



2010 **2011**

Senetas Corporation Limited Annual Financial Report

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Senetas Corporation Limited Annual Financial Report for the year ended 30 June 2011

ACN 006 067 607

CORPORATE INFORMATION

Non-Executive Directors

Christopher N. Brown (Chairman)

Ronald Warner

James M. Connolly

Executive Director

John H. Du Bois

Company Secretary

Andrew R. Wilson

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Investor Relations

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Auditors

Ernst & Young

8 Exhibition Street

Melbourne VIC 3000

Annual General Meeting Date & Place

Annual General Meeting of shareholders of Senetas Corporation Limited (Company) will be held at The Royce Hotel, 379 St Kilda Road, Melbourne 3004, on Thursday, 17th November 2011 at 10:30am

Your Directors submit their report for the year ended 30 June 2011.

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:

Christopher N. Brown	Director (non-executive chairman) appointed director 30th May, 2011, appointed chairman 30th June, 2011
John H. Du Bois	Director (executive, chairman from 2nd February, 2011 to 30th June, 2011)
Ronald Warner	Director (non-executive)
James M. Connolly	Director (non-executive)
Alan R. Stockdale	Director (non-executive chairman) resigned 2nd February, 2011

Christopher N. Brown LLB (Adelaide), FAIM – Non-Executive Chairman

Melbourne corporate advisor, Chris Brown, was appointed a Non-Executive Director of Senetas in May 2011 and Chairman of Board of Directors in June 2011.

Mr Brown has extensive experience in corporate finance with more than 25 years in Australia and internationally, principally in mergers and acquisitions and equity capital raisings, including many major privatisation transactions. Formerly a Director of major investment banks Merrill Lynch, Rothschild and Investec, he also held senior roles with Chronworth, Melbourne and Baring Brothers Burrows, Sydney.

Working within a broad range of industry sectors, including telecommunications, he has advised the Australian Federal Government (both Labor and Liberal), as well as various State Governments and the United Kingdom, New Zealand and Fiji Governments and other stakeholders in respect of major transactions and strategic assignments involving Government Owned Enterprises. These include the Commonwealth Bank, Qantas, Australian Airlines, Telstra, OTC, Air New Zealand and State Insurance (NZ).

He is also the Chairman of The Conversation Media Group and of Preshafood Limited, and is the Principal of Gibbs Hill, a personal corporate advisory practice. Mr Brown recently stepped down as Chairman of the Australian Institute of Management Victoria and Tasmania, but remains a Director.

John H. Du Bois IAC (Institute of Administration and Commerce) INSEAD MBA – Chief Executive Officer

John Du Bois is Managing Director of Senetas and has more than 25 years in business and the IT industry.

He was previously Executive Vice President in SAP Asia responsible for South West Asia 1996 – 2000. Director SAP ANZ 2000 – 2003 and Vice President Asia Pacific 2003–2006. His earlier appointments include General Manager and Executive roles in both CSC (Computer Sciences Corporation) and IBM.

As an IT executive, John Du Bois has extensive business management and sales and marketing experience across the Asia Pacific Region and has worked on a global basis for over 18 years.

Ronald Warner B.A. J.D. (Hons) – Non Executive Director

Ron Warner is a non-executive director. Mr Warner is a senior corporate partner in the international law firm of Locke Lord Bissell & Liddell, one of the largest law firms in the USA, where he heads the firm's transactional practice for Western United States.

Mr Warner received his Juris Doctorate degree with honours from New York University School of Law, where he was appointed as an editor of the Law Review, after receiving his Bachelor of Arts degree from Tulane University.

In more than 30 years of practice, Mr Warner has been responsible for negotiating and supervising a large number of complex corporate transactions, including mergers and acquisitions, and various types of financings, from emerging company growth financing through larger multi-national public offerings.

Mr. Warner has also been involved as a principal in the start-up and development of several operating companies and serves on the Board of Directors of Elite Interactive Solutions, Inc and the Advisory Boards of a number of technology and service companies in the United States and other countries.

Major General James M. Connolly AO CSC (ret'd) – Non Executive Director

Jim Connolly graduated from Royal Military College Duntroon in 1965. He is a graduate of Command and Staff College Camberley (psc – 1976); Joint Service Staff College Canberra (1986); the Royal College of Defence Studies London (1991); and University of New England (Corporate Director's Graduate Diploma Course – 1999). He served as an Infantry officer in the Australian Army until retiring in 1999. His appointments as a general officer were as Chief of Personnel of the Army; Chief of Operations of the Australian Defence Force;

Director Defence Intelligence Organisation; and Commander Australian Theatre.

He is now a beef producer in northern NSW. He currently is a director on the boards of Aerospace Australia Limited and Far North Coast Legacy.

Andrew R. Wilson BEcon, CA, ACIS – Company Secretary, Chief Financial Officer

Andrew Wilson is the Company Secretary and Chief Financial Officer of Senetas Corporation Limited. He is a member of the Institute of Chartered Accountants Australia and the Institute of Chartered Secretaries Australia and has 19 years experience in the finance industry. He commenced his career with KPMG in the audit division focusing on the banking and broking industries.

He has worked in the United Kingdom with Deutsche Bank and Natwest Bank Plc as part of corporate restructure teams and has extensive financial and administrative skills.

Dividends paid and proposed

No dividends were proposed or declared for the financial year ended 30 June 2011.

Corporate information

Senetas Corporation Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian stock exchange.

Corporate structure

Senetas Corporation Limited has a direct controlling interest in each of the entities listed in Note 21. 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 security solutions to business and government around the world.

The consolidated entity also provided IT professional services in the fields of data warehousing, business intelligence and enterprise management.

Employees

The consolidated entity employed 58 employees as at 30 June 2011 (2010: 56 employees).

Significant changes in the state of affairs

There are no significant changes in the state of affairs.

Operating and financial review

Senetas Corporation Limited (ASX:SEN), recorded a net loss before tax of \$5.3 million for the year ended June 30 2011, which includes a \$2 million write off of an intangible.

The intangible written off was a goodwill asset resulting from the 2001 purchase of IBK, part of the consulting practice. Excluding the intangible write off, the result was a loss before tax of \$3.3 million and in line with the company's mid-June market update of a loss before tax between \$3 and \$4 million.

Directors report that 2011 had been a difficult year for the company:

- The IT Consulting division felt the full effect of the loss of a large long-term Telstra contract and delays in other consulting work that saw revenue down 36% although, excluding the intangible impairment, the division contained costs to remain profitable;
- Product division revenues fell 20% due to delays in domestic and international sales, resulting from continued depressed economic conditions particularly in Europe & USA; and
- The strength of the Australian dollar resulted in currency losses of \$289K.

Against this sobering background, Senetas' product division experienced a marked increase in enquiry from new and potentially very substantial distribution partners and end-customers, including via its new subsidiary, Senetas Europe (see below). Encouraged by this, Senetas continued its investment in sales resources and R & D to maintain its product advantage in both its network encryption technology and application solutions platforms. Since 2009 Senetas has been developing its new generation CN6-series encryption platform, committing \$1 million to this project over the past financial year.

The company's operating costs also reflect \$1.1 million dollars of other investments: domestic sales staff (\$250k), acquisition of 100% of a UK business now re-launched as Senetas Europe (\$600k) and R&D on the company's secure application platform – MonitorStream (\$250k).

Senetas remained well positioned to take advantage of the intensified focus on communications security in many major markets, reflecting increasing government regulation flowing from concern over a number of high-profile security breaches. Management is optimistic that

deferred sales will be won, that Senetas' strongest markets (USA, Europe and ANZ) will rebound more strongly, and that emerging markets (Middle East, Africa and South East Asia) would continue to show increased interest in globally-certified data protection technologies in which Senetas is a market leader.

International Sales

Over the past year the company strategically expanded its reseller network including the acquisition of its UK subsidiary, Senetas Europe, and appointment of two new resellers in the USA.

A series of Proof of Concept trials of various Senetas encryption products, recently undertaken in North America may, on completion, lead to significant growth in the company's revenue streams from this region.

Senetas is also confident that its recently-announced partnership with SELEX Elsag UK, part of the multi-billion Euro Finmeccanica group, combined with successful entry of the CN1000 128-bit encryptor to the 'in evaluation' phase of CESG CAPS approval, will lead to significant sales growth to the UK government.

International sales opportunities now represented 55% of the company's total pipeline. This is a significant increase over previous years and reflects our activities and strategic focus on international markets for growth.

In Australia and New Zealand, Senetas has re-configured its sales effort to a channel partner business model and away from direct sales. This has already increased the opportunities and addressable market for Senetas encryption technology, and is expected translate to increased sales during 2012 and 2013. Among the new reseller channels for Senetas are multinational IT companies with well-established customer bases across a broad range of government and industry sectors.

Operation Highlights

Among the 2011 highlights were:

- Successful development and release of the Cloud-based solution, MonitorStream, which utilises the company's skills in IBM Tivoli applications and network encryption, now being actively marketed by Senetas and its channel partners in Australia and overseas;
- Senetas enhanced its encryptor capabilities to include Virtual Local Area Network (VLAN) Encryption, a scalable, less complex, more cost effective solution incorporating auto discovery, fault tolerance and self-healing network awareness;

- Final testing of the company's new CN6-series encryption platform with important benefits for users and the environment, and which also provides Senetas with a roadmap to address emerging 40-Gbps and 100Gbps network standards.

The company maintains its commitment to significant investment (both financial and man-hours) in global security certifications for its technology. Senetas has the only dual-certified (Common Criteria EAL4+ and FIPS 140-2) high speed network encryptors on government evaluated products lists and recently its CN1000 128-bit encryptor entered the 'in evaluation' phase of CESG CAPS approval in United Kingdom. Achieving CAPS certification will allow UK Government and Public Sector departments to use Senetas Encryptors to meet their Baseline (IL3) security and compliance needs.

Customer and partner interest, both in Australia, New Zealand and internationally, continues to grow in the company's unique Encrypted Application Services Platform and its initial solution, MonitorStream. MonitorStream will be launched in South East Asia and Europe during the coming year and the company is investigating other applications suitable for embedding in the platform to deliver secure cloud-based services.

New business and repeat engagements, including a three-year appointment to the Victorian Government's eServices panel should see the Consulting division record increased revenues during 2012.

The company remains debt free and management continues with strict cost control. Individual employee cash bonuses were not paid on the basis that overall profit targets were not met.

The company remains vigilant for opportunities to grow product and consulting solutions revenues through partnerships or, where appropriate, acquisitions of strategically-aligned businesses.

Significant events after balance date

There were no significant events after balance date.

Likely developments and expected results

The market for the Company's product is growing, driven by increasing international regulation governing the protection of sensitive information, the proliferation of valuable digital assets and more severe, more sophisticated cyber security threats. The Company's strategy for growth has been to continue to invest in product R&D and to redefine its sales model. It has also invested in a subsidiary in the UK and in UK security certifications in order to target government sales

opportunities. The Company has also expanded its US presence through newly formed strategic partnerships. Directors believe that the company is well positioned to take advantage of the changing security market and the return to normal sales cycles following the GFC.

The company's partnership with Selex Eltag, part of the multi-billion Euro Finmeccanica group, combined with the successful entry of the CN1000 128-bit encryptor to the 'in evaluation' phase of CESG CAPS approval, is expected to lead to significant sales growth in the UK. New resellers in the USA have discovered new sales opportunities and are conducting technology proof of concept trials that may also lead to significant sales growth.

As a consequence of the company's focus on international markets and the reconfiguration of the domestic sales efforts to a channel partner business model, the company is experiencing an increase in enquiry from new and existing customers resulting in a growing pipeline of prospective sales. At the same time, some sales delayed in 2011 are expected to be won in 2012.

The Directors believe that the Company's operational and financial forecasts will be met and that the company will return to profitability in 2012.

This report omits other and additional information about likely developments and expected future results that, in the opinion of the directors, is likely to unreasonably prejudice the group.

Share options

Unissued Shares

As at the date of this report, there were 28,898,052 unissued ordinary shares under options and performance rights. Refer to the remuneration report for further 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 & 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 and Public Liability Risk Insurance.

Remuneration report – The remuneration report has been audited

This Remuneration Report outlines the director and executive remuneration arrangements of the company and the group in accordance with the requirements of the Corporations Act 2001 and the regulations made under that Act. For the purposes of this report, executives of the group include the CEO and the five executives reporting directly to him. These are the executives of the parent and the group receiving the highest remuneration.

Current year performance and short term remuneration

Due to the Company not meeting performance targets set by the Board, no short term incentives (bonuses) were paid to executives of the company.

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.

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 Nominations Committee

The Remuneration and Nominations Committee of the Board of Directors of the company is responsible for determining and reviewing compensation arrangements for the Directors and the Chief Executive Officer (CEO).

The Remuneration and Nominations 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.

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 committee recognises the additional time commitment required by directors who chair a sub-committee.

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 2011 and 30 June 2010 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 Nominations 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 Nominations Committee that employment contracts are entered into with all executives. These are similar to those for all employees except for the contracts entered into with the Chief Executive Officer and the Chief Financial Officer. Details of these contracts are provided on page 11 of this report.

Executive remuneration consists of the following key elements:

DIRECTORS' REPORT

(Continued)

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

- 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 Nominations Committee. Pages 13 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 Nominations Committee having regard to company-wide, business unit 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 12 to 13 of this report.

Variable Remuneration – Short Term Incentive (STI)

Objective

The objective of the STI program is to link executive remuneration with the achievement of the group's operational targets. The total potential STI available is set at a level so as to provide sufficient incentive to achieve the operational targets and such that the cost to the group is reasonable in the circumstances.

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 Nominations Committee.

Structure

Actual STI payments depend on the extent to which specific operating targets set at the beginning of the financial year are met. The operational targets 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.

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 Nominations 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 performance ratings for individual business units and the performance of individual executives, as approved by the CEO.

STI bonus for 2011 financial year

For the 2010 financial year 100% of the cash bonus as previously accrued in that period, vested to executives and was paid in the 2011 financial year. The remuneration committee (for the CEO) and the CEO (for other executives) considered the STI payments for the 2011 year in July and August 2011. The value of STI bonuses payable for the 2011 financial year is nil.

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 his interests with shareholders.

Structure

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

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

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

DIRECTORS' REPORT

(Continued)

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

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 multi-year period of time.

Grant of performance rights during the 2011 financial year

On the 18 November 2010, following shareholder approval, the group issued performance rights to the CEO. Subject to the satisfaction of the performance conditions described in the following table, the CEO will 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. The performance rights granted are conditional, non-transferrable; they cannot be hedged, sold, transferred, mortgaged, charged or otherwise disposed of or dealt with.

The number of performance rights granted was calculated by dividing the value of the LTI component of his annual remuneration by the volume weighed average price of the Company shares over the 30 trading days prior to the Grant Date. The LTI component of Mr Du Bois' annual remuneration is \$20,400 (2.58% of his salary package). The following table sets out the number of performance rights granted, performance, vesting and performance period conditions.

DIRECTORS' REPORT

(Continued)

No. of Performance Rights ⁽¹⁾⁽⁴⁾	Performance Condition ⁽²⁾	Vesting Scale	Performance Period ⁽³⁾		
		% of performance rights that vest	Start	Finish	
300,000	Share price growth test: Average compound annual share price growth	Less than 20.25%	Nil	18/11/2010	17/11/2013
		20.25%	75%		
		> 20.25% < less 27%	Increases btw 75% & 100% on a straight-line basis		
		27% or greater	100%		
300,000	EPS growth test: Average compound earnings per share growth	Less than 20.25%	Nil	30/06/2010	30/06/2013
		20.25%	75%		
		> 20.25% < less 27%	Increases btw 75% & 100% on a straight-line basis		
		27% or greater	100%		
600,000					

Notes

1. The value of the LTI component of his annual remuneration was calculated based upon the closing company share price on the 18 November 2010 the date of the meeting. The share price on that date was \$0.034.
2. 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.
3. The performance conditions applicable to this grant of Performance Rights will each be measured over 3-year periods (each a "Performance Period").
4. Each performance right converts into one fully paid ordinary share upon vesting.

Grant of Shares during the year

During the year the company granted \$1,000 worth of Senetas shares to 52 staff resulting in the issue of 1,582,932 shares. No performance conditions were attached to this grant of shares. The shares cannot be sold for 3 years from the grant date unless employment with the company ceases. In the event employment with the company ceases, they may be disposed of at the discretion of the holder. A total of 152,205 shares were issued to executives who took up the offer. Details of the issue to executives are set out in the remuneration tables on page 14 of this report

DIRECTORS' REPORT

(Continued)

Group Performance

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

	2011	2010	2010	2009	2007
Net profit (loss) after tax	(5,626,187)	948,617	1,142,387	151,799	(15,638,139)
Number of ordinary shares for basic earnings per share	463,105,195	461,522,263	460,716,568	460,716,568	460,716,568
EPS (cents)	(1.21)	0.21	0.25	0.00	(3.4)
Net tangible assets per share (cents per share)	1.10	1.91	1.69	1.43	1.34

Employment contracts

Employment agreements are entered into with all executives. These agreements are similar to the employment agreements used for all staff with the exception of the CEO and CFO who have notice periods of twelve and six months respectively. The current employment contracts commenced on 1 May 2006 for Mr Du Bois and 22 May 2000 for Mr Wilson.

Chief Executive Officer

Under the CEO's contract:

- Mr Du Bois receives fixed remuneration of \$434,252 per annum and he is eligible to receive up to \$355,298 per annum in short term incentives. No bonus was paid to Mr Du Bois for the 2011 financial year.
- Mr Du Bois may resign from his position and thus terminate his contract by giving six months written notice. On resignation any unvested options will be forfeited within one month of the resignation date;
- The company may terminate his employment by providing twelve months written notice or provide payment in lieu of the notice period (based on the fixed component of Mr Du Bois' contract). 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.

Chief Financial Officer

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 CFO is only entitled to that portion of remuneration which is fixed, and only up to the date of termination.

DIRECTORS' REPORT

(Continued)

Directors' and executives' emoluments

(a) Remuneration of directors and executives (these tables have been audited)

Consolidated

	Short-Term				Post Employment	Long-Term				% Performance Related
	Salary & Fees	Sales Commission	Cash Bonus ⁽ⁱ⁾	Travel Allowance	Super- annuation	Long Service Leave	Share- based Payment – Options ⁽ⁱⁱ⁾	Share- based Payment – Shares ⁽ⁱⁱⁱ⁾	Total	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Directors										
C. Brown (Non Executive Director – Chairman) Appointed 1 June 2011										
2011	4,969	–	–	–	447	–	–	–	5,416	0.00%
2010	–	–	–	–	–	–	–	–	–	0.00%
J. Du Bois (Chief Executive Officer/Director)										
2011	419,053	–	–	–	15,199	7,272	12,108	–	453,632	2.67%
2010	356,628	–	335,000	–	14,372	6,248	26,509	–	738,757	48.93%
J. Connolly (Non Executive Director)										
2011	73,394	–	–	3,240	6,606	–	–	–	83,240	0.00%
2010	73,395	–	–	3,240	6,605	–	–	–	83,240	0.00%
R. Warner (Non Executive Director)										
2011	85,000	–	–	–	–	–	–	–	85,000	0.00%
2010	85,000	–	–	–	–	–	–	–	85,000	0.00%
A. Stockdale (Non Executive Director – Chairman) Resigned 2 February 2011										
2011	78,750	–	–	–	7,087	–	–	–	85,837	0.00%
2010	135,000	–	–	–	12,150	–	–	–	147,150	0.00%
Total Remuneration of Directors										
2011	661,166	–	–	3,240	29,339	7,272	12,108	–	713,125	1.70%
2010	650,023	–	335,000	3,240	33,127	6,248	26,509	–	1,054,147	31.78%

(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, 2011.**

(ii) The share based payments issued to J. Du Bois were sign on options and performance rights. Performance rights granted will vest (provide a share) only after performance criteria have been satisfied. Of the \$26,509 for the year ended 30 June 2010, \$6,509 relates to the original sign on options, the balance of \$20,000 are performance rights. All of the 2011 share-based payments relate to performance rights.

(iii) Share allocations made under the company's ESOP scheme.

DIRECTORS' REPORT

(Continued)

(a) Remuneration of directors and executives (these tables have been audited)

Consolidated

	Short-Term				Post Employment	Long-Term				% Performance Related
	Salary & Fees	Sales Commission ^(iv)	Cash Bonus ⁽ⁱ⁾	Travel Allowance	Super-annuation	Long Service Leave	Share-based Payment – Options ⁽ⁱⁱ⁾	Share-based Payment – Shares ⁽ⁱⁱⁱ⁾	Total	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Executives										
A. Wilson (Chief Financial Officer)										
2011	195,077	–	–	–	15,173	3,639	–	1,000	214,889	0.00%
2010	165,789	–	60,000	–	14,461	3,126	–	1,000	244,376	24.55%
L. Wilson (General Manager – Consulting)										
2011	205,801	–	–	–	15,199	3,437	–	–	224,437	0.00%
2010	195,717	–	137,000	–	14,283	3,268	–	–	350,268	39.11%
J. Weston (Engineering Manager)										
2011	154,368	–	–	–	13,893	2,644	–	1,000	171,905	0.00%
2010	147,018	–	40,000	–	13,539	2,531	–	1,000	204,088	19.60%
S. Bell (General Manager – Product Sales) – commenced 25th October, 2010										
2011	143,902	10,112	–	–	10,132	2,376	–	1,000	167,522	6.04%
2010	–	–	–	–	–	–	–	–	–	0.00%
J. Fay (Chief Technology Officer) – commenced 13th December, 2010										
2011	80,857	10,412	–	–	6,938	1,865	–	1,000	101,072	10.30%
2010	–	–	–	–	–	–	–	–	–	0.00%
G. Jones (General Manager – Senetas Europe) commenced 1st October, 2010										
2011	103,971	7,950	–	–	5,311	–	–	1,000	118,233	6.72%
2010	–	–	–	–	–	–	–	–	–	0.00%
Horst Marcinsky (General Manager – Support & Maintenance)										
2011	139,795	100,367	–	–	10,206	2,306	–	1,000	253,673	39.57%
2010	115,344	106,109	–	–	11,716	1,903	–	1,000	236,072	44.95%
Total Remuneration of Executives										
2011	1,023,771	128,841	–	–	76,852	16,267	–	6,000	1,251,731	10.29%
2010	623,868	106,109	237,000	–	53,999	10,829	–	3,000	1,034,805	33.16%

(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 2011 year.

(ii) Share based payments in the form of options and performance rights.

(iii) Share allocations made under the company's ESOP scheme.

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

DIRECTORS' REPORT

(Continued)

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

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

30 June 2011	Balance 01-Jul-10	Granted as Remuneration	On Exercise of Options	Shares Bought / (Sold)	Balance 30-June-11
	Ord Shares	Ord Shares	Ord Shares	Ord Shares	Ord Shares
Directors					
J.H. Du Bois	200,000	–	–	345,000	545,000
R. Warner	100,000	–	–	462,500	562,500
J. Connolly	–	–	–	250,000	250,000
Executives					
A.Wilson	14,649	30,441	–	–	45,090
J. Weston	14,649	30,441	–	–	45,090
H. Marcinsky	14,649	30,441	–	–	45,090
G. Jones–commenced 1 October, 2010	–	30,441	–	–	30,441
S. Bell–commenced 15 October, 2010	–	30,441	–	–	30,441
J. Fay–commenced 13 December, 2010	14,649	30,441	–	–	45,090
Total	358,596	182,646	–	1,057,500	1,598,742

30 June 2010	Balance 01-Jul-09	Granted as Remuneration	On Exercise of Options	Shares Bought / (Sold)	Balance 30-June-10
	Ord Shares	Ord Shares	Ord Shares	Ord Shares	Ord Shares
Directors					
J. H. Du Bois	200,000	–	–	–	200,000
A. R. Stockdale (resigned 2 February, 2011)	1,000,000	–	–	–	1,000,000
R. Warner	100,000	–	–	–	100,000
Executives					
A. Wilson	–	14,649	–	–	14,649
J. Weston	–	14,649	–	–	14,649
H. Marcinsky	–	14,649	–	–	14,649
Total	1,300,000	43,947	–	–	1,343,947

(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 2011.

No Shares were issued on exercise of remuneration options during the financial year ended 30 June 2010.

DIRECTORS' REPORT

(Continued)

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

(iii) Shares Granted as part of remuneration (these tables have been audited)

30 June 2011	Grant Date	Grant Number	Value of rights granted during the year	Value of options lapsed during the year	Fair Value per right at grant date (Note 14)	Vesting Dates & Conditions	Remuneration consisting of shares for the year
			\$	\$	\$	\$	
A. Wilson	17-DEC-10	30,441	1,000	–	0.0329	(1) & (2)	0.47%
J. Weston	17-DEC-10	30,441	1,000	–	0.0329	(1) & (2)	0.58%
H. Marcinsky	17-DEC-10	30,441	1,000	–	0.0329	(1) & (2)	0.39%
G. Jones – commenced 1 October, 2010	17-DEC-10	30,441	1,000	–	0.0329	(1) & (2)	0.85%
S. Bell – commenced 15 October, 2010	17-DEC-10	30,441	1,000	–	0.0329	(1) & (2)	0.60%
J. Fay – commenced 13 December, 2010	17-DEC-10	30,441	1,000	–	0.0329	(1) & (2)	0.99%
Total		182,646	6,000	–			

- (1) Shares are fully vested however, the shares cannot be sold until the earlier of 3 years or the cessation of employment with the company.
- (2) There were no performance conditions attached to the issue of these shares as they were considered immaterial percentages of relevant salaries

(iv) Options granted as part of remuneration (these tables have been audited)

No options were granted as part of remuneration options during the financial year ended 30 June 2011.

No options were granted as part of remuneration options during the financial year ended 30 June 2010.

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

30 June 2011	Balance 01-Jul-10	Granted as Remuneration	Exercised during the year	Lapsed during the year	Balance 30 June 11
J.H. Du Bois (CEO)	13,000,000	–	–	5,000,000	8,000,000
Total	13,000,000	–	–	5,000,000	8,000,000

- (i) 5,000,000 sign-on options held by the CEO, Mr John Du Bois, were out-of-the-money and therefore were not exercised prior to the option lapsing. The lapse date for the first 5,000,000 granted was April, 2011.

(v) Performance rights granted as part of remuneration (these tables have been audited)

30 June 2011	Grant Date	Grant Number	Value of rights granted during the year	Value of rights lapsed during the year	Fair Value per right at grant date (Note 14)	Vesting Dates	Remuneration consisting of rights for the year
			\$	\$	\$	\$	
J.H. Du Bois	18-Nov-10	300,000	10,200	–	0.0340	30-JUN-13	1.34%
J.H. Du Bois	18-Nov-10	300,000	10,200	–	0.0340	18-Nov-13	1.34%
Total		600,000	20,400	–			2.67%

- (i) 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.

DIRECTORS' REPORT

(Continued)

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

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

598,052 performance rights were granted as part of remuneration options during the financial year ended 30 June 2010.

30 June 2011	Balance 01-Jul-10	Granted as Remuneration	Exercised during the year	Lapsed during the year	Balance 30-June-11
J.H. Du Bois (CEO)	598,052	600,000	–	–	1,198,052
Total	598,052	600,000	–	–	1,198,052

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
C. N. Brown	2	2
J. H. Du Bois	9	9
R. Warner	9	9
J. M. Connolly	9	9
A. R. Stockdale (resigned 2 February, 2011)	5	5

A total of 9 Directors' meetings were held during the year ended 30 June 2011.

The company has an Audit and Risk Management Committee.

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

	Number of meetings held while a director	Number of meetings attended
A. R. Stockdale (resigned 2 February, 2011)	2	1
R. Warner (Chairman)	2	2
J. M. Connolly	2	2

Mr J. H. Du Bois attends Audit Committee meetings in the capacity of Chief Executive Officer.

A total of 2 meetings were held during the year ended 30 June 2011.

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
J. M. Connolly (Chairman)	2	2
R. Warner	2	2

A total of 2 meetings were held during the year ended 30 June 2011.

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



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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 2011, 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

David McGregor

Partner
Melbourne
14th September, 2011

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. 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	\$19,635
Advisory services	\$15,800

Signed in accordance with a resolution of the directors

Christopher N. Brown
Chairperson

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under Professional Standards Legislation

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

	Notes	Consolidated	
		2011	2010
		\$	\$
Revenue from operating activities	4	11,301,407	15,580,363
Cost of sales		(1,837,048)	(2,108,875)
Gross profit		9,464,359	13,471,488
Other income	4	81	167,359
Employee benefits expense	4	(8,508,525)	(9,578,755)
Depreciation and amortisation expense	4	(354,550)	(288,182)
Other expenses	4	(5,862,720)	(2,710,906)
(Loss) / Profit before income tax		(5,261,355)	1,030,175
Income tax benefit/(expense)	5	(364,832)	(81,558)
Net (loss)/profit for the period		(5,626,187)	948,617
Other Comprehensive Income			
Foreign currency translation		16,630	–
Income tax on items of other comprehensive income		–	–
Total comprehensive income for the period		(5,609,557)	948,617
(Loss)/profit for the period is attributable to:			
Owners of the parent		(5,609,557)	948,617
		(5,609,557)	948,617
Total comprehensive income for the period is attributable to:			
Owners of the parent		(5,609,557)	948,617
		(5,609,557)	948,617
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the parent			
• basic earnings per share (cents per share)-rounded	6	(1.21)	0.21
• diluted earnings per share (cents per share)-rounded		(1.21)	0.21

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

STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	Notes	Consolidated	
		2011	2010
		\$	\$
Assets			
Current Assets			
Cash and cash equivalents	7	3,857,924	6,944,933
Trade and other receivables	8	1,593,302	3,425,175
Inventories	9	1,136,843	973,906
Prepayments		77,088	79,022
Other assets	10	30,953	39,663
Total Current Assets		6,696,110	11,462,700
Non-current Assets			
Other financial assets		4,928	–
Deferred income tax asset	5	546,425	960,465
Property, plant and equipment	12	683,199	733,451
Intangible assets and goodwill	13	6,752,206	8,610,695
Total Non-current Assets		7,986,758	10,304,611
Total Assets		14,682,869	21,767,311
Liabilities			
Current Liabilities			
Trade and other payables	15	1,173,785	2,146,772
Unearned income		332,515	1,013,916
Provisions	16	939,919	967,110
Total Current Liabilities		2,446,219	4,127,798
Non-current Liabilities			
Deferred income tax liabilities	5	30,602	79,819
Provisions	16	174,341	139,846
Unearned income – non-current		163,403	–
Total Non-current Liabilities		368,346	219,665
Total Liabilities		2,814,565	4,347,463
Net Assets		11,868,305	17,419,849
Equity			
Equity attributable to equity holders of the parent			
Contributed equity	17	101,545,849	101,499,944
Accumulated losses		(90,229,941)	(84,603,754)
Foreign currency translation reserve		16,630	–
Employee benefit reserve		522,907	510,799
Parent interests		11,855,445	17,406,989
Non-controlling interests		12,860	12,860
Total Equity		11,868,305	17,419,849

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 2011

	Notes	Consolidated	
		2011	2010
		\$	\$
Cash flows from operating activities			
Receipts from customers		12,353,152	16,115,193
Payments to suppliers and employees		(15,337,989)	(14,718,595)
Interest received		285,365	238,682
Receipt of government grants		–	162,946
Net cash flows from/(used in) operating activities	7	(2,699,472)	1,798,226
Cash flows from investing activities			
Purchase of property, plant and equipment		(129,028)	(167,301)
Purchase of intangible assets		(56,420)	(26,784)
Acquisition of subsidiary	25	(218,718)	–
Net cash flows from/(used in) investing activities		(404,166)	(194,085)
Net increase/(decrease) in cash and cash equivalents		(3,103,638)	1,604,141
Net effect of foreign currency translation		16,630	–
Cash and cash equivalents at beginning of period		6,944,933	5,340,792
Cash and cash equivalents at end of period	7	3,857,924	6,944,933

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 2011

	Attributable to equity holders of Senetas Corporation Ltd				Owners of the Parent	Non controlling Interest	Total Equity
	Contributed Equity	Accumulated Losses	Foreign currency translation reserve	Employee Benefits Reserve	Total		
Consolidated	\$	\$	\$	\$	\$	\$	\$
At 30 June 2009	101,444,944	(85,552,371)	–	484,290	16,376,863	12,860	16,389,723
Profit for the year	–	948,617	–	–	948,617	–	948,617
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income	–	948,617	–	–	948,617	–	948,617
Transactions with owners	55,000	–	–	26,509	81,509	–	81,509
At 30 June 2010	101,499,944	(84,603,754)	–	510,799	17,406,989	12,860	17,419,849
Loss for the year	–	(5,626,187)	–	–	(5,626,187)	–	(5,626,187)
Other comprehensive income	–	–	16,630	–	16,630	–	16,630
Total comprehensive income	–	(5,626,187)	16,630	–	(5,609,557)	–	(5,609,557)
Transactions with owners	45,905	–	–	–	58,013	–	58,013
At 30 June 2011	101,545,849	(90,229,941)	16,630	522,907	11,855,445	12,860	11,868,305

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

1 Corporate information

The financial report of Senetas Corporation Limited (the Company) for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the directors on 14 September, 2011.

Senetas Corporation Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian stock exchange.

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 a historical cost basis except for financial assets held at fair value (see Note 11) and is presented in Australian dollars.

(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 as of 1 July, 2010

- AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]* effective 1 January, 2010
- AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]* effective 1 January 2010
- AASB 2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]* effective 1 January 2010
- AASB 2010-3 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, 7, 121, 128, 131, 132 & 139]* effective 1 July, 2010
- Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* effective 1 July, 2010.

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

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 2011.

* designates the beginning of the applicable annual reporting period.

Reference	Title and brief summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 9	Financial Instruments	01-Jan-13	The changes to this standard are expected to have no or minimal effect on the Group.	1-Jul-13
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	01-Jan-13	The changes to this standard are expected to have no or minimal effect on the Group.	1-Jul-13
AASB 124 (revised)	Related Party Disclosures (December 2009)	01-Jan-11	The Group has no related party transactions that will be affected by the simplification of the definition of a related party from this revision. Any related party transactions in the future will consider this revision.	1-Jul-11
AASB 2009-12	Amendments to Australian Accounting Standards [AASB's 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	01-Jan-11	The editorial amendments in these standards are expected to have no or minimal effect on the Group. Should this situation change then the impact would be reassessed.	1-Jul-11
AASB 2009-14	Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	01-Jan-11	The Group has no defined benefit pension plans so the changes in this standard will have no effect.	1-Jul-11

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 30 June 2011

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*
AASB 1053	Application of Tiers of Australian Accounting Standards	01-Jul-13	The Group will follow Tier 1 reporting requirements in preparing general purpose financial statements as it currently does. The addition of Tier 2 will have no effect on the Group.	1-Jul-13
AASB 1054	Australian Additional Disclosures	01-Jul-11	The additional disclosure requirements are not expected to have a significant impact on the Group.	1-Jul-12
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13]	01-Jan-11	The changes in these amendments are likely to have no or minimal effect on the Group.	1-Jul-13
AASB 2010-5	Amendments to Australian Accounting Standards (AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023, & 1038 and Interpretations 112, 115, 127, 132 & 1042)	01-Jan-11	The editorial amendments are likely to have no or minimal effect on the Group.	1-Jul-11
AASB 2010-6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]	01-Jul-11	The Group has not had a transaction involving the transfer of a financial asset. As such, these changes are likely to have none or minimal effect. Should this situation change the impact will be reassessed	1-Jul-11
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127]	01-Jan-13	The Group has no financial liabilities that are likely to have a change in fair value. As such the impact of these changes is likely to be none. Should the situation change the impact will be reassessed.	1-Jul-13
AASB 2010-8	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]	01-Jan-12	The Group has no investment property to which these changes are applicable therefore the impact is likely to be none. Should the situation change the impact will be reassessed	1-Jul-12
AASB 2011-1	Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project.(AASB 1, 5, 101, 107, 108, 121, 128, 132, 134, Interpretations 2, 112 & 113.)	01-Jul-11	These editorial amendments are not likely to have an impact on the Group.	1-Jul-11
New	IFRS 10 Consolidated Financial Statements	01-Jan-13	This standard establishes a new control model that applies to all entities. This standard will have no significant implications to the Group and no Australian Accounting Standard equivalent has been issued.	1 July 2013
New	IFRS 12 Disclosure of Interests in Other Entities	01-Jan-13	This standard includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. This standard will have no significant implications to the Group and no Australian Accounting Standard equivalent has been issued.	1 July 2013
New	IFRS 13 Fair Value Measurement	01-Jan-13	This standard establishes a single source of guidance under IFRS for determining the fair value of assets and liabilities. This standard will have no significant implications to the Group and no Australian Accounting Standard equivalent has been issued.	1 July 2013

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the year ended 30 June 2011

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.

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

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

Investments in subsidiaries are carried at cost.

(d) Significant accounting judgements, estimates and assumptions

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill is allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill are also discussed in Note 13.

The key assumptions used to calculate the value in use of the two cash generating units (CGU) of IBK (2011: \$0, 2010: \$2,082,860) and Senetas Security (2011: \$6,453,002, 2010: \$6,453,002) for 30 June 2011 and 30 June 2010 are outlined in Note 13.

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. (2011: \$528,172, 2010: \$540,781).

Deferred tax asset for tax loss

Unrecognised deferred income tax assets are reassessed at each balance sheet 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 2011 because management determined that it is not probable as at 30 June 2011 (2010: \$150,000).

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, we 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. (2011: \$13,804, 2010: \$200,000). The movement in the provision for slow moving items includes a write off of \$464,674 for the 2011 financial year. Further details are outlined in Note 9.

(e) Going Concern

The financial statements have been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and liabilities in the ordinary course of business.

The Company incurred a loss after tax of \$5.6million for the year ended 30 June 2011 and operating cash outflows of \$2.7million for the same period. The ability of the company to continue as a going concern is dependent on the achievement of its business plans and cash flow forecasts which result in positive operational cashflows. The Directors believe that there are reasonable grounds to expect that the Company's operational and financial forecasts will be met on the following basis:

- Due to project specific infrastructure delays, some sales expected during the financial

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

2 Summary of Significant Accounting Policies (continued)

year 2011 were not made. The Company expects these sales to be finalised during the financial year 2012 as these customers have indicated that the infrastructure projects are no longer delayed.

- The company has a substantial pipeline of qualified and mature prospective sales to existing and new customers. Based on this pipeline the Company believes that there are reasonable grounds to expect that the company's cash flow forecasts can be achieved. The Company internally defines an opportunity as mature when a technology proof of concept has been conducted, the customer has asked for a quote or discussions are at a point where the solution has been specified.
- The company's UK based operation, Senetas Europe, is expected to achieve its target revenues on the basis that a newly appointed reseller will begin to generate sales, and that the company's CAPS (CESG Assisted Products Scheme) certification will be received on its range of encryptors. CAPS certification is required for sales into some identified significant UK Government sales opportunities. 2012 will be the first full year of operations for Senetas Europe.

After making reasonable enquiries the directors have a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future. For these reasons they continue to adopt the going concern basis in preparing the financial report.

(f) Revenue Recognition

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

Sale of goods

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.

Rendering of services

Revenue from IT consultancy services is recognised by reference to the stage of completion.

Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract.

Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Where fees are fixed, no revenue is recognised beyond the fixed fee.

The amounts received from certain customers who pay in advance for the provision of services is initially reflected as unearned revenue until the revenue recognition criteria (outlined above) has been met.

Royalties

Royalty income relating to the sale by a licensee of licensed product is recognised on an accruals basis in accordance with the substance of the relevant agreement and based on the receipt from the licensee of the relevant information to enable calculation of the royalty due.

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.

(g) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

(h) 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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

2 Summary of Significant Accounting Policies (continued)

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.

(i) Cash and cash equivalents

Cash and short-term deposits in the balance sheet 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.

(j) 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.

(k) 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.

(l) Foreign currency translation

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

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet 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 Singapore and Senetas Europe, are dormant. However any assets and liabilities of overseas subsidiaries are translated into the presentation currency of Senetas Corporation Limited at the rate of exchange ruling at the balance sheet 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.

(m) 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 sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

2 Summary of Significant Accounting Policies (continued)

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 sheet 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 sheet 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 sheet date.

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

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

Senetas is entitled to claim a tax concession for eligible R&D expenditure in which Senetas claims tax deductions at a rate of 125% for eligible R&D expenditure (R&D Deduction).

The company estimates the current year's R&D Deduction by adopting the prior year's eligible R&D expenditure as a reasonable estimate of the current year's eligible R&D expenditure on the basis that the company's R&D expenditure is consistent with the prior year.

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 balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

2 Summary of Significant Accounting Policies (continued)

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.

(n) Plant and equipment

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

Depreciation is calculated either by reducing balance or 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.

(o) Goodwill

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or group of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those

units or group of units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

(p) 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:

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

2 Summary of Significant Accounting Policies (continued)

Software

The useful life of software is finite and software assets are amortised on a straight line basis over 3 years. All software assets are acquired and the amortisation method is reviewed annually, at each financial year-end, for indications of impairment.

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

Research and development costs

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

(q) 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 to sell 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.

(r) 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.

(s) Employee leave benefits

Wages, salaries, annual leave and sick 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 sick 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.

(t) 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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

2 Summary of Significant Accounting Policies (continued)

external valuer using a binomial model. Further details are provided in note 14.

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

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions 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.

(u) 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.

(v) 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);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenue or expenses during the period that would result from the dilution of potential ordinary shares;

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

(w) 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.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

3 Segment information

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Discrete financial information about each of these operating businesses is provided to the executive management team on at least a monthly basis. These operating segments are the sources of the Group's major risks and have the most effect on the rates of return.

The products segment produces and distributes high speed network encryption products providing network security solutions to businesses and governments around the world.

The services segment provides a variety of IT professional services in the field of data warehousing, business intelligence, enterprise management and sells software associated with these areas. It also continues to hold investments in several IT infrastructure businesses.

Operating segments

The following tables present revenue and profit information regarding operating segments for the years ended 30 June 2011 and 2010.

Year ended 30 June 2011	Products	Services	Corporate expense and other	Total Operations
	\$	\$	\$	\$
Revenue				
Sales to external customers	6,471,351	4,567,843	–	11,039,194
Total segment revenue	6,471,351	4,567,843	–	11,039,194
Segment net operating profit/(loss) before tax	16,236	(1,917,913)	(3,359,678)	(5,261,355)
Interest and sundry income	11,906	–	250,388	262,294
Depreciation & Amortisation	236,613	–	117,937	354,550
Assets written off/impairment	84,639	2,082,860	–	2,167,499

Accounting policies

The accounting policies used by the Group in reporting segments internally are the same as those contained in Note 2 to the accounts and in the prior period except as detailed below:

Corporate Charges

Corporate charges comprise non-segmental expenses such as head office expenses and interest. These are not allocated to each business segment but are reported as "Other" because management does not allocate these costs in making its determination of the segment result. They are not considered part of the core operations of any individual segment.

Income tax

The executive management reviews, on a monthly basis, the performance of each segment by analysing the segments net operating profit before tax.

Assets & Liabilities

As the Group's chief operating decision maker does not review segment assets and liabilities, this information is not disclosed here.

Major customers

The Group has a number of customers to which it supplies both products and services. The Group supplied a number of Government agencies, the combined total of which accounted for 26 % (2010: 26%) of external revenues. The next major customer contributed 25% (2010: 21%) of external revenue.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

3 Segment information (continued)

Year ended 30 June 2010	Products	Services	Corporate expense and other	Total Operations
	\$	\$	\$	\$
Revenue				
Sales to external customers	8,167,262	7,153,525	–	15,320,787
Total segment revenue	8,167,262	7,153,525	–	15,320,787
Segment net operating profit/(loss) before tax	3,589,773	812,382	(3,371,980)	1,030,175
Interest and sundry income	5,560	–	254,016	259,576
Depreciation & Amortisation	199,714	–	88,468	288,182
Assets written off/impaird	30,829	–	–	30,829

Segment revenue reconciliation to the statement of comprehensive income	Consolidated	
	2011	2010
	\$	\$
Total segment revenue	11,039,194	15,320,787
Interest revenue	262,213	259,576
Other revenue from continuing operations	81	167,359
Total Revenue	11,301,488	15,747,722

Revenue from external customers by geographical locations is detailed 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.

	2011	2010
	\$	\$
Australia & New Zealand	6,115,706	10,109,665
United States	2,836,819	3,876,597
Europe	1,138,370	864,430
Saudi Arabia	573,859	63,665
Other foreign countries	374,441	406,430
	11,039,194	15,320,787

Segment net operating profit before tax reconciliation to the statement of comprehensive income	2011	2010
	\$	\$
Segment net profit/(loss) before tax	(5,261,355)	1,030,175
Other intersegment eliminations	–	–
Income tax benefit/(expense)	(364,832)	(81,558)
Total net profit/(loss) after tax as per the statement of comprehensive income	(5,626,187)	948,617

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
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4 Revenues and expenses

	Consolidated	
	2011	2010
	\$	\$
(a) Revenue		
Sale of goods	3,058,160	4,047,592
Product maintenance revenue	1,169,141	1,179,560
Provision of services	4,586,650	7,153,525
Royalties	2,225,243	2,940,110
Interest revenue:		
Non-related parties	262,213	259,576
	11,301,407	15,580,363
(b) Other income		
Government grants ⁽ⁱ⁾	–	162,946
Other income	81	4,413
	81	167,359

- (i) During the 2010 year the company applied for an Australian Government Export Market Development Grant (EMDG) which is designed to provide financial assistance to new and current exporters. The purpose of the scheme is to encourage Australian businesses to develop export markets. The EMDG scheme reimburses up to 50% of eligible export promotion expenses above a threshold of \$150,000. There are no unfulfilled conditions or contingencies attaching to these grants. The company was not eligible to apply for an EMDG grant in 2011 as it has claimed the full entitlement (seven grants) in previous years. The company also received a grant under the Smart SMEs Market Validation Program. The Smart SMEs Market Validation Program (MVP) is a \$28 million grant program that seeks to engage with both government and business to promote innovation. The program aims to support SMEs to develop innovative products, processes and services focussed on meeting the future technology needs of Victorian public sector entities.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

4 Revenues and expenses (continued)

	Note	Consolidated	
		2011	2010
		\$	\$
(c) Depreciation and amortisation expense			
Depreciation:			
Plant and equipment		302,666	249,806
Leasehold improvements		15,317	13,990
Amortisation:			
Software		36,567	24,386
		354,550	288,182
(d) Other expenses			
Operating lease		452,932	385,490
Foreign exchange (gain) or loss		289,362	28,283
Inventory written off / provision		456,674	101,500
Travel Expenditure		406,349	425,031
R & D expenditure (excluding salaries)		240,362	197,251
Marketing expenditure		347,818	229,268
Insurance expenditure		142,833	182,643
Goodwill impairment ⁽ⁱ⁾		2,082,860	–
Write off of tangible assets		84,639	30,829
Telephone & internet expenditure		91,968	118,493
Other overhead expenses		1,266,923	1,042,947
		5,862,720	2,710,906
(e) Employee Benefits expenses			
Salaries & wages		7,878,042	8,641,165
Superannuation		572,470	569,388
Termination payouts		–	286,693
Share based payment expense	14	58,013	81,509
		8,508,525	9,578,755

(i) Impairment relates to goodwill on acquisition for IBK – see Note 13 for further detail

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

5 Income tax

	Consolidated	
	2011	2010
	\$	\$
Major components of income tax expense for the years ended 30 June 2011 and 2010 are:		
<i>Current income tax</i>		
Current income tax charge	(1,249,278)	59,924
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	364,824	81,558
Tax losses not brought to account	1,249,278	–
Tax losses booked	–	(59,924)
Income tax (benefit) / expense reported in income statement	364,824	81,558
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 2011 and 2010 is as follows:		
Accounting (loss)/profit before tax	(5,261,355)	1,030,175
At the statutory income tax rate of 30% (2010: 30%)	(1,578,407)	309,053
Expenditure not allowable for income tax purposes	38,559	43,818
Capital items not allowable for income tax purposes	23,670	29,647
Impairment of goodwill (IBK)	624,858	–
Tax losses booked	–	(59,924)
Tax losses not booked	1,249,278	–
Deferred tax related to tax losses derecognised	150,000	–
R& D claim	(113,418)	(239,639)
Other	(29,717)	(1,397)
Income tax expense reported in income statement	364,824	81,558

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

5 Income tax (continued)

	Balance sheet 2011	Balance sheet 2010
Consolidated	\$	\$
Deferred tax assets		
Accruals:		
Stock obsolescence	4,141	60,000
Audit fees	24,285	31,050
Accounting and tax	3,060	–
AGM costs	7,964	8,100
Employee benefits:		
Bonus	–	252,881
Annual leave	171,982	169,853
Long service leave	158,280	162,234
Superannuation	–	–
Plant & equipment:		
Amortised business costs	5,119	5,119
Patents	18,433	18,433
Other:		
Unrealised loss	36,487	11,092
FBT accrual	–	(105)
Unearned income	116,531	83,439
Tax losses	–	150,000
Other	144	8,370
	546,425	960,465
Deferred tax liabilities		
Prepayments	226	174
WIP (unbilled accounts receivable)	28,271	50,944
Unrealised gain	2,106	19,650
Interest receivable	–	9,051
	30,602	79,819
Net deferred tax asset	515,823	880,646

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

5 Income tax (continued)

	Income 2011	Income 2010
Consolidated	\$	\$
Deferred tax assets		
Accruals:		
Stock obsolescence	55,859	(30,000)
Audit fees	6,765	(10,829)
Accounting and tax	(3,060)	1,713
AGM costs	136	(1,800)
Employee benefits:		
Bonus	252,881	46,179
Annual leave	(2,129)	10,160
Long service leave	3,954	(11,121)
Superannuation	–	19,713
Plant & equipment:		
Amortised business costs	–	12,819
Patents	–	(1,565)
Other:		
Unrealised loss	(25,395)	(890)
FBT accrual	(105)	105
Unearned income	(33,092)	75,005
Tax losses derecognised	150,000	–
Other	8,226	(7,004)
	414,041	102,484
Deferred tax liabilities		
Prepayments	52	174
WIP (unbilled accounts receivable)	(22,673)	(47,018)
Unrealised Loss	(19,650)	19,650
Interest receivable	(6,945)	6,268
	(49,217)	(20,926)
Deferred tax (benefit) /expense	364,824	81,558

	Consolidated	
	2011	2010
Deferred tax asset and liabilities	\$	\$
Deferred tax asset (non-current)	546,425	960,465
Deferred tax liability (non-current)	30,602	79,819

The Franking Account Balance for both 2010 and 2011 is \$384,327.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

5 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 that 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 \$14,926,733 (2010: \$11,162,472) 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. (2010: \$150,000)

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.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

6 Earnings per share

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

	Consolidated	
	2011	2010
	\$	\$
Net profit/(loss) attributable to equity holders of the parent (used in calculating basic EPS)	(5,626,187)	948,617
Net profit/(loss) attributable to ordinary shareholders for diluted earnings per share	(5,626,187)	948,617
	No. of shares	No. of shares
Weighted average number of ordinary shares for basic earnings per share	463,105,195	461,522,263
<i>Effect of dilution:</i>		
Share options ⁽ⁱ⁾	–	–
Adjusted weighted average number of ordinary shares for diluted earnings per share	463,105,195	461,522,263

- (i) Exercisable options held by the CEO, Mr John Du Bois, are out-of-the-money during the year. The number of exercisable options are therefore not included in the calculation of diluted earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

7 Cash and cash equivalents

	Consolidated 2011	Consolidated 2010
	\$	\$
Cash at bank and on hand	1,583,455	1,820,925
Short-term deposits	2,274,469	5,124,008
	3,857,924	6,944,933

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 six 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 Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:		
Cash at bank and in hand	1,583,455	1,820,925
Short-term deposits	2,274,469	5,124,008
Total cash and short-term deposits	3,857,924	6,944,933

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

Net profit after tax	(5,626,187)	948,617
<i>Adjustments for:</i>		
Depreciation and amortisation	354,550	288,182
Assets written off / impaired	2,167,499	30,829
Unrealised foreign currency (gain)/ loss	116,013	(28,521)
Inventory written off	456,674	101,500
Share based payments	58,013	81,509
<i>Changes in assets and liabilities</i>		
(Increase)/decrease in trade and other receivables	1,831,872	1,005,290
(Increase)/decrease in inventories	(619,611)	62,156
(Increase)/decrease in prepayments	(2,994)	40,232
(Increase)/decrease in other assets	8,710	(25,594)
(Decrease)/increase in trade and other payables	(1,095,685)	(541,604)
(Decrease)/increase in deferred income tax assets	414,041	101,117
(Decrease)/increase in deferred income tax liability	(49,209)	(19,569)
(Decrease)/increase in provisions	7,304	3,207
Inventory transferred to PP&E	(202,450)	(33,829)
(Decrease)/increase in unearned income	(518,012)	(215,296)
Net cash (used in) / from operating activities	(2,699,472)	1,798,226

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

8 Trade and other receivables (current)

	Consolidated	
	2011	2010
	\$	\$
Trade receivables	1,499,066	3,255,361
Unbilled Account Receivables ⁽ⁱ⁾	94,236	169,814
	1,593,302	3,425,175

(i) Consulting work completed not yet billed.

At 30 June 2011, the ageing analysis of trade receivables is as follows:

Days	0-30	31-60	61-90	90+ ^{(i) (ii)}
2011 Consolidated	1,281,351	162,654	37,742	17,320
2010 Consolidated	3,128,942	63,343	63,076	–

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

(ii) The value of consolidated trade receivables that are past due and considered impaired was \$0, (2010 \$0).

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

For further information on risk disclosures refer Note 18

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

9 Inventories

	Consolidated	
	2011	2010
	\$	\$
Inventories (at cost)	1,150,647	1,173,906
Provision for obsolescence ⁽ⁱ⁾	(13,804)	(200,000)
Total inventories at lower of cost and net realisable value	1,136,843	973,906

Inventory write-downs recognised as an expense totalled \$456,674 (2010: \$101,500) for the Group.

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

	Consolidated
	\$
At 1 July 2010	(200,000)
Charge for the year	(133,800)
Amounts written off (ATM & Sonet inventories)	319,996
At 30 June 2011	(13,804)
At 1 July 2009	(100,000)
Charge for the year	(100,000)
Amounts adjusted/written off	–
At 30 June 2010	(200,000)

10 Other assets (current)

	Consolidated	
	2011	2010
	\$	\$
Interest receivable	7,019	30,171
Security deposit	10,385	4,794
Sundry assets	13,549	4,698
	30,953	39,663

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

11 Other financial assets

The Group has the following unlisted investments. The fair value of the unlisted investments is nil (2010: nil)

Name	Country of Incorporation	% Equity interest		Investment ⁽ⁱ⁾ (\$)	
		2011	2010	2011	2010
Mineral Resource Corp Inc.	Canada	0.001%	0.001%	–	–
Axiom Navigational Inc.	USA	5%	5%	–	–
YellowOnline.com Inc.	USA	8%	8%	–	–
RealityBUY.com Inc.	USA	1.5%	1.5%	–	–
Webspy Ltd.	Australia	0.002%	0.002%	–	–
InfoProtect Technologies Plc	UK	19.86%	19.86%	–	–
Total unlisted investment at fair value				–	–

⁽ⁱ⁾ Net carrying amount

12 Property, plant and equipment

	Consolidated		
	Leasehold improvements	Plant and equipment	Total
	\$	\$	\$
Year ended 30 June 2011			
At 1 July 2010, net of accumulated depreciation	60,528	672,923	733,451
Additions	2,253	147,667	149,920
Write offs	–	(84,639)	(84,639)
Transfer of plant and equipment from inventory	–	202,450	202,450
Depreciation charge for the year	(15,317)	(302,666)	(317,983)
At 30 June 2011, net of accumulated depreciation	47,464	635,735	683,199
At 1 July 2010			
Cost	152,215	2,467,979	2,620,194
Accumulated depreciation and impairment	(91,687)	(1,795,056)	(1,886,743)
Net carrying amount	60,528	672,923	733,451
At 30 June 2011			
Cost	154,467	2,695,428	2,849,895
Accumulated depreciation	(107,003)	(2,059,693)	(2,166,696)
Net carrying amount	47,464	635,735	683,199

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

12 Property, plant and equipment (continued)

	Consolidated		
	Leasehold improvements	Plant and equipment	Total
Year ended 30 June 2010	\$	\$	\$
At 1 July 2009, net of accumulated depreciation	67,937	759,009	826,946
Additions	6,580	160,721	167,301
Write offs	–	(30,829)	(30,829)
Transfer of plant and equipment from inventory	–	33,829	33,829
Depreciation charge for the year	(13,990)	(249,806)	(263,796)
At 30 June 2010, net of accumulated depreciation	60,528	672,923	733,451
At 1 July 2009			
Cost	145,634	2,461,451	2,607,085
Accumulated depreciation	(77,697)	(1,702,442)	(1,780,139)
Net carrying amount	67,937	759,009	826,946
At 30 June 2010			
Cost	152,215	2,467,979	2,620,194
Accumulated depreciation	(91,687)	(1,795,056)	(1,886,743)
Net carrying amount	60,528	672,923	733,451

Property, plant and equipment are not subject to or pledged as collateral for any liabilities or contingent liabilities.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

13 Intangible assets and goodwill

	Goodwill⁽²⁾	Software⁽¹⁾	Total
	\$	\$	\$
Year ended 30 June 2011			
At 1 July 2010 net of accumulated amortisation and impairment	8,535,862	74,833	8,610,695
Additions	204,518	56,420	260,938
Goodwill written off	(2,082,860)	–	(2,082,860)
Amortisation	–	(36,567)	(36,567)
At 30 June 2011 net of accumulated amortisation and impairment	6,657,520	94,686	6,752,206
At 30 June 2011			
Cost (gross carrying amount)	8,740,380	365,532	9,105,912
Accumulated amortisation and impairment	(2,082,860)	(270,846)	(2,353,706)
Net carrying amount	6,657,520	94,686	6,752,206
Year ended 30 June 2010			
At 1 July 2009 net of accumulated amortisation and impairment	8,535,862	72,434	8,608,296
Additions/ transfers	–	26,785	26,785
Amortisation	–	(24,386)	(24,386)
At 30 June 2010 net of accumulated amortisation and impairment	8,535,862	74,833	8,610,695
At 30 June 2010			
Cost (gross carrying amount)	8,535,862	309,112	8,844,974
Accumulated amortisation and impairment	–	(234,279)	(234,279)
Net carrying amount	8,535,862	74,833	8,610,695

⁽¹⁾ Purchased licences and software.

⁽²⁾ Relates to purchased goodwill only.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

13 Intangible assets and goodwill (continued)

Software

Software is carried at cost less accumulated amortisation and impairment losses. These intangible assets have been assessed as having a finite life. Those acquired prior to the financial year beginning 1st July, 2007 are amortised using the declining balance method at a rate of 40 percent. Those purchased subsequent to this date 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.

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to two individual cash generating units, neither of which is larger than a segment, based on either the Group's primary or the Group's secondary reporting segments, for impairment testing as follows:

- IBK cash generating unit; and
- Senetas Security cash generating unit.

IBK Cash Generating Unit

- An impairment loss of \$2,082,860 has been recognised for continuing operations in the 2011 financial year. The impaired goodwill related to the purchase of IBK in 2001. The impairment loss has been recognised in the income statement in the line item "Other expenses". The recoverable amount was assessed by management in terms of its value in use, based on future cash flows and significant uncertainty in relation to the IT consulting market place in the short to medium term.
- The pre-tax discount rate applied to cash flow projections was 15% (2010: 15%).
- The present value of the estimated cash flows were significantly less than the carrying value and the asset was considered impaired and its carrying value written down to nil.

Senetas Security Cash Generating Unit

- The recoverable amount of the Senetas Security Cash Generating Unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management for the 2012 financial year. The key assumptions on which management has based its cash flow projections when determining the value in use of the Senetas Security Cash Generating Unit (CGU) are outlined below:

Budgeted gross margins – the basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the

budgeted year, increased for expected efficiency improvements.

Revenue

- Management have estimated future revenues based on the expected revenues to be generated through the implementation of a global channel sales structure and the employment of a direct sales force focused on the Australian and New Zealand markets.
- The pipeline of identifiable future sales opportunities for each revenue stream is calculated and a conversion factor has been used to estimate the sales revenue that is expected to be generated from this pipeline.
- Contracted revenues and existing orders have also been taken into account in estimating expected revenues.
- Management expect the current royalty agreement with SafeNet to continue in the foreseeable future.

Expenses

- direct and overhead expenses are expected to remain constant over the life of the forecast period.
- estimates based on the historic cost of raw materials and the assembly cost of producing a finished unit have been used to calculate the cost of goods sold.
- management have allocated an appropriate share of corporate costs to the expenses of the CGU in estimating its future cash flows.

Assets and Liabilities

- Assets and liabilities that are specific to the carrying value of the CGU are taken into account.

Market related factors

- Based on the information presently available, management expect the legal environment relating to the business unit to remain stable.
- The positive impact of the introduction of regulation: such as the US PATRIOT Act, Global Privacy Legislation, Payment Card Industry (PCI) Data Security Standard and the Privacy Act 1998.
- Our assumptions for determining the recoverable amount of each asset and CGU are based on past experience and our expectations for the future.

Discount Rate

- The pre-tax discount rate applied to cash flow projections is 21% (2010: 18%).

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

13 Intangible Assets and Goodwill (continued)

Discount Period & Methodology

- Management have estimated the cash flows over a discount period of 5 years and cash flows for that period have been extrapolated at a growth rate of 1% (2010: 3%). A terminal value has been calculated using the perpetuity growth model which accounts for the value of free cash flows that are expected to be generated by the CGU in the future.
- The pre-tax discount rate is applied to cash flow projections to calculate the net present value of projected cash flows.
- Where the net present value of cash flows exceed the carrying value of the business unit, the business unit is not considered to be impaired. Where the carrying value of the business unit exceeds the net present value of cash flows, the business unit is considered to be impaired and an impairment loss is recognised.
- Based on the key assumptions outlined above, the recoverable amount of the CGU exceeds its carrying amount by \$4,494,661.

Sensitivity Analysis

The company has undertaken a sensitivity analysis on the future expected discounted cash flows used to assess the carrying value of the CTAM goodwill. The company considers that the carrying value of the CTAM goodwill is most sensitive to the changes in the following revenue streams: Royalty income and the level of product sales in the CTAM CGU. The scenario analysis below discloses the estimated recoverable value of the CTAM intangible goodwill asset in each case without that revenue stream with all other key assumptions kept constant:

Scenario 1 – The recoverable amount of the CTAM goodwill without a royalty income stream from 31 December 2011 is below the carrying value of CTAM goodwill. Therefore impairment is required.

Scenario 2 – In this scenario we assume that Royalty cash flows will be a recurring annual income stream. Therefore the company's approximate minimum product revenue to support CTAM goodwill intangible is \$6.3m per annum. If product revenues fall below \$4.3m then the CTAM goodwill would be fully impaired.

Carrying amount of goodwill allocated to each cash generating units

	Consolidated		
	CTAM Pty Ltd ⁽¹⁾	IBK	Total
	\$	\$	\$
Year ended 30 June 2011			
Year ended 30 June 2010	6,453,002	–	6,453,002
Goodwill on acquisition of Senetas Europe	204,518	–	204,518
Goodwill (carrying amount)	6,657,520	–	6,657,520
Year ended 30 June 2010			
Goodwill (carrying amount)	6,453,002	2,082,860	8,535,862

⁽¹⁾ The carrying value of the CTAM cash generating unit as at 30 June 2011 was 8,781,453. (2010: 8,637,961)

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

14 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 2011:

	2011 No.	2011 WAEP	2010 No.	2010 WAEP
Outstanding at the beginning of the year	13,598,052	\$0.501	13,000,000	\$0.520
Granted during the year	600,000	NIL	598,052	NIL
Exercised during the year	–	–	–	–
Expired during the year	(5,000,000)	\$1.060	–	–
Forfeited during the year	–	–	–	–
Outstanding at the end of the year ⁽ⁱ⁾	9,198,052	\$0.164	13,598,052	\$0.501
Exercisable at the end of the year	8,000,000	\$0.189	13,000,000	\$0.520

(i) The outstanding balance as at 30 June 2011 is represented by:

- 600,000 performance rights over ordinary shares with a weighted average exercise price of NIL, granted on 18 November 2010 subject to share price and EPS hurdles, vesting over three years. The weighted average fair value per performance right is \$0.034.
- 598,052 performance rights over ordinary shares with a weighted average exercise price of NIL, granted on 18 November 2009 subject to share price and EPS hurdles, vesting over three years. The weighted average fair value per performance right is \$0.0836.
- 8,000,000 sign on options over ordinary shares with a weighted average exercise price of \$0.189 granted 26 October 2007 and expiring on 26 October 2012. The weighted average fair value per option is \$0.0365.

Grant of performance rights during the 2011 financial year

On the 18 November 2010, following shareholder approval, the group issued performance rights to the CEO. Subject to the satisfaction of the performance conditions described below, the CEO will 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. The performance rights granted are conditional, non-transferable; they cannot be hedged, sold, transferred, mortgaged, charged or otherwise disposed of or dealt with.

The number of performance rights granted was calculated by dividing the value of the LTI component of his annual remuneration by the volume weighted average price of the Company shares over the 30 trading days prior to the Grant Date. The LTI component of Mr Du Bois' annual remuneration is \$20,400 (2.58% of his salary package). The following table sets out the number of performance rights granted, performance, vesting and performance period conditions.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

14 Employee benefits (continued)

Grant of performance rights during the 2011 financial year

No. of Performance Rights ⁽¹⁾⁽⁴⁾	Performance Condition ⁽²⁾	Vesting Scale		Performance Period ⁽³⁾	
		% of performance rights that vest	Start	Finish	
300,000	Share price growth test. Average compound annual share price growth	Less than 20.25%	Nil	18/11/10	17/11/13
		20.25%	75%		
		> 20.25% < less 27%	Increases btw 75% & 100% on a straight-line basis		
		27% or greater	100%		
300,000	EPS growth test. Average compound earnings per share growth	Less than 20.25%	Nil	30/06/10	30/06/13
		20.25%	75%		
		> 20.25% < less 27%	Increases btw 75% & 100% on a straight-line basis		
		27% or greater	100%		
600,000					

Notes

- The value of the LTI component of his annual remuneration was calculated based upon the closing company share price on the 18 November 2010 the date of the meeting. The share price on that date was \$0.034.
- 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.
- The performance conditions applicable to this grant of Performance Rights will each be measured over 3-year periods (each a "Performance Period").
- Each performance right converts into one fully paid ordinary share upon vesting.

Accounting treatment for performance rights granted during the year

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

- LTI Remuneration component 600,000
- Share price at grant date 0.034

Ordinary shares issued to employees

1,582,932 fully paid ordinary shares were issued to 52 employees with a weighted average fair value of \$0.03285 granted on 17th December, 2010.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

15 Trade and other payables (current)

	Consolidated	
	2011	2010
	\$	\$
Trade payables ⁽ⁱ⁾	901,365	428,532
Other payables ⁽ⁱⁱ⁾	259,905	1,545,572
Net GST payable ⁽ⁱⁱⁱ⁾	12,515	172,668
	1,173,785	2,146,772

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

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

For further information on risk disclosures refer Note 18

16 Provisions

	Consolidated	
	2011	2010
	\$	\$
Annual Leave – current	586,088	566,175
Long service leave – current	353,831	400,935
	939,919	967,110
Long service leave – non-current	174,341	139,846
Total	1,114,260	1,106,956

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

17 Contributed equity and reserves

	Consolidated	
	2011	2010
	\$	\$
Contributed Equity		
Ordinary shares – issued and fully paid	101,545,849	101,499,944

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

Movement in ordinary shares on issue	No. of shares	\$
At 30 June 2010	461,522,263	101,499,944
Employee Share Issue	1,582,932	45,905
At 30 June 2011	463,105,195	101,545,849

Employee benefits reserve

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

	2011	2010
	\$	\$
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.	16,630	–
	16,630	–

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

18 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.

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, 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 2011, the group did not have any outstanding derivative instruments.

As at 30 June 2011, the Group had the following exposure to \$US foreign currency.

	Consolidated	
	2011	2010
	\$	\$
Financial Assets		
Cash & cash equivalents	218,187	440,527
Trade & other receivables	453,775	414,687
	671,962	855,214
Financial Liabilities		
Trade & other payables	33,833	15,923
Net exposure	638,129	839,290

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

As at 30 June 2011, had the \$A moved, as illustrated in the table below, with all other variables held constant, post 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
		\$
2011		
Consolidated	+10%	(38,177)
	-10%	46,660
2010		
Consolidated	+10%	(76,299)
	-10%	93,254

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

18 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 Financial Officer.

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 Groups 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 the Australian banks except for SGD \$9,000 in the OCBC bank in Singapore and GBP £159,953 in the HSBC account in the UK. The company has a \$US account with an Australian bank which held US\$231,677 at 30 June, 2011

There are no significant concentrations of credit risk within the Group.

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 Groups 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 2011 and 30 June 2010.

	2011	2010
	\$	\$
Liquid Assets		
Cash & cash equivalents	3,857,924	6,944,933
Trade and other receivables	1,593,302	3,425,175
Total Liquid Assets	5,451,226	10,370,108
Total Liabilities		
Current liabilities	2,446,219	4,127,795
Non-current liabilities	368,346	219,657
Total Liabilities	2,814,565	4,347,452
Excess of liquid assets over total liabilities	2,636,661	6,022,656
Ratio of liquid assets to total liabilities	1.94 : 1	2.35 : 1

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

18 Financial risk management objectives and policies (continued)

Maturity analysis of financial assets and liabilities

The table below reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities as of 30 June 2011. 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 2011. The Group has no derivative financial instruments at 30 June, 2011.

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 controlling 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.

30th June 2011	On Demand	< 6 months	6 to 12 months	1 to 5 years	> 5 years	Total
Consolidated						
<i>Financial assets</i>						
Cash & cash equivalents	3,857,924	–	–	–	–	3,857,924
Trade & other receivables	–	1,593,302	–	–	–	1,593,302
	3,857,924	1,593,302	–	–	–	5,451,226
Consolidated						
<i>Financial liabilities</i>						
Trade & other payables	1,173,785	–	–	–	–	1,173,785
Net maturity	2,684,139	1,593,302	–	–	–	4,277,441
30th June 2010	On Demand	< 6 months	6 to 12 months	1 to 5 years	> 5 years	Total
Consolidated						
<i>Financial assets</i>						
Cash & cash equivalents	6,944,933	–	–	–	–	6,944,933
Trade & other receivables	–	3,425,175	–	–	–	3,425,175
	6,944,933	3,425,175	–	–	–	10,370,108
Consolidated						
<i>Financial liabilities</i>						
Trade & other payables	2,146,772	–	–	–	–	2,146,772
Net maturity	4,798,161	3,425,175	–	–	–	8,223,336

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 2011 and 30 June 2010.

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

18 Financial risk management objectives and policies (continued)

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 2011							
	<1 year	>1–<2 years	>2–<3 years	>3–<4 years	>4–<5 years	> 5 years	Total
	\$	\$	\$	\$	\$	\$	\$
Cash	3,857,924	–	–	–	–	–	3,857,924

Interest rate risk table

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

At 30 June 2011, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post 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 2011 which was exposed to interest rate risk was Cash.

	Post Tax Profit Higher/(Lower)	
	2011	2010
	\$	\$
Consolidated		
+1% (100 basis points)	25,271	46,289
-0.5% (50 basis points)	(12,636)	(23,145)

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

19 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	
	2011	2010
	\$	\$
Within one year	324,578	286,477
After one year but not more than five years	734,384	882,528
More than five years	–	–
	1,058,962	1,169,005

Other commitments

At 30 June 2011 the Group has not committed to any capital commitments, remuneration commitments or any other expenditure other than that disclosed in the notes above.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

20 Parent entity information

Information relating to Senetas Corporation Ltd for the year ended 30 June 2011

	Senetas Corp Ltd	
	2011	2010
	\$	\$
Current assets	4,101,316	8,245,742
Total Assets	15,670,228	22,074,414
Current liabilities	(584,856)	(2,812,417)
Total Liabilities	(756,348)	(2,947,771)
Issued Capital	101,545,850	101,499,945
Retained Earnings	(87,154,877)	(82,884,100)
Share based payments reserve	522,907	510,799
Total Shareholders Equity	14,913,880	19,126,644
Profit/ (Loss) of the parent entity	(4,263,012)	735,182
Total comprehensive income of the parent entity	(4,263,012)	735,182

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.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

21 Related party disclosure

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

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

(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 (2010:nil) except for Senetas Security Pty Ltd and Senetas Europe as disclosed below. Nor were there any transactions or balances between subsidiaries. (2010:nil)

Terms and conditions of transactions with Senetas Security Pty Ltd and Senetas Europe Ltd.

Outstanding balances at year-end are non interest-bearing and unsecured, with no fixed repayment terms.

There have been no guarantees provided or received for any related party receivables.

The fair value of intercompany balances are deemed to approximate their carrying value.

Transactions with related parties

The following table details the amount of transactions entered into with related parties on behalf of the parent entity and between each entity.

	Senetas Europe Ltd	Senetas Europe Ltd	Dividend paid / (received)
Entity:	Loans	Sales	
	\$	\$	
Senetas Corporation Ltd	391,035	–	(1,351,211)
Senetas Security Ltd	–	223,437	1,351,211

All intercompany sales are eliminated in full on consolidation.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

22 Events after the balance sheet date

There were no significant events after balance date.

23 Auditors' remuneration

	Consolidated	
	2011	2010
	\$	\$
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	176,000	173,000
• other services in relation to the entity and any other entity in the consolidated entity		
• tax compliance	31,635	61,084
• advisory related	3,800	5,307
	211,435	216,892

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

24 Key Management Personnel

Details of directors & executives	Position
Directors	
C. Brown	Director / Chairman (non-executive)
R. Warner	Director (non-executive)
J. Connolly	Director (non-executive)
A. Stockdale	Director / Chairman (non-executive)(resigned 2nd Feb, 2011)
Executive Director	
J. Du Bois	Chief Executive Officer
Executives	
A. Wilson	Chief Financial Officer
L. Wilson	General Manager Consulting
J. Weston	General Manager – Engineering
G. Jones	General Manager – Senetas Europe
S. Bell	General Manager – Product Sales
J. Fay	Chief Technology Officer
H. Marcinsky	General Manager – Support & Maintenance

(a) Remuneration by category: executives & directors

	Consolidated	
	2011	2010
	\$	\$
Short-term employee benefits	1,817,017	1,955,240
Post employment employee benefits	106,191	87,126
Other long-term employee benefits	23,539	17,077
Share-based payment	18,108	29,509
	1,964,855	2,088,952

(b) Option holdings of executives and directors

30 June 2011	Balance at beg of period 01-Jul-10	Granted as Remuneration	Forfeited	Balance at end of period 30-Jun-11	Exercisable	Not Exercisable
J. H. Du Bois	13,000,000	–	5,000,000	8,000,000	8,000,000	–
30 June 2010	Balance at beg of period 01-Jul-09	Granted as Remuneration	Forfeited	Balance at end of period 30-Jun-10	Exercisable	Not Exercisable
J. H. Du Bois	13,000,000	–		13,000,000	13,000,000	–

(c) Performance rights holdings of executives and directors

30 June 2011	Balance at beg of period 01-Jul-10	Granted as Remuneration	Forfeited	Balance at end of period 30-Jun-11	Exercisable	Not Exercisable
J. H. Du Bois	598,502	600,000	–	1,198,502	–	1,198,502
30 June 2010	Balance at beg of period 01-Jul-09	Granted as Remuneration	Forfeited	Balance at end of period 30-Jun-10	Exercisable	Not Exercisable
J. H. Du Bois	–	598,502	–	598,502	–	598,502

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 30 June 2011

24 Key Management Personnel (continued)

(d) At balance date the executive interests in shares of Senetas Corporation Limited (these tables have been audited)

30 June 2011	Balance 01-Jul-10	Granted as Remuneration	On Exercise of Options	Shares Bought / (Sold)	As at the Date of Resignation	Balance 30-June-11
	Ord Shares	Ord Shares	Ord Shares	Ord Shares	Ord Shares	Ord Shares
Directors						
J. H. Du Bois	200,000	–	–	345,000	–	545,000
R. Warner	100,000	–	–	462,500	–	562,500
J. Connolly	–	–	–	250,000	–	250,000
Executives						
A. Wilson	14,649	30,441	–	–	–	45,090
J. Weston	14,649	30,441	–	–	–	45,090
H. Marcinsky	14,649	30,441	–	–	–	45,090
G. Jones	–	30,441	–	–	–	30,441
S. Bell	–	30,441	–	–	–	30,441
J. Fay	14,649	30,441	–	–	–	45,090
Total	358,596	182,646	–	1,057,500	–	1,598,742

Other transactions and balances with executives and directors

Purchases

During the year, legal services have been provided to the Group by Locke Lord Bissell & Liddell LLP at normal market prices, of which R. Warner is a partner.

Amounts recognised at the reporting date in relation to other transactions:

	2011	2010
Revenues and expenses	\$	\$
Legal fees	3,419	411
International travel	13,166	12,465
Telephone	–	101
Total	16,585	12,977

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the Year Ended
30 June 2011

25 Business combination

On 5 October 2010, Senetas completed a Share Purchase Agreement, acquiring 100% of the voting shares of Focus Europe Limited; an unlisted private company based in the United Kingdom, specialised in selling and implementing high speed encryption solutions.

The consideration transferred was \$204,518 in cash. A completion payment for net assets was made at the end of June 2011. The share sale agreement also provided for contingent payments to shareholders who renegotiated employment contracts with Senetas Europe Limited. These contingent payments are linked to the shareholders' future services to Senetas Europe Limited as employees. These payments are not considered part of the purchase price; they have been and will continue to be accounted for as remuneration expense in the period incurred.

The key factor contributing to goodwill of \$204,518 is being able to extend the Group's direct sales presence into the UK and European markets. UK representation will qualify our products for the process of CESG Assisted Products Service (CAPS) certification. CAPS is a certification scheme exclusive to the UK Government market. The achievement of UK CAPS certification will then enable UK government agencies to purchase the Group's encryption products.

The Group has recognised the fair values of the identifiable assets and liabilities of Focus Europe based upon the best information available as at the reporting date.

	Consolidated	
	Fair value at acquisition date	Carrying value
	\$	\$
Cash and cash equivalents	6,692	6,692
Trade receivables	198,809	198,809
Other assets	1,294	1,294
Inventories	241,860	241,860
	448,656	448,656
Trade payables	(140,981)	(148,996)
Other payables	(25,524)	(25,524)
Non-interest bearing loan from shareholder	(261,258)	(261,258)
Total	(427,763)	(435,779)
Fair value of identifiable net assets	20,892	
Goodwill arising on acquisition	204,518	
Acquisition date fair value of consideration transferred		
Cash Paid	225,410	
Consideration transferred	225,410	
Payment for future services ⁽ⁱ⁾	316,364	
Direct costs relating to the acquisition	41,550	
Net cash inflow / (outflow) on acquisition		
Net cash acquired	6,692	
Cash paid	(225,410)	
Net cash inflow / (outflow)	(218,718)	

(i) Payment of £100,000 (A\$109,429) was made on 28th June, 2010. The remaining balance will be paid by 1st July 2012.

The consolidated statement of comprehensive income for the full year ended 30 June 2011 includes sales revenue of \$653,141 and a net loss of \$402,577 as a result of the acquisition of Focus Europe Limited. Had the acquisition of Focus Europe Limited occurred at the beginning of the reporting period, the consolidated statement of comprehensive income would have included sales revenue of \$935,860 and net loss of \$249,594.

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 2011 and of its performance for the year ended on that date; and
 - (ii) complying with 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(a); and
 - (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.
 - (d) This declaration has been made after receiving the declarations required to be made to directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2011.

On behalf of the Board.



Christopher N. Brown

Director

Melbourne

14 September, 2011

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 2011, 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, 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.

Auditor's 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 2011 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.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. 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 2011, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young

14th September, 2011



David McGregor
Partner

Liability limited by a scheme approved
under Professional Standards Legislation.

ASX ADDITIONAL INFORMATION

For the year ended 30 June 2011

Share register statistics as at 19th July 2011

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

Rank	Name	Number of ordinary shares held	% of Issued Capital
1	NERMONE NOMINEES PTY LTD	31,478,588	6.80
2	SUCCESS BREAKTHROUGH PTY LTD <JACKS SUPER FUND A/C>	10,485,000	2.26
3	ZERO NOMINEES PTY LTD	8,517,170	1.84
4	TRESDAM PTY LTD	8,509,905	1.84
5	NEFCO NOMINEES PTY LTD	6,607,141	1.43
6	MR GRAHAM ROBERT TAYLOR <SUPERANNUATION FUND A/C>	6,300,000	1.36
7	MENROC PTY LTD	6,217,000	1.34
8	PERMAX PTY LTD	4,800,000	1.04
9	JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	3,877,903	0.84
10	DR SAMUEL KOK HIONG YAO + MRS PHAIK YOKE YAO	3,818,459	0.82
11	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,717,761	0.80
12	EMBL PTY LTD <EJM SUPERANNUATION FUND A/C>	3,000,000	0.65
13	MR ALFEO COLI + MRS JANETTE KAY COLI <COLI SUPER FUND A/C>	2,900,000	0.63
14	A S MUNN (CONSULTANTS) PTY LTD <SUPER FUND ACCOUNT>	2,717,000	0.59
15	MRS MARIA GRAZIA TASCONE	2,429,570	0.52
16	E K C TONG HOLDINGS PTY LIMITED	2,274,033	0.49
17	PLAISANCE PTY LTD	2,274,033	0.49
18	MRS LOUISE RACHAEL FORBES	2,200,000	0.48
19	MR ANDREW RANKIN	2,153,500	0.47
20	MR BARNABY LIM	2,100,000	0.45
Total Top Holders Balance		116,377,063	25.13

Share register statistics as at 30th June, 2011

Distribution of Equity Securities	Fully paid ordinary shares Shareholders
Total Holders	5,378
Aggregate holding of the top 20	25.13%
Holdings of less than a marketable parcel	3,287

Range of Holdings

Range of Fully Paid Ordinary Shares	Shareholders	%
1–1,000	322	0.03
1,001–5,000	922	0.63
5,001–10,000	1,009	1.82
10,001–100,000	2,434	18.94
100,001 – and over	691	78.58
Total Holders	5,378	100

The Company is committed to implementing the highest standards of corporate governance. In determining what those high standards should involve the Company has turned to the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations. The Company is pleased to advise that the Company's practices are largely consistent with those ASX guidelines. As consistency with the guidelines has been a gradual process, where the Company did not have certain policies or committees recommended by the ASX Corporate Governance Council (the Council) in place for the entire reporting period, we have identified when such policies or committees were introduced.

Where the Company's corporate governance practices do not correlate with the practices recommended by the Council, the Company does not consider that the practices are appropriate for the Company due to the size of Company operations.

Revised Corporate Governance Principals

Recommendation Section	
Principal 1 – Lay solid foundations for management and oversight	
Recommendation 1.1 Functions of the Board and Management	1.1
Recommendation 1.2 Evaluation of the performance of senior executives	1.2
Recommendation 1.3 Reporting on Principle 1	1.2.5
Principal 2 – Structure the board to add value	
Recommendation 2.1 Independent Directors	2.1
Recommendation 2.2 Independent Chairman	2.1
Recommendation 2.3 Role of the Chairman and CEO	2.2
Recommendation 2.4 Establishment of Nomination Committee	3.2
Recommendation 2.5 Evaluation of Board Performance	2.4
Recommendation 2.6 Reporting on Principle 2	2.1, 2.3.6, 3.2.2 and the Directors' Report
Principle 3 – Promote ethical and responsible decision making	1.1
Recommendation 3.1 Directors' and Key Executives' Code of Conduct	2.3.9
Recommendation 3.2 Company Security Trading Policy	1.1 and 2.3.9
Recommendation 3.3 Reporting on Principle 3	2.4.1
Principle 4 – Safeguard integrity in financial reporting	3.1
Recommendation 4.1 Establishment of Audit Committee	3.1
Recommendation 4.2 Structure of Audit Committee	3.1
Recommendation 4.3 Audit Committee Charter	2.3.4
Recommendation 4.4 Reporting on Principle 4	2.3.4
Principle 5 – Make timely and balanced disclosures	2.3.8
Recommendation 5.1 Policy for Compliance with Continuous Disclosure	2.3.8
Recommendation 5.2 Reporting on Principle 5	4
Principle 6 – Respect the Rights of Shareholders	4
Recommendation 6.1 Communications Strategy	2.4.1
Recommendation 6.2 Reporting on Principal 6	5
Recommendation 7.1 Policies on Risk Oversight and Management	3.2
Principle 7 – Recognise and Manage Risk	5.1 & 5.2
Recommendation 7.2 Risk Management Report	5, 5.1 and 5.2 and the Remuneration Report
Recommendation 7.3 CEO & CFO Assurance	
Recommendation 7.4 Reporting on Principle 7	
Principle 8 – Remunerate fairly and responsibly	
Recommendation 8.1 Establishment of Remuneration Committee	
Recommendation 8.2 Executive and Non-Executive Director Remuneration	
Recommendation 8.3 Reporting on Principle 8	

SENETAS CORPORATE GOVERNANCE STATEMENT

(Continued)

1 Board of Directors

1.1 Functions of the Board and Management

The Board's role is to govern the Company rather than to manage it. In governing the Company, the Directors must act in the best interests of the Company as a whole. It is the role of senior management to manage the Company in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

In carrying out its governance role, the main task of the Board is to drive the performance of the Company. The Board must also ensure that the Company complies with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body. The Board has the final responsibility for the successful operations of the Company.

To assist the Board to carry out its functions, it has developed a Code of Conduct to guide the Directors, the Chief Executive Officer, the Chief Financial Officer and other key executives in the performance of their roles. More detail on the roles of the company's Board and Management of the company is available on the company's website www.senetas.com by selecting the investor relations menu and selecting corporate governance.

1.2 Evaluation of the performance of Senior Executives

1.2.1 Evaluation of senior executives

All senior executives at the company are subject to an annual performance review. In each year during the budgeting process, the CEO sets senior executive key performance targets. These targets are aligned to the overall business goals and the Company's

requirements of the position. In the case of the CEO these targets are negotiated between the Remuneration Committee and signed off by the whole Board.

Annual performance reviews are conducted in July and August each year where an evaluation of the executive's performance against agreed targets are measured. Short term incentives are dependent on the outcome of these evaluations. In the case of the CEO, the Remuneration Committee will evaluate the CEO's performance and will make a recommendation to the whole Board for discussion of the outcomes and approval of the Committee's recommendations.

1.2.5 Compliance Statement

In July this year, all senior executives at the company had their performance evaluated.

A statement of the matters reserved for the Board and other information regarding general board Matters is publicly available on the company's website www.senetas.com by selecting the investor relations menu and selecting corporate governance.

2.1 Composition of the Board

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 governance skills required by the Company and on the independence of their decision-making and judgment. The names of the Directors and their qualifications and experience are stated in the Directors' report. The composition of the Board is as follows:

Name	Position	Date appointed	Independent
Christopher N. Brown	Director (non-executive chairman)	30 May, 2011. Chairman 30 June, 2011	YES
John H. Du Bois	Director (CEO)	January 2007	NO
Ronald Warner	Director (non-executive)	December 2000	YES
James M. Connolly	Director (non-executive)	November 2005	YES

An Independent Director:

1. is a Non-Executive Director and:
2. is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
3. within the last three years has not been employed in an executive capacity by the Company or another group member, or been a Director after ceasing to hold any such employment;
4. within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or another group member or an employee materially associated with the service provided;
5. is not a material supplier or customer of the Company or another group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
6. has no material contractual relationship with the Company or other group member other than as a Director of the Company;
7. has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
8. is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

2.2 Responsibilities of the Board

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. It is required to do all things that may be necessary to be done in order to carry out the objectives of the Company.

Without intending to limit this general role of the Board, the principal functions and responsibilities of the Board include the following.

1. Leadership of the Organisation: overseeing the Company and establishing codes that reflect the values of the Company and guide the conduct of the Board, management and employees.

2. Strategy Formulation: working with senior management to set and review the overall strategy and goals for the Company and ensuring that there are policies in place to govern the operation of the Company.
3. Overseeing Planning Activities: overseeing the development of the Company's strategic plan and approving that plan as well as the annual and long term budgets.
4. Shareholder Liaison: ensuring effective communications with shareholders through an appropriate communications policy and promoting participation at general meetings of the Company.
5. Monitoring, Compliance and Risk Management: overseeing the Company's risk management, compliance, control and accountability systems and monitoring and directing the financial and operational performance of the Company.
6. Company Finances: approving expenses in excess of those approved in the annual budget and approving and monitoring acquisitions, divestitures and financial and other reporting.
7. Human Resources: appointing, and, where appropriate, removing the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) as well as reviewing the performance of the CEO and monitoring the performance of senior management in their implementation of the Company's strategy.
8. Ensuring the Health, Safety and Well-Being of Employees: in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to ensure the well-being of all employees.
9. Delegation of Authority: delegating appropriate powers to the CEO to ensure the effective day-to-day management of the Company and establishing and determining the powers and functions of the Committees of the Board.

Full details of the Board's role and responsibilities are contained in the Company's Corporate Governance Manual a copy of which is available from the Company's website.

2.3 Board Policies

2.3.1 Conflicts of Interest

Directors must:

- disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the Director and the interests of any other parties in carrying out the activities of the Company; and
- if requested by the Board, within seven days or such further period as may be permitted, take such necessary and reasonable steps to remove any conflict of interest.

If a Director cannot or is unwilling to remove a conflict of interest then the Director must, as per the Corporations Act, absent himself or herself from the room when discussion and/or voting occurs on matters about which the conflict relates.

2.3.2 Commitments

Each member of the Board is committed to spending sufficient time to enable them to carry out their duties as a Director of the Company.

2.3.3 Confidentiality

In accordance with legal requirements and agreed ethical standards, Directors and key executives of the Company have agreed to keep confidential, information received in the course of the exercise of their duties and will not disclose non-public information except where disclosure is authorised or legally mandated.

2.3.4 Continuous Disclosure

The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with the ASX Listing Rules the Company immediately notifies the ASX of information:

1. concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
2. that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

Upon confirmation of receipt from the ASX, the Company posts all information disclosed in accordance with this policy on the Company's website in an area accessible by the public.

Full details of the company's continuous disclosure policies and procedures are contained in the Company's Corporate Governance Manual a copy of which is available from the Company's website.

2.3.5 Education and Induction

New Directors undergo an induction process in which they are given a full briefing on the Company. This includes meetings with key executives, tours of the premises, an induction package and presentations. Information conveyed to new Directors include:

- details of the roles and responsibilities of a Director with an outline of the qualities required to be a successful Director;
- formal policies on Director appointment as well as conduct and contribution expectations;
- details of all relevant legal requirements;
- a copy of the Board Charter;
- Guidelines on how the Board processes function;
- details of past, recent and likely future developments relating to the Board including anticipated regulatory changes;
- background information on and contact information for key people in the organisation including an outline of their roles and capabilities;
- an analysis of the Company;
- a synopsis of the current strategic direction of the Company including a copy of the current strategic plan and annual budget; and
- a copy of the Constitution of the Company.

In order to achieve continuing improvement in Board performance, all Directors are encouraged to undergo continual professional development. Specifically, Directors are provided with the resources and training to address skills gaps where they are identified.

2.3.6 Independent Professional Advice

The Board collectively and each Director has the right to seek independent professional advice at the Company's expense, up to specified limits, to assist them to carry out their responsibilities.

2.3.7 Related Party Transactions

Related party transactions include any financial transaction between a Director and the Company and will be reported in writing to Board meetings. Unless there is an exemption under the Corporations Act from the

requirement to obtain shareholder approval for the related party transaction, the Board cannot approve the transaction.

2.3.8 Shareholder Communication

The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company is committed to:

1. communicating effectively with shareholders through releases to the market via ASX, the Company's website, information mailed to shareholders and the general meetings of the Company;
2. giving shareholders ready access to balanced and understandable information about the Company and corporate proposals;
3. making it easy for shareholders to participate in general meetings of the Company; and
4. requesting the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Company also makes available a telephone number and email address for shareholders to make enquiries of the Company.

Full details of the company's communications policies and procedures are contained in the Company's Corporate Governance Manual a copy of which is available from the Company's website.

2.3.9 Trading in Company Shares

The Company has a Share Trading Policy under which Directors and certain employees and their associates may only trade in the Company's securities during the 30 days, commencing 24 hours after each of the following ("trading window"):

- the release by the Company of its half-yearly results to the ASX;
- the release by the Company of its annual results to the ASX; and
- the close of the general meeting of the Company.

In addition, consistent with the law, designated officers are prohibited from trading in the Company's securities while in the possession of unpublished price sensitive information concerning the Company. Unpublished price sensitive information is information regarding the Company, of which the market is not

aware, that a reasonable person would expect to have a material effect on the price or value of the Company's securities.

Notice of an intention to trade must be given prior to trading in the Company's securities as well as a confirmation that the person is not in possession of any unpublished price sensitive information. The completion of any such trade by a Director must also be notified to the Company Secretary who in turn advises the ASX.

Full details of the company's share trading policy and procedures are contained in the Company's Corporate Governance Manual, a copy of which is available from the Company's website.

2.4 Board Performance Evaluation

The Board conducts an evaluation of its performance on a biennial basis. Due to a restructure of the Board during the year, no evaluation of the Board performance was undertaken. A Board evaluation will be undertaken in 2012. The Board may consider using an independent consultant to facilitate the evaluation of the Board's performance. The Board's performance is measured against both qualitative and quantitative indicators. The objective of an evaluation is to provide best practice corporate governance to the Company.

2.4.1 Attestations by CEO and CFO

In accordance with the Board's policy and section 295A of the Corporations Act 2001, the CEO and the CFO made the attestations recommended by the ASX Corporate Governance Council in Principal 7.3 as to the Company's system of risk management and internal control and its effective operation in relation to financial reporting risks.

3 Board Committees

3.1 Audit & Risk Management Committee

The Committee was formed by resolution of the Board in 1999. Below is a summary of the role, composition and responsibilities of the Committee. Including the Committee's Charter further detail is available on the company's website www.senetas.com by selecting the investor relations menu and selecting corporate governance.

3.1.1 Role

The Audit Committee is responsible for reviewing the integrity of the Company's financial reporting and overseeing the independence of the external auditors.

3.1.2 Composition

The Committee consists of 2 members. Members are appointed by the Board from amongst the Non-Executive Directors, all of whom are also independent. The current members of the Committee are Mr. Warner (Chairman) and Mr Connolly. 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 in a section titled Biographies.

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

3.1.3 Responsibilities

The Committee reviews the audited annual and half-yearly financial statements and any reports which accompany published financial statements before submission to the Board and recommends their approval.

The Committee also recommends to the Board the appointment of the external auditor and each year, reviews the appointment of the external auditor, their independence, the audit fee, and any questions of resignation or dismissal.

The Committee is also responsible for establishing policies on risk oversight and management.

3.2 Remuneration & Nomination Committee

The Committee was formed by resolution of the Board in 1999.

3.2.1 Role

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.

3.2.2 Composition

Mr. Connolly (Chairman) and Mr. Warner are the current members of the Committee, both of whom are Independent Directors.

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

3.2.3 Responsibilities

The responsibilities of the Committee include setting policies for senior officers'

remuneration, setting the terms and conditions of employment for the Chief Executive Officer, reviewing and making recommendations to the Board on the Company's incentive schemes and superannuation arrangements, reviewing the remuneration of both Executive and Non-Executive Directors and making recommendations to the Board on any proposed changes. Also included is to undertake an annual review of the Chief Executive Officer's performance; setting with the Chief Executive Officer goals for the coming year and reviewing progress in achieving these goals.

The responsibilities of the Committee also include devising criteria for Board membership, regularly reviewing the need for various skills and experience on the Board and identifying specific individuals for nomination as Directors for review by the Board. The Nomination Committee also oversees management succession plans including the CEO and his/her direct reports and evaluates the Board's performance and makes recommendations for the appointment and removal of Directors.

3.3 Criteria for selection of Directors

Directors are appointed based on the specific governance skills required by the Company. Given the size of the Company and the business that it operates, the Company aims at all times to have at least one Director with experience in the IT industry, appropriate to the Company's market. In addition, Directors should have the relevant blend of personal experience in:

- accounting and financial management;
- legal skills; and
- CEO-level business experience

4 Risk Management Policies

The Board oversees the establishment, implementation and annual review of the Group's risk management system. Management has established and implemented the risk management system for assessing, monitoring and managing operational, financial reporting and compliance risks for the consolidated entity. The CEO and the CFO 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.

The board delegates to management the responsibility for implementing an effective risk management system.

Risk Profile:

The Company faces a range of risks in its business activities. These include (but are not limited to) strategic, market operational, compliance and financial risks. The Audit and Risk committee are responsible for regularly reviewing and updating the Company's risk profile.

The Group's internal compliance and control systems include:

- The Board establishes the company's goals and objectives through the Board approval of annual budgets and strategic plans.
- Annual Board & Management Strategy meetings, encompassing the company's mission, strategy, the review of business strengths, threats, weaknesses and opportunities.
- Regular board reporting – goals and objectives are monitored through regular reporting to the Board on key areas including Finance and Administration (including Human Resources), Corporate, Company Secretarial, Legal, Engineering and Consulting.
- Reforecasts of expected business performance are conducted regularly with the objective of comparing expected outcomes vs. budgeted outcomes and actual results. Forecast cash flows reports are updated to reflect changed expectations.
- Where businesses are being acquired or divested the board may appoint a due diligence sub-committee to oversee the process to ensure the following:
 - financial exposures are controlled with policies concerning investment activities closely monitored;
 - business transactions are properly authorised and executed;
 - the quality and integrity of personnel is maintained;

- financial reporting accuracy and compliance with the financial reporting regulatory framework; and
- Preparation of consulting project plans designed to ensure that the quality of consulting work is maintained and risks are managed.
- Management assesses its risk profile annually through the segment unit business planning, budgeting, forecasting and reporting and performance management processes.

Risk management is embedded within day-to-day management of the business, via such means as weekly regular sales management, engineering & project meetings, executive meetings, distribution of daily cash reports, engineering flash reports, weekly consulting key performance indicator reports, weekly engineering meetings.

Further detail on Financial Risk Management is contained in Note 18 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES of the Annual Financial Report.

5 Remuneration Policy

The Company's Remuneration Policy, objectives and Annual emoluments are disclosed in the Company's Annual Remuneration Report which is part of the company's Annual Directors Report.

5.1 Senior Executive Remuneration Policy

The Company is committed to remunerating its senior executives in a manner that is market-competitive and consistent with best practice as well as supporting the interests of shareholders. Consequently, under the Senior Executive Remuneration Policy the remuneration of senior executive may be comprised of the following:

- fixed salary that is determined from a review of the market and reflects core performance requirements and expectations;
- a performance bonus designed to reward actual achievement by the individual of performance objectives and for materially improved Company performance;
- statutory superannuation.

5.1.1 Objective

By remunerating senior executives through performance and long-term incentive plans in addition to their fixed remuneration, the Company aims to align the interests of senior executives with those of shareholders and increase Company performance. Details of the amount of remuneration, including both monetary and non-monetary components, for each of the five highest paid (Non-Director) Executives during the year (discounting accumulated entitlements) are contained in the financial statements.

The objective behind using this remuneration structure is to drive improved Company performance and thereby increase shareholder value as well as aligning the interests of executives and shareholders.

5.2 Non-Executive Director Remuneration Policy

Non-Executive Directors are paid their fees out of the maximum aggregate amount approved by shareholders for the remuneration of Non-Executive Directors. Non-Executive Directors do not receive performance based bonuses.

Non-Executive Directors are entitled to statutory superannuation.

5.2.1 Current Director Remuneration

The aggregate amount of remuneration paid to Non-Executive Directors was approved by shareholders in 2007 and is currently \$550,000. The details the remuneration received by all of the Company's Directors are contained in the financial statements.

For further information in relation to the remuneration of Directors, refer to the Directors' Report contained in the Annual Report.

6 Company Code of Conduct

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 whole. The Company Code of Conduct was adopted by resolution of the Board on 23 June 2004. This Code includes the following:

Responsibilities to Shareholders and the Financial Community Generally

The Company complies with the spirit as well as the letter of all laws and regulations that govern shareholders' rights. The Company has processes in place designed to ensure the truthful and factual presentation of the Company's financial position and prepares and maintains its accounts fairly and accurately in accordance with the generally accepted accounting and financial reporting standards.

Responsibilities to Clients, Customers and Consumers

Each employee has an obligation to use their best efforts to deal in a fair and responsible manner with each of the Company's clients, customers and consumers. The Company for its part is committed to providing clients, customers and consumers with fair value.

Employment Practices

The Company endeavours to provide a safe workplace in which there is equal opportunity for all employees at all levels of the Company. The Company does not tolerate the offering or acceptance of bribes or the misuse of Company assets or resources.

Obligations Relative to Fair Trading and Dealing

The Company aims to conduct its business fairly and to compete ethically and in accordance with relevant competition laws. The Company strives to deal fairly with the Company's customers, suppliers, competitors and other employees and encourages its employees to strive to do the same.

Responsibilities to the Community

As part of the community the Company:

- is committed to conducting its business in accordance with applicable environmental laws and regulations and encourages all employees to have regard for the environment when carrying out their jobs;
- encourages all employees to engage in activities beneficial to their local community; and
- supports community charities.

Responsibility to the Individual

The Company is committed to keeping private information from employees, clients, customers, consumers and investors confidential and protected from uses other than those for which it was provided.

Conflicts of Interest

Employees and Directors must avoid conflicts as well as the appearance of conflicts between personal interests and the interests of the Company.

How the Company Complies with Legislation Affecting its Operations

Within Australia, the Company strives to comply with the spirit and the letter of all legislation affecting its operations. Outside Australia, the Company will abide by local laws in all countries in which it operates. Where those laws are not as stringent as the Company's operating policies, particularly in relation to the environment, workplace practices, intellectual property and the giving of "gifts", Company policy will prevail.

How the Company Monitors and Ensures Compliance with its Code

The Board, management and all employees of the Company are committed to implementing this Code of Conduct and each individual is accountable for such compliance. Disciplinary measures may be imposed for violating the Code.

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