STARCOM Plc

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

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CHAIRMAN'S STATEMENT

I am pleased to report that the Final Audited Statement for the year ended 31 December 2018 shows further improvement in the Company's financial performance. The main financial achievement of 2018 was that the Company approached EBITDA breakeven, finishing the year with a small EBITDA loss of $8,000 (2017: EBITDA loss of $193,000).

Revenue for the year increased by 10% to $6.0m (2017: $5.4m). Net losses for the year were reduced by 32% to $920,000 (2017: $1.35 million). Gross margin improved to 40% (2017: 38%).

PRODUCT REVIEWS

The revenue mix in 2018 improved on 2017, with the higher margin and recurring Software as a Service (SaaS) revenues increasing by 18% to $2.0m (2017: $1.7m), representing nearly 34% of total revenues (2017: 32%).

In hardware sales, the more profitable products such as the Tetis, Kylos and Watchlock represented over half (52%) of product revenues (2017: 42%), demonstrating that the Company is becoming less reliant on its original, lower margin, Helios products which had dominated the Company's revenues in previous years.

Helios
The Helios product range, designed for vehicles, contributed 48% of hardware revenues (2017: 58%). Whilst the Company's reliance on the product is slowly decreasing, it was still a core area of growth, with a number of long-time customers, as well as some new clients, placing orders. This is trend is expected to continue. New features and adaptations to the Helios have maintained demand in our core markets and now allow the Company to offer a more efficient fleet management solution for its end clients.

Helios successes in 2018 included a contract for $1.1m with the Company's North African distributor, announced in November 2018. The first payment was received at the beginning of 2019 and, whilst some software revenues have been recognised in 2018, the hardware will be shipped in the new financial year with the majority of the revenues recognised accordingly. The agreement also provides for the potential supply of further equipment on similar terms during 2019, but no firm order has yet been received for these.

Kylos
The Company has been working with a number of companies in the agricultural sector to develop a range of products to help improve productivity. One such strategic relationship in this industry which the Company developed further in 2018 is with CropX. A key milestone was achieved during the year when the CropX Kylos gained certification from Verizon which is expected to provide greater traction of sales for the product in the US market. CropX is currently undergoing a fund-raising process and, once this is completed, the Company should have better visibility on how the strong foundation it has established with CropX may be leveraged to yield growing orders.

The Company continues to collaborate with Bosch Connected Devices and Solutions GmBH in the German manufacturer's development of its IoT product range, which it launched during 2018. Whilst no significant orders have been placed to date, the Directors of Starcom believe that this relationship still has the potential to develop and could also provide opportunities with similar companies, leading to new streams of revenue in the future.

Tetis
During the year, the Company succeeded in developing a new and longer life battery pack for Tetis, which is now being actively promoted in the container and cargo delivery sectors. The Company's commercial agreement with WIMC Solutions Inc. ("WIMC"), announced in January 2018, is just one example of Starcom providing a bespoke solution for the issues WIMC needed to overcome.

The Company's relationship with Contguard Ltd, which was established in 2012, remains strong and the board expects to see further orders from the company in 2019. Contguard is one of Starcom's most strategic customers and, through its customer facing relationships, regularly passes on product feedback to the Company, which is crucial in R&D development.

Watchlock
During 2018, the Company launched the Watchlock Cube and succeeded in obtaining several orders for this product. However, the Company is focused now on the more advanced versions of the Watchlock in order to remain ahead of the market, as further informed below.

SaaS
The Company continued to develop its cloud-based software that clients subscribe to and connect with in order to utilise the rich data communicated from the end units - the Helios, the Kylos and the Tetis. One of Starcom's competitive advantages is its ability to offer a comprehensive solution that combines the hardware and the SaaS components. The higher margin SaaS revenues increased by 18% to approximately $2.0m (2017: $1.7m). The Directors anticipate that, as the number of products sold into the market increases, the associated SaaS subscriptions should also increase.

R&D
The Company is working with a number of companies, some not yet customers, to develop products to fit their specific industry needs and thereby creating new solutions as yet not seen in the market.

Examples of this include; an upgraded Helios unit to support the latest cellular networks (4G, LTE) and reducing manufacturing costs, enabling the Helios with Bluetooth Low Energy accessories, designing systems to integrate Helios with mobile printers and cement truck computers. The Tetis Dry is having an upgraded battery to support longer journeys, whilst Kylos Connect is being tested with a variety of new sensors to expand its uses in the IoT sector.

FINANCIAL REVIEW
Group revenues for the year were $6.0m, compared with $5.4m for the year ended 31 December 2017, an increase of 10%.

The gross margin for the year was 40%, compared with 38% for 2017.

Total operating expenditure increased by 9% to $3.27m, mainly due to non-cash expenses such as depreciation and share option provisions.

Net loss after taxation for the reported year reduced to $0.9m compared with the 2017 net loss of $1.4m, while the operating loss in the period was $0.88m, similar to an operating loss of $0.89m for 2017.

The Group benefitted from the strength of the US$, which resulted in a $0.2m exchange rate gain.

The Group balance sheet showed an increase in trade receivables to $1.9m, compared with $1.8m as at 31 December 2017, due to the increase in revenues for the period compared with 2017. However, thanks to effective collection, this was only a 7.1% increase versus a 10% revenue increase.

Group inventories at the period end were $2.0m, compared to $2.3m as at 30 June 2018 and $1.5m at the end of 2017.

Trade payables at the year-end were $1.4m, compared with $1.5m as at 31 December 2017 and $1.8m at 30 June 2018.

Net cash used in operating activities in the period was $0.7m, compared with $1.1m for the year ended 31 December 2017.

POST YEAR END EVENTS

The Company announced on 7 February 2019 an update on its agreement with Xplosive Solutions Pty Limited ("Xplosive") in South Africa for the supply of Kylos units in the monitoring of cattle. This agreement succeeded an original agreement from October 2017 that could not be implemented then as planned due to delays caused by the local providers of mobile communication. This problem is resolved now and under the new three-year agreement Xplosive will pay the Company a monthly fee for each Kylos unit to cover the product cost and the ongoing SaaS fees. The initial value of this new agreement for the period is approximately $500,000 over a 36-month period but as Xplosive signs up with more local cellular providers it is possible this figure could increase.

On 26 February 2019, with the Company announced that Zero Motorcycles Inc. ("Zero"), one of the world's leading electric motorcycle manufacturers, had launched a new range of electric motorcycles incorporating Starcom's Helios tracking and monitoring technology. The collaborative agreement was originally announced by Starcom in 2017 and, thanks to the Helios, Zero's new motorbike, the SR/F, is described, in Internet of Things (IoT) terms, as, the 'first connected motorcycle in the world'. Although initial sales are expected to be relatively low in 2019, the Directors of the Company consider that there is a significant growth opportunity in later years as the market for electric motorbikes increases.

The Company has entered into a framework agreement with Israel Chemicals Ltd ("ICL"), a NYSE listed Israeli conglomerate and a global manufacturer of products based on unique minerals for the agriculture, food and engineered materials industries. ICL is utilising Starcom's Kylos Forever technology to track and monitor its sensitive cargo as it is shipped in tanks around the world. The contract is for five-years with an initial contract value of approximately $600,000.

Starcom's new Bluetooth enabled version of its keyless Watchlock, which is to be branded "Lokies" will be launched in 2019. The Company has a number of orders pending in respect of the new Lokies and anticipates that this product will be ready for the market within the next two months. Lokies is an IoT enabled padlock that can be opened remotely and does not require a key. Based on the significant market interest in this new revolutionary lock, the Board anticipates meaningful revenues during 2019.

In February 2019, the Company received an order from Cubemonk, Inc. ("Cubemonk"), a US-based provider of "flying cargo" shipment solutions, which manufactures its own unit load devices ("ULD") specifically designed to load on aircraft. Cubemonk has chosen Starcom as its tracking partner, following a wide range of competitor testing. The Kylos Air was deemed the product which best suits its customers' needs, primarily as it is the only product in the market that can track air freight due to its unique on/off barometric sensors. The Kylos Air is being fitted at the time of build into the ULDs and Starcom has received an initial order of 300 units. The Board considers that there is an opportunity for other container manufacturers to incorporate Kylos to follow this example.

OUTLOOK

Based on the pipeline of new projects the Company has developed in recent months, together with ongoing orders from existing clients and distributors and the recurring SaaS revenues, the Company looks forward to continued progress in 2019.

The growth in SaaS revenues, coupled with higher margin sales from Tetis and Kylos as the revenue mix continues to improve, should contribute towards further improvements in gross margins in 2019. The launch of new innovative products such as Lokies are also hoped to contribute to growth in the current period.

In order to capitalise on the Company's technological strengths with a view to accelerating the growth of the business, the Board recognises the need to intensify the Company's sales and marketing efforts and intends to invest in expanding its business development team.

Michael Rosenberg
Non-Executive Chairman
17 March 2019

CORPORATE GOVERNANCE STATEMENT

General

The Board has adopted the QCA Corporate Governance Code ("the QCA Code"), further detail of on which are set out on the Company's website. The following comments are intended to provide an update on the application of these guidelines where appropriate. The Company seeks to comply with the principles of the QCA Code that the Board considers appropriate given the size and nature of the business, however, there may be certain cases where non-compliance is appropriate due to the nature of the business and its non-UK status, as explained further below.

Division of responsibilities

The Starcom Board consist of four directors, two of whom are non-executive, including the Chairman. Although Starcom is a relatively small company with a small board, the roles of Chairman and Chief Executive are separate, clearly established roles, with a clear division of responsibilities between them.

The Chairman

The Chairman is responsible for the leadership of the Board. The Chairman sets the agenda for Board meetings and encourages an open and constructive debate. Since the Company is based in Tel Aviv some Board meetings take place by conference call but at least four meetings a year take place physically in Tel Aviv with all Board members attending. During 2018 a total of 13 Board meetings were held and all directors attended all meetings either in person or by conference call. There were two audit committee meetings held during the year under review, and all members of the committee attended. There was one remuneration committee meeting held during the year under review, which all members attended.

The Non-Executive directors

As a small company, Starcom presently has two non-executive directors, namely Avi Engel and Michael Rosenberg. However, the Company is currently exploring the possibility of adding additional non-executive directors to the Board during 2019. The intention is to ensure that discussions and decisions are managed in a balanced way with no individual being able to dominate the decision-making process. There are no relationships or circumstances which could materially affect or interfere with the exercise of the judgement of the independent directors save only in respect of their holdings of shares or options in the Company as disclosed. The names of the directors with their biographical details are clearly set out on the Company's website and repeated on page 10 of this Annual Report and Accounts.

Time Commitment

Each non-executive director is required to be able to devote sufficient time to their role as a director in the light of their other commitments external to the Board. In practice, despite their limited contractual time obligations to the Board which in general are one or two days a month, the nonexecutive directors devote considerable time over and above their commitments to the Company in support of the other executive members of the Board. On average they provide at least one day a week and sometimes more to assist the management. The executive directors are fully committed to the Company and spend as much time as is needed, both in normal working hours and very often much more.

The business model and strategy

The strategic objectives of the Company are becoming very clear. The five different families of products provide a strong base for expanding the revenues of the Company from its present level to much higher levels. Although most are fully developed and already in the market, further development is ongoing to meet the ever-changing needs of the Company's various markets. It is therefore the intention to further strengthen the teams involved in this process both in marketing, sales and research and development. The Company's strategy is to seek to capitalise on the technological strength of the Company in its various sectors through further investment of time and money.

To understand and meet shareholder needs and expectations

The Board keeps in regular contact with investors with a view to understanding their needs and expectations. During 2018, presentations were made with the assistance of the Company's brokers to a number of investors and further presentations are planned together with the release of these financial statements. In addition, The Board welcomes contact from investors via the Company's brokers, PR firm and via the website. All shareholders are encouraged to attend the Company's Annual General Meetings where they can meet and directly communicate with the Board.

Taking into account wider stakeholder and social responsibilities and their implications for long term success

The Company's tracking products are sold via distributors, so it has little influence over individual product sales. Therefore, although the Company continues to monitor performance of its distribution network, is not generally in touch with end users and has limited influence on the processes followed by distributors. However, the Board constantly reviews the distribution network by measuring the performance of individual distributors. When products are manufactured by outside firms, the Company regularly inspects the production facilities and processes used.

The Board is committed to reviewing and assessing stakeholder expectations and guides the Company's senior management to act in accordance with feedback received.

Embed effective risk management

The Board is fully aware of, and monitors closely, the risks that may apply to the business. These include counterparty credit risk, forex risk and from time to time political risks in countries where the Company is actively marketing its products. It is also influenced by the covenants imposed by its bankers on credit risk for certain countries. Operational risks are identified and assessed by management and are reported to the Board when necessary. The Audit Committee also addresses these risks at its regular meetings. During 2018, management has actively been seeking to widen the manufacturing bases for the Company's products so as to lessen the reliance on any single manufacturer, thus minimising risk to the business. In order to monitor risk, regular visits are made to the manufacturing facility and the Board is informed of any issues that need addressing. The key risks facing the Company together with any mitigation taken are considered further on pages 12 of this document.

Ensure that the directors have the necessary up to date experience and skills

The Board believes that the directors are fully aware of their responsibilities and the need to maintain their knowledge through, where appropriate, regular attendance at conferences and with regard to regulatory matters through regular contact with the nominated adviser. Whilst the Directors did not seek any external advice on any significant matter during the year under review, each director has direct access to the advice and services of independent professional advisers in the furtherance of their duties.

While it is aware of the need to consider succession planning it does not consider this a priority at this stage in the development of the business. Due to the size and nature of the Board, there is no formal board performance evaluation process in place. However, the Chairman is responsible for informally evaluating the performance of board members, providing feedback where necessary.

Ethical matters

As a small company the Directors are constantly in touch with members of the staff. There are only 20 members based in the office in Israel and their needs and aspirations are regularly reviewed.

Main governance structures and processes

The chairman, Michael Rosenberg has responsibility for ensuring proper corporate governance and can also rely on the support of the CFO, Mr Vatenmacher who is also very familiar with corporate governance requirements.

Further information on the Board and its Committees:

Michael Rosenberg *(Non-Executive Chairman)*

Michael has many years' experience both as a corporate financier and as an entrepreneur, involved in a number of new businesses in the healthcare, media and financial sectors. He has considerable global experience having been chairman of the UK DTI committee on trade with Hong Kong and as member of the China Britain business Council. He was, for many years, also chairman of the British Export Healthcare Association now known as ABHI and led a number of UK trade mission overseas. He was a founder of the investment bank now known as Numis Securities where he served as chairman for a number of years until his retirement in 1999.

Over many years he has also served on the boards of other Israeli companies listed on AIM including Pilat Media Global plc as well as several other non-listed companies. He is presently a director of Ion Pacific (UK) Ltd, the UK subsidiary of a new Hong Kong based merchant bank and is authorised by the FCA to represent the bank in the UK.

Avi Hartmann *(Chief Executive Officer)*

Avi has spent his life as an entrepreneur focused on the technology of tracking systems. He was a founder of Mobiltel Communications Services, which was purchased by Pelephone in Israel in 1999. Together with his son Uri Hartmann and his then partner, Doron Kedem he founded Starcom plc in 2004.

Avi Engel *(Non-Executive Director)*

Avi founded and led Pilat Media Global plc as its CEO until its sale in March 2014 at a valuation of $100m. He brings a wealth of experience to the Board, in developing and growing a global business and assessing their strategic needs. Pilat was dual listed on the Tel Aviv Stock Exchange and AIM, and so Avi has a good knowledge of the needs and requirements of companies listed on AIM and the regulatory environment. He has a BSc in industrial and management engineering from the Haifa Technion and an MBA from the Tel Aviv University.

Igor Vatenmacher *(Chief Financial Officer)*

Igor is a certified public accountant in Israel and has a Bachelor's degree in Economics from the Ben Gurion University of the Negev, and an executive MBA degree with honours specialising in financing, banking, capital markets and financial engineering from the Hebrew University in Jerusalem. He began his career with Ernst and Young. Igor joined Starcom in December 2017 and brings highly qualified accounting experience to the Company, and, since his appointment, has assisted with the development of more sophisticated internal systems and controls essential to the growth of the business. He joined the Board of the Company in January 2019.

Audit Committee

The Audit Committee consists of non-executive Directors, Avi Engel and Michael Rosenberg, and is chaired by Avi Engel. The Audit Committee, inter alia, determines and examines matters relating to the financial affairs of the Company including the terms of engagement of the Company's auditors and, in consultation with the auditors, the scope of the annual audit. The Audit Committee met twice during 2018. On 6 March 2018 the Audit Committee reviewed the financial statements for the year ended 31 December 2017, paying particular attention to the valuation of stock and the level of debtors with a view to making provisions where necessary. The Audit Committee met on 15 August 2018 to consider the interim financial statements for the six months ended 30 June 2018. Again, the Committee focused on stock valuation and debtor levels, as well as the reported gross margin. The Board considers that, given the size and nature of the business, it is not beneficial to include a full audit committee report in the annual report and accounts for 2018. This will be kept under annual review by the Board.

Remuneration Committee

The Remuneration Committee reviews the performance of the directors and makes recommendations to the Board on matters relating to their remuneration and terms of employment. The committee also makes recommendations to the Board on proposals for the granting of share options and other equity incentives pursuant to any share option scheme or equity incentive scheme in operation from time to time. The committee meets as and when necessary to assess the suitability of candidates proposed for appointment by the Board, but not less than once per annum. Members of the remuneration committee comprise Michael Rosenberg, who acts as chairman of the committee, with Avi Engel as a member.

The Company's Chairman has been on a fixed fee arrangement since the Company's admission to AIM in February 2013. Therefore, during the financial year under review, it was resolved that his fees, which are payable to Eastkings Ltd, should be increased to £40,000 per annum from £35,000 per annum. The Committee also discussed remuneration of the executive directors and senior management and further discussions were agreed to be held over the next few months in the light of the performance of the Company and to consider appropriate performance bonus targets.

The Board considers that, given the size and nature of the business, it is not beneficial to include a remuneration committee report in the annual report and accounts for 2018. This will be kept under annual review by the Board.

On behalf of the board,

M. Rosenberg, Chairman

17 March 2019 London

Starcom Plc

Directors' Report

for the Year Ended December 31, 2018

The directors present the annual report together with the financial statements and auditors' report for the year ended December 31, 2018.

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, 2018 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

Directors Remuneration

Directors remuneration as of 31.12.2018: (All amounts presented in Thousands USD)

Executive Director	**Salary (*)**	**Pension**	**Fees (**)**
A Hartmann	176	13	-
Non-Executive Directors			
M Rosenberg	-	-	49
A Engel	-	-	45
Total 2018	**189**	**13**	**94**

- (*) Salary is based on base salary, in addition, Mr. A Hartmann use a vehicle, which is company's asset.
- (**) During the reported period it was approved to increase Chairman, Mr. Michael Rosenberg salary to £40,000 annum.
  Chairman Salary is £ based, Other salaries and fees are nominated and linked to ILS

Directors' remuneration in share options: (In thousands)

Executive Director	01/01/18	Exercised	Vested/ (Expired)	31/12/18	Granted (*)
A Hartmann	533	-	2,778	3,311	2,500
Non-Executive Directors					
M Rosenberg	1,711	-	1,006	2,717	2,500
A Engel	1,000	-	1,006	2,006	2,000

(*) Further details regarding the grants are detailed in note 12 within the financial report.

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. <u>There are no financial instruments in use at the date of this report</u>.

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

17 March 2019 London

Barzily&Co.
Certified Public Accountants
ברזלי ושות', רואי חשבון

Jerusalem, March 17, 2019

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, 2018 and 2017 and the related consolidated statements of comprehensive income, changes in 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, 2018 and 2017 and the consolidated results of its operations, changes in 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

	Note	December 31, 2018	2017
ASSETS			
NON-CURRENT ASSETS :			
Property, plant and equipment, net	6	521	303
Intangible assets, net	7	2,279	2,457
Income tax authorities		46	44
Total Non-Current Assets		2,846	2,804
CURRENT ASSETS:			
Cash and cash equivalents		89	93
Short-term bank deposit	5	60	55
Trade receivables, net	3B	1,897	1,772
Other accounts receivable	3A	87	101
Inventories	4	2,025	1,485
Total Current Assets		4,158	3,506
TOTAL ASSETS		7,004	6,310
EQUITY AND LIABILITIES			
EQUITY	12	3,861	3,032
NON-CURRENT LIABILITIES:			
Long-term loans from banks, net of current maturities	10	50	155
Long term leasehold liabilities	2Cw	70	-
Total Non-Current Liabilities		120	155
CURRENT LIABILITIES:			
Short term bank credit		28	227
Short term bank loan	20	462	-
Current maturities of long-term loans from banks	10	44	279
Convertible unsecured loans	19d	-	131
Trade payables		1,412	1,522
Other accounts payable	9	372	251
Leasehold liabilities	2Cw	124	-
Related parties	18	581	713
Total Current Liabilities		3,023	3,123
TOTAL EQUITY AND LIABILITIES		7,004	6,310

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

March 17, 2019		
Date of Approval of the Financial Statements	Igor Vatenmacher CFO	Avi Hartmann CEO

STARCOM Plc

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Note	Year Ended December 31 2018	2017
Revenues		5,994	5,440
Cost of sales	13	(3,576)	(3,360)
Gross profit		2,418	2,080
Operating expenses:			
Research and development		(224)	(237)
Selling and marketing		(621)	(558)
General and administrative expenses	14	(2,424)	(2,196)
Other Income (expenses)	15	(31)	22
Total operating expenses		(3,300)	(2,969)
Operating loss		(882)	(889)
Finance income	16A	302	41
Finance costs	16B	(251)	(502)
Net finance Income (costs)		51	(461)
Loss before taxes on income		(831)	(1,350)
Taxes on income due to previous years	8	(89)	-
Total comprehensive loss for the year		(920)	(1,350)
Loss per share:			
Basic and diluted loss per share	17	(0.003)	(0.007)

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

	Share Capital	Premium on Shares	Capital Reserve	Capital Reserve in Regard to Share-Based Payment Transactions	Accumulated Loss	Total
Balance as of January 1, 2017	-	8,332	89	428	(6,105)	2,744
Proceeds from issued share capital, net of mobilization costs (see Note 12)	-	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
Proceeds from issued share capital, net of mobilization costs (see Note 1)	-	1,379	-	-	-	1,379
Exercise of warrants (see Note 1)	-	150	-	-	-	150
Share based payment (see Note 12d)	-	-	-	220	-	220
Share based payment expiration	-	135	-	(135)	-	-
Comprehensive loss for the year	-	-	-	-	(920)	(920)
Balance as of December 31, 2018	-	11,460	89	687	(8,375)	3,861

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,	
	2018	**2017**
CASH FLOWS FOR OPERATING ACTIVITIES:		
Loss for the year	(920)	(1,350)
Adjustments to reconcile loss for the year to net cash used in operating activities:		
Depreciation and amortization	623	510
Interest expense and exchange rate differences	23	92
Share-based payment expense	220	174
Capital gain	-	(19)
Changes in assets and liabilities:		
Decrease (Increase) in inventories	(540)	(229)
Increase in trade receivables	(125)	(381)
Decrease (Increase) in other accounts receivable	14	(36)
Increase in Income Tax Authorities	(2)	(10)
Increase (Decrease) in trade payables	(110)	96
Increase in other accounts payable	122	73
Net cash used in operating activities	(695)	(1,080)
CASH FLOWS FOR INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(109)	(144)
Proceeds from sales of property, plant and equipment	-	61
Decrease (Increase) in short-term deposits	(5)	2
Cost of intangible assets	(256)	(264)
Net cash used in investing activities	(370)	(345)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of short-term bank credit, net	(199)	(38)
Receipt of short-term loan, net	462	-
Proceeds from (Repayment of) convertible unsecured loans, net	(131)	131
Proceeds from (Repayment to) related parties, net	(132)	406
Payment for Leasehold liabilities	(109)	-
Receipt of long-term loans	93	46
Repayment of long-term loans	(452)	(357)
Proceeds from exercise of warrants	150	-
Consideration from issue of shares, net	1,379	1,295
Net cash provided by financing activities	1,061	1,483
Increase (Decrease) in cash and cash equivalents	(4)	58
Cash and cash equivalents at the beginning of the year	93	35
Cash and cash equivalents at the end of the year	89	93
Appendix A – Additional Information		
Interest paid during the year	(30)	(101)
Appendix B – Non-cash financing activities		
Issuance of share to related parties (in payment of related parties loans)	-	100
Conversions to shares of trade payables	-	69

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

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 incorporated in Jersey.

During the reported year, Starcom Systems America Inc., a fully owned subsidiary, terminated its activity, which caused a loss of $38 thousand to the Group results.

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: Forum 4, Grenville Street, St Helier, Jersey, Channel Islands, JE4 8TQ.

1. During January 2018, the Company raised £315 ($439) thousand before expenses through a placing of 14,000,000 Ordinary Shares.
2. During May 2018, the Company raised £365 ($486) thousand before expenses through a placing of 14,600,000 Ordinary Shares,
3. During the reported year, 4,440,000 warrants were exercised into Ordinary Shares in consideration of £111 ($155) thousand before expenses. See also note 12d(3).
4. During November 2018, the Company raised £400 ($527) thousand before expenses through a placing of 20,000,000 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.

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. The Group – Starcom Plc. and the Subsidiaries.
7. 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 March 17, 2019.

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.

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.

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES

a. Basis of consolidation

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

U.S. Dollars in thousands

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

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,	
	2018	**2017**
CPI (in points) *	124.3	123.3
Exchange Rate of U.S. $ in NIS	3.748	3.467

	Year Ended December 31,	
	2018	**2017**
Change in CPI	0.8%	0.4%
Change in Exchange Rate of U.S. $	8.1%	(9.8%)

* 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.

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

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.

i. Leases

See Note 2C(w).

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

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.

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.

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

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.

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.

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

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.

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.

- 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.

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

r. Taxes (cont.)

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.

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.

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

w. New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018.
The Group has early adopted IFRS 16 as follows:

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is disclosed as follows:

Significant accounting policy

Policy applicable from 1 January 2018:
At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
- the Group has the right to operate the asset; or
- the Group designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after 1 January 2018.
At inception or on reassessment of a contract that contains a lease component, the Group
allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

w. New standards, interpretations and amendments adopted by the Group (cont.)

Policy applicable before 1 January 2018

For contracts entered into before 1 January 2018, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take morethan an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

As a lessee

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

w. New standards, interpretations and amendments adopted by the Group (cont.)

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

<u>Short-term leases and leases of low-value assets</u>

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

In the comparative period, as a lessee the Group classified leases that transfer substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent.

Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognized in the Group's statement of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

<u>Under IAS 17</u>

In the comparative period, as a lessee the Group classified leases that transfer substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent.

Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset.

U.S. Dollars in thousands

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

w. New standards, interpretations and amendments adopted by the Group

Assets held under other leases were classified as operating leases and were not recognized in the Group's statement of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

As a lessee

'Property, plant and equipment' comprise owned and leased assets that do not meet the definition of investment property.

The Group leases assets including buildings and vehicles. Information about leases for which the Group is a lessee is presented below.

Right-of-use assets

	Property	Vehicles	Total
Balance at January 1, 2018	159	80	239
Additions during the year	-	58	58
Depreciation charge for the year	(80)	(38)	(118)
Balance at December 31, 2018	79	100	179

Lease liabilities

Maturity analysis – contractual undiscounted cash flows

Less than one year	130
One to five years	72
Total undiscounted lease liabilities at December 31, 2018	202

Lease liabilities included in the statement of financial position at December 31, 2018

Current	124
Non-current	70
Total lease liabilities at December 31, 2018	194

Amounts recognized in profit or loss

Interest on lease liabilities	(9)

Amounts recognised in statement of cash flows

Total cash outflow for leases	(109)

U.S. Dollars in thousands

NOTE 3A - OTHER ACCOUNTS RECEIVABLE

	December 31	
	2018	2017
Government institutions	76	101
Prepaid expenses	11	-
	87	101

NOTE 3B - TRADE RECEIVABLES, NET

	December 31	
	2018	2017
Group receivables	1,945	1,820
Net of allowance for doubtful accounts	(48)	(48)
	1,897	1,772

NOTE 4 - INVENTORIES

	December 31	
	2018	2017
Raw materials	1,492	979
Finished goods	533	506
	2,025	1,485

See also Note 13.

NOTE 5 - SHORT-TERM BANK DEPOSIT

The deposit sums of $60 and $55 for the years ended December 31, 2018 and 2017, 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 principals. The deposit bears yearly interest at the rate of 1%.

U.S. Dollars in thousands

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 2018	176	118	66	49	242	651
Additions during the year	15	-	91	3	-	109
Balance as of December 31 2018	191	118	157	52	242	760
Accumulated Depreciation:						
Balance as of January 1 2018	136	71	62	6	73	348
Depreciation during the year	14	8	7	5	36	70
Balance as of December 31 2018	150	79	69	11	109	418
Net book value as of December 31 2018	41	39	88	41	133	342

Right-of-use assets **

	Property	Vehicles*	Total
Balance at January 1, 2018	159	80	239
Additions during the year	-	58	58
Depreciation charge for the year	(80)	(38)	(118)
Balance at December 31, 2018	79	100	179

* See also Note 11.
** See also Note 2Cw

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 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	176	118	66	49	242	651
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	136	71	62	6	73	348
Net book value as of December 31 2017	40	47	4	43	169	303

* See also Note 11.

U.S. Dollars in thousands

NOTE 7 - INTANGIBLE ASSETS, NET

	Total
Cost:	
Balance as of January 1 2018	4,202
Additions during the year	256
Balance as of December 31 2018	4,458
Accumulated Amortization:	
Balance as of January 1 2018	(1,543)
Amortization during the year	(434)
Balance as of December 31 2018	(1,977)
Accumulated Impairment of assets	(202)
Net book value as of December 31 2018	2,279

	Total
Cost:	
Balance as of January 1 2017	3,938
Additions during the year	264
Balance as of December 31 2017	4,202
Accumulated Amortization:	
Balance as of January 1 2017	(1,135)
Amortization during the year	(408)
Balance as of December 31 2017	(1,543)
Accumulated Impairment of assets	(202)
Net book value as of December 31 2017	2,457

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 2C g and Note 2C k.

NOTE 8 - TAXES ON INCOME

a. Israeli taxation

1. The Israeli corporate tax rate in 2018 is 23% and for 2017 was 24%.
   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 was to a rate of 24% as of January 2017 and the second step was to a rate of 23% as of 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, 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 was entitled to a tax rate of 9% during 2015. During 2016 an amendment to the law was confirmed according to which an eligible company in Development Area A is entitled to a tax rate of 7.5% as of 2017.
   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 2018.

3. **Income Tax audit**
   The company completed its tax audit process for the years 2013-2017 and agreed to pay a total amount of NIS 334 ($89) to the Israeli Tax Authorities. The initial tax authorities assessments based on judgement for years 2013-2014 was NIS 7,285.

4. Starcom Israel has carryforward operating tax losses of approximately NIS 29 million as of December 31, 2018 (NIS 20 million as of December 31, 2017). 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 2017.

b. Jersey taxation

Taxable income of the Company and Starcom Jersey is subject to tax at the rate of zero percent for the years 2018 and 2017.

c. 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 2018.

U.S. Dollars in thousands

NOTE 9 - OTHER ACCOUNTS PAYABLE

	December 31 2018	December 31 2017
Employees and payroll accruals	255	242
Income tax (See also note 8a3)	89	-
Accrued expenses and notes payable	28	9
	372	251

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

1. Composition:

	December 31 2018	December 31 2017
Long-term liability	94	434
Less: current maturities	(44)	(279)
	50	155

2. Aggregate maturities of long-term loans for years subsequent to December 31, 2018 are as follows:

	Amount
First year	44
Second year	36
Third year	14
Fourth and Fifth years	-
	94

3. Additional information regarding long-term loans:

Loan #	Date Received	Amount Received NIS (U. S. dollars)	Annual Interest Rate	Loan Terms and Maturity Dates	Interest Payment Terms
1.	January 22, 2014	1,900 ($ 507)	Prime + 1.8%	55 equal monthly installments including principal and interest	Monthly commencing 22 February 2014
2.	June 6, 2016	400 ($ 107)	Prime + 0.9	60 equal monthly installments including principal and interest	Monthly commencing 20 July 2016
3.	June 3, 2018	150 ($40)	Prime + 3.85	36 equal monthly installments including principal and interest	Monthly commencing 20 March 2018

NOTE 11 - CHARGES

1. A first class current general charge in favor of a bank was placed on all Starcom Israel's assets. See also Note 23(2)
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.
4. A first class floating charge in favor of an Israeli bank was placed on all Starcom Israel's assets along with negative pledge. See also Note 20.

U.S. Dollars in thousands

NOTE 12 - EQUITY

a. Composition – common stock of no par value, issued and outstanding 293,449,513 shares and 240,409,513 shares as of December 31, 2018 and December 31, 2017, respectively.

b. A share from the Company 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

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

d. Share-based payment

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

	2018		2017	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		£		£
Share options outstanding at beginning of year	32,729,647	0.041	7,574,033	0.092
Share options granted during the year	10,500,000	0.033	25,155,614	0.025
Options & Warrants Exercised during the year	(4,440,000)	0.025	-	-
Options & Warrants Expired during the year	(5,293,167)	0.06	-	-
Share options outstanding at end of year	33,496,480	0.037	32,729,647	0.041
Share options exercisable at end of year	14,949,640	0.046	15,835,967	0.055

U.S. Dollars in thousands

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 years 2018 and 2017 amounted to $7 thousand and $65 thousand, respectively.

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 2018 and 2017 amounted to $123 thousand and $109 thousand, 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 months following admission of the placing shares to trading on the AIM, see also note 1a3. The remaining warrants were expired during the year.

U.S. Dollars in thousands

NOTE 12 - EQUITY (cont.)

d. Share-based payment (cont.)

4. During April 2018, the Company granted to its directors and senior management Options to subscribed for 10,500,000 shares at an exercise price of £0.0325 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	£0.019	£0.019
Quantity	6,000,000	4,500,000
Dividend Yield (%)	-	-
Expected Volatility (%)	76.8	76.8
Risk-free interest rate (%)	1.4	1.4
Share price	£0.02625	£0.02625
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 period amounted $90 thousand.

NOTE 13 - COST OF SALES

	Year Ended December 31, 2018	2017
Purchases and other	3,682	3,181
Amortization	434	408
Increase in inventory	(540)	(229)
	3,576	3,360

NOTE 14 - GENERAL AND ADMINISTRATIVE EXPENSES

	Year Ended December 31, 2018	2017
a. Salaries and related expenses (see also Note 18d)	1,163	1,082
Office rent and maintenance	236	218
Car maintenance	139	123
Professional services (1)	694	340
Doubtful accounts and bad debts	4	66
Depreciation	188	102
Other	-	265
	2,424	2,196

(1) Including share based payment to directors and senior management in the amounts of $220 and $174 thousand for the years ended December 31, 2018 and 2017, respectively. See also Note 12d.

U.S. Dollars in thousands

NOTE 14 - GENERAL AND ADMINISTRATIVE EXPENSES (cont.)

b. Average Number of Staff Members by Category:

	Year Ended December 31, 2018	2017
Sales and marketing	6	6
Research and development	3	4
General and administrative	15	12
	24	22

NOTE 15 - OTHER INCOME (EXPENSES)

	Year Ended December 31, 2018	2017
Capital gain from sale of fixed assets	-	19
Other income	7	3
Termination of Starcom America	(38)	-
	(31)	22

NOTE 16A - FINANCE INCOME

	Year Ended December 31, 2018	2017
Exchange rate differences	302	41

NOTE 16B - FINANCE COSTS

	Year Ended December 31, 2018	2017
Exchange rate differences	(80)	(245)
Interest to banks and others	(74)	(121)
Interest to related parties	(15)	(33)
Bank charges	(80)	(83)
Interest to suppliers	(2)	(20)
	(251)	(502)
Net finance Income (costs)	51	(461)

NOTE 17 - EARNINGS PER SHARE

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

	Year Ended December 31, 2018	2017
Number of shares	272,694,684	187,031,676

U.S. Dollars in thousands

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	
	2018	**2017**
Credit balances	(629)	(525)
Loans	48	(188)
	(581)	(713)

c. Shareholders' credit balances are linked to the New Israel Shekel ("NIS"). Loans from shareholders accrue 4% annual interest.

d. Transactions:

	Year Ended December 31,	
	2018	**2017**
Key management compensation:		
Total salaries and related expenses for shareholders	353	465
Total share-based payment	127	174

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. The Group settled a credit insurance with one of the biggest credit insurance companies worldwide and manage its credit risk accordingly. 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.

U.S. Dollars in thousands

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

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.

Short loan covenants compliance is closely monitored by the financial department.

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:

	December 31, 2018					
	NIS		U.S. Dollar	GBP	Euro	Total
	Unlinked	Variable Interest	Unlinked			
Financial Assets:						
Cash and cash equivalents	8	-	55	24	2	89
Short-term deposit	-	60	-	-	-	60
Trade receivables. net	492	-	1,100	8	297	1,897
Other accounts receivable	87	-	-	-	-	87
Financial Liabilities:						
Short-term bank credit	-	(28)	-	-	-	(28)
Short term bank loans	-	(462)	-	-	-	(462)
Trade payables	(994)	-	(360)	(52)	(6)	(1,412)
Other accounts payable	(340)	-	(32)	-	-	(372)
Leasehold liabilities	-	(194)	-	-	-	(194)
Related parties	-	(581)	-	-	-	(581)
Long-term loans from banks	-	(94)	-	-	-	(94)
	(747)	(1,299)	763	(20)	293	(1,010)

	December 31, 2017					
	NIS		U.S. Dollar	GBP	Euro	Total
	Unlinked	Variable Interest	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)
	(739)	(1,319)	760	(19)	60	(1,257)

U.S. Dollars in thousands

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

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

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

	5% Increase in Exchange Rate	5% Decrease in Exchange Rate
For the Year Ended December 31		
2018	(103)	103
2017	(103)	103

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

	5% Increase in Exchange Rate	5% Decrease in Exchange Rate
For the Year Ended December 31		
2018	15	(15)
2017	3	(3)

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

	5% Increase in Exchange Rate	5% Decrease in Exchange Rate
For the Year Ended December 31		
2018	(1)	1
2017	(1)	1

c. Fair value

As of December 31, 2018, 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

During the reported year, all convertible unsecured loans were fully repaid.

NOTE 20 - SHORT-TERM LOANS

During August 2018, Starcom Israel signed a loan agreement with an Israeli bank in order to receive loans and credits in an aggregate principal amount that will not exceed NIS 2.4 million (hereinafter – "the Loan").
The loan will bear annual interest in the amount of Prime + 3.4%, calculated and payable on a monthly basis, to be repaid after a year.
In the framework of the financial agreement that was signed, the Company obligated to maintain financials covenants in regard to the Groups' EBITDA and AQR ratio, as defined in the agreement, that are examined on a monthly basis.

As of December 31, 2018, the Company complied with the abovementioned financial covenants.
In regard to charges, see also Note 11(4).

U.S. Dollars in thousands

NOTE 21 - CUSTOMERS AND GEOGRAPHIC INFORMATION

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

	Year Ended December 31, 2018	2017	2016
Customer A	12%	15%	5%
Customer B	8%	8%	5%
Customer C	5%	7%	5%

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

	Year Ended December 31, 2018	2017	2016
Latin America	11%	13%	16%
Europe	16%	19%	17%
Africa	22%	27%	38%
Asia	8%	14%	14%
Middle East	32%	24%	14%
North America	11%	3%	1%
Total	100%	100%	100%

NOTE 22 - SEGMENTATION REPORTING

The Group has two 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:

	Hardware	SAS
Year Ended 31.12.2018:		
Segment revenues	3,959	2,035
Cost of sales	(3,322)	(254)
Gross profit	637	1,781
Year Ended 31.12.2017:		
Segment revenues	3,715	1,725
Cost of sales	(3,166)	(194)
Gross profit	549	1,531

NOTE 23 - EVENTS DURING THE REPORTED PERIOD

1. The company appointed Allenby Capital Limited as the Company's new nominated adviser and joint broker.
2. The company agreed with one of the Israeli's banks to terminate two first class current general charges as provided previously as a part of long term loans.