

## Appendix 4D

### Senetas Corporation Limited

### Half year report for announcement to the market

ACN 006 067 607

#### 1. Details of the reporting period and the previous corresponding period

Reporting Period	Previous Corresponding Period
<b>Half year ended 31 December 2016</b>	<b>Half year ended 31 December 2015</b>

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

	31-Dec-16	31-Dec-15	Change	
	\$	\$	\$	%
2.1 Revenues from ordinary activities	9,340,190	8,665,782	674,408	8%
2.2 Profit from ordinary activities before tax attributable to members	1,266,109	1,845,377	(579,268)	-31%
2.3 Net profit after tax for the period attributable to members	864,708	1,585,628	(720,920)	-45%

#### Dividends

2.4 Amount of interim dividend	No interim dividend is proposed
2.5 Record date for determining entitlements to the final dividend	N/A

#### Brief explanation of figures 2.1 to 2.5

Refer to the Half Year Condensed Consolidated Financial Report, Director's Report and the Media Release for further explanations of the figures presented in 2.1 – 2.5 above.

#### HY2017 highlights

- Operating revenue up 8% to \$9.34 million (HY16: \$8.67 million);
- Net profit before tax down 31% to \$1.27 million (HY16: \$1.85 million);
- Net profit after tax down 45% to \$0.86 million (HY16: \$1.59 million);
- Gross profit margin was 73%, and pre-tax profit margin at 14%;
- Strong balance sheet
  - No debt;
  - Cash on hand at 31 December 2016 of \$19.72 million (30 June 2016: \$20.85 million); and
  - Net assets up 5% to \$19.45 million
- Certification for the new 100Gbps encryptor is on track and a second customer has commenced testing. Other major R&D projects are also progressing well including the virtual encryptor and the custom algorithm project

## Appendix 4D

### Senetas Corporation Limited

#### Summary

The half year result is in line with the guidance range provided by the Company in its market update announcement on 6th February 2017.

Whilst sales in the first half of FY17 were impacted by the network upgrades currently underway at Senetas' largest customers, we continue to expect the sales disruption to be temporary and will reverse as those network upgrades are completed.

The precise timing for completion of the network upgrades is uncertain; however, current expectations are for FY17 net profit before tax to be between \$5m and \$6m, and net profit after tax between \$3.4m and \$4.2m. A return to more normal customer ordering patterns earlier or later than anticipated will impact our current expectations for FY17 profit.

With initial sales of the new 100Gbps encryptor and virtual encryptor currently expected to commence late in the financial year, and further out, sales from other technologies such as the custom algorithm product and SureDrop, Senetas has a strong pipeline of growth opportunities ahead over the medium term

#### 3. Movements in retained earnings

Please refer to the attached Half-Year Financial Report

#### 4. Net tangible assets

	31-Dec-16	30-Jun-16
	\$	\$
Net tangible asset backing per ordinary security (Cents per share)	1.72	1.65

#### 5. Control gained or lost over entities during the period having a material effect

There were no business combinations or disposals during the half year period.

#### 6. Details of Associates / Joint Venture Holdings

N/A

#### 7. Foreign Entities, which set of accounting standards used to prepare report

For foreign entities International Financial Reporting Standards are used in compiling this report.

#### 8. Other information on financial statements

None

#### 9. Other information

None

#### 10. Independent review report

This report is based on accounts which have been reviewed. An unqualified review conclusion has been issued.



F. W. Galbally  
Chairman



**Half-year condensed consolidated financial  
report for the half-year ended  
31 December 2016**

# SENETAS CORPORATION LIMITED

## HALF-YEAR REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

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# Directors' Report

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

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Your directors submit their report for the half-year ended 31 December 2016.

## DIRECTORS

The names of the company's directors in office during the half-year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

F. Galbally (Chairman)

A. Wilson (Executive director)

L. Given (Non-executive director)

K. Gillespie (Non-executive director)

L. Hansen (Non-executive director)

Senetas Corporation Limited (ASX: SEN), a leading developer and manufacturer of certified, defence-grade data encryption solutions, is pleased to announce its results for the half year ended 31 December 2016 (1H2017).

## 1H2017 Highlights:

- Operating revenue up 8% to \$9.34 million (HY16: \$8.67 million);
- Net profit before tax down 31% to \$1.27 million (HY16: \$1.85 million);
- Net profit after tax down 45% to \$0.86 million (HY16: \$1.59 million);
- Gross profit margin was 73%, and pre-tax profit margin at 14%;
- Strong balance sheet
  - No debt;
  - Cash on hand at 31 December 2016 of \$19.72 million (30 June 2016: \$20.85 million); and
  - Net assets up 5% to \$19.45 million
- Certification for the new 100Gbps encryptor is on track and a second customer has commenced testing. Other major R&D projects are also progressing well including the virtual encryptor and the custom algorithm project.

A number of Senetas' largest customers have been undergoing network upgrades which slowed demand for our products during HY17. Senetas' results in the first half reflect the impact of those disrupted customer ordering patterns although we are pleased to have delivered revenue growth and positive returns in what was a tough sales period.

Whilst product sales revenue was lower, our annuity maintenance revenue grew 22% and made up 45% of total revenue for the period. The growth in maintenance revenue reflects strong sales growth in prior periods. Gross margin fell to 73% (2015: 83%) primarily due to a larger inventory transfer to our sales partner Gemalto in HY17; this was partly offset by the increase in recurring maintenance revenues.

Whilst the company had 20% year on year growth in revenue for calendar year 2016, and similar growth for calendar 2015, we are disappointed with the HY17 sales performance and believe that it can be substantially improved.

We advised in our FY16 results announcement that we were working closely with Gemalto to improve sales in the US Federal Government business and we are pleased with the results so far. However, we believe that substantial further work still needs to be done across the board with respect to sales (direct and through the channel) and marketing to fully realise the true growth potential of the Senetas product set across both geographic and vertical markets.

# Directors' Report (Continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

The additional inventory orders placed by Gemalto during HY17 are a sign of confidence that they expect higher levels of sales to resume in the near term; however, we will continue to work with them to support ongoing improvements to client engagement and to achieve a stronger growth trajectory in future periods.

The virtual encryption technology being developed by Senetas also offers great potential for us to service remote clients who need secure networks but do not want a hardware solution. Virtual encryptors can open new markets to Senetas and would be sold on a subscription basis whose recurring revenues would be expected to build over time. Two customers have recently completed successful trials of the virtual encryptors and our product is currently part of a tender proposal.

Senetas' financial position remains extremely sound, with net assets continuing to grow during the period, no debt, and cash on hand of almost \$20 million.

## Research and Development

A highly innovative and responsive R&D capability remains the company's core focus and will be the major driver of growth prospects and increased profitability going forward.

The key focus during the half has been progressing certification for the 100Gbps encryptor and making changes in response to demands from end customers who have been testing the encryptor in their network environment.

With our 100Gbps product progressing through certification and currently being tested by two corporate customers this new product is expected to drive significant sales in future periods. Our engineers and technical staff continue to show exceptional ability to develop world leading technologies that will see increasing demand as network security and privacy concerns continue to gain attention.

Senetas' custom encryption algorithm product ("CEAP") is also progressing and currently moving through the export approval process. The next steps towards future sales are customer testing and local certification. Subject to the timing of export approval and certification it is expected that the CEAP will become available for sale around the end of the 2017 calendar year.

The virtual encryption technology being developed by Senetas also offers great potential for us to service remote clients who need secure networks but do not want a hardware solution. Pleasingly two customers have recently completed successful trials of the virtual encryptors. The product is now available for sale and is currently included in tender proposals for end users. The success of these tender proposals will determine the timing for initial sales. These sales are expected to be small compared to HSE hardware sales but can open the door to new markets and provide a recurring source of revenue that will grow over time as new customers are brought on board.

Senetas is continuing to work actively with its customers, master distribution partner (Gemalto) and technology partners in order to identify new product/service opportunities that will create significant ongoing revenue growth for Senetas in the future.

Senetas continues to expect that R&D expenditure during FY17 will be similar to FY16.

# Directors' Report (Continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

## Acquisitions

During December 2016 Senetas purchased a 6% equity stake in Smart Antenna Technologies Ltd (SAT), a pioneering international smart antenna technology company based in the UK. This investment is complementary to Senetas' core competencies, was funded from cash reserves and provides Senetas with board observer status.

In February 2017 Senetas signed an agreement to acquire SureDrop on an earnout basis with no upfront capital outlay. This product delivers simple file sync and share capability that is delivered with the security and resilience of a bespoke on-premise solution. The product has progressed through development stages and the data encryption, key management and file fragmentation security features are based on the same best-in-class technologies used in Senetas' multi-certified high-speed encryptors. This solution will be offered on a user subscription basis. The SureDrop product is in the early stages of release to the market and is not currently revenue producing. It is currently being trialed by customers in partnership with a large Australian telecommunications company.

Both of these acquisitions reflect Senetas' stated strategy of exploring shareholder value enhancing opportunities that are complementary to Senetas' core competencies and have the potential to add significant value to Senetas in the longer term.

## Balance Sheet and Cash Flow

Senetas' balance sheet continues to strengthen and provides significant capacity to support both organic growth and investment. Net assets increased 5% to \$19.45 million and the cash balance at 31 December 2016 was \$19.72 million.

Net operating cash outflows were \$0.14 million in HY17. Good growth in receipts from customers was more than offset by increased payments to suppliers as a result of the very strong sales in June 2016 and higher inventory transfers to Gemalto during the half. Net investing cash outflows of \$0.99 million primarily reflect the acquisition of a 6% stake in SAT in December 2016.

## Tax Expense

The effective tax rate for HY17 was 31.7%. The effective tax rate is up from 14.1% in HY16 which benefited from the use of carried forward tax losses that have now been fully utilised.

## Outlook

Whilst sales in the first half of FY17 were impacted by the network upgrades currently underway at Senetas' largest customers, we continue to expect the sales disruption to be temporary and will reverse as those network upgrades are completed.

The precise timing for completion of the network upgrades is uncertain; however, current expectations are for FY17 net profit before tax to be between \$5m and \$6m, and net profit after tax between \$3.4m and \$4.2m. A return to more normal customer ordering patterns earlier or later than anticipated will impact our current expectations for FY17 profit.

With initial sales of the new 100Gbps encryptor and virtual encryptor currently expected to commence late in the financial year, and further out, sales from other technologies such as the custom algorithm product and SureDrop, Senetas has a strong pipeline of growth opportunities ahead over the medium term.

## **Auditor's Independence Declaration to the Directors of Senetas Corporation Limited**

As lead auditor for the review of Senetas Corporation Limited for the half-year ended 31 December 2016, I declare to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Senetas Corporation Limited and the entities it controlled during the financial period.



Ernst & Young



Kylie Bodenham  
Partner  
27 February 2017



# Interim Consolidated Statement of Comprehensive Income

## FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Notes	CONSOLIDATED	
		31/12/2016	31/12/2015
		\$	\$
Revenues	3(a)	9,340,190	8,665,782
Cost of sales		(2,516,788)	(1,475,144)
<b>Gross profit</b>		<b>6,823,402</b>	<b>7,190,638</b>
Other income	3(b)	242,934	211,341
Employee benefit expenses	3(c)	(3,186,852)	(2,986,574)
Depreciation and amortisation expenses	3(d)	(217,828)	(171,598)
Administration expenses	3(e)	(1,562,778)	(1,432,127)
Other expenses	3(f)	(832,769)	(966,303)
<b>Profit for the period before income tax</b>		<b>1,266,109</b>	<b>1,845,377</b>
Income tax expense	8	(401,401)	(259,749)
<b>Net profit for the period</b>		<b>864,708</b>	<b>1,585,628</b>
<b>Profit for the period</b>		<b>864,708</b>	<b>1,585,628</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation reserve		(1,959)	(439)
<b>Other comprehensive income for the period</b>		<b>(1,959)</b>	<b>(439)</b>
<b>Total comprehensive income for the period, net of tax</b>		<b>862,749</b>	<b>1,585,189</b>
Attributable to:			
<b>Owners of the parent</b>		<b>862,749</b>	<b>1,585,189</b>
Earnings per share (EPS): (cents per share)			
Basic, profit for the period attributable to ordinary equity holders of the Parent.		0.08	0.15
Diluted, profit for the period attributable to ordinary equity holders of the Parent.		0.08	0.15

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

# Interim Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2016

	Notes	CONSOLIDATED	
		As at 31/12/2016 \$	As at 30/6/2016 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		19,715,595	20,848,044
Trade and other receivables	15	2,486,873	5,926,832
Inventories		1,496,779	632,349
Prepayments		204,807	196,824
Other current assets		33,019	28,258
<b>Total current assets</b>		<b>23,937,073</b>	<b>27,632,307</b>
<b>Non-current assets</b>			
Other financial assets		91,667	91,667
Investments in unquoted equity investments	13	875,616	-
Deferred tax asset		690,906	576,891
Plant and equipment	7	1,108,330	1,047,768
Intangible assets		137,183	125,290
<b>Total non-current assets</b>		<b>2,903,702</b>	<b>1,841,616</b>
<b>TOTAL ASSETS</b>		<b>26,840,775</b>	<b>29,473,923</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		1,855,079	1,973,272
Income tax payable	8	511,931	1,862,754
Unearned income	9	2,932,278	4,799,771
Provisions		870,787	806,194
<b>Total current liabilities</b>		<b>6,170,075</b>	<b>9,441,991</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities		56,205	52,720
Provisions		7,557	18,190
Unearned income - non-current	9	1,124,370	1,405,713
Other non-current liabilities		30,438	28,926
<b>Total non-current liabilities</b>		<b>1,218,570</b>	<b>1,505,549</b>
<b>TOTAL LIABILITIES</b>		<b>7,388,645</b>	<b>10,947,540</b>
<b>NET ASSETS</b>		<b>19,452,130</b>	<b>18,526,383</b>
<b>EQUITY</b>			
Contributed equity	5	104,546,753	104,426,711
Accumulated losses		(85,872,725)	(86,737,433)
Foreign currency translation reserve		(29,901)	(27,942)
Employee benefit reserve	6	795,143	852,187
<b>Equity attributable to owners of the parent</b>		<b>19,439,270</b>	<b>18,513,523</b>
<b>Non-controlling interests</b>		<b>12,860</b>	<b>12,860</b>
<b>TOTAL EQUITY</b>		<b>19,452,130</b>	<b>18,526,383</b>

The above statement of financial position should be read in conjunction with the accompanying notes.

# Interim Consolidated Statement of Changes in Equity

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	<i>Attributable to equity holders of Senetas Corporation Ltd</i>					<i>Non-controlling interest</i>	<i>Total equity</i>
	<i>Contributed Equity</i>	<i>Accumulated Losses</i>	<i>Foreign Currency Translation Reserve</i>	<i>Employee Benefit Reserve</i>	<i>Total</i>		
<b>CONSOLIDATED</b>	\$	\$	\$	\$	\$	\$	\$
<b>At 1 July 2015</b>	<b>104,388,258</b>	<b>(91,955,863)</b>	<b>(24,874)</b>	<b>673,017</b>	<b>13,080,538</b>	<b>12,860</b>	<b>13,093,398</b>
Profit for the period	-	1,585,628	-	-	1,585,628	-	1,585,628
Other comprehensive income	-	-	(439)	-	(439)	-	(439)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>1,585,628</b>	<b>(439)</b>	<b>-</b>	<b>1,585,189</b>	<b>-</b>	<b>1,585,189</b>
<b>Transactions with owners in their capacity as owners:</b>							
Share based payment expenses	-	-	-	71,453	71,453	-	71,453
Options converted to shares	38,453	-	-	(38,453)	-	-	-
<b>At 31 December 2015</b>	<b>104,426,711</b>	<b>(90,370,235)</b>	<b>(25,313)</b>	<b>706,017</b>	<b>14,737,180</b>	<b>12,860</b>	<b>14,750,040</b>
<b>CONSOLIDATED</b>	\$	\$	\$	\$	\$	\$	\$
<b>At 1 July 2016</b>	<b>104,426,711</b>	<b>(86,737,433)</b>	<b>(27,942)</b>	<b>852,185</b>	<b>18,513,521</b>	<b>12,860</b>	<b>18,526,381</b>
Profit for the period	-	864,708	-	-	864,708	-	864,708
Other comprehensive income	-	-	(1,959)	-	(1,959)	-	(1,959)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>864,708</b>	<b>(1,959)</b>	<b>-</b>	<b>862,749</b>	<b>-</b>	<b>862,749</b>
<b>Transactions with owners in their capacity as owners:</b>							
Share based payment expenses	-	-	-	63,000	63,000	-	63,000
Options converted to shares	120,042	-	-	(120,042)	-	-	-
<b>At 31 December 2016</b>	<b>104,546,753</b>	<b>(85,872,725)</b>	<b>(29,901)</b>	<b>795,143</b>	<b>19,439,270</b>	<b>12,860</b>	<b>19,452,130</b>

The above statement of changes in equity should be read in conjunction with the accompanying notes.

# Interim Consolidated Statement of Cash Flows

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	<i>Notes</i>	<i>CONSOLIDATED</i>	
		<i>31/12/2016</i>	<i>31/12/2015</i>
		\$	\$
<b>Cash flows from operating activities</b>			
Receipts from customers		8,565,710	7,173,531
Payments to suppliers and employees		(9,148,157)	(7,140,439)
R&D tax concession net of tax paid		210,284	401,330
Interest received		230,738	135,150
<b>Net cash flows used in operating activities</b>		<b>(141,425)</b>	<b>569,572</b>
<b>Cash flows used in investing activities</b>			
Purchase of plant and equipment		(66,464)	(98,638)
Purchase of intangibles		(46,986)	(33,054)
Investment in unquoted equity instruments		(875,616)	-
<b>Net cash flows used in investing activities</b>		<b>(989,066)</b>	<b>(131,692)</b>
Net decrease in cash and cash equivalents		(1,130,490)	437,880
Net foreign exchange differences		(1,959)	(439)
Cash and cash equivalents at beginning of period		20,848,044	15,901,898
<b>Cash and cash equivalents at end of period</b>		<b>19,715,595</b>	<b>16,339,339</b>

The above statement of cash flows should be read in conjunction with the accompanying notes.

# Notes to the Consolidated Financial Statements

## FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

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### 1 CORPORATE INFORMATION

The interim condensed consolidated financial statements of Senetas Corporation Limited and its subsidiaries (collectively, the Group) for the half year ended 31 December 2016 were authorised for issue in accordance with a resolution of the directors on 27 February 2017.

Senetas Corporation Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX).

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim condensed consolidated financial statements do not include all notes of the type normally included within the annual financial statements, and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial statements.

It is recommended that the interim condensed consolidated financial statements be read in conjunction with the Annual Financial Report of Senetas Corporation Limited as at 30 June 2016.

It is also recommended that the interim condensed consolidated financial statements be considered together with any public announcements made by Senetas Corporation Limited and its controlled entities during the half-year ended 31 December 2016 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

#### (a) Basis of preparation and Statement of Compliance

The interim condensed consolidated financial statements for the half-year ended 31 December 2016 have been prepared in accordance with AASB 134 *Interim Financial Reporting*.

The interim condensed consolidated financial statements have been prepared on a historical cost basis.

For the purpose of preparing the interim condensed consolidated financial statements, the half-year has been treated as a discrete reporting period.

#### (b) New and revised standards and interpretations

The Group has adopted all new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current reporting period. New and revised Standards, amendments thereof and Interpretations effective for the current half-year and relevant to the Group are limited to **AASB 2013-9 Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments**. The adoption of new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and had no material effect on the amounts reported for the current or prior half-year. The Group has not elected to early adopt any other new Standards or amendments that are issued but not yet effective.

#### (c) Significant accounting policies

The interim condensed consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2016.

# Notes to the Consolidated Financial Statements (continued)

## FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Note	CONSOLIDATED	
		31/12/2016	31/12/2015
		\$	\$
<b>3 REVENUE, INCOME AND EXPENSES</b>			
<b>(a) Revenue</b>			
Sale of goods		5,140,978	5,213,401
Product maintenance revenue		4,195,024	3,432,953
Provision of services		4,188	19,428
		<b>9,340,190</b>	<b>8,665,782</b>
<b>(b) Other income</b>			
Interest revenue:			
Non-related parties		235,499	211,341
Sundry income		7,435	-
		<b>242,934</b>	<b>211,341</b>
<b>(c) Employee benefits expenses</b>			
Salaries and wages		2,971,855	2,734,808
Superannuation		151,997	162,399
Termination payments		-	17,914
Share based payments expense	6	63,000	71,453
		<b>3,186,852</b>	<b>2,986,574</b>
<b>(d) Depreciation and amortisation expenses</b>			
Depreciation:			
Plant and equipment		151,113	107,405
Leasehold improvements		31,620	30,890
Amortisation:			
Software		35,095	33,303
		<b>217,828</b>	<b>171,598</b>
<b>(e) Administration expenses</b>			
Operating lease		200,618	196,918
Travel expenses		307,262	275,489
Telephone and internet expenses		39,388	32,811
Insurance expenses		68,247	56,558
Marketing expenses		206,743	164,723
External contractors - sales and corporate		740,520	705,628
		<b>1,562,778</b>	<b>1,432,127</b>
<b>(f) Other expenses</b>			
Inventory write off / provision		107,170	49,856
Certification, testing and direct R&D expenditure		456,106	695,020
Net gain on foreign exchange		(77,121)	(89,840)
Other overhead expenses		346,614	311,267
		<b>832,769</b>	<b>966,303</b>

# Notes to the Consolidated Financial Statements (continued)

## FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

### 4 DIVIDENDS PAID AND PROPOSED

#### Equity dividends on ordinary shares:

No interim dividend was paid or is proposed for the half year ended 31 December 2016.

### 5 CONTRIBUTED EQUITY

	CONSOLIDATED	
	No. of shares	\$
Movement in ordinary shares on issue		
At 1 July 2016	1,078,641,948	104,426,711
Employee performance rights converted to shares	1,190,000	120,042
At 31 December 2016	<b>1,079,831,948</b>	<b>104,546,753</b>

### 6 SHARE BASED PAYMENTS (for Executives and Employees)

In September 2015, the Group issued performance rights attached to the Group's Long Term Incentive Plan (LTI) to all employees. The performance rights were issued in four equal tranches subject to four performance conditions. Tranche 1 and 2 for a total of 50% of the performance rights vested during the period. The performance conditions attached to these tranches were as follows:

- Tranche 1 – 25% of the performance rights for achievement of the FY2016 budget.
  - Tranche 2 – 25% of the performance rights vest for employment tenure extending for 12 months past grant
- Meeting these performance conditions resulted in the issuance of 1,190,000 shares to employees in September 2016.

The remainder of the performance rights are still outstanding and are subject to the following performance conditions:

- Tranche 3 – 25% of the performance rights will vest if FY2017 budget is achieved.
  - Tranche 4 – 25% of the performance rights vest if employment tenure extends for 24 months past grant
- Performance rights granted were fair valued by an external party using a binomial option pricing methodology.

The following table sets out the assumptions made in determining the fair value of these performance rights.

Scheme	2016
Number of rights granted	2,380,000
Grant date	21-Sep-15
Performance period	As above: up to 24 months from grant date
Risk free interest rate	1.90%
Volatility (%)	36.20%
Discounted stock price	\$0.1330
Binomial option valuation	\$0.1320

The expense associated with both the staff and CEO's share based payments has been recognised in the employee expenses category in the Consolidated Income Statement.

### 7 PLANT AND EQUIPMENT

During the six months ended 31 December 2016, the group purchased \$66,464 of computer and test equipment and transferred \$176,833 from inventory for product development.

# Notes to the Consolidated Financial Statements (continued)

## FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

### 8 INCOME TAX

The Group calculates the income tax expense for the reporting period using the tax rate that would be applicable to expected total annual earnings.

The major components of income tax expense in the interim statement of comprehensive income are:

	<i>For the half-year ended 31 December</i>	
	<b>2016</b>	<b>2015</b>
<b>Income taxes</b>		
Current income tax expense	511,931	616,476
Deferred income tax expense related to origination and reversal of temporary differences	(110,530)	(38,987)
Adjustments in respect of current income tax of previous years	-	(19,366)
Utilisation of unrecognised tax losses	-	(298,375)
<b>Income tax expense recognised in the statement of comprehensive income</b>	<b>401,401</b>	<b>259,749</b>

### 9 UNEARNED REVENUE

	CONSOLIDATED	
	31/12/2016	30/06/2016
	\$	\$
Open balance as at 1 July	6,205,484	5,099,961
Amounts received during the period	2,046,188	8,156,044
Revenue recognised during the period	(4,195,024)	(7,050,521)
Closing balance at end of period	<b>4,056,648</b>	<b>6,205,484</b>
Current unearned income	2,932,278	4,799,771
Non-current unearned income	1,124,370	1,405,713
	<b>4,056,648</b>	<b>6,205,484</b>



# Notes to the Consolidated Financial Statements (continued)

## FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

### 10 REVENUE BY GEOGRAPHY

The Group has only one segment - the product division. Therefore, the Group no longer prepares operating segment reporting other than the geographical segments shown below. In accordance with the master distribution agreement with Gemalto and other direct customers, both product sales and maintenance services are inter-related and reported as one (1) reportable segment.

Revenue is attributed to geographic locations based on the location of the customers. The Group does not have external revenues from any external customers that are attributable to any foreign country other than as shown.

	<i>For the half-year ended 31 December</i>	
	<b>Dec-16</b>	<b>2015</b>
Australia & New Zealand	922,640	883,025
United States	5,579,127	5,753,186
Europe	2,838,423	2,029,571
	<b>9,340,190</b>	<b>8,665,782</b>

### 11 COMMITMENTS AND CONTINGENCIES

Since the last annual reporting date, there has been no material change of any contingent liabilities or contingent assets.

### 12 EVENTS AFTER THE REPORTING DATE

In February 2017 Senetas signed an agreement to acquire SureDrop on an earnout basis with no upfront capital outlay. This solution will be offered on a user subscription basis. The SureDrop product is in the early stages of release to the market and is not currently revenue producing. There are no other events after the reporting date.

### 13 INVESTMENT IN UNQUOTED EQUITY INSTRUMENTS

In December 2016, Group invested approximately A\$875,000 in Smart Antenna Technologies Ltd ("SAT"), a smart antenna technology company based in the UK. Senetas received a 6% equity stake in the company. Due to the proximity of the investment date to the period end, management believes that fair value approximates the carrying amount at 31 December 2016.

### 14 FINANCIAL ASSETS AND LIABILITIES

The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations. Due to the short term nature of financial assets and financial liabilities, fair value does not materially differ to the carrying amount.

As at 30 December 2016, the Group did not have any outstanding derivative instruments. As at 31 December 2016 the Group had the following financial assets and liabilities;

	<b>CONSOLIDATED</b>	
	<b>31/12/2016</b>	<b>30/06/2016</b>
	<b>\$</b>	<b>\$</b>
Cash & cash equivalents	19,715,595	20,848,044
Trade and other receivables	2,486,873	5,926,832
Investments in unquoted equity investments	875,616	-
<b>Total financial assets</b>	<b>23,078,084</b>	<b>26,774,876</b>
Trade and other payables	1,855,079	1,973,272
<b>Total financial liabilities</b>	<b>1,855,079</b>	<b>1,973,272</b>

# Notes to the Consolidated Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

## 15 TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	31/12/2016	30/06/2016
	\$	\$
Trade receivables	2,323,906	3,779,968
Net GST receivable	162,966	50,239
R&D tax incentive (i)	-	2,096,625
	2,486,872	5,926,832

(i) R&D tax incentive - a 45% refundable tax offset

At 31 December 2016, the ageing analysis of trade receivables is as follows:

	Neither past due nor impaired	Past due but not impaired (i)	Past due & impaired
	\$	\$	\$
31 December 2016 Consolidated	2,323,906	-	-
30 June 2016 Consolidated	3,779,968	-	-

(i) Trade receivables outstanding beyond 91 days are past due

The fair value of trade and other receivables are deemed to approximate their carrying value.

## Directors' Declaration

In accordance with a resolution of the directors of Senetas Corporation Limited, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity for the half-year ended 31 December 2016 are in accordance with the *Corporations Act 2001*,
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and the performance for the half-year ended on that date; and
  - (ii) complying with the Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001* ; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



F.W. Galbally

Director

27 February 2017

To the members of Senetas Corporation Limited

## **Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Senetas Corporation Limited, which comprises the condensed statement of financial position as at 31 December 2016, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

## **Directors' Responsibility for the Half- Year Financial Report**

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

## **Auditor's Responsibility**

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Senetas Corporation Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## **Independence**

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration.

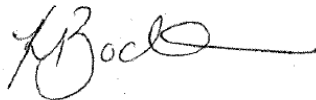
## Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Senetas Corporation Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



Kylie Bodenham  
Partner

Melbourne  
27 February 2017