

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 2019		Financial Year ended 30 June 2018	
2 Results for announcement to the market	30-Jun-19	30-Jun-18	Change	
	\$	\$	\$	%
2.1 Revenues from ordinary activities	21,313,012	18,970,715	2,342,297	12.35%
2.2 Loss on fair value through profit or loss investment	(1,892,941)	(1,361,532)	(531,409)	39.03%
2.3 Share of loss of an associate	(1,651,232)	-	(1,651,232)	100.00%
2.4 Net (loss)/profit after tax	(463,345)	1,955,345	(2,418,690)	(123.70%)
2.5 Other comprehensive income/(loss) for the year (foreign currency translation reserve)	55,399	(58,423)	113,822	194.82%
3 Net comprehensive (loss)/ income after tax attributable to members	(407,946)	1,896,922	(2,304,867)	(121.51%)

Appendix 4E (continued)

Brief Explanation of Figures 2.1 to 2.5

FY19 Highlights:

- 12.3% growth in operating revenue, significantly ahead of industry growth
- Thales confirmed as Senetas's global distribution partner after its acquisition of Gemalto.
- R&D pipeline expanding addressable market and opportunities
- Expanding Votiro distribution network to drive sales growth
- Distribution for FY2019 of \$0.000462 per share subject to shareholder approval
- Strong balance sheet position and no debt.
- Operating revenue of \$21.31 million was up 12.3% over the prior year (FY2018: \$18.97 million) with good growth in both product sales and maintenance revenue.
- The strong revenue growth reflects increasing global awareness of cyber security concerns and is significantly ahead of the expected growth in industry spending on information security products and services of 8.7% in 2019 as forecast by Gartner, Inc.
- Gross margin of 78% was slightly below the prior year reflecting increased sales of 100Gbps encryptors.
- Having exceeded \$20 million of operating revenue for FY2019 Senetas is no longer eligible for the refundable R&D rebate. Instead, a non-refundable tax offset equal to 38.5% of eligible expenditure applies. Other Income and NPBT are therefore lower in FY2019, but tax expense has been reduced by \$1.40 million. The R&D rebate included in Other Income in FY2018 was \$2.05 million.
- The share of Votiro loss of \$1.65 million for the period since Senetas made its investment in November 2018 was in line with expectations.
- Operating profit before tax was \$3.86 million prior to the \$1.89 million impairment to the carrying value of unlisted investments that was announced by the Company on 19 January 2019, and Senetas's share of the Votiro loss.
- Net loss after tax was \$0.46 million.
- FY2019 expenses include a number of non-recurring legal and other expenses totaling \$0.92 million during related to the Australian Government's Assistance and Access legislation and a legal dispute related to the Company's investment in Deep Radiology.
- The first US\$4M (A\$5.65 million) tranche of Senetas's investment into Votiro was paid on completion in November 2018. The US\$2 million second tranche of the investment in Votiro is to be paid in 2 instalments – US\$1 million (A\$1.48 million) was paid in August 2019 with the remainder to be paid prior to the end of CY2019. The final US\$2 million tranche of the investment is expected to be paid in the first half of CY2020.
- Given the net loss after tax, Senetas will pay a distribution to shareholders (in the form of a return of capital) for FY2019 of \$0.000462 per share (a cash distribution of approximately \$0.5 million). The distribution is subject to shareholder approval which will be voted on at the 22 November 2019 AGM and if approved will be paid on 13 December 2019 to shareholders registered at 29 November 2019.
- Strong balance sheet with no debt and \$17.86 million of cash at 30 June 2019 following the \$6.62 million of payments related to the first tranche of the investment in Votiro and \$4.00 million distributed to shareholders in relation to the FY2018 period.

Appendix 4E (continued)

In order to provide a like-for-like comparison of the underlying operating results without the impact of changes to Senetas's R&D offset and non-recurring expenses, the Company has provided below a reconciliation of the relevant adjustments between underlying operating profit before tax and the statutory NPBT for FY2019 and FY2018.

Reconciliation to underlying operating profit (\$000's)	FY2019	FY2018
Profit before tax	320	4,438
- Loss on fair value through profit or loss investment	1,893	1,362
- Share of loss of associate (Votiro)	1,651	-
- Non-recurring legal & other expenses	919	-
- R&D refund included in other income	-	(2,053)
Underlying operating profit before tax and R&D offset	4,783	3,747

Senetas's vision is to be recognised globally as a trusted provider of high-assurance cyber-security solutions, providing protection without compromising systems' performance or user experience.

The past few years has seen Senetas evolve considerably through substantial investments that build upon specialist engineering and our high-assurance security capabilities to expand our customer solutions. These investments allow us to better protect our customers' most valuable asset – their data.

The strong growth in revenue in FY2019 has been very pleasing and, in part, reflects investments made some years ago into the ultra-fast 100Gbps encryptors. The 100Gbps encryptor is now a core product line and a key driver of revenue growth.

Whilst our Net Profit for FY2019 has been impacted by the first time recognition of Senetas's share of the Votiro loss, changes to the nature of our R&D rebate and some other non-recurring items, our underlying operating profit excluding these items has seen strong growth over the prior year.

That growth reflects increases in both hardware sales revenue and maintenance revenue, with 16% growth in revenue from our global distribution partner, Thales. Sales of the new 100Gbps encryptor are progressing well and we continue to be encouraged by the number of new customers purchasing Senetas encryptors.

Thales recently completed its acquisition of Gemalto and we are pleased that Thales has agreed to continue as Senetas's exclusive global distributor. Thales employs over 80,000 people in 68 countries and is now the global leader in digital security, including data encryption.

Senetas's opportunity is to leverage our growing product portfolio through Thales's huge customer base, channel partners and sales force to significantly expand the market coverage for our products.

The first US\$4 million tranche of our \$US8 million investment in Votiro Cybersec, was completed in the first half of the year and presents a significant opportunity for Senetas to expand its portfolio into a fast growing segment of the security market and to use its distribution relationships to accelerate Votiro's growth. Votiro has made good recent progress with new distribution relationships and sales into new markets and its financial performance to date is in line with our expectations at the time of acquisition.

The US\$2 million second tranche of our investment in Votiro will now take place in two instalments, the first US\$1 million (A\$1.48 million) of which was paid earlier in August 2019. The next instalment is expected prior to the end of the calendar year.

Senetas's balance sheet remains strong with no debt and \$17.86 million of cash on hand at 30 June 2019. Cash on hand at 1 August 2019 was \$19.9 million. Operating cash flow during the year was up in line with the strong growth in operating revenue.

Appendix 4E (continued)

Operational Review

Operating revenue was up 12.3% in FY2019 with revenue received from Senetas's global distribution partner Thales up 15.8%. Higher sales in Europe during the year were the key driver of revenue growth. Revenue from the ANZ region was slightly lower.

FY2019 maintenance revenue was just over 40% of total revenue, slightly higher than FY2018.

Gross margins were 78%, slightly lower than the prior period largely due to an increased proportion of sales from the higher cost 100Gbps encryptor. Margins on the 100Gbps encryptors are expected to increase over time as the cost of 100Gbps components reduce.

A number of non-recurring legal and other expenses totalling \$0.92 million were incurred during the period arising from the Australian Government's Assistance and Access legislation and a legal dispute related to the Company's investment in Deep Radiology Inc. At this stage, costs in relation to these matters are not expected to have a material impact on Senetas's financial results in FY2020.

Earlier in the year Senetas signed an agreement with Thales in relation to the distribution of SureDrop and the product was this month officially launched by Thales to its customers. Additionally, Thales has also taken on distribution of Senetas's new virtualised encryption technology.

The strong growth in sales by Thales is an indicator of both the strength of the relationship and the growing market awareness of the need for data security and encryption. The recent confirmation that Thales will continue as Senetas's exclusive global distribution partner following its completed acquisition of Gemalto provides Senetas with a significant opportunity to take advantage of Thales's pre-eminent position as the world's largest digital security company with over 30,000 organisations globally that currently use data encryption and access management solutions.

Together with the ongoing development of new technologies, such as the virtualised encryption products and transport layer independence for hardware encryptors, which continue to expand customer use cases and the addressable market for Senetas's products, the relationship with Thales provides continuing revenue growth opportunities.

Votiro

The investment in Votiro is a further expansion of Senetas's security product suite and a significant opportunity for growth. Votiro's content disarm and reconstruction (CDR) technology protects against content based threats from all communication channels and represents a significant global market opportunity. It is a patented solution that automatically scans and sanitises each and every file sent or shared with the organisation, and reconstructs a fully functional, threat free file in less than a second.

The recent focus for Votiro has been to build distribution relationships and sales capability with the primary target markets in the near term being Japan, APAC and the US. New distribution relationships have been established in Japan, APAC and the US with a number of important new customers already won.

Votiro is also in the process of developing in-house sales capability in the US market with the recent appointment of a Sales VP and new sales and marketing campaigns underway. Successful product evaluation/proof of concept trials have been completed with potential customers in the US market.

A key priority is to build large scale strategic partnerships across international markets. Discussions are underway with potential global cybersecurity partners that have the potential to substantially increase Votiro's market penetration.

Votiro's financial performance to date is in line with expectations.

Appendix 4E (continued)

R&D and New Product Development

With Senetas's operating revenue having exceeded \$20 million for FY2019 the Company is no longer eligible for the refundable Australian Government R&D rebate. Instead, Senetas is eligible for a non-refundable tax offset equal to 38.5% of eligible expenditure. Senetas's Other Income and NPBT are therefore lower in FY2019, however, Senetas's tax expense in FY2019 has been reduced by \$1.40 million reflecting the new tax offset available. The R&D rebate included in Senetas's Other Income in FY2018 was \$2.05 million.

R&D and new product development will continue to be significant drivers of future revenue growth for Senetas. The major areas of R&D focus in FY2019 were:

- Development of multi-layer capability for Senetas hardware encryptors;
- Further development of the virtualised encryption solutions to provide enhanced capabilities in public cloud environments; and
- New European certification for Senetas's hardware encryptors.

Significant progress has been made in the development of transport layer independence capabilities for Senetas's hardware products and enhancing the capabilities of the virtualised encryption solutions during the year. A number of successful trials have been undertaken with these products and the products will be formally launched in FY2020.

The new European certification that will broaden the addressable market for Senetas products in that region is proceeding with completion expected before the end of calendar 2019.

R&D spend in FY2019 was similar to the spend in FY2018. Slower than expected progress on the new European certification led to FY2019 R&D spend being slightly lower than anticipated.

Balance Sheet and Cash Flow

Senetas's balance remains strong with no debt and substantial cash reserves. Net assets reduced 16% to \$19.73 million and the cash balance at 30 June 2019 was \$17.86 million. The cash balance at 1 August 2019 was \$19.9 million.

Net operating cash flow was \$5.87 million in FY2019 up 13% on the prior period reflecting the strong growth in operating revenue during the year.

Significant cash outflows during the year included the \$6.62 million first tranche of the investment in Votiro and associated costs in November 2018, and the payment of \$4.00 million for the FY2018 distributions to shareholders.

Outlook

The events of FY2019 have provided a strong platform for future growth.

The continuing evolution of our product suite with transport layer independence and virtual technologies provides an expanded range of use cases and revenue opportunities for the Company.

Most importantly the confirmation that Thales will continue to be Senetas's exclusive global distributor following its acquisition of Gemalto provides certainty and a significantly expanded sales and distribution platform for our products.

The investment in Votiro provides an exposure to the fast growing area of CDR technology which has application for all security conscious enterprises. Votiro has made some important progress in further developing its sales and distribution network since Senetas's investment.

Appendix 4E (continued)

In the near term revenue will continue to be driven substantially by Senetas's traditional hardware encryption products until the new software products such as virtualised encryption, SureDrop and also our transport layer independent hardware products begin to develop sales momentum in FY2020 and beyond. Senetas's share of Votiro's financial results will continue to have an impact on our net profit in FY2020, however, we expect revenue growth will continue and profitability will improve with the absence of the non-recurring expenses that impacted FY2019 results.

Impact of AASB15

In accordance with the new standard, the Company is required to estimate and recognise the revenue expected to be earned from customer contracts, rather than waiting for the actual end sale before recognising the revenue.

The practical effect of this for Senetas is that it is required to estimate in a reporting period the revenue expected to be generated from the inventory held by its global distribution partner (formerly Gemalto, now Thales) in the period in which the inventory is originally purchased by Thales, before it is on-sold to its customers.

Similarly, Senetas cannot recognise in the current reporting period revenue generated from the inventory held by Thales at the beginning of that period as, under the new standard, revenue expected to be generated from that inventory would have been recognised in the prior reporting period.

The net accounting impact of the new AASB15 on Senetas's results in FY2019 is to increase revenue and net profit before tax by \$0.20m compared to what would have been recognised under the previous accounting standard.

Unlisted Investments

Smart Antenna Technologies Ltd. (SAT)

Senetas announced on 16 January 2019 that it expected to recognise an impairment to the carrying value of its investment in SAT. The impairment was recognised in Senetas's HY2019 financial results.

SAT remains in the hands of administrators and given the continuing uncertainty surrounding the carrying value of the investment the board resolved to write down the carrying value of the investment in SAT from \$1.89 million to \$nil.

Appendix 4E (continued)

4 Record Date For Determining Entitlements to the Final Dividend	14 December 2018	
5 Details of Distribution Payments:		
Interim Distribution	\$ None	
Final Distribution	500,000	
Record date:	29/11/2019	
Distribution payment date:*	13/12/2019	
*Subject to shareholder approval		
6 Details of Divided Reinvestment Plan	N/A	
7 Movements in Retained Earnings	Please refer to Statement of Changes in Equity	
8 NTA Backing	30-Jun-19 (Cents Per Share)	30-Jun-18 (Cents Per Share)
Net tangible asset backing per ordinary security	1.75	2.10
9 Details of Entities Over Which Control Has Been Gained or Lost During The Period	N/A	
10 Details of Associates / Joint Venture Holdings	Associate:	Votiro See Note 6 for further information
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	

Appendix 4E (continued)

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 26 August 2019

Appendix 4E FOR THE YEAR ENDED 30 JUNE 2019

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Corporate Information

FOR THE YEAR ENDED 30 JUNE 2019

Non-Executive Directors

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

Executive Director and Chief Executive Officer

Andrew R. Wilson

Company Secretary

Brendan Case

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Investor Relations

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Auditors

Ernst & Young
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Melbourne VIC 3000

Annual General Meeting Date and Place

Annual General Meeting of shareholders of Senetas Corporation Limited (Company) will be held at Royce Hotel
379 St Kilda Road Melbourne VIC 3004, Friday 22 November, 2019.

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2019

		CONSOLIDATED	
	Notes	2019	2018
		\$	\$
Revenue from contracts with customers	1(a)	21,313,012	18,970,715
Revenue		21,313,012	18,970,715
Cost of sales		(4,619,326)	(3,556,831)
Gross profit		16,693,686	15,413,884
Other income	1(b)	707,941	2,949,298
Loss on fair value through profit or loss investment	8	(1,892,941)	(1,361,532)
Employee benefits expense	1(c)	(6,418,747)	(6,337,974)
Administration expenses	1(e)	(3,972,777)	(3,897,812)
Depreciation and amortisation expense	1(d)	(736,210)	(577,861)
Other expenses	1(f)	(2,409,918)	(1,750,476)
Share of loss of an associate	6	(1,651,232)	-
Profit before income tax		319,802	4,437,528
Income tax expense		(783,147)	(2,482,183)
Net (loss)/profit after income tax		(463,345)	1,955,345
Other comprehensive income /(loss)			
Items that may be subsequently classified to profit or loss			
Foreign currency translation reserve		55,399	(58,423)
Other comprehensive income/(loss) for the year		55,399	(58,423)
Total comprehensive (loss)/ income for the year, net of tax		(407,946)	1,896,922
(Loss)/profit for the period is attributable to:			
Owners of the parent		(463,345)	1,955,345
Total comprehensive (loss)/profit for the year is attributable to:			
Owners of the parent		(407,946)	1,896,922
Earnings per share			
Basic, profit for the year attributable to ordinary equity holders of the parent.		(0.0004)	0.0018
Diluted, profit for the year attributable to ordinary equity holders of the parent.		(0.0004)	0.0018

The Group has adopted AASB15 - *Revenue from contracts with customers* from 1 July 2018. The comparative financial information for the year ended 30 June 2018 continues to be presented in accordance with AASB118 - *Revenue*.

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

Statement of Financial Position

AS AT 30 JUNE 2019

		CONSOLIDATED	
	Notes	2019	2018
		\$	\$
ASSETS			
Current assets			
Cash and cash equivalents	2	17,860,132	23,258,056
Trade receivables and contract assets	3	5,055,592	6,529,034
Inventories		2,424,535	1,308,182
Prepayments		537,322	338,143
Other assets		45,395	66,753
Total current assets		25,922,976	31,500,168
Non-current assets			
Long-term cash deposit		97,670	91,667
Non-current prepayments		8,100	-
Investment securities	8	-	1,892,941
Investment in an associate	6	4,972,722	-
Deferred tax asset		568,591	540,477
Plant and equipment		1,593,598	1,732,438
Intangible assets		195,517	210,698
Total non-current assets		7,436,198	4,468,221
TOTAL ASSETS		33,359,174	35,968,389
LIABILITIES			
Current liabilities			
Trade and other payables		2,509,324	1,931,895
Contingent consideration liability	9	22,894	-
Current income tax payable		471,633	2,419,463
Contract liabilities	4	6,207,688	4,573,148
Provisions		1,068,891	1,006,176
Total current liabilities		10,280,430	9,930,682
Non-current liabilities			
Deferred tax liabilities		320,670	92,844
Provisions		53,493	31,715
Contract liabilities- non-current	4	2,881,966	2,337,220
Other non-current liabilities		88,838	24,248
Total non-current liabilities		3,344,967	2,486,027
TOTAL LIABILITIES		13,625,397	12,416,709
NET ASSETS		19,733,777	23,551,680
EQUITY			
Equity attributable to equity holders of the parent			
Contributed equity		104,728,595	104,726,285
Accumulated losses		(85,824,079)	(81,902,985)
Employee benefit reserve		866,233	697,095
Foreign currency translation reserve		(36,974)	18,425
Equity attributable to owners of the parent		19,733,777	23,538,820
Non-controlling interests		-	12,860
TOTAL EQUITY		19,733,777	23,551,680

The Group has adopted AASB15 - *Revenue from contracts with customers* from 1 July 2018. The comparative financial information for the year ended 30 June 2018 continues to be presented in accordance with AASB118 - *Revenue*.

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 2019

	Notes	CONSOLIDATED	
		2019	2018
		\$	\$
Cash flows from operating activities			
Receipts from customers		23,781,060	19,738,940
Payments to suppliers and employees		(17,547,285)	(14,538,731)
Income tax paid		(679,082)	(413,760)
Interest received		310,519	414,872
Net cash flows from operating activities	2	5,865,212	5,201,322
Cash flows used in investing activities			
Purchase of plant and equipment		(492,413)	(904,847)
Purchase of intangibles		(91,593)	(160,720)
Investment in unquoted equity instruments	8	-	(1,027,328)
Investment in an associate	6	(6,623,955)	-
Net cash flows used in investing activities		(7,207,961)	(2,092,894)
Cash flows used in financing activities			
Dividend payments		(3,999,776)	-
Net cash flows used in financing activities		(3,999,776)	-
Net (decrease)/increase in cash and cash equivalents		(5,342,526)	3,108,428
Net foreign exchange differences		(55,399)	58,423
Cash and cash equivalents at beginning of the year		23,258,056	20,091,205
Cash and cash equivalents at 30 June	2	17,860,132	23,258,056

The Group has adopted AASB15 - *Revenue from contracts with customers* from 1 July 2018. The comparative financial information for the year ended 30 June 2018 continues to be presented in accordance with AASB118 - *Revenue*.

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 2019

CONSOLIDATED	Attributable to equity holders of Senetas Corporation Ltd				Owners of the parent	Non-controlling interest	Total equity
	Contributed equity	Accumulated (losses) / profits	Foreign currency translation reserve	Employee benefits reserve	Total		
	\$	\$	\$	\$	\$	\$	\$
At 30 June 2017	104,679,425	(83,858,330)	(39,998)	689,150	21,470,247	12,860	21,483,107
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
Transactions with owners in their capacity as owners							
Shares issued	-	-	-	-	-	-	-
Options expense	-	-	-	54,805	54,805	-	54,805
Options converted to shares	46,860	-	-	(46,860)	-	-	-
At 30 June 2018	104,726,285	(81,902,985)	18,425	697,095	23,538,820	12,860	23,551,680
	\$	\$	\$	\$	\$	\$	\$
At 1 July 2018	104,726,285	(81,902,985)	18,425	697,095	23,538,820	12,860	23,551,680
Impact of adoption of AASB 15	-	529,167	-	-	529,167	-	529,167
At 1 July 2018	104,726,285	(81,373,818)	18,425	697,095	24,067,987	12,860	24,080,847
Loss for the year	-	(463,345)	-	-	(463,345)	-	(463,345)
Other comprehensive income	-	-	(55,399)	-	(55,399)	-	(55,399)
Total Comprehensive Income For The	-	(463,345)	(55,399)	-	(518,744)	-	(518,744)
Transactions with owners in their capacity as owners							
Movement in non-controlling interest	-	12,860	-	-	12,860	-	(12,860)
Dividends declared and paid	-	(3,999,776)	-	-	(3,999,776)	-	(3,999,776)
Shares issued	-	-	-	-	-	-	-
Options converted to shares	2,310	-	-	(2,310)	-	-	-
Options expense	-	-	-	171,448	171,448	-	171,448
At 30 June 2019	104,728,595	(85,824,079)	(36,974)	866,233	19,733,777	-	19,733,777

The Group has adopted AASB15 - *Revenue from contracts with customers* from 1 July 2018. The comparative financial information for the year ended 30 June 2018 continues to be presented in accordance with AASB118 - *Revenue*.

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 2019

1 Revenue and Expenses

Revenue From Contracts With Customers

(a) Disaggregated revenue information

Set out below is the disaggregation of the Group's revenue from contracts with customers

	CONSOLIDATED	
	2019	2018
	\$	\$
Sale of goods	12,632,143	11,469,840
Product maintenance revenue	8,668,633	7,491,644
Provision of services	12,236	9,231
Total revenue from contracts with customers	21,313,012	18,970,715

Geographical markets

Australia & New Zealand	2,068,962	2,349,156
United States	13,213,823	13,327,812
Europe	6,030,227	3,293,747
Total Revenue from contracts with customers	21,313,012	18,970,715

Timing of revenue recognition

Goods transferred at a point in time	12,644,379	11,479,071
Services transferred over time	8,668,633	7,491,644
Total Revenue from contracts with customers	21,313,012	18,970,715

The aggregate amount of transaction prices (i.e. unrecognised revenue) allocated to remaining performance obligations, at the reporting date, is as follows:

	\$	\$
Sale of goods	-	-
Product maintenance revenue	9,089,654	6,910,368
Provision of services	-	-
Total	9,089,654	6,910,368

Of the aggregate amount of transaction prices (i.e. unrecognised revenue) allocated to remaining performance obligations, at the reporting date the following amounts are expected to be recognised.

Product maintenance revenue expected to be recognised within:	\$	\$
One (1) year of the reporting date	6,207,688	4,573,148
Two (2) years from the reporting date	1,957,081	1,575,078
Three (3) years from the reporting date	735,453	618,127
Between four (4) and five (5) years	189,433	144,015
Total	9,089,654	6,910,368

(b) Other income

R&D tax incentive (i)	-	2,052,896
Net gain on foreign exchange	371,047	457,941
Interest income:		
Non-related parties	336,894	438,461
	707,941	2,949,298

- (i) 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% (2018: 43.5%) refundable tax offset for entities with an aggregated turnover of less than \$20 million per annum. As the Group's revenue exceeded \$20 million per annum for the reporting period, the refundable tax offset becomes a non-refundable tax offset of 38.5%.

Notes to the Appendix 4E (continued)

FOR THE YEAR ENDED 30 JUNE 2019

1 Revenue and Expenses (continued)

EXPENSES

	CONSOLIDATED	
	2019 \$	2018 \$
(c) Employee benefits expense		
Salaries & wages	5,853,816	5,887,922
Superannuation	393,483	359,510
Termination payouts	-	35,737
Share based payment expense	171,448	54,805
	6,418,747	6,337,974
(d) Depreciation and amortisation expense		
Depreciation:		
Plant and equipment	525,379	420,977
Leasehold improvements	104,057	71,723
Amortisation:		
Software	106,774	85,161
	736,210	577,861
(e) Administration expenses		
Premises costs	468,568	427,302
Travel expenditure	624,415	746,043
Telephone and internet expenditure	128,405	95,383
Insurance expenditure	286,490	214,025
Loss on disposal of equipment	1,817	464
Marketing expenditure	551,430	505,337
External contractors -sales and corporate	1,911,652	1,909,258
	3,972,777	3,897,812
(f) Other expenses		
Impairment of inventories	1,863	19,540
Certification, testing and direct R&D expenditure	498,613	677,737
Legal fees	773,606	403,556
Re-measurement of contingent consideration liability	106,320	-
Other overhead expenses	1,029,516	649,643
	2,409,918	1,750,476

Notes to the Appendix 4E (continued)

FOR THE YEAR ENDED 30 JUNE 2019

2 Cash and Cash Equivalents

	CONSOLIDATED	
	2019	2018
	\$	\$
Cash at bank and on hand	9,605,148	6,349,453
Short-term deposits	8,254,984	16,908,603
Total	17,860,132	23,258,056

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	(463,345)	1,955,345
<i>Adjustments for non-cash items:</i>		
Depreciation and amortisation	736,210	577,861
Unrealised foreign currency loss/(gain)	(138,335)	(306,423)
Impairment of unquoted equity instruments	1,892,941	1,361,532
Share of loss of an associate	1,651,232	-
Loss on disposal of equipment	1,817	464
Impairment of inventories	1,863	19,540
Share based payment expense	171,448	54,805
<i>Changes in assets and liabilities:</i>		
(Increase)/decrease in trade and other receivables (net of foreign currency gains)	2,540,353	(821,160)
Decrease/(increase) in inventories	(1,118,216)	222,832
Increase in prepayments	(207,280)	(100,974)
Decrease in other current assets	15,354	4,011
Increase in trade and other payables	577,429	538,586
Decrease/(increase) in deferred income tax assets	28,114	37,859
Increase/(decrease) in deferred income tax liability	(227,826)	25,591
Increase/(decrease) in income tax payable	(1,947,830)	47,191
Increase in provisions	84,494	97,686
Increase in unearned income & other non-current liabilities	2,266,789	1,486,575
Net cash from operating activities	5,865,212	5,201,322

Notes to the Appendix 4E (continued)

FOR THE YEAR ENDED 30 JUNE 2019

3 Trade Receivables and Contract Assets

	CONSOLIDATED	
	2019	2018
	\$	\$
Trade receivables (i)	3,928,832	4,373,543
Contract asset (i)	928,575	-
Net GST receivable	198,185	102,595
R&D tax incentive (ii)	-	2,052,896
Total	5,055,592	6,529,034

- (i) The fair value of trade receivables and the contract asset amount is equivalent to their carrying amounts. It is expected that the full contractual amounts can be collected. AASB 9 requires a calculation of expected credit losses (ECL's). The Group's evaluation of this requirement has determined that an allowance for expected credit losses is negligible.

The Group holds no collateral against possible default by a customer.

There were no receivables written off during the year.

- (ii) R&D tax incentive - a 43.5% (2018: 43.5%) refundable tax offset. Refer Note 1(b)(i) for details.

Contract Assets	CONSOLIDATED
	2019
	\$
Recognised on 1 July	729,882
Reclassified as a receivable during the year	(729,882)
Contract asset at the end of the year	928,575
Closing balance as at 30 June	928,575

Contract assets are originally recognised for the revenue earned from the sale of inventory from our world-wide distributor, Thales, to their end customer.

Upon completion of the sale by Thales to its end customers, the amounts recognised as contract assets are reclassified to trade receivables. The reclassification of balances from contract assets to trade receivables usually takes from three to six months.

The increase in the value of the contract asset is a result of the product mix held by Thales based on their sales forecast.

4 Contract Liabilities

	CONSOLIDATED	
	2019	2018
	\$	\$
Opening balance as at 1 July	6,910,368	5,416,098
Maintenance amounts received during the year	10,847,919	8,985,914
Maintenance revenue recognised during the year	(8,668,633)	(7,491,644)
Closing balance as at 30 June	9,089,654	6,910,368
Current contract liabilities	6,207,688	4,573,148
Non-current contract liabilities	2,881,966	2,337,220
Total	9,089,654	6,910,368

The comparative financial information for the year ended 30 June 2018 was disclosed in Note 16 - Unearned Revenue.

Notes to the Appendix 4E (continued)

FOR THE YEAR ENDED 30 JUNE 2019

5 Distributions Made and Proposed

	2019 \$	2018 \$
Cash distributions on ordinary shares declared and paid:		
Final distribution for 2019: \$0.000462 per share* (2018 - \$0.000462)	500,000	499,567
Special cash distribution on ordinary shares declared and paid:		
Special distribution for 2019: \$nil per share (2018 - \$0.003237)	-	3,500,209
	500,000	3,999,776

Distributions relating to the financial reporting period ended 30 June 2018 were approved by the Board on 30 October 2018.

The record date was 14 December 2018 and the payment date was 4 January 2019.

*Distributions for the financial reporting period ended 30 June 2019 will, subject to shareholder approval, be by way of a capital reduction of \$500,000 in total an estimate of \$0.000462 per share. The proposed record date for the capital reduction is 29 November 2019 and the expected payment date is 13 December 2019.

6 Investment in an Associate

On 14 November 2018, the Group invested \$5.7 million (USD 4 million) in convertible notes in Votiro Cybersec Global Limited (Votiro), a leading Israeli content disarm and reconstruction company. Votiro is a private entity that is not listed on any public exchange. As at 31 December 2018, the Group has 39% interest in Votiro. The Group has also agreed to invest in two further tranches of convertible notes, amounting to USD 2 million for each tranche, on or before 30 June 2019 and 30 June 2020, respectively. (Refer to note 13 for a subsequent update). The three tranches, when fully converted to ordinary shares, will provide Senetas with a majority ownership interest in Votiro. The convertible notes include an entitlement to interest of 8% per annum, from the subscription date to the earlier of the conversion date or 30 April 2020. Accrued interest is capitalised into the face value of the convertible notes.

In addition, the agreement to purchase the two further tranches of convertible notes is classified as a derivative financial instrument, which is measured at fair value and any changes in fair value are recognised in profit or loss. The performance of Votiro (subsequent to Senetas' acquisition of convertible notes on 14 November 2018) has tracked according to its plans and management has concluded that the agreed purchase price for the two further tranches of convertible notes approximates the fair value of the notes to be acquired. Accordingly, the agreement to purchase the two further tranches of convertible notes has an assessed net fair value of \$nil at 30 June 2019.

The following summarised financial information of Votiro as at 30 June 2019 and for the period from date of investment till 30 June 2019 represents the amounts as presented in the most recent financial information of Votiro, adjusted for translation into AUD and adjusted for any significant differences in accounting policies:

30 June 2019	\$
Current assets	2,404,462
Non-current assets	303,851
Current liabilities	(3,020,478)
Non-current liabilities	(7,737,340)
Equity	(8,049,505)
Group's share in equity - 39%	(3,139,307)
Goodwill	8,791,763
Transaction costs	971,498
Group's share of loss for the period	(1,651,232)
Group's carrying amount of the investment at 39%	4,972,722
Revenue	1,400,963
Loss for the period	(4,978,762)
Other comprehensive income for the period	-
Total comprehensive loss for the period	(4,978,762)
Group's share of loss for the period at 39%	(1,941,717)
Interest on convertible notes	290,485
Group's share of loss for the period	(1,651,232)

Notes to the Appendix 4E (continued)

FOR THE YEAR ENDED 30 JUNE 2019

7 Segment Information

Basis of segment identification

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Senetas's chief operating decision maker is the Chief Executive Officer (CEO). The CEO provides strategic direction and management oversight to the day to day activities of the Group in terms of monitoring results and approving strategic planning. Operating segments have been identified based on the information provided by the CEO.

Information about Geographical Areas

The Group has only one segment - the product division. In accordance with the master distribution agreement and other direct customers, both product sales and maintenance services are inter-related and reported as one (1) reportable segment. Therefore, the Group does not prepare operating segment reports 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 below.

30 June 2019	Australia & New Zealand	United States	Europe	Total
Revenue from contracts with customers	\$	\$	\$	\$
Sale of equipment	1,028,395	5,573,521	6,030,227	12,632,143
Maintenance revenue	1,028,331	7,640,302	-	8,668,633
Provision of services	12,236	-	-	12,236
	2,068,962	13,213,823	6,030,227	21,313,012

30 June 2018

	\$
Revenue	
Australia & New Zealand	2,349,156
United States	13,327,812
Europe	3,293,747
	18,970,715

The Group has adopted AASB15 - Revenue from Contracts with Customers from 1 July 2018. The comparative financial information for the year ended 30 June 2018 continues to be presented in accordance with AASB118 - Revenue.

Revenue from one customer amounted to \$19,123,080 (2018: \$16,561,160) arising from the above mentioned geographical areas.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2019

8 Investment Securities

	CONSOLIDATED	
	2019	2018
	\$	\$
Unquoted investment securities at FVTPL	1,892,941	-
Available-for-sale (AFS) investment	-	2,227,145
Addition to AFS investments during the year	-	1,027,328
Impairment of AFS investment	-	(1,361,532)
Revaluation losses recognised during the year	(1,892,941)	-
Closing balance	-	1,892,941

The Group has investments in the entities shown in the table below.

	Equity Interest		Value of Investment	
	%		\$	
	2019	2018	2019	2018
DeepRadiology Inc	3.45%	3.45%	-	-
Smart Antenna Technologies Ltd	5.52%	5.76%	-	1,892,941
Total			-	1,892,941

9 Contingent Consideration

Acquisition of Podzy Pty Ltd (completed on 7 December 2017 for a consideration of \$1) included an earn-out provision. The earn out period continues until 30 June 2022 and is based on a percentage of revenue from future sales of SureDrop. As at 30 June 2018, the fair value of contingent consideration was assessed to be nil as there were no confirmed sales orders or quantifiable pipeline of sales.

The estimated fair value is calculated by a discounted cash flow analysis (to account for the time value of money and the risk factors) on a range of possible revenue forecasts during this period. This calculation resulted in a remeasurement of the contingent consideration liability to \$106,320 at 30 June 2019. This includes an amount of \$22,894 which is expected to be settled during the next 12 months from the balance sheet date. This contingent consideration liability will be reassessed at each reporting period.

10 Fair Value of Financial Instruments

The Group has various financial instruments such as investment securities, cash in hand, trade debtors, trade creditors and a contingent consideration liability. Apart from investment securities and the contingent consideration liability, other financial instruments arise directly from its operations. Due to the short term nature of these other financial assets and financial liabilities, fair value does not materially differ to the carrying amount.

Investment securities consist of equity and debt investments which have no active market. Therefore, management uses a number of assumptions for the inputs into a valuation model to arrive at the fair value. 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 and debt investments. The investments are carried at fair value. Refer to Note 9 for the basis of calculation of fair value of the contingent consideration liability.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2019

11 Contributed Equity

Ordinary shares are classified as equity. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. Issued and paid up capital is classified as contributed equity and recognised at the fair value of the consideration received by the entity. Incremental costs directly attributable to the issue of new shares or options are shown in contributed equity as a deduction, net of tax, from the proceeds.

	No. of shares	\$
<i>Contributed equity</i>		
Ordinary shares - issued and fully paid	1,081,329,448	104,728,595

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

	No. of shares	\$
<i>Movement in ordinary shares on issue</i>		
At 30 June 2018	1,081,311,948	104,726,285
Employee performance rights converted to shares	17,500	2,310
At 30 June 2019	1,081,329,448	104,728,595

12 Commitments and Contingencies

Since the last annual reporting date, other than the commitment for two further tranches of Votiro's convertible notes, there has been no material change in any commitments or other contingencies.

13 Events After the Reporting Date

The second tranche of the investment in Votiro (see Note 6) was due to take place on or before 30 June 2019. This payment was delayed due to a modification in the agreement and the second tranche payment of US\$2,000,000 was split. US\$1,000,000 (AU\$1,478,675) was paid on 7 August 2019 and the remaining US\$1,000,000 will be paid on 1 November 2019.