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ASX ANNOUNCEMENT

Senetas Corporation Limited Half-Year Results Announcement For the six months to 31 December 2017

Senetas half year profit at the high end of market guidance range

Senetas Corporation Ltd (ASX: SEN) (Senetas / the Company), a leading developer and manufacturer of certified, high-assurance encryption hardware; virtualised network encryption; and advanced encrypted file sharing application, is pleased to announce its results for the six months ended 31 December 2017 (HY18).

Commenting on the HY18 results, Senetas CEO, Andrew Wilson, said: "As expected, our results for HY18 saw a return to growth as key customers recommenced normal ordering patterns and our first sales of the new 100Gbps encryptor was made to a European customer through Senetas' global distribution partner, Gemalto.

"Pleasingly, operating revenue of \$10.30 million represents a record for Senetas in the first half of a financial year. Future growth will be underpinned by new product launches and commercialisation of our recent technology developments, including our custom algorithm product, virtualised encryption and SureDrop secure file sharing. The company's cash flow and balance sheet has allowed continued investment in product pipeline and continued delivery of encryption security solutions that meet evolving and growing market needs for commercial enterprises, government, defence and service provider customers."

HY18 HIGHLIGHTS:

Operating revenue up 10.3% to \$10.30 million (HY17: \$9.34 million) as major customers recommenced ordering following disruptions during their infrastructure upgrades.

Revenue growth was led by a 29% increase in product sales revenue, partially offset by lower maintenance revenue.

- Net profit before tax \$2.39 million, at the high end of the guidance range announced in January 2018, and up 89% on the prior period (HY17: \$1.27 million)
- Gross profit margin increased to 80% (HY17: 73%)
- Net profit after tax of \$1.64 million, up 90% on the prior period (HY17: \$0.86 million)
- Strong balance sheet with \$20.6m cash provides flexibility for strategic investments and new product initiatives
- Successful ongoing development of the CV Series virtualised encryption product meeting technical requirements for large-scale Ethernet networks, and 100% interoperability with the CN Series hardware encryptors.
- Eastern European certification of the custom algorithm hardware solution is progressing.



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Operational review

Revenue growth in HY18 was driven by 29% growth in product sales, with the key growth driver being the North American market where Senetas' largest target market and customers are located, partially offset by lower maintenance revenue. Gross margins expanded to 80% as inventory levels at the Company's international distribution partner, Gemalto, were reduced during the period.

Mr Wilson said, "Pleasingly key customers ordered equipment from us over the half and there has been interest from new customers and new use cases developed by our regional business development teams and distribution partner. In addition, our developers made strong progress on a number of development fronts including our virtualised encryption technologies which will serve a growing market that offers significant potential to expand our addressable market and drive growth through customer needs into the next decade.

"Whilst we had hoped to achieve more 100Gbps sales in HY18, as with previous technology "leaps" it can take some time for networks to develop and for higher speed networks to become more prominent. However, customer enquiries about our 100Gbps encryptor continue to be strong. We still expect further 100Gbps sales before the end of the 2018 financial year (FY18), although larger volume sales may not occur until FY19.

"Senetas' range of independent security certifications represent a critical competitive advantage that open new geographic markets.

"The process required to obtain a new European certification for our core hardware products commenced in HY18. We expect that process to be completed by the middle of this calendar year.

"The development of our virtualised encryption technologies has also been part of our strategy to open up new market opportunities for Senetas. Our virtualised encryption team have successfully met technical requirements for large-scale Ethernet networks, and 100% interoperability with the CN Series hardware encryptors. As we continue to develop our Layer 3 and 4 capabilities across both virtualised and hardware encryption products we can substantially increase the addressable market for our portfolio of encryption solutions.

"During the year we have continued to invest in our relationship with Gemalto. They are currently going through a process of likely change following an agreed takeover offer by Thales. This transaction is expected to be completed in the second half of the 2018 calendar year and the combination of these two companies will be a global leader in digital and cyber security. In the short term, we are not anticipating any change to the relationship with Gemalto, but over the longer term the combined strength of the Gemalto and Thales businesses presents an opportunity for Senetas' products to reach a wider group of potential users."

R&D and new product development

The Company's primary R&D focus in HY18 has been further development on our virtualised encryption product capability. All technical requirements have now been addressed to meet speed requirements and to enable large-scale deployments across thousands of user instances on Layer 2 Ethernet networks.



To broaden the potential use cases for Senetas products, technical expertise is now being deployed to advance the capabilities of our virtualised and hardware encryptors to allow for interoperability across Layers 2, 3 and 4.

Senetas' new custom encryption solution for Eastern Europe is currently progressing through that market's certification process. A critical milestone in the certification process needs to be reached before marketing and sales of the product can commence to potential customers. The certification process is taking longer than anticipated and we now expect the first sales of the custom encryption solution to be delayed until FY2019.

R&D expenditure during HY18 was similar to the prior period and FY18 R&D expenditure is expected to be similar to FY17.

Balance sheet and cash flow

Senetas' balance remains strong with no debt and significant cash reserves. Net assets increased 8% to \$23.15 million and the cash balance at 31 December 2017 was \$20.57 million.

Net operating cash flow was \$1.54 million in HY18 which was higher than HY17 reflecting higher sales.

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

Non-core assets

Senetas made an additional investment of £350,000 in Smart Antenna Technologies (SAT) in November 2017. The Company's percentage equity interest remains unchanged as all other SAT investors made proportional investments.

Priorities for the balance of FY18

Further validation and development of software encryption products, and a focus on additional independent security certifications to open up the European market, will provide further growth opportunities for Senetas in FY19 and beyond:

- Development of Layers 2, 3 and 4 interoperability capabilities for both the virtualised encryption solution and hardware encryptors whilst maintaining existing features and capabilities
- Continue to explore strategic opportunities with Gemalto and our other partners to expand market opportunities
- Continue marketing and business development collaboration with Gemalto to maximize engagement with target service provider partners and customers
- Progress additional European certifications
- Progress East European certification of the custom algorithm encryptor in order to allow Gemalto to commence marketing and sales of the product



Revenue growth drivers

In the medium-term, Senetas' transition to a multi-product business is expected to drive significantly increased revenues. These will come from:

- Greater market adoption of 100Gbps networks
- Market adoption of virtualised encryption solutions
- The adaption of Senetas' encryption products for Layer 2, 3 and 4 interoperability
- The commencement of custom algorithm sales
- A tightening global regulatory landscape around data protection and data breach notification
- Increased market penetration with traditional Senetas high speed encryptors
- New technology partnerships that incorporate Senetas' technology in existing networking infrastructure
- SureDrop roll out

Outlook

Commenting on the Company's growth outlook, Mr Wilson said:

"With continuing strong interest in our products, global expansion of data networks, growth in network data volumes, increasing government data security legislation, and growing awareness of the need to encrypt sensitive and customer information in the government and enterprise sectors, we are expecting further earnings growth in the remainder of FY18.

"From FY19 we expect virtualised encryption, the 100Gbps encryptor and our custom algorithm products will commence to make a more significant contribution to revenue as sales momentum builds.

"In the longer term, we expect the virtualised networking market to mature with increased functionality, a growing prominence of virtualised networks and longer-term opportunities for large-scale virtualised encryption deployments. Relationships with our technology partners and further development of Layer 2, 3 and 4 interoperability positions Senetas very well to service new and emerging network technologies in addition to our traditional markets and creating significant new revenue opportunities."

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About Senetas Corporation Limited

Senetas, an Australian public listed company (ASX:SEN), is a leading developer of data encryption solutions for enterprise, government and technology service providers. From certified high-assurance encryption hardware and virtualised encryption, to the most secure file sharing application providing data sovereignty control, all Senetas solutions are based on the same leading security, high performance and crypto-agile platform.

Senetas encryption solutions leverage state-of-the-art encryption key management and crypto-agility by design, providing long-term data protection in a post-Quantum computing world. They share the same designed-in data protection without compromising network and application performance or user experience.

Senetas CN Series, certified high-assurance encryption hardware, provide maximum data protection for core Ethernet network infrastructure. A preferred option for government, enterprise, defence and communications service providers, Senetas CN Series encryptors are certified by independent testing authorities (Common Criteria, FIPS and NATO) as “suitable for government and defence use”.

Senetas CV Series virtual encryptors provide robust data protection for high-scale extended and virtualised networks. The CV Series provides security benefits of virtualised encryption’s rapid scalability and flexibility; delivering cost-effective deployment to meet changing business and IT needs.

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. Whilst maximising users’ experience, SureDrop leverages the Senetas encryption platform.

Senetas encryptors have been trusted to protect much of the world’s most sensitive information for nearly 20 years. They are used to protect everything from government and defence data and secrets, to intellectual property and business data, to financial transactions, CCTV networks, SCADA critical infrastructure control systems and citizen identity.

Senetas encryption solutions are used in more than 35 countries. They are distributed and supported internationally by Gemalto, the world’s largest data security company, with its SafeNet Identity and Data Protection products.

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