



Senetas Board (L-R) Alan Stockdale, Deputy Chairman & Chairman of Audit Committee; Ronald Warner, Director & Chairman of Remuneration Committee; John DuBois, CEO; Francis Galbally, Executive Chairman; James Connolly, Director; Absent: Ronald Lunt, Director.

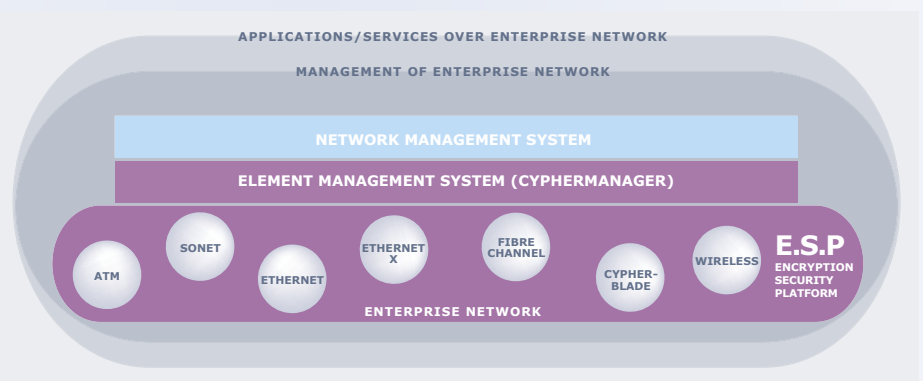
## Senetas records increased revenue and profit in 2006

**Senetas Corporation, the world's leading developer and supplier of high speed network encryption hardware, announced an increase in profit before tax to \$9.7 Million on improved total revenues of \$23.6 Million for the full year ended 30 June 2006.**

The result represents an increase of 25.6% over 2005 net profit before tax (\$7.7 Million) and 4% improvement in total revenue for the period.

on plans to extend its high speed Ethernet performance to 10 Gbps. Independent research firm, Dell'Oro Group says the market for 10 Gbps Ethernet encryption will reach \$US 1 Billion this year.

- Senetas successfully completed trials of an encrypted microwave data network in Melbourne for a law enforcement agency, adapting existing CypherNET technology to demonstrate Layer 2 encryption



### Key Dates:

#### Annual General Meeting

**Meeting: Date:** Thursday 23 November 2006,

**Time:** 10.00am

**Venue:** 'Eden on the Park', 6 Queens Road, Melbourne

### Highlights

- Full Year 2005/6 profit before tax: \$9.7 Million, up 25%
- Total Revenue increases to \$23.6 Million, up 4%
- New strategy being implemented to improve product distribution
- Increased R&D investment to maintain market-leading CypherNET technology
- Proof of concept shown for encryption of popular microwave networks
- New Senetas CEO completes restructure to build multi-channel sales

Executive Chairman, Francis Galbally said that while Senetas continues to grow and remains debt free, "the latest result was affected by significantly lower than expected royalty and R&D payments from our overseas distributor ... had the distributor made the expected payments in Q3 and Q4, Senetas would have exceeded the \$11 Million NPBT guidance given to the market last quarter."

The company completed and shipped the multi million dollar government agency cryptor sale delayed from the last half and implemented a strategy to broaden its sales base from the one global distributor.

Other highlights of the results are:

- Senetas' investment in R & D (wholly expensed) up 20% over FY 2005.
- Following the successful launch in October 2005 of 1Gbps Ethernet product, Senetas maintains a competitive advantage in high speed, low latency Ethernet encryptors and is well advanced

of voice and data traffic on the microwave link at 2 Mbps – a solution which can be retro-fitted to thousands of microwave installations in multi-office corporate, education, health, finance and utilities networks plus military communications.

- The sale of a technology licence for our high speed network encryption technology to InfoProtect generated immediate revenue and will provide ongoing royalties of 15 % from distribution of CypherNET products in the Middle East and Europe, plus development of new applications for our core encryption technology with other product manufacturers, from which royalties of 15% will be received.
- Key indicators for Senetas' Consulting Services Division continue to reflect a buoyant business with increased revenues and strengthening profit margin.

Full text of the ASX announcement is available at [www.senetas.com](http://www.senetas.com)

# Proof of concept: new CypherNet microwave data encryption

**We announced recently that Senetas has successfully completed trials of an encrypted microwave data network.**

The trials conducted in Australia provided proof of concept for a new application of the Senetas CypherNET Encryption Security Platform - the suite of network encryptors designed and manufactured here in Melbourne.

Working with a major wireless communications vendor and a law enforcement agency over the past

six months, our engineers adapted existing CypherNET technology to demonstrate Layer 2 encryption of voice and data traffic on the microwave link at 2 Mbps. The successful test was completed in mid-June and we are now working on further product development.

CEO John DuBois says: "It presents a significant market opportunity given the large number of embedded microwave data networks in business, government and the military."



# Multi-Channel Sales Strategy Expands Distribution

**Under John DuBois' hands-on leadership as CEO from July 1, 2006 Senetas is now well-positioned to become a truly global manufacturer and marketer of its world-leading encryption technology to business, government and the military.**

Mr DuBois said that he had concluded initial distributor and reseller agreements for Australia, New Zealand, Asia and the Middle East. In improving operational aspects of the business, he has also implemented a proven international management methodology designed to identify key short to medium-term opportunities.

"As a result of internal reviews, existing Senetas encryption technologies have been identified that can be leveraged to leapfrog current security solutions through innovative re-deployment of the CypherNET Encryption Security Platform (ESP). This is now a high-priority R&D project," he said.

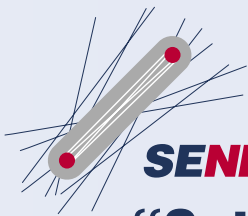
Mr DuBois said Senetas would re-engineer and configure the existing CypherNET hardware devices to also be switchable between Layer 2 and Layer 3.

Both re-engineering projects, currently underway in Melbourne, will increase

the addressable market for Senetas encryption technology both here and abroad.

"In addition the company is investigating the market for a range of security technologies suitable for the small to medium enterprise (SME) market. Increasingly SME businesses are required to comply with major corporate supply chain security protocols and the company believes there may be opportunities to leverage the CypherNET reputation to supply appropriately specified product to meet this market segment's price-performance expectation," he said.





# SENETAS Security Summit “Outstanding Success”

**Branding the recent Senetas Security Summit “an outstanding success”, CEO John DuBois said it highlighted awareness of business risks and raised the profile of Senetas as a world-leading technology manufacturer.**

Mr DuBois said corporate and government attendees in Melbourne, Canberra, Sydney and Wellington NZ, heard that even Top 10 companies are sometimes unaware of the risks and the potential costs they face.

One of Australia’s Top 10 companies, which had just completed a major security and disaster recovery program, remained blissfully unaware that a telecommunications pit at its front door was a security weak link.

Management consultant, Jed Simms, executive chairman of Capability Management, told the Summit that anyone could have simply lifted the lid on the telecommunications pit and tapped into or cut all telecommunications links to and from the company, “including links to their disaster recovery site.”

Mr Simms said it was a typical example of an organisation that believed it had covered all the potential security risks, yet overlooked the most obvious.



it is the least likely of the four to get approval unless you first tackle the other three,” Mr Simms said.

### **Risk, Return and No Regret**

The Director of Risk Programs at Monash University, Michael Vincent said enterprises should factor in the economic cost of “regret” in calculating the real cost of security breaches.

“Most businesses believe that for a given level of risk there must be a given level of return, which is only focused on the upside.

But if the worst case happens, how much will you regret it,” he said.

happy when nothing happens that you have had cheaper premiums, but the impact is far greater on business when it does happen if it has not been accounted for. You are applying a very limited parameter in the belief that it is not wrong until something goes wrong, but as a manager you have failed to identify the real value at risk - the cost of regret,” he said.

### **Business Lessons of War**

Colonel Paul Straughair, the Director of Network Centric Warfare with the Australian Army, told the Summit that business could learn the lessons of war.

“The nature of the environment in which the military operates had changed to a technology-based urban landscape.

“Individuals are becoming more lethal: they have the access, funds, innovation and the will to use IT & T Technology, often adapting it for unexpected uses,” he said, citing the use of mobile phones as explosive triggers.

“The military sees its future in the network and devotes considerable resources to network security; the largest military force in the western world can’t stop intrusions entirely, but if you are in business you should employ the same approach to mitigate risk,” Col Straughair said.

Mr DuBois said the idea of the inaugural Security Summit was to provide business with a diverse range of thought leadership about security and business risk.



*Summit speakers Straughair, Vincent, DuBois and Simms*

In order, money, compliance, reputation and risk would get senior management’s attention, but concentrating on risk alone rarely worked.

“Managing risk is just one of those things you do in managing a business –

Mr Vincent said risk management courses at universities such as Monash now taught that businesses should not just rely on the risk/return model but employ the economic model of regret.

“It is like under-insuring: you are very

# Senetas Announces New Hybrid Encryption R&D – ‘new encryption paradigm’ for Metro networks

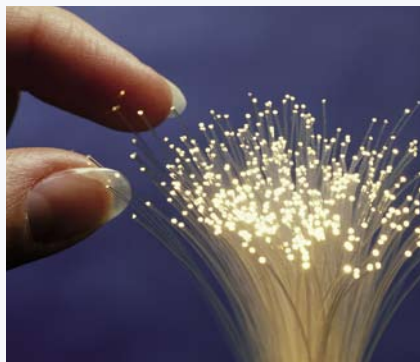
**Senetas, the world’s leading developer and supplier of high speed network encryption hardware, announced in October that it is working with a European technology manufacturer to develop a unique hybrid encryption solution employing quantum cryptography.**

Senetas CEO John DuBois said non-disclosure agreements had been exchanged and engineers from the two organizations had been working together over the past three months on what he described as “a new encryption paradigm”.

The unique solution combines a quantum key distribution system (QKD) to generate and securely exchange cryptographic keys over fibre optic networks, and Senetas’ internationally accredited layer 2 encryption that secures networks at wire speeds of up to 10Gbps.

“Combining the strengths of wire speed, accredited classical encryption systems with QKD techniques provides a new encryption paradigm. This hybrid model has immediate

application to certain high security applications such as METRO networks for Government and financial organisations and also provides a very strong differentiator in the network security market.”



*Senetas hybrid encryption to make fibre more secure*

He said the model could be used with Senetas’ CypherNet 1Gb Ethernet encryptor or other layer 2 technologies such as ATM or SONET. It requires modifications to CypherNet so that it can talk securely to a QKD device and produce the hybrid Quantum/Classical encryption product. The encryption keys will be sent across a fibre network using Quantum Key techniques and CypherNet will encrypt the payload using classical encryption.

Mr DuBois said it was an example of Senetas future-proofing its business by working with key partners to derive greater value from the company’s world-leading technology.

## Senetas grows staff in response to demand

### Adds Staff to Security and Consulting Practices – Seeks still More Expert Employees

At Senetas we boosted overall staff numbers by 16 per cent over the last quarter of 2005/6 in response to increased demand for both its security products and business consulting services over the past quarter.

The largest growth (30 per cent) occurred in Senetas’ security division which added a general manager of sales and four new design engineers to supplement R&D development of the company’s world-leading Encryption Security Platform.

Senetas Security Engineering Manager, Colin Campbell said the new engineering staff, all of whom had significant experience in R&D design of telecommunications and data communications, were immediately deployed on enhancements to Senetas’ existing high speed CypherNET Ethernet encryptors and development of the new Senetas CypherBlade project. CypherBlades are hardware encryption devices designed to fit into

network switches and routers, a multi-million dollar opportunity for Senetas.

The division has also just appointed Horst Marcinsky, an experienced IT industry sales executive, as General Manager Products.

Reflecting growth in demand for our 15 year-old Consulting Services practice, which includes Business Intelligence, Tivoli Enterprise Security and Storage Solutions and Great Plains Business Management, we added nine consultants in Melbourne and Sydney, the most recent being three Tivoli consultants and two Great Plains consultants.

Senetas Consulting Services Manager, Larry Wilson said “The demand for our consulting services from medium to large enterprises increased substantially over the past quarter and we are constantly on the lookout for suitably qualified and experienced consultants across the three business areas”.

Among the new staff are David Taylor, practice leader for Microsoft Dynamics GP Solutions and Jacques Butcher, who heads our Tivoli Enterprise Storage practice.



**Horst Marcinsky**  
General Manager Products



**David Taylor**  
Practice leader for Microsoft Dynamics GP Solutions



**Jacques Butcher**  
Tivoli Enterprise Storage practice

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