**18 March 2019**

**Starcom Plc**

("Starcom" or the "Company")

**Final Results**

Starcom (AIM: STAR), which specialises in the development of wireless solutions for the remote tracking, monitoring and protection of a variety of assets, announces its audited results for the year ended 31 December 2018.

**HIGHLIGHTS**

- Revenues increased 10% to $6.0m (2017: $5.4m)
- Gross profits increased by 16% to $2.4m (2017: $2.1m)
- Gross margin rose to 40% (2017: 38%)
- EBITDA loss significantly reduced to $8,000 (2017: loss of $193,000)
- Net loss after taxation reduced to ($0.9m) (2017: net loss of $1.4m)
- Strong pipeline for 2019

**Avi Hartmann, CEO of Starcom, commented,** "I am happy to report that the Company achieved a further reduction in losses in 2018 and that EBITDA was close to breakeven for the year. It is pleasing to see that the higher margin and software service revenues have increased to approximately $2.0m compared with $1.7m for 2018, being an increase of some 18%. We believe that Starcom continues to be acknowledged to be amongst the technological leaders in various fields of tracking, monitoring and IoT technology."

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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**

**STARCOM Plc**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**U.S. Dollars in thousands**

| | Note | December 31, 2018 | December 31, 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.

**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 | Year Ended December 31, 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**U.S. Dollars in thousands**

**NOTE 1 - GENERAL**

**a. The Reporting Entity**

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

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

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.

**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.

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**

See Note 2C(w).

**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.

**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.

**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.

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 more than 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.

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.

Under IAS 17

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.

**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) |

**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%.

## 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

| | 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.

## 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 carry forward 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.

**NOTE 9 - OTHER ACCOUNTS PAYABLE**

| | December 31 | |
|---|---|---|
| | **2018** | **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** | **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 instalments including principal and interest | Monthly commencing 22 February 2014 |
| 2. | June 6, 2016 | 400 ($ 107) | Prime + 0.9 | 60 equal monthly instalments including principal and interest | Monthly commencing 20 July 2016 |
| 3. | June 3, 2018 | 150 ($40) | Prime + 3.85 | 36 equal monthly instalments including principal and interest | Monthly commencing 20 March 2018 |

## NOTE 11 - CHARGES

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

## 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 |

**d.** 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.

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.

**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 |

**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 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, 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) |

**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).

## 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.

**-ends-**