SENETAS

Security without compromise

SENETAS CORPORATION

CORPORATE OVERVIEW

OCTOBER 2014

AGENDA

1. Introduction
2. Financial Performance and Outlook
3. Market Overview
4. Technology and Roadmap
5. Questions / Discussion

1.0 | INTRODUCTION

SENETAS CORPORATION

ASX: SEN

Market Cap. ($0.05 share):	$48 mill
Revenue:	$11.0 mill
EBITDA	$2.7 mill
Net Profit:	$2.9 mill
Net Cash 13/10/14:	$9.0 mill

Directors

Francis Galbally - Chairman

Andrew Wilson, CEO

Lt Gen Ken Gillespie (Non Executive)

Lachie Given (Non Executive)

Major Shareholders

Madison Park LLC	19.9%
Francis Galbally	13.1%

Capital Structure

Shares on Issue: 1,065 m



WHAT IS ENCRYPTION?



ENCRYPTION? WHAT IS IT

Encryption is the process of encoding messages or information in such a way that only authorised parties can read it.

SENETAS SOPHISTICATED DATA ENCRYPTION DEVICES

Overview

World leading developer of high speed, Layer 2 network data security devices

- Products meet stringent world-wide standards for security
- Products deployed across 29 countries
- Head office in Melbourne, Australia
- ASX-listed company since 1999 (ASX: SEN)

Mission

Leadership position in fast, secure Layer 2 communications

- Organic growth through continued commitment to innovation and research and development
- New markets (near-term focus is UK/Europe/ Middle East)
- Build on the strength of the revitalised SafeNet relationships to grow pipeline and revenue

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BUSINESS HIGHLIGHTS

Global leader	• A leading developer of Layer 2 network data encryption devices • IP-rich with **excellent R&D and product engineering capabilities**
Advanced products	• Sophisticated, **high speed, scalable, low latency** with plug-and-play **ease-of-use** • Products integrate into **both point-to-point** and **meshed network** topologies
Uniquely certified	• **Only organisation globally** with Layer 2 data encryption products certified against each of FIPS, Common Criteria and CAPS
Global customers	• Trusted to secure some of the world's most critical data • Supplies a range of **government departments, military, defence and law enforcement agencies as well as financial and commercial operations**
Compelling growth prospects	• New opportunities in **new markets** (e.g. UK), continuing **product innovation and development** (up to 100Gbps) and **additional distribution channels**
Positive sector themes	• Explosive growth in global data usage for foreseeable future • Continually increasing focus on both data security and network efficiency
Experienced leadership	• **CEO** with more than 20 years in business and IT sector (with Senetas since 2000) • **CTO** is the co-founder of the encryption business (acquired by Senetas in 1999)

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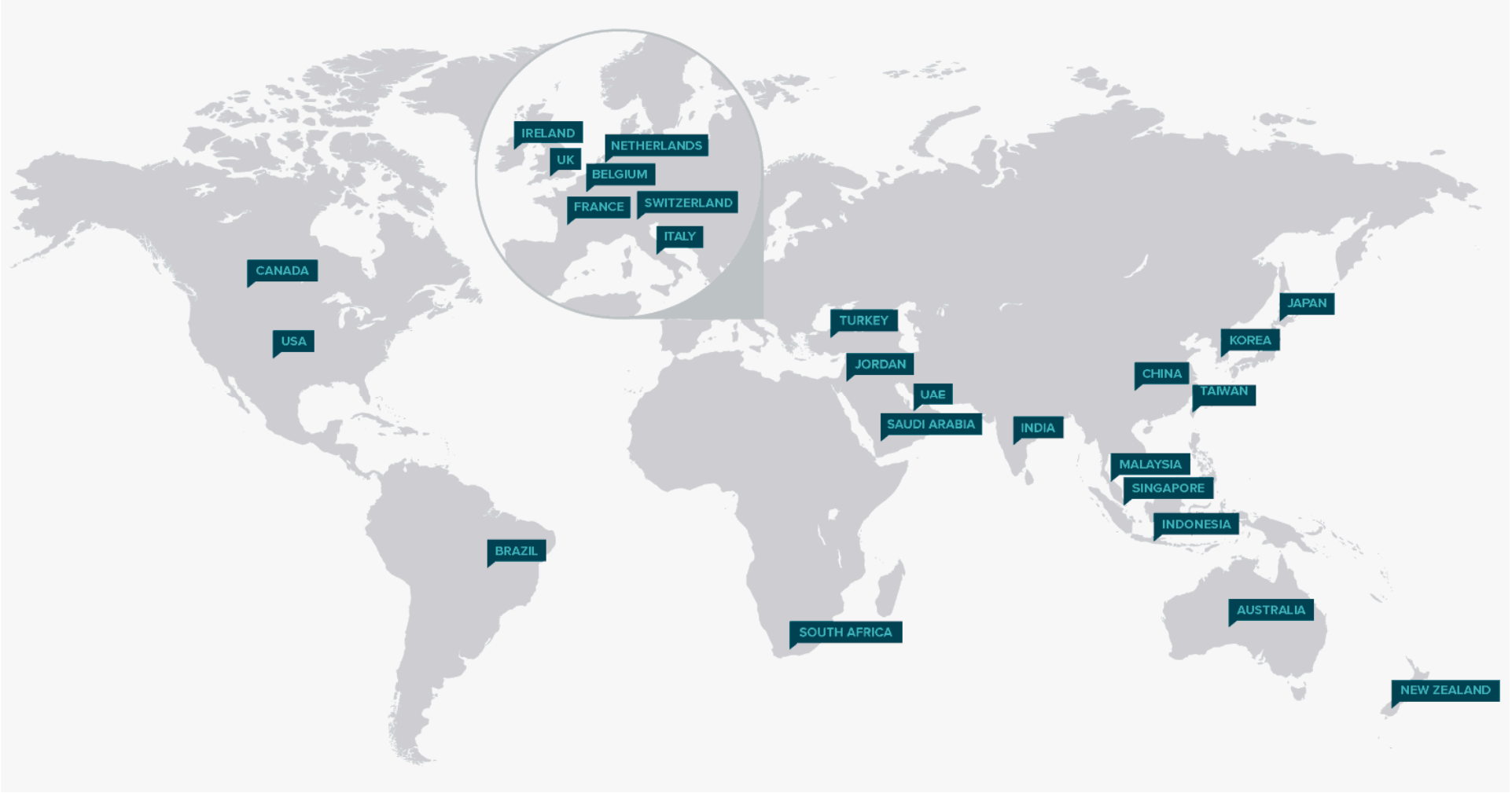
GOVERNMENT, DEFENCE AND COMMERCIAL CUSTOMERS ACROSS 29 COUNTRIES



2.0 | FINANCIAL PERFORMANCE AND OUTLOOK

30 JUNE 2014 RESULTS HIGHLIGHTS

- 2014 NPBT of $2.5m vs 2013 loss before tax of $893k;
- $44% increase in operating revenue to $11m;
  - Increased in international sales from SafeNet
  - Increased maintenance income.
- R&D tax refund of $1.4m
- 40% increase in net assets to $8.5m.
- Debt free and strong improvement in operating cash flows.
- $6.8m cash at bank at 30 June 2014, at 13/10/14: $9m

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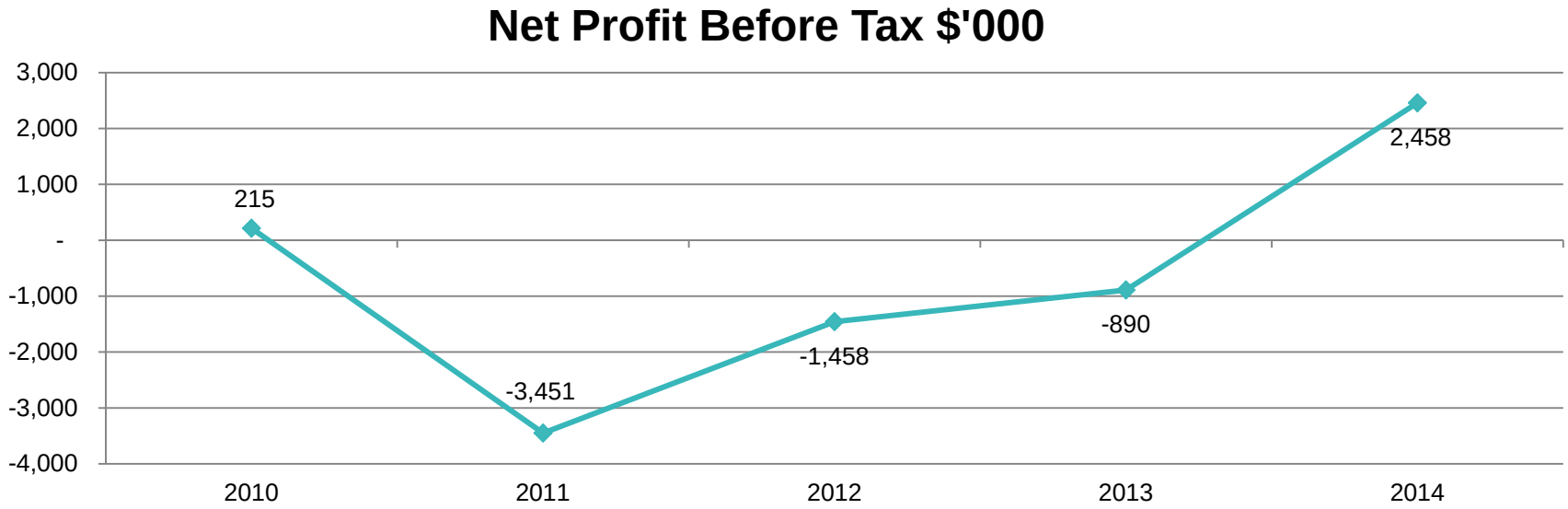
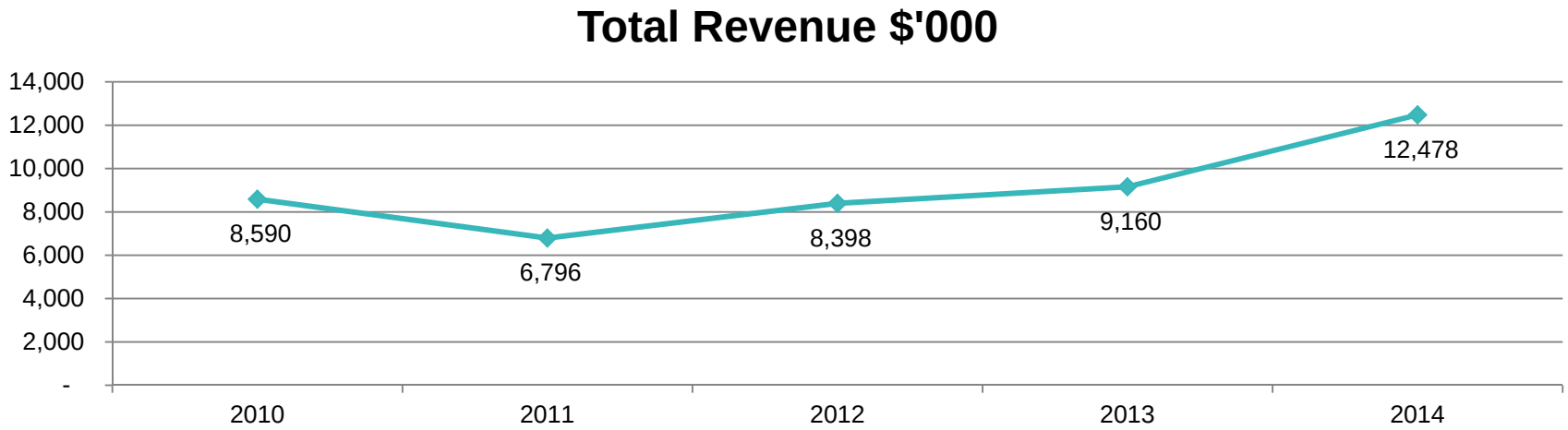
HISTORICAL REVENUE & PROFIT PERFORMANCE





GO TO MARKET MODEL

- Senetas has appointed SafeNet Inc. as its world wide master distributor (excl Australia and New Zealand).
  - SafeNet Inc. reaches across 100 countries and has 25,000 customers; 200+ strong sales force:
    - » Senetas shares in revenue from SafeNet product and maintenance sales;
    - » Senetas manufactures product in Australia on behalf of SafeNet; and
    - » Senetas provides customer support services.
- In Australia and New Zealand, Senetas sells and distributes via a number of partners including SafeNet Inc. UXC Ltd, Nextgen and HP.

NEAR TERM MARKET DRIVERS

- **NEW DISTRIBUTION DISTRIBUTION RELATIONSHIP WITH SAFENET**
  - Far greater access to key global markets;
  - Direct customer contact with largest customers; and
  - Relationship strongest it has ever been.
- **SPECIFIC MARKET ENCRYPTORS**
  - Custom algorithm encryptors; and
  - New NATO certification and UK CPA certification being pursued.
- **PRODUCTS JUST RELEASED**
  - New low cost appliance to open up commercial market and new geographies.
- **GROWING AWARENESS OF RISK TO SENSITIVE DATA**
  - Unprecedented level of cyber threat;
  - Awareness of the risk of vulnerability of high speed data transmissions; and
  - Growing data volumes leading to increase in use of Layer 2 networks.

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ACQUISITION OF SAFENET BY GEMALTO

- 8 August 2014, Gemalto NV (‘Gemalto’) entered into an agreement to acquire SafeNet;
- Gemalto is a substantial global organisation, with a turnover of US$3 billion in 2013;
- Senetas should benefit from Gemalto’s presence in 45 countries and commercial enterprise sector focus;
- SafeNet’s product portfolio (including high-speed encryption supplied by Senetas) is complementary to Gemalto’s portfolio and market positioning.

KEY STRATEGIC GROWTH OBJECTIVES FOR 2015

- Continue to deliver strong financial results;
- Grow international sales and extend collaboration with SafeNet in marketing and sales planning;
- Increase focus on Asia, Eastern Europe, Middle East and the commercial market as an opportunity for sales growth;
- Strong commitment to Research and Development;
- Introduction of new products and features; and
- Maintain and enhance international security certifications.

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3.0 | MARKET OVERVIEW

2014/15: THE YEAR OF ENCRYPTION

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10 January 2014 Last updated at 00:05 GMT

2014: The year of encryption

By Paul Rubens
Technology reporter

CSIS | CENTER FOR STRATEGIC & INTERNATIONAL STUDIES

Strategic insights and bipartisan policy solutions

2014 as the Year of Encryption: A (Very) Brief History of Encryption Policy



By James Andrew Lewis
JAN 10, 2014

Unisys Security Experts Predict 2014 Will Be "The Year of Encryption" as Organizations Combat Growing Cyber Threats

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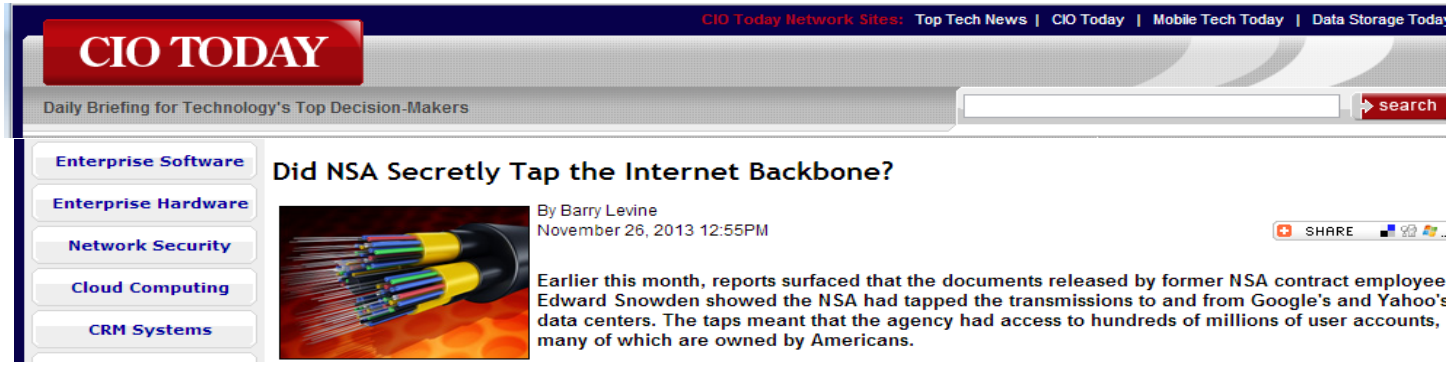
EVERYWHERE YOU LOOK…





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KEY MARKET CHARACTERISTICS

- Government & Defence agencies regulated to use FIPS, CC or CAPS products;
- Demand for high speed networks e.g. > 1Gbps;
- Mature commercial regulatory environment – e.g., directors duties, privacy legislation, banking prudential requirements, etc…;
- Culture of transparency when significant cyber incidents occur;
- Increasing usage of Layer 2 networks; and
- Lower competition.

MARKET DRIVERS

- **GROWING AWARENESS OF RISK TO SENSITIVE DATA**
  - Rise in the level of cyber threat;
  - Awareness of the risk of vulnerability of data in transit; and
  - Growing data volumes = increased use of Layer 2 networks. (in key markets).
- **MATURING REGULATION**
  - Data Breach notification and privacy legislation;
  - Health Act's, HIPPA; and
  - Financial Prudential Regulation.
- **CHANGES IN TECHNOLOGY**
  - Cloud based technologies & data analytics.

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4.0 | TECHNOLOGY

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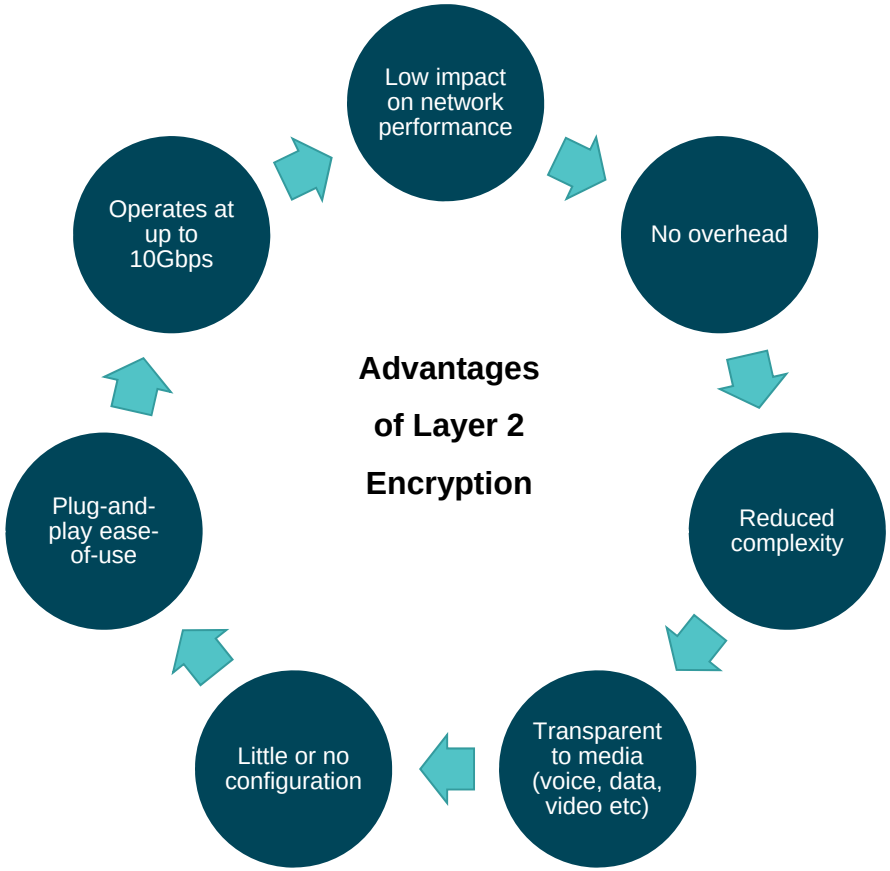
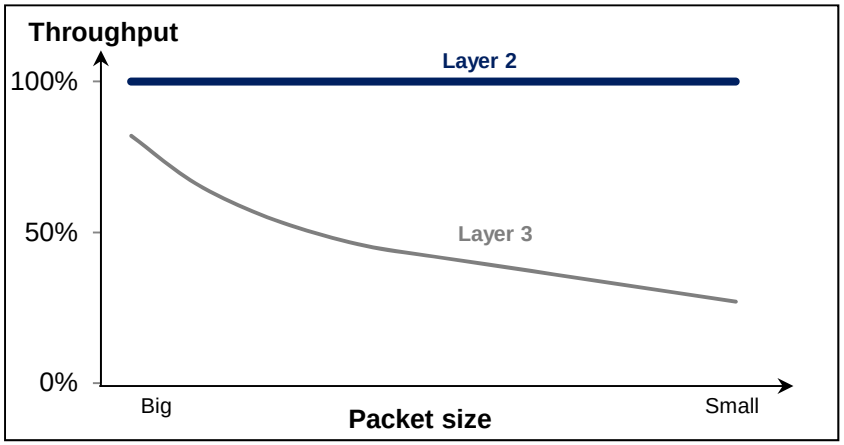
SENETAS ENCRYPTION TECHNOLOGY

- **PURPOSE BUILT ENCRYPTION TECHNOLOGY**
- **OVERCOMES TRADITIONAL ENCRYPTION LIMITATIONS:**
  - Complexity
  - Incompatibility
  - Performance
  - Operate in either point-to-point or meshed/multi-point networks
- **ENCRYPTION PRODUCTS FOR SECURING THE FOLLOWING TYPES OF NETWORKS**
  - Government & Defence networks
  - Data centres
  - Carrier wide area networks
  - Industrial control systems

UNLIKE LAYER 3, LAYER 2 ENCRYPTION ENABLES HIGH SPEED, SCALABLE, SECURE DATA TRANSFER WITH NEAR ZERO LATENCY



- **APPROXIMATELY 90% OF GLOBAL NETWORKS ARE LAYER 3 IP/TCP ROUTED NETWORKS**
- **NETWORK TOPOLOGIES ARE EVOLVING AND THE USE OF LAYER 2 IS BECOMING INCREASINGLY POPULAR**
- **LAYER 2 ENCRYPTION IS OFTEN REFERRED TO AS A "BUMP IN THE WIRE" TECHNOLOGY**
  - Conveys the simplicity, maintainability and performance benefits of Layer 2 solutions
  - Designed to be transparent to end users with little or no performance impact on network throughput



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OUR NEW CN6000 SERIES ENCRYPTORS OF ADVANCED LAYER 2 ENCRYPTION TECHNOLOGY

- Designed to address the need for high speed (up to 10 Gbps), highly secure, highly resilient wire speed encryption of Ethernet traffic across both dark fibre and metro or wide area Ethernet services
- More than 2 years R&D with customer input
- Common Criteria AEL2+, FIPS 140-2 Level 3 and CAPS certification in progress

CN4000 10G Ethernet encryptor



- **Launched March 2014**
- High performance entry level product;
- Designed for SME, Medium enterprises and branch office deployments;
- Small desk-top form factor operating at full line rate encryption up to 1Gbps at Layer 2;
- Fully interoperable with existing CN/CS series of Ethernet devices; and
- Entry-level with full CN Series capabilities.

CN6010 Ethernet encryptor



- **Launched January 2014**
- Expanding the CN6000 series;
- Same enclosure design benefits as incorporated in the CN6100:
  - 1U form factor;
  - Dual hot swappable power supplies; and
  - User replaceable/hot swappable fan tray.
- Fully interoperable with existing CN/CS series of Ethernet devices.

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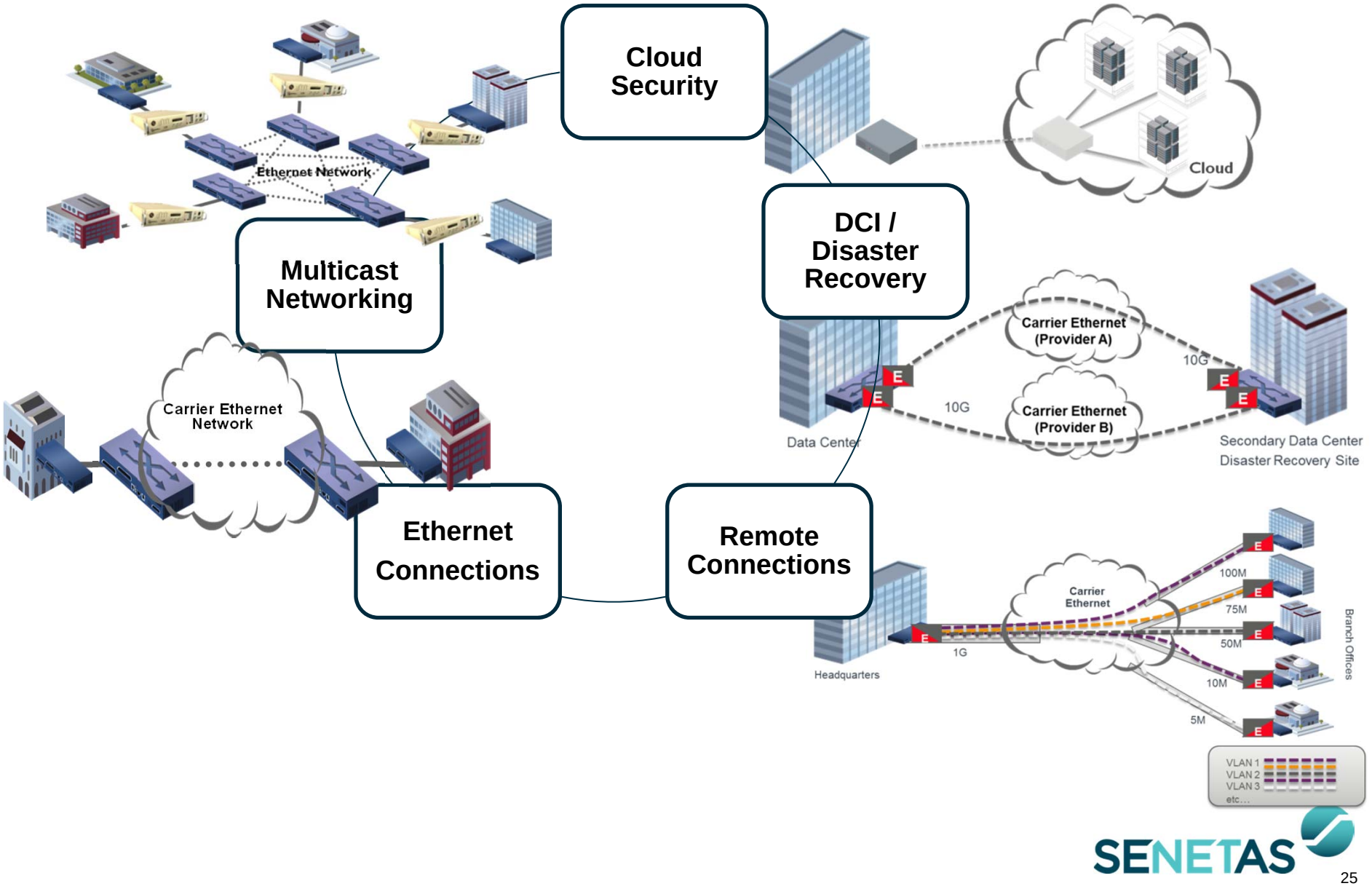
HIGH SPEED IS EVERYWHERE FOR EVERYONE



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IT HAS BEEN PROVEN THAT OPTICAL FIBRE IS INHERENTLY INSECURE

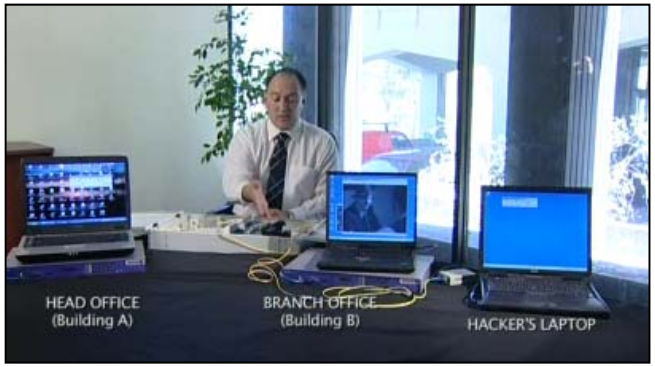
MYTH Optical fibre is inherently secure

TRUTH Anyone with mischief or criminal intentions can access data anywhere along an optical cable that is not adequately protected

- General Alexander Haig[1] showed that a readily available device that clamps onto fibre, bending it sufficiently to extract a signal, could be used to capture information without damaging the fibre or disrupting communications, virtually undetectable to sender and recipient
- Even dedicated or dark fibre used by a single company point-to-point is vulnerable



Inexpensive, easily accessible hacker's clip-on coupler device



Senetas demonstration video available at www.senetas.com.au

[1] FORMER US ARMY GENERAL AND WHITE HOUSE CHIEF OF STAFF, DEMONSTRATED ON "21ST CENTURY BUSINESS" CHANNEL. SEE HTTP://WWW.SENETAS-EUROPE.COM/SE_SITE_2011/NW_ENCRYPTION/SENETAS/21ST_CENTURY_BUSINESS_CLIP.HTM

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TRIPLE CERTIFIED SENETAS ENCRYPTION PRODUCTS

Government and Defence

- Certification received in **March 2012** (certificate numbers 1267 and 1268)
- Required for purchase of cryptographic products by **US Federal Government and defence customers**
- Fibre Channel encryptors were awarded FIPS 140-2 Level 3 certification
- The certification means the Senetas has the only US federal government endorsed purpose-built solution for native encryption of Fibre Channel SAN traffic both outside and inside the data centre
- FIPS certification is not the same as “FIPS compliant” or statements like “implements FIPS approved algorithms”

- Certification received in **November 2009** (certificate number 2011/77)
- CC Evaluation Assurance Level 4 (EAL2+) is required for **Australia and New Zealand customers** as well as many other foreign governments
- CC is an international standard (ISO/IEC 15408) for computer security certification
- Developed through a collaboration among Canada, France, Germany, the Netherlands, the UK and the US
- Senetas had previously achieved EAL4 certification, however enhanced EAL4+ accreditation now covers a broader product set[1]

- Certification received in **November 2012** (certificate numbers 1223355849AES)
- Required for purchase of cryptographic products by the **UK Government and Defence Departments**
- Senetas has the only Layer 2 Ethernet encryptor device available to the UK government and Defence Department to purchase
- Wide range of previously unavailable opportunities being actively pursued by Senetas Europe

PRODUCT ROADMAP

NEAR-TERM PRIORITIES

- **NEW AND INNOVATIVE PRODUCT ENHANCEMENTS**
  - CN4010 entry level encryptor – Now launched
  - CN6010 cost reduced 1 Gb – Now launched
  - CN8000 multi-slot – Trialling with Customers
- **SPECIFIC MARKET ENCRYPTORS:**
  - Custom algorithm encryptors
  - Continuing focus on product certifications (FIPS, CC, UK CPA & NATO)
- **100G DEVELOPMENT WELL ADVANCED. ESTIMATED RELEASE 2016.**
- **INVESTIGATIONS INTO A RANGE OF NEW PRODUCT IDEAS.**

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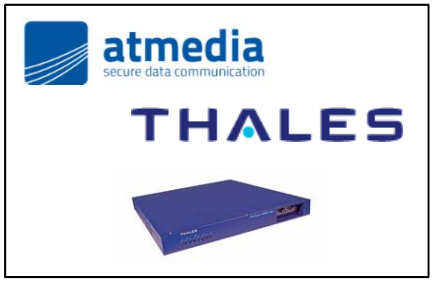
THERE ARE ONLY 3 OTHER PLAYERS WHO COMPETE IN THE MARKET FOR LAYER 2 CRYPTO DEVICES



- ATmedia is a Germany-based provider of high speed encryption products
- Thales, a €5bn France-based diversified equipment and solutions provider, is a reseller of ATmedia Layer 2 encryptors through its e-Security division
- Devices have various certifications, including FIPS 140-2 Level 3, Common Criteria EAL 3, and BSG (Germany)



- US-based private company (previously CipherOptics)
- Provides a broad range of network security solutions for government agencies and federal organisations
- Offers Layer 2 encryption and key management solutions for securing wide area networks
- Certified with FIPS 140-2 Level 2



- Swiss-based member of Crypto Group
- Provides encryption solutions for corporate and municipal optical networks
- Offers Ethernet Layer 2 encrpytion devices for up to 10Gbps
- Not aware of relevant certifications

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6.0 | QUESTIONS

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