POINTER TELOCATION LTD. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2016

IN U.S. DOLLARS

UNAUDITED

INDEX

- - - - - - - - - - - -

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	June 30, 2016	December 31, 2015
	Unaudited	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,745	$ 7,252
Trade receivables (net of allowance for doubtful accounts of $1,044 and $1,347 at June 30, 2016 and December 31, 2015, respectively)	11,627	9,494
Other accounts receivable and prepaid expenses	2,360	1,596
Inventories	4,416	4,697
Current assets of discontinued operation	-	11,616
Total current assets	26,148	34,655
LONG-TERM ASSETS:		
Long term loans to related parties	820	-
Long-term accounts receivable	499	490
Severance pay fund	3,000	2,740
Property and equipment, net	3,614	3,278
Other intangible assets, net	398	443
Goodwill	32,208	31,388
Deferred tax asset	2,202	3,086
Long Term assets of discontinued operation	-	27,358
Total long-term assets	42,741	68,783
Total assets	$ 68,889	$ 103,438

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, 2016	December 31, 2015
	Unaudited	
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Short-term bank credit and current maturities of long-term loans	$ 4,572	$ 4,820
Trade payables	5,871	4,651
Deferred revenues and customer advances	735	671
Other accounts payable and accrued expenses	6,160	5,168
Current liabilities of discontinued operation	-	15,142
Total current liabilities	17,338	30,452
LONG-TERM LIABILITIES:		
Long-term loans from banks	6,340	8,385
Deferred revenues and other long-term liabilities	331	258
Accrued severance pay	3,429	3,345
Long term liabilities of discontinued operation	-	5,963
Total long term liabilities	10,100	17,951
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, 2016 and December 31, 2015; Issued and outstanding: 7,799,244 and 7,784,644 shares at June 30, 2016 and December 31, 2015, respectively	5,775	5,770
Additional paid-in capital	128,183	128,410
Accumulated other comprehensive income	(5,351)	(6,254)
Accumulated deficit	(87,316)	(71,822)
Total Pointer Telocation Ltd.'s shareholders' equity	41,291	56,104
Non-controlling interest	160	(1,069)
Total equity	41,451	55,035
Total liabilities and equity	$ 68,889	$ 103,438

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, 2016	Six months ended June 30, 2015	Three months ended June 30, 2016	Three months ended June 30, 2015	Year ended December 31, 2015
	Unaudited		Unaudited		
Revenues:					
Products	11,555	11,535	6,048	5,753	22,266
Services	19,485	19,368	10,166	9,738	38,301
Total revenues	31,040	30,903	16,214	15,491	60,567
Cost of revenues:					
Products	7,178	6,906	3,782	3,583	13,435
Services	8,774	9,372	4,702	4,673	17,879
Total cost of revenues	15,952	16,278	8,484	8,256	31,314
Gross profit	15,088	14,625	7,730	7,235	29,253
Operating expenses:					
Research and development	1,824	1,718	919	824	3,409
Selling and marketing	5,615	5,079	2,968	2,640	10,468
General and administrative	4,227	4,391	2,093	2,220	9,278
Amortization of intangible assets	195	292	105	140	538
Impairment of intangible and tangible assets	-	-	-	-	917
Total operating expenses	11,861	11,480	6,085	5,824	24,610
Operating income	3,227	3,145	1,645	1,411	4,643
Financial expenses (income), net	243	(221)	323	147	63
Other expenses (income), net	(4)	13	2	13	10
Income before taxes on income	2,988	3,353	1,320	1,251	4,570
Taxes on income	854	645	276	309	1,307
Net income from continuing operations	2,134	2,708	1,044	942	3,263
Net income (loss) from discontinued operations, net	154	57	(168)	(41)	535
Net income	2,288	2,765	876	901	3,798

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, 2016	Six months ended June 30, 2015	Three months ended June 30, 2016	Three months ended June 30, 2015	Year ended December 31, 2015
	Unaudited				
Profit (loss) from continuing operations attributable to:					
Pointer Telocation Ltd's shareholders	2,123	2,765	1,037	1,004	3,338
Non-controlling interests	11	(57)	7	(62)	(75)
	2,134	2,708	1,044	942	3,263
Profit (loss) from discontinued operations attributable to:					
Pointer Telocation Ltd's shareholders	120	103	(175)	(1)	607
Non-controlling interests	34	(46)	7	(40)	(72)
	154	57	(168)	(41)	535
Earnings per share from continuing operations attributable to Pointer Telocation Ltd's shareholders:					
Basic net earnings per share	$ 0.27	$ 0.36	$ 0.13	$ 0.13	$ 0.43
Diluted net earnings per share	$ 0.27	$ 0.35	$ 0.13	$ 0.13	$ 0.42
Weighted average -Basic number of shares	7,787,009	7,694,976	7,789,365	7,701,317	7,725,246
Weighted average – fully diluted number of shares	7,924,421	7,961,010	7,934,321	7,957,222	7,938,489

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, 2015	7,688,564	$ 5,705	$ 129,618	$ (2,909)	$ (75,767)	$ (2,851)	$ 53,796
Issuance of shares in respect of Stock-based compensation	14,999	3	11	-	-	-	14
Stock-based compensation expenses	-	-	309	-	-	-	309
Acquisition of non-controlling interests	81,081	62	(1,528)	-	-	2,007	541
Other comprehensive income	-	-	-	(3,345)	-	(78)	(3,423)
Net loss attributable to Non -controlling interest	-	-	-	-	-	(147)	(147)
Net income attributable to Pointer shareholders	-	-	-	-	3,945	-	3,945
Balance as of December 31, 2015	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 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, 2015	7,688,564	$ 5,705	$ 129,618	$ (2,909)	$ (75,767)	$ (2,851)	$ 53,796
Issuance of share capital	12,875	2	5	-	-	-	7
Stock-based compensation expenses	-	-	174	-	-	-	174
Other comprehensive income	-	-	-	(52)	-	(62)	(114)
Net income attributable to Non -controlling interest	-	-	-	-	-	(101)	(101)
Net income attributable to Pointer shareholders	-	-	-	-	2,866	-	2,866
Balance as of June 30, 2015 (unaudited)	7,701,439	$ 5,707	$ 129,797	$ (2,961)	$ (72,901)	$ (3,014)	$ 56,628

Accumulated other comprehensive income for six month that ended on June 30, 2015:

Accumulated foreign currency translation differences, net	(2,961)
Accumulated other comprehensive income	$ (2,961)

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, 2016	Six months ended June 30, 2015	Three months ended June 30, 2016	Three months ended June 30, 2015	Year ended December 31, 2015
	Unaudited		Unaudited		
Cash flows from operating activities:					
Net income	$ 2,288	$ 2,765	$ 876	$ 901	$ 3,798
Adjustments required to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	1,775	1,985	877	979	3,959
Impairment of tangible and intangible assets	-	-	-	-	917
Accrued interest and exchange rate changes of debenture and long-term loans	74	10	290	376	(888)
Accrued severance pay, net	121	(38)	74	(6)	17
Gain from sale of property and equipment, net	(179)	(72)	(53)	(38)	(143)
Stock-based compensation	94	174	36	83	309
Decrease in restricted cash	-	62	-	-	62
Decrease in trade receivables, net	(4,284)	(513)	(585)	(10)	(236)
Increase in other accounts receivable and prepaid expenses	(906)	(1,060)	(249)	(1,106)	(469)
Decrease (increase) in inventories	443	(180)	207	(171)	658
Decrease Deferred income taxes	1,038	387	248	197	1,080
Decrease (increase) in long-term accounts receivable	(9)	14	126	12	(91)
Increase in trade payables	2,042	900	296	837	1,277
Increase (decrease) in other accounts payable and accrued expenses	2,460	(291)	1,293	(701)	(1,448)
Net cash provided by operating activities	4,957	4,143	3,436	1,353	8,802
Cash flows from investing activities:					
Purchase of property and equipment	(2,861)	(1,354)	(1,284)	(769)	(3,616)
Purchase of other intangible assets	(115)	-	(115)	-	-
Proceeds from sale of property and equipment	594	648	118	337	1,266
Net cash used in investing activities	(2,382)	(706)	(1,281)	(432)	(2,350)

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, 2016	Six months ended June 30, 2015	Three months ended June 30, 2016	Three months ended June 30, 2015	Year ended December 31, 2015
	Unaudited		Unaudited		
Cash flows from financing activities:					
Receipt of long-term loans from banks	95	15,103	-	4,546	14,934
Repayment of long-term loans from banks	(2,250)	(17,729)	(1,123)	(6,335)	(19,503)
Repayment of long-term loans from shareholders	-	(32)	-	(19)	-
Proceeds from issuance of shares and exercise of options, net of issuance costs	-	6	-	-	15
Short-term bank credit, net	128	(486)	83	(18)	(915)
Distribution as a dividend in kind of previously consolidated subsidiary (a)	(1,870)	-	(1,870)	-	-
Net cash used in financing activities	(3,897)	(3,138)	(2,910)	(1,826)	(5,469)
Effect of exchange rate on cash and cash equivalents	(280)	(409)	(155)	1,098	(193)
Increase (decrease) in cash and cash equivalents	(1,602)	(110)	(910)	193	790
Cash and cash equivalents at the beginning of the period	$ 9,347	8,557	$ 8,655	8,254	8,557
Cash and cash equivalents at the end of the period-continuing operations	7,252	6,834	7,252	6,834	7,252
Cash and cash equivalents at the end of the period-discontinued operations	-	1,613	-	1,613	2,095
Total Cash and cash equivalents at the end of the period	$ 7,745	$ 8,447	$ 7,745	$ 8,447	$ 9,347

(a) Distribution as a dividend in kind of previously consolidated subsidiary:

The subsidiaries' assets and liabilities at date of distribution:

	Six months ended June 30, 2016	Six months ended June 30, 2015	Three months ended June 30, 2016	Three months ended June 30, 2015	Year ended December 31, 2015
Working capital (excluding cash and cash equivalents)	(5,443)	-	(5,443)	-	-
Property and equipment	7,048	-	7,048	-	-
Goodwill and other intangible assets	15,883	-	15,883	-	-
Other long term liabilities	(1,781)	-	(1,781)	-	-
Non-controlling interest	373	-	373	-	-
Accumulated other comprehensive loss	(213)	-	(213)	-	-
Dividend in kind	(17,737)	-	(17,737)	-	-
	$ (1,870)	$ -	$ (1,870)	$ -	$ -

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

(b) Non-cash activity:					
Purchase of property and equipment	$ 107	$ 264	$ 107	$ 208	$ 378
(c) Supplemental disclosure of cash flow activity:					
Cash paid during the year for:					
Interest	$ 270	$ 414	$ 132	$ 220	$ 640
Income taxes	$ 27	$ 18	$ 22	$ 6	$ 27

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

NOTE 1:- GENERAL

a. On June 8, 2016 Pointer Telocation Ltd. ("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, 2016, consolidated statements of income and comprehensive income for the three and six months ended June 30, 2016 and 2015 and the consolidated statements of cash flows for the three and six months ended June 30, 2016 and 2015 are unaudited. These unaudited interim 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, it applied the significant accounting policies, on a consistent basis to the annual financial statements of the Company as of 31 December 2015.
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, 2016, the Company's consolidated cash flows and financial performance for the three and six months ended June 30, 2016 and 2015.

The balance sheet at December 31, 2015 has been derived from the audited consolidated financial statements at that 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 consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2015 included in the Company's Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission ("SEC") on March 31, 2016.

Results for the three and six months ended June 30, 2016 are not necessarily indicative of results that may be expected for the year ending December 31, 2016.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 Financial Accounting Standards Board (FASB) issued a new standard to achieve a consistent application of revenue recognition within the U.S., resulting in a single revenue model to be applied by reporting companies under U.S. generally accepted accounting principles. Under the new model, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. On July 9, 2015, the FASB agreed to delay the effective date by one year. In accordance with the agreed upon delay, the new standard is effective for us beginning in the first quarter of 2018. Early adoption is not permitted. The new standard is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. We have not yet selected a transition method nor have we determined the impact of the new standard on our consolidated condensed financial statements.

In March 2016, the FASB issued an ASU amending the accounting for stock-based compensation and requiring excess tax benefits and deficiencies to be recognized as a component of income tax expense rather than equity. This guidance also requires excess tax benefits to be presented as an operating activity on the statement of cash flows and allows an entity to make an accounting policy election to either estimate expected forfeitures or to account for them as they occur. The ASU is effective for reporting periods beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the impact of the ASU.

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.

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

NOTE 3:- INVENTORIES

	June 30, 2016	December 31, 2015
	Unaudited	
Raw materials	$ 1,974	$ 2,284
Work in process	212	24
Finished goods	2,230	2,389
	$ 4,416	$ 4,697

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 $399 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, 2016 is $2,444. No royalties were accrued or paid during 2016 and 2015.

d. Litigation:

1. As of June 30, 2016, several claims were filed against the Company, mainly by customers. The claims are in an amount aggregating to approximately $266. 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, in of the opinion that no material costs will arise in respect to these claims.

2. In August 2014, Pointer Brazil received a notification of lack of payments of $ 484 of VAT tax (Brazilian ICMS tax) plus $ 2,029 of interest and penalty totaling $ 2,513 of infraction. The Company is defending this litigation at court and made a provision of $77 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$ 12.1 million. 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, in of the opinion that no material costs will arise in respect to these claims and did not make any provision once this issue has two precedents that won the same type of litigation.

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

e. Commitments:

The Company and DBSI Investment Ltd. ("DBSI"), an equity owner in the Company (see Note 7), have entered into a management services agreement pursuant to which DBSI shall provide management services in consideration of annual management fees of $180 for a period of three years commencing on May 27, 2014.

f. Covenants:

a. In respect of the bank loans provided to the Company for the purpose of funding the 2007 acquisition transaction, pursuant to which the Company acquired the activities and assets of Cellocator Ltd. ("Cellocator") and the acquisition of Pointer 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, 2016, the Company is in compliance, and expects to remain in compliance, with the financial covenants of its credit facilities in 2016.

g. In December 2011 one of the Company's Argentinean subsidiaries received a notification from the C.N.C. (Telecommunication Authority Agency) stating that the subsidiary is subject to a new tax (1% over sales related to data transmission) that had not been applicable to the subsidiary in the past.

As of the issuance of these financial statements, the subsidiary had only answered this notification but plans to appeal in the near future. Management has recorded a provision for the full amount (i.e. capital plus interest of $193).

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, 2016	Six months ended June 30, 2015	Three months ended June 30, 2016	Three months ended June 30, 2015	Year ended December 31, 2015
	Unaudited				
Numerator:					
Numerator for basic net earnings per share - Net income from continuing operations	$ 2,123	$ 2,765	$ 1,037	$ 1,004	$ 3,338
Numerator for diluted net earnings per share - Net income from continuing operations	$ 2,123	$ 2,765	$ 1,037	$ 1,004	$ 3,338
Denominator:					
Denominator for basic net earnings per share - weighted-average number of shares outstanding (in thousands)	7,787	7,695	7,789	7,701	7,725
Denominator for diluted net earnings per share - adjusted weighted average shares and assumed exercises (in thousands)	7,924	7,961	7,934	7,957	7,938
Basic net earnings per share from continuing operations	$ 0.27	$ 0.36	$ 0.13	$ 0.13	$ 0.42
Diluted net earnings per share from continuing operations	$ 0.27	$ 0.35	$ 0.13	$ 0.13	$ 0.42

NOTE 6:- INCOME TAXES

The effective tax rate for the six months ended June 30, 2016 was 29% as compared to 20% for the six months ended June 30, 2015. The increase is mainly due adjustment in tax assets in respect with the updated tax rate in Israel.

NOTE 7:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

a. Balances with related parties:

	June 30, 2016	December 31, 2015
	Unaudited	
Other accounts payable and accrued expenses:		
DBSI (see note 4e)	$ 53	$ 53

b. Transactions with related parties:

	Six months ended June 30, 2016	Six months ended June 30, 2015	Three months ended June 30, 2016	Three months ended June 30, 2015	Year ended December 31, 2015
	Unaudited				
Management fees to DBSI (see Note 4e)	$ 90	$ 90	$ 45	$ 45	$ 180
Sales to related parties	$ 22	$ 21	$ 11	$ 12	$ 52
Purchase from related parties	$ 24	$ 26	$ 7	$ 26	$ 145

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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, 2016 the loan balance is $820 thousands.

NOTE 8:- SEGMENT INFORMATION

a. The Company had three reporting segments until the spin-off of Shagrir (see note 1), while the RSA segment was related to Shagrir's operation. Following the spin-off the Company operates with two reporting segments. The following segment identification is identical to the segment used in the latest annual consolidated financial report.

b. 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

c. The following presents segment results of operations for the six months ended June 30, 2015 (unaudited):

	Cellocator segment	MRM segment	Elimination	Total
Segments revenues	$ 11,009	$ 22,484	$ (2,590)	$ 30,903
Segments operating profit	$ 1,243	$ 1,717	$ 185	$ 3,145
Segments tangible and intangible assets	$ 8,758	$ 26,926	$ 3,179	$ 38,863
Depreciation and amortization	$ 171	$ 1,175	$ -	$ 1,346
Expenditures for assets	$ 79	$ 906	$ -	$ 985

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, 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

e. The following presents segment results of operations for the three months ended June 30, 2015 (unaudited):

	Cellocator segment	MRM segment	Elimination	Total
Segments revenues	$ 5,545	$ 11,124	$ (1,178)	$ 15,491
Segments operating profit	$ 612	$ 730	$ 69	$ 1,411
Segments tangible and intangible assets	$ 8,758	$ 26,926	$ 3,179	$ 38,863
Depreciation and amortization	$ 85	$ 584	$ -	$ 669
Expenditures for assets	$ 50	$ 466	$ -	$ 516

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, 2015:

	Cellocator segment	MRM segment	Elimination	Total
Segments revenues	$ 19,489	$ 47,938	$ (6,860)	$ 60,567
Segments operating profit (loss)	$ 1,000	$ 3,848	$ (205)	$ 4,643
Segments tangible and intangible assets	$ 8,469	$ 24,836	$ 1,804	$ 35,109
Depreciation, amortization and impairment expenses	$ 338	$ 3,067	$ -	$ 3,405
Expenditures for assets	$ 149	$ 1,647	$ -	$ 1,796

NOTE 9:- DISCONTINUED OPERATION

a. Below are the main groups of assets and liabilities classified as discontinued operation:

	December 31, 2015
Assets:	
Cash and cash equivalents	2,095
Accounts receivable	8,909
Other accounts receivable and prepaid expenses	444
Inventories	168
Severance pay fund	5,446
Property and equipment	6,117
Goodwill	15,365
Intangible assets	373
Deferred tax asset	57
Assets of discontinued operation	$ 38,974
Liabilities:	
Short-term bank credit and current maturities of long-term bank loans	84
Trade Payables	7,127
Other accounts payable and accrued expenses	7,931
Long term loans from banks	180
Accrued severance pay	5,783
Liabilities of discontinued operation	$ 21,105
Net assets/liabilities of discontinued operation	$ 17,869

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 9:- DISCONTINUED OPERATION (Cont.)

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

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2016	2015	2016	2015	2015
	Unaudited		Unaudited		
Revenue from sales	18,247	19,385	7,403	9,820	40,498
Cost of sales	15,260	16,893	6,202	8,543	35,427
Gross profit	2,987	2,492	1,201	1,277	5,071
Selling, general and administrative expenses	2,183	1,926	917	1,045	3,649
Operating income	804	566	284	232	1,422
Financial expenses, net	53	399	33	227	805
Other expenses (income), net	348	-	348	-	(15)
Taxes on income	249	110	71	46	97
Income (loss) from discontinued operation	154	57	(168)	(41)	535

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

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2016	2015	2016	2015	2015
	Unaudited		Unaudited		
Operating activities	116	1,232	338	662	4,047
Investing activities	(1,187)	134	(690)	51	(746)
Financing activities	251	(6)	221	(122)	(250)

NOTE 10:- SUBSEQUENT EVENTS

a. On August 29, 2016 the Company signed a binding agreement to acquire Cielo Telecom, a fleet management services company based in South Brazil. Cielo Telecom manages fleet customers covering approximately 16,000 trucks. The closing of the agreement is subject to the fulfillment of certain precedent conditions. In consideration for this acquisition, Pointer will make cash payment of approximately BRL 21 million (approximately $6.5 million).

\- - - - - - - - - - - - - - - - - -

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, 2016 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, 2015 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. The results of Shagrir until that date are included in Pointer's results as discontinued operations.

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:	**2016**	**2015**
Revenues:		
Products	11,555	11,535
Services	19,485	19,368
Total Revenues	**31,040**	**30,903**
Cost of Revenues:		
Products	7,178	6,906
Services	8,774	7,372
Total Cost of Revenues	**15,952**	**16,278**
Gross Profit	**15,088**	**14,625**
Operating Expenses:		

Research and development, net	1,824	1,718
Sales and marketing expenses	5,615	5,079
General and administrative	4,227	4,391
Amortization of intangible assets	195	292
Total Operating Expenses	**11,861**	**11,480**
Total Operating Income	**3,227**	**3,145**
Financial expenses (income), net	243	(221)
Other (income) expenses	(4)	13
Income before tax on income	**2,988**	**3,353**
Taxes on income	854	645
Income from continuing operations	**2,134**	**2,708**
Income from discontinued operations, net	154	57
Net income	**2,288**	**2,765**
Net income from continuing operations attributable to Equity holders of the parent	2,123	2,765
Net income (loss) from continuing operations attributable to Non-controlling interests	11	(57)
Net income from discontinued operations attributable to Equity holders of the parent	120	103
Net income (loss) from discontinued operations attributable to Non-controlling interests	34	(46)
Basic net earnings per share from continuing operations attributable to Pointer Telocation Ltd. shareholders	$ 0.27	$ 0.36
Diluted net earnings per share from continuing operations attributable to Pointer Telocation Ltd. shareholders	$ 0.27	$ 0.35
Basic weighted average number of shares outstanding (in thousands)	7,787	7,695
Diluted weighted average number of shares outstanding (in thousands)	7,924	7,961

Six Months Ended June 30, 2016 Compared with Six Months Ended June 30, 2015

Revenues. Revenues increased by $0.1 million or 0.4%, from $30.9 million in the six months ending June 30, 2015 to $31.0 million in the six months ending June 30, 2016.

The revenues from the sale of our products were $11.6 million in the six months ending June 30, 2016, approximately the same as in the six months ending June 30, 2015.

The revenues from our services increased by $0.1 million, or 0.6%, from $19.4 million in the six months ending June 30, 2015 to $19.5 million in the six months ending June 30, 2016.
The increase was primarily attributable to an increase in recurring revenues from fleet management and stolen vehicle recovery services, partially offset by the devaluation of various local currencies where we have operations against the US dollar.

Revenues from our services in the six months ending June 30, 2016 accounted for 62.8% of our total revenues as compared with 62.7% in the six months ending June 30, 2015.

Cost of Revenues. Our cost of revenues increased by $0.3 million to $16.0 million for the six months ending June 30, 2016 as compared to $16.3 million for the same period in 2015.

Gross Profit. Our gross profit increased to $15.1 million in the six months ending June 30, 2016, as compared to $14.6 million for the same period in 2015. As a percentage of total revenues, gross profit accounted for 48.6% in the six months ending June 30, 2016 compared to 47.3% in the six months ending June 30, 2015.

Our gross margin on products sales in the six months ending June 30, 2016 was 38% compared to 40% in the six months ending June 30, 2015. This decrease is mainly associated with price erosion which affects our revenues from products.

Gross margin for services was approximately 55% in the six months ending June 30, 2016, compared to 52% in the six months ending June 30, 2015. This increase is primarily attributed to expenses efficiency, while increasing subscribers' base.

Research and Development Costs. Research and development expenses were $1.8 million in the six months ending June 30, 2016, compared to $1.7 million in the six months ending June 30, 2015. We intend to maintain 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 $0.5 million to $5.6 million in the six months ending June 30, 2016 from $5.1 million in the six months ending June 30, 2015. The increase is mainly due to the increase in sales and marketing efforts. We intend to continue to increase our sales efforts during the next twelve months.

General and Administrative Expenses. General and administrative expenses decreased by $0.2 million to $4.2 million in the six months ending June 30, 2016 from $4.4 million in the six months ending June 30, 2015.

Amortization of Intangible Assets and Impairment of Long Lived Assets. Amortization of intangible assets and impairment of long lived assets was $0.2 million in the six months ending June 30, 2016 compared to $0.3 million in the six months ending June 30, 2015. The decrease is mainly due to the end of the amortization period of certain of our assets.

Operating Profit. As a result of the foregoing, we recorded a $3.2 million operating profit in the six months ending June 30, 2016, compared to an operating profit of $3.1 million in the six months ending June 30, 2015.

Financial Expenses (Net). Financial expenses increased from $0.2 million financial income in the six months ending June 30, 2015 to $0.2 million financial expenses in the six months ending June 30, 2016. The increase is due to the impact of our New Israeli Shekel (“NIS”) denominated loans that were linked to the US dollar.

Taxes on income. Taxes on income were $0.9 million in the six months ending June 30, 2016 comparing to $0.6 million in the six months ending June 30, 2015. The effective tax rate for the six months ended June 30, 2016, was 29% as compared to 20% for the six months ended June 30, 2015. The increase is mainly adjustments in tax assets in respect with the updated tax rate in Israel.

Net Income from continuing operations. We recorded net income from continuing operations of $2.1 million in the six months ending June 30, 2016 compared to $2.7 million in the six months ending June 30, 2015.

Net Income from continuing operations attributable to Pointer shareholders. In the six months ended June 30, 2016, we recorded net income from continuing operations attributable to Pointer shareholders of $2.1 million, compared to $2.8 million in the six months ended June 30, 2015.

Net income (loss) from continuing operations attributable to non-controlling interests. We recorded net income from continuing operations attributable to non-controlling interests in the amount of $0.01 million in the six months ended June 30, 2016, compared to $(0.1) million net loss in the six months ended June 30, 2015.

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, 2016, the exchange rate of the U.S. Dollar in relation to the NIS decreased by 1.7%, while the Israeli Consumer Price Index ("CPI") increased by 0.3%. During the six months ended June 30, 2015 there was a decrease of 3.1% 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 subsidiary Pointer Do Brasil Comercial Ltda. ("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, 2016 to June 30, 2016, the value of the Brazil Real increased by approximately 18% against the U.S. Dollar. From January 1, 2016 until June 30, 2016, the U.S. Dollar - Brazil Real exchange rate fluctuated between 3.227 and 4.132 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, 2016 to June 30, 2016, the value of the Argentinean Peso decreased by approximately 16% against the U.S. Dollar. From January 1, 2016 until June 30, 2016 the U.S. Dollar – Argentinean Peso exchange rate fluctuated between 12.910 and 15.831 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, 2016 to June 30, 2016, the value of the Mexican Peso decreased by approximately 7% against the U.S. dollar. From January 1, 2016 until June 30, 2016, the U.S. Dollar – Mexican Peso exchange rate fluctuated between 17.172 and 19.094 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, 2016 to June 30, 2016, the value of the South African Rand increased by approximately 4% against the U.S. Dollar. From January 1, 2016 until June 30, 2016, the U.S. Dollar – South African Rand exchange rate fluctuated between 14.207 and 16.809 Rand to the Dollar.

B. LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2016, we had a working capital of $8.8 million, our current assets to current liabilities ratio was 151%, we had cash and cash equivalents of $7.7 million and an unused credit facility of $12.5 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, 2016 we are in compliance with the financial covenants of our credit facilities.

In the six months ended June 30, 2016, net cash provided by our continuing operating activities amounted to $4.9 million as compared to net cash provided from continuing operating activities of $4.1 million in the six months ended June 30, 2015. The increase was primarily attributable to an increase in the working capital in the six months ended June 30, 2016.

In the six months ended June 30, 2016, net cash used in our continuing investment activities was $2.4 million as compared to $0.7 million in the six months ended June 30, 2015. The increase was primarily attributable to an increase in the purchase of property and equipment.

In the six months ended June 30, 2016, net cash used in our financing activities was $3.9 million as compared to net cash provided by financing activities of $3.1 million in the six months ended June 30, 2015. The increase was primarily attributable to distribution of the shares of Shagrir as a dividend in kind, off-set by receipt of long term loans from banks.