



Audinate[®]

ANNUAL REPORT 2017

FY17 Financial Highlights

30%

growth in revenue to \$11.3m (USD)

\$1.2m

in positive operating cashflow

\$0.8m*

statutory EBITDA compared to \$0.1M loss pcp

* Statutory EBITDA excludes the one-off impact of IPO costs and the expense for conversion of preference shares

\$14m

in primary capital raised

\$0.3m

better than prospectus forecast in delivering a pro forma EBITDA loss of (\$0.4m)

FY17 Operational Highlights

35%

growth in Dante-enabled products to 1,182

2 new products launched

Dante Broadway chip and Dante adaptors

48%

growth in units shipped to over 180,000

39,000+

online certification training courses delivered

369

OEM brandshare adopted Dante, up from 310 a year ago

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Chairman's letter

“To our shareholders, who have placed your trust and confidence in Audinate, we are committed to our responsibilities as a public company in executing our growth strategy and enhancing shareholder value.”

Dear Shareholders,

It gives me great pleasure to present the first Annual Report of Audinate Group Limited (the ‘Company’) since the Company’s successful listing on the Australian Securities Exchange (‘ASX’) on 30 June 2017.

Audinate is the leading provider of professional digital audio networking technologies globally. Audinate has grown its customer base to 369 original equipment manufacturer (OEM) brands, including many of the world’s leading professional Audio Visual (AV) equipment brands such as Bosch, Bose, Harman, Roland, Shure, Sony, Symetrix and Yamaha. Audinate’s primary customers are OEM brands who design Audinate’s technology platform, Dante, into their professional audio products.

The Dante platform distributes digital audio signals over computer networks, and is designed to bring the benefits of IT networking to the professional AV industry. Dante comprises software and hardware that primarily resides inside the audio products of its customers and provides a complete audio networking solution. Using Dante-enabled products ensures interoperability between audio devices and allows end users to enjoy high quality, flexible audio solutions typically with a lower total cost of ownership compared to analogue installations. This technology is displacing traditional analogue installations and we believe that we are only in the early stages of a transition to networked audio installations.

The Company again delivered a strong financial performance in 2017, headlined by revenue growth of 27% to \$15.1 million and normalised EBITDA of \$0.8 million excluding Initial Public Offer (‘IPO’) costs. On a pro forma basis these results were also better than the FY17 prospectus forecast. Revenue was \$0.5 million better than the prospectus forecast and the pro forma EBITDA loss of \$0.4 million was \$0.3 million ahead of forecast. The statutory loss of \$20.4 million was primarily due to a non-cash charge of \$18.5 million for preference shares at the IPO and one-off costs of \$1.7 million associated with the offer.

The IPO was successful in raising \$21 million, including a primary raise of \$14 million, and represented the culmination of the first chapter of the business which commenced with development of the core Dante technology in 2004 and the subsequent spin-out from National Information and Communications Technology of Australia (‘NICTA’) in 2006. Subsequent venture funding was provided by Starfish Ventures and Innovation Capital, followed by a strategic investment by Yamaha Corporation. Together with the funding and contribution from founders and staff all these parties played important roles in getting the Company to where it is today.

In the 2018 financial year the Company is focused upon continued revenue growth in our core business to meet our prospectus forecast of revenue of \$18.6 million and an EBITDA loss of \$1.2 million. With the growth capital provided by the IPO the business is also focused upon three key strategic initiatives: 1) the successful launch of Dante Domain Manager to manage and control Dante installations; 2) coming to market with an expanded suite of adaptor products; and, 3) the development of a prototype video product to enable us to come to market during the 2019 financial year. We are excited about these developments and the potential for them to more than double Audinate’s addressable market.

On behalf of the Board of Directors of Audinate, we wish to express our appreciation to the executive management team and all our employees around the world for their contribution in completing the IPO and once again delivering a strong set of financial results. The enthusiasm, dedication and innovation of this team will continue to provide the impetus for our ongoing success.

Lastly to our shareholders, who have placed your trust and confidence in Audinate, we are committed to our responsibilities as a public company in executing our growth strategy and enhancing shareholder value.



David Krall
Chairman

22 September 2017



CEO's letter

Dear Shareholders,

This year has been an extremely exciting year for Audinate, filled with many achievements and milestones. Audinate started on this journey over ten years ago with a vision to bring the IT revolution to the Audio Visual (A/V) industry to exploit the transition from analogue connected systems to audio over IP based systems. Our market leading Dante technology replaces traditional analogue audio cables by transmitting perfectly synchronised audio signals to multiple locations at once, using standard computer networks. With the listing on the Australian Stock Exchange on 30 June 2017, we are in a better position than ever to execute on our vision.

Financial Results

Audinate had an outstanding year delivering strong results in both revenue growth and earnings before interest, taxes, depreciation and amortisation (EBITDA). During the year, revenue increased by 26.5% to AUD \$15.1 million from AUD \$11.9 million in the prior year. We invoice in USD, and in this currency, revenue increased by 30.3% to USD \$11.3 million from USD \$8.7 million in 2016. On a normalised basis EBITDA for 2017 amounted to approximately AUD \$0.8 million representing a significant improvement from an EBITDA loss of AUD \$0.1 million for the prior comparable period in 2016.

Executing on our growth strategy

Our OEM customers benefit from our trusted expertise in the field of media networking, which enables them to accelerate their product initiatives without the need to make investments in developing their own networking capability. Providing a high level of customer support has been core to the culture of Audinate since we started. As a result, over our 10 years in business, we have built a global customer base which includes the leading blue-chip companies in the A/V industry.

By developing a broad suite of networking products that are easy for professional audio manufacturers to integrate into their products, and making it easy for end-customers to use, Dante has become the defacto standard. With Dante, manufacturers achieve plug and play interoperability between multi-vendor audio devices, whilst providing their customers with a higher quality, more flexible system, compared to analogue installations.

The number of Dante enabled manufacturer products available in market grew 35% year over year, as unit sales of Dante chips, modules and cards grew by 48%. Audinate continues to expand its market leadership position, now having almost 5 times the number of OEM products on the market than our nearest competitor. As of the end of the fiscal year, 369 OEM brands who have adopted Dante technology with 1,182 Dante-enabled products available in the market. As Audinate increases its customer base, and the number of Dante-enabled devices within the ecosystem increases, making more choices available for consultants, system designers, integrators, and end-users. This in turn, further entrenches Dante as the preferred networking technology for professional A/V installations, and encourages new OEMs to embed Dante into their future products.

“Audinate is uniquely positioned to be at the heart of this convergence of A/V and IT systems. We look forward to executing on our strategy, working closely with our customers to meet their needs, enhancing our brand in the market, and building sustainable shareholder value.”



Strategy for Growth

Audinate has a strong track record of product innovation since its inception. Our customers benefit from our trusted expertise in the field of media networking, which enables them to focus on their core competencies to accelerate their own product initiatives without the need to make investments in developing their own networking capability.

As part of our strategy to increase the penetration of digital networked solutions, we continue to extend our core networking product portfolio to deliver more cost effective, innovative new products. During the last quarter, we introduced our Dante Broadway chip. Dante Broadway was developed to bridge the gap between our Brooklyn II module and our low channel count Ultimo chip. Broadway is a cost-effective solution designed for medium channel count applications for integration into products like amplifiers, interfaces, or small mixers needing 4-16 channels.

Earlier in the year, we introduced our Dante Analogue Output module which provides manufacturers with a complete module to build adaptor endpoints which can be used to connect legacy analogue products to the Dante ecosystem.

Another key part of the strategy is to foster our brand with system integrators and end customers, and educate them on the benefits and ease of use of the Dante system. In order to do that, we introduced an on-line certification training program and during the past year we delivered over 39,000 certification training courses.

Investing in the future

Audinate is expanding our sales and marketing channel to establish a tighter relationship with system integrators to educate them on the benefits of Dante. By offering Dante certification programs both online and in person, consultants, system designers, integrators, end users and others in the industry learn about Dante with in-depth training. This, in turn, is expected to increase the participants' recommendation to design and install Dante networked solutions.

We anticipate introducing Dante Domain Manager in early 2018, which complements and builds upon existing and new installations of Dante partner products. Dante Domain Manager is a network management platform which makes audio networking more secure, more scalable, and more manageable than ever before. Audinate is actively creating a distribution channel to sell Dante Domain Manager to end customers through authorised resellers.

We have also begun research and development into adding video support to our solution. By adding video networking with similar capabilities and tools which we have for managing audio systems today, our addressable market is anticipated to double in size.

Audinate is uniquely positioned to be at the heart of this convergence of A/V and IT systems. We look forward to executing on our strategy, working closely with our customers to meet their needs, enhancing our brand in the market, and building sustainable shareholder value.



Lee Ellison
Chief Executive Officer

22 September 2017

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Corporate directory

Directors	David Krall Lee Ellison John Dyson Roger Price Alison Ledger Tim Finlayson
Company secretary	Rob Goss
Registered office	Level 1 458 - 468 Wattle Street Ultimo NSW 2007 Tel: 02 8280 7100
Share register	Link Market Services Limited Level 12 680 George Street Sydney NSW 2000 Tel: 1300 554 474
Auditor	Deloitte Touche Tohmatsu Grosvenor Place 225 George Street Sydney NSW 2000
Solicitors	DLA Piper Level 22 1 Martin Place Sydney NSW 2000
Stock exchange listing	Audinate Group Limited shares are listed on the Australian Securities Exchange (ASX code: AD8)
Website	www.audinate.com
Corporate Governance Statement	The corporate governance statement which is approved at the same time as the Annual Report can be found at: https://www.audinate.com/company/governance

Directors' report

30 June 2017

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Audinate Group Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2017.

Directors

The following persons were directors of Audinate Group Limited from the date of incorporation, being 19 April 2017, up to the date of this report, unless otherwise stated:

David Krall
Lee Ellison
John Dyson
Roger Price
Alison Ledger
Tim Finlayson

(appointed on 9 May 2017)

(appointed on 9 May 2017)

Principal activities

The Group's principal activity is the development and sale of digital Audio Visual ('AV') networking solutions. Dante is the Group's technology platform that distributes uncompressed digital audio signals over computer networks. Dante comprises software and hardware that is sold to and integrated inside the AV products of its Original Equipment Manufacturer ('OEM') customers.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Review of operations

During the financial year, the Group undertook a capital reconstruction and group reorganisation. Refer to 'Significant changes in the state of affairs' below. As a result of this reorganisation, the comparative information are the results of Audinate Pty Limited and its subsidiaries. The current year represents Audinate Group Limited and its subsidiaries for the one day being 30 June 2017 and Audinate Pty Limited and its subsidiaries for the entire year. Refer to 'Basis of preparation' in note 2 to the financial statements for further details.

The Group primarily generates revenue from the following four key sources:

- (a) the sale of chips, modules, cards and adaptor products;
- (b) license fees from reference designs;
- (c) license fees from software and royalties; and
- (d) other including maintenance and professional services revenue.

For the year ended 30 June 2017, the Group reported an increase in revenue of 26.5% to \$15.1 million from \$11.9 million in the prior year. As the Group invoices its customers in US dollars, this currency is considered to be a more relevant measure of sales performance. In US dollars, revenue increased by 30.3% to US\$11.3 million in 2017 from US\$8.7 million in the prior year.

The Group has grown its OEM base to 369 manufacturer brands at 30 June 2017, up from 310 at 30 June 2016. Once the OEM has designed the Dante platform into one of its products, the Group will receive revenue at each production run in the form of sales of Dante chips, modules or cards or royalties. Dante enabled OEM products available for sale increased to 1182 products, up 36% from 872 at the end of June 2016. Sales units of the volume of chips, modules and cards, shipped in 2017 increased to 180,724, a 48% increase over the prior year.

Operating expenses, which consist of employee benefit expenses, marketing expenses and administration and other operating expenses increased by approximately 17.6% to \$10.5 million in 2017 from \$8.9 million in the prior year. Earnings before interest, tax, depreciation and amortisation ('EBITDA'), excluding the non-cash change in fair value of preference shares and the initial public offering ('IPO') expenses, increased to \$0.8 million in 2017 from an EBITDA loss of \$0.1 million in the prior year. The improvement was due to revenue growth of 26.5% significantly out-stripping growth in operating costs of 17.6% during 2017.

Audinate Pty Limited issued convertible redeemable preference shares ('CRPS') which contained an anti-dilution clause which required the instruments to be recorded at fair value. On 30 June 2017, these instruments were converted into ordinary shares in the Company as part of the capital reconstruction, group reorganisation and IPO. The accounting treatment of the CRPS at conversion required an expense to be recorded for the difference between the carrying value of the preference shares and the fair value of shares in the Company at settlement. This non-cash transaction resulted in an expense in profit or loss for the year ended 30 June 2017 of \$18.5 million.

Primarily as a result of the expense for CRPS, described above, and the one-off IPO costs, the Company recorded a loss of \$20.4 million for the year ended 30 June 2017, compared to a profit of \$0.1 million for the prior year.

Significant changes in the state of affairs

Group reorganisation, Initial Public Offering and Australian Securities Exchange ('ASX') listing

Effective 30 June 2017, the Company as part of a capital reconstruction and group reorganisation, acquired Audinate Pty Limited.

On 30 June 2017, the Company was admitted to the Official List of ASX Limited with the ASX code ('AD8') and official quotation of the ordinary shares in the Company commenced on that date on a deferred settlement basis. The Company also raised \$21,029,898 by issuing 17,237,622 ordinary shares at \$1.22 per share, as part of the IPO. The primary raise was \$14,000,000 and the balance of the proceeds was paid to selling shareholders.

There were no other significant changes in the state of affairs of the Group during the financial year.

Matters subsequent to the end of the financial year

Audinate Group Limited listed on the Australian Securities Exchange on 30 June 2017. As part of the listing process holders of CRPS sold shares, amounting to \$7,029,899, to new shareholders. Consequently the Group shows a liability for this amount at 30 June 2017, offset by a receivable of \$4,062,354 with the balance of \$2,967,545 included in cash at bank. Subsequent to the end of the financial year the full proceeds of the IPO were received and \$7,029,899 was paid to the selling shareholders on 5 July 2017.

No other matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations

The Group's growth strategy is multi-faceted and seeks to:

- continue to grow the number of OEMs adopting Dante;
- increase the adoption of Dante across an OEM's product portfolio in order to expand the ecosystem of available Dante enabled products;
- drive other market participants' adoption of Dante by working with consultants, integrators, and major end customer to create a "network effect" as the adoption of the Dante in partner products expands; and
- deliver new products and services to both OEMs and end-users.

As the Group increases its customer base, and the number of Dante-enabled devices within the ecosystem increases, more choices are available for consultants, system designers, integrators, and end users to design Dante enabled turnkey systems. This in turn, further entrenches Dante as the preferred networking technology for professional AV installations, and encourages OEMs to be part of the Dante ecosystem to ensure their products are considered for new installations as well as upgrades to existing installations.

With the funds raised from the IPO the Group will continue to increase its sales and marketing efforts over the next 12 months, with a specific focus on the launch of Dante Domain Manager ('DDM') which is expected to occur in January 2018. Additional engineering resources will be employed to complete the roll-out of DDM and additional adaptor module products and accelerate the Group's video product strategy. These growth initiatives are envisaged to significantly expand the addressable market for Dante technology.

The Group will also invest in system and process improvements to support the ongoing growth of the business and provide growth related cost efficiencies.

Therefore, the Group will use the cash and cash equivalents held at the time of listing, in a way consistent with its stated business objectives.

Directors' report

30 June 2017

Environmental regulation

The Group is not directly subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on directors

Name:	David Krall
Title:	Chairman and Non-Executive Director (appointed on 19 April 2017)
Qualifications:	David has a Master of Business Administration from Harvard University and both a Bachelor of Science degree and Masters degree in Engineering from Massachusetts Institute of Technology.
Experience and expertise:	David serves as a director and/or strategic advisor to several technology companies, combining a strong educational background in engineering and business with 30 years of professional experience. David currently acts as Strategic Advisor for Universal Audio. He is the former President and Chief Operating Officer of Roku Inc., a market leader in television streaming. He was also formerly President and Chief Executive Officer of Avid Technology Inc. (NASDAQ: AVID)
Other current directorships:	Director of Progress Software Corporation (NASDAQ: PRGS)
Former directorships (last 3 years):	Director of Quantum Corp. (NYSE: QTM)
Special responsibilities:	Member of the Remuneration and Nomination Committee
Interests in shares:	293,958 ordinary shares
Interests in options:	186,042 options over ordinary shares
Interests in rights:	None
Name:	Lee Ellison
Title:	Chief Executive Officer (appointed as a director on 19 April 2017)
Qualifications:	Lee has a Bachelor of Science degree from The Ohio State University. Lee also completed an executive management program at the University of Virginia's Darden Business School.
Experience and expertise:	Lee has held a series of senior management roles in both start-up and listed companies in telecom and computer technology industries. Lee has held various senior executive and leadership roles over the last 30 years. Lee formerly served as founding Senior Vice President of Worldwide Sales at Dilithium Networks. Previously, Lee served as Vice President of Global Sales and International Operations for Tektronix, Inc. During his 16-year tenure with Glenayre Electronics, Lee held various executive management positions.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	None
Interests in shares:	820 ordinary shares
Interests in options:	320,000 options over ordinary shares
Interests in rights:	267,811 performance rights over ordinary shares

Name:	John Dyson
Title:	Non-Executive Director (appointed on 19 April 2017)
Qualifications:	John has a Master of Business Administration from RMIT University and a Bachelor of Science degree from Monash University. He has a Graduate Diploma in Finance and Investment from the Securities Institute of Australia and is a member of the Australian Institute of Company Directors.
Experience and expertise:	John is a director and one of the founders of Starfish Ventures. He played a crucial role in the establishment of Starfish Ventures and has personally overseen and managed investments across a range of technologies and industries. John is currently a director of Atmail Pty Ltd., Myriax Pty Ltd., and Swinburne Ventures Pty Ltd. John is also a director at the Walter and Eliza Hall Institute of Medical Research. Formerly, John was General Manager (Australia) of JAFCO Investment (Asia Pacific), a Singapore based private equity manager. Prior to joining JAFCO, John worked in the investment banking and stockbroking industries for Schroders, Nomura Securities, KPMG and ANZ McCaughan.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Remuneration and Nomination Committee and Audit and Risk Management and Nomination Committee
Interests in shares:	12,132,848 ordinary shares
Interests in options:	None
Interests in rights:	None
Name:	Roger Price
Title:	Non-Executive Director (appointed on 19 April 2017)
Qualifications:	Roger has an Engineering degree from the University of Technology, Sydney.
Experience and expertise:	Roger is also a General Partner at Innovation Capital, a venture capital firm in Sydney, one of the early investors in the Group. Roger is currently the Chairman and Chief Executive Officer of Windlab Limited, a wind energy company. Roger has a depth of operational experience including senior engineering, manufacturing, information technology service and international business development roles for a number of technology based companies. Prior to joining Innovation Capital, Roger was the Chief Executive Officer of Reino Intl., a developer of advanced parking solutions. Roger commenced his career at Alcatel, and has held senior positions with a number of Australian technology businesses and NASDAQ listed software companies.
Other current directorships:	Director of Windlab Limited
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Audit and Risk Management Committee
Interests in shares:	49,181 ordinary shares
Interests in options:	None
Interests in rights:	None

Directors' report

30 June 2017

Name: Alison Ledger
Title: Non-Executive Director (appointed 9 May 2017)
Qualifications: Alison has a Master of Business Administration from Harvard University and graduated magna cum laude, with a Bachelor of Arts degree in Economics from Boston College. She is a graduate and member of the Australian Institute of Company Directors.
Experience and expertise: Alison has more than 30 years of experience and has held various leadership roles in Australia, the United Kingdom, and the United States of America. She is currently a Non-Executive Director of Latitude Financial Services. Alison held various senior management and strategic roles while at Insurance Australia Group for eight years, including Head of Group Strategy and Executive General Manager, Product, Pricing and eBusiness. During her tenure as a Partner with McKinsey and Company she advised some of the leading global and Australian banks on strategy and organisational change. Alison began her professional career in the banking industry working with leading financial institutions.
Other current directorships: Non-Executive Director of Countplus Limited (ASX: CUP)
Former directorships (last 3 years): None
Special responsibilities: Chair of Remuneration and Nomination Committee
Interests in shares: None
Interests in options: None
Interests in rights: None

Name: Tim Finlayson
Title: Non-Executive Director (appointed on 9 May 2017)
Qualifications: Tim has degrees in Economics and Laws from Macquarie University. He is a member of Chartered Accountants Australia and New Zealand and is admitted as a Solicitor of the Supreme Court of New South Wales.
Experience and expertise: Tim is a chartered accountant with 25 years of experience in professional services, telecommunications and infrastructure industries and has held finance and operational leadership roles in Australia, Singapore and Vietnam. Tim is currently Chief Operating Officer with King & Wood Mallesons Australia, a leading international law firm. During his time at PricewaterhouseCoopers, Tim was a partner of Tax and Legal Services in Indochina advising foreign companies on setting up and operating in Vietnam, Cambodia and Laos, following tax advisory roles in Sydney and Singapore. Tim was previously Chief Financial Officer for Sydney Airport Corporation (ASX: SYD) and Hutchison Telecommunications (Australia) Limited (ASX: HTA).
Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: Chair of Audit and Risk Management Committee
Interests in shares: 122,951 ordinary shares
Interests in options: None
Interests in rights: None

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company secretary

Rob Goss is the Chief Financial Officer and Company Secretary, responsible for finance and accounting operations and administration of the Group. Rob has extensive experience in finance in publicly listed companies. Rob is a member of the Chartered Accountants Australia and New Zealand and has a Bachelor of Business degree, majoring in Accounting, from the University of Technology, Sydney.

Before joining the Group in 2017, Rob served as Chief Financial Officer for BuildingIQ, Inc. (ASX: BIQ), a commercial energy platform to manage building heating and cooling via the cloud to save on energy costs. Prior to BuildingIQ, Rob was Chief Financial Officer at iProperty Group Limited (ASX: IPP), an online property and portal operating in Malaysia, Hong Kong, Indonesia, Singapore and Thailand. Previously, Rob held senior finance roles at ANZ Bank and Allco Finance Group after commencing his career as a chartered accountant at KPMG.

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 30 June 2017, and the number of meetings attended by each director were:

	Full Board Attended	Full Board Held
David Krall	3	3
Lee Ellison	3	3
John Dyson	3	3
Roger Price	3	3
Alison Ledger	3	3
Tim Finlayson	3	3

Held: represents the number of meetings held during the time the director held office.

The above table excludes the Board meetings held by Audinate Pty Ltd during the twelve months period ended 30 June 2017.

Given the restructure occurred on 30 June 2017, there were no meetings of the Remuneration and Nomination Committee or Audit and Risk Management Committee held during the period.

Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive, and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to good market practices for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation; and
- transparency.

The Remuneration and Nomination Committee is responsible for advising the Board on the composition of the Board and its committees, evaluating potential Board candidates and advising on their suitability, and ensuring appropriate succession plans are in place.

The Remuneration and Nomination Committee establishes, amends, reviews and approves the compensation and equity incentive plans with respect to senior management and employees of the Group including determining individual elements of the total compensation of the chief executive officer, and other members of senior management.

The Remuneration and Nomination Committee may seek external advice to determine the appropriate level and structure of the remuneration packages from time to time (refer to the section 'Use of remuneration consultants' below).

Directors' report

30 June 2017

The reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:

- having profit growth as a core component of plan design;
- focusing on sustained growth in shareholder wealth and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracting and retaining high calibre executives.

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience;
- reflecting competitive reward for contribution to growth in shareholder wealth; and
- providing a clear structure for earning rewards.

In accordance with good practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

Non-executive directors remuneration

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Board. The Board may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. This amount is currently capped under the Constitution at \$750,000 per annum. Any increase to the aggregate amount needs to be approved by shareholders. Directors will seek approval from time to time, as appropriate. This aggregate annual sum does not include any special remuneration which the Board may grant to the directors for special exertions or additional services performed by a director for or at the request of the Group, which may be in addition to or in substitution of the director's fees.

The Company has entered into an appointment letter with each of its non-executive directors. Non-executive fees, inclusive of superannuation but exclusive of GST (where applicable), are currently as follows:

Name of Non-Executive Director	Fees per annum
David Krall	\$120,000
John Dyson	\$65,000
Roger Price	\$65,000
Alison Ledger	\$65,000
Tim Finlayson	\$65,000

Non-executive directors also receive an additional \$15,000 per annum for chairing a Board committee.

Executive remuneration

The Group aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits;
- short-term performance incentives;
- long-term performance incentives; and
- other remuneration such as superannuation and long service leave.

The combination of these comprises the executive's total remuneration.

The Remuneration and Nomination Committee recommends to the Board the fixed remuneration packages for the executive team and these are reviewed annually.

Short-term incentive plan ('STI Plan')

The STI Plan is designed to reward eligible employees for their efforts toward the accomplishment of the Group's goals during the plan year. Under the STI Plan, the decision to pay any bonus remains at the full discretion of the Board, based on recommendations by the Remuneration and Nomination Committee.

The key components of the cash-based STI Plan are:

- participants are entitled to receive a percentage of their fixed remuneration as an annual cash bonus;
- payment of an annual cash bonus is based on individual key performance targets and objectives and the Group's performance against key performance indicators; and
- key performance indicators are set annually and may include measures such as revenue, earnings before interest, tax, depreciation and amortisation ('EBITDA') and growth targets, or other targets as considered appropriate and set by the Board.

Long-term incentive plan ('LTI Plan')

The LTI Plan is designed to assist in the reward, retention and motivation of the Group's senior management and other key employees ('participants'). Under the rules of the LTI Plan, the Board has a discretion to offer awards (being options to acquire shares; performance rights to acquire shares; and/or shares, including those acquired under a limited recourse loan funded arrangement) to nominated participants.

A summary of the rules of the LTI Plan is set out below:

- the LTI Plan is open to participants, as determined by the Board. Participation is voluntary;
- the Board may determine the type/number of awards to be issued under the LTI Plan to each participant and other terms of issue such as: service-based conditions and/or performance hurdles; any amount payable on the grant of the awards; the exercise price of any option granted; the period during which a vested option can be exercised; and any forfeiture conditions or disposal restrictions applying to the awards and any shares that a participant receives upon exercise of their options or performance rights;
- the Board may, in its discretion, also determine that the Company will issue limited recourse loans to participants to use for the purchase of shares as part of a share award under the LTI Plan;
- when any service-based conditions and/or performance hurdles have been satisfied, participants will receive fully vested shares or their options/performance rights will become vested and will be exercisable over shares, as applicable;
- each vested option and performance right enables the participant to be issued or to be transferred one share upon exercise, subject to the rules governing the LTI Plan and the terms of any particular offer;
- participants holding options or performance rights are not permitted to participate in new issues of securities by the Company but adjustments may be made to the number of shares over which the options or performance rights are granted and/or the exercise price (if any) to take into account changes in the capital structure of the Company that occur by way of pro rata and bonus issues in accordance with the rules of the LTI Plan and the ASX Listing Rules.
- the LTI Plan limits the number of awards that the Company may grant without shareholder approval, such that the sum of all awards on issue (assuming all options and performance rights were exercised) do not at any time exceed in aggregate 10% of the total issued capital of the Company as at the date of any proposed new awards; and
- the Board may delegate management and administration of the LTI Plan, together with any of their powers or discretions under the LTI Plan, to a committee of the Board or to anyone or more persons selected by them as the Board thinks fit.

During the financial year the Group offered performance rights to eligible participants under the LTI Plan.

Group performance and link to remuneration

Remuneration for all staff is directly linked to the performance of the Group. The overall level of reward is based on the achievement of revenue and EBITDA thresholds as well as the individual's performance assessment score. No bonus is payable unless the thresholds are met and the ultimate amount payable remains at the discretion of the Board. Refer to the section "Additional information" below for details of the total shareholders return and earnings. Total shareholders return represents a key measure for the LTI plan.

Use of remuneration consultants

During the financial year ended 30 June 2017, the Group, through the Remuneration and Nomination Committee, engaged Egan Associates Pty Limited, remuneration consultants, to review its existing remuneration policies and provide recommendations on the establishment of the STI and LTI Plans. Egan Associates Pty Limited was paid \$30,000 for these services.

Directors' report

30 June 2017

An agreed set of protocols was put in place to ensure that the remuneration recommendations would be free from undue influence from key management personnel. The Board is also required to make inquiries of the consultant's processes at the conclusion of the engagement to ensure that they are satisfied that any recommendations made have been free from undue influence. The Board is satisfied that these protocols were followed and as such there was no undue influence.

Details of remuneration

Amounts of remuneration

Details of the remuneration of key management personnel of the Group are set out in the following tables.

The key management personnel of the Group consisted of the following directors of Audinate Group Limited:

- David Krall - Chairman and Non-Executive Director (appointed on 19 April 2017)
- Lee Ellison - Chief Executive Officer (appointed on 19 April 2017)
- John Dyson - Non-Executive Director (appointed on 19 April 2017)
- Roger Price - Non-Executive Director (appointed on 19 April 2017)
- Alison Ledger - Non-Executive Director (appointed on 9 May 2017)
- Tim Finlayson - Non-Executive Director (appointed on 9 May 2017)

And the following persons:

- Rob Goss - Chief Financial Officer and Company Secretary
- Aidan Williams - Chief Technology Officer

The 2017 table below represents remuneration paid by the Group consisting of Audinate Pty Ltd and its subsidiaries for the entire financial year and Audinate Group Limited and its subsidiaries for the one day to 30 June 2017.

Prior to the capital reconstruction and group reorganisation on 30 June 2017, Audinate Pty Limited was not required to prepare a remuneration report in accordance with the Corporations Act 2001. As such, remuneration report information presented below is for the year ended 30 June 2017 only.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled	Total
2017	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
David Krall (Chairman)	69,370	-	-	-	-	-	69,370
John Dyson	12,970	-	-	-	-	-	12,970
Roger Price	11,845	-	-	1,125	-	-	12,970
Alison Ledger	10,892	-	-	1,035	-	-	11,927
Tim Finlayson	10,892	-	-	1,035	-	-	11,927
<i>Executive Directors:</i>							
Lee Ellison	335,964	167,905	18,249	-	-	11,311	533,429
<i>Other Key Management Personnel:</i>							
Rob Goss	108,003	47,500	-	9,744	-	63,480	228,727
Aidan Williams	216,354	48,802	-	16,987	-	9,550	291,693
	<u>776,290</u>	<u>264,207</u>	<u>18,249</u>	<u>29,926</u>	<u>-</u>	<u>84,341</u>	<u>1,173,013</u>

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration 2017	At risk - STI 2017	At risk - LTI 2017
<i>Executive Directors:</i>			
Lee Ellison	67%	31%	2%
<i>Other Key Management Personnel:</i>			
Rob Goss	51%	21%	28%
Aidan Williams	80%	17%	3%

Non-executive directors did not receive share options or other performance linked incentives during the year ended 30 June 2017.

No cash bonus was forfeited by key management personnel for the year ended 30 June 2017.

Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name:	Lee Ellison
Title:	Chief Executive Officer
Agreement commenced:	19 April 2017
Term of agreement:	Ongoing, employed by Audinate, Inc.
Details:	Fixed: Lee receives a fixed remuneration package ('FRP') of US\$283,000 and is eligible to participate in various employee benefit programs maintained by Audinate, Inc., which includes 80% company sponsored payment of health and dental insurance coverage, as well as other employee related benefits.

STI: Lee is also eligible to receive an annual STI of up to 50% of his FRP, subject to achieving the annual targets against key performance indicators and personal objectives as agreed with the Board for that year. Any payment for over achievement of annual targets, is at the discretion of the Board.

LTI: Lee has participated in the Company's legacy Employee Share Option Plan ('ESOP') and may exercise his vested options under the ESOP. Lee is also eligible to participate in the LTI Plan and was issued an initial grant of 267,811 performance rights for nil consideration on listing. In addition, subsequent to listing, the Company has granted Lee 1,995,000 performance rights which will be automatically exercised into shares on 15 September 2019 provided Lee does not resign for the period of nine months from the date of grant.

Termination: Either party may terminate the employment contract by giving 6 months' written notice. The Company can elect in its discretion to make a payment in lieu of notice or place Lee on garden leave for all or part of that notice period.

Restraint: After termination Lee will be subject to non-competition, non-solicitation of client and non-poaching of employees' restrictions, within the United States of America and Australia for a maximum period of 6 months.

Directors' report

30 June 2017

Name: Rob Goss
Title: Chief Financial Officer and Company Secretary
Agreement commenced: 19 April 2017
Term of agreement: Ongoing, employed by Audinate Group Limited
Details: Fixed: Rob receives a FRP of \$257,000 including mandatory superannuation contributions. He received a \$15,000 bonus on successful completion of the listing.

STI: Rob is also eligible to receive an annual STI up to 25% of his FRP, subject to achieving the annual targets against key performance indicators and personal objectives as agreed with the Board for that year. Any payment for over achievement of annual targets, is at the discretion of the Board.

LTI: Rob has participated in the Company's ESOP and may exercise his vested options under the ESOP.

Termination: Either party may terminate the employment contract by giving 3 months' written notice. The Company can elect in its discretion to make a payment in lieu of notice or place Rob on garden leave for all or part of that notice period.

Restraint: After termination Rob will be subject to non-competition, non-solicitation of client and non-poaching of employees' restrictions, within the United States of America, Australia and the United Kingdom for a maximum period of 12 months.

Name: Aidan Williams
Title: Chief Technology Officer
Agreement commenced: 19 April 2017
Term of agreement: Ongoing, employed by Audinate Group Limited
Details: Fixed: Aidan receives a fixed remuneration package of \$235,000 including mandatory superannuation contributions.

STI: Aidan is also eligible to receive an annual STI up to 25% of his FRP, subject to achieving the annual targets against key performance indicators and personal objectives as agreed with the Board for that year. Any payment for over achievement of annual targets, is at the discretion of the Board.

LTI: Aidan has participated in the Company's ESOP and may exercise his vested options under the ESOP.

Termination: Either party may terminate the employment contract by giving 6 months' written notice. The Company can elect in its discretion to make a payment in lieu of notice or place Aidan on garden leave for all or part of that notice period.

Restraint: After termination Aidan will be subject to non-competition, non-solicitation of client and non-poaching of employees' restrictions, within the United States of America, Australia and the United Kingdom for a maximum period of 12 months.

All other senior management are employed under written terms of employment with the Group. The key terms and conditions of their employment include:

- remuneration packages;
- eligibility to participate in the STI and LTI Plans;
- notice of termination of employment provisions, with the relevant notice period of up to 3 months; and
- for some of those executives, post-employment restrictions covering non-competition, non-solicitation of clients for a maximum duration of up to 3 months.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

Share-based compensation

Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2017.

Options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
30 June 2017	30 June 2017	17 August 2019	\$0.062	\$0.022
30 June 2017	30 June 2017	23 June 2022	\$0.260	\$0.090
30 June 2017	30 June 2017	23 August 2022	\$0.260	\$0.090
30 June 2017	30 June 2017	16 January 2023	\$0.260	\$0.090

Options granted carry no dividend or voting rights. The options set out in the table above represent options granted in exchange for options in Audinate Group Limited as part of the restructure which took place at the date of the IPO on 30 June 2017.

The number of options over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 30 June 2017 are set out below:

Name	Number of options granted during the year 2017	Number of options granted during the year 2016	Number of options vested during the year 2017	Number of options vested during the year 2016
David Krall	186,042	-	186,042	-
Lee Ellison	320,000	-	320,000	-
Rob Goss	690,000	-	690,000	-
Aidan Williams	204,000	-	204,000	-

It should be noted that options issued by Audinate Pty Limited vested during the financial year and are included within the key management personnel remuneration table in the share-based payments column, as detailed in the "Details of remuneration" section above. All options under this plan vested at the time of the IPO at 30 June 2017 and were then exchanged for options in the Company. Accordingly, the above table shows options being issued and 100% vested during the financial year.

No options were exercised in Audinate Group Limited or lapsed during the year ended 30 June 2017.

Performance rights

The terms and conditions of each grant of performance rights over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Name	Number of rights granted	Grant date	Expiry date	Share price hurdle for vesting	Fair value per right at grant date
Lee Ellison	267,811	30 June 2017	30 July 2022	\$0.000	\$0.810
Rob Goss	89,270	30 June 2017	30 July 2022	\$0.000	\$0.810
Aidan Williams	178,541	30 June 2017	30 July 2022	\$0.000	\$0.810

These performance rights vest in three tranches after the release of the annual results in 2020, 2021 and 2022. Performance rights granted carry no dividend or voting rights and no rights vested during the year ended 30 June 2017.

Directors' report

30 June 2017

Additional information

The earnings of the Group for the four years to 30 June 2017 are summarised below:

	2014* \$	2015* \$	2016* \$	2017** \$
Sales revenue	6,519,830	8,035,464	11,903,452	15,062,845
EBITDA	(816,516)	25,944	(64,362)	783,540
Profit after income tax	(101,710)	516,383	54,451	(20,443,388)

* Relates to the Group prior to the restructure that occurred at the time of the IPO at 30 June 2017. The Group adopted International Financial Reporting Standards for the 2014 financial year and hence the information for 2013 is not provided as it is not available on a comparable basis.

** EBITDA in 2017 financial year is calculated excluding the one-off impacts of IPO expenses and the change in fair value of redeemable preference shares.

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2017
Share price at financial year end (\$)	1.53
Basic earnings per share (cents per share)	(573.55)
Diluted earnings per share (cents per share)	(573.55)

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the Company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
David Krall	-	-	293,958	-	293,958
Lee Ellison	-	820	-	-	820
John Dyson*	-	-	204,921	-	204,921
Roger Price**	-	-	49,181	-	49,181
Tim Finlayson**	-	-	122,951	-	122,951
Rob Goss	-	820	-	-	820
Aidan Williams	-	820	1,713,544	-	1,714,364
	-	2,460	2,384,555	-	2,387,015

* Entities associated with John Dyson hold 11,927,927 ordinary shares as at 30 June 2017.

** Held indirectly

Option holding

The number of options over ordinary shares in the Company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
David Krall	-	186,042	-	-	186,042
Lee Ellison*	-	320,000	-	-	320,000
Rob Goss*	-	690,000	-	-	690,000
Aidan Williams	-	204,000	-	-	204,000
	-	1,400,042	-	-	1,400,042

* Held indirectly

All of these options were fully vested and exercisable at 30 June 2017. However they are all subject to escrow provisions as described in the prospectus.

Performance rights holding

The number of performance rights over ordinary shares in the Company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Vested	Expired/ forfeited/ other	Balance at the end of the year
<i>Performance rights over ordinary shares</i>					
Lee Ellison	-	267,811	-	-	267,811
Rob Goss	-	89,270	-	-	89,270
Aidan Williams	-	178,541	-	-	178,541
	-	535,622	-	-	535,622

No performance rights over ordinary shares had vested at 30 June 2017.

This concludes the remuneration report, which has been audited.

Loans to directors and executives

Prior to the IPO, Audinate Pty Limited offered option-holders an interest bearing, non-recourse loan in order to fund the exercise price of options for shares in Audinate Pty Limited. As a part of the restructure described in the prospectus these shares were then exchanged for shares in Audinate Group Limited. The total value of the loans outstanding at 30 June 2017 was \$117,953, inclusive of a loan outstanding to Aidan Williams of \$36,613.

Directors' report

30 June 2017

Shares under option

Unissued ordinary shares of Audinate Group Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
30/06/2017	23 November 2018	\$0.036	36,000
30/06/2017	17 October 2019	\$0.062	913,042
30/06/2017	9 December 2019	\$0.062	40,000
30/06/2017	9 January 2020	\$0.062	10,000
30/06/2017	21 August 2020	\$0.062	58,000
30/06/2017	9 December 2020	\$0.062	460,000
30/06/2017	11 June 2022	\$0.260	188,000
30/06/2017	23 August 2022	\$0.260	440,000
30/06/2017	23 August 2022	\$0.260	300,000
30/06/2017	31 January 2023	\$0.260	770,000
30/06/2017	3 April 2023	\$0.260	50,000
			<u>3,265,042</u>

Shares under performance rights

Unissued ordinary shares of Audinate Group Limited under performance rights* at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under rights
30/06/2017	30/06/2022	\$0.000	1,038,509

* ASX restricted quoted performance rights

No person entitled to exercise the performance rights had or has any right by virtue of the performance right to participate in any share issue of the Company or of any other body corporate.

Shares issued on the exercise of options

There were no ordinary shares of Audinate Group Limited issued on the exercise of options during the year ended 30 June 2017 and up to the date of this report. However, there were 1,913,304 ordinary shares issued on the exercise of options in Audinate Pty Limited prior to the restructure, as set out in note 17 to the financial statements.

Shares issued on the exercise of performance rights

There were no ordinary shares of Audinate Group Limited issued on the exercise of performance rights during the year ended 30 June 2017 and up to the date of this report.

Indemnity and insurance of officers

During the financial year, the Company had a policy in place in respect of directors' and officers' liability and legal expenses insurance contracts, for current directors, including senior executives, employees and officers and for former directors, officers and employees of the Company for a period of 12 months and directors, senior executives, secretaries and employees of its Group, excluding actions brought in a court in the United States of America or Canada. The policy prohibits disclosure of the premiums paid.

The policy covers:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

The Company has also entered into a Deed of Access ('Deed') and Indemnity with all past and present directors, which provides an indemnity to the directors for legal costs and any liability arising from negligence of the director, to the extent permitted by law. In addition, the Deed allows the Company to advance a director an interest free loan equal to any legal costs which, in the Company's opinion, are not permitted to be indemnified under the law. Any such advance is repayable by the director at the conclusion of the proceedings.

Indemnity and insurance of auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company

No person has applied to the Court for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 22 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 22 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former partners of Deloitte Touche Tohmatsu

There are no officers of the Company who are former partners of Deloitte Touche Tohmatsu.

Auditor's independence declaration

A copy of the auditor's independence declaration is set out on the following page.

Auditor

Deloitte Touche Tohmatsu continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors.

On behalf of the directors



David Krall
Chairman

21 August 2017
Sydney

Auditor's independence declaration



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21 August 2017

The Board of Directors
Audinate Group Limited
Level 1, Suite 2
458-468 Wattle Street
Ultimo, NSW 2007

Dear Board Members

Audinate Group Limited

I am pleased to provide the following declaration of independence to the directors of Audinate Group Limited.

As lead audit partner for the audit of the financial statements of Audinate Group Limited for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, appearing to read "Joshua Tanchel".

Joshua Tanchel
Partner
Chartered Accountants

Consolidated statement of profit or loss and other comprehensive income

for the year ended 30 June 2017

	Note	Consolidated 2017 \$	2016 \$
Revenue			
Sales		15,062,845	11,903,452
Cost of goods sold		(3,802,226)	(3,062,040)
Gross margin		11,260,619	8,841,412
Expenses			
Employee benefit expenses	5	(7,289,702)	(5,884,886)
Marketing expenses		(1,603,253)	(1,639,337)
Administration and other operating expenses		(1,584,124)	(1,381,551)
Depreciation and amortisation	5	(1,088,987)	(627,165)
Initial public offering expenses		(1,694,328)	-
Conversion of redeemable preference shares	16	(18,547,790)	-
Finance costs		(400)	(402)
Total expenses		(31,808,584)	(9,533,341)
Operating loss		(20,547,965)	(691,929)
Other income	6	152,551	758,131
Profit/(loss) before income tax expense		(20,395,414)	66,202
Income tax expense	7	(47,974)	(11,751)
Profit/(loss) after income tax expense for the year attributable to the owners of Audinate Group Limited		(20,443,388)	54,451
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(103,955)	(24,863)
Other comprehensive income for the year, net of tax		(103,955)	(24,863)
Total comprehensive income for the year attributable to the owners of Audinate Group Limited		<u>(20,547,343)</u>	<u>29,588</u>
		Cents	Cents
Basic earnings per share	8	(573.55)	1.77
Diluted earnings per share	8	(573.55)	0.12

Refer to note 2 for information on comparatives, which relate to Audinate Pty Limited and controlled entities.

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Consolidated statement of financial position

as at 30 June 2017

	Note	Consolidated 2017 \$	2016 \$
Assets			
Current assets			
Cash and cash equivalents	9	18,694,193	3,108,435
Trade and other receivables	10	2,030,127	1,915,192
Receivable from issue of shares		4,062,354	-
Research and development incentive		901,936	1,149,763
Inventories	11	767,015	455,039
Other assets	12	246,346	145,398
Total current assets		<u>26,701,971</u>	<u>6,773,827</u>
Non-current assets			
Property, plant and equipment	13	365,447	323,546
Intangibles	14	2,000,750	1,268,868
Total non-current assets		<u>2,366,197</u>	<u>1,592,414</u>
Total assets		<u>29,068,168</u>	<u>8,366,241</u>
Liabilities			
Current liabilities			
Trade and other payables	15	2,557,814	756,978
Payable to selling shareholders		7,029,899	-
Income tax payable		34,216	14,912
Employee benefits		1,359,954	882,710
Warranty provision		33,285	29,110
Redeemable preference shares	16	-	31,550,905
Unearned revenue		163,705	163,579
Total current liabilities		<u>11,178,873</u>	<u>33,398,194</u>
Non-current liabilities			
Employee benefits		304,818	231,276
Total non-current liabilities		<u>304,818</u>	<u>231,276</u>
Total liabilities		<u>11,483,691</u>	<u>33,629,470</u>
Net assets/(liabilities)		<u>17,584,477</u>	<u>(25,263,229)</u>
Equity			
Contributed capital	17	63,261,592	29,392
Reserves	18	302,566	243,672
Accumulated losses		(45,979,681)	(25,536,293)
Total equity/(deficiency)		<u>17,584,477</u>	<u>(25,263,229)</u>

Refer to note 2 for information on comparatives, which relate to Audinate Pty Limited and controlled entities.

The Company listed on the Australian Securities Exchange on 30 June 2017 and paid proceeds of \$7,029,899 to selling shareholders on 5 July 2017 (refer to note 31).

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

Consolidated statement of changes in equity

for the year ended 30 June 2017

Consolidated	Contributed capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2015	26,297	255,394	(25,590,744)	(25,309,053)
Profit after income tax expense for the year	-	-	54,451	54,451
Other comprehensive income for the year, net of tax	-	(24,863)	-	(24,863)
Total comprehensive income for the year	-	(24,863)	54,451	29,588
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments (note 30)	-	13,141	-	13,141
Issue of shares on exercise of options in Audinate Pty Limited	3,095	-	-	3,095
Balance at 30 June 2016	<u>29,392</u>	<u>243,672</u>	<u>(25,536,293)</u>	<u>(25,263,229)</u>

Refer to note 2 for information on comparatives, which relate to Audinate Pty Limited and controlled entities.

Consolidated	Contributed capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2016	29,392	243,672	(25,536,293)	(25,263,229)
Loss after income tax expense for the year	-	-	(20,443,388)	(20,443,388)
Other comprehensive income for the year, net of tax	-	(103,955)	-	(103,955)
Total comprehensive income for the year	-	(103,955)	(20,443,388)	(20,547,343)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 17)	63,035,050	-	-	63,035,050
Share-based payments (note 30)	-	162,849	-	162,849
Issue of shares on exercise of options in Audinate Pty Limited	138,126	-	-	138,126
Issue of shares as employee share gift	59,024	-	-	59,024
Balance at 30 June 2017	<u>63,261,592</u>	<u>302,566</u>	<u>(45,979,681)</u>	<u>17,584,477</u>

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

Consolidated statement of cash flows

for the year ended 30 June 2017

	Note	Consolidated 2017 \$	2016 \$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		15,079,335	11,763,780
Payments to suppliers and employees (inclusive of GST)		(14,407,491)	(11,471,959)
Interest received		51,541	38,001
Interest and other finance costs paid		(1,562)	(402)
Research and development incentive received for research activities		598,975	446,641
Income taxes paid		(80,440)	(11,751)
Net cash from operating activities	28	<u>1,240,358</u>	<u>764,310</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(138,903)	(212,123)
Payments for intangibles		(2,307,518)	(1,434,911)
Research and development incentive received for development activities		<u>580,955</u>	<u>605,115</u>
Net cash used in investing activities		<u>(1,865,466)</u>	<u>(1,041,919)</u>
Cash flows from financing activities			
Proceeds from issue of shares		16,987,866	3,095
Share issue transaction costs		<u>(777,000)</u>	<u>-</u>
Net cash from financing activities		<u>16,210,866</u>	<u>3,095</u>
Net increase/(decrease) in cash and cash equivalents		15,585,758	(274,514)
Cash and cash equivalents at the beginning of the financial year		<u>3,108,435</u>	<u>3,382,949</u>
Cash and cash equivalents at the end of the financial year	9	<u><u>18,694,193</u></u>	<u><u>3,108,435</u></u>

Refer to note 2 for information on comparatives, which relate to Audinate Pty Limited and controlled entities.

The Company listed on the Australian Securities Exchange on 30 June 2017. Further cash of \$4,062,354 was received from issue of shares and \$7,029,899 was paid to selling shareholders on 5 July 2017 (neither amount is included in the consolidated statement of cashflows above). Refer to note 31 for more details.

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

Note 1. General information

The financial statements cover Audinate Group Limited ('Company' or 'parent entity') as a consolidated entity consisting of Audinate Group Limited and the entities it controlled ('Group') at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Audinate Group Limited's functional and presentation currency.

Audinate Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 1, 458 - 468 Wattle Street
Ultimo NSW 2007

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 21 August 2017. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new and amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Basis of preparation

Acquisition of Audinate Pty Limited and comparative information

Effective 30 June 2017, Audinate Group Limited (the 'Company') acquired Audinate Pty Limited ('Audinate'). This acquisition did not represent a business combination in accordance with AASB 3 'Business Combinations'. Instead the appropriate accounting treatment for recognising the new group structure is on the basis that the transaction is a form of capital reconstruction and group reorganisation.

Accordingly the financial statements are a continuation of Audinate with the following principals having being applied:

- retained earnings and other equity balances in the consolidated financial statements at acquisition date are those of Audinate;
- the equity structure in the consolidated financial statements (the number and type of equity instruments issued) at the date of the acquisition reflects the equity structure of Audinate, as well as the equity instruments issued by the Company to affect the acquisition;
- no 'new' goodwill has been recognised as a result of the combination;
- the results for the financial year ended 30 June 2017 comprise the results for the entire year of Audinate and its subsidiaries, together with the results of the Company for one day being 30 June 2017; and
- the comparative results represents the results of Audinate and its subsidiaries only.

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB'), as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for redeemable preference shares which were measured at fair value.

Notes to financial statements

for the year ended 30 June 2017

Note 2. Significant accounting policies (continued)

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Parent entity information

These financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 29.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Audinate Group Limited as at 30 June 2017 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Audinate Group Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed.

Note 2. Significant accounting policies (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Sales revenue

Sales revenue includes sale of goods and licence fee revenue.

Sale of goods revenue is recognised at the point of sale, when the risks and rewards are transferred to the customer and there is a valid sales contract. Amounts disclosed as revenue are net of sales returns and trade discounts.

Revenue from licence fees, on software sales, is recognised on the transferring of significant risk and rewards of the software which normally incurs when the customer has access to the software.

Unearned revenue represents amounts received from customers in advance of the services to be provided. They are recognised as unearned revenue in the statement of financial position and transferred to profit or loss when the support and maintenance services have been provided.

Government grants including research and development incentives

Government grants and the research and development incentives are recognised when there is reasonable assurance that the entity will comply with the conditions attaching to them and the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

The total research and development tax incentive receivable is apportioned between other income and the development asset based on the split of expenditure in the claim.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating 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.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- when the deferred income tax asset or liability arises from the initial recognition of goodwill or 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 nor taxable profits; or
- when the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Notes to financial statements

for the year ended 30 June 2017

Note 2. Significant accounting policies (continued)

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

Inventories

Raw materials and finished goods are stated at the lower of cost and net realisable value on a 'weighted average cost' basis. Cost comprises of direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

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

Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Note 2. Significant accounting policies (continued)

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

Leasehold improvements	Lease term
Furniture and fittings	4 - 10 years
Computer and engineering equipment	1 - 10 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Leases

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

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Intangible assets

Intangible assets are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Research and development

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the Group is able to use or sell the asset; the Group has sufficient resources; and intent to complete the development and its costs can be measured reliably. Capitalised development costs are amortised, commencing from the time the asset's development reaches the condition necessary for it to be capable of operation in the manner intended by management. Amortisation is calculated on a straight-line basis over the period of their expected benefit, being their finite useful life of three years.

Intellectual property

Significant costs associated with intellectual property are deferred and not amortised. Intellectual property has an indefinite life and is tested for impairment annually. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Notes to financial statements

for the year ended 30 June 2017

Note 2. Significant accounting policies (continued)

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Redeemable preference shares

Preference shares which are redeemable at the option of the noteholder are classified as a liability in the statement of financial position. Due to the operability of the anti-dilution clauses in the preference shareholder agreements, the preference shares are considered to include a derivative liability. As such the preference shares are considered to represent a liability with an equity conversion option derivative with the entire instrument being accounted for at fair value through profit or loss.

Provisions

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at 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 corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee related cost in profit or loss when they are due.

Share-based payments

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Note 2. Significant accounting policies (continued)

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Issued capital

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.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Audinate Group Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Notes to financial statements

for the year ended 30 June 2017

Note 2. Significant accounting policies (continued)

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2017. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace AASB 139 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The Group will adopt this standard from 1 July 2018. It is not expected to significantly impact the financial statements on the basis that the main financial assets recognised represent cash and cash equivalent and trade receivables that do not carry a significant financing component and involve a single cash flow representing the repayment of principal, which in the case of trade receivables is the transaction price. Both asset classes will continue to be measured at face value. Other financial asset classes are not material to the Group. Financial liabilities of the Group are not impacted as the Group does not carry them at fair value. and the impact of its adoption will be minimal.

Note 2. Significant accounting policies (continued)

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The Group will adopt this standard from 1 July 2018. It is not expected to significantly impact the financial statements on the basis that most of the Group's revenue is recognised at the time of transfer of goods and services to customer which represents the satisfaction of the primary performance obligation.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. Had the standard been adopted from 1 July 2017, and using the transitional rules available, the Group would have recognised a lease liability, being the present value of the lease commitments as disclosed in note 24 discounted using the Group's incremental borrowing rate, with a corresponding increase in property, plant and equipment. However, the Group will adopt this standard from 1 July 2019 and the actual impact will depend on the operating lease assets held by the Group as at 1 July 2019 and the transitional elections made at that time.

Other amending accounting standards

Other amending accounting standards issued are not considered to have a significant impact on the financial statements of the Group as their amendments provide either clarification of existing accounting treatment or editorial amendments.

Notes to financial statements

for the year ended 30 June 2017

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Accounting for the corporate reorganisation prior to Initial Public Offering ('IPO')

During the financial year, a corporate reorganisation took place in preparation of the listing of the Group on the Australian Securities Exchange. This resulted in a newly incorporated company, Audinate Group Limited becoming the legal parent of the Group, conditional on the IPO completing. The directors elected to account for the restructure as a capital reconstruction and group reorganisation rather than a business combination. In the directors' judgement, the continuation of the existing accounting values most appropriately reflects the substance of the internal restructure. As such, the consolidated financial statements of the Group have been presented as a continuation of the pre-existing accounting values of assets and liabilities of the consolidated financial statements of Audinate Pty Limited.

In adopting this approach, the directors note that there is an alternate view that such a restructure conditional on the IPO completing should be accounted for as a business combination that follows the legal structure of Audinate Group Limited being the acquirer. An IASB project on accounting for common control transactions is likely to address such restructures in the future. However, the precise nature of any new requirements and the timing of these are uncertain. In any event, history indicates that any potential changes are unlikely to require retrospective amendments to the financial statements.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Useful life of capitalised development costs

The Group regularly considers the useful life of development costs, which is currently estimated to be three years. In determining the appropriate useful life for these assets a range of factors are taken into account including the specific nature of the asset created, risk of technical obsolescence, business performance and market conditions. To the extent that there is a change to the useful life of these assets (not related to impairment) the amortisation charge is changed prospectively.

Note 4. Operating segments

Identification of reportable operating segments

The Group operates in one segment, based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

As a result, the operating segment information is as disclosed in the statements and notes to the financial statements throughout the report.

Major customers

Most of the Group's major customers are multinational companies that Audinate may transact with in multiple countries. Due to the corporate structure of the Group this revenue is accounted for by Audinate Pty Limited in Australia. The top ten customers represent approximately 52% (2016: 52%) of the Group's revenue during the year ended 30 June 2017 and of that amount the largest customer represents approximately 23% (2016: 22%) of the Group's revenue.

Note 4. Operating segments (continued)

Geographical information

	Sales to external customers		Geographical non-current assets	
	2017	2016	2017	2016
	\$	\$	\$	\$
Australia	14,939,667	11,595,756	2,275,099	1,531,058
United Kingdom	-	84,432	12,098	13,477
Hong Kong	-	-	1,671	3,920
United States of America	123,178	223,264	77,329	43,959
	<u>15,062,845</u>	<u>11,903,452</u>	<u>2,366,197</u>	<u>1,592,414</u>

The majority of the Group's revenue is generated from sales contracts between Audinate Pty Limited and a range of international companies. The geographic split of this revenue is: a) Americas (38%); b) Asia (33%); and c) Europe and Middle East (29%). Occasionally the international offices may generate some revenue related to marketing activities.

Note 5. Expenses

	Consolidated	
	2017	2016
	\$	\$
Profit/(loss) before income tax includes the following specific expenses:		
<i>Depreciation and amortisation</i>		
Depreciation of property, plant and equipment	103,326	85,461
Amortisation of intangibles	985,661	541,704
Total depreciation and amortisation	<u>1,088,987</u>	<u>627,165</u>
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	<u>366,287</u>	<u>286,745</u>
<i>Employee benefit expenses</i>		
Salaries and wages	6,162,134	5,025,767
Superannuation	428,203	312,915
Share-based payments	67,443	13,141
Other costs	631,922	533,063
Total employee benefit expenses	<u>7,289,702</u>	<u>5,884,886</u>

Share-based payment amount excludes the expense for the accelerated vesting of options which amounted to \$95,406 and was classified as an IPO expense.

Note 6. Other income

	Consolidated	
	2017	2016
	\$	\$
Net foreign exchange gain/(loss)	(219,972)	146,317
Research and development incentive	320,982	573,813
Interest revenue	51,541	38,001
	<u>152,551</u>	<u>758,131</u>

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for the year ended 30 June 2017

Note 7. Income tax expense

The Group incurs an income tax expense in its overseas subsidiaries relating to the net taxable profit generated on services provided to the Group.

	Consolidated 2017 \$	2016 \$
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit/(loss) before income tax expense	(20,395,414)	66,202
Tax at the statutory tax rate of 30%	(6,118,624)	19,861
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Conversion of redeemable preference shares	5,564,337	-
Expenditure claimed for research and development incentive	993,063	838,800
Other non-assessable items	478,291	(441,466)
Utilisation of prior period losses	(376,373)	(417,195)
Reduction in current period research and development incentive	(540,694)	-
	-	-
Income tax payable in respect of foreign subsidiaries	47,974	11,751
Income tax expense	47,974	11,751
	Consolidated 2017 \$	2016 \$
<i>Tax losses not recognised</i>		
Unused tax losses for which no deferred tax asset has been recognised	-	1,254,577
Potential tax benefit @ 30%	-	376,373

Australian losses can be carried forward indefinitely. The benefit will only be obtained if: (a) the Group derives future foreseeable income to utilise the losses; (b) the Group continues to satisfy the conditions for deductibility imposed by law; and (c) there are no changes in tax legislation which adversely impact the Group's ability to realise the benefit from the deduction for the losses.

Note 8. Earnings per share

	Consolidated 2017 \$	2016 \$
Profit/(loss) after income tax attributable to the owners of Audinate Group Limited	(20,443,388)	54,451
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	3,564,389	3,079,271
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	-	7,711,243
Redeemable preference shares	-	35,302,297
Weighted average number of ordinary shares used in calculating diluted earnings per share	3,564,389	46,092,811

Note 8. Earnings per share (continued)

	Cents	Cents
Basic earnings per share	(573.55)	1.77
Diluted earnings per share	(573.55)	0.12

The weighted average number of ordinary shares, options over ordinary shares and redeemable preference shares for the comparative period have been adjusted to give effect to the capital reconstruction and group reorganisation which occurred during the financial year.

3,265,042 options over ordinary shares and the impact of preference shares during the current period have been excluded from the current period calculation of the weighted average number of ordinary shares used in calculating diluted earnings per share as they are anti-dilutive.

Note 9. Current assets - cash and cash equivalents

	Consolidated 2017 \$	2016 \$
Cash at bank	17,138,351	1,577,703
Cash on deposit	1,555,842	1,530,732
	<u>18,694,193</u>	<u>3,108,435</u>

Note 10. Current assets - trade and other receivables

	Consolidated 2017 \$	2016 \$
Trade receivables	1,717,594	1,822,874
Other receivables	312,533	92,318
	<u>2,030,127</u>	<u>1,915,192</u>

Impairment of receivables

Movements in the provision for impairment of receivables are as follows:

	Consolidated 2017 \$	2016 \$
Opening balance	-	102,763
Unused amounts reversed	-	(102,763)
Closing balance	<u>-</u>	<u>-</u>

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to \$16,320 as at 30 June 2017 (\$42,766 as at 30 June 2016).

The Group did not consider a credit risk on the aggregate balances after reviewing the credit terms of customers based on recent collection practices.

Notes to financial statements

for the year ended 30 June 2017

Note 10. Current assets - trade and other receivables (continued)

The ageing of the past due but not impaired receivables are as follows:

	Consolidated 2017 \$	2016 \$
3 to 6 months overdue	16,320	42,766

Note 11. Current assets - inventories

	Consolidated 2017 \$	2016 \$
Raw materials - at cost	345,456	249,642
Finished goods - at cost	421,559	205,397
	<u>767,015</u>	<u>455,039</u>

Note 12. Current assets - other assets

	Consolidated 2017 \$	2016 \$
Prepayments	140,940	46,159
Deposits	105,406	99,239
	<u>246,346</u>	<u>145,398</u>

Note 13. Non-current assets - property, plant and equipment

	Consolidated 2017 \$	2016 \$
Leasehold improvements - at cost	175,711	117,394
Less: Accumulated depreciation	(55,118)	(11,707)
	<u>120,593</u>	<u>105,687</u>
Furniture and fittings - at cost	67,385	31,593
Less: Accumulated depreciation	(18,402)	(15,643)
	<u>48,983</u>	<u>15,950</u>
Computer and engineering equipment - at cost	607,872	540,076
Less: Accumulated depreciation	(412,001)	(338,167)
	<u>195,871</u>	<u>201,909</u>
	<u>365,447</u>	<u>323,546</u>

Note 13. Non-current assets - property, plant and equipment (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Leasehold improvements \$	Furniture and fittings \$	Computer and engineering equipment \$	Total \$
Balance at 1 July 2015	-	18,076	178,808	196,884
Additions	117,394	413	94,316	212,123
Depreciation expense	(11,707)	(2,539)	(71,215)	(85,461)
Balance at 30 June 2016	105,687	15,950	201,909	323,546
Additions	40,065	35,882	69,280	145,227
Depreciation expense	(25,159)	(2,849)	(75,318)	(103,326)
Balance at 30 June 2017	<u>120,593</u>	<u>48,983</u>	<u>195,871</u>	<u>365,447</u>

Note 14. Non-current assets - intangibles

	Consolidated 2017 \$	Consolidated 2016 \$
Development costs	3,762,932	2,158,402
Less: Accumulated amortisation	(1,860,206)	(893,380)
	<u>1,902,726</u>	<u>1,265,022</u>
Intellectual property	116,860	3,846
Less: Accumulated amortisation	(18,836)	-
	<u>98,024</u>	<u>3,846</u>
	<u>2,000,750</u>	<u>1,268,868</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Development costs \$	Intellectual property \$	Total \$
Balance at 1 July 2015	976,930	3,846	980,776
Additions*	829,796	-	829,796
Amortisation expense	(541,704)	-	(541,704)
Balance at 30 June 2016	1,265,022	3,846	1,268,868
Additions*	1,604,529	113,014	1,717,543
Amortisation expense	(966,825)	(18,836)	(985,661)
Balance at 30 June 2017	<u>1,902,726</u>	<u>98,024</u>	<u>2,000,750</u>

* Net of research and development incentive received for development activities.

Notes to financial statements

for the year ended 30 June 2017

Note 15. Current liabilities - trade and other payables

	Consolidated	
	2017	2016
	\$	\$
Trade payables	734,529	625,676
Accrued expenses	1,561,711	35,219
Other payables	261,574	96,083
	<u>2,557,814</u>	<u>756,978</u>

Refer to note 20 for further information on financial instruments.

Note 16. Current liabilities - redeemable preference shares

	Consolidated	
	2017	2016
	\$	\$
Redeemable preference shares	-	31,550,905

Preference shares which were redeemable at the option of the noteholder are classified as a liability in the statement of financial position. Due to the operability of the anti-dilution clauses in the preference shareholder agreements, the preference shares were considered to include a derivative liability. As such the preference shares were considered to represent a liability with an equity conversion option derivative with the entire instrument being accounted for at fair value through profit or loss.

The preference shares converted into ordinary shares in the Company on the date of the IPO. The accounting treatment of the CRPS at conversion required an expense to be recorded, amounting to \$18,547,790, for the difference in carrying value of the CRPS and the fair value of shares in the Company at settlement.

Note 17. Equity - contributed capital

The share capital dollar value represents the continuation of Audinate Pty Limited ('Audinate'). The number of shares on issue reflect those of Audinate Group Limited (the 'Company'). Refer to note 2 'Basis of preparation' for further details of the accounting principles applied.

Fully paid ordinary shares

	2017	Consolidated		2016
	Shares	2016	2017	2016
		Shares	\$	\$
Ordinary shares - fully paid	<u>59,513,513</u>	<u>1,549,303</u>	<u>63,261,592</u>	<u>29,392</u>

Note 17. Equity - contributed capital (continued)

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 July 2015	1,509,095		26,297
Issue of shares in Audinate - exercise of options	24 July 2015	12,500	\$0.072	894
Issue of shares in Audinate - exercise of options	8 September 2015	18,750	\$0.072	1,350
Issue of shares in Audinate - exercise of options	9 September 2015	3,958	\$0.124	491
Issue of shares in Audinate - exercise of options	1 June 2016	5,000	\$0.072	360
Balance	30 June 2016	1,549,303		29,392
Issue of shares in Audinate - exercise of options	29 November 2016	5,000	\$0.072	360
Issue of shares in Audinate - exercise of options	29 November 2016	7,083	\$0.124	878
Issue of shares in Audinate - exercise of options	11 May 2017	45,000	\$0.072	3,240
Issue of shares in Audinate - exercise of options	2 June 2017	1,856,221	\$0.072	133,648
Conversion of shares on group reorganisation - two shares in the Company for each existing share in Audinate	30 June 2017	3,462,607	\$0.000	-
Issue of shares in the Company - conversion of convertible redeemable preference shares	30 June 2017	41,064,509	\$1.220	50,098,701
Issue of shares in the Company - employee gift offer	30 June 2017	48,380	\$1.220	59,024
Issue of shares in the Company - IPO	30 June 2017	11,475,410	\$1.220	14,000,000
Share issue costs		-	\$0.000	(1,063,651)
Balance	30 June 2017	<u>59,513,513</u>		<u>63,261,592</u>

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Notes to financial statements

for the year ended 30 June 2017

Note 18. Equity - reserves

	Consolidated 2017 \$	2016 \$
Foreign currency reserve	(88,744)	15,211
Share-based payments reserve	391,310	228,461
	<u>302,566</u>	<u>243,672</u>

Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars.

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Foreign currency \$	Share-based payments \$	Total \$
Balance at 1 July 2015	40,074	215,320	255,394
Foreign currency translation	(24,863)	-	(24,863)
Share-based payments	-	13,141	13,141
	<u>-</u>	<u>13,141</u>	<u>13,141</u>
Balance at 30 June 2016	15,211	228,461	243,672
Foreign currency translation	(103,955)	-	(103,955)
Share-based payments	-	162,849	162,849
	<u>-</u>	<u>162,849</u>	<u>162,849</u>
Balance at 30 June 2017	<u>(88,744)</u>	<u>391,310</u>	<u>302,566</u>

Note 19. Equity - dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Note 20. Financial instruments

Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program seeks to minimise potential adverse effects on the financial performance of the Group.

The Group's policy is not to trade in or use financial instruments to hedge it's risks.

Risk management is carried out by the Board of Directors ('the Board'). The Board uses different methods to measure different types of risks to which the Group is exposed. These methods include ageing analysis for credit risk and sensitivity analysis in the case of interest rate risk.

Market risk

Foreign currency risk

The Group's US dollar denominated sales for the year ended 30 June 2017 was approximately US\$11.2 million (2016: US\$8.9 million) on which the risk of foreign exchange movement was partially offset against exchange rate movement of US dollar denominated for purchases of approximately US\$7.2 million (2016: US\$5.5 million).

Note 20. Financial instruments (continued)

Interest rate risk

At the reporting date, the Group had no variable rate borrowings. Cash at bank earns interest at floating rates based on daily bank deposit rates.

As at the reporting date, the Group had the following variable rate cash and cash equivalents:

	2017		2016	
	Weighted average interest rate %	Balance \$	Weighted average interest rate %	Balance \$
Consolidated				
Cash at bank	-	17,138,351	-	1,577,703
Cash on deposit	2.50%	1,555,842	2.86%	1,530,732
Net exposure to cash flow interest rate risk		<u>18,694,193</u>		<u>3,108,435</u>

No sensitivity analysis has been performed for the exposure to interest rate risk on the Group's bank balance as the exposure is not significant.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group trades only with recognised and creditworthy independent third parties. The Group has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The Group monitors the receivables on an ongoing basis and its exposure to bad debts is not significant.

There is no significant concentration of credit risk as the Group's trade receivables are spread over a number of diversified customers. The Group does not hold any collateral or other credit enhancements over these balances.

The Group's bank balance are deposited with creditworthy banks with no recent history of default.

The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

Liquidity risk

Prudent liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

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for the year ended 30 June 2017

Note 20. Financial instruments (continued)

Remaining contractual maturities

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid.

Consolidated - 2017	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
<i>Non-interest bearing</i>						
Trade payables	-	734,529	-	-	-	734,529
Other payables	-	261,574	-	-	-	261,574
Payable to selling shareholders	-	7,029,899	-	-	-	7,029,899
Total non-derivatives		8,026,002	-	-	-	8,026,002

Consolidated - 2016	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
<i>Non-interest bearing</i>						
Trade payables	-	625,676	-	-	-	625,676
Other payables	-	96,083	-	-	-	96,083
Redeemable preference shares*	-	22,242,164	-	-	-	22,242,164
Total non-derivatives		22,963,923	-	-	-	22,963,923

* The amount included in the tables above for preference shares represents the amount the preference shareholders would receive if the preference shares were redeemed at their discretion. These preference shares were revalued during the year as described in note 16.

The cash flows in the maturity analysis above are not expected to occur earlier than contractually disclosed above.

Note 21. Fair value measurement

Fair value hierarchy

The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Consolidated - 2016	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<i>Liabilities</i>				
Redeemable preference shares	-	31,550,905	-	31,550,905
Total liabilities	-	31,550,905	-	31,550,905

There were no transfers between levels during the financial year. There were no amounts at fair value as at 30 June 2017.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

Note 21. Fair value measurement (continued)

Valuation techniques for fair value measurements categorised within level 2

Redeemable preference shares were valued based on the capital raising of \$1.59 per preference share that occurred on 18 January 2012. The value of \$1.59 per preference share as at 30 June 2016 was supported by subsequent valuations of the Group provided by external valuers.

Note 22. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu, the auditor of the Company:

	Consolidated	
	2017	2016
	\$	\$
<i>Audit services - Deloitte Touche Tohmatsu</i>		
Audit or review of the financial statements	100,000	26,280
<i>Other services - Deloitte Touche Tohmatsu</i>		
Investigating accountant services	235,000	-
Additional accounting and tax advice	120,000	-
	355,000	-
	455,000	26,280

Note 23. Contingent liabilities

The Group had no contingent liabilities at 30 June 2017 and 30 June 2016.

Note 24. Commitments

	Consolidated	
	2017	2016
	\$	\$
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	368,539	397,818
One to five years	1,126,145	1,774,618
	1,494,684	2,172,436

Operating lease commitments includes contracted amounts for offices. The leases have various escalation clauses. On renewal, the terms of the leases may be renegotiated.

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for the year ended 30 June 2017

Note 25. Key management personnel disclosures

Compensation

The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

	Consolidated	
	2017	2016
	\$	\$
Short-term employee benefits	1,058,746	1,100,446
Post-employment benefits	29,926	40,546
Share-based payments	84,341	7,127
	<u>1,173,013</u>	<u>1,148,119</u>

Note 26. Related party transactions

Parent entity

Audinate Group Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 27.

Key management personnel

Disclosures relating to key management personnel are set out in note 25 and the remuneration report included in the directors' report.

Transactions with related parties

There were no transactions with related parties during the current and previous financial year.

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties

As described in the directors' report, Audinate Pty Limited offered employees interest bearing, non-recourse loans in order to fund the exercise of options prior to the IPO. The total value of the loans outstanding at 30 June 2017 was \$117,953 (2016: \$nil).

There were no other loans to or from related parties at the current and previous reporting date.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 27. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest 2017 %
Audinate Pty Limited	Australia	100%
Audinate, Inc.	United States of America	100%
Audinate Limited	United Kingdom	100%
Audinate Limited	Hong Kong	100%
Audinate Holdings Limited	Australia	100%

At 30 June 2016 Audinate Pty Limited was the parent entity and owned 100% of Audinate, Inc., Audinate Limited (United Kingdom) and Audinate Limited (Hong Kong).

Note 28. Reconciliation of profit/(loss) after income tax to net cash from operating activities

	Consolidated 2017 \$	2016 \$
Profit/(loss) after income tax expense for the year	(20,443,388)	54,451
Adjustments for:		
Depreciation and amortisation	1,088,987	627,165
Reversal of impairment of receivables	-	(102,763)
Fair value on redeemable preference shares	18,547,790	-
Share-based payments	162,849	13,141
Employee gift shares	59,024	-
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	51,490	(338,658)
Increase in inventories	(345,962)	(7,390)
Increase in research and development incentive	(298,065)	(127,169)
Decrease/(increase) in prepayments	(46,880)	40,057
Increase in trade and other payables	1,393,838	359,770
Increase in provisions	1,070,675	245,706
Net cash from operating activities	<u>1,240,358</u>	<u>764,310</u>

Note 29. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent 2017 \$	2016 \$
Loss after income tax	<u>(1,694,328)</u>	-
Total comprehensive income	<u>(1,694,328)</u>	-

Notes to financial statements

for the year ended 30 June 2017

Note 29. Parent entity information (continued)

Statement of financial position

	2017 \$	Parent 2016 \$
Total current assets	21,029,899	-
Total assets	79,636,384	-
Total current liabilities	9,787,878	-
Total liabilities	9,787,878	-
Equity		
Contributed capital	71,542,834	-
Accumulated losses	(1,694,328)	-
Total equity	69,848,506	-

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2017.

Parent entity information

Parent entity financial information relates to Audinate Group Limited. The Company was incorporated on 19 April 2017 and the information presented is for the period from 19 April 2017 to 30 June 2017. Therefore there is no comparative information.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2017.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2017.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity except for the investment in Audinate Pty Limited which is held at fair value as part of the Group reorganisation.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 30. Share-based payments

Options

Under the Employee Share Option Plan ('ESOP'), the Company's Board of Directors ('Board'), or a committee of the Board, may grant incentive and non-qualified stock options to employees, officers, directors, consultants, independent contractors, and advisors to the Company, or to any parent, subsidiary, or affiliate of the Company. The purpose of the ESOP is to attract, retain, and motivate eligible persons whose present and potential contributions are important to the Group's success by offering them an opportunity to participate in the Company's future performance through equity awards of stock options and stock bonuses.

Note 30. Share-based payments (continued)

Set out below are summaries of options granted under the plan:

2017

Start date	End date	Exercise price	Balance at the start of the year	Granted*	Exercised	Expired/ forfeited/ other	Balance at the end of the year
30/06/2017	23/11/2018	\$0.036	-	36,000	-	-	36,000
30/06/2017	17/10/2019	\$0.062	-	913,042	-	-	913,042
30/06/2017	09/12/2019	\$0.062	-	40,000	-	-	40,000
30/06/2017	09/01/2020	\$0.062	-	10,000	-	-	10,000
30/06/2017	21/08/2020	\$0.062	-	58,000	-	-	58,000
30/06/2017	09/12/2020	\$0.062	-	460,000	-	-	460,000
30/06/2017	11/06/2022	\$0.260	-	188,000	-	-	188,000
30/06/2017	23/08/2022	\$0.260	-	740,000	-	-	740,000
30/06/2017	31/01/2023	\$0.260	-	770,000	-	-	770,000
30/06/2017	03/04/2023	\$0.260	-	50,000	-	-	50,000
			-	3,265,042	-	-	3,265,042

* The options over shares in Audinate Pty Ltd were cancelled in exchange for options in the Company under the restructure.

2016

Start date	End date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
01/07/2015	30/06/2016	\$0.072	3,175,720	-	(36,250)	(18,750)	3,120,720
01/07/2015	30/06/2016	\$0.124	736,521	-	(3,958)	(18,042)	714,521
01/07/2015	30/06/2016	\$0.520	-	99,000	-	-	99,000
			3,912,241	99,000	(40,208)	(36,792)	3,934,241
Weighted average exercise price			\$0.082	\$0.520	\$0.077	\$0.098	\$0.093

3,265,042 options were exercisable at the end of the financial year (2016: 2,909,612).

The table above sets out the options outstanding in Audinate Pty Limited at 30 June 2016. As a part of the restructure that occurred as a part of the IPO at 30 June 2017 the outstanding options in Audinate Pty Limited were exchanged on 1:2 basis for options in the Company (as explained in the prospectus).

During the financial year, Audinate Pty Ltd issued 780,000 options which were exchanged (on a 1:2 basis) for options in Audinate Group Limited when the restructure took place at the time of the IPO on 30 June 2017. These options were issued on multiple dates using the prevailing risk free rate. The other valuation inputs used were share price (41c), strike price (52c) and volatility 51%. The fair value of the options based on these inputs was 18.4c.

Share Rights

Set out below are summaries of performance rights granted under the plan:

2017

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
30/06/2017	30/06/2022	\$0.000	-	1,038,509	-	-	1,038,509
			-	1,038,509	-	-	1,038,509

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 4 years (2016: not applicable).

Notes to financial statements

for the year ended 30 June 2017

Note 30. Share-based payments (continued)

The performance rights issued on 30 June 2017 were valued based on a share price of \$1.22, a strike price of zero, volatility of 51%, a risk free interest rate of 2.63% and probability weighting reflecting the probability of meeting the vesting conditions. The fair value of the share rights based on these inputs is 81c.

Note 31. Events after the reporting period

Audinate Group Limited listed on the Australian Securities Exchange on 30 June 2017. As part of the listing process holders of CRPS sold shares, amounting to \$7,029,899, to new shareholders. Consequently the Group shows a liability for this amount at 30 June 2017, offset by a receivable of \$4,062,354 with the balance of \$2,967,545 included in cash at bank. Subsequent to the end of the financial year the full proceeds of the IPO were received and \$7,029,899 was paid to the selling shareholders on 5 July 2017.

No other matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Directors' declaration

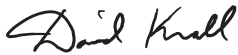
for the year ended 30 June 2017

In the directors' opinion:

- the attached financial statements and notes comply with the Accounting Standards and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

On behalf of the directors



David Krall
Chairman

21 August 2017
Sydney

Independent auditor's report



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Independent Auditor's Report to the members of Audinate Group Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Audinate Group Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited



Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Derecognition of redeemable preference shares The Group's capital structure included preference shares which were redeemable at the option of the noteholder and were classified as a liability in the Statement of Financial Position as disclosed in note 16. The preference shares were revalued at the date of conversion based on the value of the ordinary shares issued at Initial Public Offering and resulted in a charge to the income statement for the full year of \$18.6 million.	Our procedures included, but were not limited to: • Agreeing total pre-converted preference shares to preference share agreements; • Recalculating the change in the fair value of the redeemable preference shares of \$18.6 million with reference to the Initial Public Offering price of \$1.22 per share; and • Agreeing total converted shares to the share register. We also assessed the appropriateness of the disclosures in Note 16 to the financial statements.
Group reorganisation To facilitate the Initial Public Offering there was a reorganisation of the legal corporate structure as disclosed in note 17. The restructure is considered to be a capital reorganisation that was accounted for as a continuation of the equity structure of Audinate Pty Ltd as well as the equity instruments issued to affect the acquisition. As part of the reorganisation significant transaction costs were incurred. Judgement is required in determining the accounting treatment for the reorganisation as well as any related costs to ensure compliance with the relevant accounting standards.	Our procedures included, but were not limited to; • Reviewing the underlying legal documents that facilitated the Initial Public Offering and understanding the substance and legal form of the reorganisation; • Evaluating management's application of the relevant Accounting Standards pertaining to the reorganisation and ensuring the appropriateness of the accounting treatment; and • Challenging the rationale management have used to allocate capital raising costs to either equity or expenses. We also assessed the appropriateness of the disclosures in Note 17 to the financial statements.

Independent auditor's report



Other Information

The directors are responsible for the other information. The other information comprises the information included in the Directors' Report and ASX Additional Information, which we obtained prior to the date of this auditor's report, the other information also includes the annual report (but does not include the financial report and our auditor's report thereon) which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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



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

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

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

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

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included on pages 11 to 19 of the Directors' Report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Audinate Group Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Joshua Tanchel
Partner
Chartered Accountants
Sydney, 21 August 2017

Shareholder information

SHAREHOLDER INFORMATION AS AT 14 SEPTEMBER 2017

Shareholder Information required by the Australian Securities Exchange Limited (ASX) Listing Rules and not disclosed elsewhere in the Report is set out below.

Substantial shareholders

The number of securities held by substantial shareholders and their associates, as advised to the Company and the ASX, are set out below:

Name	Number	%
Starfish Ventures Pty Ltd as responsible entity of the Starfish Pre-Seed Fund, Starfish Ventures Pty Ltd as trustee of the IIFF Trust, John Dyson & Trudie Horsfall as trustees of the Trujon Family Trust, and Michael Panaccio & Christina Panaccio as trustees of the Micana Family Trust	12,255,799	20.59
Innovation Capital Fund II, LP	10,862,208	18.25
Yamaha Corporation	6,289,308	10.57
Telstra Super Pty Ltd as trustee for Telstra Superannuation Scheme (Telstra Super)	5,696,722	9.57

Number of security holders and securities on issue

Audinate Group Limited has issued the following securities:

- 56,787,843 quoted fully paid ordinary shares held by 349 shareholders;
- 3,941,446 unquoted restricted fully paid ordinary securities held by 3 shareholders;
- 1,939,842 unlisted options held by 45 option holders; and
- 3,033,509 unlisted performance rights held by 22 performance right holders.

Voting rights

The voting rights attached to ordinary shares are that on a show of hands, every member present, in person or proxy, has one vote and upon a poll, each share shall have one vote for each share held.

Option holders and performance right holders do not have any voting rights on the options and rights held by them.

Distribution of security holders

a. Quoted securities

Category	Fully Paid Ordinary shares		
	Holders	Shares	%
1 – 1,000	63	31,685	0.06
1,001 – 5,000	96	280,019	0.49
5,001 – 10,000	71	597,674	1.05
10,001 – 100,000	89	2,658,475	4.68
100,001 and over	30	53,219,990	93.72
Total	349	56,787,843	100.00

b. Unquoted securities

The Company has issued 3,941,446 restricted fully paid ordinary shares to 3 holders. For the purposes of ASX Listing Rule 4.10.7 each holder holds more than 100,001 restricted shares.

The distribution of holders of the Company's options and performance rights are as follows:

Category	Performance Rights		
	Holders	Rights	%
1 – 1,000	0	0	0.00
1,001 – 5,000	0	0	0.00
5,001 – 10,000	0	0	0.00
10,001 – 100,000	20	592,157	19.52
100,001 and over	2	2,441,352	80.48
Total	22	3,033,509	100.00

Category	Options		
	Holders	Options	%
1 – 1,000	0	0	0
1,001 – 5,000	3	14,000	0.73
5,001 – 10,000	21	192,000	9.95
10,001 – 100,000	16	578,000	29.97
100,001 and over	5	1,144,042	59.31
Total	45	1,928,842	100.00

Unmarketable parcel of shares

The number of shareholders holding less than a marketable parcel of ordinary shares is 13 based on Audinate Group Limited's closing share price of \$2.03, on 14 September 2017.

Shareholder information

Twenty largest shareholders of quoted equity securities

Details of the 20 largest shareholders by registered shareholding are:

No.	Name	No. of shares	%
1	Innovation Capital Fund II LP	10,862,208	19.13
2	JP Morgan Nominees Australia Limited	8,612,624	15.17
3	Starfish Ventures Pty Ltd <The IIFF A/C>	8,307,693	14.63
4	Yamaha Corporation	4,098,361	7.22
5	Starfish Ventures Pty Ltd <The Starfish Pre-Seed Fund A/C>	3,620,234	6.37
6	Private Equity Investments Pty Ltd <MTAA Superannuation Fund A/C>	2,799,733	4.93
7	JP Morgan Nominees Australia Limited	2,658,463	4.68
8	Aiden Michael Williams	1,713,544	3.02
9	HSBC Custody Nominees (Australia) Limited	1,539,346	2.71
10	NICTA IPR Pty Limited	1,124,361	1.98
11	Geetha Varuni Witana	1,067,082	1.88
12	BNP Paribas NOMS Pty Ltd <A/C>	883,137	1.56
13	UBS Nominees Pty Ltd	850,000	1.50
14	Christopher Ware	619,846	1.09
15	Washington H Soul Pattison and Company Limited	614,755	1.08
16	BCCR Minnamurra Pty Ltd	604,408	1.06
17	RJWX3 Family Superannuation Managers Pty Ltd <RJWX3 Family Superannuation Fund A/C>	409,837	0.72
18	Andrew White	228,230	0.40
19	Fabemu No 2 Ltd <Gibbon Superannuation Fund A/C>	204,919	0.36
20	MSG Holdings Pty Ltd <MJ and SJ Gregg Superannuation Fund A/C>	204,919	0.36
Total		51,023,700	89.85
Total on Register		56,787,843	100.00

Restricted securities and securities subject to voluntary escrow

There are currently 38,340,121 quoted fully paid ordinary shares on issue that are subject to voluntary escrow. 4,617,993 shares are in voluntary escrow until the release of the company's results on ASX regarding the period ended 31 December 2017 and 33,722,128 shares are in voluntary escrow until the release of the company's results on ASX regarding the period ended 30 June 2018.

There are currently 3,941,446 unquoted restricted ordinary shares.

Unquoted Securities

There are 1,928,842 unquoted options with varying exercise prices and expiry dates held by 45 option holders. All options are held under the Company's employee incentive scheme.

There are 3,033,509 unquoted Performance Rights held by 22 performance right holders.

There are 3,941,446 unquoted restricted fully paid ordinary securities held by 3 holders. 2,190,947 restricted shares, representing 55.59% are held by Yamaha Corporation and 1,456,451 restricted shares, representing 36.95% are held by Mr David John Myers.

On market buy-back

There is no current on market buy-back.

