Appendix 4D
Senetas Corporation Limited
Half year report for announcement to the market
ACN 006 067 607

1 Details of the reporting period and the previous corresponding period

Reporting Period	Previous Corresponding Period
Half-year ended 31 December 2018	**Half-year ended 31 December 2017**

2 Results for announcement to the market

	31-Dec-18	31-Dec-17	Change	
	$	$	$	%
2.1 Revenues from ordinary activities	9,861,523	10,301,798	(440,275)	-4%
2.2 (Loss)/profit from ordinary activities before tax attributable to members	(799,374)	2,393,896	(3,193,270)	-133%
2.3 Net (loss)/profit after tax for the period attributable to members	(1,184,192)	1,640,217	(2,824,409)	-172%
Dividends				
2.4 Amount of final dividend declared but not paid		3,999,776		
2.5 Record date for determining entitlements to the final dividend		14 December 2018		

Brief explanation of figures 2.1 to 2.5

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

HY2019 highlights

- Operating revenue and net profit before tax (NPBT) was reduced by $0.26 million as a result of the first time application of new AASB15.
- Pre AASB15 operating revenue was slightly below the prior period (HY2018: $10.30 million).
- Gross margin of 76% reflects increased sales of the higher cost 100Gbps encryptors.
- The board of Senetas today confirmed with the Company's auditors the accounting treatment of its recent investment in Votiro Inc. The investment will be carried in Senetas's balance sheet as an investment in an associate, and its share of Votiro's loss for the period will be treated in the income statement as a share of loss of an associate. The accounting treatment will continue to be reviewed as Senetas transitions towards a majority interest in Votiro.
- Senetas's share of Votiro's losses for the period since Senetas made its investment in November 2018 of $0.32m was in line with expectations.
- Pre AASB15 net loss before tax of $0.54 million includes a $1.89 million impairment of unlisted investments relating to the investment in SAT and the $0.32m share of the Votiro loss for the period since Senetas made its investment.
- Pre AASB15 NPBT of $1.68 million prior to the SAT impairment and the share of Votiro's loss is at the high end of the guidance range announced in the market update released on 7 February 2019 (HY2018: $2.39 million).
- HY2019 expenses includes a remeasurement of contingent consideration relating to the earn out provisions of the agreement to acquire SureDrop in FY2017.

  Strong balance sheet with $12.25 million of cash following the $6.37 million first tranche of the investment into Votiro and $4.00 million in relation to the FY2018 final and special dividends declared.

Appendix 4D
Senetas Corporation Limited

3 Movements in retained earnings

Please refer to the attached Half-Year Financial Report.

4 Net tangible assets	**31-Dec-18**	**30-Jun-18**
	$	**$**
Net tangible asset backing per ordinary security (Cents per share).	1.68	2.12

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

None.

6 Details of Associates / Joint Venture Holdings

Investment in associate - Votiro. 39% equity holding. See Note 8 for details.

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

For foreign entities International Financial Reporting Standards are used in compiling this report.

8 Other information on financial statements

None.

9 Other information

None.

10 Independent review report

This report is based on accounts which have been reviewed. An unqualified review conclusion has been issued.



F. W. Galbally
Chairman



Half-year financial report for the half-year ended

31 December 2018

SENETAS CORPORATION LIMITED

HALF-YEAR FINANCIAL REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

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Directors' Report

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

Your directors submit their report for the half-year ended 31 December 2018.

DIRECTORS

The names of the company's directors in office during the half-year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

F. Galbally (Chairman)

A. Wilson (Executive director)

L. Given (Non-executive director)

K. Gillespie (Non-executive director)

L. Hansen (Non-executive director)

P. Schofield (Non-executive director)

Senetas Corporation Ltd (ASX: SEN) (Senetas / the Company), announces its results for the six months ended 31 December 2018 (HY2019).

• 100Gbps sales growing, with new customers secured.

• Votiro transaction finalised and 1st tranche of investment completed.

• Gemalto distribution agreement signed for SureDrop, with pilots underway.

• R&D pipeline building value for the future.

• Strong cash flow and balance sheet position.

HY2019 Highlights:

Half year ended 31 December 2018 ($000's)	HY 19 Post AASB15	HY19 Pre AASB15	HY18 Pre AASB15
Revenue from ordinary activities	9,862	10,123	10,301
Gross Profit	7,494	7,756	8,190
Other income	303	303	214
PBT from ordinary activities	1,417	1,679	2,394
Impairment to investment in SAT	(1,893)	(1,893)	-
Share if loss of associate	(323)	(323)	-
Statutory (loss)/profit before tax	(799)	(537)	2,394
Tax expense	(385)	(257)	(754)
Net Loss After Tax	(1,184)	(794)	1,640

HY2019 results reflect first time application of the new AASB15 (Revenue from Contracts with Customers). HY2018 results were not subject to the new AASB15 and have not been restated. Pre AASB15 results for HY2019 are used in this release for the purposes of comparison to HY2018 results.

• Operating revenue and net profit before tax (NPBT) was reduced by $0.26 million as a result of the first time application of new AASB15.

• Pre AASB15 operating revenue was slightly below the prior period (HY2018: $10.30 million).

• Gross margin of 76% reflects increased sales of the higher cost 100Gbps encryptors.

• The board of Senetas today confirmed with the Company's auditors the accounting treatment of its recent investment in Votiro Inc. The investment will be carried in Senetas's balance sheet as an investment in an associate, and its share of Votiro's loss for the period will be treated in the income statement as a share of loss of an associate. The accounting treatment will continue to be reviewed as Senetas transitions towards a majority interest in Votiro.

• Senetas's share of Votiro's losses for the period since Senetas made its investment in November 2018 of $0.32m was in line with expectations.

• Pre AASB15 net loss before tax of $0.54 million includes a $1.89 million impairment of unlisted investments relating to the investment in SAT and the $0.32m share of the Votiro loss for the period since Senetas made its investment.

• Pre AASB15 NPBT of $1.68 million prior to the SAT impairment and the share of Votiro's loss is at the high end of the guidance range announced in the market update released on 7 February 2019 (HY2018: $2.39 million).

• HY2019 expenses includes a remeasurement of contingent consideration relating to the earn out provisions of the agreement to acquire SureDrop in FY2017.

• Strong balance sheet with $12.25 million of cash following the $6.37 million first tranche of the investment into Votiro and $4.00 million in relation to the FY2018 final and special dividends declared.

The first half of FY2019 has seen good progress as we advance our vision to be the leading provider of security solutions, without compromising user experience or network performance.

We completed the first tranche of our $US8 million in Votiro Cybersec, a leading Israeli content disarm and reconstruction (CDR) company. Votiro's patented CDR technology presents a significant opportunity for Senetas to expand its portfolio into a fast growing segment of the security market and to use its distribution relationships to accelerate Votiro's growth. Since completion in mid-November 2018, Votiro's pipeline is building and we look forward to updating the market with our full year results on Votiro's progress.

The share of Votiro's loss at 31 December 2018 that was recognised in our HY2019 accounts was in line with our expectations of the performance of the business at the time of investment and in no way affects the confidence we have in the growth outlook for the business.

Our new virtualised encryption products and SureDrop have undergone successful customer testing during the half, and Gemalto has agreed to distribute the SureDrop product. The next stage of product development is well advanced, to extend our virtual encryption products to public cloud environments and add multi-layer capability to our hardware encryptors. This will significantly expand our product suite and addressable market.

Early sales of the 100Gbps encryptor are tracking well and encouragingly they have also attracted 4 new customers that haven't previously purchased Senetas encryptors.

The financial results for HY2019 reflect the first application of the new accounting standard AASB15 relating to the timing of recognition of revenue. AASB15 has had a negative impact on operating revenue reported in HY2019, however, underlying revenue prior to the impact of AASB15 was similar to the prior corresponding period.

Disappointingly, some higher costs, the AASB15 changes, the impairment to our investment in Smart Antenna Technologies Ltd (SAT) and the share of Votiro's 31 December 2018 loss have resulted in a net loss after tax for the first half of FY2019.

Senetas's balance sheet remains strong with no debt and $12.25 million of cash on hand at 31 December 2018. Pleasingly, Senetas's strong financial position and confidence in the business outlook allowed the board to declare a FY2018 final dividend and special dividend to shareholders during the half, the first dividends since the Company's comprehensive restructure in 2012.

Operational review

On a pre AASB15 basis, total operating revenue was marginally below the prior year. Revenue received from Senetas's global distribution partner Gemalto NV was in line with the prior period, with revenue from the ANZ region slightly lower. Good growth in 100Gbps sales in HY2019 was offset by lower sales of 10Gbps encryptors. The 100Gbps encryptor sales included 4 new customers that had not previously purchased Senetas encryptors.

HY2019 maintenance revenue was 36% of total revenue. This was slightly lower than FY2018 reflecting the previously announced transition of one of Senetas's key customers from Senetas SONET products to lower cost Senetas Ethernet products.

Gross margins were 76%, slightly lower than the prior period largely due to an increased proportion of sales from the higher cost 100Gbps encryptor. Margins on the 100Gbps encryptors are expected to increase over time as the cost of 100Gbps components reduces.

Sales of the 100Gbps encryptor during HY2019 have been encouraging, and the number of sales to new customers has highlighted its ability to attract important customers that haven't previously purchased Senetas encryption technologies.

The new virtualised products and SureDrop have undergone successful customer testing during HY2019 and feedback has been very positive. Senetas has recently signed an agreement with Gemalto in relation to the distribution of SureDrop and sales leads off the back of that agreement have already been encouraging.

Senetas's relationship with its global distribution partner Gemalto continues to strengthen, evidenced by Gemalto's recent adoption of the new virtualised technologies and SureDrop into its product portfolio. In addition, Senetas also has the partnership with ADVA in relation to the virtualised encryption technologies integrated into ADVA's Ensemble Connector network solutions. These relationships provide Senetas with strong global distribution opportunities, as well as being important technology partnerships that have successfully developed unique security solutions for customers.

The SureDrop technology was acquired by Senetas in the second half of FY2017 on an earn out basis with no upfront consideration. With development of the SureDrop product complete, and sales now expected in the near term, Senetas has for the first time recognised a charge arising on remeasurement of contingent consideration in its P&L related to the SureDrop earn out provisions.

These new technologies, plus the benefit of expanded capabilities for Senetas's virtual products, and development of transport layer independence for hardware encryptors provide Senetas with a significantly expanded set of use cases and revenue growth opportunities.

R&D and new product development

R&D remains a significant source of value creation for Senetas. The major areas of R&D focus for FY2019 remain:

• Completion of the European certification process for Senetas's hardware encryptors;

• Further development of the virtualised encryption solutions to provide enhanced capabilities in public cloud environments; and

• Development of multi-layer capability for Senetas hardware encryptors.

These projects are expected to increase R&D spend in the FY2019 year by between $0.5-$1.0 million over FY2018. The primary contributor to the increased R&D spend in FY2019 is the cost associated with European certification that will broaden the addressable market for Senetas products in that region.

Development of transport layer independence capabilities for Senetas's hardware products is expected to be completed before the end of FY2019, and enhanced capabilities for the virtualised encryption solutions is expected shortly thereafter.

The completion of these developments is expected to increase Senetas's addressable market for security solutions by more than 3 times and cover more than 85% of all network traffic.

Senetas does not expect any material financial impact from the new Australian R&D rules in effect from 1 July 2018.

Balance sheet and cash flow

Senetas' balance sheet remains strong with no debt and substantial cash reserves. Net assets reduced 20% to $19.00 million and the cash balance at 31 December 2018 was $12.25 million.

Net operating cash flow was negative $0.21 million in FY2019 reflecting higher cost of sales and an increase in Senetas's inventory level during the period.

Significant cash outflows during the period included the $6.37 million first tranche of the investment in Votiro and associated costs in November 2018, and the advance payment of $4.00 million into a dividend trust account in preparation for the FY2018 final and special dividends that were subsequently paid to shareholders on 4 January 2019.

The dividends reflect the Board's confidence in the Company's financial position and business outlook.

Outlook

The past 2 years has seen Senetas transition from being solely a provider of hardware encryption products to becoming a trusted provider of high-assurance hardware and software cyber security solutions.

With the development of our virtualised encryption solutions together with transport layer independence capabilities for both the virtual and hardware products we have significantly expanded our potential market opportunities beyond the specialist Layer 2 hardware encryption market with products that can now serve over 85% of all network traffic.

Our relationship with Gemalto continues to strengthen and we continue to see opportunities arising from the merger of Thales and Gemalto once finalised. The new agreement with Gemalto for the distribution of SureDrop is another important development that we expect to contribute to revenue growth in the near term.

The acquisition of a majority interest in Votiro also provides us with an exposure to the fast growing area of CDR technology which has application for all security conscious enterprises. With the assistance of Senetas's global business development resources and global distribution relationships we expect Votiro can grow revenue strongly over the next 12 months as distribution expands beyond its core Asian markets

Revenue will be driven largely by our traditional hardware encryption products until the new virtual, SureDrop and transport layer independent hardware products begin to develop sales momentum in FY2020 and beyond. Our 100Gbps devices developed some good sales growth in HY2019 and we are optimistic that it will continue to attract additional new customers to Senetas technologies, however, profit in FY2019 will continue to be impacted by higher costs, primarily related to Senetas's increased investments in R&D during the year.

Impact of AASB15

In accordance with the new standard, the Company is required to estimate and recognise the revenue expected to be earned from customer contracts, rather than waiting for the actual end sale before recognising the revenue.

The net accounting impact of the new AASB15 on Senetas's results in HY2019 is to reduce revenue and net profit before tax by $0.26m compared to what would have been recognised under the previous accounting standard. The reduction in HY2019 revenue is a result of lower inventory held by Gemalto at 31 December 2018 compared to the inventory Gemalto held at 30 June 2018.
Refer note 2.2(a) for further details.

Unlisted investments

Smart Antenna Technologies Ltd. (SAT)

Senetas announced on 16 January 2019 that it expected to recognise an impairment to the carrying value of its investment in SAT. Senetas holds a 5.52% interest in SAT that was initially acquired in December 2016.

The major shareholder and primary financier of SAT advised its intention to not proceed with additional funding due to disagreements with SAT management over future strategy. As a result, the board of SAT resolved to put the business into the hands of administrators.

Given the level of uncertainty surrounding the carrying value of the investment the board has resolved to write down the carrying value of the investment in SAT from $1.89 million to nil.

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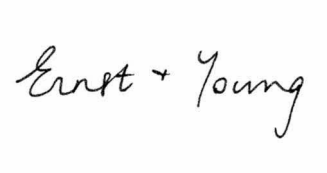
Auditor's Independence Declaration to the Directors of Senetas Corporation Limited

As lead auditor for the review of the half-year financial report of Senetas Corporation Limited for the half-year ended 31 December 2018, I declare to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

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



Ernst & Young



Alison Parker
Partner

26 February 2019

Interim Consolidated Statement of Comprehensive Income

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Notes	Consolidated 31/12/2018 $	Consolidated 31/12/2017 $
Revenue from contracts with customers	3(a)	9,861,523	10,301,798
Revenue		**9,861,523**	**10,301,798**
Cost of sales		(2,367,115)	(2,111,766)
Gross profit		**7,494,408**	**8,190,032**
Other income	3(b)	302,588	215,343
Loss on fair value through profit or loss investment	7	(1,892,941)	-
Employee benefit expenses	3(c)	(3,125,259)	(3,174,781)
Depreciation and amortisation expenses	3(d)	(364,795)	(264,140)
Administration expenses	3(e)	(1,969,246)	(1,814,507)
Other expenses	3(f)	(920,521)	(758,051)
Share of loss of an associate	8	(323,608)	-
(Loss)/Profit for the period before income tax		**(799,374)**	**2,393,896**
Income tax expense	4	(384,818)	(753,679)
Net (loss)/profit for the period		**(1,184,192)**	**1,640,217**
(Loss)/Profit for the period		**(1,184,192)**	**1,640,217**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation reserve		1,955	9,570
Other comprehensive income for the period		**1,955**	**9,570**
Total comprehensive (loss)/income for the period, net of tax		**(1,182,237)**	**1,649,787**
Attributable to:			
Owners of the parent		**(1,182,237)**	**1,649,787**
Earnings per share (EPS): (cents per share)			
Basic, (loss)/profit for the period attributable to ordinary equity holders of the Parent.		(0.11)	0.15
Diluted, (loss)/profit for the period attributable to ordinary equity holders of the Parent.		(0.11)	0.15

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

Interim Consolidated Statement of Financial Position

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Notes	Consolidated As at 31/12/2018 $	Consolidated As at 30/6/2018 $
ASSETS			
Current assets			
Cash and cash equivalents		12,249,569	23,258,056
Trade and other receivables	5	5,678,295	6,529,034
Inventories		2,101,479	1,308,182
Prepayments		303,158	338,143
Advance payment to dividend trust account		3,999,776	-
Other current assets		26,272	66,753
Total current assets		**24,358,549**	**31,500,168**
Non-current assets			
Long term cash deposits		97,670	91,667
Investment securities	7	-	1,892,941
Investment in an associate	8	6,045,128	-
Deferred tax asset		629,310	540,477
Plant and equipment		1,832,601	1,732,438
Intangible assets		181,494	210,698
Total non-current assets		**8,786,204**	**4,468,221**
TOTAL ASSETS		**33,144,753**	**35,968,389**
LIABILITIES			
Current liabilities			
Trade and other payables		2,210,632	1,931,895
Dividend payable	6	3,999,776	-
Contingent consideration liability	9	25,804	-
Current income tax payable		449,029	2,419,463
Unearned income		3,395,629	4,573,148
Provisions		1,065,823	1,006,176
Total current liabilities		**11,146,693**	**9,930,682**
Non-current liabilities			
Deferred tax liabilities		197,830	92,844
Provisions		44,611	31,715
Unearned income - non-current		2,675,974	2,337,220
Contingent consideration liability - non-current		83,959	-
Other non-current liabilities		14,832	24,249
Total non-current liabilities		**3,017,206**	**2,486,027**
TOTAL LIABILITIES		**14,163,899**	**12,416,709**
NET ASSETS		**18,980,854**	**23,551,680**
EQUITY			
Contributed equity	10	104,726,285	104,726,285
Accumulated losses		(86,544,928)	(81,902,985)
Foreign currency translation reserve		20,380	18,425
Employee benefit reserve		779,117	697,095
Equity attributable to owners of the parent		**18,980,854**	**23,538,820**
Non-controlling interests		-	12,860
TOTAL EQUITY		**18,980,854**	**23,551,680**

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

Interim Consolidated Statement of Changes in Equity

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Attributable to equity holders of Senetas Corporation Ltd					Non-controlling interest	Total equity
	Contributed Equity	Accumulated Losses	Foreign Currency Translation Reserve	Employee Benefit Reserve	Total		
Consolidated	**$**	**$**	**$**	**$**	**$**	**$**	**$**
At 1 July 2017	**104,679,425**	**(83,858,332)**	**(39,998)**	**689,150**	**21,470,245**	**12,860**	**21,483,105**
Profit for the period	-	1,640,217	-	-	1,640,217	-	1,640,217
Other comprehensive income	-	-	9,570	-	9,570	-	9,570
Total comprehensive income for the period	-	**1,640,217**	**9,570**	-	**1,649,787**	-	**1,649,787**
Transactions with owners in their capacity as owners:							
Share based payment expenses	-	-	-	18,395	18,395	-	18,395
Options converted to shares	39,270	-	-	(39,270)	-	-	-
At 31 December 2017	**104,718,695**	**(82,218,115)**	**(30,428)**	**668,275**	**23,138,427**	**12,860**	**23,151,287**
Consolidated	**$**	**$**	**$**	**$**	**$**	**$**	**$**
At 1 July 2018	**104,726,285**	**(81,902,985)**	**18,425**	**697,095**	**23,538,820**	**12,860**	**23,551,680**
Impact of adoption of AASB 15 (Note 2.2)		529,165			529,165		529,165
At 1 July 2018	**104,726,285**	**(81,373,820)**	**18,425**	**697,095**	**24,067,985**	**12,860**	**24,080,845**
Loss for the period	-	(1,184,192)	-	-	(1,184,192)	-	(1,184,192)
Other comprehensive income	-	-	1,955	-	1,955	-	1,955
Total comprehensive income for the period	-	(1,184,192)	1,955	-	(1,182,237)	-	(1,182,237)
Transactions with owners in their capacity as owners:							
Movement in non-controlling interest		12,860			12,860	(12,860)	-
Dividends declared		(3,999,776)			(3,999,776)		(3,999,776)
Share based payment expenses	-	-	-	82,023	82,023	-	82,023
At 31 December 2018	**104,726,285**	**(86,544,928)**	**20,380**	**779,117**	**18,980,854**	-	**18,980,854**

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

Interim Consolidated Statement of Cash Flows

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Consolidated	
	31/12/2018	**31/12/2017**
	$	$
Cash flows from operating activities		
Receipts from customers	8,550,486	9,106,727
Payments to suppliers and employees	(8,518,980)	(7,776,820)
R&D tax concession net of tax paid	-	-
Interest received	249,239	205,609
Income tax paid	(486,923)	-
Net cash flows (used in)/from operating activities	**(206,177)**	**1,535,516**
Cash flows used in investing activities		
Purchase of plant and equipment	(412,409)	(423,869)
Purchase of intangibles	(23,344)	(19,171)
Investment in unquoted equity instruments	-	(622,771)
Investment in associate	(6,368,736)	-
Net cash flows used in investing activities	**(6,804,490)**	**(1,065,811)**
Cash flows used in financing activities		
Advance payment to dividend trust account	(3,999,776)	-
Net cash flows used in financing activities	(3,999,776)	-
Net (decrease)/increase in cash and cash equivalents	(11,010,443)	469,705
Net foreign exchange differences	1,955	9,570
Cash and cash equivalents at beginning of period	23,258,056	20,091,205
Cash and cash equivalents at end of period	**12,249,568**	**20,570,480**

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

Notes to the Consolidated Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

1 CORPORATE INFORMATION

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

The half-year financial statements of Senetas Corporation Limited and its subsidiaries (collectively, the Group) for the half year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors on 26 February, 2019.

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

2 SIGNIFICANT ACCOUNTING POLICIES

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

The half-year financial report should be read in conjunction with the Annual Financial Report for the year ended 30 June 2018 and considered together with any public announcements made by Senetas Corporation Limited and its controlled entities during the half-year ended 31 December 2018 in accordance with the continuous disclosure obligations of the ASX listing rules.

2.1 Basis of preparation and Statement of Compliance

The financial report for the half-year ended 31 December 2018 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

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

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

This interim financial report is presented in Australian dollars and all values are rounded to the nearest dollar.

2.2 Impact of new and amended accounting standards

The accounting policies adopted in the preparation of the half-year financial report are consistent with those followed in the preparation of the Annual Financial Report for the year ended 30 June 2018, except for the adoption of new standards effective as of 1 July 2018.

The new accounting standards AASB 15 Revenue for Contracts with Customers ('AASB 15') and AASB 9 Financial Instruments ('AASB 9') became effective for the Group on 1 July 2018. Further details related the adoption of these accounting standards, including updated accounting policies and any changes to significant accounting judgements, estimates and assumptions are outlined below.

(a) Revenue from contracts with customers

AASB 15 supersedes AASB 118 Revenue ('AASB 118') and related Interpretations and it applies to all revenue arising from contracts with customers unless those contracts are in the scope of other standards. AASB 15 establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, the revenue recognition model changed from one based on the transfer of risk and reward of ownership to the transfer of control of ownership. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Impact of adoption

The Group has elected to apply the modified retrospective method of adoption. This transition method requires the cumulative effect of initially applying AASB 15 as an adjustment to the opening balance of retained earnings from the date of initial application. In accordance with the modified retrospective method, comparative figures are not restated.

The transition adjustment at 1 July 2018 resulted in an increase to opening retained earnings of $529,165 and an increase to contract asset and deferred tax liabilities of $729,882 and $200,717 respectively.

(a) **Revenue from contracts with customers (continued)**

The tables below provide additional information demonstrating the impacts to individual line items had the previous standard, AASB 118 Revenue, continued to be applied at 31 December 2018 and half-year then ended.

The below table presents the impact on interim consolidated statement of financial position had AASB 118 been applied as at 31 December 2018.

	As at 31 December 2018 (under AASB 15)	Adjustment for AASB 118	As at 31 December 2018 (under AASB 118)	As at 30 June 2018 (under AASB 118)
	$	$	$	$
Current Assets				
Trade and other receivables	5,678,295	(468,536)	5,209,759	6,529,034
Total current assets	**5,678,295**	**(468,536)**	**5,209,759**	**6,529,034**
Non-current liabilities				
Deferred tax liabilities	197,830	(128,847)	68,983	92,844
Total non-current liabilities	**197,830**	**(128,847)**	**68,983**	**92,844**
Equity				
Accumulated losses	(86,544,928)	(339,689)	(86,884,617)	(81,902,985)
Total equity	**(86,544,928)**	**(339,689)**	**(86,884,617)**	**(81,902,985)**

The below table presents the impact on interim consolidated statement of comprehensive income had AASB 118 been applied as at 31 December 2018.

	31 December 2018 (under AASB 15)	Adjustment for AASB 118	31 December 2018 (under AASB 118)	31 December 2017 (under AASB 118)
	$	$	$	$
Revenues from contracts with customers	9,861,523	261,345	10,122,868	10,301,798
Profit before income tax	**(799,374)**	**261,345**	**(538,029)**	**2,393,896**
Income tax expense	(384,818)	128,847	(255,971)	(753,679)
Profit for the period	**(1,184,192)**	**390,192**	**(794,000)**	**1,640,217**

The adoption of AASB 15 has resulted in additional disclosures being made in the half-year condensed consolidated financial report.

Changes to Accounting Policies

From 1 July 2018, the following accounting policies have applied to the recognition of revenue and income:

Sale of equipment (including sales under the distribution agreement with Gemalto)

Under AASB 118, revenue from sale of equipment was recognised when equipment was dispatched from the Group's warehouse as the risk and rewards passed to the customer. In accordance with AASB 15, the satisfaction of the Group's performance obligation is deemed to occur upon dispatch of the customer's order. The normal credit term is 30 to 90 days upon delivery.

(a) **Revenue from contracts with customers (continued)**

Sale of equipment (continued)

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties). In determining the transaction price for the sale of equipment, the Group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).

The Group's distribution agreement with Gemalto has fixed and variable consideration. Fixed consideration is received at the time of fulfilling the contractual obligation and Group is entitled for a variable consideration when the equipment is sold by Gemalto to its end users. Variable consideration is required to be estimated at contract inception and updated thereafter. Accordingly, the Group estimates and recognise the amount of total consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

The Group has generally concluded that it is the principal in sale of products as part of its distribution agreement with Gemalto.

Maintenance

Maintenance revenue continues to be recorded over the period of the maintenance agreement. Cash received in advance for the maintenance agreement is recognised as unearned income (contract liability) which is subsequently recognised over the term of the agreement as the performance conditions are met. Previously the Group recognised maintenance revenue straight-line over the maintenance period. On adoption of AASB 15 there was no material change to revenue recognition.

Under the terms of the maintenance agreements, the Group has identified a separate performance obligation for maintenance services provided to customers. This is a stand-ready obligation where revenue is recognised overtime using time lapsed to measure progress towards satisfaction of the performance obligation. Management consider time lapsed is the most appropriate measurement on the basis customers can request Senetas to provide the maintenance services as and when the customer chooses during the contract period.

The Group receives short-term advances from its customers. Using the practical expedient in AASB 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

The Group also receives long-term advances from customers for the maintenance agreements. Management has concluded that such agreements do not contain a significant financing component as the primary purpose for the upfront payment is not to obtain financing from the customer but to provide agreed maintenance service over the contract period.

(b) **AASB 9 *Financial Instruments***

In the current year, the Group has applied AASB 9 retrospectively which is effective for annual period that begins on or after 1 January 2018. As permitted by the transitional provisions of AASB 9, the Group has elected not to restate comparative figures.

AASB 9 introduces new requirements for:

• Classification and measurement of financial assets and financial liabilities.

• Impairment of financial assets.

• Hedge accounting (the Group did not apply hedge accounting during the half-year ended 31 December 2018 and in the comparative period).

Classification and measurement of financial assets and financial liabilities

Under AASB 9, the Group has summarised below the changes to classification and measurement of financial assets and financial liabilities.

(b) **AASB 9 *Financial Instruments* (continued)**

Classification and measurement of financial assets and financial liabilities (continued)

All recognised financial assets that are within the scope of AASB 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically:

• debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;

• debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI); and

• all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

• the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and

• the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Group has not designated any investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment.

Impact of adoption

The directors of the Company reviewed and assessed the Group's existing financial assets as at 1 July 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of AASB 9 has had the following impact on the Group's financial assets as regards their classification and measurement:

• the Group's investments in equity instruments (neither held for trading nor a contingent consideration arising from a business combination) that were previously classified as available for sale financial assets and were measured at fair value at each reporting date under AASB 139 have been designated as at FVTPL ((under AASB 9).

As a result of the transition adjustment at 1 July 2018, the subsequent fair value loss of the Group's investment in SAT, amounting to $1.9 million, has been recognised in the interim consolidated statement of comprehensive income for the half-year ended 31 December 2018.

• Other than the classification of investments mentioned above, there was no other impact on the classification and measurement of other financial assets and financial liabilities at the transition date of 1 July 2018.

Impairment of financial assets

The adoption of AASB 9 has changed the Group's accounting for impairment losses for trade and other receivables by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive.

(b) **AASB 9 *Financial Instruments* (continued)**

Impairment of financial assets (continued)

The Group has applied the simplified approach to trade receivables and the contract asset in AASB 9 and has calculated ECLs based on lifetime expected credit losses. A provision for ECLs is determined based on historic credit loss rates and adjusted for forward looking factors specific to the debtor and the economic environment.

Based on the assessment undertaken by the Group, there has been no material impact to the interim consolidated statement of financial position as at 31 December 2018 and interim consolidated statement of comprehensive income for the half-year ended 31 December 2018.

2.3 Significant accounting judgements, estimates and assumptions

The preparation of the Group's interim condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Revenue from contracts with customers

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

Determining method to estimate variable consideration and assessing the constraint

The Group's distribution agreement with Gemalto has fixed and variable consideration. Fixed consideration is received at the time of fulfilling the contractual obligation and Group is entitled for a variable consideration when the equipment is sold by Gemalto to its end users. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

The method used to calculate the variable consideration has been estimated using the most likely amount which represents the single most likely amount in a range of possible consideration amounts. This is an estimate of the likelihood of sales taking place to an end user and the amount of revenue due towards the Group if this event occurs. The nature of the promise within the contract is to perform an unknown number of sales to end users throughout the contract period and the consideration received is contingent upon the quantity which is sold to end users. Therefore, the total transaction price is variable since it is based upon the occurrence or non-occurrence of events outside the Group's control and the contract has a range of possible transaction prices.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are constrained based on its historical experience, business forecast and the current economic conditions.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. See Note 12 for further disclosures.

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently remeasured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor (refer Note 9 for details).

As part of the accounting for the acquisition of Podzy Pty Ltd (SureDrop), contingent consideration with an estimated fair value of $109,763 was recognised at the reporting date, as a reliable estimate of the future sales of the product are available now. Future developments may require further revisions to the estimate. The contingent consideration is classified as other financial liability (see Note 9).

2.4 Significant accounting policies

(a) Investment in associates

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

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

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

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

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

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

(b) Cash dividend

The Company recognises a liability to pay a dividend when the distribution is authorised and the distribution is no longer at the discretion of the Company. As per the corporate laws of Australia, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

2.5 Standards issued but not yet effective

Australian Accounting Standards and Interpretations that are issued, but are not yet effective, up to the date of issuance of the Group's half-year financial statements are disclosed below. The Group intends to adopt these new standards and interpretations, if applicable, when they become effective.

AASB 16 *Leases*

The standard has an effective date for the Group of 1 July 2019. The Group will adopt the new standard on the required effective date.

AASB 16 introduces a single lessee accounting model, requiring the recognition of assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments.

It has not yet been determined whether the impact of adopting the new accounting standard will have a material effect on the Group's financial statements. Information regarding the Group's operating lease commitments can be found in Note 20 to the 30 June 2018 annual report. As at 30 June 2018, the Group had operating lease commitments of $362,768. The Group is evaluating the impact of this standard.

	Note	Consolidated 31/12/2018 $	Consolidated 31/12/2017 $
3 REVENUE, INCOME AND EXPENSES			
(a) Revenue from contracts with customers			
Sale of goods		6,282,783	6,650,715
Product maintenance revenue		3,569,543	3,644,924
Provision of services		9,197	6,159
		9,861,523	**10,301,798**
(b) Other income			
Interest revenue:			
Non-related parties		214,760	215,343
Net gain on foreign exchange		87,828	-
		302,588	**215,343**
(c) Employee benefits expenses			
Salaries and wages		2,851,549	2,970,761
Superannuation		191,687	185,625
Share based payments expense	6	82,023	18,395
		3,125,259	**3,174,781**
(d) Depreciation and amortisation expenses			
Depreciation:			
Plant and equipment		262,427	192,493
Leasehold improvements		49,819	35,531
Amortisation:			
Software		52,549	36,116
		364,795	**264,140**
(e) Administration expenses			
Premises costs		238,102	215,524
Travel expenditure		279,517	256,134
Telephone and internet expenditure		65,889	44,724
Insurance expenditure		134,518	76,683
Loss on disposal of equipment		-	464
Marketing expenditure		296,723	259,523
External contractors - sales and corporate		954,497	961,455
		1,969,246	**1,814,507**
(f) Other expenses			
Impairment of inventories		185	-
Certification, testing and direct R&D expenditure		296,298	356,650
Legal fees		101,727	(40,415)
Re-measurement of contingent consideration liability		109,763	-
Other overhead expenses		412,548	441,816
		920,521	**758,051**

4 INCOME TAX

The Group calculates the income tax expense for the reporting period using the tax rate that would be applicable to expected total annual earnings.

The major components of income tax expense in the interim statement of comprehensive income are:

	For the half-year ended 2018	2017
Income taxes		
Current income tax expense	576,137	810,319
Deferred income tax expense related to origination and reversal of temporary differences	(191,319)	(56,640)
Income tax expense recognised in the statement of comprehensive income	**384,818**	**753,679**

5 TRADE AND OTHER RECEIVABLES

	Consolidated	
	31/12/2018	**30/06/2018**
	$	$
Trade receivables	4,936,755	4,373,543
Contract asset	468,536	-
Net GST receivable	272,983	102,595
R&D tax incentive	-	2,052,896
	5,678,295	**6,529,034**

5.1 The fair value of the trade receivables and contract asset amounts to $4,936,775 and $468,536 respectively. The gross amount of trade receivables and contract asset is $4,936,775 and $468,536 respectively and it is expected that the full contractual amounts can be collected. AASB 9 requires a calcuation of expected credit losses (ECL's). The Group's evaluation of thes requirement has resulted in an allowance for expected credit losses of nil. At 31 December 2018, the ageing analysis of trade receivables is a s follows:

	Neither past due nor impaired	Past due but not impaired (i)	Past due & impaired
	$	*$*	*$*
31 December 2018 Consolidated	**4,936,755**	-	-
30 June 2018 Consolidated	3,847,010	526,533	-

6 DISTRIBUTIONS MADE AND PROPOSED

	31/12/2018	30/6/2018
	$	**$**
Cash dividends on ordinary shares declared but not paid:		
Final dividend for 2019: $0.000462 per share (2018 - nil)	499,567	-
Special cash dividends on ordinary shares declared but not paid:		
Special dividend for 2019: $0.003237 per share (2018 - nil)	3,500,209	-
Total cash dividends declared but not paid	**3,999,776**	-

Cash and special dividends relating to the financial reporting period ending 31 December 2018 were approved by the Board on 30 October 2018.

The record date was 14 December 2018 and the payment date was 4 January 2019. The funds required for payment of the dividends were transferred to a trust account, maintained by the share registry, on 20 December 2018 in advance of the distribution to shareholders on 4 January 2019.

7 INVESTMENT SECURITIES

	Consolidated	
	31/12/2018	**30/06/2018**
	$	$
Refer note 2.2(b) for the impact of adoption of AASB 9.		
Unquoted investment securities at FVTPL	1,892,941	
Available-for-sale (AFS) investment		2,227,145
Addition to AFS investments during the year	-	1,027,328
Impairment of AFS investment	-	(1,361,532)
Revaluation losses recognised during the year	(1,892,941)	-
Closing balance	**-**	**1,892,941**

The Group has investments in the entities shown in the table below.

	Equity Interest %		Value of Investment $	
	Dec-18	**Jun-18**	**Dec-18**	**Jun-18**
DeepRadiology Inc	3.45%	3.45%	-	-
Smart Antenna Technologies Ltd	5.52%	5.52%	-	1,892,941
Total			**-**	**1,892,941**

In December 2016, the Group invested in Smart Antenna Technologies Ltd ("SAT"), a smart antenna technology company based in the UK. Subsequent to the half-year ended 31 December 2018, the major shareholder and primary financiers of SAT advised the Group of their intention to not proceed with additional funding (which was previously accepted by the SAT board) due to disagreements over future strategy. As a result, the Board of SAT has resolved to put the business into the hands of administrators with a view to disposing of the Company's business and intellectual property.

Due to the uncertainty as to whether the underlying value of the investment in SAT will be recoverable, the Group concluded that there is objective evidence of decline in the value of investment. Therefore, the Group recognised a revaluation loss of $1.89m for the full carrying value, and the carrying value of the investment as at 31 December 2018 is nil.

8 INVESTMENT IN AN ASSOCIATE

On 14 November 2018, the Group invested $5.7 million (USD 4 million) in convertible notes in Votiro Cybersec Global Limited (Votiro), a leading Israeli content disarm and reconstruction company. Votiro is a private entity that is not listed on any public exchange. As at 31 December 2018, the Group has 39% interest in Votiro. The Group has also agreed to invest in two further tranches of convertible notes, amounting to USD 2 million for each tranche, on or before 30 June 2019 and 30 June 2020, respectively. The three tranches, when fully converted to ordinary shares, will provide Senetas with a majority ownership interest in Votiro. The convertible notes include an entitlement to interest of 8% per annum, from the subscription date to the earlier of the conversion date or 30 April 2020. Accrued interest is capitalised into the face value of the convertible notes.

In addition, the agreement to purchase the two further tranches of convertible notes is classified as a derivative financial instrument, which is measured at fair value and any changes in fair value are recognised in profit or loss. The performance of Votiro (subsequent to Senetas' acquisition of convertible notes on 14 November 2018) has tracked according to its plans and management has concluded that the agreed purchase price for the two further tranches of convertible notes approximates the fair value of the notes to be acquired. Accordingly, the agreement to purchase the two further tranches of convertible notes has an assessed net fair value of $nil at 31 December 2018.

The following summarised financial information of Votiro as at 31 December 2018 and for the period from date of investment till 31 December 2018 represents the amounts as presented in the most recent management accounts of Votiro, adjusted for translation into AUD and adjusted for any significant differences in accounting policies:

	31/12/2018
Current assets	5,439,544
Non-current assets	385,434
Current liabilities	(2,237,696)
Non-current liabilities	(7,482,793)
Equity	(3,895,512)
Group's share in equity - 39%	(1,519,250)
Goodwill	7,171,706
Transaction costs	716,280
Group's share of loss for the period	(323,608)
Group's carrying amount of the investment at 39%	6,045,128
Revenue	202,110
Profit or loss for the period	(829,765)
Other comprehensive income for the period	-
Total comprehensive loss for the period	(829,765)
Group's share of loss for the period at 39%	(323,608)

9 CONTINGENT CONSIDERATION

Acquisition of Podzy Pty Ltd (completed on 7 December 2017 for a consideration of $1) included an earn-out provision. The earn out period continues until 30 June 2022 and is based on a percentage of revenue from future sales of SureDrop. As at 30 June 2018, the fair value of contingent consideration was assessed to be nil as there were no confirmed sales orders or quantifiable pipeline of sales.

The estimated fair value is calculated by a discounted cash flow analysis (to account for the time value of money and the risk factors) on a range of possible revenue forecasts during this period. This calculation resulted in a remeasurement of the contingent consideration liability to $109,763 at 31 December 2018. This includes an amount of $25,804 which is expected to be settled during the next 12 months from the balance sheet date. This contingent consideration liability will be reassessed at each reporting period.

10 CONTRIBUTED EQUITY

	Consolidated	
	No. of shares	**$**
Movement in ordinary shares on issue		
At 1 July 2018	1,081,311,948	104,726,285
At 31 December 2018	**1,081,311,948**	**104,726,285**

11 SEGMENT INFORMATION

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Senetas's chief operating decision maker is the Chief Executive Officer (CEO). The CEO provides strategic direction and management oversight to the day to day activities of the Group in terms of monitoring results and approving strategic planning. Operating segments have been identified based on the information provided by the CEO.

The Group has only one segment - the product division. In accordance with the master distribution agreement and other direct customers, both product sales and maintenance services are inter-related and reported as one (1) reportable segment. Therefore, the Group does not prepare operating segment reports 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 below.

31/12/2018	**Australia & New Zealand**	**United States**	**Europe**
	$	**$**	**$**
Sale of equipment	204,875	2,920,684	3,157,224
Maintenance revenue	500,600	3,068,943	-
Provision of services	9,197	-	-
	714,672	5,989,627	3,157,224

31/12/2017	**Australia & New Zealand**	**United States**	**Europe**
	$	**$**	**$**
Revenue	778,570	7,532,649	1,990,579

12 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group has various financial instruments such as investment securities, cash in hand, trade debtors, trade creditors and a contingent consideration liability. Apart from investment securities and the contingent consideration liability, other financial instruments arise directly from its operations. Due to the short term nature of these financial assets and financial liabilities, fair value does not materially differ to the carrying amount.

Investment securities consist of equity and debt investments which have no active market. Therefore, management uses a number of assumptions for the inputs into a valuation model to arrive at the fair value. The probabilities of the estimates used can be reasonably assessed and are used in management's estimation of the fair value of these unquoted equity and debt investments. The investments are carried at fair value. Refer to Note 9 for the basis of calculation of fair value of the contingent consideration liability.

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

The level in which instruments are classified in the hierarchy is based on the lowest level input that is significant to the net market value measurement in its entirety. Assessment of the significance of an input requires judgement after considering factors specific to the instrument. The investments are categorised at Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurment is unobservable.

• Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

• Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

• Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

The level in which instruments are classified in the hierarchy is based on the lowest level input that is significant to the net market value measurement in its entirety. Assessment of the significance of an input requires judgement after considering factors specific to the instrument.

	Quoted price in active market	Significant observable inputs	Significant unobservable inputs
31 December 2018			
Financial assets			
Investment securities (Note 7)	-	-	-
Derivative financial instrument (Note 8)	-	-	-
Financial liabilities			
Contingent consideration liability (Note 9)	-	-	109,763
30 June 2018			
Financial assets			
Available-for-sale investments	-	-	1,892,941

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

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

Other than the revaluation loss on investment securities of $1,892,911 and the remeasurement of contingent consideration liability of $109,763, there has been no other movement in level 3 items.

13 COMMITMENTS AND CONTINGENCIES

Since the last annual reporting date, other than the commitment for two further tranches of Votiro's convertible notes, there has been no material change in any commitments or other contingencies.

14 EVENTS AFTER THE REPORTING DATE

There are no significant events after reporting date.

Directors' Declaration

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

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity for the half-year ended 31 December 2018 are in accordance with the *Corporations Act 2001,*

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and the performance for the half-year ended on that date; and

(ii) complying with the Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001* ; and

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

On behalf of the Board



F.W. Galbally

Chairman

26 February 2019

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Independent Auditor's report to the members of Senetas Corporation Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Senetas Corporation Limited (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 31 December 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

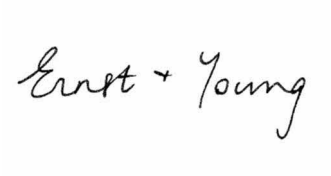
Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Senetas Corporation Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



Ernst & Young



Alison Parker
Partner
Melbourne
26 February 2019