Etherstack plc **AND CONTROLLED ENTITIES** (formerly MM&S (5698) plc)

COMPANY REGISTRATION NUMBER 7951056

ARBN 156 640 532

FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2012

Contents

Corporate Directory

Company Registration No. 7951056

ARBN 156 640 532

Directors
Peter Stephens (Non-Executive Chairman)
David Deacon (Executive Director and Group Chief Executive Officer)
Paul Barnes FCCA (Non-Executive Director)
Scott W. Minehane (Non-Executive Director)

Company Secretaries
Paul Barnes FCCA (United Kingdom)
David Carter (Australia)

United Kingdom Registered Office
28 Poland Street
London W1P 8QN
United Kingdom

Australian Registered Office
Level 1
80 Abercrombie Street
Sydney, NSW, 2008
Australia

Auditor
Ernst & Young LLP
Statutory Auditor
Cambridge, United Kingdom

Stock Exchange Listing
Australian Securities Exchange
(Code: ESK)

Share Registrars
Computershare Investor Services Pty Limited
452 Johnston Street
Abbotsford, VIC, 3067
Australia

Computershare Investor Services plc
The Pavilions, Bridgwater Road
Bristol BS99 6ZY
United Kingdom

Website
www.etherstack.com

Chief Executive Officer's Review

On behalf of the Board of Directors, I am very pleased to present this review of the activities of Etherstack plc for 2012 and to welcome many new shareholders to Etherstack.

The year has seen a great many changes in Etherstack while some enduring characteristics have been maintained and strengthened.

2012 saw the creation of a new company, Etherstack plc, which then became the holding company for all the operating companies and was listed on the Australian Securities Exchange (ASX) in September 2012.

The listing of Etherstack has been a long term goal of the Board of Directors and founding shareholders and we are very pleased to have completed the listing on the ASX. As outlined in the Chairman's' letter in the Prospectus, the listing will bring many long term benefits including:

- raised profile in the Australian, British and US defence, government communications, utility and resource sectors, enhancing the credibility and standing of the Company which is important in attracting new business,
- listed scrip for use in mergers and acquisitions,
- listed scrip that will provide a means – through share purchase plans – to reward and motivate our staff, and
- the Company will have access to public markets to raise further capital, where appropriate, to support growth internally and externally

Revenues of USD $7.1m for the 2012 year is a decrease from 2011 however it is important to view these results in the broader context of Etherstack's business. Effort has been invested in the following:

- During 2012, the Company expanded its management and engineering team, relocated its largest engineering facility in Sydney (300% increase in space), and successfully listed on the ASX on 7th September 2012 in preparation for growth activities in 2013 & 2014.
- Further variances between 2012 and 2011 performance relate primarily to a shift in focus from shorter term returns on engineering effort towards longer term returns associated with development of sustainable product lines of higher future revenue potential. Benefits of this shift are expected to become apparent in positive 2013 results through increased revenue from higher margin product business and increased royalty streams with longer payment tails.

Other key achievements in 2012:

- In October 2011, the group commenced a project to deliver a digital radio network for a customer in Queensland covering a service area of 1.7 million square kilometres - with the first stage of this network fully operational by December 2012. At the end of the financial year, the project is proceeding according to plan with the second phase commencing in 2013.
- In addition, the success of our leading edge products deployed in the above project has led to several multimillion dollar opportunities and I look forward to announcing new contracts in 2013 as they eventuate.
- New JVCKENWOOD technology licensing contract in Japan announced in Dec 2012 is progressing to schedule.
- First ever quarterly Cisco royalty announced in Dec 2012. Further Cisco royalties reported since. Quarterly royalty flow from Cisco expected to increase in 2013.

Outlook

At the International Wireless and Communications Exhibition in Las Vegas earlier this month, Etherstack launched its new broadband public safety communications product, known as LTE25 in conjunction with our partner and client, Cisco Systems Inc.

The product was very well received by the government communications industry and we are excited about the prospects for this solution.

Chief Executive Officer's Review

We have a record number of pursuits in both Australia and internationally at the moment covering a range of sectors including defence communications, further utilities opportunities and major public safety projects.

A special thank you to all the Etherstack team across the globe for maintaining their focus on customers and innovation, allowing us to continue delivering cutting edge solutions and setting the technological benchmark for our industry.

David Deacon
Group Chief Executive Officer

Directors and Key Management

Board of Directors

Peter Stephens – Non-Executive Chairman

Peter was previously head of European Equities Sales at both Salomon Brothers and Credit Lyonnais and since 2001 he has been working as a venture capitalist.

Peter has dealt with and advised many of the leading investment managers in the UK over the past 20 years. He is a founding shareholder of Desire Petroleum plc and is a non-executive director of Tristel plc and GeTech Group plc, both companies are quoted on the London Stock Exchange's AIM market. He is a director and major shareholder in five other UK ventures including Scott Dunn and Cavendish Ware.

Peter has an M.A. in Jurisprudence from Oxford University and qualified as a barrister in the UK in 1978.

Peter has been on the board of Etherstack London Limited since September 2007 and was appointed to the Board of Etherstack plc in 2012 as Non Executive chairman of the Board and chairman of the Remuneration committee and Nomination committee.

Paul Barnes, FCCA – Non-Executive Director

Paul has wide experience in venture development, financial strategy and management, corporate finance and M&A disciplines.

Paul started his career with the City of London accounting firm Melman Pryke & Co (now part of Grant Thornton). Following qualification, he then worked in both accountancy practice and commerce, specialising in developing businesses in a wide range of activities from auditing development and commercial property companies and commodities brokers to taking senior management positions with a successful importer and a full service executive jet aviation company.

Paul co-founded and raised funds for various successful "start up" businesses in both property and telecommunication including UK Telecom plc.

Paul has been a key member of the teams in the development and admission to the London Stock Exchange's AIM market of both Tristel plc and Oxford Catalysts plc raising substantial funds for both companies, where he served as the executive finance director and in the establishment of Beach Street Financial Solutions Limited an FSA regulated investment management firm.

Paul is a Fellow of the Association of Chartered Certified Accountants, a registered auditor in the UK and a member of the UK's Chartered Institute for Securities and Investment.

Paul joined Etherstack in 2002 as finance director and CFO, and held these positions throughout the development and expansion of Etherstack until December 2011 when David Carter, the current CFO, transitioned into the role. Paul was appointed a Director of Etherstack plc in February 2012.

Scott Minehane – Non-Executive Director

Scott is an international regulatory and strategy expert in the telecommunications sector and has been involved in advising investors, operators, Governments and regulators in Australia, Asia, the Pacific and South Africa. His expertise extends to spectrum management and new generation fixed and mobile technologies including 4G.

Scott has a separate consultancy practice, through which he has advised a range of leading corporates and organisations including the Commonwealth, South Australian and Victorian Governments, APEC Business Advisory Council, NBNCo, Macquarie Group, Leighton Holdings, Macquarie Telecommunications, IDA Singapore, Telekom Malaysia, Axiata, Telkom South Africa and Telecom NZ.

Scott has a Bachelor of Economics and a Bachelor of Laws from the University of Queensland and holds a Master of Laws specialising in Communications and Asian Law from the University of Melbourne.

Scott joined the Board as an Independent Non-executive director in 2012 and is chairman of the Audit & Risk Management Committee.

Directors and Key Management

David Deacon – Group CEO, Executive Director

David has almost 20 years experience in the wireless communications industry. Prior to Etherstack, David founded and ran an Australian wireless technology company, Indian Pacific Communications Pty Ltd, for six years until it was sold to a public company in April 2000. Before this, David led software development teams involved in wireless research and development in Perth and Sydney.

David founded Etherstack in 2002 and has overseen its growth into operations in seven countries around the world. For the past decade, David has been based between Europe and North America where the majority of Etherstack's client base resides, creating multiple regional offices for Etherstack to provide local support and services for the client base.

Senior management

Brad Dolphin – Chief Operating Officer

Brad is the CEO of Auria Wireless and Chief Operating Officer of Etherstack. Prior to joining Auria Wireless as its CEO, Brad was the Managing Director of C10 Communications Pty Ltd, a subsidiary of Lemarne Corporation for over six years. Brad also joined Cable and Wireless Optus as Manager of New Access Technologies where he was responsible for the introduction of DSL technology into Optus and, in the position of Chief Technical Officer of XYZed, built the network and operations unit of this business.

Brad graduated from the University of Western Australia with a Bachelor of Engineering degree with a double major in Communications and Electronics. As a design engineer, Brad's career includes the development of HF and VHF commercial radio transceivers and base stations as well as time in the defence industry in the UK.

David Carter – Chief Financial Officer

David worked within the audit and assurance practice of Coopers & Lybrand and PricewaterhouseCoopers for 12 years in Australia and The Netherlands.

David has held senior finance roles in IT companies including Dimension Data and Computer Science Corporation and was CFO and company secretary of a software reseller and engineering services provider before joining Etherstack as CFO in September 2011.

David has a Bachelor of Commerce degree from University of New South Wales, is a member of the Institute of Chartered Accountants in Australia, and holds an Executive MBA from the Australian Graduate School of Management.

Corporate Governance Report

At 31 December 2012

The Board of Directors is responsible for the overall strategy, governance and performance of the Etherstack plc group of companies (the Group). Etherstack plc (the Company) is a wireless communications technology provider whose strategy is to add substantial shareholder value through the design, development and deployment of products for radio communication networks used by governments, such as those used by defence and police forces, public safety departments, such as ambulance and fire, and radio networks used by utilities, such as electricity companies. The Board has adopted a corporate governance framework which it considers to be suitable given the size, history and strategy of the Company.

Principles of best practice recommendations

In accordance with ASX Listing Rules, Etherstack plc is required to disclose the extent to which it has followed ASX's Corporate Governance Principles and Recommendations (ASX Recommendations) during the financial year. Where the Company has not followed an ASX Recommendation, this has been identified and an explanation for the departure has been given.

Further details relating to the Company's corporate governance practices can be found on the Company's website at www.etherstack.com in the "Investor" section under "Corporate Governance".

Principle 1: Lay solid foundations for management and oversight

The Board of Directors is responsible for the overall strategy, governance and performance of the Company.

Board Charter

The Board has adopted a formal Board Charter which clearly details its functions and responsibilities and delineates the role of the Board from that of the senior executives. The Board's function and responsibilities include strategy and planning, corporate governance, appointment of the Chief Executive Officer (CEO), remuneration, capital expenditure and financial reporting, performance monitoring, risk management, audit and compliance, developing and monitoring diversity policies and objectives.

Executive Directors are provided with executive contracts of employment and Non-executive Directors are provided with service agreements setting out the key terms and conditions relative to that appointment.

The process for performance reviews of senior executives and the Board is set out in this report. The first review of performance of senior executives under this process was in 2013.

A copy of the Board Charter is available on the website in the "Investor" section under "Corporate Governance".

Principle 2: Structure the board to add value

Structure of the Board

The Board currently consists of four directors comprising, an Independent Chairman, two Non-executive Directors and one Executive Director:

Mr Peter Stephens, Chair – Independent, Non-executive Director

Mr Paul Barnes – Non-executive Director

Mr Scott Minehane – Independent, Non-executive Director

Mr David Deacon – Group CEO and Executive Director

The term of office held by each Director is set out on page 20.

The skills, experience and expertise of each Director are set out on pages 5 and 6.

Corporate Governance Report

At 31 December 2012

Chairman's responsibilities and independence

The Board Charter provides that the Chairman of the Board is responsible for the leadership of the Board, ensuring the Board is effective, setting the agenda of the Board, conducting the Board meetings and conducting the shareholder meetings.

The Chairman of the Board, Peter Stephens, is an Independent Non-executive Director.

Board independence

An independent Director, in the opinion of the Board, must be independent of management and have no business or other relationship that could materially interfere with – or could reasonably be perceived materially to interfere with – the independent exercise of that director's judgement. Any independent Director will meet the definition of what constitutes independence as set out in the ASX Recommendations. The materiality thresholds are assessed on a case-by-case basis, taking into account the relevant Director's specific circumstances, rather than referring to a general materiality threshold.

At this time there are two Directors the Board has classified as independent - the Non-Executive Chairman Mr Peter Stephens, and Mr Scott Minehane.

The Board Charter states that the Board aims to have at all times a Board of directors with at least two independent non-executive directors and having the appropriate mix of skills, experience, expertise and diversity relevant to the Company's businesses and the Board's responsibilities.

Board committees

To assist the Board in carrying out its functions, the Board has established:

- an Audit and Risk Management committee;
- a Remuneration committee; and
- a Nomination committee.

Each Committee is established according to a Charter that is approved by the Board. Each Committee is entitled to the resources and information it requires to discharge its responsibilities, including direct access to senior executives, employees and advisers as needed. Terms of reference of each committee, explaining its role and the authority delegated to it by the board, are available on the Company's website. The committee chairmen report regularly to the whole board and are required to confirm that the committees have sufficient resources to undertake their duties.

Nomination committee

The Nomination committee must have a majority of independent Directors. The chair of the Board shall chair the Nomination committee. Peter Stephens, Scott Minehane, and Paul Barnes are members of this committee. Peter Stephens acts as chairman of the committee. When appointing members of each committee, the Board shall take account of the skills and experience appropriate for that committee as well as any statutory or regulatory requirements. The nomination related responsibilities of the committee include reviewing Non-executive Director remuneration, assessing the skills, diversity and necessary industry, technical or functional experience required by the Board, recommending directors for re-election and conducting searches for new Board members when required.

Director selection process and Board renewal

The composition of the Board is reviewed regularly to ensure the appropriate mix of skills, diversity and expertise is present to facilitate successful strategic direction.

As detailed in the Board Charter, in appointing new members to the Board, consideration is given to the ability of the appointee to contribute to the ongoing effectiveness of the Board, to exercise sound business judgement, to commit the necessary time to fulfil the requirements of the role effectively and to contribute to the development of the strategic direction of the Company. Consideration will also be given to achieving a Board with a diverse range of backgrounds.

The process used for selecting new members for the Board, as set out in the Board Charter, may be assisted by the use of external search organisations as appropriate. An offer of a Board appointment will be made by the Chairman of the Board only after having consulted all Directors. Detailed background information in relation to a potential candidate is provided to all Directors.

Corporate Governance Report

At 31 December 2012

Board and Director performance evaluation

The Board has not undertaken a review of its performance during the year ended 31 December 2012 due to the stage of development of the Company and the Board has been updating and implementing its policies during the year. It is now timely for the Board to implement an appropriate process for Board and Director performance review and this will be undertaken during 2013. The review will:

- compare the performance of the Board with the requirements of its Charter;
- critically review the composition of the Board; and
- suggest any amendments to the Charter as are deemed necessary or appropriate.

Induction

The Company Secretary facilitates an induction program for new Directors. The program will include meetings with senior executives, briefings on the Company's strategy and operations, provision of all relevant corporate governance material and policies and discussions with the Chairman and other Directors.

Continuing education

Directors are provided with continuing education opportunities to update and enhance their skills and knowledge. This consists of regular updates for the Board from management, separate to Board meetings to ensure Non-executive Directors are well-informed of the Company's operations and any recent developments.

Access to information, indemnification and independent advice

The Company Secretary provides assistance to the Board, and Directors also have access to senior executives at any time to request any relevant information. The Board Charter provides that:

- all Directors have unrestricted access to company records and information except where the Board determines that such access would be adverse to the Company's interests;
- all Directors may consult management and employees as required to enable them to discharge their duties as Directors; and
- the Board, Board Committees or individual Directors may seek independent external professional advice as considered necessary at the expense of the Company, subject to prior consultation with the Chairman. A copy of any such advice received is made available to all members of the Board.

Conflicts of interest

The Constitution and Code of Business Conduct and Ethics set out the obligations of Directors in dealing with any conflicts of interest. Pursuant to the Constitution and the Code of Business Conduct and Ethics, Directors are obliged to:

- disclose to the Board any actual or potential conflicts of interest which may exist as soon as they become aware of the issue;
- take any necessary and reasonable measures to resolve the conflict; and
- comply with all law in relation to disclosure of interests and restrictions on voting.

Unless the Board determines otherwise, a Director with any actual or potential conflict of interest in relation to a matter before the Board, does not:

- receive any Board papers in relation to that matter; and
- participate in any discussion or decision making in relation to that matter.

Operation of the board

The board met 7 times during the year. The agenda for each meeting allows an opportunity for the chairman and non-executives directors to meet without executives present. The agenda and relevant briefing papers are distributed by the company secretary on a timely basis, usually a week in advance of each board meeting.

Corporate Governance Report

At 31 December 2012

The following table summarises the number of board and committee meetings held during the year and the attendance record of individual directors:

	Board Meetings eligible to attend	Board meetings attended	Audit and Risk committee	Remuneration committee	Nomination committee
Peter Stephens	5	5	1	-	-
Paul Barnes, FCCA	7	7	1	-	-
David Deacon	7	6	n/a	-	-
Scott Minehane	5	4	1	-	-

Principle 3: Promote ethical and responsible decision making

Corporate Code of conduct

The Company has implemented a corporate Code of Business Conduct and Ethics (the Code) which applies to Directors and all employees. The Code provides a framework for decisions and actions for ethical conduct. It underpins the Company's commitment to integrity and fair dealing in its business affairs and to a duty of care to all employees, clients and stakeholders. The Code sets out the principles covering appropriate conduct in a variety of contexts and outlines the minimum standard of behaviour expected from Directors and employees.

Employees are encouraged to raise any matters of concern in good faith with the head of their business unit without fear of retribution. Where the matter is inappropriate to be raised with the head of their business unit, employees are able to raise the matter with the CEO or CFO as appropriate.

The CFO reviews and reports directly to the Board on any material breaches of the Code. The Audit and Risk Committee oversees procedures for whistleblower protection.

A copy of the Code is available on the Company's website in the "Investor" section under "Corporate Governance".

Dealings in securities

The Company has implemented a Securities Trading Policy which covers dealings in the Company's securities by its Key Management Personnel (Directors and those employees reporting to the CEO). The Securities Trading Policy sets out the guidelines for trading in the Company's securities, including closed periods, exceptions and approval and notification requirements.

A copy of the Securities Trading Policy is available on the Company's website in the "Investor" section under "Corporate Governance".

Diversity

The Company has implemented a Diversity Policy.

The Company considers that the gender ratio of employees reflects the gender ratio of the qualified engineer pool. The Company does not, therefore, believe that establishing measurable objectives for achieving gender diversity would provide any benefit above that already achieved via the Diversity Policy.

At the date of this report, the gender ratio is as follows:

- 4 Board members: all male,
- Chief Operating Officer and Chief Financial Officer: both male,
- Workforce (excluding senior management and executive directors); 61 Employees: 8 female, 53 male

A copy of the Diversity Policy is available on the Company's website in the "Investor" section under "Corporate Governance".

Corporate Governance Report

At 31 December 2012

Principle 4: Safeguard integrity in financial reporting

Audit and Risk Management Committee

The Board has established an Audit and Risk Management Committee governed by the Audit and Risk Committee Charter, which is available on the Company's website in the "Investor" section under "Corporate Governance".

The objective of the Audit and Risk Committee is to assist the Board in monitoring and reviewing any matters of significance affecting financial reporting and compliance. The Audit and Risk Management Committee's responsibilities include:

- Oversee the Company's relationship with the external auditor and the external audit function generally;
- Oversee the preparation of the financial statements and reports;
- Oversee the Company's financial controls and systems;
- Review, monitor and approve the Company's risk management policies, procedures and systems; and
- Manage the process of identification and assessment of any material financial and nonfinancial risks (including enterprise risks and risks in relation to occupational health and safety) that may impact the business.

Audit and Risk Management Committee composition

The Audit and Risk Management Committee consists only of Non-executive Directors and the Chairman is not the Chairman of the Board. The members of the Audit and Risk Management Committee are Mr Scott Minehane, Chair of the Committee, Mr Peter Stephens and Mr Paul Barnes. Both Mr Scott Minehane and Mr Peter Stephens are Independent Non-executive Directors.

Meetings are attended by the lead external audit partner and, by invitation, the Group Chief Executive and the Chief Financial Officer. The 2012 Audit and Risk Committee meeting was not attended by the external audit partner as the meeting was to consider the audit proposals submitted to the committee and to recommend the preferred audit firm to the board of directors.

Details of meeting attendance of members of the Committee are contained in the following table:

Director	No. of meetings held	No. of meetings attended
Peter Stephens, Independent Non-executive Director	**1**	**1**
Paul Barnes, Non-executive Director	**1**	**1**
Scott Minehane, Independent Executive Director	**1**	**1**

The Board of Directors has received assurance from the Group Chief Executive Officer and the Chief Financial Officer a declaration the financial information included in the annual report is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Principle 5: Make timely and balanced disclosure

The Company is committed to ensuring:

- compliance with the requirements of the ASX Listing Rules, all relevant regulations and the ASX Recommendations;
- facilitation of an efficient and informed market in the Company's securities by keeping the market appraised through ASX announcements of all material information.

Corporate Governance Report

At 31 December 2012

The Company has implemented a Disclosure Policy which is designed to support the commitment to a fully informed market in the Company's securities by ensuring that announcements are:

- made to the market in a timely manner, are factual and contain all relevant material information; and
- expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions.

A copy of the Disclosure Policy is available on the Company's website in the "Investor" section under "Corporate Governance".

Principle 6: Respect the rights of shareholders

The Company has adopted a Communications Policy which aims to ensure that shareholders are informed of all major developments affecting the Company's state of affairs. Information is communicated to shareholders through:

- Half yearly and Annual Reports;
- disclosures and announcements made to the Australian Securities Exchange (ASX);
- notices and explanatory memoranda of Annual General Meetings and Extraordinary General Meetings and addresses or presentations made at those meetings; and
- the Company's website;

The Board also encourages participation by shareholders at all shareholder meetings.

A copy of the Shareholder Communications Policy is available on the Company's website in the "Investor" section under "Corporate Governance".

Principle 7: Recognise and manage risk

The Company is committed to ensuring that:

- its culture, processes and structures facilitate realisation of the Company's business objectives whilst material risks are identified, managed, monitored and wherever appropriate and possible, mitigated; and
- to the extent practicable, its systems of risk oversight, management and internal control complies with ASX Recommendations.

The Board determines the Company's risk profile and is responsible for overseeing and approving the Company's risk management strategy and policies, internal compliance and internal control.

The Board has delegated to the Audit and Risk Management Committee responsibility for implementing the risk management system and reporting to the Board.

The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to management. Management is required to assess risk management and associated internal compliance and control procedures and report to the Audit and Risk Management Committee.

In accordance with the ASX Recommendations (recommendation 7.2), the CEO and CFO will state to the Board on an annual basis that the management of the Company's material business risks is effective. This declaration has been received for the year ended 31 December 2012.

A copy of the Company's risk management policy is available on the Company's website in the "Investor" section under "Corporate Governance".

Corporate Governance Report

At 31 December 2012

Principle 8: Remunerate fairly and responsibly

The Board has established a Remuneration Committee, which is governed by the Remuneration Committee Charter. The Charter is available on the Company's website in the "Investor" section under "Corporate Governance".

The primary purpose of the Committee is to support and advise the Board in fulfilling its responsibilities to shareholders by:

- reviewing and approving the executive remuneration policy to enable the Company to attract and retain executives and Directors who will create value for shareholders;
- ensuring that the executive remuneration policy demonstrates a clear relationship between key executive performance and remuneration;
- recommending to the Board the remuneration of executive Directors;
- fairly and responsibly rewarding executives having regard to the performance of the Company, the performance of the executive and the prevailing remuneration expectations in the market;
- reviewing the Company's recruitment, retention and termination policies and procedures for senior management;
- reviewing and approving the remuneration of direct reports to the Chief Executive Officer, and as appropriate other senior executives and conducting an annual review of remuneration by gender; and
- reviewing and approving any equity based plans and other incentive schemes.

The Remuneration Committee consists only of Non-executive Directors. The members of the Remuneration Committee are Mr Peter Stephens, Chair of the Committee, Mr Paul Barnes and Mr Scott Minehane. Mr Scott Minehane and Mr Peter Stephens are Independent Non-executive Directors.

Corporate Governance Report

	ASX Recommendation	Compliance
1.1	The entity has established the functions reserved to the board and those delegated to senior executives and has disclosed those functions.	Etherstack plc fully complies with this recommendation.
1.2	The entity has disclosed the process for evaluating the performance of senior executives.	Etherstack plc fully complies with this recommendation.
1.3	The entity has provided the information indicated in the Guide to reporting on Principle 1.	Etherstack plc fully complies with this recommendation.
2.1	A majority of the board are independent directors.	Etherstack does not fully comply with this recommendation. The Board of directors comprises 4 directors of which 2 are independent. A third non-executive director is not considered independent as a result of prior executive roles in the group. Notwithstanding the board has equal number of independent and non-independent directors, with regard to the size of the company and the nature of its activities the Board considers that the current Board is a cost effective and practical method of directing and managing the company.
2.2	The chair is an independent director.	Etherstack plc fully complies with this recommendation.
2.3	The roles of chair and chief executive officer are not exercised by the same individual.	Etherstack plc fully complies with this recommendation.
2.4	The board has established a nomination committee.	Etherstack plc fully complies with this recommendation.
2.5	The entity has disclosed the process for evaluating the performance of the board, its committees and individual directors.	Etherstack plc fully complies with this recommendation.
2.6	The entity has provided the information indicated in the Guide to reporting on Principle 2.	Etherstack plc fully complies with this recommendation.
3.1	The entity has established a code of conduct and has disclosed the code or a summary of the code as to: • The practices necessary to maintain confidence in the entity's integrity • The practices necessary to take into account its legal obligations and the reasonable expectations of its stakeholders • The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Etherstack plc fully complies with this recommendation.

Corporate Governance Report

3.2	The entity has established a policy concerning diversity and has disclosed the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and the progress in achieving them.	Etherstack plc complies with this recommendation in terms of establishing a policy and disclosing the policy. Measurable objectives for achieving gender equality have not been established.
3.3	The entity has disclosed in the annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	Measurable objectives for achieving gender equality have not been established.
3.4	The entity has disclosed in the annual report the proportion of women employees in the whole organization, women in senior executive positions and women on the board.	Etherstack plc fully complies with this recommendation.
3.5	The entity has provided the information indicated in the Guide to reporting on Principle 3.	Etherstack plc complies with this recommendation.
4.1	The board has established an audit committee.	Etherstack plc fully complies with this recommendation.
4.2	The audit committee (AC) is structured so that it: • consists only of non-executive directors • consists of a majority of independent directors • is chaired by an independent chair, who is not chair of the board • has at least three members.	Etherstack plc fully complies with this recommendation.
4.3	The audit committee has a formal charter.	Etherstack plc fully complies with this recommendation.
4.4	The entity has provided the information indicated in the Guide to reporting on Principle 4.	Etherstack plc fully complies with this recommendation.
5.1	The entity has established written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and has disclosed those policies or a summary of those policies.	Etherstack plc fully complies with this recommendation.
5.2	The entity has provided the information indicated in the Guide to reporting on Principle 5.	Etherstack plc fully complies with this recommendation.
6.1	The entity has designed a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and has disclosed the policy or a summary of the policy.	Etherstack plc fully complies with this recommendation.

Corporate Governance Report

6.2	The entity has provided the information indicated in the Guide to reporting on Principle 6.	Etherstack plc fully complies with this recommendation.
7.1	The entity has established policies for the oversight and management of material business risks and has disclosed a summary of those policies.	Etherstack plc fully complies with this recommendation.
7.2	The entity has required management to design and implement the risk management and internal control system to manage the entity's material business risks and report to it on whether those risks are being managed effectively. The board has disclosed that management has reported to it as to the effectiveness of the entity's management of its material business risks.	Etherstack plc fully complies with this recommendation.
7.3	The entity has disclosed whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Etherstack plc fully complies with this recommendation.
7.4	The entity has provided the information indicated in the Guide to reporting on Principle 7.	Etherstack plc fully complies with this recommendation.
8.1	The entity has established a remuneration committee.	Etherstack plc fully complies with this recommendation.
8.2	The remuneration committee is structured so that it: • consists of a majority of independent directors • is chaired by an independent chair • has at least three members.	Etherstack plc fully complies with this recommendation.
8.3	The entity has clearly distinguished the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Etherstack plc fully complies with this recommendation.
8.4	The entity had provided the information indicated in the Guide to reporting on Principle 8.	Etherstack plc fully complies with this recommendation.

Directors' Report

The Directors present their annual report with the statutory financial statements of the Group for the year ended 31 December 2012.

1. Review of the Business and Future Developments

The review of the business and future developments below should be read in conjunction with the Chief Executive Officer's Review on pages 3 and 4 which forms part of this review.

Principal Activities

The principal activities of the Group throughout the year were design, development and deployment of wireless communications software and products. The principal activity of Etherstack plc (the "Company") is that of a holding company.

Group Reorganisation

As noted in the Chief Executive Officer's review, a new company, Etherstack plc, was incorporated on 15 February 2012 as MM&S (5698) plc. The Company changed its name to Etherstack plc on 4 May 2012. On 19 March 2012 a group reorganisation was undertaken whereby existing shares in Etherstack London Limited (formerly Etherstack Limited) were exchanged for shares in the Company on the same proportion of shareholding. As a result of the group reorganisation, Etherstack plc became the parent and ultimate holding company for the Etherstack Group in preparation for the listing of Etherstack plc on the Australian Stock Exchange.

An outcome of the reorganisation is that the former Etherstack London Limited shareholders held 100% of the issued shares in Etherstack plc Group at the date of the reorganisation. Although from a legal and taxation perspective Etherstack plc is considered as the purchaser in the reorganisation, the accounting treatment reflects the underlying economic substance of the reorganisation being the consolidated financial statements of Etherstack plc are a continuation of Etherstack London Limited. Accordingly, the Consolidated Statement of Comprehensive Income comprises the financial performance of the Etherstack London Limited group for the full 12 months and the comparative financial information comprises the consolidated results of the Etherstack London Limited group of companies. The Consolidated Statement of Financial Position reflects the Etherstack Group as at 31 December 2012 and the comparative reflects the group headed by Etherstack London Limited at 31 December 2011. The equity structure at each balance sheet date reflects the share structure of the ultimate holding company. Further details are included in the basis of preparation in Note 1 to the financial statements.

A second consequence of the creation of Etherstack plc in 2012 is there is no comparative financial information in the Parent Company financial statements.

Listing on the ASX

The listing of Etherstack has been a long term goal of the Board of Directors and founding shareholders and was achieved on 7 September 2012 through the issue of 1,920,884 new shares raising proceeds of $2,154,000 (net of issue costs of $1,082,000) for the company. The listing will bring many long term benefits including:

- raised profile in the Australian, British and US defence, government communications, utility and resource sectors, enhancing the credibility and standing of the Company which is important in attracting new business,
- listed scrip for use in mergers and acquisitions,
- listed scrip that will provide a means – through share purchase plans – to reward and motivate our staff,
- the Company will have access to public markets to raise further capital, where appropriate, to support growth internally and externally, and
- the ability, over time, to provide liquidity to the founding shareholders and those who joined the Company in 2007.

Directors' Report

Convertible Note Issue

In January 2013 the Company completed a Convertible note funding round, raising of AUD$ 3,000,000 before issue costs (USD$3,111,000). AUD$1,520,000 (USD$ 1,595,000) before issue costs was received in December 2012. These funds will be used to provide additional working capital for the Group.

Acquisitions

There were no acquisitions during the year ended 31 December 2012. In September 2011, the Group completed the acquisition of Auria Wireless Pty Limited, our distributor in Asia Pacific. At the time of acquisition, Auria Wireless Pty Limited was closing in on obtaining, in Australia, a state-wide public utility contract which requires remote access secure network capability, a key attribute in the Group's products. Following acquisition, Auria Wireless was successful in obtaining the project. This contract was important from two perspectives.

Firstly, it is a significant contract in its own right and in 2012 the Group has been successful in completing Phase 1 of the project and placing the Group in an excellent position for the potentially larger Phase 2. The second perspective is the value created from this project as a reference site and showcase for our products.

Key Performance indicators

The primary performance indicator for the Group continues to be revenue. Current period consolidated revenue totalled $7,051,000 compared to $14,514,000 in 2011. Whilst this is a reduction on 2011 revenue, it is important to view these results in the broader context of the Group's business. Effort has been invested in the following:

- During the FY2012 year, the Company expanded its management and engineering team, relocated its largest engineering facility in Sydney (300% increase in space), and successfully listed on the Australian Stock Exchange (ASX) on 7th Sep 2012 in preparation for growth activities in 2013 & 2014; and
- Further variances between FY2012 and FY2011 performance relate primarily to a shift in focus from shorter term returns on engineering effort towards longer term returns associated with development of sustainable product lines of higher future revenue potential. Benefits of this shift are expected to become apparent in positive FY2013 results through increased revenue from higher margin product business and increased royalty streams with longer payment tails.

The second key performance indicator is royalty revenue. Royalty revenue for 2012 was $757,000 which is a 13% decrease on 2011 royalty revenues however a number of our products have reached the point that royalty streams will increase and the expectation is that royalty income for 2013 will be significantly greater than 2012 as a result of the commercial maturity of a number of our products.

The third key performance indicator for the Group is the investment in the development of intellectual property assets. In the current year the Group invested $4,559,000 on developing our suite of intellectual property assets. This is a significant, almost 50% increase over 2011 when the investment was $3,064,000 and reflects the Director's commitment to the future success of the Group by investing in the products and solutions that will generate revenues for the Group over medium and longer term timelines.

The objective for the coming year ahead is to further commercialise our product base and to add to revenues from those products recently introduced into the market. Our product development pipeline remains strong and we have been developing new Intellectual Property.

Directors' Report

Risks

The management of the business and the execution of the Group's strategy expose it to a number of risks. These risks are formally reviewed by the Board and appropriate processes are put in place to monitor and mitigate them.

Key business risks affecting the Group are set out below.

Dependence on key contracts

Etherstack is dependent on a number of key contracts.

Growing the total revenue of the Group will reduce the significance of individual contracts or projects relative to the Groups total revenue. In addition, growth of royalty revenues streams stemming from products reaching commercial maturity reduces dependence on individual contracts. However the impact of individually significant contracts remains in existence at the balance sheet date.

Technology risk

Etherstack relies on its ability to develop and further commercialise the technologies and products of the Company. Etherstack's operations include the design and delivery of products for secure communication, homeland security, defence and aerospace related markets. This is a fast moving industry and there can be no assurance that future products and systems introduced into the market by the Group will be profitable and cash generative.

To manage this risk, Etherstack closely monitors the markets for our products and is a member of industry associations and Standards Committees. Successfully managing this technology risk and identifying product innovations is a key part of Etherstack operations and receives the appropriate resources to manage the risks.

Intellectual property and know-how risk

Securing rights to the intellectual property and the know-how behind the technologies is an integral part of the value of Etherstack's products.

Etherstack ensures legal protection of our intellectual property is included in all customer and employee contracts and ensures that IT controls are in place to control access to sensitive intellectual property and associated documentation and information,

Economic and exchange rate risk

The Group operates in five different countries/regions each using their own currency. The Group's presentational currency is US$, as a result, Etherstack is subject to currency and foreign exchange pricing swings, which may have a positive or negative effect on the performance of the Group. General economic conditions, movements in interest and inflation rates may have an adverse effect on the Group's activities, as well as on its ability to fund those activities. The Group has natural hedges which reduce the exposure to currency fluctuations and from time to time enters forward rate agreements in the event that additional currency protection is considered necessary. Further information on these risks is set out in the Note 22 to the financial statements.

Product liability and uninsurable risk

The Group is exposed to potential product liability risks which are inherent in the research and development, manufacturing, marketing and use of its products and technologies. The Group has secured insurance to help manage such risks.

Liquidity risk

The Group aims to mitigate liquidity risk by managing cash generation by its operations, and applying cash collection targets throughout the Group. Investment is carefully controlled, with authorisation limits operating up to Group board level and cash payback periods applied as part of the investment appraisal process. In this way the Group aims to maintain a good credit rating to facilitate appropriate levels of working capital and when necessary to facilitate fund raising activities. .

Directors' Report

Going Concern

The financial statements have been prepared on a going concern basis which assumes that the Group and the Company will continue in operational existence for the foreseeable future. During the year, the Group incurred a loss after tax of $1,014,000 (2011: profit of $3,912,000). The Group experienced a reduction in revenues compared to the prior year due to a combination of the IPO effort requiring a significant amount of effort from Directors and management, as well as a shift in focus from shorter term returns on engineering effort towards longer term returns associated with development of sustainable product lines of higher future revenue potential.

The financial statements have been prepared on a going concern basis, the validity of which depends on the achievement of certain revenue targets set out in the business plan. Although revenue declined in 2012 as outlined in this report, the Directors have considered the strength of the sales pipeline, contracts in progress, royalty revenue streams and cash within the Group at the date of the approval of the financial statements, and are satisfied these are sufficient to continue operations for at least 12 months from that date. In the event that revenue targets were not met then this would place a short term strain on cash reserves, although the Directors have identified certain mitigating actions that could be implemented to preserve cash if required. Additionally, the Directors note the Company has a record of successful fund raising, if required, to support ongoing operations via capital raising, loan instruments and the continuing support of its major shareholders.

The Directors acknowledge that there can be no certainty that these revenue targets will be met or the timing of such revenues will be in line with the cash flow forecast and these uncertainties may cast significant doubt over the ability of the Group and the Company to continue as a going concern. However, after considering these uncertainties, the Directors have a reasonable expectation that sufficient revenues and cash flows will be generated such that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. Consequently, the Directors believe that it is appropriate to prepare the financial statements on a going concern basis. The financial statements do not include the adjustments that would result if the Group and Company was unable to continue as a going concern.

2. Board of Directors and officers of the Company

The names of the Directors who held office during the 2012 year and to the date of this report were:

Director Name	Position	Nationality	Appointed
Peter Stephens	Non-Executive Chairman	British	6 June 2012
Paul Barnes, FCCA	Non-Executive Director	British	15 February 2012
David Deacon	Executive Director and CEO	Australian	15 February 2012
Scott Minehane	Non-Executive Director	Australian	6 June 2012

The joint company secretaries are:

- Paul Barnes; and
- David Carter.

3. Results

The Group realised a loss after tax for the year of $1,112,000 (2011 profit: $3,988,000).

Earnings per share

Basic EPS from continuing operations has decreased from 14.0c to (3.6)c.

4. Charitable and political contributions

During the year, the Group made a political contribution of $5,177 to the Liberal Party of Australia (2011: $nil). The Group made no charitable donations during the year (2011: $nil).

Directors' Report

5. Disabled employees

The Group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees where appropriate.

6. Dividend

The directors do not recommend the payment of a final dividend for the year ended 31 December 2012 (2011: $nil).

7. Directors' indemnity insurance

The Company has arranged appropriate Directors' and Officers' insurance to indemnify the Directors against liability in respect of proceedings brought about by third parties. Such provisions remain in place at the date of this report.

8. Supplier payment policy and practice

It is the Group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Group companies and its suppliers, provided that all trading terms and conditions have been complied with. At 31 December 2012, the Group had an average of 60 days (2011: 60 days) purchases owed to trade creditors.

9. Auditor

Ernst & Young LLP were appointed as auditor of Etherstack plc during the year by the Directors. A resolution to reappoint Ernst & Young LLP as auditor of Etherstack plc will be put to the members at the Annual General Meeting.

10. Directors' statement as to disclosure of information to auditor

The Directors who were members of the board at the time of approving the Directors' Report are listed on page 20. Having made enquiries of fellow directors and of the Company's auditor, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information (that is, information needed by the Group's auditor in connection with preparing their report) of which the Company's auditor is unaware; and
- each Director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

11. Rounding of Amounts

Amounts in the Directors Report and the accompanying financial report have been rounded to the nearest thousand dollars, or in certain cases to the nearest dollar, unless otherwise expressly stated.

On behalf of the board

Paul Barnes FCCA
Director
28 March 2013

Remuneration Report

There is no regulatory requirement for Etherstack plc to disclose information on the remuneration arrangements in place for Directors and Executives of Etherstack plc, however the remuneration committee is committed to the best corporate governance standards and has disclosed information considered relevant to the shareholders.

Remuneration policy for Executive Directors

The remuneration policy for Executive directors has been designed to ensure Executive Directors receive appropriate incentive and reward given their performance, responsibility and experience. When assessing this, the Remuneration Committee seeks to ensure the policy aligns the interests of the Executive Directors with those of the shareholders.

The Company's remuneration policy for Executive directors is to:

- Consider the individuals experience and the nature and complexity of their work in order to set a competitive salary that attracts and retains management of the highest quality
- Link individual remuneration packages to the Group's long term performance through both bonus schemes and share option plans: and
- Provide post retirement benefits through payment into pension schemes

Remuneration package for Executive Directors

Executive Directors' remuneration packages are considered annually by the Remuneration Committee in line with Company policy, with a view to attracting, retaining and motivating Executive Directors of the calibre necessary to deliver the strategic milestones of the Board. Remuneration packages comprise a number of elements as follows:

Base salary
The base salary is reviewed annually. Within the review process, which is undertaken by the Remuneration Committee, regard is given to the profitability and on-going development of the Group and the contribution that each individual makes. Consideration is also given to the need to retain and motivate individuals, with reference made to available information on salary levels in comparable organisations as well as that of the wider workforce of the company. To assist in this process the Remuneration Committee draws on the findings of external salary surveys and undertakes its own research.

Annual performance incentive
The Executive Directors are eligible to receive, at the discretion of the Remuneration Committee, an annual bonus. The Remuneration Committee considers the implementation of bonus awards based upon both corporate and personal performance targets and measures, which align to the long term interests of shareholders.

Pensions and other benefits
The Group does not operate a Group pension scheme; instead individuals receive contributions to their private pension plans

Share options
Executive Directors may, at the discretion of the Remuneration Committee, be awarded share options.

The performance of Executive Directors is evaluated by the Remuneration Committee on an annual basis with a view to ensuring that there is a sufficiently strong link between performance and reward. The results of performance evaluations are taken into consideration as part of the annual remuneration review.

Remuneration policy for Non-Executive Directors
Non-Executive Directors are paid a fixed annual fee for acting as a Director of Etherstack plc which is paid for services rendered as a Director. Additionally, under the Articles of Association, a Director may also be paid such special or additional remuneration as the Directors decide, if the Director performs extra services or makes special exertions for the benefit of the company. Such amounts do not form part of the aggregate remuneration permitted under the Articles of Association (the current aggregate remuneration may not exceed $300,000 per annum).

The remuneration of the Non-Executive Directors is determined by the Board as a whole, based on a review of current practices in other equivalent companies. Non-Executive Directors do not receive any pension payments..

Remuneration Report

The Non-Executive Directors each have service agreements that are reviewed annually by the Board. All Board members retire at each Annual General Meeting, and at their own request alongside the recommendation of the Nomination Committee, are put forward for re-election.

Directors' remuneration
Notwithstanding Etherstack plc was incorporated on 15 February 2012, the Directors, were employed and paid by other Group companies up until this date. The Directors received the following remuneration in the year ended 31 December 2012.

2012

	Salary/fees	Long-term benefits Superannuation	Total
	$'000	$'000	$'000
Executive Directors			
David Deacon	260,000	1,398	261,398
Non-Executive Directors			
Peter Stephens	40,636	-	40,636
Paul Barnes -note (a)	118,779	-	118,779
Scott Minehane	31,875	3,335	35,210
	191,290	3,335	194,625
TOTAL	**451,290**	**4,733**	**456,023**

2011

	Salary/fees	Long-term benefits Superannuation	Total
	$'000	$'000	$'000
Executive Directors			
David Deacon	260,000	2,747	262,747
Paul Barnes - note (a)	166,081	-	166,081
	426,081	2,747	428,828
Non-Executive Directors			
Peter Stephens	32,100	-	32,100
Scott Minehane	5,167	-	5,167
	37,2627	-	37,267
TOTAL	**463,348**	**2,747**	**466,095**

Note (a) – amounts set out in the above table include amounts paid to a related party of $76,105 (2011 $96,364).

Remuneration Report

Director's Share options
In addition, the following options have been issued to Directors.

Name of Director	Options Granted	Total Shares Vested as at 1 January 2012	Shares vesting in the year	Total Shares Vested as at 31 December 2012	Exercise price	Earliest date of Exercise	Date of Expiry
Non Executive							
Scott Minehane	190,000	-	190,000	190,000	AUD$1.16	25/6/2012	25/6/2017
Peter Stephens	125,000	125,000	-	125,000	GBP0.8	n/a	30/8/2016

12. Directors' interests

The Directors' interests in shares and other securities in Etherstack plc are set out below:

Director	**Number of ordinary Shares 31 December 2012**	**Number of ordinary Shares 31 December 2011**	**Number of options 31 December 2012**	**Number of options 31 December 2011**	**Number of Convertible notes 31 December 2012**	**Number of Convertible notes 31 December 2011**
David Deacon	18,241,850	18,241,850	-	-	570,516	-
Peter Stephens	205,000	175,000	125,000	125,000	250,000	-
Paul Barnes	1,712,500	1,750,000	-	-	-	-
Scott Minehane	81,875	60,000	190,000	-	-	-

Statement of Directors' Responsibilities in Relation to the Financial Statements and Annual Report

The Directors are responsible for preparing the Director's report, annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the group and company financial statement in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The directors are also required to prepare financial statements in accordance with the rules of the Australian Securities Exchange.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the on-going integrity of the financial statements contained therein.

On behalf of the Board

Paul Barnes FCCA

Director

28 March 2013

Independent Auditor's Report to the Members of Etherstack plc

We have audited the financial statements of Etherstack plc for the year ended 31 December 2012 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Company Statement of Financial Position, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Statement of Cash Flows, Company Statement of Cash Flows and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities in Relation to the Financial Statements and Annual Report (set out on page 25), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Financial Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 December 2012 and of the Group's loss for the year then ended;
- the Group's financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRS's as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Group and Company's ability to continue as a going concern. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group and Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and Company was unable to continue as a going concern.

Independent Auditor's Report to the Members of Etherstack plc (continued)

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Tony McCartney (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
Cambridge, United Kingdom
28 March 2013

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2012

	Note	2012 $'000	2011 $'000
Revenue	2,3	7,051	14,514
Cost of sales		(2,632)	(3,238)
Gross Profit		4,419	11,276
Administrative expenses		(5,369)	(7,038)
Other expenses – net foreign exchange (losses)/gains	4	(172)	360
Costs of listing on ASX		(250)	-
Group operating profit from continuing operations		(1,372)	4,598
Finance revenue	2,7	-	1
Finance costs	8	(104)	(32)
		(104)	(31)
(Loss)/profit before taxation		(1,476)	4,567
Income tax benefit/(expense)	9	364	(579)
(Loss)/profit after taxation for the year attributable to the equity holders of the parent		(1,112)	3,988
Other comprehensive income/(loss)			
Items that may be classified subsequently to profit and loss:			
Exchange differences on translation of foreign operations		98	(76)
Total comprehensive (loss)/income for the year attributable to the equity holders of the parent		(1,014)	3,912

(Loss)/earnings per share attributable to the equity holders of the parent			
Basic (loss)/profit for the year (in cents)	21	(3.6)	14.0
Diluted (loss)/profit for the year (in cents)	21	(3.6)	13.9

The accompanying notes form an integral part of the financial statements

Consolidated Statement of Financial Position

as at 31 December 2012

		2012	2011
	Note	**$'000**	**$'000**
Non-current Assets			
Intangible assets	11	9,405	5,394
Property, plant and equipment	13	384	238
Trade and other receivables	15	517	-
		10,306	5,632
Current Assets			
Inventories	14	371	202
Trade and other receivables	15	4,513	3,411
Cash and cash equivalents		272	2,660
		5,156	6,273
TOTAL ASSETS		15,462	11,905
Current liabilities			
Trade and other payables	16	2,343	1,910
Deferred revenue	17	144	-
Current tax liabilities	16	438	811
		2,925	2,721
Non-current liabilities			
Convertible Notes	16	1,547	-
Deferred revenue	17	353	-
TOTAL LIABILITIES		4,825	2,721
NET ASSETS		10,637	9,184
Capital and reserves			
Share capital	18	205	181
Share premium account		2,282	-
Merger reserve		3,497	3,497
Share based payment reserve		290	48
Foreign currency translation reserve		(1,802)	(1,900)
Retained earnings		6,165	7,358
TOTAL EQUITY		10,637	9,184

The financial statements of Etherstack plc (company registration number 7951056) were approved by the Board of Directors and authorised for issue on 28 March 2013.

Signed on behalf of the Board of Directors

Paul Barnes FCCA
Director

The accompanying notes form an integral part of the financial statements

Company Statement of Financial Position

as at 31 December 2012

	Note	2012 $'000
Non-current Assets		
Investments in subsidiaries	12	7,311
Current Assets		
Trade and other receivables	15	3,627
TOTAL ASSETS		10,938
Current Liabilities		
Trade and other payables	16	129
		129
Non-current Liabilities		
Trade and other payables	16	1,547
TOTAL LIABILITIES		1,676
NET ASSETS		9,262
Capital and reserves		
Share capital	18	205
Share premium account		2,282
Merger reserve		6,742
Foreign currency reserve		100
Share-based payment reserve		290
Retained earnings		(357)
TOTAL EQUITY		9,262

The financial statements of Etherstack plc (company registration number 7951056) were approved by the Board of Directors and authorised for issue on 28 March 2013.

Signed on behalf of the Board of Directors

Paul Barnes FCCA
Director

The accompanying notes form an integral part of the financial statements

Consolidated Statement of Changes in Equity

At 31 December 2012

	Share Capital	Share Premium Account	Own Shares	Merger Reserve	Share Based Payment Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 January 2011 as previously stated	222	2,799	(124)	(191)	49	(1,824)	3,494	4,425
Group reorganisation	(45)	(2,799)	-	2,844	-	-	-	-
At 1 January 2011 after reorganisation	177	-	(124)	2,653	49	(1,824)	3,494	4,425
Profit for the year	-	-	-	-	-	-	3,988	3,988
Effect of foreign exchange	-	-	-	-	-	(76)	-	(76)
Total comprehensive income for the year	-	-	-	-	-	(76)	3,988	3,912
Issue of ordinary shares	4	-	-	844	-	-	-	848
Own shares cancelled	-	-	124	-	-	-	(124)	-
Share based payment charge	-	-	-	-	(1)	-	-	(1)
At 31 December 2011	181	-	-	3,497	48	(1,900)	7,358	9,184
						-		
Loss for the year	-	-	-	-	-	-	(1,112)	(1,112)
Effect of foreign exchange	-	-	-	-	-	98	-	98
Total comprehensive income for the year	-	-	-	-	-	98	(1,112)	(1,014)
Issue of ordinary shares	14	3,295	-	-	-	-	-	3,309
Issue costs	-	(1,082)	-	-	-	-	-	(1,082)
Share based payment charge	-	-	-	-	240	-	-	240
Effect of foreign exchange on equity	10	69	-	-	2	-	(81)	-
At 31 December 2012	205	2,282	-	3,497	290	(1,802)	6,165	10,637

Company Statement of Changes in Equity

At 31 December 2012

	Share capital $'000	Share premium account $'000	Merger Reserve $'000	Share based payment reserve $'000	Foreign currency reserve $'000	Retained earnings $'000	Total equity $'000
Balance at 15 February 2012	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loss for the period	-	-	-	-	-	(276)	(276)
Effect of foreign exchange	-	-	-	-	100	-	100
Total comprehensive income for the period	-	-	-	-	100	(276)	(176)
Group reorganisation	181	-	6,742	48	-	-	6,971
Issue of ordinary shares	14	3,295	-	-	-	-	3,309
Issue costs	-	(1,082)	-	-	-	-	(1,082)
Share based payment charge	-	-	-	240	-	-	240
Effect of foreign exchange on equity	10	69	-	2	-	(81)	-
Balance at 31 December 2012	205	2,282	6,742	290	100	(357)	9,262

The accompanying notes form an integral part of the financial statements

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Note	2012 $'000	2011 $'000
Operating (loss)/profit		(1,372)	4,598
Adjustments for:			
Depreciation of property, plant and equipment		211	234
Amortisation of intangible assets		793	325
Equity settled share based transactions		240	-
Operating cash flows before movements in working capital		**(128)**	**5,157**
(Increase)/decrease in inventories		(169)	533
(Increase) in receivables		(1,181)	(398)
Increase/(decrease) in payables		621	(764)
Cash generated (used in)/from operations		**(857)**	**4,528**
Income taxes paid		(42)	(62)
Interest paid		(104)	(32)
Net cash flow (used in)/from operating activities		**(1,003)**	**4,434**
Investing activities			
Interest received		-	1
Purchase of subsidiary	24	-	(1,258)
Purchases of intangible assets		(220)	(20)
Capitalised development costs		(4,559)	(3,064)
Purchases of property, plant and equipment		(371)	(102)
Net cash flow (used in) investing activities		**(5,150)**	**(4,443)**
Financing activities			
(Decrease)/increase in Directors' loans		(59)	92
Proceeds on issue of shares		3,309	848
Share issue costs		(1,082)	-
Proceeds on issue of convertible notes		1,580	-
Net cash flow from financing activities		**3,748**	**940**
Net (decrease)/increase in cash and cash equivalents		**(2,405)**	**931**
Effect of foreign exchange rate changes		17	5
Cash and cash equivalents at 1 January		**2,660**	**1,724**
Cash and cash equivalents at 31 December		**272**	**2,660**

The accompanying notes form an integral part of the financial statements

Company Statement of Cash Flows

For the year ended 31 December 2012

	Company 2012 $'000
Operating (loss)	(276)
(Increase) in receivables	(87)
Decrease in intercompany receivable	234
Increase in payables	129
Net cash used in operating activities	-
Financing activities	
Proceeds on issue of shares (note a)	-
Proceeds on issue of convertible notes	208
Intercompany balance movement	(208)
Net cash from financing activities	-
Net increase in cash and cash equivalents	-
Cash and cash equivalents at 15 February 2012	-
Effect of foreign exchange rate changes	-
Cash and cash equivalents at end of year	-

Note (a) – the proceeds of the issue of shares in the IPO were received by Group companies.

The accompanying notes form an integral part of the financial statements

Notes to the Consolidated and Company Financial Statements

At 31 December 2012

1. Accounting Policies

1.1 Authorisation of financial statements and statement of compliance with IFRSs

The financial statements of Etherstack plc and its subsidiaries (the Group) for the year ended 31 December 2012 were authorised for issue by the board of directors on 28 March 2013 and the Statement of Financial Position was signed on the board‘s behalf by Mr Paul Barnes. Etherstack plc is a public limited company incorporated and domiciled in England and Wales. The Company‘s ordinary shares, when held as a CHESS Depository Interest (CDI) and registered on the CDI register, are tradable on the Australian Securities Exchange (ASX). Ordinary shares on the UK share register cannot be traded on the ASX.

The Group‘s financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 December 2012 and applied in accordance with the Companies Act 2006.

The principal accounting policies adopted by the Group are set out below.

1.2 Basis of Preparation

The Group financial statements are presented in US Dollar ("$") which is the Group's presentational currency. The Group operates in international markets and the US Dollar provides the most comparable currency for peer companies.

All values are rounded to the nearest thousand dollars ($000) except where otherwise indicated.

Etherstack plc, was incorporated on 15 February 2012 as MM&S (5698) plc. The Company changed its name to Etherstack plc on 4 May 2012. On 19 March 2012 a group reorganisation was undertaken whereby existing shares in Etherstack London Limited (formerly Etherstack Limited) were exchanged for shares in the Company on the same proportion of shareholding. As a result of the group reorganisation, Etherstack plc became the parent and ultimate holding company for the Etherstack Group in preparation for the listing of Etherstack plc on the Australian Stock Exchange.

An outcome of the reorganisation is that the former Etherstack London Limited shareholders held 100% of the issued shares in Etherstack plc Group at the date of the reorganisation. Although from a legal and taxation perspective Etherstack plc is considered as the purchaser in the reorganisation, the accounting treatment reflects the underlying economic substance of the reorganisation being the consolidated financial statements of Etherstack plc are a continuation of Etherstack London Limited. Accordingly, the Consolidated Statement of Comprehensive Income comprises the financial performance of the Etherstack London Limited group for the full 12 months and the comparative financial information comprises the consolidated results of the Etherstack London Limited group of companies. The Consolidated Statement of Financial Position reflects the Etherstack Group as at 31 December 2012 and the comparative reflects the group headed by Etherstack London Limited at 31 December 2011. The equity structure at each balance sheet date reflects the share structure of the ultimate holding company.

A second consequence of the creation of Etherstack plc in 2012 is there is no comparative financial information in the Parent Company financial statements

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements.

1.2.1 Going concern

The financial statements have been prepared on a going concern basis which assumes that the Group and the Company will continue in operational existence for the foreseeable future. During the year, the Group incurred a loss after tax of $1, 014,000 (2011: profit of $3,912,000). The Group experienced a reduction in revenues compared to the prior year due to a combination of the IPO effort requiring a significant amount of effort from Directors and management, as well as a shift in focus from shorter term

Notes to the Consolidated and Company Financial Statements

At 31 December 2012

1.2.1 Going concern (continued)

returns on engineering effort towards longer term returns associated with development of sustainable product lines of higher future revenue potential.

The financial statements have been prepared on a going concern basis, the validity of which depends on the achievement of certain revenue targets set out in the business plan. Although revenue declined in 2012 as outlined in the Directors' Report, the Directors have considered the strength of the sales pipeline, contracts in progress, royalty revenue streams and cash within the Group at the date of the approval of the financial statements, and are satisfied these are sufficient to continue operations for at least 12 months from that date. In the event that revenue targets were not met then this would place a short term strain on cash reserves, although the Directors have identified certain mitigating actions that could be implemented to preserve cash if required. Additionally, the Directors note the Company has a record of successful fund raising, if required, to support ongoing operations via capital raising, loan instruments and the continuing support of its major shareholders.

The Directors acknowledge that there can be no certainty that these revenue targets will be met or the timing of such revenues will be in line with the cash flow forecast and these uncertainties may cast significant doubt over the ability of the Group and the Company to continue as a going concern. However, after considering these uncertainties, the Directors have a reasonable expectation that sufficient revenues and cash flows will be generated such that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. Consequently, the Directors believe that it is appropriate to prepare the financial statements on a going concern basis. The financial statements do not include the adjustments that would result if the Group and Company was unable to continue as a going concern.

1.2.2 Changes in accounting policy and disclosures

There are no new and revised Standards and Interpretations adopted in the current year which had an impact on the Group.

1.2.3 Standards and interpretations issued but not yet applied

The following standards and interpretations have an effective date after the date of these financial statements and the Group has not early adopted them.

International Accountancy Standards (IAS/IFRS's)	Effective date
IFRS 9 - Financial Instruments (issued in 2009)	1 January 2015
IFRS 9 - Financial Instruments (issued in 2010)	1 January 2015
IFRS 10 - Consolidated Financial Statements	1 January 2013
IFRS 11 - Joint Arrangements	1 January 2013
IFRS 12 - Disclosure of Interests in Other Entities	1 January 2013
IFRS 13 - Fair Value Measurement	1 January 2013
IAS 27 (Revised) - Separate Financial Statements	1 January 2013
IAS 28 (Revised) - Investments in Associates and Joint Ventures	1 January 2013
Amendment to IAS 1 - Presentation of Items of Other Comprehensive Income	1 July 2012
IAS 19 (Revised) - Employee Benefits	1 January 2013
Amendment to IAS 32 - Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to IFRS 7 - Disclosures - Offsetting Financial Assets and Financial Liabilities	1 January 2013

Notes to the Consolidated and Company Financial Statements

At 31 December 2012

1.2.3 Standards and interpretations issued but not yet applied (continued)

International Accountancy Standards (IAS/IFRS's)	Effective date
Amendments to IFRS 7 and IFRS 9 - Mandatory Effective Date and Transition Disclosures	1 January 2015
Amendments to IFRS 1 - Government Loans	1 January 2013
Annual Improvements to IFRSs 2009-2011 Cycle	1 January 2013

The Group is continually assessing the effect of the standards listed above. The directors believe that these standards will not have a material impact on the financial statements of the Group in future periods.

1.2.4 Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Revenue recognition

The revenue and profit of fixed price contracts is recognised on a percentage of completion basis when the outcome of a contract can be estimated reliably. Management makes estimates of the time and cost incurred to date as a percentage of the total cost to be incurred. This involves forecasting future costs and requires estimates and judgements. These estimates are continually revised based on changes in the facts relating to each contract. Any changes in estimates are reflected in that period.

Capitalisation and recoverability of Development costs

The Group recognises an internally-generated intangible asset arising from the Group's software development only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- the technical feasibility of completing the asset so that it will be available for use or sale;
- the Group intends to complete the asset and use or sell it;
- the Group has available adequate technical, financial and other resources to complete the development and to use or sell the asset;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

These criteria are assessed on a project by project basis from the outset and continuing through to project completion. This assessment requires management judgement to determine whether the criteria are met, which is often reliant on expectations of future events.

During the year, the Group recognised internally-generated intangible assets totalling $4,559,000 (2011: $3,064,000).

The Directors considered the recoverability of the internally-generated intangible asset arising from the Capitalisation of development costs which is included in the consolidated balance sheet (refer Note 11) at $8,151,000 (2011: $4,190,000).

The review of recoverability encompasses consideration of changes to the expected cash flows and margins to be generated by these assets and the expected period over which future benefits are likely to be derived. The outcome of the review supports the expectation that future revenues and profits will be derived from the intellectual property assets developed by the Group.

Expected revenues and margins generated by these assets will continue to be closely monitored, and adjustments made in future periods if future market activity indicates that such adjustments are appropriate.

Notes to the Consolidated and Company Financial Statements

At 31 December 2012

1.2.4 Judgements and key sources of estimation uncertainty (continued)

Impairment of intangible assets, goodwill and property, plant and equipment

The Group annually tests whether the intangible assets and property, plant and equipment have suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The calculation of value in use is based on a discounted cash flow, which requires a number of assumptions including future growth rates, estimated cash flows and discount rates. The cash flow projections were based on a 12-month forecast and extrapolations using a terminal growth rate factor in line with long term market growth rates and discounted at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Income and other taxes

The Group is subject to income and other tax in the UK, USA, Australia, Japan and other countries. Significant judgement is required in determining the provision for income and other taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional tax will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax provisions in the period in which such determination is made.

Deferred tax assets are recognised relating to tax losses to the extent that it is probable future taxable profits will arise in that jurisdiction.

Share-based payments

In determining the fair value of equity settled share based payments and the related charge to the Statement of Comprehensive Income, the Group must make assumptions about inputs into valuation models, future events and market conditions. Judgment is made to the likely number of shares that will vest, and inputs into valuation models, the fair value of each award granted.

Share options are measured at fair value at the grant date using the Black-Scholes model. The fair value is expensed on a straight line basis over the vesting period, based on an estimate of the number of options that will eventually vest.

1.3 Significant accounting policies

1.3.1 Basis of consolidation

The Group financial statements consolidate the financial statements of Etherstack plc and the entities it controls (its subsidiaries) drawn up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits for its activities.

Subsidiaries

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights; currently exercisable or convertible potential voting rights; or by way of contractual agreement. The financial statements of subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting year as the parent company and are based on consistent accounting policies. All intra-group balances and transactions, including unrealised profits arising from them, are eliminated in full.

Notes to the Consolidated and Company Financial Statements

At 31 December 2012

1.3.2 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not re measured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the acquisition-date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree) over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination. Assets acquired and liabilities assumed in transactions separate to the business combinations, such as the settlement of pre-existing relationships or post-acquisition remuneration arrangements are accounted for separately from the business combination in accordance with their nature and applicable IFRSs. Identifiable intangible assets, meeting either the contractual-legal or separability criterion are recognised separately from goodwill. Contingent liabilities representing a present obligation are recognised if the acquisition-date fair value can be measured reliably.

If the aggregate of the acquisition-date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree) is lower than the fair value of the assets, liabilities and contingent liabilities and the fair value of any pre-existing interest held in the business acquired, the difference is recognised in profit and loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (or groups of cash generating units) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes and not be larger than an operating segment before aggregation.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Notes to the Consolidated and Company Financial Statements

At 31 December 2012

1.3.3 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Licence fees and revenue from the sale of goods

Sales of goods include technology access licences, manufactured equipment sales, and white labelled equipment sales.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the buyer; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Technology access licences revenues are recognised on the same basis as the sale of goods as there are no ongoing performance obligations associated with them.

Rendering of services

Services include sales of system solutions.

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined based on the percentage of work that has been completed, measured through time and cost incurred and forecast to complete. At the balance sheet date, revenue is accrued or deferred as appropriate depending on the stage of contractual billings compared with the work performed to the balance sheet date.

Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably). Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

Interest income

Revenue is recognised as interest accrues using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

Dividends

Revenue is recognised when the Group's right to receive payment is established.

Government grants
Government grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions will be met, usually on submission of a valid claim for payment. Government grants in respect of capital expenditure are credited to a deferred income account and are released as income by equal annual amounts over the expected useful lives of the relevant assets. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

1.3.4 Leasing

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Notes to the Consolidated and Company Financial Statements

At 31 December 2012

1.3.4 Leasing (continued)

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease, except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

1.3.5 Foreign currency translation

US$ has been adopted as the presentational currency in these financial statements. The Directors have considered the appropriate functional currency for each individual operation.

During the year Etherstack London Limited changed its functional currency from Great British Pounds to US$. This is based on an assessment of the economic effects of the underlying transactions, events and conditions.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognised in profit or loss in the period in which they arise. For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to minority interests as appropriate).

1.3.6 Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

1.3.7 Taxation

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all material taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than

Notes to the Consolidated and Company Financial Statements

At 31 December 2012

1.3.7 Taxation (continued)

in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

No deferred tax liabilities have been recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, as the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

1.3.8 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is recognised so as to write-off the cost of assets less their residual values over their useful lives, using the straight-line method, on the following bases:

Leasehold improvements	over 5 years (or the length of the lease, whichever is shorter)
Computer equipment	over 3 years
Furniture and equipment	over 5 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

1.3.9 Intangible assets

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's intellectual property development is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- the technical feasibility of completing the asset so that it will be available for use or sale;
- the Group intends to complete the asset and use or sell it;
- the Group has available adequate technical, financial and other resources to complete the development and to use or sell the asset;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Internally-generated intangible assets have a finite useful life, and are amortised on a straight-line basis over that useful life, determined as the shorter of 6 years or the estimated delivery model. Amortisation of the asset begins when development is complete and the asset is available for use, such that it can be deployed to customers. During the period of development, the asset is tested for impairment annually.

Patents and trademarks are amortised over their estimated useful lives, which is on average 5 years.

The underlying core Intellectual Property associated with all of the Group's products is being amortised over ten years.

Notes to the Consolidated and Company Financial Statements

At 31 December 2012

1.3.9 Intangible assets (continued)

Customer relationships

Intangible assets classified as customer relationships are recognised when acquired as part of a business combination and are measured initially at fair value. Customer relationships are amortised based on the expected pattern of benefits to be derived from the customer relationships.

Engineering software

Purchased engineering software (including licences) is stated at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight line basis over 5 years from the date the software is installed. The asset is tested for impairment annually.

1.3.10 Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

1.3.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

1.3.12 Financial instruments

Financial assets and financial liabilities are recognised in the Group’s balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially recognised and subsequently measured based on their classification as “loans and receivables” or “financial liabilities measured at amortised costs”.

Loans and receivables

Trade and receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as ‘loans and receivables’. The Group’s loans and receivables comprise of trade and other receivables which are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any provisions for impairment.

Notes to the Consolidated and Company Financial Statements

At 31 December 2012

1.3.12 Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and fixed-term deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash. These are initially and subsequently recorded at fair value.

Convertible notes

Convertible notes are denominated in Australian dollars and consequently there is an embedded derivative. Accordingly, the Convertible Notes are recognised as a liability of the Group.

Transaction costs are allocated against the liability when the instruments are first recognised.

Other financial liabilities

Other financial liabilities, including trade and other payables, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

The Group does not enter into any derivative transactions, and does not hold any derivative financial instruments.

1.3.14 Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 20.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair of the liability. At the Balance Sheet date until the liability is settled, and at the date of settlement, the fair value of the liability is re-measured, with any changes in fair value recognised in profit or loss for the year.

1.3.15 Investments in Subsidiaries

Investments are carried at their historic cost, and are reviewed annually for impairment. Any impairment losses are booked in the year that they arise.

1.3.16 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid annual leave and sick leave, bonuses and non-monetary benefits), are recognised in the period in which the service is rendered and are not discounted.

Long-term employee benefits

Liabilities for long service leave expected to be settled within the next 12 months are recognised in the provision for long service leave and are measured at the amounts expected to be paid when the liabilities are settled.

Notes to the Consolidated and Company Financial Statements

At 31 December 2012

1.3.16 Employee benefits (continued)

Long-term employee benefits (continued)

Liabilities expected to be settled more than 12 months from the balance date are also recognised in the provision for long service leave. The liabilities are not discounted and consideration is given to periods of service.

Employee benefit on-costs

A liability is also carried for on-costs, including payroll tax and other insurances, in respect of provisions for certain employee benefits which attract these costs.

1.3.17 Own shares

Etherstack plc shares held by the Group are deducted from equity as own shares and are recognised at cost. Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from sale and the original cost being taken to revenue reserves. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of equity shares.

1.3.18 Cash and Cash equivalents

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

2. Revenue

An analysis of the Group's revenue is as follows:	**2012** **$'000**	**2011** **$'000**
Licence fees, design, development and supply of wireless communications technology	6,083	13,530
Royalties	757	874
Grant receipts – research and development incentives	211	-
Grant receipts – export market development incentive	-	110
	7,051	14,514
Finance revenue	-	1
	7,051	14,515

3. Business and geographical segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group Chief Executives Officer to allocate resources and to assess performance. The Group is operational in geographical locations including the United Kingdom, United States, Japan, Singapore and Australia. The Group operates and reports as one business segment and is not analysed by management in either separate functions or geographical regions, as due to the nature of the work and complexity of the software, there is a large degree of collaboration and integration across the countries for any given project.

Notes to the Consolidated and Company Financial Statements

At 31 December 2012

3. Business and geographical segments

Geographical information

Revenue from external customers by region	**2012**	**2011**
	$'000	**$'000**
Country/region of domicile		
United Kingdom	13	-
North America	2,943	6,622
Australia and New Zealand	1,650	7,398
Japan	2,131	232
Other countries	314	262
	7,051	14,514

The revenue information above is based on location of the customer.

Non-current assets by region		
Country/region of domicile		
United Kingdom	8,489	4,346
North America	26	5
Australia and New Zealand	1,273	1,127
Other countries	1	154
	9,789	5,632

Non-current assets for this purpose consist of property, plant and equipment and intangible assets.

Revenues from a single customer amounting to more than 10 % of Group revenue		
Customer A	65	3,601
Customer B	102	6,937
Customer C	1,815	-
Customer D	1,055	916
	3,037	11,454

Revenues from customers which do not amount to more than 10% of Group revenue in a particular period are not disclosed.

Revenues by Product group

Networks	3,910	9,545
Protocols	2,356	878
Radio Frequency	562	3,981
Other	223	110
	7,051	14,514

4. Group operating (loss)/profit

This is stated after charging/(crediting):

	2012	**2011**

Notes to the Consolidated and Company Financial Statements

At 31 December 2012

	$'000	$'000
Depreciation of property, plant and machinery	211	234
Operating lease costs	691	611
Amortisation of internally generated intangible assets	768	263
Amortisation of acquired customer relationships	25	62
Foreign exchange – third party	165	(66)
Foreign exchange – intercompany	7	(294)
Inventory costs charged to costs of sales	354	382

5. Auditor's remuneration

The Group paid the following amounts to its auditor in respect of the audit of the financial statements and for other services provided to the Group:

	2012 $'000	2011 $'000
Ernst & Young LLP		
Audit of the Group financial statements	114	-
Audit of subsidiaries	30	-
	144	-
Deloitte Touche Tohmatsu		
Audit of the financial statements of Etherstack London Limited	-	161
Audit of subsidiaries	-	10
	-	171
Corporate finance fees	160	113
	160	284

6. Staff costs and Directors' emoluments

a) Staff costs	2012 $'000	2011 $'000
Wages and salaries	6,005	5,893
Social security costs	328	297
Pension costs	412	254
	6,745	6,444

Included in wages and salaries is a total expense relating to share-based payments of $240,111 (2011: $1,000 credit).

Notes to the Consolidated and Company Financial Statements

At 31 December 2012

6. Staff costs and directors' emoluments (continued)

The average monthly number of employees during the year was made up as follows:

	2012 Number	***2011 Number***
Executive Directors	1	2
Engineering	54	48
Management, sales & administrative	9	9
	64	59

b) Directors' emoluments	**2012 $'000**	**2011 $'000**
Emoluments	376	367
Amounts paid to third parties	76	96
	452	463
Pension costs	4	3
	456	466

The number of directors who are accruing benefits under:	**2012 Number**	**2011 Number**
Defined contribution schemes	2	1

Details of the highest paid director are included in the Remuneration Report on pages 22 to 24.

7. Finance Revenue

	2012 $'000	**2011 $'000**
Bank interest receivable	-	1

8. Finance Costs

	2012 $'000	**2011 $'000**
Related party loans (see note 24)	96	31
Other interest	8	1
	104	32

Notes to the Consolidated and Company Financial Statements

At 31 December 2012

9. Taxation

Tax (credited)/charged in the income statement	**2012 $'000**	**2011 $'000**
Current income tax:		
UK corporation tax and income tax	(516)	516
Foreign tax	98	63
Current income tax (benefit)/expense	(418)	579
Amounts underprovided in previous years (Foreign tax)	54	-
Tax (benefit)/expense in the income statement	**(364)**	**579**

	2012 $'000	**2011 $'000**
The tax (benefit)/expense in the income statement is disclosed as follows:		
Income tax (benefit)/expense on continuing operations	(364)	579

Reconciliation of the total tax (credit)/charge

The tax expense in the income statement for the year is higher than the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%). The differences are reconciled below:

	2012 $'000	**2011 $'000**
(Loss)/profit before income tax	(1,476)	4,567
Tax at the UK corporation tax rate of 24.5% (2011: 26.5%)	(362)	1,210
Expenses not deductible for tax purposes	17	1
Carry forward/(utilisation) of tax losses	305	(422)
Effect of capital allowances in excess of depreciation	(152)	43
Enhanced R&D tax relief	(234)	(285)
Difference in overseas tax rates	8	27
Prior year adjustment	54	5
Total tax (benefit)/expense reported in the income statement	(364)	579

Unrecognised tax losses

The Group has tax losses which arose in the United Kingdom of $1,102,544 (2011: $nil) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. No deferred tax asset has been recognised in respect of losses carried forward as it is not considered probable that these will reverse in the near future. No deferred tax liability is recognised on temporary differences relating to the unremitting earnings of overseas subsidiaries as the Group is able to control the timings of the reversal of these temporary differences.

Change in Corporation Tax rate

Finance Act 2012 enacted reductions in UK Corporation tax rates from 25% to 24% from 1 April 2012 and to 23% from 1 April 2013.

The UK Government announced in the budget on 20 March 2013 further reductions in the rate of UK Corporation tax to 21% from 1 April 2014 and to 20% from 1 April 2015. These reductions have not been substantively enacted at the balance sheet date and consequently their tax effects not included in these financial statements.

Notes to the Consolidated and Company Financial Statements

At 31 December 2012

10. Parent company income statement

As permitted by section 408 of the Companies Act 2006, the income statement of the parent company is not presented as part of the financial statements. The parent company's loss for the financial year was $276,000).

11. Intangible assets

Group	Capitalisation of development costs $'000	Engineering software $'000	Acquired customer relationship $'000	Total $'000
Cost				
At 1 January 2011	1,403	306	-	1,709
Additions	3,064	20	1,122	4,206
Exchange differences	-	1	-	1
At 31 December 2011	4,467	327	1,122	5,916
Additions	4,559	220	-	4,779
Exchange differences	-	(11)	22	11
At 31 December 2012	9,026	536	1,144	10,706
Accumulated amortisation				
At 1 January 2011	50	150	-	200
Charge for the year	229	34	62	325
Exchange differences	(2)	(1)	-	(3)
At 31 December 2011	277	183	62	522
Charge for the year	617	151	25	793
Exchange differences	(19)	3	2	(14)
At 31 December 2012	875	337	89	1,301
Carrying amount				
At 31 December 2012	8,151	199	1,055	9,405
At 31 December 2011	4,190	144	1,060	5,394
At 31 December 2010	1,353	156	-	1,509

Intangible assets comprise internal and external costs incurred on the development of specific products that meet the criteria under IAS 38 Intangible assets.

Notes to the Consolidated and Company Financial Statements

At 31 December 2012

11. Intangible assets (continued)

The carrying value of the capitalised development costs is assessed annually for any impairment. This assessment allocates all the development costs to a single cash generating unit (CGU). Management have assessed that the group comprises of one CGU due to the interdependencies of the various intellectual property assets. In addition the value of the CGU is assessed based on value in use calculations using cash flow projections over 5 years based on financial budgets approved by senior management covering the next 12 months. The key assumptions underlying the projections are revenues from operations, using a conservative revenue growth rate and discounted at 12%

Management believes no reasonably possible change in the key assumptions would cause the carrying value of the intangible asset to exceed its book value.

The intangible asset represented by Acquired Customer Relationship is amortised based on the pattern of expected economic benefits derived from the acquired customer relationship. In the prior year, the benefits from the Acquired Customer Relationship were expected to be derived evenly over 6 years. In the current year, the amortisation expense is based on the software licences deployed in the year and expected future licence deployments to the Customer. The remaining expected life of the Acquired Customer Relationship is not more than 5 years. Application of the prior year accounting estimates in 2012 would have resulted in an amortisation charge of $165,000. The impact of this revised estimate on future periods is not disclosed as estimating the revised amortisation charges requires undue cost and effort.

12. Investment in subsidiaries

Subsidiary undertakings	Company 2012 $000
As at 15 February 2012	-
Arising on group reorganisation	6,971
Capital contribution arising on share based payments	240
Exchange differences	100
As at 31 December 2012	7,311

The Company's investments at 31 December 2012 in the share capital of other companies includes:

Subsidiary undertakings	Holding	Class of share	Country of incorporation
Etherstack London Limited (formerly Etherstack Limited)	100%	Ordinary	England and Wales
Etherstack Limited *	100%	Ordinary	British Virgin Isles
Indian Pacific Nederland BV *	100%	Ordinary	Netherlands
Etherstack Inc.*	100%	Ordinary	USA
Etherstack Pty Limited *	100%	Ordinary	Australia
Auria Wireless Pty Limited*	100%	Ordinary	Australia
Etherstack Japan Limited *	100%	Ordinary	Japan
Etherstack Pte Limited *	100%	Ordinary	Singapore

* These companies are owned via another Group entity, with Etherstack plc the ultimate parent company of the Group.

All of the companies in the Group develop and sell wireless software communications products.

Notes to the Consolidated and Company Financial Statements

At 31 December 2012

13. Property, plant and equipment

Group	Leasehold property $'000	Furniture and equipment $'000	Computer equipment $'000	Total $'000
Cost				
At 1 January 2011	97	148	601	846
Additions	-	11	81	92
At 31 December 2011	97	159	682	938
Additions	146	178	47	371
Exchange differences	-	-	(11)	(11)
At 31 December 2012	243	337	718	1,298
Accumulated depreciation				
At 1 January 2011	56	106	304	466
Charge for the year	15	29	190	234
At 31 December 2011	71	135	494	700
Charge for the year	38	30	143	211
Exchange differences	-	1	2	3
At 31 December 2012	109	166	639	914
Carrying amount				
At 31 December 2012	134	171	79	384
At 31 December 2011	26	24	188	238
At 31 December 2010	41	42	297	380

14. Inventories

	2012 $'000	2011 $'000
Finished goods	371	202

Notes to the Consolidated and Company Financial Statements

At 31 December 2012

15. Trade and other receivables

	Group		Company
	2012	**2011**	**2012**
	$'000	**$'000**	**$'000**
Current			
Trade debtors	1,157	715	-
Amounts receivable from group undertakings	-	-	3,540
Accrued income from contracts in progress	1,981	1,940	-
Other debtors	39	520	73
Research & Development tax receivable	641	-	-
Withholding tax recoverable	218	-	-
Prepayments	477	236	14
	4,513	3,411	3,627
Non-current			
Accrued income from contracts in progress	517	-	-

Accrued income represents unbilled fees and licence income derived from projects and contracts in progress at the end of the period.

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

The average credit period taken on sales of goods is 45 days (2011: 21). No interest is charged on the receivables for the first 30 days from the date of the invoice. Thereafter, the Group reserves its right to charge interest at various rates on the outstanding balance. The Group recognises, where appropriate, an allowance for doubtful debts of 100% against certain receivables over 180 days since historical experience has been that receivables that are past due beyond 180 days tend not to be recoverable.

Due to the nature of the Group's business, potential customers tend to be well-funded international companies of sound credit status. Before accepting a new customer, the Group assesses the likely credit risk of the potential customer principally by reference against the complexity and nature of the project. There are three (2011: eight) customers who each represent more than 5 per cent of the total balance of trade receivables.

Trade receivables disclosed above (see below for aged analysis) include amounts which are past due at the reporting date, but against which the Group has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty. The average age of these receivables is 95 days (2011: 65 days).

Ageing of past due but not impaired receivables	**2012**	**2011**
	$'000	**$'000**
30-60 days	-	84
60-90 days	18	-
90-120 days	138	67
Total	156	151

The directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

Notes to the Consolidated and Company Financial Statements

At 31 December 2012

16. Trade and other payables

	Group		Company
	2012	2011	2012
Current	$'000	$'000	$'000
Trade creditors and accruals	1,176	1,002	129
Other creditors	313	430	-
Other taxes and social security costs	541	10	-
Related party loans (see note 24)	313	468	-
Corporation Tax	438	811	-
	2,781	2,721	129
Non-current			
Convertible notes at amortised cost	1,487	-	1,487
Embedded derivative at fair value	60	-	60
	1,547	-	1,547

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 60 days (2011: 60). For most suppliers no interest is charged on the trade payables for the first 45 days from the date of the invoice. Thereafter, interest is charged on the outstanding balances at various interest rates. The Group has financial risk management policies in place to ensure that all payables, unless they are subject to dispute, are paid within the pre-agreed credit terms.

The directors consider that the carrying amount of trade and other payables approximates their fair value.

Convertible notes

At 31 December 2012, there were 1,520,516 of convertible notes on issue. The convertible notes can only be converted if shareholder approval for conversion is obtained by the company, which approval it will seek at the next Annual General Meeting. Each note has a nominal value of AUD$1.00 and is redeemable at the option of the Company or the holder within the first 12 months of issue if mutual consent is given, and after this time at the option of the Company. The notes are Convertible at any time by Note holders serving a Notice on the Company (giving not less than 60 days notice) on the basis of one ordinary share for every AUD$1.75 nominal of notes held. Any notes not converted will be redeemed on 31 December 2015 at a price of AUD$1.00 per share. The convertible notes carry an interest rate of 10 % per annum, payable quarterly in arrears within five business days of 31 March, 30 June, 30 September and 31 December.

17. Deferred revenue

	Group	
	2012	2011
	$'000	$'000
At 1 January	-	-
Deferred during the year	519	-
Released to the income statement during the year	(22)	-
At 31 December	497	-
Current	144	-
Non-current	353	-

Notes to the Consolidated and Company Financial Statements

At 31 December 2012

18. Called up share capital

	Group 2012 Number	2011 Number
Authorised		
Ordinary shares of 0.4p each (2011: £0.10 each)	62,500,000	2,500,000

	2012 $'000	2011 $'000
Called up, allotted and fully paid		
31,980,784 ordinary shares of 0.4p each (2011: 1,184,327 ordinary shares of £0.10 each)	205	181

	Company 2012 Number
Authorised	
Ordinary shares of 0.4p each	62,500,000

	2012 $'000
Called up, allotted and fully paid	
31,980,784 ordinary shares of 0.4p each	205

During the year the Company undertook the following share issues:

- On incorporation 2 ordinary shares were issued at par;
- On 19 March 2012, the Group undertook a reorganisation whereby the Company issued shares in exchange for shares issued in Etherstack London Limited on a share for share basis. A total of 1,184,325 shares of 10p were issued with a nominal value of £118,482 with the equity value of Etherstack London Limited being $7,410,000. All share options in Etherstack London Limited became share options in Etherstack plc;
- On the same day, 7,500 shares were issued as a result of the exercise of share options for a consideration of $73,000;
- On 20 March 2012, the Company undertook a share split on the basis of 25 ordinary shares of 0.4p for every 1 ordinary share of 10p share took place;
- On 10 May 2012, warrants were exercised over 3,875 ordinary shares for a consideration of £1.55;
- On 30 August 2012, further warrants over 260,350 ordinary shares were exercised for a consideration of £208.23; and
- On 7 September 2012, the Company issued 1,920,884 ordinary shares for a consideration of $2,154,000 (net of issue costs of $1,082,000) on the Initial Public Offering on the ASX.

At 31 December 2012, there were no (2011: 10,569 on ordinary shares of 10p each) share warrants outstanding yet to be exercised.

The Company has one class of ordinary shares which carry no right to fixed income. Each ordinary share carries the right to a vote at Shareholder meetings, rights to dividends and a right to participate in any surplus on the winding up of the Company.

Notes to the Consolidated and Company Financial Statements

At 31 December 2012

19. Reserves

Details of movements in reserves are included in the Consolidated and Company Statements of changes in equity on pages 31 and 32 respectively.

Merger Reserve

A merger reserve was originally created upon the acquisition of a commonly controlled entity in 2006. The current year movement in the Group arises from the share for share exchange as part of the Group reorganisation on 19 March 2012. The current year Company movement represents Companies Act 2006 merger relief on the issue of shares in the share for share exchange on the same date.

Share Premium Reserve

The share premium reserve is used to record the premium of the issue price for new issues of shares over the par value of those shares. The share premium account also records the costs directly attributable to the issue of new shares.

Own share reserve

The Group's own equity instruments, which are reacquired are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount of treasury shares and the consideration received, if reissued, is recognised directly in equity. Voting rights related to own shares are nullified for the Group and no dividends are allocated to them respectively.

Foreign currency translation reserve

The foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

20. Share based payments

The Group has an equity settled share option scheme for all employees of the Group. Options are issued which are exercisable at a price equal to the market price of the Company's shares at the date of the grant. The options vest upon completion of 2 years employment with the Group.

If the options remain unexercised after a period of five years from the date of grant the options expire. Options are forfeited if the employee leaves the Group before the options vest.

In addition, other options may be granted where vesting is tied to meeting or exceeding defined performance criteria. The exercise date of the options depends upon the date the performance criteria are met.

Details of the share options outstanding during the year are as follows:

	Number of share options	2012 Weighted average exercise price (in £)	Number of share Options	2011 Weighted average exercise price (in £)
Outstanding at beginning of year	30,198	21	13,135	24
Share split on 20 March 2012 (25:1)	730,177	1	-	-
Granted during the year	570,000	1	18,458	25
Forfeited during the year	(381,600)	1	(1,395)	15
Exercised during the year	(187,500)	-	-	-
Outstanding at the end of the year	761,275	1	30,198	21
Exercisable at the end of the year	571,275	1	30,198	21

Notes to the Consolidated and Company Financial Statements

At 31 December 2012

20. Share based payments

During the year, an option holder exercised 187,500 options in Etherstack plc (2011 nil).

On 25 June 2012, two tranches of 190,000 options were issued, with the first tranche having no performance conditions attached and an expiry date of 31 December 2016. The grant of the second tranche of 190,000 is based on achievement of revenue and profit targets for the 2013 financial year.

Additionally, on 25 June 2012, Scott Minehane, a Director of the company, was issued with 190,000 options with no conditions attached. The expiry date of these options was 25 June 2017.

The aggregate of the estimated fair values of the options granted on those dates is $268,834 (2011: $120,020).

The options outstanding at 31 December 2012 had a weighted average exercise price of £1 (2011: £21), and a weighted average remaining contractual life of 4 years (2011: 4).

The inputs into the Black-Scholes option pricing model are as follows:

	2012	**2011**
Weighted average share price	1	25
Weighted average exercise price	1	25
Expected volatility	50%	50%
Expected life	3 years	3 years
Risk-free rate	2.5%	2.5%
Expected dividend yields	8%	8%

Expected volatility was determined by calculating the historical volatility of the Group's estimated share price over the previous 3 years. The expected life used in the model has been adjusted, based on Management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

The Group recognized total expenses/(credit) of $240,111 and ($1,000) relating to equity-settled share-based payment transactions in 2012 and 2011, respectively.

21. (Loss)/earnings per share

Basic earnings per share amounts are calculated by dividing profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary equity holders of the parent (before deducting interest on the convertible shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Notes to the Consolidated and Company Financial Statements

At 31 December 2012

21. (Loss)/earnings per share (continued)

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2012		2011	
Reconciliation of earnings used in the calculation of earnings per share	**Basic** $'000	**Diluted** $'000	**Basic** $'000	**Diluted** $'000
Net (loss)/profit attributable to equity holders of the parent for basic earnings	(1,112)	(1,112)	3,988	3,988
Interest on convertible notes	-	-	-	-
Net (loss)/profit attributable to equity holders of the parent adjusted for the effect of dilution	(1,112)	(1,112)	3,988	3,988
	'000	'000	'000	'000
Weighted average number of ordinary shares for basic earnings per share	30,491	30,491	28,460	28,460
Options*	-	-	-	32
Weighted average number of ordinary shares adjusted for the effect of dilution	**30,491**	**30,491**	**28,460**	**28,492**
(Loss)/earnings per share (cents)	**(3.6)**	**(3.6)**	**14.0**	**13.9**

* options have been excluded from the calculation of diluted earnings per share because they are anti-dilutive for 2012.

There are no ordinary share transactions or potential ordinary share transactions occurring after the reporting period but before the financial statements are authorized for issue that would significantly change the ordinary shares or potential ordinary shares outstanding if those transactions had occurred before the end of the reporting period.

22. Financial instruments

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders. The Group has funded itself through share issues, a convertible note issue and cash generation from the business. The capital structure of the Group consists of equity attributable to equity holders of the Parent, comprising issued capital, reserves and retained profits as disclosed in notes 18, 19 and the Statement of Changes in Equity.

Externally imposed capital requirement

The Group is not subject to externally imposed capital requirements.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

Fair Value Hierarchy

There is one financial liability measured at fair value. This represents the fair value of the embedded derivative contained in the Convertible Notes. This financial liability is $60,000 and the valuation is categorised as Level 2 – Valuation technique, (market observable).

Notes to the Consolidated and Company Financial Statements

At 31 December 2012

22. Financial instruments (continued)

Categories of financial instruments

	Carrying value 2012	2011
	$'000	**$'000**
Financial assets		
Cash and cash equivalents	272	2,660
Trade debtors	1,157	715
Deposits	66	-
	1,495	3,375
Financial liabilities		
Trade creditors, other creditors and related party loans at amortised cost	1,802	1,900
Convertible Note at amortised cost	1,487	-
Embedded derivative at fair value	60	-
	3,349	1,900

The table below summarises the maturity profile of the Group's financial liabilities based on undiscounted payments:

Year ended 31 December 2012	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**>5 years**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Trade creditors	195	981	-	-	-	1,176
Related party loans	-	-	338	-	-	338
Other creditors	217	2	90	4	-	313
Convertible Note	-	39	116	1,857	-	2,012
	412	1,022	544	1,861	-	3,839

Year ended 31 December 2011	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**>5 years**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Trade creditors	261	741	-	-	-	1,002
Related party loans	-	-	468	-	-	468
Other creditors	153	112	147	18	-	430
	414	853	615	18	-	1,900

Notes to the Consolidated and Company Financial Statements

At 31 December 2012

22. Financial instruments (continued)

Financial risk management objectives

The Group's central management monitors and manages the financial risks relating to the operations of the Group through internal risk evaluations which analyse exposure by degree and magnitude of risks. These risks include market risk, including currency risk, credit risk and liquidity risk.

The Group may use derivative financial instruments to hedge these risk exposures. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters.

A sensitivity analysis has been prepared for foreign currency exchange rates in the foreign currency risk section.

Credit risk management

Credit risk refers to the risk a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure is continuously monitored.

Trade receivables consist of a number of customers, spread across geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are connected entities.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking (cash) facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities

Foreign currency risk

The Group operates in the United Kingdom, continental Europe, North America, Australia, Japan and Singapore, and has transactional currency exposures arising from sales or purchases that are denominated in a currency other than the respective functional currencies of the Group entities. The Group and Company also has trade and other receivables and trade and other payables, that are denominated in foreign currencies; and also hold cash and cash equivalents denominated in foreign currencies for working capital purposes.

The Group closely monitors foreign currency risk and enters into hedging transactions when deemed necessary. The Group's currency exposure is as follows:

Notes to the Consolidated and Company Financial Statements

At 31 December 2012

22. Financial instruments (continued)

Foreign currency sensitivity
The following tables demonstrate the sensitivity to a reasonably possible change in the US dollar and Pound sterling, Australian dollar and Japanese Yen exchange rates, with all other variables held constant. The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities including non-designated foreign currency derivatives. The Group's exposure to foreign currency changes for all other currencies is not considered material.

	Change in GBP rate	Effect on (loss)/(profit) before tax $'000	Effect on equity $'000
2012	+10%	(477)	904
	-10%	477	(904)
2011	+10%	395	881
	-10%	(395)	(881)

	Change in AUD rate	Effect on p(loss)/profit before tax $'000	Effect on equity $'000
2012	+10%	(134)	(143)
	-10%	134	143
2011	+10%	(93)	(133)
	-10%	93	133

	Change in JPY rate	Effect on (loss)/(profit) before tax $'000	Effect on equity $'000
2012	+10%	(177)	44
	-10%	177	(44)
2011	+10%	10	41
	-10%	(10)	(41)

23. Operating lease commitments

	2012 Land and buildings $'000	2011 Land and buildings $'000
Minimum lease payments under operating leases Recognised as an expense in the year	691	611

Notes to the Consolidated and Company Financial Statements

At 31 December 2012

23. Operating lease commitments (continued)

At 31 December 2012 the Group had total commitments under non-cancellable operating leases as set out below:

	2012 Land and buildings $'000	2011 Land and buildings $'000
Operating leases which expire:		
Within 1 year	673	70
In the second to fifth years inclusive	1,040	926
After five years	26	-
	1,739	996

24. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in these financial statements.

Purchase of Auria Wireless Pty Limited in 2011

On 1 September 2011, the Group, through a controlled entity, acquired 100% of the issued capital of Auria Wireless Pty Limited. Auria Wireless is a radio systems solution provider and was acquired in order that the combined products and skillsets of Auria Wireless and Etherstack would assist Auria Wireless win a major project with an Australian electricity distribution company. Auria Wireless and the Etherstack Group are considered related parties as a consequence of the shareholdings in Auria Wireless and Etherstack London Limited of Mr David Deacon and Mr Paul Barnes. The consideration received by Mr David Deacon and Mr Paul Barnes was $993,721 and $5,657 respectively. Notwithstanding, the purchase transaction is considered by the Directors to have been conducted on arms- length terms and conditions.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.	$'000
Net working capital balances	136
Identifiable intangible assets – acquired customer relationships (Note 11)	1,122
Total identifiable assets	1,258
Satisfied by:	
Cash consideration	1,258
Net cash outflow arising on acquisition	1,258

Other Related Parties

Brixlam Trading Limited ("Brixlam") is a related party as a consequence of common shareholders. During the year a $33,000 (2011 $34,251) royalty was recognised as due to Brixlam. The liability offsets amounts due from Brixlam to the Group.

In November 2012, the agreement with Brixlam was terminated by mutual agreement as the circumstances for which the agreement was entered into no longer existed. As a consequence of the termination, Brixlam has waived its right to collect future royalties from Etherstack and Etherstack has received IP rights. The Directors consider the termination to be at arm's length terms and conditions.

Under the terms of an Executive service agreement between the Group and Paul Barnes, a director and shareholder in Etherstack plc, fees totalling $76,105 (2011: $96,364) were payable during the year to QFDJG Ltd, a company of which Paul Barnes is a Director and shareholder. At 31 December 2012 the Group owed QFDJG Ltd $969 (2011: $nil).

Notes to the Consolidated and Company Financial Statements

At 31 December 2012

24. Related party transactions (continued)

On 31 December 2012 Mr David Deacon purchased 570,516 Convertible notes and Mr Peter Stephens purchased 250,000 Convertible notes on the same terms as available to other investors.

Remuneration of key management personnel

The remuneration of the directors, plus the Chief Operating Officer and Chief Financial Officer, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*.

	2012 $'000	2011 $'000
Short-term employee benefits	818	565
Share based payments charge	218	-
Post-employment benefits	55	25
	1,091	580

Loans to/ from related parties

The Group has provided its subsidiaries with short-term loans at nil interest rates. The Company provided loans to Etherstack London Limited and at balance date an amount of $3,540,000 was receivable (refer Note 15).

Mr. David Deacon, a director of the Company, is owed $313,224 by the Group at 31 December 2012 (31 December 2011: $467,544). This amount is unsecured, bears interest at arms-length rates and is not due for repayment before 30 June 2014. At its option, the Company may make repayments before 30 June 2014.

Brixlam Trading Limited is a related party as a consequence of common shareholders with Etherstack London Limited. At 31 December 2012, the Group had a receivable of $nil from Brixlam Trading Limited (31 December 2011: $154,412).

From time to time, operating expenses of Etherstack plc are settled by Group companies and the cost passed back to Etherstack plc. During the year $276,000 of operating expenses were paid for by Group companies.

25. Contingent liabilities

In common with other companies that hold intellectual property rights, from time to time, Etherstack receives challenges to its rights from third parties. The Directors do not believe any claim to have foundation and hence have not provided for any liability in the accounts.

26. Ultimate controlling party

The Ultimate Controlling party is Mr David Deacon. The Group has no immediate parent company.

27. Post balance date events

In January 2013 the Company completed a Convertible note funding round, raising of AUD$ 3,000,000 before issue costs (USD$3,111,000). AUD$1,520,000 (USD$ 1,595,000) before issue costs was received in December 2012. These funds will be used to provide additional working capital for the Group.

ASX Additional information

Shareholdings

The issued capital of the Company as at 20 March 2013 is 31,980,784 fully paid ordinary shares.

All issued ordinary shares carry one vote per share and carry the rights to dividends.

Ordinary Shares

Range	Total Holders	Number of shares	% of Issued capital
1 - 1,000	7	3,293	0.0
1,001 – 10,000	360	572,039	1.8
10,001 – 100,000	34	1,331,599	4.2
100,001 – 1,000,000	20	5,989,809	18.7
1,000,001 and over	5	24,084,044	75.3
Total	426	31,908,784	100.0

As at 20 March 2013 there were two shareholders (with a total of 298 shares) holding less than a marketable parcel under the ASX Listing Rules. The ASX Listing Rules define a marketable parcel of shares as “a parcel of not less that AU$500”.

Options

Range	Total Holders	Options	%
1 - 1,000	-	-	-
1,001 – 10,000	2	12,025	1.4
10,001 – 100,000	5	210,500	22.9
100,001 – 1,000,000	3	695,000	75.7
1,000,001 and over	-	-	-
Total	10	917,525	100.0

Substantial shareholders as at 20 March 2013

As at 20 March 2013 there were three shareholders who held a substantial shareholding within the meaning of the Corporations Act. A person has a substantial holding if the total votes that they or their associates have relevant interests in is five per cent of more of the total number of votes.

	No of shares	% of issued capital
Mr David Deacon	18,241,850	57.04
Giga Palace Limited	1,909,994	5.97
Mr Paul Barnes	1,712,500	5.35
	21,864,344	68.36

ASX Additional information

Top 20 shareholders as at 20 March 2013

		No of shares	% of issued capital
1	Mr David Deacon	18,241,850	57.04
2	Giga Palace Limited	1,909,994	5.97
3	Mr Paul Barnes	1,712,500	5.35
4	Mr Jeremy Davies	1,159,000	3.62
5	In-Q-Tel Inc	1,060,700	3.32
6	Rt Hon James Netherthorpe	787,500	2.46
7	R & K Investments Pty Limited	633,354	1.98
8	Mr Adam Richards	563,500	1.76
9	Mr Evan Scott	562,500	1.76
10	Mr Peter Squires	561,250	1.75
11	The John Turner Foundation	393,750	1.23
12	In-Q-Tel Employee Fund LLC	264,775	0.83
13	Mr Bill Eason	262,500	0.82
14	Mr Peter Stephens	205,000	0.64
15	Derwentwater Superannuation Fund	187,500	0.59
16	Mr Scott Stratford	187,500	0.59
17	Mr Paul Richards	183,750	0.57
18	JP Morgan Nominees Australia Limited	175,000	0.55
19	Mr Andrew Scott	175,000	0.55
20	Mr Joseph Newton	175,000	0.55
	TOTAL	29,401,923	91.94

ASX Additional information

Top Option Holders as at 20 March 2013

Existing unlisted Options

		No of options	% of issued capital
1	Brad Dolphin	380,000	41.4
2	Scott Minehane	190,000	20.7
3	Peter Stephens	125,000	13.6
4	Doug Chapman	64,625	7.1
5	Adam Richards	64,625	7.1
6	Nagel Ferri	31,250	3.4
7	Paul Bouchier-Hayes	25,000	2.7
8	Stephen Monaghan	25,000	2.7
9	Philip Taylor	6,275	0.7
10	Tanya Murphy	5,750	0.6
	TOTAL	917,525	100.0

Unquoted securities (Convertible Notes)

Range	**Total Holders**	**Options**	**%**
1 - 1,000	-	-	-
1,001 – 10,000	-	-	-
10,001 – 100,000	1	76,317	2.5
100,001 – 1,000,000	8	2,923,683	97.5
1,000,001 and over	-	-	-
Total	9	3,000,000	100.0

Unquoted equity security shareholdings greater than 20%

	Holding
Zheng Xing He	750,000

ASX Additional information

Limitations on the Acquisition of Securities

Etherstack plc is subject to the City Code on Takeovers and Mergers (the Code) as a public company incorporated in England and Wales.

Subject to certain exceptions and limitations, a mandatory offer may be required to be made under Rule 9 of the Code broadly where:

(i) a bidder and any persons acting in concert with it acquire shares carrying 30% or more of the voting rights of a target company; or

(ii) if a bidder, together with any concert parties, increases its holding where its holding is not less than 30% but not more than 50% of the voting rights.

Rule 9 requires a mandatory offer to be made in cash and at the highest price paid by the bidder (or any persons acting in concert with it) for any interest in shares of the relevant class during the 12 months prior to the announcement of the offer.

Where a bidder, within 4 months of making its offer, obtains acceptances of at least 90% of the shares subject to the takeover offer (which excludes any shares held by it or its concert parties), it can require the remaining shareholders who have not accepted the offer to sell their shares on the terms of the offer.

The Corporations Act governs a takeover, and contains a general rule that a person must not acquire a ‘relevant interest’ in issued voting shares of a company, if because of the transaction, a person’s voting power in the company increases from 20% or below to more than 20%, or increases from a starting point which is above 20% but less than 90%.

Certain exceptions apply, such as acquisitions of relevant interests in voting shares made under takeover bids or made with shareholder approval, or creeping acquisitions of not more than 3% in a 6 month period.

Australian law similarly permits compulsory acquisition by persons holding a 90% interest in the relevant securities.

Etherstack plc is not subject to the provisions of the Corporations Act relating to changes in control and takeover of public companies.