2 March 2020

Starcom Plc

("Starcom" or the "Company")

Final Results

Starcom (AIM: STAR), which specialises in the development of wireless, Internet-Of-Things (IoT) based solutions for the remote tracking, monitoring and protection of a variety of assets, announces its audited results for the year ended 31 December 2019.

HIGHLIGHTS

- Revenues increased 14% to $6.8m (2018: $6.0m)
- Adjusted EBITDA of $300,000 (2018: loss of $8,000)
- Gross margin rose to 41% (2018: 40%)
- Successful launch of Lokies – intelligent padlock
- New OEM deals with Zero Motorcycles and CubeMonk
- Further growth anticipated in 2020

Avi Hartmann, CEO of Starcom, commented, "I am pleased to report another year of progress for the Company, moving into EDITBA positive for the first time, which we believe is a turning point and a clear indication of the Company's future performance.

"Based on our existing range of products, mature technology, global client base, recurring SaaS revenues and substantial sales pipeline, the Company anticipates continued growth in 2020. We further anticipate higher margins in the future as our product mix migrates more towards the IoT sector. One of the key focuses of 2020 is to expand our sales and marketing team to take advantage of the opportunities before us, whilst ensuring we maintain our competitive edge through continued R&D."

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CHAIRMAN'S STATEMENT

I am pleased to report that the year ended 31 December 2019 has been another year of progress for the Company and I am particularly pleased to report that the Company's adjusted EBITDA for the year has shown a profit of $300,000 compared with a loss for the previous year of $8,000. This marks a turning point in the Company's performance as revenues continue to grow – an increase by 14% to $6.8m in 2019, and with an improved sale mix, as discussed further below.

BUSINESS REVIEW BY PRODUCT

Lokies

The Company's intelligent keyless padlock, branded as Lokies, was successfully launched in April 2019 and has been well received in the market, with proof of concept ("POC") projects having been initiated with various key customers. In addition, a number of customers in Russia, Israel, Kazakhstan, Mexico, Bulgaria and Poland, have placed initial orders, forgoing the customary POC stage in order to reach their respective local markets faster. The Board believes that this innovative Internet of Things ("IoT") product can become a leader in the "smart padlocks" market and has the potential to spearhead significant growth for Starcom as it can be marketed via both B2B and B2C models.

Kylos

Kylos Air is Starcom's tracking product designed specifically for use in air freight shipping. It is intelligently activated and deactivated on takeoff and landing and has already secured the necessary safety certification from airlines including South West Airlines and Swiss WorldCargo, the airfreight division of SwissAir. This has stimulated interest amongst other potential clients and partners in the industry. One such example is Cubemonk Inc., a provider of cargo tracking and monitoring services in the USA, which has placed initial significant orders for Kylos Air units to be integrated within their specialised unit load devices known as Smart Cubes. Post the year end, Cubemonk and the Company entered into a longer-term relationship to cover future orders.

Starcom has also generated sales for the Kylos Forever to be incorporated into tankers owned by Israel Chemicals Ltd and we anticipate further growth from this client and from similar operations.

Tetis

The Agreement with WIMC Solutions Inc. is progressing according to expectations and our product is now being actively promoted into the container and cargo delivery sector. There are now more positive signs within the container market of the need to provide more tracking and security, which we expect should lead to further growth in revenues for Starcom from this sector.

Helios

In line with the Company's strategy to focus on the higher end IoT segments, the reliance on the low margin legacy vehicle tracking Helios product and its contribution to sales continued to decrease. The standard

Helios represented 41% of hardware sales in 2019 (2018: 48%, 2017: 58%). This excludes the very positive contribution of the non-legacy, specialised Helios, where new features and client-specific adaptations enable competitive differentiation and therefore enable higher margin pricing.

For example, the Company's contract with its North African distributor for $1.1m of Helios units, announced in November 2018, combines the ability to monitor the fuel consumption of tankers in addition to the standard location tracking. Another example is Zero Motorcycles, where Starcom's technology is the essential enabler for connectivity between the factory and the electric motorbikes for remote monitoring and control of a variety of key parameters.

There are more such customers utilising the advanced Helios and Helios Hybrid units, including Bluetooth and CANBUS connection, the combination of GSM and Satellite communications, and the ability to directly derive data from a vehicle's computer to analyse the vehicle and the driver behaviour.

SaaS

The Company continued to develop its cloud-based software which clients subscribe to and connect with in order to utilise the rich data communicated from its Helios, Kylos and Tetis units. Furthermore, the Company has developed a platform for the new Lokies product, which the Board believes has the potential to be one of the Company's significant growth engines over the coming years. The Company's ability to offer a comprehensive solution that combines both the hardware and the SaaS components is one of Starcom's strong competitive advantages. The recurring SaaS revenue continued its growth and, excluding one-time income, was $2m in the year (2018: $1.8m).

FINANCIAL REVIEW

Group revenues for the year were $6.8m, compared with $6.0m for the year ended 31 December 2018, an increase of 14%.

The gross margin for the year was 41%, compared with 40% for 2018.

Total operating expenditure increased by 5% to $3.4m (2018: $3.3m), mainly due to non-cash expenses such as depreciation and share option provisions.

Net loss after taxation for the year increased to $1.0m compared with the 2018 net loss of $0.9m, due mainly to an increase in Sales and Marketing costs. The operating loss in the period was $0.76m, compared to an operating loss of $0.88m in 2018.

The Group recorded an exchange rate loss of $0.2m resulting from the strengthening of the Israeli Shekel compared with the US dollar.

The Group balance sheet showed stability in trade receivables to $2.0m, compared with $1.9m as at 31 December 2018, despite the increase in revenues for the period compared with 2018.

Group inventories at the period end were $2.3m, compared to $2.3m as at 30 June 2019 and $2.0m at the end of 2018.

Trade payables at the year-end were $2.1m, compared with $1.4m as at 31 December 2018 and $1.8m at 30 June 2019.

Net cash used in operating activities in the period was approximately zero, compared with $0.7m for the year ended 31 December 2018.

OUTLOOK

Based on the existing range of products, mature technology, global client base, recurring SaaS revenues and substantial sales pipeline, the Company anticipates continued growth in 2020. The Board also anticipates that as the product mix continues to migrate towards the higher margin IoT products, gross margin should continue to improve.

The innovative Lokies is expected to be one of the key growth engines for the Company in 2020. The agreement and the purchasing plan provided by the Russian distributer signed up in 2019 underpins this assessment. Also encouraging is the three-year OEM contract recently signed with Cubemonk for the incorporation of our Kylos Air unit into their product. Zero is progressing with its own sales of the Starcom-inside motorbikes which may have an impact on other similar manufacturers. The Board is therefore optimistic about the prospects for the Company in 2020, particularly the opportunities presented from its relationships with Cubemonk, CropX and WIMC, as well as its North African distributor.

We plan to expand our sales and marketing team to strengthen our ability to take advantage of the opportunities we now see as well as continuing to focus on R&D to maintain and improve our competitive edge.

STARCOM Plc
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
U.S. Dollars in thousands

	Note	December 31, 2019	December 31, 2018
ASSETS			
NON-CURRENT ASSETS :			
Property, plant and equipment, net	6	378	*342
Rights-of-use assets, net	20	228	*179
Intangible assets, net	7	2,119	2,279
Income tax authorities		54	46
Total Non-Current Assets		2,779	2,846
CURRENT ASSETS:			
Cash and cash equivalents		158	89
Short-term bank deposit	5	61	60
Trade receivables, net	3B	1,986	1,897
Other accounts receivable	3A	169	87
Inventories	4	2,346	2,025
Total Current Assets		4,720	4,158
TOTAL ASSETS		7,499	7,004
EQUITY AND LIABILITIES			
EQUITY	12	3,891	3,861
NON-CURRENT LIABILITIES:			
Long-term loans from banks, net of current maturities	10	167	50
Long term leasehold liabilities	20	115	70
Total Non-Current Liabilities		282	120
CURRENT LIABILITIES:			
Short term bank credit		79	28
Short term bank loan		-	462
Current maturities of long-term loans from banks	10	136	44
Trade payables		2,081	1,412
Other accounts payable	9	227	372
Leasehold liabilities	20	135	124
Related parties	18	668	581
Total Current Liabilities		3,326	3,023
TOTAL EQUITY AND LIABILITIES		7,499	7,004

* Reclassified

STARCOM Plc

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Note	Year Ended December 31 2019	2018
Revenues		6,817	5,994
Cost of sales	13	(4,019)	(3,576)
Gross profit		2,798	2,418
Operating expenses:			
Research and development		(231)	(224)
Selling and marketing		(776)	(621)
General and administrative expenses	14	(2,423)	(2,424)
Other expenses	15	(74)	(31)
Total operating expenses		(3,504)	(3,300)
Operating loss		(706)	(882)
Finance income	16A	-	302
Finance costs	16B	(313)	(251)
Net finance income (costs)		(313)	51
Loss before taxes on income		(1,019)	(831)
Taxes on income due to previous years		-	(89)
Total comprehensive loss for the year		(1,019)	(920)
Loss per share:			
Basic and diluted loss per share	17	(0.003)	(0.003)

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, 2018	-	9,796	89	602	(7,455)	3,032
Proceeds from issued share capital, net of mobilization costs (see Note 12)	-	1,379	-	-	-	1,379
Exercise of warrants (see Note 12d)	-	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
Proceeds from issued share capital, net of mobilization costs (see Note 1a(2)-1a(3))	-	794	-	-	-	794
Share based payment (see Note 12d)	-	-	-	255	-	255
Comprehensive loss for the year	-	-	-	-	(1,019)	(1,019)
Balance as of December 31, 2019	-	12,254	89	942	(9,394)	3,891

STARCOM Plc
CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. Dollars in thousands

	Year Ended December 31,	
	2019	**2018**
CASH FLOWS FOR OPERATING ACTIVITIES:		
Loss for the year	(1,019)	(920)
Adjustments to reconcile loss for the year to net cash used in operating activities:		
Depreciation and amortization	673	623
Interest expense and exchange rate differences	(6)	23
Share-based payment expense	255	220
Capital loss	51	-
Changes in assets and liabilities:		
Increase in inventories	(321)	(540)
Increase in trade receivables, net	(89)	(125)
Decrease (Increase) in other accounts receivable	(82)	14
Increase in Income Tax Authorities	(8)	(2)
Increase (Decrease) in trade payables	669	(110)
Increase (Decrease) in other accounts payable	(131)	122
Net cash used in operating activities	(8)	(695)
CASH FLOWS FOR INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(220)	(109)
Proceeds from sales of property, plant and equipment	53	-
Increase in short-term deposits	(1)	(5)
Cost of intangible assets	(297)	(256)
Net cash used in investing activities	(465)	(370)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Receipt (Repayment) of short-term bank credit, net	51	(199)
Receipt (Repayment) of short-term loan, net	(462)	462
Repayment of convertible unsecured loans, net	-	(131)
Proceeds from (Repayment to) related parties, net	87	(132)
Payment for Leasehold liabilities	(128)	(109)
Receipt of long-term loans	290	93
Repayment of long-term loans	(76)	(452)
Proceeds from exercise of warrants	-	150
Consideration from issue of shares, net	780	1,379
Net cash provided by financing activities	542	1,061
Increase (Decrease) in cash and cash equivalents	69	(4)
Cash and cash equivalents at the beginning of the year	89	93
Cash and cash equivalents at the end of the year	158	89
Appendix A – Additional Information		
Interest paid during the year	(30)	(30)

Appendix B – Non-cash financing activities

Issuance of shares to a related party in payment of debt	15	-

Significant non-cash transactions (entering into new lease agreements) are disclosed in Note 20

NOTE 1 - GENERAL

a. The Reporting Entity

1. 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.

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

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

   The 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.

2. During April 2019, the Company raised £637,500 ($829) thousand before expenses through a placing of 51,000,000 Ordinary Shares.

3. During June 2019, the Company granted its Chairman 880,000 new Ordinary Shares of no par value at a price of 1.25p per share in order to partially set off his credit balance.

4. The Group has accumulated operating losses over the past 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.

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 _01 March 2020

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 thousands, 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 Notes:
Note 7 – Capitalization of development costs and amortization of these costs.
Note 12d – Options issued.

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.

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.

	As of December 31,	
	2019	**2018**
CPI (in points) *	125.06	124.3
Exchange Rate of U.S. $ in NIS	3.456	3.748
	For the Year Ended December 31,	
	2019	**2018**
Change in CPI	0.6%	0.8%
Change in Exchange Rate of U.S. $	(7.8%)	8.1%

* 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.

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.

(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

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

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

1. *Right-of-use assets*

   The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

   Property – 3 to 4 years
   Vehicles - 3 years

   If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in Note 2C(k).

2. *Lease liabilities*

   At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.
   Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.
   In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

3. *Short-term leases and leases of low-value assets*

   The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognized as an expense on a straight-line basis over the lease term.

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 with 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.

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.

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.

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 3A - OTHER ACCOUNTS RECEIVABLE

	December 31	
	2019	**2018**
Government institutions	119	76
Prepaid expenses	50	11
	169	87

NOTE 3B - TRADE RECEIVABLES, NET

	December 31	
	2019	**2018**
Group receivables	2,045	1,945
Net of allowance for doubtful accounts	(59)	(48)
	1,986	1,897

NOTE 4 - INVENTORIES

	December 31	
	2019	**2018**
Raw materials	1,470	1,492
Finished goods	876	533
	2,346	2,025

NOTE 5 - SHORT-TERM BANK DEPOSIT

The deposit sums of $61 and $60 for the years ended December 31, 2019 and 2018, 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 original principals of the loans. The deposit bears yearly interest at the rate of 1%.

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT, NET

	Computers and Software	Office Furniture and Equipment	Laboratory Equipment	Leasehold Improvements	Vehicles*	Total
Cost:						
Balance as of January 1 2019	191	118	157	52	242	760
Additions	3	3	122	8	84	220
Disposals	-	-	-	-	(174)	(174)
Balance as of December 31 2019	194	121	279	60	152	806
Accumulated Depreciation:						
Balance as of January 1 2019	150	79	69	11	109	418
Depreciation	14	6	24	6	30	80
Disposals	-	-	-	-	(70)	(70)
Balance as of December 31 2019	164	85	93	17	69	428
Net book value as of December 31 2019	28	34	186	42	86	378
Net book value as of December 31 2018	41	39	88	41	133	342

* See also Note 11.

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
Decrease						
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

* See also Note 11.

NOTE 7 - INTANGIBLE ASSETS, NET

	Total
Cost:	
Balance as of January 1 2019	4,458
Additions during the year	297
Balance as of December 31 2019	4,755
Accumulated Amortization:	
Balance as of January 1 2019	(1,977)
Amortization during the year	(457)
Balance as of December 31 2019	(2,434)
Accumulated Impairment of assets	(202)
Net book value as of December 31 2019	2,119

	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

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 for 2019 and 2018 is 23%.

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 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 years 2019 and 2018.

3. Starcom Israel has carryforward operating tax losses of approximately NIS 28 million as of December 31, 2019 (NIS 26 million as of December 31, 2018). 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 2019 and 2018.

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 will be recorded in 2019 or was recorded in 2018.

NOTE 9 - OTHER ACCOUNTS PAYABLE

	December 31	
	2019	**2018**
Employees and payroll accruals	223	255
Accrued expenses and notes payable	4	28
Income tax	-	89
	227	372

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

1. Composition:

	December 31	
	2019	**2018**
Long-term liability	303	94
Less: current maturities	(136)	(44)
	167	50

2. Aggregate maturities of long-term loans for years subsequent to December 31, 2019 are as follows:

	Amount
First year	136
Second year	111
Third year	56
	303

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.	June 6, 2016	400 ($ 107)	Prime + 0.9	60 equal monthly instalments including principal and interest	Monthly commencing 20 July 2016
2.	June 3, 2018	150 ($40)	Prime + 3.85	36 equal monthly instalments including principal and interest	Monthly commencing 20 March 2018
3.	July 17, 2019	1,000 ($290)	Prime + 4.95	36 equal monthly instalments including principal and interest	Monthly commencing 17 July 2019

NOTE 11 - CHARGES

1. A charge in favour of a bank was placed on Starcom Israel's vehicles.

2. A first-degree charge in favour of a bank was placed on Starcom Israel's bank account.

3. A first-degree floating charge in favour of an Israeli bank was placed on all Starcom Israel's assets along with negative pledge. See also Note 10(3)(3).

NOTE 12 - EQUITY

a. Composition - common stock of no-par value, issued and outstanding 345,329,513 shares and 293,449,513 shares as of December 31, 2019 and December 31, 2018, 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:

	2019		2018	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		£		£
Share options outstanding at beginning of year	33,496,480	0.037	32,729,647	0.041
Share options granted during the year	16,290,000	0.007	10,500,000	0.033
Options & Warrants Exercised during the year	-	-	(4,440,000)	0.025
Options & Warrants Expired during the year	(492,533)	0.04	(5,293,167)	0.06

Share options outstanding at end of year	49,293,947	0.027	33,496,480	0.037
Share options exercisable at end of year	27,587,280	0.038	14,949,640	0.046

1. During June 2019 the Company granted its senior management and directors' options for purchase of 6,250,000 new Ordinary Shares at exercise price of 1.875p per share. The Options vest as to third each year, one year after grant. Any unexercised options expire at the end of 10 years from grant.
2. On same date the Company granted its senior management and directors' options for purchase of 10,040,000 new Ordinary Shares at exercise price of zero p per share in place of their fees. The options vest after 9 months.

NOTE 12 - EQUITY

d. Share-based payment (cont.)

The following table lists the inputs to the Black and Scholes model used for the grants:

	Directors and Senior Management	**Directors**
Fair value at the measurement date	£0.0087	£0.0087
Quantity	3,000,000	3,250,000
Dividend Yield (%)	-	-
Expected Volatility (%)	71.7	71.7
Risk-free interest rate (%)	0.75	0.75
Share price	£0.0125	£0.0.125
Vesting period (years)	3	3
Expiration period (years)	10	10

Total expenses recorded regarding these Options in the statement of comprehensive income for the reported period amounted $13 thousand.

3. 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 years 2019 and 2018 amounted to $106 thousand and $90 thousand, respectively.

NOTE 13 - COST OF SALES

	Year Ended December 31, 2019	2018
Purchases and other	3,883	3,682
Amortization	457	434
Increase in inventory	(321)	(540)
	4,019	3,576

NOTE 14 - GENERAL AND ADMINISTRATIVE EXPENSES

	Year Ended December 31, 2019	2018
a. Salaries and related expenses (see also Note 18d)	1,268	1,163
Professional services (1)	633	694
Depreciation	216	188
Office rent and maintenance	153	236
Car maintenance	104	139
Doubtful accounts and bad debts	49	4
	2,423	2,424

(1) Including share-based payment to directors and senior management in the amounts of $255 and $220 thousand for the years ended December 31, 2019 and 2018, respectively. See also Note 12d.

b. Average Number of Staff Members by Category:

	Year Ended December 31, 2019	2018
Sales and marketing	6	6
Research and development	3	3
General and administrative	15	15

	24	24

NOTE 15 - OTHER EXPENSES

	Year Ended December 31,	
	2019	2018
Capital loss from sale of property, plant and equipment	(51)	-
Other income (expenses)	(23)	7
Termination of Starcom America	-	(38)
	(74)	(31)

NOTE 16A - FINANCE INCOME

	Year Ended December 31,	
	2019	2018
Exchange rate differences	-	302

NOTE 16B - FINANCE COSTS

Exchange rate differences	(183)	(80)
Bank charges	(77)	(80)
Interest to banks and others	(31)	(74)
Interest to suppliers	(13)	(2)
Interest to related parties	(9)	(15)
	(313)	(251)
Net finance income (costs)	(313)	51

NOTE 17 - EARNINGS PER SHARE

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

	Year Ended December 31,	
	2019	2018
Number of shares	329,934,018	272,694,684

NOTE 18 - SHAREHOLDERS AND RELATED PARTIES

a. The related parties that own the controlling shares in the Group are:
Mr. Avraham Hartman (7.0%), Mr. Uri Hartman (6.8%), Mr. Doron Kedem (6.8%).

b. Short-term balances:

	December 31	
	2019	2018
Credit balances		
Avi Hartmann	(176)	(205)
Uri Hartmann	(373)	(251)

Doron Kedem	(173)	(173)
Total Credit Balance	(722)	(629)
Loans		
Avi Hartmann	73	45
Uri Hartmann	(226)	(210)
Doron Kedem	207	213
Total Loans	54	48
	(668)	(581)

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,	
	2019	**2018**
Key management compensation:		
Total salaries and related expenses for shareholders	365	353
Total share-based payment	112	127
Interest to related parties	9	15

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 behaviour 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.

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, 2019					
	NIS		U.S. Dollar	GBP	Euro	Total
	Unlinked	Variable Interest	Unlinked			
Financial Assets:						
Cash and cash equivalents	-	-	158	-	-	158
Short-term deposit	-	61	-	-	-	61
Trade receivables, net	212	-	1,741	5	28	1,986
Other accounts receivable	162	-	-	7	-	169
Financial Liabilities:						
Short-term bank credit	-	(79)	-	-	-	(79)
Trade payables	-	(1,490)	(517)	(71)	(3)	(2,081)
Other accounts payable	(223)	-	-	(4)	-	(227)
Leasehold liabilities	-	(250)	-	-	-	(250)
Related parties	-	(668)	-	-	-	(668)
Long-term loans from banks	-	(303)	-	-	-	(303)
	151	(2,729)	1,382	(63)	25	(1,234)

	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)

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		

2019	(126)	126
2018	(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		
2019	1	(1)
2018	15	(15)

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		
2019	(3)	3
2018	(1)	1

c. Fair value

As of December 31, 2019, there was no material 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.

NOTE 20 - Leases

Group as a lessee

The Group has lease contracts for various items of property and vehicles used in its operations. The leases of property have lease terms between 3 to 4 years, while motor vehicles have lease terms of 3 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing.

There are several lease contracts that include extension and termination options, which are further discussed below.

The Group also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Below are the carrying amounts of right-of-use assets recognized and the movements during the period:

	Property	Vehicles	Total
Balance at January 1, 2018	159	80	239
Additions	-	58	58
Depreciation expenses	(80)	(38)	(118)
Balance at December 31, 2018	79	100	179
Additions	185	-	185
Depreciation expenses	(84)	(52)	(136)
Balance at December 31, 2019	180	48	228

Below are the carrying amounts of lease liabilities (included under Leasehold Liabilities) and the movements during the period:

	2019	2018
As at January 1	(194)	(239)
Additions	(185)	(58)
Interest income on lease liabilities	14	3
Accretion of interest	(15)	(9)
Payments	128	109
Balance at December 31	(250)	(194)
Current	(135)	(124)
Non-Current	(115)	(70)

<u>Maturity analysis – contractual undiscounted cash flows</u>

Less than one year	(134)
One to five years	(118)
Total undiscounted lease liabilities at December 31, 2019	(252)

The following are the amounts recognized in profit or loss:

	2019	2018
Depreciation expenses of right-of-use assets	(136)	(118)
Interest income on lease liabilities	14	3
Accretion of interest	(15)	(9)
Total amount recognized in profit or loss	(135)	(127)

	Within 5 years	**More than 5 years**	**Total**
Extension options expected not to be exercised	197	-	197
Termination options expected to be exercised	-	-	-
December 31, 2019	**197**	**--**	**197**
Extension options expected not to be exercised	139	-	139

Termination options expected to be exercised	-	-	-
December 31, 2018	**139**	**-**	**139**

The Group had total cash outflows for leases of 128 in 2019 (109 in 2018). The Group also had non-cash additions to right-of-use assets and lease liabilities of 185 in 2019 (58 in 2018)

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised.
Below are the undiscounted potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term:

NOTE 21 - CUSTOMERS AND GEOGRAPHIC INFORMATION

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

	Year Ended December 31, 2019	Year Ended December 31, 2018
Customer A	10%	12%
Customer B	6%	8%
Customer C	6%	5%

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

	Year Ended December 31, 2019	Year Ended December 31, 2018
Latin America	15%	11%
Europe	16%	16%
Africa (*)	31%	22%
Asia	10%	8%
Middle East	17%	32%
North America	11%	11%
Total	100%	100%

- Africa includes unique contract with North Africa distributor regarding IoT fuel sensor project.

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 31.12.2019:		
Segment revenues	4,796	2,021
Cost of sales	(3,805)	(214)
Gross profit	991	1,807

Year Ended

31.12.2018:

Segment revenues	3,959	2,035
Cost of sales	(3,322)	(254)
Gross profit	637	1,781

-ends-