8 April 2015

**Starcom PLC**
("Starcom" or the "Company")

## Trading update

## Change in accounting policy

The Board of Starcom today announces a trading update on the results for the year ended 31 December 2014 and the prospects for the current year.

After much consideration, the Board has decided that it will no longer recognise revenue in respect of "bill and hold" sales prior to delivery of the goods, even though it is able to satisfy the relevant criteria for such revenue recognition. Revenue of $4.8m in respect of contracted "bill and hold" agreements will therefore not be recognised in the audited financial statements for 2014 to be reported and the latter, as a result, will be materially below market expectations. Had these sales been recognised, revenues for 2014 based on unaudited management accounts would have been approximately $9.5m.

This change in accounting policy has been made in light of the experience to date of "bill and hold" sales which were recognised in the 2013 financial statements amounting to $2.8m. In that year, goods were produced against firm commitments from customers to take delivery in 2014. Pending delivery, the goods were held in a segregated area in the Company's warehouse to the order of the relevant customers, many of whom were existing customers. The Board fully expected that all the goods would be drawn down during 2014. The position was reviewed again at the time of preparing the 2014 interim report. To date, however, the level of drawdowns remains relatively small. In the light of this experience, and despite the fact that all these customers (with one exception) have assured management that they still intend to take delivery, the Board has decided, in line with IAS 8, to change the accounting policy regarding revenue recognition, with the result that it will not recognise "bill and hold" revenues in the 2014 financial statements. This change of accounting policy will be applied retrospectively as a restatement of the audited results for the year ended 31 December 2013 and the unaudited results for the six months ended 30 June 2014. The majority of the counterparties to the Company's "bill and hold" agreements are existing and ongoing customers seeking to tender for local contracts with confidence by fixing the price of goods and securing their availability at short notice to facilitate quick drawdown as and when needed. Although there have been delays in drawdowns, management has decided not to seek to enforce delivery so in order not to prejudice its non "bill and hold" business with those customers and given their repeated confirmation that the goods would be drawn down over time. Accordingly, the relevant stock allocated to them has been transferred back into the ownership of the Company giving it complete control over that stock and the ability to sell elsewhere should that be necessary.

The results for the year ended 31 December 2014 are subject to audit but are expected to show revenues of approximately $5.3m (2013: $6.2m as restated, compared with $9.0m as previously reported) and a net loss before tax of approximately $0.9m (2013: net loss before tax of $0.9m as restated, compared with net profit before tax of $0.79m as previously reported). However, in 2014, gross margins are expected to have increased to 55% (unaudited) compared to 54% (as restated). The decline in revenues in 2014 compared with 2013 (as restated) was mainly caused by the previously announced loss of the Company's Ukrainian distributor which accounted for around 20% of sales in 2013 (as restated). Some provision may be required in respect of receivables of approximately $750,000 due from this former distributor although he continues to assure the Company that he intends to clear the debt. Under the AIM Rules, it will be necessary to restate the 2014 interim financial statements but any adjustments arising from the change in accounting policy are not expected to be material since almost all the 2014 "bill and hold" sales occurred in the second half of that year.

It is anticipated that the "bill and hold" agreements for 2013 and indeed 2014 are now likely to be recognised as sales in 2015 (save for $1m of revenues in 2013 in relation to an order from a South African distributor where it transpired that the tender which he was confident of winning did not in fact materialise and accordingly that contract has been cancelled and the goods relating to it are in the ownership of the Company).

The Board therefore anticipates that revenues for 2015 will be significantly higher than 2014. New products developed during 2014 are now ready to market and are expected to generate additional revenues in the second half of 2015. On this basis, the Directors expect that the Company will return to profitability in 2015.

Cash and short term deposits at 31 December 2014 amounted to $190,000 (2013: $185,000) against net short debt of $627,000 (2013: $280,000). Delays in the timely draw down of stock manufactured for "bill and hold" customers have increased the working capital requirements of the business. As sales materialise during 2015, it is expected that net cash flow will improve. In the meantime, the Board is confident that the Company's working capital position and funding requirements can be managed.

The full year audited results for 2014 are expected to be published by the first week in May.

-ends-

For further information please contact:


| **Starcom plc** | **Northland Capital (Nomad)** | **Northland Capital (Broking)** | **Leander (Financial PR)** |
|---|---|---|---|
| Michael Rosenberg<br>Avi Hartmann<br>Eitan Yanuv | Edward Hutton<br>David Hignell | John Howes | Christian Taylor-Wilkinson |
| Tel: 07785 727595<br>+972 543070103<br>+372 813 93631 | Tel: 020 7382 1100 | Tel: 020 7382 1100 | Tel: 07795 168 157 |