POINTER TELOCATION LTD. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2017

IN U.S. DOLLARS

UNAUDITED

INDEX

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INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	June 30, 2017	December 31, 2016
	Unaudited	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 5,700	$ 6,066
Trade receivables (net of allowance for doubtful accounts of $1,200 and $1,282 as of June 30, 2017 and December 31, 2016, respectively)	14,273	11,464
Other accounts receivable and prepaid expenses	3,008	2,504
Inventories	5,915	5,242
Total current assets	28,896	25,276
LONG-TERM ASSETS:		
Long term loans to related parties	940	831
Long-term accounts receivable	588	564
Severance pay fund	3,340	2,878
Property and equipment, net	5,752	5,614
Other intangible assets, net	1,939	2,178
Goodwill	40,759	38,107
Deferred tax asset	478	1,433
Total long-term assets	53,796	51,605
Total assets	$ 82,692	$ 76,881

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

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands (except share and per share data)

	June 30, 2017	December 31, 2016
	Unaudited	
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Short-term bank credit and current maturities of long-term loans	$5,211	$ 4,836
Trade payables	6,539	7,116
Deferred revenues and customer advances	1,079	1,037
Other accounts payable and accrued expenses	7,671	6,839
Total current liabilities	20,500	19,828
LONG-TERM LIABILITIES:		
Long-term loans from banks	7,525	10,182
Deferred revenues and other long-term liabilities	988	976
Accrued severance pay	3,808	3,206
Total long term liabilities	12,321	14,364
EQUITY:		
Pointer Telocation Ltd.'s shareholders' equity:		
Share capital		
Ordinary shares of NIS 3 par value - Authorized: 16,000,000 unaudited shares at June 30, 2017 and December 31, 2016; Issued and outstanding: 8,033,794 and 7,873,919 shares at June 30, 2017 and December 31, 2016, respectively	5,970	5,837
Additional paid-in capital	128,798	128,438
Accumulated other comprehensive income	(2,477)	(5,633)
Accumulated deficit	(82,588)	(86,115)
Total Pointer Telocation Ltd.'s shareholders' equity	49,703	42,527
Non-controlling interest	168	162
Total equity	49,871	42,689
Total liabilities and equity	$ 82,692	$ 76,881

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

U.S. dollars in thousands

	Six months ended June 30, 2017	Six months ended June 30, 2016	Three months ended June 30, 2017	Three months ended June 30, 2016	Year ended December 31, 2016
	Unaudited		Unaudited		
Revenues:					
Products	13,829	11,555	7,147	6,048	22,784
Services	25,243	19,485	12,894	10,166	41,569
Total revenues	39,072	31,040	20,041	16,214	64,353
Cost of revenues:					
Products	8,753	7,178	4,477	3,782	13,904
Services	10,621	8,774	5,258	4,702	18,672
Total cost of revenues	19,374	15,952	9,735	8,484	32,576
Gross profit	19,698	15,088	10,306	7,730	31,777
Operating expenses:					
Research and development	1,987	1,824	1,017	919	3,669
Selling and marketing	6,761	5,615	3,456	2,968	11,774
General and administrative	5,634	4,227	2,886	2,093	9,004
Amortization of intangible assets	226	195	113	105	473
One time acquisition related costs	-	-	-	-	609
Total operating expenses	14,608	11,861	7,472	6,085	25,529
Operating income	5,090	3,227	2,834	1,645	6,248
Financial expenses, net	419	243	259	323	1,046
Other expenses (income), net	-	(4)	-	2	9
Income before taxes on income	4,671	2,988	2,575	1,320	5,193
Taxes on income	1,138	854	609	276	1,845
Net income from continuing operations	3,533	2,134	1,966	1,044	3,348
Net income (loss) from discontinued operations, net	-	154	-	(168)	154
Net income	3,533	2,288	1,966	876	3,502

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

CONSOLIDATED CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

U.S. dollars in thousands (except share and per share data)

	Six months ended June 30, 2017	Six months ended June 30, 2016	Three months ended June 30, 2017	Three months ended June 30, 2016	Year ended December 31, 2016
	Unaudited				
Profit (loss) from continuing operations attributable to:					
Pointer Telocation Ltd.'s shareholders	3,527	2,123	1,969	1,037	3,324
Non-controlling interests	6	11	(3)	7	24
	3,533	2,134	1,966	1,044	3,348
Profit (loss) from discontinued operations attributable to:					
Pointer Telocation Ltd.'s shareholders	-	120	-	(175)	120
Non-controlling interests	-	34	-	7	34
	-	154	-	(168)	154
Earnings per share from continuing operations attributable to Pointer Telocation Ltd.'s shareholders:					
Basic net earnings per share	$ 0.44	$ 0.27	$ 0.24	$ 0.13	$ 0.43
Diluted net earnings per share	$ 0.44	$ 0.27	$ 0.24	$ 0.13	$ 0.42
Weighted average - Basic number of shares	7,942,957	7,787,009	7,978,102	7,789,365	7,820,767
Weighted average – fully diluted number of shares	8,070,953	7,924,421	8,111,119	7,934,321	7,938,290

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

INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands (except share data)

	Pointer Telocation Ltd.'s Shareholders						
	Number of shares	Share capital	Additional paid-in capital	Accumulated Other comprehensive income	Accumulated Deficit	Non-controlling interest	Total equity
Balance as of January 1, 2016	7,784,644	$ 5,770	$ 128,410	$ (6,254)	$ (71,822)	$ (1,069)	$ 55,035
Issuance of shares in respect of Stock-based compensation	89,275	67	31	-	-	-	98
Stock-based compensation expenses	-	-	320	-	-	-	320
Exercise of options in subsidiary	-	-	(323)	323	-	-	-
Distribution of a subsidiary as a divided in kind	-	-	-	(213)	(17,737)	373	(17,577)
Other comprehensive income	-	-	-	511	-	800	1,311
Net loss attributable to Non-controlling interest	-	-	-	-	-	58	58
Net income attributable to Pointer shareholders	-	-	-	-	3,444	-	3,444
Balance as of December 31, 2016	7,873,919	$ 5,837	$ 128,438	$ (5,633)	$ (86,115)	$ 162	$ 42,689
Issuance of shares in respect of Stock-based compensation	159,875	133	143	-	- -	-	276
Stock-based compensation expenses	-	-	217	-	-	-	217
Other comprehensive income	-	-	-	3,156	-	-	3,156
Net income attributable to Non-controlling interest	-	-	-	-	-	6	6
Net income attributable to Pointer shareholders	-	-	-	-	3,527	-	3,527
Balance as of June 30, 2017 (unaudited)	8,033,794	$ 5,970	$ 128,798	$ (2,477)	$ (82,588)	$ 168	$ 49,871

Accumulated other comprehensive income for six month that ended on June 30, 2017:

Accumulated foreign currency translation differences, net	(2,477)
Accumulated other comprehensive income	$ (2,477)

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

INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands (except share data)

	Pointer Telocation Ltd.'s Shareholders						
	Number of shares	Share capital	Additional paid-in capital	Accumulated other comprehensive income	Accumulated deficit	Non-controlling interest	Total equity
Balance as of January 1, 2016	7,784,644	$ 5,770	$ 128,410	$ (6,254)	$ (71,822)	$ (1,069)	$ 55,035
Issuance of shares in respect of Stock-based compensation	14,600	5	2	-	-	-	7
Stock-based compensation expenses	-	-	94	-	-	-	94
Other comprehensive income	-	-	-	793	-	811	1,604
Transaction with shareholders	-	-	(323)	323	-	-	-
Distribution of a subsidiary as a dividend in kind	-	-	-	(213)	(17,737)	373	(17,577)
Net income attributable to Non -controlling interest	-	-	-	-	-	45	45
Net income attributable to Pointer Telocation Ltd's shareholders	-	-	-	-	2,243	-	2,243
Balance as of June 30, 2016 (unaudited)	7,799,244	$ 5,775	$ 128,183	$ (5,351)	$ (87,316)	$ 160	$ 41,451

Accumulated other comprehensive income for six month that ended on June 30, 2016:

Accumulated foreign currency translation differences, net	(5,351)
Accumulated other comprehensive income	$ (5,351)

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
U.S. dollars in thousands

	Six months ended June 30, 2017	Six months ended June 30, 2016	Three months ended June 30, 2017	Three months ended June 30, 2016	Year ended December 31, 2016
	Unaudited		Unaudited		
Cash flows from operating activities:					
Net income	$ 3,533	$ 2,288	$ 1,966	$ 876	$ 3,502
Adjustments required to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	1,451	1,775	601	877	3,258
Accrued interest and exchange rate changes of debenture and long-term loans	-	74	-	290	29
Accrued severance pay, net	112	121	54	74	20
Gain from sale of property and equipment, net	(67)	(179)	(49)	(53)	(232)
Stock-based compensation	217	94	106	36	320
Decrease in trade receivables, net	(2,127)	(4,284)	(1,202)	(585)	(3,489)
Decrease (increase) in other accounts receivable and prepaid expenses	(480)	(906)	131	(249)	(942)
Decrease (increase) in inventories	(567)	443	(418)	207	(1,063)
Decrease in deferred income taxes	822	1,038	452	248	1,774
Decrease (increase) in long-term accounts receivable	52	(9)	123	126	99
Increase (decrease) in trade payables	(1,211)	2,042	(732)	296	3,346
Increase in other accounts payable and accrued expenses	994	2,460	192	1,293	2,455
Net cash provided by operating activities	2,729	4,957	1,224	3,436	9,077
Cash flows from investing activities:					
Purchase of property and equipment	(1,112)	(2,861)	(344)	(1,284)	(4,129)
Purchase of other intangible assets	-	(115)	-	(115)	(115)
Proceeds from sale of property and equipment	55	594	37	118	648
Acquisition of subsidiary (a)	-	-	-	-	(8,531)
Net cash used in investing activities	(1,057)	(2,382)	(307)	(1,281)	(12,127)

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Six months ended June 30, 2017	Six months ended June 30, 2016	Three months ended June 30, 2017	Three months ended June 30, 2016	Year ended December 31, 2016
	Unaudited		Unaudited		
Cash flows from financing activities:					
Receipt of long-term loans from banks	-	95	-	-	6,263
Repayment of long-term loans from banks	(2,013)	(2,250)	(1,063)	(1,123)	(4,976)
Proceeds from issuance of shares and exercise of options, net of issuance costs	276	-	197	-	98
Short-term bank credit, net	(302)	128	(21)	83	716
Distribution as a dividend in kind of previously consolidated subsidiary (a)	-	(1,870)	-	(1,870)	(1,870)
Net cash used in financing activities	(2,039)	(3,897)	(887)	(2,910)	231
Effect of exchange rate on cash and cash equivalents	1	(280)	(84)	(155)	(462)
Decrease in cash and cash equivalents	(366)	(1,602)	(54)	(910)	(3,281)
Cash and cash equivalents at the beginning of the period	6,066	9,347	5,754	8,655	9,347
Cash and cash equivalents at the end of the period	$ 5,700	$ 7,745	$ 5,700	$ 7,745	$ 6,066
(a) Acquisition of subsidiary:					
Working capital (Cash and cash equivalent excluded)	$ -	$ -	$ -	$ -	$ (334)
Property and equipment	-	-	-	-	(1,239)
Intangible assets	-	-	-	-	(2,098)
Goodwill	-	-	-	-	(6,070)
Deferred taxes	-	-	-	-	714
Payables for acquisition of investments in subsidiaries	-	-	-	-	496
	$ -	$ -	$ -	$ -	$ (8,531)
(b) Distribution as a dividend in kind of previously consolidated subsidiary:					
The subsidiaries' assets and liabilities at date of distribution:					
Working capital (excluding cash and cash equivalents)	$ -	$ (5,443)	$ -	$ (5,443)	$ (5,443)
Property and equipment	-	7,048	-	7,048	7,048
Goodwill and other intangible assets	-	15,883	-	15,883	15,883
Other long term liabilities	-	(1,781)	-	(1,781)	(1,781)
Non-controlling interest	-	373	-	373	373
Accumulated other comprehensive loss	-	(213)	-	(213)	(213)
Dividend in kind	-	(17,737)	-	(17,737)	(17,737)
	$ -	$ (1,870)	$ -	$ (1,870)	$ (1,870)
(c) Non-cash activity:					
Purchase of property and equipment	$ 156	$ 39	$ 54	$ (12)	$ 48
(d) Supplemental disclosure of cash flow activity:					
Cash paid during the year for:					
Interest	$ 380	$ 270	$ 176	$ 132	$ 567
Income taxes	$ 291	$ 27	$ 144	$ 22	$ 20

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands

NOTE 1:- GENERAL

a. Pointer Telocation Ltd. (the “Company”) is a leading provider of MRM products and services for the automotive, insurance industries and other mobile tracking markets (such as cargo, assets, containers, etc.). The Company's products segment Cellocator, is focused on the design, development and production of leading MRM products including: devices for asset tracking; fleet management and security products. These products are both sold worldwide to third party MRM service providers, as well as internally to our own MRM service provider segment. Communication systems contained within our products and tracking hardware utilize either radio frequency or GPRS/GSM technologies. The Company's services segment MRM, offers a range of services including inter alia: asset tracking; fleet management services; and SVR.
MRM services are provided primarily in Israel, Brazil, Argentina, Mexico and South Africa and are sold as a bundle which includes both customizable software-as-a-service (SaaS) and our state-of-the-art Cellocator products, which are accordingly calibrated to meet the individual demands of customers and their software needs.

b. On June 8, 2016 the Company spun off its Israeli subsidiary, Shagrir Group Vehicle Services Ltd. ("Shagrir"), through which the Company carried out its road side assistance (RSA) activities and listed Shagrir's shares on the Tel Aviv Stock Exchange. The results of Shagrir until the spin-off are included in the Company's results and presented as discontinued operations (see note 9).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Unaudited interim financial statements:

The accompanying consolidated balance sheet as of June 30, 2017, consolidated statements of income and comprehensive income for the three and six months ended June 30, 2017 and 2016 and the consolidated statements of cash flows for the three and six months ended June 30, 2017 and 2016 are unaudited. These unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information. In the preparation of the consolidated financial statements, the Company applied the significant accounting policies, on a consistent basis to the audited consolidated annual financial statements of the Company as of 31 December 2016.

In the opinion of management, the unaudited interim condensed consolidated financial statements include all adjustments of a normal recurring nature necessary for a fair presentation of the Company's consolidated financial position as of June 30, 2017, the Company's consolidated cash flows and financial performance for the three and six months ended June 30, 2017 and 2016.

The balance sheet as of December 31, 2016 has been derived from the audited consolidated financial statements as of such date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete set of financial statements.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2016 included in the Company's Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission ("SEC") on April 27, 2017.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Results for the three and six months ended June 30, 2017 are not necessarily indicative of results that may be expected for the year ending December 31, 2017.

b. Use of estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates, judgments and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Company's management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

c. Principles of consolidation:

Our consolidated financial statements include the accounts of the Company and its' wholly and majority owned subsidiaries, referred to herein as the group.

Intercompany transactions and balances including profits from intercompany sales not yet realized outside the Company, have been eliminated upon consolidation.

d. Accounting Standards still not effective

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers”, an updated standard on revenue recognition and issued subsequent amendments to the initial guidance in March 2016, April 2016, May 2016 and December 2016 within ASU 2016-08, 2016-10, 2016-12, 2016-20, respectively. The new standards provide enhancements to the quality and consistency of how revenue is reported while also improving comparability in the financial statements of companies reporting using IFRS and US GAAP. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. ASU 2014-09 is effective for annual and interim reporting periods beginning after December 15, 2017 and may be adopted either on a full retrospective or modified retrospective approach. The Company is in the process of evaluating the effect the new revenue recognition standard will have on its consolidated financial statements and related disclosures but has not completed its evaluation and implementation process. The Company intends to complete this process in 2017 and will adopt the new standard on January 1, 2018. The Company has not yet selected a transition method nor has it determined the impact of the new standard on its consolidated condensed financial statements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 (ASU 2016-02) which amends the FASB Accounting Standards Codification and created Topic 842, "Leases." Under Topic 842, lessees are required to recognize assets and liabilities on

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

the balance sheet for most leases and provides for enhanced disclosures. Leases will continue to be classified as either finance or operating. ASU 2016-02 is effective for annual reporting periods, and interim periods within those years beginning after December 15, 2018. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. Full retrospective application is prohibited and early adoption by public entities is permitted. We are currently in the process of evaluating the impact of the adoption of this standard on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). The update simplifies several aspects of accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The ASU is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual reporting periods, early adoption is permitted. The Company is currently evaluating the impact that adopting this new accounting standard will have on its consolidated financial statements.

In June 2016, the Financial Accounting Standards Board issued ASU 2016-13, "Financial Instruments-Credit Losses (Topic 326)" ("ASU 2016-13"). ASU 2016-13 requires that financial assets measured at amortized cost be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. ASU 2016-13 will become effective for the Company for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact of the guidance on its consolidated financial statements.

In January 2017, the FASB has issued Accounting Standards Update (ASU) No. 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” These amendments eliminate Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable. The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. Effective for public business entities that are a SEC filers for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. ASU 2017-04 should be adopted on a prospective basis. The Company

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Does not anticipate the adoption of ASU 2017-04 will have a material impact on its consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (Topic 718) Scope of Modification Accounting (“ASU 2017-09”). ASU 2017-09 provides clarification on when modification accounting should be used for changes to the terms or conditions of a share-based payment award. This ASU does not change the accounting for modifications but clarifies that modification accounting guidance should only be applied if there is a change to the value, vesting conditions, or award classification and would not be required if the changes are considered non-substantive. The Company is currently evaluating the impact that adopting this new accounting standard will have on its consolidated financial statements.

NOTE 3:- INVENTORIES

	June 30, 2017	December 31, 2016
	Unaudited	
Raw materials	$ 3,047	$ 2,510
Work in process	185	89
Finished goods	2,683	2,643
	$ 5,915	$ 5,242

NOTE 4:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Charges:
As collateral for its liabilities, the Company has recorded floating charges on all of its assets, including the intellectual property and equipment, in favor of banks.

b. Collateral:
The Company provided bank guarantees in the amount of $419 in favor of its lessor customs and customers.

c. Royalties:
The Company has undertaken to pay royalties to the BIRD Foundation ("BIRD"), at the rate of 5% on sales proceeds of products developed with the participation of BIRD up to the amount received, linked to the U.S. dollar. The contingent obligation as of June 30, 2017 is $2,444. No royalties were accrued or paid during 2017 and 2016.

d. Litigation:
1. As of June 30, 2017, several claims were filed against the Company, mainly by customers. The claims are in an amount aggregating to approximately $173. The substance of the claims is the malfunction of the Company's products, which occurred during the ordinary course of business. The Company's management, based on the opinion of its legal counsel, is of the opinion that no material costs will arise in respect to these claims.

NOTE 4:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

2. In August 2014, the Company's subsidiary Pointer Do Brasil Comercial Ltda. ("Pointer Brazil") received a notification of lack of payments of $ 515 of VAT tax (Brazilian ICMS tax) plus $ 2,161 of interest and penalty totaling $ 2,676 of infraction. The Company is defending this litigation at court and made a provision of $79 thousands; the total timeframe of litigation is up to 14 years.

3. In July 2015, the Company received a tax deficiency notice against Pointer Brazil, pursuant to which Pointer or Pointer Brazil is required to pay an aggregate amount of approximately US$ 12.8 million, as of June 2017. The claim is based on the argument that the services provided by Pointer Brazil should be classified as "Telecommunication Services", and therefore subject to the State Value Added Tax. The Company, based on the opinion of its legal counsel, is of the opinion that no material costs will arise in respect to these claims and has not made any provision in light of rulings of competent courts in Brazil which have rejected similar claims.

4. In July 2017, subsequent to the balance sheet date, an application to recognize a claim as a class action has been filed against the Company (See note 10(a)).

e. Commitments:

The Company and DBSI Investment Ltd. ("DBSI"), an equity owner in the Company (see Note 7), have a management services agreement pursuant to which DBSI shall provide management services in consideration of annual management fees of $180. The agreement was renewed for a period of three additional years commencing on August 1, 2017.

f. Covenants:

a. In respect of the bank loans provided to the Company for the purpose of funding the acquisition of Pointer Brazil and Cielo Brazil and in connection with the utilization of its credit facilities, the Company is required to meet certain financial covenants as follows:

   1. The ratio of the shareholders’ equity to the total consolidated assets will not be less than 20% and the shareholders equity will not be less than $20,000, starting December 31, 2007.

   2. The ratio of the Company and its subsidiaries' debt (debt to banks, convertible debenture and loans from others that are not subordinated to the bank, less cash) to the annual EBITDA will not exceed 4 in 2010 and thereafter.

   3. The ratio of the Company’s debt (debt to banks, convertible debenture and loans from others was not subordinated to the bank less cash) to the annual EBITDA will not exceed 4.2 in 2013-2014, 3.5 in 2015, 3 in 2016 and 2.5 in 2017 and thereafter.

As of June 30, 2017, the Company is in compliance, and expects to remain in compliance in 2017, with the financial covenants of its credit facilities.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 5:- NET EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted net earnings per share from continuing operations:

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2017	2016	2017	2016	2016
	Unaudited				
Numerator:					
Numerator for basic net earnings per share - Net income from continuing operations	$ 3,527	$ 2,123	$ 1,969	$ 1,037	$ 3,324
Numerator for diluted net earnings per share - Net income from continuing operations	$ 3,527	$ 2,123	$ 1,969	$ 1,037	$ 3,324
Denominator:					
Denominator for basic net earnings per share - weighted-average number of shares outstanding (in thousands)	7,943	7,787	7,978	7,789	7,821
Denominator for diluted net earnings per share - adjusted weighted average shares and assumed exercises (in thousands)	8,071	7,924	8,111	7,934	7,938
Basic net earnings per share from continuing operations	$ 0.44	$ 0.27	$ 0.24	$ 0.13	$ 0.43
Diluted net earnings per share from continuing operations	$ 0.44	$ 0.27	$ 0.24	$ 0.13	$ 0.42

NOTE 6:- INCOME TAXES

The effective tax rate for the six months ended June 30, 2017 was 24.3% as compared to 28.5% for the six months ended June 30, 2016.

NOTE 7:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

a. Balances with related parties:

	June 30, 2017	December 31, 2016
	Unaudited	
Other accounts payable and accrued expenses: DBSI (see note 4e)	$ 53	$ 53

b. Transactions with related parties:

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2017	2016	2017	2016	2016
	Unaudited				
Management fees to DBSI (see Note 4e)	$ 90	$ 90	$ 45	$ 45	$ 180
Sales to related parties	$ 39	$ 22	$ 13	$ 11	$ 106
Purchase from related parties	$ 504	$ 24	$ 247	$ 7	$ 847

U.S. dollars in thousands

NOTE 7:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

c. Long term loan related parties:

The Company has granted a long term loan to its related party Shagrir. The loan bears no interest and will not be paid before 31 December 2020. As of June 30, 2017 the loan balance is $940 thousands.

NOTE 8:- SEGMENT INFORMATION

a. The Company had three reporting segments until the spin-off of Shagrir (see note 1), of which the RSA segment was related to Shagrir's operation. Following the spin-off the Company discontinues the operation of the RSA segment and now conducts its operations through two reporting segments. The following segment identification is identical to the segment used in the latest annual audited consolidated financial report.

b. The following presents segment results of operations for the six months ended June 30, 2017 (unaudited):

	Cellocator segment	MRM segment	Elimination	Total
Segments revenues	$ 12,535	$ 30,502	$ (3,965)	$ 39,072
Segments operating profit	$ 1,150	$ 3,471	$ 469	$ 5,090
Segments tangible and intangible assets	$ 8,943	$ 37,403	$ 2,104	$ 48,450
Depreciation and amortization	$ 67	$ 1,384	$ -	$ 1,451
Expenditures for assets	$ 102	$ 1,010	$ -	$ 1,112

c. The following presents segment results of operations for the six months ended June 30, 2016 (unaudited):

	Cellocator segment	MRM segment	Elimination	Total
Segments revenues	$ 11,193	$ 23,685	$ (3,838)	$ 31,040
Segments operating profit	$ 772	$ 2,351	$ 104	$ 3,227
Segments tangible and intangible assets	$ 8,431	$ 25,627	$ 2,162	$ 36,220
Depreciation and amortization	$ 166	$ 964	$ -	$ 1,130
Expenditures for assets	$ 51	$ 1,078	$ -	$ 1,129

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands

NOTE 8:- SEGMENT INFORMATION (Cont.)

d. The following presents segment results of operations for the three months ended June 30, 2017 (unaudited):

	Cellocator segment	MRM segment	Elimination	Total
Segments revenues	$ 6,383	$ 15,576	$ (1,918)	$ 20,041
Segments operating profit	$ 699	$ 1,798	$ 337	$ 2,834
Segments tangible and intangible assets	$ 8,943	$ 37,403	$ 2,104	$ 48,450
Depreciation and amortization	$ 34	$ 567	$ -	$ 601
Expenditures for assets	$ 44	$ 300	$ -	$ 344

e. The following presents segment results of operations for the three months ended June 30, 2016 (unaudited):

	Cellocator segment	MRM segment	Elimination	Total
Segments revenues	$ 5,591	$12,248	$ (1,625)	$ 16,214
Segments operating profit	$ 166	$1,438	$ 41	$ 1,645
Segments tangible and intangible assets	$ 8,431	$ 25,627	$ 2,162	$ 36,220
Depreciation and amortization	$ 83	$ 530	$ -	$ 613
Expenditures for assets	$ 31	$ 476	$ -	$ 507

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands

NOTE 8:- SEGMENT INFORMATION (Cont.)

f. The following presents segment results of operations for the year ended December 31, 2016:

	Cellocator segment	MRM segment	Elimination	Total
Segments revenues	$ 22,707	$ 49,620	$ (7,974)	$ 64,353
Segments operating profit	$ 1,660	$ 4,708	$ (120)	$ 6,248
Segments tangible and intangible assets	$ 8,359	$ 35,392	$ 2,148	$ 45,899
Depreciation, amortization and impairment expenses	$ 321	$ 2,295	$ -	$ 2,616
Expenditures for assets	$ 135	$ 2,264	$ -	$ 2,399

NOTE 9:- DISCONTINUED OPERATION

a. Below is data of the operating results attributed to the discontinued operation:

	Six months ended June 30, 2017	Six months ended June 30, 2016	Three months ended June 30, 2017	Three months ended June 30, 2016	Year ended December 31, 2016
	Unaudited		Unaudited		
Revenue from sales	-	$ 18,247	-	$ 7,403	$ 18,247
Cost of sales	-	$ 15,260	-	$ 6,202	$ 15,260
Gross profit	-	$ 2,987	-	$ 1,201	$ 2,987
Selling, general and administrative expenses	-	$ 2,183	-	$ 917	$ 2,183
Operating income	-	$ 804	-	$ 284	$ 804
Financial expenses, net	-	$ 53	-	$ 33	$ 53
Other expenses, net	-	$ 348	-	$ 348	$ 348
Taxes on income	-	$ 249	-	$ 71	$ 249
Income (loss) from discontinued operation	-	$ 154	-	$ (168)	$ 154

b. Below is data of the net cash flows provided by (used in) the discontinued operation:

	Six months ended June 30, 2017	Six months ended June 30, 2016	Three months ended June 30, 2017	Three months ended June 30, 2016	Year ended December 31, 2016
	Unaudited		Unaudited		
Operating activities	-	$ 116	-	$ 338	$ 116
Investing activities	-	$ (1,187)	-	$ (690)	$ (1,187)
Financing activities	-	$ 251	-	$ 221	$ 251

NOTE 10:- SUBSEQUENT EVENTS

a. On July 27, 2017 an application to recognize a claim as a class action has been filed, in the Central District Court, Israel, against the Company. The application is subject to the court's approval. In the application, the applicant claims that the basis for the claim is misleading some of the Company customers, claiming that during the last seven years the Company has charged them for a superior system while installing an inferior system. The claimed amount, if the claim is certified as a class action, is estimated by the applicant to be NIS 1,332 (USD 373) per client and NIS 50,000,000 (USD 14,005,602) in the aggregate. At this early stage the Company cannot estimate the chances of this claim.

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OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The information contained in this section should be read in conjunction with (1) our unaudited condensed interim consolidated financial statements as of June 30, 2017 and for the six months then ended and related notes included elsewhere in this report and (2) our consolidated financial statements and related notes included in our Annual Report on Form 20-F for the year ended December 31, 2016 and the other information contained in such Annual Report, particularly the information in Item 5 - "Operating and Financial Review and Prospects". Our financial statements have been prepared in accordance with generally accepted accounting principles in United States ("US GAAP").

Forward-Looking Statements

The following discussion 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 "may," "believe," "will," "projects," "expects," "plans" or "intends," or words of similar import, identifies a statement as "forward-looking." The forward-looking statements included herein are based on current expectations that involve a number of risks and uncertainties. These forward-looking statements are based on the assumption that the Company will not lose a significant customer or customers or experience increased fluctuations of demand or rescheduling of purchase orders, that our markets will be maintained in a manner consistent with our historical experience , 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 relating to our business described in our annual report on Form 20-F. Except as required by applicable law, including the securities laws of the United States, we do not intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

A. RESULTS OF OPERATIONS

On June 8, 2016 Pointer spun off its Israeli subsidiary, Shagrir Group Vehicle Services Ltd. ("Shagrir"), through which Pointer carried out its road side assistance (RSA) activities and listed Shagrir's shares on the Tel Aviv Stock Exchange. Following the Shagrir spin-off, Pointer discontinued the operations of its RSA activities, and is now conducting its operations through the Cellocator activities, through which is designs, develops and produces leading mobile resource management (MRM) products, including asset tracking, fleet management, and security products, for sale to third party operators providing mobile resource management services and to its MRM activities, and through its MRM activities, through which it acts as an operator by bundling its products together with a range of services, including mainly stolen vehicle retrieval (SVR), fleet management, and car sharing. The results of Shagrir until the date of its spin-off are included in Pointer's results as discontinued operations. All amounts are adjusted to reflect the Shagrir spin-off.

Six months Ended June 30,
(in thousands of U.S. Dollars – except weighted average number of ordinary shares
And basic and diluted income per ordinary share)

Statement of Income Data:	**2017**	**2016**
Revenues:		
Products	13,829	11,555
Services	25,243	19,485
Total Revenues	**39,072**	**31,040**
Cost of Revenues:		

Products	8,753	7,178
Services	10,621	8,774
Total Cost of Revenues	**19,374**	**15,952**
Gross Profit	**19,698**	**15,088**
Operating Expenses:		
Research and development, net	1,987	1,824
Sales and marketing expenses	6,761	5,615
General and administrative	5,634	4,227
Amortization of intangible assets	226	195
Total Operating Expenses	**14,608**	**11,861**
Total Operating Income	**5,090**	**3,227**
Financial expenses, net	419	243
Other income	-	(4)
Income before tax on income	**4,671**	**2,988**
Taxes on income	1,138	854
Income from continuing operations	**3,533**	**2,134**
Income from discontinued operations, net	-	154
Net income	**3,533**	**2,288**
Net income from continuing operations attributable to Equity holders of the parent	3,527	2,123
Net income from continuing operations attributable to Non-controlling interests	6	11
Net income from discontinued operations attributable to Equity holders of the parent	-	120
Net income from discontinued operations attributable to Non-controlling interests	-	34
Basic net earnings per share from continuing operations attributable to Pointer Telocation Ltd. shareholders	$ 0.44	$ 0.27
Diluted net earnings per share from continuing operations attributable to Pointer Telocation Ltd. shareholders	$ 0.44	$ 0.27
Basic weighted average number of shares outstanding (in thousands)	7,943	7,787
Diluted weighted average number of shares outstanding (in thousands)	8,071	7,924

Six Months Ended June 30, 2017 Compared with Six Months Ended June 30, 2016

Revenues. Revenues increased by $8.1 million or 25.9%, from $31.0 million in the six months ended June 30, 2016 to $39.1 million in the six months ended June 30, 2017.

Revenues from the sale of our products increased by $2.2 million or 19.7% from $11.6 million in the six months ended June 30, 2016 to $13.8 million in the six months ended June 30, 2017. This increase was primarily attributable to the increase in the quantity of Cellocator products sold during the six months ended June 30, 2017.

Revenues from our services increased by $5.7 million, or 29.5%, from $19.5 million in the six months ended June 30, 2016 to $25.2 million in the six months ended June 30, 2017. The increase was primarily attributable to an increase in our recurring revenues from services associated with an increase in our subscriber's base and revenues generated from our recently acquired subsidiary in Brazil.

Revenues from our services in the six months ended June 30, 2017 accounted for 64.6% of our total revenues as compared with 62.8% in the six months ended June 30, 2016.

Cost of Revenues. Our cost of revenues increased by $3.4 million to $19.4 million for the six months ended June 30, 2017 as compared to $16.0 million for the same period in 2016.

Gross Profit. Our gross profit increased to $19.7 million in the six months ended June 30, 2017, as compared to $15.1 million for the same period in 2016. This increase was primarily attributed to the increase in our revenues as well as to increase in our operational efficiencies. As a percentage of total revenues, gross profit accounted for 50.4% in the six months ended June 30, 2017 compared to 48.6% in the six months ended June 30, 2016.

Our gross margin on products sales in the six months ended June 30, 2017 was 36.7% compared to 37.8% in the six months ended June 30, 2016. This decrease is mainly associated with price erosion which affects our revenues from products.

Gross margin for services was approximately 57.9% in the six months ended June 30, 2017, compared to 55.0% in the six months ended June 30, 2016. The increase in gross margin resulted mainly from an increase in our subscribers' base.

Research and Development Costs. Research and development expenses were $2.0 million in the six months ended June 30, 2017, compared to $1.8 million in the six months ended June 30, 2016. We intend to enhance our efforts to increase our level of R&D expenditures in order to bring new technologies to the market.

Sales and Marketing Expenses. Sales and marketing costs increased by $1.2 million to $6.8 million in the six months ended June 30, 2017 from $5.6 million in the six months ended June 30, 2016. The increase is mainly due to the increase in sales and marketing efforts in relation to our worldwide Cellocator segment and in the MRM segment in Brazil and Israel. We intend to continue to increase our sales efforts during the next twelve months.

General and Administrative Expenses. General and administrative expenses increased by $1.4 million to $5.6 million in the six months ended June 30, 2017 from $4.2 million in the six months ended June 30, 2016. The increase is mainly attributed to additional expenses deriving from our recently acquired subsidiary in Brazil.

Amortization of Intangible Assets and Impairment of Long Lived Assets. Amortization of intangible assets and impairment of long lived assets in the six months ended June 30, 2017 remained unchanged compared to the six months ended June 30, 2016, and was equal to $0.2 million.

Operating Profit. As a result of the increase in our revenues and our gross margin partially offset by the increase in our operating expenses, we recorded a $5.1 million operating profit in the six months ended June 30, 2017, compared to an operating profit of $3.2 million in the six months ended June 30, 2016.

Financial Expenses (net). Financial expenses increased from $0.2 million financial expenses in the six months ended June 30, 2016 to $0.4 million financial expenses in the six months ended June 30, 2017. The increase is mainly attributed to additional expenses, interest on long term loans from banks and bank charges, deriving from our recently acquired subsidiary in Brazil.

Taxes on income. Taxes on income were $1.1 million in the six months ended June 30, 2017, compared to $0.9 million in the six months ended June 30, 2016. The effective tax rate for the six months ended June 30, 2017, was 24.3% as compared to 28.5% for the six months ended June 30, 2016. The decrease is mainly attributed to profitability of our foreign subsidiaries and realization of carryforward tax losses for which a valuation allowance was provided in previous years.

Net income from continuing operations attributable to Pointer shareholders. In the six months ended June 30, 2017, we recorded net income from continuing operations attributable to Pointer shareholders of $3.5 million, compared to $2.1 million in the six months ended June 30, 2016.

Net income from continuing operations attributable to non-controlling interests. Our net income from continuing operations attributable to non-controlling interests in the six months ended June 30, 2017 remained unchanged compared to the six months ended June 30, 2016, and was equal to $0.01 million.

Impact of Exchange Rate Fluctuations on Results of Operations, Liabilities and Assets

Our results of operations, liabilities and assets were mainly impacted by the fluctuations of exchange rates between the U.S. Dollar and the NIS, Brazilian Real, Argentinean Peso, Mexican Peso, the Euro and the South African Rand.

During the six months ended June 30, 2017, the exchange rate of the U.S. Dollar in relation to the NIS decreased by 9.3%, while the Israeli Consumer Price Index ("CPI") decreased by 0.1%. During the six months ended June 30, 2016 there was an increase of 0.3% in the exchange rate of the U.S. Dollar in relation to the NIS and a decrease of 1% the CPI.

We believe that the rate of inflation in Israel did not have a material effect on our business to date. However, our U.S. Dollar costs will increase if inflation in Israel exceeds the revaluation of the NIS against the U.S. Dollar.

Regarding our operations of our subsidiaries in Brazil, Pointer Do Brasil Comercial Ltda. and Cielo Telecom Ltda.,(collectively, "Pointer Brazil") and the fact that most of Pointer Brazil's revenues are denominated in the Brazilian Real, while our consolidated financial statements are expressed in U.S. dollars, we believe that inflation in Brazil and fluctuations in the exchange rate between the U.S. Dollar and Brazil Real may have a significant effect on the business and overall profitability of Pointer Brazil and, as a consequence, on the results of our operations. From January 1, 2017 to June 30, 2017, the value of the Brazil Real decreased by approximately 1.5% against the U.S. Dollar. From January 1, 2017 until June 30, 2017, the U.S. Dollar - Brazil Real exchange rate fluctuated between 3.051 and 3.381 Real to the Dollar.

Regarding our operations in Argentina and the fact that most of the revenues of our subsidiary Pointer Argentina S.A ("Pointer Argentina") are denominated in the Argentinean Peso, while our consolidated financial statements are expressed in U.S. dollars, we believe that inflation in Argentina and fluctuations in the exchange rate between the U.S. Dollar and Argentinean Peso may have a significant effect on the business and overall profitability of Pointer Argentina and as a consequence, on the results of our operations. From January 1, 2017 to June 30, 2017, the value of the Argentinean Peso decreased by approximately 5% against the U.S. Dollar. From January 1, 2017 until June 30, 2017 the U.S. Dollar – Argentinean Peso exchange rate fluctuated between 15.153 and 16.141 Pesos to the Dollar.

Regarding our operations of our subsidiary Pointer Recuperation de Mexico S.A. ("Pointer Mexico") and the fact that most of Pointer Mexico's revenues are denominated in the Mexican Peso, while our consolidated financial statements are expressed in U.S. dollars, we believe that inflation in Mexico and fluctuations in the exchange rate between the U.S. Dollar and Mexican Peso may have a significant effect on the business and overall profitability of Pointer Mexico and as a consequence, on the results of our operations. From January 1, 2017 to June 30, 2017, the value of the Mexican Peso increased by approximately 6% against the U.S. dollar. From January 1, 2017 until June 30, 2017, the U.S. Dollar – Mexican Peso exchange rate fluctuated between 17.911 and 21.931 Pesos to the Dollar.

Regarding our operations of our subsidiary Pointer SA (PTY) Ltd. ("Pointer South Africa") and the fact that most of Pointer South Africa's revenues are denominated in the South African Rand, while our consolidated financial statements are expressed in U.S. dollars, we believe that inflation in South Africa and fluctuations in the exchange rate between the U.S. Dollar and South African Rand may have a significant effect on the business and overall profitability of Pointer South Africa and as a consequence, on the results of our operations. From January 1, 2017 to June 30, 2017, the value of the South African Rand increased by approximately 5% against the U.S. Dollar. From January 1, 2017 until June 30, 2017, the U.S. Dollar – South African Rand exchange rate fluctuated between 12.436 and 13.880 Rand to the Dollar.

B. LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2017, we had a working capital of $8.4 million, our current assets to current liabilities ratio was 141%, we had cash and cash equivalents of $5.7 million and an unused credit facility of $7.2 million. We believe that we have access to sufficient capital to meet our requirements for at least the next twelve months.

Our credit facilities and loans contain a number of restrictive covenants that limit the operating and financial flexibility of the Company. As of June 30, 2017 we are in compliance with the financial covenants of our credit facilities.

In the six months ended June 30, 2017, net cash provided by our continuing operating activities amounted to $2.7 million as compared to net cash provided from continuing operating activities of $5.0 million in the six months ended June 30, 2016. The decrease was primarily attributable to the increase in our working capital partially offset by net cash deriving from the operations of our recently acquired subsidiary in Brazil.

In the six months ended June 30, 2017, net cash used in our continuing investment activities was $1.1 million as compared to $2.4 million in the six months ended June 30, 2016. The decrease was primarily attributable to the decrease in the purchase of property and equipment and to the spin-off of Shagrir.

In the six months ended June 30, 2017, net cash used in our financing activities was $2.0 million as compared to $3.9 million in the six months ended June 30, 2016. The decrease was primarily attributable to distribution of the shares of Shagrir as a dividend in kind in 2016.