

## Appendix 4E

### Senetas Corporation Limited

### Results for announcement to the market

### ACN 006 067 607

#### 1. Details of the reporting period and the previous corresponding period

	Reporting Period		Previous Corresponding Period	
	Financial Year ended 30 June 2018		Financial Year ended 30 June 2017	
2. Results for announcement to the market	30-Jun-18	30-Jun-17	Change	
	\$	\$	\$	%
2.1. Revenues from ordinary activities	18,970,715	17,591,114	1,379,601	7.84%
2.2 Impairment of available-for-sale investment	(1,361,532)	-	(1,361,532)	100.00%
2.3 Net profit after tax	1,955,345	2,879,103	(923,758)	(32.08%)
2.4 Other comprehensive income/(loss) for the year (foreign currency translation reserve)	58,423	(12,056)	70,479	584.60%
<b>3. Net comprehensive income after tax attributable to members</b>	<b>2,013,768</b>	<b>2,867,047</b>	<b>(853,279)</b>	<b>(29.76%)</b>
<b>4. Record date for determining entitlements to the final dividend</b>	Final dividend: not proposed			

## Appendix 4E (continued)

### Brief Explanation of Figures 2.1 to 2.4

#### FY18 HIGHLIGHTS:

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

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

#### Operational review

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

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

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

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

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

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

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

#### R&D and new product development

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

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

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

## Appendix 4E (continued)

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

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

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

Accordingly, the primary R&D focus for FY19 will be ongoing development of the CV Series encryptors to provide enhanced capabilities in public cloud environments.

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

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

Senetas does not expect any material financial impact from the new Australian R&D rules in effect from 1 July 2018.

### **Balance sheet and cash flow**

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

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

The Board continues to implement a conservative capital management policy in order to conserve capital for continued investment in attractive R&D, new product development ensuring that Senetas is well positioned to take advantage of compelling investment opportunities, and to meet any business challenges.

### **Unlisted investments**

DeepRadiology Inc.

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

Smart Antenna Technologies Ltd. (SAT)

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

EON Reality Inc. (EON)

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

## Appendix 4E (continued)

### Priorities for FY19

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

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

### Revenue growth

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

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

### Outlook

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

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

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

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

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

## Appendix 4E (continued)

### 5. Details of dividend / distribution payments:

Interim Dividend: None  
Final Dividend: Not Proposed

### 6. Details of Divided Reinvestment Plan

N/A

### 7. Movements in Retained Earnings

Please refer to Statement of Changes in Equity

### 8. NTA backing

Net tangible asset backing per ordinary security

30-Jun-18 (Cents Per Share)	30-Jun-17 (Cents Per Share)
2.11	1.92

### 9. Details of entities over which control has been gained or lost during the period

Podzy Pty Ltd (SureDrop) - See note 8

### 10. Details of Associates / Joint Venture Holdings

N/A

### 11. Other information on financial statements

N/A

### 12. Foreign Entities – accounting standards used to prepare report

Senetas Europe Ltd - IFRS

### 13. Other Information

None

### Compliance Statement

1. This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and other standards acceptable to the ASX.
2. This report, and the accounts upon which the report is based (if separate), use the same accounting policies.
3. This report does give a true and fair view of the matters disclosed.
4. This report is based on accounts which are in the process of being audited. At the completion of the audit, an unqualified audit report is expected to be issued on these financial statements.
5. The entity has a formally constituted audit committee.



Francis W. Galbally  
Chairman  
Date: 27 August 2018

## **Appendix 4E** FOR THE YEAR ENDED 30 JUNE 2018

---

### **Contents**

CORPORATE INFORMATION	1
STATEMENT OF COMPREHENSIVE INCOME	2
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF CHANGES IN EQUITY	4
STATEMENT OF CASHFLOWS	5
NOTES TO THE APPENDIX 4E	
1 REVENUE AND EXPENSES	6
2 CASH AND CASH EQUIVALENTS	7
3 REVENUE BY GEOGRAPHY	8
4 TRADE AND OTHER RECEIVABLES	8
5 UNEARNED REVENUE	9
6 AVAILABLE-FOR-SALE INVESTMENTS	9
7 CONTRIBUTED EQUITY	10
8 AQUISITON OF SUBSIDIARY	10

# Corporate Information

---

## **Non-Executive Directors**

Francis W. Galbally  
Lachlan P. Given  
Kenneth J. Gillespie  
Lawrence D. Hansen  
Philip Schofield

## **Executive Director and Chief Executive Officer**

Andrew R. Wilson

## **Company Secretary**

Brendan Case

## **Registered Office**

### **Senetas Corporation Limited**

312 Kings Way  
South Melbourne VIC 3205  
Phone: +61 3 9868 4555  
Facsimile: +61 3 9821 4899  
Web: [www.senetas.com](http://www.senetas.com)  
Email: [corporate@senetas.com](mailto:corporate@senetas.com)

## **Share Register**

### **Computershare Registry Services Pty Ltd**

Yarra Falls, 452 Johnston Street,  
Abbotsford VIC 3061  
Phone: + 61 3 9415 5000  
Toll Free 1300 13 83 25  
Facsimile: + 61 3 9473 2500

## **Investor Relations**

For all investor enquiries  
Phone: 1300 787 795  
Email: [investor@senetas.com](mailto:investor@senetas.com)

## **Auditors**

Ernst & Young  
8 Exhibition Street  
Melbourne VIC 3000

## **Annual General Meeting Date and Place**

Annual General Meeting of shareholders of Senetas Corporation Limited (Company) will be held at Royce Hotel 379 St Kilda Road Melbourne VIC 3004, Friday 16 November 2018.

# Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2018

		<i>CONSOLIDATED</i>	
	<i>Notes</i>	2018	2017
		\$	\$
<b>Revenue</b>	1(a)	18,970,715	17,591,114
Cost of sales		(3,556,831)	(3,642,649)
<b>Gross profit</b>		15,413,884	13,948,465
Other income	1(b)	2,491,357	2,441,300
Impairment of available-for-sale investment	6	(1,361,532)	-
Depreciation and amortisation expense	1(c)	(577,861)	(464,370)
Employee benefits expense	1(d)	(6,337,974)	(5,753,968)
Administration expenses	1(e)	(3,897,812)	(3,248,918)
Other expenses, net	1(f)	(1,292,535)	(1,658,045)
<b>Profit before income tax</b>		<b>4,437,528</b>	<b>5,264,464</b>
Income tax expense		(2,482,183)	(2,385,361)
<b>Net profit after income tax</b>		<b>1,955,345</b>	<b>2,879,103</b>
<b>Other comprehensive income /(loss)</b>			
Items that may be classified subsequently to profit or loss:			
Foreign currency translation		58,423	(12,056)
<b>Other comprehensive income/(loss) for the year</b>		58,423	(12,056)
<b>Total comprehensive income for the year</b>		<b>2,013,768</b>	<b>2,867,047</b>
<b>Profit for the period is attributable to:</b>			
Owners of the parent		1,955,345	2,879,103
<b>Total comprehensive income for the period attributable to:</b>			
Owners of the parent		2,013,768	2,867,047
<b>Earnings per share</b>			
Basic, profit for the year attributable to ordinary equity holders of the parent.		0.0018	0.0027
Diluted, profit for the year attributable to ordinary equity holders of the		0.0018	0.0027

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



# Statement of Financial Position

AS AT 30 JUNE 2018

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

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

# Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2018

	<i>Notes</i>	<i>CONSOLIDATED</i>	
		2018	2017
		\$	\$
<b>Cash flows from operating activities</b>			
Receipts from customers		19,738,940	17,214,867
Payments to suppliers and employees		(14,538,731)	(16,191,906)
Payment of income tax		(413,760)	-
Receipts of R&D tax refund		-	210,284
Interest received		414,872	466,612
<b>Net cash flows from operating activities</b>	2	<b>5,201,322</b>	<b>1,699,857</b>
<b>Cash flows used in investing activities</b>			
Purchase of plant and equipment		(904,848)	(132,549)
Purchase of intangible assets		(160,720)	(84,946)
Investment in available-for-sale investment		(1,027,328)	(2,227,145)
<b>Net cash flows used in investing activities</b>		<b>(2,092,895)</b>	<b>(2,444,640)</b>
Net increase/(decrease) in cash and cash equivalents		3,108,427	(744,783)
Net effect of foreign currency translation		58,424	(12,056)
Cash and cash equivalents at beginning of the year		20,091,205	20,848,044
<b>Cash and cash equivalents at end of the year</b>	2	<b>23,258,056</b>	<b>20,091,205</b>

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

# Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2018

CONSOLIDATED	Attributable to equity holders of Senetas Corporation Ltd				Owners of the	Non controlling	Total equity
	Contributed Equity	Accumulated Losses	Foreign currency translation reserve	Employee Benefits Reserve	parent Total	interest	
	\$	\$	\$	\$	\$	\$	\$
<b>At 30 June 2016</b>	<b>104,426,711</b>	<b>(86,737,433)</b>	<b>(27,942)</b>	<b>852,187</b>	<b>18,513,524</b>	<b>12,860</b>	<b>18,526,384</b>
Profit for the year	-	2,879,103	-	-	2,879,103	-	2,879,103
Other comprehensive income	-	-	(12,056)	-	(12,056)	-	(12,056)
Total comprehensive income	-	2,879,103	-	-	2,867,047	-	2,867,047
<i>Transactions with owners in their capacity as owners</i>							
Shares issued	-	-	-	-	-	-	-
Options expensed	-	-	-	89,677	89,677	-	89,677
Options converted to shares	252,714	-	-	(252,714)	-	-	-
<b>At 30 June 2017</b>	<b>104,679,425</b>	<b>(83,858,330)</b>	<b>(39,998)</b>	<b>689,150</b>	<b>21,470,247</b>	<b>12,860</b>	<b>21,483,107</b>
Profit for the year	-	1,955,345	-	-	1,955,345	-	1,955,345
Other comprehensive income	-	-	58,423	-	58,423	-	58,423
Total comprehensive income	-	1,955,345	58,423	-	2,013,768	-	2,013,768
<i>Transactions with owners in their capacity as owners</i>							
Shares issued	-	-	-	-	-	-	-
Options expensed	-	-	-	54,805	54,805	-	54,805
Options converted to shares	46,860	-	-	(46,860)	-	-	-
<b>At 30 June 2018</b>	<b>104,726,285</b>	<b>(81,902,985)</b>	<b>18,425</b>	<b>697,095</b>	<b>23,538,820</b>	<b>12,860</b>	<b>23,551,680</b>

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

# Notes to the Appendix 4E

FOR THE YEAR ENDED 30 JUNE 2018

1 REVENUES AND EXPENSES	CONSOLIDATED	
	2018	2017
	\$	\$
<b>(a) Revenue</b>		
Sale of goods	11,469,840	9,399,768
Sale of software	9,231	22,085
Product maintenance revenue	7,491,644	8,169,261
	<b>18,970,715</b>	<b>17,591,114</b>
<b>(b) Other income</b>		
R&D tax incentive	2,052,896	1,957,782
Interest income from non-related parties	438,461	483,518
	<b>2,491,357</b>	<b>2,441,300</b>
<b>(c) Depreciation and amortisation expense</b>		
Depreciation:		
Plant and equipment	420,977	325,251
Leasehold improvements	71,723	64,021
Software amortisation	85,161	75,098
	<b>577,861</b>	<b>464,370</b>
<b>(d) Employee benefits expenses</b>		
Salaries and wages	5,887,922	5,346,436
Superannuation	359,510	317,855
Termination payouts	35,737	-
Share based payment expense	54,805	89,677
	<b>6,337,974</b>	<b>5,753,968</b>
<b>(e) Administration expenses</b>		
Operating lease	427,302	447,913
Travel expenditure	746,043	614,731
Telephone and internet expenditure	95,383	80,635
Insurance expenditure	214,025	138,320
Loss on disposal of equipment	464	-
Marketing expenditure	505,337	362,040
External contractors -sales and corporate	1,909,258	1,605,279
	<b>3,897,812</b>	<b>3,248,918</b>
<b>(f) Other expenses</b>		
Net gain on foreign exchange	(457,941)	(30,924)
Impairment of inventories	19,540	153,811
Certification, testing and direct R&D expenditure	677,737	758,293
Legal fees	403,556	113,590
Other overhead expenses	649,643	663,275
	<b>1,292,535</b>	<b>1,658,045</b>

# Notes to the Appendix 4E (continued)

FOR THE YEAR ENDED 30 JUNE 2018

## 2 CASH AND CASH EQUIVALENTS

<i>CONSOLIDATED</i>	
2018	2017
\$	\$
Cash at bank and on hand	6,349,453
Short-term deposits	3,571,821
	16,908,603
	16,519,384
	<b>23,258,056</b>
	<b>20,091,205</b>

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

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

Net profit after tax	1,955,345	2,879,103
----------------------	-----------	-----------

#### *Adjustments for:*

Depreciation and amortisation	577,861	464,370
Unrealised foreign currency loss/(gain)	(306,423)	(175,446)
Impairment of available-for-sale investment	1,361,532	-
Write off of plant & equipment	464	-
Inventory written off	19,540	153,811
Share based payment expense	54,805	89,677

#### *Changes in assets and liabilities:*

(Increase) / decrease in trade and other receivables (net of foreign currency gains)	(821,160)	525,379
Decrease / (increase) in inventories	222,832	(1,072,016)
Increase in prepayments	(100,974)	(40,346)
Decrease / (increase) in other current assets	4,011	(42,510)
Increase / (decrease) in trade and other payables	538,586	(404,517)
Decrease / (increase) in deferred income tax assets	37,859	(1,443)
Increase / (decrease) in deferred income tax liability	25,591	14,532
Increase in income tax payable	47,191	509,519
Increase in provisions	97,686	115,821
Increase/(decrease) in unearned income & other non-current liabilities	1,486,575	(786,367)

<b>Net cash from operating activities</b>	<b>5,201,322</b>	<b>2,229,567</b>
---	------------------	------------------

# Notes to the Appendix 4E (continued)

FOR THE YEAR ENDED 30 JUNE 2018

## 3 REVENUE BY GEOGRAPHY

The Group has only one segment - the product division. Therefore, the Group no longer prepares operating segment reporting other than the geographical segments shown below. Revenue is attributed to geographic locations based on the location of the customers. The Company does not have external revenues from any external customers that are attributable to any foreign country other than as shown.

	<i>CONSOLIDATED</i>	
	2018	2017
	\$	\$
Australia and New Zealand	2,349,156	2,251,682
United States	14,910,133	10,018,009
Europe	1,711,426	5,321,423
	<b>18,970,715</b>	<b>17,591,114</b>

## 4 TRADE AND OTHER RECEIVABLES

	<i>CONSOLIDATED</i>	
	2018	2017
	\$	\$
Trade receivables (i)	4,373,543	3,400,211
Net GST receivable	102,596	43,460
R&D tax incentive (ii)	2,052,896	1,957,782
	<b>6,529,035</b>	<b>5,401,453</b>

- (i) Trade receivables outstanding beyond 91 days are past due. The fair value of trade and other receivables are deemed to approximate their carrying value. At 30 June 2018, the ageing analysis of trade receivables is as follows:

	Neither past due nor impaired	Past due but not impaired (i)	Past due & impaired	Total
	\$	\$	\$	\$
2018 Consolidated	3,847,010	526,533	-	4,373,543
2017 Consolidated	3,400,211	-	-	3,400,211

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

## 5 UNEARNED REVENUE

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

# Notes to the Appendix 4E (continued)

FOR THE YEAR ENDED 30 JUNE 2018

## 6 AVAILABLE-FOR-SALE INVESTMENTS

	<i>CONSOLIDATED</i>	
	2018	2017
	\$	\$
	\$	\$
Opening balance	2,227,145	-
Investments during the year	1,027,328	2,227,145
Impairment losses recognised during the year	(1,361,532)	-
Closing balance	<b>1,892,941</b>	<b>2,227,145</b>

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

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

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

As there is no active market for valuation of shares in these investments, management uses a number of assumptions for the inputs into a valuation model. The probabilities of the estimates used can be reasonably assessed and are used in management's estimation of the fair value of these unquoted equity investments. The investment in SAT is currently held at cost which is assessed as approximating to fair value at the time of this report. The investment in DeepRadiology Inc was considered impaired and the investment was written down to nil.

## 7 CONTRIBUTED EQUITY

	<i>No. of shares</i>	<i>No. of shares</i>
	2018	2017
Ordinary shares - issued and fully paid	1,081,311,948	1,080,956,948

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

### *Movement in ordinary shares on issue*

	<i>No. of shares</i>	\$
At 30 June 2017	1,080,956,948	104,679,425
Employee performance rights converted to shares	355,000	46,860
At 30 June 2018	1,081,311,948	104,726,285

## Notes to the Appendix 4E (continued)

FOR THE YEAR ENDED 30 JUNE 2018

---

### **8 ACQUISITION OF SUBSIDIARY**

The acquisition of Podzy Pty Ltd was completed on 7 December 2017. Podzy Pty Ltd is the developer of the IP behind the SureDrop product. Senetas signed the agreement to acquire SureDrop with a contingent consideration in the form of an earn out with no upfront capital outlay. Fair value of the net assets acquired was nil and the fair value of the contingent consideration at 30 June 2018 is assessed to be nil. The acquisition was completed in December 2017. Further details of the SureDrop product and the market can be found in the half year results announcement for the six months to 31 December 2016.