SENETAS
Security without compromise

26 September 2014

ASX Market Announcements Office
ASX Limited
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

2014 Annual Financial Report

Please find attached the company's 2014 Annual Financial Report to Shareholders.

Yours faithfully

Brendan Case
Company Secretary

SENETAS CORPORATION LIMITED
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SENETAS CORPORATION LIMITED

2013/2014 ANNUAL FINANCIAL REPORT

SENETAS
Security without compromise


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Senetas Corporation Limited Annual Financial Report for the year ended 30 June 2014

ACN 006 067 607

Corporate information

Non-executive directors

Francis W. Galbally – Chairman

Lachlan P. Given

Kenneth J. Gillespie

Executive Director

Andrew R. Wilson

Company Secretary

Brendan Case

Registered office

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Auditors

Ernst & Young

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Melbourne VIC 3000

Annual General Meeting date and place

Annual General Meeting of shareholders of Senetas Corporation Limited (Company) will be held at Bayview On The Park, 52 Queens Road, Melbourne. VIC. 3004 on Thursday 20 November 2014 at 10:30am.

Directors' Report

Your directors submit their report for the year ended 30 June 2014.

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)

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 and O'Bryan during which time he successfully led a number of landmark commercial litigation cases.

Mr Galbally is an investor and corporate advisor and is the major shareholder in Southbank Capital Pty Ltd. AFSL 343678. He specialises in the technology, environment, food, mining and energy sectors. Mr Galbally is also chairman of the Bayland Property Group.

Mr Galbally has had first-hand operational experience in growing small cap companies and has been a director and chairman of a number of ASX listed companies. He was formerly the CEO and chairman of Senetas and retired as an executive in February 2006 and as director in May 2007. In 2012 Mr Galbally re-joined the company as a significant shareholder and board member and was appointed Chairman on 30 April, 2013.

Mr Galbally was responsible for recovering more than $1 billion in investor funds ($1 for $1) lost as a result of the major corporate failures (Pyramid Building Societies, Estate Mortgage Trusts) in the early 90's. He is a member of the Australian Institute of Company Directors.

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 and is also a board member of the charity Kids Off the Kerb.

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

Mr Andrew Wilson was appointed CEO of Senetas on 15 August, 2012. He was formerly Senetas' Company Secretary and Chief Financial Officer. Throughout his 14 year career with Senetas, Mr Wilson has had a significant role in most of the important stages of the company's development since it was first listed on the ASX.

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

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

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

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

Lachlan P. Given BBus
Non-Executive Director

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

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

Mr Given is non-excutive chairman 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; RateCity.com Pty Ltd, one of Australia's largest Internet based financial services comparison organisations 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 (ret'd)
Non-Executive Director

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

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

Brendan Case MCom Law, BEc, CPA
Company Secretary

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

Mr Case worked at NAB for almost 15 years and prior to joining NAB, he worked at UniSuper Limited for 8 years. He is a Chartered Secretary with a Masters of Commercial Law from the University of Melbourne and has degrees in both economics and finance.

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

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

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

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

Dividends paid and proposed

No dividends were proposed or declared for the financial year ended 30 June 2014. (2013: 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 20. No other entities are included in the consolidated entity.

Nature of operations and principal activities

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

Employees

The consolidated entity employed 25 employees as at 30 June 2014 (2013 : 29 employees).

Significant changes in the state of affairs

There are no significant changes in the state of affairs.

Operating and financial review

Highlights

- Net profit before tax of $2,457,588 for the twelve months to 30 June 2014 ('FY2014)
  - In line with guidance provided on 17 July 2014, and
  - Significantly higher than the loss before tax of $893,308 for the 12 months to 30 June 2013 ('FY2013').
- Operating revenue of $11,037,613, a 44% increase from FY2013 driven by:
  - 73% increase in international sales from our master distributor, SafeNet Inc. ('SafeNet'), and
  - 140% increase in maintenance income.
- Gross margin of 84% (FY2013: 83%) and pre-tax profit margin of 20% (FY2013: n/a).
- Non-operating income of $1,440,225 associated with a tax refund of eligible research and development expenditure.
- Net assets of $9,026,184, a 40% increase from FY2013.

- The company continues to be debt free and has cash on hand at year-end of $6,805,362, a 66% increase from FY2013 reflecting a strong improvement in operating cash flows.

The profit before tax represents a $3,350,896 increase from the loss before tax of $893,308 in FY2013. This result is the company's first full year profit in four years and its highest annual profit in eight years.

Total operating revenue increased by 44% to $11,037,613 compared to $7,684,559 in FY2013. The revenue growth was driven by a 61% increase in sales in the United States and a 71% increase in sales in Europe.

The company's cash position increased by 66% to $6,805,359 reflecting strong operating cash flows, primarily driven by higher sales and strong cost management during the year.

Strong operating cash flows, strong working capital management and higher cash balances resulted in a year end net asset position of $9,026,184, a 40% increase from FY2013.

The operating turnaround, strategic repositioning and substantially improved financial position achieved in FY2014 reflects the benefits of the company's recapitalisation and strategic review implemented in 2012. The key strategic initiatives contributing to the performance improvement include:

- New international master distributor agreement and a strong relationship with SafeNet, including a disciplined focus on sales and marketing collaboration as well as close technical cooperation and product development support; and
- Strong commitment to and investment in continuing product research and development, including the introduction of encryptor models targeting new market opportunities.

The company is expected to continue to deliver strong financial results in 2015.

SafeNet Inc. Distribution Relationship

SafeNet's reach extends across approximately 100 countries, 25,000 customers and includes some of the world's best known blue-chip customers. Senetas' range of certified encryptors is well positioned in SafeNet's overall customer value proposition and strong international market positioning.

In January 2014, SafeNet launched the complete range of Senetas' encryptors internationally. The products were presented to SafeNet's international sales force and channel partner network. Following enthusiastic feedback the new products were rapidly integrated into SafeNet's portfolio.

SafeNet has assigned dedicated sales and technical employees to the product development, management and marketing of Senetas' high-speed encryption products. Both companies work closely to identify sales opportunities with the pipeline of potential sales almost doubling over the past two years. The companies' collaboration is extremely broad, including:

- Extensive technical and sales training of SafeNet's 200 plus strong international sales force;
- Development of thought leadership collateral utilised in publications, communications and events; and
- Direct support by Senetas of SafeNet sales efforts for the largest and most complex customer opportunities.

Market Focus

Senetas markets its products based on key central core value propositions of 'performance', 'assurance' and 'simplicity' which continue to provide strong product differentiation. In collaboration with SafeNet and various Australian channel partners, Senetas continues to identify key market opportunities where the Company's security solutions can be best utilised.

The company is targeting new potentially significant growth segments through the commercial and industrial enterprise sectors. Opportunities in this sector are driven by, among other things:

- The need for high speed data networks to cope with the demands of cloud computing and the aggregation of enormous volumes of data in large data centre environments; and
- Increasing awareness of the sensitivity of information (financial and intellectual property) due to strengthening global privacy regulations and the increasing incidents of cyber security threats.

In FY2014, the company completed various successful sales initiatives into the commercial sector. For example, two multinational cloud services providers selected and purchased Senetas' encryptors following rigorous testing and evaluation. The customers' technical teams continue to be enthusiastic about Senetas' products.

This market focus is contributing to an increased pipeline of exciting opportunities for FY2015.

Product Research and Development

Senetas continues be a global leader in the development of independently tested and certified high-speed network data encryptors that provide 'defence-grade' protection of information transmitted across Layer 2 data networks.

The company's commitment to maintaining these independent international certifications provides its customers with the assurance that its products conform to high security standards. The company's current product certifications include:

- Federal Information Processing Standard (FIPS) United States
- Common Criteria (international and Australia)
- CAPS (United Kingdom)

Senetas expects that its products will shortly complete and be awarded its NATO Certification, making it the fourth international product certification, which is unprecedented amongst other Layer 2 encryption companies globally and which we expect will further enhance our competitive advantage.

Research and development remains a core activity and driver of our long-term growth. The company invests approximately 35% of revenue annually in these activities.

In FY2014 Senetas enhanced its latest encryptor CN6000 platform range of encryptors with the introduction of the CN6010 encryptor, providing larger customers (government and commercial) with an attractive 'entry-point' to this grade of certified encryptors.

The year also saw the company leverage its technology to provide SMEs (small to medium enterprises) with a cost effective 'entry-level' encryptor for more modest network data requirements – the CN4010. The CN4010 also provides Senetas' larger commercial and government customers with the ability to cost effectively implement 'encrypt everywhere' information security strategies.

Senetas has a robust pipeline of new and exciting products that are aimed at expanding existing markets as well as accessing new service and geographic markets for its products. It continues work to develop a 100G ethernet encryptor and to develop a custom encryption algorithm capability following enquiries from customers in Asia, Eastern Europe and the Middle East.

Recent Developments

On 8 August 2014, Gemalto NV ('Gemalto') – a digital security company listed on the Euronext stock exchange – announced that it had entered into an agreement to acquire SafeNet. The transaction is expected to complete in or around November 2014.

- Gemalto is a substantial global organisation, with annual sales in 2013 of approximately US$3 billion and assets of over US$4 billion
- Early indications suggest that SafeNet will operate as a wholly owned subsidiary of Gemalto. Senetas should benefit from Gemalto's presence in 45 countries and commercial enterprise sector focus.
- SafeNet's product portfolio (including high-speed encryption supplied by Senetas) is complementary to Gemalto's portfolio and market positioning. Gemalto has indicated the importance of its focus on encryption of both stored data and network transmitted data.
- In its public announcement, Gemalto stated:

  "The opportunity to acquire SafeNet has come at exactly the right time," Gemalto Chief Executive Olivier Piou said. "This will enable us to further accelerate the deployment of strong security solutions in the enterprise sector and expand our technologies and growth opportunities in protecting online access."

  This is a particularly exciting combination of two successful large international companies in the digital security space and should significantly expand Senetas' access to and development of security segment opportunities. Security is at the heart of a new unfolding technology-enhanced world and Senetas is in many ways uniquely positioned with its partners to play an increasingly important role in this development.

Outlook – FY2015

Senetas is aggressively targeting further profitable growth opportunities in FY2015 as the company focuses on the following key strategic objectives.

- Growth in SafeNet's international markets' performance;
- Extended collaboration with SafeNet in marketing and sales planning in all markets;
- Targeting the Asian market as a priority opportunity for sales growth;
- Introduce new and innovative marketing plan initiatives to address international and domestic markets – targeting organisations, decision makers, service providers and influencers;
- Maintain a strong commitment to research and development and the introduction of new products and features; and
- Maintain and enhance our international security certifications.

Significant events after balance date

There were no significant events after balance date

Share options

Unissued Shares

As at the date of this report, there were 12,200,000 unissued ordinary shares under options and performance rights. Refer to the remuneration report for directors and executive options and performance rights and Note 13 for full details of the options outstanding.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate.

Indemnification and insurance of directors and officers

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

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

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

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

Remuneration report – The remuneration report has been audited

This remuneration report details the remuneration arrangements for key management personnel (KMP) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the company and the group, directly or indirectly, including any director (whether executive or otherwise) of the parent company.

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

Non-executive directors (NEDs)

F. Galbally	Chairman (non-executive)
L. Given	Director (non-executive)
K. Gillespie	Director (non-executive)

Executive directors

A. Wilson	Chief Executive Officer

Other Executives

J. Weston	Engineering Manager
J. Fay	Chief Technology Officer

Current year performance and short term remuneration

As the company met performance targets set by the board, short term incentives will be paid to executives of the company for the 2014 year. Details of the bonuses can be found in the remuneration report.

Remuneration philosophy

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

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

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

Remuneration Policy

Remuneration policies are determined by the board which makes specific recommendations of remuneration packages and other terms of employment for executive directors and non-executive directors.

Directors' Report

(Continued)

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

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.

Details of the nature and amount of each element of the emoluments of each director of Senetas and the consolidated entity and each executive of the group and the consolidated entity receiving the highest emoluments are included in this report.

Remuneration and Nomination Committee

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 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. This service was provided in the 2013 financial year by Guerdon Associates Pty Ltd and was not considered necessary for review for the 2014 year.

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. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 26 October 2007 when shareholders approved an aggregate remuneration of $550,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the company. An additional fee is paid to a director who is the chairman of a board committee. The payment of additional fees for chairing a sub-committee recognises the additional time commitment required by directors who chair sub-committees.

Non-executive directors have long been encouraged by the board to hold shares in the company (purchased by the director on market). It is considered good governance for directors to have a stake in the company on whose board he or she sits. The non-executive directors of the company can participate in the Employee Share Incentive Plan which provides incentives where specified criteria are met.

The remuneration of directors for the years ending 30 June 2014 and 30 June 2013 is detailed on page 12 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, business unit 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.

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 11 of this report.

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

Executive remuneration consists of the following key elements:

Fixed Remuneration

Variable Remuneration

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

The mix between fixed and variable remuneration is established for the CEO by the Remuneration and Nomination Committee. Pages 12 to 15 of this report details the fixed and variable components of the executive remuneration.

Fixed Remuneration

Objective

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

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

Structure

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

The fixed remuneration component for prescribed persons is detailed on pages 14 to 15 of this report.

Variable Remuneration — Short Term Incentive (STI)

Objective

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

Payments made are usually delivered as a cash bonus.

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

Structure

Actual STI payments awarded to each executive depend on the extent to which specific operating targets set at the beginning of the financial year are met. The operational targets may consist of a number of financial and non-financial measures, typically including measures such as contribution to net profit after tax, customer service, risk management, product management, and leadership/team contribution. For the financial year of 2014 the target was based only on contribution to net profit after tax as this was the key driver for the short term success of the business.

On an annual basis, after consideration of performance against the STI measures, an overall performance rating for the group is approved by the Remuneration and Nomination Committee for the CEO. The individual performance of the CEO is also rated and these ratings are taken into account when determining the amount, if any, of the STI pool allocated to 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.

STI bonus for 2014 financial year

For the 2013 financial year none of the cash bonus as previously accrued in that period was paid in the 2013 financial year. The remuneration committee (for the CEO) and the CEO (for other executives) considered the STI payments for the 2014 year in July 2014. The value of STI bonuses payable for the 2014 financial year to the CEO and executives is $268,750. The minimum payable to each executive including the CEO was nil, the maximum was $55,000 for each executive and $158,750 for the CEO. These payments are allocated as a proportion of the total bonus funds available for all employees.

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

Variable Remuneration — Long Term Incentive (LTI)

Objective

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

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

Structure

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

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

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

A Performance Right is a grant of actual shares of stock, the payment of which is contingent on performance as measured against predetermined objectives over a period of time.

Grant of performance rights during the 2014 financial year

There were no performance rights granted during the 2014 financial year.

Grant of performance rights during the 2013 financial year

On 18 November, 2012, following shareholder approval, the group issued 1,500,000 performance rights to the CEO – Mr. A. Wilson and 1,000,000 to each of the key management personnel. Subject to the satisfaction of the performance conditions described in the following table, the CEO and key personnel would receive one fully paid ordinary share in the company for each performance right granted. The performance rights granted were provided at no cost to the CEO and each of the key management personnel. The performance rights granted are conditional, non-transferrable; they cannot be hedged, sold, transferred, mortgaged, charged or otherwise disposed of or dealt with. The performance rights were valued at the share price on grant date which was $0.014.

No. of Performance Rights [1][4]	Performance Condition [2]	% of performance rights that vest	Performance Period [3]	
			Start	Finish
4,500,000	Continuous employment at Senetas for 12 months**	50%	15/11/2012	15/11/2013
	Achieve the company budget for year ended 30 June 2013*	50%*	15/11/2012	30/06/2013
4,500,000				

Notes

1. The performance rights would only vest (i.e. provide a share) to the extent that the performance conditions applicable to those Performance Rights had been satisfied. There were two separate performance conditions, with each performance condition applying to one half of the total number of performance rights granted. All performance rights granted to the CEO and other key management personnel are at no cost.
2. Each performance right will convert into one fully paid ordinary share upon vesting.
3. Each performance right will expire on the finish date if the performance conditions are not met.
4. *The performance rights granted for achieving the company budget expired on 30 June 2013 as the performance condition was not met.
5. **The performance rights granted for achieving remaining with the company for twelve months vested on 15 November, 2013.

Group Performance

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

	2014	2013	2012	2011	2010
Net profit (loss) after tax	2,957,080	(714,439)	(7,984,822)	(5,626,187)	948,617
Average number of ordinary shares for basic earnings per share	1,073,891,948	1,065,141,948	496,358,721	463,105,195	461,522,263
Earnings per share (cents)	0.00	(0.00)	(1.61)	(1.21)	0.21
Net tangible assets per share (cents per share)	0.83	0.56	0.62	1.10	1.91

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 $275,000 per annum and he is eligible to receive up to $125,000 per annum in short term incentives and a further $33,750 in discretionary bonuses.

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

Directors' and executives' emoluments

(a) Remuneration of directors and executives for the year ended 30 June 2014 (these tables have been audited)

Consolidated

	Short-Term			Post Employment	Long-Term			
Year ended 30 June 2014	Salary & Fees	Cash Bonus[(i)]	Allowances	Superannuation	Long Service Leave	Share-based Payment – Options	Total	Performance Related
	$	$	$	$	$	$	$	$
Directors								
F. Galbally (Non-Executive Director)*								
2014	150,000	–	–	–	–	–	150,000	0.00%
A.Wilson (Chief Executive Officer)								
2014	257,856	158,750	–	17,773	4,773	3,938	443,090	36.72%
L. Given (Non-Executive Director) appointed 20 March 2013								
2014	85,000	–	–	–	–	–	85,000	0.00%
K. Gillespie (Non-Executive Director) appointed 30 April 2013 **								
2014	85,000	–	–	–	–	–	85,000	0.00%
Total Remuneration of Directors								
2014	577,856	158,750	–	17,773	4,773	3,938	763,090	21.32%

(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.

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

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

Directors' Report (Continued)

Directors' and executives' emoluments

(a) Remuneration of directors and executives for the year ended 30 June 2013 (these tables have been audited)

Consolidated

	Short-Term			Post Employment		Long-Term			
Year ended 30 June 2013	Salary & Fees	Cash Bonus[i]	Allowances	Termination Payment [iii]	Super-annuation	Long Service Leave	Share-based Payment – Options [ii]	Total	Performance Related
	$	$	$	$	$	$	$	$	
Directors									
F. Galbally (Non-Executive Director) appointed 10 May, 2012									
2013	91,667	–	–	–	–	–	–	91,667	0.00%
A. Wilson (Chief Executive Officer) appointed as CEO 15 August, 2012									
2013	269,859	–	–	–	16,470	19,819	6,530	312,678	2.09%
L. Given (Non-Executive Director) appointed 20 March, 2013									
2013	19,946	–	–	–	–	–	–	19,946	0.00%
K. Gillispie (Non-Executive Director) appointed 30 April, 2013									
2013	14,167	–	–	–	–	–	–	14,167	0.00%
C. Brown (Non-Executive Director – Chairman) resigned 30 April, 2013.									
2013	68,807	–	–	–	6,193	–	–	75,000	0.00%
J. Connolly (Non-Exectutive Director) retired 30 April, 2013									
2013	45,872	–	2,700	–	4,128	–	–	52,700	0.00%
R. Warner (Non-Executive Director) ceased to be a director 18 January, 2013									
2013	29,167	–	–	–	–	–	–	29,167	0.00%
J. Du Bois (Executive Director) resigned 14 August, 2012									
2013	147,470	–	–	325,688	–	–	–	473,158	0.00%
Total Remuneration of Directors									
2013	686,955	–	2,700	325,688	26,791	19,819	6,530	1,068,483	0.61%

(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. No cash bonuses were awarded for the year ended 30 June 2013.

(ii) The share based payments for the 2013 year were performance rights which will only vest when performance conditions are met.

(iii) Mr Du Bois' termination payment consisted of eight months salary totalling $289,501 paid in August 2012 and an additional month of $36,187 paid in February 2013. He was also paid for accrued but untaken annual leave of $111,283.

Directors' and executives' emoluments

(a) Remuneration of directors and executives for the year ended 30 June 2014 (these tables have been audited)

Consolidated

	Short-Term		Post Employment		Long-Term			
Year ended 30 June 2014	Salary & Fees	Cash Bonus[i]	Termination Payments	Superannuation	Long Service Leave	Share-based Payment – Options[ii]	Total	Performance Related
	$	$	$	$	$	$	$	
Executives								
J. Weston (Engineering Manager)								
2014	219,155	55,000	–	17,574	8,460	2,625	302,813	19.03%
J. Fay (Chief Technology Officer)								
2014	183,486	55,000	–	16,972	3,506	2,625	261,589	22.03%
Total Remuneration of Executives								
2014	402,641	110,000	–	34,546	11,966	5,250	564,402	20.42%

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

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

Directors' Report (Continued)

Directors' and executives' emoluments

(a) Remuneration of directors and executives for the year ended 30 June 2013 (these tables have been audited)

Consolidated

	Short-Term			Post Employment		Long-Term			
Year ended 30 June 2013	Salary & Fees	Sales Commission[i]	Cash Bonus[ii]	Termination Payments	Super-annuation	Long Service Leave	Share-based Payment – Options[iii]	Total	Performance Related
	$	$	$	$	$	$	$	$	
Executives									
J. Weston (Engineering Manager)									
2013	181,100	–	–	–	16,255	7,423	4,353	209,130	2.08%
J. Fay (Chief Technology Officer)									
2013	181,615	4,034	–	–	16,302	8,411	4,353	214,715	3.91%
G. Jones (General Manager – Senetas Europe)									
2013	166,410	31,638	–	–	–	–	4,353	202,400	17.78%
**D. Taylor (Consulting Manager until sale of business – 15 October 2012)									
2013	43,830	–	10,000	–	4,335	1,019	–	59,185	16.90%
S. Bell (General Manager – Product Sales) resigned 6 July 2012									
2013	11,592	10,806	–	30,963	214	–	–	53,575	20.17%
Total Remuneration of Executives									
2013	584,547	46,477	10,000	30,963	37,106	16,853	13,058	739,005	9.41%

(i) Sales commission is calculated as a percentage of sales made and is paid in the month after the sale is made.

(ii) 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. No cash bonuses were awarded for the 2013 year except for Mr. Taylor who had a specific bonus set for achieving the sale of the consulting business.

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

**Due to the sale of the consulting division on 15 October 2012, Mr Taylor was relocated to the Senetas product division.

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

(i) At balance date the Directors' and Executives' Interests in Shares of Senetas Corporation Limited (these tables have been audited)

30 June 2014	Balance 1 July 2013	Granted as Remuneration	On Vesting of Performance Rights	Shares Bought / (Sold)	Balance 30 June 2014
	Ord Shares	Ord Shares	Ord Shares	Ord Shares	Ord Shares
Directors					
A. Wilson	90,090	–	750,000	–	840,090
F. Galbally	138,955,731	–	–	–	138,955,731
L. Given	–	–	–	–	–
K. Gillespie	–	–	–	–	–
Executives					
J. Weston	112,725	–	500,000	–	612,725
J. Fay	112,725	–	500,000	(250,000)	362,725
Total	**139,271,271**	–	**1,750,000**	**(250,000)**	**140,771,271**

(ii) Shares issued on exercise of remuneration options (these tables have been audited)
No Shares were issued on exercise of remuneration options during the financial year ended 30 June 2014.
No Shares were issued on exercise of remuneration options, or performance rights vesting, during the financial year ended 30 June 2013.

(iii) Shares granted as part of remuneration (these tables have been audited)
No shares were granted as part of remuneration during the financial year ended 30 June 2014.
No shares were granted as part of remuneration during the financial year ended 30 June 2013.

(iv) Options/performance rights granted as part of remuneration (these tables have been audited)
No options/performance rights were granted as part of remuneration during the financial year ended 30 June 2014. The value of performance rights which vested in the year are shown below.

30 June 2014	Grant Date	Grant Number	Value of options granted during the 2013 year	Value of options forfeited during the 2013 year	Consideration for exercise	Remuneration consisting of options for the year
			$	$	$	
A. Wilson	15-Nov-12		–	10,500	0.0000	0.89%
J. Weston	15-Nov-12		–	7,000	0.0000	0.87%
J. Fay	15-Nov-12		–	7,000	0.0000	1.00%
Total				**24,500**		

Performance rights granted as part of remuneration during the year ended 30 June 2013 were as follows:

30 June 2013	Grant Date	Grant Number	Value of options granted during the 2013 year	Value of options forfeited during the 2013 year	Consideration for exercise	Remuneration consisting of options for the year
			$	$	$	
A. Wilson	15-Nov-12	1,500,000	21,000	10,500	0.0000	6.72%
J. Weston	15-Nov-12	1,000,000	14,000	7,000	0.0000	6.69%
G. Jones	15-Nov-12	1,000,000	14,000	7,000	0.0000	6.92%
J. Fay	15-Nov-12	1,000,000	14,000	7,000	0.0000	6.52%
Total		**4,500,000**	**63,000**	**31,500**		

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	Number of Meetings Attended
F.W. Galbally	5	5
L.P. Given	5	5
K.J. Gillespie	5	5
A.R. Wilson	5	5

A total of 5 Directors' meetings were held during the year ended 30 June 2014.

The company has an Audit Committee.

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

	Number of Meetings Held While a Director	Number of Meetings Attended
L.P. Given (Chairman)	3	3
F.W. Galbally	3	3
K.J. Gillespie	3	3

Mr A. R. Wilson attended Audit Committee meetings in the capacity of CEO.

A total of 3 meetings were held during the year ended 30 June 2014.

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	Number of Meetings Attended
K.J. Gillespie (Chairman)	1	1
F.W. Galbally	1	1
L.P. Given	1	1

A total of 1 meeting was held during the year ended 30 June 2014.

More information about the board and the sub-committees are set out in the section titled 'Corporate Governance Statement'.

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Building a better working world

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

In relation to our audit of the financial report of Senetas Corporation Limited for the financial year ended 30 June 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Fiona Campbell
Partner
26 September 2014

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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	$24,000
Advisory services	$2,200

Signed in accordance with a resolution of the directors.

Francis W. Galbally
Chairman

Statement of Comprehensive Income

For the year ended 30 June 2014

	Notes	Consolidated	
		2014	2013
		$	$
Revenue from operating activities	3	11,037,613	7,684,559
Cost of sales		(1,716,863)	(1,276,531)
Gross profit		9,320,750	6,408,028
Other income	3	1,440,225	1,359,104
Employee benefits expense	3	(4,725,201)	(5,565,275)
Depreciation and amortisation expense	3	(276,419)	(326,996)
Other expenses	3	(3,301,766)	(2,768,168)
Profit before income tax		**2,457,588**	**(893,308)**
Income tax benefit/(expense)	4	499,492	17,201
Net profit after income tax for the period from continuing operations		**2,957,080**	**(876,107)**
Discontinued operations			
Profit /(loss) for the period from discontinued operations	10	–	161,668
Net profit after income tax for the period		**2,957,080**	**(714,439)**
Other Comprehensive Income			
Items that may be classified subsequently to profit or loss			
Foreign currency translation		(46,574)	19,764
Other comprehensive income for the period		**(46,574)**	**19,764**
Total comprehensive income for the period		**2,910,506**	**(694,675)**
Profit for the period is attributable to:			
Owners of the parent		2,910,506	(694,675)
		2,910,506	**(694,675)**
Total comprehensive profit for the period is attributable to:			
Owners of the parent		2,910,506	(694,675)
		2,910,506	**(694,675)**
Earnings / (loss) per share			
Basic, profit / (loss) for the year attributable to ordinary equity holders of the parent.	5	0.0028	(0.0007)
Diluted, profit / (loss) for the year attributable to ordinary equity holders of the parent.		0.0028	(0.0007)
Earnings /(loss) per share from continuing operations.			
Basic, profit / (loss) from continuing operations attributable to ordinary equity holders of the parent.		0.0028	(0.0007)
Diluted, profit / (loss) from continuing operations attributable to ordinary equity holders of the parent.		0.0028	(0.0007)

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

Statement of Financial Position

As at 30 June 2014

	Notes	Consolidated	
		2014	2013
		$	$
Assets			
Current Assets			
Cash and cash equivalents	6	6,805,359	4,091,013
Trade and other receivables	7	5,482,948	3,344,841
Inventories	8	682,513	1,136,202
Prepayments		109,628	117,517
Other current assets	9	10,450	6,259
Total Current Assets		**13,090,898**	**8,695,832**
Non-current Assets			
Other financial assets		59,952	–
Deferred tax asset	4	1,447,074	736,312
Plant and equipment	11	454,151	522,895
Intangible assets	12	118,131	145,491
Total Non-current Assets		2,079,308	1,404,698
Total Assets		**15,170,206**	**10,100,530**
Liabilities			
Current Liabilities			
Trade and other payables	14	1,583,726	1,427,381
Income/company tax payable		226,010	–
Unearned income		3,200,227	1,368,502
Provisions	15	803,750	971,966
Total Current Liabilities		5,813,713	3,767,849
Non-current Liabilities			
Deferred tax liabilities	4	3,105	17,843
Provisions	15	14,499	58,819
Unearned income – non-current		312,706	185,169
Total Non-current Liabilities		330,310	261,831
Total Liabilities		6,144,023	4,029,680
Net Assets		**9,026,184**	**6,070,850**
Equity			
Equity attributable to equity holders of the parent			
Contributed equity	16	104,332,258	104,218,699
Accumulated losses		(95,972,118)	(98,929,200)
Foreign currency translation reserve	16	(14,029)	32,545
Employee benefit reserve		667,213	735,946
Parent interests		9,013,324	6,057,990
Non-controlling interests		12,860	12,860
Total Equity		**9,026,184**	**6,070,850**

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 2014

	Notes	Consolidated	
		2014	2013
		$	$
Cash flows from operating activities			
Receipts from customers		10,694,138	8,576,844
Receipt of R&D tax refund		1,359,104	1,222,412
Payments to suppliers and employees		(9,257,309)	(10,469,742)
Interest received		83,433	91,864
Net cash flows from/(used in) operating activities	6	2,879,366	(578,622)
Cash flows from investing activities			
Purchase of plant and equipment		(74,101)	(54,440)
Purchase of intangible assets		(35,406)	(72,945)
Sale of consulting division		–	264,000
Net cash flows from/(used in) investing activities		(109,507)	136,615
Cash flows from financing activities			
Proceeds from issues of shares		–	–
Loan fees & interest		–	–
Placement costs		(8,939)	(214)
Net cash flows from/(used in) financing activities		(8,939)	(214)
Net increase/(decrease) in cash and cash equivalents		2,760,920	(442,221)
Net effect of foreign currency translation		(46,574)	19,764
Cash and cash equivalents at beginning of period		4,091,013	4,513,469
Cash and cash equivalents at end of period	6	**6,805,359**	**4,091,013**

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 2014

	Attributable to Equity Holders of Senetas Corporation Ltd				Owners of the Parent	Non Controlling Interest	Total Equity
	Contributed Equity	Accumulated (Losses)/Profits	Foreign currency translation reserve	Employee Benefits Reserve	Total		
Consolidated	$	$	$	$	$	$	$
At 30 June 2012	104,218,913	(98,214,762)	12,781	640,380	6,657,310	12,860	6,670,172
Loss for the year	–	(714,439)	–	–	(714,439)	–	(714,439)
Other comprehensive income	–	–	19,764	–	19,764	–	19,764
Total comprehensive income	–	(714,439)	19,764	–	(694,675)	–	(694,675)
Transactions with owners in their capacity as owners							
Shares issued	–	–	–	–	–	–	–
Share placement costs	(214)	–	–	–	(214)	–	(214)
Options Issued	–	–	–	95,566	95,566	–	95,566
At 30 June 2013	104,218,699	(98,929,200)	32,545	735,946	6,057,990	12,860	6,070,849
Profit for the year	–	2,957,080	–	–	2,957,080	–	2,957,080
Other comprehensive income	–	–	(46,574)	–	(46,574)	–	(46,574)
Total comprehensive income	–	2,957,080	(46,574)	–	2,910,506	–	2,910,506
Transactions with owners in their capacity as owners							
Shares issued	–	–	–	–	–	–	–
Share placement costs	(8,939)	–	–	–	(8,939)	–	(8,939)
Options Issued	122,498	–	–	(68,733)	53,765	–	53,765
At 30 June 2014	**104,332,258**	**(95,972,118)**	**(14,029)**	**667,213**	**9,013,324**	**12,860**	**9,026,184**

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

Notes to the Financial Statements

For the Year Ended 30 June 2014

1 Corporate information

The consolidated financial report of Senetas Corporation Limited (the company) for the year ended 30 June 2014 was authorised for issue in accordance with a resolution of the directors on 26 August 2014.

Senetas Corporation Limited 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) and is presented in Australian dollars. All values are rounded to the nearest dollar ($) unless otherwise stated.

(a) Compliance with IFRS

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

(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 2014.

- AASB 10: Consolidated Financial Statements – to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. – Effective 1 July 2013.
- AASB 11: Joint Arrangements – to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements). Effective 1 July 2013.
- AASB 12: Disclosure of Interests in Other Entities – requires disclosures that inform the users of the nature and risks associated with interests in other entities and the effect of those interests on the entity. Effective 1 July 2013.
- AASB 13: Fair Value Measurement – the standard defines fair value, provides a clear objective for the use of the technique, a consistent measurement framework for its use and enhanced disclosures. Effective 1 July 2013.
- AASB 119: Employee Benefits – to prescribe the accounting and disclosure for employee benefits. Effective 1 July 2013.
- AASB 2012-2, 2012-5, 2012-9,AASB 2011-4,: Amendments to Australian Accounting Standards. Effective 1 July, 2013.
- AASB 1053: Application of Tiers of Australian Accounting Standards to set out the application of Tiers of Australian Accounting Standards to different entities preparing general purpose financial statements. Effective 1 July, 2013.

The adoption of the above amendments have had no or minimal effect on the Group.

2 Summary of significant accounting policies (continued)

The following standards and interpretations have been issued but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2014.

* 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 2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities	1-Jan-14	AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132. The changes are unlikely to have an impact on the Group	1-Jul-14
Interpretation 21	Levies	1-Jan-14	This Interpretation confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs. Applying the going concern assumption does not create a constructive obligation. This interpretation is not expected to have an impact on the Group	1-Jul-14
AASB 9	Financial Instruments	1-Jan-18	AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below: a. Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. c. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. d. Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: • The change attributable to changes in credit risk are presented in other comprehensive income (OCI) • The remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.	1-Jul-18

2 Summary of significant accounting policies (continued)

Reference	Title and brief summary	Application date of standard*	Impact on Group financial report	Application date for Group*
			The AASB issued a revised version of AASB 9 (AASB 2013-9) during December 2013. The revised standard incorporates three primary changes: 1. New hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. 2. Entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of AASB 9 at the same time. 3. In February 2014, the IASB tentatively decided that the mandatory effective date for AASB 9 will be 1 January 2018 At this time the changes to AASB 9 are unlikely to have an impact on the Group.	
AASB 2013-3	Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets	1-Jan-14	AASB 2013-3 amends the disclosure requirements in AASB 136 Impairment of Assets. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. These amendments are unlikely to have an effect on the Group.	1-Jul-14
Annual Improvements 2010 – 2012 cycle	Annual Improvements to IFRSs 2010–2012 Cycle	1-Jul-14	This standard sets out amendments to International Financial Reporting Standards (IFRS) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvement process. These amendments have not yet been adopted by the AASB. The following items are addressed by this standard: • IFRS 2 – Clarifies the definition of 'vesting conditions' and 'market condition' and introduces the definition of 'performance condition' and 'service condition'. • IFRS 3 – Clarifies the classification requirements for contingent consideration in a business combination by removing all references to IAS 37. • IFRS 8 – Requires entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated. An entity is also required to provide a reconciliation of total reportable segments' asset to the entity's total assets • IAS 16 & IAS 38 – Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts. • IAS 24 – Defines a management entity providing KMP services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of IAS 24 for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed. This change will require an additional disclosure by the group.	1-Jul-14

2 Summary of significant accounting policies (continued)

Reference	Title and brief summary	Application date of standard*	Impact on Group financial report	Application date for Group*
Annual Improvements 2011-2013 Cycle	Annual Improvements to IFRSs 2011–2013 Cycle	1-Jul-14	This standard sets out amendments to International Financial Reporting Standards (IFRS) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvement process. These amendments have not yet been adopted by the AASB. The following items are addressed by this standard: • IFRS 13 – Clarifies that the portfolio exception in paragraph 52 of IFRS 13 applies to all contracts within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32. This change is unlikely to affect the Group. • IAS 40 – Clarifies that judgment is needed to determine whether an acquisition of investment property is solely the acquisition of an investment property or whether it is the acquisition of a group of assets or a business combination in the scope of IFRS 3 that includes an investment property. That judgment is based on guidance in IFRS 3. This change is unlikely to affect the Group.	1-Jul-14
AASB 1031	Materiality	1-Jan-14	The revised AASB 1031 is an interim standard that cross-references to other Standards and the Framework (issued December 2013) that contain guidance on materiality. AASB 1031 will be withdrawn when references to AASB 1031 in all Standards and Interpretations have been removed. The changes are unlikely to have an effect on the Group.	1-Jul-14
AASB 2013-9	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments	1-Jan-14	The standard contains three main parts and makes amendments to a number of Standards & Interpretations. Part A of AASB 2013-9 makes consequential amendments arising from the issuane of AASB CF 2013-1. Part B makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 and also makes minor editorial amendments to various other standards Part C makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 Hedge Accounting into AASB 9 Financial Instruments. These changes are unlikely to have an impact on the Group.	1-Jul-14
Amendments to IAS 15 and IAS 38	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments	1-Jan-16	IAS 16 and IAS 38 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. These changes are unlikely to have an impact on the Group.	1-Jul-16

2 Summary of significant accounting policies (continued)

Reference	Title and brief summary	Application date of standard*	Impact on Group financial report	Application date for Group*
IFRS 15	Revenue from Contracts with Customers	1-Jan-17	IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 supersedes: a. IAS 11 Construction Contracts b. IAS 18 Revenue c. IFRIC 13 Customer Loyalty Programmes d. IFRIC 15 Agreements for the Construction of Real Estate e. IFRIC 18 Transfers of Assets from Customers f. SIC-31 Revenue – Barter Transactions involving Advertising Services The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps: Step 1: Identify the 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: Recognised revenue when (or as) the entity satisfies a performance obligation. These changes are unlikely to have an impact on the Group.	1-Jul-17

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.
- 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 theses 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. (2014: $454,247, 2013: $419,768)

Deferred tax asset

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. No deferred tax asset for the tax loss is recorded as at 30 June 2014 because management determined that it is not probable as at 30 June 2014 (2013: $0).

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. (2014: $87,017, 2013: $0). Further details are outlined in Note 7.

(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:

2 Summary of significant accounting policies (continued)

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

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

Maintenance

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

Interest

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

(f) R&D Tax Incentive

The R&D Tax Incentive provides a 45% refundable tax offset (equivalent to a 150% deduction) for entities with an aggregated turnover of less than $20 million per annum. It is an Australian Government measure to encourage industry to invest in research and development and provides generous benefits for eligible activities.

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

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

(g) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Lessee – Operating lease

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

(h) Cash and cash equivalents

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

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

(i) Trade and other receivables

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

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

(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

2 Summary of significant accounting policies (continued)

own functional currency and items included in the financial statements of each entity are measured using that functional currency.

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

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

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

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

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

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

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

(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 balance date.

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

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

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

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

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax

2 Summary of significant accounting policies (continued)

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 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 four 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.

2 Summary of significant accounting policies (continued)

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 non-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 government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

General

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

2 Summary of significant accounting policies (continued)

(r) Share-based payment transactions

The company has established a Share/Option Plan to issue and allot securities (shares and options) to directors, employees and contractors at the discretion of the board of directors. The terms and exercise dates of the options are set at the discretion of the board of 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 model. Further details are provided in note 13.

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

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

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

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

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

(s) Contributed equity

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

(t) Earnings per share

Basic earnings per share is calculated as net profit/(loss) 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/(loss) attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends);
- other non-discretionary changes in revenue or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(u) Business combinations

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

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating and accounting policies and other pertinent conditions as at the acquisition date.

3 Revenues and expenses

	Consolidated	
	2014	2013
	$	$
(a) Revenue		
Sale of goods	7,045,835	4,574,315
Sale of software	104,793	147,209
Product maintenance revenue	3,799,157	1,583,380
Royalties	–	1,287,803
Interest revenue:		
Non-related parties	87,828	91,852
	11,037,613	**7,684,559**
(b) Other income		
R&D Tax Incentive[(i)]	1,440,225	1,359,104
	1,440,225	**1,359,104**

(i) The R&D Tax Incentive is an entitlement program to help businesses offset some of the costs of doing research and development. It is jointly managed by AusIndustry and the Australian Taxation Office. The core component that relates to the Group is a 45% refundable tax offset (equivalent to a 150% deduction) for entities with an aggregated turnover of less than $20 million per annum. For further information see Note 2(f).

3 Revenues and expenses (continued)

	Note	Consolidated 2014 $	Consolidated 2013 $
(c) Depreciation and amortisation expense			
Depreciation:			
Plant and equipment		208,780	274,680
Leasehold improvements		4,873	5,399
Amortisation:			
Software		62,766	46,917
		276,419	326,996
(d) Other expenses			
Operating lease		527,110	475,053
Foreign exchange (gain) or loss		258,474	(73,892)
Inventory written off / provision		144,467	75,283
Travel expenditure		368,097	268,080
R&D expenditure (excluding salaries)		280,162	241,170
Marketing expenditure		269,948	368,423
Insurance expenditure		104,790	120,467
Write off of plant & equipment		–	59,143
Telephone & internet expenditure		93,691	112,017
Impairment of receivables		–	33,116
External contractors		702,587	364,931
Other overhead expenses		552,440	724,377
		3,301,766	**2,768,168**
(e) Employee benefits expense			
Salaries & wages		4,319,396	4,473,353
Superannuation		269,672	336,896
Termination payouts		82,367	659,460
Share based payment expense	13	53,766	95,566
		4,725,201	**5,565,275**

4 Income tax

	Consolidated	
	2014	2013
	$	$
Major components of income tax expense for the years ended 30 June 2014 and 2013 are:		
Current income tax		
Current income tax charge	2,057,596	681,249
Deferred income tax		
Relating to origination and reversal of temporary differences	(725,502)	(17,201)
Tax losses utilised	(1,831,586)	–
Tax losses not brought to account	–	(681,249)
Income tax expense /(benefit) reported in statement of comprehensive income	**(499,492)**	**(17,201)**
A reconciliation of income tax expense applicable to accounting profit /(loss) before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the years ended 30 June 2014 and 2013 is as follows:		
Accounting (loss)/profit before tax	2,457,588	(893,308)
At the statutory income tax rate of 30% (2012: 30%)	737,276	(267,992)
Expenditure not allowable for income tax purposes	20,810	33,625
Capital items not allowable for income tax purposes	3,253	7,570
Foreign tax losses not recognised	–	343,070
Tax losses utilised	(1,831,586)	(681,249)
R&D claim	528,082	498,338
Other	42,672	49,438
Income tax expense/(benefit) reported in statement of comprehensive income	**(499,492)**	**(17,201)**

4 Income tax (continued)

	Consolidated Statement of Financial Position	*Consolidated Statement of Financial Position*
	2014	2013
Consolidated	**$**	**$**
Deferred tax assets		
Accruals:		
Stock obsolescence	26,105	–
Audit fees	25,925	17,574
Accounting and tax	21,690	7,500
AGM costs	6,979	11,391
Employee benefits:		
Annual leave	82,418	95,683
Long service leave	136,274	125,930
Plant & equipment:		
Amortised business costs	36,222	51,919
Patents	13,666	14,858
Other:		
Onerous rental	11,552	–
Make good provision	15,231	–
Unrealised loss	47,180	136
FBT accrual	562	–
Unearned income	1,023,604	402,771
Other	(334)	8,550
	1,447,074	736,312
Deferred tax liabilities		
Prepayments	1,770	32
Unrealised gain	–	17,794
Interest receivable	1,335	17
	3,105	17,843
Net deferred tax asset	**1,443,969**	**718,469**

4 Income tax (continued)

Consolidated	*Statement of Comprehensive Income* 2014 $	*Statement of Comprehensive Income* 2013 $
Deferred tax assets		
Accruals:		
Stock obsolescence	(26,105)	–
Audit fees	(8,351)	2,862
Accounting and tax	(14,190)	(4,245)
AGM costs	4,412	(4,698)
Employee benefits:		
Annual leave	13,265	55,294
Long service leave	(10,344)	18,742
Plant & equipment:		
Amortised business costs	15,697	17,495
Patents	1,192	1,191
Other:		
Unrealised loss	(47,045)	(136)
FBT accrual	(562)	510
Unearned income	(620,833)	(103,777)
Onerous rental	(11,552)	–
Make good provision	(15,231)	–
Other	8,883	(8,550)
	(710,764)	(25,314)
Deferred tax liabilities		
Prepayments	1,738	(72)
WIP (unbilled accounts receivable)	–	(328)
Unrealised gain	(17,794)	8,514
Interest receivable	1,318	(3)
	(14,738)	8,112
Deferred tax (benefit) /expense	**(725,502)**	**(17,201)**

	Consolidated	
	2014	2013
Deferred tax asset and liabilities	$	$
Deferred tax asset (non-current)	1,447,074	736,312
Deferred tax liability (non-current)	(3,105)	17,843

The franking account balance for both 2014 and 2013 is $384,327.

4 Income tax (continued)

Tax consolidation

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

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

Tax effect accounting by members of the tax consolidated group

Measurement method adopted under AASB Interpretation 1052 *Tax Consolidation Accounting*

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

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 $5,309,285 (2013: $11,127,919) 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, none have been recognised as a deferred tax asset (2013: $0).

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 loss per share computations:

	Consolidated	
	2014	2013
	$	$
Net profit/(loss) attributable to equity holders of the parent		
Continuing operations	2,957,080	(876,107)
Discontinued operations	–	161,668
Net profit/(loss) attributable to ordinary shareholders for diluted loss per share	**2,957,080**	**(714,439)**
	No. of shares	**No. of shares**
Weighted average number of ordinary shares for basic earnings per share	1,073,891,948	1,065,141,948
Effect of dilution:		
Share options[(i)]	–	–
Adjusted weighted average number of ordinary shares for diluted loss per share	**1,073,891,948**	**1,065,141,948**

(i) Exercisable options held by directors and employees are out-of-the-money during the year. The number of exercisable options are therefore not included in the calculation of diluted loss per share.

There have been no other 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 2014 $	Consolidated 2013 $
Cash at bank and on hand	3,305,359	4,077,878
Short-term deposits	3,500,000	13,135
Total cash and cash equivalents	**6,805,359**	**4,091,013**

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

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

Reconciliation of cash		
For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise the following at 30 June:		
Cash at bank and on hand	3,305,359	4,077,878
Short-term deposits	3,500,000	13,135
Total cash and cash equivalents	**6,805,359**	**4,091,013**

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

Net profit /(loss) after tax	2,957,080	(714,439)
Adjustments for:		
Depreciation and amortisation	276,419	326,996
Unrealised foreign currency loss/(gain)	157,267	(58,866)
Gain from sale of consulting business	–	(264,000)
Write off of plant & equipment	–	59,143
Doubtful debt provision / written off	–	33,116
Inventory provision / written off	144,467	75,283
Share based payment expense	53,766	95,566
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	(2,294,572)	(580,330)
(Increase)/decrease in inventories	309,222	(245,008)
(Increase)/decrease in prepayments	7,883	(14,023)
(Increase)/decrease in other current assets	(4,191)	(290)
(Increase)/decrease in other financial assets	(59,953)	–
(Decrease)/increase in trade and other payables	155,543	486,037
(Decrease)/increase in deferred income tax assets	(710,763)	(25,312)
(Decrease)/increase in deferred income tax liability	(14,739)	8,110
Increase/(decrease) in income tax payable	226,010	–
Increase/(decrease) in redundancy provision	(280,843)	280,843
(Decrease)/increase in provisions	(20,968)	(284,212)
Inventory transferred to plant & equipment	(70,808)	(144,080)
(Decrease)/increase in unearned income	1,959,271	386,844
Increase/(decrease) in Provision for onerous rent	38,505	–
Increase/(decrease) in Provision make good	50,770	–
Insert Net cash (used in) / from operating activities	**2,879,366**	**(578,622)**

7 Trade and other receivables (current)

		Consolidated	
		2014	2013
	Note	$	$
Trade receivables		3,959,348	1,862,390
Provision for doubtful debts		–	(33,116)
Net GST (payable)/receivable	(i)	83,375	156,463
R&D tax incentive	(ii)	1,440,225	1,359,104
		5,482,948	**3,344,841**

(i) The net of GST payable and GST receivable is remitted to the ATO on a quarterly basis.

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

At 30 June 2014, the ageing analysis of trade receivables is as follows:

	Neither past due nor impaired	Past due but not impaired [i]	Past due & impaired
	$	$	$
2014 Consolidated	3,959,348	–	–
2013 Consolidated	1,829,274	–	33,116

(i) Trade receivables outstanding beyond 91 days are past due

The fair value of trade and other receivables are deemed to approximate their carrying value.

For further information on risk disclosures refer Note 17.

8 Inventories

	Consolidated	
	2014	2013
	$	$
Inventories (at cost)	769,530	1,136,202
Provision for obsolescence [i]	(87,017)	–
Total inventories at lower of cost and net realisable value	**682,513**	**1,136,202**

Inventory write-downs recognised as an expense totalled $144,467 (2013: $75,283) for the Group.

(i) Movements in the provision for obsolescence were as follows:

	Consolidated
	$
At 1 July 2013	–
Charge for the year	(87,017)
Amounts written off	–
At 30 June 2014	**(87,017)**
At 1 July 2012	–
Charge for the year	75,283
Amounts written off (ATM & Sonet inventories)	(75,283)
At 30 June 2013	**–**

9 Other assets (current)

	Consolidated	
	2014	2013
	$	$
Interest receivable	4,450	55
Security deposit	6,000	6,204
	10,450	**6,259**

10 Discontinued operations

The group disposed of the consulting services division on 15th October 2012. The decision was made by the board of directors in order to concentrate on the main focus of the group – the product division. Management no longer reviewed the consulting division once the decision to sell was made hence this report does not include a segment note as there is now only the product division.

On 15th October 2012, the group completed the sale of the consulting division for $367,000 less costs to sell of $103,000 resulting in net cash proceeds of $264,000.

The results of the consulting division are as follows:

	2014	2013
	$	$
Revenue	–	753,744
Expenses	–	856,076
Loss before tax for the discontinued operation	**–**	**(102,332)**
Income tax expense	–	–
Loss after tax for the discontinued operation	**–**	**(102,332)**
Cash inflow on sale		
Cash consideration received	–	310,000
Employee provisions transferred	–	57,000
Costs to sell	–	(103,000)
Net cash inflow	**–**	**264,000**
Net cash inflow before tax	–	264,000
Income tax expense	–	–
Net cash inflow after tax	**–**	**264,000**
Profit from discontinued operation before tax	**–**	**161,668**
Net operating cash flows		
Operating	–	(102,332)
Investing	–	–
Financing	–	–
Total	**–**	**(102,332)**
Basic loss per share (cents per share) for discontinued operations – rounded	–	(0.00)
Diluted loss per share (cents per share) for discontinued operations – rounded	–	(0.00)

11 Property plant and equipment

	Consolidated		
	Leasehold improvements	Plant and equipment	Total
Year ended 30 June 2014	**$**	**$**	**$**
At 1 July 2013, net of accumulated depreciation	5,942	516,953	522,895
Additions (net of disposals)	1,072	73,029	74,101
Transfer to plant and equipment from inventory	–	70,808	70,808
Depreciation charge for the year	(4,873)	(208,780)	(213,653)
At 30 June 2014, net of accumulated depreciation	**2,141**	**452,010**	**454,151**
At 1 July 2013			
Cost	26,491	1,925,416	1,951,907
Accumulated depreciation and impairment	(20,549)	(1,408,463)	(1,429,012)
Net carrying amount	**5,942**	**516,953**	**522,895**
At 30 June 2014, net of accumulated depreciation			
Cost	26,563	1,545,869	1,572,432
Accumulated depreciation	(24,422)	(1,093,859)	(1,118,281)
Net carrying amount	**2,141**	**452,010**	**454,151**

	Consolidated		
	Leasehold improvements	Plant and equipment	Total
Year ended 30 June 2013	**$**	**$**	**$**
At 1 July 2012, net of accumulated depreciation	11,341	652,256	663,597
Additions (net of disposals)	–	54,440	54,440
Write offs	–	(59,143)	(59,143)
Transfer to plant and equipment from inventory	–	144,080	144,080
Depreciation charge for the year	(5,399)	(274,680)	(280,079)
At 30 June 2013, net of accumulated depreciation	**5,942**	**516,953**	**522,895**
At 1 July 2012			
Cost	154,467	2,597,970	2,752,437
Accumulated depreciation	(143,126)	(1,945,714)	(2,088,840)
Net carrying amount	**11,341**	**652,256**	**663,597**
At 30 June 2013			
Cost	26,491	1,925,416	1,951,907
Accumulated depreciation	(20,549)	(1,408,463)	(1,429,012)
Net carrying amount	**5,942**	**516,953**	**522,895**

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

12 Intangible assets

	Software[1]
	$
Year ended 30 June 2014	
At 1 July 2013 net of accumulated amortisation and impairment	145,491
Additions	35,406
Amortisation	(62,766)
At 30 June 2014, net of accumulated amortisation and impairment	**118,131**
At 30 June 2014	
Cost (gross carrying amount)	258,572
Accumulated amortisation and impairment	(140,441)
Net carrying amount	**118,131**
Year ended 30 June 2013	
At 1 July 2012 net of accumulated amortisation and impairment	119,461
Additions	72,945
Amortisation	(46,915)
At 30 June 2013, net of accumulated amortisation and impairment	**145,491**
At 30 June 2013	
Cost (gross carrying amount)	329,566
Accumulated amortisation and impairment	(184,075)
Net carrying amount	**145,491**

(1) Purchased licences and software.

Software

Software is carried at cost less accumulated amortisation and impairment losses. These intangible assets have been assessed as having a finite life. Intangible assets purchased subsequent to 1 July 2007 are amortised using the straight line method over a period of 3 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.

13 Employee benefits

Employee share option plan

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of share options and performance rights outstanding as at 30 June 2014:

	2014	2014	2013	2013
	No.	WAEP	No.	WAEP
Outstanding at the beginning of the year	25,150,000	$0.098	39,898,052	$0.098
Granted during the year	–	–	18,500,000	$0.000
Exercised during the year	(8,750,000)	–	–	–
Expired during the year	–	–	–	–
Forfeited during the year	(4,200,000)	$0.080	(33,248,052)	$0.000
Outstanding at the end of the year[(i)]	**12,200,000**	**$0.080**	**25,150,000**	**$0.098**
Exercisable at the end of the year	8,200,000	$0.080	6,650,000	$0.080

(i) The outstanding balance as at 30 June 2014 is represented by:

A grant of performance rights to staff and management on 15 November 2012. The performance rights are unlisted and do not rank equally with the existing class of quoted securities, there are no voting rights attached and they are not entitled to any dividends. Shares issued as a consequence of the exercise of the performance rights will be fully paid, ordinary shares ranking equally with the existing class of securities.

The unlisted performance rights were issued for a consideration of nil with the following performance conditions attached. 9,250,000 would vest after one year of service, 5,500,000 would vest after a second year of service. 3,750,000 on achievement of the company budget for the 2013 year. The 3,750,000 were forfeit at 30 June 2013 as this condition was not met. A further 2,250,000 have been forfeited during the year due to failure to meet the one year service condition. A total of 8,750,000 vested in the 2014 year.

The expense recognised for the performance rights was $53,766 (2013: $95,566) with the valuation based on the share price at grant date – $0.014.

19,700,000 share options to employees (expiry date: 31 August 2014) during the year ended 30 June 2012. The exercise price of the options is $0.08. The fair value of the options at grant date was $0.005. There are no conditions attached to the options and, if not exercised, will expire in three years. Inputs to the binomial pricing model for the options were the share price at grant date – $0.026, volatility of 69% per year and a risk free rate of 5% per year. 33,248,052 share options and performance rights for directors and employees were forfeited during the 2013 year as performance conditions were not met or employment with the company had ceased. An additional 4,200,000 were forfeited in the 2014 year as employees had left the company.

Notes

1. The performance rights will only vest (i.e. provide a share) to the extent that the performance conditions applicable to those performance rights have been satisfied. There are two separate performance conditions, with each performance condition applying to one half of the total number of Performance Rights granted.

2. Each performance right converts into one fully paid ordinary share upon vesting.

Accounting treatment for performance rights granted during the 2013 year

The fair value of each performance right was the closing share price on the grant date. The inputs to this calculation were:

a. Number of performance rights granted 18,500,000

b. Share price at grant date 0.014

14 Trade and other payables

	Consolidated	
	2014	2013
	$	$
Trade payables [i]	716,219	816,014
Other payables [ii]	867,507	611,367
	1,583,726	**1,427,381**

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

(ii) Other payables are non-interest bearing and have an average term of 6 months and relate to general and employee related accruals.

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

For further information on risk disclosures refer Note 17.

15 Provisions

	Consolidated	
	2014	2013
	$	$
Annual leave – current	274,727	330,174
Long service leave – current	439,748	360,949
Provision for redundancy	–	280,843
Provision for onerous rent	38,505	–
Provision for make good on leased property	50,770	–
	803,750	971,966
Long service leave – non-current	14,499	58,819
Total	**818,249**	**1,030,785**

	Onerous operating lease	Make Good Provision
	$	$
At 30 June, 2013	–	–
Arising during the year	38,505	50,770
Amounts reversed	–	–
At 30 June, 2014	**38,505**	**50,770**

On signing of a lease for new premises, tenancy of which will commence on 1st September 2014, the company will be required to pay rental on two premises until 31 October 2014. This provision has been calculated as one month rental for each of the premises. There will be work required on the existing premises to return them to a pre-lease condition.

16 Contributed equity and reserves

	No. of shares	$
Contributed Equity		
Ordinary shares – issued and fully paid	**1,073,891,948**	**104,332,258**

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 2013	1,065,141,948	104,218,699
Adjustment to placement costs	–	(8,939)
Employee performance rights converted to shares	8,750,000	122,498
At 30 June 2014	**1,073,891,948**	**104,332,258**

Employee benefits reserve

This reserve records the fair value of equity benefits provided to employees and directors as part of their remuneration. Refer to Note 13 for further details of this plan.

	2014	2013
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.	(14,029)	32,545
	(14,029)	**32,545**

17 Financial risk management objectives and policies

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

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

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

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk, interest rate risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

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

The investment in Senetas Europe has exposed the Group to an overseas operation with a functional currency of GBP. This investment and exposure is not yet 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 from time to time. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency, particularly in $US.

As at 30 June 2014, the Group did not have any outstanding derivative instruments.

As at 30 June 2014, the Group had the following exposure to $US foreign currency.

	Consolidated	
	2014	2013
	$A	$A
Financial Assets		
Cash & cash equivalents	1,087,099	480,723
Trade & other receivables	1,824,900	1,448,976
	2,911,999	1,929,699
Financial Liabilities		
Trade & other payables	787	31,066
Net exposure	2,911,212	1,898,633

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

As at 30 June 2014, 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 dollar rate	Effect on profit / loss before tax
		$
2014		
Consolidated	+10%	(101,794)
	-10%	522,522
2013		
Consolidated	+10%	(175,257)
	-10%	207,716

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

17 Financial risk management objectives and policies (continued)

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 £37,619.50 in the HSBC in the UK. The company has a $US account with an Australian bank which held US$1,024,080.07 at 30 June 2014. There are no significant concentrations of credit risk within the Group.

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

Liquidity risk

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

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

The company 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 ending 30 June 2014 and 30 June 2013.

	2014	2013
	$	$
Liquid Assets		
Cash & cash equivalents	6,805,359	4,091,013
Trade and other receivables	5,482,948	3,344,841
Total liquid assets	12,288,307	7,435,854
Total Liabilities		
Current liabilities	5,813,713	3,767,849
Non-current liabilities	330,310	261,831
Total liabilities	6,144,023	4,029,680
Excess of liquid assets over total liabilities	**6,144,284**	**3,406,174**
Ratio of liquid assets to total liabilities	2.12:1	2.14:1

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 2014. 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 2014. The Group has no derivative financial instruments at 30 June 2014.

The risk implied from the values shown in the table below, reflect a balanced view of cash inflows and outflows. Trade payables and other financial liabilities mainly originate from the financing of assets used in ongoing operations such as property, plant and equipment and investments in working capital – e.g. inventories and trade receivables. These assets are considered in the Group's overall liquidity risk. To monitor existing financial assets and liabilities as well as to enable an effective control of future risks, Senetas Corporation Ltd 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.

17 Financial risk management objectives and policies (continued)

30 June 2014	On Demand	< 6 months	6 to 12 months	1 to 5 years	> 5 years	Total
Consolidated						
Financial assets						
Cash & cash equivalents	3,305,359	3,500,000	–	–	–	6,805,359
Trade & other receivables	–	5,482,948	–	–	–	5,482,948
	3,305,359	8,982,948	–	–	–	12,288,307
Consolidated						
Financial liabilities						
Trade & other payables	1,583,726	–	–	–	–	1,583,726
Net maturity	**1,721,633**	**8,982,948**	**–**	**–**	**–**	**10,704,581**

30 June 2013	On Demand	< 6 months	6 to 12 months	1 to 5 years	> 5 years	Total
Consolidated						
Financial assets						
Cash & cash equivalents	4,077,878	–	13,135	–	–	4,091,013
Trade & other receivables	–	3,344,841	–	–	–	3,344,841
	4,077,878	3,344,841	13,135	–	–	7,435,854
Consolidated						
Financial liabilities						
Trade & other payables	1,427,381	–	–	–	–	1,427,381
Net maturity	**2,650,497**	**3,344,841**	**13,135**	**–**	**–**	**6,008,473**

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 2014 and 30 June 2013.

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 2014

	< 1 year	> 1 – < 2 years	> 2 – < 3 years	> 3 – < 4 years	> 4 – < 5 years	> 5 years	Total
	$	$	$	$	$	$	$
Cash	6,805,359	–	–	–	–	–	6,805,359

Year ended 30 June 2014

	< 1 year	> 1 – < 2 years	> 2 – < 3 years	> 3 – < 4 years	> 4 – < 5 years	> 5 years	Total
	$	$	$	$	$	$	$
Cash	4,091,013	–	–	–	–	–	4,091,013

17 Financial risk management objectives and policies (continued)

Interest rate risk table

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

At 30 June 2014, 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 2014 which was exposed to interest rate risk was Cash.

	Pre Tax Profit Higher/(Lower)	
	2014	2013
	$	$
Consolidated		
+1% (100 basis points)	67,371	27,536
-0.5% (50 basis points)	(33,686)	(13,768)

18 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 are as follows:

	Consolidated	
	2014	2013
	$	$
Within one year	93,805	318,486
After one year but not more than five years	–	93,805
More than five years	–	–
	93,805	**412,291**

Other commitments

At 30 June 2014 the Group has not committed to any capital commitments, remuneration commitments or any other expenditure other than that disclosed in the notes above. The group has signed a new operating lease for new premises post year end. For further details see subsequent events in Note 21..

19 Parent entity information

Information relating to Senetas Corporation Ltd for the year ended 30 June 2014.

	Senetas Corp Ltd	
	2014	2013
	$	$
Current assets	6,628,103	4,038,796
Total assets	17,836,423	15,142,540
Current liabilities	(805,339)	(616,810)
Total liabilities	(811,569)	(651,252)
Issued capital	104,332,260	104,218,699
Retained earnings	(90,696,088)	(90,463,357)
Share based payments reserve	667,213	735,946
Total shareholders equity	14,303,385	14,491,288
Loss of the parent entity after tax	(232,731)	(1,740,847)
Total comprehensive income of the parent entity	**(232,731)**	**(1,740,847)**

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 property, plant or equipment..

20 Related party disclosure

Senetas Corporation Ltd is the ultimate parent of the group and has the following related parties:

		% Equity Interest	
		2014	2013
Senetas Corporation (S) Pte Ltd		100%	100%
Senetas Security Pty Ltd		100%	100%
Senetas Europe Ltd		100%	100%
(ii) CTAM Inc	Non-operating	100%	100%
Kusp Pty Ltd	Non-operating	100%	100%
Technal Pty Ltd	Non-operating	60%	60%
ePil Ltd	Non-operating	100%	100%
Webcryp Pty Ltd	Non-operating	100%	100%
Worldof.com Pty Ltd	Non-operating	100%	100%
IWM No. 2 Pty Ltd	Non-operating	100%	100%
Resdev No. 2 Pty Ltd	Non-operating	100%	100%
Datum Group Operations Pty Ltd	Non-operating	100%	100%
(i) Datum Group Holdings Pty Ltd	Non-operating	100%	100%
(i) Datum Enterprise Solutions Pty Ltd	Non-operating	100%	100%
(i) Datum Financial Solutions Pty Ltd	Non-operating	100%	100%
(i) Pump Ultimate Media Productions Pty Ltd	Non-operating	100%	100%
(i) Berty Technologies Consulting Pty Ltd	Non-operating	100%	100%
(i) Berty Technologies Pty Ltd	Non-operating	100%	100%
(i) Berty Group Holdings Pty Ltd	Non-operating	100%	100%

(i) These investments are owned by Datum Group Operations – a controlled entity of Senetas Corporation Ltd. All entities are dormant.

(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 (2013: $0) except for Senetas Security Pty Ltd as disclosed below. Nor were there any transactions or balances between subsidiaries. (2013:$0).

Transactions with related parties

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

Director Fees

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

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

21 Events after the balance date

The company will be moving premises in September / October 2014. The terms of the lease (as at the date of this report it is unsigned) are for 5 years with an option to extend for 5 more. The starting yearly rent is for $250,000 with a 4% yearly increase. No adjustment to the financial statements has been made at 30 June 2014.

22 Auditors' remuneration

	Consolidated	
	2014	2013
	$	$
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	123,900	120,300
• other services in relation to the entity and any other entity in the consolidated entity		
◦ tax compliance	24,000	54,550
◦ advisory related	2,200	10,700
	150,100	**185,550**

23 Key Management Personnel

Details of directors & executives	Position
Directors	
F.W. Galbally	Director / Chairman (non-executive)
L.P. Given	Director (non-executive)
K.J. Gillespie	Director (non-executive)
Executive Director	
A.R. Wilson	Chief Executive Officer
Executives	
J.F. Weston	General Manager – Engineering
J.N. Fay	Chief Technology Officer

(a) Remuneration by category: executives & directors

	Consolidated	
	2014	2013
	$	$
Short-term employee benefits	1,249,247	1,330,679
Post employment employee benefits	52,319	63,898
Other long-term employee benefits	16,739	36,672
Termination benefits	–	356,651
Share-based payment	9,188	19,589
Total	**1,327,493**	**1,807,489**

23 Key Management Personnel (continued)

(b) Option holdings of executives and directors

30 June 2014	Balance at beg of period 1 July 13	Granted as Remuneration	Forfeited	Balance at end of period 30 June 14	Exercisable	Not Exercisable
A.R. Wilson	1,000,000	–	–	1,000,000	1,000,000	–
F.W. Galbally	–	–	–	–	–	–
L.P. Given	–	–	–	–	–	–
K.J. Gillespie	–	–	–	–	–	–
J.F. Weston	1,000,000	–	–	1,000,000	1,000,000	–
J.N. Fay	1,000,000	–	–	1,000,000	1,000,000	–
Total	**3,000,000**	**–**	**–**	**3,000,000**	**3,000,000**	**–**

(c) Performance rights holdings of executives and directors

No performance rights were granted as remuneration in the 2014 year.

(d) At balance date the director and executive interests in Shares Senetas Corporation Limited.

	Balance 01-July-13	Granted as Remuneration	On Vesting Performance Rights	Shares Bought / (Sold)	As at the Date of Resignation	Balance 30-June-14
30 June 2014	**Ord Shares**	**Ord Shares**	**Ord Shares**	**Ord Shares**	**Ord Shares**	**Ord Shares**
Directors						
F.W. Galbally	138,955,731	–	–	–	–	138,955,731
Executives						
A.R. Wilson	90,000	–	750,000	–	–	840,000
J.F. Weston	112,725	–	500,000	–	–	612,725
J. N. Fay	112,725	–	500,000	(250,000)	–	362,725
Total	**139,271,181**	**–**	**1,750,000**	**(250,000)**	**–**	**140,771,181**

Other transactions and balances with executives and directors

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

24 Revenue by geography

Due to the sale of the consulting services business, the Group has only one segment – the product division. Therefore, the Group no longer prepares operating segment reporting other than the geographical segments shown below.

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

	2014	2013
	$	$
Australia & New Zealand	1,873,035	2,115,558
United States	5,533,088	3,429,369
Europe	2,982,712	1,746,685
Middle East	374,547	283,020
Asia	266,854	–
Other countries	7,377	18,075
Total	**11,037,613**	**7,592,707**

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 2014 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 2014.

On behalf of the board.



Francis W. Galbally
Director

Melbourne
26th September, 2014

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Building a better working world

Independent auditor's report to members of Senetas Corporation Limited

Report on the financial report

We have audited the accompanying financial report of Senetas Corporation Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration.

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Opinion

In our opinion:

a. the financial report of Senetas Corporation Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2(a).

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Senetas Corporation Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Fiona Campbell
Partner
Melbourne

26 September, 2014

ASX Additional Information

Share register statistics as at 3 September 2014

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	138,955,731
Nermone Nominees Pty Ltd (formerly Narrogal Nominees Pty Ltd)	62,957,176

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	214,213,083	19.95
2	MR FRANCIS GALBALLY	138,955,731	12.94
3	NERMONE NOMINEES PTY LTD	62,957,176	5.86
4	SUCCESS BREAKTHROUGH PTY LTD <JACKS SUPER FUND A/C>	20,970,000	1.95
5	EUCALIP BIOCHEMICAL GROUP PTY LTD	15,205,200	1.42
6	SPELIZA INVESTMENTS PTY LTD <GREYSMED P/L SUPER FUND A/C>	15,204,815	1.42
7	TRESDAM PTY LTD	14,501,022	1.35
8	NEFCO NOMINEES PTY LTD	12,623,641	1.18
9	MENROC PTY LTD	11,184,000	1.04
10	CORONET BAY PTY LTD	10,000,000	0.93
11	ZERO NOMINEES PTY LTD	8,517,170	0.79
12	FINTECH PTY LTD <THE MCCALLUM FAMILY A/C>	8,000,000	0.74
13	PERENTIE MANAGEMENT PTY LTD <JOHN CAMPBELL SUPER FUND AC>	7,550,000	0.70
14	EMBL PTY LTD <EJM SUPERANNUATION FUND A/C>	7,000,000	0.65
15	J P MORGAN NOMINEES AUSTRALIA LIMITED	6,821,921	0.64
16	MR ANDREW RANKIN	5,245,000	0.49
17	MRS MARIA GRAZIA TASCONE	5,144,355	0.48
18	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	4,672,650	0.44
19	PLAISANCE PTY LTD	4,548,066	0.42
20	MR MAXIMINO AMOEDO	4,500,000	0.42
Total Top Holders Balance		577,813,830	53.81

Share register statistics as at 3 September 2014

Distribution of Equity Securities	Fully paid ordinary shares Shareholders
Total Holders	4,933
Aggregate holding of the top 20	53.92%
Holders of less than a marketable parcel	2,406

Range of Holdings

Range of Fully Paid Ordinary Shares	Shareholders	%
1 – 1,000	313	0.01
1,001 – 5,000	753	0.22
5,001 – 10,000	840	0.65
10,001 – 100,000	2,193	7.56
100,001 – and over	834	91.56
Total Holders	4,933	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:
Level 1, 11 Queens Road, Melbourne. Victoria. 3004.
Telephone: +61 3 9868 4555

e. The address and telephone number of the company's share registry is:
Computershare Australia
Yarra Falls, 452 Johnston Street, Abbotsford. Victoria. 3067.
Telephone: +61 3 9415 4000

Senetas Corporate Governance Statement

The Board of directors of the company recognises that it is responsible for ensuring that the company has appropriate governance arrangements in place.

The Board of directors is pleased to confirm that the company's corporate governance framework is generally consistent with the ASX's Corporate Governance Council's 'Corporate Governance Principles and Recommendations with 2010 Amendments (2nd Edition)', 'the ASX Corporate Governance Recommendations', other than as set out below.

The company provides below a review of its corporate governance framework using the same numbering as adopted for the principles set out in the ASX Corporate Governance Recommendations.

Copies of the company's codes and policies may be downloaded from the corporate governance section of the company's website at www.senetas.com

Principle 1: Lay solid foundations for management and oversight

Recommendation 1.1

Establish the functions reserved to the board and those delegated to senior executives and disclose those functions.

The Board's responsibilities are defined in the Board Charter and there is a clear delineation between the functions reserved to the Board and those conferred upon the CEO and certain other officers of the company for the day-to-day management of operations.

The responsibilities of the Board include:

- overseeing the company, including its control and accountability systems;
- appointing and removing the CEO;
- monitoring the performance of the CEO;
- where appropriate, ratifying senior executive appointments, organisational changes and senior management remuneration policies and practices;
- approving succession plans for management;
- monitoring senior executives' performance and implementation of strategy, and ensuring appropriate resources are available;
- input into and approving management's corporate strategy and performance objectives;
- determining and financing dividend payments;
- approving and monitoring the progress of major capital expenditure, capital management, acquisitions and divestitures;
- approving and monitoring financial and other reporting;
- reviewing and ratifying systems of risk management, internal compliance and control;
- reviewing and overseeing the implementation of the code of conduct for directors and all other employees.

The functions reserved for the Board include:

- appointment of a Chair;
- appointment and removal of the CEO;
- appointment of directors to fill a vacancy or as additional directors;
- establishment of Board committees, their membership and delegated authorities;
- approval of dividends;
- review of corporate codes of conduct;
- approval of major capital expenditure, acquisitions and divestitures in excess of authority levels delegated to management.

A copy of the company's Board Charter is available on the company's website at www.senetas.com

Recommendation 1.2

Disclose the process for evaluating the performance of senior executives.

In accordance with the Board Charter, the directors' responsibilities include monitoring the performance of senior executives (including the CEO) and ensuring succession plans are in place. The Board has established a Nomination and Remuneration Committee which is responsible for reviewing and approving executive remuneration and incentive policies and practices, and ensuring that the policies and practices are performance based and aligned with the company's vision, values and overall business objectives.

The Nomination and Remuneration Committee annually reviews the performance of the CEO and recommends to the Board key performance targets for the CEO.

The Committee has responsibility for fairly and responsibly rewarding executives having regard to the performance of the company, the performance of the executives and the general external pay environment.

In addition, the Committee is responsible for reviewing and approving the design and total proposed payments from any executive incentive plan.

Senetas Corporate Governance Statement

(Continued)

All senior executives of the company are subject to an annual performance review. Each year during the budgeting process, the CEO sets senior executive key performance targets which are aligned to the performance targets set by the Board. These targets are aligned to the overall business goals and the company's requirements. In the case of the CEO, these targets are negotiated between the Nomination and Remuneration Committee and signed off by the Board. Remuneration incentives are dependent on the outcome of these evaluations.

The Board and Nomination and Remuneration Committee ensure that an evaluation of the senior management team is undertaken annually.

Further information regarding executive compensation can be found in the Remuneration Report in this Annual Report.

Recommendation 1.3

Disclosure of information indicated in the Guide to reporting on Principle 1 of the ASX Governance Recommendations.

The company fully complied with Recommendations 1.1 to 1.3 for the financial year ended 30 June 2014.

A copy of the Nomination and Remuneration Committee Charter is available on the company's website at www.senetas.com

Principle 2: Structure the Board to add value

Recommendation 2.1

A majority of the board should be independent directors.

Recommendation 2.2

The Chairman should be an independent director.

Recommendation 2.3

The roles of Chairman and Chief Executive Officer should not be exercised by the same individual.

The company recognises the importance of non-executive directors and the external perspective and advice that non-executive directors can offer. To add value to the company, the Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties. Directors are appointed based on the specific experience and skills required by the company. The names of the directors and their qualifications and experience are stated in the Directors' Report.

The Board presently comprises four directors, with one independent non-executive director, two non-independent non-executive directors (including the Chairman of the Board) and one executive director (the CEO).

Mr Galbally (Chairman of the Board) is not considered to be an independent director due to his substantial shareholding in the Company. Mr Given in not considered to be an independent director as he is a consultant to Madison Park LLC ("Madison Park") and therefore has a relevant interest in the equity held by Madison Park in the company. Mr Given does not have equity in Madison Park and does not have power to exercise, or control the exercise of voting rights of shares held in the company by Madison Park nor does Mr Given have the power to dispose of, or control the exercise of a power to dispose of shares held in the company by Madison Park.

The Board recognises the ASX's Corporate Governance Recommendations relating to Board composition and the importance of independent directors, and will in due course increase the number of independent directors on the Board.

Information regarding directors, including biographical information, key attributes, experience and skills is set out in the section in this Annual Report entitled "Directors' Report".

The current composition of the Board of directors and length of tenure of each member is as follows:

Name	Position	Date appointed	Independent
Francis W. Galbally	Director (non-executive Chairman)	May 2012	NO
Lachlan Given	Director (non-executive)	March 2013	NO
Ken Gillespie	Director (non-executive)	April 2013	YES
Andrew Wilson	Director (executive)	August 2012	NO

Recommendation 2.4

The board should establish a nomination committee.

Senetas has established a Nomination and Remuneration Committee.

Mr Gillespie (Chairman), Mr Given and Mr Galbally are the current members of the Committee. Mr Gillespie is an independent director.

Recommendation 2.5

Disclose the process for evaluating the performance of the board, its committees and individual directors.

Senetas Corporate Governance Statement

(Continued)

The Board has in place a process to review the effectiveness of the Board, its committees and individual directors. This process includes the completion of a survey by each Board member and one on one discussions with the Chairman of the Board concerning Board composition, meeting format and content, quality of reporting and interaction with management, extent of Board committee oversight and corporate governance.

A formal review of the performance of the Board, its committees and individual directors was conducted during the year, taking into account each director's assessment of areas including:

- the effectiveness of the Board;
- the effectiveness of the Chairman;
- the extent to which the responsibilities set forth in the charter of the board are met;
- whether meetings are effective – well prepared and the agenda well structured;
- whether the Board has effective and robust discussions; and
- the quality of reporting from and interaction with management.

Constructive feedback was provided to the Chairman by each director and from the Chairman to each director.

Based on the assessments performed, it was determined that the Board and its committees were operating effectively.

Recommendation 2.6

Companies should provide the information indicated in the Guide to reporting on Principle 2.

Except as disclosed above, the company has complied with Recommendations 2.1 to 2.6 for the financial year ended 30 June 2014.

Principle 3: Promote ethical and responsible decision-making

Recommendation 3.1

Companies should establish a code of conduct and disclose the code or a summary of the code as to:

- *the practices necessary to maintain confidence in the company's integrity;*
- *the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and*
- *the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.*

As part of its commitment to recognising the legitimate interests of stakeholders, the company has established a Code of Conduct to guide compliance with legal and other obligations to legitimate stakeholders. These stakeholders include employees, clients, customers, government authorities, creditors and the community as a whole. This Code covers the following key areas:

- employees not making improper use of their position;
- conflicts of interest;
- confidentiality;
- dealing fairly with stakeholders of the company; and
- protection and proper use of assets.

The company has adopted a Whistleblower Policy which:

- is intended to encourage employees to report promptly any actual or suspected improper conduct by the company or any of its employees;
- is designed to complement normal communication channels between managers and employees;
- demonstrates the commitment of the company to protect employees who report improper conduct through this Policy; and
- is intended to complement existing employee related policies such as the Occupational Health & Safety Policy and Employee Manual.

The company also has an Insider Trading Policy. Copies of the Code of Conduct and the Insider Trading Policy are available on the company's website at www.senetas.com

Recommendation 3.2

Establish a policy concerning diversity and disclose it. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.

The company has adopted a Diversity Policy. The Diversity Policy confirms that the company recognises that a talented and diverse workforce can be a key competitive advantage for it. The company is committed to seeking out and retaining the best talent to develop business growth and performance, as business success is a reflection of the qualities and skills of its people. The company is committed to promoting diversity in all areas of the company as it recognises that each employee brings unique skills, capabilities, experiences and characteristics which benefit the organisation as a whole.

Senetas Corporate Governance Statement

(Continued)

A copy of the Diversity Policy is available on the company's website at www.senetas.com

Recommendation 3.3

Disclose the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.

The measurable objectives for achieving gender diversity, which have been set by the Board in accordance with the company Diversity Policy after taking into account the company's current size, stage of development, the industry in which it operates and the current business operating environment, are set out below.

- potential candidates for vacant positions must include at least one female candidate; and
- during the Board selection process, the professional consultant or Board committee assisting the Board must provide at least one credible and suitably experienced female candidate.

More comprehensive and measurable objectives will be set as the company moves closer to achieving its strategic objectives.

Recommendation 3.4

Disclose the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.

As at the date of the report, the proportion of women in the company as a percentage of its total employees was 6 out of 25, or 32%. The proportion of women as a total of the senior executive positions was 1 out of 5, or 20%.

There were no women on the Board.

Recommendation 3.5

Provide the information indicated in the Guide to reporting on Principle 3.

Except as stated above, the company has complied with Recommendations 3.1 to 3.5 for the financial year ended 30 June 2014.

Principle 4: Safeguard integrity in financial reporting

Recommendation 4.1

The board should establish an audit committee.

Senetas has established an Audit Committee. The principal objectives of the Audit Committee include:

- helping the Board to achieve its objectives in relation to financial reporting, the application of accounting policies, legal and regulatory compliance; and internal control and risk management systems;
- maintaining and improving the quality, credibility and objectivity of the financial accountability process;
- providing a forum for communication between the Board and senior financial management; and
- ensuring effective and external audit functions and communications between the Board and the external auditors.

The Audit Committee is also responsible for overseeing the establishment and implementation of risk management and internal compliance and control systems.

Recommendation 4.2

The audit committee should be structured so that it:

- *consists only of non-executive directors;*
- *consists of a majority of independent directors;*
- *is chaired by an independent chair, who is not chair of the board; and*
- *has at least three members.*

Currently, the Audit Committee consists of three non-executive directors: Mr Given (Chairman), Mr Gillespie and Mr Galbally. The Audit Committee is not comprised of a majority of independent directors. The roles of Chairman of the Board and Chairman of the Audit Committee are exercised by two separate individuals, however the Chairman of the Audit Committee, Mr Given, is not an independent director, for the reasons stated above. Mr Given and Mr Galbally do however meet all of the other independence tests listed in the ASX Corporate Governance Recommendations.

The Board, having regard to the current size of the Board, the company's stage of development and the collective experience and expertise of the members of the Audit Committee, considers the current composition of the Audit Committee is appropriate.

All members can read and understand financial statements and are otherwise financially literate. The details of the member's qualifications may be found in their director profiles.

The Committee held meetings throughout the year and details of attendance of the members of the Committee are contained in the Directors' Report.

Recommendation 4.3

The audit committee should have a formal charter.

The Audit Committee Charter has adopted a formal Charter. The responsibilities of the Committee include:

- assessing the appropriateness and application of the company's accounting policies and principles and any changes to them;

Senetas Corporate Governance Statement

(Continued)

- obtaining an independent judgment from the external auditor;
- assessing any significant estimates or judgments in the financial reports;
- reviewing any half-yearly and annual financial reports with management, advisers and the external auditors (as appropriate) as recommending their adoption by the Board;
- discussing any draft audit opinion letter and management letter with the external auditors before it is finalised; and
- following up on any matter raised by the Board regarding financial reports, audit opinions and management letters.

A copy of the Audit Committee Charter is available on the company's website at www.senetas.com

Recommendation 4.4

Provide the information indicated in the Guide to reporting on Principle 4.

Except as disclosed above, the company has complied with Recommendations 4.1 to 4.4 for the financial year ended 30 June 2014.

Principle 5: Make timely and balanced disclosure

Recommendation 5.1

Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

The company has adopted a Continuous Disclosure Policy. This Policy sets out the standards, protocols and the detailed requirements expected of all directors, officers, senior management and employees of the company for complying with the Listing Rules and Corporations Act relating to continuous disclosure.

The Continuous Disclosure Policy is designed to provide equal access to information and to promote quality communications between the company and third parties such as shareholders, the investment community, the media and ASX.

A copy of the company's Continuous Disclosure Policy is available on the company's website at www.senetas.com

Recommendation 5.2

Companies should provide the information indicated in the Guide to reporting on Principle 5.

The company has fully complied with Recommendations 5.1 to 5.2 for the financial year ended 30 June 2014.

Principle 6: Respect the rights of shareholders

Recommendation 6.1

Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

The company has adopted a Shareholder Communications Policy for shareholders wishing to communicate with the Board. Senetas seeks to utilise numerous modes of communication, including electronic communication to ensure that its communication with shareholders is frequent, clear and accessible. All shareholders are invited to attend Senetas' annual general meeting, either in person or by representative, being the forum in which to discuss issues relevant to the company. The Board accordingly encourages full participation by shareholders. Shareholders will have an opportunity to submit questions to the Board and auditors.

A copy of the company's Shareholder Communications Policy is available on the company's website at www.senetas.com

Recommendation 6.2

Companies should provide the information indicated in the Guide to reporting on Principle 6.

The company has fully complied with Recommendations 6.1 to 6.2 for the financial year ended 30 June2014.

Principle 7: Recognise and manage risk

Recommendation 7.1

Establish policies for the oversight and management of material business risks and disclose a summary of those policies.

In conjunction with the company's other corporate governance policies, the company has adopted a Risk Management Policy, which is designed to assist the company to identify, evaluate and mitigate strategic, technological, funding, financial, economic, operational and other risks.

Recommendation 7.2

The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.

Senetas Corporate Governance Statement

(Continued)

The Board is responsible for reviewing and ratifying the risk management structure, processes and guidelines which are developed and maintained by management.

Management has established and implemented the risk management system for assessing, monitoring and managing the company's material risks.

Management has reported to the Board as to the effectiveness of the company's management of its material business risks.

Recommendation 7.3

The board should disclose whether it has received assurance from the CEO (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The CEO and the Chief Accountant have declared in writing to the Board that the financial reporting, risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively during the year. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations of the company.

The Board is responsible for the overall internal control framework, but recognises that no cost-effective internal control system will preclude all errors and irregularities. The company places considerable reliance on the skill, experience and judgement of its employees to make decisions within the policy framework and to communicate openly on all risk related matters.

Recommendation 7.4

Companies should provide the information indicated in the Guide to reporting on Principle 7.

The company has fully complied with Recommendations 7.1 to 7.4 for the financial year ended 30 June 2014.

Principle 8: Remunerate fairly and responsibly

Recommendation 8.1

The board should establish a remuneration committee.

The Board has established a Nomination & Remuneration Committee.

The objective of the Nomination and Remuneration Committee is to help the Board achieve its objective to ensure the company:

- has a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties;
- has coherent remuneration policies and practices to attract and retain executives and directors who will create value for shareholders;
- fairly and responsibly rewards executives having regard to the performance of the company, the performance of the executives and the general pay environment.

Recommendation 8.2

The remuneration committee should be structured so that it:

- consists of a majority of independent directors;
- is chaired by an independent chair; and
- has at least three members.

Currently, the Nomination & Remuneration Committee consists of three non-executive directors: Mr Gillespie (Chairman), Mr Given and Mr Galbally are the current members of the Committee. Mr Gillespie is an independent director.

The Board, having regard to the current size of the Board, the company's stage of development and the collective experience and expertise of the members of the Nomination & Remuneration Committee, considers the current composition of this Committee is appropriate.

The role of the Committee is to assist the Board in fulfilling its responsibilities to establish appropriate remuneration levels and incentive policies for employees. The role of the committee is also to help achieve a structured Board that adds value to the company by ensuring an appropriate mix of skills are present in directors on the Board at all times.

Recommendation 8.3

Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

In accordance with its Charter, the Nomination & Remuneration Committee, clearly distinguishes the structure of non-executive directors' remuneration from that of executive directors and senior executives. Disclosure of the directors' and executives' remuneration can be found in the Remuneration Report in this Annual Report.

Recommendation 8.4

Companies should provide the information indicated in the Guide to reporting on Principle 8.

Except as disclosed above, the company has complied with Recommendations 8.1 to 8.4 for the financial year ended 30 June 2014.

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