. Kurz also serves as a director of Telematics Wireless, and as Chief Executive Officer and director of F.K. Generators & Equipment. Mr. Kurz is the brother of Avner Kurz.

Yigal Shani has served as a director of our company since its acquisition in 1995. Mr. Shani is an insurance agent and a partner in the insurance agency Tzivtit Insurance Agency (1998), Ltd., which provides insurance services to our company. Mr. Shani also serves as a director of Gir Magen.

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

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

Gil Sheratzky has served as a director of our company and as our advertising officer since 2003. Since January 23, 2007, he has served as well as CEO of our subsidiary, E-Com Global Electronic Commerce Ltd. Prior to such date, he worked in our control center during the years 2000 and 2001, and during the years 2001 and 2002, he worked in an advertising agency. Mr. Sheratzky holds a BA degree in Business Management from the Interdisciplinary Center, Herzlya. Mr. Sheratzky is the son of Izzy Sheratzky, the brother of Eyal and Nir Sheratzky.

Yoav Kahane has served as director of our company since 1998 and also serves as a director of Telematics Wireless. Since January 2006, Mr. Kahane serves as SBU Manager of Enzymotec Ltd.   a biotechnology company. Prior to that, during the years 2004-2005, Mr. Kahane served as Vice President of Sales and Marketing in Elbit Vision Systems Ltd. Prior to that date, during the years 2001 and 2002, he served as Manager of Business Development in Denver Holdings and Investments Ltd. In 2000, Mr. Kahane established Ituran Florida Corp. and served as its Chief Executive Officer until 2001. Mr. Kahane has been providing consulting services to our company since 2004. Mr. Kahane holds BSc degree in Life Sciences form Tel-Aviv University, a BA degree in Insurance and an MBA degree from the University of Haifa. Yoav Kahane is the son of Professor Kahane.

Orna Ophir has been serving as an external director of our company since 2003 and is a member of our audit committee. Dr Ophir has been serving as Medical Director of Assuta hospitals in Israel since November 2004 and as Chief Executive Officer of the Golden Tower Hospital (Bat Yam, Israel) since 2001. Prior to such date, Dr Ophir served as Executive Vice President of Assuta Hospital (Tel Aviv, Israel) during the years 1997 to 2000. In addition, Dr Ophir is a director of Macabi Health Services, one of the principal health providers in Israel. Dr Ophir holds MD and MBA degrees from Tel Aviv University.

Israel Baron has been serving as an external director of our company since 2003 and is a member of our audit committee. Mr. Baron has been serving as Chief Executive Officer of several public sector employee retirement and saving plans since 2003. Prior to such date, Mr. Baron managed an organizational consulting firm, served as an investment manager in the Isaac Tshuva group during the years 1999 to 2001 and as Chief Executive Officer of Gmulot Investment Company Ltd. Mr. Baron serves as director of Quality Baron Management Services Ltd. and until 2004 he served as a director of Brill Shoe Industries Ltd. Mr. Baron is a certified CPA and holds a BA degree in Economics and Accounting.

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

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

Eddy Kafry is President and Chief Executive Officer of Telematics Wireless. Mr. Kafry worked for Tadiran Ltd. until 1989 where he led the development of various defense systems. He then spent five years with Kollsman, USA, leading the development and engineering of a major defense system. In 1995 Mr. Kafry founded Telematics Wireless within Tadiran. He has served as President and Chief Executive Officer since then. He holds a B.Sc. degree from the Technion   Israel Institute of Technology.

Our articles of association provide for staggered three-year terms for all of our directors. The directors on our Board (excluding the external directors) are divided into three classes, and each class of directors will serve for a term of three years. Our independent directors who also qualify as external directors under the Israeli Companies Law, Orna Ophir and Israel Baron, are serving three-year terms in accordance with Israeli law. In April 2006 our general meeting of shareholders approved the extension of term of office of our external directors, for an additional term of three years (until June 3, 2009) under the same terms of the initial term of office.

B. COMPENSATION

The aggregate direct compensation we paid to our directors who are not officers for their services as directors as a group for the year ended December 31, 2006 was approximately $24,000. Directors are reimbursed for expenses incurred in connection with their attendance of board or committee meetings. In 2006, the general meeting of the company voted to allow compensation of external directors to the maximum permitted by law (i.e. yearly remuneration of NIS42,245 (approximately $9,800) in addition to a remuneration per meeting attended in the sum of NIS1,625 (approximately $380).

The aggregate compensation paid to our Co-Chief Executive Officers in 2006 was $819,000. Our four highest paid officers in 2005, other than our Co-Chief Executive Officers, were the active Chairman of our Board of Directors, who was paid $1,626,000 in 2006, and our Vice President, IT and Systems Operation, our Purchase and Logistics Manager, Vice President of sites who were paid $168,000, $164,000 and $160,000, respectively. The aggregate compensation paid to all Ituran officers as a group during 2006 was $3,603,000. In 2006, we also paid an aggregate amount of $41,000 to a director for services provided to us and employment compensation in an aggregate amount of $154,000 to three directors who are our employees but are not Ituran officers. These compensation amounts include amounts attributable to automobiles made available to our officers and other fringe benefits commonly reimbursed or paid by companies in Israel. Employee directors do not receive additional fees for their services as directors. During 2006, we set aside $175,000 for the benefit of our officers for pension, retirement or similar benefits. We do not set aside any funds for the benefit of our directors who are not employees for any pension, retirement or similar benefits. All numbers in this paragraph are rounded to the nearest thousand.

Messrs. Izzy Sheratzky, Eyal Sheratzky and Nir Sheratzky provide their services as Chairman of our Board of Directors and Co-Chief Executive Officers, respectively, as independent contractors pursuant to services agreements between the company and A. Sheratzky Holdings Ltd., a company controlled by Izzy Sheratzky. Mr. Gil Sheratzky is employed as CEO of one of our subsidiaries, E-Com Global Electronic Commerce Ltd. See Item 7.B. Related Parties Transactions under the caption Transactions with Related Parties below.

The compensation paid to Mr. Izzy Sheratzky included a bonus in an amount equal to 5% of our profits before tax (including the share of affiliated companies net and minority interests in (income) loss of subsidiaries), on a consolidated basis, based on our audited consolidated financial statements for the relevant year, to which Mr. Izzy Sheratzky is entitled pursuant to his services agreement with the company. The compensation paid to each of our Co-Chief Executive Officers, Eyal Sheratzky and Nir Sheratzky, includes a bonus in an amount equal to 1% of our profits before tax, on a consolidated basis, based on our audited consolidated financial statements for the relevant year, granted pursuant to a resolution of our Board of Directors from January 2004. The compensation paid to Gil Sheratzky by our subsidiary E-Com Global Electronic Commerce Ltd. includes a bonus in an amount equal to 2% of the annual increase in that company s profits before tax, (up to a maximum amount of 1% of that company s profits before tax) based on its audited consolidated financial statements for the relevant year, beginning January 1, 2007 .See Item 7 Related Parties Transactions under the caption Transactions with our directors and principal officers below.

As of the date of this report, our executive officers and directors held options to purchase an aggregate of 153,924 of our ordinary shares. The exercise price of each option is NIS 1 and each option is fully vested and exercisable into three ordinary shares, par value of NIS $0.33^{1}/_{3}$ each.

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

Shareholders Agreement and Articles of Association of Moked Ituran

On May 18, 1998, a shareholders agreement was entered into between Moked Ituran Ltd. and each of Moked s shareholders, Moked Services, Information, Management and Investments Ltd. (38%), F.K. Generators and Equipment Ltd. (26%), Yehuda Kahane Ltd. (26%), Gideon Ezra, Ltd. (2.5%), T.S.D. Holdings Ltd. (3.75%) and G.N.S. Holdings Ltd. (3.75%). On May 18, 1998, Moked s articles of association were amended to incorporate some of the provisions of the shareholders agreement as well as other provisions governing the relationship of its shareholders. The Moked articles were amended again on September 6, 2005 to correspond to an amendment to the shareholders agreement that was entered into on such date.

Gideon Ezra, Ltd. is a company controlled by Gideon and Hanna Ezra with each owing 50% of the capital stock of such company. Moked Services, Information, Management and Investments is a company owned by A. Sheratzky Holdings Ltd. (a company controlled by Izzy Sheratzky) (66.6%) and Benjamin Ron s heirs (2003) Ltd. (a company controlled by Ron Benjamin s heirs) (33.3%). F.K. Generators and Equipment is a company controlled by Perfect Quality Trading Ltd. (51%), a company owned by Avner Kurz and Amos Kurz in equal parts. Yehuda Kahane Ltd. is a company owned by Professor Kahane and Rivka Kahane. T.S.D. Holdings is a company controlled by Efraim Sheratzky. G.N.S. Holdings is a company controlled by Yigal Shani.

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

- Prior to the time a shareholders meeting of our company takes place, a separate meeting of the shareholders of Moked will be convened.
- At the Moked shareholders meeting, all matters included in our meeting s agenda will be discussed and voted on.
- The required quorum in the Moked meeting will be any number of the shareholders actually present. The resolutions will be adopted by a majority of the votes present and voting is based on the relative shareholdings in Moked, with the exception of Moked Services, Information, Management and Investments, which is entitled to 41.5% of the voting rights, thereby decreasing the voting rights of F.K. Generators and Equipment to 22.5% on the vote of any matter other than issues in which Izzy Sheratzky has a direct or indirect interest.
- With respect to director elections, every Moked shareholder holding at least 3.5% of Moked s shares is entitled to designate one director in our annual shareholders meeting. Each Moked shareholder holding over 10% of Moked s shares may nominate an additional director for every additional 10% of Moked shares held by him or her in excess of the initial 10%. For the purpose of nominating additional directors, shareholdings may be aggregated.
- As discussed in Board of Directors in Item 6.C Board Practices below, our directors (excluding the external directors) are divided into three classes as follows: class A Amos Kurz, Yoav Kahane, Eyal Sheratzky and Yigal Shani (with their term of office expiring in 2007), class B Yehuda Kahane, Avner Kurz and Nir Shertazky (with their term of office expiring in 2008); and class C Gil Sheratzky, Zeev Koren and Izzy Sheratzky (with their term of office expiring in 2009).
- Upon the expiration of the term of office of our class A directors, each of Moked Services, Information and Investment, provided it holds at least 40% of the voting rights (together with the 3.5% of the voting rights held by F.K. Generators and Equipment), Yehuda Kahane Ltd., provided it holds at least 20% of the voting rights, F.K. Generators and Equipment, provided it holds at least 20% of the voting rights, and Yigal Shani or G.N.S. Holdings, provided either of them holds at least 3.5% of the voting rights, shall be entitled to require Moked to appoint one director to class A. Upon the expiration of the term of office of the directors in class B, each of Moked Services, Information and Investment, provided it holds at least 40% of the voting rights (together with the 3.5% of the voting rights held by F.K. Generators and Equipment), and Yehuda Kahane, provided it holds at least 20% of the voting rights, and F.K. Generators and Equipment, provided it holds at least 20% of the voting rights, shall be entitled to require Moked to appoint one director to class B. Upon the expiration of the term of office of the directors in class C, (i) Moked Services, Information and Investment, provided it holds at least 36.5% of the voting rights shall be entitled to require Moked to appoint two directors and (ii) Efraim Sheratzky or T.S.D. Holdings, provided either of them holds at least 3.5% of the voting rights, shall be entitled to require Moked to appoint one director to class C.
- Moked has agreed to vote all of its shares at our shareholders meetings in accordance with the resolutions adopted at the Moked shareholders meeting or, with regard to director elections, as described above. In the event of a tie with respect to a certain issue, Moked has agreed to vote its shares against the relevant resolution at our shareholders meeting.

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- Moked s shareholders have a right of first refusal on any sale of our shares by Moked. This right does not apply to open market sales by Moked of up to 2% of the issued share capital of our company in any given calendar year.
- According to Moked s articles of association, each of the shareholders of Moked may direct Moked to dispose of a portion of Moked s holdings in our company that corresponds to such shareholders proportional holdings in Moked and to distribute the proceeds of such disposition to such directing shareholders.

This shareholders agreement is in effect only for as long as Moked holds at least 20% of our issued and outstanding share capital. We expect Moked to continue to hold at least 20% of our issued and outstanding share capital following the consummation of this offering.

C. BOARD PRACTICES

Board of Directors

Currently, pursuant to our articles of association as presently in effect, our Board of Directors consists of twelve directors, including two external directors in accordance with Israeli law and three independent directors in accordance with the listing requirements of the Nasdaq National Market. Pursuant to our articles of association, other than the external directors, for whom special election requirements apply (see External directors below), our directors are elected and may in certain circumstances be removed by the majority of our shareholders. Our articles of association provide for staggered three-year terms for all of our directors. The directors on our Board (excluding the external directors) are divided into three classes, and each class of directors will serve for a term of three years. The term of office of the directors assigned to class A will expire at our annual meeting of shareholders to be held in 2007, and at each third succeeding annual meeting thereafter. The term of office of the directors assigned to class B will expire at the annual meeting of shareholders to be held in 2008, and at each third succeeding annual meeting thereafter. The term of office of the directors assigned to class C will expire at the annual meeting of shareholders to be held in 2009, and at each third succeeding annual meeting thereafter. This classification of the Board of Directors may delay or prevent a change of control of our company or in our management. The external directors, under Israeli law, serve a three-year term which may be extended for an additional term of three years. Our directors may at any time and from time to time appoint any other person as a director to fill a vacancy until the general meeting of shareholders in which the term of service of the replaced director was scheduled to expire. External directors may be removed from office pursuant to the terms of the Israeli Companies Law, 5759 1999, which we refer to as the Israeli Companies Law. See External directors below.

Pursuant to the Israeli Companies Law, our chairman convenes and presides over the meetings of the Board. In addition, any two directors may convene a meeting of the Board of Directors. A quorum consists of a majority of the members of the Board, and decisions are taken by a vote of the majority of the members present. Our articles of association provide that such quorum will in no event be less than two directors.

The Israeli Companies Law provides that an Israeli company may, under certain circumstances, exculpate an office holder from liability with respect to a breach of fiduciary duties.

We are incorporated in Israel and in addition to being listed on the Nasdaq National Market, we are also listed on the Tel Aviv Stock Exchange, and therefore subject to various corporate governance requirements pursuant to Israeli law relating to external directors, our audit committee and our internal auditor.

External directors

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

- such majority includes at least one-third of the shares held by all non-controlling shareholders present and voting at such meeting; or
- the total number of shares voted against the election of the external director and held by shareholders other than controlling shareholders must not exceed 1.0% of the shares whose holders are entitled to vote at any meeting of shareholders.

External directors are elected to serve an initial term of three years and may be reelected to serve in that capacity for an additional three years. The term of office for external directors for Israeli companies traded on certain foreign stock exchanges, including the NASDAQ, may be extended indefinitely in increments of additional three-year terms. External directors may be removed from office by the same percentage of shareholders required for their election or by a court, in each case, only under limited circumstances, including ceasing to meet the statutory qualification for their appointment or violating the duty of loyalty to the company. If all directors are of the same gender, the next external director elected must be of the other gender. Each committee of the board of directors must include at least one external director, except that the audit committee must include all external directors then serving on the board of directors. Israeli law regulating the compensation of external directors prohibits external directors from receiving, directly or indirectly, any compensation other than for services as an external director pursuant to the provisions and limitations set forth in the regulations promulgated under the Israeli Companies Law.

Israeli law provides that a person is not qualified to serve as an external director if, at any time during the two years preceding his or her appointment, that person, a relative, partner or employer of that person, or any entity under that person s control has had any affiliation or business relationship with the company, any entity controlling the company or an entity that, as of the date of appointment, or at any time during the two years preceding that date, is controlled by the company or by any entity controlling the company. In addition, no person may serve as an external director if that person s professional activities create, or may create, a conflict of interest with that person s responsibilities as a director or otherwise interfere with that person s ability to serve as a director. Until the lapse of two years after termination of an external director s membership on a board of directors, such company may not engage an external director to serve as an executive officer or director and cannot employ or retain that person to provide paid professional services, whether directly or indirectly.

Dr. Ophir and Mr. Baron have been elected as our external directors through 2006, and were re-elected by our shareholders for one additional three-year term expiring June 2009. In addition, Mr. ZEv Koren was elected as an external director in 2006.

Audit committee

Under Israeli law, the board of directors of a public company must appoint an audit committee. The audit committee must comprise of at least three directors, including all of the external directors. The audit committee may not include the chairman of the board, any director who is employed by the company or regularly provides services to the company (other than as a board member), a controlling shareholder or any relative of such person.

Our Board of Directors has formed an audit committee that is empowered to exercise the powers of the Board of Directors for our accounting, reporting and financial control practices. The members of the audit committee are Dr. Orna Ophir and Messrs. Israel Baron and Zeev Koren. Our Board of Directors has determined that Mr. Israel Baron is the committee s financial expert, as such term is defined by the rules of the Nasdaq National Market and the Securities and Exchange Commission.

Compensation committee

Our Board of Directors has appointed a Compensation Committee, pursuant to the listing requirements of the Nasdaq National Market. The members of the Compensation Committee are Orna Ophir, Israel Baron and Zeev Koren. The Compensation Committee of our Board of Directors recommends the review and oversees the salaries, benefits and stock option plans for our employees, consultants, directors and other individuals whom we compensate. The Compensation Committee also administers our compensation plans. Our Board of Directors has determined that each member of the Compensation Committee is independent.

Internal auditor

The board of directors of an Israeli public company must appoint an internal auditor nominated by the audit committee. An internal auditor may not be:

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

The role of the internal auditor is to examine, among other things, the compliance of the company s conduct with applicable law and orderly business procedures. Our internal auditor is Simon Yarel, CPA.

The Sarbanes-Oxley Act of 2002 and the Nasdaq National Market listing standards

The Sarbanes-Oxley Act of 2002, as well as related new rules subsequently implemented by the Securities and Exchange Commission, requires foreign private issuers, such as us, to comply with various corporate governance practices. In addition, Nasdaq has recently adopted amendments to its requirements for companies that are listed on the Nasdaq National Market. Nasdaq Marketplace Rule 4350 was amended to permit foreign private issuers, such as us, to follow certain home country corporate governance practices without the need to seek an individual exemption from Nasdaq.

In reliance upon Nasdaq Marketplace Rule 4350(a)(1), 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 its board of directors be independent, as defined in Marketplace Rule 4350(c), (ii) an audit committee comprised solely of members who are able to read and understand fundamental financial statements as required by Nasdaq Marketplace Rule 4350(d)(2) or (iii) a nominating committee as required by Nasdaq Marketplace Rule 4350(c)(4). As a result, we have elected to follow Israeli law regarding independence requirements of our Board of Directors and the composition of our Board of Directors will remain as is. See External directors above. Similarly, we have elected to follow Israeli law with regard to the composition of our existing audit committee, which has three independent (as defined in Marketplace Rule 4350(c)) members, two of whom are external directors under the Israeli Companies Law and meet the requirements of Nasdaq Marketplace Rule 4350(d)(2) and at least one of which meets the requirement of the Directive of the Israel Securities Authority that one non-employee member has financial and accounting skills to, among other things, understand, on a high level, matters relating to business, accounting, internal auditing and financial statements. See also Audit Committees above. In addition, our Board of Directors will not appoint a nominating committee as required by Nasdaq Marketplace Rule 4350(c)(4) and, instead, elects to follow Israeli law, which provides that a company may determine its method of nominating its directors. In our case, Board of Director members (other than the External Directors) are nominated by our Board of Directors, as is the custom in Israel. By law, shareholders holding at least 1% of a company s voting rights may nominate directors and our company complies with this law. External Directors are nominated by the board of directors and must be elected at the shareholders general meeting that must approve them by a majority and in addition, either (i) one third of the non-controlling shareholders participating in such vote have voted for such External Directors; or (ii) the shareholders opposing such nomination that are not controlling shareholders must not represent in excess of 1% of the total voting rights in the company.

D. EMPLOYEES

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

	Year Ended December 31,		
	2006	**2005**	**2004**
By area of activity:			
Control Center	239	195	206
Research and Development	38	36	28
Sales and Marketing	72	62	47
Technical support and IT	105	100	102
Finance, Administration and Management	283	259	148
Private enforcement and operations	132	130	120
Total	**869**	**782**	**651**
By geographic location (out of total):			
Israel	416	397	387
Brazil	290	222	125
Argentina	138	138	115
United States	25	25	24
Total:	**869**	**782**	**651**

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

Israel

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

In addition, the provisions of a special collective agreement between our subsidiary, Telematics Wireless, the Histadrut (the General Federation of Labor in Israel) and the workers representatives are applicable to some of the employees of Telematics Wireless. This agreement includes the following provisions:

- Telematics Wireless is obligated to share its profits with its employees each year, based on a formula that takes into consideration Telematics Wireless profits and the employee s salary for the applicable year.

- Telematics Wireless agreed that in the event that its shares are registered in a public offering, it will offer employees subject to this collective bargaining agreement the option to purchase no less than 2% of its shares on the same basis and based on the same criteria as its shares are offered to employees who joined Telematics Wireless after July 2000 (the date of the collective bargaining agreement) and who are not party to this collective bargaining agreement.

In addition, by order of the Israeli Ministry of Labor and Welfare, the provisions of several collective bargaining agreements between Telematics Wireless, the Histadrut and the Industrialists Association in Israel may be applicable to a segment of our employees other than managerial, finance and administrative, and marketing and sales personnel. However, we believe we provide our employees with benefits and working conditions that are at least as favorable as the conditions specified in these collective bargaining agreements.

Brazil

Our employees in Brazil are subject to Brazilian labor laws and regulations and employment customs. The laws and regulations in Brazil govern all aspects of labor relations and designate a general employment contract with which all employees and employers must comply. This general employment contract adopts by reference the provisions of the Labor Law which principally relates to matters such as paid annual vacation, paid sick days, the length of the workday, payment for overtime and severance pay. Brazilian law generally requires severance pay equal to 50% of the sum the dismissed worker accumulated in its pension fund during the period of employment upon the retirement or death of an employee or termination of employment without cause. Brazilian employers are also required to purchase health insurance for employees, cover employees food and travel costs, and allocate sums to the employees pension fund. Furthermore, Brazilian employees and employers are required to pay predetermined sums to the National Insurance Institute, which is similar to the United States Social Security Administration. Our payments to the National Insurance Institute amount to 34.5% to 37.8% of the wages paid, depending on the amount of the wages, of which the employee contributes 7.7% to 11% and we contribute a fixed amount equal to 26.8%.

All of our employees in Brazil, excluding the chief executive officer, are members of a labor union and the employee member fees to the union are paid by us.

Argentina

Our employees in Argentina are subject to Argentine labor laws and regulations and other special practices and employment customs. The laws and regulations in Argentina control all aspects of labor relations and designate a general Employment Contract with which all employees and employers must comply. This general Employment Contract adopts by reference the provisions of the Labor Law which principally concerns matters such as paid annual vacation, paid sick days, the length of the workday, and payment for overtime and severance pay. Argentinean law generally requires severance pay equal to one month per year of service upon the termination of employment without a justified cause. Argentine employers are also required to contribute for health insurance for employees and allocate sums to the employee s pension fund. Our payments for pension funds is 17.5% and healthcare amount to 6% of each gross salary.

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

United States

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

E. SHARE OWNERSHIP

The following sets forth, as of June, 2007 the share ownership of our directors and executive officers. All of the information with respect to beneficial ownership by our directors and executive officers has been furnished by the respective director or executive officer, as the case may be.

Name of Director/Officer(1)	Number of Ordinary Shares Beneficially Owned (2)	Percentage of beneficial ownership
Izzy Sheratzky(3)	5,655,655	24.60%
Professor Yehuda Kahane (4)	2,128,539	9.20%
Ze'ev Koren	-	-
Avner Kurz (5)	1,447,925	6.30%
Amos Kurz (6)	1,445,205	6.22%
Yigal Shani (7)	392,985	1.69%
Eyal Sheratzky	-	-
Nir Sheratzky	-	-
Gil Sheratzky	-	-
Yoav Kahane	*	*
Orna Ophir	-	-
Israel Baron	-	-
Eli Kamer	-	-
Guy Aharonov	*	*
Eddy Kafry	*	*

*owns less than one per cent of our outstanding share capital.

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(1) This table includes only current directors and officers that beneficially hold our shares.

(2) Percentages in this column are based on 23,321,507 ordinary shares outstanding as of June 18, 2007. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission (as defined in Rule 13d 3 under the Securities Exchange Act of 1934) and shares deemed beneficially owned by virtue of the right of any person or group to acquire such ordinary shares within 60 days are treated as outstanding only for the purposes of determining the percent owned by such person or group. To our knowledge, the persons and entities named in the table above are believed to have sole voting and investment power with respect to all ordinary shares shown as owned by them, except as described below.

(3) Shares beneficially owned include: (a) 148,703 shares directly owned by Mr. Sheratzky, of which 5,427 shares are jointly owned with his wife, Maddie; (b) 5,506,952 shares owned by Moked Ituran Ltd., which Mr. Sheratzky beneficially owns due to his shared voting and investment power over such shares in accordance with a certain shareholders agreement, dated May 18, 1998, among Moked Ituran and its shareholders, which we refer to as the Moked Shareholders Agreement. For further information concerning the Moked Shareholders Agreement see the discussion under Item 6.B. Compensation under the caption Shareholders agreement and articles of association of Moked Ituran above.

(4) Shares beneficially owned include: (a) 547,782 shares directly owned by Professor Kahane, of which 429,576 shares are jointly owned with his wife, Rivka Kahane, (b) 148,950 shares owned by Yehuda Kahane Ltd., which Professor Kahane may be considered to beneficially own by virtue of his shared voting and investment control of the company through his 50% shareholdings thereof, the other 50% being owned by his wife, Rivka Kahane; and (c) 1,431,807 shares owned by Moked Ituran, which Professor Kahane may be considered to beneficially own by virtue of his right to direct the disposition of such shares in accordance with Moked s articles of association. Professor Kahane has shared voting and investment control over Yehuda Kahane Ltd., a holder of 26% of the shares of Moked Ituran.

(5) Shares beneficially owned include: (a) 2,720 shares directly owned by Avner Kurz, (b) 13,398 shares owned by F.K. Generators and Equipment, which Avner Kurz may be considered to beneficially own by virtue of his shared voting and investment power over such shares through his 50% ownership of Perfect Quality Trading Ltd., a majority shareholder of F.K with the other 50% ownership of Perfect Quality Trading Ltd. owned by Mr. Amos Kurz (Avner Kurz s brother), and (c) 1,431,807 shares owned by Moked Ituran that Avner Kurz may be considered to beneficially own through F.K. as described above, which F.K. is deemed to beneficially own by virtue of its right to direct the disposition of such shares in accordance with Moked s articles of association (due to its 26% ownership of Moked Ituran).

(6) Shares beneficially owned include: (a) 13,398 shares owned by F.K. Generators and Equipment, which Amos Kurz may be considered to beneficially own by virtue of his shared voting and investment power over such shares through his 50% ownership of Perfect Quality Trading Ltd., a majority shareholder of F.K., with the other 50% ownership of Perfect Quality Trading Ltd. owned by Mr. Avner Kurz (Amos Kurz s brother); (b) 1,431,807 shares owned by Moked Ituran that Amos Kurz may be considered to beneficially own as described above.

(7) Shares beneficially owned include: (a) 30,000 shares owned by G.N.S. Holdings Ltd. which Yigal Shani may be considered to beneficially own by virtue of his sole right to direct the disposition of such shares through his 100% ownership thereof, (b) 154,200 shares owned by Tzivtit Insurance Agency (1998) Ltd., which Yigal Shani may be considered to beneficially own by virtue of his shared voting and investment control over such shares through his 50% ownership thereof, the other 50% of the shares held by Efraim Sheratzky, and (c) 208,785 shares owned by Moked Ituran, which Mr. Shani may be considered to beneficially own by virtue of his right to direct the disposition of such shares in accordance with Moked s articles of association. Mr. Shani may be considered to beneficially own such shares by virtue of his sole voting and investment control over G.N.S. Holdings, the holder of 3.75% of Moked s shares, in which he owns 100% of the shares.

Employee Share Option Plans

We adopted two option plans for managers and employees. The first option plan was adopted immediately prior to the time of our initial public offering on the Tel Aviv Stock Exchange in May 1998, pursuant to which we issued to our employees options to purchase 360,546 shares at a per-share exercise price of NIS $0.33^{1}/_{3}$, or \$0.07, the par value of our ordinary shares. All options granted under the 1998 plan are fully vested and were exercised. Pursuant to our 2001 option plan, which was adopted on August 23, 2001, options to purchase an aggregate of 244,875 of our ordinary shares were granted to our employees, one of whom was also a director. All of these options were granted at a per-share exercise price of NIS $0.33^{1}/_{3}$, or \$0.07. The closing price of our ordinary shares on the TASE on the date these options were granted was NIS 12.20, or \$2.67 per share. All of the options granted under the 2001 plan are fully vested and were exercised. In addition, on August 23, 2001, our Board of Directors resolved to grant options to purchase an aggregate of 601,857 ordinary shares to some of our directors and officers as follows: options to purchase 461,784 ordinary shares were granted to Mr. Izzy Sheratzky, our Chairman of the Board of Directors, options to purchase 50,796 ordinary shares were granted to each of Eyal Sheratzky and Nir Sheratzky, our Co-Chief Executive Officers and options to purchase 38,481 ordinary shares were granted to Mr. Yoav Kahane, our director. All such options were granted at a per-share exercise price of NIS $0.33^{1}/_{3}$ or \$0.07 and are all fully vested and exercisable. Of these additional options, 217,809 ordinary shares were issued pursuant to exercise of options by Yoav Kahane, Izzy Sheratzky, Eyal Sheratzky and Nir Sheratzky and options for the purchase of 50,796 ordinary shares held by Eyal Sheratzky and Nir Sheratzky expired. On July 18, 2005, a special meeting of our shareholders approved the issuance of fully vested options to Eyal Sheratzky and Nir Sheratzky, in place of those options that expired. These options are exercisable for one year at a per-share exercise price of NIS $0.33^{1}/_{3}$ or \$0.07, and were exercised in full by them in May 2006. As of the date of this report, options to purchase 153,924 of our ordinary shares are outstanding, all of which are fully vested and exercisable.

The following table sets forth information on stock options that have been granted and are outstanding as of the date of this report:

Name of grantee	No. of shares to be issued upon exercise of options	Weighted-average per-share exercise price	Expiration date[1]
Izzy Sheratzky	153,924	NIS $0.33^{1}/_{3}$	September 2007
All directors and officers as a group	153,924	NIS $0.33^{1}/_{3}$	September 2007
Other employees	-		
Total	153,924		

(1) All options are fully vested.

In January 2006, our remuneration committee adopted a resolution to pay our managers (not including managers who also serve as our directors) a quarterly bonus as of the first quarter of 2006 equal to 1.5% of our consolidated profit before tax and after equity and minority profits, which is divided between 13 of our managers in different proportions based on their seniority, level of global and domestic involvement in our operations and other criteria set by the committee.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

The following table shows the number of our ordinary shares beneficially owned by (a) the only shareholders known to us as of June 18, 2007, to beneficially own more than 5% of our outstanding ordinary shares and (b) all of our directors and executive officers as a group. The number of ordinary shares used in calculating the percentage for each person listed below includes the shares underlying options or warrants held by such person that are exercisable within 60 days.

The shareholders listed below do not have any different or special voting rights from any other shareholders of our company. Except where otherwise indicated, we believe, based on information furnished by the owners, that the beneficial owners of the ordinary shares listed below have sole investment and voting power with respect to such shares. To our knowledge, none of our shareholders of record are US Holders, other than Yoav Kahane.

Shareholder	Number of Ordinary Shares Beneficially Owned (1)	Percentage of Outstanding Ordinary Shares (1)
Moked Ituran Ltd. (1)	5,506,952	23.69%
F.K. Generators and Equipment Ltd. (2)	1,445,205	6.22%
All directors and executive officers as a group	7,961,255	29.65%

(1) Moked s articles of association provides that each of Moked s shareholders shall have the right to direct Moked to dispose of such number of our shares corresponding to his or her relative shareholdings in Moked. For further information please see Item 6.B. Compensation under the caption Shareholders Agreement and Articles of Association of Moked Ituran above.

(2) Shares beneficially owned include 1,445,205 shares, of which (a) 13,398 shares are directly owned by F.K Generators & Equipment Ltd. (whereby Messrs. Avner Kurz and Amos Kurz are deemed to beneficially own said 13,398 shares owned by F.K. by virtue of their shared voting and investment power over such shares through their respective holdings of 50% each of ownership of Perfect Quality Trading Ltd., a majority shareholder of F.K.); and (b) 1,431,807 shares are owned by Moked Ituran Ltd., which F.K is deemed to beneficially own by virtue of its right to direct the disposition of such shares in accordance with a shareholders agreement dated May 28, 1998, as amended on September 6, 2005 (due to F.K. s 26% ownership of Moked Ituran).

None of our major shareholders have different voting rights than each other and/or than our other shareholders.

As of April 17, 2007, we had a total of 3 shareholders of record in the United States with registered with addresses in the United States. The number of record holders in the United States is not representative of the number of beneficial holders nor is it representative of where such beneficial holders are resident since many of these ordinary shares were held of record by brokers or other nominees

* Includes the Depository Trust Company.

B. RELATED PARTY TRANSACTIONS

Transactions with our directors and principal officers

We purchase our insurance policies, including our directors and officers insurance, through Tzivtit Insurance Agency (1998) Ltd., an insurance agency owned by Efraim Sheratzky, the brother of the Chairman of our Board of Directors and the uncle of both of our Co-Chief Executive Officers, and Yigal Shani, one of our directors. We pay an annual aggregate amount of NIS 892,000, or $200,400, for our basic insurance policies and NIS 1,304,000, or $293,000, for our directors and officers insurance policy. Tzivtit Insurance Agency is entitled to commissions in an aggregate amount of NIS 167,635, or $37,649 to be paid by the insurance company on account of these policies.

We have entered into indemnification agreements with each of our directors and officers and the officers and directors of our subsidiaries providing them with indemnification for liabilities or expenses incurred as a result of acts performed by them in their capacity as our directors and officers.

In February 2003, we entered into a two-year services agreement with A. Sheratzky Holdings, a company controlled by Izzy Sheratzky, and Izzy Sheratzky pursuant to which Mr. Sheratzky agreed to (i) cease to act as our Chief Executive Officer and (ii) to act as an independent contractor that provides us full-time services as Chairman of the Board of Directors, under the same terms of his previous employment as Chief Executive Officer. Pursuant to the agreement, A. Sheratzky Holdings will receive compensation equal to NIS 85,500, or approximately $19,200, per month, adjusted for inflation, plus reimbursement of certain business expenses. In addition, Mr. Sheratzky will be entitled to participate in our profits in an amount equal to 5% of profits before tax, on a consolidated basis, based on our audited consolidated financial statements for the relevant year. This services agreement is automatically renewable for successive two-year periods until either party notifies the other of its intention to terminate the agreement, by providing a 180-day prior written notice.

On September 5, 2002, we entered into independent contractor agreements with A. Sheratzky Holdings and each of Eyal Sheratzky and Nir Sheratzky pursuant to which A. Sheratzky Holdings will provide management services to us through Eyal Sheratzky and Nir Sheratzky in consideration of monthly payments in the amount of NIS 48,892 and NIS 49,307, or $10,980 and $11,074, respectively, in addition to providing each of them a company car and reimbursement of certain business expenses. In January 2004, a change in the employment terms of the Chief Executive Officer was approved providing each of our Co-Chief Executive Officers, Eyal Sheratzky and Nir Sheratzky, an annual bonus in an amount equal to 1.0% of our profits before taxes, on a consolidated basis, based on our audited consolidated financial statements for the year for which the bonus is paid.

The aggregate amounts paid to A. Sheratzky Holdings in 2004, 2005 and 2006 were approximately $1,474,000, $1,480,000 and $2,581,000, respectively (all numbers include value added tax).

On March 23, 1998, we entered into a financial services agreement with our director, Professor Kahane. Pursuant to this agreement, we are obligated to pay Professor Kahane a monthly consulting fee of NIS 4,000, or approximately $900, linked to the Israeli consumer price index. The initial term of the agreement was two years, automatically renewable for additional two-year terms, until terminated by either party by providing a 180-day prior notice. In May 2003, the monthly fee payable to Professor Kahane under the agreement was increased to NIS 15,000, or approximately $3,370, linked to the consumer price index. The aggregate amounts paid to Professor Kahane in 2004, 2005 and 2006 were approximately $47,000 (all numbers include value added tax).

On May 29, 2002, Telematics Wireless entered into an addendum to a lease agreement with Rinat Yogev Nadlan, Ltd., a company controlled by some of our and Telematics Wireless directors and executive officers. The addendum provides for the extension of the lease by Telematics Wireless for five automatically renewable two-year terms, up to a maximum period of 10 years, or until November 30, 2016. The property was originally leased to Telematics Wireless by Tadiran pursuant to a lease agreement dated September 13, 1998. In addition, pursuant to the original lease agreement, Telematics Wireless had a right of first refusal to purchase the property upon a proposed sale by Tadiran. In April 2002, Tadiran decided to sell the property and notified Telematics Wireless, which then transferred its right of first refusal, without consideration, to Rinat Yogev Nadlan. Rinat Yogev Nadlan exercised such right and purchased the property on April 18, 2002. Shortly following the purchase, Telematics Wireless entered into the addendum to the lease agreement with Rinat Yogev Nadlan. In addition to its agreement with Telematics Wireless, on May 29, 2002, Rinat Yogev Nadlan also entered into an agreement with our subsidiary Ituran Cellular Communication for the lease of the remainder of the property held by Rinat Yogev Nadlan under terms similar to those of the Telematics Wireless lease to expire on February 2012. The aggregate amounts paid to Rinat Yogev Nadlan in 2004, 2005 and 2006 were approximately $258,000, $245,000 and $260,000, respectively (all numbers include value added tax). For further discussion regarding the terms of the lease agreements and the above-mentioned extension, see Item 4.D. Property, Plant and Equipment above.

On January 23, 2007, our subsidiary, E-Com Global Electronic Commerce Ltd. with Gil Sheratzky for the employment of Mr Sheratzky as CEO of that Company in consideration of monthly payments in the amount of NIS 25,000 or $5,610, in addition to providing him a company car, managers insurance and education fund contribution (as customary in Israel) and reimbursement of certain business expenses. In this position, Mr. Sheratzky will report to our CEO. The compensation paid to Gil Sheratzky includes a bonus in an amount equal to 2% of the annual increase in that company s profits before tax, (up to a maximum amount of 1% of that company s profits before tax) based on its audited consolidated financial statements for the relevant year, beginning January 1, 2007.

Transactions with our affiliates and associates

On December 30, 2002, we entered into an agreement with Telematics Wireless and its three executive officers, Eddy Kafry, Avri Franco and Roman Sternberg, pursuant to which such executive officers agreed to exchange all of the equity of Telematics Wireless held by them for 457,095 of our ordinary shares. As part of the agreement, the term of employment of such executive officers was extended by five years, to December 31, 2007, during which time they will continue to serve as directors of Telematics Wireless. In addition, these officers are entitled to an annual bonus in an amount equal to 3.0% of the operating profits of Telematics Wireless. It was further agreed that for as long as they are employed by Telematics Wireless and for six months thereafter, upon an initial public offering of the shares of Telematics Wireless or any of its subsidiaries that uses Telematics Wireless intellectual property, these officers will be entitled to receive, for no cost, such number of shares or options of Telematics Wireless that will be equal to 7.5% of the post-offering issued and outstanding shares of Telematics Wireless in the event of an offering by Telematics Wireless, or 3.8% of the post-offering issued and outstanding shares of the relevant subsidiary in the event of an offering by a subsidiary, subject to the terms of the relevant underwriting arrangements.

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

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

Legal proceedings

We are involved in litigation with Leonardo L.P., a US-based hedge fund, arising out of a financial transaction entered into between us and Leonardo in February 2000. Pursuant to the terms of this financial transaction, we received a cash investment of $12 million in exchange for certain notes that were convertible into our ordinary shares according to a pre-determined formula. Pursuant to the formula, the conversion price of the notes was the lower of NIS 67.3 ($14.7) or an average trading price of our shares for a defined period prior to conversion. The conversion price is used to determine the number of shares into which the notes may be converted by dividing the notional principal amount of the notes, initially $12 million, by the conversion price. On the date the notes were issued, March 2, 2000, the notes were convertible into approximately 720,000 of our ordinary shares. As part of the terms of this financial transaction, and, as required by the rules of the TASE where our ordinary shares are currently traded, we were required to seek the approval from the TASE for the issuance of the ordinary shares underlying the notes. The TASE approved the issuance of 2,250,000 of our ordinary shares as the number of registered shares that could be issued under the notes. We understood the terms of our financial transaction with Leonardo to provide that, except in certain limited circumstances, the amounts advanced to us, together with accrued interest on these advances at the annual rate of 3.5%, would be repaid and satisfied solely through the delivery of ordinary shares and that under no circumstance would we be required to deliver more than 2,250,000 of our ordinary shares. We believe that Leonardo also recognized that there was a limit on the number of shares issuable under the notes, and in fact at no time on or prior to the maturity date of the notes did Leonardo seek to convert the notes for more than 2,250,000 of our ordinary shares. Prior to the maturity date of the notes, Leonardo converted approximately $6.7 million of the notional principal amount of the notes into an aggregate of 2,241,594 of our ordinary shares. We believe that the holders of the notes are therefore only entitled to convert the balance of their notes into 8,406 shares, although in the pending litigation Leonardo has indicated that it does not believe that the notes were subject to any limit on the number of shares that could be issued to them on conversion and is seeking to recover damages based on this allegation.

The terms of the documents and agreements that comprise the financial arrangement with Leonardo contain provisions regarding the repayment and conversion of the notes which may be regarded as conflicting or subject to different interpretations. Accordingly, we believe that the matter may only be resolved through a litigation in which the parties present evidence as to the proper meaning and operation of the repayment and conversion provisions of documents and agreements comprising the financing transaction with Leonardo. The parties are currently in early stages of pleading the case before a district court in Israel and are in the process of undertaking discovery. In its pleadings, Leonardo is seeking alternative remedies and relief, including (a) the repayment in cash of the balance of the notes in the amount of approximately $6.2 million (plus accrued interest and expenses), (b) the delivery to Leonardo of the maximum number of our ordinary shares into which the notes could have been converted on the maturity date without regard to the 2,250,000 share limitation, or 3,516,462 ordinary shares, plus additional monetary damages, or (c) the payment of a cash amount equal to the amount obtained by multiplying the 3,516,462 shares mentioned in the preceding clause by the highest trading price of our ordinary shares between the maturity date and the date of the court s decision, plus interest or expenses. Although there can be no assurances as to the final outcome of this litigation, we believe that the maximum liability that we could have in this matter, assuming that a court rejects our interpretation of the agreements or determines that we have otherwise defaulted in the notes, is approximately $9.6 million. In addition, in June, 2006, Leonardo was initially permitted to amend its claim to add an additional cause of action, claiming that on January 29, 2002 we also breached the same agreement because Moked Ituran Ltd. distributed some of our shares to other parties, in violation of the covenant that entitles Leonardo the option to redeem the notes Moked Ituran to maintain at least 70% of the number of our shares that it held at the time we entered into the financial transaction with Leonardo. Based on such alleged breach, Leonardo is seeking an additional alternative remedy of $9.6 million, plus interest and expenses. We successfully appealed the decision allowing Leonardo to amend its claim on legal grounds and such permission was ultimately revoked by the court. Leonardo subsequently filed a request for leave to appeal such decision to the Israeli Supreme Court, which request was denied. While we cannot predict the outcome of this case, if Leonardo prevails, the award to Leonardo of damages, either in cash or by delivery of our ordinary shares, could result in significant costs to us, adversely affecting our results of operations. In addition, the issuance of our ordinary shares to Leonardo may impact the share price of our ordinary shares and would dilute our shareholders ownership percentage.

On July 8, 2005, a class action was filed against our subsidiary, Ituran Florida Corporation, in the First Judicial District Court in Philadelphia, Pennsylvania. The lawsuit claims that Ituran Florida sent fax advertisements to the named plaintiff and the other members of the class allegedly in violation of the Telephone Consumer Protection Act of 1991. Ituran Florida filed a motion for judgment on the pleadings that such claims should not be heard as part of a class action. Such motion was denied by the court and the case is currently at the interrogatories and requests for production of information stage. The plaintiff agreed to limit the class action to Pennsylvania actions only and the maximum potential amount of damages that we estimate our subsidiary may be liable for pursuant to the provisions of the Telephone Consumer Protection Act if the plaintiffs prevail is approximately $1.5 million in the aggregate for all class plaintiffs, plus punitive damages and expenses. We do not believe that the plaintiffs will prevail and, even if they do prevail, we do not believe that the resolution of this claim will have a material effect on our revenues, operations or liquidity. *Dividend distribution policy*

On January 29, 2004, we adopted a dividend policy providing for an annual dividend distribution in an amount equal to 25% of our net profits, calculated based on the financial statements for the period ending on December 31 of the fiscal year with respect to which the relevant dividend is paid.

According to our current dividend policy and Israeli law, an annual dividend will only be declared and paid if, in the discretion of the Board of Directors, there is no reasonable foreseeable concern that the distribution will prevent us from being able to meet the terms of our existing and contingent liabilities, as and when due. Our dividend policy may change from time to time at the discretion of our Board of Directors. Due to the foregoing restrictions on our dividend policy, and given our current financial condition and our current cash flows from operations, we do not believe that our dividend policy restricts our growth.

Dividends declared on our ordinary shares will be paid in NIS. Dividends paid to shareholders outside of Israel will be converted into dollars on the basis of the exchange rate prevailing on the date of the declaration of the relevant dividend and paid in dollars. The payment of dividends may be subject to Israeli withholding taxes. See Item 10.E. Taxation under the caption Israeli taxation withholding on dividends paid to non-residents of Israel below.

On January 29, 2004, upon adopting our current dividend policy, we declared a dividend in an amount equal to NIS 6.0 million, or $1.3 million. Such dividend was paid on April 1, 2004. On March 23, 2005, we declared a dividend in an amount equal to NIS 11.8 million, or $2.7 million. Such dividend was paid on April 28, 2005. On February 20, 2006, we declared a dividend in the amount equal to NIS 17.6 million, or $3.8 million. Such dividend was paid on April 4, 2006. On February 20, 2007, we declared a dividend in the amount equal to NIS 20.1 million, or $4.8 million. Such dividend was paid on April 4, 2007 We did not declare or pay any cash dividends to shareholders during the five-year period prior to January 29, 2004.

B. SIGNIFICANT CHANGES

Except for as stated in this annual report, there are no significant financial changes as of December 31, 2006.

ITEM 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

Price History of Our Shares

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

The following table sets forth, for the periods indicated, the high and low market prices of our ordinary shares as reported by the Nasdaq National Market. Our shares commenced trading on the Nasdaq National Market on September 27, 2005. All per share prices for periods prior to or including May 2007 have been retroactively adjusted to reflect the three for one stock split effected on that date.

	High	Low