FUTURE FIBRE
TECHNOLOGIES

2017 ANNUAL REPORT

CORPORATE INFORMATION

ABN 67 064 089 318

DIRECTORS

Terence Winters, Chairman and Non-Executive Director
Robert Broomfield, CEO and Executive Director
Fred Davis, COO and Executive Director
Christopher Fergus, Non-Executive Director
Mark Stevens, Non-Executive Director

COMPANY SECRETARIES

Leigh Davis
Kim Clark

REGISTERED OFFICER & PRINCIPAL PLACE OF BUSINESS

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SHARE REGISTER

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STOCK EXCHANGE

Future Fibre Technologies Limited shares are quoted on the Australian Securities Exchange (ASX). ASX Code: FFT

BANKERS

Westpac Banking Corporation
275 Kent Street, Sydney, NSW 2000, Australia

AUDITORS

Ernst & Young
Level 23, 8 Exhibition Street, Melbourne, Victoria 3000, Australia

WEBSITE

www.fftsecurity.com

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"FFT continued to invest in the design, development and production of next generation technology that the Company believes will create significant competitive advantage."

CHAIRMAN AND CEO'S REPORT

Dear Shareholder

Future Fibre Technologies Limited (FFT) financial performance during the year ended 30 June 2017 was below expectations, primarily due to the slippage of several significant contracts from the reporting period into FY2018.

FFT operates in a global market in which security threats, both anticipated and real, pervade our news and are top of mind with governments and the private sector as they try to prioritise where investments in securing borders and critical infrastructure should be focused.

FFT's strategy requires us to proactively navigate this global market by focussing on a range of market segments that we believe offer the greatest need and opportunity to sell our products and services. The company's go-to-market approach reflects this as we have sought to leverage our established base of people to expand the pursuit of these opportunities, including appointing strategic distribution partners that have greater resources and reach than FFT.

During the year ended 30 June 2017, FFT continued to invest in the design, development and production of next generation technology that the Company believes will create significant competitive advantage. This investment culminated in the launch of Aura Ai in the third quarter. Aura Ai was designed to capture over 10 years of prior learning and significant advances made in optic fibre sensing and signal processing technology to deliver intrusion detection performance levels that have previously not been available. This Aura Ai technology is also attracting interest in adjacent markets for sensing and control.

Despite this good news, as mentioned, our financial results for the period did not deliver the returns expected from our prior investments in sales staff, new channels and improved solutions.

While sales revenues generated within the first half of FY2017 were ahead of market guidance, delayed project starts in the Americas and Europe, together with a slower than expected increase in investment in key sectors, contributed to lower than expected sales in the second half. In response to the decreased second half revenues, the Company took steps to reduce operating costs in 4QFY2017 that the FFT Board judged would not be prejudicial to future value, some of which will be fully realised in 1QFY2018.

Today, we are focussed on improving our sales reach and effectiveness to take advantage of the technology leadership position we have created.

- Our global sales team now have greater capabilities and broader geographic coverage with improved sales management processes.
- We have a substantial and well qualified pipeline of sales opportunities, particularly around Aura Ai.
- We are successfully developing a number of distribution and strategic partnerships, and the capabilities to support them.
- We are actively progressing access to adjacent markets that can utilise FFT's fibre optic sensing technology.

With stronger revenues and reduced operating costs, FFT expects to be EBITDA positive in FY2018. FFT remains well positioned to pursue market opportunities to achieve future growth.

FINANCIAL PERFORMANCE

For the financial year ended 30 June 2017, FFT reported revenue of $12.9 million, a 10% decrease from the previous corresponding period. Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) was a loss of $7.5 million, with Net Profit after Tax (NPAT) a loss of $7.8 million.

The result was also impacted by $2.2 million for the impairment of receivables and unrealised foreign exchange losses.

The Company's financial position remains strong with a cash balance of $6.9 million as at 30 June 2017, with no external debt or borrowings.

AURA AI, THE NEXT GENERATION PLATFORM OFFERING SUPERIOR DETECTION CAPABILITIES

In January 2017, FFT announced the commercial release of Aura Ai, a new product platform featuring extended detection range, enhanced intrusion location accuracy and cut resilient capabilities.

The new Aura Ai platform provides FFT with a significantly higher performance at a lower cost than its predecessor. Based on testing to date, its capabilities are superior to all other fibre optic perimeter intrusion detection products in the market. Aura Ai uses the latest advanced optical signal processing algorithms, combined with artificial intelligence, to discriminate between intrusions, nuisance alarms and other causes of fence disturbance.

With a large and well established install base of more than 1,500 systems worldwide, some in the field for more than 10 years, FFT is receiving regular enquiries regarding security upgrade programs which will see long term customers taking advantage of the latest generation software and hardware. Several of these sales have been announced during the last 6 months.

MARKET DEMAND DRIVERS

Recent orders received indicate that FFT's key vertical markets are showing signs of improvement. While there is a general increase in investment across the Utilities and Transport sectors globally, the Company is also receiving a growing number of enquiries for enhancing Oil & Gas security from the Middle East and India.

Legislative changes by the new US administration are driving security investment in the areas of Homeland Security and alternative energy sources such as solar farms. FFT has received orders for border security solutions from the APAC region, with additional 'proof of concept tests' established in response to increasing market demand.

FFT has realigned its sales and support team to match resources with key market verticals by geography, allowing FFT to take advantage of key security opportunities on a regional basis. This global coverage supports sales growth in FFT's current fibre optic security solutions and delivers the capability to support future product extensions in adjacent market applications.

BOARD AND GOVERNANCE

In October 2016, FFT welcomed Christopher Fergus as a Non-Executive Director. Christopher's security industry experience and proven leadership abilities bring additional relevant skills to the board and will assist the management team in scaling the Company internationally. Non-executive Director Terry Winters was appointed Chairman following the resignation of Arlene Tansey.

The Board recognises robust risk management as essential in supporting business growth. To ensure governance over our sensitive security applications, the Audit and Risk Committee has overseen the upgrade of FFT's intellectual property protection and cyber security processes. FFT also achieved accreditation to internationally recognised OH&S standard BS OHSAS 18001:2007 and has recently adopted new objectives designed to increase gender diversity across the company.

FFT remains committed to strong corporate governance and prudent risk management policies and procedures to enhance performance for shareholders.

OUTLOOK

With stronger revenues, a more focussed sales team and operational cost savings on track, the Company expects FY2018 to be cash flow positive. We have a substantial and well qualified pipeline of sales opportunities, and going forward, we will:

- Leverage the competitive advantage of Aura Ai and FFT's broad range of fibre optic security products to drive sales opportunities in existing and adjacent markets
- Promote the benefits of hardware/software upgrades to FFT's large global install base

- Ensure sales resources remain focused on the strongest market verticals in key geographies, and
- Continue to build a strong partner ecosystem to grow our global Distribution Network and embed FFT technology within our partners' security offerings

On 24 August 2017 the Company acquired 61,500,000 shares in ASX listed company MaxSec Group Limited (MSP) at an offer price of $0.03 per share. This makes the Company a substantial shareholder of MaxSec Group Limited, holding 13% of that company's issued share capital. Subsequently, on 25 August 2017 FFT announced its intention to make a takeover offer for MaxSec Group Limited, by way of an off-market bid. The indicative all scrip offer is one (1) FFT share for every four (4) MSP shares and is subject to a number of conditions as described in our ASX announcement including FFT obtaining 90% acceptances of the offer. We believe combining these two leading security businesses offers our, and MaxSec, shareholders an exciting opportunity to participate in the growth of a business with expanded sales capabilities, a broad and complementary range of security products and services, and the ability to deliver a range of uniquely integrated security solutions to the market. This is in addition to the many operating synergies that can further enhance future earnings growth of the combined businesses.

We would like to take this opportunity to thank the FFT Board, management team and staff for their contribution in the past year. We would also like to thank our customers and shareholders for their ongoing support.

Yours sincerely

TERRY WINTERS
Chairman

ROB BROOMFIELD
CEO

> "With stronger revenues, a more focussed sales team and operational cost savings on track, the Company expects FY2018 to be cash flow positive."

ABOUT FFT

FFT is a global leader in fibre optic intrusion detection systems, with a track record of delivering highly intelligent, reliable, and award-winning intrusion detection solutions for the protection of critical sites and infrastructures. FFT's advanced security systems detect and locate perimeter intrusions, oil and gas pipeline third-party interference and data network tapping and tampering. With over 1,500 systems deployed in more than 60 countries, FFT has established a solid reputation for delivering advanced and cost-effective intrusion detection solutions.

APPLICATIONS

FFT systems use fibre optic cables as sensors to detect and pinpoint the location of disturbances caused by interference and intrusions.

PERIMETER

Fence

Fibre optic cable is mounted on fences to detect climbing, cutting and lifting intrusions.

Buried

Fibre optic cable is buried along a perimeter to detect digging, walking and vehicular traffic.

PIPELINE

Tapping and interference detection

Fibre optic cable buried alongside an oil or gas pipeline is used to detect illegal tapping, digging and other forms of third party interference.

DATA NETWORK

Data tapping and tampering detection

Spare optical fibres inside a protected cable, conduit, cable bundle or duct are used to provide advanced warning of tampering associated with data or cable theft.

THE RIGHT PRODUCTS

FFT systems significantly enhance security by providing real-time 24/7 advanced warning of intrusion and interference, extending video and other monitoring capabilities by informing security responders of when and where to look for intruders.

FFT systems are industry leading in maximising detection performance whilst employing advanced signal processing algorithms to minimise nuisance alarms. Customers particularly value the reliability and durability of FFT solutions. Fibre optics are immune to lightning and electromagnetic interference and do not require in-field electronics that are vulnerable to failure.

FFT offers a complete range of fibre optic perimeter intrusion detection products, delivering end-to-end intrusion detection solutions meeting the needs of the smallest to the largest sites across the world.

QUALITY

FFT carries full ISO 9001:2008 certification – the Company's guarantee of consistent product quality. FFT systems were originally developed for military applications, and these same products are also available for commercial and industrial applications.

SUPPORT

FFT sales and technical support is provided through a network of regional offices, staff and partners located around the world. This network delivers comprehensive support for sales, design, installation, maintenance and field service.

FFT Aura

The Aura family (FFT Aura Ai, Aura SR and Aura LR) provide industry leading sensitivity and location accuracy for perimeter, pipeline and data network applications. Intrusions can be detected to within 1m to 6m for perimeters and 10m for pipelines, and Aura systems can be configured for cut resilience and redundancy.

FFT Secure Fence and FFT Secure Link

FFT Secure Fence is a high sensitivity fence mounted intrusion detection system. FFT Secure Link detects illegal data network tapping and other interference with sensitive communications cables. Both products detect and locate intrusions to within 10m to 25m.

FFT Secure Point and FFT Secure Zone

FFT Secure Point provides two zones and Secure Zone provides eight zones of fence mounted intrusion detection. These systems are commonly used for perimeters that require physically independent detection zones.

FFT CAMS

FFT CAMS is a security management software system that displays intrusion locations on a map-based user interface and integrates with more than 64 different security, video and access control systems, and industry standard interfaces.

NEXT GENERATION TECHNOLOGY

FFT's investment in R&D and ongoing commitment to delivering robust and reliable security solutions has resulted in the development of a next generation laser optics platform that brings artificial intelligence to the real world of perimeter intrusion detection.

STRONG INTEREST IN NEW AURA AI

Since its official launch at ISC West in April, FFT has received strong interest in Aura Ai's enhanced capabilities for the protection of airports, utilities and government sites across Europe and the Americas. Aura Ai is currently proposed for more than 45 separate security projects globally. Aura Ai orders have already been received for multiple sensitive government security applications, a petrochemical facility, the first deployment of fibre optic intrusion detection on a major international border, and for testing by a University research organisation for additional monitoring applications.

INTRODUCING AURA AI

In January 2017, FFT announced the commercial release of Aura Ai, a new product platform featuring extended detection range, enhanced intrusion location accuracy and cut resilient capabilities.

Aura Ai uses the latest advanced optical signal processing algorithms, combined with artificial intelligence, to discriminate between intrusions, nuisance alarms and other causes of fence disturbance. Aura Ai's decision making software intelligently analyses fibre optic measurements and automatically adjusts controller settings to optimise sensitivity for reduced nuisance alarms and increased probability of detection.

With a maximum sensor length of 60km for fence perimeters, Aura Ai can detect, locate and report disturbances with an accuracy of +/- 1m to 4m. If a sensor fibre is cut or damaged, Aura Ai continues to detect perimeter intrusions occurring between the controller and the cut. When sensor fibres are connected to two channels of the controller in a redundant loop configuration, intrusions can be detected to within 10m either side of the cut.

AURA AI VALIDATION TESTING

Prior to commercial release, Aura Ai was put through rigorous lab and field validation testing, including many hundreds of intrusion tests and system stress testing at temperature extremes. From 2016, Aura Ai controllers underwent extensive field testing at sites in the United States and Northern Europe. The objective of this testing was to validate Aura Ai's Probability Of Detection (POD) and Nuisance Alarm Rate (NAR) on active customer site perimeters, as well as confirm controller software and hardware performance and operational stability.

European test site - solar farm

Environmental conditions during the testing period included winter snow, strong winds and heavy rain. The solar farm is also adjacent to a railway line and a road used by heavy vehicles resulting in high environmental noise levels.

Results

- **97.5% Probability Of Detection** from extensive fence climb and simulated cut intrusions.
- **Only one nuisance alarm** for the entire fibre optic sensor over a period of extensive testing.

With systems now operating in more than 60 countries, FFT has collected significant real world data to feed into its software algorithm development. Incorporating machine learning algorithms and artificial intelligence into FFT systems strengthens the Company's competitive advantage and consolidates its position as a world leader in perimeter intrusion detection.

> The strong relationships and developing pipeline of projects established with Anixter, Wesco and Minipa in the past year positions FFT's distribution program for revenue growth into the future.

SALES AND DISTRIBUTION

FFT's sales and support team has been further aligned to match resources with key market verticals by geography. This approach positions FFT to take advantage of key security trends on a regional basis, while leveraging industry expertise business-wide. This global coverage supports sales growth of FFT's current fibre optic security solutions and delivers the capability to serve future product extensions in security and other adjacent applications.

DISTRIBUTION PROGRAM

FFT has signed partnerships with three security distributors, Anixter Inc., Minipa and Wesco International. FFT continues to work closely with these distributors and their sales networks on product introduction and training initiatives including webinars, quarterly security calls and face-to-face integrator/customer information sessions.

FFT is actively engaged in regional marketing events and vertical specific symposiums as a Preferred Security Partner. Our distributors' Technology Groups and Critical Infrastructure Teams (responsible for project specifications) have also undertaken training on FFT's range of perimeter security solutions. In addition, FFT has established an online e-learning platform providing global reach for distribution partner training.

Through FFT's distribution partners, the Company has secured orders for a number of utility substations which is expected to extend to a further 50 sites. FFT solutions have also been specified for utility substations in multiple states across the USA and initial discussions relating to a further 100 new locations throughout the US Midwest are progressing. In addition, utility and data centre projects offer significant long-term potential.

The strong relationships and developing pipeline of projects established with Anixter, Wesco and Minipa in the past year positions FFT's distribution program for revenue growth into the future.

INDUSTRY LEADING INTRUSION DETECTION: CASE STUDIES

Increased security measures against terrorist attacks and government legislation to protect critical infrastructure continue to drive global demand for intrusion detection solutions. Along with growing security spend in the Transport, Utilities and Oil & Gas sectors, FFT is receiving strong interest from government agencies for potential border protection solutions.

TRANSPORT – SEAPORTS, AIRPORTS, RAIL

Site: International seaport.

Perimeter: 9000m facility circled with a 2.7m high weld mesh fences and solid walls with concertina wire topping.

FFT Solution: FFT Aura.

Detection Configuration: The sensor cable is tied to the weldmesh fence and the concertina wire topping on the solid wall to enhance climbing, and cutting detection. Sensor cables are also connected to two sliding gates, a swing gate and a pedestrian gate. Detection zones are formed within FFT CAMS where alarm information is forwarded to the camera control system. Cameras are automatically directed to one of 110 detection zones based on the location of the detected disturbance.

Security Operator Interface: FFT CAMS with high level software integration to an S2 Security video management camera control system.

FFT's perimeter intrusion detection system has been installed to detect illegal entry into this secure port facility. This is the fourth consecutive FFT system deployed to protect a seaport by the same System Integrator. With no power or electronics required in the field, FFT fibre optics sensors are highly reliable and resistant to coastal weather and salt spray corrosion.

The United Arab Emirates is home to 20 leading world-class ports, some of which are among the top 10 international ports in terms of advanced transport and maritime shipping infrastructure.

GOVERNMENT – INTELLIGENCE AGENCIES, BORDERS, ARMED FORCES

An increased focus on "homeland security" is raising awareness about border protection and prompting discussion around the most effective security solutions for these often very complex installations.

Over the last 6 months, FFT has received enquiries regarding long range border security solutions from the Americas, Middle East, Europe and Asia – with some requiring 'proof of concept testing' to validate capabilities in advance of full deployment.

In testing to date, FFT has demonstrated superior results over other perimeter intrusion detection solutions – with both Aura and Aura Ai's high performance, extended range monitoring capabilities and unique IP for covert buried detection making it a preferred solution for borders of all types.

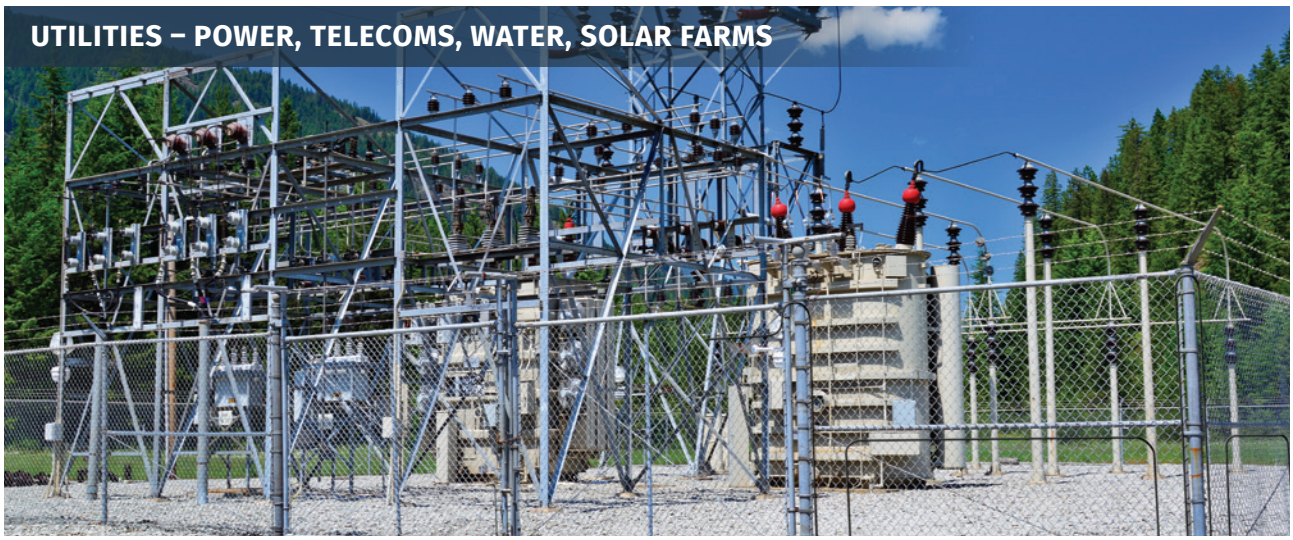
FFT COVERT BURIED PERIMETER INTRUSION TECHNOLOGY TO PROTECT BORDER IN ASIA

FFT recently secured an order as part of major border security enhancement initiative. This pilot is the first stage of a program to enhance protection on a 3000km+ border. FFT's technology will be used in conjunction with a range of complementary security systems to protect a section of land border between two countries in Asia. The order follows comprehensive government agency field testing of the Company's perimeter security detection solutions, which demonstrated the high performance that can be achieved with FFT's unique IP for covert buried fibre optic detection of intruders attempting to pass through a secure area.

FURTHER GOVERNMENT ORDERS

FFT has recently received orders for the protection of government sites around the globe. Multiple FFT Secure Fence controllers will be used to protect 8kms of perimeter fencing at a facility in Europe, while the new FFT Aura Ai will monitor two high security sites located in North America. In a separate order, FFT Secure Fence controllers will be installed as part of a multiple site security upgrade in the Northern Hemisphere.

UTILITIES – POWER, TELECOMS, WATER, SOLAR FARMS



Site: High security electricity distribution facility.

Perimeter: 2300m facility circled with dual 2.7m high weld mesh fences and solid walls with concertina wire topping.

FFT Solution: FFT Aura operating in a cut resilient redundant configuration.

Detection Configuration: The sensor cable is tied to the weldmesh fence and to concertina wire topping on the solid wall to enhance climbing, and cutting detection. Aura controllers are connected to opposite ends of the sensor cable to provide cut resilience and controller redundancy. Detection zones are formed within FFT CAMS where alarm information is forwarded to the camera control system. Cameras are directed to one of 61 zones based on the location of the detected disturbance.

Security Operator Interface: FFT CAMS displays directly to both the security operator and the camera control system via integration with Tyco CEM AC2000 security management software.

FFT's perimeter intrusion detection system provides a high probability of intrusion detection for critical infrastructure exposed to heightened risk of terrorist attack. In the event of sensor cable damage, intrusion detection is retained between each controller, with the cut (and cut location) detected to enable rapid repair or immediate response. Connected to the outer fence, FFT Aura provides early warning of intrusion enabling camera confirmation and rapid response while intruders are contained within the sterile zone between the inner and outer fences.

With an interconnected grid of over 450,000 miles of high voltage transmission lines and more than 55,000 substations, the United States is introducing critical infrastructure protection standards that focus on electricity grid security protection.

FFT's perimeter intrusion detection system provides a high probability of intrusion detection for critical infrastructure exposed to heightened risk of terrorist attack.

OIL & GAS – PIPELINES, OIL & GAS FACILITIES, REFINERIES

Site: Gas storage facility.

Perimeter: 5000m facility circled with a 2.4m high chain link fence with barbed wire single crank topping.

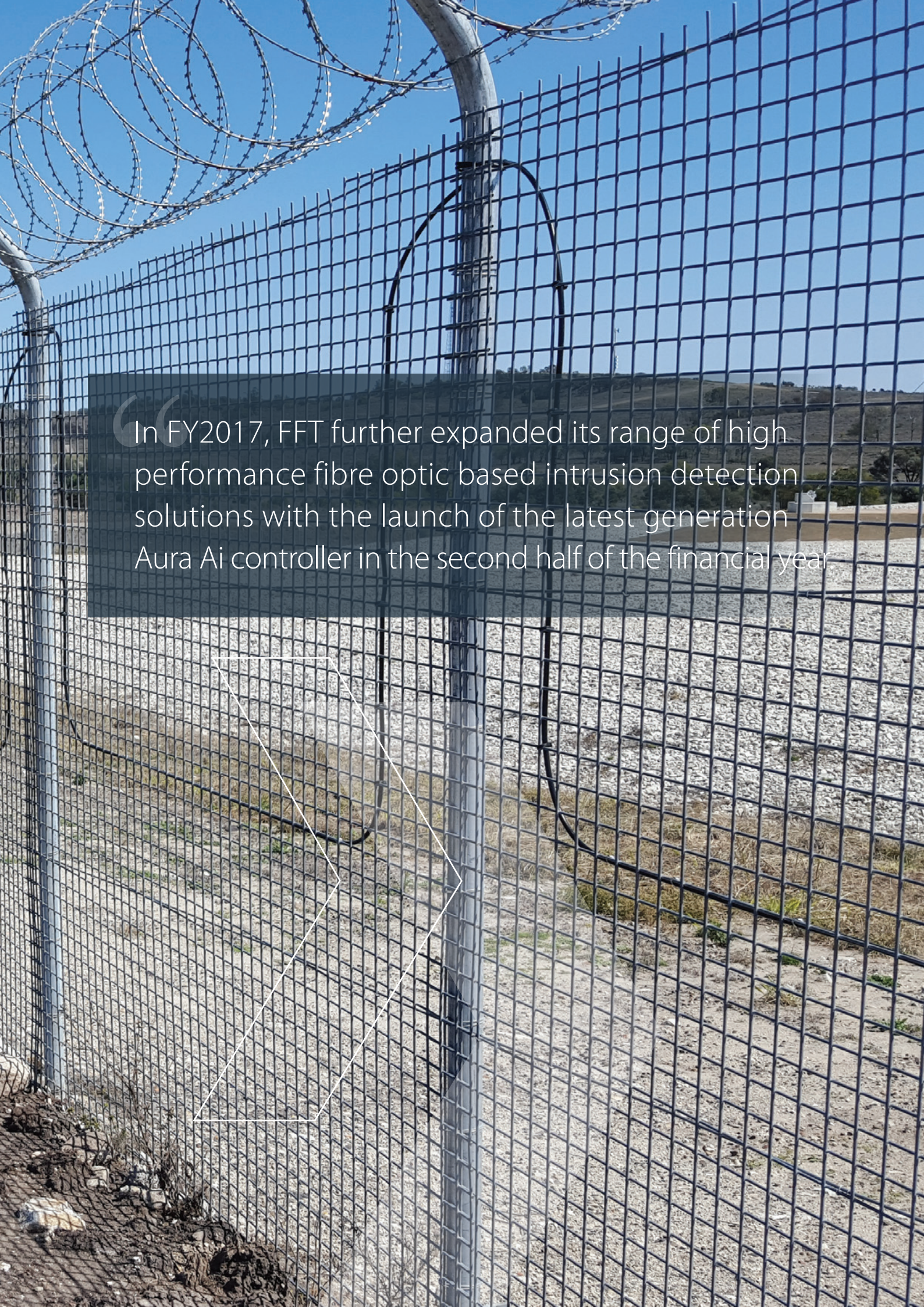
FFT Solution: FFT Secure Fence.

Detection Configuration: The sensor cable is tied to the chain link fence to detect climbing, lifting and cutting. Sensor cables are also connected to multiple swing and pedestrian gates. Detection zones are formed within FFT CAMS with alarm information forwarded to the camera control system.

Security Operator Interface: FFT CAMS connected to a Hernis video management camera control system.

FFT's perimeter intrusion detection system has been installed to detect illegal entry into a secure gas storage facility where unauthorised entry and activity could have catastrophic consequences. With advanced signal processing and algorithms to avoid nuisance alarms that might otherwise result from high winds and heavy rain, FFT's fibre optic intrusion detection is unaffected by large temperature and humidity changes that adversely affect operation of other intrusion detection systems, including the effects of gas flares.

FFT's perimeter intrusion detection system has been installed to detect illegal entry into a secure gas storage facility where unauthorised entry and activity could have catastrophic consequences.



"In FY2017, FFT further expanded its range of high performance fibre optic based intrusion detection solutions with the launch of the latest generation Aura Ai controller in the second half of the financial year.

FINANCIAL STATEMENTS

DIRECTORS' REPORT

The directors present their report together with the financial report of the consolidated entity (referred to hereafter as the "Group" or "Consolidated Entity") consisting of Future Fibre Technologies Limited (referred to hereafter as the "Company" or "FFT") and the entities it controlled for the financial year ended 30 June 2017 and auditor's report thereon. This financial report has been prepared in accordance with Australian Accounting Standards and International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

DIRECTORS

The names of directors in office at any time during or since the end of the year are detailed in the table below.

The directors have been in office since the start of the year to the date of this report unless otherwise stated.

INFORMATION ON COMPANY DIRECTORS AND COMPANY SECRETARY

The qualifications, experience and special responsibilities of each person who has been a director of FFT at any time since 1 July 2016 to the date of this report is provided below with details of the company secretary as at the year end.

NAME, QUALIFICATIONS, AND INDEPENDENCE STATUS	EXPERIENCE, SPECIAL RESPONSIBILITIES AND OTHER DIRECTORSHIPS
Arlene Tansey *Chairman of the Board* *Independent Non-Executive Director* Appointed 11 March 2015 Resigned 13 October 2016	Arlene is the past Chairman of Future Fibre Technologies Limited and a Director of Aristocrat Leisure Limited, Adelaide Brighton Limited, Primary Health Care Limited, Infrastructure NSW, and Lend Lease Investment Management. Before becoming a Non-Executive Director, Arlene worked in commercial and investment banking in Australia and in investment banking and law in the United States. She holds a Juris Doctor from the University of Southern California Law Centre and an MBA from New York University. She is a member of Chief Executive Women and a Fellow of the Australian Institute of Company Directors. Arlene is originally from New York and has lived and worked in the United States, South America, Europe and Australia. She has lived in Australia for the past 23 years and is an Australian citizen.
Terence (Terry) Winters *Chairman of the Board (effective 14 October 2016)* *Independent Non-Executive Director* Appointed 09 September 2004	Terry serves as Chairman and Non-Executive Director on the Boards of a number of charities and public and private companies in Australia, Asia and the UK. He is widely recognised throughout the Information Technology and Communications (ITC) industries for his track record of leading earlier stage technology companies through the various phases of capitalisation, commercialisation and international development. He is currently Chairman of Intelledox Pty Ltd, Converge International Pty Ltd, and TasmaNet Pty Ltd and is a Director of Redflex Holdings Limited. He is a Fellow of the Australian Institute of Company Directors (FAICD).

NAME, QUALIFICATIONS, AND INDEPENDENCE STATUS	EXPERIENCE, SPECIAL RESPONSIBILITIES AND OTHER DIRECTORSHIPS
Mark Stevens *Independent Non-Executive Director* Appointed 11 March 2015	With more than 30 years of experience in senior management roles with multi-national corporations, Mark is a seasoned executive with broad experience in sales and general management in the Telecom and Information Technology sector. Mark has held senior positions with Nortel Networks Inc., Aircom International Limited, ECI Telecom Ltd, Transmode Systems AB, and more recently Infinera Corporation. He has lived and worked in Europe, the United States, Singapore and Australia. Mark holds a Master of Business Administration from the University of Melbourne, a Bachelor of Engineering degree from Monash University and is a Graduate Member of the Australian Institute of Company Directors.
Christopher Fergus *Independent Non-Executive Director* Appointed 14 October 2016	Christopher is the CEO of AVA Global, and SVP Strategy and Business Development for MaxSec Group Limited (MSP) - an ASX listed security product and services company. Christopher also serves as an Executive Director on the board of MSP. Prior to his role at MSP, Christopher was employed for 20 years with G4S, a world leading security services provider. Joining G4S in 1994, Christopher has worked across a number of continents, most recently as Regional Managing Director, Middle East, managing a portfolio of Security & FM joint ventures, with a total revenue in excess of US$1 billion. Christopher has extensive experience within the security integration and services sectors.
Robert Broomfield *Executive Director* *Chief Executive Officer (CEO)* Appointed 27 February 2008	Robert is an experienced business executive with more than 20 years of management experience including the past 18 years in senior positions within companies operating in the security industry. Prior to joining FFT, he was with Vision Systems Limited, where he served as the General Manager of Asia Pacific for their Fire and Security systems. In addition to his international sales and marketing success, Robert has extensive experience in operations management, including product engineering, procurement, manufacturing and operations. He has previously had 10 years experience with IBM in Australia and the United States. Robert is currently chairman of Maxsec Group Limited and holds no other positions on boards of other Australian listed companies.
Dr Fred Davis *Executive Director* *Chief Operating Officer (COO)* Appointed 11 March 2015	Fred is an experienced leader and manager of technology innovation businesses having worked for the last 20 years in senior management positions. Prior to joining FFT, Fred led Business and New Product Development for Universal Biosensors Inc., and was Managing Director and CEO for Invetech Pty Ltd, a leading contract product development and manufacturing firm that played a pivotal role in the success of ASX listed Vision Systems Limited. Fred's specialist experience includes strategic management, business development, and advanced technology development and manufacturing. Fred has studied at the Strategic Management Institute, Harvard and Mt. Eliza Business Schools, and is a graduate of the Australian Institute of Company Directors.

JOINT COMPANY SECRETARIES

Leigh Davis CPA, B. Bus, MBA, GAICD
Appointed 20 Feb 2015
Leigh is a CPA with more than 20 years' finance and accounting experience across a range of industries including energy, technology and telecommunications. Leigh has served as Chief Financial Officer and Company Secretary of both ASX listed and unlisted companies, and has previously held Commercial Finance and Corporate Reporting roles in Australia, the United Kingdom and Europe for NYSE, NASDAQ and FTSE listed companies. Leigh holds a Bachelor of Business (Accounting) degree and a MBA from London Business School. He is also a graduate of the Australian Institute of Company Directors.

Kim Clark
Appointed 20 Jan 2017
Kim is an experienced business professional with 21 years' experience in the Banking and Finance industries and 6 years as a Company Secretary (in-house) of an ASX300 company. Her experience includes debt and capital raising, risk management, mergers and acquisitions, compliance and governance. Kim currently acts as Company Secretary to various ASX listed and unlisted companies in Australia and is the Head of Corporate Services for Boardroom Pty Limited's Queensland office.

DIRECTORS' MEETINGS

The number of meetings of the board of directors and of each board committee held during the financial year and the number of meetings attended by each director are:

	BOARD OF DIRECTORS' MEETINGS		MEETINGS OF AUDIT & RISK COMMITTEE		MEETINGS OF REMUNERATION & NOMINATION COMMITTEE	
	ELIGIBLE TO ATTEND	ATTENDED	ELIGIBLE TO ATTEND	ATTENDED	ELIGIBLE TO ATTEND	ATTENDED
A Tansey	4	4	5	4	2	1
T Winters	15	13	7	6	3	3
R Broomfield	15	15	-	-	-	-
F Davis	15	13	-	-	-	-
C Fergus	11	8	2	2	-	-
M Stevens	15	15	7	7	3	3

COMMITTEE MEMBERSHIP

As at the date of this report, the company had an Audit & Risk Committee, and a Remuneration & Nomination Committee of the Board of Directors. Members acting on the committees of the Board during the year were:

AUDIT	REMUNERATION & NOMINATION
M Stevens (Chairman)	T Winters (Chairman until 18 October 2016)
A Tansey (resigned 13 October 2016)	A Tansey (resigned 13 October 2016)
C Fergus (appointed 14 October 2016)	C Fergus (appointed 14 October 2016 and Chairman from 19 October 2016)
T Winters	M Stevens

GENDER DIVERSITY POLICY

The Remuneration & Nomination Committee is responsible for setting the diversity policy of the Company. The committee has established a diversity policy for the Company which includes measurable objectives for achieving gender diversity and that assesses annually both the objectives and the entity's progress in achieving them. The board has set an objective to increase the representation of women across the business to 25%, women in key executive level positions to 25%, and women on the Board to 20%. Whilst FFT particularly focuses on narrowing the gap in gender representation across all levels, it strives for equal development opportunities for all employees, irrespective of gender, cultural, physical capabilities or other differences.

DIRECTORS' INTERESTS IN SHARES OR OPTIONS

As at the date of this report, the interests of the directors in the shares and options of Future Fibre Technologies Limited are as detailed below:

	NUMBER OF ORDINARY SHARES	NUMBER OF OPTIONS OVER ORDINARY SHARES
C Fergus	-	-
R Broomfield	1,500,000	1,500,000
F Davis	-	1,200,000
T Winters	877,380	200,000
M Stevens	-	200,000

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the financial year was the provision of fibre optic intrusion detection solutions. There has been no significant change in the nature of these activities during the financial year.

Operating and Financial Review

OPERATING RESULTS FOR THE YEAR

The consolidated loss after income tax attributable to the members of Future Fibre Technologies Limited was $7,820,000 (2016: loss of $5,805,000).

OPERATING AND FINANCIAL REVIEW

Highlights:

- Revenue from ordinary activities of $12,896,000 for the twelve months to 30 June 2017 (FY2017):
  - 10% decrease on FY2016 ($14,361,000) primarily due to lower project sales in the US.
- Gross margin of 53% (FY2016: 60%) as a result of lower margin pricing on a few large-scale projects compared with the previous year.
- Non-operating income of $773,000 (FY2016: $1,125,000) comprising:
  - Tax refund for eligible research and development expenditure of $228,000
  - Interest Income of $526,000
  - Other Income of $19,000
- Operating expenses excluding depreciation and amortisation of $14,601,000 (FY2016 $14,970,000) due to:
  - Targeted sales headcount changes to address market presence
  - Continued research & development spending on new product development
  - Foreign exchange impact of a stronger USD on revenues and certain foreign based expenditure
  - Reduced Compliance, Legal and Administrative costs, and
  - Impairment of the carrying value of trade receivables, primarily due to cancellation of prior year sales agreements
- Net loss from ordinary activities of $7,820,000 - a 35% increase on FY2016 loss of $5,805,000
- EBITDA loss of $7,505,000 - a 35% increase on FY2016
- Net assets of $16,866,000 (FY2016: $24,224,000) due to working capital requirements and operating losses.

In FY2017, FFT further expanded its range of high performance fibre optic based intrusion detection solutions with the launch of the latest generation Aura Ai controller in the second half of the financial year. Aura Ai combines the highest levels of nuisance alarm mitigation available in a two-channel controller with market leading detection distance capabilities – delivering FFT customers genuine cut resilience from a single controller.

The Company continued to pursue growth opportunities in its core markets of perimeter, pipeline and network security intrusion detection, supported by a restructured global sales team aligned with FFT's customers and key industry verticals by region. With new sales resources appointed in Eastern Europe and MENA, FFT has been actively targeting security opportunities within the Transport sector resulting in new seaport and airport contracts signed during FY2017 in these regions.

FFT also secured a number of new orders in the Utility sector, including the first order for a nuclear power plant. In FY2018, FFT will continue to focus on the large number of small perimeter utility sites requiring heightened security, supported by FFT products specifically designed for the Company's expanding distribution channels.

With investment in the Oil & Gas and Utilities sectors improving, FFT is well placed to respond to market demand for infrastructure investment in security for pumping stations, refineries, pipelines, solar plants and substations. This was demonstrated in FY2017 with Oil & Gas and Utility sector orders received from all regions.

Increasing global security threats has led to growing market interest in the Company's range of optical fibre solutions for Border Security with a number of trials and 'proof of concepts' expected to result in orders in FY2018. FFT recently received the first order for a covert buried detection solution on a country border in Asia and has engaged in additional tunnelling detection trials for the same customer.

To build on previous military interest in FFT's network security solutions and expand into the commercial and utility markets, the Company appointed a dedicated global network security solutions sales leader. As a result, FFT secured a joint perimeter and network security contract for a large nuclear power plant project. The Company's intrusion detection solution also remains specified for a major international military network program.

FFT also received a number of security upgrade orders in FY2017, with long term FFT customers in the Transport, Oil & Gas and Military markets looking to benefit from the Company's latest generation software and hardware.

Product Development

As mentioned previously, FFT's product development focus in FY2017 was Aura Ai. This new product release required significant investment in developing completely new laser optics, electronics and software platform to deliver significant future benefits.

- Aura Ai was designed with two concurrent real time sensing channels, enabling cut resilience (the ability to detect cut location and to continue to detect intrusions when a sensor cable is cut), as well as the option for a lower cost single channel model variant
- Enhanced sensitivity to greatly increase sensing range, from 18km in the first generation Aura to two channels of 30km each with Aura Ai for fence mounted intrusion detection (and even greater range for buried sensing applications)
- New software combining artificial intelligence algorithms with software elements and know-how from more than ten years of in-market experience in a flexible architecture that supports faster lower development cost expansion for new applications

Next phase development requires reduced rate R&D expenditure, building on the platform created in FY2017 to customise and extend Aura Ai for specific market applications.

In parallel, FFT supported software now integrates with a further 12 regional security management systems, providing increased geographic reach into Turkey, the Middle East, Eastern and Northern Europe, and India. FFT products now integrate with 64 different security, video and access control systems, and industry standard interfaces.

Outlook

FFT is on track for profitable growth, building on the capabilities developed over the preceding financial year which includes:

- Widespread interest in Aura Ai for both intrusion detection and adjacent markets,
- The widest range of fibre optic intrusion solutions available,
- 'Proof of concepts' and trials successfully completed or underway,
- All major geographical regions supported by a well-focussed FFT sales team,
- A growing and maturing Distribution Program,
- We have a substantial and well qualified pipeline of potential sales opportunities, particularly around Aura Ai,
- Potential revenues from adjacent markets, and
- Lower operational costs with the primary Aura Ai investment complete.

The Company will continue to consider technology and business acquisitions that support and drive future growth.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During the financial year there were no significant changes in the state of affairs of the consolidated entity.

AFTER BALANCE DATE EVENTS

On 24 August 2017, the Company acquired 61,500,000 shares in ASX listed company MaxSec Group Limited (MSP) at an offer price of $0.03 per share. This makes the Company a substantial shareholder of MaxSec Group Limited, holding 13% of that company's issued share capital.

On 25 August 2017, FFT announced its intention to make a takeover offer for MaxSec Group Limited, by way of an off-market bid. The indicative all scrip offer is one (1) FFT share for every four (4) MSP shares and is subject to a number of conditions including FFT obtaining 90% acceptances of the offer.

No matters or circumstances have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

LIKELY DEVELOPMENTS

Likely development of the operations of the Group are encompassed in the Operating and Financial Review section of this report.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The consolidated entity's operations are not subject to any significant environmental Commonwealth or State regulations or laws. The Group has complied with all environmental regulations to which it is subject.

DIVIDENDS PAID, RECOMMENDED OR DECLARED

No dividends were paid, declared or recommended since the start of the financial year. (2016: None).

SHARE OPTIONS GRANTED TO DIRECTORS AND EXECUTIVES

Options over unissued ordinary shares granted by Future Fibre Technologies Limited during or since the financial year end to directors and executives were as follows:

NON-EXECUTIVE DIRECTORS	OPTIONS GRANTED
A Tansey	-
M Stevens	-
C Fergus*	-
T Winters	-
EXECUTIVES	**OPTIONS GRANTED**
R Broomfield	-
F Davis	-
L Davis	-
M Horton	600,000

** The Company has awarded 200,000 options to C. Fergus with an exercise price of $0.21 and an expiry date of 3 years from grant date, being the date on which shareholder approval is obtained at a future general meeting of shareholders.*

Further details regarding options granted as remuneration are provided in the Remuneration Report below.

SHARES UNDER OPTION

Unissued ordinary shares of Future Fibre Technologies Limited under option at the date of this report are as follows:

DATE OPTIONS GRANTED	NUMBER OF UNISSUED ORDINARY SHARES UNDER OPTION	ISSUE PRICE OF SHARES	EXPIRY DATE OF THE OPTIONS
18 Jul 2014	1,200,000	$0.233	18 Jul 2019
15 Mar 2015	1,500,000	$0.230	15 Mar 2020
15 Mar 2015	2,110,000	$0.350	15 Mar 2018
11 May 2015	3,400,000*	$0.875	11 May 2018
28 Apr 2017	600,000	$0.230	28 Apr 2020

**As part of the underwriter's fee for the Initial Public Offering of the Company, KTM Capital was issued with 3,400,000 options in the Company.*

No option holder has any right under the options to participate in any other share issue of the company.

SHARES ISSUED ON EXERCISE OF OPTIONS

The following ordinary shares of Future Fibre Technologies Limited were issued during or since the end of the financial year as a result of the exercise of an option:

DATE ISSUED	NUMBER OF ORDINARY SHARES ISSUED	AMOUNT PAID PER SHARE
06 Jul 2016	300,000	$0.230
21 Nov 2016	1,500,000	$0.200

There are no amounts unpaid on shares issued on exercise of options.

PROCEEDINGS ON BEHALF OF THE CONSOLIDATED ENTITY

No person has applied for leave of Court to bring proceedings against the consolidated entity.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Future Fibre Technologies Limited maintains a Directors and Officers insurance policy that, subject to some exceptions provides insurance cover to past, present and future directors and officers of the consolidated entity and its subsidiaries. The company has paid a premium for the policy.

In addition, under the Constitution of the company, and to the extent permitted by law, each director of the company is indemnified by the company against liability incurred to another person (other than the company or related body corporate) except where the liability arises out of conduct involving a lack of good faith. Accordingly, each director is indemnified against any liability for costs and expenses incurred by the director in defending proceedings, whether civil or criminal, in which judgement is given in favour of the director or in which the director is acquitted, or in connection with an application in relation to such proceedings in which a court grants relief to the officer under the *Corporations Act 2001*.

INDEMNIFICATION OF AUDITORS

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

The company has not otherwise during or since the financial year, indemnified or agreed to indemnify a director or auditor of the company or any related body corporate against a liability incurred as a director or auditor.

ROUNDING OF AMOUNTS

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, the amounts in the directors' report and in the financial report have been rounded to the nearest one thousand dollars, or in certain cases, to the nearest dollar (where indicated).

Remuneration Report (audited)

The directors present the consolidated entity's 2017 remuneration report which details the remuneration information for Future Fibre Technologies Limited's executive directors, non-executive directors and other key management personnel.

1. DETAILS OF KEY MANAGEMENT PERSONNEL (KMP)

(i) Non-executive Directors

Arlene Tansey	Chairman (non-executive) - appointed 11 March 2015, resigned 13 October 2016
Terence Winters	Chairman (non-executive) - appointed director 09 September 2004, appointed Chairman 14 October 2016
Mark Stevens	Director (non-executive) - appointed 11 March 2015
Christopher Fergus	Director (non-executive) - appointed 14 October 2016

(ii) Executive Directors

Robert Broomfield	Chief Executive Officer (CEO) and Executive Director – appointed 27 February 2008
Fred Davis	Chief Operating Officer (COO) and Executive Director – appointed Executive Director 11 March 2015

(iii) Other Key Management Personnel

Leigh Davis	Chief Financial Officer (CFO) and Company Secretary – appointed 17 February 2015
Mark Horton	Global Sales and Marketing Director (GSMD) – appointed 26 June 2016

There were no other changes to KMP after reporting date and before the date the financial report was authorised for issue.

2. REMUNERATION POLICIES

The board policy for determining the nature and amount of remuneration of key management personnel is agreed by the board of directors as a whole, after receiving recommendations from the Remuneration and Nomination Committee. The Remuneration and Nomination Committee currently comprises three members of the Board of Directors. All members are Non-Executive Directors.

The board or the Remuneration and Nomination Committee may engage external consultants to provide independent advice where it considers it appropriate to ensure that the company attracts and retains talented and motivated directors and employees who can enhance company performance through their contributions and leadership. During the year ended 30 June 2017 neither the board nor the committee engaged any external consultants.

Non-executive director remuneration arrangements

The remuneration of Non-executive directors (NEDs) consists of directors' fees, which includes attendance at Committee meetings. NEDs do not receive retirement benefits other than compulsory superannuation scheme contributions.

Each NED, excluding the Chairman receives a base fee of $26,400 per annum exclusive of post-retirement benefits for being a director of the Company. The Non-Executive Chairman receives a base fee of $36,000 per annum exclusive of post-retirement benefits for his/her role as director and Chairman of the Board of Directors.

As part of their remuneration NEDs receive share options in the Company and are encouraged to hold shares in the Company. This is in line with the Company's overall remuneration philosophy and aligns NEDs with shareholder interests.

The remuneration of NEDs for the year ended 30 June 2017 and 30 June 2016 is detailed in Tables 1 and 2 respectively of this report.

The Company's constitution and the ASX listing rules specify that the NED fee pool shall be determined from time to time by a general meeting. The Company's current aggregate fee pool is $250,000 per year.

Further details regarding components of directors' and executive remuneration are provided in the notes to the financial statements.

Executive remuneration arrangements

For executives, the company provides a remuneration package that incorporates both cash-based remuneration and share-based remuneration. The contracts for service between the Company and executives are on a continuing basis, the terms of which are not expected to change in the immediate future. Share-based remuneration is conditional upon continuing employment thereby aligning executive and shareholder interests.

Fixed Remuneration

The level of fixed remuneration is set so as to provide a base level of remuneration, which is both appropriate to the position and is competitive in the market.

Short-Term Incentive (STI)

The objective of the STI program is to link the achievement of the Group's annual operational targets with the remuneration received by the executives charged with meeting those targets. The total potential STI available is set at a level that provides sufficient reward to the executive for exceeding the operational targets and at such a level that the cost to the Group is reasonable in the circumstances.

Actual STI payments granted to each executive depend on the extent to which specific annual operational targets set at the beginning of the financial year are met or exceeded. The CEO's targets are set by the Remuneration and Nomination Committee. The targets for all other executives are set by the CEO.

STI rewards are assessed annually and are usually paid in cash and performance rights.

Long-Term Incentive (LTI)

Long-term incentives are provided to certain employees through the issuance of options and performance rights. The options and performance rights are designed to provide long-term incentives for employees to deliver long-term shareholder returns.

The options and performance rights are usually issued for nil or nominal consideration and are granted in accordance with the Company's Employee Share Option Plan (ESOP).

Options and performance rights are issued for a specified period and are convertible into ordinary shares. The exercise price of the options and performance rights are determined by the Directors having regard to the market price of a share on invitation date, grant date, or another specified date after grant close and desirable performance hurdles that are aligned with shareholder interests. All options and performance rights expire on the earlier of their expiry date or three months after termination of the employee's employment subject to Directors' discretion. Options and performance rights do not vest until any vesting or performance criteria set at granting have been met in accordance with the terms and conditions of the ESOP.

There are no voting or dividend rights attached to the options or performance rights. Voting rights will attach to the ordinary shares when the options or performance rights have been exercised. Unvested options and performance rights cannot be transferred and will not be quoted on the ASX.

3. EXECUTIVE CONTRACTUAL ARRANGEMENTS

The company has entered into service agreements with the following key management personnel:

Robert Broomfield *Chief Executive Officer & Executive Director*	**Contract of Employment** Robert Broomfield is employed by Future Fibre Technologies Limited as a permanent, full-time employee. Mr Broomfield commenced his position with Future Fibre Technologies Limited in July 2006. His current base salary is $302,052 inclusive of superannuation. He has a notice period of 4 months. **Performance Conditions** The contract provides for a bonus of up to 60% of base salary inclusive of superannuation, which is payable in cash and performance rights and is conditional upon meeting pre-defined KPI's by the executive. Mr Broomfield was paid a bonus of $3,607 in the 2017 financial year, which related to the 2016 financial year.
Fred Davis *Chief Operating Officer & Executive Director*	**Contract of Employment** Dr Fred Davis is employed by Future Fibre Technologies Limited as a permanent, full-time employee. Dr Davis commenced his current position with Future Fibre Technologies Limited in March 2015, and is employed on a current a base salary of $298,401, inclusive of superannuation. He has a notice period of 2 months. **Performance Conditions** The contract provides for a bonus up to 40% of base salary, which is payable in cash and performance rights upon meeting pre-defined KPI's by the executive. Dr Davis was paid a bonus of $24,800 in the 2017 financial year, which related to the 2016 financial year.
Leigh Davis *Chief Financial Officer & Company Secretary*	**Contract of Employment** Leigh Davis is employed by Future Fibre Technologies Limited as a permanent, full-time employee. Mr Davis commenced his position with Future Fibre Technologies Limited in February 2015, and is employed on a current a base salary of $230,073, inclusive of superannuation. He has a notice period of 2 months. **Performance Conditions** The contract provides for a bonus up to 40% of base salary, which is payable in cash and performance rights upon meeting pre-defined KPI's by the executive. Mr Davis was paid a bonus of $16,094 in the 2017 financial year, which related to the 2016 financial year.
Mark Horton *Global Sales and Marketing Director ("GSMD")*	**Contract of Employment** Mark Horton is employed by Future Fibre Technologies MENA FZ-LLC as a permanent, full-time employee. Mr Horton commenced in his position with Future Fibre Technologies MENA FZ-LLC in June 2016, and is employed on a current a base salary of AED1,236,000 ($438,404) inclusive of allowances and superannuation. He has a notice period of 3 months. **Performance Conditions** The contract provides for a bonus up to AED 300,000 ($106,409), which is payable in cash upon meeting pre-defined KPI's by the executive. Mr Horton was not paid a bonus during the 2017 financial year.

Remuneration of Key Management Personnel

Table 1: Remuneration for the year ended 30 June 2017

	SHORT-TERM				POST EMPLOYMENT	LONG TERM	SHARE-BASED PAYMENT			
	SALARY AND FEES $	CASH BONUS## $	NON-CASH BENEFITS# $	SUPER-ANNUATION $	TERM-INATION BENEFITS $	LONG SERVICE LEAVE $	OPTIONS $	TOTAL $	PERF-ORMANCE RELATED %	OPTIONS AS % OF TOTAL %
Non-executive directors										
A. Tansey*	12,000	-	-	1,140	-	-	-	13,140	0.0%	0.0%
T. Winters^	33,219	-	-	3,156	-	-	-	36,375	0.0%	0.0%
M. Stevens	26,400	-	-	2,508	-	-	-	28,908	0.0%	0.0%
C. Fergus**	18,877	-	-	-	-	-	22,255	41,132	0.0%	54.1%
Sub-total non-executive directors	90,496	-	-	6,804	-	-	22,255	119,555		
Executives										
R. Broomfield	279,423	3,607	883	27,181	-	(670)	-	310,424	1.1%	0.0%
F. Davis	264,120	74,691	-	27,447	129,381	4,185	-	499,824	14.9%	0.0%
L. Davis	210,119	39,102	-	21,490	-	1,946	-	272,657	14.3%	0.0%
M. Horton	444,409	-	-	-	-	18,908	57,389	520,706	0.0%	11.0%
Sub-total executive KMP	1,198,071	117,400	883	76,118	129,381	24,369	57,389	1,603,611		
Totals	1,288,567	117,400	883	82,922	129,381	24,369	79,644	1,723,166		

 # Non-cash benefits relate to relate to salary packaged motor vehicles. The amounts are the Reportable Fringe Benefit provided using the statutory method as defined in the Fringe Benefit Tax Assessment Act (1986) (Cth).

Cash Bonus in FY2017 reflects bonuses earned in respect of the years ended 30 June 2016 and 30 June 2017.

** Resigned 13 October 2016.*

*** Appointed 14 October 2016.*

^ Appointed as Chairman 14 October 2016.

Table 2: Remuneration for the year ended 30 June 2016

	SHORT-TERM				POST EMPLOYMENT	LONG TERM	SHARE-BASED PAYMENT			
	SALARY AND FEES $	CASH BONUS## $	NON-CASH BENEFITS# $	SUPER-ANNUATION $	TERM-INATION BENEFITS $	LONG SERVICE LEAVE $	OPTIONS $	TOTAL $	PERF-ORMANCE RELATED %	OPTIONS AS % OF TOTAL %
Non-executive directors										
A. Tansey	36,000	-	-	3,420	-	-	-	39,420	0.0%	0.0%
M. Stevens	26,400	-	-	627	-	-	-	27,027	0.0%	0.0%
T. Winters	26,400	-	-	2,508	-	-	-	28,908	0.0%	0.0%
Sub-total non-executive directors	88,800	-	-	6,555	-	-	-	95,355		
Executives										
R. Broomfield	283,830	-	11,118	26,964	-	13,433	-	335,345	0.0%	0.0%
F. Davis	252,456	51,620	-	28,887	-	2,347	-	335,310	15.4%	0.0%
L. Davis	206,000	13,653	-	20,867	-	770	-	241,290	5.7%	0.0%
M. Horton*	6,200	-	-	-	-	-	-	6,200	0.0%	0.0%
Sub-total executive KMP	748,486	65,273	11,118	76,718	-	16,550	-	918,145		
Totals	837,286	65,273	11,118	83,273	-	16,550	-	1,013,500		

 # Non-cash benefits relate to relate to salary packaged motor vehicles. The amounts are the Reportable Fringe Benefit provided using the statutory method as defined in the Fringe Benefit Tax Assessment Act (1986) (Cth).

Cash Bonus in FY2016 reflects bonuses earned in respect of the year ended 30 June 2015.

** Appointed 26 June 2016.*

4. RELATIONSHIP BETWEEN REMUNERATION AND COMPANY PERFORMANCE

(a) Remuneration not dependent on satisfaction of performance condition

The non-executive directors' remuneration policy is not directly related to company performance. The board seeks to align remuneration policies to the long-term creation of wealth by the company for shareholders.

(b) Remuneration dependent on satisfaction of performance condition

A portion of the Executive Remuneration is based on attainment of performance conditions. Performance-based remuneration includes short-term cash bonuses (STIs). Performance-based remuneration granted to key management personnel has regard to company performance over a 12-month period.

The following table sets out the typical performance conditions used for performance-linked incentive payments:

KMP	PERFORMANCE CONDITIONS
CEO	Expense to Revenue ratio reduction
CEO/CFO/COO	Reducing new product development cycle times and COGS
CEO/CFO/COO/GSMD	Year-on-year Revenue Growth
CEO/CFO/COO/GSMD	Year-on-year EBITDA growth
CEO/COO/GSMD	Entering into significant new channel partner agreements
CFO/COO	Improvements in operational ratios, management of risk and general compliance with policies

These performance conditions are selected to align the goals and incentives of the KMP with the creation of shareholder wealth during the relevant period.

Quantitative financial performance conditions are assessed against the Consolidated Entity's financial report for the year. Other performance conditions are assessed by the CEO, or in the case of the CEO's performance conditions, the Board giving consideration to outcomes achieved, external influences and a range of other qualitative factors. These assessments ensure clearly defined and objective assessment of financial and quantitative targets, and promote fair and reasonable judgements in respect of qualitative performance conditions.

The following table sets out the terms and conditions of each grant of the performance-linked bonus affecting compensation in current and future years:

2017	AMOUNT INCLUDED IN REMUNERATION $	AWARDED %	FORFEITED %	ESTIMATED MAXIMUM TOTAL VALUE OF BONUS $
Robert Broomfield	3,607	0.0%	100%	219,891
Fred Davis	74,691	37.5%	62.5%	133,042
Leigh Davis	39,102	22.7%	77.3%	101,235
Mark Horton	-	0%	100%	AED 300,000

Assessment of these executives' achievement of their performance conditions was conducted during October 2016 and August 2017. The remuneration associated with the achievement of these awards relating to FY2016 was paid during the year ended 30 June 2017. The award relating to FY2017 is to be paid in the year ended 30 June 2018. The amount payable to Robert Broomfield is $3,607 (including $3,607 relating to FY2016), the amount payable to Dr. Fred Davis is $74,691 (including $24,800 relating to FY2016), the amount payable to Leigh Davis is $39,102(including $16,094 relating to FY2016), and the amount payable to Mark Horton is $Nil.

(c) Impact of Company's performance on shareholder wealth

The following table summarises company performance and key performance indicators:

	2017	2016	2015	2014	2013
Revenues excluding interest income ($'000)	13,360	15,126	19,505	13,170	12,118
% increase/(decrease) in revenue	(10.2)%	(22.5)%	48.0%	8.7%	7.3%
Profit/(Loss) before tax ($'000)	(7,820)	(5,805)	2,157	1,630	1,012
% increase/(decrease) in profit before tax	(34.7)%	(369.1)%	32.3%	61.1%	189.8%
Change in share price (%)	(70%)	(42%)	N/A	N/A	N/A
Dividend paid to shareholders ($'000)	-	-	-	-	-
Return of capital ($'000)	-	-	-	-	-
Total remuneration of KMP	1,723,166	1,013,500	1,219,124	603,826	-
Total performance based remuneration	117,400	65,273	216,300	19,000	-

5. KEY MANAGEMENT PERSONNEL'S SHARE-BASED COMPENSATION

Share options issued

The terms and conditions of each grant of options affecting remuneration in the current or future reporting period are as follows:

GRANT DATE	VESTING AND EXERCISE DATE	EXPIRY DATE	EXERCISE PRICE	FAIR VALUE PER OPTION AT GRANT DATE	% VESTED
18/07/2014	18/07/2014	18/07/2019	$0.233	$0.0000	100
15/03/2015	15/03/2015	15/03/2018	$0.350	$0.0415	100
15/03/2015	15/03/2015	15/03/2020	$0.230	$0.1442	100
28/04/2017	28/04/2017	28/04/2020	$0.230	$0.0956	100

The Company has also awarded 200,000 options to C. Fergus with an exercise price of $0.21 and an expiry date of 3 years from grant date, being the date on which shareholder approval is obtained at a future general meeting of shareholders.

Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Company. There are no performance conditions attached to the options above.

The table below shows the number of share options granted, vested, or lapsed during the year. Options granted vested immediately.

NAME	GRANT DATE	NUMBER OF OPTIONS GRANTED	FAIR VALUE OF OPTIONS GRANTED* $	NUMBER OF OPTIONS VESTED DURING THE YEAR	NUMBER OF OPTIONS LAPSED DURING THE YEAR	VESTED %	VALUE AT LAPSE DATE $	EXERCISE PRICE $	TERMS AND CONDITIONS		
									EXPIRY DATE	FIRST EXERCISE DATE	LAST EXERCISE DATE
A. Tansey	15/03/2015	250,000	10,375	-	(250,000)	100%	$0.00	$0.350	15/03/2018	15/03/2015	15/03/2018
M. Horton	28/04/2017	600,000	57,389	600,000	-	100%	-	$0.230	28/04/2020	28/04/2017	28/04/2020

** The value at grant date calculated in accordance with AASB 2 Share-based payments of options granted during the year as part of remuneration.*

The Company has also awarded 200,000 options to C. Fergus with an exercise price of $0.21 and an expiry date of 3 years from grant date, being the date on which shareholder approval is obtained at a future general meeting of shareholders.

For details on the valuation of the options, including models and assumptions used, please refer to Note 22. There were no alterations to the terms and conditions of options awarded as remuneration since their grant date. During the year, the Company issued 1,500,000 shares on exercise of options by R. Broomfield. The options had an exercise price of $0.20.

6. KEY MANAGEMENT PERSONNEL'S EQUITY HOLDINGS

(a) Number of options held by key management personnel:

	BALANCE AT BEGINNING OF PERIOD 1 JULY 16	GRANTED AS REMUNE-RATION	OPTIONS EXERCISED	NET CHANGE OTHER#	BALANCE AT END OF PERIOD 30 JUNE 17	VESTED AT 30 JUNE 2017	
						EXERCISABLE	NOT EXERCISABLE
Non-executive Directors							
A. Tansey	250,000	-	-	(250,000)	-	-	-
T. Winters	200,000	-	-	-	200,000	200,000	
C. Fergus	-	-	-	-	-	-	-
M. Stevens	200,000	-	-	-	200,000	200,000	
Sub-total	650,000	-	-	(250,000)	400,000	400,000	-
Executives							
R. Broomfield	4,500,000	-	(1,500,000)	(1,500,000)	1,500,000	1,500,000	-
F. Davis	1,200,000	-	-	-	1,200,000	1,200,000	-
L. Davis	900,000	-	-	-	900,000	900,000	-
M. Horton	-	600,000	-	-	600,000	600,000	-
Sub-total	6,600,000	600,000	(1,500,000)	(1,500,000)	4,200,000	4,200,000	-
Total	7,250,000	600,000	(1,500,000)	(1,750,000)	4,600,000	4,600,000	-

 # Includes lapsed and forfeitures

(b) Number of shares held by key management personnel

Shares held in Future Fibre Technologies Limited (number)

2017	BALANCE AT BEGINNING OF PERIOD 1 JULY 16	GRANTED AS REMUNERATION	ON EXERCISE OF OPTIONS	NET CHANGE OTHER #	BALANCE AT END OF PERIOD 30 JUNE 17
Non-executive Directors					
A. Tansey	286,000	-	-	-	286,000
T. Winters	877,380	-	-	-	877,380
C. Fergus	-	-	-	-	-
M. Stevens	-	-	-	-	-
Executives					
R. Broomfield	-	-	1,500,000	-	1,500,000
F. Davis	-	-	-	-	-
L. Davis	-	-	-	100,000	100,000
M. Horton	-	-	-	-	-
Total	1,163,380	-	1,500,00	100,000	2,763,380

 # Shares purchased on market.

7. OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

During the current and previous financial year, the Group transacted with related entities of directors, other than in their capacity as director as follows:

(i) Maxsec Group Limited and its subsidiaries, a company of which a Robert Broomfield and Christopher Fergus are directors, purchased goods and services from the consolidated entity for an amount of $1,211,097 (2016: USD $84,098) on arm's length terms and conditions. Accounts Receivable balance at 30 June 2017 totals $532,465 (2016: $641,199). Controlled entities of Maxsec Group Limited have entered into reciprocal reseller arrangements with the consolidated entity on an arm's length basis in the normal course of business. The Consolidated entity also purchased services from entities of Maxsec Group Limited for an amount of $104,561 (2016: $15,984). Accounts payable balance at 30 June 2017 totals $10,195 (2016: $15,984).

During the year, there were no other transactions with directors or management personnel.

8. VOTING AND COMMENTS MADE AT THE COMPANY'S 2016 ANNUAL GENERAL MEETING (AGM)

At the company's most recent AGM, a resolution to adopt the prior year remuneration report was put to the vote and at least 75% of 'yes' votes were cast for adoption of that report. No comments were made on the remuneration report that was considered at the AGM.

END OF THE REMUNERATION REPORT

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* in relation to the audit for the financial year is provided with this report.

Non-audit services

Non-audit services are approved by resolution of the audit committee and approval is provided in writing to the board of directors. Non-audit services were provided by the auditors of entities in the consolidated group during the year, namely Ernst & Young during 2017 and Pitcher Partners during 2016, as detailed below. The directors are satisfied that the provision of the non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

	2017 $	2016 $
Amounts paid and payable for non-audit services:		
Taxation services	20,000	19,700
Total auditors' remuneration for non-audit services	20,000	19,700

Signed in accordance with a resolution of the directors.

Robert Broomfield
Chief Executive Officer
29 August 2017

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Auditor's Independence Declaration to the Directors of Future Fibre Technologies Limited

As lead auditor for the audit of Future Fibre Technologies Limited for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

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

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

This declaration is in respect of Future Fibre Technologies Limited and the entities it controlled during the financial year.

Ernst & Young

Robert Dalton
Partner
29 August 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017		CONSOLIDATED	
	NOTE	2017 $'000	2016 $'000
Revenue and other income			
Sales revenue	4	**12,896**	14,361
Other income	4	**773**	1,125
		13,669	15,486
Less: Expenses			
Cost of raw materials and consumables used		**(6,030)**	(5,710)
Employee benefit expenses	5	**(7,483)**	(6,910)
Research and development	5	**(1,278)**	(1,037)
Advertising and marketing		**(380)**	(428)
Travel and entertainment		**(690)**	(946)
Facilities and office		**(782)**	(863)
Compliance, legal, and administration		**(849)**	(1,196)
Provision for impairment of receivables	9	**(1,364)**	(2,514)
Patents impairment loss		**-**	(103)
Depreciation and amortisation expenses	12,13	**(826)**	(607)
Finance costs		**(15)**	(5)
Foreign exchange losses		**(811)**	(220)
Other expenses		**(981)**	(752)
Loss for the year before income tax		**(7,820)**	(5,805)
Income tax (expense)/benefit	6	**-**	-
Loss for the year		**(7,820)**	(5,805)
Other comprehensive income for the year, net of tax			
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations, net of tax		**82**	66
Total comprehensive income for the year		**(7,738)**	(5,739)
		CENTS	**CENTS**
Loss per share for loss attributable to the ordinary equity holders of the company:			
Basic loss per share	7	**(6.34)**	(4.76)
Diluted loss per share	7	**(6.34)**	(4.76)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017		CONSOLIDATED	
	NOTE	2017 $'000	2016 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	8	**6,945**	12,119
Receivables	9	**4,985**	5,443
Inventories	10	**4,206**	3,990
Other current assets	11	**320**	341
Total Current Assets		**16,456**	21,893
Non-Current Assets			
Receivables	9	**-**	3,291
Plant and equipment	12	**1,012**	1,300
Intangible assets	13	**2,758**	1,608
Total Non-Current Assets		**3,770**	6,199
TOTAL ASSETS		**20,226**	28,092
LIABILITIES			
Current Liabilities			
Payables	14	**2,220**	2,798
Borrowings	15	**15**	8
Provisions	16	**1,089**	1,032
Total Current Liabilities		**3,324**	3,838
Non-Current Liabilities			
Borrowings	15	**-**	15
Provisions	16	**36**	15
Total Non-Current Liabilities		**36**	30
TOTAL LIABILITIES		**3,360**	3,868
NET ASSETS		**16,866**	24,224
EQUITY			
Contributed equity	17	**44,183**	43,883
Accumulated losses		**(27,942)**	(20,122)
Reserves	18	**625**	463
TOTAL EQUITY		**16,866**	24,224

The above 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	SHARE CAPITAL $'000	SHARE OPTIONS RESERVE $'000	FOREIGN EXCHANGE TRANSLATION RESERVE $'000	ACCUMULATED LOSSES $'000	TOTAL EQUITY $'000
At 1 July 2016	43,883	397	66	(20,122)	24,224
Loss for period	-	-	-	(7,820)	(7,820)
Exchange differences on translation of foreign operations, net of tax	-	-	82	-	82
Total comprehensive income for the year	-	-	82	(7,820)	(7,738)
Transactions with owners in their capacity as owners					
Shares issued	300	-	-	-	300
Share issue costs	-	-	-	-	-
Share based payments	-	80	-	-	80
Total transactions with owners in their capacity as owners	300	80	-	-	380
Balance at 30 June 2017	**44,183**	**477**	**148**	**(27,942)**	**16,866**
At 1 July 2015	43,714	397	-	(14,317)	29,794
Loss for period	-	-	-	(5,805)	(5,805)
Exchange differences on translation of foreign operations, net of tax	-	-	66	-	66
Total comprehensive income for the year	-	-	66	(5,805)	(5,739)
Transactions with owners in their capacity as owners					
Shares issued	250	-	-	-	250
Share issue costs	(81)	-	-	-	(81)
Total transactions with owners in their capacity as owners	169	-	-	-	169
Balance at 30 June 2016	**43,883**	**397**	**66**	**(20,122)**	**24,224**

The above 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		CONSOLIDATED	
	NOTE	2017 $'000	2016 $'000
Cash flow from operating activities			
Receipts from customers		**12,801**	15,376
Receipts form R&D tax incentives		**1,567**	-
Payments to suppliers and employees		**(17,275)**	(20,460)
Finance costs paid		**(15)**	(5)
Interest received		**173**	360
Net cash flows used in operating activities	8(a)	**(2,749)**	(4,729)
Cash flow from investing activities			
Payment for security bonds and guarantees		**(86)**	-
Payment for intangible assets		**(2,493)**	(689)
Proceeds from the sale of plant and equipment		**4**	-
Payment for plant and equipment		**(193)**	(691)
Net cash flows used in investing activities		**(2,768)**	(1,380)
Cash flow from financing activities			
Proceeds from share issues		**300**	250
Share issue expenses		**-**	(81)
Repayment of borrowings		**(8)**	(9)
Net cash flows from financing activities		**292**	160
Net decrease in cash and cash equivalents		**(5,225)**	(5,949)
Net foreign exchange differences on cash holdings		**51**	477
Cash and cash equivalents at beginning of year		**12,119**	17,591
Cash and cash equivalents at end of year	8	**6,945**	12,119

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

NOTES TO THE FINANCIAL STATEMENTS

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies adopted by the consolidated entity in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Basis of preparation of the financial report

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards, Interpretation and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report covers Future Fibre Technologies Limited and controlled entities as a consolidated entity. Future Fibre Technologies Limited is a company limited by shares, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Stock Exchange. Future Fibre Technologies Limited is a for-profit entity for the purpose of preparing the financial statements. The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

The consolidated financial statements of Future Fibre Technologies Limited for the year ended 30 June 2017 was authorised for issue in accordance with a resolution of the directors on 29 August 2017.

Compliance with IFRS

The consolidated financial statements of Future Fibre Technologies Limited also comply with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

Historical cost convention

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets as described in the accounting policies.

Significant accounting estimates

The preparation of financial report requires the use of certain estimates and judgements in applying the Group's accounting policies. Those estimates and judgements significant to the financial report are disclosed in Note 2.

(b) Going concern

The financial report has been prepared on a going concern basis. The Group reported an after tax loss of $7,820,000 for the year (2016: loss $5,805,000) and its total assets exceed total liabilities by $16,866,000 (2016: $24,224,000). The directors have assessed and reasonably expect the company will continue as a going concern for the foreseeable future, whereby the company will continue normal business activities and realise its assets and discharge its liabilities in the normal course of business. For these reasons, the financial statements have been prepared on a going concern basis.

(c) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities which the parent entity controls. The group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies, which may exist.

All inter-company balances and transactions, including any unrealised profits or losses have been eliminated on consolidation. Subsidiaries are consolidated from the date on which control is established and are de-recognised from the date that control ceases. Equity interests in a subsidiary not attributable directly or indirectly to the Group are presented as non-controlling interests.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Non-controlling interests in the results of subsidiaries are shown separately in the consolidated statement of comprehensive income and consolidated statement of financial position respectively.

(d) Accounting standards issued but not yet effective at 30 June 2017

AASB 15 Revenue from contracts with customers

AASB 15 introduces a five step process for revenue recognition with the core principle being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services. The five step approach is as follows:

- Step 1: Identify the contracts with the customer;
- Step 2: Identify the separate performance obligations;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price; and
- Step 5: Recognise revenue when a performance obligation is satisfied.

AASB 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

The effective date is annual reporting periods beginning on or after 1 January 2018.

The changes in revenue recognition requirements in AASB 15 may cause changes to the timing and amount of revenue recorded in the financial statements as well as additional disclosures. The Company has completed an initial review of its customer contracts and expects to complete further work in order to determine the effects of these changes on revenue recognition during the coming year. The impact of AASB 15 has not yet been quantified.

AASB 9 Financial Instruments

AASB 9 makes significant revisions to the classification and measurement of financial assets, where they are measured at either amortised cost or fair value. The amortised cost reduces the number of categories and simplifying the measurement choices, including the removal of impairment testing of assets measured at fair value. The amortised cost model is available for debt assets meeting both business model and cash flow characteristics tests.

Impairment of assets is now based on expected losses in AASB 9 which requires entities to measure:

- the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or
- the full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument.

The effective date is annual reporting periods beginning on or after 1 January 2018.

Impacts on the reported financial position and performance have not yet been determined.

AASB 16 Leases

AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 Leases. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right-to-use the underlying asset during the lease term (i.e., the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The changes in lease recognition requirements in AASB 16 may cause changes to the amount of interest and operating expenses, leased assets and lease liabilities recorded in the financial statements as well as additional disclosures.

The effective date is annual reporting periods beginning on or after 1 January 2019.

The impact of AASB 16 has not yet been quantified.

IFRIC 23 Uncertain Tax Positions

The Interpretation clarifies the application of the recognition and measurement criteria in IAS 12 Income Taxes when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances.

The effective date is annual reporting periods beginning on or after 1 January 2019.

The impact of IFRIC 23 has not yet been quantified.

(e) Foreign currency translations and balances

Functional and presentation currency

The financial statements of each entity within the consolidated entity are measured using the currency of the primary economic environment in which that entity operates (the functional currency). The consolidated financial statements are presented in Australian dollars which is the consolidated entity's functional and presentation currency.

Transactions and balances

Transactions in foreign currencies of entities within the consolidated group are translated into functional currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year.

Except for certain foreign currency hedges, all resulting exchange differences arising on settlement or re statement are recognised as revenues and expenses for the financial year.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign subsidiaries

Entities that have a functional currency different to the presentation currency are translated as follows:

- Assets and liabilities are translated at the closing rate on reporting date;
- Income and expenses are translated at actual exchange rates or average exchange rates for the period, where appropriate; and
- All resulting exchange differences are recognised in other comprehensive income.

(f) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes (including GST) or duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The specific recognition criteria described below must also be met before revenue is recognised:

(i) Sale of products, materials and parts

Revenue from the sale of products, material and parts is recognised upon the delivery of goods to customers.

(ii) Services

Revenue from the rendering of service is recognised upon delivery of the service to the customers.

(iii) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions.

Government grants relating to intangible assets are credited to the asset carrying value and recognised in the profit or loss over the period and proportions in which amortisation expense on those assets is recognised.

Government grants relating to the purchase of plant and equipment are recorded at nominal amounts and released to profit and loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset.

(iv) Interest income

Interest income is recognised when it becomes receivable on a proportionate basis taking into account the interest rates applicable to the financial assets.

(v) Dividends

Dividends are recognised as revenue when the right to receive payment is established.

(vi) Other revenues

Other operating revenues are recognised as they are earned and goods or services provided.

(g) Income tax and other taxes

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

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or in profit or loss.

(i) Tax consolidation legislation

Future Fibre Technologies Limited and its wholly owned subsidiaries have implemented the tax consolidation legislation and have formed a tax-consolidated group from 1 July 2014. Future Fibre Technologies Limited is the head entity of the consolidated group.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Goods and services tax (GST)

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

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

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

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

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

(h) Impairment of non-financial assets

Goodwill, intangible assets that are not ready for use yet, and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

(i) Cash and cash equivalents

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

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the balance sheet.

(j) Trade and other receivables

Trade receivables, are recognised initially at original invoiced amounts, less an allowance for any uncollectible amounts. Settlement terms for trade receivables vary between the geographic regions and are generally in line with standard industry practice within each geographic region. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used 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 is 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. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The amount of the impairment loss is recognised in profit or loss as a separate expense category. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

(k) Inventories

Inventories are valued at the lower of cost and net realisable value. The cost of manufactured products includes direct material, direct labour and a proportion of manufacturing overheads based on normal operating capacities. 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.

(l) Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a diminishing balance basis over the estimated useful life of the specific assets as follows:

PLANT AND EQUIPMENT	2017 YEARS	2016 YEARS
Office furniture and equipment	10	10
Motor vehicles	5	5
Computer equipment	2-7	2-7
Production plant and equipment	2-10	2-10
Demonstration equipment	2-5	2-5

(m) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Finance leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the statement of comprehensive income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating leases

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and amortised on a straight line basis over the life of the lease term.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Intangibles

Trademarks and Licences

Trademarks and Licences are recognised at cost of acquisition. Trademarks and Licences have a finite life and are amortised on a systematic basis, matched to the future economic benefits over the life of the asset, less any impairment losses.

Research and development

Expenditure on research activities is recognised as an expense when incurred.

Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Capitalised development expenditure is stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using a straight-line method to allocate the cost of the intangible assets over their estimated useful lives. Amortisation commences when the intangible asset is available for use. During the period of development, the asset is tested for impairment annually.

Other development expenditure is recognised as an expense when incurred.

Right to use assets

Rights to use assets are recognised at cost of acquisition. Rights to use have a finite life and are amortised on a systematic basis matched to the future economic benefits over the life of the asset, less any impairment losses.

Patents

Patents are initially recognised at the cost on acquisition. Patents have a finite life and are amortised on a systematic basis matched to the future economic benefits over the life of the asset, less any impairment losses. Amortisation of the patents commences on approval of the patent and is matched to the timing of economic benefits flowing to the company from the application of the technology. Patents are reviewed for impairment at the end of the financial year and more frequently when an indication of impairment exists. Any impairment charge is recorded separately.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

(o) Trade and other payables

Trade and other payables are carried at amortised cost due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within terms negotiated with suppliers.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Financial instruments

Classification

The consolidated entity classifies its financial instruments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the instruments were acquired. Management determines the classification of its financial instruments at initial recognition. FFT has loans and receivables at 30 June 2017 and 2016.

Non-derivative financial instruments

Non-derivative financial instruments consist of investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are initially recognised at fair value, plus directly attributable transaction costs (if any), except for instruments recorded at fair value through profit or loss. After initial recognition, non-derivative financial instruments are measured as described below.

Loans and receivables

Loans and receivables are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method.

Interest bearing loans and borrowings

All interest bearing loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

Financial liabilities

Financial liabilities include trade payables, other creditors, loans from third parties and loans or other amounts due to director-related entities.

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Financial liabilities are classified as current liabilities unless the consolidated entity has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Interest, dividends, losses and gains relating to the financial liability are recognised in the statement of comprehensive income. Distributions to the equity holders are recognised against equity, net of any tax benefit.

Impairment of financial assets

Financial assets are tested for impairment at each financial year end to establish whether there is any objective evidence for impairment.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For loans and receivables or held-to-maturity investments carried at amortised cost, impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of the loss reduces the carrying amount of the asset and is recognised in profit or loss. The impairment loss is reversed through profit or loss if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised.

(q) Borrowing costs

Borrowing costs can include interest expense calculated using the effective interest method, finance charges in respect of finance leases, and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. Borrowing costs are expensed as incurred, except for borrowing costs incurred as part of the cost of the construction of a qualifying asset which are capitalised until the asset is ready for its intended use or sale.

(r) Provisions and employee benefits

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

Warranty provisions

Provision is made for the estimated liability on all products and services still under warranty at balance date. This provision is estimated having regard to prior service warranty experience. In calculating the liability at balance date, amounts were not discounted to their present value as the effect of discounting was not material. In determining the level of provision required for warranties, the Group has made judgments in respect of the expected performance and the costs of fulfilling the warranty. Historical experience and current knowledge have been used in determining this provision. The initial estimate of warranty-related costs is revised annually.

Employee Entitlements

(i) Wages, salaries, annual leave, long service leave and personal leave expected to be settled within 12 months

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

(ii) Long service leave and annual leave expected to be settled after 12 months

The liability for long service leave and annual leave expected to be settled after 12 months is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on Australian corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iii) Short-term Incentive payments (STI's)

The consolidated entity recognises a provision when an STI is payable in accordance with the employee's contract of employment, and the amount can be reliably measured.

(iv) Long-term Incentive payments (LTI's)

The consolidated entity recognises a provision when an LTI is payable in accordance with the employee's contract of employment, and the amount can be reliably measured.

(v) Pensions and other post-employment benefits

The company contributes to defined contribution superannuation/pension funds on behalf of employees in respect of employee services rendered during the year. These superannuation/pension contributions are recognised as an expense in the same period when the employee services are received. Generally, contributions are made and applicable local jurisdiction statutory rates where relevant.

(vi) Termination benefits

Termination benefits are payable when employment of an employee or group of employees is terminated before the normal retirement date, or when the entity provides termination benefits as a result of an offer made and accepted in order to encourage voluntary redundancy.

The consolidated entity recognises a provision for termination benefits when the entity can no longer withdraw the offer of those benefits, or if earlier, when the termination benefits are included in a formal restructuring plan that has been announced to those affected by it.

(s) Share-based payment transactions

Equity settled transactions:

The Group provides benefits to its employees (including senior executives) in the form of share-based payments, whereby employees render services in exchange for share options or performance rights (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured 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 a Black-Scholes model, further details of which are given in Note 22.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of Future Fibre Technologies Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the statement of comprehensive income is the product of:

(i) the grant date fair value of the award;

(ii) the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and

(iii) the expired portion of the vesting period.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The charge to the statement of comprehensive income for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see Note 7).

(t) Contributed equity

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

(u) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit / loss attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares,
- by the weighted average number of ordinary shares outstanding during the financial year.

(ii) 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 additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(v) Parent entity financial information

The financial information for the parent entity, Future Fibre Technologies Limited, disclosed in Note 26 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries are accounted for at cost less impairment charge in the financial statements of Future Fibre Technologies Limited. Dividends received are recognised in the parent entity's profit or loss.

(w) Comparatives

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Rounding of amounts

The parent entity and the consolidated entity have applied the relief available under ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191 and accordingly, the amounts in the consolidated financial statements and in the directors' report have been rounded to the nearest thousand dollars, or in certain cases, to the nearest dollar (where indicated).

2 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a material impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Impairment of tangible and intangibles assets

The Group determines whether intangibles are impaired at least on an annual basis by evaluating whether indicators of impairment exist in relation to the continued use of the asset by the consolidated entity. Impairment triggers include declining product or manufacturing performance, technology changes, adverse changes in the economic or political environment or future product expectations. If an indicator of impairment exists the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use ("VIU"). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The group assessed the carrying amount of the Group's assets at 30 June for impairment indicators, and determined that an impairment indicator was present.

The following table describes key assumptions on which the Group has based the cash flow projections.

KEY ASSUMPTIONS	BASIS OF ESTIMATION
Future cash flows	VIU calculations, inclusive of working capital movements and forecast capital expenditure based on financial projections approved by the Board for the first year, with detailed management forecasts used in years 2 – 5, then reverting to a terminal value.
Discount rate	Discount rate applied to cash flow projection assessed to reflect the time value of money and the perceived risk profile of the stage of the business.
Revenue growth	Forecast growth in year 1 is based on Board approved projections, and detailed assessed conversion of known revenue opportunities for the business. Years 2 – 5 assume modest growth is achieved within existing business markets and geographies, along with expansion of the business into new markets and geographies.
Gross margins	Forecasting consistent gross margins over the life of the model relative to historic gross margins achieved.

2 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

The Group has determined that the carrying amount of the assets is not impaired. No reasonable possible change in key assumptions would give rise to an impairment.

(ii) Measuring trade receivables at amortised cost

The Group considers trade receivables ability to pay including timing and the amount of payment. Refer to Note 9 for further details.

(iii) 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 using a Black-Scholes model, with the assumptions detailed in Note 22. 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.

(b) Critical judgements in applying the entity's accounting policies

(i) Foreign Exchange rates

Both the functional and presentation currency of the Group is Australian dollars.

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

All differences in the financial reports are taken to the statement of comprehensive income.

3 SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments has been identified as the Board of Directors of Future Fibre Technologies Limited. The Group re-assessed their segment reporting disclosures based on information reported to the chief operating decision maker and concluded there is one segment. The information for which is reported consistently with the financial statements.

For management purposes, the Group is organised into one main operating segment. Future Fibre Technologies Limited (Australian parent) is the owner of the Intellectual property, performs all product manufacturing, sales and distribution of products, and is responsible for providing the after sales support of all products sold. All of the Group's activities are interrelated, and discrete financial information is reported to the Board as a single segment. Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the Group as a whole.

The total amount of external revenue derived from one major customer where the revenue is greater than 10% of the consolidated entity's total revenue was $1,449,000 (2016: one customer greater than 10% totalling $2,510,000).

4 REVENUES FROM CONTINUING OPERATIONS AND OTHER INCOME

	CONSOLIDATED	
	2017 $'000	**2016 $'000**
Revenue from operating activities		
Revenue from sales of goods	**11,309**	12,889
Revenue from provision of services	**1,587**	1,472
Total revenue from operating activities	**12,896**	14,361
Other income		
Interest	**526**	360
R&D Tax incentive	**228**	475
Gains on foreign exchange - realised	**-**	290
Other Income	**19**	-
Total other income	**773**	1,125
Total Revenues	**13,669**	15,486

5 PROFIT/(LOSS) FROM CONTINUING OPERATIONS

Profit/(Loss) from continuing operations before income tax has been determined after the following specific expenses:

Employee benefits expenses totalling $7,483,000 (2016: $6,910,000), including $80,000 share based payment expense (2016: $Nil) and $552,000 superannuation contributions (2016; $602,000).

In FY2016, the Company settled an on-going commercial dispute totalling $363,000 which is disclosed within Compliance, legal and administration.

Research and development costs that are not eligible to be capitalised have been expensed in the year totalling $1,278,000 (2016: $1,037,000).

6 INCOME TAX

	CONSOLIDATED	
	2017 $'000	**2016 $'000**
(a) Components of tax expense:		
Current tax	**-**	-
Deferred tax	**-**	-
Under provision in prior year	**-**	-
	-	-
(b) Prima facie tax payable		
The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows:		
Accounting Loss before tax	**(7,820)**	(5,805)
At the Group's statutory income tax rate of 30% (2016: 30%)	**(2,346)**	(1,742)
Tax effect of amounts which are not deductible in calculating taxable income	**59**	95
Foreign tax jurisdiction adjustment	**(287)**	103
Tax incentives	**337**	(175)
Tax losses not brought to account	**2,457**	1,729
Temporary differences not brought to account	**(220)**	(10)
Income tax expense attributable to profit	**-**	-
(c) Deferred income tax related to items charged or credited directly to equity		
Decrease/(Increase) in deferred tax assets	**-**	24
	-	24
(d) Deferred tax assets not brought to account		
Temporary differences – parent	**876**	504
Operating tax losses - parent	**5,900**	4,556
	6,776	5,060

Tax losses in Australia can be carried forward indefinitely.

7 EARNINGS PER SHARE

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

	CONSOLIDATED	
(a) Earnings used in calculating earnings per share	**2017 $'000**	**2016 $'000**
For basic and diluted earnings per share:		
Net Loss from continuing operations attributable to ordinary equity holders of the parent	**(7,820)**	(5,805)
(b) Weighted average number of shares	**2017 NUMBER**	**2016 NUMBER**
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**123,436,659**	121,931,622
Adjustments for calculation of diluted earnings per share		
Dilutive share options	**-**	-
Weighted average number of ordinary shares adjusted for the effect of dilution used as the denominator in calculating diluted earnings per share	**123,436,659**	121,931,622
(c) Loss per share	**2017 CENTS**	**2016 CENTS**
Basic loss per share	**(6.34)**	(4.76)
Diluted loss per share	**(6.34)**	(4.76)

Basic loss per share amounts are calculated by dividing net profit/(loss) for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted loss per share amounts are calculated by dividing the net profit/(loss) attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

7 EARNINGS PER SHARE (CONTINUED)

The following anti-dilutive share options have been excluded from the calculation of diluted earnings per share that could potentially dilute earnings per share in the future if they become dilutive:

DATE GRANTED	EXPIRY DATE	EXERCISE PRICE ($)	VESTED AND EXERCISABLE AT END OF THE YEAR
2017			
18/07/14	18/07/19	$0.233	1,200,000
15/03/15	15/03/18	$0.350	2,410,000
15/03/15	15/03/20	$0.230	1,500,000
11/05/15	11/05/18	$0.875	3,400,000
28/04/17	28/04/20	$0.230	600,000
2016			
15/09/07	17/11/16	$0.200	1,500,000
15/09/07	17/11/16	$0.250	750,000
15/09/07	17/11/16	$0.333	750,000
01/03/14	01/03/17	$0.233	600,000
18/07/14	18/07/19	$0.233	1,200,000
15/03/15	15/03/18	$0.350	2,660,000
15/03/15	15/03/20	$0.230	1,500,000
11/05/15	11/05/18	$0.875	3,400,000

Since reporting date there have been no other transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

8 CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	2017 $'000	2016 $'000
Cash at bank and on hand*	**6,945**	12,119
Bank overdraft	**-**	-
	6,945	12,119
(a) Reconciliation of Net Loss after Tax to Net Cash Flow from Operations		
Loss for the year after tax	**(7,820)**	(5,805)
Adjustment for non-cash income and expense items:		
Depreciation and amortisation	**826**	607
Share-Based payments (equity settled)	**80**	-
Gain on sale or disposal of plant and equipment	**(2)**	-
Bad debts written off and provision for impairment of receivables	**1,364**	2,514
Impairment of patents	**-**	103
Research and development tax credit included in investing activities	**997**	(382)
Other	**186**	(477)
Changes in assets and liabilities		
(Increase)/decrease in assets:		
Trade receivables	**2,078**	745
Research and development receivable contained with operating activities	**342**	(759)
Other receivables	**(35)**	74
Inventories	**(216)**	(2,543)
Other assets	**(21)**	(191)
Increase/(decrease) in liabilities:		
Trade and other payables	**(606)**	1,097
Provisions	**78**	288
Net cash flows used in operating activities	**(2,749)**	(4,729)
(b) Non-cash financing and investing activities		
Share-based payments	**80**	-

** The Group's exposure to interest rate risk is discussed in Note 19. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.*

9 RECEIVABLES

	CONSOLIDATED	
	2017 $'000	**2016 $'000**
Trade receivables - current	**3,690**	4,924
Trade receivables – non-current	**-**	3,291
Provision for impairment loss (a)	**(157)**	(1,240)
	3,533	6,975
Security deposits and bonds	**95**	12
Other receivables (c)	**1,357**	1,747
Carrying amount of trade and other receivables	**4,985**	8,734
Receivables – current	**4,985**	5,443
Receivables – non-current	**-**	3,291
	4,985	8,734
Movements in the allowance for impairment loss were as follows:		
At 1 July	**1,240**	639
Charge for the year	**1,364**	771
Amounts written off	**(2,447)**	(170)
At 30 June	**157**	1,240

(a) Provision for impairment

Trade receivables are non-interest bearing and are generally on terms of ranging from 30 - 90 days. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired.

During 2016 payment terms on some of the amounts totalling $3,415,000 were re-negotiated. In particular, two of the Company's customers who were undertaking large scale roll-outs and had experienced project delays. Trade receivables for these customers were treated as non-current and were on payment schedules of between 3 and 4 years (accelerated with immediate payment of the balance in full at an earlier date when the project achieves commissioning).

9 RECEIVABLES (CONTINUED)

During June 2017 these two customer arrangements were terminated by the Company. Inventories that had not been paid for in full by the customer at the time of termination were recovered by the Company and the value of these inventories off-set against the outstanding debts owed. The Company impaired the remaining trade receivable amount of $1,278,000.

In addition, the Company has impaired a further $86,000 of receivables.

(b) Past due but not impaired

As at 30 June 2017, trade receivables past due but not considered impaired are: $1,948,000 (2016: $5,129,000).

Re-measurement

For receivables that are past due credit has been stopped until full payment is made. Direct contact with the relevant debtor has been made and the Group is satisfied that payment will be received in full.

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

Trade receivables ageing analysis at 30 June is:

	GROSS 2017 $'000	RE-MEASUREMENT 2017 $'000	IMPAIRMENT 2017 $'000	GROSS 2016 $'000	RE-MEASUREMENT 2016 $'000	IMPAIRMENT 2016 $'000
Not past due	**1,585**	-	-	1,846	-	-
Past due 1-30 days	**1,309**	-	-	264	-	-
Past due 31-60 days	**219**	-	-	5	-	-
Past due 61-90 days	**13**	-	-	27	-	-
Past due more than 91 days	**564**	-	**(157)**	7,640	(1,567)	(1,240)
	3,690	-	**(157)**	9,782	(1,567)	(1,240)

(c) Other receivables

These amounts relate primarily to accrued income from product and services delivered to customers but not yet billed totalling $193,000 (2016: $33,000), accrued income from the R&D Tax incentive totalling $1,122,000 (2016: $1,463,000), and other indirect tax refunds due from various international tax jurisdictions.

10 INVENTORIES

	CONSOLIDATED	
	2017 $'000	2016 $'000
Raw materials and stores (at cost)	**1,498**	2,255
Work in progress (at cost)	**502**	259
Finished goods held for sale (at lower of cost and net realisable value)	**1,922**	403
Inventories in transit (at cost)	**19**	800
Spares (at cost)	**265**	273
	4,206	3,990

During 2017, $427,000 (2016: $Nil) was recognised as an expense for inventories carried at net realisable value. This is recognised in cost of sales.

11 OTHER ASSETS

	CONSOLIDATED	
	2017 $'000	2016 $'000
Current		
Prepayments	**320**	341
	320	341

Prepayments are not interest bearing.

12 NON-CURRENT ASSETS - PLANT AND EQUIPMENT

Reconciliation of carrying amounts at the beginning and end of the year

	COMPUTER EQUIPMENT $'000	MOTOR VEHICLES $'000	PLANT AND EQUIPMENT $'000	OFFICE FURNITURE AND EQUIPMENT $'000	DEMONSTRATION EQUIPMENT $'000	TOTAL $'000
Year Ended 30 June 2017						
Carrying amount at beginning of year	113	20	161	130	876	1,300
Additions	37	-	29	18	108	192
Disposals	-	-	(1)	-	(12)	(13)
Depreciation charge for the year	(39)	(3)	(68)	(25)	(332)	(467)
Carrying amount at end of year	111	17	121	123	640	1,012
At 30 June 2017						
Cost	718	39	938	471	1,796	3,962
Accumulated depreciation and impairment	(607)	(22)	(817)	(348)	(1,156)	(2,950)
Net carrying amount	111	17	121	123	640	1,012
Year Ended 30 June 2016						
Carrying amount at beginning of year	63	26	111	149	628	977
Additions	93	-	99	-	499	691
Disposals	-	-	-	-	-	-
Depreciation charge for the year	(43)	(6)	(49)	(19)	(251)	(368)
Carrying amount at end of year	113	20	161	130	876	1,300
At 30 June 2016						
Cost	691	39	912	463	1,707	3,812
Accumulated depreciation and impairment	(578)	(19)	(751)	(333)	(831)	(2,512)
Net carrying amount	113	20	161	130	876	1,300

13 NON-CURRENT ASSETS – INTANGIBLE ASSETS

(a) Reconciliation of carrying amounts at the beginning and end of the period

	TRADEMARKS $'000	DEVELOPMENT COSTS $'000	PATENTS $'000	RIGHT TO USE $'000	TOTAL $'000
Year ended 30 June 2017					
Carrying amount at beginning of year	13	870	668	57	1,608
Additions*	-	1,526	40	-	1,566
Disposals	-	-	-	(57)	(57)
Amortisation	-	(187)	(172)	-	(359)
Impairment charges	-	-	-	-	-
Carrying amount at end of year	13	2,209	536	-	2,758
At 30 June 2017					
Cost (gross carrying amount)	13	2,673	2,164	-	4,850
Accumulated amortisation	-	(464)	(1,481)	-	(1,945)
Accumulated impairment charges	-	-	(147)	-	(147)
Net carrying amount	13	2,209	536	-	2,758
Year ended 30 June 2016					
Carrying amount at beginning of year	13	380	868	-	1,261
Additions	-	550	73	66	689
Amortisation	-	(60)	(170)	(9)	(239)
Impairment charges	-	-	(103)	-	(103)
Carrying amount at end of year	13	870	668	57	1,608
At 30 June 2016					
Cost (gross carrying amount)	13	1,147	2,119	66	3,345
Accumulated amortisation	-	(277)	(1,304)	(9)	(1,590)
Accumulated impairment charges	-	-	(147)	-	(147)
Net carrying amount	13	870	668	57	1,608

** Net of $1,151,000 research and development tax credits (2016: $448,000).*

13 NON-CURRENT ASSETS – INTANGIBLE ASSETS (CONTINUED)

(b) Patents

Patents have been acquired through intellectual property derived from the Company's research and development and are carried at cost less accumulated amortisation and accumulated impairment losses. The amortisation is recognised in the statement of comprehensive income in the line item "Depreciation and amortisation expenses". If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount. Patents are amortised over a 10 year period, the average remaining amortisation period is 6.6 years.

(c) Development costs

During the year ended 30 June 2017, the Group incurred additional development costs of $1,526,000 net of offset from a research and development grant (2016: $550,000). The remaining amortisation period for development costs capitalised in previous years is 9.4 years. It is expected the new capitalised development will have a useful life of 10 years. Amortisation commenced from January 2017 when the asset became available for use.

14 TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2017 $'000	2016 $'000
Current		
Trade payables	**955**	1,853
Deferred revenue	**394**	411
Accruals and other payables	**871**	534
	2,220	2,798

Trade, accruals and other payables are non-interest bearing and normally settled on 14 – 60 day terms.

15 BORROWINGS

	CONSOLIDATED	
	2017 $'000	2016 $'000
Current - secured		
Bank overdraft[1]	-	-
Finance leases[2]	15	8
	15	8
Non-current – secured		
Finance leases[2]	-	15
	-	15

(1) The bank overdraft facility totalling $1,000,000 is unused at reporting date. It is secured by 1st ranking fixed and floating charges over the assets of Future Fibre Technologies Limited.

(2) Refer to note 19(d) for further details on minimum future lease payments.

(a) Assets pledged as security

All assets of the Company have been pledged as security for borrowings.

16 PROVISIONS

	CONSOLIDATED	
	2017 $'000	2016 $'000
Current		
Employee entitlements – annual leave	525	495
Employee entitlements – long service leave	412	332
Provision for warranty claims	152	205
	1,089	1,032
Non-current		
Employee entitlements – long service leave	36	15
	36	15

16 PROVISIONS (CONTINUED)

(a) Movements in provisions

Movements in each class of provision during the financial year, other than provisions relating to employee benefits, are set out below:

	PROVISION FOR WARRANTY CLAIMS $'000
Consolidated	
At 1 July 2016	205
Amount used in the year	-
Unused provision written back to the income statement	(53)
At 30 June 2017	152
Current	152
Non-current	-
	152

(b) Nature and timing of provisions

(i) Warranty provision

Refer to Note 1(s) for the relevant accounting policy and a discussion of the significant estimations and assumptions applied in the measurement of product warranty provision. This amount includes predominantly provision booked for probable claims by customers for product faults as well as provision for claimable warranty for other goods and services sold by the Group.

(ii) Employee Entitlements

Refer to Note 1(s) for the relevant accounting policy and a discussion of the significant estimations and assumptions applied in the measurement of long-service leave, which is part of this provision. This provision also includes provision booked for employees who earn but are yet to use their vacation entitlements. This amount includes on-costs for pension and superannuation, worker's compensation insurance and payroll tax (refer to Note 1(s) for the relevant accounting policy).

17 CONTRIBUTED EQUITY

	CONSOLIDATED	
	2017 $'000	2016 $'000
(a) Ordinary shares		
Ordinary share capital, issued and fully paid	**44,183**	43,883
	44,183	43,883

	NUMBER OF SHARES	$'000
Parent Entity		
(b) Movement in ordinary shares on issue		
At 1 July 2016	122,228,440	43,883
Share issue#	1,800,000	300
Transaction costs	-	-
At 30 June 2017	124,028,440	44,183
At 1 July 2015	121,404,450	43,714
Share issue*	823,990	250
Transaction costs	-	(81)
At 30 June 2016	122,228,440	43,883

(c) Terms and conditions of contributed equity

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

 # This amount included $300,000 for 1,500,000 shares issued on the conversion of options at an exercise price of $0.20.

** This amount includes $69,000 for 300,000 shares issued on the conversion of options. The options were exercised on 30 June 2016 but shares were not issued until the next reporting period (06 July 2016).*

(d) Share options

Employee share scheme

The consolidated entity continued to offer employee participation in share-based incentive schemes as part of the remuneration packages for the employees of the consolidated entity. Refer to Note 22: Share Based Payments for detailed disclosures.

17 CONTRIBUTED EQUITY (CONTINUED)

(d) Share options

(i) Options over ordinary shares: The following options to purchase fully paid ordinary shares in the Company were outstanding at 30 June 2017:

NUMBER OF OPTIONS DATE GRANTED	EXPIRY DATE	EXERCISE PRICE ($)	BALANCE AT START OF THE YEAR	GRANTED DURING THE YEAR	EXERCISED DURING THE YEAR	FORFEITED AND OTHER MOVEMENTS DURING THE YEAR	VESTED AND EXERCISABLE AT END OF THE YEAR
2017							
15/09/2007	17/11/2016	$0.20	1,500,000	-	(1,500,000)	-	-
15/09/2007	17/11/2016	$0.25	750,000	-	-	(750,000)	-
15/09/2007	17/11/2016	$0.33	750,000	-	-	(750,000)	-
01/03/2014	01/03/2019	$0.23	600,000	-	(300,000)	(300,000)	-
18/07/2014	18/07/2019	$0.23	1,200,000	-	-	-	1,200,000
15/03/2015	15/03/2018	$0.35	2,660,000	-	-	(250,000)	2,410,000
15/03/2015	15/03/2020	$0.23	1,500,000	-	-	-	1,500,000
11/05/2015	11/05/2018	$0.875	3,400,000	-	-	-	3,400,000
28/04/2017	28/04/2020	$0.230	-	600,000	-	-	600,000
Total			12,360,000	600,000	(1,800,000)	(2,050,000)	9,110,000
Weighted average exercise price			$0.44	-	-	-	$0.50

NUMBER OF OPTIONS DATE GRANTED	EXPIRY DATE	EXERCISE PRICE ($)	BALANCE AT START OF THE YEAR	GRANTED DURING THE YEAR	EXERCISED DURING THE YEAR	FORFEITED AND OTHER MOVEMENTS DURING THE YEAR	VESTED AND EXERCISABLE AT END OF THE YEAR
2016							
15/09/2007	17/09/2015	$0.20	343,590	-	(283,590)	(60,000)	-
15/09/2007	17/11/2016	$0.20	1,500,000	-	-	-	1,500,000
15/09/2007	17/11/2016	$0.25	750,000	-	-	-	750,000
15/09/2007	17/11/2016	$0.33	750,000	-	-	-	750,000
15/03/2011	15/03/2016	$0.23	650,400	-	(540,400)	(110,000)	-
01/03/2014	01/03/2019	$0.23	600,000	-	-	-	600,000
18/07/2014	18/07/2019	$0.23	1,200,000	-	-	-	1,200,000
15/03/2015	15/03/2018	$0.35	2,660,000	-	-	-	2,660,000
15/03/2015	15/03/2020	$0.23	1,500,000	-	-	-	1,500,000
11/05/2015	11/05/2018	$0.875	3,400,000	-	-	-	3,400,000
Total			13,353,990	-	(823,990)	(170,000)	12,360,000
Weighted average exercise price			$0.42	-	-	-	$0.44

17 CONTRIBUTED EQUITY (CONTINUED)

(d) Share options

The Company has also awarded 200,000 options to C. Fergus with an exercise price of $0.21 and an expiry date of 3 years from grant date, being the date on which shareholder approval is obtained at a general meeting of shareholders.

No options have been issued between balance date and the date of this report.

(e) Capital management

When managing capital, management's objective is to ensure the consolidated entity continues to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

Management adjusts the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Management monitor capital through the gearing ratio (net debt / total capital). Net debt is calculated as total borrowings (including trade and other payables) as shown in the balance sheet less cash and cash equivalents. The gearing ratios based on continuing operations at 30 June 2017 and 2016 were as follows:

	CONSOLIDATED	
	2017 $'000	**2016 $'000**
Total borrowings*	**2,235**	2,815
Less cash and cash equivalents	**6,945**	12,119
Net borrowings / (cash)	**(4,710)**	(9,304)
Total equity	**16,866**	24,224
Total capital	**12,156**	14,920
Gearing ratio	**(39)%**	(62)%

** Includes trade and other payables as well as interest bearing loans and borrowings*

No changes were made to the objectives, polices, or processes for managing capital during the year ended 30 June 2017.

18 RESERVES

(a) Reserves

	CONSOLIDATED		
	SHARE-OPTIONS RESERVE $'000	FOREIGN EXCHANGE TRANSLATION RESERVE $'000	TOTAL $'000
At 1 July 2015	397	-	397
Exchange differences on translation of foreign operations, net of tax	-	66	66
At 30 June 2016	397	66	463
Share option expense - remuneration	80	-	80
Exchange differences on translation of foreign operations, net of tax	-	82	82
At 30 June 2017	477	148	625

(b) Nature and purpose of reserves

Share options reserve

The share options reserve is used to record the value of share based payments provided to employees and directors as part of their remuneration and options granted as part of other agreements.

During the year the Company granted 600,000 options to key management personnel and awarded 200,000 options to C. Fergus subject to shareholder approval at a general meeting of shareholders. (2016: None). Refer to Note 22 for further details.

Foreign exchange translation reserve

This reserve is used to record the unrealised exchange differences arising on translation of a foreign entity and is not distributable.

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise receivables, payables, bank overdraft, loans, finance leases, cash and short-term deposits.

Risk exposures and responses

The Group manages its exposure to key financial risks, including interest rate risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The main risks arising from the Group's financial instruments are interest rate risk, currency risk, credit risk, and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate risk and assessments of market forecasts for interest rate. Monitoring levels of exposure to various foreign currencies and assessments of market forecasts for foreign currency exchange rates. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk; liquidity risk is monitored through the development of future rolling cash flow forecasts.

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

The Board reviews and agrees policies for managing each of the risks as summarised below.

Primary responsibility for identification and control of financial risks rests with the Audit & Risk Committee under the authority of the Board. The board reviews and agrees policies for managing each of the risks identified below, including hedging of foreign currency and interest rate risk, credit allowances, and future cash flow forecast projections.

(a) Interest rate risk

The Group's main interest rate risk arises from cash held in interest bearing accounts.

The Group's exposure to market interest rates relates primarily to the Group's cash and cash equivalents held in interest bearing accounts.

At reporting date, the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk.

FINANCIAL INSTRUMENTS	INTEREST BEARING $'000	NON INTEREST BEARING $'000	TOTAL CARRYING AMOUNT $'000	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %	FIXED / VARIABLE RATE
2017					
(i) Financial assets					
Cash	5,552	1,393	6,945	1.8%	Variable
Total financial assets	5,552	1,393	6,945	1.8%	
(ii) Financial liabilities					
Bank overdraft	-	-	-	-	Variable
Finance lease liability	15	-	15	5.9%	Fixed
Total financial liabilities	15	-	15	5.9%	
2016					
(i) Financial assets					
Cash	9,636	2,483	12,119	2.5%	Variable
Total financial assets	9,636	2,483	12,119	2.5%	
(ii) Financial liabilities					
Bank overdraft	-	-	-	-	Variable
Finance lease liability	23	-	23	5.9%	Fixed
Total financial liabilities	23	-	23	5.9%	

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

The Group's policy is to manage its finance costs using a mix of fixed and variable rate debt where possible. At 30 June 2017, the Group had borrowings of $15,000 (2016: $23,000) with 100% being fixed interest rate debt (2016: 100%). Fixed rate debt was comprised entirely of finance leases.

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing, and the mix of fixed and variable interest rates.

The Group's fixed rate borrowings comprising the finance leases are carried at amortised cost. They are therefore not subject to interest rate risk as defined in AASB 7.

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

At 30 June 2017, and at 30 June 2016, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit / (losses) and equity would have been affected as follows:

JUDGMENTS OF REASONABLY POSSIBLE MOVEMENTS*:	POST TAX PROFIT HIGHER/(LOWER)		EQUITY HIGHER/(LOWER)	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Consolidated				
+1% (100 basis points)	55	96	55	96
-1% (100 basis points)	(55)	(96)	(55)	(96)

The movements in profit are due to higher/lower interest income from cash balances. The sensitivity is lower in 2017 than in 2016 for the consolidated entity because the Group held lower levels of interest earning cash balances during the 2017 financial year.

** A 100 basis point increase and a 100 basis point decrease is used and represents management's assessment of the reasonably possible change in interest rates.*

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities, and cash balances.

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in Australian dollars was as follows:

	2017 $'000	2016 $'000
USD		
Cash and cash equivalents	852	1,455
Trade and other receivables	3,502	6,004
Trade and other payables	(512)	(170)

Foreign currency sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in the US dollar and AUD exchange rate with all other variables held constant. The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities. The Group's exposure to foreign currency changes for all other currencies is not material.

	CHANGE IN USD RATE	EFFECT ON PROFIT/ (LOSS) BEFORE TAX $'000	EFFECT ON EQUITY $'000
2017	+10%	384	384
	-10%	(384)	(384)
2016	+10%	729	729
	-10%	(729)	(729)

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments, net of any provisions for impairment of those assets. Exposure at balance date is addressed in each applicable note.

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

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

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their financial position, past experience and industry reputation.

In addition, receivable balances are monitored on an ongoing basis.

(d) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of variety of equity and debt instruments.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on their contractual maturities for all non-derivatives financial liabilities.

The amounts disclosed in the table are the contractual undiscounted cash flows.

The remaining contractual maturities of the Group's financial liabilities are:

	CONSOLIDATED	
	2017 $'000	2016 $'000
12 months or less	**2,220**	2,798
1-5 years	**-**	-
Over 5 years	**-**	-
Total contractual cash flows	**2,220**	2,798

Fair value

The fair value of financial assets and financial liabilities approximate their carrying amounts as disclosed in the consolidated statement of financial position and notes to the consolidated financial statements.

20 RELATED PARTY DISCLOSURE

(a) Subsidiaries

The consolidated financial statements include the financial statements of Future Fibre Technologies Limited and the subsidiaries listed in the following table.

NAME	COUNTRY OF INCORPORATION	PRINCIPAL ACTIVITY	% EQUITY INTEREST 2017	% EQUITY INTEREST 2016
Parent Entity				
Future Fibre Technologies Limited	Australia	Manufacture and sale of security systems	100	100
Subsidiaries of Future Fibre Technologies Limited				
FFT MENA Pty Ltd	Australia	Holding company	100	100
Future Fibre Technologies (US) Inc.	USA	Sales Support and other services	100	100
Subsidiaries of FFT MENA Pty Ltd				
Future Fibre Technologies MENA FZ-LLC	Dubai	Sales Support and other services	100	100
Future Fibre Technologies Europe AG	Switzerland	Sales Support and other services	100	100
Future Fibre Technologies Europe Ltd	United Kingdom	Sales Support and other services	100	100
FFT India Pvt Ltd	India	Sales Support and other services	100	100

Transactions between the Company and its subsidiaries principally arise from the granting of loans and the provision of sales support and other services. All transactions undertaken during the financial year with subsidiaries are eliminated in the consolidated financial statements.

(b) Ultimate parent

Future Fibre Technologies Limited is the ultimate Australian parent entity and the ultimate parent of the Group.

(c) Key management personnel

Details relating to key management personnel, including remuneration paid, are included in Note 21.

(d) Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms unless otherwise stated.

21 KEY MANAGEMENT PERSONNEL

(a) Compensation for Key Management Personnel

	CONSOLIDATED	
	2017 $	2016 $
Short-term employee benefits	**1,406,850**	913,677
Post-employment benefits	**82,922**	83,273
Termination benefits	**129,381**	-
Other Long-term employee benefits	**24,369**	16,550
Share-based payments	**79,644**	-
Total compensation	**1,723,166**	1,013,500

(b) Loans to/from Key Management Personnel

There were no loans to directors or key management personnel during the year ending 30 June 2017 (2016: none).

(c) Other transactions and balances with Key Management Personnel and their related parties

Directors

During the current and previous financial year, the Group transacted with related entities of directors, other than in their capacity as director as follows:

(i) Maxsec Group Limited and its subsidiaries, a company of which a Robert Broomfield and Christopher Fergus are directors, purchased goods and services from the consolidated entity for an amount of $1,211,097 (2016: USD $84,098) on arm's length terms and conditions. Accounts Receivable balance at 30 June 2017 totals $532,465 (2016: $641,199). Controlled entities of Maxsec Group Limited have entered into reciprocal reseller arrangements with the consolidated entity on an arm's length basis in the normal course of business. The Consolidated entity also purchased services from entities of Maxsec Group Limited for an amount of $104,561 (2016: $15,984). Accounts payable balance at 30 June 2017 totals $10,195 (2016: $15,984).

Key Management Personnel

There were no other transactions with KMP during the year ended 30 June 2017 (2016: none).

22 SHARE-BASED PAYMENTS

(a) Recognised share-based payment expenses

The expense recognised for employee services received during the year is shown in the table below:

	CONSOLIDATED	
	2017 $'000	2016 $'000
Expense arising from equity-settled share-based payment transactions for employees	80	-
	80	-

(b) Types of share-based payments

During the year ended 30 June 2017, pursuant to employment agreements with employees of the Company, 600,000 unlisted options were granted. The options have vested and have an expiry period of 3 years from issue date. They are exercisable at 20 cents each.

At balance date, all of the above granted options were issued.

In addition, during the year ended 30 June 2017 the Company has also awarded 200,000 options to C. Fergus with an exercise price of $0.21 and an expiry date of 3 years from grant date, being the date on which shareholder approval is obtained at a general meeting of shareholders. The issue is yet to be approved at a meeting of shareholders.

(c) Summaries of options granted

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options issued during the year:

	2017 NUMBER	2017 WAEP	2016 NUMBER	2016 WAEP
Outstanding at the beginning of the year	12,360,000	$0.44	13,353,990	$0.42
Granted during the year	600,000	-	-	-
Forfeited during the year	(850,000)	-	-	-
Exercised during the year	(1,500,000)	$0.20	(823,990)	$0.22
Expired during the year	(1,500,000)	-	(170,000)	-
Outstanding and exercisable at the end of the year	9,110,000	$0.50	12,360,000	$0.44

The weighted average contractual life of the share options outstanding at the end of the year was 1.4 years (2016: 1.8 years). The average share price for the year ended 30 June 2017 was $0.18 (2016: $0.94).

22 SHARE-BASED PAYMENTS (CONTINUED)

(d) Option pricing model

The fair value of the equity-settled share options granted is estimated as at the date of grant using a Black-Scholes model taking into account the terms and conditions upon which the options were granted. The fair value is derived from the Black-Scholes model using the closing share price of Future Fibre Technologies Limited ordinary shares on grant date, Australian Government Long-term bond interest rates as published by the Reserve Bank of Australia as a proxy for the risk-free interest rate, having regard for the bond maturity that is most closely aligned to the period of time remaining until the options expiry date, and the option exercise prices and quantities as noted above.

The model inputs for options granted during the year ended 30 June 2017 included:

Number of options granted	600,000	200,000*
Consideration for options granted	Nil	Nil
Exercise price:	$0.230	$0.210
Grant date:	28 Apr 2017	Estimated at 30 Jan 2017
Expiry date:	28 Apr 2020	3 years from grant date
Share price at grant date:	$0.155	$0.175
Expected price volatility of the Company's shares:	14%	10%
Expected dividend yield:	0%	0%
Risk-free interest rate:	1.78%	1.95%

** As noted in Note 22 (b) above, these options yet to be issued, pending approval at a forthcoming general meeting of shareholders. The fair value of these options will be remeasured at the issue date.*

The expected price volatility is based on the historical one-year volatility of the Company's share price.

23 COMMITMENTS

(i) Leasing commitments

Operating lease commitments – Group as lessee

Operating leases are entered into as a means of acquiring access to office premises and office equipment. Rental payments are generally fixed, but with inflation escalation clauses on which contingent rentals are determined. No purchase options exist in relation to operating leases and no operating leases contain restrictions on financing or other leasing activities. A renewal option in connection with office leases exists.

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

	CONSOLIDATED	
	2017 $'000	**2016 $'000**
Within one year	**198**	106
After one year but not more than five years	**220**	49
After more than five years	**-**	-
Total minimum lease payments	**418**	155

23 COMMITMENTS (CONTINUED)

Finance lease commitments - Group as lessee

The finance lease relates to the leasing of a motor vehicle.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	CONSOLIDATED	
	2017 $'000	**2016 $'000**
Within one year	**16**	9
After one year but not more than five years	**-**	15
After more than five years	**-**	-
Total minimum lease payments	**16**	24
Less amounts representing finance charges	**(1)**	(1)
Present value of minimum lease payments	**15**	23
Current liability	**15**	8
Non-current liability	**-**	15
Total	**15**	23

24 CONTINGENCIES

The Group had no contingencies at 30 June 2017 (2016: None) nor were there any in the period between balance date and the date of this report.

25 EVENTS AFTER THE BALANCE SHEET DATE

On 24 August 2017 the Company acquired 61,500,000 shares in ASX listed company MaxSec Group Limited (MSP) at an offer price of $0.03 per share. This makes the Company a substantial shareholder of MaxSec Group Limited, holding 13% of that company's issued share capital.

On 25 August 2017 FFT announced its intention to make a takeover offer for MaxSec Group Limited, by way of an off-market bid. The indicative all scrip offer is one (1) FFT share for every four (4) MSP shares and is subject to a number of conditions including FFT obtaining 90% acceptances of the offer.

There has been no other matter or circumstance, which has arisen since 30 June 2017 that has significantly affected or may significantly affect:

(a) the operations, in financial years subsequent to 30 June 2017, of the consolidated entity, or

(b) the results of those operations, or

(c) the state of affairs, in financial years subsequent to 30 June 2017, of the consolidated entity.

26 PARENT ENTITY INFORMATION

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

FUTURE FIBRE TECHNOLOGIES LIMITED: SUMMARISED STATEMENT OF FINANCIAL POSITION	2017 $'000	2016 $'000
Assets		
Current assets	15,865	21,211
Non-current assets	4,126	7,600
Total assets	19,991	28,811
Liabilities		
Current liabilities	2,932	3,417
Non-current liabilities	183	119
Total liabilities	3,115	3,536
Net Assets	16,876	25,275
Equity		
Contributed Capital	44,183	43,883
Share-based payment reserve	477	397
Accumulated losses	(27,784)	(19,005)
Total Equity	16,876	25,275

FUTURE FIBRE TECHNOLOGIES LIMITED: SUMMARISED STATEMENT OF COMPREHENSIVE INCOME	2017 $'000	2016 $'000
Loss of the year	(8,779)	(5,824)
Other comprehensive income for the year	-	-
Total comprehensive income of the parent entity	(8,779)	(5,824)

26 PARENT ENTITY INFORMATION (CONTINUED)

(b) Guarantees entered into by the parent entity

The parent entity has not provided any financial guarantees in respect of subsidiaries entities.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2017 or 30 June 2016. For information about guarantees given by the parent entity, please see above.

(d) Contractual commitments for the acquisition of property, plant or equipment

As at 30 June 2017, the parent entity had no contractual commitments for the acquisition of property, plant or equipment (30 June 2016: None).

27 AUDITOR'S REMUNERATION

The auditor of Future Fibre Technologies Limited is Ernst & Young for the year ended 30 June 2017 (2016: Pitcher Partners).

	CONSOLIDATED	
	2017 $'000	2016 $'000
Amounts received or due and receivable by the company's auditor for:		
• Audit and review of the financial statements	**103,000**	126,205
• Tax compliance and tax advice services	**20,000**	19,700

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Future Fibre Technologies Limited, I state that:

1. In the opinion of the directors:

(a) the financial statements, notes and the additional disclosures included in the directors' report designated as audited, of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2017 and of their performance for the year ended on that date; and

(i) complying with Accounting Standards and *Corporations Regulations 2001*, and *other mandatory professional reporting requirements*;

(ii) also comply with International Financial Reporting Standards as stated in Note 1(a) of the consolidated financial statements; and

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

2. This declaration has been made after receiving the declarations required to be made by the chief executive officer and chief financial officer to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2017.

On behalf of the Board

Terry Winters
Chairman
Melbourne, 29 August 2017.

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Independent Auditor's Report to the Members of Future Fibre Technologies Limited

Report on the Audit of the Financial Report

Opinion

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

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

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the year ended on that date; and

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

Basis for Opinion

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

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

Key Audit Matters

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

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

1. Carrying value of property, plant & equipment ("PPE") and intangible assets

Why significant	How our audit addressed the key audit matter
PPE totaling $1 million as disclosed in Note 12 and intangible assets totaling $2.8 million, which includes capitalised development additions of $1.5 million in relation to the new Aura IA product as disclosed in Note 13, represent significant balances recorded on the consolidated statement of financial position. Given the recent launch of new products and continued expansion into new markets the recoverability of PPE and intangible assets is contingent on future cash flows and there is a risk, if these cash flows do not meet the Group's expectations, that the assets will be impaired. An indicator of impairment was identified by the Group and accordingly, the Group performed an impairment test using a value in use discounted cash flow impairment model. Our assessment of the Group's impairment test performed in accordance with Australian Accounting Standards - AASB 136 *Impairment of Assets* was significant to our audit because the assessment process is complex and highly judgmental and is based on assumptions affected by expected future market or economic conditions. The Group's disclosures are included in Note 2 to the consolidated financial report which specifically explain the key operating assumptions used.	The audit procedures we performed included evaluating the Group's assessment of impairment indicators. We obtained the Group's discounted cash flow impairment model and evaluated the assumptions and methodologies used by the Group, in particular those relating to key assumptions set out in Note 2 of the financial report. We involved our valuation specialists to assist in these audit procedures. Specifically, in respect of the Group's discounted cash flow impairment model we • Agreed the underlying cash flow projections to Board approved forecasts; • Tested the mathematical accuracy of the model; • Assessed key assumptions such as revenue growth and profit margins; • Assessed the Group's current year actual results in comparison to prior year forecasts to assess forecast accuracy; • Assessed the Group's assumptions for terminal growth rates in comparison to economic and industry forecasts; • Considered capital expenditure forecasts; • Assessed discount rates through comparing the cost of capital for the Group with comparable businesses; and • Considered multiples against comparable companies as a valuation cross check. We performed sensitivity analysis in respect of the assumptions noted above to ascertain the extent of changes in those assumptions which either individually or collectively would be required for the PPE and intangible assets to be impaired and we assessed the likelihood of these changes in assumptions arising. We also assessed the adequacy of the Group's disclosures of the assumptions to which the outcome of the impairment test is most sensitive.

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2. Revenue recognition

Why significant	How our audit addressed the key audit matter
Revenue recognition was significant to our audit due to the judgmental nature and quantum of sales transactions around balance sheet date. Revenue is measured taking into account multiple element arrangements, for example a single sales transaction may combine the delivery of goods and rendering of installation services and provide extended warranty. Revenue is recognised on the separate components of the contracts when the relevant service is performed. The Group's disclosures are included in Note 4 to the financial report.	We obtained an understanding of the significant judgments impacting revenue recognition including standalone selling prices. We assessed and tested the design and operating effectiveness of relevant controls relating to revenue recognition. We tested a sample of revenue transactions during the year, by agreeing to sales contracts, delivery documentation and customer acceptance. We also assessed the allocation of revenue to the various elements of the contracts. We assessed post year end credit notes and considered whether these related to sales recognised in the 2017 financial period. Our focus extended to testing a sample of sales transactions that took place both prior to and subsequent to balance sheet date to assess whether revenue was recognised in the appropriate period. We re-calculated service based revenue that is recognised over time with reference to a sample of contracts. We also assessed the Group's adequacy of disclosures in regards to revenue.

Information Other than the Financial Report and Auditor's Report

The directors are responsible for the other information. The other information comprises the information included in the Group's 2017 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will 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 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.

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Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 27 to 36 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Future Fibre Technologies 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.

Ernst & Young

Robert Dalton
Partner
Melbourne
29 August 2017

SHAREHOLDER INFORMATION

Distribution of equity securities (as at 21 August 2017)

Ordinary share capital

124,028,440 fully paid ordinary shares are held by 587 individual shareholders.

All issued ordinary shares carry one vote per share and carry the rights to dividends.

The numbers of shareholders, by size of holding, in each class are:

SIZE OF SHAREHOLDING	NUMBER OF HOLDERS	ORDINARY SHARES HELD	% OF ISSUED CAPITAL
1 – 1,000	76	49,967	0.04%
1,001 – 5,000	200	615,091	0.50%
5,001 – 10,000	89	718,515	0.58%
10,001 – 100,000	164	5,271,234	4.25%
100,001 and over	58	117,373,633	94.63%
Total	**587**	**124,028,440**	**100.00%**

The number of shareholders holding less than a marketable parcel of 3,572 shares (based on the share price of $0.140 on 21 August 2017) is 213 and they hold 381,683 shares.

Substantial shareholders (as at 21 August 2017)

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

	FULLY PAID ORDINARY SHARES	
NAME OF SHAREHOLDER	NUMBER OF SHARES	% OF ISSUED CAPITAL
RSA Associates Limited	27,000,000	21.8%
Pierce Group Asia Pte Limited	19,229,940	15.5%
Plexis Holdings Limited	12,978,420	10.5%
Seafirst Australia Pty Ltd; Seafirst Nominees Pty Ltd	12,151,580	9.8%
	71,359,940	57.6%

Twenty largest shareholders (as at 21 August 2017)

RANK	NAME OF SHAREHOLDER	NUMBER OF SHARES	PERCENTAGE OF ISSUED CAPITAL
1.	HSBC Custody Nominees (Australia) Limited	27,195,664	21.9%
2.	Citicorp Nominees Pty Ltd	20,168,995	16.3%
3.	Bell Potter Nominees Ltd <BB Nominees A/C>	13,843,182	11.2%
4.	Pierce Maxis Limited	12,265,950	9.9%
5.	Pierce CIM Pte Limited	6,963,990	5.6%
6.	Mr Craig Graeme Chapman <Namepac Discretionary A/C>	4,000,000	3.2%
7.	Bannaby Investments Pty Ltd <Bannaby Super Fund A/C>	3,310,000	2.7%
8.	Cheryl Lee Tapanes	3,000,000	2.4%
9.	Valwren Pty Limited <WFIT A/C>	2,260,000	1.8%
10.	JP Morgan Nominees Australia Limited	1,855,002	1.5%
11.	Valwren Pty Limited <Sandy Family Investment A/C>	1,740,000	1.4%
12.	Carrier International Pty Limited <Super Fund A/C>	1,728,153	1.4%
13.	Mr Rob Broomfield	1,500,000	1.2%
14.	North Clarke Super Pty Ltd <Vines Superfund A/C>	1,033,320	0.8%
15.	CS Third Nominees Pty Ltd <HSBC Cust Nom AU Ltd 13 A/C>	1,032,892	0.8%
16.	Avalon Amber Pty Ltd	1,008,240	0.8%
17.	Scintilla Strategic Investments Limited	963,467	0.8%
18.	IFM Pty Limited <IFM Super Fund A/C>	905,000	0.7%
19.	Mr Vladimir Pekez	878,349	0.7%
20.	Terence Ronald Winters & Merylyn Ann Winters	877,380	0.7%
		106,529,584	85.8%

Voting Rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

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