SENETAS
Security without compromise

Appendix 4D
Senetas Corporation Limited
Half year report for announcement to the market
ACN 006 067 607

1 Details of the reporting period and the previous corresponding period

Reporting Period	Previous Corresponding Period
Half year ended 31 December 2017	**Half year ended 31 December 2016**

2 Results for announcement to the market

	31-Dec-17	**31-Dec-16**	**Change**	
	$	**$**	**$**	**%**
2.1 Revenues from ordinary activities	10,301,798	9,340,190	961,608	10%
2.2 Profit from ordinary activities before tax attributable to members	2,393,896	1,266,109	1,127,787	89%
2.3 Net profit after tax for the period attributable to members	1,640,217	864,708	775,509	90%

Dividends

2.4 Amount of interim dividend — No interim dividend is proposed

2.5 Record date for determining entitlements to the final dividend — N/A

Brief explanation of figures 2.1 to 2.5

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

HY2018 highlights

- Operating revenue up 10.3% to $10.30 million (HY17: $9.34 million) as major customers recommenced ordering following disruptions during their infrastructure upgrades.
- Revenue growth was led by a 29% increase in product sales revenue, partially offset by lower maintenance revenue.
- Gross profit margin increased to 80% (HY17: 73%)
- Net profit after tax of $1.64 million, up 90% on the prior period (HY17: $0.86 million)
- Strong balance sheet with $20.6m cash provides flexibility for strategic investments and new product initiatives
- Successful ongoing development of the CV Series virtualised encryption product meeting technical requirements for large-scale Ethernet networks, and 100% interoperability with the CN Series hardware encryptors.
- Eastern European certification of the custom algorithm hardware solution is progressing.

Appendix 4D
Senetas Corporation Limited

3 Movements in retained earnings

Please refer to the attached Half-Year Financial Report

4 Net tangible assets	**31-Dec-17**	**30-Jun-17**
	$	**$**
Net tangible asset backing per ordinary security (Cents per share)	2.08	1.92

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

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

6 Details of Associates / Joint Venture Holdings

N/A

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

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

8 Other information on financial statements

None

9 Other information

None

10 Independent review report

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

F. W. Galbally

Chairman

Half-year condensed consolidated financial report for the half-year ended

31 December 2017

SENETAS CORPORATION LIMITED
HALF-YEAR REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

Contents

Directors' Report

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

Your directors submit their report for the half-year ended 31 December 2017.

DIRECTORS

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

F. Galbally (Chairman)

A. Wilson (Executive director)

L. Given (Non-executive director)

K. Gillespie (Non-executive director)

L. Hansen (Non-executive director)

P. Schofield (Non-executive director) (appointed 13 December 2017)

Senetas Corporation Limited (ASX: SEN), a leading developer and manufacturer of certified, defence-grade data encryption solutions, is pleased to announce its results for the half year ended 31 December 2017 (1H2018).

HY2018 Highlights:

Operating revenue up 10.3% to $10.30 million (HY17: $9.34 million) as major customers recommenced ordering following disruptions during their infrastructure upgrades.

Revenue growth was led by a 29% increase in product sales revenue, partially offset by lower maintenance revenue.

- Net profit before tax $2.39 million, at the high end of the guidance range announced in January 2018, and up 89% on the prior period (HY17: $1.27 million)
- Gross profit margin increased to 80% (HY17: 73%)
- Net profit after tax of $1.64 million, up 90% on the prior period (HY17: $0.86 million)
- Strong balance sheet with $20.6m cash provides flexibility for strategic investments and new product initiatives
- Successful ongoing development of virtual encryption product with all technical requirements for large scale Layer 2 deployment now met
- Successful ongoing development of the CV Series virtualised encryption product meeting technical requirements for large-scale Ethernet networks, and 100% interoperability with the CN Series hardware encryptors.
- Eastern European certification of the custom algorithm hardware solution is progressing.

Operational review

Revenue growth in HY18 was driven by 29% growth in product sales, with the key growth driver being the North American market where Senetas' largest target market and customers are located, partially offset by lower maintenance revenue. Gross margins expanded to 80% as inventory levels at the Company's international distribution partner, Gemalto, were reduced during the period.

Key customers ordered equipment from us over the half and there has been interest from new customers and new use cases developed by our regional business development teams and distribution partner. In addition, our developers made strong progress on a number of development fronts including our virtualised encryption technologies which will serve a growing market that offers significant potential to expand our addressable market and drive growth through customer needs into the next decade.

Whilst we had hoped to achieve more 100Gbps sales in HY18, as with previous technology "leaps" it can take some time for networks to develop and for higher speed networks to become more prominent. However, customer enquiries about our 100Gbps encryptor continue to be strong. We still expect further 100Gbps sales before the end of the 2018 financial year (FY18), although larger volume sales may not occur until FY19.

Senetas' range of independent security certifications represent a critical competitive advantage that open new geographic markets.

The process required to obtain a new European certification for our core hardware products commenced in HY18. We expect that process to be completed by the middle of this calendar year.

Directors' Report (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

Operational review (continued)

The development of our virtualised encryption technologies has also been part of our strategy to open up new market opportunities for Senetas. Our virtualised encryption team have successfully met technical requirements for large-scale Ethernet networks, and 100% interoperability with the CN Series hardware encryptors. As we continue to develop our layer 3 and 4 capabilities across both virtualised and hardware encryption products we can substantially increase the addressable market for our portfolio of encryption solutions.

During the year we have continued to invest in our relationship with Gemalto. They are currently going through a process of likely change following an agreed takeover offer by Thales. This transaction is expected to be completed in the second half of the 2018 calendar year and the combination of these two companies will be a global leader in digital and cyber security. In the short term, we are not anticipating any change to the relationship with Gemalto, but over the longer term the combined strength of the Gemalto and Thales businesses presents an opportunity for Senetas' products to reach a wider group of potential users."

R&D and new product development

The Company's primary R&D focus in HY18 has been further development on our virtualised encryption product capability. All technical requirements have now been addressed to meet speed requirements and to enable large-scale deployments across thousands of user instances on Layer 2 Ethernet networks.

To broaden the potential use cases for Senetas products, technical expertise is now being deployed to advance the capabilities of our virtualised and hardware encryptors to allow for interoperability across Layers 2, 3 and 4.

Senetas' new custom encryption solution for Eastern Europe is currently progressing through that market's certification process. A critical milestone in the certification process needs to be reached before marketing and sales of the product can commence to potential customers. The certification process is taking longer than anticipated and we now expect the first sales of the custom encryption solution to be delayed until FY2019.

R&D expenditure during HY18 was similar to the prior period and FY18 R&D expenditure is expected to be similar to FY17.

Balance sheet and cash flow

Senetas' balance remains strong with no debt and significant cash reserves. Net assets increased 8% to $23.15 million and the cash balance at 31 December 2017 was $20.57 million.

Net operating cash flow was $1.54 million in HY18 which was higher than HY17 reflecting higher sales.

The Board continues to implement a conservative capital management policy in order to conserve capital for continued investment in attractive R&D product development, ensuring that Senetas is well positioned to take advantage of compelling investment opportunities, and to meet any business challenges.

Non-core assets

Senetas made an additional investment of £350,000 in Smart Antenna Technologies (SAT) in November 2017. The Company's percentage equity interest remains unchanged as all other SAT investors made proportional investments.

Priorities for the balance of FY18

Further validation and development of software encryption products, and a focus on additional independent security certifications to open up the European market, will provide further growth opportunities for Senetas in FY19 and beyond:

- Development of Layers 2, 3 and 4 interoperability capabilities for both the virtualised encryption solution and hardware encryptors whilst maintaining existing features and capabilities
- Continue to explore strategic opportunities with Gemalto and our other partners to expand market opportunities
- Continue marketing and business development collaboration with Gemalto to maximize engagement with target service provider partners and customers
- Progress additional European certifications.
- Progress East European certification of the custom algorithm encryptor in order to allow Gemalto to commence marketing and sales of the product.

Directors' Report (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

Revenue growth drivers

In the medium-term, Senetas' transition to a multi-product business is expected to drive significantly increased revenues. These will come from:

- Greater market adoption of 100Gbps networks
- Market adoption of virtualised encryption solutions
- The adaption of Senetas' encryption products for Layer 2, 3 and 4 interoperability
- The commencement of custom algorithm sales
- A tightening global regulatory landscape around data protection and data breach notification
- Increased market penetration with traditional Senetas high speed encryptors
- New technology partnerships that incorporate Senetas' technology in existing networking infrastructure
- SureDrop roll out

Outlook

With continuing strong interest in our products, global expansion of data networks, growth in network data volumes, increasing government data security legislation, and growing awareness of the need to encrypt sensitive and customer information in the government and enterprise sectors, we are expecting further earnings growth in the remainder of FY18.

From FY19 we expect virtualised encryption, the 100Gbps encryptor and our custom algorithm products will commence to make a more significant contribution to revenue as sales momentum builds.

In the longer term, we expect the virtualised networking market to mature with increased functionality, a growing prominence of virtualised networks and longer-term opportunities for large-scale virtualised encryption deployments. Relationships with our technology partners and further development of Layer 2, 3 and 4 interoperability positions Senetas very well to service new and emerging network technologies in addition to our traditional markets and creating significant new revenue opportunities.

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

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

As lead auditor for the review of Senetas Corporation Limited for the half-year ended 31 December 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 review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

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

Ernst & Young

Ernst & Young

Kylie Bodenham
Partner
26 February 2018

Interim Consolidated Statement of Comprehensive Income

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

		Consolidated	
		31/12/2017	**31/12/2016**
	Notes	**$**	**$**
Revenues	3(a)	10,301,798	9,340,190
Cost of sales		(2,111,766)	(2,516,788)
Gross profit		**8,190,032**	**6,823,402**
Other income	3(b)	215,343	242,934
Employee benefit expenses	3(c)	(3,174,781)	(3,186,852)
Depreciation and amortisation expenses	3(d)	(264,140)	(217,828)
Administration expenses	3(e)	(1,814,507)	(1,562,778)
Other expenses	3(f)	(758,051)	(832,769)
Profit for the period before income tax		**2,393,896**	**1,266,109**
Income tax expense	8	(753,679)	(401,401)
Net profit for the period		**1,640,217**	**864,708**
Profit for the period		**1,640,217**	**864,708**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation reserve		9,570	(1,959)
Other comprehensive income for the period		**9,570**	**(1,959)**
Total comprehensive income for the period, net of tax		**1,649,787**	**862,749**
Attributable to:			
Owners of the parent		**1,649,787**	**862,749**
Earnings per share (EPS): (cents per share)			
Basic, profit for the period attributable to ordinary equity holders of the Parent.		0.15	0.08
Diluted, profit for the period attributable to ordinary equity holders of the Parent.		0.15	0.08

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

Interim Consolidated Statement of Financial Position

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

	Notes	Consolidated As at 31/12/2017 $	Consolidated As at 30/6/2017 $
ASSETS			
Current assets			
Cash and cash equivalents		20,570,480	20,091,205
Trade and other receivables	15	4,255,748	5,401,453
Inventories		1,282,709	1,550,554
Prepayments		597,890	237,168
Other current assets		52,977	70,768
Total current assets		**26,759,804**	**27,351,148**
Non-current assets			
Long term cash deposit		91,667	91,667
Available-for-sale investments	13	2,849,916	2,227,145
Deferred tax asset		583,615	578,335
Plant and equipment	7	1,618,849	1,320,755
Intangible assets		118,193	135,139
Total non-current assets		**5,262,240**	**4,353,041**
TOTAL ASSETS		**32,022,044**	**31,704,189**
LIABILITIES			
Current liabilities			
Trade and other payables		1,577,592	1,393,309
Income tax payable 30 June 2017		414,492	-
Current income tax payable	8	810,319	2,372,273
Unearned income	9	3,145,633	4,073,026
Provisions		969,584	895,176
Total current liabilities		**6,917,620**	**8,733,784**
Non-current liabilities			
Deferred tax liabilities		15,893	67,252
Provisions		21,675	45,029
Unearned income - non-current	9	1,887,473	1,343,072
Other non-current liabilities		28,096	31,945
Total non-current liabilities		**1,953,137**	**1,487,298**
TOTAL LIABILITIES		**8,870,757**	**10,221,082**
NET ASSETS		**23,151,287**	**21,483,107**
EQUITY			
Contributed equity	5	104,718,695	104,679,425
Accumulated losses		(82,218,115)	(83,858,330)
Foreign currency translation reserve		(30,428)	(39,998)
Employee benefit reserve	6	668,275	689,150
Equity attributable to owners of the parent		**23,138,427**	**21,470,247**
Non-controlling interests		**12,860**	**12,860**
TOTAL EQUITY		**23,151,287**	**21,483,107**

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

Interim Consolidated Statement of Changes in Equity

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

	Attributable to equity holders of Senetas Corporation Ltd					Non-controlling interest	Total equity
	Contributed Equity	Accumulated Losses	Foreign Currency Translation Reserve	Employee Benefit Reserve	Total		
Consolidated	**$**	**$**	**$**	**$**	**$**	**$**	**$**
At 1 July 2016	**104,426,711**	**(86,737,433)**	**(27,942)**	**852,185**	**18,513,521**	**12,860**	**18,526,381**
Profit for the period	-	864,708	-	-	864,708	-	864,708
Other comprehensive income	-	-	(1,959)	-	(1,959)	-	(1,959)
Total comprehensive income for the period	-	**864,708**	**(29,901)**	-	**862,749**	-	**862,749**
Transactions with owners in their capacity as owners:							
Share based payment expenses	-	-	-	63,000	63,000	-	63,000
Options converted to shares	120,042	-	-	(120,042)	-	-	-
At 31 December 2016	**104,546,753**	**(85,872,725)**	**(29,901)**	**795,143**	**19,439,270**	**12,860**	**19,452,130**
Consolidated	**$**	**$**	**$**	**$**	**$**	**$**	**$**
At 1 July 2017	**104,679,425**	**(83,858,332)**	**(39,998)**	**689,150**	**21,470,245**	**12,860**	**21,483,105**
Profit for the period	-	1,640,217	-	-	1,640,217	-	1,640,217
Other comprehensive income	-	-	9,570	-	9,570	-	9,570
Total comprehensive income for the period	-	1,640,217	9,570	-	1,649,787	-	1,649,787
Transactions with owners in their capacity as owners:							
Share based payment expenses	-	-	-	18,395	18,395	-	18,395
Options converted to shares	39,270	-	-	(39,270)	-	-	-
At 31 December 2017	**104,718,695**	**(82,218,115)**	**(30,428)**	**668,275**	**23,138,427**	**12,860**	**23,151,287**

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

Interim Consolidated Statement of Cash Flows

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

	Consolidated	
	31/12/2017	**31/12/2016**
	$	$
Cash flows from operating activities		
Receipts from customers	9,106,727	8,565,710
Payments to suppliers and employees	(7,776,820)	(9,148,157)
R&D tax concession net of tax paid	-	210,284
Interest received	205,609	230,738
Net cash flows used in operating activities	**1,535,516**	**(141,425)**
Cash flows used in investing activities		
Purchase of plant and equipment	(423,869)	(66,464)
Purchase of intangibles	(19,171)	(46,986)
Investment in unquoted equity instruments	(622,771)	(875,616)
Net cash flows used in investing activities	**(1,065,811)**	**(989,066)**
Net increase/(decrease) in cash and cash equivalents	469,705	(1,130,490)
Net foreign exchange differences	9,570	(1,959)
Cash and cash equivalents at beginning of period	20,091,205	20,848,044
Cash and cash equivalents at end of period	**20,570,480**	**19,715,595**

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

1 CORPORATE INFORMATION

The interim condensed consolidated financial statements of Senetas Corporation Limited and its subsidiaries (collectively, the Group) for the half year ended 31 December 2017 were authorised for issue in accordance with a resolution of the directors on 23 February, 2018.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

It is recommended that the interim condensed consolidated financial statements be read in conjunction with the Annual Financial Report of Senetas Corporation Limited as at 30 June 2017.

It is also recommended that the interim condensed consolidated financial statements be considered together with any public announcements made by Senetas Corporation Limited and its controlled entities during the half-year ended 31 December 2017 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

(a) Basis of preparation and Statement of Compliance

The interim condensed consolidated financial statements for the half-year ended 31 December 2017 have been prepared in accordance with AASB 134 *Interim Financial Reporting.*

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

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

(b) New and revised standards and interpretations

The Group has adopted all new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current reporting period. New and revised Standards, amendments thereof and Interpretations effective for the current half-year and relevant to the Group are limited to **AASB 2016-1** ***Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for Unrealised Losses, AASB 2016-2 Amendments to Australian Accounting Standards - Disclosure Initiative; Amendments to AASB 107 and Amendments to Australian Accounting Standards - Further Annual Improvements 2014-2016 Cycle.*** The adoption of new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and had no material effect on the amounts reported for the current or prior half-year. The Group has not elected to early adopt any other new Standards or amendments that are issued but not yet effective.

At the date of authorisation of the financial report, the following relevant Standards and Interpretations were issued but not yet effective:

(i) AASB 15 provides a single, principles-based five-step model to be applied to all contracts the Group has with its customers. Guidance is provided on topics such as the point at which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures regarding revenue are also introduced.

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

The Group has commenced assessing the impact of AASB 15. Preliminary work performed has focused on diagnosing the Group's revenue streams against the requirements of the new standard, but is not yet able to identify the specific areas within the Group which are expected to be impacted, nor is the Group able to make a quantitative determination as to the Standard's impacts to its revenue streams. The Group expects to apply AASB 15 for the first time for the financial year ended 30 June 2019.

(ii)AASB 9 will change the classification and measurement of financial instruments, introduce new hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures, and introduce a new expected loss impairment model that will The Group expects to apply AASB 9 for the first time for the financial year ended 30 June 2019. The Group does not expect it will have a material impact on the Group's financial statements.

(iii)AASB 16 Leases (effective 1 January 2019). This Standard requires lessees to account for all leases (including operating leases) in a similar way to finance leases. At commencement of a lease, the Company will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The Group has not yet begun assessing the impact of AASB 16. However, the Standard is not expected to have a material impact on financial statements as the Group does not consider the size of its operating lease commitments to be material.

(c) Significant accounting policies

The interim condensed consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2017.

	Note	Consolidated 31/12/2017 $	Consolidated 31/12/2016 $
3 REVENUE, INCOME AND EXPENSES			
(a) Revenue			
Sale of goods		6,650,715	5,140,978
Product maintenance revenue		3,644,924	4,195,024
Provision of services		6,159	4,188
		10,301,798	**9,340,190**
(b) Other income			
Interest revenue:			
Non-related parties		215,343	235,499
Sundry income		-	7,435
		215,343	**242,934**
(c) Employee benefits expenses			
Salaries and wages		2,665,761	2,666,855
Directors fees		305,000	305,000
Superannuation		185,625	151,997
Share based payments expense	6	18,395	63,000
		3,174,781	**3,186,852**
(d) Depreciation and amortisation expenses			
Depreciation:			
Plant and equipment		192,493	151,113
Leasehold improvements		35,531	31,620
Amortisation:			
Software		36,116	35,095
		264,140	**217,828**
(e) Administration expenses			
Operating lease		215,524	200,618
Travel expenditure		256,134	307,262
Telephone and internet expenditure		44,724	39,388
Insurance expenditure		76,683	68,247
Write off of tangible assets		464	-
Marketing expenditure		259,523	206,743
External contractors - sales and corporate		961,455	740,520
		1,814,507	**1,562,778**
(f) Other expenses			
Inventory write off / provision		-	107,170
Certification, testing and direct R&D expenditure		356,650	456,106
Net gain on foreign exchange		(40,415)	(77,121)
Other overhead expenses		441,816	346,614
		758,051	**832,769**

Notes to the Consolidated Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

4 DIVIDENDS PAID AND PROPOSED

Equity dividends on ordinary shares:
No interim dividend was paid or is proposed for the half year ended 31 December 2017.

5 CONTRIBUTED EQUITY

	Consolidated	
	No. of shares	**$**
Movement in ordinary shares on issue		
At 1 July 2017	1,080,956,948	104,679,425
Employee performance rights converted to shares	297,500	39,270
At 31 December 2017	**1,081,254,448**	**104,718,695**

6 SHARE BASED PAYMENTS (for Executives and Employees)

In September 2015, the Group issued performance rights attached to the Group's Long Term Incentive Plan (LTI) to all employees. The performance rights were issued in four equal tranches subject to four performance conditions. Tranche 1 and 2 for a total of 50% of the performance rights vested during the period ended December 2016. Tranche 3 for 25% of the performance rights were forfeited on failure to meet the performance condition requirement. Tranche 4 for the remaining 25% vested during the period. The performance conditions attached to tranches 3 & 4 are as follows:

- Tranche 3 – 25% of the performance rights for achievement of the FY2017 budget - these were forfeited as
- Tranche 4 – 25% of the performance rights vest for employment tenure extending for 24 months past grant date.

Meeting the performance condition resulted in the issuance of 297,500 shares to employees between September and December 2017.

The balance of the performance rights from tranche 4 are still outstanding and can be exercised at a time of the employees' choosing over a period of the next five years.

Performance rights granted were fair valued by an external party using a binomial option pricing methodology.

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

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

Notes to the Consolidated Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

6 SHARE BASED PAYMENTS for Executives and Employees (continued)

On 17th November 2017, the CEO, Mr Andrew Wilson, was issued 2,000,000 unlisted performance rights after approval granted by shareholders at the Company's AGM held on that date.

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

Scheme	2017
Number of rights granted	2,000,000
Grant date	17-Nov-17
Term - Vesting (Years)	2.00
Assumed option life - Years	2.03
Stock Price at grant	$0.1100
Exercise price	$0.1000
Volatility (%)	40.00%
Risk free interest rate	1.80%
Option valuation	$0.0300

	Consolidated	
	Dec-17	Jun-17
Share-based payment reserve	$	$
Opening Balance	**689,150**	**852,187**
Expense during the year	18,395	89,677
Transfer to equity during the year	(39,270)	(252,714)
Closing balance	**668,275**	**689,150**

7 PLANT AND EQUIPMENT

During the six months ended 31 December 2017, the group purchased $422,357 of computer and test equipment and transferred $102,712 from inventory for product development.

8 INCOME TAX

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

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

	For the half-year ended 31 December	
	2017	2016
Income taxes		
Current income tax expense	810,319	511,931
Deferred income tax expense related to origination and reversal of temporary differences	(56,640)	(110,530)
Income tax expense recognised in the statement of comprehensive income	**753,679**	**401,401**

9 UNEARNED REVENUE

	Consolidated	
	31/12/2017	**30/06/2017**
	$	$
Open balance as at 1 July	5,416,098	6,205,484
Amounts received during the period	3,261,932	7,379,875
Revenue recognised during the period	(3,644,924)	(8,169,261)
Closing balance at end of period	**5,033,106**	**5,416,098**
Current unearned income	3,145,633	4,073,026
Non-current unearned income	1,887,473	1,343,072
	5,033,106	**5,416,098**

10 REVENUE BY GEOGRAPHY

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

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

	For the half-year ended 31 December	
	2017	**2016**
Australia & New Zealand	778,570	922,640
United States	7,532,649	5,579,127
Europe	1,990,579	2,838,423
	10,301,798	**9,340,190**

11 COMMITMENTS AND CONTINGENCIES

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

12 EVENTS AFTER THE REPORTING DATE

There are no significant events after reporting date.

Notes to the Consolidated Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

13 INVESTMENT IN UNQUOTED EQUITY INSTRUMENTS

	Consolidated 31/12/2017 $	Consolidated 30/06/2017 $
Available-for-sale investments		
Unquoted equity shares (i)	2,849,916	2,227,145

(i) The Group has non-controlling interests in the entities shown in the equity table below.

	Equity Interest % Dec-17	Equity Interest % Jun-17	Value of Investment $ Dec-17	Value of Investment $ Jun-17
DeepRadiology Inc	3.45%	3.45%	1,361,532	1,361,532
Smart Antenna Technologies Ltd	5.76%	5.76%	1,488,384	865,614
Total			**2,849,916**	**2,227,145**

The company made a further investment of £350,000 in Smart Antenna Technologies in November, 2017. The percentage equity interest remains unchanged as all other investors made proportional second round investments.

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.

14 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.

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. The available-for-sale investments are categorised at Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurment is unobservable.

14 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	Quoted price in active market	Significant observable inputs	Significant unobservable inputs
31 December 2017			
Assets measured at fair value through profit or loss			
Available-for-sale investments	-	-	2,849,916
30 June 2017			
Assets measured at fair value through profit or loss			
Available-for-sale investments	-	-	2,227,145

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 is 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.

	31 Dec 2017	30-Jun-17
	$	$
Opening balance	2,227,145	2,227,145
Purchases/applications	622,771	-
Adjustments	-	-
Transfers	-	-
Closing Balance	**2,849,916**	-

15 FINANCIAL ASSETS AND LIABILITIES

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

As at 31 December 2017, the Group did not have any outstanding derivative instruments. As at 31 December 2017, the Group had the following financial assets and liabilities;

	Consolidated	
	31/12/2017	30/06/2017
	$	$
Cash & cash equivalents	20,570,480	20,091,205
Trade and other receivables	4,255,748	5,401,453
Available-for-sale investments	2,849,916	2,227,145
Total financial assets	**27,676,144**	**27,719,803**
Trade and other payables	1,577,592	1,393,309
Total financial liabilities	**1,577,592**	**1,393,309**

16 TRADE AND OTHER RECEIVABLES

	Consolidated	
	31/12/2017	**30/06/2017**
	$	$
Trade receivables	4,000,846	3,400,211
Net GST receivable	254,902	43,460
R&D tax incentive (i)	-	1,957,782
	4,255,748	**5,401,453**

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

At 31 December 2017, the ageing analysis of trade receivables is as follows:

	Neither past due nor impaired	Past due but not impaired (i)	Past due & impaired
	$	*$*	*$*
31 December 2017 Consolidated	3,474,313	526,533	-
30 June 2017 Consolidated	3,400,211	-	-

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

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

Directors' Declaration

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

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity for the half-year ended 31 December 2017 are in accordance with the *Corporations Act 2001*,

   (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and the performance for the half-year ended on that date; and

   (ii) complying with the Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001* ; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

F.W. Galbally

Chairman

26 February 2018

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Independent Auditor's report to the members of Senetas Corporation Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Senetas Corporation Limited (the Company) and its subsidiaries (collectively the Group), which comprises the condensed statement of financial position as at 31 December 2017, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not 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 31 December 2017 and of its consolidated financial performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Senetas Corporation Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Kylie Bodenham
Partner

Melbourne
26 February 2018