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ASX ANNOUNCEMENT

Senetas Corporation Limited Half-Year Results Announcement for the six months to 31 December 2020

- Group operating revenue of $14.3 million – up 35%
- EBITDA for the Senetas business segment of $3.9m
- Operating profit before tax for the Senetas business segment of $3.5 million – up over 250% on the underlying Senetas segment result in HY2020
- Group net loss before tax of $1.7 million – includes a net loss before tax from Votiro of $5.1 million
- Group EBITDA attributable to members of $1.6 million (HY2020 $0.1 million)
- Group net profit before tax attributable to members of $0.4 million
- During the half-year Senetas announced the first to market high-assurance quantum resistant network encryption cybersecurity solution
- Sales of 100Gbps encryptors to end user customers doubled in HY2021
- Strong balance sheet position and no debt

Senetas Corporation Ltd (ASX: SEN) (Senetas / the Company), today announced its results for the half year ended 31 December 2020 (HY2021).

HY2021 financial highlights

Half year ended 31 December 2020 ($000's)	HY2021	HY2020*
Revenue from ordinary activities	14,272	10,601
Gross profit	12,159	9,008
Other income	349	324
Share of loss of an associate (Votiro)*	-	(1,197)
Profit (loss) before tax	(1,666)	(509)
Tax expense	(734)	(480)
Net profit (loss) after tax	(2,399)	(990)

**Votiro results were consolidated from November 2019. Loss of associate in HY2020 reflects Senetas's share of Votiro results from July-October 2019. HY2020 results are restated for adjustment to share based payments expense.*

The following table highlights the underlying operating results for the Senetas operating segment for HY2021.

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Half year ended 31 December 2020 ($000's) Senetas business segment	HY2021	HY2020
Revenue from ordinary activities	12,760	9,524
Gross profit	10,699	8,027
Other income	369	324
Profit before tax	3,464	103
Adjustments to calculate underlying Senetas segment net profit before tax		
Share of loss of an associate (Votiro)*	-	1,197
Loss on step acquisition	-	4
Underlying Senetas segment net profit before tax	3,464	1,304

* Loss of associate in HY2020 reflects Senetas's share of Votiro results from July-October 2019

- Group operating revenue of $14.3 million was up 35% over the prior period (HY2020: $10.6 million)
- Group operating revenue includes $1.5 million of revenue from Votiro for the period (HY2020: $1.1 million)
- Gross margin for the Group of 85% was the same as the prior period
- Group EBITDA attributable to members for HY2021 was $1.6 million (HY2020: $0.1 million)
- The Group net loss before tax of $1.7 million includes a $5.1 million operating loss before tax from Votiro
  - Votiro loss before tax includes large non-cash items such as share based payments expense of $1.1 million and amortisation of $1.1 million
- The Group net loss after tax was $2.4 million including a $4.9 million loss after tax from Votiro
- The operating profit before tax for the Senetas operating segment in HY2021 was $3.5 million, up over 250% on the underlying Senetas segment result in HY2020
- R&D costs were 5% higher in HY2021 primarily associated with Senetas's investment in Quantum resistance and transport layer independence
- Cost reduction initiatives implemented during FY2020 continued to provide benefits in HY2021 with corporate overheads down by almost 20% compared to the prior period
- Senetas retains a strong balance sheet with no debt and $13.8 million of consolidated cash at 31 December 2020

Commenting on the six months to 31 December 2020, Senetas CEO, Andrew Wilson, said: "In the first half of FY2021 Senetas has reached some key milestones and seen the business grow strongly despite the impacts COVID-19 has had on the global economy.

"Sales growth for the Senetas business has occurred across all of our markets, but with the strongest growth coming from the Middle East and Europe region driven by further penetration into Middle Eastern markets where we saw our largest ever sale of 100Gbps encryptors.

"Importantly, after some softness in the US commercial market earlier in the calendar year, there were some encouraging signs of a good rebound in that segment later in the December 2020 quarter.

"Sales highlights included a doubling of 100Gbps encryptor sales compared to the first half of FY2020, and our first sales of that product into the Australian market. After a long period of development, customer trials and regulatory approvals, Senetas also made the first sales of its custom algorithm products that were made specifically for the eastern Europe market.

"We are excited to have made the Company's first ever sales of SureDrop and our virtual/software based encryption products during the half. We are hopeful that as sales momentum builds over time these products can make important contributions as additional annuity style revenue streams.

"In HY2021 Senetas also released the first to market high-assurance quantum resistant network encryption cybersecurity solutions that will provide customers with necessary long-term protection against the emerging threat of quantum computing by adding quantum resistant features to its current hardware network encryption platform. These solutions are expected to provide additional revenue opportunities for Senetas as the threats from quantum computing emerge in the coming years.

"Strategic plans and product development at Votiro remain on track despite a slowdown in sales execution through the middle part of the 2020 calendar year. Votiro contributed revenue of $1.5 million for HY2021 and the December 2020 quarter sales have rebounded strongly. We remain very confident in the outlook for that business.

"Senetas's balance sheet remains strong with $13.8 million of cash on hand and no debt at 31 December 2020."

Operational review

Group revenue growth of 35% in HY2021 was driven by good growth in all regions.

Senetas segment operating revenue was up 34% with growth in both product sales and maintenance revenue over 30% up on the prior period. Strongest growth was in the Middle East and Europe region with revenue up over 80% led by the Middle East where sales to government customers have been growing strongly. Recurring maintenance revenue was 48% of total Senetas segment revenue.

Senetas's 10Gbps and 1Gbps encryptors remain the largest driver of revenue, however, 100Gbps encryptors are building an increasing share of sales. Key sales highlights for the Senetas business included:

- The largest ever single order for 100Gbps encryptors from a Middle Eastern government agency;
- First sales of 100Gbps encryptors into the Australian market;
- First sales of the new custom algorithm product for Eastern Europe after all regulatory approvals were received in HY2021; and
- The first sales of SureDrop and virtual/software encryption products

Net profit before tax for the Senetas business segment of $3.5 million was up over 250% on the underlying (prior to any impacts from the investment in Votiro) net profit before tax in HY2020 of $1.3 million.

Votiro operating revenue for HY2021 was $1.5 million, up from $1.1 million in HY2020. Votiro's sales growth was impacted by a slowdown in sales through the June and September 2020 quarters as a result of COVID-19 related disruptions. Encouragingly there was a strong rebound in Votiro sales in the December 2020 quarter.

HY2021 is the first time a full half year of Votiro results has been consolidated in Senetas's Group first half results. The Votiro net loss before tax of $5.1 million in HY2021 compares to a net loss before tax of $0.6 million for the November and December 2019 months that Votiro was consolidated in the prior period. The Votiro segment loss before tax includes non-cash items such as share based payments expense of $1.1 million and amortisation of $1.1 million.

Gross margins for the Group remained steady at 85%.

Cost reduction initiatives across the group resulted in lower corporate overheads. Senetas corporate overheads were down almost 20% on the prior period. R&D costs increased 5% in HY2021.

R&D and new product development

The major areas of R&D focus for the year to date and remainder of FY2021 include:

- The release of Senetas's quantum resistant network encryption solution;
- The completion of certification and regulatory processes to allow the first sales of Senetas's custom algorithm solutions for the Eastern Europe market;
- Product upgrades; and
- Enhancements to Senetas's hardware and virtual/software product capabilities

In December 2020 Senetas announced the first to market high-assurance quantum resistant network encryption cybersecurity solution. Universally regarded as the most significant threat to cybersecurity in history, quantum computing will put today's conventional mathematics-based public key data encryption at risk.

Senetas's quantum evolution enables customers to combine both conventional and quantum resistant encryption in a single platform – 'hybrid encryption' - providing customers a secure transition starting 'today' to a future quantum-safe world.

Senetas is making further enhancements to its hardware and virtual/software product capabilities to broaden the market opportunities and to allow their operation in more customer environments. Specifically, these developments include further transport layer independence capabilities for hardware encryptors so as they can be deployed in more complex layer 3 environments; and enhanced capabilities for Senetas's virtual/software encryption solutions to provide access to more cloud environments.

Final regulatory clearances and certifications were received for sale of the new custom algorithm encryptors during HY2021 and the first sales of the products into Eastern Europe were made in the December 2020 quarter.

Quantum computing: The most significant threat to cyber security in history.

Quantum computing will render today's mathematics-based public key data encryption ineffective. Tech giants like IBM, Google, Microsoft and Amazon are competing with State sponsored programs to develop a quantum computer outside lab environments. Whilst the

potential use of quantum computers will be enormous for, research, AI, medicine and big data, the risks for cyber security are enormous if in the hands of rogue states or cyber criminals.

IBM estimates that a working quantum computer outside a lab environment will be a reality within the next five years. However, the likelihood that rogue states are working on quantum computing is high, and it is possible that quantum computing will be in use before the world is alerted to its development.

The advent of the world's first practical quantum computer will render today's conventional public key encrypted infrastructures unsecure, making sensitive information vulnerable across governments', defence agencies', and businesses' public and private networks.

Today, to decrypt conventionally encrypted data could take thousands of man-years using the most powerful computers available. In the future quantum computers will enable decryption of that data in a matter of seconds, minutes or hours. Good cybersecurity demands that data be secure for the very long-term.

Accordingly, Quantum Resistant Encryption (QRE) will be essential for long-term data protection.

Senetas is the first company to take to market high-assurance, high-speed network encryptors that can provide Quantum Resistant Encryption (QRE) in addition to today's state-of-the-art classical encryption security. Our government, defence and business customers can make a secure transition to a future quantum-safe world.

The Senetas quantum resistant encryption network security solution supports all of the quantum encryption algorithms selected as finalists by the US National Institute of Standards and Technology (NIST) prior to their expected standardisation as soon as 2022. The Senetas solution also supports the latest European Telecommunication Standards Institute (ETSI) standards for quantum key distribution – an important and emerging security capability that has applications in 5G networks.

Future proofing encryption solutions today requires conventional cryptography and quantum resistant encryption – hybrid encryption. Senetas' quantum resistant encryption will be available to existing customers on their current platforms. The availability of quantum resistant capabilities in a commercial product today, marrying both conventional and quantum security in a single solution, allows Senetas customers to start their transition to a quantum-resistant future.

Votiro

Demand for software tools to protect against known and unknown malware and ransomware attacks is anticipated to grow strongly in future and Votiro is a world leader in the development of cybersecurity technology to protect organisations from those threats.

Ransomware is the fastest growing cyber threat. The Centre for Internet Security states that ransomware has become a significant threat to US businesses and individuals during the past 2 years. Crowdstrike in its Incident Response and Proactive Services report from 2020 and insights for 2021 advises that in 2020 more than 80% of malware attacks were a form of ransomware[1]. These attacks are driving a demand for protection against zero day (unknown) threats.

[1] https://www.crowdstrike.com/blog/key-themes-findings-from-cyber-front-lines-report/

This demand is driving increased interest in Votiro's Secure File Gateway products and sales growth in the future is expected to be considerable and has the potential to develop into a substantial annuity business.

After a slowdown in sales as a result of COVID-19 through the middle of the 2020 calendar year, there was a strong rebound with good sales growth in the December 2020 quarter, and that momentum has led to a good start to the new calendar year.

In July 2020 Votiro announced it had signed a partnership and distribution agreement with Thales in relation to its Secure File Gateway product line in the US market. The US sales pipeline is growing strongly with the partnership and is leading to significant sales opportunities with both government and commercial organisations.

The US market remains the key growth opportunity for Votiro with a number of large scale trials underway. Votiro's Secure File Gateway was recently selected by a Fortune 500 company to protect it from malware attacks with deployment to over 50,000 users.

Votiro has also just announced a partnership with Menlo Security, a cloud security leader, to provide a total security solution for file downloads. Through this partnership Votiro and Menlo provide a zero trust approach to file downloads.

Senetas remains very excited about the growth potential of the Votiro business and its ability to deliver significant value to Senetas shareholders. A rights issue is proposed before the end of FY2021 in order to support Votiro's working capital requirements as it builds towards cash flow breakeven. The rights issue is up to a maximum of US$5 million and Senetas has committed to participating in the rights issue for a minimum of US$3 million.

In recent months Senetas has provided Votiro with interim financing via a bridging loan (US$1.6 million at 31 December 2020 – US$2.2 million at 26 February 2021) until completion of the rights issue. It is expected that the bridging loan will either be converted into shares as part of the rights issue or repaid via the proceeds of the rights issue.

Senetas expects to maintain a controlling shareholding of between 55-60% in Votiro after the rights issue has been completed.

Balance sheet and cash flow

Consolidated net assets of $17.6 million were 13% lower at 31 December 2020 with no debt and cash on hand of $13.8 million. Lower net assets reflect the current period loss from Votiro.

Lower goodwill and intangible assets at 31 December 2020 reflect amortisation during the period ($1.2 million) and foreign exchange movements due to a lower US dollar ($1.4 million).

Receipts from customers were up 44% during HY2021. Group net cash outflows from operating activities was $1.4 million comprising $1.9 million of operating cash inflows for the Senetas business segment and $3.3 million of operating cash outflows for the Votiro business segment.

Outlook

Commenting on the Company's outlook, Mr Wilson said: "HY2021 was a very strong start to the financial year, particularly given the uncertainties created by COVID-19.

"Whilst the Senetas business weathered the COVID-19 impacts particularly well, the Votiro business saw a significant slowdown in sales through the middle of last calendar year. However, a strong sales result in the December quarter and a developing pipeline of new opportunities early in 2021 are encouraging signs for the growth of the Votiro business.

"Senetas revenue for the first half was our strongest ever result which is a credit to the Senetas team and our global distribution partner, Thales. The sales pipeline for the balance of FY2021 is encouraging and we are optimistic that revenue in the second half of the financial year can be ahead of the prior corresponding period, although not at the same growth rates that were achieved in HY2021.

The first sales of our custom algorithm, SureDrop and virtual/software encryption products during HY2021 represented an important milestone for the business after extended periods of development, certification, marketing and customer trials. These products are important because they expand the market reach and range of customer environments in which Senetas products can be deployed. They are unlikely to make a significant contribution to Senetas's revenue and earnings in the near term, however, sales momentum is expected to build gradually as they are successfully deployed in more customer environments.

"R&D expenditure for the remainder of FY2021 is expected to be in line with the first half and the reduction in corporate overhead costs should continue into the second half of FY2021.

"With the increasing number of cybersecurity threats and the recent focus from Australian governments on sovereign cybersecurity solutions Senetas remains well placed for future growth."

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ABOUT SENETAS CORPORATION LIMITED

Senetas is an Australian public company (ASX:SEN) specialising in cybersecurity solutions - from high-performance network encryption to secure file-sharing collaboration and anti-malware applications. Used by global commercial and technology enterprises and governments in more than 45 countries, Senetas solutions are distributed and supported internationally by Thales, the world's largest security company.

Senetas cybersecurity solutions are trusted to protect business, government, defence, national infrastructure, cloud and technology service provider data against breaches and prevent crippling cyber-attacks.

A global leader in the protection of data transported across the high-speed networks essential to businesses and governments, Senetas provides network independent encryption hardware and virtualised solutions. These share a crypto-agile and quantum ready cybersecurity platform.

Certified by leading independent authorities (Common Criteria, FIPS and NATO), Senetas encryptors leverage end-to-end encryption and state-of-the-art key management providing long-term data protection without compromising network performance.

Senetas's encrypted file-sharing and collaboration application, SureDrop, provides the information security and data sovereignty control essential in today's world of rapidly growing remote work. SureDrop has the usability of box-type file-sharing and other collaboration tools, but with the added benefits of Microsoft 365, Outlook and Azure integration. It may be deployed on premises or as a service provider Software as a Solution (SaaS).

Secure File Gateway by Votiro, a Senetas subsidiary, prevents crippling malware and zero-day attacks such as ransomware and viruses. Votiro's award-winning and patented technology prevents malicious file content through email, web downloads and other file gateways.

Senetas solutions have been trusted to protect much of the world's most sensitive information for more than 20 years. They are used to protect everything from government and defence secrets to intellectual property, financial transactions, citizen privacy to real-time CCTV networks and critical national infrastructure.

www.senetas.com

ABOUT VOTIRO

Votiro is an award-winning cybersecurity company with a mission of securing organizations from all file-borne threats. Its proprietary, award-winning positive selection technology allows users to safely open email attachments, download and transfer files, share content, while keeping performance and functionality intact. With over 400 customers globally, Votiro has offices in US, Singapore, Australia, and Israel. Votiro is a Gartner Cool Vendor award winner and certified by the international standard of Common Criteria for Information Technology Security Evaluation (ISO/IEC 15408). Votiro has also been recently recognised as Best CDR Provider by the 2020 Cybersecurity Excellence Awards and named a Bronze winner in the Hot Security Technology Category by the 2020 Infosecurity Products Guide Awards.

www.votiro.com