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17 November 2016

The Manager, Listings
ASX Limited
Company Announcements Office
Level 4 Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

**2016 Annual General Meeting – Chairman's Address and CEO Presentation**

We attach a copy of the Chairman's address and the CEO's presentation to be delivered to shareholders at the Senetas Corporation Limited Annual General Meeting to be held at The Royce Hotel, 379 St Kilda Road, Melbourne on Thursday, 17 November 2016 at 10:30 am (Melbourne time).

Yours sincerely

Brendan Case
**Company Secretary**

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# SENETAS CORPORATION LIMITED

## AGM - NOVEMBER 17, 2016

## Chairman's Address

It is now 10.30am, this is a properly constituted meeting and a quorum is present. I therefore declare the Annual General Meeting of Senetas Corporation Limited open.

I would like to welcome you and thank you for your interest in Senetas which is demonstrated by your attendance today.

Let me start by welcoming our directors who contribute a strong mix of skills and experience to the Board. On my left is our CEO Andrew Wilson. Next to Andrew is Lachie Given, on Lachie's left is Ken Gillespie and on the far left, Dave Hansen.

I thank the Board for their significant input over the past 12 months. I would also like to thank all of our staff for their hard work and commitment to improving the performance of Senetas and especially the senior management team, Julian Fay, CTO, John Weston, Chief Engineer, Barb McMeekin, CFO and Simon Galbally, Marketing Director.

What is innovation and what does it mean for the Australian economy? I ask this question not just because it is a word we are hearing more and more often, but because it is the very thing that Senetas represents.

Innovation requires the ability to make changes to things already established by introducing new processes, ideas or products. To innovate is to disrupt the established order. This is what Senetas does best when we introduce new products into the market-place, such as our new 100Gig ultra-high-speed high-assurance encryptor. It's how Senetas began and why governments and global businesses use Senetas products in over 30 countries. And it is what many Australian companies do well.

Australia is one of the most innovative countries in the world. Although we are very far from major markets that many of our products target, we are also very innovative in how we go to market. Through innovative distribution we reduce costs by partnering rather than going direct.

The end result is increased jobs, a better skilled workforce and increased GDP leading to greater revenue for government to implement infrastructure, social and other programs that our society needs.

Taking Senetas as an example. Our innovation has led to more skilled engineers being employed in our company. That innovation leads to further innovation. But the flow-on effect is significant and in Senetas's case is a key part of our business culture. We not only innovate in our product development and engineering; we also innovate in our marketing, distribution logistics, customer relationships, business systems and manufacturing.

Senetas's innovation has been crucial to our local Australian manufacturing where we partner with a local manufacturer with state-of-the-art technology that enhances our products and enables us to get to our markets faster and more efficiently, as well as continually improve costs.
Our revenues have increased substantially in the past 4 years as a direct result of all areas of our innovation.

Our manufacturing partner, Extel, in turn receives increased revenue and therefore employs more staff. Extel also innovates in the way it continues to develop its manufacturing processes and the electronic and engineering services it provides Senetas. And on it goes. The flow-on effect is significant.

Now, I am also using Senetas as an example because there are numerous companies operating in our economy doing exactly the same things.

Innovation needs government support. Government must set a policy framework that encourages businesses to invest in innovation. And to invest, businesses need certainty about government policy before they will risk that investment.

In Australia, our federal government provides a policy framework through the Research and Development (R&D) Tax Incentive Program. But that is not optimal and I will say something about that shortly. However, it does work, having produced some outstanding success stories including Senetas.

Our government is currently carrying out a review of the R&D Tax Incentive Program. In an attempt to contain the program's costs, the government is looking to 'cap' parts of it. Senetas is concerned about some of these recommended changes because they would negatively impact Australian innovation and even Senetas' investment in R&D. In short, the impact of the recommended caps would likely 'cap' business investment in innovation – a self-defeating outcome!

The recommended changes to the R&D Tax Incentive Program are short-sighted and contradictory in their intent and certainly poor in their proposed execution. Australian Government commissioned studies as recently as this year, point to the effectiveness of the program in stimulating considerable additional economy-wide benefits.

Conclusions from the studies included:

1. "The program stimulates considerable additional benefits" - Centre for International Economics 2016.
2. "It has contributed to a 13% to 14% increase in business R&D since 2012" - Swinburne University of Technology study. 2016.
3. "Claiming firms invest in around 40% more R&D than 'similar' firms which are not registered to receive the subsidies" - Swinburne University of Technology study.

Australia should be increasing – and not reducing R&D (tax benefit) funding for business if it wants to remain competitive in the international economy. That competitiveness demands innovation!

Of the 35 OECD member countries, 28 provide fiscal incentives for business R&D. Within the EU it is 26 of 28 and the numbers have been increasing in recent years, as too has the level of incentives provided.

More than ever before Australia is locked in a struggle to attract R&D investment and retain R&D talent. The last thing Australia should do is to encourage a 'brain drain'. But,

this is exactly what we will be threatened with should our government proceed with recommended caps to the R&D tax incentives.

In December last year, during the launch of "The National Innovation and Science Agenda", our prime minister recognised the need to retain our national R&D talent. He also commented that Australia is struggling to attract R&D investment. So, what has changed since December last? Do the government's plans to curb overall spending now include capping R&D tax incentives? If they do; is this good economic policy? Obviously the answer is a definite no!

Why would our government put a 'cap' on what is clearly one of the most important and universally applauded policy initiatives in this country that can truly promote growth, jobs and new skills?

The adverse impact of such a 'cap' on R&D incentives is clear. Already companies such as CSL – an internationally respected and innovative organisation - has sounded a warning that it will look to other countries that support innovative technologies to invest in R&D.

The proposed changes will impact Senetas. In short, the proposed capping of the 45% refundable R&D offset to $2million per annum, is simply dumb!

Senetas has benefited from the R&D incentives in the past 4 years and we have invested more in R&D than we might otherwise have been able to invest. As a result of our sustained R&D investment, we have taken products to global markets faster; we have increased the size of our addressable markets; we've improved costs and increased sales – all resulting in increased employment among Senetas and our supplier partners.

We have urged our federal government to drop this recommendation to 'cap' R&D incentives. And we have also urged our government to maximise the program's economic benefits by increasing the current revenue threshold that distinguishes entitlement to refundable and non-refundable offsets, from $20million to $50million.

A company on the cusp of $20million in annual revenue is typically at a critical stage of growth. Ensuring sufficient cash flow when a business may still be in a tax loss situation remains a key consideration. The reduction to the lower non-refundable rate of R&D benefit after breaching the revenue threshold is a further inhibitor to innovation investment and growth.

So, I ask you, our shareholders, to consider what I have said today and phone, email or write to your local federal member of parliament expressing your concerns about the proposed changes to the R&D Tax Incentive Program.

Thank you for supporting Senetas.

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# CEO PRESENTATION

# MR ANDREW WILSON

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# AGENDA

1. Highlights
2. Financial Overview
3. Operational Review
4. Outlook

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# HIGHLIGHTS

# HY16 HIGHLIGHTS

- Record Net Profit Before Tax despite large increase in R&D spend
- Operating revenue increased 19%
- Good growth in both sales and maintenance revenue
- Strong unleveraged balance sheet and continued growth in cash balance
- All new product development projects remain on track
- 100Gbps encryptor currently undergoing certification and customer testing




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# FINANCIAL OVERVIEW

# FY2016 FINANCIAL OVERVIEW

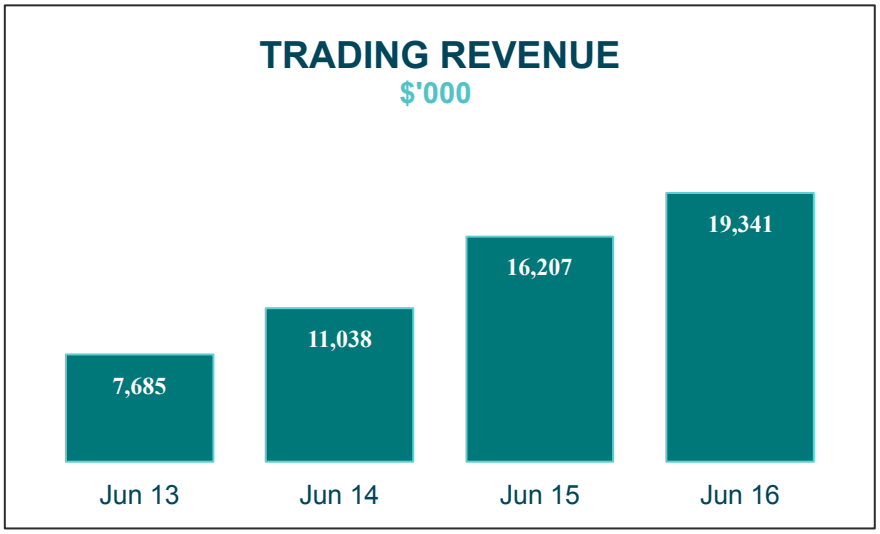
| Year ended 30 June 2016 | FY16 $000's | FY15 $000's | Change |
|---|---|---|---|
| **Revenue from ordinary activities** | 19,341 | 16,207 | 19% |
| **Gross profit** | 16,112 | 13,449 | 20% |
| **Other income (R&D tax incentive)** | 2,097 | 1,653 | 27% |
| **Profit before tax** | 7,022 | 6,021 | 17% |
| **Tax expense** | (1,803) | (2,005) | 10% |
| **Net profit after tax** | 5,218 | 4,016 | 30% |

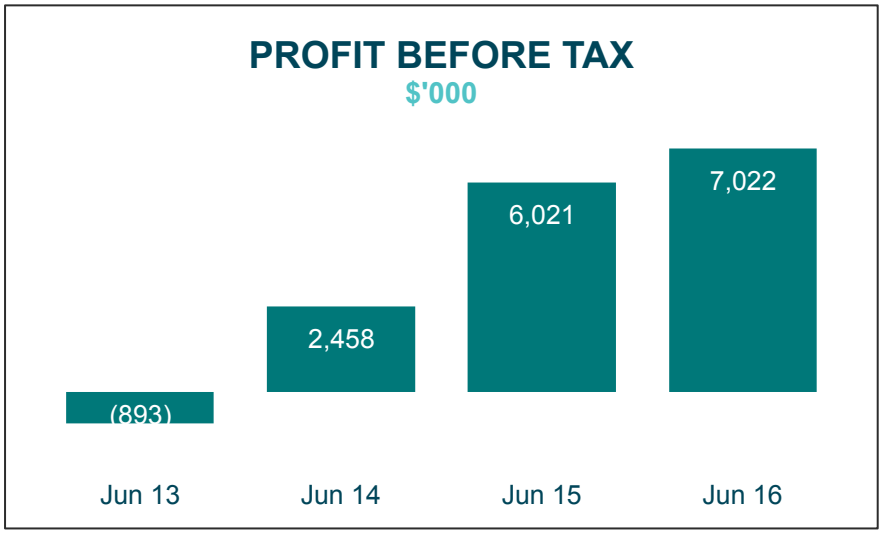
**Record PBT driven by strong revenue growth**

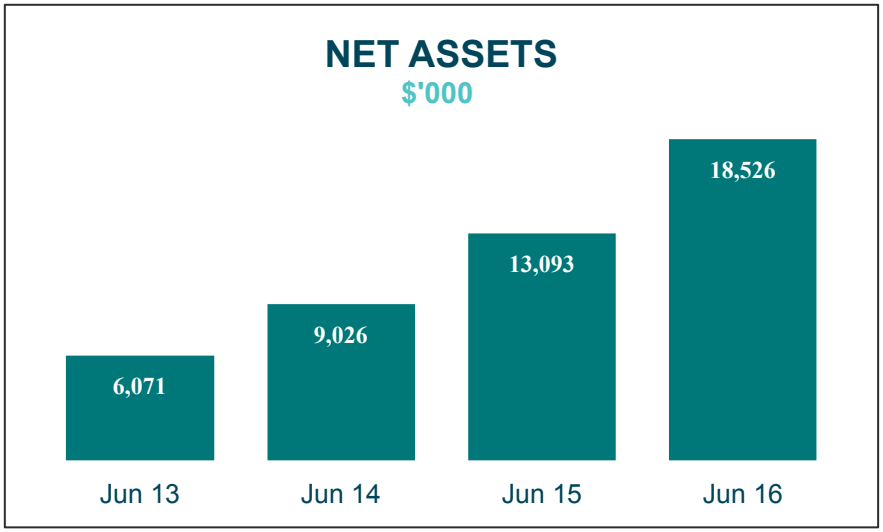
- Balance between sales and recurring maintenance revenue remains stable
- Revenue growth more than offset the $1.43m increase in R&D spend in FY16
- Tax expense benefited by $0.94m due to prior year tax losses utilised – and $0.21m tax credit from booking the remaining carried forward tax losses
- Commercial sales grew significantly reflecting increasing cyber security concerns

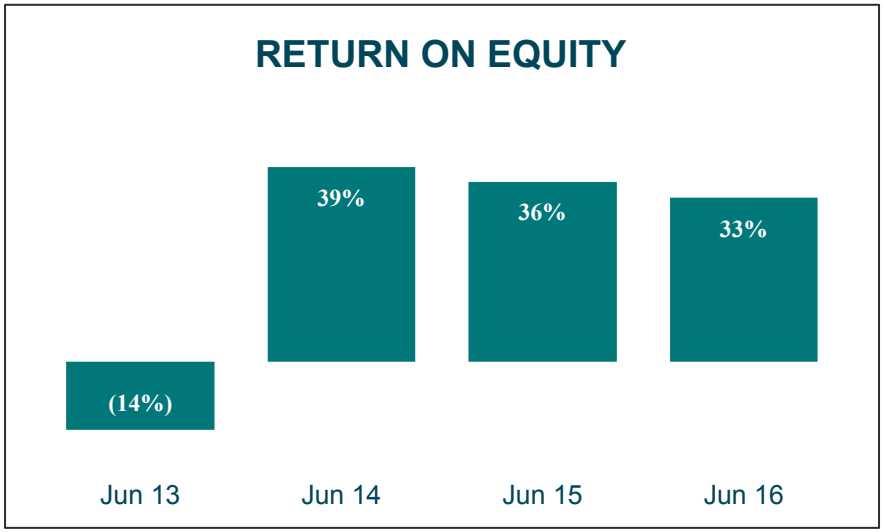
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# SIGNIFICANT POSITIVE TREND ON KEY METRICS




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# OPERATING CASH FLOWS

| Year ended 30 June 2016 | FY16 $000's | FY15 $000's | Change |
|---|---|---|---|
| Receipts from customers | 19,929 | 19,217 | 4% |
| R&D tax rebate net of income tax paid | 323 | 1,386 | (77%) |
| Payments to suppliers & employees | (14,230) | (11,307) | (26%) |
| **Operating cash flows** | **5,193** | **9,577** | **(46%)** |
| **Investing cash flows** | **(244)** | **(470)** | **48%** |

**Growth in customer receipts offset by increased R&D spend, growth in receivables and income tax payable for the first time during FY16:**

- Higher payments to suppliers as Gemalto grew inventory levels during FY2016.
- R&D spend in FY16 increased by $1.43m.
- Income tax payable in FY16 of $1.25m (nil in FY15).

**R&D tax rebate received in FY16 of $2.1m – up from $1.7m in FY15:**

- Increased FY16 R&D spend will result in a cash rebate due in the first half of FY17 of approx. $2.1m.
- Potential impacts on Senetas' FY17 R&D rebate were detailed in the FY16 results materials

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# BALANCE SHEET

| As at 30 June 2016 | FY16 $000's | FY15 $000's | Change |
|---|---|---|---|
| Cash and cash equivalents | 20,848 | 15,902 | 31% |
| Trade and other receivables | 5,927 | 4,043 | 47% |
| **Total assets** | **29,474** | **22,392** | **32%** |
| Trade and other payables | (1,973) | (2,068) | 5% |
| Income / company tax payable | (1,863) | (1,252) | (49%) |
| Unearned income | (6,234) | (5,116) | (22%) |
| **Total liabilities** | **(10,948)** | **(9,298)** | **(18%)** |
| **NET ASSETS** | **18,526** | **13,093** | **41%** |

**Strong Balance Sheet with capacity to support growth:**

- Cash balance provides ongoing flexibility for organic growth and investment opportunities.
- Increase in receivables reflects higher sales late in June and higher R&D rebate receivable.
- Unearned income reflects prepaid maintenance contracts.
- No debt.

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# 4 YEAR SHARE PRICE PERFORMANCE




Sources: IRESS, Market Eye

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# OPERATIONAL REVIEW

# FY16 OPERATIONAL REVIEW

## Strong growth in commercial sales more than offset slower sales to key government customers

- Commercial sector sales growth driven by key North American customers
- Commercial customers now represent over 50% of Senetas operating revenue
- Stronger than projected sales in June 2016
- Delayed commercial sales at HY16 were completed prior to 30 June 2016
- Some of the delayed government sales at HY16 will now not proceed as SONET encryptors are phased out – Senetas expects its Ethernet encryptors will replace the SONET encryptors
- Growth in maintenance revenue will moderate as higher cost SONET maintenance contracts roll off over the next 3-4 years
- A more direct 'hands on' role in sales, marketing and business development with our key partners
- Working with Gemalto to significantly improve its Government business

## Increased investment in R&D during the year has accelerated key new product developments

- All activity on track with new products due to become revenue producing in the 2017 calendar year and beyond
- R&D costs in FY17 are expected to be similar to FY16
- Potential new product developments also under review

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# RESEARCH & DEVELOPMENT UPDATE

## 100Gbps Encryptor

- Certification process and customer testing underway – expected to be completed before the end of calendar 2016
- Marketing campaign and official launch early in calendar 2017
- Precise timing of commercial release is subject to certification and ongoing customer testing
- Recent delays in customer network readiness mean initial sales aren't likely until very late in FY17



CN9100 – 100G ultra-high-speed high-assurance encryptor – 'Carrier grade' ultimate security for Big Data, data centre and Cloud backbones

## Custom algorithm products

- Currently undergoing testing and certification
- Commercial release date subject to certification and export approvals – current expectation is late FY17

## Virtual encryption technologies

- Development ahead of schedule and currently undergoing customer testing
- Preliminary interest is exceeding expectations and likely to begin generating revenue late in FY17



CN6100 – certified high-assurance network data encryptor – 'Carrier grade' 10G high-speed performance

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# OUTLOOK

# 2017 PRIORITIES

- **A highly innovative and responsive R&D capability remains at the core of Senetas' business** – continuing to develop new products to meet emerging customer needs including faster, 'high density' hardware and software solutions, and custom products to suit unique customer requirements

- **Leverage the Gemalto relationship** to increase access to regions and industries in which Senetas currently has low penetration

- **Assist Gemalto to grow revenue and further strengthen Senetas' in market sales and marketing capability to identify and realise sales opportunities**: building stronger relationships with Gemalto and end user customers; identifying emerging customer needs; and driving the sales of new products

- **Continue to develop new technology partnerships to expand the reach and capabilities of Senetas products** – new avenues to market with significant customer access

- **Identify and develop the drivers of Senetas' long term growth** – expansion into new markets via new product developments leveraging internal expertise and partner relationships, and exploring compelling acquisition opportunities

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# SUMMARY AND OUTLOOK

- Record FY16 PBT driven by growth in sales to commercial customers
- Gemalto integration of SafeNet now largely complete with improved sales focus evident in the second half of FY16
- All key R&D projects remain on track – R&D expenditure in FY17 is expected to remain at a similar level to FY16
- Senetas is increasing direct engagement in sales, marketing and business development to support its distribution partners
- Growing awareness of the need for high assurance encryption and the growth in data flows across Layer 2 networks create significant opportunities for Senetas' products and services
- Whilst the growth outlook for the sector is positive – Senetas' revenue growth rates remain difficult to predict accurately – sales remain 'lumpy' and weighted towards late in each half year
- The new 100Gbps encryptor is an exciting opportunity for the company – interest remains very strong but delays with customer network readiness mean initial sales not likely to commence until very late in FY17
- Custom algorithm and virtual encryption technologies are expected to add to revenue growth in the second half of FY17

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# SENETAS ANNUAL GENERAL MEETING 2016

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