

# Appendix 4E

## Preliminary final report

**Name of Entity:** Etherstack plc  
**ARBN:** 156 640 532

**1. Reporting Period (“current period”):** Year ended 31 December 2013  
Previous corresponding period: Year ended 31 December 2012

**2. Results for announcement to the market**

				USD \$000
Revenue	down	26%	to	5,200
Loss from ordinary activities after tax attributable to members	down	327%	to	(4,581)
Net Loss for the period attributable to members	down	327%	To	(4,581)

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

Revenue decreased in 2013 from USD \$7,051 in 2012 by USD \$1,851 to USD \$5,200. Key reasons for the decrease are:

- Reduced revenues from the US market – Public Safety Communications spending in the US market in 2013 has been below levels of recent years and, compounding this decline, was sequestration of US Government spending in parts of 2013. Almost all participants in this sector have been impacted
- An unexpected 10 month delay on commencement of a major multiyear project during 2013, which only commenced in October 2013, and is now providing expected revenues in 2014
- A significant multimillion dollar repeat order expected from an established US defence client did not materialise due to events outside of the Group's control.

As expected revenue for the second half of the year of USD \$3,415 exceeded revenue for the first half of USD \$1,785.

The inherent nature of Etherstack revenues means that the timing of the completion or commencement of individually significant projects can cause a significant variation in the revenue pattern. Unusually, in 2012 and 2013, the Group has not gained benefits of any of the large contracts which underpinned the 2010 and 2011 revenues.

As a result, and as previously reported, the Group has been transitioning dependence from a smaller number of large value contracts to a more consistent sales pipeline mix through the development and introduction of new specialist radio products sold under its own brands to complement the technology licensing and major projects businesses.

Other profit and loss account comments:

- Interest costs have increased from USD \$104 to USD \$396 as Convertible Notes were issued and additional loans were drawn down from the majority shareholder in 2013, for the purpose of supplementing working capital.
- The amortisation charge in respect of Intellectual property assets has increased from USD \$617 to USD \$1,288 as more products/developments reached the completion stage in 2012 and hence there is a full year amortisation for the first time in 2013. There were also additional products/developments reaching completion stage in 2013 and accordingly, amortisation charges commence on these products/developments.
- Etherstack's US subsidiary has become involved in a legal action initiated by one of the Group's technology licencees, Datron World Communications, Inc. While the outcome of the action is uncertain (and if litigated would not be known until 2015 at the earliest), the Directors have taken a prudent approach in presenting the 31 December 2013 financial statements providing in full against amounts receivable from Datron and provided in full against accrued income on the contract. The combined provision results in a profit & loss charge of USD \$499. The Group will continue to attempt to recover through legal avenues unpaid milestones and unpaid royalties on product sold and shipped by Datron containing the Group's technology.
- The Group continues to invest in intellectual property assets and in the financial year Etherstack capitalised further costs of USD \$3,414 on developing its portfolio of intellectual property assets.

Cost reductions: As a consequence of reduced revenues the Group has reduced the cost base. In particular, the Group has reduced the total number of staff saving USD \$1.3 million on an annualised basis excluding associated retrenchment costs. This has been achieved through a combination of natural attrition and retrenchments. The Group is in the process of reducing other costs. Cost reductions are managed with a view to balancing the short term need to reduce costs and conserve cash with the medium and longer term need to develop intellectual property assets which produce future revenues.

### **Outlook**

Despite the challenges of the past 12 months, the Group has continued to expand its client base and diversify its revenue base.

Etherstack recently received its first order from an Australian federal policing agency for its new tactical communications product known as the SFFR-6 tactical repeater which will be delivered in March this year. This follows on from initial lead orders with US federal agencies.

The commencement of further stages of the Group's largest network contract has provided stronger revenue at the start of the current financial year, and it is expected that the first quarter FY14 revenues will exceed the first half revenues of FY13.

Expected completion of a significant royalty bearing contract next month will see a further new royalty stream opening up from a high volume Japanese producer of radio equipment.

Royalty payments from Cisco for their products shipped incorporating the Group's technology are also progressing as expected.

### **Dividends**

No dividends are proposed.

### **Record date for determining entitlements to the dividends**

Not applicable.

**3. Consolidated statement of comprehensive income**

	<b>2013</b> <b>USD \$000</b>	<b>2012</b> <b>USD \$000</b> Restated
<b>Revenues</b>	<b>5,200</b>	<b>7,051</b>
Cost of sales	(2,420)	(2,632)
<b>Gross profits</b>	<b>2,780</b>	<b>4,419</b>
Foreign exchange losses	(256)	(172)
Other administrative expenses	(6,391)	(5,619)
Provision for doubtful debt and provision for Accrued income	(499)	-
<b>Total administrative costs</b>	<b>(7,146)</b>	<b>(5,791)</b>
Operating loss	(4,366)	(1,372)
Finance costs	(396)	(104)
Loss before tax	(4,762)	(1,476)
Income Tax	181	402
<b>Loss for the period</b>	<b>(4,581)</b>	<b>(1,074)</b>
<b>Other Comprehensive Income</b>		
Items that will be classified to profit and loss:		
Foreign currency translation	60	98
<b>Total comprehensive loss attributable to owners of the parent</b>	<b>(4,521)</b>	<b>(976)</b>
<b>Earnings per share</b>		
-Basic (in cents)	(14.1)	(3.5)
-Diluted (in cents)	(14.1)	(3.5)

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<b>Revenue</b>	<b>2013</b>	<b>2012</b>
	<b>USD \$000</b>	<b>USD \$000</b>
Licence fees, Design, development and supply of wireless communications technology	4,506	6,083
Royalties	518	757
Grant receipts	176	211
	<u>5,200</u>	<u>7,051</u>
<b>Expenses</b>	<b>2013</b>	<b>2012</b>
	<b>USD \$000</b>	<b>USD \$000</b>
Depreciation	147	211
Operating lease costs	668	691
Amortisation of intangible assets	1,391	793
Foreign exchange losses	256	172
Finance costs – interest on loans and Convertible notes	396	104

4. Condensed consolidated balance sheet

		2013 USD \$000	2012 USD \$000 Restated
<b>Non-Current assets</b>			
Intangible assets	9	11,788	9,758
Property, plant and equipment	10	235	384
Trade and other receivables	8	257	517
		<u>12,280</u>	<u>10,659</u>
<b>Current Assets</b>			
Inventories	7	296	371
Trade and other receivables	8	1,957	4,513
Cash and bank balances		29	272
		<u>2,282</u>	<u>5,156</u>
<b>Total assets</b>		<u>14,562</u>	<u>15,815</u>
<b>Non-Current liabilities</b>			
Trade and other payables	11	4,668	1,900
Deferred tax liability		251	315
		<u>4,919</u>	<u>2,215</u>
<b>Current Liabilities</b>			
Trade and other payables	11	3,273	2,487
Current tax liabilities		145	438
		<u>3,418</u>	<u>2,925</u>
<b>Total Liabilities</b>		<u>8,337</u>	<u>5,140</u>
<b>Net Assets</b>		<u>6,225</u>	<u>10,675</u>
<b>Equity</b>			
Share capital	12	205	205
Share premium account		2,282	2,282
Merger reserve		3,497	3,497
Share based payment reserve		361	290
Foreign currency translation reserve		(1,742)	(1,802)
Retained earnings		1,622	6,203
<b>Total equity</b>		<u>6,225</u>	<u>10,675</u>

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

	<b>2013</b> <b>USD \$000</b>	<b>2012</b> <b>USD \$000</b> Restated
<b>Cash from operating activities</b>	<b>592</b>	<b>(927)</b>
<b>Investing activities</b>		
Purchase of intangible assets	(3,578)	(4,789)
Purchases of property plant and equipment	(28)	(352)
<b>Net cash used in investing activities</b>	<b>(3,606)</b>	<b>(5,141)</b>
<b>Financing activities</b>		
Increase/(decrease) in loans	939	(205)
Net proceeds on issue of shares	-	2,396
Net proceeds on issue of convertible notes	1,525	1,547
<b>Net cash from financing activities</b>	<b>2,464</b>	<b>3,738</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(550)</b>	<b>(2,330)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>272</b>	<b>2,660</b>
Effect of foreign exchange rate differences	307	(58)
<b>Cash and cash equivalents at end of year</b>	<b>29</b>	<b>272</b>

**Reconciliation of cash from operating activities**

	<b>2013</b> <b>USD \$000</b>	<b>2012</b> <b>USD \$000</b> Restated
<b>Operating loss after tax</b>	<b>(4,581)</b>	<b>(1,074)</b>
Adjustments for:		
Amortisation of intangible assets	1,391	793
Depreciation of property, plant & equipment	147	211
Debts written off	-	7
Provision for doubtful debt and provision for accrued income	499	-
Revaluation of embedded derivative	(134)	-
Equity settled share based transactions	71	242
Decrease in income tax payable	(42)	(411)
<b>Operating cashflows before movements in working capital</b>	<b>(2,649)</b>	<b>(232)</b>
Decrease/ (increase) in inventories	75	(169)
Decrease/ (increase) in receivables	2,546	(1,188)
Increase in payables	942	704
<b>Cash generated by operations</b>	<b>914</b>	<b>(885)</b>
Income taxes paid	-	(42)
Interest paid	(322)	-
<b>Net cash generated by operating activities</b>	<b>592</b>	<b>(927)</b>

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**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
<b>Balance at 1 January 2012</b>	<b>181</b>	<b>-</b>	<b>48</b>	<b>3,497</b>	<b>(1,900)</b>	<b>7,358</b>	<b>9,184</b>
Profit for the year	-	-	-	-	-	(1,112)	(1,112)
Effect of foreign exchange	-	-	-	-	98	-	98
<b>Total Comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>98</b>	<b>(1,112)</b>	<b>(1,014)</b>
Issue of ordinary shares	14	2,213	-	-	-	-	2,227
Effect of Foreign exchange	10	69	2	-	-	(81)	-
Share based payments charge	-	-	240	-	-	-	240
<b>Balance at 31 December 2012</b>	<b>205</b>	<b>2,282</b>	<b>290</b>	<b>3,497</b>	<b>(1,802)</b>	<b>6,165</b>	<b>10,637</b>
Prior year restatement (Note 9)	-	-	-	-	-	38	38
<b>Balance 31 December 2012 restated</b>	<b>205</b>	<b>2,282</b>	<b>290</b>	<b>3,497</b>	<b>(1,802)</b>	<b>6,203</b>	<b>10,675</b>
Profit for the year	-	-	-	-	-	(4,581)	(4,581)
Other Comprehensive income	-	-	-	-	60	-	60
<b>Total Comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>60</b>	<b>(4,581)</b>	<b>(4,521)</b>
Share based payment charge	-	-	71	-	-	-	71
<b>At 31 December 2013</b>	<b>205</b>	<b>2,282</b>	<b>361</b>	<b>3,497</b>	<b>(1,742)</b>	<b>1,622</b>	<b>6,225</b>



**7. Inventories**

	<b>2013</b>	<b>2012</b>
	<b>\$000</b>	<b>\$000</b>
Finished goods and work in progress	296	371
	<u>296</u>	<u>371</u>

**8. Trade and other receivables**

	<b>2013</b>	<b>2012</b>
	<b>\$000</b>	<b>\$000</b>
<b>Current</b>		
Trade debtors	668	1,157
Provision for non- recovery of trade debtor	(206)	-
Accrued income from contracts in progress	924	1,981
Provision for non- recovery of accrued income	(293)	-
Other debtors	864	1,375
	<u>1,957</u>	<u>4,513</u>
<b>Non-current</b>		
Accrued income from contracts in progress	257	517
	<u>257</u>	<u>517</u>

**9. Intangible Assets**

	Capitalisation of development costs USD \$000	Engineering software USD \$000	Customer contract intangible USD \$000	Goodwill USD \$000 Restated	Total USD \$000 Restated
<b>Cost</b>					
At 1 January 2012	4,467	327	1,122	353	6,269
Additions	4,559	220	-	-	4,779
Exchange differences	-	(11)	22	-	11
At 31 December 2012	<u>9,026</u>	<u>536</u>	<u>1,144</u>	<u>353</u>	<u>11,059</u>
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>
<b>Accumulated amortisation</b>					
At 1 January 2013	875	337	89	-	1,301
Charge for the year	1,288	62	41	-	1,391
Exchange differences	-	(11)	-	-	(11)
At 31 December 2013	<u>2,163</u>	<u>388</u>	<u>130</u>	<u>-</u>	<u>2,681</u>
<b>Carrying amount</b>					
At 31 December 2013	<u><u>10,277</u></u>	<u><u>309</u></u>	<u><u>849</u></u>	<u><u>353</u></u>	<u><u>11,788</u></u>
At 31 December 2012	<u><u>8,151</u></u>	<u><u>199</u></u>	<u><u>1,055</u></u>	<u><u>353</u></u>	<u><u>9,758</u></u>

**Prior year adjustment**

Goodwill has been increased by \$353,000 with effect from 1 January 2012 to correctly apply the Group's accounting policy for business combinations. The restatement has been made to record the deferred income tax liability on the customer contract intangible asset that initially arose on acquisition of Auria Wireless Pty Limited.

As a result of the restatement, the following adjustments have been made to the previously reported Statement of Comprehensive Income and the Statement of Financial Position for the year ended 31 December 2012.

	<b>2012</b> <b>\$'000</b>
Deferred tax credit recorded in income statement	(38)
Deferred tax liability	(315)
Goodwill	353

**10. Property, Plant and equipment**

	Leasehold property \$'000	Furniture and equipment \$'000	Computer equipment \$'000	Total \$'000
<b>Cost</b>				
At 1 January 2013	243	337	718	1,298
Additions	-	19	9	28
Exchange differences	-	(10)	(1)	(11)
	<u>243</u>	<u>346</u>	<u>726</u>	<u>1,315</u>
<b>Accumulated depreciation</b>				
At 1 January 2013	109	166	639	914
Charge for the year	29	45	73	147
Exchange differences	12	6	1	19
	<u>150</u>	<u>217</u>	<u>713</u>	<u>1,080</u>
<b>Carrying amount</b>				
At 31 December 2013	<u>93</u>	<u>129</u>	<u>13</u>	<u>235</u>
At 31 December 2012	<u>134</u>	<u>171</u>	<u>79</u>	<u>384</u>

**11. Trade and other payables**

	2013 \$'000	2012 \$'000
<b>Current</b>		
Trade creditors and accruals	1,376	1,176
Other creditors	1,154	457
Other taxes and social security costs	743	541
Other loans	-	313
	<u>3,273</u>	<u>2,487</u>
<b>Non -current</b>		
Convertible notes at amortised cost	3,008	1,487
Embedded derivative at fair value	64	60
Deferred income	344	353
Other loans	1,252	-
	<u>4,668</u>	<u>1,900</u>

**12. Share capital**

	<b>2013</b>	<b>2012</b>
	<b>Number</b>	<b>Number</b>
Authorised Ordinary shares of 0.4p each	62,500,000	62,500,000
	<b>2013</b>	<b>2012</b>
	<b>\$000</b>	<b>\$000</b>
Called up, allotted and fully paid 31,980,784 ordinary shares of 0.4p each	205	205

**13. Earnings per share**

Details of basic and diluted EPS are as follows:

	<b>2013</b>	<b>2012</b>
	<b>\$'000</b>	<b>\$'000</b>
Loss for the year	(4,581)	Restated (1,074)
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares for basic earnings per share	31,980,784	30,491,480

**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**

	<b>2013</b>	<b>2012</b>
	<b>USD Cents</b>	<b>USD Cents</b>
		Restated
Net tangible asset backing per ordinary share	(17.4)	2.9

**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**

Etherstack plc was incorporated on 15 February 2012 and acquired 100% of the issued share capital of Etherstack London Limited, through a share for share exchange. This transaction is a group reorganisation and the accounting treatment reflects the economic substance of the transaction. Accordingly, the comparative financial information included in this preliminary final report of Etherstack plc has been drawn up as a continuation of the financial statements of Etherstack London Limited.

**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 (Datron). This has resulted in legal action being initiated between this licensee and the US subsidiary.

Etherstack has made adjustments to amounts receivable of USD \$206,000 from the customer and accrued income on the project of USD \$293,000.

A further amount, which is not yet quantifiable, may also become payable depending on the outcome of the dispute.

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

Similar to the auditor's report for the 2012 financial statements, the auditor's report for the 2013 financial statements may contain an emphasis of matter paragraph in respect of the adoption of the going concern basis of accounting.