SENETAS CORPORATIO 2015/2016 ANNUAI FINANCIAL REPORT



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Senetas Corporation Limited Annual Financial Report for the year ended 30 June 2016

ACN 006 067 607

Corporate Information

Non-Executive Directors

Francis W. Galbally – Chair

Lachlan P. Given

Kenneth J. Gillespie

Lawrence D. Hansen

Executive Director

Andrew R. Wilson

Company Secretary

Brendan Case

Registered Office

Senetas Corporation Limited

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Share Register

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Investor Relations

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

Auditors

Ernst & Young

8 Exhibition Street Melbourne VIC 3000

Annual General Meeting Date & Place

Annual General Meeting of shareholders of Senetas Corporation Limited (Company) will be held at Royce Hotel 379 St Kilda Road Melbourne VIC 3004, Thursday 17 November 2016.

Directors' Report

Your directors submit their report for the year ended 30 June 2016.

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. He is a director of EON Reality Inc. (California, USA) and EON Reality Australia Pty Ltd. EON Reality is the world leader in virtual and augmented reality based knowledge transfer for industry and education; and 'edutainment' - entertainment based education.

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 16 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 he has considerable experience communicating with, and building consensus among diverse stakeholder groups.

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

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

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 \$100 million business, where

he oversaw the company's successful sale and integration into BMC Software.

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 2016. (2015: 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 21. 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 2016 (2015:28 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 global developer and manufacturer of multicertified, defence-grade data encryption solutions, is pleased to announce its results for the year ended 30 June 2016 (FY2016).

FY2016 highlights:

- Operating revenue up 19% to \$19.34 million (FY2015: \$16.21 million);
- Net profit before tax up 17% to \$7.02 million (FY2015: \$6.02 million);
- Net profit after tax up 30% to \$5.22 million (FY2015: \$4.01 million);
- Margins were very strong with gross profit margin at 83%, pre-tax profit margin at 36% and after tax net profit margin at 27%;
- Cash flow was excellent, with net operating cash flow of \$5.19 million;
- Sound, unleveraged balance sheet
 - No debt;
 - Cash on hand at 30 June 2016 of \$20.85 million (FY2015: \$15.90 million);
 - Net assets up 41% to \$18.53 million; and
 - Return on equity at 33%
- All new product development projects are on track and the new 100Gbps encryptor is currently undergoing certification in order to progress customer testing.

The 2016 full year profit is a record for the Company and was achieved despite a \$1.43 million increase in R&D expenditure during the period and lower than expected sales in the first half of the

year as a result of the integration of SafeNet into Gemalto.

Revenue growth was balanced across both product sales and maintenance revenue and it is particularly pleasing to note the increasing share of revenue represented by commercial customers who now represent over 50% of operating revenue.

These results continue to reflect the market's rapidly growing awareness of the critical need for high assurance encryption solutions in order to protect data in transit.

The result also reflects benefits from the more enhanced supportive role Senetas is now playing in the sales, marketing and business development partnership with Gemalto and our other distribution partners, as well as the aforementioned progress that has been made in the integration of Senetas' global distributor SafeNet with Gemalto during the second half of the fiscal year.

Progress on Senetas' key new product development initiatives was accelerated during the year with a significant increase in R&D expenditure. Additional permanent and contract resources were employed in order to fast track R&D projects with particular focus on the new 100Gbps encryptor that is now undergoing certification.

Subject to completion of the certification and customer testing processes, sales of the 100Gbps encryptor are expected to impact operating revenue in the first half of calendar year 2017.

Senetas' financial position remains extremely sound, with net assets up 41% during the period, no debt, and cash on hand of \$20.85 million.

This result is a strong endorsement of both the quality of the Company's personnel and product solutions, as well as its ability to identify and meet the critical security needs of our end customers and business partners.

Revenue growth

Revenue growth was driven by 19% growth in both product sales and maintenance revenue during the period.

Product sales to commercial customers grew robustly and more than offset slower sales to government customers. Sales continue to be weighted towards late in each half year and commercial sector sales, in particular, were significantly stronger than projected in the 6 month period ended 30 June 2016.

Delayed commercial customer sales at 31 December 2015 were completed as expected during the second half of the fiscal year; however, some of the delayed US Federal Government sales will now not proceed as some agencies move from

a SONET to Ethernet network over the next 3-4 years. Growth in Senetas' maintenance revenue from FY2017 may moderate as the higher cost SONET maintenance contracts roll off throughout that period. However, the Company expects that its lower cost Ethernet encryptors will replace the existing SONET encryptors in those updated networks.

The Company is working closely with Gemalto to significantly improve its Government business.

Research and development

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

Senetas substantially increased its investment in R&D during FY2016 in order to fast-track initiatives that will build new capability and drive revenue growth in FY2017 and beyond. R&D expenditure during the year was \$1.43 million higher than the prior period and reflected a total R&D investment aggregating approximately 29% of operating revenue.

The key focus during the year was development of the 100Gbps encryptor that is on track to be available for sale by the end of this calendar year or early in 2017. The certification process commenced mid-year and customer testing is due to be completed within the next two or three months.

Senetas' custom encryption algorithm product ("CEAP") is also currently undergoing customer testing and certification. Subject to the timing of certification and export approval, it is expected that the CEAP will become available for sale in late FY2017. Development of Senetas' virtual encryption technologies ("VET") is ahead of schedule and is now available for customer testing.

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

Senetas expects R&D expenditure in FY2017 will be at a similar level to FY2016.

Balance sheet and cash flow

Senetas' balance sheet continues to strengthen and provides significant capacity to support both organic growth and investment. Net assets increased 41% to \$18.53 million and the cash balance at 30 June 2016 was \$20.85 million.

Net operating cash flow remained strong at \$5.19 million in FY2016 but was lower than FY2015. The

key contributing factors to the lower cash flow versus the prior period were:

- 1. Tax payable of \$1.25 million during FY2016 compared to nil in the prior period; and
- 2. Higher receivables at 30 June 2016 due to the shift in weighting of product sales to later in the fiscal year and the higher R&D rebate due in FY2017.

The board periodically reviews its capital management policy and in so doing takes into account a variety of factors including R&D and other investment opportunities, financial returns, risk and liquidity considerations which might impact Senetas' business.

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

Senetas has a substantial R&D product roadmap that leverages its engineering skills. These products, when brought to market in the mid term, have the potential to add significantly to the company's revenues and profits. The board considers that the company needs to maintain a strong cash balance to allow for the possibility to extend its engineering capability and, where necessary, to add resources to bring products to market earlier than planned if required.

R&D rebate

Senetas currently receives a tax rebate of 45% from the Australian Government for eligible R&D expenditure. The rebate is currently recorded as Other Income and is received in cash in the following financial year net of any corporate income tax payable. Eligible R&D expenditure is not deductible for the purposes of calculating Senetas' corporate income tax liability.

The R&D rebate is available to Senetas whilst its operating revenue remains below \$20 million per annum. Should Senetas' annual operating revenue exceed \$20 million in future years the R&D rebate will no longer be available. Instead, the R&D rebate converts into a tax offset equal to 40% of eligible R&D expenditure. The R&D expenditure would remain non-deductible for the purposes of calculating Senetas' corporate income tax liability.

If the current R&D rebate is unavailable going forward, Senetas' Other Income and Profit Before Tax would be lower by the amount of the R&D tax rebate previously available (\$2.1 million in FY2016); however, tax expense would be reduced by an offset equal to 40% of its eligible R&D expenditure. Senetas currently estimates that in

those circumstances its effective tax rate would be in the low to mid 20s as a percentage of Profit Before Tax.

Senetas very strongly believes that the threshold for R&D tax rebate should be significantly increased in order to maximise the incentive for successful smaller enterprises to invest in critical R&D expenditure. The Company is working with government at all levels to bring broader awareness and urgency in order to accomplish this important incentive for the future benefit of the Australian economy.

Tax expense

Tax expense in 2016 was reduced by a credit of \$0.94 million (FY2015: \$0.45 million) recognised in relation to the use of carried forward tax losses.

An additional tax credit of \$0.21 million (FY2015: nil) was also booked to recognise the remaining carried forward tax losses available to be utilised against taxable income in the 2017 year and beyond. Utilisation of the remaining tax losses is restricted such that only a portion can be utilised in any year; however, it is expected that the losses will be fully utilised within the next 3-4 years.

Outlook

Continued growth in data flows across Layer 2 networks combined with increasing recognition of the need for high assurance encryption solutions creates significant opportunities for the sale of Senetas' existing products and those under development.

Whilst the growth outlook for the sector remains extremely positive, Senetas' future sales growth rates remain difficult to predict accurately. Sales lead times are long and customers are generally reluctant to disclose detail about the timing and scale of planned purchases.

The addition of the new 100Gbps encryptor to the Senetas product portfolio later in FY2017 is an exciting opportunity for the Company. While at this stage it is too early to predict the scale of initial sales for the 100Gbps encryptor, the initial interest from Senetas' largest customers remains very strong.

In addition we expect to commence sales in the March quarter of FY2017 for our custom algorithm and virtual encryption appliances. We expect these sales will add to our overall growth in FY2017.

Significant events after the balance date

There were no significant events after the balance date.

Share options

Unissued shares

As at the date of this report there were 3,880,000 unissued ordinary shares under performance rights. Refer to the remuneration report for executive performance rights and Note 13 for full details of the performance rights outstanding.

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

Shares issued as a result of the exercise of performance rights

During the year, the CEO, Mr Andrew Wilson, exercised performance rights to acquire 750,000 shares in Senetas Corporation Limited. 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 2016 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) |
| L. Hansen | 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 2016 financial year. Details of the bonuses are outlined below:

Remuneration philosophy

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

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

- provide competitive rewards to attract high calibre executives;
- link executive rewards to shareholder value;

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

Remuneration policy

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

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

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

Remuneration and nomination committee

The Remuneration and Nomination Committee comprises three non-executive directors. On 26 August Mr Given resigned from this committee and Mr Hansen took his place. The committee now comprises two independent directors and one non-independent director.

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

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

The Remuneration and Nomination Committee did not use the services of a remuneration consultant

Directors' Report

Continued

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

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

Remuneration structure

Non-executive director remuneration

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

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

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The board considers advice from external consultants as well as the fees paid to non-executive directors of comparable 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 2016 and 30 June 2015 is detailed on page 13 of this report.

Executive remuneration

Objective

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

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

Structure

In determining the level and make-up of the CEO's remuneration, the Remuneration and Nomination Committee considers advice from external consultants as well as market survey information on remuneration for comparable roles. No consultants were used for the remuneration review for the 2016 year.

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

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

Executive remuneration consists of the following key elements:

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

The mix between fixed and variable remuneration is established for the CEO by the Remuneration and Nomination Committee. Pages 13 to 15 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

Directors' Report

Continued

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

Committee has access to external advice independent of management.

Structure

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

The fixed remuneration component for prescribed persons is detailed on pages 13 to 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 2016 financial year the target was based on a combination of the contribution to net profit after tax and other key drivers for the short and long term success of the business.

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

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

The variable remuneration component for prescribed persons is detailed on pages 13 to 15 of this report.

STI bonus for 2016 financial year

The Remuneration and Nomination Committee (for the CEO) and the CEO (for other executives) considered the STI payments for the 2016 year in July 2016. The value of STI bonuses payable for the 2016 financial year to the CEO and executives is \$387,500. 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.

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

Grant of performance rights during the 2016 financial year

On 15 September 2015, the Group issued 160,000 performance rights to each of the key management personnel. Subject to the satisfaction of the performance conditions in the following table, the key management personnel 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 key management personnel. The performance rights granted are conditional, non-transferable; they cannot be hedged, sold, transferred, mortgaged, charged or otherwise disposed of or dealt with. The performance rights were valued using a binomial pricing model. The model had a number of inputs, one of which was the share price at grant date of \$0.132.

| | | | Performance Period (3) | |
|--|--|-----------------------------------|------------------------|----------|
| No. of Performance Rights ⁽¹⁾ | Performance Condition (2) | % of performance rights that vest | Start | Finish |
| | Achieve the Company budget for year ended 30 June 2016 | 25% | 21/09/15 | 30/06/16 |
| 160,000 | Continuous employment at Senetas for 12 months | 25% | 21/09/15 | 21/09/16 |
| 160,000 | Achieve the Company budget for year ended 30 June 2017 | 25% | 21/09/15 | 30/06/17 |
| | Continuous employment at Senetas for 24 months | 25% | 21/09/15 | 21/09/17 |
| 160,000 | | | | |

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 four separate performance conditions, with each performance condition applying to one quarter of the total number of performance rights granted. All performance rights granted to the key management personnel 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.

On 19 November 2015, following shareholder approval, the Group was authorised to issue 750,000 performance rights to the CEO–Mr. A. Wilson. These have not yet been issued and remain subject to board approval.

| | | | Performance Period (3) | | |
|--|--|-----------------------------------|------------------------|----------|--|
| No. of Performance Rights ⁽¹⁾ | Performance Condition (2) | % of performance rights that vest | Start | Finish | |
| 750000 | Achieve the Company budget for year ended 30 June 2016 | 50% | 19/11/15 | 30/06/16 | |
| 750,000 | Continuous employment at Senetas for 12 months | 50% | 19/11/15 | 19/11/16 | |
| 750,000 | | | | | |

Notes

- 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 key management personnel 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.

Directors' Report

Continued

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

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

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|--|---------------|---------------|---------------|---------------|-------------|
| Net profit/(loss) after tax | 5,218,430 | 4,016,258 | 2,957,080 | (714,439) | (7,984,822) |
| Average number of ordinary shares for basic earnings per share | 1,078,641,948 | 1,077,891,948 | 1,073,891,948 | 1,065,141,948 | 496,358,721 |
| Earnings per share (cents) | 0.0048 | 0.0037 | (0.00) | (0.00) | (1.61) |
| Net tangible assets per share (cents per share) | 1.65 | 1.20 | 0.83 | 0.56 | 0.62 |

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 \$385,000 per annum including superannuation of \$19,307 and he is eligible to receive short term incentives based on a combination of the contribution to net profit after tax and other key drivers for the short and long term success of the business.

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

Directors' and executives' remuneration

(a) Remuneration of directors and executives for the year ended 30 June 2016 (these tables have been audited)

| | Short | -Term | Post Employment | Long | -Term | | | |
|---|---------------------------------|----------------|--------------------|-----------------------|--|-----------|------------------------|--|
| Consolidated | Salary & Fees | Cash Bonus (i) | Superannuation | Long Service Leave | Share-based payment - performance rights (ii) | Total | Performance Related | |
| Year ended 30 June 2016 | \$ | \$ | \$ | \$ | \$ | \$ | | |
| Directors | | | | | | | | |
| F. Galbally (Non-Executive Director) * | | | | | | | | |
| 2016 | 225,000 | - | _ | _ | _ | 225,000 | 0.00% | |
| A.Wilson (Chief Exe | cutive Officer) | | | | | | | |
| 2016 | 365,693 | 93,750 | 19,307 | 23,600 | 45,268 | 547,618 | 25.39% | |
| L. Given (Non-Exec | utive Director) ** | | | | | | | |
| 2016 | 105,000 | _ | _ | _ | _ | 105,000 | 0.00% | |
| K. Gillespie (Non-Ex | kecutive Director | *** | | | | | | |
| 2016 | 105,000 | - | _ | _ | _ | 105,000 | 0.00% | |
| L. Hansen (Non-Executive Director) **** | | | | | | | | |
| 2016 | 105,000 | _ | _ | _ | _ | 105,000 | 0.00% | |
| Total Remuneratio | Total Remuneration of Directors | | | | | | | |
| 2016 | 905,693 | 93,750 | 19,307 | 23,600 | 45,268 | 1,087,618 | 12.78% | |

⁽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 Given's director fees are paid to LPG Group LLC.

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

^{****} Mr Hansen's director fees are paid to Carikster Advisors, LLC

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

| | Chart Tawa | | Post | | _ | | | |
|----------------------------|---------------------------------------|---------------------------|----------------|-----------------------|---|---------|------------------------|--|
| | Short-Term | | Employment | Long | -Term | | | |
| Consolidated | Salary & Fees | Cash Bonus ⁽ⁱ⁾ | Superannuation | Long Service Leave | Share-based payment – performance rights ⁽ⁱⁱ⁾ | Total | Performance Related | |
| Year ended 30 June 2015 | \$ | \$ | \$ | \$ | \$ | \$ | | |
| Directors | | | | | | | | |
| F. Galbally (Non-Exe | ecutive Director) | | | | | | | |
| 2015 | 190,000 | _ | _ | _ | _ | 190,000 | 0.00% | |
| A.Wilson (Chief Exe | cutive Officer) | | | | | | | |
| 2015 | 296,216 | 80,000 | 18,783 | 13,956 | 50,173 | 459,128 | 28.35% | |
| L. Given (Non-Exec | utive Director) | | | | | | | |
| 2015 | 95,000 | _ | _ | _ | _ | 95,000 | 0.00% | |
| K. Gillespie (Non-Ex | K. Gillespie (Non-Executive Director) | | | | | | | |
| 2015 | 95,000 | _ | _ | _ | _ | 95,000 | 0.00% | |
| Total Remuneratio | n 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.

(a) Remuneration of directors and executives for the year ended 30 June 2016 (these tables have been audited)

| | | | Post | | | | | | |
|----------------------------|-----------------------------------|---------------------------|----------------|-----------------------|---|---------|------------------------|--|--|
| | Short | -Term | Employment | Long-Term | | | | | |
| Consolidated | Salary & Fees | Cash Bonus ⁽ⁱ⁾ | Superannuation | Long Service Leave | Share-based Payment – performance rights ⁽ⁱⁱ⁾ | Total | Performance Related | | |
| Year ended 30 June 2016 | \$ | \$ | \$ | \$ | \$ | \$ | | | |
| Executives | Executives | | | | | | | | |
| J. Weston (Engine | eering Manager) | | | | | | | | |
| 2016 | 281,241 | 146,875 | 19,307 | 8,093 | 11,256 | 466,772 | 33.88% | | |
| J. Fay (Chief Tech | J. Fay (Chief Technology Officer) | | | | | | | | |
| 2016 | 240,711 | 146,875 | 19,289 | 13,305 | 11,256 | 431,436 | 36.65% | | |
| Total Remunerat | Total Remuneration of Executives | | | | | | | | |
| 2016 | 521,952 | 293,750 | 38,596 | 21,398 | 22,512 | 898,208 | 35.21% | | |

⁽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.

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

(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 – perfomance rights (ii) | Total | Performance Related | | |
| Year ended 30 June 2015 | \$ | \$ | \$ | \$ | \$ | \$ | | | |
| Executives | Executives | | | | | | | | |
| J. Weston (Engine | eering Manager) | | | | | | | | |
| 2015 | 216,217 | 162,500 | 18,783 | 4,200 | _ | 401,700 | 40.45% | | |
| J. Fay (Chief Tech | 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.

(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 2016 | Balance 01-July-15 | Granted as Remuneration | On Vesting of Performance Rights | Shares Bought / (Sold) | Balance 30-June-16 |
|--------------|-----------------------|----------------------------|-------------------------------------|---------------------------|-----------------------|
| | Ord Shares | Ord Shares | Ord Shares | Ord Shares | Ord Shares |
| Directors | | | | | |
| A.Wilson | 840,090 | _ | 750,000 | (1,590,090) | _ |
| F. Galbally | 138,955,731 | _ | _ | _ | 138,955,731 |
| L. Given | _ | _ | _ | _ | _ |
| K. Gillespie | _ | _ | _ | _ | _ |
| L. Hansen | _ | _ | _ | _ | _ |
| Executives | | | | | |
| J. Weston | 612,725 | _ | _ | (612,725) | _ |
| J. Fay | 362,725 | _ | _ | _ | 362,725 |
| Total | 140,771,271 | _ | 750,000 | (2,202,815) | 139,318,456 |

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

750,000 shares were issued on exercise of remuneration options during the financial year ended 30 June 2016. No Shares were issued on exercise of remuneration options during the financial year ended 30 June 2015.

(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 2016. No shares were granted as part of remuneration during the financial year ended 30 June 2015.

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

(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 2016.

On 19 November 2015, shareholder approval was given for 750,000 performance rights to be issued to the CEO – Mr Andrew Wilson. At the time of this report, these have not yet been issued.

| 30 June 2016 | Grant Date | Grant Number | Fair value per option at award date | Fair value per options granted during the year | Value of options forfeited during the 2016 year | Number of options vested during the year – granted in prior year | Value of options vested during the 2016 year | Remuneration options for | n consisting of or the year |
|--------------|------------|-----------------|---|--|---|--|--|--------------------------|--------------------------------|
| | | | \$ | \$ | \$ | | \$ | \$ | |
| A. Wilson | 19-Nov-15 | 750,000 | 0.076 | 56,625 | _ | 750,000 | 25,087 | 81,712 | 8.27% |
| Total | | 750,000 | _ | 56,625 | _ | 750,000 | 25,087 | 81,712 | _ |

On 21 September 2015, performance rights were granted to executives and employees as part of remuneration for the financial year ended 30 June 2016. The details of the performance rights issued to KMP's are detailed below.

| 30 June 2016 | Grant Date | Grant Number | Fair value per option at award date | Fair value per options granted during the year | Value of options forfeited during the 2016 year | Number of options vested during the year – granted in prior year | Value of options vested during the 2016 year | | n consisting of or the year |
|--------------|------------|-----------------|---|--|---|--|--|--------|--------------------------------|
| | | | \$ | \$ | \$ | | \$ | \$ | |
| J. Weston | 21-Sep-15 | 160,000 | 0.098 | 15,689 | _ | _ | - | 15,689 | 2.41% |
| J. Fay | 21-Sep-15 | 160,000 | 0.098 | 15,689 | - | - | - | 15,689 | 2.61% |
| Total | | 320,000 | | 31,378 | _ | _ | _ | 31,378 | |

On 21 November 2014 following shareholder approval, 1,500,000 performance rights were issued to the CEO – Mr Andrew Wilson.

| 30 June 2015 | Grant Date | Grant Number | Fair value per option at award date | Fair value per options granted during the year | Value of options forfeited during the 2015 year | Number of options vested during the year – granted in prior year | Value of options vested during the 2015 year | | n consisting of or the year |
|--------------|------------|-----------------|---|--|---|--|--|--------|--------------------------------|
| | | | \$ | \$ | \$ | | \$ | \$ | |
| A. Wilson | 21-Nov-14 | 1,500,000 | 0.03 | 50,173 | _ | _ | _ | 50,173 | 10.93% |
| Total | | 1,500,000 | 0.03 | 50,173 | _ | _ | _ | 50,173 | 10.93% |

(v) Performance rights holdings of KMP

| 30 June 2016 | Balance at beginning of period: 1 July 2015 | Granted as remuneration | Fair value per option at award date \$ | Options exercised | Balance at end of period: 30 June 2016 | Total |
|--------------|---|-------------------------|--|-------------------|--|-----------|
| A. Wilson | 1,500,000 | 750,000 | 0.076 | (750,000) | 1,500,000 | 1,500,000 |
| F. Galbally | _ | _ | _ | _ | _ | _ |
| L. Given | _ | _ | _ | _ | _ | _ |
| K. Gillespie | _ | _ | _ | _ | _ | _ |
| L. Hansen | _ | _ | _ | _ | _ | _ |
| J. Weston | _ | 160,000 | 0.098 | _ | 160,000 | 160,000 |
| J. Fay | _ | 160,000 | 0.098 | _ | 160,000 | 160,000 |
| Total | 1,500,000 | 1,070,000 | | (750,000) | 1,820,000 | 1,820,000 |

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

| 30 June 2016 | Balance 01-July-15 | Granted as Remuneration | On Vesting Performance Rights | Shares Bought / (Sold) | As at the Date of Resignation | Balance 30-June-16 |
|--------------|-----------------------|----------------------------|----------------------------------|---------------------------|----------------------------------|-----------------------|
| | 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 | _ | 750,000 | (1,590,090) | _ | _ |
| J. Weston | 612,725 | _ | _ | (612,725) | _ | _ |
| J. Fay | 362,725 | _ | _ | _ | _ | 362,725 |
| Total | 140,771,271 | _ | 750,000 | (2,202,815) | _ | 139,318,456 |

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 (Chair) | 6 | 6 | | |
| L. Given | 6 | 6 | | |
| K. Gillespie | 6 | 5 | | |
| L. Hansen | 6 | 6 | | |
| A. Wilson | 6 | 6 | | |

A total of 6 Directors' meetings were held during the year ended 30 June 2016.

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 | 2 | |

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 2016.

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) | 1 | 1 | | |
| F. Galbally | 1 | 1 | | |
| L. Given | 1 | 1 | | |

A total of 1 meeting was held during the year ended 30 June 2016.

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



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

As lead auditor for the audit of Senetas Corporation Limited for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

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

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

Ernst & Young

Ernst 2

Kylie Bodenham

Partner

28 September 2016

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 \$25,500

Signed in accordance with a resolution of the directors.

Francis W. Galbally

Chairman

28 September 2016

A member firm 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 2016

| | | Consolic | lated |
|---|-------|-------------|-------------|
| | | 2016 | 2015 |
| | Notes | \$ | \$ |
| Revenue | 3(a) | 19,340,540 | 16,207,218 |
| Cost of sales | | (3,228,899) | (2,758,600) |
| Gross profit | | 16,111,641 | 13,448,618 |
| Other income | 3(b) | 2,096,625 | 1,652,698 |
| Depreciation and amortisation expense | 3(c) | (346,048) | (301,091) |
| Employee benefits expense | 3(d) | (6,124,898) | (5,332,951) |
| Administration expenses | 3(e) | (1,932,702) | (2,845,327) |
| Other expenses | 3(f) | (2,783,019) | (600,947) |
| Profit before income tax | | 7,021,599 | 6,021,000 |
| Income tax expense | 4 | (1,803,169) | (2,004,742) |
| Net profit after income tax | | 5,218,430 | 4,016,258 |
| Other comprehensive income | | | |
| Items that may be classified subsequently to profit or loss | | | |
| Foreign currency translation reserve | | (3,068) | (10,845) |
| Other comprehensive income for the year | | (3,068) | (10,845) |
| | _ | | |
| Total comprehensive income for the year | _ | 5,215,362 | 4,005,413 |
| Profit for the period is attributable to: | | | |
| Owners of the parent | | 5,215,362 | 4,005,413 |
| | _ | 5,215,362 | 4,005,413 |
| Total comprehensive profit for the year is attributable to: | | | |
| Owners of the parent | | 5,215,362 | 4,005,413 |
| | | 5,215,362 | 4,005,413 |
| Earnings per share | - | | |
| Basic, profit for the year attributable to ordinary equity holders of the parent. | 5 | 0.0048 | 0.0037 |
| Diluted, profit for the year attributable to ordinary equity holders of the parent. | | 0.0048 | 0.0037 |

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

Statement of Financial Position as at 30 June 2016

| | | Consolidated | | | |
|---|-------|--------------|--------------|--|--|
| | | 2016 | 2015 | | |
| | Notes | \$ | \$ | | |
| Assets | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | 6 | 20,848,044 | 15,901,898 | | |
| Trade and other receivables | 7 | 5,926,832 | 4,042,547 | | |
| Inventories | 8 | 632,349 | 720,712 | | |
| Prepayments | | 196,824 | 212,843 | | |
| Other current assets | 9 | 28,258 | 31,549 | | |
| Total Current Assets | | 27,632,307 | 20,909,549 | | |
| Non-Current Assets | | | | | |
| Other financial assets | | 91,667 | 92,501 | | |
| Deferred tax asset | 4 | 576,891 | 513,752 | | |
| Plant and equipment | 11 | 1,047,768 | 751,519 | | |
| Intangible assets | 12 | 125,290 | 124,405 | | |
| Total non-current assets | | 1,841,616 | 1,482,177 | | |
| Total Assets | | 29,473,9243 | 22,391,726 | | |
| Liabilities | | | | | |
| Current Liabilities | | | | | |
| Trade and other payables | 14 | 1,973,272 | 2,067,878 | | |
| Income tax payable | | 1,862,754 | 1,251,989 | | |
| Unearned income | 15 | 4,799,771 | 3,718,749 | | |
| Provisions | 16 | 806,194 | 785,843 | | |
| Total Current Liabilities | | 9,441,991 | 7,824,459 | | |
| Non-Current Liabilities | | | | | |
| Deferred tax liabilities | 4 | 52,720 | 48,545 | | |
| Provisions | 16 | 18,190 | 28,502 | | |
| Unearned income – non-current | 15 | 1,405,713 | 1,381,212 | | |
| Other non-current liabilities | | 28,9276 | 15,610 | | |
| Total Non-Current Liabilities | | 1,505,549 | 1,473,869 | | |
| Total Liabilities | | 10,947,540 | 9,298,328 | | |
| Net Assets | | 18,526,383 | 13,093,398 | | |
| Equity | | | | | |
| Equity Attributable to Equity Holders of the Parent | | | | | |
| Contributed equity | 17 | 104,426,711 | 104,388,258 | | |
| Accumulated losses | | (86,737,433) | (91,955,863) | | |
| Employee benefit reserve | 17 | 852,187 | 673,017 | | |
| Foreign currency translation reserve | 17 | (27,942) | (24,874) | | |
| Parent Interests | | 18,513,523 | 13,080,538 | | |
| Non-Controlling Interests | | 12,860 | 12,860 | | |
| Total Equity | | 18,526,383 | 13,093,398 | | |

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 2016

| | | Consolid | dated | |
|--|-------|--------------|--------------|--|
| | | 2016 | 2015 | |
| | Notes | \$ | \$ | |
| Cash flows from operating activities | | | | |
| Receipts from customers | | 18,598,866 | 19,216,796 | |
| Payments to suppliers and employees | | (14,230,350) | (11,306,887) | |
| Receipt of R&D tax refund | | 401,330 | 1,385,730 | |
| Interest received | | 423,447 | 281,325 | |
| Net cash flows from operating activities | 6 | 5,193,293 | 9,576,964 | |
| Cash flows from investing activities | | | | |
| Purchase of plant and equipment | | (179,324) | (406,555) | |
| Purchase of intangible assets | | (64,754) | (63,025) | |
| Net cash flows from investing activities | | (244,079) | (469,580) | |
| Net increase in cash and cash equivalents | | 4,949,214 | 9,107,384 | |
| Net effect of foreign currency translation | | (3,068) | (10,845) | |
| Cash and cash equivalents at beginning of period | | 15,901,898 | 6,805,359 | |
| Cash and cash equivalents at end of period | 6 | 20,848,044 | 15,901,898 | |

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 2016

| | Attributable | e to Equity Holders Corporation Ltd | of Senetas | | 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 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 |
| Profit for the year | _ | 5,218,430 | _ | _ | 5,218,430 | _ | 5,218,430 |
| Other comprehensive income | _ | _ | (3,068) | _ | (3,068) | _ | (3,068) |
| Total comprehensive income | _ | 5,218,430 | (3,068) | _ | 5,215,362 | - | 5,215,362 |
| Transactions with owners in their capacity as owners | | | | | | | |
| Shares issued | _ | _ | _ | _ | _ | _ | _ |
| Options issued | - | _ | - | 217,623 | 217,623 | - | 217,623 |
| Options converted to shares | 38,453 | - | - | (38,453) | - | - | - |
| At 30 June 2016 | 104,426,711 | (86,737,433) | (27,942) | 852,187 | 18,513,523 | 12,860 | 18,526,383 |

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

1 Corporate information

The consolidated financial report of Senetas Corporation Limited and its subsidiaries (collectively, the Group) for the year ended 30 June 2016 was authorised for issue in accordance with a resolution of the directors on 26 August 2016.

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 (IASB).

(b) New accounting standards and interpretations

Changes in accounting policy and disclosures.

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

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations for the year ended 30 June 2016.

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 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality. The standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards. Effective 1 April 2016.

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 2016.

* 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 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early adoption. The entities own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments. | 1-Jul-18 |
| | | | Classification and measurement | |
| | | | 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: | |
| | | | 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. | |

| Reference | Title and brief summary | Application date of standard* | Impact on Group financial report | Application date for Group* |
|-----------|----------------------------|-------------------------------|---|-----------------------------------|
| AASB 9 | Financial | 1-Jan-18 | Financial Liabilities | 1-Jul-18 |
| | Instruments (Continued) | | Changes introduced by AASB 9 in respect of financial liabilities are limited to the measurement of liabilities designated at fair value through profit or loss (FVPL) using the fair value option. | |
| | | | 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 or 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 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. | |
| | | | Hedge accounting | |
| | | | Amendments to 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. | |

| Reference | Title and brief summary | Application date of standard* | Impact on Group financial report | Application date for Group* |
|-------------|---|-------------------------------|--|-----------------------------|
| 70.02.200 | Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 & AASB 11] | 1-Jan-16 | AASB 2014-3 amends AASB 11 – <i>Joint Arrangements</i> to provide 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 | 1-Jul-16 |
| | | | 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. | |
| (Amendments | of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and | 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 appropriate 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 | 1-Jul-16 |
| | | | circumstances. The clarification of acceptable methods will not have an affect on the Group. | |

| Reference | Title and brief summary | Application date of standard* | Impact on Group financial report | Application date for Group* |
|-----------|---|-------------------------------|--|-----------------------------------|
| AASB 15 | Revenue from Contracts with Customers | 1-Jan-18 | IFRS 15 Revenue from Contracts with Customers, replaces IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations. (Interpretation 13 Customer Loyalty Programmes, Interpretation 15 Agreements for the Construction of Real Estate, Interpretation 18 Transfers of Assets from Customers, Interpretation 131 Revenue-Barter Transactions Involving Advertising Services and Interpretation 1042 Subscriber Acquisition Costs in the Telecommunications Industry). AASB 15 incorporates the requirements of IFRS 15 Revenue from Contracts with Customers issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB) AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases of financial instruments.) The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which 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 to the performance obligations in the contract Step 3: Determine the transaction price to the performance obligation in the contract Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation in periods commencing on or after 1 January 2018. Early application is permitted. AASB 2015-8 amended the AASB 15 effective date so it is now effective for annual reporting periods commencing on or after 1 January 2018. Early application is permitted. AASB 2016-3 Amendments to Australian Accounting Standards — Clarifications to AASB 15 amends AASB 15 to clarify the requirements on identifying performance obl | 1-Jul-17 |
| AASB 1057 | Application of Australian Accounting Standards | 1-Jan-16 | This Standard lists the application paragraphs for each other Standard (and Interpretation), grouped where they are the same. Accordingly, paragraphs 5 and 22 respectively specify the application paragraphs for Standards and Interpretations in general. Differing application paragraphs are set out for individual Standards and Interpretations or grouped where possible. The application paragraphs do not affect requirements in other Standards that specify that certain paragraphs apply only to certain types of entities. | 1-Jul-16 |

| Reference | Title and brief summary | Application date of standard* | Impact on Group financial report | Application date for Group* |
|--------------|---|-------------------------------|---|-----------------------------|
| AASB 2014-10 | Amendments to Australian Accounting Standards – Sale or Contribution of | 1-Jan-18 | 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 or contribution of assets between an investor and its associate or joint venture. The amendments require: | 1-Jul-18 |
| | Assets between an Investor and | | (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 | |
| | its Associate or Joint Venture | | (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. | |
| | | | AASB 2014-10 also makes an editorial correction to AASB 10. | |
| | | | AASB 2015-10 defers the mandatory effective date (application date) of AASB 2014-10 so that the amendments are required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2016. | |
| | | | These changes are not expected to have an impact on the Group. | |
| AASB 2015-1 | Amendments | 1-Jan-16 | The subjects of the principal amendments to the Standards are: | 1-Jul-16 |
| | to Australian Accounting | | AASB 5 Non-current Assets Held for Sale and Discontinued Operations: | |
| | Standards - Annual Improvements to Australian Accounting | | • 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), an entity shall not follow the guidance in paragraphs 27–29 to account for this change. | |
| | Standards 2012- | | AASB 7 Financial Instrument Disclosures: | |
| | 2014 Cycle | | 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 <i>Disclosure</i> – <i>Offsetting Financial Assets and Financial Liabilities</i> 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 <i>Interim Financial Reporting</i> 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 inclusion 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. | |

| Reference | Title and brief summary | Application date of standard* | Impact on Group financial report | Application date for Group* |
|--------------|---|-------------------------------|---|-----------------------------------|
| AASB 2015-2 | Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 | 1-Jan-16 | The Standard makes amendments to AASB 101 <i>Presentation of Financial Statements</i> 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 statements. For example, the amendments make clear that materiality applies to the whole of financial statements 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. The Group is currently evaluating the impact of the new standard. | 1-Jul-16 |
| AASB 2015- 9 | Amendments to Australian Accounting Standards – Scope and Application Paragraphs. [AASB 8, AASB 133, AASB 1057] | 1-Jan-16 | This Standard inserts scope paragraphs into AASB 8 and AASB 133 in place of application paragraph text in AASB 1057. This is to correct inadvertent removal of these paragraphs during editorial changes made in August 2015. There is no change to the requirements or the applicability of AASB 8 and AASB 133. | 1-Jul-16 |
| AASB 16 | Leases | 1-Jan-19 | Lessee Accounting: Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value A lessee measures right-of-use assets similarly to other nonfinancial assets and lease liabilities similarly to other financial liabilities Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes noncancellable lease payments (including inflation linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminated the lease. AASB 16 contains disclosure requirements for lessees. | 1-Jul-19 |

| Reference | Title and brief summary | Application date of standard* | Impact on Group financial report | Application date for Group* |
|------------------------|---|-------------------------------------|---|-----------------------------------|
| AASB 16 | Leases (continued) | 1-Jan-19 | Lessor Accounting | 1-Jul-19 |
| | | | AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. | |
| | | | AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk. | |
| | | | AASB 16 supersedes: | |
| | | | a) AASB 117 Leases | |
| | | | b) Interpretation 4 Determining whether an arrangement contains a lease | |
| | | | c) SIC-15 Operating Leases – Incentives | |
| | | | d) SIC-27 Evaluating the Substance of Transactions involving the Legal Form of a Lease | |
| | | | The Group is in the process of evaluating the impact of this new standard. | |
| 2016-1 | Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112] | 1-Jan-17 | The Standard amends AASB 112 Income Taxes (August 2015) to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value. The Group is in the process of evaluating the impact of this standard. | 1-Jul-17 |
| 2016-2 | Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107 | 1-Jan-17 | This Standard amends AASB 107 Statement of Cash Flows (August 2015) to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The changes in this Standard are not expected to have an impact on the Group's reporting. | 1-Jul-17 |
| IFRS 2 (Amendments) | Classification and measurement of Share- based Payment Transactions [Amendments of IFRS 2] | 1-Jan-18 | This Standard amends to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provided requirements on the accounting for: • The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments • Share-based payment transactions with a net settlement feature for withholding tax obligations • A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled | 1-Jul-18 |
| | | | The Group is in the process of evaluating the impact of this standard. | |

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; and
- The Group's voting rights and potential voting rights.

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

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

Investments in subsidiaries are carried at cost.

(d) Significant accounting judgements, estimates and assumptions

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

Provision for long service leave

The Group re-evaluates the provision for long service leave on an annual basis. This requires an estimation of factors such as expected future wage and salary levels, experience of employee departures and periods of service. (2016: \$578,658, 2015: \$539,469)

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. A deferred tax asset of \$207,507 (2015:Nil) for tax losses is recorded as at 30 June 2016 because management determined that it is probable that these losses will be utilised in the future.

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

Provision for slow moving items

Inventories are reviewed annually to identify slow moving inventory. When these items are identified we assess the remaining technological useful life, then estimate the quantum of sales expected over that remaining useful life. Where there is a shortfall of estimated sales versus the quantity of inventory on hand at the end of the period a provision is raised. (2016: \$75,000, 2015: \$17,730).

(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

Continued

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 Gemalto)

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

Maintenance

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

Interest

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

(f) R&D tax incentive

The R&D Tax Incentive provides a 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.

(i) 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,

Continued

2 Summary of significant accounting policies (continued)

less estimated costs of completion and the estimated costs necessary to make the sale.

(k) Foreign currency translation

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

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

(I) Income tax and other taxes

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

Continued

2 Summary of significant accounting policies (continued)

(and tax laws) that have been enacted or substantively enacted at the balance date.

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

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

Tax consolidation legislation

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

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

Other Taxes

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

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

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

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

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

(m) Plant and equipment

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

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

Leasehold improvements – the lease term

Plant and equipment – over 3 to 15 years

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

Derecognition and disposal

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

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

(n) Intangible assets other than goodwill

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

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

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

Continued

2 Summary of significant accounting policies (continued)

Software

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

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

Research and development costs

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

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

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

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

(p) Trade and other payables

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

(q) Provisions

Employee leave benefits

Wages, salaries, annual leave and personal leave

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

Long service leave

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

General

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

Continued

2 Summary of significant accounting policies (continued)

(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 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 equitysettled transactions at each reporting date until vesting date reflects:

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

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

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

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

recognised for the award is recognised immediately.

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

(s) Contributed equity

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

(t) Earnings per share

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

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

(u) Business combinations

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

Continued

3 Revenues and expenses

| | Consolidated | | idated |
|---|--------------|-----------------|---------------------------------------|
| | Notes | 2016 | 2015 |
| | | \$ | \$ |
| (a) Revenue | | | |
| Sale of goods | | 11,829,883 | 9,966,089 |
| Sale of software | | 39,980 | 40,608 |
| Product maintenance revenue | | 7,050,521 | 5,900,097 |
| Interest revenue: | | | |
| Non-related parties | | 420,156 | 300,424 |
| | | 19,340,540 | 16,207,218 |
| (b) Other income | | | |
| R&D tax incentive® | | 2,096,625 | 1,652,698 |
| | | 2,096,625 | 1,652,698 |
| (c) Depreciation and amortisation expense | | | |
| Depreciation: | | | |
| Plant and equipment | 11 | 219,684 | 201,887 |
| Leasehold improvements | 11 | 62,495 | 42,453 |
| Amortisation: | | | |
| Software | 12 | 63,869 | 56,751 |
| | | 346,048 | 301,091 |
| (d) Employee benefits expense | - | , | · · · · · · · · · · · · · · · · · · · |
| Salaries & wages | | 5,555,963 | 4,974,965 |
| Superannuation | | 316,266 | 296,182 |
| Termination payouts | | 35,046 | _ |
| Share based payment expense | 13 | 217,623 | 61,804 |
| | | 6,124,898 | 5,332,951 |
| (e) Administration expenses | - | | |
| Operating lease | | 394,245 | 367,339 |
| Travel expenditure | | 612,857 | 524,732 |
| Telephone & internet expenditure | | 68,497 | 72,398 |
| Insurance expenditure | | 113,192 | 124,935 |
| Marketing expenditure | | 351,507 | 291,105 |
| External contractors (sales & corporate) | | 392,404 | 1,464,818 |
| | | 1,932,702 | 2,845,327 |
| (f) Other expenses | | , , , , , , , , | ,= : 3,==7 |
| Foreign exchange (gain) or loss | | 62,165 | (348,464) |
| Inventory written off / provision | | 70,026 | 140,823 |
| Certification, testing and contract engineering | | 2,004,448 | 220,108 |
| Write off of plant & equipment | | 2,001,110 | 228 |
| Other overhead expenses | | 646,380 | 588,252 |
| Other Overheud expenses | | 070,300 | 500,252 |

⁽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).

Continued

4 Income tax

| | Consolidated | |
|---|----------------------|----------------|
| | 2016 | 2015 |
| | \$ | \$ |
| Major components of income tax expense for the years ended 30 | June 2016 and 20 | 15 are: |
| Current income tax | | |
| Current income tax charge | 2,802,113 | 1,700,334 |
| Adjustments in respect of current income tax of previous years | (620) | (226,010) |
| Deferred income tax | | |
| Relating to origination and reversal of temporary differences | (58,964) | 978,761 |
| Unbooked tax losses utilised | (939,360) | (448,343) |
| Income tax expense reported in statement of comprehensive income | 1,803,169 | 2,004,742 |
| Reconcilliation of tax expense and the accounting profit and mult rate for 2016 and 2015: | iplied by Australia' | s domestic tax |
| Accounting profit before tax | 7,021,599 | 6,021,000 |
| At the statutory income tax rate of 30% (2015: 30%) | 2,106,480 | 1,806,300 |
| Adjustments in respect of current income tax of previous years | (19,365) | _ |
| Expenditure not allowable for income tax purposes | 71,608 | 22,577 |
| Capital items not allowable for income tax purposes | _ | 5,933 |
| Unbooked tax losses utilised | (939,360) | (448,343) |
| R&D tax incentive | 768,762 | 605,990 |
| Foreign losses not recognised | 8,492 | _ |
| Recognition of tax losses | (207,507) | _ |
| Other | 14,060 | 12,286 |
| Income tax expense reported in statement of comprehensive income | 1,803,169 | 2,004,742 |

Continued

4 Income tax (continued)

| | Consolidated Statement of Financial Position | |
|--------------------------|---|----------|
| | 2016 | 2015 |
| Consolidated | \$ | \$ |
| Deferred tax assets | | |
| Accruals: | | |
| Stock obsolescence | 22,500 | 5,319 |
| Accrued Expenses | 65,886 | 47,789 |
| Employee benefits: | | |
| Annual leave | 73,718 | 82,463 |
| Long service leave | 173,597 | 161,841 |
| Bonus | _ | 180,705 |
| Plant & equipment: | | |
| Amortised business costs | _ | 17,306 |
| Patents | 11,283 | 12,475 |
| FX unrealised loss | 7,356 | _ |
| Other: | | |
| FBT accrual | 6,366 | 5,854 |
| DTA on unutilised losses | 207,507 | _ |
| Other | 8,678 | _ |
| | 576,891 | 513,752 |
| Deferred tax liabilities | | |
| Prepayments | (1,417) | (2,061) |
| Unrealised gain | (44,937) | (39,984) |
| FBT accrual | (6,366) | (6,500) |
| | (52,720) | (48,545) |
| | | |
| Net deferred tax asset | 524,171 | 465,207 |

Continued

4 Income tax (continued)

| | Statement of Comprehensive Income | |
|---------------------------------|-----------------------------------|-----------|
| | 2016 | 2015 |
| Consolidated | \$ | \$ |
| Deferred tax assets | | |
| Accruals: | | |
| Stock obsolescence | (17,181) | 20,786 |
| Accrued Expenses | (18,097) | 6,805 |
| Employee benefits: | | |
| Annual leave | 8,745 | (45) |
| Long service leave | (11,756) | (25,567) |
| Bonus | 180,705 | (180,705) |
| Plant & equipment: | | |
| Amortised business costs | 17,306 | 18,916 |
| Patents | 1,192 | 1,191 |
| Other: | | |
| Unrealised loss | _ | 47,180 |
| FBT accrual | 5,854 | 562 |
| Unearned income | _ | 1,023,604 |
| DTA on unutilised tax losses | (207,507) | _ |
| Onerous rental | _ | 11,552 |
| Make good provision | _ | 15,231 |
| Other | (8,678) | _ |
| | (49,417) | 939,510 |
| Deferred tax liabilities | | |
| Prepayments | (644) | 291 |
| Unrealised gain | (2,402) | 39,984 |
| Interest receivable | _ | (1,335) |
| Other | _ | (334) |
| FBT accrual | (6,500) | 645 |
| | (9,546) | 39,251 |
| Deferred tax (benefit) /expense | (58,963) | 978,761 |

Continued

4 Income tax (continued)

| | Consolidated | |
|--------------------------------------|--------------|----------|
| | 2016 | 2015 |
| Deferred tax asset and liabilities | \$ | \$ |
| Deferred tax asset (non-current) | 576,891 | 513,752 |
| Deferred tax liability (non-current) | (52,720) | (48,545) |

The franking account balance for both 2016 and 2015 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.

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 \$691,688 (2015: \$3,762,339) 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, \$207,507 have been recognised as a deferred tax asset (2015: Nil).

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.

Continued

5 Earnings per share

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

| | Consolidated | |
|--|---------------|---------------|
| | 2016 2015 | |
| | \$ | \$ |
| Net profit attributable to equity holders of the parent | | |
| Continuing operations | 5,218,430 | 4,016,258 |
| Net profit attributable to ordinary shareholders for diluted earnings | | |
| per share | 5,218,430 | 4,016,258 |
| | No. of shares | No. of shares |
| Weighted average number of ordinary shares for basic earnings per share | 1,078,641,948 | 1,077,891,948 |
| Effect of dilution: | | |
| Share options (1) | _ | _ |
| Adjusted weighted average number of ordinary shares for diluted loss per share | 1,078,641,948 | 1,077,891,948 |

⁽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.

Continued

6 Cash and cash equivalents

| | Consolidated | |
|---------------------------------|--------------|------------|
| | 2016 | 2015 |
| | \$ | \$ |
| Cash at bank and on hand | 7,237,056 | 5,672,455 |
| Short-term deposits | 13,610,988 | 10,229,443 |
| Total cash and cash equivalents | 20,848,044 | 15,901,898 |

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.

| | Consolidated | |
|---|----------------------|------------|
| | 2016 | 2015 \$ |
| | \$ | |
| Reconciliation from the net profit after tax to the net cash f | lows from operations | ; |
| Net profit after tax | 5,218,430 | 4,016,258 |
| Adjustments for: | | |
| Depreciation and amortisation | 346,048 | 301,091 |
| Unrealised foreign currency loss/(gain) | (125,272) | (133,280) |
| Write off of plant & equipment | - | 228 |
| Inventory provision / written off | 70,026 | 140,823 |
| Share based payment expense | 217,623 | 61,804 |
| Changes in assets and liabilities | | |
| (Increase)/decrease in trade and other receivables | (1,884,285) | 1,440,401 |
| (Increase)/decrease in inventories | 18,337 | (179,022) |
| (Increase)/decrease in prepayments | 16,019 | (103,221) |
| (Increase)/decrease in other current assets | 3,291 | (21,099) |
| (Increase)/decrease in other financial assets | 834 | (32,549) |
| (Decrease)/increase in trade and other payables | 30,666 | 617,432 |
| (Decrease)/increase in deferred income tax assets | (63,139) | 933,323 |
| (Decrease)/increase in deferred income tax liability | 4,175 | 45,441 |
| Increase/(decrease) in income tax payable | 610,765 | 1,025,979 |
| (Decrease)/increase in provisions | 10,039 | 85,371 |
| Inventory transferred to plant & equipment | (399,102) | (135,381) |
| (Decrease)/increase in unearned income & other non- current liabilites | 1,118,838 | 1,602,640 |
| Increase/(decrease) in provision for onerous rent | _ | (38,505) |
| Increase/(decrease) in provision make good | _ | (50,770) |
| Net cash (used in) / from operating activities | 5,193,293 | 9,576,964 |

Continued

7 Trade and other receivables

| | Consolidated | |
|-----------------------|--------------|-----------|
| | 2016 | 2015 |
| | \$ | \$ |
| Trade receivables | 3,779,968 | 2,206,793 |
| Net GST receivable | 50,239 | 183,056 |
| R&D tax incentive (i) | 2,096,625 | 1,652,698 |
| | 5,926,832 | 4,042,547 |

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

At 30 June 2016, the ageing analysis of trade receivables is as follows:

| | Neither past due nor impaired | Past due but not impaired (i) | Past due & impaired |
|-------------------|----------------------------------|-------------------------------|---------------------|
| | \$ | \$ | \$ |
| 2016 Consolidated | 3,779,968 | _ | _ |
| 2015 Consolidated | 2,206,793 | _ | _ |

(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 18.

8 Inventories

| | Consolidated | |
|---------------------------------------|--------------|---------|
| | 2016 | 2015 |
| | \$ | \$ |
| Inventories (at net realisable value) | 632,349 | 720,712 |

During 2016, \$70,026 (2015: \$140,823) 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 | |
|---------------------|--------------|--------|
| | 2016 | 2015 |
| | \$ | \$ |
| Interest receivable | 20,258 | 23,549 |
| Security deposit | 8,000 | 8,000 |
| | 28,258 | 31,549 |

Continued

10 Other financial assets

| | | Consolidated | | Consolidated Senetas Corp | |
|--|------|--------------|------|---------------------------|------------|
| | | 2016 | 2015 | 2016 | 2015 |
| | Note | \$ | \$ | \$ | \$ |
| Investments in controlled entities | 21 | _ | _ | 10,867,471 | 10,867,471 |
| Other unlisted investments at fair value $^{\scriptsize{(1)}}$ | | _ | _ | _ | _ |

(i) Other unlisted investments consist of:

| | Country of Incorporation | % Equity Interest | |
|------------------------------|-----------------------------|-------------------|--------|
| | | 2016 | 2015 |
| 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 (which is preferred shares) represents approximately 3% of the current issued share capital in EON Reality Inc (www.eonreality.com). The investment was made during the year 2000 and was since written off by the board. Until such time as there has been a liquidity event such as a capital raising, merger transaction, corporate restructuring, IPO, sale of securities or other such transaction which will provide the board with an independent value of the investment, the board will continue to not ascribe a value to the investment as an asset. However, it does point out that EON Reality Inc. is profitable with revenues in excess of US\$42m this calendar year and is the world leader in Virtual Reality based knowledge transfer for industry, education and edutainment software.

Continued

11 Plant and equipment

| | Consolidated | | |
|--|------------------------|---------------------|-------------|
| | Leasehold improvements | Plant and equipment | Total |
| | \$ | \$ | \$ |
| Year ended 30 June 2016 | | | |
| At 1 July 2015, net of accumulated depreciation | 259,239 | 492,280 | 751,519 |
| Additions (net of disposals) | 14,861 | 164,463 | 179,324 |
| Transfer to plant and equipment from inventory | _ | 399,103 | 399,103 |
| Write off | _ | _ | _ |
| Depreciation charge for the year | (62,495) | (219,684) | (282,179) |
| At 30 June 2016, net of accumulated depreciation | 211,605 | 836,163 | 1,047,768 |
| At 1 July 2015 | | | |
| Cost | 306,953 | 1,558,617 | 1,865,570 |
| Accumulated depreciation and impairment | (47,714) | (1,066,337) | (1,114,051) |
| Net carrying amount | 259,239 | 492,280 | 751,519 |
| At 30 June 2016 | | | |
| Cost | 321,814 | 1,941,369 | 2,263,183 |
| Accumulated depreciation | (110,209) | (1,105,206) | (1,215,415) |
| Net carrying amount | 211,605 | 836,163 | 1,047,768 |

| | 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 off | _ | (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 | (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 |

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

Continued

12 Intangible assets

| | Software |
|--|-----------|
| | \$ |
| Year ended 30 June 2016 | |
| At 1 July 2015 net of accumulated amortisation and impairment | 124,405 |
| Additions | 64,754 |
| Amortisation | (63,869) |
| At 30 June 2016 net of accumulated amortisation and impairment | 125,290 |
| At 30 June 2016 | |
| Cost (gross carrying amount) | 341,382 |
| Accumulated amortisation and impairment | (216,092) |
| Net carrying amount | 125,290 |
| 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 and impairment | 124,405 |
| At 30 June 2015 | |
| Cost (gross carrying amount) | 276,628 |
| Accumulated amortisation and impairment | (152,223) |
| Net carrying amount | 124,405 |

Software

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

Continued

13 Employee benefits reserve

Employee share option plan

The following table illustrates the number (No.) of share options (performance rights) outstanding as at 30 June 2016:

| | 2016 | 2016 | 2015 | 2015 |
|--|-----------|-----------------------------------|-------------|-----------------------------------|
| | No. | Weighted average fair value | No. | Weighted average fair value |
| Outstanding at the beginning of the year | 1,500,000 | \$0.051 | 12,200,000 | - |
| Granted during the year | 3,200,000 | \$0.0928 | 1,500,000 | \$0.051 |
| Exercised during the year | (750,000) | \$0.051 | (4,000,000) | _ |
| Expired during the year | _ | _ | (8,200,000) | \$0.080 |
| Forfeited during the year | (70,000) | _ | _ | _ |
| Outstanding at the end of the year (1) | 3,880,000 | \$0.08643 | 1,500,000 | \$0.051 |
| | | | | |
| Weighted average exercise price for these share options is nil, as they are performance rights | _ | \$0.000 | _ | \$0.000 |

(i) The outstanding balance as at 30 June 2016 is represented by:

A grant of 1,500,000 performance rights to the CEO on 20 November 2014 of which 750,000 vested on 31 August, 2015 after the performance hurdle was met. The remaining 750,000 performance rights are unlisted and do not rank equally with the existing class of quoted securities, there are no voting rights attached and they are not entitled to any dividends. Shares exercised as a consequence of the exercise of the performance rights will be fully paid, ordinary shares ranking equally with the existing class of securities. These unlisted performance rights were issued for a consideration of nil with the following performance conditions attached: 50% would vest on achievement of the company's budget for the 2015 year and the remaining 750,000 will vest subject to continued service for 24 months from the grant date.

A grant of 2,450,000 performance rights to executives and employees on 21 September 2015.

The unlisted performance rights were issued for a consideration of nil with the following performance conditions attached: 25% automatically vest subject to continued service over the next 12 months; 25% will vest upon achievement of the Company's board approved budget target for financial year 2015/2016; 25% automatically vest subject to continued service over the next 24 months; and 25% will vest upon achievement of the Company's board approved budget target for financial year 2016/2017. 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 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.

A grant of 750,000 performance rights to the CEO on 19 November 2015. 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. These unlisted performance rights were issued for a consideration of nil with the following performance conditions attached: 50% would vest on achievement of the company's budget for the 2016 year and 50% will vest subject to continued service for 12 months from the grant date. All performance rights relating to each performance condition will lapse if the performance condition is not achieved. As at the time of this report, these performance rights have not yet been issued to the CEO.

The weighted average remaining contractual life for the share options outstanding as at 30 June 2016 was 1.31 years. (2015: 1.55 years)

The weighted average fair value of options granted during the year was \$0.0928 (2015: \$0.0513).

The exercise price for options outstanding at the end of the year was \$0 (2015: \$0)

Continued

13 Employee benefits reserve (continued)

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

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

| | Budget target 2016 | Tenure | Budget target 2017 | Tenure |
|------------------------------|--------------------|---------|-----------------------|---------|
| a) Stock price at grant date | 0.133 | 0.132 | 0.132 | 0.132 |
| b) Exercise price | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| c) Risk free rate | 1.90% | 1.90% | 1.90% | 1.90% |
| d) Time to Exercise — Years | 1.10 | 1.20 | 2.10 | 2.20 |
| e) Volatility | 36.20% | 36.20% | 33.50% | 33.50% |
| Binomial option valuation | \$0.132 | \$0.132 | \$0.132 | \$0.132 |

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

| | Budget target 2016 | Tenure | Budget target 2017 | Tenure |
|------------------------------|-----------------------|---------|-----------------------|---------|
| a) Stock price at grant date | 1.170 | 1.170 | 1.170 | 1.170 |
| b) Exercise price | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| c) Risk free rate | 1.90% | 1.90% | 1.90% | 1.90% |
| d) Time to Exercise — Years | 1.10 | 1.20 | 2.10 | 2.20 |
| e) Volatility | 36.20% | 36.20% | 33.50% | 33.50% |
| Binomial option valuation | \$0.160 | \$0.160 | \$0.160 | \$0.160 |

The accounting expense recorded for performance rights for the 2016 year was \$217,623.

Continued

14 Trade and other payables

| | Consolidated | | |
|-------------------------------|--------------|-----------|--|
| | 2016 2015 | | |
| | \$ | \$ | |
| Trade payables ⁽ⁱ⁾ | 494,221 | 735,232 | |
| Other payables (ii) | 1,479,051 | 1,332,646 | |
| | 1,973,272 | 2,067,878 | |

- (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 18.

15 Unearned revenue

| | Consolidated | | |
|------------------------------------|--------------|-------------|--|
| | 2016 | 2015 | |
| | \$ | \$ | |
| Open balance as at 1 July | 5,099,961 | 3,508,944 | |
| Amounts received during the year | 8,156,044 | 7,491,114 | |
| Revenue recognised during the year | (7,050,521) | (5,900,097) | |
| Closing balance as at 30 June | 6,205,484 | 5,099,961 | |
| Current unearned income | 4,799,771 | 3,718,749 | |
| Non-current unearned income | 1,405,713 | 1,381,212 | |
| | 6,205,484 | 5,099,961 | |

16 Provisions

| | Consolidated | | |
|--------------------|--------------|---------|--|
| | 2016 | 2015 | |
| | \$ | \$ | |
| Current | | | |
| Annual leave | 245,726 | 274,876 | |
| Long service leave | 560,468 | 510,967 | |
| | 806,194 | 785,843 | |
| Non-current | | | |
| Long service leave | 18,190 | 28,502 | |
| Total | 824,384 | 814,345 | |

Continued

17 Contributed equity and reserves

| Contributed equity | No. of shares | \$ |
|---|---------------|-------------|
| Ordinary shares – issued and fully paid | 1,078,641,948 | 104,426,711 |

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

| Movement in ordinary shares on issue | No. of shares | \$ |
|---|---------------|-------------|
| At 30 June 2015 | 1,077,891,948 | 104,388,258 |
| Employee performance rights converted to shares | 750,000 | 38,453 |
| At 30 June 2016 | 1,078,641,948 | 104,426,711 |

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.

| | 2016 | 2015 |
|---|--------|--------|
| 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. | 27,942 | 24,874 |
| | 27,942 | 24,874 |

Continued

18 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 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 2016, the Group did not have any outstanding derivative instruments.

As at 30 June 2016, the Group had the following exposure to \$US foreign currency.

| | Consolidated | | |
|---------------------------|--------------|-----------|--|
| | 2016 | 2015 | |
| | \$ | \$ | |
| Financial assets | | | |
| Cash & cash equivalents | 416,032 | 526,355 | |
| Trade & other receivables | 2,689,789 | 2,150,836 | |
| | 3,105,821 | 2,677,191 | |
| Financial liabilities | | | |
| Trade & other payables | 2,114 | 51,830 | |
| Net exposure | 3,103,707 | 2,625,361 | |

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 |
|---------------------------------------|----------------------------------|
| | \$ |
| | |
| +10% | 304,283 |
| -10% | 319,029 |
| | |
| +10% | (230,565) |
| -10% | 301,611 |
| | +10% +10% |

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

Credit risk

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

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

Continued

18 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 £9,912 in the HSBC in the UK. The company has a \$US account with an Australian bank which held US\$309,271 at 30 June 2016.

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 Group monitors its capital using a ratio of liquid assets over total liabilities. The Group's policy is to maintain the ratio greater than 1:1. A calculation of the liquid asset ratio is set out on the following tables for the financial years ended 30 June 2016 and 30 June 2015.

| | 2046 | 2045 |
|---|------------|------------|
| | 2016 | 2015 |
| | \$ | \$ |
| Liquid assets | | |
| Cash & cash equivalents | 20,848,044 | 15,901,898 |
| Trade and other receivables | 5,926,832 | 4,042,547 |
| Total liquid assets | 26,774,876 | 19,944,445 |
| Total liabilities | | |
| Current liabilities | 9,441,991 | 7,824,459 |
| Non-current liabilities | 1,505,5549 | 1,473,869 |
| Total liabilities | 10,947,540 | 9,298,328 |
| | | |
| Excess of liquid assets over total liabilities | 15,827,336 | 10,646,117 |
| Ratio of liquid assets to total liabilities | 2.45:1 | 2.15:1 |

Maturity analysis of financial assets and liabilities

The table below reflects all contractually fixed payoffs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities as of 30 June 2016. 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 2016. The Group has no derivative financial instruments at 30 June 2016.

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.

Continued

18 Financial risk management objectives and policies (continued)

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

| 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 |

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 2016 and 30 June 2015.

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 2016

| | <1year | >1-<2 years | >2-<3 years | >3-<4 years | >4-<5 years | > 5 years | Total |
|------|------------|-------------|-------------|-------------|-------------|-----------|------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Cash | 20,848,044 | _ | _ | _ | _ | _ | 20,848,044 |

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 |

Continued

18 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 2016, 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 I | Higher/(Lower) |
|-------------------------|------------------|----------------|
| | 2016 | 2015 |
| | \$ | \$ |
| Consolidated | | |
| +1% (100 basis points) | 208,304 | 158,797 |
| -0.5% (50 basis points) | (104,152) | (79,398) |

19 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 2016 are as follows:

| | Conso | lidated |
|---|---------|-----------|
| | 2016 | 2015 |
| | \$ | \$ |
| Within one year | 267,800 | 257,500 |
| After one year but not more than five years | 641,281 | 909,081 |
| More than five years | _ | _ |
| | 909,081 | 1,166,581 |

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 2016 the Group has not committed to any capital commitments, remuneration commitments or any other expenditure other than that disclosed in the notes above..

Continued

20 Parent entity information

Information relating to Senetas Corporation Limited for the year ended 30 June 2016

| | Senetas Corp Ltd | | |
|---|------------------|--------------|--|
| | 2016 | 2015 | |
| | \$ | \$ | |
| Current assets | 20,196,028 | 15,670,241 | |
| Total assets | 31,835,024 | 27,159,100 | |
| Current liabilities | (2,800,264) | (2,012,860) | |
| Total liabilities | (19,758,447) | (14,272,672) | |
| Issued capital | 104,426,713 | 104,388,260 | |
| Retained earnings | (93,202,322) | (92,174,847) | |
| Employee benefits reserve | 852,187 | 673,017 | |
| Total shareholders equity | 12,076,578 | 12,886,430 | |
| Loss of the parent entity after tax | (1,027,475) | (1,478,759) | |
| Total comprehensive income of the parent entity | (1,027,475) | (1,478,759) | |

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.

Continued

21 Related party disclosure

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

| | | | % Equity Interest | |
|------|---|---------------|-------------------|------|
| | | | 2016 | 2015 |
| | 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.

The parent did not have any transactions or balances with any of these related parties during the year (2015: \$0) except for Senetas Security Pty Ltd as disclosed below. Nor were there any transactions or balances between subsidiaries. (2015:\$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.

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

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

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

Continued

22 Events after the balance date

There are no significant events after balance date.

23 Auditors' remuneration

| | Consolidated | |
|---|--------------|---------|
| | 2016 2015 | |
| | \$ | \$ |
| 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 | 125,000 |
| • tax compliance | 25,500 | 74,100 |
| | 150,500 | 199,100 |

24 Key management personnel

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

(a) Remuneration by category: executives & directors

| | Consolidated | |
|-----------------------------------|--------------|-----------|
| | 2016 2015 | |
| | \$ | \$ |
| Short-term employee benefits | 1,815,145 | 1,498,762 |
| Post employment employee benefits | 57,903 | 56,236 |
| Other long-term employee benefits | 44,998 | 25,386 |
| Share-based payment | 67,780 | 50,173 |
| | 1,985,826 | 1,630,557 |

Other transactions and balances with executives and directors

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

Continued

25 Revenue by geography

Basis of segment identification

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

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

Description of segments

The Group has only one segment – the product division. Therefore, the Group no longer prepares operating segment reporting other than the geographical segments shown below. In accordance with the master distribution agreement with Gemalto and other direct customers, both product sales and maintenance services and inter-related and reported as one (1) reportable segment. Refer to Note 2(e) for the Group's revenue recognition policies.

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

| | 2016 | 2015 |
|-------------------------|------------|------------|
| Australia & New Zealand | 2,713,952 | 2,052,738 |
| United States | 12,235,450 | 11,174,893 |
| Europe | 4,391,138 | 2,979,587 |
| | 19,340,540 | 16,207,218 |

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 2016 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 2016.

On behalf of the Board

Francis W. Galbally

Chair Melbourne

Date: 28 September 2016



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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 2016, 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.



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 2016 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 2016. 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 2016, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Kylie Bodenham

Partner

Melbourne

28 September 2016

ASX Additional Information

Share Register Statistics as at 31 August 2016

Substantial shareholders as at the above date.

| Name of substantial shareholder | Number of shares held |
|---|-----------------------|
| HSBC Custody Nominees (Australia) Limited – A/C 2 – shares held on behalf of Madison Park LLC | 211,963,200 |
| Mr Francis Galbally | 140,000,000 |
| Success Breakthrough Pty Ltd <jacks a="" c="" fund="" super=""></jacks> | 20,150,000 |

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 | 216,214,583 | 20.05 |
| 2 | MR FRANCIS GALBALLY | 140,000,000 | 12.98 |
| 3 | SUCCESS BREAKTHROUGH PTY LTD | 20,150,000 | 1.87 |
| 4 | SPELIZA INVESTMENTS PTY LTD <greysmed a="" c="" fund="" l="" p="" super=""></greysmed> | 18,018,162 | 1.67 |
| 5 | MS DONNA YOUNG + MR PETER FLEMING <dypf a="" c="" f="" s=""></dypf> | 13,504,000 | 1.25 |
| 6 | NATIONAL NOMINEES LIMITED | 12,219,452 | 1.13 |
| 7 | S & H IMMO INVESTMEMNT AG | 12,113,000 | 1.12 |
| 8 | EUCALIP BIOCHEMICAL GROUP PTY LTD | 11,715,140 | 1.09 |
| 9 | CITICORP NOMINEES PTY LIMITED | 10,918,388 | 1.01 |
| 10 | ZERO NOMINEES PTY LTD | 8,517,170 | 0.79 |
| 11 | BNP PARIBAS NOMS PTY LTD <drp></drp> | 6,359,243 | 0.59 |
| 12 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 6,087,008 | 0.56 |
| 13 | CHALLENGER II PTY LTD | 5,750,000 | 0.53 |
| 14 | EMBL PTY LTD <ejm a="" c="" fund="" superannuation=""></ejm> | 5,000,000 | 0.46 |
| 15 | MRS MARIA GRAZIA TASCONE | 4,344,355 | 0.40 |
| 16 | HONNE INVESTMENTS PTY LIMITED | 4,300,000 | 0.40 |
| 17 | MUNN SUPERCO PTY LTD <the a="" c="" fund="" munn="" super=""></the> | 4,274,000 | 0.40 |
| 18 | J P MORGAN NOMINEES AUSTRALIA LIMITED | 4,118,183 | 0.38 |
| 19 | MR ANDREW CHRISTOPHER WOLFE | 3,700,000 | 0.34 |
| 20 | PERMAX PTY LTD | 3,600,000 | 0.33 |
| Total t | op holders balance | 510,902,684 | 47.37 |

Share Register Statistics as at 31 August 2016

| Distribution of equity securities | Fully paid ordinary shares shareholders |
|--|---|
| Total Holders | 7,360 |
| Aggregate holding of the top 20 | 47.37% |
| Holders of less than a marketable parcel | 1,136 |

Range of Holdings

| Range of fully paid ordinary shares | Shareholders | % |
|-------------------------------------|--------------|-------|
| 1 – 1,000 | 343 | 0.01 |
| 1,001 – 5,000 | 1069 | 0.34 |
| 5,001 – 10,000 | 1332 | 1.03 |
| 10,001 - 100,000 | 3597 | 12.94 |
| 100,001 – and over | 1019 | 85.67 |
| Total Holders | 7,360 | 100 |

Required Statements

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

Telephone: +61 3 9415 4000

