



**For Immediate Release**

**23 MAY 2006**

**ENDACE LIMITED**

**PRELIMINARY RESULTS ANNOUNCEMENT  
For the year ended 31 March 2006**

Meetings will be held today at Buchanan Communications, 45 Moorfields, London  
Analysts 10:00am  
Press 11:30am  
PCB Lunch Briefing 12:30pm

Endace Limited (the “company” or “Endace”) (AIM: EDA), the world leader in the acceleration of network security and network traffic analysis applications, is pleased to announce its preliminary results for the year ended 31 March 2006. This follows the company’s successful fund raising and admission to the Alternative Investment Market (AIM), a market regulated by the London Stock Exchange, in June 2005.

**Highlights**

- Commenced introduction of next generation Data Acquisition and Generation technology architecture (DAG-II) across all new DAG cards.
- New markets penetrated, including the financial services market. The largest customer for 2006 is an internationally recognised financial services firm.
- Customer numbers grew by 111% to 195 customers in the twelve months to 31 March 2006.
- Increased customer spread, with 58% of total sales generated by the top 10 customers, compared with 66% in the year ending 31 March 2005.
- Direct sales forces now established in the US and Europe, with distributors appointed in several new countries including Germany, Switzerland, Austria, Poland, South Africa, China, Singapore, Malaysia, Taiwan and South Korea.
- New Finance Director appointed – Neil Hopkins, currently C.F.O. to become Finance Director, succeeding Claire Mitchell.
- Stuart Wilson joined Endace as VP Engineering. He will be appointed to C.T.O. on 1<sup>st</sup> June 2006. Professor Ian Graham, current C.T.O will become Chief Scientist.
- Successful admission to AIM in June 2005, raising £8m (gross) (US\$14m).

## Financial Summary

	Year ended 31 March 2006	Year ended * 31 March 2005	Change
Revenue	\$10.9m	\$4.4m	+150%
Profit before FX gains and tax	\$0.7m	\$0.5m	+40%
Profit before tax	\$1.4m	\$0.6m	+133%
Product gross margin	78%	75%	+3%
Basic EPS	\$0.077	\$0.033	+\$0.044
Adjusted EPS	\$0.075	\$0.032	+\$0.043

\* Note: The results presented in the Admission document dated 10 June 2005 were shown on a pro-forma basis consolidating the accounts of all Endace companies as if they had been under common ownership within a formal legal group for the previous three years. Under the principles of merger accounting the comparatives for 1 April 2004 to 30 September 2004 include only Endace Technology Ltd. The comparatives for the period ended 31 March 2005 cover Endace Technology Ltd only for period 1 April 2004 to 23 November 2004 and the formal legal entity from 23 November 2004 to 31 March 2005 which includes all group companies.

- Revenue generated from product support increased to \$0.9m (2005: \$0.3m), being 8.2% of revenue demonstrating strong repeat revenue.
- Component shortages in the fourth quarter resulted in less than forecasted sales and profits.
- Selling, administrative and R&D costs have increased (by \$4.4m) in line with budget as the company's infrastructure was developed following the IPO.
- Pre-tax profit includes an exchange gain of \$730,000 (2005: \$55,000) arising primarily from unrealised gains on the conversion of foreign currency working capital to the company's functional currency, New Zealand dollars.

**Selwyn Pellett**, CEO of Endace, commented:

"I am very pleased to reflect on the progress made during our first year as a publicly quoted company and am delighted that in a period of infrastructure growth we were able to trade profitably. I am excited by the company's ability to exploit the rapidly expanding opportunities presented by the network security industry. The company's leading-edge products are widely recognised as an effective solution to many of the industry's challenges and we are strongly positioned to take advantage of this next year and beyond."

"Claire Mitchell, who for personal reasons has decided to return to Australia, will shortly step down as Finance Director. The board of Endace would like to place on record its appreciation for Claire's outstanding contribution to the development of this company, particularly during its successful flotation in 2005. She leaves with every good wish for her future in Queensland."

**Note:** Unless otherwise stated, all numbers are expressed in United States dollars.

**For further information, please contact:**

**Endace Limited**  
Selwyn Pellett, Chief Executive Officer

**Tel: + 64 9 262 7260**

**Buchanan Communications**  
Lisa Baderoon, Tim Anderson

**Tel: +44 20 7466 5000**  
**Mobile: +447721 413 496**

**About Endace:**

Endace ([www.endace.com](http://www.endace.com)) is a network security company with a market-leading technology. It is focused on the design and sale of specialised network interface devices and related computer systems for network security and measurement applications. The technology uses proprietary software, firmware and hardware, which has been developed over the last ten years. Endace's global customers operate high speed, critical networks with exacting security requirements and include western government security agencies, international telecommunication companies, some of the world's largest Internet service providers and major corporations. Founded in 2001 in Hamilton, New Zealand, Endace was admitted to the Alternative Investment Market (AIM), a market regulated by the London Stock Exchange, in June 2005.

**Offices:**

**New Zealand**

17 Lambie Drive  
Building 7  
Manukau City  
New Zealand  
Ph: +64 9 262 7260  
Email: [nz@endace.com](mailto:nz@endace.com)

**United Kingdom**

Sheraton House  
Castle Park  
Cambridge CB3 OAX  
United Kingdom  
Ph: +44 1223 370 176  
Email: [eu@endace.com](mailto:eu@endace.com)

**United States**

Suite 220  
11495 Sunset Hills Road  
Reston, VA 20190  
United States  
Ph: +1 703 964 3740  
Email: [usa@endace.com](mailto:usa@endace.com)

## **Overview**

Since our successful AIM flotation in June 2005, the company has passed a number of significant milestones, while continuing to achieve substantial year-on-year growth with strong sales in all markets and the addition of major new clients.

Achievements in this 9 month period are: the introduction of new product ranges to deal with increasing network speeds and complexities, the expansion of our global sales and distribution network, acceleration of R&D initiatives and the introduction of a number of management tools to drive business efficiencies and support our strengthened management team.

## **Financial**

Revenue in the year to 31 March 2006 was \$10.9 million, compared to \$4.4 million in the same period last year. Component shortages had an adverse impact, but the company made substantial progress towards minimising this through improved ordering systems and marginally higher inventory of key components. Based on the last four years' results, the company has achieved 69% compound annual revenue growth.

Revenue generated from product support increased to \$0.9m (2005: \$0.3m), being 8.2% of revenue demonstrating strong repeat revenue.

Costs were managed successfully, with an improvement in product gross margins while overhead costs, budgeted to increase following the company's flotation, have been contained within budget at \$7.3 million.

As a result, profit before tax for the financial year was \$1.4 million (2005: \$0.6 million), a 133% increase to the same period last year, which includes an exchange gain of \$730,000. Of this amount, \$250,000 relates to gains during the conversion of the IPO proceeds from pounds into New Zealand dollars. The remainder is an unrealised gain arising from the conversion of foreign currency assets (mostly US dollars assets) into New Zealand dollars, the company's functional currency. Accounting practice dictates that these gains and losses are recorded in the profit and loss account. A gain arose as the US dollar strengthened against the New Zealand dollar during the year.

## Operating review

**Strengthened management:** The company has expanded its talent pool by hiring, 23 additional staff members. This includes additions to the company's UK and US sales teams and several senior management appointments.

As Vice President of Engineering, Stuart Wilson was appointed to bring Endace's new products to market and direct the company's world-wide technical staff in all hardware, software and firmware areas, utilising his extensive product development experience. With a 20 year career including Hewlett Packard and Agilent Technologies, GEC Research UK and Philips Australia, he brings to Endace a wealth of experience from which the company is already benefiting. Effective 1<sup>st</sup> June 2006, Stuart will be appointed Chief Technology Officer, a role which he takes over from Professor Ian Graham. Simultaneously Ian will become Chief Scientist, a role that will enable him to focus on longer term research and innovation for the company.

Claire Mitchell is resigning as Finance Director in order to allow her to return to Australia for personal reasons. Commencing in March 2006, Neil Hopkins was appointed as Chief Financial Officer and will be appointed as Finance Director on 1<sup>st</sup> June 2006, in succession to Claire Mitchell. Neil's previous position was as Finance Director of Sony Music Entertainment (New Zealand) Limited.

**Sales support infrastructure in place:** During the year the company installed a new Enterprise Resource Planning (ERP) system, Microsoft Axapta, a Customer Resource Management system, Salesforce and XSol a workforce automation system.

**Significant new customers and markets:** The company enjoys a strong customer base in the Telco/ISP, ISV, government and banking sectors, with customer numbers growing by 111% to 195 customers in the twelve months to 31 March 2006, and growth seen throughout the US, Europe and Asia.

Customer spread is also increasing, with 58% of total sales generated by top 10 customers, compared with 66% in the year ending 31 March 2005, demonstrating a reduced reliance on the top 10 customers. There has been an increasing amount of repeat business in 2006, reflected in the fact that 15 of the top 20 customers in 2005, purchased again in 2006.

New markets have been penetrated, including sales within the growing financial services and enterprise sales markets.

The customer summary below highlights annual sales development compared with last year:

	<b>12 months to 31/03/06</b>	<b>12 months to 31/03/05</b>
No. of customers	195	92
Top 10 as % of total sales	58%	66%
Average unit sale price	\$5,181	\$4,262
Product gross margin	78%	75%

**Expanded sales channels:** The development of Endace's sales and distribution channels has produced important strategic partnerships that will enhance our reach and scalability.

In February 2006, Endace appointed a Chinese distributor to address the Chinese market, with initial sales already having been achieved. In the past year, new distributors have also been appointed for Germany, Switzerland, Austria, Poland, South Africa, Singapore, Malaysia, Taiwan, and South Korea; Japan continued to be a strong market.

## **Opportunities**

### **Market Trends**

Overview: The rapid migration to higher bandwidth networks and the desire for increased CPU off-load capability have emerged as significant customer trends. Opportunities have developed in these areas as higher internet use at individual, corporate and governmental levels is filling available network capacity. Traditional monitoring technologies can no longer cope with the volume of data that must now be captured and analysed in real time. Our new 10-Gigabit product range addresses these demands.

Unified Threat Management (UTM): New multi CPU motherboards, when combined with Endace DAG-II architecture, enables a new higher price performance networking platform, ideally suited for the Unified Threat Management market.

Regulation: There is an increasing need for network monitoring as a result of regulation, such as with lawful intercept in the US through CALEA and in Europe through recent EU data retention legislation. Endace is well placed to take advantage of these developments.

Awareness: Customers are showing increasing understanding that reliable data capture is vital for regulatory compliance and effective monitoring and measurement.

Network speed increases: Gigabit Ethernet products are currently the strongest selling items for Endace, but recent and evolving industry standards such as 10 Gigabit and 40 Gigabit (10G and 40G) present major opportunities for the company, whose technology is ideally positioned to meet the challenges of these higher speeds. The company already sells a range of 10G cards and this will be expanded in the coming year.

### **Endace Specific**

New market: Financial Institutions - Endace products are now in use for network security in large financial institutions, branching out from Endace's traditional Telco and government markets. As the financial services market is currently investing in IT systems driven by compliance with regulations (Sarbanes Oxley in the US, FSMA in the UK and MiFID in Europe), this is seen as a highly desirable market.

Strong partnerships: Leading carriers - Endace is working on new high-speed network security projects with some of the world's largest carriers in the US, Europe and Japan. The additional functionalities being co-developed with these carriers are building on Endace's traditional capabilities and Endace is retaining the key IP from these projects.

RoHS Compliance - Products are being modified and new products introduced to ensure that Endace's product portfolio is RoHS (Restriction of Hazardous Substances) compliant. New customers are specifically approaching Endace to purchase RoHS compliant products.

Future Path: DAG-II Architecture - Endace will be progressively introducing the next generation DAG-II Architecture commencing in 2006. This next generation of Endace's Data Acquisition and Generation (DAG) technology is a significant advance over previous capabilities, as it not only captures network data at full line rate, but also filters and analyses the data, thereby allowing customers to decide what information they wish to receive and scrutinise.

## **Products**

New products: A range of new products has been developed and released this year. These can be categorised into three general areas:

### 1. Card developments

- DAG cards with integrated third-party network processors
- Co-processor applications for accelerating network monitoring applications
- On-card functions as part of DAG-II
- Iterations of existing DAG card products, for example RoHS compliance

2. Appliances: Ninjabox Platform – The concept behind the Ninjabox is to provide customers with a DAG card integrated with a server and pre-installed software, thereby greatly simplifying its installation. Further development of this concept will open the way for the release of a Unified Threat Management (UTM) platform.

3. Software only products: enCap Software – enCap is a software application for high speed packet data capture. Endace has introduced enCap to fill the gap between standard low performance solutions and high performance DAG cards, thus turning a commodity PC into an efficient and inexpensive network measurement system.

## **Outlook**

The company is well positioned to capitalise on projected market growth which is being accelerated by legislation, the threat of terrorism, the higher volume of network data, the increased awareness of network vulnerability and the real associated risks of exposure.

Endace has the infrastructure, products, technology and existing market credibility to maximise this opportunity and continue to lead the market with next generation network security solutions for operators of high-speed networks.

We therefore feel confident in the company's future. The challenges around recent product component shortages have been mitigated. With our projected revenue growth, strong product margins and the attractions of a New Zealand operating base, the implications for the company's profitability are excellent.

## **Annual General Meeting**

The Annual General Meeting of the company will be held in London on 4<sup>th</sup> September 2006, and it is expected that the Annual Report and Accounts will be posted to shareholders in early July 2006.

**Consolidated profit and loss account  
For the year ended 31 March 2006**

	Note	2006 US\$'000	2005 US\$'000
<b>From continuing operations</b>			
<b>Turnover</b>		10,989	4,380
Cost of sales		<u>(2,750)</u>	<u>(583)</u>
<b>Gross profit</b>		8,239	3,797
<hr/>			
Selling and administrative expenses		(4,557)	(1,844)
Research and development		(2,770)	(1,686)
Other operating income – government grants		122	337
<b>Operating profit</b>		1,034	604
Net interest income/(expense)		<u>395</u>	<u>(35)</u>
<b>Profit on ordinary activities before taxation</b>		1,429	569
Tax on profit on ordinary activities	9	<u>(302)</u>	<u>(265)</u>
<b>Retained profit for the financial year</b>		<u>1,127</u>	<u>304</u>
<b>Earnings per share</b>			
- basic	3	\$0.077	\$0.033
- diluted		\$0.075	\$0.032

## Group Balance Sheet as at 31 March 2006

	Note	2006 US\$'000	2005 US\$'000
<b>Fixed assets</b>			
Intangible assets		2,266	2,450
Tangible assets		1,278	596
		<u>3,544</u>	<u>3,046</u>
<b>Current assets</b>			
Stock		1,590	170
Debtors	4	5,231	4,392
Cash at bank and in hand		6,678	364
		<u>13,499</u>	<u>4,926</u>
Creditors – Amounts falling due within one year	5	(2,450)	(2,594)
Convertible debt	6	-	(1,291)
<b>Net current assets</b>		<u>11,049</u>	<u>1,041</u>
<b>Total assets less current liabilities</b>		14,593	4,087
Creditors – Amounts falling due after more than one year		(42)	(81)
<b>Net assets</b>		<u>14,551</u>	<u>4,006</u>
<b>Capital and reserves</b>			
Share capital	8	14,439	3,281
Other Reserve -Translation reserve		(128)	15
Profit and loss account	10	240	710
<b>Equity shareholders' funds</b>		<u>14,551</u>	<u>4,006</u>

## Consolidated cash flow

### For the year ended 31 March 2006

		2006	2005
	Note	US\$'000	US\$'000
From continuing operations			
<b>Net cash inflow from operating activities</b>	7	(1,593)	565
<b>Returns on investments and servicing of finance</b>			
Interest received		420	4
Interest paid		(25)	(39)
<b>Net cash inflow/(outflow) from returns on investments and servicing of finance</b>		395	(35)
<b>Taxation</b>		(644)	(359)
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(1,111)	(447)
<b>Net cash outflow for capital expenditure and financial investment</b>		(1,111)	(447)
<b>Financing</b>			
Issue of ordinary share capital (net of IPO cost)	8	11,760	82
Dividend	10	(1,757)	
(Decrease)/increase in borrowings		(458)	111
<b>Net cash inflow from financing</b>		9,545	193
<b>Increase/(decrease) in net cash</b>		6,592	(83)
<b>Reconciliation to net cash/(debt)</b>			
<b>Net (debt)/cash at 1 April</b>		(1,466)	1
increase/(decrease) in net cash		6,592	(83)
Movement in borrowings		458	(111)
Other non-cash changes		1,291	(1,291)
Exchange adjustments		(197)	18
<b>Net cash/(debt) at 31 March</b>		6,678	(1,466)

#### 1. Nature of financial information

These preliminary financial results do not constitute the Group's full statutory accounts. They are an abridged version of the company's audited accounts which have received an unqualified report from the company's auditors. Statutory accounts will be dispatched to the shareholders and filed with the NZ Registrar of Companies in early July 2006.

#### 2. Basis of consolidation

Endace Ltd, the holding company for all Endace companies, was incorporated on 21 June 2004.

On 23 November 2004, the formal legal group structure was established by the issue of 2,895,000 Class B shares in the newly established Endace Limited to the existing shareholders of Endace Technology Limited and Endace Measurement Systems Limited. Prior to 23 November 2004, Endace Technology Limited and Endace Measurement Systems Limited were not under a formal legal group structure.

Merger accounting was used by Endace Ltd to acquire Endace Technology Limited. Endace Measurement Systems Limited has been accounted for using the acquisition method of accounting.

The comparatives for period ended 31 March 2005 cover Endace Technology Ltd and Endace Ltd from 1 April 2004 to 23 November 2004 and the formal legal entity from 23 November 2004 to 31 March 2005 which include all Endace companies.

The comparative information for the period ended 31 March 2005 has been extracted from audited financial statements, prepared in accordance with New Zealand GAAP and in New Zealand dollars. This information has been translated into US dollars and prepared in accordance with UK GAAP.

*Comparison with the admission document*

The financial information for the period ended 31 March 2005 presented in the Admission document dated 10 June 2005 was shown on a pro-forma basis consolidating the accounts of all Endace companies as if they had been under common ownership within a formal legal group for the entire year.

### 3. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

On 9 June 2005, the existing 18,540,000 ordinary shares were consolidated by converting every 2 shares into 1 share resulting in 9,270,000 ordinary shares.

On 15 June 2005 4,938,272 ordinary shares were issued pursuant to a private placement in connection with Endace Limited admission to AIM.

On 23 June 2005 473,596 ordinary shares were issued to NetHawk Oyj pursuant to the conversion of the convertible note referred to in Note 10 of the accounts.

The weighted average number of shares for the period ending 31 March 2005 has been based on shares in issue on 9 June 2005 to enable comparability.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below.

	Year ended 31 March 2006			Year ended 31 March 2005		
	Earnings	Number of shares	Per-share amount	Earnings	Number of shares	Per-share amount
	US\$'000	'000	US\$	US\$'000	'000	US\$
Profit attributable to shareholders	1127			304		
<b>Basic EPS</b>						
Earnings attributable to ordinary shareholders	1,127	14,729	\$0.077	304	9,270	\$0.033
<b>Effect of dilutive securities</b>						
Options	-	261	\$0.000	-	111	\$0.000
<b>Diluted EPS</b>	1,127	14,990	\$0.075	304	9,381	\$0.032

#### 4. Debtors

	2006	2005
	US\$'000	US\$'000
<b>Amounts falling due within one year</b>		
Trade debtors	3,880	2,056
Less: Provision for impairment of receivables	110	88
	<u>3,770</u>	<u>1,968</u>
Deferred tax	396	55
Other debtors	849	1,452
Amounts recoverable on long term contracts	-	277
Prepayments	90	618
Convertible advance	126	-
Derivative financial instruments	-	22
	<u>5,231</u>	<u>4,392</u>

#### 5. Creditors

	2006	2005
	US\$'000	US\$'000
Bank and other borrowings	-	458
Trade creditors	902	858
Income tax payable	64	214
Other tax and social security payable	37	50
Accruals and deferred income	<u>1,447</u>	<u>1,014</u>
	<u>2,450</u>	<u>2,594</u>

#### 6. Convertible debt

In March 2005 Endace Limited was advanced a loan of 1,000,000 Euro from NetHawk Oyj, a company incorporated in Finland. Interest was charged at 3% per annum (compounded on a monthly basis). The advance was secured by way of a non-exclusive, non-transferable, royalty free licence to manufacture and sell products containing Group network analysis technologies. On 23 June 2005 473,596 ordinary shares were issued to NetHawk Oyj following the conversion of the convertible note.

#### 7. Cash flow from operating activities

<b>Continuing operations</b>	2006	2005
	US\$'000	US\$'000
Operating profit	1,034	565
Depreciation charge	378	133
Amortisation	136	57
Share option expense	90	261
Decrease/(increase) in stocks	(1,420)	(75)
Increase in debtors	(2,129)	(1,659)
Increase in creditors	<u>318</u>	<u>1,283</u>
<b>Total net cash inflow from operating activities</b>	<u>(1,593)</u>	<u>565</u>

## 8. Movements in share capital

	2006 US\$000'S	2005 US\$000'S
<b>As at April</b>	3,281	-
Shares issued on acquisition of EMS and ETL	-	3,044
Shares repurchased	-	(420)
Shares sold	-	502
Placing of 4938272 new ordinary shares at 162 pence per share	14,088	-
IPO Costs	(2,328)	-
Capital raised from employee options	53	-
Nethawk loan converted to capital	1,048	-
Shares issued in partial consideration of nCap license	42	-
Exchange differences	(1,745)	155
<b>As at March</b>	<u>14,439</u>	<u>3,281</u>

## 9. Tax on profit from ordinary activities

	2006 US\$'000	2005 US\$'000
Profit on ordinary activities before tax	<u>1,429</u>	<u>569</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in New Zealand 33% (2005: 33%)	472	188
Effects of:		
Foreign tax differences	(59)	-
Adjustment to tax in respect of the prior year	(137)	-
Expenses not deductible for tax purposes	<u>26</u>	<u>77</u>
	<u>302</u>	<u>265</u>

## 10. Profit and Loss account

	2006 US\$'000	2005 US\$'000
At 1 April	710	78
Exchange difference opening balance	27	67
Share Options Issued	82	311
Share Options Forfeited	(2)	(50)
Share Options Exercised	53	-
Dividend	(1,757)	-
Retained Profit	<u>1,127</u>	<u>304</u>
At 31 March	<u>240</u>	<u>710</u>

On 28 April 2005, the Group declared a dividend of US\$ 1,757,000. This was subsequently converted into shareholders' loan accounts on 9 May 2005. Shareholders' loan accounts were paid out of IPO proceeds on 24 June 2005.