

Appendix 4E

Preliminary final report

Name of Entity: Etherstack plc
ARBN: 156 640 532

1. Reporting Period (“current period”): Year ended 31 December 2014
Previous corresponding period: Year ended 31 December 2013

2. Results for announcement to the market

				31 Dec 2014 USD \$000	31 Dec 2013 USD \$000
Revenue	up	38%	to	7,180	5,200
Statutory Profit/(Loss) from ordinary activities after tax attributable to members	down	51%	to	(2,246)	(4,581)
Underlying Profit/(Loss) after tax for the period attributable to members (Note 1)	up	109%	to	386	(4,082)
EBITDA (Note 2)	up	138%	to	1,069	(2,828)
Underlying EBITDA (Note 1)	up	166%	to	1,529	(2,329)

Note 1: Etherstack plc considers underlying profit/(loss) after tax and underlying EBITDA to be a more suitable indicator of operating performance since it is not affected by impairment of intangibles or debt subject to claim and legal fees.

Reconciliation of underlying profit/(loss) after tax and underlying EBITDA

	31 Dec 2014 USD \$000	31 Dec 2013 USD \$000
Statutory Profit/ (loss) after tax	(2,246)	(4,581)
After tax effect of:		
Impairment to intangibles	2,172	-
Debt subject to claim and legal fees	460	499
Underlying profit/ (loss) after tax	<u>386</u>	<u>(4,082)</u>
EBITDA	1,069	(2,828)
Debt subject to claim and legal fees	460	499
Underlying EBITDA	<u>1,529</u>	<u>(2,329)</u>

Note 2: EBITDA is statutory net profit before tax adjusted to remove net finance costs, depreciation and amortisation.

Results Summary and Commentary - all amounts are in USD \$000 unless otherwise indicated.

2014 results Highlights

- 38% revenue growth
- Cost savings implemented in 2013 and first half of 2014 have reduced total costs by more than \$1 million
- Underlying EBITDA increase of \$3,858 representing a 166% increase and moving from negative to positive earnings

Revenues have increased by \$1,980 from \$5,200 in 2013 to \$7,180 in 2014 representing growth of 38%. This increase is attributable to:

- Higher level of activity on the Group's largest project, being the continued rollout of a P25 digital radio network in regional Queensland. The project has progressed well in the second half of the 2014 year with 39 sites added to the network.
- Commencement in December 2014 of a \$1.3 million project to supply digital radio network technology to a major manufacturer (both this project and the above digital radio network rollout in Queensland are expected to continue to provide revenues in 2015).
- Modest increases in activity levels in the US market. In 2014, the Group has announced projects with US customers including US National Institute of Science and Technology (NIST), US Naval Reactors Facility and First Energy. Notwithstanding these transactions, in general, the US market remains subdued and numerous participants in public safety communications have reported flat or reduced revenues and cost reductions.
- New products have been released, in particular, the Group's new Tactical Repeater product ("Go Box") which was completed in 2014 and the first sales to national policing agencies were made in March 2014. This is the first major product released in the past two years and the Group will be launching it into the North American market in March 2015 following FCC certification.
- Support revenues grew modestly, and this trend is expected to continue in 2015 with an increased number of support renewals in the second half of 2014.
- Revenue growth has been offset by lower royalty revenue streams reflecting flat demand in the preceding 12 months in the sectors that our licensees are selling products into. The total number of independent royalty streams continued to grow in 2014.

While a 38% increase is a significant and pleasing increase over 2013, 2014 revenue levels remain below the levels achieved in the past and the Group is looking to further revenue increases to return to revenue levels achieved in 2010 and 2011 which were followed by a sector wide cyclical decline following the financial crisis, caused by a decrease in capital infrastructure spending in the US and other markets. Future revenue increases will be driven by:

- Growth of revenue streams from new product launches. There are two products planned for launch in 2015
- The Group's new LTE25 secure 3G/4G smartphone application that integrates with traditional public safety radio networks has been selected for pilots and trials with policing agencies in three countries. The Group expects to see its first revenues from this new product line in 2015
- The Group's base of installed digital radio networks is slowly increasing which should facilitate medium term revenue opportunities through cumulative support contracts and network upgrades

- An improvement in government capital infrastructure spending in the US market as the economy improves

The short term may remain volatile although the release of new products, in particular the Go Box, are intended to reduce reliance on a small number of large projects and, in conjunction with support and royalty streams, create an increased recurring revenue base and thereby reduce overall volatility.

The Statutory loss for the year after tax is \$2,246. This is a significant reduction in the loss from 2013 when a loss of \$4,581 was reported. Included in the 2014 loss are two items which have negatively impacted the result.

- Legal fees and other costs incurred in connection with a general commercial dispute between the Group's US subsidiary and one of its technology licencees. These costs are \$460 in the current year. The cost to the Group in connection with this dispute in 2013 was \$499 representing the provision for non-recoverability for amounts receivable and accrued income.
- Impairment adjustment against intellectual property assets of \$2,172. The Board of Directors and Executive management have reviewed the intellectual property portfolio in the context of the reshaped business following a significant decline in revenues and a consequential loss in 2013. A consequence of this review, and the Group's focus on a smaller number of higher return developments, is that some of the Group's intellectual property assets no longer satisfy the criteria for continued capitalisation and accordingly an impairment charge has been recognised against these assets.

Excluding the above costs, the underlying result for the 2014 full year is a profit after tax of \$386. This is a significant improvement on the result for 2013 (underlying loss of \$4,082) and reflects substantial effort and attention towards reshaping and refocussing the business following the 2013 loss. In particular, the result reflects the following matters:

- Reductions in staff costs. Retrenchment and other termination costs in 2013 and the first half of 2014 meant that the full benefit of the reduction in salary costs was realised in the second half of 2014. As summarised in the table below, there was a \$1,020 reduction (21%) in total costs from the first half to the second half of 2014.
- Interest and other finance costs have increased from \$396 to \$606 as Convertible Notes were issued and additional loans were drawn down from the largest shareholder in 2014 for the purpose of supplementing working capital.
- The amortisation charge in respect of Intellectual property assets, excluding the effect of the impairment charge outlined above, has increased from \$1,391 to \$2,254 as more products/developments reached the completion stage and accordingly, amortisation charges commence on these products/developments.
- Income tax credits of \$1,800 predominantly derived from Research & Development incentives in the UK. In 2014 the decision was taken to convert UK tax losses into cash and the 2014 income tax credit represents the 2012 and 2013 credits as well as the 2014 credit. While the Group will continue to be entitled to these credits in the future the amount will be lower as the 2014 result includes 2012 and 2013 credits.

It is important to note the cost reductions have taken effect in the second half of 2014 resulting in the Group generating a profit before tax in the second half of the year. The comparison of the Underlying first half and second half and comparison of underlying 2014 and 2013 is set out below in Table 1. This comparison excludes the debts subject to claim, legal fees and impairment charges outlined above.

	First half	Second half	Change H1 vs H2	Full Year 2014	Full Year 2013	Change 2014 vs 2013
Revenues	3,373	3,807	Up 434	7,180	5,200	Up 1,980
Costs	4,808	3,788	Down 1,020	8,596	9,463	Down 867
Profit/(loss) before tax	(1,435)	19	Up 1,454	(1,416)	(4,263)	Up 2,847
Taxation expense/(credit)	(26)	(1,826)	Up 1,852	(1,800)	(181)	Up 1,619
Underlying NPAT	(1,409)	1,845	Up 3,254	386	(4,082)	Up 4,468
Underlying EBITDA	35	1,494	Up 1,457	1,529	(2,329)	Up 3,858

Table 1. Comparison of the Underlying first half and second half of 2014 and comparison of Underlying 2014 and 2013.

Of particular importance is the improvement in EBITDA and underlying EBITDA which has increased from a negative of \$2,329 in 2013 by \$3,858 to positive underlying EBITDA of \$1,529 in 2014. This demonstrates the combined impact of the revenue growth and cost reduction efforts during 2013 and 2014. In conjunction with new product developments, the improved EBITDA result puts the Group on a solid foundation for 2015.

Dividends

No dividends are proposed.

Record date for determining entitlements to the dividends

Not applicable.

3. Consolidated statement of comprehensive income

	2014 USD \$000	2013 USD \$000
Revenues	7,180	5,200
Cost of sales	(2,906)	(2,420)
Gross profits	4,274	2,780
Foreign exchange gain/ (losses)	342	(256)
Other administrative expenses	(5,424)	(6,391)
Impairment loss	(2,172)	-
Debt subject to claim and legal fees	(460)	(499)
Total administrative costs	(7,714)	(7,146)
Operating loss	(3,440)	(4,366)
Finance costs	(606)	(396)
Loss before tax	(4,046)	(4,762)
Income tax benefit/ (expense)	1,800	181
Loss for the period	(2,246)	(4,581)
Other Comprehensive Income		
Items that will be classified to profit and loss:		
Foreign currency translation	(41)	60
Total comprehensive loss attributable to owners of the parent	(2,287)	(4,521)
Earnings per share		
Basic (in cents)	(7.2)	(14.1)
Diluted (in cents)	(7.2)	(14.1)

Appendix 4E
Preliminary final report Etherstack plc

Revenue	2014	2013
	USD \$000	USD \$000
Licence fees, Design, development and supply of wireless communications technology	6,613	4,506
Royalties	385	518
Grant receipts	182	176
	<u>7,180</u>	<u>5,200</u>
Expenses	2014	2013
	USD \$000	USD \$000
Depreciation	83	147
Dilapidation expense	19	-
Operating lease costs	640	668
Amortisation of intangible assets	2,254	1,391
Foreign exchange (gains)/losses	(342)	256
Impairment loss	2,172	-
Debt subject to claim and legal fees	460	499
Finance costs – interest on loans and Convertible notes	606	396

4. Condensed consolidated balance sheet

		2014 USD \$000	2013 USD \$000
Non-Current assets			
Intangible assets	9	9,622	11,788
Property, plant and equipment	10	137	235
Trade and other receivables	8	200	257
		<u>9,959</u>	<u>12,280</u>
Current Assets			
Inventories	7	179	296
Trade and other receivables	8	2,506	1,957
Cash and bank balances		443	29
		<u>3,128</u>	<u>2,282</u>
Total assets		<u>13,087</u>	<u>14,562</u>
Non-Current liabilities			
Trade and other payables	11	2,313	4,668
Deferred tax liability		168	251
		<u>2,481</u>	<u>4,919</u>
Current Liabilities			
Trade and other payables	11	6,518	3,273
Current tax liabilities		150	145
		<u>6,668</u>	<u>3,418</u>
Total Liabilities		<u>9,149</u>	<u>8,337</u>
Net Assets		<u>3,938</u>	<u>6,225</u>
Equity			
Share capital	12	205	205
Share premium account		2,282	2,282
Merger reserve		3,497	3,497
Share based payment reserve		361	361
Foreign currency translation reserve		(1,783)	(1,742)
Retained earnings		(624)	1,622
Total equity		<u>3,938</u>	<u>6,225</u>

5. **Condensed consolidated statement of cash flows**

	2014	2013
	USD \$000	USD \$000
Cash from operating activities	2,406	767
Investing activities		
Purchase of intangible assets	(2,339)	(3,578)
Purchases of property plant and equipment	(1)	(28)
Net cash used in investing activities	(2,340)	(3,606)
Financing activities		
(Decrease)/increase in loans	(86)	939
Net proceeds on issue of convertible notes	455	1,659
Net cash from financing activities	369	2,598
Net increase/ (decrease) in cash and cash equivalents	435	(241)
Cash and cash equivalents at beginning of year	29	272
Effect of foreign exchange rate differences	(21)	(2)
Cash and cash equivalents at end of year	443	29

Reconciliation of cash from operating activities

	2014	2013
	USD \$000	USD \$000
Operating loss after tax	(3,440)	(4,366)
Adjustments for:		
Amortisation of intangible assets	2,254	1,391
Impairment charge	2,172	-
Depreciation of property, plant & equipment	83	147
Revaluation of embedded derivative	(241)	(134)
Equity settled share based transactions	-	71
Provision for doubtful debt and provision for accrued income	-	499
Increase in income tax payable	5	-
Unrealised foreign exchange	362	256
Operating cashflows before movements in working capital	1,195	(2,136)
Decrease in inventories	117	75
Decrease in receivables	344	2,317
Increase in payables	616	1,008
(Decrease)/increase in Deferred Income	(96)	82
Cash generated by operations	2,176	1,346
Income taxes received/(paid)	836	(183)
Interest (paid)	(606)	(396)
Net cash generated by operating activities	<u>2,406</u>	<u>767</u>

Appendix 4E
Preliminary final report Etherstack plc

6. Statement of changes in equity

	Share Capital	Share Premium	Share Based payment	Merger reserve	Foreign Currency Translation reserve	Retained earnings	Total
	USD \$000	USD \$000	USD \$000	USD \$000	USD \$000	USD \$000	USD \$000
Balance at 1 January 2013	205	2,282	290	3,497	(1,802)	6,203	10,675
Loss for the year	-	-	-	-	-	(4,581)	(4,581)
Other Comprehensive income	-	-	-	-	60	-	60
Total Comprehensive income	-	-	-	-	60	(4,581)	(4,521)
Share based payment charge	-	-	71	-	-	-	71
Balance at 31 December 2013	205	2,282	361	3,497	(1,742)	1,622	6,225
Loss for the year	-	-	-	-	-	(2,246)	(2,246)
Other Comprehensive income	-	-	-	-	(41)	-	(41)
Total Comprehensive income	-	-	-	-	(41)	(2,246)	(2,287)
Share based payment charge	-	-	-	-	-	-	-
At 31 December 2014	205	2,282	361	3,497	(1,783)	(624)	3,938

7. Inventories

	2014	2013
	USD \$000	USD \$000
Finished goods and work in progress	179	296
	<u>179</u>	<u>296</u>

8. Trade and other receivables

	2014	2013
	USD \$000	USD \$000
Current		
Trade debtors	145	668
Provision for non- recovery of trade debtor	-	(206)
Accrued income from contracts in progress	765	924
Provision for non- recovery of accrued income	-	(293)
Other debtors	676	864
Other debtors- income tax receivable	920	-
	<u>2,506</u>	<u>1,957</u>
Non-current		
Accrued income from contracts in progress	200	257
	<u>200</u>	<u>257</u>

9. Intangible Assets

	Capitalisation of development costs USD \$000	Engineering software USD \$000	Customer contract intangible USD \$000	Goodwill USD \$000	Total USD \$000
Cost					
At 1 January 2013	9,026	536	1,144	353	11,059
Additions	3,414	164	-	-	3,578
Exchange differences	-	(3)	(165)	-	(168)
At 31 December 2013	<u>12,440</u>	<u>697</u>	<u>979</u>	<u>353</u>	<u>14,469</u>
Additions	2,339	-	-	-	2,339
Exchange differences	-	-	(79)	-	(79)
At 31 December 2014	<u>14,779</u>	<u>697</u>	<u>900</u>	<u>353</u>	<u>16,729</u>
Accumulated amortisation					
At 1 January 2014	2,163	388	130	-	2,681
Charge for the year	1,957	98	199	-	2,254
Impairment loss	2,153	19	-	-	2,172
Exchange differences	-	-	-	-	-
At 31 December 2014	<u>6,273</u>	<u>505</u>	<u>329</u>	<u>-</u>	<u>7,107</u>
Carrying amount					
At 31 December 2014	<u>8,506</u>	<u>192</u>	<u>571</u>	<u>353</u>	<u>9,622</u>
At 31 December 2013	<u>10,277</u>	<u>309</u>	<u>849</u>	<u>353</u>	<u>11,788</u>

10. Property, Plant and equipment

	Leasehold property USD \$000	Furniture and equipment USD \$000	Computer equipment USD \$000	Total USD \$000
Cost				
At 1 January 2014	243	346	726	1,315
Additions	-	1	-	1
Exchange differences	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2014	243	347	726	1,316
	<hr/>	<hr/>	<hr/>	<hr/>
Accumulated depreciation				
At 1 January 2014	150	217	713	1,080
Charge for the year	25	43	15	83
Exchange differences	9	15	(8)	16
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2014	184	275	720	1,179
	<hr/>	<hr/>	<hr/>	<hr/>
Carrying amount				
At 31 December 2014	59	72	6	137
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2013	93	129	13	235
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

11. Trade and other payables

	2014 USD \$000	2013 USD \$000
Current		
Trade creditors and accruals	1,645	1,376
Other creditors	882	1,154
Other taxes and social security costs	1,127	743
Deferred income	130	-
Convertible notes at amortised cost	2,734	-
	<hr/>	<hr/>
	6,518	3,273
	<hr/> <hr/>	<hr/> <hr/>
Non-current		
Convertible notes at amortised cost	702	3,008
Embedded derivative at fair value	91	64
Deferred income	354	344
Other loans	1,166	1,252
	<hr/>	<hr/>
	2,313	4,668
	<hr/> <hr/>	<hr/> <hr/>

12. Share capital

	2014	2013
	Number	Number
Authorised Ordinary shares of 0.4p each	62,500,000	62,500,000
	2014	2013
	USD \$000	USD \$000
Called up, allotted and fully paid 31,980,784 ordinary shares of 0.4p each	205	205
	205	205

13. Earnings per share

Details of basic and diluted EPS are as follows:

	2014	2013
	USD \$000	USD \$000
Loss for the year	(2,246)	(4,581)
	Number	Number
Weighted average number of ordinary shares for basic earnings per share	31,980,784	31,980,784

14. Dividends

There are no dividends paid or proposed in respect of the current period or the prior period.

15. Dividend Reinvestment Plans

There are no dividend or distribution reinvestment plans in operation.

16. Net tangible assets

	2014	2013
	USD Cents	USD Cents
Net tangible asset backing per ordinary share	(17.8)	(17.4)

17. Details of entities over which control has been gained or lost

There are no entities over which control was gained or lost in the current period.

18. Details of associates and joint venture entities

Not applicable.

19. Any other significant information

Not applicable.

20. Accounting standards

The preliminary final report has been prepared in accordance with ASX listing rule 4.3A and has been derived from the unaudited financial report. The financial report has been prepared in accordance with measurement and recognition (but not disclosure) requirements of International Financial Reporting Standards (IFRS).

As such, this preliminary final report does not include all the notes of the type included in an annual financial report.

The preliminary final report is presented in United States Dollars (USD).

21. Post balance date events

There are no post balance date events.

22. Contingent liabilities

A general commercial dispute has arisen between Etherstack plc's wholly owned US subsidiary Etherstack Inc. and one of its technology licensees. This has resulted in legal action being initiated between this licensee and certain Group companies.

The outcomes of the legal actions cannot be predicted or estimated at this time. Resolution of the dispute through mediation or other means may result in an additional amount becoming payable or a portion of the amounts receivable becoming recoverable.

23. The report is based on accounts which are in the process of being audited.

Similar to the auditor's report for the 2013 financial statements, the auditor's report for the 2014 financial statements may contain an emphasis of matter paragraph in respect of the adoption of the going concern basis of accounting.