

## 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 2019	Half-year ended 31 December 2018

#### 2 Results for announcement to the market

	31-Dec-19	31-Dec-18	Change	
	\$	\$	\$	%
2.1 Revenues from ordinary activities	10,600,707	9,861,523	739,184	7%
2.2 (Loss)/profit from ordinary activities before tax attributable to members	(214,878)	(799,374)	584,496	73%
2.3 Net (loss)/profit after tax for the period attributable to members	(694,733)	(1,184,192)	489,459	41%

##### 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 Financial Report, Director's Report and the Media Release for further explanations of the figures presented in 2.1 – 2.5 above.

##### HY2020 highlights

- Group operating revenue of \$10.6 million – up 7.5%
- Second tranche of Votiro investment made in HY2020
- Final Votiro tranche invested in January 2020 resulting in an increase in the ownership interest of Senetas to approximately 60%
- R&D investment delivers new product development and further market opportunities
- Votiro global sales and marketing capability established – key sales in the North American market in HY2020
- Strong balance sheet position and no debt

**Appendix 4D**  
**Senetas Corporation Limited**

**3 Movements in retained earnings**

Please refer to the attached Half-Year Financial Report.

**4 Net tangible assets**

	<b>31-Dec-19</b>	<b>30-Jun-19</b>
	<b>\$</b>	<b>\$</b>
Net tangible asset backing per ordinary security (Cents per share).	0.55	1.75

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

On 31 October 2019, Senetas gained control of Votiro Cybersec Global Limited following the increase in investment to 50.3% equity holding (on a fully diluted basis) as part of a step acquisition. The fair value of the identifiable assets acquired and liabilities assumed in the acquisition have been provisionally determined. Refer to Note 10 of the half-year financial report for further details.

**6 Details of Associates / Joint Venture Holdings**

Investment in associate - Votiro Cybersec Global Limited. Senetas increased its investment in associate on 7 August 2019 to 42.8% prior to obtaining control on 31 October 2019. Refer to Notes 9 and 10 for further details.

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

None.

**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 unmodified review conclusion has been issued.



F. W. Galbally  
Chairman



# **Financial report for the half-year ended 31 December 2019**

# SENETAS CORPORATION LIMITED

FINANCIAL REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

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# Directors' Report

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

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Your directors submit their report for the half-year ended 31 December 2019.

## 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)

Senetas Corporation Ltd (ASX: SEN) (Senetas / the Company), announces its results for the half-year ended 31 December 2019 (HY2020).

- Group operating revenue of \$10.6 million – up 7.5%
- Second tranche of Votiro investment made in HY2020
- Final Votiro tranche invested in January 2020 resulting in an increase in the ownership interest of Senetas to approximately 60%
- R&D investment delivers new product development and further market opportunities
- Votiro global sales and marketing capability established – key sales in the North American market in HY2020
- Strong balance sheet position and no debt

## HY2020 Highlights:

Half year ended 31 December 2019 (\$000's)	HY2020	HY2019
Revenue from ordinary activities	10,601	9,862
Gross profit	9,008	7,494
Other income	324	303
Share of loss of an associate (Votiro)	(1,234)	(324)
Profit (loss) before tax	(529)	(799)
Tax expense	(480)	(385)
Net profit (loss) after tax	(1,009)	(1,184)

# Directors' Report (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

The following table highlights the underlying operating results for the Senetas operating segment for HY2020. The share of loss of an associate reflects Senetas's share of Votiro results for the 4 months to 31 October 2019. Votiro became a controlled entity from 1 November 2019 and its results for the 2 months to 31 December 2019 have therefore been reflected in the Votiro operating segment and consolidated in Senetas's financial statements for HY2020.

Half year ended 31 December 2019 (\$'000's)		
Senetas operating segment	HY2020	HY2019
Revenue from ordinary activities	9,524	9,862
Gross profit	8,027	7,494
Other income	324	303
Profit (loss) before tax	103	(799)
<i>Adjustments to calculate underlying Senetas segment net profit before tax</i>		
Share of loss of an associate (Votiro)	1,234	323
Gain on step acquisition	(33)	-
Impairment to investment in SAT	-	1,893
Underlying net profit (loss) before tax	1,304	1,417

- Consolidated operating revenue of \$10.6 million was up 7.5% over the prior year (HY2019: \$9.9 million)
- Consolidated operating revenue growth includes 2 months of Votiro revenue after it became a controlled entity during the period
- Gross margin of 85% was significantly higher than the prior period reflecting lower inventory transfers as Thales utilised existing hardware inventory
- The net loss before tax of \$0.5 million includes losses of \$1.87 million associated with Senetas's increased investment in Votiro – \$1.23 million for Senetas's share of Votiro losses (as an associate) for the first 4 months of the period before Votiro became a controlled entity, and \$0.63 million of operating losses for the final 2 months of the current period.
- The consolidated net loss after tax was \$1.0 million including the results for Votiro
- The underlying operating profit before tax for the Senetas operating segment in HY2020 was \$1.3 million, slightly below the prior period.
- Higher gross margins in the Senetas business were offset by higher R&D and overheads in HY2020 associated with finalising European certification and transport layer independence for Senetas's hardware encryption products
- The US\$2 million second tranche of Senetas's investment in Votiro was paid in 2 instalments totaling A\$2.9 million in August and October 2019. The final US\$2 million (A\$2.9 million) tranche of the investment was paid in January 2020
- In December 2019 Senetas paid a distribution to shareholders in the form of a return of capital of \$0.000462 per share following shareholder approval at the 2019 AGM. The total cash distribution was approximately \$0.5 million
- Senetas retains a strong balance sheet with no debt and \$14.5 million of consolidated cash at 31 December 2019. The key non-operating cash outflows during HY2020 were the \$2.9 million relating to the second tranche of Senetas' investment in Votiro and the \$0.5 million capital return to Senetas shareholders

The last six months has seen further progress as Senetas continues to develop its portfolio and distribution opportunities to drive sustainable business growth.

Key developments in the period included the successful completion of the Thales takeover of Gemalto which has delivered Senetas a global partner with enhanced distribution capability. We see great opportunity for Senetas's growing product portfolio aligned with the Thales' large customer base, channel partners and sales force to significantly expand the market coverage for our products.

Progress on our new European certification and completing the development of transport layer independence capabilities for Senetas's hardware encryptors will open up new markets in Europe and enable our hardware products to encrypt across layers 2, 3 and 4, providing access to more data network encryption opportunities.

# Directors' Report (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

The half year also saw some important developments with our investment in Votiro. Following the tranche 2 investments made during the period, Senetas has a controlling interest in Votiro of 50.3%. The subsequent tranche 3 investment in January 2020 increase Senetas's interest to approximately 60%.

Votiro delivered good revenue growth during the period, driven primarily by the Japan and North American markets. The establishment of the new North American sales and marketing team has led to Votiro's first significant sales in that market and the development of a strong sales pipeline. Market interest in Votiro's CDR technology continues to grow and we are excited about the growth potential ahead of us.

With Senetas taking a controlling interest in Votiro during HY2020, Group revenue for the period was aided by the inclusion of Votiro's results for the last 2 months. Underlying Senetas revenue was similar to the prior period. As expected there was some minor sales disruption as the merger of Thales and Gemalto was completed, however, with that process now finalised we see positive sales momentum into the second half of FY2020.

Higher R&D costs associated with finalising the European certification and transport layer independence for our hardware encryptors offset higher gross margins with Senetas's underlying encryption business delivering a net profit before tax similar to the prior period.

Despite the significant cash outflows relating to the planned investment in Votiro, Senetas's balance sheet remains strong with no debt and \$14.5 million of cash on hand at 31 December 2019.

## Operational review

Operating revenue growth of 7.5% in HY2020 comprised slightly lower revenue from Senetas's underlying encryption business and the first time inclusion of Votiro revenue for the final two months of the period. Senetas encryption revenue across the APAC, US and Europe businesses was broadly similar to the prior period. Maintenance revenue was higher than HY2019 and product sales revenue was lower.

Higher gross margins were the result of lower cost of goods sold due to lower hardware production volumes. Thales utilised its existing inventory during the period and Senetas inventory was also lower at period end. Long term gross margins for Senetas's hardware encryption business have been circa 80% and over the longer term are expected to remain at a similar level.

The sales of 100Gbps encryptors continue to grow as governments and large corporate customers adopt 100Gbps networks, but there has been an offsetting moderation in sales of 10Gbps encryptors.

Product sales revenue was impacted by some disruption to the sales teams as the Thales takeover of Gemalto was completed. With that process now substantially completed, Senetas is confident that it is well placed to leverage Thales' market leading position in digital security to drive sales growth in the second half of FY2020 and beyond.

Senetas's partnerships with Thales and ADVA in relation to virtualised encryption are providing important opportunities for technical development, customer trials and ongoing product enhancements. At this stage the market has been slow to adopt software defined networking (SDN) technology, however, customer interest in the technology is strong and we continue to see good revenue opportunities as the SDN market matures.

## R&D and new product development

R&D and new product development remain the core drivers of future revenue growth for Senetas. The major areas of R&D focus in HY2020 were:

- Development of transport layer independence capabilities across layers 2, 3 and 4 for Senetas hardware encryptors; and
- The new European certification for Senetas's hardware encryptors
- Investment in quantum safe encryption

The development of transport layer independence capabilities for Senetas's hardware products follows the market release of Senetas's virtualised encryption products with multi-layer capabilities in 2019. Development of the new hardware encryptors is now substantially complete and the new 1Gbps and 10Gbps products will be launched into the market during CY2020.

The process to achieve a new European certification for Senetas hardware encryptors has been a lengthy and time consuming process over the past 2 years, however, we believe the certification will strengthen Senetas's position in European markets and generate substantial additional sales in the region where we cannot currently compete. The security audit process to achieve the certification is now complete and Senetas expects the certification will be finalised before the end of FY2020.

The digital security threat posed by Quantum computing is fast approaching, and Senetas is investing in Quantum readiness including the implementation of NIST candidate Quantum Resistant Algorithms, use of a Quantum entropy source and support for Quantum Key Distribution (QKD). In summary we have architected our products to be crypto agile and future proof by design.

# Directors' Report (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

## Votiro

HY2020 was an important milestone for Votiro with the establishment of its new North American sales and marketing team being a vital step in providing access to the world's largest digital security market. The period saw the first significant sales of Votiro's CDR product in North America and included completing its largest ever transaction, a multi-year deal with an on line lending company in the US market.

Votiro revenue of \$1.1 million for the two months to 31 December 2019 was up strongly on the prior period with sales momentum accelerating throughout HY2020. The key regions driving revenue growth were North America and Japan with the sales pipeline building month to month.

North America, Japan and the APAC region represent the key growth markets to prioritise in the near term, with the North American market expected to become Votiro's largest sales market within 12-18 months. Votiro will continue to build business capability across all key regions in CY2020 with a focus on technical and sales & marketing resources for ongoing product development and to drive sales growth.

Votiro is continuing to explore strategic partnership opportunities with large scale industry participants to expand sales and distribution capability and accelerate growth.

## Balance sheet and cash flow

Senetas's balance sheet remains strong with no debt and substantial cash reserves. Consolidated net assets reduced 11% to \$17.6 million reflecting the capital distribution payment to Senetas shareholders of \$0.5m in December 2019, and the Votiro losses recognised for the period. The consolidated cash balance at 31 December 2019 was \$14.5 million following the \$2.9 million of payments for the second tranche of the Votiro investment during HY2020 and the capital distribution.

Consolidated operating cash flow for HY2020 was (\$1.5) million, including a (\$1.1) million contribution from Votiro.

## Outlook

HY2020 has seen good progress as we evolve the Senetas business from its core focus on hardware encryption to becoming a trusted provider of a portfolio of high-assurance digital security solutions.

Our traditional hardware encryption business continues to deliver solid earnings and cash flows, providing government and corporate customers who take data security seriously with certified, high-assurance encryption without compromising network performance. The pending new European certification for Senetas's hardware encryptors will also open up new markets in the region where we do not currently compete.

New products such as Senetas's virtualised encryption solutions, SureDrop and the soon to be released multi-layer hardware encryptors provide significant upside potential for the business over the medium term as we begin to exploit the expanded market opportunities they create.

And the investment in Votiro presents a further expansion of our security product suite and another exciting opportunity for growth. The building of Votiro's sales and distribution capability across the business in HY2020 has seen immediate results with sales momentum and a pipeline of opportunities building strongly in recent months.

Votiro's financial results will continue to have an impact on our profit in the near term, however, we remain very positive about the outlook for its revenue growth as that sales momentum builds.

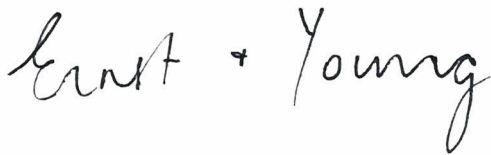


## **Auditor's Independence Declaration to the Directors of Senetas Corporation Limited**

As lead auditor for the review of the financial report of Senetas Corporation Limited for the half-year ended 31 December 2019, 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



Alison Parker  
Partner

28 February 2020

# Interim Consolidated Statement of Comprehensive Income

## FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

		Consolidated	
		31/12/2019	31/12/2018
	Notes	\$	\$
Revenue from contracts with customers	3	10,600,707	9,861,523
<b>Revenue</b>		<b>10,600,707</b>	<b>9,861,523</b>
Cost of sales		(1,593,119)	(2,367,115)
<b>Gross profit</b>		<b>9,007,589</b>	<b>7,494,408</b>
Other income	4(a)	323,579	302,588
Loss on fair value through profit or loss investment	8	-	(1,892,941)
Employee benefit expenses	4(b)	(4,094,530)	(3,125,259)
Depreciation and amortisation expenses	4(c)	(644,145)	(364,795)
Administration expenses	4(d)	(2,893,892)	(1,969,246)
Other expenses	4(e)	(995,394)	(920,521)
Interest expense on lease liabilities	2.2	(31,151)	-
Gain on step acquisition of investment in an associate	9	33,059	-
Share of loss of an associate prior to step acquisition	9	(1,234,353)	(323,608)
<b>Loss for the period before income tax</b>		<b>(529,237)</b>	<b>(799,374)</b>
Income tax expense	5	(480,169)	(384,818)
<b>Net loss for the period</b>		<b>(1,009,406)</b>	<b>(1,184,192)</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation reserve		70,820	1,955
<b>Other comprehensive income for the period</b>		<b>70,820</b>	<b>1,955</b>
<b>Total comprehensive loss for the period, net of tax</b>		<b>(938,586)</b>	<b>(1,182,237)</b>
<b>Loss for the period attributable to:</b>			
Equity holders of the parent		(694,733)	(1,184,192)
Non-controlling interests		(314,673)	-
		<b>(1,009,406)</b>	<b>(1,184,192)</b>
<b>Comprehensive loss for the period attributable to:</b>			
Equity holders of the parent		(652,712)	(1,182,237)
Non-controlling interests		(285,874)	-
		<b>(938,586)</b>	<b>(1,182,237)</b>
Earnings per share (EPS): (cents per share)			
Basic, (loss)/profit for the period attributable to ordinary equity holders of the Parent.		(0.06)	(0.11)
Diluted, (loss)/profit for the period attributable to ordinary equity holders of the Parent.		(0.06)	(0.11)

<sup>(1)</sup> The Group applied for the first time, AASB 16 Leases for the half year ended 31 December 2019. The Group has adopted the modified retrospective approach which does not require the restatement of previous financial statements. The nature and effect of these changes are disclosed in the Note 2.2 of the financial statements.

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 2019

Consolidated			
		As at 31/12/2019	As at 30/6/2019
	Notes	\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		14,532,001	17,860,132
Trade receivables and contract assets	6	4,230,823	5,055,592
Inventories		2,076,134	2,424,535
Other current assets		741,029	582,717
<b>Total current assets</b>		<b>21,579,986</b>	<b>25,922,976</b>
<b>Non-current assets</b>			
Long term cash deposits		97,670	97,670
Non-current prepayments		149,362	8,100
Investment in an associate	9	-	4,972,722
Deferred tax asset		983,491	568,591
Plant and equipment		1,497,600	1,593,598
Right-of-use asset <sup>(1)</sup>	2.2	1,733,911	-
Other intangible assets		177,565	195,517
Goodwill (provisional)	10	7,957,809	-
<b>Total non-current assets</b>		<b>12,597,408</b>	<b>7,436,198</b>
<b>TOTAL ASSETS</b>		<b>34,177,394</b>	<b>33,359,174</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		2,705,427	2,509,324
Contingent consideration liability	12	30,826	22,894
Current income tax payable		457,154	471,633
Contract liabilities		5,493,906	6,207,688
Lease liabilities <sup>(1)</sup>	2.2	474,072	-
Provisions		1,243,470	1,068,891
<b>Total current liabilities</b>		<b>10,404,855</b>	<b>10,280,430</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities		644,786	320,670
Provisions		39,927	53,493
Contract liabilities - non-current		4,146,950	2,881,966
Lease liabilities <sup>(1)</sup>	2.2	1,299,215	-
Contingent consideration liability - non-current	12	67,285	83,426
Other non-current liabilities		-	5,412
<b>Total non-current liabilities</b>		<b>6,198,163</b>	<b>3,344,967</b>
<b>TOTAL LIABILITIES</b>		<b>16,603,018</b>	<b>13,625,397</b>
<b>NET ASSETS</b>		<b>17,574,376</b>	<b>19,733,777</b>
<b>EQUITY</b>			
Contributed equity	13	104,295,023	104,728,595
Accumulated losses		(86,518,812)	(85,824,079)
Foreign currency translation reserve		5,049	(36,972)
Reserves		935,631	866,233
<b>Equity attributable to owners of the parent</b>		<b>18,716,891</b>	<b>19,733,777</b>
Non-controlling interests		(1,142,515)	-
<b>TOTAL EQUITY</b>		<b>17,574,376</b>	<b>19,733,777</b>

<sup>(1)</sup> The Group applied for the first time, AASB 16 Leases for the half year ended 31 December 2019. The Group has adopted the modified retrospective approach which does not require the restatement of previous financial statements. The nature and effect of these changes are disclosed in the Note 2.2 of the financial statements.

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 2019

	Attributable to equity holders of Senetas Corporation Ltd					Non-controlling interests	Total equity
	Contributed Equity	Accumulated Losses	Foreign Currency Translation Reserve	Reserves	Total		
Consolidated	\$	\$	\$	\$	\$	\$	\$
<b>At 1 July 2018</b>	<b>104,726,285</b>	<b>(81,902,985)</b>	<b>18,425</b>	<b>697,095</b>	<b>23,538,820</b>	<b>12,860</b>	<b>23,551,680</b>
Impact of adoption of AASB 15 <sup>(i)</sup>	-	529,167	-	-	529,167	-	529,167
<b>At 1 July 2018 (as adjusted)</b>	<b>104,726,285</b>	<b>(81,373,818)</b>	<b>18,425</b>	<b>697,095</b>	<b>24,067,987</b>	<b>12,860</b>	<b>24,080,847</b>
Loss for the period	-	(1,184,192)	-	-	(1,184,192)	-	(1,184,192)
Other comprehensive income	-	-	1,955	-	1,955	-	1,955
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>(1,184,192)</b>	<b>1,955</b>	<b>-</b>	<b>(1,182,237)</b>	<b>-</b>	<b>(1,182,237)</b>
<b>Transactions with owners in their capacity as owners:</b>							
Movement in non-controlling interest	-	12,860	-	-	12,860	(12,860)	-
Dividends declared	-	(3,999,776)	-	-	(3,999,776)	-	(3,999,776)
Share based payment expenses	-	-	-	82,023	82,023	-	82,023
<b>At 31 December 2018</b>	<b>104,726,285</b>	<b>(86,544,926)</b>	<b>20,380</b>	<b>779,117</b>	<b>18,980,857</b>	<b>-</b>	<b>18,980,857</b>
Consolidated	\$	\$	\$	\$	\$	\$	\$
<b>At 1 July 2019</b>	<b>104,728,595</b>	<b>(85,824,079)</b>	<b>(36,972)</b>	<b>866,233</b>	<b>19,733,777</b>	<b>-</b>	<b>19,733,777</b>
Loss for the period	-	(694,733)	-	-	(694,733)	(314,673)	(1,009,406)
Other comprehensive income	-	-	42,021	-	42,021	28,799	70,820
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>(694,733)</b>	<b>42,021</b>	<b>-</b>	<b>(652,712)</b>	<b>(285,874)</b>	<b>(938,586)</b>
<b>Transactions with owners in their capacity as owners:</b>							
Acquisition of non-controlling interest	-	-	-	-	-	908,240	908,240
Return of Capital	(499,583)	-	-	-	(499,583)	-	(499,583)
Exercise of options	66,011	-	-	(66,011)	-	-	-
Share based payment expenses	-	-	-	135,409	135,409	51,599	187,008
<b>At 31 December 2019</b>	<b>104,295,023</b>	<b>(86,518,812)</b>	<b>5,049</b>	<b>935,631</b>	<b>18,716,891</b>	<b>673,965</b>	<b>19,390,856</b>

<sup>(i)</sup> The Group elected to apply the modified retrospective method of adoption for AASB 15 *Revenue from contracts with customers*. This transition method requires the cumulative effect of initially applying AASB 15 as an adjustment to the opening balance of retained earnings from the date of initial application. The transition adjustment at 1 July 2018 resulted in an increase to opening retained earnings of \$529,167 and an increase to contract asset and deferred tax liabilities of \$729,882 and \$200,715, respectively.

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 2019

	Notes	Consolidated	
		31/12/2019	31/12/2018
		\$	\$
<b>Cash flows from operating activities</b>			
Receipts from customers		9,033,515	8,550,486
Payments to suppliers and employees		(10,070,726)	(8,518,980)
Interest received		108,577	249,239
Income tax paid		(584,801)	(486,923)
<b>Net cash flows used in operating activities</b>		<b>(1,513,435)</b>	<b>(206,177)</b>
<b>Cash flows used in investing activities</b>			
Purchase of plant and equipment		(111,225)	(412,409)
Purchase of other intangibles		(40,855)	(23,344)
Acquisition of a subsidiary (net of cash acquired)	10	614,195	-
Additional investment in an associate (prior to step acquisition)		(1,626,440)	(6,368,736)
<b>Net cash flows used in investing activities</b>		<b>(1,164,325)</b>	<b>(6,804,490)</b>
<b>Cash flows used in financing activities</b>			
Advance payment to dividend trust account		-	(3,999,776)
Return of capital to equity holders of the parent	7	(499,583)	-
Payment of interest on lease liability		(31,151)	-
Payment of principal portion of lease liability	2.2	(119,146)	-
<b>Net cash flows used in financing activities</b>		<b>(649,880)</b>	<b>(3,999,776)</b>
Net decrease in cash and cash equivalents		(3,327,640)	(11,010,443)
Net foreign exchange differences		(492)	1,955
Cash and cash equivalents at beginning of period		17,860,132	23,258,056
<b>Cash and cash equivalents at end of period</b>		<b>14,532,001</b>	<b>12,249,568</b>

<sup>(1)</sup> The Group applied for the first time, AASB 16 Leases for the half year ended 31 December 2019. The Group has adopted the modified retrospective approach which does not require the restatement of previous financial statements. The nature and effect of these changes are disclosed in the Note 2.2 of the financial statements.

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

# Notes to the Consolidated Financial Statements

## FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

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### 1 CORPORATE INFORMATION

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

The half-year financial statements of Senetas Corporation Limited and its subsidiaries (collectively, the Group) for the half-year ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors on 28 February 2020.

The nature of the operations and principal activities of the Group are described in the Directors' report. The registered office of Senetas Corporation Limited is at 312 Kings Way, South Melbourne, Victoria 3205, Australia.

### 2 SIGNIFICANT ACCOUNTING POLICIES

The half-year financial report does not include all the information and disclosure notes normally included within the Annual Financial Report and therefore cannot be expected to provide as full of an understanding of the financial performance, financial position and financing and investing activities of the Group as the full financial report.

The half-year financial report should be read in conjunction with the Annual Financial Report for the year ended 30 June 2019 and considered together with any public announcements made by Senetas Corporation Limited and its controlled entities during the half-year ended 31 December 2019 in accordance with the continuous disclosure obligations of the ASX listing rules.

#### 2.1 Basis of preparation and Statement of Compliance

The financial report for the half-year ended 31 December 2019 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year financial statements have been prepared on an historical cost basis except for contingent consideration and investment securities that have been measured at fair value.

This half-year financial report is presented in Australian dollars and all values are rounded to the nearest dollar, unless stated otherwise.

#### 2.2 Impact of new and amended accounting standards

The accounting policies adopted in the preparation of the half-year financial report are consistent with those followed in the preparation of the Annual Financial Report for the year ended 30 June 2019, except for the adoption of new standards effective as of 1 July 2019 which is discussed below. The Group has not early adopted any other standard, Interpretation or amendment that has been issued but is not yet effective.

##### AASB Interpretation 23 *Uncertainty over Income Tax Treatment*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of AASB 112 *Income Taxes*. It does not apply to taxes or levies outside the scope of AASB 112, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

# Notes to the Consolidated Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

## 2.2 Impact of new and amended accounting standards (continued)

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

The Group applies significant judgement in identifying uncertainties over income tax treatments and assessed whether the Interpretation had an impact on its consolidated financial statements.

Upon adoption of the Interpretation, the Group considered whether it had any uncertain tax positions. The Group determined, based on its tax compliance, the Interpretation did not have an impact on the consolidated financial statements of the Group.

### AASB 16 Leases

AASB 16 *Leases* ('AASB 16') supersedes AASB 117 *Leases* ('AASB 117'), AASB Interpretation 4 *Determining whether an Arrangement contains a Lease*, Interpretation 115 *Operating Leases - Incentive* and Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. AASB 16 sets out the principles for the recognition, measurement, presentation and disclosures of leases and requires lessees to account for most leases under a single on-balance sheet model.

The Group adopted AASB 16 using the modified retrospective method of adoption with the date of initial application of 1 July 2019. As the Group adopted the modified retrospective method, there was no restatement of previous financial statements.

### Practical expedients applied

In applying AASB 16 for the first time, the Group elected to use the following practical expedients permitted by the standard:

- Applied the 'grandfathering' practical expedient to contracts previously assessed as containing a lease as at the date of initial application
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Excluded initial direct costs from the measurement of the right-of-use ('ROU') asset at the date of initial application

## (a) Nature of the effect of adoption of AASB 16

### Impacts on transition

Before the adoption of AASB 16, the Group classified its lease at the inception date as an operating lease. In an operating lease, the leased property was not capitalised, and the lease payments were recognised as rent expense in the statement of comprehensive income on a straight-line basis over the lease term. The Group is a party to contracts for lease of office premises.

Upon adoption of AASB 16, the Group applied a single on balance sheet approach for the lease. The Group recognised a lease liability to make lease payments and a ROU asset representing the right to use the underlying asset. Adoption of AASB 16 resulted in lower operating costs and higher finance and depreciation costs as the accounting profile of lease payments changes under the new model. Cash flows from operating activities increased as affected lease payments and interest payments are now classified as financing cash flows.

In accordance with the modified retrospective method of adoption, the Group applied AASB 16 at the date of initial application and measured the carrying amount of the ROU asset at an amount equal to the lease liability. Accordingly, the comparative information in the half-year financial report has not been restated.

# Notes to the Consolidated Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

## 2.2 Impact of new and amended accounting standards (continued)

The effect of adopting AASB 16 is, as follows:

**Impact on the statement of financial position (increase / (decrease)) as at 1 July 2019**

<b>Assets</b>	<b>\$</b>
Right-of-use asset	1,451,271
Deferred tax asset	396,890
<b>Liabilities</b>	
Current lease liabilities	(287,651)
Non-current lease liabilities	(1,163,621)
Deferred tax liability	(396,890)
<b>Impact on accumulated losses using the modified retrospective method</b>	<b>-</b>

The following table presents a reconciliation to the opening balance for lease liabilities as at 1 July 2019 based upon the operating lease obligations as at 30 June 2019.

<b>Reconciliation</b>	<b>\$</b>
Operating lease commitments at 30 June 2019	1,696,355
<b>Gross lease liabilities at 1 July 2019</b>	<b>1,696,355</b>
Weighted average incremental borrowing rate as at 1 July 2019	5.12%
Effect of discounting	(245,084)
<b>Lease liabilities recognised at 1 July 2019</b>	<b>1,451,271</b>

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	<b>Right-of-use assets</b>	<b>Lease liabilities</b>
	<b>\$</b>	<b>\$</b>
<b>As at 30 June 2019</b>	-	-
Additions on transition	1,451,271	1,451,271
Additions during the half-year for acquired subsidiary	471,793	449,520
Depreciation expense	(183,237)	-
Interest expense	-	31,151
Foreign currency translation	(5,917)	(8,359)
Principal payments	-	(150,297)
<b>As at 31 December 2019</b>	<b>1,733,911</b>	<b>1,773,287</b>



## Notes to the Consolidated Financial Statements

### FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

#### 2.2 Impact of new and amended accounting standards (continued)

Set out below, are the amounts recognised in profit or loss

	31/12/2019
	\$
<b>Reconciliation</b>	
Depreciation expense of right-of-use assets	183,237
Interest expense on lease liabilities	31,151
<b>Total amount recognised in profit or loss</b>	<b>214,388</b>

The impact on basic and diluted EPS is negligible.

Set out below is a maturity analysis of lease liabilities:

	Leases committed to but not yet commenced 31/12/2019	Leases in effect during the half- year ended 31/12/2019	Total 31/12/2019
	\$	\$	\$
<b>Maturity analysis - contractual undiscounted cash flows</b>			
Less than one year	-	565,292	565,292
One to five years	-	1,437,786	1,437,786
More than five years	-	-	-
<b>Total undiscounted lease liabilities at 31 December</b>	-	2,003,078	2,003,078

#### Lease liabilities included in the Statement of Financial Position at 31 December 2019

Current	474,072
Non-current	1,299,215
	<b>1,773,287</b>

#### (b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of AASB 16:

##### Right-of-use assets

The Group recognises ROU assets at the commencement of all leases except for short term and low value leases. ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes:

- the amount of lease liabilities recognised;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs incurred by the lessee; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised ROU assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. ROU assets are subject to annual impairment assessment.

##### Lease liabilities

At the commencement date of a lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising to the option to terminate.

# Notes to the Consolidated Financial Statements

## FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

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### 2.2 Impact of new and amended accounting standards (continued)

#### Lease liabilities (continued)

The variable lease payments that do not depend on an index or a rate are recognised as expense in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the lessee uses its incremental borrowing rate at the date of initial application if the interest rate implicit in the lease is not readily determinable. After the date of initial application, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, which is not accounted for as a separate lease, a change in the lease term, a change in the in-substance fixed lease payments, a change in future lease payments resulting from a change in an index or a rate used to determine those payments, or a change in the assessment to purchase the underlying asset.

#### Short-term leases exemptions

The Group applies the short-term leases and low value leases recognition exemption made by class of underlying assets to the right-of-use asset related to its short-term leases and low value leases (i.e. those leases that have a lease term at the commencement date of 12 months or less and do not contain a purchase option).

#### Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as a non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. The Group assesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

#### Significant judgement in determining the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

### 2.3 Significant accounting judgements, estimates and assumptions

The significant accounting judgements, estimates and assumptions are consistent with those followed in the preparation of the Annual Financial Report for the year ended 30 June 2019, except for the following:

#### Investment in Votiro Cybersec Limited

The Group considers that it controls Votiro Cybersec Global Limited (Votiro) following the completion of the tranche 2 convertible note payment on 31 October 2019 and obtaining more than 50% of the voting rights.

In measuring the fair value of Votiro at the acquisition date, the Group was unable to measure the fair value based on quoted prices in an active market and therefore used a revenue multiple valuation technique. The key assumptions take into consideration comparable company revenue multiples and the probability of achieving the forecast revenue pipeline.

# Notes to the Consolidated Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

## 2.4 Significant accounting policies

### (a) Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group's investment in its associate is accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Any goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of profit or loss will reflect the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss within 'Share of loss of an associate' in the statement of profit or loss.

Upon loss of significant influence over the associate or gain of control, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence (or gain of control) and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

### (b) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets.

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.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of AASB 9 *Financial Instrument*, is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed).

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

The measurement period ends as soon as the Group receives the necessary information about facts and circumstances that existed as of the acquisition date or learns that the information is not obtainable. However, the measurement period cannot exceed one year from the relevant reporting period in which the acquisition took place.

# Notes to the Consolidated Financial Statements (continued)

## FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

### 3 REVENUE FROM CONTRACTS WITH CUSTOMERS

#### Disaggregated revenue information

Set out below is the disaggregation of the Group's revenue from contracts with customers

		Consolidated	
		31/12/2019	31/12/2018
	Note	\$	\$
<b>(a) Disaggregated revenue information</b>			
Sale of goods		4,858,235	6,282,783
Product maintenance revenue		5,119,630	3,569,543
Provision of services		622,843	9,197
<b>Total revenue from contracts with customers</b>		<b>10,600,707</b>	<b>9,861,523</b>
<b>(b) Geographical markets</b>			
Asia Pacific		1,852,990	714,672
United States		5,782,330	5,989,627
Europe		2,965,387	3,157,224
<b>Total revenue from contracts with customers</b>		<b>10,600,707</b>	<b>9,861,523</b>
<b>(c) Timing of revenue recognition</b>			
Goods transferred at a point in time		5,481,078	6,291,980
Services transferred over time		5,119,630	3,569,543
<b>Total revenue from contracts with customers</b>		<b>10,600,707</b>	<b>9,861,523</b>

The aggregated amount of transaction prices (i.e. unrecognised revenue) allocated to remaining performance obligations, at the reporting date, is as follows:

Sale of goods	-	-
Product maintenance revenue	9,640,856	6,071,603
Provision of services	-	-
<b>Total</b>	<b>9,640,856</b>	<b>6,071,603</b>

Of the aggregate amount of transaction prices (i.e. unrecognised revenue) allocated to remaining performance obligations at the reporting date, the following amounts are expected to be recognised.

#### Product maintenance revenue expected to be recognised within:

1 year of the reporting date	5,493,906	3,395,629
2 years from the reporting date	2,847,452	1,728,739
3 years from the reporting date	973,291	837,201
Between 4 and 5 years	326,206	110,033
<b>Total</b>	<b>9,640,856</b>	<b>6,071,603</b>

# Notes to the Consolidated Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Consolidated	
	31/12/2019	31/12/2018
Note	\$	\$
<b>4 INCOME AND EXPENSES</b>		
<b>(a) Other income</b>		
Interest income:		
Non-related parties	202,324	214,760
Net gain on foreign exchange	121,255	87,828
	<b>323,579</b>	<b>302,588</b>
<b>(b) Employee benefits expenses</b>		
Salaries and wages	3,709,072	2,851,549
Superannuation	198,945	191,687
Share based payments expense	186,513	82,023
	<b>4,094,530</b>	<b>3,125,259</b>
<b>(c) Depreciation and amortisation expenses</b>		
Depreciation:		
Plant and equipment	358,333	262,427
Leasehold improvements	43,768	49,819
Right-of-use assets	183,237	-
Amortisation:		
Software	58,807	52,549
	<b>644,145</b>	<b>364,795</b>
<b>(d) Administration expenses</b>		
Premises costs	88,359	238,102
Travel expenditure	435,232	279,517
Telephone and internet expenditure	73,242	65,889
Insurance expenditure	193,765	134,518
Marketing expenditure	566,419	296,723
External contractors - sales and corporate	1,536,875	954,497
	<b>2,893,892</b>	<b>1,969,246</b>
<b>(e) Other expenses</b>		
Certification, testing and direct R&D expenditure	253,744	296,298
Legal fees	192,626	101,727
Re-measurement of contingent consideration liability	(8,209)	109,763
Other overhead expenses	557,233	412,733
	<b>995,394</b>	<b>920,521</b>

# Notes to the Consolidated Financial Statements

## (continued)

### 5 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:

	<b>For the half-year ended</b>	
	<b>2019</b>	<b>2018</b>
<b>Income taxes</b>		
Current income tax expense	570,953	576,137
Deferred income tax expense related to origination and reversal of temporary differences	(90,784)	(191,319)
<b>Income tax expense recognised in the statement of comprehensive income</b>	<b>480,169</b>	<b>384,818</b>

### 6 TRADE RECEIVABLES AND CONTRACT ASSETS

	<b>Consolidated</b>	
	<b>31/12/2019</b>	<b>30/06/2019</b>
	\$	\$
Trade receivables <sup>(i)</sup>	3,221,220	3,928,832
Contract assets	795,251	928,575
Net GST receivable	214,353	198,185
	<b>4,230,823</b>	<b>5,055,592</b>

<sup>(i)</sup> The fair value of the trade receivables and contract asset amount is equivalent to their carrying amounts. It is expected that the full contractual amounts can be collected. AASB 9 requires a calculation of expected credit losses (ECL's). The Group's evaluation of this requirement has determined that an allowance for expected credit losses is negligible.

The Group holds no collateral against possible default by a customer.

There were no receivables written off during the year.

### 7 DISTRIBUTIONS MADE AND PROPOSED

	<b>31/12/2019</b>	<b>30/6/2019</b>
	\$	\$
<b>Distribution on ordinary shares declared and paid:</b>		
Distribution for 2019: \$0.000462 per share	-	499,567
<b>Total distributions declared and paid</b>	<b>-</b>	<b>499,567</b>

The return of capital relating to the financial reporting period ended 30 June 2019 was approved by the shareholders on 22 November 2019.

The record date for the capital reduction was 29 November 2019 and the payment date was 13 December 2019.

There were no distributions proposed or declared for the financial reporting period to 31 December 2019.

# Notes to the Consolidated Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

## 8 INVESTMENT SECURITIES

	Consolidated	
	31/12/2019	30/06/2019
	\$	\$
Unquoted investment securities at FVTPL	-	1,892,941
Available-for-sale (AFS) investment	-	-
Addition to AFS investments during the year	-	-
Impairment of AFS investment	-	-
Revaluation losses recognised during the year	-	(1,892,941)
Closing balance	-	-

## 9 INVESTMENT IN AN ASSOCIATE

On 14 November 2018, the Group invested \$5.7 million (USD \$4 million) in convertible notes in Votiro Cybersec Global Limited (Votiro), a leading Israeli content disarm and reconstruction company. Votiro is a private entity that is not listed on any public exchange. During the period, the Group's subscription of the Tranche 2 convertible notes was split into two payments of USD \$1 million each on 7 August 2019 (AUD \$1.48 million) and 31 October 2019 (AUD \$1.45 million). This resulted in the ownership interest in Votiro to be 42.8% and 50.3%, respectively. The additional investment in Votiro on 7 August 2019 resulted in goodwill of \$1.8 million being recognised.

The following summarised financial information of Votiro as at 7 August 2019 and for the period to 7 August 2019 represents the amounts as presented in the most recent management accounts of Votiro, adjusted for translation into AUD and adjusted for any significant differences in accounting policies:

*Reconciliation of the carrying value of the investment in Votiro:*

	\$
Carrying value as at 1 July 2019	4,972,722
Share of losses to 7 August 2019	(358,104)
Additional investment	1,478,675
Capitalised convertible notes interest	52,083
<b>Carrying value as at 7 August 2019</b>	<b>6,145,376</b>

*Fair value of Votiro Net Assets as at 7 August 2019*

Current assets	2,619,610
Non-current assets	293,594
Current liabilities	(3,891,389)
Non-current liabilities	(7,931,875)
<b>Equity</b>	<b>(8,910,060)</b>
Additional ownership interest	3.8%
<b>Share of equity</b>	<b>(334,454)</b>
<b>Goodwill for additional investment in Votiro</b>	<b>1,813,129</b>

# Notes to the Consolidated Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

## 9 INVESTMENT IN AN ASSOCIATE (Continued)

Subsequent to the investment on 31 October 2019, the Group holds 50.3% of the voting rights in Votiro (on a fully diluted basis) and therefore obtained control.

The following summarised financial information of Votiro as at 31 October 2019 and for the period from 8 August 2019 to 31 October 2019 represents the amounts as presented in the most recent management accounts of Votiro, adjusted for translation into AUD and adjusted for any significant differences in accounting policies.

*Carrying amount of investment at 31 October 2019 (prior to additional investment and step acquisition)*

	\$
Carrying value as at 7 August 2019	6,145,376
Transaction costs	147,768
Share of losses (8 August 2019 - 31 October 2019)	(876,249)
Capitalised convertible notes interest	139,439
<b>Carrying value as at 31 October 2019</b>	<b>5,556,333</b>

*Gain or loss on derecognition of Investment in Associate recognised in profit or loss*

Fair value of pre-acquisition investment in Votiro (provisional) - Note 10	5,589,392
<b>Gain or loss on derecognition of Investment in Associate</b>	<b>33,059</b>

The Group has also agreed to invest in a further tranche of convertible notes, amounting to USD \$2 million, on or before 30 June 2020. Payment of the third tranche was made in January 2020. The convertible notes include an entitlement to interest of 8% per annum, from the subscription date to the earlier of the conversion date or 30 April 2020. Accrued interest is capitalised into the face value of the convertible notes.

In addition, the agreement to purchase the third tranche of convertible notes is classified as a derivative financial instrument, which is measured at fair value and any changes in fair value are recognised in profit or loss. In measuring the fair value of the derivative financial instrument, the Group used a revenue multiple valuation technique. The key assumptions used in the model include comparable company revenue multiples and probability of achieving the forecast revenue pipeline. Given the judgement and estimation applied in the valuation model, the Group has assessed that the model will provide a range of outcomes. On the basis that the performance of Votiro (subsequent to Senetas' acquisition of convertible notes on 14 November 2018) has tracked according to its plans, management has concluded that the agreed purchase price for the third tranche of convertible notes approximates the fair value of the notes to be acquired. Accordingly, the agreement to purchase the third tranche of convertible notes has an assessed net fair value of \$nil at 31 December 2019.



# Notes to the Consolidated Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

## 10 BUSINESS COMBINATIONS

On 31 October 2019, the Group invested a further USD \$1 million (AUD \$1.45 million) in Votiro. This resulted in the Group holding 50.3% ownership interest (on a fully diluted basis) in Votiro and therefore obtaining control (as outlined above in Note 9). The investment was funded from cash. The Group further invested in Votiro as their technology advances the Group's vision to provide leading security solutions without compromising performance or user experience, while expanding the Group's suite of products and solutions. The half year financial statements include the results of Votiro for the two month period from the date of acquisition of control.

The provisional fair values of the identifiable assets and liabilities of Votiro as at the date of acquisition were:

	Provisional accounting Fair value recognised on acquisition
	\$
<b>Assets</b>	
Cash and cash equivalents	2,063,412
Receivables	619,987
Plant and equipment	113,116
ROU Asset	471,793
Other assets	587,634
	<u>3,855,942</u>
<b>Liabilities</b>	
Trade and other payables	(1,582,814)
Contract liabilities	(3,651,046)
Lease liabilities	(449,520)
	<u>(5,683,380)</u>
<b>Total identifiable net assets at fair value</b>	<b>(1,827,438)</b>
Non-controlling interest proportionate share of net identifiable assets	908,240
Fair value of previously held investment in an associate (Note 9)	(5,589,392)
Goodwill arising on acquisition (provisional)	7,957,809
Purchase consideration for additional investment	<u>(1,449,217)</u>

As at 31 December 2019, management has yet to finalise the fair value accounting process including the fair value of the previously held investment in Votiro, identification and valuation of any intangible assets separately from goodwill and necessary tax accounting. Therefore, the acquisition accounting remains provisional as at 31 December 2019. It is possible these assets, liabilities and related goodwill included in the Group's consolidated financial statements for the half year ended 31 December 2019 may change during the 12 month period after acquisition during which fair value adjustments are permitted. The goodwill is not deductible for income tax purposes.

The fair value of trade receivables amounts to \$618,987 and it is expected that the full contractual amounts can be collected.

From the date of acquisition to 31 December 2019, Votiro has contributed \$1,076,215 to the revenue and \$256,463 to the loss after tax (attributable to members of the parent). If the combination had taken place at the beginning of the year, Group revenue would have been higher by \$1,918,092 resulting in total Group revenue of \$11,442,582. Loss after tax (attributable to members of the parent) would have been higher by \$509,482, after taking into consideration the share of Votiro losses already recognised. The total Group loss after tax (attributable to members of the parent) would be \$885,815.

The goodwill recognised is primarily attributed to the expected benefits from combining the activities of Votiro with those of the Group. The goodwill is not deductible for income tax purposes.

Transaction costs of \$5,000 have been expensed and are included in Administration expenses in the Statement of Comprehensive Income and are part of operating cash flows in the Statement of Cash Flows.

### Analysis of cash flows on acquisition

	\$
Purchase consideration paid	(1,449,217)
Net cash acquired	2,063,412
Net cash flow on acquisition (included in cash flows from investing activities)	<u>614,195</u>

# Notes to the Consolidated Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

## 11 MATERIAL PARTLY-OWNED SUBSIDIARIES

Financial information of a subsidiary that has material non-controlling interests is provided below:

### Proportion of equity interest held by non-controlling interests:

Name	31/12/2019	30/06/2019
Votiro Cybersec Global Limited	49.7%	-
Accumulated balances of material non-controlling interest	(1,142,515)	-
Loss allocation to material non-controlling interest	(314,673)	-

The summarised financial of Votiro is provided below.

### Summarised statement of profit or loss from the date of acquisition of control (1 November 2019) to 31 December 2019 before elimination entries:

Revenue from contracts with customers	1,076,215
Cost of sales	(94,648)
Administrative expenses	(1,409,061)
Finance costs	(205,020)
<b>Loss before tax</b>	<b>(632,513)</b>
Income tax	(631)
<b>Loss for the period</b>	<b>(633,144)</b>

Attributable to non-controlling interest	(314,673)
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### Summarised statement of financial position as at 31 December 2019 before elimination entries:

Cash and cash equivalents	981,336
Trade receivables and other current assets	984,940
Plant and equipment and other non-current asset	653,573
Trade and other current liabilities	(1,072,010)
Contract liabilities - current	(1,751,729)
Contract liabilities - non-current	(1,653,772)
Other non-current liabilities	(441,161)
<b>Total equity</b>	<b>(2,298,823)</b>

Attributable to:

Equity holders of parent	(1,156,308)
Non-controlling interest	(1,142,515)

### Summarised cash flow information for the period of control to 31 December 2019:

Operating	(1,052,255)
Investing	(16,454)
Financing	-
<b>Net decrease in cash and cash equivalents</b>	<b>(1,068,708)</b>

## 12 CONTINGENT CONSIDERATION

Acquisition of Podzy Pty Ltd (completed on 7 December 2017 for a consideration of \$1) included an earn-out provision. The earn-out period continues until 30 June 2022 and is based on a percentage of revenue from future sales of SureDrop. As at the acquisition date, the fair value of the contingent consideration was estimated to be \$nil as there were no confirmed sales orders to quantify the pipeline of sales.

The estimated fair value is calculated by a discounted cash flow analysis (to account for the time value of money and the risk factors) based on a range of possible revenue forecasts over the remaining earn-out period. The fair value of the contingent consideration has been reassessed as at 31 December 2019 and resulted in the remeasurement of the liability to \$98,111 which is a decrease of \$8,209 from 30 June 2019. The movement has been recognised in the statement of comprehensive income. \$30,826 of the contingent consideration is expected to be settled within the next 12 months from the balance sheet date. This contingent consideration liability will continued to be reassessed at each reporting date over the remaining earn-out period. The contingent consideration liability is categorised as a level 3 item of the fair value hierarchy (as disclosed in Note 15).

# Notes to the Consolidated Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

## 13 CONTRIBUTED EQUITY

	Consolidated	
	No. of shares	\$
Movement in ordinary shares on issue		
At 1 July 2019	1,081,329,448	104,728,595
Capital Return	-	(499,583)
Employee performance rights converted to shares	619,731	66,011
At 31 December 2019	<b>1,081,949,179</b>	<b>104,295,023</b>

## 14 SEGMENT INFORMATION

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. Senetas's chief operating decision maker is 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. Operating segments have been identified based on the information provided by the CEO.

The Group has two reportable segments - the product division (Senetas) and solutions technology division (Votiro). In accordance with the master distribution agreement and other direct customers, both product sales and maintenance services are inter-related and reported as one (1) product division reportable segment.

The following table presents the revenue and profit information for the two reportable segments for the half-year ended 31 December 2019. At 31 December 2018, the Group only had one reportable segment being the product division therefore the Group prepared operating segment reports based on the geographical segment.

31/12/2019	Senetas	Votiro	Total
	\$	\$	\$
<b>Segment revenue from contracts with customers</b>			
Sale of equipment	4,858,235	-	4,858,235
Maintenance revenue	4,650,181	469,449	5,119,630
Provision of services	16,076	606,767	622,843
	<b>9,524,492</b>	<b>1,076,215</b>	<b>10,600,707</b>

	Senetas	Votiro	Eliminations	Total
	\$	\$	\$	\$
<b>Segment profit/(loss) before tax</b>	103,205	(632,513)	(71)	(529,237)
<b>Segment loss after tax</b>	(376,333)	(633,144)	71	(1,009,406)
<b>Total assets</b>	30,728,496	10,577,658	(7,128,760)	34,177,394
<b>Total liabilities</b>	(11,807,627)	(4,918,671)	123,280	(16,603,018)

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.

31/12/2019	Senetas	Votiro	Total
	\$	\$	\$
Asia Pacific	1,050,441	802,549	1,852,990
United States	5,718,761	63,569	5,782,330
Europe	2,755,289	210,097	2,965,387
	<b>9,524,492</b>	<b>1,076,215</b>	<b>10,600,707</b>

31/12/2018	Senetas	Total
	\$	\$
Asia Pacific	714,672	714,672
United States	5,989,627	5,989,627
Europe	3,157,224	3,157,224
	<b>9,861,523</b>	<b>9,861,523</b>

Revenue from one customer - the Company's global distribution partner, Thales - amounted to \$8,465,215 arising from the above mentioned geographical areas.

# Notes to the Consolidated Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

## 15 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group has various financial instruments such as investment securities, cash in hand, trade debtors, trade creditors and a contingent consideration liability. Apart from investment securities and the contingent consideration liability, 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.

The fair value of the investment in Votiro does not have an 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. The investments are carried at fair value. Refer to Note 12 for the basis of calculation of fair value of the contingent consideration liability.

AASB 13 requires disclosure of fair value measurements using a three-level fair value hierarchy.

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 investments are categorised at Level 3.

- 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
<b>31 December 2019</b>			
<i>Financial liabilities</i>			
Contingent consideration liability (Note 12)	-	-	(98,111)
Derivative liability	-	-	-
<b>30 June 2019</b>			
<i>Financial assets</i>			
Investment Securities (Note 8)	-	-	-
<i>Financial liabilities</i>			
Contingent consideration liability (Note 12)	-	-	(106,320)
Derivative liability	-	-	-

Valuations are the responsibility of the Board of Directors of the Group and management may use the services of independent valuers to determine appropriateness of valuation of unlisted investments. The Board review the valuation policies of the Group on an annual basis, to ensure adherence to industry best practices. There were no other changes in valuation techniques during the year.

There have been no transfers between Level 1, 2 or 3 of the fair value hierarchy during the current or prior period.

Other than the fair value assessment of the investment in Votiro prior to the step acquisition of \$33,059 and the remeasurement of contingent consideration liability of \$8,209 there has been no other movement in level 3 items.

## **Notes to the Consolidated Financial Statements (continued)**

### **FOR THE HALF-YEAR ENDED 31 DECEMBER 2019**

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#### **16 COMMITMENTS AND CONTINGENCIES**

Since the last annual reporting date there has been no material change in any commitments or other contingencies.

#### **17 EVENTS AFTER THE REPORTING DATE**

On 10 January 2020, Senetas paid US\$2 million (A\$2.9 million) for the third and final tranche of convertible notes in Votiro Cybersec Global Pty Limited. This final note subscription will result in Senetas' interest in Votiro Cybersec Global Pty Limited to approximately 60% (on a fully diluted basis).

## 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 2019 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 2019 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

28 February 2020

## 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 statement of financial position as at 31 December 2019, the statement of comprehensive income, statement of changes in equity and 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 2019 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.

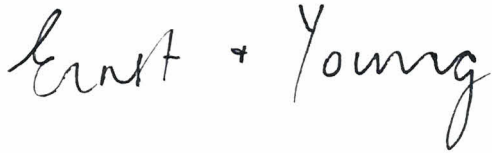
#### Auditor's Responsibility

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 2019 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



Alison Parker  
Partner  
Melbourne  
28 February 2020