

SENETAS

Senetas CN9000 – Senetas and its global distributor, Gemalto, released the world's first commercially available 100Gbps certified and high-assurance encryptor that supports all topologies.



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## Senetas Corporation Limited Annual Financial Report for the year ended 30 June 2017

ACN 006 067 607

#### **Corporate Information**

#### Non-executive directors

Francis W Galbally – Chairman

Lachlan P Given

Kenneth J Gillespie

Lawrence D Hansen

## Executive director and chief executive officer

Andrew R Wilson

#### Company secretary

Brendan Case

#### Registered office

#### **Senetas Corporation Limited**

312 Kings Way South Melbourne VIC 3205

Telephone: +61 3 9868 4555

Email: corporate@senetas.com

www.senetas.com

#### Share register

#### Computershare Registry Services Pty Ltd

Yarra Falls, 452 Johnston Street, Abbotsford VIC 3061

Telephone: +61 3 9415 5000 Toll Free 1300 13 83 25

#### Investor relations

For all investor enquiries Telephone: 1300 787 795 Email: investor@senetas.com

#### **Auditors**

#### **Ernst & Young**

8 Exhibition Street Melbourne VIC 3000

## Annual general meeting date & place

Annual General Meeting of shareholders of Senetas Corporation Limited (Company) will be held at Royce Hotel 379 St Kilda Road Melbourne VIC 3004, Thursday 16 November 2017.

Your directors submit their report for the year ended 30 June 2017.

## Names, qualifications, experience and special responsibilities

The following directors were in office for the entire financial year and until the date of this report unless otherwise noted:

Francis W. Galbally	Director (Non-Executive Chairman)
Andrew R. Wilson	Director (Executive)
Lachlan P. Given	Director (Non-Executive)
Kenneth J. Gillespie	Director (Non-Executive)
Lawrence D. Hansen	Director (Non-Executive)

#### Francis W. Galbally LLB (Hons)

Non-Executive Chairman

Mr Francis Galbally has over 30 years' experience in international business and commercial law. He is a graduate (first class honours) in Law at Melbourne University and worked in a professional legal practice for 15 years, specialising in business law. He was a partner in the leading law firm Galbally & O'Bryan during which time he successfully led a number of landmark commercial litigation cases.

An investor and corporate advisor, Mr Galbally is the major shareholder in Southbank Capital Pty Ltd. (AFSL 343678). He specialises in technology, environment, food, mining and energy sectors.

Mr Galbally is also chairman of the Bayland Property Group and a director of EON Reality Inc. (California, USA) and EON Reality Australia Pty Ltd. EON Reality is the world leader in virtual and augmented reality based knowledge transfer for industry and education; and 'edutainment' - entertainment based education. Mr Galbally is also a director of DeepRadiology Inc.

Having been a director and chair of a number of Australian Stock Exchange (ASX) listed companies, Mr Galbally has first-hand operational experience in growing 'small cap' companies.

Mr Galbally was the founder of Senetas and held the positions of CEO and chair. For family reasons Mr Galbally retired as an executive in February 2006 and as a director in May 2007.

In 2012, Mr Galbally led Senetas' significant capital and business restructure and re-joined the Company as a significant shareholder and board member. He was appointed chair on 30 April 2013.

During his successful legal career, Mr Galbally was responsible for recovering more than \$1 billion in investor funds (\$1 for \$1) lost because of the major corporate failures (Pyramid Building Societies and Estate Mortgage Trusts) during the 1990's.

Mr Galbally is the Victorian convenor of the Constitution Education Fund of Australia—a non-political charity dedicated to advancing knowledge of the Australian constitution within the community. He is also a member of the Australian Institute of Company Directors.

### **Andrew R. Wilson** BEcon, CA, ACIS Chief Executive Officer

Mr Andrew Wilson was appointed CEO of Senetas on 15 August 2012. He was formerly Senetas' Company Secretary and Chief Financial Officer. Throughout his 17 year career with Senetas, Mr Wilson has had a significant role in most of the important stages of the Company's development since it was first listed on the ASX.

As CFO and previously as senior accountant, Mr Wilson developed a strong understanding of Senetas' technology, products, manufacturing, customers, partner channel and financial drivers. He is also closely involved in the management of the Company's R&D and customers' expectations.

Mr Wilson has also developed crucial relationships in the information security industry including key government organisations, locally and overseas. He has a strong understanding of the markets and drivers of demand for the Company's products.

Commencing his career with KPMG in the audit division, focusing on the banking and broking industries, Mr Wilson has also worked in the United Kingdom with Deutsche Bank and NatWest Bank Plc. As part of corporate restructure teams he has developed considerable financial and administrative skills. He is a member of the Institute of Chartered Accountants Australia and the Institute of Chartered Secretaries Australia.

Importantly, Mr Wilson brings to the role of CEO skills in strategic planning, a customer-centric focus and an understanding of the dynamics of the markets for Senetas' specialist products.

#### Lachlan P. Given BBus

Non-Executive Director

Mr Lachlan Given is currently a consultant to Madison Park LLC, a global strategic and financial advisory business. Madison Park is Senetas' largest single shareholder, after participating in a comprehensive capital reconstruction in June 2012.

Prior to joining Madison Park in 2004, Mr Given spent five years working in the Investment Banking and Equity Capital Markets divisions of Merrill Lynch

in Hong Kong and Sydney, Australia. He specialised in the origination and execution of a variety of M&A, equity, equity-linked and fixed income transactions.

Mr Given is Executive Chair of Ezcorp Inc. (NASDAQ:EZPW) a leading provider of easy cash solutions for consumers. He is also on the boards of The Farm Journal Corporation, a 134 year old pre-eminent US agricultural media company, CANSTAR Pty Ltd, the leading Australian financial services ratings and research firm; and of Cash Converters International Limited.

Mr Given graduated from the Queensland University of Technology with a Bachelor of Business majoring in Banking and Finance (with distinction).

## **Kenneth J. Gillespie** AC DSC CSM Non-Executive Director

Mr Ken Gillespie is an experienced and highly decorated national leader. Formerly Chief of the Australian Army, Ken possesses a diverse range of practical experience, including military high command, diplomacy, and private and public sector leadership. He has an enviable and successful track record for strategic review, structural reform, team building and leadership across diverse and challenging work environments and workforces.

Ken currently sits on several boards, both public and not for profit, and provides consulting services to Government Departments, Corporations and small companies. He possesses a strong network of contacts in government, defence, security and commercial fields and he has considerable experience communicating with, and building consensus among diverse stakeholder groups.

#### Lawrence D. Hansen

Non-Executive Director

Mr Lawrence Hansen has had a successful career in leading international IT and data security organisations. He has a strong international M&A and business integration background, having directed world-wide teams since 2005.

Mr Hansen is currently an Operating Executive for Marlin Operations Group, Inc. Mr. Hansen joined Marlin in September 2015. Prior to joining Marlin, Mr Hansen was VP and general manager of Dell Software Group employing 3,000 staff in sales, marketing, channels and services, and oversaw its go to market strategy. Previously, Mr Hansen was President and CEO of SafeNet Inc., Senetas' global distribution partner. At SafeNet, he led a significant recapitalisation of the company that saw strong growth in revenues and profits before its successful sale to Gemalto NV.

Mr Hansen's deep knowledge of Senetas' existing and potential global customer base, sales function, product development and innovation program

makes him an extremely valuable addition to the Senetas board. Mr Hansen also brings his wealth of global experience in services, products, marketing and business planning.

Mr Hansen also held the role of president and CEO of Numara Software, a \$100 million business, where he oversaw the company's successful sale and integration into BMC Software.

From 2002 to 2011, Mr Hansen held several executive positions with CA Technologies including CIO, GM, Security and GM, Enterprise Products and Solutions.

Mr Hansen, a Canadian born US citizen, resides in McKinney, Texas.

#### Company secretary

Brendan Case MCom Law, BEc, CPA
Mr Brendan Case has more than 20 years of
company secretarial, corporate governance and
finance experience. He is a former Associate
Company Secretary of National Australia Bank
Limited (NAB), former secretary of NAB's Audit and
Risk Committees and has held senior management
roles in risk management and regulatory affairs.

Mr Case is a Chartered Secretary with a Masters of Commercial Law from the University of Melbourne and has degrees in both economics and finance.

#### Chief accountant

**Barbara F. McMeekin** Dip Arts (Psych), Grad. Dip. Business (Computing), MPAcc, CPA

Ms Barbara McMeekin is a member of the Certified Practicing Accountants Australia with over 30 years business experience. She was appointed to the position of Chief Accountant of Senetas in 2012.

Ms McMeekin has worked in all areas of Senetas' accounting and administration as Senior Accountant assisting the Chief Financial Officer.

Ms McMeekin's skills include financial and ERP systems, cost accounting and business processes. During her career at Senetas she has developed extensive knowledge of the company's operations and financial matters. She had a key role in Senetas' successful implementation of enhanced ERP and financial systems, which were important to achieving cost efficiencies.

#### Dividends paid and proposed

No dividends were proposed or declared for the financial year ended 30 June 2017 (2016: nil).

#### Corporate information

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

#### Corporate structure

Senetas has a direct controlling interest in each of the entities listed in Note 22. No other entities are included in the consolidated entity.

## Nature of operations and principal activities

The principal activity of the entities within the consolidated entity during the year was the sale of IT security products providing network data security solutions to businesses and governments around the world.

#### **Employees**

The consolidated entity employed 29 employees as at 30 June 2017 (2016: 28 employees).

## Significant changes in the state of affairs

There are no significant changes in the state of affairs.

#### Operating & financial review

Senetas Corporation Limited (ASX: SEN), is a leading global developer and manufacturer of multi-certified, defence-grade data encryption solutions. Your directors are pleased to submit their report for the year ended 30 June 2017 (FY2017).

#### FY2017 highlights:

Operating revenue down 7% to \$17.59 million (FY2016: \$18.92 million) as a result of the disruption to major customer ordering patterns. As expected, the impacts were temporary and those customers' recommenced orders prior to the end of FY2017.

Strong growth in maintenance revenue – now 46% of total revenue following strong encryptor sales growth in prior periods.

Significant progress on developing the pipeline of new product and new market opportunities that will drive growth for Senetas in FY2018 and beyond.

- Net profit before tax \$5.26 million, within previously announced guidance range (FY2016: \$7.02 million)
- Gross profit margin 79%, and pre-tax profit margin 30%
- Strong cash reserves and balance sheet with no debt

 The Company's excellent R&D program focused on developing new technologies such as the 100GB encryptor, custom algorithm solutions and virtualised encryption software will enable the Company to address new market opportunities that will drive growth for Senetas and shareholders in FY2018 and beyond

#### Operational highlights:

Development of the 100GB encryptor, custom algorithm products, and version 1 of Senetas' virtual software encryption product were completed during FY2017:

- The 100GB hardware encryptor received FIPS certification and has undergone successful testing with customers
- Custom algorithm prototypes have been exported for testing and certification
- The software based virtual encryptor (CV1000)
  has undergone successful testing and further
  development continues working closely with
  customers to address their needs for robust
  encryption
- Senetas has also developed a product specific virtual encryptor to integrate with an optical network provider's technology which will cover Layer 2, 3 and 4 markets (including the Internet), without compromising network performance.
   Senetas has received significant interest in the Company's core capabilities in the field of encryption
- SureDrop beta testing currently underway with initial group of customers
- Senetas' crypto agile technology architecture becoming increasingly important in an extremely high-risk cyber security environment

Whilst the sales disruption in FY2017 was unfortunate, the business made significant progress during the year on developing the pipeline of new product and new market opportunities that will drive growth for Senetas in FY2018 and beyond.

As announced in February 2017, the normal ordering patterns of some of our largest customers were disrupted as they undertook reviews and upgrades to their existing networks, however, as expected the impacts of the disruption have been temporary and those customers recommenced ordering before the end of FY2017. We expect no ongoing impacts in FY2018.

While orders for new products were delayed during the year, maintenance revenue was a stabilising factor. Maintenance revenue increased by 16% to account for 46% of total operating revenue. This revenue stream helps us support our customers post sale, ensures that any issues are proactively addressed and improves our alignment with our partner organisations. As more encryptors are

sold and remain in operation the revenue stream will provide a level of earnings predictability and reliability.

During the year we have continued to invest in our relationship with Gemalto and are working closely with them to improve sales of our product to government and corporate customers. Our products are a key component of the Gemalto product suite and Senetas staff continue to be actively engaged in supporting the sales process.

The enhancement of our hardware encryption products, through the 100GB product and custom algorithm offering has seen a very positive response from both Gemalto and our end customers. These market leading products continue our commitment to security without compromise, and were developed in direct response to customer requests to better secure their ultra-high-speed Layer 2 networks.

Further we have seen recently that Senetas' crypto agile technology is becoming more important from a cyber security standpoint given the introduction of quantum computing in the near future. Any business that bases its security on encryption that is embedded in silicon and multipurpose hardware devices will rue the day when its encryption algorithms have been cracked and they cannot replace them in real time. Senetas has always had an architecture that allows for such an eventuality.

This investment in the future has been enabled through Senetas' strong financial position, with net assets up 16% during the period, with no debt, and cash on hand of more than \$20 million.

#### R&D and new product development

Senetas' 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.

FY2017 marked the commercialisation of development on the 100G encryptor, the custom algorithm products, and version 1 of Senetas' virtual encryption product. Total R&D expenditure moderated during the year due to lower external contractor costs as the 100G and custom algorithm developments wound down.

#### Hardware encryption solutions

#### 100G encryptor

Our 100Gbps encryptor received FIPS certification in April 2017 and has now successfully completed customer trials with 2 large multinationals. We are expecting our first sales of this product in FY2018. The product was developed to satisfy the increasing needs of our largest corporate customers who have been looking to upgrade their network speed and infrastructure from 10Gbps to

100Gbps. This transition to faster networks will be a natural progression for many organisations that handle and move a lot of sensitive information and Senetas is well positioned to capitalise on this opportunity.

Interest in the 100G encryptor is increasing, with potential customers including cloud service providers, global telecommunications companies, large government agencies and other large corporates. Encouragingly, a number of the interested parties have not previously been customers of Senetas.

#### **Custom algorithm products**

Our custom encryption algorithm product development has been completed and prototypes have been exported for testing and certification. This product allows customers to select their own encryption algorithm, thereby giving security control to our clients. Whilst the certification process may take up to 2 years to complete, sales can commence once customer testing is complete. This is a new and potentially very large market for Senetas and there are currently no competing products that match our product capabilities.

#### Software encryption solutions

#### Virtual encryptor

Trials of Senetas' first software based virtual encryption technology were successfully undertaken in the first half of FY2017 and customers have now included the solution in tender proposals to end users.

Software based virtualised encryption is an emerging technology, and Senetas' developers are continuing to work with customers to further develop the scale and use cases for the product (version 2), including larger scale opportunities (+10,000 users) with 'zero-touch' deployment. Sales of version 1 are expected in FY2018 although sales volume is not expected to be significant until version 2 is released. Senetas expects version 2 to be completed before the end of FY2018 and for it to potentially open up a significant revenue opportunity for Senetas in FY2019 and beyond.

#### Hybrid networks

A number of Senetas customers run hybrid Layer 2 and Layer 3 networks and have made enquiries of Senetas to provide an integrated solution with capabilities across both networks. To better serve existing and potential customers Senetas' engineers are investigating the possibility of reengineering encryptors – both hardware and virtual – to enable this capability. Achieving this has the potential to substantially expand the addressable market for Senetas products.

We are also working to further develop Senetas' software virtual encryptor to operate across Layer 3 and 4 markets, which make up over 70% of all networks. Importantly, it will allow our existing Layer 2 clients to now secure even more of their network traffic. While development of this product is still at a relatively early stage, we expect the capability, when ready, to increase the addressable market for our encryption solutions.

#### **Security Tools**

#### SureDrop

SureDrop was acquired by Senetas in February 2017 and is now market ready. The product is being trialled by customers in partnership with a large Australian telecommunications company and it is expected to be revenue producing in the second half of FY2018. As the revenue model is based on user subscription it will add another source of recurring revenues.

#### **European certification**

Senetas has commenced obtaining an additional certification in the European market which the Company expects will open up additional sales opportunities in markets where Senetas currently cannot compete. The expected cost for undertaking the European certification will be \$0.40m – \$0.50m in FY2018 with the process expected to be completed prior to June 2018. Once obtained, the certification will allow sales to customers in relevant markets from FY2019. Certification in multiple jurisdictions is a measure of the quality and technical advancement of our devices. It is also a key criteria for government contracts and many corporates that deal with government agencies.

#### Expected FY2018 R&D expenditure

R&D expenditure in FY2018 is expected to increase by approximately \$0.80m. The expense increase is associated with costs of a new European certification and increased engineering staff working on virtualised encryption software.

#### 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 16% to \$21.48 million and the cash balance at 30 June 2017 was \$20.09 million.

Net operating cash flow was \$1.70 million in FY2017 which was lower than FY2016 reflecting lower sales.

The Board periodically reviews its capital management policy and in so doing takes into account a variety of factors including R&D and other investment opportunities, financial returns,

risk and liquidity considerations which might impact Senetas' business.

As a rapidly growing R&D technology company, the Board continues to implement a conservative capital management policy in order to conserve capital for continued investment in attractive R&D product development, as well as to ensure that Senetas is well positioned to take advantage of other compelling investment opportunities.

#### Outlook

With the sales disruption in FY2017 now behind us and a strong pipeline of new product and new market opportunities ahead of us we expect an improvement in financial performance in FY2018.

Continued growth in data flows across Layer 2 networks, the desire to customise security parameters, and need for software based encryption solutions for Layer 3 and 4 networks all provide growth opportunities for the Senetas product range. The technical milestones delivered in FY2017, combined with the commercial opportunities for these products gives the Board confidence for our future financial performance and for generating growth for our shareholders.

The 100G encryptor, custom encryption and virtual encryption products are all expected to generate sales for the first time in FY2018, and longer-term opportunities from large scale virtual encryption deployments, Layer 3 compatibility, and new opportunities in Europe with further certifications will drive ongoing growth in FY2019 and beyond.

#### Non-core assets

Senetas holds minority interests in three unlisted technology companies. The goal with these companies is to leverage Senetas' experience, and maximise the value of those investments.

On 15 December 2016 Senetas announced it had invested \$0.86m for a 6% interest in Smart Antenna Technologies Ltd, and on 11 May 2017 that it had acquired a minority investment in DeepRadiology Inc. The investments in the two global technology assets provide Senetas with access to learn and participate in the evolution of these businesses that are at the forefront of antenna technology for mobile devices and artificial intelligence (deep learning) for (initially) medical applications and developing exciting products that present important opportunities for joint technology collaboration.

#### EON Realty Inc.

Senetas acquired a minority interest in EON Reality Inc. in 2000 but its value was subsequently written down and currently has a carrying value of zero on Senetas' balance sheet. EON Reality Inc. is a world leader in augmented and virtual reality based knowledge transfer for industry and education —

an area that is gaining increased attention and interest

As noted in Senetas' historic financial statements, the board has determined that no value should be ascribed to the investment until a liquidity event such as a capital raising, merger or IPO could provide the board with an independent value of the investment.

In May 2017 EON Reality Inc. formed an IPO committee to facilitate a public listing on NASDAQ. At this stage, the timing of an IPO and the potential value of Senetas' investment in EON Reality Inc. remain unclear, however, a process is currently underway to appoint advisors to support the IPO and Senetas will provide regular updates on the status of this investment as information becomes available.

## Significant events after the reporting date

There were no significant events after the reporting date

#### **Share options**

#### **Unissued shares**

As at the date of this report there were 800,000 unissued ordinary shares under performance rights. Refer to the remuneration report for executive performance rights and Note 14 for full details of the performance rights outstanding.

Performance rights holders do not have any right, by virtue of the performance right, to participate in any share issue of the Company or any related body corporate.

## Shares issued as a result of the exercise of performance rights

Other than 35,000 shares granted to a new employee, no performance rights were granted to the executives and employees as part of remuneration during the financial year ended 30 June 2017. During the year, the Company issued 2,315,000 ordinary shares to CEO and employees under the performance rights. The performance rights had an exercise price of zero. Refer Note 14 to the financial statements for further details.

## Indemnification and insurance of directors and officers

Senetas has Director's & Officer's Liability Insurance covering the directors and officers against liability in addition to Employment Practices Insurance. The terms of the insurance and the insurer are subject to a confidentiality clause and are therefore not disclosed.

The Group also indemnifies all directors, the chief executive officer and the company secretary for any liability incurred by the officer as officers of the Group to the full extent permitted by law. In accordance with the Group's constitution in consideration of the officer agreeing to continue to act as an officer of the Group, the Group has agreed to:

- indemnify the officer against liabilities incurred while acting as an officer of the Company;
- provide the officer with insurance cover; and
- provide the officer access to Company documents which relate to the obligations of the officer contained in the Corporations Act for a period of 7 years.

The Group also has Professional Risk Insurance (including cover for cyber attack) and Public Liability Risk Insurance.

#### Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

#### Rounding

The Company is an entity to which ASIC Class Order 2016/191 applies and, accordingly the amounts contained in the financial report have been rounded to the nearest \$1 (where rounding is applicable).

#### Remuneration report (audited)

This remuneration report for the year ended 30 June 2017 outlines the remuneration arrangements in accordance with the requirements of the *Corporations Act 2001* for key management personnel (KMP) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent Company.

For the purposes of this report, the term "executive" includes the Chief Executive Officer (CEO) and other senior executives of the parent and the Group.

#### Non-executive directors (NEDs)

F. Galbally	Chairman (Non-Executive
L. Given	Director (Non-Executive)
K. Gillespie	Director (Non-Executive)
L. Hansen	Director (Non-Executive)

# Remuneration report (audited) (continued)

#### **Executive directors**

A. Wilson Chief Executive Officer

#### Other key management personnel

J. Weston Engineering Manager
J. Fay Chief Technology Officer

## Current year performance and short term remuneration

As the Company met some of the performance targets set by the board, some short term incentives will be paid to executives of the Company for the 2017 financial year. Details of the bonuses are outlined below:

#### Remuneration philosophy

The performance of the Company depends upon the quality of its directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors and executives.

To this end, the Company embodies the following principles in its remuneration framework:

- provide competitive rewards to attract high calibre executives;
- link executive rewards to shareholder value;
- have a significant portion of executive remuneration 'at risk', dependent upon meeting pre-determined performance benchmarks;
- establish appropriate and stretched performance hurdles in relation to at risk executive remuneration; and
- strongly encourage directors to sacrifice a portion of their fees to acquire shares in the Company at market price.

#### Remuneration policy

Remuneration policies are determined by the board which makes specific recommendations of remuneration packages and other terms of employment for Executive Directors and Non-Executive Directors.

Executive remuneration and other terms of employment are reviewed annually by the CEO with regard to performance. Remuneration packages include superannuation, performance related bonuses and an entitlement to participate in the Senetas Directors and Employees Share Option Plan. The Company has a securities dealing policy for directors, senior executives and employees.

Details of the nature and amount of each element of the remuneration of each director and executive of Senetas and the consolidated entity are included in this report.

## Remuneration and nomination committee

The Remuneration and Nomination Committee comprises three non-executive directors – two independent directors and one non-independent director.

The Remuneration and Nomination Committee of the board of directors of the Company is responsible for determining and reviewing compensation arrangements for the directors and the CEO. The Remuneration and Nomination Committee has delegated decision making authority to the CEO for some matters related to the remuneration arrangements of KMP and other staff.

The Remuneration and Nomination Committee assesses the appropriateness of the nature and amount of remuneration of directors and the CEO on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

The Remuneration and Nomination Committee did not use the services of a remuneration consultant during the year. The Remuneration and Nomination Committee meets regularly throughout the year. The CEO attends certain Remuneration and Nomination Committee meetings by invitation, where management input is required. The CEO is not present during any discussions related to his own remuneration arrangements.

#### Remuneration structure

#### Non-executive director remuneration

The board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting held on 19 November 2015 when shareholders approved an aggregate remuneration of \$750,000 per year. The combined payment to all non-executive directors does not exceed this aggregate amount.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The board considers advice from external consultants as well as the fees paid to non-executive directors of comparable

# Remuneration report (audited) (continued)

companies when undertaking the annual review process.

Each director receives a fee for being a director of the Company.

Non-executive directors have long been encouraged by the board to hold shares in the Company (purchased by the director on market). It is considered good governance for directors to have a stake in the Company on whose board he or she sits. The non-executive directors of the Company can participate in the Employee Share Incentive Plan which provides incentives where specified criteria are met.

The remuneration of directors for the years ending 30 June 2017 and 30 June 2016 is detailed on page 13 of this report.

#### **Executive remuneration**

#### Objective

The Company aims to reward executives, including the CEO, with a level and mix of remuneration commensurate with their position and responsibilities within the Company that:

- rewards executives for Company and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives and shareholders;
- links executive rewards with the strategic goals and performance of the Company; and
- ensures total remuneration for executives is competitive by market standards.

#### **Structure**

In determining the level and make-up of the CEO's remuneration, the Remuneration and Nomination Committee considers advice from external consultants as well as market survey information on remuneration for comparable roles. No consultants were used for the remuneration review for the 2017 year.

In determining the level and make-up of the remuneration for executives other than the CEO, the CEO considers advice from external consultants as well as remuneration paid to executives from comparable companies using market-based surveys.

It is the policy of the Remuneration and Nomination Committee that employment contracts are entered into with all executives. These are similar to those for all employees except for the contract entered into with the CEO. Details of these contracts are provided on page 12 of this report.

Executive remuneration consists of the following key elements:

#### Fixed remuneration

#### Variable remuneration

- Short Term Incentive ('STI'); and
- Long Term Incentive ('LTI').

The mix between fixed and variable remuneration is established for the Executive by the Remuneration and Nomination Committee. Pages 13 to 14 of this report details the fixed and variable components of the executive remuneration.

#### Objective

Fixed remuneration is set at a level which is both appropriate to the position and competitive in the market.

Fixed remuneration is reviewed annually by the Remuneration and Nomination Committee having regard to company-wide and individual performance, relevant comparative remuneration in the market and internally, and where appropriate, external advice on policies and practices. As noted above, the Remuneration and Nomination Committee has access to external advice independent of management.

#### **Structure**

Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

The fixed remuneration component for prescribed persons is detailed on pages 13 to 14 of this report.

## Variable Remuneration — Short Term Incentive (STI)

#### Objective

The Group operates an annual STI program that is available to executives and awards a cash bonus subject to the attainment of clearly defined Group measures.

Payments made are usually delivered as a cash bonus.

The aggregate of annual STI payments available for the CEO is subject to the approval of the Remuneration and Nomination Committee.

## Remuneration report (audited) (continued)

#### Structure

Actual STI payments awarded to each executive depend on the extent to which specific set operating targets during the financial year are met. The operational targets may consist of a number of financial and non-financial measures, typically including measures such as contribution to net profit after tax, customer service, risk management, product management, and leadership/team contribution. For the 2017 financial year the target was based on a combination of the contribution to net profit after tax and other key drivers for the short and long term success of the business.

On an annual basis the Remuneration and Nomination Committee reviews and determines the amount of the STI paid to the CEO. The following factors are taken into account during the committee's review: overall remuneration, overall performance of the Group and the individual performance of the CEO.

For executives other than the CEO, annual STI payments are determined by consideration of the overall performance rating for the Group, plus the performance of individual executives, as approved by the CEO.

The variable remuneration component for prescribed persons is detailed on pages 13 to 14 of this report.

#### STI bonus for 2017 financial year

The Remuneration and Nomination Committee (for the CEO) and the CEO (for other executives) considered the STI payments for the 2017 year in July 2017. The value of STI bonuses payable for the 2017 financial year to the CEO and executives is \$40,000 which is the maximum STI payable to directors and executives. The minimum payable to each executive including the CEO was nil. These payments are allocated as a proportion of the total bonus funds available for all employees.

There have been no alterations to the STI bonus plans since their grant date.

#### Objective

The objective of the LTI plan is to reward executives for their contribution to the creation of shareholder wealth by linking rewards to improvements in the financial performance of the Company and aligning interests with shareholders.

#### Structure

LTI grants are delivered in the form of options, shares or performance rights. These securities are defined below:

An ordinary share (Share) is a share of stock giving the stockholder the right to vote on matters of corporate policy and the composition of the members of the board of directors.

A call option (Option) is a financial instrument that gives its owner the right, but not the obligation, to purchase a Share at price set at the date of grant (the exercise price).

A Performance Right is a grant of actual shares of stock, the payment of which is contingent on performance as measured against predetermined objectives over a period of time.

No additional performance rights, shares or options were granted to executives during the 2017 financial year.

#### Performance hurdles

Vesting of LTI's will be subject to the following:

- 50% of the options when Group achieving Profit Before Tax (PBT) targets
- 50% of the options when successfully completing tenure hurdles set for employees (including executive director)

These hurdles were elected by the board and will be reviewed and revised periodically.

Maximum LTI payable to each executive including the CEO is 100% of the performance rights outstanding at 30 June 2017. The minimum payable is nil. Refer table (v) details of outstanding performance rights.

The table below also shows the Group's performance for the past five years (including the current period).

	2017	2016	2015	2014	2013
Net profit/(loss) after tax	2,879,103	5,218,430	4,016,258	2,957,080	(714,439)
Average number of ordinary shares for basic earnings per share	1,079,905,126	1,078,641,948	1,077,891,948	1,073,891,948	1,065,141,948
Earnings per share (cents)	0.0027	0.0048	0.00	(0.00)	(0.00)
Net tangible assets per share (cents per share)	1.92	1.65	1.20	0.83	0.56

#### **Employment contracts**

Employment agreements are entered into with all executives. These agreements are similar to the employment agreements used for all staff.

#### Chief executive officer - Mr A. Wilson

Under the CEO's contract:

Mr Wilson receives fixed remuneration of \$420,000 per annum including superannuation of \$19,615 and he is eligible to receive short term incentives based on a combination of the contribution to net profit after tax and other key drivers for the short and long term success of the business.

Mr Wilson has a rolling contract and may resign from his position and thus terminate his contract by giving six months written notice. The Company may terminate Mr Wilson's employment agreement with six months written notice or payment in lieu of notice (based on the fixed component of Mr Wilson's remuneration). On resignation by Mr Wilson, any unvested LTI options will be forfeited within one month of the resignation date. On termination or notice by the Company, any LTI options that have vested, or will vest during the notice period will be released. LTI options that have not yet vested will be forfeited within twelve months of the termination date. The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs, the CEO is only entitled to that portion of remuneration which is fixed, and only up to the date of termination.

#### Directors' and executives' remuneration

#### (a) Remuneration of directors and executives for the year ended 30 June 2017

	Short	t-term	Post- employment	Long	-term		
Consolidated	Salary & fees	Cash bonus (i)	Superannuation	Long service leave	Share-based payment – performance rights (ii)	Total	Performance related
Year ended 30 June 2017	\$	\$	\$	\$	\$	\$	
Directors							
F. Galbally (Non-Executive Director) *	265,000	-	-	_	_	265,000	0.00%
A.Wilson (Chief Executive Officer)	400,385	223,000	19,615	15,988	32,649	691,637	36.96%
L. Given (Non-Executive Director) **	115,000	_	_	_	_	115,000	0.00%
K. Gillespie (Non-Executive Director) ***	115,000	_	_	_	_	115,000	0.00%
L. Hansen (Non-Executive Director) ****	115,000	-	_	_	-	115,000	0.00%
Total Remuneration of Directors	1,010,385	223,000	19,615	15,988	32,649	1,301,637	19.64%
Executives							
J. Weston (Engineering Manager)	260,385	10,000	19,615	7,947	7,674	305,621	5.78%
J. Fay (Chief Technology Officer)	260,385	10,000	19,615	9,297	7,674	306,971	5.76%
Total Remuneration of Executives	520,770	20,000	39,230	17,244	15,348	612,592	5.77%

<sup>(</sup>i) Cash bonus payments reward attainment of specific key performance indicators (KPI's) set for individual directors and executives. Cash bonuses are paid in September each year for KPI's met in the financial period ending in June of that year. \$203,000 of Mr Wilson's cash bonus was paid during the year for achieving specific project related KPIs which were approved by the board in prior financial years. The value of STI bonuses payable for FY2017 to Mr Wilson and other executives are \$40,000.

<sup>(</sup>ii) Share based payments in the form of performance rights which will only vest when performance conditions are met.

<sup>\*</sup> Mr Galbally's director fees are invoiced by and paid to Southbank Capital Pty Ltd.

<sup>\*\*</sup> Mr Given's director fees are paid to LPG Group LLC.

 $<sup>^{***}</sup>$  Mr Gillespie's director fees are invoiced by and paid to Sector West Pty Ltd.

<sup>\*\*\*\*</sup> Mr Hansen's director fees are paid to Carikster Advisors, LLC.

#### Directors' and executives' remuneration

(a) Remuneration of directors and executives for the year ended 30 June 2016

	Short	:-term	Post- employment	Long-term			
Consolidated	Salary & fees	Cash bonus (i)	Superannuation	Long service leave	Share-based payment – performance rights (ii)	Total	Performance related
Year ended 30 June 2016	\$	\$	\$	\$	\$	\$	
Directors							
F. Galbally (Non-Executive Director)	225,000	-	-	-	-	225,000	0.00%
A.Wilson (Chief Executive Officer)	365,693	93,750	19,307	23,600	45,268	547,618	25.39%
L. Given (Non-Executive Director)	105,000	_	-	-	-	105,000	0.00%
K. Gillespie (Non-Executive Director)	105,000	_	_	-	_	105,000	0.00%
L. Hansen (Non-Executive Director)	105,000	-	_	-	-	105,000	0.00%
Total Remuneration of Directors	905,693	93,750	19,307	23,600	45,268	1,087,618	12.78%
Executives							
J. Weston (Engineering Manager)	281,241	146,875	19,307	8,093	11,256	466,772	33.88%
J. Fay (Chief Technology Officer)	240,711	146,875	19,289	13,305	11,256	431,436	36.65%
Total Remuneration of Executives	521,952	293,750	38,596	21,398	22,512	898,208	35.21%

<sup>(</sup>i) Cash bonus payments reward attainment of specific key performance indicators (KPI's) set for individual directors and executives. Cash bonuses are paid in September each year for KPI's met in the financial period ending in June of that year.

<sup>(</sup>ii) Share based payments in the form of performance rights which will only vest when performance conditions are met.

#### (b) Directors' and executives' interests in the securities of Senetas Corporation Limited

#### (i) At reporting date the directors' and executives' interests in shares of Senetas Corporation Limited

	Balance 01 July 16	Granted as remuneration	On vesting of performance rights	Shares bought / (sold)	Balance 30 June 17
30 June 2017	Ord shares	Ord shares	Ord shares	Ord shares	Ord shares
Directors					
A.Wilson	-	-	1,125,000	_	1,125,000
F. Galbally	138,955,731	-		1,044,269	140,000,000
L. Given	_	-		_	-
K. Gillespie	_	-		_	-
L. Hansen	_	-		_	-
Executives					
J. Weston	-	_	80,000	_	80,000
J. Fay	362,725	_	80,000	_	442,725
Total	139,318,456	-	1,285,000	1,044,269	141,647,725

#### (ii) Shares issued on exercise of remuneration options

1,285,000 shares were issued on exercise of remuneration options during the financial year ended 30 June 2017 (2016: 750,000).

#### (iii) Shares granted as part of remuneration

No shares were granted as part of remuneration during the financial year ended 30 June 2017 (2016: Nil)

#### (iv) Options/performance rights granted as part of remuneration

Other than 35,000 performance rights granted to a new employee, no performance rights were granted to the executives and employees as part of remuneration during the financial year ended 30 June 2017.

#### (v) Performance rights holdings of KMP

	Balance at beginning of period: 1 July 2016	Granted as remuneration	Fair value per option at award date	Options exercised	Options lapsed	Balance at end of period: 30 June 2017
30 June 2017			\$			
A. Wilson	1,500,000	_	0.076	(1,125,000)	(187,500)	187,500
J. Weston	160,000	_	0.098	(80,000)	(40,000)	40,000
J. Fay	160,000	_	0.098	(80,000)	(40,000)	40,000
Total	1,820,000	-		(1,285,000)	(267,500)	267,500

#### **Environmental regulation and performance**

The consolidated entity is not subject to any particular or significant environmental regulations.

#### Meetings of directors

The following table summarises the number of meetings of directors and their attendance.

	Number of meetings				
	Held while a director	Attended			
F. Galbally (Chairman)	4	4			
L. Given	4	4			
K. Gillespie	4	4			
L. Hansen	4	4			
A. Wilson	4	4			

A total of four (4) Directors' meetings were held during the year ended 30 June 2017.

#### The Company has an Audit Committee.

Members acting on the committee of the board during the year were:

	Number of meetings				
	Held while a director	Attended			
L. Given (Chairman)	2	2			
F. Galbally	2	2			
K. Gillespie	2	2			

Mr A. Wilson attended two (2) Audit Committee meetings in the capacity of CEO.

A total of two (2) Audit Committee meetings were held during the year ended 30 June 2017.

### The Company has a Remuneration and Nomination Committee.

Members acting on the committee of the board during the year were:

	Number of MeetingsNumber of meetings				
	Held While A MemberHeld while a				
	director	Attended			
K. Gillespie (Chairman)	1	1			
F. Galbally	1	1			
D. Hansen	1	1			

A total of one (1) Remuneration and Nomination Committee meeting was held during the year ended 30 June 2017.

More information about the board and the sub-committees are set out in the 'Corporate Governance Statement' located on our website www.senetas.com.

#### Non-audit services

The following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001.* The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Tax compliance services \$31,500

Signed in accordance with a resolution of the directors.

Francis W. Galbally Chairman

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Date: 27 September 2017

### Statement of Comprehensive Income

for the year ended 30 June 2017

		Consolic	lidated	
		2017	2016	
	Notes	\$	\$	
Revenue	3(a)	17,591,114	18,920,384	
Cost of sales		(3,642,649)	(3,228,899)	
Gross profit		13,948,465	15,691,485	
Other income	3(b)	2,441,300	2,516,781	
Depreciation and amortisation expense	3(c)	(464,370)	(346,048)	
Employee benefits expense	3(d)	(5,753,968)	(6,124,898)	
Administration expenses	3(e)	(3,248,918)	(2,748,677)	
Other expenses	3(f)	(1,658,045)	(1,967,044)	
Profit before income tax		5,264,464	7,021,599	
Income tax expense	4	(2,385,361)	(1,803,169)	
Profit after income tax		2,879,103	5,218,430	
Other comprehensive income				
Items that may be classified subsequently to profit or loss				
Foreign currency translation reserve		(12,056)	(3,068)	
Other comprehensive income for the year	_	(12,056)	(3,068)	
Total comprehensive income for the year	_	2,867,047	5,215,362	
Profit for the period is attributable to:				
Owners of the parent		2,879,103	5,218,430	
		2,879,103	5,218,430	
Total comprehensive profit for the year is attributable to:				
Owners of the parent		2,867,047	5,215,362	
		2,867,047	5,215,362	
Earnings per share				
Basic, profit for the year attributable to ordinary equity holders of the parent.	5	0.0027	0.0048	
Diluted, profit for the year attributable to ordinary equity holders of the parent.		0.0027	0.0048	

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

### **Statement of Financial Position**

as at 30 June 2017

		Consolidated			
		2017	2016		
	Notes	\$	\$		
Assets					
Current assets					
Cash and cash equivalents	6	20,091,205	20,848,044		
Trade and other receivables	7	5,401,453	5,926,832		
Inventories	8	1,550,554	632,349		
Prepayments		237,168	196,824		
Other current assets	9	70,768	28,258		
Total current assets		27,351,148	27,632,307		
Non-current assets					
Long-term cash deposit		91,667	91,667		
Available-for-sale investments	11	2,227,145	_		
Deferred tax asset	4	578,335	576,891		
Plant and equipment	12	1,320,755	1,047,768		
Intangible assets	13	135,139	125,290		
Total non-current assets		4,353,041	1,841,616		
Total assets		31,704,189	29,473,923		
Liabilities					
Current liabilities					
Trade and other payables	15	1,393,309	1,973,272		
Income tax payable		2,372,273	1,862,754		
Unearned income	16	4,073,026	4,799,771		
Provisions	17	895,176	806,194		
Total current liabilities		8,733,784	9,441,991		
Non-current liabilities					
Deferred tax liabilities	4	67,252	52,720		
Provisions	17	45,029	18,190		
Unearned income – non-current	16	1,343,072	1,405,713		
Other non-current liabilities		31,945	28,926		
Total non-current liabilities		1,487,298	1,505,549		
Total liabilities		10,221,082	10,947,540		
Net assets		21,483,107	18,526,383		
Equity					
Equity attributable to equity holders of the parent					
Contributed equity	18	104,679,425	104,426,711		
Accumulated losses		(83,858,330)	(86,737,433)		
Employee benefit reserve	14	689,150	852,187		
Foreign currency translation reserve	18	(39,998)	(27,942)		
Parent interests		21,470,247	18,513,523		
Non-controlling interests		12,860	12,860		
Total equity		21,483,107	18,526,383		

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

#### **Statement of Cash Flows**

for the year ended 30 June 2017

		Consolidated			
		2017	2016		
	Notes	\$	\$		
Cash flows from operating activities					
Receipts from customers		17,214,867	18,598,866		
Payments to suppliers and employees		(16,191,906)	(14,230,350)		
Receipt of R&D tax refund — net of tax		210,284	401,330		
Interest received		466,612	423,447		
Net cash flows from operating activities	6	1,699,857	5,193,293		
Cash flows used in investing activities					
Purchase of plant and equipment		(132,549)	(179,325)		
Purchase of intangible assets		(84,946)	(64,754)		
Investment in unlisted entities		(2,227,145)	_		
Net cash flows used in investing activities		(2,444,640)	(244,079)		
Net (decrease)/increase in cash and cash equivalents		(744,783)	4,949,214		
Net effect of foreign currency translation		(12,056)	(3,068)		
Cash and cash equivalents at 1 July		20,848,044	15,901,898		
Cash and cash equivalents at 30 June	6	20,091,205	20,848,044		

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

### Statement of Changes in Equity

for the year ended 30 June 2017

		Attributable to equity holders of Senetas Corporation Ltd			Owners of the parent		
Consolidated	Contributed equity	Accumulated (losses) / profits	Foreign currency translation reserve \$	Employee benefits reserve	Total	Non-controlling interest	Total equity
At 30 June 2015	104,388,258	(91,955,863)	(24,874)	673,017	13,080,538	12,860	13,093,398
Profit for the year	_	5,218,430	_	_	5,218,430	_	5,218,430
Other comprehensive income	_	-	(3,068)	_	(3,068)	_	(3,068)
Total comprehensive income	-	5,218,430	(3,068)	_	5,215,362	_	5,215,362
Transactions with owners in their capacity as owners							
Shares issued	_	_	_	_	_	_	_
Options expensed	_	_	_	217,623	217,623	_	217,623
Options converted to shares	38,453	-	_	(38,453)	-	_	_
At 30 June 2016	104,426,711	(86,737,433)	(27,942)	852,187	18,513,523	12,860	18,526,383
Profit for the year	_	2,879,103	_	_	2,879,103	_	2,879,103
Other comprehensive income	_	_	(12,056)	-	(12,056)	_	(12,056)
Total comprehensive income	_	2,879,103	(12,056)	-	2,867,047	_	2,867,047
Transactions with owners in their capacity as owners							
Shares issued	_	_	_	_	_	_	_
Options expensed	_	-	_	89,677	89,677	_	89,677
Options converted to shares	252,714	-	-	(252,714)	-	-	-
At 30 June 2017	104,679,425	(83,858,330)	(39,998)	689,150	21,470,247	12,860	21,483,107

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



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

As lead auditor for the audit of Senetas Corporation Limited for the financial year ended 30 June 2017, 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 audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Ernst & Young

Kylie Bodenham Partner 27 September 2017

#### Non-audit services

The following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Tax compliance services \$31,500

Signed in accordance with a resolution of the directors.

Francis W. Galbally

Chairman

27 September 2017

for the year ended 30 June 2017

#### 1 Corporate information

The consolidated financial report of Senetas Corporation Limited and its subsidiaries (collectively, the Group) for the year ended 30 June 2017 was authorised for issue in accordance with a resolution of the directors on 27 September 2017.

Senetas Corporation Limited (the Company or the Parent) is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange and is a for-profit entity.

The nature of the operations and principal activities of the Group are described in the directors' report.

#### 2 Summary of significant accounting policies

#### Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on an historical cost basis except for financial assets held at fair value (see Note 11). The financial report is presented in Australian dollars and all values are rounded to the nearest dollar (\$) unless otherwise stated. Previous year's figures have been reclassified, as may be necessary to ensure consistency with the current year presentation.

#### (a) Compliance with IFRS

The financial report complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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

Changes in accounting policy and disclosures.

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations for the year ended 30 June 2017.

**AASB 2014-3 Amendments to Australian Accounting Standards** – Accounting for Acquisitions of Interests in Joint Operations

**AASB 2014-4 Amendments to Australian Accounting Standards** – Clarification of Acceptable Methods of Depreciation and Amortisation

AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements

AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle

AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101

These amendments had no impact on the group.

for the year ended 30 June 2017

#### 2 Summary of significant accounting policies (continued)

#### (b) Summary of significant accounting policies (continued)

The following standards and interpretations have been issued but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2017.

<sup>\*</sup> designates the beginning of the applicable annual reporting period

Reference	Title and brief summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2016-1	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses	1-Jan-17	This Standard makes amendments to AASB 112 Income Taxes to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. These amendments have no impact on the Group.	1-Jul-17
AASB 2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	1-Jan-17	The amendments to AASB 107 Statement of Cash Flows are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). As the Group currently has no debt, these amendments have no impact at this time.	1-Jul-17
AASB 2017-2	Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle	1-Jan-17	This Standard clarifies the scope of AASB 12 Disclosure of Interests in Other Entities by specifying that the disclosure requirements apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with AASB 5 Non-current Assets Held for Sale and Discontinued Operations. This has no impact on the Group.	1-Jul-17
AASB 9, and relevant amending standards	Financial Instruments	1-Jan-18	AASB 9 replaces AASB 139 Financial Instruments:Recognition and Measurement. Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.	1-Jul-18

for the year ended 30 June 2017

#### 2(b) Summary of significant accounting policies (continued)

Reference	Title and brief summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 9, and relevant amending standards (cont'd)	Financial Instruments	1-Jan-18	Debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held.	1-Jul-18
			There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch.	
			Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss.	
			For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss.	
			All other AASB 139 classification and measurement requirements for financial liabilities have been carried forward into AASB 9, including the embedded derivative separation rules and the criteria for using the FVO.	
			The incurred credit loss model in AASB 139 has been replaced with an expected credit loss model in AASB 9.	
			The requirements for hedge accounting have been amended to more closely align hedge accounting with risk management, establish a more principle-based approach to hedge accounting and address inconsistencies in the hedge accounting model in AASB 139.	
			The Group is assessing the impact of these changes.	

for the year ended 30 June 2017

#### 2(b) Summary of significant accounting policies (continued)

Reference	Title and brief summary	Application date of standard*	Impact on Group financial report	Application date for Group*			
AASB 15, and relevant amending standards	and relevant Contracts with Customers		Contracts with	Contracts with	1-Jan-18	AASB 15 replaces all existing revenue requirements in Australian Accounting Standards (AASB 111 Construction Contracts, AASB 118 Revenue, AASB Interpretation 13 Customer Loyalty Programmes, AASB Interpretation 15 Agreements for the Construction of Real Estate, AASB Interpretation 18 Transfers of Assets from Customers and AASB Interpretation 131 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 (or AASB 16 Leases, once applied).	1-Jul-18
			The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps:				
			Step 1: Identify the contract(s) with a customer.				
			Step 2: Identify the performance obligations in the contract.				
			Step 3: Determine the transaction price.				
			<ul> <li>Step 4: Allocate the transaction price to the performance obligations in the contract.</li> </ul>				
			• Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.				
			The Group is assessing the impact of these changes and management is currently undertaking a process to assess the impact of the new standard.				
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1-Jan-18	The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in AASB 3 Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.  AASB 2015-10 defers the mandatory effective date (application date) of AASB 2014-10 so that the amendments are required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2016. The Group does not expect to be impacted by these changes.	1-Jul-18			
AASB 2016-5	Amendments to Australian Accounting Standards – Classification and Measurement of Share- based Payment Transactions	1-Jan-18	<ul> <li>This Standard amends AASB 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:</li> <li>The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments.</li> <li>Share-based payment transactions with a net settlement feature for withholding tax obligations.</li> <li>A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from</li> </ul>	1-Jun-18			
			cash-settled to equity-settled.  The Group is assessing the impact of these changes.				

for the year ended 30 June 2017

#### 2(b) Summary of significant accounting policies (continued)

Reference	Title and brief summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB Interpretation 22	Foreign Currency Transactions and Advance Consideration	1-Jan-18	The Interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The Group is still assessing the impact, if any, of the clarifications.	1-Jul-18
AASB 16	Leases	1-Jan-19	The key features of AASB 16 are as follows:	1-Jul-19
			Lessee Accounting:	
			<ul> <li>Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value</li> </ul>	
			A lessee measures right-of-use assets similarly to other non- financial assets and lease liabilities similarly to other financial liabilities	
			Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.	
			AASB 16 contains disclosure requirements for lessees.	
			Lessor Accounting:	
			<ul> <li>AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.</li> </ul>	
			AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.	
			AASB 16 supersedes:	
			a) AASB 117 Leases	
			b) Interpretation 4 Determining whether an arrangement contains a lease	
			c) SIC-15 Operating Leases – Incentives	
			d) SIC-27 Evaluating the Substance of Transactions involving the Legal Form of a Lease	
			The Group is evaluating the impact of this new standard.	

for the year ended 30 June 2017

2 Summary of significant accounting policies (continued)

#### (c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Senetas Corporation Limited (the Company) and its subsidiaries as at 30 June each year (the Group).

All intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee).
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The acquisitions of subsidiaries of Senetas Corporation Limited are accounted for using the purchase method of accounting, which measures the acquiree's assets and liabilities at their fair value at acquisition date. The purchase consideration has been allocated to the assets and liabilities on the basis of fair value at the date of acquisition.

Non-controlling interests represent the portion of profit or loss and net assets in Technal Pty Ltd not held by the Group and are presented separately in the statement of comprehensive income and within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent.

Investments in subsidiaries are carried at cost.

## (d) Significant accounting judgements, estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions, made by management, of future events. The following critical accounting policies have been identified by management as being subject to significant judgements, estimations and assumptions. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods. The nature of these assumptions and details may be found in the relevant notes to the financial statements.

#### Provision for long service leave

The Group re-evaluates the provision for long service leave on an annual basis. This requires an estimation of factors such as expected future wage and salary levels, experience of employee departures and periods of service.

#### Deferred tax asset

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. A deferred tax asset of \$183,544 (2016:\$207,507) for tax losses is recorded as at 30 June 2017 because management determined that it is probable that these losses will be utilised in the future.

Deferred tax assets are recognised for all deductible temporary differences and are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

#### Provision for slow moving items

Inventories are reviewed annually to identify slow moving inventory. When these items are identified we assess the remaining technological useful life, then estimate the quantum of sales expected over that remaining useful life. Where there is a shortfall of estimated sales versus the quantity of inventory on hand at the end of the period a provision is raised.

### Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation

for the year ended 30 June 2017

2 Summary of significant accounting policies (continued)

techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. See Note 27 for further disclosures.

#### (e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods and software (including sales under the distribution agreement with Gemalto)

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

#### Maintenance

Maintenance revenue is recorded over the period of the maintenance agreement. Cash received in advance for the maintenance agreement is originally recorded as unearned income. This is brought into revenue over the term of the agreement as the performance conditions are met.

#### Interest

Revenue is recognised as the interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocates the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

#### (f) R&D tax incentive

The R&D Tax Incentive provides a 43.5% (2016: 45%) refundable tax offset for entities with an aggregated turnover of less than \$20 million per annum. It is an Australian Government

measure to encourage industry to invest in research and development and provides generous benefits for eligible activities.

The R&D Tax Incentive is accounted for as a government grant related to income and is recognised when there is reasonable assurance that the income will be received and all conditions have been complied with.

The incentive is recognised in profit or loss over the period in which expenses were recognised for the related costs for which the incentive compensates.

#### (g) Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

#### Group as Lessee - Operating lease

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

#### (h) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of six months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

#### (i) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

Collectability of trade receivables is reviewed on an on-going basis. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Objective evidence of impairment

for the year ended 30 June 2017

2 Summary of significant accounting policies (continued)

includes such things as the financial difficulties of the debtor and disputes that cannot be resolved.

#### (j) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials – purchase cost on a first-in, first-out basis. Included in the cost of purchase are other directly attributable costs as well as the purchase price.

Finished goods – cost of direct materials and external assembly costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

#### (k) Foreign currency translation

Both the functional and presentation currency of Senetas Corporation Limited and its Australian subsidiaries is Australian dollars (A\$). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

All exchange differences in the consolidated financial report are recognised in the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date all overseas subsidiaries, with the exception of Senetas Europe, are dormant. However any assets and liabilities of overseas subsidiaries are translated into the presentation currency of Senetas at the rate of exchange ruling at the reporting date and the income statements are

translated at the weighted average exchange rates for the year.

Exchange differences resulting from the translation of foreign operations are recognised in equity.

On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit and loss.

#### (I) Income tax and other taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates and interests in joint ventures, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures,

for the year ended 30 June 2017

2 Summary of significant accounting policies (continued)

in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

#### Tax consolidation legislation

Senetas Corporation Limited and its whollyowned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2002.

The head entity, Senetas Corporation
Limited and the controlled entities in the tax
consolidated Group continue to account for
their own current and deferred tax amounts.
The Group has applied the Group allocation
approach in determining the appropriate
amount of current taxes and deferred taxes to
allocate to members of the tax consolidated
Group.

#### Other Taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

 when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and  receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

#### (m) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated by the straight line method over the estimated useful life of the asset as follows:

Leasehold improvements – the lease term

Plant and equipment – over 3 to 15 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

#### Derecognition and disposal

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the asset is derecognised.

#### (n) Intangible assets other than goodwill

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

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2 Summary of significant accounting policies (continued)

The useful lives of these intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss.

A summary of the policies applied to the Group's intangible assets is as follows:

#### Software

The useful life of software is finite and software assets are amortised on a straight line basis over periods of three to five years. All software assets are acquired and the amortisation method is reviewed annually, at each financial year-end, for indications of impairment.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

#### Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use and sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

## (o) Impairment of non-financial assets other than goodwill

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs of disposal and its value in

use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases, the asset is tested for impairment as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

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. Impairment losses relating to continuing operations are recognised as an expense.

#### (p) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

#### (q) Provisions

#### Employee leave benefits

Wages, salaries, annual leave and personal leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables or in provisions for annual leave in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for accumulating personal leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the

for the year ended 30 June 2017

2 Summary of significant accounting policies (continued)

reporting date on national corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

#### General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

#### (r) Share-based payment transactions

The Company has established a Share/Option Plan to issue and allot securities (shares and options) to directors, employees and contractors at the discretion of the board of directors. The terms and exercise dates of the options are set at the discretion of the board of the directors. The total number of securities that can be granted under the Plan may not exceed 20% of the issued capital of the Company from time to time. The options cannot be transferred and will not be quoted on the ASX.

The cost of these equity-settled transactions with directors and employees is measured by reference to the fair value of the equity instruments at the date at which they were granted. The fair value is determined by an external valuer using a binomial option pricing model. Further details are provided in Note 14.

In valuing equity-settled transactions, no account is taken of any performance conditions other than conditions linked to the price of shares of the Company.

The cumulative expense recognised for equitysettled transactions at each reporting date until vesting date reflects:

- (i) the extent to which the vesting period has expired; and
- (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions are included in the determination of fair value at grant date.

The income statement charge or credit for a period represents the movement in cumulative expense recognised at the beginning and end of that period. There is a corresponding credit to equity.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share based payment arrangement.

If an equity-settled award is cancelled it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

#### (s) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### (t) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares:

- diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:
  - costs of servicing equity (other than dividends); and
  - other non-discretionary changes in revenue or expenses during the period that would result from the dilution of potential ordinary shares.
- divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

#### (u) Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer and the liabilities incurred by the acquirer to former

for the year ended 30 June 2017

2 Summary of significant accounting policies (continued)

owners of the acquiree. Acquisition-related costs are expensed as incurred.

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 conditions, the Group's operating and accounting policies and other pertinent conditions as at the acquisition date.

#### (v) Fair value measurement

The Group has various financial instruments such as available for sale investments, cash in hand, trade debtors and trade creditors.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

In the pricipal market of the asset or liability

Or

In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be assessable by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their ecomomic best interest.

A fair value measurement of a non-financial asset takes into account a market paticipant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised withing the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The board determines policies and procedures for recurring fair value measurement, such as unquoted available for sale financial assets. At each reporting date, the Group analyse the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Group also compares the change in the fair value of each asset with relevant external source to determine whether the change is reasonable. For the purpose of fair value disclosures, the Group has determined the classes of assets and liabilities on the basis of nature, characteristics and risks of the assets or liability and the level of fair value hierarchy, as explained above.

## (w) Impairment of available-for-sale investments

The Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence investments would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgement. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

for the year ended 30 June 2017

#### 3 Revenues and expenses

		Consolidated		
		2017	2016	
	Notes	\$	\$	
(a) Revenue				
Sale of goods		9,399,768	11,829,883	
Sale of software		22,085	39,980	
Product maintenance revenue		8,169,261	7,050,521	
		17,591,114	18,920,384	
(b) Other income				
R&D tax incentive (i)		1,957,782	2,096,625	
Interest revenue:				
Non-related parties		483,518	420,156	
		2,441,300	2,516,781	
(c) Depreciation and amortisation expense				
Depreciation:				
Plant and equipment	12	325,251	219,684	
Leasehold improvements	12	64,021	62,495	
Amortisation:				
Software	13	75,098	63,869	
		464,370	346,048	
(d) Employee benefits expense				
Salaries & wages		5,346,436	5,555,963	
Superannuation		317,855	316,266	
Termination payouts		_	35,046	
Share based payment expense	14	89,677	217,623	
		5,753,968	6,124,898	
(e) Administration expenses				
Operating lease		447,913	394,245	
Travel expenditure		614,731	612,857	
Telephone and internet expenditure		80,635	68,497	
Insurance expenditure		138,320	113,192	
Marketing expenditure		362,040	351,507	
External contractors – sales and corporate		1,605,279	1,208,379	
		3,248,918	2,748,677	
(f) Other expenses				
Net loss / (gain) on foreign exchange		(30,924)	62,165	
Inventory written off / provision		153,811	70,026	
Certification, testing and direct R&D expenditure		758,293	1,188,473	
Other overhead expenses		776,865	646,380	
·		1,658,045	1,967,044	

<sup>(</sup>i) The R&D Tax Incentive is an entitlement program to help businesses offset some of the costs of doing research and development. It is jointly managed by AusIndustry and the Australian Taxation Office. The core component that relates to the Group is a 43.5% (2016: 45%) refundable tax offset for entities with an aggregated turnover of less than \$20 million per annum. For further information see Note 2(f).

for the year ended 30 June 2017

### 4 Income tax

	Consolidated	
	2017	2016
	\$	\$
Major components of income tax expense for the years ended 30 Jur	ne 2017 and 2016	are:
Current income tax		
Current income tax charge	2,372,273	2,802,113
Adjustments in respect of current income tax of previous years	-	(620)
Deferred income tax		
Relating to origination and reversal of temporary differences	13,088	(58,964)
Unbooked tax losses utilised	_	(939,360)
Income tax expense reported in statement of comprehensive income	2,385,361	1,803,169
Reconciliation of tax expense and the accounting profit and multiplie rate for 2017 and 2016:	d by Australia's d	omestic tax
Accounting profit before tax	5,264,464	7,021,599
At the statutory income tax rate of 30% (2016: 30%)	1,579,340	2,106,480
Adjustments in respect of current income tax of previous years	-	(19,365)
Expenditure not allowable for income tax purposes	38,838	71,608
Unbooked tax losses utilised	_	(939,360)
R&D tax incentive	762,860	768,762
Foreign losses not recognised	4,323	8,491
Recognition of tax losses	_	(207,507)
Other	_	14,060
Income tax expense reported in statement of comprehensive income	2,385,361	1,803,169

for the year ended 30 June 2017

# 4 Income tax (continued)

	Statement of Financial Position	Statement of Financial Position	
	2017	2016	
	\$	\$	
Deferred tax assets			
Accruals:			
Stock obsolescence	_	22,500	
Accrued expenses	64,518	65,886	
Employee benefits:			
Annual leave	72,686	73,718	
Long service leave	209,375	173,597	
Bonus	15,000	_	
Other:			
Amortised business costs	1,326	_	
Patents	10,092	11,283	
FX unrealised loss	5,479	7,356	
FBT accrual	6,732	6,366	
DTA on unutilised losses	183,544	207,507	
Other	9,583	8,678	
	578,335	576,891	
Deferred tax liabilities			
Prepayments	(2,773)	(1,417)	
Unrealised gain	(58,113)	(44,937)	
FBT accrual	(6,366)	(6,366)	
	(67,252)	(52,720)	
Net deferred tax asset	511,083	524,171	

for the year ended 30 June 2017

4 Income tax (continued)

	Statement of Comprehensive Income	Statement of Comprehensive Income
	2017	2016
	\$	\$
Deferred tax assets		
Accruals:		
Stock obsolescence	22,500	(17,181)
Accrued expenses	1,368	(18,097)
Employee benefits:		
Annual leave	1,032	8,745
Long service leave	(35,778)	(11,756)
Bonus	(15,000)	180,705
Other:		
Amortised business costs	(1,326)	17,306
Patents	1,191	1,192
Unrealised loss	1,877	_
FBT accrual	3,409	5,854
DTA on unutilised tax losses	23,963	(207,507)
Other	(905)	(8,678)
	2,330	(49,417)
Deferred tax liabilities		
Prepayments	1,356	(644)
Unrealised gain	13,176	(2,402)
FBT accrual	(3,775)	(6,500)
	10,758	(9,546)
Deferred tax (benefit) /expense	13,088	(58,963)

for the year ended 30 June 2017

# 4 Income tax (continued)

	Consolidated		
	2017 2016		
Deferred tax asset and liabilities	\$ \$		
Deferred tax asset (non-current)	578,335	576,891	
Deferred tax liability (non-current)	(67,252)	(52,720)	

The franking account balance for both 2017 and 2016 is \$384,327.

#### Tax consolidation

Senetas Corporation Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated Group with effect 1 July 2002. Senetas Corporation Limited is the head entity of the tax consolidated Group. Members of the Group entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

The allocation of current taxes and deferred taxes of subsidiaries have been allocated to the subsidiaries via intercompany, in accordance with company policy.

### Tax effect accounting by members of the tax consolidated group

#### Measurement method adopted under AASB Interpretation 1052 Tax Consolidation Accounting

The head entity and the controlled entities in the tax consolidated Group continue to account for their own current and deferred tax amounts. The Group has applied the Group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated Group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 Income Taxes.

In addition to its own current and deferred tax amounts, the head entity also recognises current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The Group has estimated tax losses arising in Australia of \$611,814 (2016: \$691,688) that may be available indefinitely for offset against future income tax payable. Of the total tax losses available for offset against future income tax payable, \$183,544 has been recognised as a deferred tax asset (2016: \$207,507).

### Nature of the tax funding agreement

Members of the tax consolidated group have entered into a tax funding agreement. Under the funding agreement the funding of tax within the Group is based on accounting profit. The tax funding agreement requires payments to/from the head entity to be recognised via an inter-entity receivable (payable) which is at call. To the extent that there is a difference between the amount charged under the tax funding agreement and the allocation under AASB Interpretation 1052, the head entity accounts for these as equity transactions with the subsidiaries.

The amounts receivable or payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

for the year ended 30 June 2017

### 5 Earnings per share

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

	Consolidated		
	2017	2016	
	\$	\$	
Net profit attributable to equity holders of the parent			
Continuing operations	2,879,103	5,218,430	
Net profit attributable to ordinary shareholders for diluted earnings per share	2,879,103	5,218,430	
	No. of shares	No. of shares	
Weighted average number of ordinary shares for basic earnings per share	1,079,905,126	1,078,641,948	
Effect of dilution:	_	_	
Adjusted weighted average number of ordinary shares for diluted profit per share	1,079,905,126	1,078,641,948	

The outstanding share options are excluded from this calculation as the number outstanding is not considered to have a dilutive effect.

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the authorisation of these financial statements.

for the year ended 30 June 2017

### 6 Cash and cash equivalents

	Consolidated		
	2017	2016	
	\$		
Cash at bank and on hand	3,571,821	7,237,056	
Short-term deposits	16,519,384	13,610,988	
Total cash and cash equivalents	20,091,205 20,848,044		

Cash at bank and on hand earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and six months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

### Reconciliation from the net profit after tax to the net cash flows from operations

	Consolidated		
	2017	2016	
	\$	\$	
Profit after tax	2,879,103	5,218,430	
Adjustments for:			
Depreciation and amortisation	464,370	346,048	
Unrealised foreign currency loss/(gain)	(175,446)	(125,272)	
Inventory provision / written off	153,811	70,026	
Share based payment expense	89,677	217,623	
Changes in assets and liabilities:			
(Increase)/decrease in trade and other receivables	525,379	(1,884,285)	
(Increase)/decrease in inventories	(1,072,016)	18,337	
(Increase)/decrease in prepayments	(40,349)	16,019	
(Increase)/decrease in other current assets	(42,510)	3,291	
(Increase)/decrease in long term cash deposit	_	834	
(Decrease)/increase in trade and other payables	(404,517)	30,666	
(Decrease)/increase in deferred income tax assets	(1,443)	(63,139)	
(Decrease)/increase in deferred income tax liability	14,532	4,175	
Increase/(decrease) in income tax payable	509,519	610,765	
(Decrease)/increase in provisions	115,821	10,039	
Inventory transferred to plant & equipment	(529,707)	(399,102)	
(Decrease)/increase in unearned income & other non- current liabilites	(786,367)	1,118,838	
Net cash from operating activities	1,699,857	5,193,293	

for the year ended 30 June 2017

### 7 Trade and other receivables

	Consolidated		
	2017 2016		
	\$	\$	
Trade receivables	3,400,211	3,779,968	
Net GST receivable	43,460	50,239	
R&D tax incentive (i)	1,957,782	2,096,625	
	5,401,453	5,926,832	

(i) R&D tax incentive - a 43.5% (2016: 45%) refundable tax offset - see Note 3 for further information

At 30 June 2017, the ageing analysis of trade receivables is as follows:

	Neither past due nor impaired	Past due but not impaired	Past due & impaired
	\$	\$	\$
2017 Consolidated	3,400,211	-	-
2016 Consolidated	3,779,968	_	_

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

For further information on risk disclosures refer Note 19.

### 8 Inventories

	Consolidated		
	2017 2016		
	\$ \$		
Inventories (at net realisable value)	1,550,554	632,349	

During 2017, \$152,799 (2016: \$70,026) was recognised as an expense for inventories carried at the lower of cost and net realisable value. This is recognised in Note 3(f) — Other expenses.

#### 9 Other assets

	Consolidated		
	2017	2016	
	\$	\$	
Interest receivable	37,166	20,258	
Security deposit	8,000	8,000	
Sundry assets	25,602	_	
	70,768	28,258	

### 10 Investments in controlled entities

Set out below is an overview of financial assets, other than cash and short-term deposits, held by the Group as at 30 June 2017.

		Consolidated		Senetas Cor	poration Ltd
		2017 2016		2017	2016
	Note	\$	\$	\$	\$
Investments in controlled entities	22	-	_	10,867,471	10,867,471

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### 11 Available-for-sale investments

	Consolidated		
	2017 2016		
	\$	\$	
Available-for-sale investments			
Unquoted equity shares (i)	2,227,145	_	

(i) In May 2017, the Group acquired an interest in DeepRadiology Inc, a medical machine learning and artificial intelligence company based in the USA. Also, in December 2016, the Group invested in Smart Antenna Technologies Ltd ("SAT"), a smart antenna technology company based in the UK. The Group also has a position as a board observer with SAT.

The Group has non-controlling interests in the entities as shown in the equity table below.

	% Equity Interest		Value of In	vestment \$
	2017	2016	2017	2016
DeepRadiology Inc	3.45%	-	1,361,532	_
Smart Antenna Technologies Ltd	5.76%	_	865,613	_

As there is no active market for valuation of shares in these investments, management uses a number of assumptions for the inputs into a valuation model. The probabilities of the estimates used can be reasonably assessed and are used in management's estimation of the fair value of these unquoted equity investments. The investment is currently held at cost which is assessed as approximating to fair value at the time of this report. Refer Note 27 for further details.

	% Equity Interest		
	2017	2016	
Other unlisted investments at fair value			
EonReality Inc. (ii)	4.7%	4.7%	
Mineral Resource Corp Inc.	0.001%	0.001%	
Axiom Navigational Inc.	5%	5%	
YellowOnline.com Inc.	8%	8%	
Webspy Ltd	0.002%	0.002%	
InfoProtect Technologies Plc	19.86%	19.86%	

All the above investments have a net carrying amount of zero.

(ii) The directors point out that the Company is the owner of 185,000 series B convertible stock and 888,889 series C convertible stock in EON Reality Inc. (previously RealityBUY.com Inc.) of Irvine California USA (www.eonreality.com).

The shareholding (which is preferred stock) also carries certain dividend rights which date back to the year 2000. The shareholding represents approximately 3% of the current issued share capital in EON Reality Inc (www.eonreality.com). Should EON Reality have a liquidity event (such as an IPO, trade sale or substantial capital raising) it may be necessary to convert the preferred stock to ordinary stock and receive the accumulated but unpaid dividend either as stock and/or cash. In that event the Senetas stock may represent up to 6% of the current issued share capital in EON Reality. The investment was made during the year 2000 and was since written off by the board. Until such time as there has been a liquidity event such as a capital raising, merger transaction, corporate restructuring, IPO, sale of securities or other such transaction which will provide the board with an independent value of the investment, the board will continue to not ascribe a value to the investment as an asset. However, it does point out that EON Reality Inc. is profitable with budgeted revenues in excess of US\$44m this calendar year. EON Reality is the world leader in virtual and augmented reality based knowledge transfer for industry and education software.

for the year ended 30 June 2017

# 12 Plant and equipment

	Consolidated		
	Leasehold improvements	Plant and equipment	Total
	\$	\$	\$
Year ended 30 June 2017			
At 1 July 2016, net of accumulated depreciation	211,605	836,163	1,047,768
Additions (net of disposals)	41,388	91,161	132,549
Transfers to plant and equipment from inventory	_	529,710	529,710
Depreciation charge for the year	(64,021)	(325,251)	(389,272)
At 30 June 2017, net of accumulated depreciation	188,972	1,131,784	1,320,755
At 1 July 2016			
Cost	321,814	1,941,369	2,263,183
Accumulated depreciation and impairment	(110,209)	(1,105,206)	(1,215,415)
Net carrying amount	211,605	836,163	1,047,768
At 30 June 2017			
Cost	356,872	2,274,579	2,631,451
Accumulated depreciation	(167,900)	(1,142,796)	(1,310,696)
Net carrying amount	188,972	1,131,783	1,320,755

		Consolidated		
	Leasehold improvements	Plant and equipment	Total	
	\$	\$	\$	
Year ended 30 June 2016				
At 1 July 2015, net of accumulated depreciation	259,239	492,280	751,519	
Additions (net of disposals)	14,861	164,464	179,325	
Transfer to plant and equipment from inventory	_	399,103	399,103	
Depreciation charge for the year	(62,495)	(219,684)	(282,179)	
At 30 June 2016 net of accumulated depreciation	211,605	836,163	1,047,768	
At 1 July 2015				
Cost	306,953	1,558,617	1,865,570	
Accumulated depreciation	(47,714)	(1,066,337)	(1,114,051)	
Net carrying amount	259,239	492,280	751,519	
At 30 June 2016				
Cost	321,814	1,941,369	2,263,183	
Accumulated depreciation	(110,209)	(1,105,206)	(1,215,415)	
Net carrying amount	211,605	836,163	1,047,768	

Plant and equipment are not subject to or pledged as collateral for any liabilities or contingent liabilities.

for the year ended 30 June 2017

### 13 Intangible assets

	Software
	\$
Year ended 30 June 2017	
At 1 July 2016 net of accumulated amortisation and impairment	125,290
Additions	84,946
Amortisation	(75,097)
At 30 June 2017 net of accumulated amortisation and impairment	135,139
At 30 June 2017 net of accumulated amortisation and impairment	
Cost (gross carrying amount)	312,713
Accumulated amortisation and impairment	(177,574)
Net carrying amount	135,139
Year ended 30 June 2016	
At 1 July 2015 net of accumulated amortisation and impairment	124,405
Additions	64,754
Amortisation	(63,869)
At 30 June 2016 net of accumulated amortisation and impairment	125,290
At 30 June 2016	
Cost (gross carrying amount)	341,382
Accumulated amortisation and impairment	(216,092)
Net carrying amount	125,290

## **Software**

Purchased software is carried at cost less accumulated amortisation and impairment losses. These intangible assets have been assessed as having a finite life. Intangible assets purchased subsequent to 1 July 2007 are amortised using the straight line method over a period of 3 to 5 years. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

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### 14 Employee benefits reserve

#### Employee share option plan

Long Term Incentive (LTI) are provided to employees in the form of performance rights. A Performance Right is a grant of actual shares of stock, the payment of which is contingent on performance as measured against predetermined objectives over a period of time.

The share-based payment reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration. The following table illustrates the number (No.) of share options (performance rights) outstanding as at 30 June 2017:

	2017	2017	2016	2016
	No.	Weighted average fair value	No.	Weighted average fair value
Outstanding at the hoginning	110.	varuc	110.	value
Outstanding at the beginning of the year	3,880,000	\$0.086	1,500,000	\$0.051
Granted during the year <sup>(iii)</sup>	35,000	\$0.132	3,200,000	\$0.093
Exercised during the year	(2,315,000)	\$0.0745	(750,000)	\$0.051
Forfeited during the year (ii)	(800,000)	-	(70,000)	_
Outstanding at the end of the year (i)	800,000	\$0.14513	3,880,000	\$0.086

Weighted average exercise price for these share options is nil, as they are performance rights

(i) The outstanding balance as at 30 June 2017 is represented by:

A grant of 35,000 performance rights to a new employee under the performance rights scheme for executives and employees and were issued in April 2017. Remaining options consist of:

- (a) 612,000 employee and executive performance rights.
- (b) 187,500 performance rights for the CEO.

Vesting conditions for the remaining performance rights require holders to complete a tenure condition due for completion in September 2017 for executives and employees and November 2017 for the CEO, Mr Wilson.

(ii) The performance rights were forfeited during the year as the condition was not met. The requirement was to meet budget for the 2017 financial year. The expense for these rights was not recognised in the financial year.

The remaining 800,000 performance rights are unlisted and do not rank equally with the existing class of quoted securities, there are no voting rights attached and they are not entitled to any dividends. Shares exercised as a consequence of the exercise of the performance rights will be fully paid, ordinary shares ranking equally with the existing class of securities. These unlisted performance rights were issued for a consideration of nil with the following performance condition attached. These are the remaining 25% of the original grant and the original condition was a 24 month perriod of continual service.

(iii) Other than 35,000 shares granted to a new employee, no performance rights were granted to the executives and employees as part of remuneration during the financial year ended 30 June 2017.

for the year ended 30 June 2017

14 Employee benefits reserve (continued)

# Accounting treatment for performance rights granted to executives and employees during the 2016 year

The fair value of each performance right was reached using a binomial option pricing methodology. The inputs to this calculation were:

	Tenure
a) Stock price at grant date	0.132
b) Exercise price	0.000
c) Risk free rate	1.90%
d) Time to Exercise – Years	2.20
e) Volatility	33.50%
Binomial option valuation	\$0.132

### Accounting treatment for performance rights granted to the CEO during the 2016 year

	Tenure
a) Stock price at grant date	1.170
b) Exercise price	0.000
c) Risk free rate	1.90%
d) Time to Exercise – Years	2.20
e) Volatility	33.50%
Binomial option valuation	\$0.160

	Consolidated		
	2017	2016	
	\$	\$	
Share-based payment reserve			
Opening Balance	852,187	673,017	
Expense during the year	89,677	217,623	
Transfer to equity during the year	(252,714)	(38,453)	
Closing balance	689,150 852,18		

for the year ended 30 June 2017

### 15 Trade and other payables

	Consolidated		
	2017	2016 \$	
	\$		
Trade payables (1)	622,776	494,221	
Other payables (ii)	770,532	1,479,051	
	1,393,309	1,973,272	

<sup>(</sup>i) Trade payables are non-interest bearing and are normally settled on 30-day terms.

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

For further information on risk disclosures refer Note 19.

### 16 Unearned revenue

	Consolidated		
	2017 2016		
	\$	\$	
Open balance as at 1 July	6,205,484	5,099,961	
Amounts received during the year	7,379,875	8,156,044	
Revenue recognised during the year	(8,169,261)	(7,050,521)	
Closing balance as at 30 June	5,416,098	6,205,484	
Current unearned income	4,073,026	4,799,771	
Non-current unearned income	1,343,072	1,405,713	
	5,416,098	6,205,484	

### 17 Provisions

	Consolidated		
	2017	2016	
	\$	\$	
Current			
Annual leave	242,288	245,726	
Long service leave	652,888	560,468	
	895,176	806,194	
Non-current			
Long service leave	45,029	18,190	
Total	940,205	824,384	

<sup>(</sup>ii) Other payables are non-interest bearing and have an average term of 6 months and relate to general and employee related accruals.

for the year ended 30 June 2017

### 18 Contributed equity and reserves

### Terms, conditions and movements of contributed equity

Ordinary shares are classified as equity. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. Issued and paid up capital is classified as contributed equity and recognised at the fair value of the consideration received by the entity. Incremental costs directly attributable to the issue of new shares or options are shown in contributed equity as a deduction, net of tax, from the proceeds.

	No. of shares	\$
Contributed equity		
Ordinary shares – issued and fully paid	1,080,956,948	104,679,425

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

	No. of shares	\$
Movement in ordinary shares on issue		
At 30 June 2016	1,078,641,948	104,426,711
Employee performance rights converted to shares	2,315,000	252,714
At 30 June 2017	1,080,956,948	104,679,425

### Employee benefits reserve

This reserve records the fair value of equity benefits provided to employees and directors as part of their remuneration. Refer to Note 14 for further details of this plan.

	2017	2016
Foreign currency translation reserve	4	Ψ
The foreign currency translation reserve is used to record the exchange differences arising from the translation of the financial statements of foreign subsidiaries.	39,998	27,942
	39,998	27,942

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# 19 Financial risk management objectives and policies

The Group's principal financial instruments comprise of cash and short-term deposits and available-for-sale investments. The Group manages its exposure to key financial risks in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

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 these financial assets and financial liabilities, fair value does not materially differ to carrying amount.

The Group does not enter into derivative transactions at this point in time. Trading in derivatives has previously been undertaken, specifically in forward currency contracts. These derivatives provided economic hedges, did not qualify for hedge accounting and were based on limits set by the board. The Group has no borrowings. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate and foreign exchange. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk, liquidity risk is monitored through the development of future rolling cash flow forecasts.

The board reviews and agrees policies for managing risks and they are summarised below.

#### Foreign currency risk

The Group does not have significant overseas operations with a functional \$US currency and therefore did not seek to hedge its exposure as it did not believe that the statement of financial position would be affected significantly by movements in the \$US/\$A exchange rates.

The investment in Senetas Europe has exposed the Group to an overseas operation with a functional currency of GBP. This investment and exposure is not considered significant and the Group considers that the statement of financial position will not be affected significantly by changes in the \$A/£GBP exchange rates.

However, the Group may have significant transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional

currency, particularly in \$US. These transactional currency exposures are managed through improved liquidity management. Management monitors timing of cash flows from sales to reduce the exposure.

As at 30 June 2017, the Group did not have any outstanding derivative instruments.

As at 30 June 2017, the Group had the following exposure to \$US foreign currency.

	Conso	lidated
	2017	2016
	\$	\$
Financial assets		
Cash & cash equivalents	509,108	416,032
Trade & other receivables	3,323,522	2,689,789
Available-for-sale investments	1,361,532	-
	5,194,162	3,105,821
Financial liabilities		
Trade & other payables	200,852	2,114
Net exposure	4,993,580	3,103,707

The following sensitivity analysis is based on the foreign currency risk exposures in existence at the reporting date.

As at 30 June 2017, had the \$A moved, as illustrated in the table below, with all other variables held constant, pre-tax profit/loss would have been affected as per below. There would be no effect on equity.

	Increase/ decrease in \$US rate	Effect on profit / loss before tax
		\$
2017		
Consolidated	+10%	(497,052)
	-10%	503,029
2016		
Consolidated	+10%	304,283
	-10%	319,029

for the year ended 30 June 2017

19 Financial risk management objectives and policies (continued) As at 30 June 2017, the Group had the following exposure to £GB foreign currency.

	Consolidated		
	2017	2016	
	\$	\$	
Financial Assets			
Available- for-sale investments	865,613	_	
	865,613	_	

The following sensitivity analysis is based on the foreign currency risk exposures in existence at the reporting date.

As at 30 June 2017, had the \$A moved, as illustrated in the table below, with all other variables held constant, pre-tax profit/loss would have been affected as per below. There would be no effect on equity.

	Increase/ decrease in £GB rate	Effect on profit / loss before tax
		\$
2017		
Consolidated	+10%	(78,692)
	-10%	96,180
2016		
Consolidated	+10%	_
	-10%	_

Management believe the reporting date risk exposures are representative of the risk exposure inherent in the financial instruments.

### Credit risk

The Group trades only with recognised, creditworthy third parties and as such, collateral is not requested nor is it the Group's policy to securitise its trade and other receivables.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Chief Accountant.

With respect to credit risk arising from the financial assets of the Group, which comprise cash and cash equivalents, trade receivables and other receivables, the Group's exposure to credit risk

arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

The Group does not hold any credit derivatives to offset its credit exposure.

The Group's credit risk exposure with respect of its investment in unlisted entities has a maximum exposure equal to the carrying amount.

All cash assets are held in Australian banks except for GBP £1,215 in the HSBC in the UK. The company has a \$US account with an Australian bank which held US\$390.794 at 30 June 2017.

There are no significant concentrations of credit risk within the Group.

Significant amounts of cash are held in an Australian bank whose credit is highly rated. The credit risk of receivables is low as the balances are from government agencies and large organisations.

#### Liquidity risk

The Group's policy is to minimise the use of any interest-bearing borrowings, with the objective of maintaining continuity of funding and flexibility primarily through the use of cash and short-term deposits.

As such, the Group's exposure to liquidity risk is minimal.

The Group monitors its capital using a ratio of liquid assets over total liabilities. The Group's policy is to maintain the ratio greater than 1:1. A calculation of the liquid asset ratio is set out on the following tables for the financial years ended 30 June 2017 and 30 June 2016.

	2017	2016
	\$	\$
Liquid assets		
Cash & cash equivalents	20,091,205	20,848,044
Trade and other receivables	5,401,453	5,926,832
Total liquid assets	25,492,658	26,774,876
Total liabilities		
Current liabilities	8,733,784	9,441,991
Non-current liabilities	1,487,298	1,505,549
Total liabilities	10,221,082	10,947,540
Excess of liquid assets over total liabilities	15,271,576	15,827,336
Ratio of liquid assets to total liabilities	2.49:1	2.45:1

for the year ended 30 June 2017

19 Financial risk management objectives and policies (continued)

#### Maturity analysis of financial assets and liabilities

The table below reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities as of 30 June 2017. The undiscounted cash flows for the respective upcoming fiscal years are presented. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2017. The Group has no derivative financial instruments at 30 June 2017.

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Trade payables and other financial liabilities mainly originate from the financing of assets used in ongoing operations such as property, plant and equipment and investments in working capital – e.g. inventories and trade receivables. These assets are considered in the Group's overall liquidity risk. To monitor existing financial assets and liabilities as well as to enable an effective controlling of future risks, Senetas Corporation Limited has established risk reporting that reflects expectations of management of expected settlement of financial assets and liabilities.

Management aims to maintain sufficient net liquid assets; assets in the form of cash and cash equivalents, trade and other receivables due in less than six months, to ensure that the value of these assets exceeds financial liabilities on demand. The table below demonstrates that this objective has been achieved.

30 June 2017	On Demand	< 6 months	6 to 12 months	1 to 5 years	No fixed term	Total
Consolidated						
Financial assets						
Cash & cash equivalents	3,571,821	16,519,384	_	_	_	20,091,205
Trade & other receivables	-	5,401,453	_	_	_	5,401,453
Available-for-sale investments	-	-	-	_	2,227,145	2,227,145
	3,571,821	21,920,837	_	_	2,227,145	27,719,803
Consolidated						
Financial liabilities						
Trade & other payables	1,393,309	-	_	_	_	1,393,309
Net maturity	2,178,512	21,920,837	_	-	_	24,099,349

30 June 2016	On Demand	< 6 months	6 to 12 months	1 to 5 years	> 5 years	Total
Consolidated						
Financial assets						
Cash & cash equivalents	7,237,056	13,610,988	_	_	_	20,848,044
Trade & other receivables	-	5,926,832	-	-	-	5,926,832
	7,237,056	19,537,820	_	_	_	26,774,876
Consolidated						
Financial liabilities						
Trade & other payables	1,973,272	_	_	_	_	1,973,272
Net maturity	5,263,784	19,537,820	_	_	_	24,801,604

for the year ended 30 June 2017

19 Financial risk management objectives and policies (continued)

#### Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ending 30 June 2017 and 30 June 2016.

Management currently has no plans to issue new shares or to buy back shares.

#### Interest rate risk

The following table sets out the carrying amount, by maturity, of the financial instruments that are exposed to interest rate risk:

#### Year ended 30 June 2017

	<1 year	Total
	\$	\$
Cash	20,091,205	20,091,205

#### Year ended 30 June 2016

	<1 year	Total
	\$	\$
Cash	20,848,044	20,848,044

#### Interest rate risk table

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date.

At 30 June 2017, if interest rates had moved, as illustrated in the table below, with all other variables held constant, pre-tax profit would have been affected as follows. There is no impact on equity. The only balance sheet asset that the Group held at 30 June 2017 which was exposed to interest rate risk was cash and cash equivalents.

	Pre-tax profit higher / (lower)		
	2017 2016		
	\$	\$	
Consolidated			
+1% (100 basis points)	200,891	208,304	
-0.5% (50 basis points)	(100,446)	(104,152)	

## **Equity price risk**

The Group's unlisted equity securities are susceptible to market price risk arising from uncertainties about the future of the investment securities. The Group manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Group's senior management and board regularly review equity portfolio. The Group's board of directors approves all equity investment decisions.

At the reporting date, the exposure to unlisted equity securities at fair value was \$2,227,145 (2016: Nil). Details of these investments including fair value and impairment analysis have been provided in Note 27.

for the year ended 30 June 2017

### 20 Commitments and contingencies

### Operating lease commitments - Group as lessee

The Group has entered into commercial leases on office premises where it is not in the best interest of the Group to purchase these assets.

These leases have an average life of between 1 and 5 years with renewal terms included in the contracts. Renewals are at the option of the specific entity that holds the lease.

There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 June 2017 are as follows:

	Consolidated	
	2017	2016
	\$	\$
Within one year	278,512	267,800
After one year but not more than five years	362,769	641,281
More than five years	_	_
	641,281	909,081

#### Other commitments

At 30 June 2017 the Group has not committed to any capital commitments, remuneration commitments or any other expenditure other than that disclosed in the notes above.

### 21 Parent entity information

Information relating to Senetas Corporation Limited for the year ended 30 June 2017

	2017	2016
	\$	\$
Current assets	18,932,993	20,196,028
Total assets	32,656,416	31,835,024
Current liabilities	(3,045,006)	(2,800,264)
Total liabilities	(22,676,504)	(19,758,447)
Issued capital	104,679,426	104,426,713
Retained earnings	(95,388,664)	(93,202,322)
Employee benefits reserve	689,150	852,187
Total shareholders' equity	(9,979,912)	12,076,578
Loss of the parent entity after tax	(2,186,342)	(1,027,475)
Total comprehensive income of the parent entity	(2,186,342)	(1,027,475)

The parent entity has not entered into any guarantees in relation to the debts of its subsidiaries.

The parent entity has no contingent liabilities.

The parent entity has no contractual commitments for the acquisition of plant or equipment.

for the year ended 30 June 2017

### 22 Related party disclosure

Senetas Corporation Limited is the ultimate parent of the Group and has the following related parties:

		% Equity interest	
		2017	2016
Senetas Security Pty Ltd		100%	100%
Senetas Europe Ltd		100%	100%
CTAM Inc. (ii)	Non-operating	100%	100%
Kusp Pty Ltd	Non-operating	100%	100%
Technal Pty Ltd (iii)	Non-operating	60%	60%
ePil Ltd	Non-operating	100%	100%
Webcryp Pty Ltd	Non-operating	100%	100%
Worldof.com Pty Ltd	Non-operating	100%	100%
IWM No. 2 Pty Ltd	Non-operating	100%	100%
Resdev No. 2 Pty Ltd	Non-operating	100%	100%
Datum Group Operations Pty Ltd	Non-operating	100%	100%
Datum Group Holdings Pty Ltd <sup>(i)</sup>	Non-operating	100%	100%
Datum Enterprise Solutions Pty Ltd <sup>(i)</sup>	Non-operating	100%	100%
Datum Financial Solutions Pty Ltd (i)	Non-operating	100%	100%
Pump Ultimate Media Productions Pty Ltd (1)	Non-operating	100%	100%
Berty Technologies Consulting Pty Ltd (1)	Non-operating	100%	100%
Berty Technologies Pty Ltd (1)	Non-operating	100%	100%
Berty Group Holdings Pty Ltd (1)	Non-operating	100%	100%

- (i) These investments are owned by Datum Group Operations a controlled entity of Senetas Corporation Ltd. All entities are dormant.
- (ii) Investment held by Senetas Security Pty Ltd and the entity is dormant.
- (iii) The entity is dormant and there is no NCI share of results during the year (2016: Nil)

The parent did not have any transactions or balances with any of these related parties during the year (2016: \$0) except for Senetas Security Pty Ltd as disclosed below. Nor were there any transactions or balances between subsidiaries. (2016:\$0)

#### Transactions with related parties

There were no transactions entered into with related parties except for intercompany loans which are non-interest bearing. Intercompany loans are eliminated in full on consolidation. There were no intercompany sales.

#### Investment

During the year, Senetas Corporation Ltd invested US\$1,000,000 in DeepRadiology Inc to acquire a 3.4% holding in the company. Certain directors, KMP and senior management of the Group also have investments in DeepRadiology Inc. totalling a 0.9% holding. Mr Francis Galbally is a director of DeepRadiology Inc.

### **Director fees**

Mr Galbally's director fees are paid to Southbank Capital Pty Ltd.

Mr Gillespie's director fees are paid to SectorWest Pty Ltd.

Mr Given's director fees are paid to LPG Group LLC

Mr Hansen's director fees are paid to Carikster Advisors LLC

for the year ended 30 June 2017

### 23 Events after the reporting date

There are no significant events after reporting date.

### 24 Auditors' remuneration

	Consolidated	
	2017	2016
	\$	\$
Amounts received or due and receivable by Ernst & Young Australia for:		
an audit or review of the financial report of the entity and any other entity in the consolidated entity	112,500	125,000
• tax compliance	31,500	25,500
	144,000	150,500

### 25 Key management personnel

Details of directors & executives	Position
Directors	
F. Galbally	Director / Chairman (Non-Executive)
L. Given	Director (Non-Executive)
K. Gillespie	Director (Non-Executive)
L. Hansen	Director (Non-Executive)
<b>Executive Director</b>	
A. Wilson	Chief Executive Officer
Executives	
J. Weston	Engineering Manager
J. Fay	Chief Technology Officer

### (a) Remuneration by category: executives & directors

	Consolidated	
	2017 2016	
	\$	\$
Short-term employee benefits	1,774,155	1,815,145
Post employment employee benefits	58,845	57,903
Other long-term employee benefits	33,231	44,998
Share-based payment	47,997	67,780
	1,914,228	1,985,826

### Other transactions and balances with executives and directors

There were no other transactions with executives and directors during the year (2016: Nil).

for the year ended 30 June 2017

### 26 Revenue by geography

#### Basis of segment identification

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

Operating segments have been identified based on the information provided to the executive decision maker, being the Chief Executive Officer (CEO). The CEO provides strategic direction and management oversight to the day to day activities of the Group in terms of monitoring results and approving strategic planning.

#### **Description of segments**

The Group has only one segment – the product division. 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. Therefore, the Group does not prepare operating segment reports other than the geographical segments shown below. Refer to Note 2(e) for the Group's revenue recognition policies.

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

	2017	2016
Australia & New Zealand	2,251,682	2,293,796
United States	10,018,009	12,235,450
Europe	5,321,423	4,391,138
	17,591,114	18,920,384

for the year ended 30 June 2017

#### 27 Fair value of financial instruments

The Group has various financial instruments such as available for sale investments, cash in hand, trade debtors and trade creditors. Apart from available for sale investments, other financial instruments arise directly from its operations. Due to the short term nature of these financial assets and financial liabilities, fair value does not materially differ to the carrying amount.

Available for sale investments consist of equity investments which have no active market. Therefore, management uses a number of assumptions for the inputs into a valuation model to arrive at the fair value. The probabilities of the estimates used can be reasonably assessed and are used in management's estimation of the fair value of these unquoted equity investments. The investments are currently held at cost which is assessed as fair value at the time of this report.

AASB 13 requires disclosure of fair value measurements using a three-level fair value hierarchy. The level within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement. Assessing the significance of a particular input requires judgement, considering factors specific to the asset or liability. The following table shows financial instruments recognised at fair value, categorised between those whose fair value is based on:

- Level 1 Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

The level in which instruments are classified in the hierarchy is based on the lowest level input that is significant to the net market value measurement in its entirety. Assessment of the significance of an input requires judgement after considering factors specific to the instrument.

	Quoted price in active market	Significant observable inputs	Significant unobservable inputs	
30 June 2017				
Assets measured at fair value thro	ugh profit or loss			
Available-for-sale investments	_	_	2,227,145	
30 June 2016				
Assets measured at fair value through profit or loss				
Available-for-sale investments	_	_	_	

The group had no financial liabilities measured at fair value through profit or loss. There have been no transfers between Level 1, 2 or 3 of the fair value hierarchy during the year.

### Valuation process for Level 3 valuations

Valuations are the responsibility of the board of directors of the Group. The valuation of unlisted equities are based on third party independent valuations of the underlining assets. The board review the valuation policies of the Group on an annual basis, to ensure adherence to industry best practice. There were no other changes in valuation techniques during the year.

	2017	2016
	\$	\$
Opening balance	_	_
Purchases/applications	2,227,145	_
Adjustments	_	_
Transfers	_	_
Closing Balance	2,227,145	_

### **Directors' Declaration**

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

- (1) In the opinion of the directors:
  - (a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
    - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001; and
  - (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2;
  - (c) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.
- (2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2017.

On behalf of the Board

Francis W. Galbally

Chairman Melbourne

Date: 27 September 2017



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## Independent Auditor's Report to the Members of Senetas Corporation Limited

## Report on the Audit of the Financial Report

### **Opinion**

We have audited the financial report of Senetas Corporation Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act* 2001, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

### **Basis for Opinion**

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Repor*t section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.



### Revenue recognition (Refer to Note 3(a) to the Financial Report)

#### Why significant

Revenues derived by the Group are primarily dependent on a single customer, Gemalto, which comprises a combination of sales of products and maintenance amounting to a total of \$16.9 million for the year ended 30 June 2017.

As the business arrangement is through the delivery to service Gemalto's end-customers, sales of products and deferred maintenance revenue are recognised as and when products are delivered and the Group fulfils its contractual obligation to Gemalto.

Because the Group generally bills in advance, there is a risk of revenue being recognised prior to fulfilling the contractual obligations. Therefore, we have identified revenue recognition to be an area of audit focus in particular the timing and amount of revenue recognised. Specifically, we focused our audit efforts on testing the cut-off of sales of products and maintenance revenue.

#### How our audit addressed the key audit matter

In performing audit procedures over revenue recognition, we:

- Assessed and tested the design and operating effectiveness of relevant controls over the revenue recognition process.
- Inspected the terms of the sales contract with the customer to determine the point of transfer of significant risk and rewards which also impacts the amount of deferred maintenance revenue recognised.
- On a sample basis, we tested the deferred maintenance revenue recognised during the period to assess the revenue recognised over the service period. We also assessed the deferred maintenance liability recognised at reporting date.
- On a sample basis, we inspected documentation which evidenced the delivery of goods to the customer.
- Tested the recording of sales transactions close to the year-end and after year end, including credit notes issued after year-end, to establish whether the transactions were recorded in the correct accounting period.



# Valuation of investments classified as available-for-sale assets (Refer to Note 11 to the Financial Report)

#### Why significant

The Group has two investments in unquoted equity investments amounting to \$2.23 million as at 30 June 2017, which are classified as available-for-sale assets. The two investments the Group hold are unquoted and classified as level 3 investments.

The Group determines whether objective evidence of impairment exists for individual investments at the reporting date. If an indicator of impairment exists, these available-for-sale investments are tested for impairment and an impairment loss recognised. Both assessment of impairment indicators and determination of the fair value of available for sale investments require significant judgment and are often based on unobservable inputs such as expected cash flows and risk free rates. We determined this to be a significant item for our audit.

The Group determined that there were no indicators of impairment that existed at 30 June 2017, hence no impairment losses in relation to these available-for-sale investments were recognised as at 30 June 2017.

### How our audit addressed the key audit matter

In performing audit procedures over valuation of available-for-sale investments, we:

- Evaluated the Group's assessment as to whether objective evidence of impairment existed for individual investments at the reporting date.
- Inspected the correspondence, contracts and other supporting evidence used by the Group to identify impairment indicators at the reporting date.
- Assessed the appropriateness of the Group's assumptions that the carrying amounts approximate the fair values of the investments.
- Assessed the adequacy of the disclosures relating to investments and assessed compliance with Australian Accounting Standards.

### Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2017 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. We have nothing to report in this regard.



### Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.



• Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on the Audit of the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 15 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Senetas Corporation Limited for the year ended 30 June 2017, complies with section 300A of the Corporations Act 2001.

### Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & your

Kylie Bodenham Partner Melbourne

27 September 2017

# **ASX Additional Information**

# Share register statistics as at 31 July 2017

Substantial shareholders as at the above date:

Name of substantial shareholder	Number of shares held
HSBC Custody Nominees (Australia) Limited – A/C 2 – shares held on behalf of Madison Park LLC	211,963,200
Mr Francis Galbally	140,000,000
JP Morgan Nominees Australia Limited	23,970,155

### Twenty largest shareholders as at the above date are as follows:

Rank	Name	Number of ordinary shares held	% of issued capital
1	HSBC Custody Nominees (Australia) Limited – A/C 2	213,319,700	19.73
2	Mr Francis Galbally	140,000,000	12.95
3	JP Morgan Nominees Australia Limited	23,970,155	2.22
4	Speliza Investments Pty Ltd <greysmed a="" c="" fund="" l="" p="" super=""></greysmed>	23,498,030	2.17
5	HSBC Custody Nominees (Australia) Limited	14,788,264	1.37
6	Ms Donna Young + Mr Peter Fleming < DYPF S/F A/C>	13,504,000	1.25
7	Success Breakthrough Pty Ltd <jacks a="" c="" fund="" super=""></jacks>	12,150,000	1.12
8	Eucalip Biochemical Group Pty Ltd	11,415,140	1.06
9	Challenger II Pty Ltd	6,000,000	0.56
10	Anacacia Pty Ltd <wattle a="" c="" fund=""></wattle>	5,500,000	0.51
11	Success Breakthrough Pty Ltd <jack a="" c="" fund="" super=""></jack>	5,128,684	0.47
12	EMBL Pty Ltd <ejm a="" c="" fund="" superannuation=""></ejm>	5,000,000	0.46
13	Permax Pty Ltd	5,000,000	0.46
14	Tresdam Pty Ltd	4,353,949	0.40
15	Mrs Maria Grazia Tascone	4,344,355	0.40
16	Munn Superco Pty Ltd <the a="" c="" fund="" munn="" super=""></the>	4,274,000	0.40
17	Drill Investments Pty Ltd	4,000,000	0.37
18	Mr David Bell Galloway	4,000,000	0.37
19	JJC Group (Aust) Pty Ltd <denzel a="" c="" deepak=""></denzel>	4,000,000	0.37
20	Dintan Pty Ltd <jacinto-lim a="" c="" unit=""></jacinto-lim>	3,999,282	0.37
Total t	op holders balance	508,245,559	47.02

## Share register statistics as at 31 July 2017

Distribution of equity securities	Fully paid ordinary shares shareholders
Total holders	7,166
Aggregate holding of the top 20	47.02%
Holders of less than a marketable parcel	1,446

### Range of holdings

Range of fully paid ordinary shares	Shareholders	%	
1 – 1,000	349	0.01	
1,001 – 5,000	1,008	0.32	
5,001 – 10,000	1,306	1.01	
10,001 – 100,000	3,472	12.46	
100,001 – and over	1,031	86.19	
Total holders	7,166	100	

### **Required statements**

- (a) There is no current on-market buy-back of the Company's securities.
- (b) The Company securities are not quoted on any exchange other than the ASX.
- (c) The name of the Company Secretary is Brendan Case.
- (d) The address and telephone number of our principal registered office in Australia is: 312 Kings Way, South Melbourne, Victoria, 3205 Telephone: +61 3 9868 4555
- (e) The address and telephone number of the Company's share registry is: Computershare Australia Yarra Falls, 452 Johnston Street, Abbotsford, Victoria, 3067

Telephone: +61 3 9415 4000

