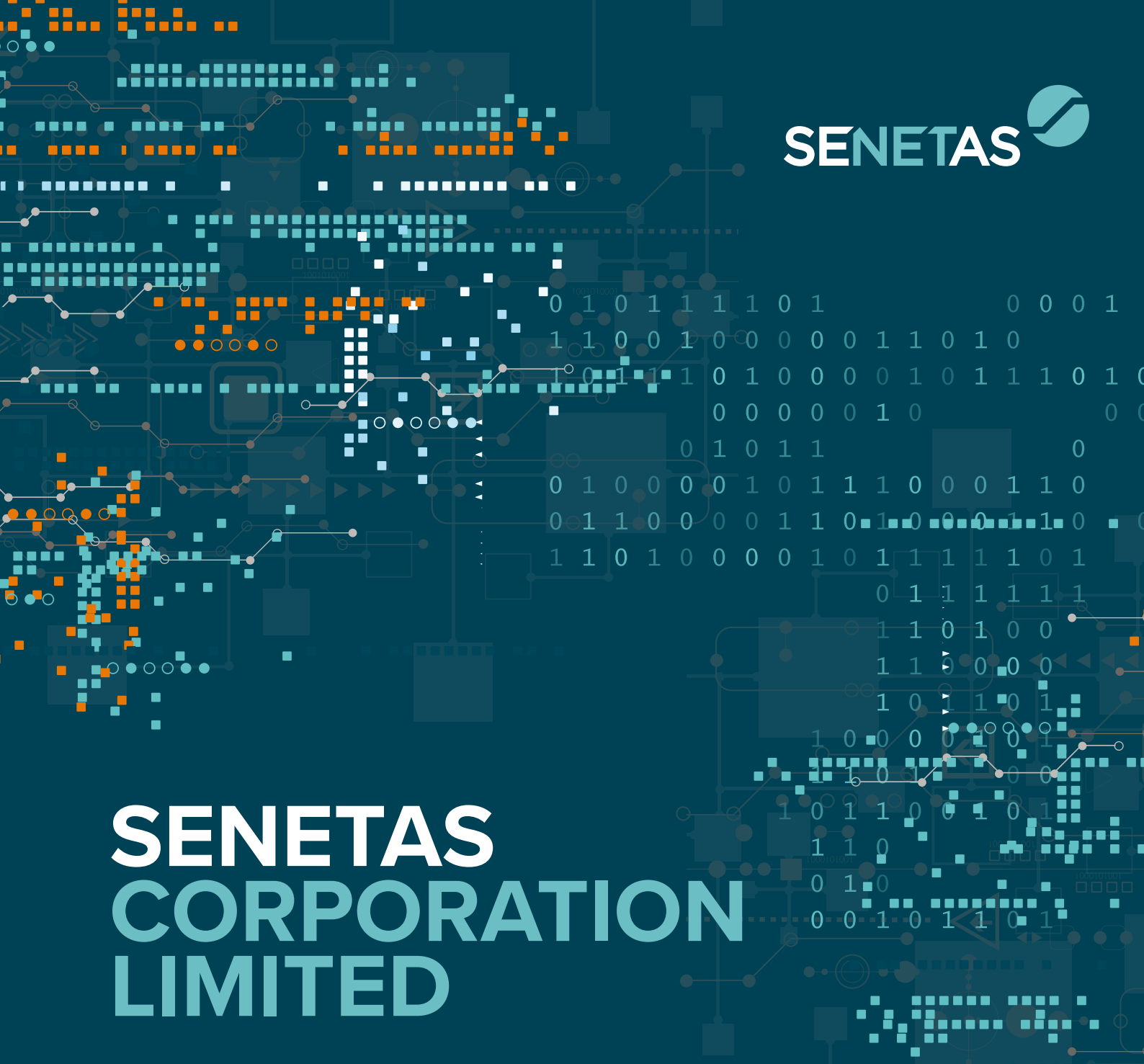


SENETAS CORPORATION LIMITED

A global leader in the development of advanced encryption technologies, protecting data-in-motion – from core IT infrastructure to large-scale WANs and secure file sharing.

2017/2018 ANNUAL FINANCIAL REPORT


SENETAS
Security without compromise

Contents

Corporate Information		**2**
Directors' Report		**3**
Statement of Comprehensive Income		**17**
Statement of Financial Position		**18**
Statement of Cash Flows		**19**
Statement of Changes in Equity		**20**
Notes to the Consolidated Financial Statements		**22**
1	Corporate information	**22**
2	Summary of significant accounting policies	**22**
3	Revenues and expenses	**34**
4	Income tax	**35**
5	Earnings per share	**39**
6	Cash and cash equivalents	**40**
7	Trade and other receivables	**41**
8	Inventories	**41**
9	Other assets	**41**
10	Investments in controlled entities	**41**
11	Available-for-sale investments	**42**
12	Plant and equipment	**43**
13	Intangible assets	**44**
14	Employee benefits reserve	**45**
15	Trade and other payables	**47**
16	Unearned revenue	**47**
17	Provisions	**47**
18	Contributed equity and reserves	**48**
19	Financial risk management objectives and policies	**49**
20	Commitments and contingencies	**53**
21	Parent entity information	**53**
22	Related party disclosure	**54**
23	Events after the reporting date	**55**
24	Auditors' remuneration	**55**
25	Key management personnel	**55**
26	Segment information	**56**
27	Fair value of financial instruments	**57**
Directors' Declaration		**58**
Independent Audit Report to the members of Senetas Corporation Limited		**59**
ASX Additional Information		**64**

Senetas Corporation Limited Annual Financial Report for the year ended 30 June 2018

ACN 006 067 607

Corporate Information

Non-executive directors

Francis W. Galbally - Chairman

Lachlan P. Given

Kenneth J. Gillespie

Lawrence D. Hansen

Philip Schofield (appointed 13 December 2017)

Executive director and chief executive officer

Andrew R. Wilson

Company secretary

Brendan Case

Registered office

Senetas Corporation Limited

312 Kings Way
South Melbourne VIC 3205

Telephone: +61 3 9868 4555

Email: corporate@senetas.com
www.senetas.com

Share register

Computershare Registry Services Pty Ltd

Yarra Falls, 452 Johnston Street,
Abbotsford VIC 3067

Telephone: +61 3 9415 5000
Toll Free 1300 13 83 25

Investor relations

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

Auditors

Ernst & Young

8 Exhibition Street
Melbourne VIC 3000

Annual general meeting date & place

Annual General Meeting of shareholders of Senetas Corporation Limited (Company) will be held at Royce Hotel 379 St Kilda Road Melbourne VIC 3004, Wednesday 28 November 2018.

Directors' Report

Your directors submit their report for the year ended 30 June 2018.

Names, Qualifications, Experience and Special Responsibilities

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

Francis W. Galbally	Director (Non-Executive Chairman)
Andrew R. Wilson	Director (Executive)
Lachlan P. Given	Director (Non-Executive)
Kenneth J. Gillespie	Director (Non-Executive)
Lawrence D. Hansen	Director (Non-Executive)
Philip Schofield	Director (Non-Executive) (appointed 13 December 2017)

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

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

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

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

Mr Galbally is also chairman of the Bayland Property Group and a director of EON Reality Inc. (California, USA) and EON Reality Australia Pty Ltd.

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

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

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

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

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

Mr Andrew Wilson was appointed CEO of Senetas on 15 August 2012. He was formerly Senetas's Company Secretary and Chief Financial Officer. Throughout his 18 year career with Senetas, Mr Wilson has had a significant role in most of the important stages of the Group's development since it was first listed on the ASX.

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

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

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

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

Lachlan P. Given BBus
Non-Executive Director

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

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

Mr Given is Executive Chair of Ezcorp Inc. (NASDAQ:EZPW) a leading provider of easy cash solutions for consumers. He is also on the boards

of The Farm Journal Corporation, a 134 year old pre-eminent US agricultural media company; CANSTAR Pty Ltd, the leading Australian financial services ratings and research firm; Tab.com, a significant records management business in the US and Canada; and of Cash Converters International Limited.

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

Kenneth J. Gillespie AC DSC CSM
Non-Executive Director

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

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

Lawrence D. Hansen
Non-Executive Director

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

Mr Hansen is currently an Operating Executive for Marlin Operations Group, Inc. Mr. Hansen joined Marlin in September 2015. Prior to joining Marlin, Mr Hansen was VP and general manager of Dell Software Group employing 3,000 staff in sales, marketing, channels and services, and oversaw its go to market strategy. Previously, Mr Hansen was President and CEO of SafeNet Inc., Senetas's global distribution partner. At SafeNet, he led a significant recapitalisation of the company that saw strong growth in revenues and profits before its successful sale to Gemalto NV.

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

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

From 2002 to 2011, Mr Hansen held several executive positions with CA Technologies including CIO, GM, Security and GM, Enterprise Products and Solutions.

Mr Hansen, a Canadian born US citizen, resides in McKinney, Texas.

Philip Schofield BEc
Non-Executive Director

Appointed to the Senetas board in December 2017, Mr Philip Schofield is an Executive Director of Australian financial services firm, Patersons Securities Limited (AFSL 239 052), a role he has held since 2004. Patersons specialises in investment and wealth management.

Mr Schofield has over 30 years of international experience in the banking and finance sectors, including senior management and director roles. These positions include major investment banking groups Goldman Sachs and Citi Group.

Mr Schofield's experience in capital markets around the world's financial centres include his working in London, New York, Melbourne and Sydney. He obtained a Bachelor of Economics degree from Monash University, Melbourne.

As Senetas reviews and implements the Groups's capital management and market facing strategies, Mr Schofield's expertise will provide local and international perspectives.

Company Secretary

Brendan Case MCom Law, BEc, CPA

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

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

Chief Accountant

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

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

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

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

Dividends paid and proposed

No dividends were proposed or declared for the financial year ended 30 June 2018 (2017: nil).

Corporate information

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

Corporate structure

Senetas has a direct controlling interest in each of the entities listed in Note 22. No other entities are included in the consolidated entity.

Nature of operations and principal activities

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

Employees

The consolidated group employed 28 employees as at 30 June 2018 (2017: 29 employees).

Significant changes in the state of affairs

There are no significant changes in the state of affairs.

Operating & financial review

Senetas Corporation Ltd (ASX: SEN) (Senetas / the Company), a leading developer and manufacturer of certified, high-assurance encryption hardware; virtualised (software based) network encryption; and advanced encrypted file sharing application. Your directors are pleased to submit their report for the year ended 30 June 2018 (FY18).

Operating revenue of $18.97 million is underpinned by a 39% growth in product sales by Senetas's global distribution partner Gemalto. Pleasingly, the strong growth in product sales was supported by the first sales of our new 100Gbps encryptor during the year and we are excited by the sales momentum developing.

A key milestone for the year was the launch in the second half of our virtualised (software based) encryption products. Importantly, the new virtualised solutions include transport layer interdependence capabilities across Layer 2, 3 and 4 networks, a first for Senetas. These new products and capabilities significantly increase the use cases and addressable market for Senetas's encryption solutions and we expect will be a key driver of future revenue growth for the Group.

The virtualised (software based) products combined with the transport layer interdependence changes in our hardware devices increase Senetas's addressable market by more than 3 times. Further it has allowed Senetas to transition from solely a hardware R&D and manufacturing company into a company that is also a cyber security software business.

We expect in the coming years that, whilst we will still see continuing strong growth in our hardware encryption devices, we will also see a very significant contribution to revenue from our cyber security software business.

The Group's cash flow and balance sheet continue to strengthen providing important strategic flexibility for the Group and the capacity for ongoing investment in new product development.

FY2018 Highlights:

Record high for Senetas operating revenue which was up 8% to $18.97 million (FY17: $17.59 million) with strong growth in product sales partly offset by lower maintenance revenue. Revenue growth was led by a 39% increase in product sales revenue from Senetas's global distribution partner, Gemalto NV.

- Profit before income tax (PBT) of $4.44 million (including a $1.36 million impairment of an unlisted investment). PBT prior to impairment was $5.80 million which is at the high end of the guidance range announced in July 2018, and up 10% on the prior period (FY17: $5.26 million)
- Gross profit margin increased to 81% (FY17: 79%)
- Profit after income tax of $1.96 million (FY17: $2.88 million) (including $1.36 million impairment of an unlisted investment)
- Strong balance sheet with $23.26 million of cash provides flexibility for strategic investments and new product initiatives
- Initial sales of the ultra-high speed 100Gbps ethernet encryptor with 2 of Gemalto's end use customers having deployed it in their network in FY18 and a third large customer recently purchasing

- Market launch of the CV Series virtualised (software based) encryption solution via Gemalto and ADVA.

Operational review

Revenue growth in FY18 was driven by 39% growth in product sales by Senetas's global distribution partner, Gemalto NV. Key customers contributed strongly to sales growth for 1–10 Gbps encryptors during the year, and initial sales of the new ultra-high speed 100Gbps encryptor made a good contribution to second half sales. Strong growth in product sales revenue was partially offset by lower maintenance revenue. As previously advised, the growth in maintenance revenue was expected to moderate as a key customer continued to transition from Senetas SONET products to cheaper Senetas Ethernet products.

Gross margins expanded to 81% as inventory levels at the Group's international distribution partner, Gemalto, were reduced during the year.

The 39% growth in Gemalto product sales during the year reflects both a strengthening of our relationship with Gemalto and the growing underlying global demand for encryption solutions. Senetas is working more closely than ever with Gemalto on identifying and realising new sales opportunities and the sales results in FY18 are a testament to that. The recent adoption by Gemalto of SureDrop into its Data Protection on Demand platform (DPOD) is also a strong reflection of the close collaboration between us.

SureDrop delivers a state-of-the-art encrypted file sharing, collaboration and synchronisation solution. It is the most secure file sharing application available and uniquely ensures customers' total control over data location and sovereignty. Importantly, SureDrop integrates with Gemalto's key management technologies.

Recent sales of the new ultra-high speed 100Gbps ethernet encryptor have been encouraging and we have a growing number of customer trials underway. Pleasingly the most recent sale of 100Gbps encryptors to Gemalto in early FY19 was for a Fortune 500 global technology company that has not previously used Senetas encryptors in its network, so we are excited to see that this product is opening up new market opportunities for Senetas encryption solutions.

The recent product launches by both Gemalto and ADVA of our virtualised (software based) encryption solutions has been a key milestone for Senetas. The virtualised (software based) solutions represent an important opportunity for Senetas to significantly expand the addressable market for its encryption products by providing cost-effective, scalable, flexible solutions that are easy to deploy and manage. The use cases for the virtualised (software based) products released this year are significantly enhanced by transport layer interdependence capabilities across Layers 2, 3 and 4 networks, for the first time in a Senetas product. Transport layer interdependence capabilities are also expected to be released in our hardware encryptors during FY19.

The process to obtain a new European certification for our core hardware products is another important step in broadening the addressable market for Senetas's products. We expect that process to obtain the new certification will be completed in FY19.

R&D and new product development

The Group's primary R&D focus in FY18 was on development of our virtualised (software based) encryption products, transport layer interdependence capabilities for virtualised (software based) and hardware encryptors and achieving additional certifications.

R&D expenditure in FY18 was slightly higher than the prior year and is expected to be similar or slightly higher again in FY19.

The CV Series virtualised (software based) encryption products currently have transport layer interdependence capabilities and can operate successfully in complex / large scale networks and private cloud environments; however, some limitations remain in relation to use within public cloud environments.

A virtual network (often called virtualising or software defined networking) is the process of combining hardware and software network resources and functionality into a single, software-based administrative entity. Virtualising encryption technologies runs a risk of reducing the level of security and also performance. Organisations seek virtual (software based) technologies to reduce the cost of acquiring and managing more and more hardware devices as data flows and storage needs rise.

Senetas has met this market demand and increased R&D expenditure to ensure it can produce the most secure, reliable and efficient products the market demands. It is also using its expertise to acquire appropriate security accreditations for these new software products.

This development has resulted in the production of 2 new product sets with new addressable markets. The CV Series virtualised (software based) products distributed through Gemalto and Senetas's embedded virtual (software based) encryptor with ADVA's Ensemble Connector technology. The latter produces a totally new route to market and addressable market for Senetas.

Accordingly, the primary R&D focus for FY19 will be ongoing development of the CV Series encryptors

to provide enhanced capabilities in public cloud environments.

In addition, Senetas will be finalising transport layer interdependence capabilities for its hardware encryptors. This means that Senetas hardware encryptors will address a substantially greater market. Previously Senetas encryptors protected traffic over Layer 2 networks which represent only about 20% of total network traffic. The new development which will result in new products in FY19 will address Layer 2, 3 and 4 networks thereby covering over 85% of all network traffic.

Senetas's new custom encryption solution for Eastern Europe continues to progress through that market's certification process. This was a customer funded development with the potential to create good sales opportunities for Senetas once certified; however, significant geopolitical risk exists that may impact sales.

Senetas does not expect any material financial impact from the new Australian R&D rules in effect from 1 July 2018. The changes from the Government review introduce a $4 million cap on cash refunds for claimants with less than $20 million aggregated turnover and amend the refundable R&D tax offset so it is a premium of 13.5 percentage points above the claimant's company tax rate for that year.

Balance sheet and cash flow

Senetas's balance sheet remains strong with no debt and significant cash reserves. Net assets increased by 10% to $23.55 million and the cash balance at 30 June 2018 was $23.26 million.

Net operating cash flow was $5.20 million in FY18, significantly higher than FY17, reflecting higher sales and a reduction in inventory levels during the year.

The Board continues to implement a conservative capital management policy in order to conserve capital for continued investment in new product R&D; to help ensure Senetas is positioned to take advantage of future market opportunities; for compelling investments; and to meet business challenges.

Unlisted investments

DeepRadiology Inc.

DeepRadiology has not yet achieved required regulatory approval for its technology and the company has therefore missed milestone and projected revenue targets. Given the level of uncertainty surrounding the value of the investment, the Senetas Board has resolved to impair the entire investment in DeepRadiology of $1.36 million.

Smart Antenna Technologies Ltd. (SAT)

Senetas made an additional investment of $1.03 million in SAT during FY18. The Company's percentage equity interest remains similar as other SAT investors made proportional additional investments. The investment in SAT is carried on the balance sheet at $1.89 million. This investment is performing to expectations and its carrying value reflects fair value at reporting date.

EON Reality Inc. (EON)

The investment in EON currently has a carrying value of nil on Senetas's balance sheet and will continue to do so until a liquidity event such as a capital raising or the planned IPO provides the Senetas Board with an independent valuation of the investment.

Priorities for FY19

The key priorities for FY19 are to build upon the product sales momentum developed in FY18 and to deliver the initial sales of new products including the virtualised (software based) encryption solutions and SureDrop.

- Initial customer trials for virtualised (software based) encryptions solutions are underway with both Gemalto and ADVA
- Senetas's global distribution partner, Gemalto, has commenced marketing SureDrop to some of its customers – and customer trials are underway in the APAC region
- Drive further sales of the ultra-high speed 100Gbps encyptor – building on FY18 sales momentum and additional sales already completed in FY19
- Progress development of additional capabilities for virtualised (software based) products – in particular to conform with requirements for public cloud environments
- Complete development of new hardware encryptors with transport layer independence across Layers 2, 3 and 4
- Achieve new European certification
- Further develop partner relationships – new products and technology development and enhanced sales support

Revenue growth

Over time, Senetas's transition to a multi-product business is expected to significantly expand the addressable market for its products and drive strong revenue growth. Key revenue growth drivers will include:

- A tightening global regulatory landscape around data protection and data breach notification

- Significantly expanded use cases for Senetas's products with the capability for transport layer interdependence across Layers 2, 3 and 4
- Market adoption of virtualised (software based) encryption allowing Senetas to penetrate deeper into customer networks with cost-effective, flexible and easy to deploy and manage encryption solutions
- Increased momentum towards adoption of 100Gbps networks
- Increasing market penetration with traditional Senetas high speed encryptors
- The development of further new technology partnerships that incorporate Senetas's technology
- A larger portion of the overall revenue being derived from software based solutions being delivered as a service (SaaS)
- The software based solutions will deliver an increasing portion of annuity style revenues

Outlook

With the release of new products and the significant expansion in Senetas's addressable market over the past year we expect good sales growth to continue in FY19.

We do not expect our distribution to be adversely affected by the acquisition of Gemalto by Thales. The combination of these businesses will create the world's second largest cyber security business which will greatly enhance Senetas's distribution capacity.

As is the norm with the adoption of new technologies, our new products may take a little time to gain traction in the market; however, we expect the developing momentum of 100Gbps encryptor sales and strong customer interest in virtual (software based) encryption solutions and SureDrop will provide meaningful growth opportunities in FY19 on top of the traditional hardware encryption business.

The 100Gbps encryptor, virtualised (software based) encryption solutions, our expanding capabilities across Layers 2, 3 and 4 and commercialising software products will become much more significant contributors as sales momentum builds.

We expect in the coming years that, whilst we will still see continuing strong growth in our hardware encryption devices, we will also see a very significant contribution to revenue from our cyber security software business.

Significant events after the reporting date

There were no significant events after the reporting date.

Share options

Unissued Shares

As at the date of this report there were 6,279,731 unissued ordinary shares under performance rights and options. Refer to the remuneration report for executive performance rights and options and Note 14 for full details of the performance rights and options outstanding.

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

Shares Issued as a Result of the Exercise of Performance Rights

During the year 355,000 ordinary shares were issued to staff on the exercise of performance rights. These performance rights had an exercise price of zero. Refer Note 14 to the financial statements for further details.

Indemnification and insurance of directors and officers

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

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

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

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

Directors' Report

Indemnification of auditors

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

Rounding

The Company is an entity to which ASIC Class Order 2016/191 applies and, accordingly the amounts contained in the financial report have been rounded to the nearest $1 (where rounding is applicable).

Remuneration Report – (audited)

This remuneration report for the year ended 30 June 2018 outlines the remuneration arrangements in accordance with the requirements of the *Corporations Act 2001* for key management personnel (KMP) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent Company.

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

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

Non-executive directors (NEDs)

F. Galbally	Chairman (Non-Executive)
L. Given	Director (Non-Executive)
K. Gillespie	Director (Non-Executive)
L. Hansen	Director (Non-Executive)
P. Schofield	Director (Non-Executive) (appointed 13 December 2017)

Executive directors

A. Wilson	Chief Executive Officer

Other key management personnel

J. Weston	Chief Architect
J. Fay	Chief Technology Officer

Current Year Performance and Short Term Remuneration

As the Group met many of the performance targets set by the Board, executives of the Group are entitled to short term incentives for the year ended 30 June 2018. Details of these short term incentives are disclosed futher in this report.

Remuneration Philosophy

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

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

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

Remuneration Policy

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

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

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

Remuneration and Nomination Committee

The Remuneration and Nomination Committee comprises three non-executive directors – two independent directors and one non-independent director.

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

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

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

Remuneration Structure

Non-Executive Director Remuneration

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

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting held on 16 November 2017 when shareholders approved an aggregate remuneration of $1,000,000 per year. The combined payment to all non-executive directors does not exceed this aggregate amount.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process. No consultants were used for the remuneration review for the 2018 financial year.

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

Non-executive directors are encouraged by the board to hold shares in the Company (purchased by the director on market during designated trading windows). It is considered good governance for directors to have an investment in the Company on whose board he or she sits. The non-executive directors of the Company can participate in the Employee Share Incentive Plan which provides incentives where specified criteria are met. There has not been an increase in director remuneration during the 2018 FY and there will not be an increase during the 2019 FY.

The remuneration of directors for the years ending 30 June 2018 and 30 June 2017 is detailed on page 13 of this report.

Executive Remuneration

Objective

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

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

Structure

In determining the level and make-up of the CEO's remuneration, the Remuneration and Nomination Committee considers advice from external consultants as well as market survey information on remuneration for comparable roles. No consultants were used for the remuneration review for the 2018 financial year.

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

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

Executive remuneration consists of the following key elements:

Fixed Remuneration

Variable Remuneration

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

The mix between fixed and variable remuneration is established for the Executive by the Remuneration and Nomination Committee. Pages 13 to 14 of this report details the fixed and variable components of the executive remuneration.

Fixed Remuneration

Objective

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

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

Structure

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

The fixed remuneration component for key management persons is detailed on pages 13 to 14 of this report.

Variable Remuneration — Short Term Incentive (STI)

Objective

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

Payments made are usually delivered as a cash bonus.

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

Structure

Actual STI payments awarded to each executive depend on the extent to which specific set operating targets during the financial year are met. The operational targets may consist of a number of financial and non-financial measures, typically including measures such as contribution to profit before tax, customer service, risk management, product management, and leadership/team contribution. For the 2018 financial year the target was based on a combination of the contribution to profit before tax and other key drivers for the short and long term success of the business. These drivers included project completion for new products, team leadership and customer relationship management.

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

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

The variable remuneration component for key management persons is detailed on pages 13 to 14 of this report.

STI Bonus for 2018 Financial Year

The Remuneration and Nomination Committee (for the CEO) and the CEO (for other executives) considered the STI payments for the 2018 year in July 2018. The maximum STI payable for the 2018 financial year to the CEO and executives was $150,000 of which $120,000 was allocated. The minimum payable to each executive including the CEO was nil. These payments are allocated as a proportion of the total bonus funds available for all employees.

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

Variable Remuneration — Long Term Incentive (LTI)

Objective

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

Structure

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

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

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

A Performance Right is a grant of actual shares of stock, the receipt of which is contingent on

performance as measured against predetermined objectives over a period of time.

Performance Hurdles

Both options and performance rights are subject to a tenure condition. The tenure conditions vary between 18 to 24 months: the time period selected by the Board at the time of the grant.

The performance rights fully vest on meeting the tenure condition.

The options are subject to both a tenure condition and an exercise price.

These hurdles were elected by the board and are reviewed and revised periodically.

Maximum LTI payable to each executive including the CEO is 100% of the options and performance rights outstanding at 30 June 2018. The minimum payable is nil. Refer tables (v) and (vi) for details of outstanding performance rights and options.

The table below provides a summary of the key financial results for Senetas over the past five financial years, which influence the remuneration outcomes is provided in the following sections:

Employment Contracts

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

Chief Executive Officer – Mr A. Wilson

Under the CEO's contract:

Mr Wilson receives fixed remuneration of $420,000 per annum including superannuation of $20,048 and he is eligible to receive short term incentives based on a combination of the contribution to profit before tax and other key drivers for the short and long term success of the business.

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

Performance measure	2018	2017	2016	2015	2014
Profit before tax and one off items	5,799,060	5,264,464	7,021,599	6,021,000	2,457,588
Profit after tax	1,955,345	2,879,103	5,218,430	4,016,258	2,957,080
Average number of ordinary shares for basic earnings per share	1,083,231,560	1,079,905,126	1,078,641,948	1,077,891,948	1,073,891,948
Earnings per share (cents)	0.0018	0.0027	0.0048	0.0037	0.0028
Net tangible assets per share (cents per share)	2.10	1.92	1.65	1.20	0.83
Closing share price	$0.11	$0.09	$0.13	$0.02	$0.04

No dividends were proposed or declared for the past five years (including the current period).

Directors' and executives' remuneration

(a) Remuneration of directors and executives for the year ended 30 June 2018

	Short-term			Post-employment	Long-term			
Consolidated	**Salary & fees**	**Cash bonus (i)**	**Non Monetary benefits (ii)**	**Superannuation**	**Long service leave**	**Share-based payment – performance rights (iii)**	**Total**	**Performance related**
Year ended 30 June 2018	**$**	**$**	**$**	**$**	**$**	**$**	**$**	
Directors								
F. Galbally (Non-Executive Chairman) *	265,000	–	21,130	–	–	–	286,130	0.00%
A.Wilson (Chief Executive Officer)	399,952	60,000	22,223	20,048	6,542	22,833	531,599	15.57%
L. Given (Non-Executive Director) **	115,000	–	–	–	–	–	115,000	0.00%
K. Gillespie (Non-Executive Director) ***	115,000	–	–	–	–	–	115,000	0.00%
L. Hansen (Non-Executive Director) ****	115,000	–	–	–	–	–	115,000	0.00%
P. Schofield (Non-Executive Director) *****	62,292	–	–	–	–	–	62,292	0.00%
Total Remuneration of Directors	**1,072,244**	**60,000**	**43,353**	**20,048**	**6,542**	**22,833**	**1,225,021**	**6.76%**
Executives								
J. Weston (Chief Architect)	262,735	30,000	–	20,012	4,246	1,146	318,139	9.79%
J. Fay (Chief Technology Officer)	259,988	30,000	1,145	20,012	4,216	1,146	316,507	9.84%
Total Remuneration of Executives	**522,723**	**60,000**	**1,145**	**40,024**	**8,462**	**2,292**	**634,646**	**9.82%**

(i) Cash bonus payments reward attainment of specific key performance indicators (KPI's) set for individual directors and executives. Cash bonuses are paid in August each year for KPI's met in the financial period ending in June of that year. The total payable for the CEO and executives was $120,000.

(ii) Director's & executive's partners travel once a year at company expense.

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

(vi) There were no other transactions with executives and directors during the year (2017: Nil).

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

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

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

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

***** Mr Schofield's director fees are paid to Cadigal Advisors Pty Ltd.

Directors' Report

Remuneration of directors and executives for the year ended 30 June 2017

	Short-term			Post-employment	Long-term			
Consolidated	**Salary & fees**	**Cash bonus [i]**	**Non Monetary benefits [ii]**	**Superannuation**	**Long service leave**	**Share-based payment – performance rights [iii]**	**Total**	**Performance related**
Year ended 30 June 2017	**$**	**$**	**$**	**$**	**$**	**$**	**$**	
Directors								
F. Galbally (Non-Executive Director)	265,000	–	–	–	–	–	265,000	0.00%
A.Wilson (Chief Executive Officer)	400,385	223,000	–	19,615	15,988	32,649	691,637	36.96%
L. Given (Non-Executive Director)	115,000	–	–	–	–	–	115,000	0.00%
K. Gillespie (Non-Executive Director)	115,000	–	–	–	–	–	115,000	0.00%
L. Hansen (Non-Executive Director)	115,000	–	–	–	–	–	115,000	0.00%
Total Remuneration of Directors	**1,010,385**	**223,000**	**–**	**19,615**	**15,988**	**32,649**	**1,301,637**	**19.64%**
Executives								
J. Weston (Engineering Manager)	260,385	10,000	–	19,615	7,947	7,674	305,621	5.78%
J. Fay (Chief Technology Officer)	260,385	10,000	–	19,615	9,297	7,674	306,971	5.76%
Total Remuneration of Executives	**520,770**	**20,000**	**–**	**39,230**	**17,244**	**15,348**	**612,592**	**5.77%**

(i) Cash bonus payments reward attainment of specific key performance indicators (KPI's) set for individual directors and executives. Cash bonuses are paid in September each year for KPI's met in the financial period ending in June of that year. $203,000 of Mr Wilson's cash bonus was paid during the year for achieving specific project related KPIs which were approved by the board in prior financial years. The value of STI bonuses payable for FY2017 to Mr Wilson and other executives are $40,000.

(ii) Director's & executive's partners travel once a year at company expense.

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

(vi) There were no other transactions with executives and directors during the year (2016: Nil).

Directors' Report

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

(i) At reporting date the Directors' and Executives' interests in shares of Senetas Corporation Limited

30 June 2018	Balance 01 July 17 Ord shares	Granted as remuneration Ord shares	On vesting of performance rights Ord shares	Shares bought / (sold) Ord shares	Balance 30 June 18 Ord shares
Directors					
A.Wilson	1,125,000	–	–	–	1,125,000
F. Galbally	140,000,000	–	–	–	140,000,000
L. Given	–	–	–	–	–
K. Gillespie	–	–	–	–	–
L. Hansen	–	–	–	–	–
P. Schofield	657,855	–	–	–	657,855
Executives					
J. Weston	80,000	–	40,000	1,875,412	1,995,412
J. Fay	442,725	–	–	–	442,725
Total	**142,305,580**	**–**	**40,000**	**1,875,412**	**144,220,992**

(ii) Shares issued on exercise of remuneration options

40,000 shares were issued on exercise of remuneration options during the financial year ended 30 June 2018 (2017: 1,285,000)

(iii) Shares granted as part of remuneration

No shares were granted as part of remuneration during the financial year ended 30 June 2018 (2017: Nil)

(iv) Options/performance rights granted as part of remuneration

5,847,231 options and performance rights were granted to the executives and employees as part of remuneration during the financial year ended 30 June 2018. Of the total options granted, 3,000,000 were granted to executives and the CEO. Refer table (vi) for more details.

(v) Performance rights holdings of KMP

30 June 2018	Balance at beginning of period: 1 July 2017	Granted as remuneration	Fair value per option at award date $	Performance rights exercised	Performance rights lapsed	Balance at end of period: 30 June 2018
A. Wilson	187,500	–	0.076	–	–	187,500
J. Weston	40,000	–	0.098	(40,000)	–	–
J. Fay	40,000	–	0.098	–	–	40,000
Total	**267,500**	**–**		**(40,000)**	**–**	**227,500**

The above performance rights were fully vested in November 2017. The performance condition attached to these rights was a tenure period of two years. The performance rights for the CEO, Mr Wilson, will expire in November 2022 and for the executives in September 2022.

(vi) Option holdings of KMP

30 June 2018	Options awarded during the year [i] No.	Award Date	Fair Value per option at award date	Vesting Date	Exercise Price	Expiry Date	No. Vested during the year	No. Lapsed during the year	Value of options granted during the year	Value of options exercised during the year
A. Wilson	2,000,000	29-Nov-17	$0.039	29-Nov-19	$0.100	29-Nov-27	–	–	$22,833	–
J. Weston	500,000	15-May-18	$0.028	29-Nov-19	$0.115	30-Nov-24	–	–	$1,146	–
J. Fay	500,000	15-May-18	$0.028	29-Nov-19	$0.115	30-Nov-24	–	–	$1,146	–
Total	**3,000,000**						**–**	**–**	**$25,125**	**–**

(i) Group granted share options during the financial year (2017: Nil) to CEO and KMP as follows;

(a) The CEO, Mr Wilson, was granted 2,000,000 options at the AGM in November 2017. The Options are subject to a service condition of 24 months continuous service and the exercise price upon vesting is $0.10. Each option granted entitles Mr Wilson to one fully paid ordinary share in the company, subject to satisfaction of the vesting condition, and payment of the exercise price.

(b) On 15 May 2018 executives were offered 500,000 options. The options are subject to a service condition of 18 months continuous service and the exercise price upon vesting is $0.115. Each option granted, entitles each executive to one fully paid ordinary share in the company, subject to satisfaction of the vesting condition, and payment of the exercise price.

Environmental regulation and performance

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

Meetings of directors

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

	Number of meetings	
	Held while a director	Attended
F. Galbally (Chair)	6	6
L. Given	6	5
K. Gillespie	6	6
L. Hansen	6	6
P. Schofield	3	3
A. Wilson	6	6

A total of six (6) Directors' meetings were held during the year ended 30 June 2018.

The Company has an Audit and Risk Committee.

Members acting on the committee of the board during the year were:

	Number of meetings	
	Held while a director	Attended
L. Given (Chair)	2	2
F. Galbally	2	2
K. Gillespie	2	2

Mr A. Wilson attended two (2) Audit and Risk Committee meetings in the capacity of CEO.

A total of two (2) Audit and Risk Committee meetings were held during the year ended 30 June 2018.

The Company has a Remuneration and Nomination Committee.

Members acting on the committee of the board during the year were:

	Number of meetings	
	Held while a director	Attended
K. Gillespie (Chair)	1	1
F. Galbally	1	1
D. Hansen	1	1

A total of one (1) Remuneration and Nomination Committee meeting was held during the year ended 30 June 2018.

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

Statement of Comprehensive Income

For the year ended 30 June 2018

	Notes	Consolidated 2018 $	Consolidated 2017 $
Revenue	3(a)	18,970,715	17,591,114
Cost of sales		(3,556,831)	(3,642,649)
Gross profit		**15,413,884**	**13,948,465**
Other income	3(b)	2,949,298	2,472,224
Impairment of available-for-sale investment	11	(1,361,532)	–
Depreciation and amortisation expense	3(c)	(577,861)	(464,370)
Employee benefits expense	3(d)	(6,337,974)	(5,753,968)
Administration expenses	3(e)	(3,897,812)	(3,248,918)
Other expenses	3(f)	(1,750,476)	(1,688,969)
Profit before income tax		**4,437,528**	**5,264,464**
Income tax expense	4	(2,482,183)	(2,385,361)
Profit after income tax		**1,955,345**	**2,879,103**
Other comprehensive income			
Items that may be classified subsequently to profit or loss			
Foreign currency translation reserve		(58,423)	(12,056)
Other comprehensive income for the year		**(58,423)**	**(12,056)**
Total comprehensive income for the year		**1,896,922**	**2,867,047**
Profit for the period is attributable to:			
Owners of the parent		**1,955,345**	**2,879,103**
Total comprehensive profit for the year is attributable to:			
Owners of the parent		**1,896,922**	**2,867,047**
Earnings per share			
Basic, profit for the year attributable to ordinary equity holders of the parent.	5	0.0018	0.0027
Diluted, profit for the year attributable to ordinary equity holders of the parent.		0.0018	0.0027

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

Statement of Financial Position

as at 30 June 2018

	Notes	Consolidated 2018 $	Consolidated 2017 $
Assets			
Current assets			
Cash and cash equivalents	6	23,258,056	20,091,205
Trade and other receivables	7	6,529,034	5,401,453
Inventories	8	1,308,182	1,550,554
Prepayments		338,143	237,168
Other current assets	9	66,753	70,768
Total current assets		**31,500,168**	**27,351,148**
Non-current assets			
Long-term cash deposit		91,667	91,667
Available-for-sale investments	11	1,892,941	2,227,145
Deferred tax asset	4	540,477	578,335
Plant and equipment	12	1,732,438	1,320,755
Intangible assets	13	210,698	135,139
Total non-current assets		**4,468,221**	**4,353,041**
Total assets		**35,968,389**	**31,704,189**
Liabilities			
Current liabilities			
Trade and other payables	15	1,931,895	1,393,309
Income tax payable		2,419,463	2,372,273
Unearned revenue	16	4,573,148	4,073,026
Provisions	17	1,006,176	895,176
Total current liabilities		**9,930,682**	**8,733,784**
Non-current liabilities			
Deferred tax liabilities	4	92,844	67,252
Provisions	17	31,715	45,029
Unearned revenue	16	2,337,220	1,343,072
Other non-current liabilities		24,248	31,945
Total non-current liabilities		**2,486,027**	**1,487,298**
Total liabilities		**12,416,709**	**10,221,082**
Net assets		**23,551,680**	**21,483,107**
Equity			
Equity attributable to equity holders of the parent			
Contributed equity	18	104,726,285	104,679,425
Accumulated losses		(81,902,985)	(83,858,330)
Employee benefit reserve	14	697,095	689,150
Foreign currency translation reserve	18	18,425	(39,998)
Equity attributable to equity holders of the parent		**23,538,820**	**21,470,247**
Non-controlling interests		**12,860**	**12,860**
Total equity		**23,551,680**	**21,483,107**

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 2018

	Notes	Consolidated 2018 $	Consolidated 2017 $
Cash flows from operating activities			
Receipts from customers		19,738,940	17,214,867
Payments to suppliers and employees		(14,538,731)	(15,662,199)
Payment of income tax		(413,760)	–
Receipt of R&D tax refund		–	210,284
Interest received		414,872	466,612
Net cash flows from operating activities	6	**5,201,322**	**2,229,564**
Cash flows used in investing activities			
Purchase of plant and equipment		(904,847)	(662,256)
Purchase of intangible assets	13	(160,720)	(84,946)
Investment in available-for-sale investment	11	(1,027,328)	(2,227,145)
Net cash flows used in investing activities		**(2,092,894)**	**(2,974,346)**
Net increase/(decrease) in cash and cash equivalents		3,108,428	(744,783)
Net effect of foreign currency translation		58,423	(12,056)
Cash and cash equivalents at beginning of the year		20,091,205	20,848,044
Cash and cash equivalents at 30 June	6	**23,258,056**	**20,091,205**

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 2018

	Attributable to equity holders of Senetas Corporation Ltd				Owners of the parent		
Consolidated	Contributed equity $	Accumulated (losses) / profits $	Foreign currency translation reserve $	Employee benefits reserve $	Total $	Non-controlling interest $	Total equity $
At 30 June 2016	**104,426,711**	**(86,737,433)**	**(27,942)**	**852,187**	**18,513,523**	**12,860**	**18,526,384**
Profit for the year	–	2,879,103	–	–	2,879,103	–	2,879,103
Other comprehensive income	–	–	(12,056)	–	(12,056)	–	(12,056)
Total comprehensive income	–	2,879,103	(12,056)	–	2,867,047	–	2,867,047
Transactions with owners in their capacity as owners							
Shares issued	–	–	–	–	–	–	–
Options expensed	–	–	–	89,677	89,677	–	89,677
Options converted to shares	252,714	–	–	(252,714)	–	–	–
At 30 June 2017	**104,679,425**	**(83,858,330)**	**(39,998)**	**689,150**	**21,470,247**	**12,860**	**21,483,107**
Profit for the year	–	1,955,345	–	–	1,955,345	–	1,955,345
Other comprehensive income	–	–	58,423	–	58,423	–	58,423
Total comprehensive income	–	1,955,345	58,423	–	2,013,768	–	2,013,768
Transactions with owners in their capacity as owners							
Shares issued	–	–	–	–	–	–	–
Options expensed	–	–	–	54,805	54,805	–	54,805
Options converted to shares	46,860	–	–	(46,860)	–	–	–
At 30 June 2018	**104,726,285**	**(81,902,985)**	**18,425**	**697,095**	**23,538,820**	**12,860**	**23,551,680**

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

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

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Building a better working world

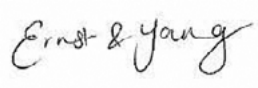
Auditor's Independence Declaration to the Directors of Senetas Corporation Limited

As lead auditor for the audit of Senetas Corporation Limited for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

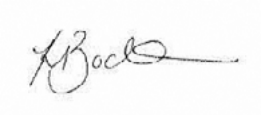
a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

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

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



Ernst & Young



Kylie Bodenham
Partner

24 September 2018

Non-audit services

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

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

Tax compliance services $31,850

Signed in accordance with a resolution of the directors.



Francis W. Galbally
Chairman
24 September 2018

Notes to the Financial Statements

for the year ended 30 June 2018

1 Corporate information

The consolidated financial report of Senetas Corporation Limited and its subsidiaries (collectively, the Group) for the year ended 30 June 2018 was authorised for issue in accordance with a resolution of the directors on 24 September 2018.

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

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

2 Summary of significant accounting policies

Basis of preparation

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

(a) Compliance with IFRS

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

(b) New accounting standards and interpretations

Changes in accounting policy and disclosures.

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

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations for the year ended 30 June 2018.

AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses. This Standard makes amendments to AASB 112 *Income Taxes* to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.

AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107. The amendments to AASB 107 *Statement of Cash Flows* are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle. This Standard clarifies the scope of AASB 12 *Disclosure of Interests in Other Entities* by specifying that the disclosure requirements apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*.

These amendments had no impact on the group's reporting.

2 Summary of Significant Accounting Policies (Continued)

(b) New accounting standards and interpretations (continued)

The following standards and interpretations have been issued but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2018.

* designates the beginning of the applicable annual reporting period

Reference	Title and brief summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 9, and relevant amending standards	Financial Instruments	1-Jan-18	AASB 9 replaces AASB 139 Financial Instruments:Recognition and Measurement. Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held. There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch. Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss. For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss. All other AASB 139 classification and measurement requirements for financial liabilities have been carried forward into AASB 9, including the embedded derivative separation rules and the criteria for using the FVO. IFRS 9 requires the Group to now use an expected credit loss model for its trade receivables measured at amortised cost, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables measured at amortised cost. The requirements for hedge accounting have been amended to more closely align hedge accounting with risk management, establish a more principle-based approach to hedge accounting and address inconsistencies in the hedge accounting model in AASB 139. The Group expects that the current classification of financial instruments (under AASB 139) will not significantly change under AASB 9. Given the short term nature of trade receivables, the Group does not expect that the new impairment requirements will have a significant impact. Management is currently working on the detailed assessment and a more reliable estimate of the expected financial impacts are expected to be finalised in the first half of financial year 2019. Our final adjustments and detailed disclosures will be included in the financial statements for the six-month period ended 31 December 2018. The changes in AASB 9 relating to hedge accounting will have no impact as the Group does not currently apply hedge accounting.	1-Jul-18

2(b) Summary of significant accounting policies (continued)

Reference	Title and brief summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 15, and relevant amending standards	Revenue from Contracts with Customers	1-Jan-18	AASB 15 replaces all existing revenue requirements in Australian Accounting Standards (AASB 111 Construction Contracts, AASB 118 Revenue, AASB Interpretation 13 Customer Loyalty Programmes, AASB Interpretation 15 Agreements for the Construction of Real Estate, AASB Interpretation 18 Transfers of Assets from Customers and AASB Interpretation 131 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 (or AASB 16 Leases, once applied). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps: • Step 1: Identify the contract(s) with a customer. • Step 2: Identify the performance obligations in the contract. • Step 3: Determine the transaction price. • Step 4: Allocate the transaction price to the performance obligations in the contract. • Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. We have identified that the adoption of AASB 15 may impact the current accounting policy for revenue recognition. Senetas elected to apply modified retrospective approach for AASB 15, under which financial statements will be prepared in the year of adoption using AASB 15, but prior periods would not be adjusted (i.e., they will be continue to be presented in accordance with prior revenue standards). Currently Senetas recognises revenue at the fair value of the consideration received or receivable. If it cannot be reliably measured, revenue is deferred until that uncertainty is resolved. Under AASB 15 this will result in variable consideration which is required to be estimated at contract inception and updated thereafter. When applying the requirements for constraining estimates of variable consideration, Senetas will include some of the variable consideration in the transaction price when it is highly probable that this would not result in a significant revenue reversal. Senetas expects that the application of estimation and constraint of variable consideration at inception of the contract could lead to a change in amount revenue recognised when control of the goods passes to the customer. Management is currently working on the detailed assessment and a more reliable estimate of the expected financial impacts are expected to be finalised in the first half of the financial year 2019. Our final adjustments and detailed disclosures will be included in our financial statements for the six-month period ending 31 December 2018.	1-Jul-18

2(b) Summary of significant accounting policies (continued)

Reference	Title and brief summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2016-5	Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions	1-Jan-18	This Standard amends AASB 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: • The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments. • Share-based payment transactions with a net settlement feature for withholding tax obligations. • A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Group currently has no share based payment transactions that would be affected by these changes.	1-Jun-18
AASB Interpretation 22	Foreign Currency Transactions and Advance Consideration	1-Jan-18	The Interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This interpretation is not expected to have a significant impact on the Group's reporting.	1-Jul-18

2(b) Summary of significant accounting policies (continued)

Reference	Title and brief summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 16	Leases	1-Jan-19	The key features of AASB 16 are as follows: Lessee Accounting: • Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value • A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities • Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. • AASB 16 contains disclosure requirements for lessees. Lessor Accounting: • AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. • AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk. • AASB 16 supersedes: a) AASB 117 Leases b) Interpretation 4 Determining whether an arrangement contains a lease c) SIC-15 Operating Leases - Incentives d) SIC-27 Evaluating the Substance of Transactions involving the Legal Form of a Lease The Group is evaluating the impact of this standard.	1-Jul-19
Not yet issued by the AASB	Annual Improvements to IFRS Standards 2015-2017 Cycle	1-Jan-19	The amendments clarify certain requirements in: • IFRS 3 Business Combinations and IFRS 11 Joint Arrangements - previously held interest in a joint operation • IAS 12 Income Taxes - income tax consequences of payments on financial instruments classified as equity • IAS 23 Borrowing Costs - borrowing costs eligible for capitalisation.	1-Jul-19

Notes to the Financial Statements

for the year ended 30 June 2018

2 Summary of significant accounting policies (continued)

(c) Basis of consolidation

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

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

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

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

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

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

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

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

Investments in subsidiaries are carried at cost.

(d) Significant accounting judgements, estimates and assumptions

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

Provision for long service leave

The Group re-evaluates the provision for long service leave on an annual basis. This requires an estimation of factors such as expected future wage and salary levels, experience of employee departures and periods of service.

Deferred tax asset

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. A deferred tax asset of $143,816 (2017:$183,544) for tax losses is recorded as at 30 June 2018 because management determined that it is probable that these losses will be utilised in the future.

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

Provision for slow moving items

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

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

2 Summary of significant accounting policies (continued)

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 27 for further disclosures.

(e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

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

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

Maintenance

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

Interest

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

(f) R&D tax incentive

The R&D Tax Incentive provides a 43.5% (2017: 43.5%) refundable tax offset for entities with an aggregated turnover of less than $20 million per annum. It is an Australian Government measure to encourage industry to invest in research and development and provides generous benefits for eligible activities.

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

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

(g) Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

Group as Lessee – Operating lease

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

(h) Cash and cash equivalents

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

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

(i) Trade and other receivables

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

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

2 Summary of significant accounting policies (continued)

(j) Inventories

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

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

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

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

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

(k) Foreign currency translation

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

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

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

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

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

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

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

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

(l) Income tax and other taxes

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

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

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

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

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

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

2 Summary of significant accounting policies (continued)

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

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

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

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

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

Tax consolidation legislation

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

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

Other Taxes

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

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

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

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

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

(m) Plant and equipment

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

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

Leasehold improvements – the lease term

Plant and equipment – over 3 to 15 years

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

Derecognition and disposal

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

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

(n) Intangible assets other than goodwill

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

The useful lives of these intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation

2 Summary of significant accounting policies (continued)

method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss.

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

Software

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

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

Research and development costs

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

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

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

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

(p) Trade and other payables

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

(q) Provisions

Employee leave benefits

Wages, salaries, annual leave and personal leave

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

Long service leave

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

2 Summary of significant accounting policies (continued)

General

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

(r) Share-based payment transactions

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

The cost of these equity-settled transactions with directors and employees is measured by reference to the fair value of the equity instruments at the date at which they were granted. The fair value is determined by an external valuer using a binomial option pricing model. Further details are provided in note 14.

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

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects:

(i) the extent to which the vesting period has expired; and

(ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

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

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

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

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

(s) Contributed equity

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

(t) Earnings per share

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

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

(u) Business combinations

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

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and

2 Summary of significant accounting policies (continued)

designation in accordance with the contractual terms, economic conditions, the Group's operating and accounting policies and other pertinent conditions as at the acquisition date.

(v) Fair value measurement

The Group has various financial instruments such as available-for-sale investments, cash in hand, trade debtors and trade creditors.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

In the principal market of the asset or liability

Or

In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be assessable by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The board determines policies and procedures for recurring fair value measurement, such as unquoted available for sale financial assets. At each reporting date, the Group analyse the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Group also compares the change in the fair value of each asset with relevant external sources to determine whether the change is reasonable. For the purpose of fair value disclosures, the Group has determined the classes of assets and liabilities on the basis of nature, characteristics and risks of the assets or liability and the level of fair value hierarchy, as explained above.

(w) Impairment of available-for-sale investments

The Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgement. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

3 Revenues and expenses

	Notes	Consolidated 2018 $	Consolidated 2017 $
(a) Revenue			
Sale of goods		11,469,840	9,399,768
Sale of software		9,231	22,085
Product maintenance revenue		7,491,644	8,169,261
		18,970,715	**17,591,114**
(b) Other income			
R&D tax incentive [(i)]		2,052,896	1,957,782
Net gain on foreign exchange		457,941	30,924
Interest income:			
Non-related parties		438,461	483,518
		2,949,298	**2,472,224**
(c) Depreciation and amortisation expense			
Depreciation:			
Plant and equipment	12	420,977	325,251
Leasehold improvements	12	71,723	64,022
Amortisation:			
Software	13	85,161	75,097
		577,861	**464,370**
(d) Employee benefits expense			
Salaries & wages		5,887,922	5,346,436
Superannuation		359,510	317,855
Termination payouts		35,737	–
Share based payment expense	14	54,805	89,677
		6,337,974	**5,753,968**
(e) Administration expenses			
Premises costs		427,302	447,913
Travel expenditure		746,043	614,731
Telephone and internet expenditure		95,383	80,635
Insurance expenditure		214,025	138,320
Loss on disposal of equipment		464	–
Marketing expenditure		505,337	362,040
External contractors -sales and corporate		1,909,258	1,605,279
		3,897,812	**3,248,918**
(f) Other expenses			
Impairment of inventories		19,540	153,811
Certification, testing and direct R&D expenditure		677,737	758,293
Legal fees		403,556	113,590
Other overhead expenses		649,643	663,275
		1,750,476	**1,688,969**

(i) The R&D Tax Incentive is an entitlement program to help businesses offset some of the costs of conducting research and development. It is jointly managed by AusIndustry and the Australian Taxation Office. The core component that relates to the Group is a 43.5% (2017: 43.5%) refundable tax offset for entities with an aggregated turnover of less than $20 million per annum. For further information see Note 2(f).

4 Income tax

	Consolidated	
	2018	2017
	$	$
Major components of income tax expense for the years ended 30 June 2018 and 2017 are:		
Current income tax		
Current income tax charge	2,419,463	2,372,273
Adjustments in respect of current income tax of previous years	(730)	–
Deferred income tax		
Relating to origination and reversal of temporary differences	63,450	13,088
Income tax expense reported in statement of comprehensive income	**2,482,183**	**2,385,361**
Reconciliation of tax expense and the accounting profit and multiplied by Australia's domestic tax rate for 2018 and 2017:		
Accounting profit before tax	4,437,528	5,264,464
At the statutory income tax rate of 27.5% (2017: 30%)	1,220,320	1,579,340
Expenditure not allowable for income tax purposes	441,151	38,838
R&D tax incentive	733,262	762,860
Foreign losses not recognised	44,921	4,323
DTA impact of tax rate change	42,590	–
Other	(61)	–
Income tax expense reported in statement of comprehensive income	**2,482,183**	**2,385,361**

4 Income tax (continued)

Consolidated	Statement of Financial Position 2018 $	Statement of Financial Position 2017 $
Deferred tax assets		
Accruals:		
Accrued expenses	53,973	64,518
Employee benefits:		
Annual leave	87,733	72,686
Long service leave	197,198	209,375
Bonus accrual	35,370	15,000
Other:		
Amortised business costs	912	1,326
Patents	8,158	10,092
FBT accrual	6,648	6,732
DTA on unutilised losses	143,816	183,544
Other	6,669	15,062
	540,477	**578,335**
Deferred tax liabilities		
Prepayments	(2,659)	(2,773)
Unrealised foreign exchange gain	(84,266)	(58,113)
FBT accrual	(5,919)	(6,366)
	(92,844)	**(67,252)**
Net deferred tax asset	**447,633**	**511,083**

4 Income tax (continued)

Consolidated	Statement of Comprehensive Income 2018 $	Statement of Comprehensive Income 2017 $
Deferred tax assets		
Accruals:		
Stock obsolescence	-	22,500
Accrued expenses	10,545	1,368
Employee benefits:		
Annual leave	(15,047)	1,032
Long service leave	12,177	(35,778)
Bonus accruals	(20,370)	(15,000)
Other:		
Amortised business costs	414	(1,326)
Patents	1,934	1,191
Unrealised foreign exchange loss	89,745	1,877
FBT accrual	84	3,409
DTA on unutilised tax losses	39,728	23,963
Other	2,914	(905)
	122,124	**2,330**
Deferred tax liabilities		
Prepayments	(114)	1,356
Unrealised foreign exchange gain	(58,113)	13,176
FBT accrual	(447)	(3,775)
	(58,674)	**10,758**
Deferred tax (benefit) /expense	**63,450**	**13,088**

4 Income tax (continued)

	Consolidated	
	2018	2017
Deferred tax asset and liabilities	**$**	**$**
Deferred tax asset (non-current)	540,477	578,335
Deferred tax liability (non-current)	(92,844)	(67,252)

The franking account balance for both 2018 and 2017 is $384,327.

Tax consolidation

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

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

Tax effect accounting by members of the tax consolidated group

Measurement method adopted under AASB Interpretation 1052 Tax Consolidation Accounting

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

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

The Group has estimated tax losses arising in Australia of $522,969 (2017: $611,814) that may be available indefinitely for offset against future income tax payable. Of the total tax losses available for offset against future income tax payable, $143,816 has been recognised as a deferred tax asset (2017: $183,544).

Nature of the tax funding agreement

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

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

5 Earnings per share

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

	Consolidated	
	2018	2017
	$	$
Net profit attributable to equity holders of the parent	1,955,345	2,879,103
Net profit attributable to ordinary shareholders for diluted earnings per share	**1,955,345**	**2,879,103**
	No. of shares	No. of shares
Weighted average number of ordinary shares for basic earnings per share	1,081,178,701	1,079,905,126
Effect of dilution:	2,052,859	–
Adjusted weighted average number of ordinary shares for diluted profit per share	**1,083,231,560**	**1,079,905,126**

The outstanding share options were included in this calculation but were not considered to have a dilutive effect.

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

6 Cash and cash equivalents

	Consolidated	
	2018	2017
	$	$
Cash at bank and on hand	6,349,453	3,571,821
Short-term deposits	16,908,603	16,519,384
Total cash and cash equivalents	**23,258,056**	**20,091,205**

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

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

Reconciliation from the net profit after tax to the net cash flows from operations

	Consolidated	
	2018	2017
	$	$
Profit after tax	1,955,345	2,879,103
Adjustments for:		
Depreciation and amortisation	577,861	464,370
Unrealised foreign currency loss/(gain)	(306,423)	(175,446)
Impairment of available-for-sale investment	1,361,532	–
Loss on disposal of equipment	464	–
Impairment of inventories	19,540	153,811
Share based payment expense	54,805	89,677
Changes in assets and liabilities:		
(Increase) / decrease in trade and other receivables (net of foreign currency gains)	(821,160)	525,379
Decrease / (increase) in inventories	222,832	(1,072,016)
Increase in prepayments	(100,974)	(40,349)
Decrease / (increase) in other current assets	4,011	(42,510)
Increase / (decrease) in trade and other payables	538,586	(404,517)
Decrease / (increase) in deferred income tax assets	37,859	(1,443)
Increase / (decrease) in deferred income tax liability	25,591	14,532
Increase in income tax payable	47,191	509,519
Increase in provisions	97,686	115,821
Increase/(decrease) in unearned income & other non-current liabilities	1,486,575	(786,367)
Net cash from operating activities	**5,201,322**	**2,229,564**

7 Trade and other receivables

	Consolidated	
	2018	2017
	$	$
Trade receivables [i]	4,373,543	3,400,211
Net GST receivable	102,595	43,460
R&D tax incentive [ii]	2,052,896	1,957,782
	6,529,034	**5,401,453**

(i) The fair value of trade and other receivables are deemed to approximate their carrying value. At 30 June, the aging analysis of trade receivables is as follows:

	Neither past due nor impaired	Past due but not impaired	Past due & impaired
	$	$	$
2018 Consolidated	3,847,010	526,533	–
2017 Consolidated	3,400,211	–	–

(ii) R&D tax incentive – a 43.5% (2017: 43.5%) refundable tax offset - see Note 3 for further information

For further information on risk disclosures refer Note 19.

8 Inventories

	Consolidated	
	2018	2017
	$	$
Inventories (at net realisable value)	**1,308,182**	**1,550,554**

During 2018, $19,540 (2017: $152,799) was recognised as an expense for inventories carried at the lower of cost and net realisable value. This is recognised in Note 3(f) - other expenses.

9 Other assets

	Consolidated	
	2018	2017
	$	$
Interest receivable	60,753	37,166
Security deposit	6,000	8,000
Sundry assets	–	25,602
	66,753	**70,768**

10 Investments in controlled entities

Set out below is an overview of financial assets, other than cash and short-term deposits, held by the Group as at 30 June 2018.

		Consolidated		Senetas Corporation Ltd	
		2018	2017	2018	2017
	Note	$	$	$	$
Investments in controlled entities	22	–	–	10,867,471	10,867,471

11 Available-for-sale investments

	Consolidated	
	2018	2017
	$	$
Available-for-sale investments		
Opening balance	2,227,145	–
Investments during the year	1,027,328	2,227,145
Impairment losses recognised during the year	(1,361,532)	–
Closing balance	**1,892,941**	**2,227,145**

In December 2016, the Group invested in Smart Antenna Technologies Ltd ("SAT"), a smart antenna technology company based in the UK. During the year the Group made subsequent investments amounting to $1,027,328. A Senetas board advisor, Mr Chris Fedde, is a director of SAT. Mr Fedde has served as the Chief Executive for several cyber security companies including SafeNet, Inc.

In May 2017, the Group acquired an interest in DeepRadiology Inc, a medical machine learning and artificial intelligence company based in the USA. During the year, following a review of the performance of DeepRadiology, management concluded that there is objective evidence of impairment. The Group recognised an impairment expense of $1.36m for the full carrying value and the carrying value of the investment at 30 June 2018 is nil. The Group has non-controlling interests in the entities as shown in the equity table below.

	% Equity Interest		Value of Investment $	
	2018	2017	2018	2017
DeepRadiology Inc	3.45%	3.45%	–	1,361,532
Smart Antenna Technologies Ltd	5.52%	5.76%	1,892,941	865,613

As there is no active market for valuation of shares in these investments, management uses a number of assumptions for the inputs into a valuation model. 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 investments. The investment in SAT is currently held at fair value as at 30 June, 2018. The investment in DeepRadiology Inc was considered impaired and the investment was written down to nil. Details of these investments including fair value and impairment analysis have been provided in Note 27.

Other unlisted investments at fair value	% Equity Interest	
	2018	2017
EonReality Inc. [(ii)]	4.7%	4.7%
Mineral Resource Corp Inc.	0.001%	0.001%
Axiom Navigational Inc.	5%	5%
YellowOnline.com Inc.	8%	8%
Webspy Ltd	0.002%	0.002%
InfoProtect Technologies Plc	19.86%	19.86%

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

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

The shareholding (which is preferred stock) also carries certain dividend rights which date back to the year 2000. The shareholding represents approximately 3% of the current issued share capital in EON Reality Inc (www.eonreality.com). Should EON Reality have a liquidity event (such as an IPO, trade sale or substantial capital raising) it may be necessary to convert the preferred stock to ordinary stock. The investment was made during the year 2000 and was since written off by the board. Until such time as there has been a liquidity event such as a capital raising, merger transaction, corporate restructuring, IPO, sale of securities or other such transaction which will provide the board with an independent value of the investment, the board will continue to not ascribe a value to the investment as an asset.

12 Plant and equipment

	Consolidated		
	Leasehold improvements	Plant and equipment	Total
Year ended 30 June 2018	**$**	**$**	**$**
At 1 July 2017, net of accumulated depreciation	188,972	1,131,783	1,320,755
Additions (net of disposals)	29,679	688,729	718,408
Transfers to plant and equipment from inventory	–	186,439	186,439
Writeoff	–	(464)	(464)
Depreciation charge for the year	(71,723)	(420,977)	(492,700)
At 30 June 2018, net of accumulated depreciation	**146,928**	**1,585,510**	**1,732,438**
At 1 July 2017			
Cost	356,872	2,274,579	2,631,451
Accumulated depreciation and impairment	(167,900)	(1,142,796)	(1,310,696)
Net carrying amount	**188,972**	**1,131,783**	**1,320,755**
At 30 June 2018, net of accumulated depreciation			
Cost	386,544	2,922,783	3,309,327
Accumulated depreciation	(239,616)	(1,337,273)	(1,576,889)
Net carrying amount	**146,928**	**1,585,510**	**1,732,438**

	Consolidated		
	Leasehold improvements	Plant and equipment	Total
Year ended 30 June 2017	**$**	**$**	**$**
At 1 July 2016, net of accumulated depreciation	211,605	836,163	1,047,768
Additions (net of disposals)	41,388	91,161	132,549
Transfer to plant and equipment from inventory	–	529,710	529,710
Depreciation charge for the year	(64,021)	(325,251)	(389,272)
At 30 June 2017 net of accumulated depreciation	**188,972**	**1,131,783**	**1,320,755**
At 1 July 2016			
Cost	321,814	1,941,369	2,263,183
Accumulated depreciation	(110,209)	(1,105,206)	(1,215,415)
Net carrying amount	**211,605**	**836,163**	**1,047,768**
At 30 June 2017			
Cost	356,872	2,274,579	2,631,451
Accumulated depreciation	(167,900)	(1,142,796)	(1,310,696)
Net carrying amount	**188,972**	**1,131,783**	**1,320,755**

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

13 Intangible assets

	Software
	$
Year ended 30 June 2018	
At 1 July 2017 net of accumulated amortisation and impairment	135,139
Additions	160,720
Amortisation	(85,161)
At 30 June 2018 net of accumulated amortisation and impairment	**210,698**
At 30 June 2018 net of accumulated amortisation and impairment	
Cost (gross carrying amount)	473,434
Accumulated amortisation and impairment	(262,736)
Net carrying amount	**210,698**
Year ended 30 June 2017	
At 1 July 2016 net of accumulated amortisation and impairment	125,290
Additions	84,946
Amortisation	(75,097)
At 30 June 2017 net of accumulated amortisation and impairment	**135,139**
At 30 June 2017 net of accumulated amortisation and impairment	
Cost (gross carrying amount)	312,713
Accumulated amortisation and impairment	(177,574)
Net carrying amount	**135,139**

Software

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

14 Employee benefits reserve

Employee Share Option Plan

Long Term Incentive (LTI) are provided to employees in the form of performance rights and options. A Performance Right is a grant of actual shares of stock, the payment of which is contingent on performance as measured against predetermined objectives over a period of time. An Option is the right, but not the obligation, to buy a share at a discount or at a stated fixed price, within a certain period of time.

The share-based payment reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration. The following table illustrates the number (No.) of share options and performance rights outstanding as at 30 June 2018:

	2018	2018	2017	2017
	No.	Weighted average fair value	No.	Weighted average fair value
Outstanding at the beginning of the year	800,000	$0.1451	3,880,000	$0.0864
Granted during the year [iii]	5,847,231	$0.0495	35,000	$0.1320
Exercised during the year	(355,000)	$0.1320	(2,315,000)	$0.0745
Forfeited during the year [ii]	(12,500)	–	(800,000)	–
Outstanding at the end of the year [i]	**6,279,731**	**$0.05715**	**800,000**	**$0.1451**

(i) The outstanding balance as at 30 June 2018 is represented by:

a) 2,000,000 options for the CEO.

b) 1,000,000 executive options.

c) 1,500,000 staff options.

d) 1,347,231 performance rights for staff.

e) 432,500 performance rights for staff and executives vested but not yet exercised. These are the remainder of the performance rights from the grant in the 2015 year for which the final tenure condition was met in September, 2017.

The weighted average exercise price for the 4,500,000 share options included above is $0.108. The weighted average exercise price of the performance rights granted and outstanding is nil. Details are shown below.

(ii) The performance rights were forfeited during the year as the condition was not met. The requirement was tenure for 24 months. The expense for these rights was not recognised in the financial year.

(iii) The CEO, Mr Wilson, was granted 2,000,000 options at the AGM in November, 2017. The Options are subject to a service condition of 24 months continuous service and the exercise price upon vesting is $0.10. Each option granted entitles Mr Wilson to one fully paid ordinary share in the company, subject to satisfaction of the vesting condition, and payment of the exercise price.

On 15 May 2018 executives were offered 500,000 options each. The options are subject to a service condition of 18 months continuous service and the exercise price upon vesting is $0.115. Each option granted, entitles each executive to one fully paid ordinary share in the company, subject to satisfaction of the vesting condition, and payment of the exercise price.

On 15 May 2018 senior staff each were offered 500,000 options subject to a service condition of 18 months continuous service and the exercise price upon vesting is $0.115. Each option granted entitles each staff member to one fully paid ordinary share in the company, subject to satisfaction of the tenure condition and the payment of the exercise price.

On 15 May 2018 staff were offered performance rights subject to a service condition 18 months. Each performance right granted entitles each staff member to one fully paid ordinary share in the company, subject to satisfaction of the tenure condition. There is no exercise price applicable to these performance rights.

14 Employee benefits reserve (continued)

Accounting treatment for performance rights granted to CEO during the 2018 year

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

	Tenure
a) Stock price at grant date 29 November 2017	$0.110
b) Exercise price	$0.100
c) Risk free rate	1.73%
d) Term – Vesting (Years)	2.00
e) Assumed Option Life (Years)	3.00
f) Volatility	45.00%
Option valuation	**$0.0391**

Accounting treatment for options and performance rights granted to executives during the 2018 year

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

	Tenure	
	Option with exercise price	Performance Rights - no exercise price
a) Stock price at grant date 15 May 2018	$0.105	$0.105
b) Exercise price	$0.115	$0.000
c) Risk free rate	2.06%	2.06%
d) Term - Vesting (Years)	1.53	1.53
e) Assumed Option Life (Years)	2.54	1.54
f) Volatility	45.00%	45.00%
Option valuation	**$0.028**	**$0.105**

Accounting treatment for performance rights granted to employees during the 2018 year

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

	Tenure
a) Stock price at grant date 15 May 2018	$0.105
b) Exercise price	0.000
c) Risk free rate	2.06%
d) Performance Period Expiry – 29 November 2019	
e) Time to Maturity 29 November 2020	1.5389
f) Volatility	45.00%
Option valuation	**$0.105**

	Consolidated	
	2018	2017
Share-based payment reserve	**$**	**$**
Opening Balance	689,150	852,187
Expense during the year	54,805	89,677
Transfer to equity during the year	(46,860)	(252,714)
Closing balance	**697,095**	**689,150**

15 Trade and other payables

	Consolidated	
	2018	2017
	$	$
Trade payables [i]	933,959	622,776
Other payables [ii]	997,936	770,532
	1,931,895	**1,393,308**

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

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

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

For further information on risk disclosures refer Note 19.

16 Unearned revenue

	Consolidated	
	2018	2017
	$	$
Open balance as at 1 July	5,416,098	6,205,484
Amounts received during the year	8,985,914	7,379,875
Revenue recognised during the year	(7,491,644)	(8,169,261)
Closing balance as at 30 June	**6,910,368**	**5,416,098**
Current unearned income	4,573,148	4,073,026
Non-current unearned income	2,337,220	1,343,072
	6,910,368	**5,416,098**

17 Provisions

	Consolidated	
	2018	2017
	$	$
Current		
Annual leave	320,808	242,288
Long service leave	685,368	652,888
	1,006,176	**895,176**
Non-current		
Long service leave	31,715	45,029
Total	**1,037,891**	**940,205**

18 Contributed equity and reserves

Terms, conditions and movements of contributed equity

Ordinary shares are classified as equity. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. Issued and paid up capital is classified as contributed equity and recognised at the fair value of the consideration received by the entity. Incremental costs directly attributable to the issue of new shares or options are shown in contributed equity as a deduction, net of tax, from the proceeds.

	No. of shares	$
Contributed equity		
Ordinary shares - issued and fully paid	**1,081,311,948**	**104,726,285**

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

	No. of shares	$
Movement in ordinary shares on issue		
At 30 June 2017	1,080,956,948	104,679,425
Employee performance rights converted to shares	355,000	46,860
At 30 June 2018	**1,081,311,948**	**104,726,285**

Employee benefits reserve

This reserve records the fair value of equity benefits provided to employees and directors as part of their remuneration. Refer to Note 14 for further details of this plan.

	2018	2017
	$	$
Foreign currency translation reserve		
The foreign currency translation reserve is used to record the exchange differences arising from the translation of the financial statements of foreign subsidiaries.	18,425	(39,998)
	18,425	**(39,998)**

19 Financial risk management objectives and policies

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

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

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

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

Foreign currency risk

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

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

However, the Group may have significant transactional currency exposures. Such exposure arises from sales or purchases in currencies other than the unit's functional currency, particularly in $US. These transactional currency exposures are managed through improved liquidity management. Management monitors timing of cash flows from sales to reduce the exposure.

As at 30 June 2018, the Group did not have any outstanding derivative instruments.

As at 30 June 2018, the Group had the following exposure to $US foreign currency.

	Consolidated	
	2018	2017
	$	$
Financial Assets		
Cash & cash equivalents	3,162,730	509,108
Trade & other receivables	4,046,507	3,323,522
Available-for-sale investments	–	1,361,532
	7,209,237	**5,194,162**
Financial Liabilities		
Trade & other payables	116,463	200,852
Net exposure	**7,092,774**	**4,993,310**

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

As at 30 June 2018, had the $A moved, as illustrated in the table below, with all other variables held constant, pre-tax profit/loss would have been affected as per below. There would be no effect on equity.

	Increase/ decrease in $US rate	Effect on profit / loss before tax
		$
2018		
Consolidated	+10%	(645,284)
	-10%	787,491
2017		
Consolidated	+10%	(497,052)
	-10%	503,029

As at 30 June 2018, the Group had the following exposure to £GBP foreign currency.

Notes to the Financial Statements

for the year ended 30 June 2018

19 Financial risk management objectives and policies (continued)

	Consolidated	
	2018	2017
	$	$
Financial Assets		
Cash & cash equivalents	41,248	–
Trade & other receivables	132,377	–
Available-for-sale investments	1,892,941	865,613
	2,066,566	**865,613**
Financial Liabilities		
Trade & other payables	32,904	–
Net exposure	**2,033,662**	**865,613**

As at 30 June 2018, had the $A moved, as illustrated in the table below, with all other variables held constant, pre-tax profit/loss would have been affected as per below. There would be no effect on equity.

	Increase/ decrease in £GB rate	Effect on profit / loss before tax
		$
2018		
Consolidated	+10%	(184,878)
	-10%	225,962
2017		
Consolidated	+10%	(78,692)
	-10%	96,180

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

Credit risk

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

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

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

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

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

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

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

All cash assets are held in Australian banks except for GBP £23,127 in the HSBC in the UK. The company has a $US account with an Australian bank which held US$2,341,863 at 30 June 2018.

Concentration of risk is attributable to the counter party with whom the Group deals: a public listed company on the Euronext. The counter party's financial status is assessed to be strong and all payments due were received on time.

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

Liquidity risk

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

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

The Group monitors its capital using a ratio of liquid assets over total liabilities. The Group's policy is to maintain the ratio greater than 1:1. A calculation of the liquid asset ratio is set out on the following tables for the financial years ended 30 June 2018 and 30 June 2017.

	2018	2017
	$	$
Liquid assets		
Cash & cash equivalents	23,258,056	20,091,205
Trade and other receivables	6,529,034	5,401,453
Total liquid assets	**29,787,090**	**25,492,658**
Liabilities		
Current liabilities	9,930,682	8,733,784
Non-current liabilities	2,486,027	1,487,298
Total liabilities	12,416,709	10,221,082
Excess of liquid assets over total liabilities	**17,370,381**	**15,271,576**
Ratio of liquid assets to total liabilities	**2.4:1**	**2.49:1**

19 Financial risk management objectives and policies (continued)

Maturity analysis of financial assets and liabilities

The table below reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities as of 30 June 2018. The undiscounted cash flows for the respective upcoming fiscal years are presented. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2018. The Group has no derivative financial instruments at 30 June 2018.

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

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

30 June 2018	On Demand	< 6 months	6 to 12 months	1 to 5 years	No fixed term	Total
Consolidated						
Financial assets						
Cash & cash equivalents	6,349,453	16,908,603	–	–	91,667	23,349,723
Trade & other receivables	–	6,529,034	–	–	–	6,529,034
Available-for-sale investments	–	–	–	–	1,892,941	1,892,941
	6,349,453	23,437,637	–	–	1,984,608	31,771,698
Consolidated						
Financial liabilities						
Trade & other payables	1,931,895	–	–	–	–	1,931,895
Net maturity	4,417,558	23,437,637	–	–	1,984,608	29,839,803

30 June 2017	On Demand	< 6 months	6 to 12 months	1 to 5 years	No fixed term	Total
Consolidated						
Financial assets						
Cash & cash equivalents	3,571,821	16,519,384	–	–	91,667	20,182,872
Trade & other receivables	–	5,401,453	–	–	–	5,401,453
Available-for-sale investments	–	–			2,227,145	2,227,145
	3,571,821	21,920,837	–	–	2,318,812	27,811,470
Consolidated						
Financial liabilities						
Trade & other payables	1,393,309	–	–	–	–	1,393,309
Net maturity	2,178,512	21,920,837	–	–	2,318,812	26,418,161

19 Financial risk management objectives and policies (continued)

Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ending 30 June 2018 and 30 June 2017.

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

Interest rate risk

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

Year ended 30 June 2018

	<1year	Total
	$	$
Cash	**23,349,723**	**23,349,723**

Year ended 30 June 2017

	<1year	Total
	$	$
Cash	**20,182,872**	**20,182,872**

Interest rate risk table

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

At 30 June 2018, if interest rates had moved, as illustrated in the table below, with all other variables held constant, pre-tax profit would have been affected as follows. There is no impact on equity. The only balance sheet asset that the Group held at 30 June 2018 which was exposed to interest rate risk was cash and cash equivalents.

	Pre-tax profit higher / (lower)	
	2018	2017
	$	$
Consolidated		
+1% (100 basis points)	201,457	200,891
-0.5% (50 basis points)	(100,729)	(100,446)

Equity price risk

The Group's unlisted equity securities are susceptible to market price risk arising from uncertainties about the future of the investment securities. The Group manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Groups' senior management and board regularly review equity portfolio. The Group's board of directors approves all equity investment decisions.

At the reporting date, the exposure to unlisted equity securities at fair value was $1,892,941 (2017: $2,227,145). Details of these investments including fair value and impairment analysis have been provided in Note 27.

20 Commitments and contingencies

Operating lease commitments – Group as lessee

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

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

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

Future minimum rentals payable under non-cancellable operating leases as at 30 June 2018 are as follows:

	Consolidated	
	2018	2017
	$	$
Within one year	289,652	278,512
After one year but not more than five years	73,116	362,769
More than five years	–	–
	362,768	**641,281**

Other commitments

At 30 June 2018 the Group has not committed to any capital commitments, remuneration commitments or any other expenditure other than that disclosed in the notes above.

21 Parent entity information

Information relating to Senetas Corporation Limited for the year ended 30 June 2018

	2018	2017
	$	$
Current assets	23,661,010	18,932,993
Total assets	35,134,855	32,656,416
Current liabilities	(3,310,949)	(3,045,006)
Total liabilities	(29,258,259)	(22,676,504)
Issued capital	104,726,285	104,679,426
Retained earnings	(99,546,784)	(95,388,664)
Employee benefits reserve	697,095	689,150
Total shareholders' equity	(5,876,596)	(9,979,912)
Loss of the parent entity after tax	(4,158,120)	(2,186,342)
Total comprehensive income of the parent entity	**(4,158,120)**	**(2,186,342)**

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

The parent entity has no contingent liabilities.

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

22 Related party disclosure

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

		% Equity interest	
		2018	2017
Senetas Security Pty Ltd		100%	100%
Senetas Europe Ltd		100%	100%
Podzy Pty Ltd (iv)		100%	0%
CTAM Inc. (ii)	Non-operating	100%	100%
Technal Pty Ltd (iii)	Non-operating	60%	60%
Kusp Pty Ltd (i)	Liquidated	0%	100%
ePil Ltd (i)	Liquidated	0%	100%
Webcryp Pty Ltd (i)	Liquidated	0%	100%
Worldof.com Pty Ltd (i)	Liquidated	0%	100%
IWM No. 2 Pty Ltd (i)	Liquidated	0%	100%
Resdev No. 2 Pty Ltd (i)	Liquidated	0%	100%
Datum Group Operations Pty Ltd (i)	Liquidated	0%	100%
Datum Group Holdings Pty Ltd (i)	Liquidated	0%	100%
Datum Enterprise Solutions Pty Ltd (i)	Liquidated	0%	100%
Datum Financial Solutions Pty Ltd (i)	Liquidated	0%	100%
Pump Ultimate Media Productions Pty Ltd (i)	Liquidated	0%	100%
Berty Technologies Consulting Pty Ltd (i)	Liquidated	0%	100%
Berty Technologies Pty Ltd (i)	Liquidated	0%	100%
Berty Group Holdings Pty Ltd (i)	Liquidated	0%	100%

(i) These entities were dormant and had no assets for distribution. Senetas Corporation Ltd liquidated these entities during the year.

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

The parent did not have any transactions or balances with any of these related parties during the year (2017: $0) except as disclosed below. Nor were there any transactions or balances between subsidiaries. (2017:$0)

(iii) The entity is dormant and there is no NCI share of results during the year (2017: Nil)

(iv) Podzy Pty Ltd was acquired in December 2017. Podzy Pty Ltd ("Podzy") is the developer of SureDrop, a secured file sharing platform. The acquisition of Podzy was completed in December 2017. Senetas has acquired Podzy for a cash consideration of $1 with a contingent consideration in the form of an earn-out arrangement. At the acquisition date, management has assessed the fair value of the net assets acquired of Podzy as nil, due to the following factors:

- SureDrop required considerable development work before it would be available for sale.
- There was no quantifiable pipeline of sales.

The earn-out arrangement requires a fixed percentage of the revenue generated from sales of SureDrop to be shared with the previous shareholders of Podzy. The earn-out period starts from the date of acquisition till 30 June 2022. As at 30 June 2018, no earn-out payments are due under the earn-out arrangement, as the required conditions for the payment have not been met.

As at 30 June 2018, the fair value of the contingent consideration is assessed to be nil as there are no confirmed sales orders or quantifiable pipeline of sales.

Transactions with related parties

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

22 Related party disclosure (continued)

Investment

During the 2017 financial year, Senetas Corporation Ltd invested US$1,000,000 in DeepRadiology Inc to acquire a 3.4% holding in the company. Certain directors, KMP and senior management of the Group also have investments in DeepRadiology Inc. totalling a 0.9% holding. This investment was considered impaired during the 2018 financial year and has been written down to nil. There are no other transactions entered between the Group and DeepRadiology Inc (2017: Nil).

Director fees

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

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

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

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

Mr Schofield's director fees are paid to Cadigal Advisors Pty Ltd †

Other than the payment of directors fees, there have been no other transactions entered between the Group and the above entities (2017: Nil). There are no outstanding balances at 30 June 2018 (2017: Nil).

23 Events after the reporting date

There are no significant events after reporting date.

24 Auditors' remuneration

	Consolidated	
	2018	2017
	$	$
Amounts received or due and receivable by Ernst & Young Australia for:		
• an audit or review of the financial report of the entity and any other entity in the consolidated entity	128,750	112,500
• tax compliance	31,850	31,500
	160,600	**144,000**

25 Key management personnel

Details of directors & executives	Position
Directors	
F. Galbally	Director / Chairman (Non-Executive)
L. Given	Director (Non-Executive)
K. Gillespie	Director (Non-Executive)
L. Hansen	Director (Non-Executive)
P. Schofield	Director (Non-Executive)
Executive Director	
A. Wilson	Chief Executive Officer
Executives	
J. Weston	Chief Architect
J. Fay	Chief Technology Officer

25 Key management personnel (continued)

(a) Remuneration by category: executives & directors

	Consolidated	
	2018	2017
	$	$
Short-term employee benefits	1,714,967	1,774,155
Post employment employee benefits	60,072	58,845
Other long-term employee benefits	15,004	33,231
Non-monetary benefits	44,499	–
Share-based payment	25,126	47,997
	1,859,668	**1,914,228**

Other transactions and balances with executives and directors

There were no other transactions with executives and directors during the year (2017: Nil).

26 Segment information

Basis of segment identification

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

Senetas's chief operating decision maker is the Chief Executive Officer (CEO). 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 to the CEO.

Information about Geographical Areas

The Group has only one segment - the product division. In accordance with the master distribution agreement with Gemalto 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. Refer to Note 2(e) for the Group's revenue recognition policies.

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

	2018	2017
Australia & New Zealand	2,349,156	2,251,682
United States	14,910,133	10,018,009
Europe	1,711,426	5,321,423
	18,970,715	**17,591,114**

Revenue from one customer amounted to $16, 561,160 (2017: $14,437,526) arising from the above mentioned geographical areas.

27 Fair value of financial instruments

The Group has various financial instruments such as available for sale investments, cash in hand, trade debtors and trade creditors. Apart from available for sale investments, 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.

Available for sale investments 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

27 Fair value of financial instruments (continued)

management's estimation of the fair value of these unquoted equity and debt investments. The investments are currently held at cost which is assessed as fair value at the time of this report.

AASB 13 requires disclosure of fair value measurements using a three-level fair value hierarchy. The level within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement. Assessing the significance of a particular input requires judgement, considering factors specific to the asset or liability. The following table shows financial instruments recognised at fair value, categorised between those whose fair value is based on:

- 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
30 June 2018			
Assets measured at fair value through profit or loss			
Available-for-sale investments	–	–	1,892,941
30 June 2017			
Assets measured at fair value through profit or loss			
Available-for-sale investments	–	–	2,227,145

The group had no financial liabilities measured at fair value through profit or loss. There have been no transfers between Level 1, 2 or 3 of the fair value hierarchy during the year.

Valuation process for Level 3 valuations

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.

Performance of SAT investment has tracked according to its plans. During the current year, SAT had further funding rounds in which other SAT investors also participated. Senetas has contributed an additional amount of $1,027,328 as a part of this recent funding round. Price of this recent round of investment approximates the fair value of the total investment at the reporting date. Management has also used an external expert to determine the fair value of the investment at the reporting date. Based on the price of the recent round of investment and the valuation performed by an external expert, management has concluded that the fair value of the investment approximates its carrying value at the reporting date.

DeepRadiology has not yet achieved required regulatory approval for its technology and the company has therefore missed milestone and projected revenue targets. Given the level of uncertainty surrounding the value of the investment, the Senetas Board has resolved to impair the entire investment in DeepRadiology of $1,361,532.

	2018	2017
	$	$
Opening balance	2,227,145	–
Investments during the year	1,027,328	2,227,145
Impairment losses recognised during the year	(1,361,532)	–
Closing balance	**1,892,941**	**2,227,145**

Notes to the Financial Statements

for the year ended 30 June 2018

Directors' Declaration

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

(1) In the opinion of the directors:

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

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the year ended on that date; and

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

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

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

(2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2018.

On behalf of the Board



Francis W. Galbally
Chairman
Melbourne
Date: 24 September 2018

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

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Building a better working world

Independent Auditor's Report to the Members of Senetas Corporation Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Senetas Corporation Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is 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 30 June 2018 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.



Revenue recognition (Refer to notes 2(e) and 3(a) to the Financial Report)

Why significant	How our audit addressed the key audit matter
Revenues derived by the Group are primarily dependent on a single customer, Gemalto, which comprises a combination of sales of products and maintenance services amounting to a total of $18.9 million for the year ended 30 June 2018. As the business arrangement is through the delivery to service Gemalto's end-customers, sales of products and deferred maintenance revenue are recognised as and when products are delivered and the Group fulfils its contractual obligation to Gemalto. Because the Group generally bills in advance, there is a risk of revenue being recognised prior to fulfilling the contractual obligations. Accordingly, revenue recognition was considered a key audit matter, in particular the timing and amount of revenue recognised.	Our audit procedures included the following: ▸ Assessed the effectiveness of relevant controls over the processing of revenue transactions. ▸ Inspected the terms of the sales contract with Gemalto and other customers to determine whether revenue was recognised appropriately. ▸ On a sample basis, we assessed whether deferred maintenance revenue was recognised during the year over the service period. On a sample basis, by reference to maintenance contracts, we assessed whether the deferred maintenance revenue balance at the reporting date represents maintenance services which will be provided to the customers in future periods. ▸ For a sample of revenue transactions, we inspected documentation which evidenced that revenue was recognised when the delivery of goods to the customers had occurred. ▸ Selected a sample of revenue transactions close to the year-end and after year end, including credit notes issued after year-end, to establish whether the transactions were recorded in the correct period.

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

Building a better working world

Valuation of investments classified as available-for-sale assets (Refer to notes 2(d), 2(w), 11 and 27 to the Financial Report)

Why significant	How our audit addressed the key audit matter
As at 30 June 2018, the Group has investments in unquoted equity instruments amounting to $1.9 million, which have been classified as available-for-sale assets. The investments held by the Group are carried at fair value and categorised as level 3 under the fair value hierarchy. The Group determines whether objective evidence of impairment exists for individual investments at the reporting date. If an indicator of impairment exists, these available-for-sale investments are tested for impairment and an impairment loss is recognised. Both assessment of impairment indicators and determination of the fair value of available for sale investments require significant judgment and are often based on unobservable inputs such as expected cash flows and risk free rates. Accordingly, this was considered to be a key audit matter. During the year ended 30 June 2018, the Group determined that evidence of impairment existed for the investment in DeepRadiology Inc, which resulted in an impairment loss of $1.4 million.	Our audit procedures included the following: ▸ Evaluated the Group's assessment of the methodology and the appropriateness of the valuation models and inputs used to value available for sale investments. ▸ Considered the correspondence, contracts and other supporting evidence used by the Group to identify impairment indicators at the reporting date. ▸ We also evaluated the Group's assessment whether objective evidence of impairment exists for individual investments. ▸ We have considered the pricing of the recent funding rounds to assess the fair value of the investment in Smart Antenna Technologies Ltd ("SAT") at the reporting date. ▸ The Group also used an external expert to determine the fair value of the investment in SAT at the reporting date. With the involvement of our valuation specialists, we have assessed the information provided by the Group's expert, including assessment of the competence, capabilities and objectivity of the external expert, the methodology applied, and we have also assessed the appropriateness of the information for the inputs used in the fair valuation assessment. ▸ Assessed the adequacy of the disclosures relating to investments.

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

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2018 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 16 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Senetas Corporation Limited for the year ended 30 June 2018, complies with section 300A of the Corporations Act 2001.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Kylie Bodenham
Partner

Melbourne
24 September 2018

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

ASX Additional Information

Share Register Statistics as at 31 July 2018

Substantial shareholders as at the above date:

Name of substantial shareholder	Number of shares held
HSBC Custody Nominees (Australia) Limited - A/C 2 - shares held on behalf of Madison Park LLC	211,963,200
Mr Francis Galbally	140,000,000

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

Rank	Name	Number of ordinary shares held	% of issued capital
1	HSBC Custody Nominees (Australia) Limited - A/C 2	212,432,200	19.65
2	Mr Francis William Galbally	140,000,000	12.95
3	JP Morgan Nominees Australia Limited	36,039,306	3.33
4	Speliza Investments Pty Ltd <Greysmed P/L Super Fund A/C>	25,662,678	2.37
5	HSBC Custody Nominees (Australia) Limited	16,457,086	1.52
6	Ms Donna Young + Mr Peter Fleming <DYPF S/F A/C>	13,504,000	1.25
7	Success Breakthrough Pty Ltd <Jacks Super Fund A/C>	12,150,000	1.12
8	Eucalip Biochemical Group Pty Ltd	11,415,140	1.06
9	Challenger II Pty Ltd	6,000,000	0.55
10	Anacacia Pty Ltd <Wattle Fund A/C>	5,500,000	0.51
11	JJC Group (Aust) Pty Ltd <Denzel Deepak A/C>	5,000,000	0.46
12	Permax Pty Ltd	5,000,000	0.46
13	Dintan Pty Ltd <Jacinto-Lim Unit A/C>	4,669,716	0.43
14	Success Breakthrough Pty Ltd <Jack Super Fund A/C>	4,628,684	0.43
15	Drill Investments Pty Ltd	4,403,839	0.41
16	Tresdam Pty Ltd	4,353,949	0.40
17	Mrs Maria Grazia Tascone	4,344,355	0.40
18	Munn Superco Pty Ltd <The Munn Super Fund A/C>	4,274,000	0.40
19	Embl Pty Ltd <EJM Superannuation fund A/C>	4,000,000	0.37
20	Mr David Bell Galloway	3,800,000	0.35
Total top holders balance		**523,634,953**	**48.43**

Share Register Statistics as at 31 July 2018

Distribution of equity securities	Fully paid ordinary shares shareholders
Total holders	6,482
Aggregate holding of the top 20	48.43%
Holders of less than a marketable parcel	1,032

Range of holdings

Range of fully paid ordinary shares	Shareholders	%
1 -1,000	344	0.01
1,001 - 5,000	946	0.30
5,001 - 10,000	1,167	0.90
10,001 - 100,000	3,061	10.95
100,001 - and over	964	87.84
Total holders	**6,482**	**100**

Required statements

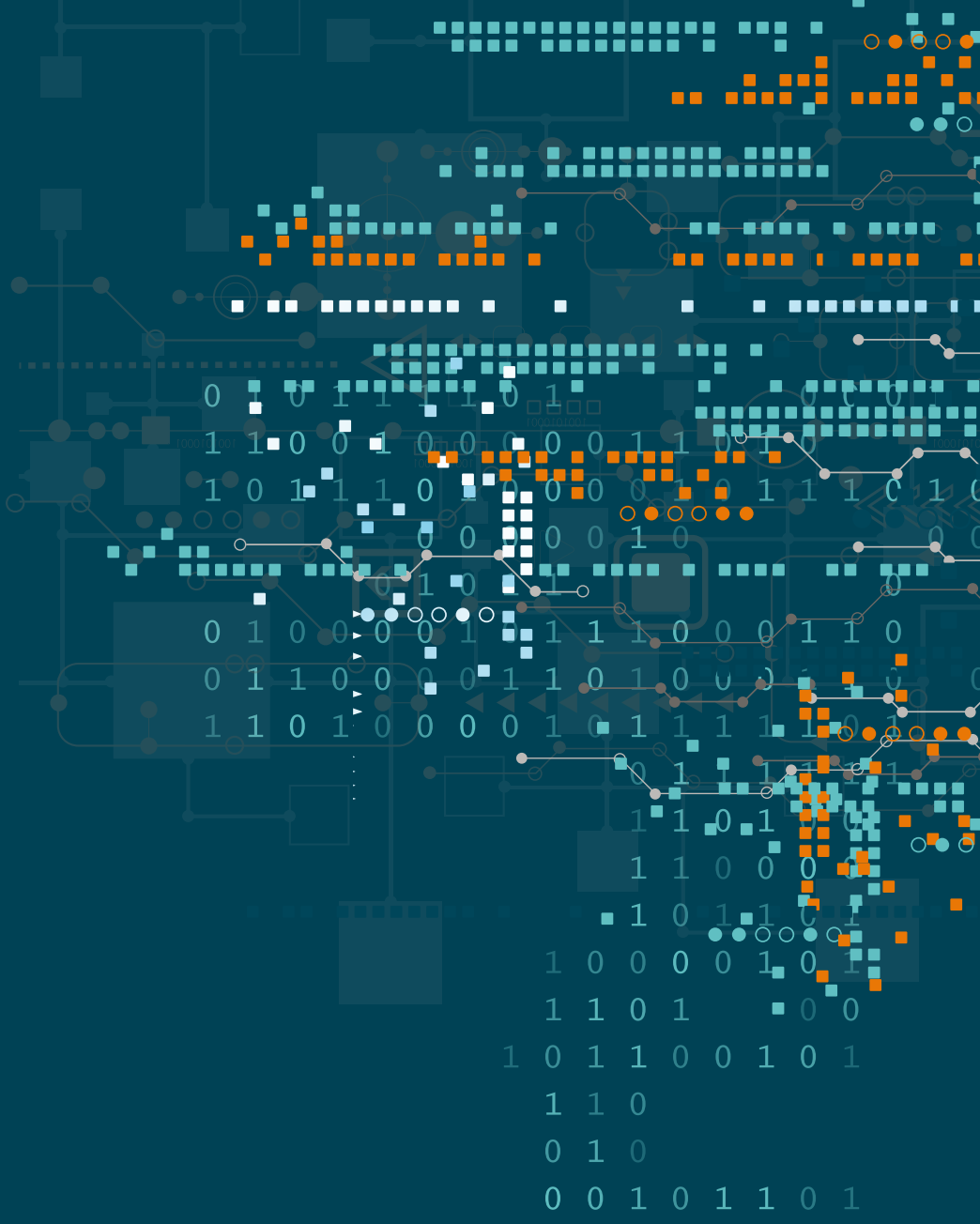
(a) There is no current on-market buy-back of the Company's securities.

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

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

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

(e) The address and telephone number of the Company's share registry is:
Computershare Australia
Yarra Falls, 452 Johnston Street, Abbotsford, Victoria, 3067
Telephone: +61 3 9415 5000



SENETAS

Registered Office
Senetas Corporation Limited

312 Kings Way,
South Melbourne, VIC 3205 Australia
Telephone +61 3 9868 4555
Facsimile +61 3 9821 4899

©2016 Senetas Corporation Limited
ABN 33 006 067 607

www.senetas.com

Investor related enquiries
Telephone 1300 787 795 or
Email: investor@senetas.com