Security without compromise

25 September 2015

ASX Market Announcements Office
ASX Limited
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

2015 Annual Financial Report

Please find attached the company's 2015 Annual Financial Report to Shareholders.

Yours faithfully

Brendan Case
Company Secretary

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ABN 33 006 067 607

SENETAS CORPORATION LIMITED

2014/2015 ANNUAL FINANCIAL REPORT

SENETAS

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Francis W. Galbally – Chair

Lachlan P. Given

Kenneth J. Gillespie

Lawrence D. Hansen

Executive Director

Andrew R. Wilson

Company Secretary

Brendan Case

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Investor Relations

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Telephone: 1300 787 795
Email: investor@senetas.com

Auditors

Ernst & Young

8 Exhibition Street
Melbourne VIC 3000

Annual General Meeting Date & Place

Annual General Meeting of shareholders of Senetas Corporation Limited (Company) will be held at Bayview on the Park, Thursday 19 November 2015.

Directors' Report

Your directors submit their report for the year ended 30 June 2015.

Names, qualifications, experience and special responsibilities

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

Francis W. Galbally	Director (Non-Executive Chair)
Andrew R. Wilson	Director (Executive)
Lachlan P. Given	Director (Non-Executive)
Kenneth J. Gillespie	Director (Non-Executive)
Lawrence D. Hansen	Director (Non-Executive) (appointed 28 August 2015)

Francis W. Galbally LLB (Hons)
Non-Executive Chair

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

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

Mr Galbally is also chair of the Bayland Property Group and chair of Arunta Resources Ltd.

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

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

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

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

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

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

Mr Andrew Wilson was appointed CEO of Senetas on 15 August, 2012. He was formerly Senetas' Company Secretary and Chief Financial Officer. Throughout his 14 year career with Senetas, Mr Wilson has had a significant role in most of the important stages of the company's development since it was first listed on the ASX.

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

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

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

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

Lachlan P. Given BBus
Non-Executive Director

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

Prior to joining Madison Park in 2004, Mr Given spent five years working in the Investment Banking and Equity Capital Markets divisions of Merrill Lynch in Hong Kong and Sydney, Australia. He specialised in the origination and execution of a variety of M&A, equity, equity-linked and fixed income transactions.

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

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

Kenneth J. Gillespie AC DSC CSM
Non-Executive Director

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

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

Lawrence D. Hansen – Non-Executive Director (appointed 28 August 2015)

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

Until recently Mr Hansen was VP and general manager of Dell Software Group employing 3,000 staff in sales, marketing, channels and services, and oversaw its go to market strategy. Previously, Mr Hansen was President and CEO of SafeNet, Inc., Senetas' global distribution partner. At SafeNet, he led a significant recapitalisation of the company that saw strong growth in revenues and profits before its successful sale to Gemalto NV.

Mr Hansen's deep knowledge of Senetas' existing and potential global customer base, sales function, product development and innovation program makes him an extremely valuable addition to the Senetas board. Mr Hansen also brings his wealth of global experience in services, products, marketing and business planning.

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

Mr Hansen served in several senior management roles in his over nine years at CA technologies. He held the role of CIO, GM Security Business Unit and GM Enterprise Products and Cloud Solutions.

Mr Hansen, a Canadian born US citizen resides in Dallas, Texas, is a director of Covisint Inc. (Nasdaq: COVS). Covisint is a leading Cloud platform provider enabling the "Internet of Things" and identity management solutions.

Brendan Case MCom Law, BEc, CPA
Company Secretary

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

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

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

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

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

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

Dividends paid and proposed

No dividends were proposed or declared for the financial year ended 30 June 2015. (2014: nil)

Corporate information

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

Corporate structure

Senetas has a direct controlling interest in each of the entities listed in Note 20. No other entities are included in the consolidated entity.

Nature of operations and principal activities

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

Employees

The consolidated entity employed 28 employees as at 30 June 2015 (2014 : 25 employees).

Significant changes in the state of affairs

There are no significant changes in the state of affairs.

Operating & financial review

Highlights

Senetas delivers strong full year profit growth and cash flow.

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 year ended 30 June 2015 (FY2015), delivering strong growth in revenue, profit and cash flow as the business successfully executes its growth strategy.

FY2015 highlights:

- Net profit before tax up 2.4 times to $6.02 million (FY2014: $2.46 million).
- Net profit after tax up 36% to $4.02 million (FY2014: $2.96 million).
- Operating revenue up 47% to $16.21 million (FY2014: $11.04 million) driven by:
  - 41% growth in product sales; and
  - 55% increase in maintenance services revenue.
- Gross margin of 83% and pre-tax profit margin of 37%.
- Continued positive cash flow, with net operating cash flow up over 200% to $9.58 million (FY2014: $2.88 million).
- Strong balance sheet:
  - No debt;
  - Cash on hand at 30 June 2015 up over 100% to $15.90 million (FY2014: $6.81 million); and
  - Net assets up 45% to $13.09 million (net tangible assets $12.97 million).
- Sustained realisation of the operational and financial benefits from the business transformation and growth plan executed since 2012.
- Consolidation of the new master distribution relationship with SafeNet Inc. (now Gemalto NV since completion of its $US870m acquisition of SafeNet Inc. in January 2015).
- Ongoing development of Senetas' proprietary R&D and certified encryptor roadmap driving future growth opportunities.

The benefits from the transformation and growth plan implemented since 2012 have been delivered through growth across all key business metrics. Operating revenue was up 47% to $16.21 million, while earnings grew much stronger generating a net profit before tax of $6.02 million.

The strong revenue growth represents the first full year benefits of the improved master distributor agreement with Gemalto and includes good growth from both new product sales and maintenance services. Growth in new product sales is primarily the result of orders from new customers, particularly in the commercial sector.

FY2015 has seen the company continue its significant investment in research and development (R&D) and building stronger relationships with its master distributor, technology partners and end customers. These are critical factors to ensure Senetas builds both the capability and relationships necessary to drive future revenue growth.

Senetas completed the half in a strong financial position off the back of growing operating cash flows and strong working capital management. With no debt, and $15.90 million of cash at 30 June 2015, the Company is uniquely placed to continue its growth.

Senetas' experienced leadership team, together with the skilled team of product development engineers and marketing and partner development activities have played key roles in supporting the Company's international master distributor and other partners. The growth over the past three years, and in particular over the past twelve months, would not have been possible without the dedication and commitment of the Company's talented team.

International distribution – Safenet's acquisition by gemalto

The acquisition of SafeNet by Gemalto was completed in January 2015. Gemalto ownership of SafeNet provides Senetas products with increased access to global markets. Gemalto has a large global 'footprint' and a sales force located across 44 countries which service their global customer base.

The relationship with Gemalto remains strong and mutually beneficial and Gemalto has confirmed its commitment to the SafeNet product suite, including Senetas' High-Speed Encryption (HSE) products and ranks HSE among its most important product groups.

The Senetas master distributor agreement continues unchanged after the acquisition and Senetas supports this relationship with training in product capabilities and support for Gemalto staff on engagement with strategic customer accounts.

Research and development

R&D remains the Company's core activity and the major driver of long-term growth prospects. Historically Senetas has invested approximately 35% of revenue annually to these activities. Senetas is building significant new capabilities that will drive revenue growth in FY2017 and beyond. In this regard, FY2016 R&D is expected to increase above historic reinvestment rates as a large pipeline of new products are developed, including:

- 100Gbps encryptor – with customers already indicating a need for increased data throughput and the economies of scale 100Gbps will bring;
- 'High-density' encryptors – through a 'multi-port' design providing customers with their need for cost-per-port economies and other benefits;
- A custom encryption algorithm capability following enquiries from customers in Asia, Europe and the Middle East; and
- Virtualisation of encryption – developing new technologies for changing networking protocols and ways of managing networking.

Senetas therefore expects FY2016 R&D expenditure will be approximately 30% higher than it was in FY2015.

Business strategy

Looking forward, in order to maximise Senetas' profitable revenue growth, the Company is focusing on a business strategy with five key growth drivers:

1. Key Senetas HSE markets:
    - Accelerate (and protect) growth by working with Gemalto to increase the sales, marketing and customer footprint in traditional markets.
2. Low HSE penetration markets:
    - Develop markets where Senetas products have low market penetration by working closely with Gemalto. These include: India, Japan, Singapore, South America, Eastern Europe, France, Germany and Italy.
3. New faster and 'high-density' products:
    - Release new market-leading encryptors that reflect emerging customer security needs. These include faster, 100Gbps, and 'high-density' (multi-port) platform.
4. New customer centric custom algorithm projects:
    - Leveraging Senetas' unique and proprietary electronics engineering capabilities and products. Senetas expects to commence work in 2015 on a large custom algorithm project for a major European customer.
    - In order to build other custom algorithm opportunities, Senetas will complete a custom software toolkit to address unique requirements for customers in Asia, Europe and the Middle East.
5. New technology partnerships:
    - Senetas completed a technology partner agreement with major international data networks provider, Avaya, in January 2015. It will provide Senetas/Gemalto access to the rapidly growing Avaya 'Fabric Connect' network technology and its large customers around the world.
    - Senetas has identified two other technology partnership opportunities with major technology companies which are expected to extend the company's technology and market.

These five key growth drivers are expected to drive strong revenue and profit growth from FY2016.

The Company's strategic growth plan is being supported by product marketing, brand recognition and data security thought leadership focused on the commercial, government and networks service providers in targeted geographic markets.

Well positioned for future growth

Senetas continues to see significant opportunities as it increases focus on the demand for HSE in the commercial sector. To date there have been significant sales to large-scale commercial enterprises that recognise the critical need to encrypt large volumes of data in motion and is expected to continue to drive growth as it has throughout FY2015.

Having built a sustainable foundation to support future growth it is now critical that Senetas continues to reinvest in the business to meet customer needs and drive new revenue opportunities in FY2017 and beyond. The increased R&D investment rate and the increase in international sales resource in FY2016 is a necessary ongoing step to continue to develop technology capability and build closer relationships with its master distributor, technology partners and end customers.

Senetas expects that strong industry fundamentals and increased focus on driving sales execution together with key partners will continue to drive good profit growth and cash flow in FY2016. However, with the benefits of the new master distributor agreement now fully realised and an increase in business reinvestment rates over the next 12 months, profit growth in FY2016 may moderate from that achieved in FY2015. Medium term profit growth should be strong as the company starts to deliver new technologies into the market.

Significant events after the balance date

There were no significant events after balance date.

Share options

Unissued Shares

As at the date of this report, there were 1,500,000 unissued ordinary shares under options and performance rights. Refer to the remuneration report for directors and executive options and performance rights and Note 13 for full details of the options outstanding.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate.

Shares issued as a result of the exercise of performance rights

During the year employees exercised performance rights to acquire 4,000,000 shares in Senetas Corporation Ltd. The performance rights had an exercise price of zero.

Indemnification and insurance of directors and officers

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

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

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

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

Indemnification of auditors

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

Rounding

The amounts contained in the financial report have been rounded to the nearest $1 (where rounding is applicable).

Remuneration report – (audited)

This remuneration report for the year ended 30 June 2015 outlines the remuneration arrangements in accordance with the requirements of the *Corporations Act 2001* for key management personnel (KMP) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the company and the group, directly or indirectly, including any director (whether executive or otherwise) of the parent company.

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

Non-executive directors (NEDs)

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

Executive directors

A. Wilson	Chief Executive Officer

Other key management personnel

J. Weston	Engineering Manager
J. Fay	Chief Technology Officer

Current year performance and short term remuneration

As the company met performance targets set by the board, short term incentives will be paid to executives of the company for the 2015 financial year. Details of the bonuses are outlined below:

Directors' Report
Continued

Remuneration Report (continued) – The remuneration report has been audited

Remuneration philosophy

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

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

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

Remuneration Policy

Remuneration policies are determined by the board which makes specific recommendations of remuneration packages and other terms of employment for executive directors and non-executive directors.

Executive remuneration and other terms of employment are reviewed annually by the CEO with regard to performance. Remuneration packages include superannuation, performance related bonuses and an entitlement to participate in the Senetas directors and Employees Share Option Plan.

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

Remuneration and nomination committee

The Remuneration and Nomination Committee comprises three independent non-executive directors.

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

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

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

Remuneration structure

Non-executive director remuneration

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

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting held on 26 October 2007 when shareholders approved an aggregate remuneration of $550,000 per year. The combined payment to all non-executive directors does not exceed this aggregate amount.

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

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

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

The remuneration of directors for the years ending 30 June 2015 and 30 June 2014 is detailed on page 12 of this report.

Directors' Report Continued

Remuneration Report (continued) – The remuneration report has been audited

Executive remuneration

Objective

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

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

Structure

In determining the level and make-up of the CEO's remuneration, the Remuneration and Nomination Committee considers advice from external consultants as well as market survey information on remuneration for comparable roles.

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

It is the policy of the Remuneration and Nomination Committee that employment contracts are entered into with all executives. These are similar to those for all employees except for the contract entered into with the CEO. Details of these contracts are provided on page 11 of this report.

Executive remuneration consists of the following key elements:

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

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

Fixed remuneration

Objective

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

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

Structure

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

The fixed remuneration component for prescribed persons is detailed on pages 12 to 15 of this report.

Variable remuneration — Short Term Incentive (STI)

Objective

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

Payments made are usually delivered as a cash bonus.

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

Structure

Actual STI payments awarded to each executive depend on the extent to which specific set operating targets during the financial year are met. The operational targets may consist of a number of financial and non-financial measures, typically including measures such as contribution to net profit after tax, customer service, risk management, product management, and leadership/team contribution. For the 2015 financial year the target was based on a combination of the contribution to net profit after tax and other key drivers for the short and long term success of the business.

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

For executives other than the CEO, annual STI payments are determined by consideration of the

Remuneration Report (continued) – The remuneration report has been audited

overall performance rating for the group, plus the performance of individual executives, as approved by the CEO.

STI bonus for 2015 financial year

The remuneration committee (for the CEO) and the CEO (for other executives) considered the STI payments for the 2015 year in July 2015. The value of STI bonuses payable for the 2015 financial year to the CEO and executives is $405,000. The minimum payable to each executive including the CEO was nil. These payments are allocated as a proportion of the total bonus funds available for all employees.

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

Variable remuneration — Long Term Incentive (LTI)

Objective

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

Structure

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

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

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

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

Grant of performance rights during the 2015 financial year

On 21 November 2014, following shareholder approval, the group issued 1,500,000 performance rights to the CEO – Mr. A. Wilson. Subject to the satisfaction of the performance conditions described in the following table, the CEO would receive one fully paid ordinary share in the company for each performance right granted. The performance rights granted were provided at no cost to the CEO. The Board selected the performance criteria as being appropriate for the long term incentives for the CEO and as being in line with the strategic direction of the Group. The criteria will be assessed by the Board as to when and whether each performance condition has been satisfactorily met. The performance rights granted are conditional, non-transferrable; they cannot be hedged, sold, transferred, mortgaged, charged or otherwise disposed of or dealt with. The performance rights were valued using a binomial option model.

No. of Performance Rights (1)(4)	Performance Condition (2)	% of performance rights that vest	Performance Period (3)	
			Start	Finish
1,500,000	Continuous employment at Senetas for 24 months	50%	21/11/2014	21/11/2016
	Achieve the company budget for year ended 30 June 2015*	50%*	21/11/2014	30/6/2015
1,500,000				

Notes

1. The performance rights only vest (i.e. provide a share) to the extent that the performance conditions applicable to those Performance Rights are satisfied. There are two separate performance conditions, with each performance condition applying to one half of the total number of performance rights granted. All performance rights granted to the CEO are at no cost.
2. Each performance right will convert into one fully paid ordinary share upon vesting.
3. Each performance right will expire on the finish date if the performance conditions are not met.
4. *The performance rights granted for achieving the company budget were converted to shares on 3 August 2015, as the performance condition was met.

Remuneration Report (continued) – The remuneration report has been audited

Group performance

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

	2015	2014	2013	2012	2011
Net profit/(loss) after tax	4,016,258	2,957,080	(714,439)	(7,984,822)	(5,626,187)
Average number of ordinary shares for basic earnings per share	1,077,891,948	1,073,891,948	1,065,141,948	496,358,721	463,105,195
Earnings per share (cents)	0.00	0.00	(0.00)	(1.61)	(1.21)
Net tangible assets per share (cents per share)	1.20	0.83	0.56	0.62	1.10

Employment contracts

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

Chief Executive Officer – Mr A. Wilson

Under the CEO’s contract:

Mr Wilson receives fixed remuneration of $315,000 per annum and he is eligible to receive short term incentives based on a combination of the contribution to net profit after tax and other key drivers for the short and long term success of the business.

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

Directors' and executives' remuneration

(a) Remuneration of directors and executives for the year ended 30 June 2015 (these tables have been audited)

	Short-Term			Post Employment	Long-Term			
Consolidated	Salary & Fees	Cash Bonus (i)	Allowances	Super-annuation	Long Service Leave	Share-based Payment – Options (ii)	Total	Performance Related
Year ended 30 June 2015	$	$	$	$	$	$	$	
Directors								
F. Galbally (Non-Executive Director) *								
2015	190,000	–	–	–	–	–	190,000	0.00%
A. Wilson (Chief Executive Officer)								
2015	296,216	80,000	–	18,783	13,956	50,173	459,128	28.35%
L. Given (Non-Executive Director)								
2015	95,000	–	–	–	–	–	95,000	0.00%
K. Gillespie (Non-Executive Director) **								
2015	95,000	–	–	–	–	–	95,000	0.00%
Total Remuneration of Directors								
2015	676,216	80,000	–	18,783	13,956	50,173	839,128	15.51%

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

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

* Mr Galbally's director fees are invoiced by and paid to Southbank Capital Pty Ltd.

** Mr Gillespie's director fees are invoiced by and paid to SectorWest Pty Ltd.

	Short-Term				Post Employment	Long-Term		
Consolidated	Salary & Fees	Cash Bonus (i)	Allowances	Super-annuation	Long Service Leave	Share-based Payment – Options	Total	Performance Related
Year ended 30 June 2014	$	$	$	$	$	$	$	
Directors								
F. Galbally (Non-Executive Director) appointed 10 May, 2012								
2014	150,000	–	–	–	–	–	150,000	0.00%
A. Wilson (Chief Executive Officer) appointed 15 August, 2012								
2014	257,856	158,750	–	17,773	4,773	3,938	443,090	36.72%
L. Given (Non-Executive Director) appointed 20 March, 2013								
2014	85,000	–	–	–	–	–	85,000	0.00%
K. Gillispie (Non-Executive Director) appointed 30 April, 2013								
2014	85,000	–	–	–	–	–	85,000	0.00%
Total Remuneration of Directors								
2014	577,856	158,750	–	17,773	4,773	3,938	763,089	21.32%

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

(a) Remuneration of directors and executives for the year ended 30 June 2015 (these tables have been audited)

	Short-Term		Post Employment	Long-Term			
Consolidated	Salary & Fees	Cash Bonus (i)	Superannuation	Long Service Leave	Share-based Payment – Options (ii)	Total	Performance Related
Year ended 30 June 2015	$	$	$	$	$	$	
Executives							
J. Weston (Engineering Manager)							
2015	216,217	162,500	18,783	4,200	–	401,700	40.45%
J. Fay (Chief Technology Officer)							
2015	201,329	162,500	18,670	7,230	–	389,729	41.70%
Total Remuneration of Executives							
2015	417,546	325,000	37,453	11,430	–	791,429	41.06%

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

(a) Remuneration of directors and executives for the year ended 30 June 2014 (these tables have been audited)

	Short-Term		Post Employment	Long-Term			
Consolidated	Salary & Fees	Cash Bonus (i)	Super-annuation	Long Service Leave	Share-based Payment – Options (ii)	Total	Performance Related
Year ended 30 June 2014	$	$	$	$	$	$	
Executives							
J. Weston (Engineering Manager)							
2014	219,155	55,000	17,574	8,460	2,625	302,813	19.03%
J. Fay (Chief Technology Officer)							
2014	183,486	55,000	16,972	3,506	2,625	261,589	22.03%
Total Remuneration of Executives							
2014	402,641	110,000	34,546	11,966	5,250	564,402	20.42%

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

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

(b) Directors' and Executives' Interests in the Securities of Senetas Corporation Limited

(i) At balance date the Directors' and Executives' Interests in Shares of Senetas Corporation Limited (these tables have been audited)

30 June 2015	Balance 01-July-14	Granted as Remuneration	On Vesting of Performance Rights	Shares Bought / (Sold)	Balance 30-June-15
		Ord Shares	Ord Shares	Ord Shares	Ord Shares
Directors					
A. Wilson	840,090	–	–	–	840,090
F. Galbally	138,955,731	–	–	–	138,955,731
L. Given	–	–	–	–	–
K. Gillespie	–	–	–	–	–
Executives					
J. Weston	612,725	–	–	–	612,725
J. Fay	362,725	–	–	–	362,725
Total	**140,771,271**	**–**	**–**	**–**	**140,771,271**

(ii) Shares issued on exercise of remuneration options (these tables have been audited)

No Shares were issued on exercise of remuneration options during the financial year ended 30 June 2015.
No Shares were issued on exercise of remuneration options during the financial year ended 30 June 2014.

(iii) Shares granted as part of remuneration (these tables have been audited)

No shares were granted as part of remuneration during the financial year ended 30 June 2015.
No shares were granted as part of remuneration during the financial year ended 30 June 2014.

(iv) Options/performance rights granted as part of remuneration (these tables have been audited)

Performance rights granted as part of remuneration during the financial year ended 30 June 2015.

30 June 2015	Grant Date	Grant Number	Fair value of options granted during the 2015 year	Value of options forfeited during the 2015 year	Value of options vested during the 2015 year	Consideration for exercise	Remuneration consisting of options for the year
			$	$	$	$	
A. Wilson	20-Nov-14	1,500,000	50,173	–	–	–	10.93%
Total		**1,500,000**	**50,173**	**–**	**–**	**–**	**10.93%**

No performance rights were granted as part of remuneration during the year ended 30 June 2014. The value of performance rights which vested during 2014 are shown below.

30 June 2014	Grant Date	Grant Number	Fair value of options granted during the 2014 year	Value of options forfeited during the 2014 year	Value of options vested during the 2014 year	Consideration for exercise	Remuneration consisting of options for the year
			$	$	$	$	
A. Wilson	15-Nov-12	–	–	–	10,500	–	0.89%
J. Weston	15-Nov-12	–	–	–	7,000	–	0.87%
J. Fay	15-Nov-12	–	–	–	7,000	–	1.00%
Total		**–**	**–**	**–**	**24,500**	**–**	

(v) Option holdings of KMP

30 June 2015	Balance at beginning of period: 1 July 2014	Granted as remuneration	Options exercised	Net change Other	Balance at end of period: 30 June 2015	Total	Exercisable	Not exercisable
A. Wilson	–	1,500,000	–	–	1,500,000	1,500,000	–	1,500,000
F. Galbally	–	–	–	–	–	–	–	–
L. Given	–	–	–	–	–	–	–	–
K. Gillespie	–	–	–	–	–	–	–	–
J. Weston	–	–	–	–	–	–	–	–
J. Fay	–	–	–	–	–	–	–	–
Total	**–**	**1,500,000**	**–**	**–**	**1,500,000**	**1,500,000**	**–**	**1,500,000**

(vi) At balance date the director and executive interests in shares Senetas Corporation Limited

30 June 2015	Balance 01-July-14	Granted as Remuneration	On Vesting Performance Rights	Shares Bought / (Sold)	As at the Date of Resignation	Balance 30-June-15
	Ord Shares	Ord Shares	Ord Shares	Ord Shares	Ord Shares	Ord Shares
Directors						
F. Galbally	138,955,731	–	–	–	–	138,955,731
Executives						
A. Wilson	840,090	–	–	–	–	840,090
J. Weston	612,725	–	–	–	–	612,725
J. Fay	362,725	–	–	–	–	362,725
Total	**140,771,271**	**–**	**–**	**–**	**–**	**140,771,271**

Environmental Regulation and Performance

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

Meetings of Directors

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

	Number of Meetings	
	Held While A Director	Attended
F. Galbally	6	6
L. Given	6	6
K. Gillespie	6	4
A. Wilson	6	6

A total of 6 Directors' meetings were held during the year ended 30 June 2015.

The company has an Audit Committee.
Members acting on the committee of the Board during the year were:

	Number of Meetings	
	Held While A Director	Attended
L. Given (Chair)	2	2
F. Galbally	2	2
K. Gillespie	2	1

Mr A. Wilson attended Audit Committee meetings in the capacity of CEO.
A total of 2 meetings were held during the year ended 30 June 2015.

The company has a Remuneration and Nomination Committee.
Members acting on the committee of the Board during the year were:

	Number of Meetings	
	Held While A Director	Attended
K. Gillespie (Chair)	2	2
F. Galbally	2	2
L. Given	2	2

A total of 2 meetings were held during the year ended 30 June 2015.

More information about the board and the sub-committees are set out in the section titled 'Corporate Governance Statement'.

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

In relation to our audit of the financial report of Senetas Corporation Limited for the financial year ended 30 June 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Kylie Bodenham
Partner
25 September 2015

Non-Audit Services

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

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

Tax compliance services $74,100

Signed in accordance with a resolution of the directors.

Francis W. Galbally
Chairman
25 September 2015

A member of Ernst & Young Global Limited
Liability limited by a scheme approved under Professional Standards Legislation

Statement of Comprehensive Income for the Year Ended 30 June 2015

		Consolidated	
		2015	2014
	Notes	$	$
Revenue	3(a)	16,207,218	11,037,613
Cost of sales		(2,758,600)	(1,716,863)
Gross profit		13,448,618	9,320,750
Other income	3(b)	1,652,698	1,440,225
Depreciation and amortisation expense	3(c)	(301,091)	(276,419)
Employee benefits expense	3(d)	(5,332,951)	(4,725,201)
Administration expenses	3(e)	(2,845,327)	(2,066,223)
Other expenses	3(f)	(600,947)	(1,235,543)
Profit before income tax		**6,021,000**	**2,457,588**
Income tax benefit/(expense)	4	(2,004,742)	499,492
Net profit after income tax		**4,016,258**	**2,957,080**
Other comprehensive income			
Items that may be classified subsequently to profit or loss			
Foreign currency translation reserve		(10,845)	(46,574)
Other comprehensive income for the year		**(10,845)**	**(46,574)**
Total comprehensive income for the year		**4,005,413**	**2,910,506**
Profit for the period is attributable to:			
Owners of the parent		4,005,413	2,910,506
		4,005,413	**2,910,506**
Total comprehensive profit for the year is attributable to:			
Owners of the parent		4,005,413	2,910,506
		4,005,413	**2,910,506**
Earnings per share			
Basic, profit for the year attributable to ordinary equity holders of the parent.	5	0.0037	0.0028
Diluted, profit for the year attributable to ordinary equity holders of the parent.		0.0037	0.0028

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

Statement of Financial Position as at 30 June 2015

		Consolidated	
		2015	2014
	Notes	$	$
Assets			
Current Assets			
Cash and cash equivalents	6	15,901,898	6,805,359
Trade and other receivables	7	4,042,547	5,482,948
Inventories	8	720,712	682,513
Prepayments		212,843	109,628
Other current assets	9	31,549	10,450
Total Current Assets		**20,909,549**	**13,090,898**
Non-Current Assets			
Other financial assets		92,501	59,952
Deferred tax asset		513,752	1,447,074
Plant and equipment	11	751,519	454,151
Intangible assets	12	124,405	118,131
Total non-current assets		1,482,177	2,079,308
Total Assets		**22,391,726**	**15,170,206**
Liabilities			
Current Liabilities			
Trade and other payables	14	2,067,878	1,583,726
Income/company tax payable		1,251,989	226,010
Unearned income		3,718,749	3,200,227
Provisions	15	785,843	803,750
Total Current Liabilities		**7,824,459**	**5,813,713**
Non-Current Liabilities			
Deferred tax liabilities		48,545	3,105
Provisions	15	28,502	14,499
Unearned income – non-current		1,396,822	312,706
Total Non-Current Liabilities		1,473,869	330,310
Total Liabilities		9,298,328	6,144,023
Net Assets		**13,093,398**	**9,026,184**
Equity			
Equity Attributable to Equity Holders of the Parent			
Contributed equity	16	104,388,258	104,332,258
Accumulated losses		(91,955,863)	(95,972,121)
Employee benefit reserve		673,017	667,213
Foreign currency translation reserve	16	(24,874)	(14,029)
Parent Interests		13,080,538	9,013,324
Non-Controlling Interests		12,860	12,860
Total Equity		**13,093,398**	**9,026,184**

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

Statement of Cash Flows for the Year Ended 30 June 2015

		Consolidated	
		2015	2014
	Notes	$	$
Cash flows from operating activities			
Receipts from customers		19,216,796	10,694,138
Receipt of R&D tax refund		1,385,730	1,359,104
Payments to suppliers and employees		(11,306,887)	(9,257,309)
Interest received		281,325	83,433
Net cash flows from operating activities	6	**9,576,964**	**2,879,366**
Cash flows from investing activities			
Purchase of plant and equipment		(406,555)	(74,101)
Purchase of intangible assets		(63,025)	(35,406)
Net cash flows from investing activities		**(469,580)**	**(109,507)**
Cash flows from financing activities			
Placement costs		–	(8,939)
Net cash flows used in financing activities		–	(8,939)
Net increase in cash and cash equivalents		9,107,384	2,760,920
Net effect of foreign currency translation		(10,845)	(46,574)
Cash and cash equivalents at beginning of period		6,805,359	4,091,013
Cash and cash equivalents at end of period	6	**15,901,898**	**6,805,359**

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

Statement of Changes in Equity for the Year Ended 30 June 2015

	Attributable to Equity Holders of Senetas Corporation Ltd				Owners of the Parent	Non-Controlling Interest	Total Equity
	Contributed Equity	Accumulated (Losses) / Profits	Foreign Currency Translation Reserve	Employee Benefits Reserve	Total		
Consolidated	$	$	$	$	$	$	$
At 30 June 2013	104,218,699	(98,929,201)	32,545	735,946	6,057,990	12,860	6,070,849
Profit for the year	–	2,957,080	–	–	2,957,080	–	2,957,080
Other comprehensive income	–	–	(46,574)	–	(46,574)	–	(46,574)
Total comprehensive income	–	2,957,080	(46,574)	–	2,910,506	–	2,910,506
Transactions with owners in their capacity as owners							
Shares issued	–	–	–	–	–	–	–
Share placement costs	(8,939)	–	–	–	(8,939)	–	(8,939)
Options issued	122,498	–	–	(68,733)	53,765	–	53,765
At 30 June 2014	104,332,258	(95,972,121)	(14,029)	667,213	9,013,324	12,860	9,026,184
Profit for the year	–	4,016,258	–	–	4,016,258	–	4,016,258
Other comprehensive income	–		(10,845)	–	(10,845)	–	(10,845)
Total comprehensive income	–	4,016,258	(10,845)	–	4,005,413	–	4,005,413
Transactions with owners in their capacity as owners							
Shares issued	–	–	–	–	–	–	–
Options issued	–	–	–	61,804	61,804	–	61,804
Options converted to shares	56,000	–	–	(56,000)	–	–	–
At 30 June 2015	**104,388,258**	**(91,955,863)**	**(24,874)**	**673,017**	**13,080,538**	**12,860**	**13,093,398**

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

Notes to the Financial Statements for the Year Ended 30 June 2015

1 Corporate information

The consolidated financial report of Senetas Corporation Limited and its subsidiaries (collectively, the Group) for the year ended 30 June 2015 was authorised for issue in accordance with a resolution of the directors on 26 August 2015.

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

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

2 Summary of significant accounting policies

Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on an historical cost basis except for financial assets held at fair value (see Note 11). The financial report is presented in Australian dollars and all values are rounded to the nearest dollar ($) unless otherwise stated.

(a) Compliance with IFRS

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

(b) New accounting standards and interpretations

Changes in accounting policy and disclosures.

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

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations for the year ended 30 June 2015.

AASB 2012–3: Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities – adds application guidance to AASB 132 *Financial Instruments: Presentation* to address inconsistencies identified in applying some of the offsetting criteria of AASB 132. Effective 1 July 2014.

Interpretation 21: Levies – This Interpretation confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs. Applying the going concern assumption does not create a constructive obligation. Effective 1 July 2014.

AASB 2013-3: Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets. Amends the disclosure requirements in AASB 136 *Impairment of Assets*. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. Effective 1 July 2014.

AASB 1031: Materiality – The revised AASB 1031 is an interim standard that cross-references to other Standards and the Framework (issued December 2013) that contain guidance on materiality. Effective 1 July 2014.

AASB 2013-9: Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments – The Standard contains three main parts and makes amendments to a number of Standards and Interpretations. Part A of AASB 2013-9 makes consequential amendments arising from the issuance of AASB CF 2013-1. Part B makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 and also makes minor editorial amendments to various other standards. Part C makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 *Hedge Accounting* into AASB 9 Financial Instruments.

AASB 2014-1: Part A – Annual Improvements 2010 – 2012 Cycle. This standard sets out amendments to Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards (IFRSs) *Annual Improvements to IFRSs 2010–2012 Cycle and Annual Improvements to IFRSs* 2011-2013 Cycle. Effective 1 July 2014.

Annual Improvements to IFRSs 2010–2012 Cycle addresses the following items:

AASB 2 – Clarifies the definition of 'vesting conditions' and 'market condition' and introduces the definition of 'performance condition' and 'service condition'.

AASB 3 – Clarifies the classification requirements for contingent consideration in a business combination by removing all references to AASB 137.

AASB 8 – Requires entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated. An entity is also required to provide a reconciliation of total reportable segment assets to the entity's total assets.

AASB 116 & AASB 138 – Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts.

AASB 124 – Defines a management entity providing KMP services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of AASB 124 *Related Party Disclosures* for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed.

Annual Improvements to IFRSs 2011 – 2013 cycle addresses the following items:

AASB 13 – Clarifies that the portfolio exception in paragraph 52 of AASB 13 applies to all contracts within the scope of AASB 139 or AASB 9 , regardless of whether they meed the definitions of financial assets of financial liabilities as defined in AASB 132.

AASB 140 – Clarifies that judgement is needed to determine whether an acquisition of investment property is solely the acquisition of an investment property or whether it is the acquisition of a group of assets or a business combination in the scope of AASB 3 that includes an investment property. That judgement is based on guidance in AASB 3.

The adoption of the above amendments have had no or minimal effect on the Group.

2 Summary of significant accounting policies (continued)

(b) Summary of Significant Accounting Policies (Continued)

The following standards and interpretations have been issued but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June, 2015.

* designates the beginning of the applicable annual reporting period

Reference	Title and brief summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 9	Financial Instruments	1-Jan-18	AASB 9 (December 2014) is a new standard which replaces AASB 139. This new version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139. There are also some changes made in relation to financial liabilities. The main changes are described below. **Financial assets** a. Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. c. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. **Financial Liabilities** Changes introduced by AASB 9 in respect of financial liabilities are limited to the measurement of liabilities designated at fair value through profit of loss (FVPL) using the fair value option.	1-Jul-18

2 Summary of significant accounting policies (continued)

<table>
<tr><th>Reference</th><th>Title and brief summary</th><th>Application date of standard*</th><th>Impact on Group financial report</th><th>Application date for Group*</th></tr>
<tr><td>AASB 9</td><td>Financial Instruments (Continued)</td><td>1-Jan-18</td><td>Where the fair value option is used for financial liabilities , the change in fair value is to be accounted for as follows:
• The change attributable to changes in credit risk are presented in other comprehensive income (OCI)
• The remaining change is presented in profit or loss
AASB 9 also removes the volatility in profit of loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains or losses attributable to changes in the entity's own credit risk would be recognised in OCI. These amounts recognised in OCI are not recycled to profit or loss if the liability is ever repurchased at a discount.
Impairment
The final version of AASB 9 (December 2009 and 2010 editions and AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.
Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 - Part E.
AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in December 2014.
AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on or after 1 January 2015.
At this time the changes to AASB 9 are unlikely to have an impact on the Group.</td><td>1-Jul-18</td></tr>
<tr><td>AASB 2014-3</td><td>Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 & AASB 11]</td><td>1-Jan-16</td><td>AASB 2014-3 amends AASB 11 – Joint Arrangements to provided guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require:
a. the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in AASB 3 Business Combinations, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11; and
b. The acquirer to disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations.
The standard also makes an editorial correction to AASB 11
At this time the changes to AASB 2014-3 are unlikely to have an impact on the Group.</td><td>1-Jul-16</td></tr>
</table>

2 Summary of significant accounting policies (continued)

Reference	Title and brief summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2014-4	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)	1-Jan-16	AASB 116 *Property Plant and Equipment* and AASB 138 *Intangible Assets* both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriated because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The clarification of acceptable methods will not have an affect on the Group.	1-Jul-16
AASB 15	Revenue from Contracts with Customers	1-Jan-17	IFRS 15 Revenue from Contracts with Customers, replaces IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps: Step 1: Identify the contracts with a customer Step 2: Identify the performance obligations in the contract Step 3: Determine the transaction price Step 4: Allocate the transaction price to the performance obligations in the contract Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. The AASB issued the Australian equivalent of IFRS 15, being AASB 15, in December 2014. The Group is currently evaluating the impact of the new standard. "The International Accounting Standards Board (IASB) in its July 2015 meeting decided to confirm its proposal to defer the effective date of IFRS 15 (the international equivalent of AASB 15) from 1 January 2017 to 1 January 2018. The amendment to give effect to the new effective date for IFRS 15 is expected to be issued in September 2015. At this time, it is expected that the AASB will make a corresponding amendment to AASB 15, which will mean that the application date of this standard for the Group will move from 1 July 2017 to 1 July 2018.	1-Jul-17
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between and Investor and its Associate or Joint Venture	1-Jan-16	Amends AASB 10 *Consolidated Financial Statements* and AASB 128 to address an inconsistency between the requirements in AASB 10 and in AASB 128 (August 2011) , in dealing with the sale of contribution of assets between an investor and its associate or joint venture. The amendments require: (a) a full gain or loss to be recognised when a transaction involves a business (whether it is housed in a subsidiary or not); and (b) a partial gain or loss to be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These changes are not expected to have an impact on the Group	1-Jul-16

Notes to the Financial Statements for the Year Ended 30 June 2015 Continued

2 Summary of significant accounting policies (continued)

Reference	Title and brief summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2015-1	Amendments to Australian Accounting Standards – Annual Improvements to Australina Accounting Standards 2012-2014 Cycle	1-Jan-16	Principle amendments to the Standards are: AASB 5 *Non-current Assets Held for Sale and Discontinued Operations:* • Changes in methods of disposal – where an entity reclassifies an asset (or disposal group) directly from being held for distribution to being held for sale (or visa versa), and entity shall not follow the guidance in paragraphs 27-29 to account for this change. AASB 7 *Financial Instrument Disclosures:* Servicing contracts – clarifies how an entity should apply the guidance in paragraph 42C of AASB 7 to a servicing contract to decide whether a servicing contract is 'continuing involvement' for the purposes of applying the disclosure requirements in paragraphs 42E-42H of AASB 7 Applicability of the amendments to AASB 7 to condensed interim financial statements – clarify that the additional disclosure required by the amendments to AASB 7 Disclosure – Offsetting Financial Assets and Financial Liablities is not specifically required for all interim periods. However the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with AASB 134 Interim Financial Reporting when its inclusion would be required by the requirements of AASB 134. AASB 119 *Employee Benefits*: Discount rate: regional market issue – clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. Further it clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level. AASB 134 *Interim Financial Reporting*: Disclosure of information 'elsewhere in the interim financial report' – amends AASB 134 to clarify the meaning of disclosure of information 'elsewhere in the financial report' and to require the inclustion of a cross-reference from the interim financial statements to the location of this information. The above changes are not expected to have an impact on the Group's reporting.	1-Jul-16
AASB 2015-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	1-Jan-16	The standard makes amendments to AASB 101 *Presentation of Financial Statements* arising from the IASB's Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in the financial statments. For example, the amendments make clear that materiality applies to the whole of financial statments and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments also clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures. This change is unlikely to have an impact on the Group's reporting	1-Jul-16
AASB 2015-3	Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 *Materiality*	1-Jul-15	The standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards This will have no impact on the Group's reporting	1-Jul-15

Notes to the Financial Statements for the Year Ended 30 June 2015

Continued

2 Summary of significant accounting policies (continued)

(c) Basis of consolidation

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

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

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

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

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

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

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

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

Investments in subsidiaries are carried at cost.

(d) Significant accounting judgements, estimates and assumptions

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

Provision for long service leave

The Group re-evaluates the provision for long service leave on an annual basis. This requires an estimation of factors such as expected future wage and salary levels, experience of employee departures and periods of service. (2015: $539,469, 2014: $454,247)

Deferred tax asset

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. No deferred tax asset for the tax loss is recorded as at 30 June 2015 because management determined that it is not probable that these losses will be utilised in the future (2014: $0).

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

Provision for slow moving items

Inventories are reviewed annually to identify slow moving inventory. When these items are identified we assess the remaining technological useful life, then estimate the quantum of sales expected over that remaining useful life. Where there is a shortfall of estimated sales versus the quantity of inventory on hand at the end of the period a provision is raised. (2015: $17,730, 2014: $87,017).

(e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably

2 Summary of significant accounting policies (continued)

measured. The following specific recognition criteria must also be met before revenue is recognised:

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

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

Maintenance

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

Interest

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

(f) R&D tax incentive

The R&D Tax Incentive provides a 45% refundable tax offset for entities with an aggregated turnover of less than $20 million per annum. It is an Australian Government measure to encourage industry to invest in research and development and provides generous benefits for eligible activities.

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

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

(g) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Lessee – Operating lease

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

(h) Cash and cash equivalents

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

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

(i) Trade and other receivables

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

Collectability of trade receivables is reviewed on an on-going basis. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Objective evidence of impairment includes such things as the financial difficulties of the debtor and disputes that cannot be resolved.

(j) Inventories

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

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

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

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

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

Notes to the Financial Statements for the Year Ended 30 June 2015

Continued

2 Summary of significant accounting policies (continued)

(k) Foreign currency translation

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

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

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

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

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

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

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

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

(l) Income tax and other taxes

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

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

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

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

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

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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

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

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

Notes to the Financial Statements for the Year Ended 30 June 2015

Continued

2 Summary of significant accounting policies (continued)

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

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

Tax consolidation legislation

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

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

Other Taxes

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

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

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

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

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

(m) Plant and equipment

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

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

Leasehold improvements – the lease term

Plant and equipment – over 3 to 15 years

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

Derecognition and disposal

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

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

(n) Intangible assets other than goodwill

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

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

2 Summary of significant accounting policies (continued)

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

Software

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

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

Research and development costs

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

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

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases, the asset is tested for impairment as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

(p) Trade and other payables

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

(q) Provisions

Employee leave benefits

Wages, salaries, annual leave and personal leave

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

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

General

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

2 Summary of significant accounting policies (continued)

expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

(r) Share-based payment transactions

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

The cost of these equity-settled transactions with directors and employees is measured by reference to the fair value of the equity instruments at the date at which they were granted. The fair value is determined by an external valuer using a binomial option pricing model. Further details are provided in note 13.

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

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions are included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised at the beginning and end of that period. There is a corresponding credit to equity.

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

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

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

(s) Contributed equity

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

(t) Earnings per share

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

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends);
- other non-discretionary changes in revenue or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(u) Business combinations

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

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating and accounting policies and other pertinent conditions as at the acquisition date.

3 Revenues and expenses

	Notes	Consolidated 2015 $	Consolidated 2014 $
(a) Revenue			
Sale of goods		9,966,089	7,045,835
Sale of software		40,608	104,793
Product maintenance revenue		5,900,097	3,799,157
Interest revenue:			
Non-related parties		300,424	87,828
		16,207,218	**11,037,613**
(b) Other income			
R&D Tax Incentive (i)		1,652,698	1,440,225
		1,652,698	**1,440,225**
(c) Depreciation and amortisation expense			
Depreciation:			
Plant and equipment	11	201,887	208,780
Leasehold improvements	11	42,453	4,873
Amortisation:			
Software	12	56,751	62,766
		301,091	**276,419**
(d) Employee benefits expense			
Salaries & wages		4,974,965	4,319,396
Superannuation		296,182	269,672
Termination payouts		–	82,367
Share based payment expense	13	61,804	53,766
		5,332,951	**4,725,201**
(e) Administration expenses			
Operating lease		367,339	527,110
Travel expenditure		524,732	368,097
Telephone & internet expenditure		72,398	93,691
Insurance expenditure		124,935	104,790
Marketing expenditure		291,105	269,948
External contractors		1,464,818	702,587
		2,845,327	**2,066,223**
(f) Other expenses			
Foreign exchange (gain) or loss		(348,464)	258,474
Inventory written off / provision		140,823	144,467
R&D expenditure (excluding salaries)		220,108	280,162
Write off of plant & equipment		228	–
Other overhead expenses		588,252	552,440
		600,947	**1,235,543**

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

Notes to the Financial Statements for the Year Ended 30 June 2015

Continued

4 Income tax

	Consolidated	
	2015	2014
	$	$
Major components of income tax expense for the years ended 30 June 2015 and 2014 are:		
Current income tax		
Current income tax charge	1,700,334	2,057,596
Adjustments in respect of current income tax of previous years	(226,010)	–
Deferred income tax	–	
Relating to origination and reversal of temporary differences	978,761	(725,502)
Unbooked tax losses utilised	(448,343)	(1,831,586)
Income tax expense /(benefit) reported in statement of comprehensive income	**2,004,742**	**(499,492)**

Reconcilliation of tax expense and the accounting profit and multiplied by Australia's domestic tax rate for 2014 and 2015:		
Accounting profit before tax	6,021,000	2,457,588
At the statutory income tax rate of 30% (2014: 30%)	1,806,300	737,276
Expenditure not allowable for income tax purposes	22,577	20,810
Capital items not allowable for income tax purposes	5,933	3,253
Unbooked tax losses utilised	(448,343)	(1,831,586)
R&D claim	605,990	528,082
Other	12,286	42,672
Income tax expense/(benefit) reported in statement of comprehensive income	**2,004,742**	**(499,492)**

Notes to the Financial Statements for the Year Ended 30 June 2015

Continued

4 Income tax (continued)

Consolidated	Consolidated Statement of Financial Position 2015 $	2014 $
Deferred tax assets		
Accruals:		
Stock obsolescence	5,319	26,105
Accrued Expenses	47,789	54,594
Employee benefits:		
Annual leave	82,463	82,418
Long service leave	161,841	136,274
Bonus	180,705	–
Plant & equipment:		
Amortised business costs	17,306	36,222
Patents	12,475	13,666
Other:		
Onerous rental	–	11,552
Make good provision	–	15,231
Unrealised loss	–	47,180
FBT accrual	5,854	562
Unearned income	–	1,023,604
Other	–	(334)
	513,752	1,447,074
Deferred tax liabilities		
Prepayments	(2,061)	(1,770)
Unrealised gain	(39,984)	–
Interest receivable		(1,335)
FBT accrual	(6,500)	–
	(48,545)	**(3,105)**
Net deferred tax asset	**465,207**	**1,443,969**

Notes to the Financial Statements for the Year Ended 30 June 2015

Continued

4 Income tax (continued)

	Statement of Comprehensive Income	
	2015	2014
Consolidated	$	$
Deferred tax assets		
Accruals:		
Stock obsolescence	20,786	(26,105)
Accrued Expenses	6,805	(18,129)
Employee benefits:		
Annual leave	(45)	13,265
Long service leave	(25,567)	(10,344)
Bonus	(180,705)	–
Plant & equipment:		
Amortised business costs	18,916	15,697
Patents	1,191	1,192
Other:		
Unrealised loss	47,180	(47,045)
FBT accrual	562	(562)
Unearned income	1,023,604	(620,833)
Onerous rental	11,552	(11,552)
Make good provision	15,231	(15,231)
	939,510	(719,647)
Deferred tax liabilities		
Prepayments	291	1,738
Unrealised gain	39,984	(17,794)
Interest receivable	(1,335)	1,318
Other	(334)	8,883
FBT accrual	645	–
	39,251	(5,855)
Deferred tax (benefit) /expense	978,761	(725,502)

4 Income tax (continued)

Deferred tax asset and liabilities	Consolidated 2015 $	Consolidated 2014 $
Deferred tax asset (non-current)	513,752	1,447,074
Deferred tax liability (non-current)	(48,545)	(3,105)

The franking account balance for both 2015 and 2014 is $384,327.

Tax consolidation

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

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

Tax effect accounting by members of the tax consolidated group

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

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

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

The group has estimated tax losses arising in Australia of $3,762,339 (2014: $5,309,285) that may be available indefinitely for offset against future income tax payable. Of the total tax losses available for offset against future income tax payable, none have been recognised as a deferred tax asset (2014: $0).

Nature of the tax funding agreement

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

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

5 Earnings per share

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

	Consolidated	
	2015	2014
	$	$
Net profit attributable to equity holders of the parent		
Continuing operations	4,016,258	2,957,080
Net profit attributable to ordinary shareholders for diluted earnings per share	**4,016,258**	**2,957,080**
	No. of shares	No. of shares
Weighted average number of ordinary shares for basic earnings per share	1,077,891,948	1,073,891,948
Effect of dilution:		
Share options [(1)]	–	–
Adjusted weighted average number of ordinary shares for diluted loss per share	**1,077,891,948**	**1,073,891,948**

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

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

6 Cash and cash equivalents

	Consolidated	
	2015	2014
	$	$
Cash at bank and on hand	5,672,455	3,305,359
Short-term deposits	10,229,443	3,500,000
Total cash and cash equivalents	**15,901,898**	**6,805,359**

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

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

Reconciliation of cash

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following at 30 June:

	Consolidated	
	2015	2014
	$	$
Cash at bank and on hand	5,672,455	3,305,359
Short-term deposits	10,229,443	3,500,000
Total cash and cash equivalents	**15,901,898**	**6,805,359**
Reconciliation from the net profit after tax to the net cash flows from operations		
Net profit /(loss) after tax	4,016,258	2,957,080
Adjustments for:		
Depreciation and amortisation	301,091	276,419
Unrealised foreign currency loss/(gain)	(133,280)	157,267
Write off of plant & equipment	228	–
Inventory Provision / written off	140,823	144,467
Share based payment expense	61,804	53,766
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	1,440,401	(2,294,572)
(Increase)/decrease in inventories	(179,022)	309,222
(Increase)/decrease in prepayments	(103,221)	7,883
(Increase)/decrease in other current assets	(21,099)	(4,191)
(Increase)/decrease in other financial assets	(32,549)	(59,953)
(Decrease)/increase in trade and other payables	617,432	155,543
(Decrease)/increase in deferred income tax assets	933,323	(710,763)
(Decrease)/increase in deferred income tax liability	45,441	(14,739)
Increase/(decrease) in income tax payable	1,025,979	226,010
Increase/(decrease) in redundancy provision	–	(280,843)
(Decrease)/increase in provisions	85,371	(20,968)
Inventory transferred to plant & equipment	(135,381)	(70,808)
(Decrease)/increase in unearned income	1,602,640	1,959,271
Increase/(decrease) in Provision for onerous rent	(38,505)	38,505
Increase/(decrease) in Provision make good	(50,770)	50,770
Net cash (used in) / from operating activities	**9,576,964**	**2,879,366**

7 Trade and other receivables

	Consolidated	
	2015	2014
	$	$
Trade receivables	2,206,793	3,959,348
Provision for doubtful debts	–	–
Net GST (payable)/receivable	183,056	83,375
R&D tax incentive (i)	1,652,698	1,440,225
	4,042,547	**5,482,948**

(i) R&D tax incentive – a 45% refundable tax offset – see Note 3 for further information

At 30 June 2015, the ageing analysis of trade receivables is as follows:

	Neither past due nor impaired	Past due but not impaired (i)	Past due & impaired
	$	$	$
2015 Consolidated	2,206,793	–	–
2014 Consolidated	3,959,348	–	–

(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.

For further information on risk disclosures refer Note 17.

8 Inventories

	Consolidated	
	2015	2014
	$	$
Inventories (at net realisable value)	**720,712**	**682,513**

During 2015, $140,823 (2014: $144,467) was recognised as an expense for inventories carried at the lower of cost and net realisable value. This is recognised in other expenses.

9 Other assets

	Consolidated	
	2015	2014
	$	$
Interest receivable	23,549	4,450
Security deposit	8,000	6,000
	31,549	**10,450**

10 Other financial assets

		Consolidated		Senetas Corporation Ltd	
		2015	2014	2015	2014
	Note	$	$	$	$
Investments in controlled entities	20	–	–	10,867,471	10,867,471
Other unlisted investments at fair value [i]		–	–	–	–

(i) Other unlisted investments consist of:

	Country of Incorporation		% Equity Interest	
			2015	2014
Mineral Resource Corp Inc	Canada		0.001%	0.001%
Axiom Navigational Inc	USA		5%	5%
YellowOnline.com Inc	USA		8%	8%
EonReality Inc (ii)	USA		4.7%	4.7%
Webspy Ltd	Australia		0.002%	0.002%
InfoProtect Technologies Plc	UK		19.86%	19.86%

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

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

The shareholding represents 4.7% of the current issued shares in EON Reality Inc. The investment was made during the year 2000 and was since written off by the board. Whilst the board has taken the view that it will not recognise the value of the investment until it has been realised, it does point out that EON Reality Inc. is the world leader in virtual and augmented reality software.

11 Plant and equipment

	Consolidated		
	Leasehold improvements	Plant and equipment	Total
	$	$	$
Year ended 30 June 2015			
At 1 July 2014, net of accumulated depreciation	2,141	452,010	454,151
Additions (net of disposals)	299,551	107,004	406,555
Transfer to plant and equipment from inventory	–	135,381	135,381
Write offs	–	(228)	(228)
Depreciation charge for the year	(42,453)	(201,887)	(244,340)
At 30 June 2015, net of accumulated depreciation	**259,239**	**492,280**	**751,519**
At 1 July 2014			
Cost	26,563	1,545,869	1,572,432
Accumulated depreciation and impairment	(24,422)	(1,093,859)	(1,118,281)
Net carrying amount	**2,141**	**452,010**	**454,151**
At 30 June 2015			
Cost	306,953	1,558,617	1,865,570
Accumulated depreciation	(47,714)	(1,066,337)	(1,114,051)
Net carrying amount	**259,239**	**492,280**	**751,519**

	Consolidated		
	Leasehold improvements	Plant and equipment	Total
	$	$	$
Year ended 30 June 2014			
At 1 July 2013, net of accumulated depreciation	5,942	516,953	522,895
Additions (net of disposals)	1,072	73,029	74,101
Transfer to plant and equipment from inventory	–	70,808	70,808
Depreciation charge for the year	(4,873)	(208,780)	(213,653)
At 30 June 2014, net of accumulated depreciation	**2,141**	**452,010**	**454,151**
At 1 July 2013			
Cost	26,491	1,925,416	1,951,907
Accumulated depreciation	(20,549)	(1,408,463)	(1,429,012)
Net carrying amount	**5,942**	**516,953**	**522,895**
At 30 June 2014			
Cost	26,563	1,545,869	1,572,432
Accumulated depreciation	(24,422)	(1,093,859)	(1,118,281)
Net carrying amount	**2,141**	**452,010**	**454,151**

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

12 Intangible assets

	Software
	$
Year ended 30 June 2015	
At 1 July 2014 net of accumulated amortisation and impairment	118,131
Additions	63,025
Amortisation	(56,751)
At 30 June 2015, net of accumulated amortisation an impairment	**124,405**
At 30 June 2015, net of accumulated amortisation and impairment	
Cost (gross carrying amount)	276,628
Accumulated amortisation and impairment	(152,223)
Net carrying amount	**124,405**
Year ended 30 June 2014	
At 1 July 2013 net of accumulated amortisation and impairment	145,491
Additions	35,406
Amortisation	(62,766)
At 30 June 2014, net of accumulated amortisation and impairment	**118,131**
At 30 June 2014	
Cost (gross carrying amount)	258,572
Accumulated amortisation and impairment	(140,441)
Net carrying amount	**118,131**

Software

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

13 Employee benefits reserve

Employee share option plan

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of share options and performance rights outstanding as at 30 June 2015:

	2015	2015	2014	2014
	No.	WAEP	No.	WAEP
Outstanding at the beginning of the year	12,200,000		25,150,000	$0.098
Granted during the year	1,500,000	$0.051	–	$0.000
Exercised during the year	(4,000,000)		(8,750,000)	–
Expired during the year	(8,200,000)	$0.080	–	–
Forfeited during the year			(4,200,000)	$0.080
Outstanding at the end of the year (i)	**1,500,000**	**$0.051**	**12,200,000**	**$0.080**
Exercisable at the end of the year	–	–	8,200,000	$0.080

(i) The outstanding balance as at 30 June 2015 is represented by:

A grant of 1,500,000 performance rights to the CEO on 20 November 2014. The performance rights are unlisted and do not rank equally with the existing class of quoted securities, there are no voting rights attached and they are not entitled to any dividends. Shares exercised as a consequence of the exercise of the performance rights will be fully paid, ordinary shares ranking equally with the existing class of securities.

The unlisted performance rights were issued for a consideration of nil with the following performance conditions attached: 50% automatically vest subject to continued service over the next 24 months; and 50% will vest upon achievement of the company's board approved budget target for financial year 2014/2015. Each performance condition will be measured at the end of the relevant performance period for that performance condition. All performance rights in relation to each performance condition will lapse if the performance condition is not satisfied.

The weighted average remaining contractual life for the share options outstanding as at 30 June 2015 was 1.55 years. (2014: 0 years)

The weighted average fair value of options granted during the year was $0.0513 (2014: $0).

The exercise price for options outstanding at the end of the year was $0 (2014: $0)

Accounting treatment for performance rights granted during the 2015 year

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

	Budget target	Tenure
a) Stock price at grant date	$0.055	$0.055
b) Exercise price	$0.00	$0.00
c) Risk free rate	2.50%	2.52%
d) Time to Exercise – Years	1.10	2.00
e) Volatility	25.00%	20.00%
Binomial option valuation	$0.051	$0.051

The accounting expense recorded for these options for the 2015 year was $50,137.

14 Trade and other payables

	Consolidated	
	2015	2014
	$	$
Trade payables (i)	735,232	716,219
Other payables (ii)	1,332,646	867,507
	2,067,878	**1,583,726**

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

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

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

For further information on risk disclosures refer Note 17.

15 Provisions

	Consolidated	
	2015	2014
	$	$
Current		
Annual leave	274,876	274,727
Long service leave	510,967	439,748
Provision for onerous rent	–	38,505
Provision for make good on leased property	–	50,770
	785,843	**803,750**
Non-current		
Long service leave	28,502	14,499
Total	**814,345**	**818,249**

	Onerous operating lease	Make good provision
	$	$
At 30 June 2014	38,505	50,770
Arising during the year	–	–
Amounts reversed and utilised	(38,505)	(50,770)
At 30 June 2015	–	–

On the signing of a lease for new premises, tenancy of which commenced on 1st September 2014, the company was required to pay rental on two premises until 31 October 2014. The provision was calculated as one month rental for each of the premises. There was work required to be done on the previous tenancy to return them to a pre-lease condition.

16 Contributed equity and reserves

	No. of shares	$
Contributed Equity		
Ordinary shares – issued and fully paid	**1,077,891,948**	**104,388,258**

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

	No. of shares	$
Movement in ordinary shares on issue		
At 30 June 2014	1,073,891,948	104,332,258
Adjustment to placement costs	–	
Employee performance rights converted to shares	4,000,000	56,000
At 30 June 2015	**1,077,891,948**	**104,388,258**

Employee benefits reserve

This reserve records the fair value of equity benefits provided to employees and directors as part of their remuneration. Refer to Note 13 for further details of this plan.

	2015 $	2014 $
Foreign currency translation reserve		
The foreign currency translation reserve is used to record the exchange differences arising from the translation of the financial statements of foreign subsidiaries.	(24,874)	(14,029)
	(24,874)	**(14,029)**

Notes to the Financial Statements for the Year Ended 30 June 2015

Continued

17 Financial risk management objectives and policies

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

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

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

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

Foreign currency risk

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

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

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

As at 30 June 2015, the Group did not have any outstanding derivative instruments.

As at 30 June 2015, the Group had the following exposure to $US foreign currency.

	Consolidated	
	2015	2014
	$A	$A
Financial assets		
Cash & cash equivalents	526,355	1,087,099
Trade & other receivables	2,150,836	1,824,900
	2,677,191	2,911,999
Financial liabilities		
Trade & other payables	51,830	787
Net exposure	2,625,361	2,911,212

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

As at 30 June 2015, had the $A moved, as illustrated in the table below, with all other variables held constant, pre-tax profit/loss would have been affected as per below. There would be no effect on equity.

	Increase/ decrease in $US rate	Effect on profit/loss before tax
		$
2015		
Consolidated	+10%	(230,565)
	-10%	301,611
2014		
Consolidated	+10%	(101,794)
	-10%	522,522

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

Credit risk

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

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

Notes to the Financial Statements for the Year Ended 30 June 2015

Continued

17 Financial risk management objectives and policies (continued)

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

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

With respect to credit risk arising from the financial assets of the Group, which comprise cash and cash equivalents, trade receivables and other receivables, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

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

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

All cash assets are held in Australian banks except for GBP £10,312.30 in the HSBC in the UK. The company has a $US account with an Australian bank which held US$403,826.10 at 30 June 2015.

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

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

Liquidity risk

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

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

The company monitors its capital using a ratio of liquid assets over total liabilities. The Group's policy is to maintain the ratio greater than 1:1. A calculation of the liquid asset ratio is set out on the following tables for the financial years ending 30 June 2015 and 30 June 2014.

	2015	2014
	$	$
Liquid assets		
Cash & cash equivalents	15,901,898	6,805,359
Trade and other receivables	4,042,547	5,482,948
Total liquid assets	19,944,445	12,288,307
Total liabilities		
Current liabilities	7,824,459	5,813,713
Non-current liabilities	1,473,869	330,310
Total liabilities	9,298,328	6,144,023
Excess of liquid assets over total liabilities	**10,646,117**	**6,144,284**
Ratio of liquid assets to total liabilities	2.15:1	2.12:1

Maturity analysis of financial assets and liabilities

The table below reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities as of 30 June 2015. The undiscounted cash flows for the respective upcoming fiscal years are presented. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2015. The Group has no derivative financial instruments at 30 June 2015.

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

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

Notes to the Financial Statements for the Year Ended 30 June 2015

Continued

17 Financial risk management objectives and policies (continued)

30 June 2015	On Demand	< 6 months	6 to 12 months	1 to 5 years	> 5 years	Total
Consolidated						
Financial assets						
Cash & cash equivalents	5,672,455	10,229,443	–	–	–	15,901,898
Trade & other receivables	–	4,042,547	–	–	–	4,042,547
	5,672,455	14,271,990	–	–	–	19,944,445
Consolidated						
Financial liabilities						
Trade & other payables	2,067,878	–	–	–	–	2,067,878
Net maturity	3,604,577	14,271,990	–	–	–	17,876,567

30 June 2014	On Demand	< 6 months	6 to 12 months	1 to 5 years	> 5 years	Total
Consolidated						
Financial assets						
Cash & cash equivalents	3,305,359	3,500,000	–	–	–	6,805,359
Trade & other receivables	–	5,482,948	–	–	–	5,482,948
	3,305,359	8,982,948	–	–	–	12,288,307
Consolidated						
Financial liabilities						
Trade & other payables	1,583,726	–	–	–	–	1,583,726
Net maturity	1,721,633	8,982,948	–	–	–	10,704,581

Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ending 30 June 2015 and 30 June 2014.

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

Interest rate risk

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

Year ended 30 June 2015

	<1year	>1–<2 years	>2–<3 years	>3–<4 years	>4–<5 years	> 5 years	Total
	$	$	$	$	$	$	$
Cash	15,901,898	–	–	–	–	–	15,901,898

Year ended 30 June 2014

	<1year	>1–<2 years	>2–<3 years	>3–<4 years	>4–<5 years	> 5 years	Total
	$	$	$	$	$	$	$
Cash	6,805,359	–	–	–	–	–	6,805,359

Notes to the Financial Statements for the Year Ended 30 June 2015

Continued

17 Financial risk management objectives and policies (continued)

Interest rate risk table

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

At 30 June 2015, if interest rates had moved, as illustrated in the table below, with all other variables held constant, pre-tax profit would have been affected as follows. There is no impact on equity. The only balance sheet asset that the Group held at 30 June 2015 which was exposed to interest rate risk was cash.

	Pre-tax Profit Higher/(Lower)	
	2015	2014
	$	$
Consolidated		
+1% (100 basis points)	158,797	67,371
-0.5% (50 basis points)	(79,398)	(33,686)

18 Commitments and contingencies

Operating lease commitments – Group as lessee

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

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

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

Future minimum rentals payable under non-cancellable operating leases as at 30 June 2015 are as follows:

	Consolidated	
	2015	2014
	$	$
Within one year	257,500	93,805
After one year but not more than five years	909,081	–
More than five years	–	–
	1,166,581	**93,805**

Contingent liability

The Group has entered into an agreement to develop a customised encryptor. If Australian Government sanctions arise which may prevent the company's ability to perform its duties under the agreement, then a liability may occur. The development contract provides for a refund of 50% of the development funds received.

At the date of this report the maximum amount refundable would be US$300,000.

Other commitments

At 30 June 2015 the Group has not committed to any capital commitments, remuneration commitments or any other expenditure other than that disclosed in the notes above.

19 Parent entity information

Information relating to Senetas Corporation Limited for the year ended 30 June 2015

	Senetas Corp Ltd	
	2015	2014
	$	$
Current assets	15,670,241	6,628,103
Total assets	27,159,100	17,836,423
Current liabilities	(2,012,860)	(1,031,349)
Total liabilities	(14,272,672)	(6,384,103)
Issued capital	104,388,260	104,332,260
Retained earnings	(92,174,847)	(90,696,088)
Employee benefits reserve	673,017	667,213
Total shareholders equity	12,886,430	14,303,385
Loss of the parent entity after tax	(1,478,759)	(1,549,714)
Total comprehensive income of the parent entity	**(1,478,759)**	**(1,549,714)**

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

The parent entity has no contingent liabilities.

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

20 Related party disclosure

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

			% Equity Interest	
			2015	2014
	Senetas Corporation (S) Pte Ltd		100%	100%
	Senetas Security Pty Ltd		100%	100%
	Senetas Europe Ltd		100%	100%
(ii)	CTAM Inc.	Non-operating	100%	100%
	Kusp Pty Ltd	Non-operating	100%	100%
	Technal Pty Ltd	Non-operating	60%	60%
	ePil Ltd	Non-operating	100%	100%
	Webcryp Pty Ltd	Non-operating	100%	100%
	Worldof.com Pty Ltd	Non-operating	100%	100%
	IWM No. 2 Pty Ltd	Non-operating	100%	100%
	Resdev No. 2 Pty Ltd	Non-operating	100%	100%
	Datum Group Operations Pty Ltd	Non-operating	100%	100%
(i)	Datum Group Holdings Pty Ltd	Non-operating	100%	100%
(i)	Datum Enterprise Solutions Pty Ltd	Non-operating	100%	100%
(i)	Datum Financial Solutions Pty Ltd	Non-operating	100%	100%
(i)	Pump Ultimate Media Productions Pty Ltd	Non-operating	100%	100%
(i)	Berty Technologies Consulting Pty Ltd	Non-operating	100%	100%
(i)	Berty Technologies Pty Ltd	Non-operating	100%	100%
(i)	Berty Group Holdings Pty Ltd	Non-operating	100%	100%

(i) These investments are owned by Datum Group Operations – a controlled entity of Senetas Corporation Ltd. All entities are dormant.

(ii) Investment held by Senetas Security Pty Ltd and the entity is dormant.

The parent did not have any transactions or balances with any of these related parties during the year (2014: $0) except for Senetas Security Pty Ltd as disclosed below. Nor were there any transactions or balances between subsidiaries (2014:$0).

Transactions with related parties

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

Director fees

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

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

Notes to the Financial Statements for the Year Ended 30 June 2015

Continued

21 Events after the balance date

There are no significant events after balance date.

22 Auditors' remuneration

	Consolidated	
	2015	2014
	$	$
Amounts received or due and receivable by Ernst & Young Australia for:		
• an audit or review of the financial report of the entity and any other entity in the consolidated entity	125,000	123,900
• other services in relation to the entity and any other entity in the consolidated entity		
• tax compliance	74,100	24,000
• advisory related	–	2,200
	199,100	**150,100**

23 Key management personnel

Details of directors & executives	Position
Directors	
F.W. Galbally	Director / Chair (Non-Executive)
L.P. Given	Director (Non-Executive)
K.J. Gillespie	Director (Non-Executive)
Executive Director	
A.R. Wilson	Chief Executive Officer
Executives	
J.F. Weston	General Manager – Engineering
J.N. Fay	Chief Technology Officer

(a) Remuneration by category: executives & directors

	Consolidated	
	2015	2014
	$	$
Short-term employee benefits	1,498,762	1,249,247
Post employment employee benefits	56,236	52,319
Other long-term employee benefits	25,386	16,739
Share-based payment	50,173	9,188
	1,630,557	**1,327,493**

Other transactions and balances with executives and directors

There were no other transactions with executives and directors during the year.

24 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.

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.

	2015	2014
Australia & New Zealand	2,052,738	1,873,035
United States	11,174,893	5,533,088
Europe	2,979,587	2,982,712
Middle East	–	374,547
Asia	–	266,854
Other countries	–	7,377
	16,207,218	**11,037,613**

Directors' Declaration

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

(1) In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and *Corporations Regulations 2001*; and

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2;

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

(2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2015.

On behalf of the Board

Francis W. Galbally
Chair
Melbourne
25 September 2015

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

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Independent Auditor's Report to Members of Senetas Corporation Limited

Report on the financial report

We have audited the accompanying financial report of Senetas Corporation Limited, which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2 (a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

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Liability limited by a scheme approved under Professional Standards Legislation

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Opinion

In our opinion:

a. the financial report of Senetas Corporation Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).

Report on the remuneration report

We have audited the Remuneration Report included in directors' report for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Senetas Corporation Limited for the year ended 30 June 2015, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Kylie Bodenham

Kylie Bodenham
Partner
25 September 2015

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ASX Additional Information

Share register statistics as at 4 August 2015

Substantial shareholders as at the above date.

Name of substantial shareholder	Number of shares held
HSBC Custody Nominees (Australia) Limited – A/C 2–shares held on behalf of Madison Park LLC	211,963,200
Mr Francis Galbally	138,955,731
UBS Wealth Management Australia Nominees PTY LTD (formerly Nermone Nominees Pty Ltd)	63,934,864

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

Rank	Name	Number of ordinary shares held	% of issued capital
1	Hsbc Custody Nominees (Australia) Limited – A/C 2 (Shares Held On Behalf Of Madison Park Llc)	214,213,083	19.87
2	Mr Francis Galbally	138,955,731	12.89
3	Ubs Wealth Management Australia Nominees Pty Ltd	63,934,864	5.93
4	Success Breakthrough Pty Ltd <Jacks Super Fund A/C>	20,970,000	1.95
5	Speliza Investments Pty Ltd <Greysmed P/L Super Fund A/C>	15,812,043	1.47
6	Eucalip Biochemical Group Pty Ltd	13,605,200	1.26
7	Ms Donna Young + Mr Peter Fleming <Dypf S/F A/C>	13,504,000	1.25
8	Nefco Nominees Pty Ltd	12,623,641	1.17
9	Coronet Bay Pty Ltd	9,115,000	0.85
10	Zero Nominees Pty Ltd	8,517,170	0.79
11	Hsbc Custody Nominees (Australia) Limited	7,505,888	0.70
12	Ubs Nominees Pty Ltd	6,450,861	0.60
13	Fintech Pty Ltd <The Mccallum Family A/C>	6,000,000	0.56
14	Mr Andrew Rankin	5,245,000	0.49
15	Challenger Ii Pty Ltd	5,000,000	0.46
16	Tresdam Pty Ltd	4,766,746	0.44
17	Mr Samuel Cyril Driver + Mrs Joanne Leonie Driver <Sc Driver Super Fund A/C>	4,729,000	0.44
18	J P Morgan Nominees Australia Limited	4,554,274	0.42
19	Mrs Maria Grazia Tascone	4,344,355	0.40
20	Honne Investments Pty Limited	4,300,000	0.40
Total top holders balance		**564,146,856**	**52.34**

Share register statistics as at 3 September 2015

Distribution of equity securities	Fully paid ordinary shares shareholders
Total Holders	6,079
Aggregate holding of the top 20	52.34%
Holders of less than a marketable parcel	574

Range of Holdings

Range of fully paid ordinary shares	Shareholders	%
1 – 1,000	328	0.01
1,001 – 5,000	870	0.27
5,001 – 10,000	1097	0.84
10,001 – 100,000	2883	10.07
100,001 – and over	901	88.8
Total Holders	**6,079**	**100**

Required Statements

(a) There is no current on-market buy-back of the company's securities.

(b) The company securities are not quoted on any exchange other than the ASX.

(c) The name of the Company Secretary is Brendan Case.

(d) The address and telephone number of our principal registered office in Australia is:
312 Kings Way, South Melbourne, Victoria, 3205
tel: +61 3 9868 4555

(e) The address and telephone number of the company's share registry is:
Computershare Australia
Yarra Falls, 452 Johnston Street,
Abbotsford, Victoria, 3067
tel: +61 3 9415 4000

Senetas Corporate Governance Statement

The board of directors of the company recognises that it is responsible for ensuring that the company has appropriate governance arrangements in place. The key aspects of the company's corporate governance framework and governance practices which have been in place over the 2015 financial year are outlined below. This corporate governance statement is effective as at the company's balance date, 30 June 2015.

The board of directors confirms that the company's corporate governance framework complies in almost all respects with the ASX's Corporate Governance Council's 'Corporate Governance Principles and Recommendations' (3rd Edition) ('3rd Edition Recommendations') and that where it does not comply, it is due to the current relative size of the company and scale and nature of its operations.

The company provides below a review of its corporate governance framework using the same numbering as adopted for the principles set out in the 3rd Edition Recommendations.

Copies of the company's codes and policies may be downloaded from the corporate governance section of the company's website a www.senetas.com

Principle 1: Lay solid foundations for management and oversight

Recommendation 1.1

Establish and disclose the respective roles and responsibilities of its board and management and how their performance is monitored and evaluated

The board's responsibilities are defined in the board Charter and there is a clear delineation between the functions reserved to the board and those conferred upon the CEO and certain other officers of the company for the day-to-day management of operations.

The responsibilities of the board include:

- overseeing the company, including its control and accountability systems;
- appointing and removing the CEO;
- monitoring the performance of the CEO;
- where appropriate, ratifying senior executive appointments, organisational changes and senior management remuneration policies and practices;
- approving succession plans for management;
- monitoring senior executives' performance and implementation of strategy, and ensuring appropriate resources are available;
- input into and approving management's corporate strategy and performance objectives;
- determining and financing dividend payments;
- approving and monitoring the progress of major capital expenditure, capital management, acquisitions and divestitures;
- approving and monitoring financial and other reporting;
- reviewing and ratifying systems of risk management, internal compliance and control;
- reviewing and overseeing the implementation of the code of conduct for directors and all other employees.

The functions reserved for the board include:

- appointment of a Chair;
- appointment and removal of the CEO;
- appointment of directors to fill a vacancy or as additional directors;
- establishment of board committees, their membership and delegated authorities;
- approval of dividends;
- review of corporate codes of conduct;
- approval of major capital expenditure, acquisitions and divestitures in excess of authority levels delegated to management.

Responsibility for day to day management and administration of the company is delegated by the board to the CEO and the executive team. The CEO manages the company in accordance with the strategy, plans and policies approved by the board.

The responsibilities of the chief executive officer include:

- developing and recommending to the board strategies, business plans and annual budgets;
- implementing the strategies, business plans and budgets adopted by the board;
- providing effective leadership, direction and supervision of the executive team to achieve the strategies, business plans and budgets adopted by the board;
- ensuring compliance with applicable laws and regulations;
- ensuring the board is given sufficient information to enable it to perform its functions, set strategies and monitor performance; and
- acting within authority delegated by the board.

A copy of the company's board Charter is available on the company's website at www.senetas.com

Recommendation 1.2

A listed entity should

a. *undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and*

b. *provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director*

The company will undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director.

The company will provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.

Recommendation 1.3

A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.

The company has formal letters of appointment for each of its directors and senior executives, setting out the key terms and conditions of the appointment.

Recommendation 1.4

The company Secretary should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board

The company Secretary is accountable directly to the board, through the Chair, on all matters to do with the proper functioning of the board.

Recommendation 1.5

The company should:

a. *have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the company's progress in achieving them;*

b. *disclose that policy or a summary of it; and*

c. *disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board in accordance with the company's diversity policy and its progress towards achieving them, and either:*

   1. *the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or*

   2. *as a "relevant employer" under the Workplace Gender Equality Act, the company's most recent "Gender Equality Indicators", as defined in and published under that Act.*

The company has adopted a Diversity Policy. The Diversity Policy confirms that the company recognises that a talented and diverse workforce can be a key competitive advantage for it. The company is committed to seeking out and retaining the best talent to develop business growth and performance, as business success is a reflection of the qualities and skills of its people. The company is committed to promoting diversity in all areas of the company as it recognises that each employee brings unique skills, capabilities, experiences and characteristics which benefit the organisation as a whole.

The board, after taking into account its current relatively small size, small number of employees, stage of development and the industry in which it operates, has established basic objectives for achieving gender diversity. These objectives are:

- potential candidates for vacant positions must include at least one female candidate; and
- during the board selection process, the professional consultant or board committee assisting the board must provide at least one credible and suitably experienced female candidate.

There were no women on the board during the 2015 financial year.

The proportion of women in the senior executive team of the company as at 30 June 2015 was 20%.

The company is not a "relevant employer" under the Workplace Gender Equality Act.

A copy of the Diversity Policy is available on the company's website at www.senetas.com.

Recommendation 1.6

Disclose in the company's Corporate Governance section of the annual report or the company's website:

a. the process for periodically evaluating the performance the board, its committees and individual directors; and

b. in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

The board has in place a process to review the effectiveness of the board, its committees and individual directors. This process includes the completion of a survey by each board member and one on one discussions with the Chairman of the board concerning board composition, meeting format and content, quality of reporting and interaction with management, extent of board committee oversight and corporate governance.

The board during the 2015 financial year performed an assessment of its skills, experience and composition.

No formal performance evaluation was conducted during the 2015 financial year. A formal review of the performance of the board, its committees and individual directors was conducted during the 2014 financial year. The review took into account each director's assessment of areas including:

- the effectiveness of the board;
- the effectiveness of the Chairman;
- the extent to which the responsibilities set forth in the charter of the board are met;
- whether meetings are effective and the agendas are well structured;
- whether the board has effective and robust discussions; and
- the quality of reporting from and interaction with management.

Based on the various assessments performed over the 2014 and 2015 financial years, the board has determined that it and its committees are operating effectively.

Recommendation 1.7

Disclose in the Corporate Governance section of its annual report or on its website:

a. its process for periodically evaluating the performance of its senior executives; and

b. in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

In accordance with the board Charter, the directors' responsibilities include monitoring the performance of senior executives (including the CEO) and ensuring succession plans are in place. The board has established a Nomination and Remuneration Committee which is responsible for reviewing and approving executive remuneration and incentive policies and practices, and ensuring that the policies and practices are performance based and aligned with the company's vision, values and overall business objectives.

The Nomination and Remuneration Committee annually reviews the performance of the CEO and recommends to the board key performance targets for the CEO.

The Committee has responsibility for fairly and responsibly rewarding executives having regard to the performance of the company, the performance of the executives and the general external pay environment.

In addition, the Committee is responsible for reviewing and approving the design and total proposed payments from any executive incentive plan.

All senior executives of the company are subject to an annual performance review. Each year during the budgeting process, the CEO sets senior executive key performance targets which are aligned to the performance targets set by the board. These targets are aligned to the overall business goals and the company's requirements. In the case of the CEO, these targets are negotiated between the Nomination and Remuneration Committee and signed off by the board. Remuneration incentives are dependent on the outcome of these evaluations.

The board and Nomination and Remuneration Committee ensure that an evaluation of the senior management team is undertaken annually.

Further information regarding executive compensation can be found in the Remuneration Report in this Annual Report.

The company did not comply with all aspects of Recommendation 1.5 but it did comply with Recommendations 1.1, 1.2, 1.3, 1.4, 1.6 and 1.7 for the financial year ended 30 June 2015.

A copy of the Nomination and Remuneration Committee Charter is available on the company's website at www.senetas.com

Principle 2: Structure the board to add value

Recommendation 2.1

The board should establish a nomination committee which:

a. has at least three members, a majority of whom are independent directors; and

b. is chaired by an independent director,

and should disclose the charter of the committee on its website.

The company should disclose in the Corporate Governance section of its annual report or on its website:

a. the members of the nomination committee; and

b. *as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings.*

Senetas has established a Nomination and Remuneration Committee.

The Nomination and Remuneration Committee's authority, responsibilities, composition and membership requirements are documented in the Nomination and Remuneration Committee charter approved by board, which is available on the company's website at www.senetas.com

Details of the relevant qualifications and experience of the members of the committee and their attendance at meetings during the reporting period are disclosed in the Annual Report.

The Nomination and Remuneration Committee consists of three non-executive directors: Mr Ken Gillespie, Mr Francis Galbally and Mr Lachie Given. Mr Gillespie is Chairman of the Committee and as stated above, he is an independent director. The Committee does not have a majority of independent directors

Recommendation 2.2

The company should disclose in the Corporate Governance section of its annual report or on its website a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership

The board recognises the importance of non-executive directors and the external perspective and advice that non-executive directors can offer. To add value to the company, the board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties. Directors are appointed based on the specific experience and skills required by the company. The names of the directors and their qualifications and experience are stated in the Directors' Report.

The board approved during the year a board Skills Matrix which reflects the company's key strategic goals and the mix of skills, experience and expertise that the board currently has and is looking to achieve in its membership. In summary, the board Skills Matrix reflects that the board has and is looking to achieve a mix of skills, experience and expertise in a range of areas including: strategic planning, marketing and sales, government regulation and policy, information technology and international business management.

Recommendation 2.3

The company should disclose in the Corporate Governance section of its annual report or on its website:

a. *the names of the directors considered by the board to be independent directors;*

b. *if a director has an interest, position, association or relationship of the type listed below but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and*

c. *the length of service of each director.*

The company has assessed the independence of its directors against the requirements for independence which are set out in Principle 2 of the ASX Corporate Governance Principles and Recommendations.

The board presently comprises four directors, with one independent non-executive director, two non-independent non-executive directors (including the Chairman of the board) and one executive director (the CEO).

Mr Galbally (Chairman of the board) is not considered to be an independent director due to his substantial shareholding in the company. Mr Given is not considered to be an independent director as he is a consultant to Madison Park LLC ("Madison Park") and therefore has a relevant interest in the equity held by Madison Park in the company. Mr Given does not have equity in Madison Park and does not have power to exercise, or control the exercise of voting rights of shares held in the company by Madison Park nor does Mr Given have the power to dispose of, or control the exercise of a power to dispose of shares held in the company by Madison Park.

Mr Wilson is the CEO of the company and is not independent.

Mr Ken Gillespie is an independent director.

The board recognises the ASX's Corporate Governance Recommendations relating to board composition and the importance of independent directors, and will in due course increase the number of independent directors on the board.

Senetas Corporate Governance Statement

Continued

Recommendation 2.4

A majority of the board should be independent directors

The current composition of the board of directors and length of tenure of each member is as follows:

Name	Position	Date appointed	Independent
Francis W. Galbally	Director (Non-Executive Chairman)	May 2012	NO
Lachie Given	Director (Non-Executive)	March 2013	NO
Ken Gillespie	Director (Non-Executive)	April 2013	YES
Andrew Wilson	Director (Executive)	August 2012	NO

Recommendation 2.5

The Chairman should be an independent director. The chair should be an independent director and, in particular, should not be the same person as the CEO.

The roles of Chairman and CEO are exercised by two separate individuals. As stated above Mr Galbally, the company's Chairman, is not an independent director.

Recommendation 2.6

The company should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.

The company has an induction program for new directors which provides a summary of the company and its activities to assist each new director to become effective in their role. The program includes one-on-one meetings with the CEO and senior members of management. In addition the board receives ongoing briefings and development sessions from senior management to continuously build non-executive directors' knowledge and to ensure that the board remains up to date with key internal and external developments.

Companies should provide the information indicated in the Guide to reporting on Principle 2.

The company did not comply with all aspects of Recommendations 2.1, 2.2, 2.4 and 2.5 but it did comply with Recommendations 2.3 and 2.6 for the 30 June 2015 financial year.

Principle 3: Act ethically and responsibly

Recommendation 3.1

The company should disclose in the Corporate Governance section of its annual report or on its website its codes of conduct for its directors, senior executives and employees.

As part of its commitment to recognising the legitimate interests of stakeholders, the company has established a Code of Conduct to guide compliance with legal and other obligations to legitimate stakeholders. These stakeholders include employees, clients, customers, government authorities, creditors and the community as a whole. This Code covers the following key areas:

- employees not making improper use of their position;
- conflicts of interest;
- confidentiality;
- dealing fairly with stakeholders of the company; and
- protection and proper use of assets.

The company has adopted a Whistleblower Policy which:

- is intended to encourage employees to report promptly any actual or suspected improper conduct by the company or any of its employees;
- is designed to complement normal communication channels between managers and employees;
- demonstrates the commitment of the company to protect employees who report improper conduct through this Policy; and
- is intended to complement existing employee related policies such as the Occupational Health & Safety Policy and Employee Manual.

The company also has an Insider Trading Policy. Copies of the Code of Conduct and the Insider Trading Policy are available on the company's website at www.senetas.com

The company complied with Recommendation 3.1 during the 30 June 2015 financial year.

Principle 4: Safeguard integrity in corporate reporting

Recommendation 4.1

The board should establish an audit committee which.

a. *has at least three members, all of whom are non-executive independent directors; and*

b. *is chaired by an independent director who is not the chair of the board,*

and should disclose the charter of the committee on its website.

The company should disclose in the Corporate Governance section of its annual report or on its website:

a. *the relevant qualifications and experience of the members of the committee; and*

b. *in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings.*

Senetas has established an Audit and Risk Committee which is chaired by Mr Given, a non-executive director. As stated above, Mr Given is not an independent director and he is not the Chairman of the board. Mr Galbally and Mr Gillespie are the other members of the Audit and Risk Committee. The Audit and Risk Committee's authority, responsibilities, composition and membership requirements are documented in the Audit and Risk Committee charter approved by the board, which is available on the company's website at www.senetas.com.

Details of the relevant qualifications and experience of the members of the committee and their attendance at meetings during the reporting period are disclosed in the Annual Report.

Recommendation 4.2

The board should, before it approves the financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the Group have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Group, and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively. The audit committee should be structured so that it:

The CEO and the Chief Accountant have, in accordance with section 295A of the Corporations Act, declared in writing to the board that the financial reporting, risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively during the year. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations of the company.

While the Audit and Risk Committee is also responsible for overseeing the establishment and implementation of risk management and internal compliance and control systems, the board remains responsible for the overall internal control framework, but recognises that no cost-effective internal control system will preclude all errors and irregularities. The company places considerable reliance on the skill, experience and judgement of its employees to make decisions within the policy framework and to communicate openly on all risk related matters.

Recommendation 4.3

The company should ensure that its external auditor attends its Annual General Meeting and is available to answer questions from security holders relevant to the audit.

The external auditor attends the company's Annual General Meeting and is available to answer shareholder questions regarding aspects of the external audit and their report.

The company did not comply with all aspects of Recommendation 4.1 during the year, but it did comply with Recommendations 4.2 and 4.3 for the financial year ended 30 June 2015.

Principle 5: Make timely and balanced disclosure

Recommendation 5.1

The company should include a copy of its continuous disclosure policy, or a summary of it, on its website.

The company has adopted a Continuous Disclosure Policy. This Policy sets out the standards, protocols and the detailed requirements expected of all directors, officers, senior management and employees of the company for complying with the Listing Rules and Corporations Act relating to continuous disclosure.

The Continuous Disclosure Policy is designed to provide equal access to information and to promote quality communications between the company and third parties such as shareholders, the investment community, the media and ASX.

In addition, the board assesses its continuous disclosure obligations at each board meeting.

A copy of the company's Continuous Disclosure Policy is available on the company's website at www.senetas.com

The company complied with Recommendation 5.1 for the financial year ended 30 June 2015.

Principle 6: Respect the rights of security holders

Recommendation 6.1

The company should provide information about itself and its governance to investors via its website

The board is responsible for the governance of the company. Key aspects of the company's corporate governance framework and practices are disclosed on the company's website www.senetas.com.

Recommendation 6.2

The company should design and implement an investor relations program to facilitate effective two-way communication with investors.

The Company engages an external investor relations consultant, to facilitate engagement with security holders and queries which arise from time to time from security holders. The Company at the Annual General Meeting responds to all enquiries received from shareholders. The Company through its investor relations consultant, Continuous Disclosure Policy, market updates, financial reporting and website, provides investors with the opportunity to have an understanding of the Company's business, governance and financial performance.

Recommendation 6.3

The company should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.

The company has adopted a Shareholder Communications Policy for shareholders wishing to communicate with the board. Senetas seeks to utilise numerous modes of communication, including electronic communication to ensure that its communication with shareholders is frequent, clear and accessible. All shareholders are invited to attend the company's Annual General Meeting, either in person or by representative, being the forum in which to discuss issues relevant to the company. The board accordingly encourages full participation by shareholders. Shareholders will have an opportunity to submit questions to the board and auditors.

A copy of the company's Shareholder Communications Policy is available on the company's website at www.senetas.com

Recommendation 6.4

The company should give shareholders the option to receive communications from, and send communications to, the entity and its security registry electronically.

Shareholders are able to contact the company or its share registrar, Computershare, by mail, telephone, email or online via the Computershare/Link Investor Centre portal. Shareholders may choose to receive communication from, and send communications to, the company and Computershare/Link electronically.

The company complied with Recommendations 6.1 to 6.4 for the financial year ended 30 June 2015.

Principle 7: Recognise and manage risk

Recommendation 7.1

The company should have a risk committee which:

a. *has at least three members, a majority of whom are independent directors; and*

b. *is chaired by an independent director,*

and should disclose the charter of the committee on its website.

The company should disclose in the Corporate Governance section of its annual report or on its website:

a. *the members of the committee;*

b. *in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings*

As stated above, Senetas has established an Audit and Risk Committee. The Committee has three members, the majority of whom are not independent directors. A stated above, the Chairman of the Committee, Mr Given, is not an independent director. The Audit and Risk Committee's authority, responsibilities, composition and membership requirements are documented in the Audit and Risk Committee charter approved by board, which is available on the company's website at www.senetas.com

Details of the relevant qualifications and experience of the members of the committee and their attendance at meetings during the reporting period are disclosed in the Annual Report.

Recommendation 7.2

The company should disclose in the Corporate Governance section of its annual report or on its website whether it has reviewed its risk management framework in the last 12 months to satisfy itself that it continues to be sound..

The board is responsible for reviewing and ratifying the risk management structure, processes and guidelines which are developed and maintained by management.

Management has established and implemented the risk management system for assessing, monitoring and managing the company's material risks. The board regularly reviewed the company's risk management framework during the year.

The CEO and the Chief Accountant declared in writing to the board that the financial reporting, risk management and associated compliance and controls had been assessed and found to be operating efficiently and effectively during the year. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations of the company.

Recommendation 7.3

The company should disclose in the Corporate Governance section of its annual report or on its website:

a. *if it has an internal audit function, how the function is structured and what role it performs; or*

b. *if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.*

The company does not have an internal audit function.

In conjunction with the company's other corporate governance policies, the company has adopted policies and processes to assist the company to identify, evaluate and mitigate technological, economic, operational and other risks. Management is responsible for maintaining the company's risk register and this document receives the focus and attention of each member of the executive team who report to the CEO. In addition the board regularly reviews the risk register and assesses the company's processes for evaluating and continually improving the effectiveness of the company's risk management and internal control processes.

Recommendation 7.4

The company should disclose in the Corporate Governance section of its annual report or on its website whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.

"Material exposure" means a real possibility that the risk in question could substantively impact the company's ability to create or preserve value for security holders over the short, medium or long term.

"Economic sustainability" is the company's ability to continue operating at a particular level of economic production over the long term.

"Environmental sustainability" is the company's ability to continue operating in a manner that does not compromise the health of the ecosystems in which it operates over the long term.

"Social sustainability" is the company's ability to continue operating in a manner that meets accepted social norms and needs over the long term.

In conjunction with the company's other corporate governance policies, the company has adopted a Risk Management Policy, which is designed to assist the company to identify, evaluate and mitigate strategic, technological, funding, financial, economic, operational and other risks.

The company is not subject to material environmental and social sustainability risks.

The company did not comply with all aspects of Recommendation 7.1 during the year, but it did comply with Recommendations 7.2, 7.3 and 7.4 for the financial year ended 30 June 2015.

Principle 8: Remunerate fairly and responsibly

Recommendation 8.1

The company needs to have a remuneration committee which:

a. *has at least three members, a majority of whom are independent directors; and*

b. *is chaired by an independent director,*

and should disclose the charter of the committee on its website. The board should establish a remuneration committee.

Senetas Corporate Governance Statement

Continued

The company should disclose in the Corporate Governance section of its annual report or on its website:

a. *the members of the committee; and*

b. *in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings.*

The board has established a Nomination & Remuneration Committee. The Nomination and Remuneration Committee consists of three non-executive directors: Mr Ken Gillespie, Mr Francis Galbally and Mr Lachie Given. Mr Gillespie is Chairman of the Committee and as stated above, he is an independent director. The Committee does not have a majority of independent directors

The Nomination and Remuneration Committee's authority, responsibilities, composition and membership requirements are documented in the Nomination and Remuneration Committee charter approved by the board, which is available on the company's website at www.senetas.com

Details of the relevant qualifications and experience of the members of the committee and their attendance at meetings during the reporting period are disclosed in the Annual Report.

Recommendation 8.2

The company should disclose in the Corporate Governance section of its annual report or on its website its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.

In accordance with its Charter, the Nomination & Remuneration Committee clearly distinguishes the structure of non-executive directors' remuneration from that of executive directors and senior executives. Disclosure of the directors' and executives' remuneration can be found in the Remuneration Report in this Annual Report.

Disclosure of the directors' and executives' remuneration can be found in the Remuneration Report in this Annual Report.

Recommendation 8.3

The company should disclose in the Corporate Governance section of its annual report or on its website its policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme.

The company's Share Trading Policy states that:

- Senetas securities must never be hedged prior to the vesting of those securities; and
- Senetas securities must never be hedged while they are subject to a holding lock or restriction on dealing under the terms of an employee share plan operated by the company.

A copy of the company's Share Trading Policy is available on the company's website at www.senetas.com

The company did not comply with all aspects of Recommendation 8.1 during the year, but it did comply with Recommendations 8.2 and 8.3 for the financial year ended 30 June 2015.

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