

STARCOM Plc
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

STARCOM Plc
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

INDEX

	PAGE
Chairman's Statement	2-5
Directors' Report	6-9
Report of Independent Auditors	10
Consolidated Financial Statements:	
Consolidated Statements of Financial Position	11
Consolidated Statements of Comprehensive Income	12
Consolidated Statements of Changes in Equity	13
Consolidated Statements of Cash Flows	14
Notes to the Consolidated Financial Statements	15-42

CHAIRMAN'S STATEMENT

2017 marks a major step forward for Starcom becoming profit making, hopefully in 2018, with gross profits up by 46% to \$2.1m (2016: \$1.4m) and net loss reduced by 33% to \$1.3m (\$2.0m). After adjusting for a \$174,000 provision for share option costs (2016: \$21,000), the EBITDA loss reduced significantly to \$193,000 (2016: loss \$781,000, as also adjusted for inventory writedown). The main underlying drivers of the profitability improvement were an 8% reduction in overheads and increased gross profits thanks to a higher proportion of the more profitable products in the sales mix.

Revenues for the year increased by 6% to \$5.4m (2016: \$5.1m), representing a positive momentum that is continuing into 2018. Revenue growth was moderated by a delay in delivery of certain 2017 orders into January and February of this year.

The audited results for 2017 reflect a significant reduction in net loss after taxation compared with the previous year and are consistent with the Board's revised indication for the outturn for the year as announced on 22 February 2018. Nevertheless, as stated at the time, these results differ materially from the Board's original expectations for the results for 2017 (which were subject to audit) as announced in January 2018. This is due to the erroneous exclusion of provisions for share option costs, exchange rate differences and certain other overheads which came to light during the audit process. Further details concerning these variances are set out in a separate section below. It is regrettable that inaccurate information was published, which was due in part to the interruption caused by a complete changeover of the finance department in the last few months of the year combined with the appointment of a new CFO. The Board is now satisfied, after a thorough review by the Group's external auditor and our new CFO, that the current systems and procedures are robust so that such errors cannot happen again.

PRODUCT REVIEWS

Helios

Helios has been Starcom's "bread and butter" product for many years now, and the Company has been working hard to change the focus from it being a commodity car tracking product by leveraging its unique inherent technological flexibility in order to meet more specialised needs and markets.

As part of its continuous improvement process in 2017, the Helios has been equipped with a new CAN BUS interface (which interconnects components inside a vehicle), supporting over 1,300 types of vehicles representing over 97% of the target market. The new adapter offers easier installation, with more precise telemetry readings from the vehicle, and a wide range of parameters received directly from the vehicle's computer. These parameters allow even more efficient fleet management for the end client. This integration removes a significant market barrier in the high-end market that can have a significant influence on the Helios sales potential in 2018.

Through a partnership with one of the largest cash security and transport companies in France, the Helios is now successfully embedded in ATMs all over the country. During Q4 2017, over a thousand units were sold and forecasts for 2018 predict that several thousand more units will be sold for this project. As is our usual business practice, we cannot disclose specific unit numbers.

The integration process of the Helios and the approval of Starcom as an OEM supplier for a large electric motorbike manufacturer in the US were successfully completed in 2017. The first motorcycles to be equipped with Starcom's technology are planned to reach the market in Q4 2018. It is anticipated that this will lead to further growth in unit sales during the following three years.

The Company was selected for a pilot stage as one of two shortlisted companies (out of 15 bidders) in one of world's largest tenders for a hybrid (satellite connectivity with cellular) fleet management and security solution issued by the United Nations. The pilot has now been completed successfully and we are waiting for the final

results of the tender. While success cannot be guaranteed, it is clear that to reach this stage of the tender is a major endorsement of our technology.

Helios represented approximately 58% of hardware revenues.

Watchlock

With a successful launch of the Watchlock Pro, Starcom sold several thousand units of Watchlock in 2017. In parallel, we are progressing with the development of new variants of this product: Watchlock Cube is planned to be launched in Q3 2018 and the Watchlock III during 2018. which will introduce a true revolution in asset protection and monitoring.

In 2017, Watchlock sales increased by 37% compared to 2016, although this product only accounted for approximately 6% of hardware revenues. Our current pipeline of sales opportunities includes one large potential deal for Watchlock.

Tetis

The final quarter of 2017 marked a breakthrough for the Tetis family of products, with several significant events.

During 2017 Starcom introduced, for the first time, a hybrid container tracking solution called Tetis R hybrid, combining both GSM and Iridium satellite communication. Compared to alternative solutions, the Tetis is unique by offering an easy Plug and Play installation process and a wider range of powerful connectivity options to external sensors and mobile devices. The communication between the connected objects (such as sensors operated by battery) is based on low bit rate. Starcom predicts that this type of communication will have global coverage in the next few years and will offer a more efficient way to communicate with IoT (Internet of Things) products. In addition, it will allow Mesh network communication between Starcom devices in predefined locations such as warehouses or vessels and GEO-location processing without the need of using a GPS module. We have improved battery consumption of the unit and upgraded the main CPU to output a wider range of trip parameters.

A new commercial agreement was signed with a new client specialising in insurance solutions for the maritime industry, for several thousand of Tetis units planned for delivery over the next three years. In addition, an existing, long-term partner of the Company has increased its Tetis unit order by over 400% during 2017 alone.

The Tetis family of products accounted for approximately 20% of hardware revenues. The more profitable Tetis family of products has a direct influence on the positive growth in gross profits.

Kylos

2017 was dramatically important for the Kylos family of products. Leading companies and global organisations have tested, approved and embraced Kylos as their go-to technical solution, including a major European industrial group, whom as previously reported, has purchased 1200 units all of which have been delivered.

Significant amounts of Kylos Air units were sold in Q4 2017 with an expectation of high follow on sales during the next three years.

The Kylos Air is one of only a very small number of products in the world that can meet the tough technical requirements of all aviation and air cargo organisations for monitoring goods in air transit. We have strong hopes of seeing more companies adopt this product, and the significant benefits it brings, over the coming years.

The Kylos family accounted for approximately 16% of revenues and, like Tetis, directly contributed to the increase in gross profits of the Company in 2017.

New product - IoT platform

During the second half of 2017, Starcom developed its new IoT platform in response to productivity and efficiency improvement needs that we identified in the specialised area of agricultural irrigation.

The platform combines all of the most common communication interfaces including, LoRa (Long Range), BLE (Bluetooth Low Energy), Cellular and Iridium (Satellite). The platform allows both digital and analogue interface with external sensors as well as a sophisticated API (interface) with third party platforms for increased efficiency.

Our first client to enjoy the benefits of this platform will be CropX (www.cropx.com). CropX has developed one of the most sophisticated sensors in the world to control humidity levels and fertilizer levels and these will be run over Starcom's new platform to allowing a farmer a more efficient irrigation regime, saving significantly on water and irrigation products. CropX has so far purchased 1,000 units in Q4 of 2017 and has already placed orders in the first quarter of 2018, with the expectation of further orders during the year.

SAS

During 2017 Starcom completed the development of a new control centre for its SAS platform. This new platform allows clients to provide emergency centres and control room services with a very low cost and in this way to expand their activities to new markets and industry segments. During Q4 2017, we accomplished the first commercial setup of the new control centre application with the largest SVR (stolen vehicle recovery) provider in Eastern Europe.

FINANCIAL REVIEW

Group revenue for the year was \$5.44m, a 6% improvement (2016 \$5.13m). Most of the revenues were achieved in the second half of 2017, being \$3.54m, a 35% improvement (H2 2016: \$2.62m).

Gross margins were 38.2%, compared with 27.7% in 2016. This improvement was achieved thanks to a higher proportion of the more profitable products in the sales mix.

The Group's R&D expenses increased by 25% compared to 2016, to enable acceleration of the shift towards the newer, higher margin products.

General and Administrative expenses reduced by 8% through headcount cuts and savings in office expenses. These impacted mainly the second half of 2017. These expenses included non-cash provisions such as \$174,000 for options granted during 2016-2017.

Operating losses decreased by almost half to \$889,000 (2016: \$1.7m).

The Group recorded an increase in financing costs, mainly due to the devaluation of the US dollar compared with the Israeli Shekel during the first half of 2017.

The Group balance sheet shows a trade receivables increase of \$381,000, generated from aggressive sales activity in the last quarter of 2017. To support the increased sales effort, the Group increased its inventory levels to \$1.48m compared to the 2016 level of \$1.26m.

The Company improved its outstanding debtor collection processes and noted a higher collections volume during the Q4 2017, particularly in emerging markets. The Company prioritised this important aspect of the collection process to improve its cash flow.

Trade payables at year end were \$1.5m, similar to 2016.

Net cash used in operating activities for the period was \$1.1m compared with \$472,000 in 2016, mainly due

to the increase in inventory and trade receivables levels.

The Company used the opportunity of its recent placing in January 2018 to repay all of its \$131,000 of unsecured loans including the outstanding balance due to YA II PN Ltd.

Variations from 18 January 2018 Trading Update

The variations between the consolidated net loss after taxation of \$1.3m as reported today and the breakeven position anticipated in January 2018 were as follows:

1. With regards to revenues and gross margin, certain deliveries could not be recognised as falling due within the full year 2017 accounts, though they will be recognised this year and, in addition, the cost of goods was increased by additional amortisation of approximately \$150,000. Together with certain credit notes issued, this had the effect of reducing gross margin to 38% and reducing operating profit by \$246,000.
2. Certain General & Administrative costs relating to the Jersey holding company and other items were omitted in error from total costs. These totaled \$618,000 which also included the amount of \$174,000 for the share option costs
3. No provision had been made for exchange rate differences amounting to \$203,000.
4. The remaining balance included various items that required adjusting during the audit process.

As previously stated, the Board expects that the improvements made to the Group's accounting systems and controls will ensure that no such errors or omissions can occur in the future.

OUTLOOK

Revenues already secured in the first two months of this year coupled with the high levels of activity and enquiries, indicate to the Board that, at this early point in the year, sales in 2018 should comfortably exceed sales of 2017. The level of firm orders for the first quarter of 2018 is very encouraging and the recent placing of shares has enabled production to keep pace with this high level of activity. Starting the year with such levels is unprecedented, compared to previous years, when sales in the first quarter have tended to be slow. Revenues expected for the first quarter of 2018 are estimated at \$1m (2017: \$765,000).

The Group is now able to use its market-leading technical abilities and advantages to win new clients with higher technological requirements. These clients generally have higher stability and financial strength. This should also help in growing the recurring SAS revenues which, by their very nature, contribute a near 100% gross margin component to the revenue mix. While revenues from this source were static last year it is anticipated that there will be further growth during 2018 as more units are connected.

In a recent industry survey, Starcom was ranked among the top 15 companies in the world (known as the 'A list' in smart tracking) that support the fixed and mobile tracking of assets. This achievement was significant, as Starcom was placed amongst some of the largest telecom and IT brands on the world. The market is expected to grow at 25% per annum over the next few years (Source: Compass Intelligence A List 2018).

Finally, with improved gross margins already achieved and the good sales momentum already experienced, the Group is on target towards becoming EBITDA profitable this year.

M. Rosenberg, Chairman

7 March, 2018

Starcom Plc
Directors' Report
for the Year Ended December 31, 2017

The directors present the annual report together with the financial statements and auditors' report for the year ended December 31, 2017.

The Company was incorporated in Jersey and two wholly-owned trading subsidiaries: Starcom Systems Limited and Starcom G.P.S. Systems Limited, were incorporated in Jersey and in Israel, respectively.

Principal activities and review of business

The Group's principal activity is in the development of wireless solutions for the remote tracking, monitoring and protection of various types of assets and people. Further information on the results of the Group for the period under review can be found in the Chairman's Statement.

Accounts production

The financial statements for the year ended December 31, 2017 have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS").

Dividends

The directors do not propose a final dividend.

Directors

Michael Rosenberg	Appointed February 2013
Avi Hartmann	Appointed February 2013
Avi Engel	Appointed September 2015

Charitable and Political Donations

The Group did not make any charitable or political contributions during the year.

Corporate governance

Under the AIM rules, the Group is not obliged to implement the provisions of the UK Corporate Governance Code. However, the Group is committed to applying the principles of good governance contained in the UK Corporate Governance Code as appropriate to a Group of this size. The Board will continue to review compliance with the Code at regular intervals.

In common with other organizations of a similar size, the Executive Directors are heavily involved in the day to day running of the business and meet regularly on an informal basis as well as at Board Meetings.

The Board of Directors meets regularly and is responsible for formulating strategy, monitoring financial performance and approving major items of capital expenditure.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law, the directors are required to prepare the Group and parent Company financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU.

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and parent Company and of the profit and loss of the Group for that period.

In preparing each of the Group and parent Company financial statements, the directors are required to:

- i) Select suitable accounting policies and then apply them consistently;
- ii) Make judgments and accounting estimates that are reasonable and prudent; and
- iii) State whether they have been prepared in accordance with IFRS as adopted by the EU, subject to any material departures disclosed and explained in the parent Company financial statements; and prepare the financial statements on the "going concern" basis unless it is inappropriate to presume that the Group and the parent Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Group and parent Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulations. They have general responsibility for taking such steps as are reasonably open to safeguard the assets of the Group and parent Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report to comply with that law and those regulations.

In determining how amounts are presented within terms in the income statement and balance sheet, the directors have regarded the substance of the reported transaction or arrangement in accordance with generally accepted accounting principles or practice.

So far as each of the directors is aware at the time, the report is approved:

There is no relevant audit information of which the Company's auditors are unaware; and

The directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Going concern

The directors have prepared and reviewed sales forecasts and budgets for the next twelve months and, having considered these cash flows and the availability of other financing sources if required, have concluded that the Group will remain a "going concern." After this process and having made further relevant enquiries, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the "going concern" basis in preparing the accounts.

Risks

Foreign exchange risks

Most of the Groups sales and income are in US Dollars and the US Dollar is the currency in which the Company reports. The expenses, however, are divided between the US Dollar and the Israeli Shekel. The cost of goods (components) are paid in US Dollars and part of the operational costs such as rent and other service providers quote their fees in US Dollars. Labor costs are paid in Israeli Shekels. The Company has, therefore, a partial currency risk in the event that the Israeli Shekel strengthens against the US Dollar, which could have an effect on the bottom line of the Group's financial results.

The Group consults with foreign currency experts from main Israeli banks regarding the main financial institutions' expectations for foreign currency changes. Management reviews them carefully and will consider

with the board whether it should purchase financial instruments sold by local banks to protect itself from this foreign exchange risk. There are no financial instruments in use at the date of this report.

Interest Rate Risks

The Company is exposed to interest risks as it uses credit lines and loans from its banks. Changes in the effective Prime interest rate published monthly by the Bank of Israel can influence the Company's financing costs.

Credit Risk

The Group is exposed to credit risks if its customers fail to pay for goods supplied by the Group. In order to minimize this risk, the Group has a policy of:

- (a) Selling only to respectable integrators and distributors and not to the end customer.
- (b) Orders from customers in certain regions are shipped only after an approved letter of credit is received by the Group's bank.
- (c) New customers must pay 50% before initial shipping.

Capital Risk management

The Group manages its cash carefully. In order to reduce its risk, the Group may take measures to reduce its fixed costs (labor) if performance is below the Directors' expectations. The Group may conduct a placing for new shares of the Company to raise additional capital as required when monitoring its performance, to continue its operations.

Supplier payment policy

It is the Group's policy to settle the terms of payment with suppliers when agreeing to the terms of the transaction, to ensure that suppliers are aware of these terms and to abide by them.

CREST

The Company's ordinary shares are eligible for settlement through CREST, the system for securities to be held and transferred in electronic form rather than on paper. Shareholders are not obliged to use CREST and can continue to hold and transfer shares on paper without loss of rights.

Auditors

A resolution reappointing Barzily as the Group's auditors will be proposed at the AGM in accordance with S485 of the Companies Act 2006.

Electronic Communications

The Company may deliver shareholder information including Annual and Interim Reports, Forms of Proxy and Notices of General Meetings in an electronic format to shareholders.

If you would like to receive shareholder information in electronic format, please register your request on the Company's Registrar's electronic database at www.linkassetservices.com. You will initially need your unique investor code which you will find at the top of your share certificate. There is no charge for this service. If you wish to subsequently change your mind, you may do so by contacting the Company's Registrars by post or through their website.

If you elect to receive shareholder information electronically, please note that it is the shareholder's responsibility to notify the Company of any change in his name, address, email address or other contact details.

Shareholders should also note that, with electronic communication, the Company's obligations will be satisfied when it transmits the notification of availability of information or such other document as may be involved to the electronic address it has on file. The Company cannot be held responsible for any failure in transmission beyond its control any more than it can for postal failure.

In the event of the Company becoming aware that an electronic notification is not successfully transmitted, a further two attempts will be made. In the event that the transmission is still unsuccessful, a hard copy of the notification will be mailed to the shareholder. In the event that specific software is required to access information placed on the Company's website it will be available via the website without charge.

Before electing for electronic communications, shareholders should ensure that they have the appropriate equipment and computer capabilities sufficient for this purpose. The Company takes all reasonable precautions to ensure no viruses are present in any communication it sends out but cannot accept responsibility for loss or damage arising from the opening or use of any email or attachments from the Company and recommends that shareholders subject all messages to virus checking procedures prior to use. Any electronic communication received by the Company that is found to contain any virus will not be accepted.

Shareholders wishing to receive shareholder information in the conventional printed form will continue to do so and need take no further action.

Should you have any further questions in this regard, please contact the Company's Registrars, Link Asset Services.

On behalf of the board,

M. Rosenberg, Chairman

7 March, 2018

Jerusalem, March 7, 2018

Report of Independent Auditors
to the Board of Directors and Stockholders of
Starcom Plc

We have audited the accompanying consolidated financial position of Starcom Plc and its subsidiaries (hereinafter - "the Group") as of December 31, 2017 and 2016 and the related consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Group board of directors and management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including those prescribed by the Israeli Auditors' Regulations (Auditor's Mode of Performance - 1973). Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of December 31 2017 and 2016 and the consolidated results of its operations, changes in shareholders' equity and cash flows for the years then ended in conformity with international financial reporting standards (IFRS).

Barzily & Co.
Certified Public Accountants.
A Member of MSI Worldwide

STARCOM Plc
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

U.S. Dollars in thousands

	<u>Note</u>	<u>December 31,</u>	
		<u>2017</u>	<u>2016</u>
ASSETS			
NON-CURRENT ASSETS :			
Property, plant and equipment, net	6	303	303
Intangible assets, net	7	2,457	2,601
Income Tax Authorities		44	34
Total Non-Current Assets		<u>2,804</u>	<u>2,938</u>
CURRENT ASSETS:			
Cash and cash equivalents		93	35
Short-term bank deposit	5	55	57
Trade receivables, net	3B	1,772	1,391
Other accounts receivable	3A	101	65
Inventories	4	1,485	1,256
Total Current Assets		<u>3,506</u>	<u>2,804</u>
TOTAL ASSETS		<u>6,310</u>	<u>5,742</u>
EQUITY AND LIABILITIES			
EQUITY			
	12	<u>3,032</u>	<u>2,744</u>
NON-CURRENT LIABILITIES:			
Long-term loans from banks, net of current maturities	10	<u>155</u>	<u>372</u>
CURRENT LIABILITIES:			
Short term bank credit		227	265
Current maturities of long-term loans from banks	10	279	314
Convertible unsecured loans	19d	131	-
Trade payables		1,522	1,495
Other accounts payable	9	251	178
Related parties	18	713	374
Total Current Liabilities		<u>3,123</u>	<u>2,626</u>
TOTAL LIABILITIES AND EQUITY		<u>6,310</u>	<u>5,742</u>

7 March 2018

Date of Approval
of the Financial Statements

Igor Vatenmacher
CFO

Avi Hartmann
CEO

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

STARCOM Plc
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

U.S. Dollars in thousands (except shares data)

	<u>Note</u>	Year Ended December 31	
		<u>2017</u>	<u>2016</u>
Revenues		5,440	5,132
Cost of sales	13	<u>(3,360)</u>	<u>(3,712)</u>
Gross profit		2,080	1,420
Operating expenses:			
Research and development		(237)	(189)
Selling and marketing		(558)	(606)
General and administrative expenses	14	(2,196)	(2,386)
Other income	15	<u>22</u>	<u>24</u>
Total operating expenses		<u>(2,969)</u>	<u>(3,157)</u>
Operating loss		(889)	(1,737)
Finance income	16A	41	19
Finance costs	16B	<u>(502)</u>	<u>(227)</u>
Net finance costs		(461)	(208)
Loss before taxes on income		<u>(1,350)</u>	<u>(1,945)</u>
Taxes on income	8	<u>-</u>	<u>(67)</u>
Total comprehensive loss for the year		<u><u>(1,350)</u></u>	<u><u>(2,012)</u></u>
Loss per share:			
Basic and diluted loss per share	17	<u><u>(0.007)</u></u>	<u><u>(0.015)</u></u>

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

STARCOM Plc
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

U.S. Dollars in thousands

	<u>Share Capital</u>	<u>Premium on Shares</u>	<u>Capital Reserve</u>	<u>Capital Reserve in Regard to Share-Based Payment Transactions</u>	<u>Accumulated Loss</u>	<u>Total</u>
Balance as of January 1, 2016	-	7,094	89	407	(4,093)	3,497
Proceeds from issued share capital, net of mobilization costs (see Note 12)	-	1,137	-	-	-	1,137
Conversion of convertible unsecured loans (see Note 19d)	-	101	-	-	-	101
Share based payment (see Note 12d)	-	-	-	21	-	21
Comprehensive loss for the year	-	-	-	-	(2,012)	(2,012)
Balance as of December 31, 2016	-	8,332	89	428	(6,105)	2,744
Proceeds from issued share capital, net of mobilization costs (see Note 1)	-	1,464	-	-	-	1,464
Share based payment (see Note 12d)	-	-	-	174	-	174
Comprehensive loss for the year	-	-	-	-	(1,350)	(1,350)
Balance as of December 31, 2017	-	9,796	89	602	(7,455)	3,032

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

STARCOM Plc
CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. Dollars in thousands

	Year Ended December 31,	
	2017	2016
CASH FLOWS FOR OPERATING ACTIVITIES:		
Loss for the year	(1,350)	(2,012)
Adjustments to reconcile net profit to net cash used in operating activities:		
Depreciation and amortization	510	435
Interest expense and exchange rate differences	92	10
Share-based payment expense	174	21
Capital gain	(19)	-
Changes in assets and liabilities:		
Decrease (Increase) in inventories	(229)	946
Increase in trade receivables	(381)	(48)
Increase in other accounts receivable	(36)	(21)
Decrease (Increase) in Income Tax Authorities	(10)	33
Increase in trade payables	96	165
Increase (Decrease) in other accounts payable	73	(1)
Net cash used in operating activities	<u>(1,080)</u>	<u>(472)</u>
CASH FLOWS FOR INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(144)	(19)
Proceeds from sales of property, plant and equipment	61	-
Decrease in short-term deposits	2	6
Cost of intangible assets	<u>(264)</u>	<u>(350)</u>
Net cash used in investing activities	<u>(345)</u>	<u>(363)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of short-term bank credit, net	(38)	(5)
Proceeds from convertible unsecured loans, net	131	-
Repayment from related parties, net	406	78
Decrease in notes payable	-	(26)
Receipt of long-term loans	46	104
Repayment of long-term loans	(357)	(304)
Consideration from issue of shares, net	<u>1,295</u>	<u>933</u>
Net cash provided by financing activities	<u>1,483</u>	<u>780</u>
Decrease in cash and cash equivalents	58	(55)
Cash and cash equivalents at the beginning of the year	<u>35</u>	<u>90</u>
Cash and cash equivalents at the end of the year	<u><u>93</u></u>	<u><u>35</u></u>
Appendix A – Additional Information		
Interest paid during the year	<u>(101)</u>	<u>(48)</u>
Appendix B – Non-cash financing activities		
Issuance of share to related parties (in payment of related parties loans)	100	204
Conversion to shares of convertible unsecured loans	-	101
Conversions to shares of trade payables	<u>69</u>	<u>-</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 1 - GENERAL

a. The Reporting Entity

Starcom Plc ("the Company") was incorporated in Jersey on November 28, 2012. The Company and its subsidiaries ("the Group") specializes in easy-to-use practical wireless solutions that combine advanced technology, telecommunications and digital data for the protection and management of people, fleets of vehicles, containers and assets. The Group engages in production, marketing, distribution, research and development of G.P.S. systems.

The Company fully owns Starcom G.P.S. Systems Ltd., an Israeli company, and Starcom Systems Limited, a company in Jersey.

In March 2016 Starcom Systems America Inc. was incorporated in Florida, USA and it is fully owned by the Company. Starcom America serves as a Sales and Marketing branch for the Company in North America.

The Company's shares are admitted for trading on London's Stock Exchange Alternative Investment Market ("AIM").

Address of the official Company office in Israel of Starcom G.P.S. Systems Ltd. is: 16 Ha'Taas Street Kfar Saba, Israel.

Address of the Company's registered office in Jersey of Starcom Systems Limited is: 13-14 Esplanade, St Helier, Jersey JE1 1BD.

1. During April 2017, the Company issued 5,007,037 Ordinary Shares in respect of the conversion of the related parties loan of £78 (\$100) thousands.
2. During May 2017, the Company issued 2,700,000 Ordinary Shares to one of the Company's long-term component suppliers in part settlement of its account with the Company at the sum of £54 (\$69) thousands.
3. During June 2017, the Company raised £650 (\$827) thousands before expenses through a placing of 43,333,336 Ordinary Shares, out of which 333,334 were to related parties. See also Note 12d (3).
4. During October 2017, the Company raised £475 (\$618) thousands before expenses through a placing of 36,538,460 Ordinary Shares,

The Group has accumulated operating losses over the last few years and is dependent on securing financing or infusion of capital. The Group is convinced that sufficient loan facilities are available to cover its cash flow requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 1 - GENERAL (cont.)

b. Definitions in these financial statements:

1. International Financial Reporting Standards ("IFRS") – Standards and interpretations adopted by the International Accounting Standards Board ("IASB") that include international financial reporting standards (IFRS) and international accounting standards (IAS), with the addition of interpretations to these Standards as determined by the International Financial Reporting Interpretations Committee (IFRIC) or interpretations determined by the Standards Interpretation Committee (SIC), respectively.
2. The Company - Starcom Plc.
3. The subsidiaries - Starcom G.P.S. Systems Ltd. And Starcom Systems Limited.
4. Starcom Jersey – Starcom Systems Limited.
5. Starcom Israel – Starcom G.P.S. Systems Ltd.
6. Starcom America - Starcom Systems America Inc.
7. The Group – Starcom Plc. and the Subsidiaries.
8. Related Party - As determined in International Accounting Standard No. 24.

NOTE 2A - BASIS OF PREPARATION

a. Declaration in regard to implementation of International Financial Reporting Standards (IFRS)

The consolidated financial statements of the Company have been prepared in accordance with IFRS and related clarifications published by the IASB.

The Company's Board of Directors authorized the Consolidated Financial Statements on 7 March, 2018.

b. Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments at fair value through profit or loss that are stated at fair value.

c. Operating Turnover Period

The ordinary operating period turnover for the Group is a year. As a result, the current assets and current liabilities include items that are expected and intended to be realized at the end of the ordinary operating turnover period for the Group.

d. Functional and Presentation Currency

The consolidated financial statements are presented in U.S. dollars (hereinafter: "dollars") that is the functional currency of the Group and is rounded to the nearest thousand, except when otherwise indicated.

The dollar is the currency that represents the economic environment in which the Group operates.

The Group's transactions and balances denominated in dollars are presented at their original amounts. Non-dollar transactions and balances have been remeasured to dollars. All transaction gains and losses from remeasurement of monetary assets and liabilities denominated in non-dollar currencies are reflected in the statements of comprehensive income as financial income or expenses, as appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 2B - USE OF ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Upon formulation of accounting estimates used in preparation of the Group financial statements, management is required to make assumptions in regard to circumstances and events that are significantly uncertain. Management arrives at these decisions based on prior experiences, various facts, external items and reasonable assumptions in accordance with the circumstances related to each assumption.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgment in applying accounting policies that have a significant effect on the amounts recognized in the consolidated financial statements is included in the following Note:

Note 7 – Capitalization of development costs and amortization of these costs.

Note 12d – Options issued.

Note 19d – Convertible unsecured loans.

Information about assumptions and estimations regarding depreciation that have significant risk of resulting in a material adjustment is included in the following Notes:

Note 3B – Allowance for doubtful accounts.

Note 7 – Calculation of amortization.

Note 8 – Utilization of tax losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES

a. Basis of consolidation

All intra-Group transactions, balances, income and expenses of the companies are eliminated on consolidation.

b. Foreign currency and linkage basis

Balances stated in foreign currency or linked to a foreign currency have been included in the consolidated financial statements according to the prevailing representative exchange rates at the balance sheet date. Balances linked to the Consumer Price Index in Israel are included in accordance with the Index published prior to balance sheet date. Linkage and exchange rate differences are included in the statement of comprehensive income when incurred.

	December 31,	
	<u>2017</u>	<u>2016</u>
CPI (in points) *	123.3	122.8
Exchange Rate of U.S. \$ in NIS	3.467	3.845

	Year Ended December 31,	
	<u>2017</u>	<u>2016</u>
Change in CPI	0.4%	(0.24%)
Change in Exchange Rate of U.S. \$	(9.8%)	(1.46%)

* Base Index 2002 = 100.

c. Financial instruments

(i) Non-derivative financial assets

The Group initially recognizes loans and receivables on the date that they are originated. All other financial assets (including assets designated as at fair value through profit or loss) are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group classified non-derivative financial assets into the following categories: Financial assets at fair value, through profit or loss, held-to-maturity financial assets, loans and receivables, and available-for-sale financial assets.

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

c. Financial instruments (cont.)

(i) Non-derivative financial assets (cont.)

Financial assets at fair value through profit or loss:

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Financial assets are designated as at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which take into account any dividend income, are recognized in profit or loss.

Financial assets designated as at fair value through profit or loss comprise equity securities that otherwise would have been classified as available for sale.

Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprised of trade and other receivables, excluding short-term trade and other receivables where the interest amount is immaterial.

(ii) Non-derivative financial liabilities

The Group initially recognizes debt securities issued and subordinated liabilities on the date that they originated. All other financial liabilities (including liabilities designated as at fair value through profit or loss) are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 2C- SIGNIFICANT ACCOUNTING POLICIES (cont.)

c. Financial instruments (cont.)

(iii) Compound financial instruments

Compound financial instruments issued by the Company comprised: an interest bearing loan with a conversion option issued to the lender.

The option component was recognized initially at its fair value using a binomial calculation.

The liability component was recognized initially as the difference between the loan amount and the option component

Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest related to the financial liability is recognized in profit or loss.

d. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments.

e. Share capital

Ordinary shares:

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

f. Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, at the following annual rates:

	%
Computers and software	33
Office furniture and equipment	7 – 15
Vehicles	15
Laboratory equipment	15
Leasehold improvements	10

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

f. Property, plant and equipment (cont.)

Leasehold improvements are depreciated by the straight-line method over the term of the lease, ten-year period, (including option terms) or the estimated useful lives of the improvements, unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

At each balance sheet date, the Group examines the residual value, the useful life and the depreciation method it uses. If the Group identifies material changes in the expected residual value, the useful life or the future pattern of consumption of future economic benefits in the asset that may indicate that a change in the depreciation is required, such changes are treated as changes in accounting estimates. In the reported periods, no material changes have taken place with any material effect on the financial statements of the Group.

g. Intangible assets: Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends and has sufficient resources to complete development and to use or sell the asset.

The expenditure capitalized includes the cost of materials, direct labor, overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses. Amortization is calculated using the straight-line method over the estimated useful lives of the assets: ten years.

At each balance sheet date, the Group reviews whether any events have occurred or changes in circumstances have taken place, which might indicate that there has been an impairment of the intangible assets. When such indicators of impairment are present, the Group evaluates whether the carrying value of the intangible asset in the Group's accounts can be recovered from the cash flows anticipated from that asset, and, if necessary, records an impairment provision up to the amount needed to adjust the carrying amount to the recoverable amount.

h. Short-term deposit

Deposits with maturities of more than three months but less than one year are included in short-term deposits.

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

i. Leases

(1) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(2) Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:

- The fulfillment of the arrangement is dependent on the use of a specific asset or assets; and
- the arrangement contains a right to use the asset(s).

At inception or on reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently, the liability is reduced as payments are made and an imputed finance cost for the liability is recognized using the Group's incremental rate.

j. Inventories

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

Cost is determined using the "first-in, first -out" method.

Inventory write-downs are provided to cover risks arising from slow-moving items, technological obsolescence, excess inventories, and discontinued products and for market prices lower than cost, if any. At the point of loss recognition, a new lower cost basis for that inventory is established.

k. Impairment in value of assets

During every financial period, the Group examines the book value of its tangible and intangible assets to determine any signs of loss from impairment in value of these assets. In the event that there are signs of impairment, the Group examines the realization value of the designated asset. In the event that the realization cannot be measured for an individual asset, the Group estimates realization value for the unit where the asset belongs. Joint assets are assigned to the units yielding cash on the same basis. Joint assets are designated to the smallest groups of yielding assets for which one can identify a reasonable basis that is consistent to the allocation.

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

k. Impairment in value of assets (cont.)

The realization value is the higher of net sale price of the asset as compared with its useful life that is determined by the present value of projected cash flows to be realized from this asset and its realization value at the end of its useful life.

In the event that the book value of the asset or cash-yielding unit is greater than its realization value, a devaluation of the asset has occurred in the amount of the difference between its book value and its realization value. This amount is recognized immediately in the statements of comprehensive income.

In the event that prior devaluation of an asset is nullified, the book value of the asset or of the cash-yielding unit is increased to the estimated current fair value, but not in excess of the asset or cash-yielding unit book value that would have existed had there not been devaluation. Such nullification is recognized immediately in the statements of comprehensive income.

l. Revenue recognition

The Group generates revenues from sales of products, which include hardware and software, software licensing, professional services and maintenance. Professional services include mainly installation, project management, customization, consulting and training. The Group sells its products indirectly through a global network of distributors, system integrators and strategic partners, all of whom are considered end-users, and through its direct sales force.

Revenue from products and software licensing is recognized when persuasive evidence of an agreement exists, delivery of the product has occurred, the fee is fixed or determinable and collectability is probable.

Revenues from maintenance and professional services are recognized ratably over the contractual period or as services are performed, respectively.

m. Allowance for doubtful accounts

The Group evaluates its allowance for doubtful accounts on a regular basis through periodic reviews of the collectability of the receivables in light of historical experience, adverse situations that may affect the repayment abilities of its customers, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The Group performs ongoing credit evaluations of its customers and generally does not require collateral because (1) management believes it has certain collection measures in-place to limit the potential for significant losses, and (2) because of the nature of its customers that comprise the Group's customer base. Receivables are written off when the Group abandons its collection efforts. An allowance for doubtful accounts is provided with respect to those amounts that the Group has determined to be doubtful of collection.

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

n. Concentrations of credit risk

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and cash equivalents, short-term deposits and trade receivables.

o. Provisions

Provisions are recognized when the Group has a current obligation (legal or derived) as a result of a past occurrence that can be reliably measured, that will in all probability result in the Group being required to provide additional benefits in order to settle this obligation. Provisions are determined by capitalization of projected cash flows at a rate prior to taxes that reflects the current market preparation for the money duration and the specific risks for the liability.

p. Employee benefits

The Group has several benefit plans for its employees:

1. Short-term employee benefits -
Short-term employee benefits include salaries, vacation days, recreation and deposits to the National Insurance Institute that are recognized as expenses when rendered.
2. Benefits upon retirement -
Benefits upon retirement generally funded by deposits to insurance companies and pension funds are classified as restricted deposit plans or as restricted benefits.
All Group employees have restricted deposit plans, in accordance with Section 14 of the Severance Pay Law (Israel), whereby the Group pays fixed amounts without bearing any legal responsibility to pay additional amounts thereto even if the fund did not accumulate enough amounts to pay the entire benefit amount to the employee that relates to the services he rendered during the current and prior periods. Deposits to the restricted plan are classified as for benefits or for compensation and are recognized as an expense upon deposit to the plan concurrent with receiving services from the employee and no additional provision is required in the financial statements.

q. Finance income and expenses

Finance income includes interest in regard to invested amounts, changes in the fair value of financial assets presented at fair value in the statements of comprehensive income and gains from changes in the exchange rates and interest income that are recognized upon accrual using the effective interest method.

Finance expenses include interest on loans received, changes in the time estimate of provisions, changes in the fair value of financial assets presented at fair value in the statements of comprehensive loss and losses from changes in value of financial assets.

Gains and losses from exchange rate differences are reported net. Exchange rate differences in regard to issuance of shares are charged to equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

r. Taxes

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same Tax Authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Since there is uncertainty in regard to existence of taxable revenues in the near future, a deferred tax asset was not recognized.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets and liabilities are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit (taxes on income) will be realized.

s. Basic and Diluted Earnings per Share

Basic earnings per share are computed based on the weighted average number of common shares outstanding during each year.

Diluted earnings per share are computed based on the weighted average number of common shares outstanding during each year, plus dilutive potential common shares considered outstanding during the year.

t. Statement of cash flows

The statement of cash flows from current operations is presented using the indirect method, whereby interest amounts paid and received by the Group are included in the cash flows in current operations.

**NOTES TO
THE CONSOLIDATED FINANCIAL STATEMENTS**

U.S. Dollars in thousands

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

u. Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

v. Segment reporting

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses and tax.

w. Standards issued but not yet effective

The Standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these Standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

IFRS 9 (2014) replaces the current guidance in IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 (2014) includes revised guidance on the classification and measurement of financial instruments, a new 'expected credit loss' model for calculating impairment for most financial assets, and new guidance and requirements with respect to hedge accounting.

IFRS 9 is to be applied for annual periods beginning on January 1, 2018. Early adoption is permitted.

The Group is evaluating the possible impact of IFRS 9 but is presently unable to assess its effect, if any, on the financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces the current guidance regarding recognition of revenues and presents a new model for recognizing revenue from contracts with customers. IFRS 15 provides two approaches for recognizing revenue: at a point in time or over time. The model includes five steps for analyzing transactions so as to determine when to recognize revenue and at what amount. Furthermore, IFRS 15 provides new and more extensive disclosure requirements than those that exist under current guidance.

IFRS 15 is applicable for annual periods beginning on or after January 1, 2018 and earlier application is permitted. IFRS 15 includes various alternative transitional provisions, so that companies can choose between one of the following alternatives at initial application: full retrospective application, full retrospective application with practical expedients, or application as from the mandatory effective date, with an adjustment to the balance of retained earnings at that date in respect of transactions that are not yet complete.

The impact on the Group's financial statements of the future Standards, amendments and interpretations is still under review, but the Group does not currently expect any of these changes to have a material impact on the results or the net assets of the Group.

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

w. Standards issued but not yet effective (cont.)

IFRS 16, "Leases"

IFRS 16 replaces IAS 17, *Leases* and its related interpretations. The Standard's instructions annul the existing requirement of lessees to classify leases as operating or finance leases. Instead of this, for lessees, the new Standard presents a unified model for the accounting treatment of all leases according to which the lessee has to recognize an asset and liability in respect of the lease in its financial statements.

Similarly, the standard determines new and expanded disclosure requirements from those required at present.

IFRS 16 is applicable for annual periods as of January 1, 2019, with the possibility of early adoption, so long as the Company has also early adopted IFRS 15, Revenue from Contracts with Customers. IFRS 16 includes various alternative transitional provisions, so that companies can choose between one of the following alternatives at initial application: full retrospective application or application (with the possibility of certain practical expedients) as from the mandatory effective date, with an adjustment to the balance of retained earnings at that date.

The Group does not expect the new Standard to have a material impact on the financial statements as the Group currently does not offer its products in the form of lease.

NOTE 3A - OTHER ACCOUNTS RECEIVABLE

	December 31	
	2017	2016
Government institutions	101	65
	<u>101</u>	<u>65</u>

NOTE 3B - TRADE RECEIVABLES, NET

	December 31	
	2017	2016
Group receivables	1,820	1,588
Net of allowance for doubtful accounts	(48)	(197)
	<u>1,772</u>	<u>1,391</u>

NOTE 4 - INVENTORIES

	December 31	
	2017	2016
Raw materials	979	563
Finished goods	506	693
	<u>1,485</u>	<u>1,256</u>

See also Note 13.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 5 - SHORT-TERM BANK DEPOSIT

The deposit sums of \$55 and \$57 for the years ended December 31, 2017 and 2016, respectively, serve as a security deposit for repayment of long-term bank loans. In accordance with terms of the loans, the deposit constitutes approximately 10% of the loans original principle. The deposit bears yearly interest at the rate of 1%.

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT, NET

	Computers and Software	Office Furniture and Equipment	Laboratory Equipment	Leasehold Improvements	Vehicles*	Total
Cost:						
Balance as of January 1 2017	168	116	66	80	242	672
Additions during the year	8	2	-	49	85	144
Decrease	-	-	-	(80)	(85)	(165)
Balance as of December 31 2017	<u>176</u>	<u>118</u>	<u>66</u>	<u>49</u>	<u>242</u>	<u>651</u>
Accumulated Depreciation:						
Balance as of January 1 2017	125	63	58	42	81	369
Depreciation during the year	11	8	4	44	35	102
Decrease	-	-	-	(80)	(43)	(123)
Balance as of December 31 2017	<u>136</u>	<u>71</u>	<u>62</u>	<u>6</u>	<u>73</u>	<u>348</u>
Net book value as of December 31 2017	<u><u>40</u></u>	<u><u>47</u></u>	<u><u>4</u></u>	<u><u>43</u></u>	<u><u>169</u></u>	<u><u>303</u></u>

* See also Note 11b.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT, NET (cont.)

	Computers and Software	Office Furniture and Equipment	Laboratory Equipment	Leasehold Improvements	Vehicles*	Total
Cost:						
Balance as of January 1 2016	155	110	66	80	242	653
Additions during the year	13	6	-	-	-	19
Balance as of December 31 2016	<u>168</u>	<u>116</u>	<u>66</u>	<u>80</u>	<u>242</u>	<u>672</u>
Accumulated Depreciation:						
Balance as of January 1 2016	110	54	50	35	45	294
Depreciation during the year	15	9	8	7	36	75
Balance as of December 31 2016	<u>125</u>	<u>63</u>	<u>58</u>	<u>42</u>	<u>81</u>	<u>369</u>
Net book value as of December 31 2016	<u><u>43</u></u>	<u><u>53</u></u>	<u><u>8</u></u>	<u><u>38</u></u>	<u><u>161</u></u>	<u><u>303</u></u>

* See also Note 11b.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. Dollars in thousands****NOTE 7 - INTANGIBLE ASSETS, NET**

Cost:	
Balance as of January 1 2017	3,938
Additions during the year	<u>264</u>
Balance as of December 31 2017	<u>4,202</u>

Accumulated Amortization:	
Balance as of January 1 2017	(1,135)
Amortization during the year	<u>(408)</u>
Balance as of December 31 2017	<u>(1,543)</u>

Impairment of assets	<u>(202)</u>
Net book value as of December 31 2017	<u><u>2,457</u></u>

Total

Cost:	
Balance as of January 1 2016	3,588
Additions during the year	<u>350</u>
Balance as of December 31 2016	<u>3,938</u>

Accumulated Amortization:	
Balance as of January 1 2016	(775)
Amortization during the year	<u>(360)</u>
Balance as of December 31 2016	<u>(1,135)</u>

Impairment of assets	<u>(202)</u>
Net book value as of December 31 2016	<u><u>2,601</u></u>

The expenditure capitalized includes the cost of materials and direct labor that are directly attributable to preparing the assets for their intended use. Other development expenditure is recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses. Amortization is calculated using the straight-line method over the estimated useful lives of the assets: ten years.

See also Note 2Cg.

NOTE 8 - TAXES ON INCOME

a. Israeli taxation

1. The Israeli corporate tax rate in 2017 is 24% and for 2016 was 25%. On December 22, 2016 the Knesset plenum passed the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in the Years 2017 and 2018) – 2016, by which, inter alia, the corporate tax rate would be reduced from 25% to 23% in two steps. The first step will be to a rate of 24% as from January 2017 and the second step will be to a rate of 23% as from January 2018.

2. **Tax Benefits from the Encouragement of Capital Investments Law, 1959 ("The Encouragement Law")**

Starcom Israel presents its financial statements to the tax authorities as an Approved Enterprise. In the framework of the Law for Change of Priorities, as abovementioned, an increase in tax rates was approved, commencing with 2014 and thereafter, on revenues from an approved enterprise, as stated in the Encouragement Law for an approved enterprise. An eligible company in Development Area A is entitled to a tax rate of 9% during 2015. In an area that is not Development Area A, the tax rate will be 16%.

Concurrently, the tax rate on a dividend, for distribution from January 1, 2014, the source of which is preferred income as stated in the Encouragement Law, is 20%. Starcom Israel is subject to a tax rate of 16% for the year 2017.

3. **Income Tax audit**

Starcom Israel received the tax authorities' assessments based on judgement in for the years 2013-2014 amounting NIS 7,285 thousand. Accordingly, the Company filed objections to these assessments for the years 2013 – 2014. The Company's management, relying on professional advice that it received, is reiterating its position that it adamantly disagree with the Israeli Tax Authorities assessment. As such no provision was recorded in the consolidated financial statement as of December 31, 2017.

4. Starcom Israel has carryforward operating tax losses of approximately NIS 34 million as of December 31, 2017 (NIS 33 million as of December 31, 2016). As for deferred tax assets see Note 2C(r).

Starcom Israel has been assessed by the Income Tax Authorities up to and including the year 2012.

b. Jersey taxation

Taxable income of the Company and Starcom Jersey is subject to tax at the rate of zero percent for the years 2017 and 2016.

c. USA taxation

Taxable income of Starcom Inc. is subject to the Corporate Federal taxes in the United States of America and to the taxes set in the States in which it sells its products and services.

d. Detail of tax income:

Since the recording of a deferred tax asset is limited to the amount of deferred tax liabilities, no deferred tax income was recorded in 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 9 - OTHER ACCOUNTS PAYABLE

	December 31	
	<u>2017</u>	<u>2016</u>
Employees and payroll accruals	242	166
Accrued expenses	9	12
	<u>251</u>	<u>178</u>

NOTE 10 - LONG-TERM LOANS FROM BANKS, NET OF CURRENT MATURITIES

1. Composition:

	December 31	
	<u>2017</u>	<u>2016</u>
Long-term liability	434	686
Less: current maturities	(279)	(314)
	<u>155</u>	<u>372</u>

2. Aggregate maturities of long-term loans for years subsequent to December 31, 2017 are as follows:

	<u>Amount</u>
First year	279
Second year	81
Third year	49
Fourth and Fifth years	25
	<u>434</u>

3. Additional information regarding long-term loans:

<u>Loan #</u>	<u>Date Received</u>	<u>Amount Received NIS (U. S. dollars)</u>	<u>Annual Interest Rate</u>	<u>Loan Terms and Maturity Dates</u>	<u>Interest Payment Terms</u>
1.	January 22, 2014	1,900 (\$ 548)	Prime + 1.8%	55 equal monthly installments including principal and interest	Monthly commencing 22 February 2014
2.	January 28, 2014	675 (\$195)	Prime + 0.8%	60 equal monthly installments including principal and interest	Monthly commencing 22 February 2014
3.	September 20, 2013	950 (\$ 279)	Prime + 0.9%	60 equal monthly installments including principal and interest	Monthly commencing 20 October 2013
4.	May 06, 2015	600 (\$ 173)	Prime + 1.8%	61 equal monthly installments including principal and interest	Monthly commencing 25 June 2015
5.	November 11, 2015	100 (\$ 29)	Prime + 3.5%	36 equal monthly installments of principal not including interest	Monthly commencing 25 December 2015
6.	December 2, 2015	295 (\$ 85)	Prime + 0.15%	36 equal monthly installments including principal and interest	Monthly commencing 2 January 2016
7.	June 6, 2016	400 (\$ 115)	Prime + 0.9	60 equal monthly installments including principal and interest	Monthly commencing 20 July 2016
8.	Match 28, 2017	168 (\$ 48)	Prime – 0.5%	60 equal monthly installments including principal and interest	Monthly commencing 18 April 2017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 11- COMMITMENTS AND CHARGES

a. Operating lease commitments:

1. Starcom Israel rents offices and signed operating leases commencing February 2017 for a period of three years with an option for three additional years

Rent expenses for the years ended December 31, 2017 and 2016 were in the amounts of \$73 thousand and \$137 thousand, respectively.

Total of future minimum lease payments under non-cancellable operating

leases for each of the following periods as of December 31, 2017:

Not later than one year	80
Later than one year and not later than five years	87
	<u>167</u>

2. Starcom Israel signed operating leases for rental of vehicles for a period of 36 months. Rent expenses for the vehicles for the years ended December 31, 2017 and 2016 were in the amounts of \$43 thousand and \$25 thousand, respectively. The lease contract might be cancelled at any time, followed by a fine of one month per each remaining year according to its contract.

b. Charges:

1. A first class current general charge in favor of a bank was placed on all Starcom Israel's assets.
2. A charge in favor of a bank was placed on Starcom Israel's vehicles.
3. A first class charge in favor of a bank was placed on Starcom Israel's bank account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 12 - EQUITY

- a. Composition – common stock of no par value, issued and outstanding – 240,409,513 shares and 152,830,680 shares as of December 31, 2017 and December 31, 2016, respectively.
- b. The Company's share grants to its holder voting rights, rights to receive dividends and rights to net assets upon dissolution.
- c. **Issue of Shares and Mobilization of Capital**
 1. During January and February 2016, the Company issued a total of 4,564,270 Ordinary Shares in connection with the company's unsecured convertible Loan Facility (the "Loan Facility") signed October 2015, with YA Global Master SPV Ltd ("YA"), on the conversion of \$100 thousands loan principal and accrued interest (amounting in aggregate to \$101,458 (£70,401)).
 2. During March 2016, the Company raised £ 450 (\$648) thousands before expenses, of which \$204 thousands were issued to related parties in order to partially set off their credit balances.
 3. During October 2016, The Company raised £300 (\$369) thousands before expenses, with new and existing shareholders, through a placing of 12,000,000 new Ordinary Shares of no par value at a price of 2.5p per Placing Share.
 4. During November 2016, the Company raised £150 (\$187) thousand before expenses, with new and existing shareholders through a placing of 5,000,000 new Ordinary Shares at a price of 3p per Placing Share.

Regarding issuance of shares during the reported year, see Note 1.

d. Share-based payment

The following table lists the number of share options, the exercise prices of share options during the current year:

	2017		2016	
	Number of options	Weighted average exercise price £	Number of options	Weighted average exercise price £
Share options outstanding at beginning of year	7,574,033	0.092	3,174,033	0.15
Share options granted during the year	25,155,614	0.025	4,400,000	0.05
Share options outstanding at end of year	<u>32,729,647</u>	<u>0.041</u>	<u>7,574,033</u>	<u>0.09</u>
Share options exercisable at end of year	<u>15,835,967</u>	<u>0.055</u>	<u>4,974,033</u>	<u>0.11</u>

NOTE 12 - EQUITY (cont.)

d. Share-based payment (cont.)

1. During July 2016, the Company issued to its directors and senior management 4,400,000 Options for purchase of 4,400,000 of Company shares at exercise price of 0.05£ per share. The following table list the inputs to the Black and Scholes model used for the grants:

	Directors and Senior Management	Directors
Fair value at the measurement date	£0.0198	£0.0198
Quantity	2,400,000	2,000,000
Dividend Yield (%)	-	-
Expected Volatility (%)	78.6	78.6
Risk-free interest rate (%)	1.188	1.188
Share price	£0.02875	£0.02875
Vesting period (years)	1-3	1-2
Expiration period (years)	10	10

Total expenses recorded in regard to these Options in the statement of comprehensive income for the reported year amounted to \$65 thousand.

2. During June 2017, the Company issued to its directors and senior management 16,093,680 Options for purchase of 16,093,680 of Company shares at exercise price of £0.025 per share. The following table list the inputs to the Black and Scholes model used for the grants:

	Directors and Senior Management	Directors
Fair value at the measurement date	£0.0171	£0.0183
Quantity	12,070,260	4,023,420
Dividend Yield (%)	-	-
Expected Volatility (%)	78.6	78.6
Risk-free interest rate (%)	1.188	1.188
Share price	£0.01625	£0.01625
Vesting period (years)	0.5-1.5	0.5-1.5

Total expenses recorded in regard to these Options in the statement of comprehensive income for the years 2017 and 2016 amounted to \$109 thousands and \$19 thousands, respectively.

3. During June 2017, together with the placing of Ordinary Shares, the Company issued warrants over new Ordinary Shares on the basis of one warrant for every 5 placing shares (Total amount of warrants issued – 8,666,667) exercisable at the price of £0.025, per ordinary share and will expire twelve month following admission of the placing shares to trading on the AIM.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 12 - EQUITY (cont.)**d. Share-based payment (cont.)**

4. During June 2017 the Company granted its advisors Warrants to subscribe for 395,267 new Ordinary Shares at 1.5p per share. The Warrants are fully vested upon grant. Any unexercised options expire at the end of 5 years from grant. No expenses were recorded in regard to these Options in the statement of comprehensive income.

NOTE 13 - COST OF SALES

	Year Ended December 31,	
	2017	2016
Purchases and other	3,181	2,406
Amortization	408	360
Decrease (Increase) in inventory	(229)	946
	<u>3,360</u>	<u>3,712</u>

NOTE 14 - GENERAL AND ADMINISTRATIVE EXPENSES

	Year Ended December 31,	
	2017	2016
a. Salaries and related expenses (see also Note 18d)	1,082	1,120
Office rent and maintenance	218	*376
Car maintenance	123	*90
Professional services (1)	340	355
Doubtful accounts and bad debts	66	170
Depreciation	102	75
Other	264	200
	<u>2,196</u>	<u>2,386</u>

* Reclassified.

- (1) Including share based payment to directors and senior management in the amounts of \$174 and \$21 thousand for the years ended December 31, 2017 and 2016, respectively. See also Note 12d.

b. Average Number of Staff Members by Category:

	Year Ended December 31,	
	2017	2016
Sales and marketing	6	9
Research and development	4	4
General and administrative	12	19
	<u>22</u>	<u>32</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 15 - OTHER INCOME

	Year Ended December 31,	
	2017	2016
Capital gain from sale of fixed assets	19	-
Other income	3	24
	<u>22</u>	<u>24</u>

NOTE 16A - FINANCE INCOME

	Year Ended December 31,	
	2017	2016
Exchange rate differences	41	19
	<u>41</u>	<u>19</u>

NOTE 16B - FINANCE COSTS

	Year Ended December 31,	
	2017	2016
Exchange rate differences	245	78
Interest to banks and others	121	45
Interest to related parties	33	13
Bank charges	83	70
Interest to suppliers	20	21
	<u>(502)</u>	<u>(227)</u>
Net finance costs	<u>461</u>	<u>208</u>

NOTE 17 - EARNINGS PER SHARE

Weighted average number of shares used in computing basic and diluted earnings per share:

	Year Ended December 31,	
	2017	2016
Number of shares	<u>187,031,676</u>	<u>131,248,154</u>

NOTE 18 - RELATED PARTIES

- a. The related parties that own the controlling shares in the Group are:
Mr. Avraham Hartman (9.2%), Mr. Uri Hartman (9.8%), Mr. Doron Kedem (9.8%).

- b. Short-term balances:

	December 31	
	2017	2016
Credit balances	(525)	(82)
Loans	(188)	(292)
	<u>(713)</u>	<u>(374)</u>

NOTE 18 - RELATED PARTIES (cont.)

c. Shareholders' credit balances are linked to the New Israel Shekel ("NIS"). Loans from shareholders accrue 8% annual interest.

d. Transactions:	Year Ended December 31,	
	2017	2016
Key management compensation:		
Total salaries and related expenses for shareholders	465	496
Total share-based payment	174	19

e. Directors and the shareholders of the Group are each entitled to benefits, in addition to salaries, that include a vehicle, meals, cellular phones and a professional enrichment fund. Concurrently, the Group deposits for them amounts in a restricted benefit plan for implementation upon completion of their employment.

NOTE 19 - FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISKS

a. Financial Risk Factors:

The Group's operations expose it to a variety of financial risks, including: market, currency, credit and liquidity risks. The comprehensive Group plan for risk management focuses on the fact that it is not possible to predict financial market behavior and an effort to minimize possible negative effects on Company financial performance.

In this Note, information is stated in regard to Group exposure to each of the risks abovementioned and the handling of these risks. Risk management and capital are handled by the Group management that identifies and evaluates financial risks.

1) Exchange rate risk

Group operations are exposed to exchange rate risks arising mainly from exposure of loans that are linked to the NIS from banks, suppliers and others.

2) Credit risk

Credit risks are handled at the Group level. These risks arise from cash and cash equivalents, bank deposits and unpaid receivable balances. Cash and cash equivalent balances of the Group are deposited in an Israeli bank. Group management is of the opinion that there is insignificant credit risk regarding these amounts.

3) Liquidity risks

Cautious management of liquidity risks requires that there will be sufficient amounts of cash to finance operations. Group management currently examines projections regarding liquidity surpluses deriving from cash and cash equivalents. This examination is based on projected cash flows, in accordance with procedures and limitations determined by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 19 - FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISKS (cont.)

b. Linkage terms of financial instruments:

Group exposure to Index and foreign currency risks, based on par value, except for derivative financial instruments is as follows:

	NIS		December 31, 2017			Total
	Unlinked	Variable Interest	U.S. Dollar	GBP	Euro	
			Unlinked			
Financial Assets:						
Cash and cash equivalents	12	-	78	-	3	93
Short-term deposit	-	55	-	-	-	55
Trade receivables, net	383	-	1,287	13	89	1,772
Other accounts receivable	101	-	-	-	-	101
Financial Liabilities:						
Short-term bank credit	-	(227)	-	-	-	(227)
Trade payables	(988)	-	(470)	(32)	(32)	(1,522)
Convertible unsecured loans	-	-	(131)	-	-	(131)
Other accounts payable	(247)	-	(4)	-	-	(251)
Related parties	-	(713)	-	-	-	(713)
Long-term loans from banks	-	(434)	-	-	-	(434)
	<u>(739)</u>	<u>(1,319)</u>	<u>760</u>	<u>(19)</u>	<u>60</u>	<u>(1,257)</u>

NOTE 19 - FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISKS (cont.)

b. Linkage terms of financial instruments: (cont.)

	NIS		December 31, 2016			Total
	Unlinked	Variable Interest	U.S. Dollar	GBP	Euro	
			Unlinked			
Financial Assets:						
Cash and cash equivalents	3	-	21	6	5	35
Short-term deposit	-	57	-	-	-	57
Trade receivables, net	187	-	1,144	5	55	1,391
Other accounts receivable	65	-	-	-	-	65
Financial Liabilities:						
Short-term bank credit	-	(265)	-	-	-	(265)
Trade payables	(267)	-	(1,201)	(18)	(9)	(1,495)
Other accounts payable	(178)	-	-	-	-	(178)
Related parties	-	(374)	-	-	-	(374)
Long-term loans from banks	-	(686)	-	-	-	(686)
	<u>(190)</u>	<u>(1,268)</u>	<u>(36)</u>	<u>(7)</u>	<u>51</u>	<u>(1,450)</u>

Analysis of Sensitivity to Changes in the Exchange Rate of the U.S. Dollar Against the NIS:

	<u>5% Increase in Exchange Rate</u>	<u>5% Decrease in Exchange Rate</u>
For the Year Ended		
December 31		
2017	(103)	103
2016	(73)	73

Analysis of Sensitivity to Changes in the Exchange Rate of the U.S. Dollar Against the Euro:

	<u>5% Increase in Exchange Rate</u>	<u>5% Decrease in Exchange Rate</u>
For the Year Ended		
December 31		
2017	(3)	3
2016	(3)	3

Analysis of Sensitivity to Changes in the Exchange Rate of the U.S. Dollar Against the GBP:

	<u>5% Increase in Exchange Rate</u>	<u>5% Decrease in Exchange Rate</u>
For the Year Ended		
December 31		
2017	(1)	1
2016	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 19 - FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISKS (cont.)

c. Fair value

As of December 31, 2017, there was no difference between the carrying amount and fair value of the Company's financial instruments that are presented in the financial statements not at fair value.

d. Convertible unsecured loans

1. In March 2017, the Company drawn tranche of \$330 thousands before expenses, from the YA Loan Facility, repayable within one year from the date of drawdown and bears annual interest rate of 7%.
During the reported year the Company repaid a total amount of \$269 thousands, of the loan's principal. See also Note 22.
2. During September 2017, the company signed a convertible loan agreement with a third party in the amount of \$100 thousands before expenses. The loan bears monthly interest of 3% and includes an option to convert the loan to ordinary shares upon the Company's decision.
During the reported year the Company repaid a total amount of \$30 thousands, of the loan's principal amount. See also Note 22.

NOTE 20 - CUSTOMERS AND GEOGRAPHIC INFORMATION

- a.** Major customers' data as a percentage of total sales to unaffiliated customers:

	Year Ended December 31,		
	2017	2016	2015
Customer A	15%	5%	7%
Customer B	8%	5%	4%
Customer C	7%	5%	4%

- b.** Breakdown of Consolidated Sales to unaffiliated Customers according to Geographic Regions:

	Year Ended December 31,		
	2017	2016	2015
Latin America	13%	16%	25%
Europe	19%	17%	11%
Africa	27%	38%	37%
Asia	14%	14%	11%
Middle East	24%	14%	14%
North America	3%	1%	2%
Total	100%	100%	100%

NOTE 21 - SEGMENTATION REPORTING

The Group has four main reportable segments, as detailed below:

Reported operating segments include: Hardware and SAS.

For each of the strategic divisions, the Group's CEO reviews internal management reports on at least a quarterly basis.

There are no inter-segment sales. Information regarding the results of each reportable segment is included below. Performance is measured based on segment gross profit included in the internal management reports that are reviewed by the Group's CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments.

Segment information regarding the reported segments:

	<u>Hardware</u>	<u>SAS</u>
Year Ended		
31.12.2017:		
Segment revenues	3,715	1,725
Cost of sales	<u>(3,166)</u>	<u>(194)</u>
Gross profit	549	1,531
Year Ended		
31.12.2016:		
Segment revenues	3,382	1,749
Cost of sales	<u>(3,459)</u>	<u>(253)</u>
Gross profit/ (loss)	(77)	1,496

NOTE 22 - EVENTS AFTER THE REPORTING DATE

1. All outstanding balance as of 31 December 2017 of convertible unsecured loans, were fully repaid during February 2018.
2. The Company has negotiated additional loan facilities to satisfy working capital requirements but may from time to time decide to make further equity issues if appropriate to assist in the growth of the business.
3. In January 2018, the Company raised an amount of £315 thousands before expenses through placing of Ordinary Shares at the price of 2.25p per share.