

Appendix 4E

Results

For announcement to the market
Senetas Corporation Limited

ACN	Final (<i>tick</i>)	Financial Year ended ('current period')
006 067 607	Preliminary Final	30-Jun-16

	30-Jun-16 \$	30-Jun-15 \$	Increase / (Decrease) \$	%
1. Revenues from ordinary activities	19,340,540	16,207,218	3,133,322	19.33%
2. Net profit/(loss) after tax	5,218,430	4,016,258	1,202,172	29.93%
3. Other comprehensive income for the period (foreign currency translation)	(3,068)	(10,845)	7,777	71.71%
4. Net comprehensive income after tax attributable to members	5,215,362	4,005,413	1,209,949	30.21%

5. Record date for determining entitlements to the final dividend	Final dividend: not proposed
---	------------------------------

Appendix 4E (continued)

6. Brief Explanation of figures 1 to 3

Highlights

Senetas delivers strong full year profit growth and cash flow.

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: \$4.02 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.

Commentary

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 2017.

Senetas' financial position remains extremely sound, with net assets up 41% during the period, no debt, and cash on hand of almost \$21 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.

Appendix 4E (continued)

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 late in 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 paid 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.

Appendix 4E (continued)

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.

Appendix 4E (continued)

7. Details of dividend / distribution payments	None	
Interim Dividend:	None	
Final Dividend: Not Proposed	Not Proposed	
8. Details of Divided Reinvestment Plan	N/A	
9. Movements in Retained Earnings	Please refer to Statement of Changes in Equity	
10. NTA backing	30-Jun-16	30-Jun-15
	(Cents Per Share)	(Cents Per Share)
Net tangible asset backing per ordinary security	1.65	1.20

11. Details of entities over which control has been gained or lost during the period	N/A
12. Details of Associates / Joint Venture Holdings	N/A
13. Other information on financial statements	N/A
14. Foreign Entities – accounting standards used to prepare report	Senetas Europe Ltd - IFRS
15. Other Information	None

Compliance Statement

1. This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and
2. This report, and the accounts upon which the report is based (if separate), use the same accounting policies.
3. This report does give a true and fair view of the matters disclosed.
4. This report is based on accounts which are in the process of being audited.
5. The entity has a formally constituted audit committee.



Francis W. Galbally

Chairman

Date: 29 August 2016

Appendix 4E FOR THE YEAR ENDED 30 JUNE 2016

Contents

CORPORATE INFORMATION	2
STATEMENT OF COMPREHENSIVE INCOME	3
STATEMENT OF FINANCIAL POSITION	4
STATEMENT OF CASHFLOWS	5
STATEMENT OF CHANGES IN EQUITY	6
NOTES TO THE APPENDIX 4E	
1 REVENUE AND EXPENSES	7
2 CONTRIBUTED EQUITY	7
3 CASH AND CASH EQUIVALENTS	8
4 REVENUE BY GEOGRAPHY	9
5 TRADE AND OTHER RECEIVABLES	9

Corporate Information

Non-Executive Directors

Francis W. Galbally

Lachlan P. Given

Kenneth J. Gillespie

Lawrence D. Hansen

Executive Director

Andrew R. Wilson

Company Secretary

Brendan Case

Registered Office

Senetas Corporation Limited

312 Kings Way

South Melbourne VIC 3205

Phone: +61 3 9868 4555

Facsimile: +61 3 9821 4899

Web: www.senetas.com

Email: corporate@senetas.com

Share Register

Computershare Registry Services Pty Ltd

Yarra Falls, 452 Johnston Street,

Abbotsford VIC 3061

Phone: + 61 3 9415 5000

Toll Free 1300 13 83 25

Facsimile: + 61 3 9473 2500

Investor Relations

For all investor enquiries

Phone: 1300 787 795

Email: investor@senetas.com

Auditors

Ernst & Young

8 Exhibition Street

Melbourne VIC 3000

Annual General Meeting Date and 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.

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2016

	Notes	CONSOLIDATED	
		2016 \$	2015 \$
Revenue from operating activities	1(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	1(b)	2,096,625	1,652,698
Depreciation and amortisation expense	1(c)	(346,048)	(301,091)
Employee benefits expense	1(d)	(6,124,898)	(5,332,951)
Administration expenses	1(e)	(1,932,702)	(2,845,327)
Other expenses	1(f)	(2,783,019)	(600,947)
Profit before income tax		7,021,599	6,021,000
Income tax expense		(1,803,169)	(2,004,742)
Net profit after income tax for the period		5,218,430	4,016,258
Items that may be classified subsequently to profit or loss			
Foreign currency translation		(3,068)	(10,845)
Other comprehensive income for the period		(3,068)	(10,845)
Total comprehensive income for the period		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 income for the period 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.		0.0048	0.0028
Diluted, profit for the year attributable to ordinary equity holders of the parent.		0.0048	0.0028

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

Statement of Financial Position

AS AT 30 JUNE 2016

	Notes	CONSOLIDATED	
		2016	2015
		\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents	3	20,848,044	15,901,898
Trade and other receivables	5	5,926,832	4,042,547
Inventories		632,349	720,712
Prepayments		196,824	212,843
Other assets		28,258	31,549
Total Current Assets		27,632,307	20,909,549
Non-current Assets			
Other financial assets		91,667	92,501
Deferred income tax asset		576,891	513,752
Property, plant and equipment		1,047,768	751,519
Intangible assets and goodwill		125,290	124,405
Total Non-current Assets		1,841,616	1,482,177
TOTAL ASSETS		29,473,924	22,391,726
LIABILITIES			
Current Liabilities			
Trade and other payables		1,973,272	2,067,878
Income tax payable		1,862,754	1,251,989
Unearned income		4,799,771	3,718,749
Provisions		806,194	785,843
Total Current Liabilities		9,441,991	7,824,459
Non-current Liabilities			
Deferred income tax liabilities		52,720	48,545
Provisions		18,190	28,502
Unearned income - non-current		1,434,640	1,396,822
Total Non-current Liabilities		1,505,550	1,473,869
TOTAL LIABILITIES		10,947,541	9,298,328
NET ASSETS		18,526,383	13,093,398
EQUITY			
Equity attributable to equity holders of the parent			
Contributed equity	2	104,426,711	104,388,258
Retained earnings		(86,737,433)	(91,955,863)
Reserves		852,187	673,017
Foreign currency translation reserve		(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

	<i>Notes</i>	<i>CONSOLIDATED</i>	
		2016	2015
		\$	\$
Cash flows from operating activities			
Receipts from customers		19,928,911	19,216,796
Receipts of R&D tax refund		322,653	1,385,730
Payments to suppliers and employees		(14,230,350)	(11,306,887)
Interest received		423,447	281,325
Net cash flows from operating activities	3	<u>5,193,292</u>	<u>9,576,964</u>
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 used in investing activities		<u>(244,079)</u>	<u>(469,580)</u>
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	3	<u><u>20,848,044</u></u>	<u><u>15,901,898</u></u>

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

CONSOLIDATED

	Attributable to equity holders of Senetas Corporation Ltd				Owners of the parent	Non controlling interest	Total equity
	Contributed Equity	Accumulated Losses	Foreign currency translation reserve	Employee Benefits Reserve	Total		
	\$	\$	\$	\$	\$	\$	\$
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.

Notes to the Appendix 4E

FOR THE YEAR ENDED 30 JUNE 2016

1 REVENUES AND EXPENSES	CONSOLIDATED	
	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	219,684	201,887
Leasehold improvements	62,495	42,453
Amortisation:		
Software	63,869	56,751
	346,048	301,091
(d) Employee benefits expenses		
Salaries & Wages	5,555,963	4,974,965
Superannuation	316,266	296,182
Termination Payouts	35,046	-
Share Based Payment Expense	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		
Net loss / (gain) on foreign exchange	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	-	228
Other overhead expenses	646,380	588,252
	2,783,019	600,947
2 CONTRIBUTED EQUITY		
	<i>No. of shares</i>	<i>\$</i>
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.		
	<i>No. of shares</i>	<i>\$</i>
<i>Movement in ordinary shares on issue</i>		
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

Notes to the Appendix 4E (continued)

FOR THE YEAR ENDED 30 JUNE 2016

3 CASH AND CASH EQUIVALENTS

	<i>CONSOLIDATED</i>	
	2016 \$	2015 \$
Cash at bank and in hand	7,237,056	5,672,455
Short-term deposits	13,610,988	10,229,443
	<u>20,848,044</u>	<u>15,901,898</u>

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

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

Reconciliation from the net profit/(loss) after tax to the net cash flows from operations

Net profit after tax	5,218,430	4,016,258
<i>Adjustments for:</i>		
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	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	<u>5,193,292</u>	<u>9,576,964</u>

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

4 REVENUE BY GEOGRAPHY

The Group has only one segment - the product division. Therefore, the Group no longer prepares operating segment reporting other than the geographical segments shown below.

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

	2016	2015
Australia & New Zealand	2,745,967	2,052,738
United States	15,968,204	11,174,893
Europe	626,369	2,979,587
	19,340,540	16,207,218

5 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.

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.