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ABN 33 006 067 607

18 November 2010

Company Announcements Office  
ASX  
Level 6  
20 Bridge Street  
SYDNEY NSW 2000

Dear Sirs,

**SENETAS CORPORATION – ANNUAL GENERAL MEETING**

We attach a copy of the Chairman's address and the CEO's address to be delivered to shareholders at the Senetas Corporation Limited Annual General Meeting to be held, Thursday 18 November 2010 at 10.30am at Eden on the Park, 6 Queens Road Melbourne.

Yours faithfully

**Andrew R Wilson**  
Company Secretary

# SENETAS CORPORATION LIMITED

## CHAIRMAN'S AGM ADDRESS

### **Chairman's speech – AGM, Thursday 18 November 2010**

On behalf of the Board, I report that, despite the continuing impact of the global financial crisis, your company has had another excellent result – achieving a \$1.03 Million profit.

This level of profit, within 8 per cent of the 2009 financial year result is satisfying in that it was achieved despite the significant impact of one-off effects on the company's Consulting Division revenue and price pressures due to the adverse impact of the GFC and its aftermath on key markets.

Highlights of the year to 30 June 2010 were:

- Profit before tax \$1,030,175
- Strong growth in product revenues – up 23% with contribution up 70%
- Consulting division impacted by one-off redundancy costs of \$270,000
- Senetas added a new business model with annuity income streams
- The Company Remains Debt Free
- Cash at bank has grown by 30% since 30 June 2009

Despite adverse trading conditions and the loss of a long standing Telstra consulting contract, both the Security and Consulting divisions achieved positive outcomes with Product sales revenue up 23 per cent year-on-year; Product sales contribution up 70% year-on-year; and new business wins within the Consulting division which offset, in part, the impact of the loss of Telstra revenues.

Unquestionably the security division performed strongly during this period, and to put this in some perspective, if the Consulting Division had maintained its contribution of the previous corresponding period and not incurred one-off redundancy costs, the 2010 profit before tax would have been more than twice the 2009 result.

Your company continues to retain its tight focus on cost containment. However it is critical that Senetas maintains its market-leading commitment to research and development, and despite the difficult business climate the company's engineering team not only released a number of new products, but improved the functionality of existing encryption technology.

Clearly one of the most significant R&D achievements during the fiscal year resulted from an 18-month collaborative effort between the Consulting and Security divisions of the company. This collaboration, which is unique to the organisation over its 13 year history, saw the

development of a unique “application in an encryptor” platform and the release to market of its first solution – MonitorStream.

Effectively MonitorStream adds a new pillar to the company’s security product and consulting service offering. Shortly we will show you a short video that highlights the effort that went into conceptualising, designing and finally releasing MonitorStream, together with comment from its first customer, the Victorian government agency, VicRoads. MonitorStream is an exciting development which provides security to the cloud (business software, services and computing resources delivered via the Internet). Cloud-based application security offers both domestic and global sales opportunities for the company.

## SECURITY PRODUCTS

Looking at the performance of The Security Products Division, we are pleased to note that it recorded its best year in domestic sales, mostly to Australian Government agencies. Ongoing fallout from the GFC did impact sales of our encryption hardware in international markets where project delays and price pressure continued.

The ongoing effects of the GFC, the fact that some world economies have not returned to even reasonable growth, continuing uncertainty in many markets and the slow recovery in many offshore markets does tend to impact our markets. Senetas has secured some sales to private sector organisations both in Australia and in overseas markets but it is still the fact that our main markets are sovereign Governments, State and provincial Governments, Government agencies; military and security arms of Governments and police. These entities have been disproportionately impacted by the GFC and now, in many cases, they are further affected by the slow recovery, further demands for stimulus and the need to reduce borrowings and debt. In many jurisdictions, these phenomena have slowed investment and caused Budget cutbacks. As a result, many orders for Senetas security products have been delayed and, in some cases, deferred indefinitely.

In late 2010, our company has a very strong pipeline of prospective security product sales but our own sales staff and our resellers have to work extremely hard to convert these prospects to actual purchase orders. The fact that many key markets are adversely impacted by these trends only makes all the more noteworthy the increase in both revenue and profitability in the 2009/2010 year.

Facilitating the record production and shipment of encryption products in 2010 was an enhanced manufacturing capability. Senetas employs a custom manufacturer here in Melbourne and with the implementation of a full turn-key manufacturing process, the company was able to achieve higher production volumes and greater cost and time efficiencies.

Highlights of the Security Products Division’s year included the following:

- Engineering efforts saw Senetas awarded a patent for its multiprotocol encryptor and a patent pending for its new enhanced Ethernet encryptor with Multicast functionality

- In association with Australia's Defence Signals Directorate, Senetas continues development plans for an encryptor to be certified for use in government High Assurance networks
- New product releases included a category killer, the new low-cost rack-mounted CS100, which provides high-speed real-time encryption, readily switchable between Layer 2 and Layer 3

The company further enhanced its sales capability, adding direct sales resources in Australia, whilst also growing its global sales channel to now cover more than 40 geographies. Senetas appointed new resellers in Singapore, Indonesia, The Philippines, Germany, and Swiss partner IDQuantique also added sales personnel.

Late in the fiscal year Senetas agreed to purchase Focus Europe Limited, an experienced UK-based encryption reseller, which has now become the 100% subsidiary, Senetas Europe Limited, and is leading sales efforts and managing the existing reseller network across the UK and Europe.

These investments, along with the expensing of ongoing vital R & D expenditures, do increase outlays. Nonetheless, with a return to genuine profitability and resultant higher cash levels in the business, the Board and management have embarked on initiatives to increase our sales capability and to get better value from our reseller network by increasing "on-the-spot" support for resellers.

Further enhancing our sales capability remains a major priority for the company.

## CONSULTING

As reported during the year under review, Senetas lost a substantial and long-running consulting contract with Telstra. This had nothing to do with the service we had been providing to Telstra, nor, we believe the value of our consultants to Telstra and its customers. Rather the loss of this business was the result of high-level changes to the way Telstra procures consulting services and the policy of moving many types of services offshore.

While the Consulting Division continues to face market challenges with the loss of this long-running Telstra contract, it has already diversified its customer base and partner relationships and has already won new engagements in its Business Intelligence and Tivoli practices.

After forming a new strategic relationship with Novell as a Security Solutions partner the Consulting Division has recently won two of three government bids. Now it is adding Novell consultants to its team as well as cross-training some of its consultants in the Novell solutions.

Of course the Consulting Division is also vigilant for new opportunities to leverage the Encrypted Application Security platform on which MonitorStream is built and the company has already received strong interest following discussions with application vendors whose solutions would benefit from a secure cloud-based Software-as-a-Service offering.

The head of our consulting business, Larry Wilson, has done an extremely good job of managing very difficult situations and the Board and management adhere to the view that the consulting business has further growth potential and that its collaboration with the Security Products Division "MonitorStream" an application in a secure appliance technology means that the consulting business is more an integral part of the company's business to an even greater extent than ever before.

## **BUSINESS OUTLOOK**

Your Directors believe that the 2011 year will require further commitments to support our global sales network, the negotiation of an extension of our SafeNet agreement and further product accreditation, which enhances the competitive advantage of Senetas technology.

We will continue to invest in the R & D effort required to keep us at the forefront of technological development. We are continuing the collaboration with Government agencies that will ultimately lead to the development of an indigenous High-Assurance encryptor.

There are costs associated with these initiatives but, despite economic problems and uncertainty in many markets, Senetas is well positioned to grow both its Consulting and Security businesses given the ongoing demand for information security. Demand is being driven across global markets by increasing recognition of the need for organisations to secure their critical assets - information, communications channels and critical infrastructure. Organisations are also increasingly aware that the emergence of virtualisation and Cloud computing has introduced new risks to digital information and assets.

The worldwide market opportunity for Senetas is large and growing. Market intelligence firm, IDC, estimates the global Information Protection and Control market will go from \$US1.5 billion in 2010, growing at 15% p.a. compound to reach \$US2.3 billion by 2013. The broader IT Security Products and Services market is estimated by IDC to grow over 10% from \$28.3 billion in 2010 to \$US37.8 billion by 2013.

## **CONCLUSION**

Against the background of the loss of the Telstra contract in the consulting division and the remaining effects of the GFC, the company performed well in the 2010 year and broadly maintained profitability.

Whilst Senetas faces some challenges and several one-off costs, the outlook for 2011 is relatively good with signs of emerging recovery in several regions. The projected growth in Australia and Asia is expected to provide opportunities for sales. A slower rate of recovery in the US, Europe and, to a lesser extent, the Middle East, could delay recovery of sales growth in those regions. This remains the central risk to growth in all aspects of Senetas' business.

If the world economy does pick up through the 2011 year, Senetas can expect a more broadly based growth in sales and profitability.

On behalf of the Board, I thank John Dubois and his senior management team (our CFO and Company Secretary, Andrew Wilson; our head of Product Sales, Horst Marcinsky; our head of Engineering, John Weston and our head of Consulting, Larry Wilson) and all of our staff. Our people are very talented, powerfully motivated and extremely committed. We are fortunate to have such an excellent team at Senetas.

We do not normally comment on the share market but, on behalf of the Board, management and our loyal staff, I want to take this opportunity to thank shareholders who have been patient and supported the company through the GFC and other very taxing times. Four years ago, the Board was restructured and John Dubois was recruited to unravel the adverse consequences of our company's founding years as a venture capital company. Many of the transactions of that time produced profits when they were undertaken but later resulted in write-downs many of these transactions were not focused on the core encryption business. I think that even the people involved with the company at that time would concede that there had been no real focus on growing the real encryption technology business of the company and the then company's corporate governance was not as a listed public company's should be.

In the last four years, the focus of the Board and management necessarily has been in two stages: initially restructuring the company to re-focus on the core business, laying the foundations for a successful encryption business and adopting the corporate governance policies and practices that underpin market confidence. The company then set about capitalising on the fact that it is the world-leader in high-speed encryption. Enormous and far-reaching change has been driven within the company: from constant and successful efforts to gain recognition for the excellence of our products; through the recruitment of new management for our engineering and product sales activities; through world-leading R & D and important new product releases; through expansion of our sales network to most parts of the globe; to collaborations around development of an Australian domestic high-assurance encryptor, the company has had many successes. As a result, over the last two years, we maintained consistent revenue growth and significant profits through the worst world economy since the 1930s.

Despite emerging recovery domestically and in a few overseas markets, our business involves long lead times on sales. The actions of Governments and Government agencies have created a back-log of demand which is reflected in our current strong pipeline but we can be no more certain than our customers as to when markets will be completely normalised. Nonetheless, the Board, management and our staff have confidence in the excellence of our offerings and published research on the size of the markets we service shows the opportunities before our company. Members of the Board have been buyers, not sellers, of the company's shares and most staff have taken up the rights they have to acquire shares in the company in which they work.

I thank you for your support as we continue to focus on investment for growth. I can only assure you that everyone at Senetas is working very hard to add to shareholder value.

**Senetas Corporation Limited**

**CEO's Address to the 2010**

**Annual General Meeting of Shareholders**



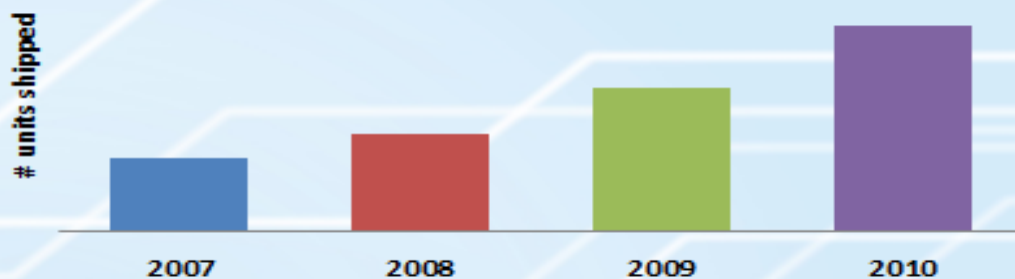
**2009/10 Results Summary**

- Senetas records **\$1.03M profit before tax** due to difficult consulting trading environment and investment to grow global markets
- Security Products Division increased revenues by 23% and contribution to group profit before tax increased by 70%
- Consulting Division revenues decline due to end of 12 year Telstra engagement and market slowdown
- Company Remains Debt Free
- Cash at bank has grown by 30% from last year



## Unit Shipments (excluding SafeNet)

# Units Shipped By Financial Year

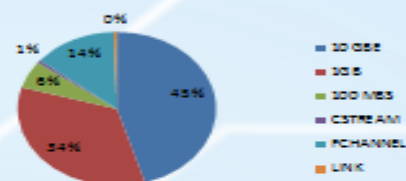


- Growth >30% year on year
- Reflects greater sales capability and expanded products range
- Better inventory and manufacturing management
- Growth and improved performance of channel network

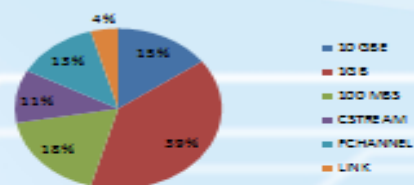


## FY 2010 % Revenue Breakdown by Product (excluding SafeNet)

FY 2010 % of total Revenue by Product



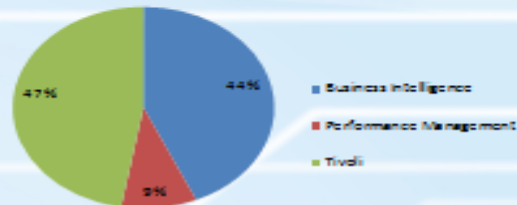
FY 2010 - % of total units shipped by product



- 10 GBE was most profitable = 45% of Revenue and only 15% of total units shipped
- 1GBE was 34% of value and 39 % of total units shipped
- Other Products were 21% of value and 46% of total units shipped
- Product sales has shifted to the highest value products



## Consulting Revenue FY 2010



- Difficult year for Consulting
- Largely due to loss of Telstra Revenue due to consolidation to two multinational vendors only
- Market downturn in software implementations
- Profitable but down on the exceptional result of FY09
- Responding by expanding services (Novell security solutions), expanding skills sets (Datapower and Alarmpoint) and developing Cloud solutions that leverages off our unique skills and experience (MonitorStream)



## Key Achievements

- Acquisition of Focus Europe
- Introduction of MonitorStream
- Development of Multicast (patent pending) products
- Development of VLAN, 6100 and High Assurance (Secret) products
- Enhanced Certification Common Criteria EAL4+ and a full range now FIPS1402/3
- Demonstration of wireless encryption to Canberra
- Expansion of CAB (Customer Advisory Board) – Senetas Think Tank
- Partnership with Novell

**Achievements designed to enable Senetas to take advantage of a changing market place**



## Drivers of the Data Loss Protection Market

- Regulatory Policy that requires mandatory disclosure of data breaches
- Revitalised Australian Privacy Act – due in 2012
- Increasing incidence of sophisticated security threats
- The increasing value of digital information
- Virtualisation and cloud computing are increasing the need to protect against data loss

**The traditional approach of data protection is not sufficient**



Senetas is in the Data Loss Prevention Market

From Desktop to The Cloud



## **Prevention is better than the cure! Prevent by Protection**

### **Protecting Against Modern Threats**

The denial or degradation of the free flow of information through IT means, exhibited by recent cyber attacks in Estonia, Georgia and South Korea make cyber defence an increasingly importance consideration in the conduct of business and military operations



## **Prevention is better than the cure! Prevent by Protection**

Just a single incident of data loss can tarnish a brands reputation, erode a business' competitive advantage sacrifice hard earned customer good will, damage or destroy irreplaceable assets

- **Shift to distributed workforce**
- **Transformation To Innovation**
- **Economic Challenges**
- **Legal and Regulatory Concerns**



## Data Loss Protection

### How does an organisation protect against Data Loss?

- Deployment of end to end solutions including:
  - Data-at-rest security for enterprise data centre storage systems
  - In-flight encryption of back bone and critical infrastructure communications
  - Enterprise end user desktop and mobile device protection
  - Cloud-based data encryption and file sharing protection



## What Can Be Secured

### Servers

IBM, HP, Oracle, Dell, NEC, etc  
VMware, etc

### Operating Systems

Unix-like: HP-UX, IBM AIX, Solaris, Linux, Mac OS X  
Windows

### Legacy

IBM i/OS, z/OS, OpenVMS etc

### Storage

NAS, SAN, DAS (EMC, IBM TotalStorage, HP StorageWorks, Oracle StorageTek, HDS, NetApp, BlueArc, FalconStor, Dell, Microsoft, etc)



## Senetas Data Loss Protection Solutions

### End to End encryption from at Rest to In Flight

- a. Enterprise Data Centre Storage System
  - b. SAN (Storage Area Network)
  - c. NAS (Network Attached Storage)
  - d. DAS (Directly Attached Storage)
  - e. Database
- Operating Systems
  - Mobile Laptop etc.
  - Layer 2/3
  - Secured Cloud Computing



## Business Benefits - Customers

- Secures operational data in databases
- Protect backup/offsite/remote data from electronic and hardware theft
- Meet IT governance compliance requirements
- Assure digital corporate assets integrity
- Protects websites from deface and assure data integrity
- Enforce effective change management
- High ROI –lawsuits and worst, bankruptcy
- Low TCO -One solution for all applications



## Strategy For 2011 - 2015

### **We need to grow Revenue - Faster and Profitably**

- Increase revenue of High Speed Encryption as the demand grows for securing Ethernet infrastructure
- Source Providers who integrate managed security services in their hosted and Cloud Computing offers
- Enhanced and strengthen sales coverage
- Build brand and mindshare - give us the opportunity to sell into a larger market and build on existing revenue's



## Strategy For 2011 – 2015 cont.

Introduction complimentary products, taking advantage of emergence of Cloud computing by offering end to end data loss protection solutions.

- Introduction of Layer 3 and 4 offering into Aust/NZ, Europe and Middle East e.g. current addressable market \$600m – 1bn
- Introduction of Data at Rest solutions



## Global Sales Coverage

- Australia & New Zealand – Senetas and resellers
- US – Only SafeNet
- Europe – SafeNet, Senetas and its resellers
- Middle East – Senetas resellers in KSA ,Jordan, Bahrain and Kuwait new market opportunities
- India Senetas reseller + new opportunities in Bangladesh, Sri Lanka, Nepal
- China, Taiwan and Japan – New opportunities
- ASEAN - Verizon, Senetas resellers
- Hong Kong, Korea, Senetas resellers
- Africa – KZN Technologies



## MonitorStream – Our first Cloud Solution



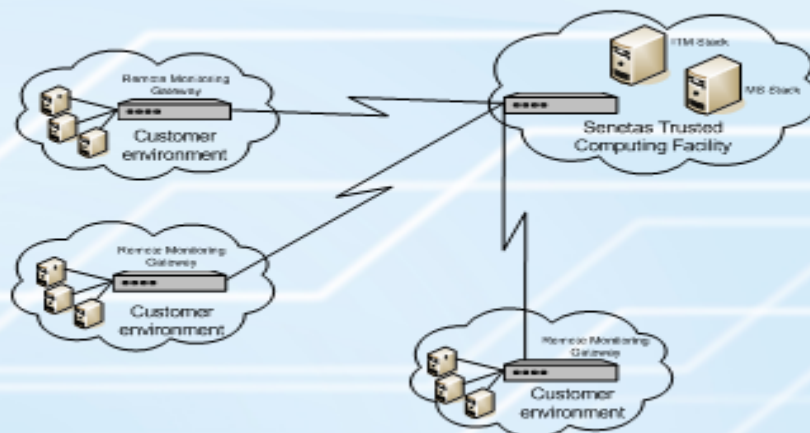
## MonitorStream – A Fully Secure System

### A fully secure hardware-based solution

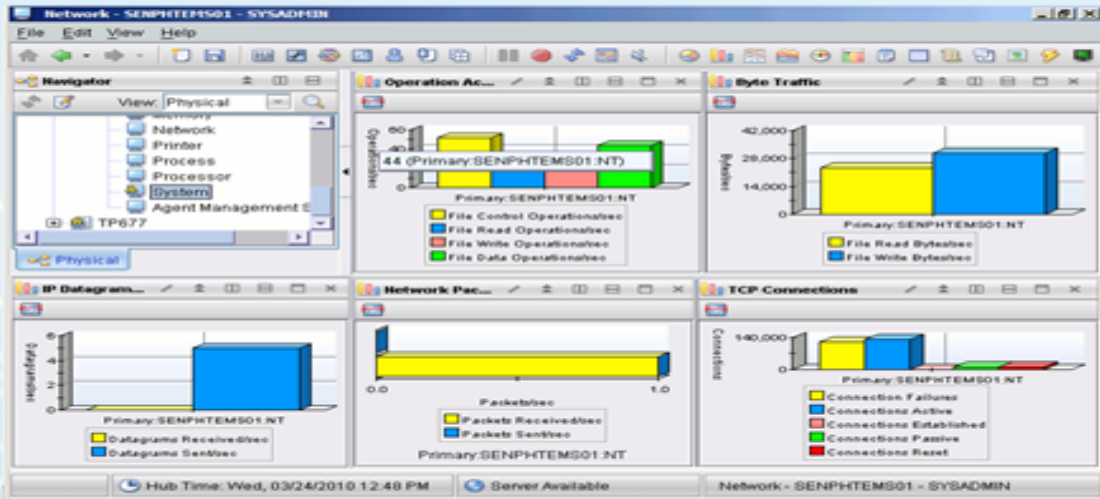
- Built to EAL-4+ and FIPS-140-2 Level 3 international encryption standards
- Rack mounted and tamper protected
- Target 100Mbps AES 256-bit encryption
- Intel/Linux (dual core, 6GB) application platform
- Provides **secure (encrypted)** connection back to Senetas Trusted Computing Facility



## Network Topology



## MonitorStream Portal



## Expanding our Cloud solutions

- Swiss leader in PKI,
- UK leader in messaging
- Microsoft in Defence and Government
- Novell
- IBM - Tivoli



## Core Product Strategy

- Maintain market leadership as developers of the 'most secure' / 'best performing' network encryption technology
- All future products will be designed with (ECC and 2 x RNG's)
- Be ready today for tomorrow's emerging network technologies (40Gbps & 100Gbps)
- Continued innovation in Quantum cryptography to further extend distance and speed

**EAL4+ today -> Tomorrow 'Secret' level**

**10Gbps today -> Tomorrow 100Gbps**



## Support and Training

- Introducing 24x 7 global support
- Establishing certified Training in
  - Melbourne
  - Sydney
  - Singapore
  - Basingstoke UK
  - Geneva Switzerland
  - Riyadh Kingdom of Saudi Arabia
  - Mumbai India
  - Hong Kong
  - Seoul Korea



## Risks

- Strong Aussie Dollar
- Long sales procurement cycle
- Rate of Growth in the Market place
- Not maintaining R&D spend
- Staff turnover
- Competitive pressure
- Manufacturing Forecast Cycle
- Slower than expect global economic recovery



## Business Benefits to Senetas

- Position Senetas as the only organisation to offer end to end security
- Increase the global addressable market
- Provide incremental revenue from existing customer base
- Will bring consulting and Products into one organisation within 2 years
- Reduce some of the volatility of our Product revenue stream



**“Ladies and Gentlemen,  
that concludes my  
address and I will hand  
the meeting back to the  
Chairman”**



**End**