

corero

FIRST LINE OF DEFENSE



PRODUCTS & SERVICES FOR REAL-TIME DDOS PROTECTION



ADVANCED DDOS
DEFENSE TECHNOLOGY



BUILT ON NEXT
GENERATION ARCHITECTURE



SOPHISTICATED DDOS
ANALYTICS & VISUALISATION

Interim Report & Accounts 2015

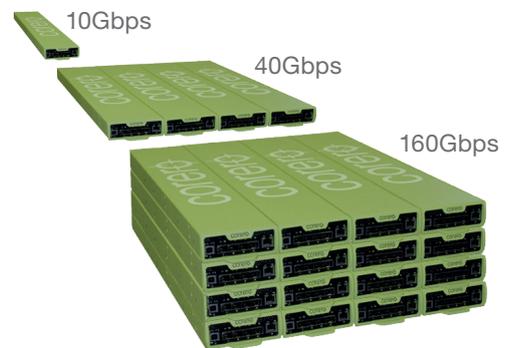
Corero Network Security plc



Corero Network Security, an organisation's First Line of Defense[®] against Distributed Denial of Service (DDoS) attacks and cyber threats. Corero DDoS defence solutions provide enterprises and service providers with an additional layer of security capable of inspecting and analysing Internet traffic and mitigating attacks.

Corero products and services enhance existing security architecture with a scalable, flexible and responsive defence against DDoS attacks and cyber threats before they reach the targeted IT infrastructure, allowing online services to perform as intended. The latest addition to Corero First Line of Defense[®] product family includes the Corero SmartWall[®] Threat Defense System (TDS) allowing for modular, highly scalable network visibility and DDoS defence for the Large Enterprise, Datacentre and Hosting Provider, as well as the Internet Service Provider.

For more information about how Corero solutions are eliminating the DDoS challenge for organisations across the globe, visit www.corero.com



SmartWall[®] Threat Defense System



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OVERVIEW

Highlights



FINANCIAL HIGHLIGHTS

- Revenue \$4.0 million (H1 2014: revenue \$3.7 million)
- EBITDA loss* \$3.5 million (H1 2014: loss \$3.9 million)
- Loss before tax \$5.6 million (H1 2014: loss \$5.2 million)
- Loss per share 4.7 cents (H1 2014: loss per share 5.9 cents)
- Net cash of \$0.5 million at 30 June 2015 (30 June 2014: net cash \$5.0 million)

* before depreciation, amortisation and financing costs



OPERATING HIGHLIGHTS

- Flagship SmartWall Threat Defense System (“TDS”) order (value of over \$0.5 million) from a US internet service provider
- Customer wins across the multiple SmartWall TDS target markets
- SmartWall TDS trials in progress with three of the top 10 US Internet service providers
- Key sales team appointments adding significant service provider sales experience
- Partnership with Verisign to deliver hybrid Distributed Denial of Service (“DDoS”) protection solutions
- New development facility in Edinburgh, Scotland



“We are very encouraged by the progress made in the first six months of the year. We see this trend continuing with additional new customer orders since the half year.

We are now engaged in multiple trials with an increasing number of the world’s largest service providers and are encouraged by the significant market opportunity these companies represent, whilst recognising the impact of longer sales cycles in this particular vertical. We believe many of these service providers will see the value of the Corero approach to DDoS protection.

Our focus for the second half of 2015 is on converting customer trials to sales orders and building the pipeline of opportunities for the SmartWall TDS. The Board remains positive about the outlook for Corero.”

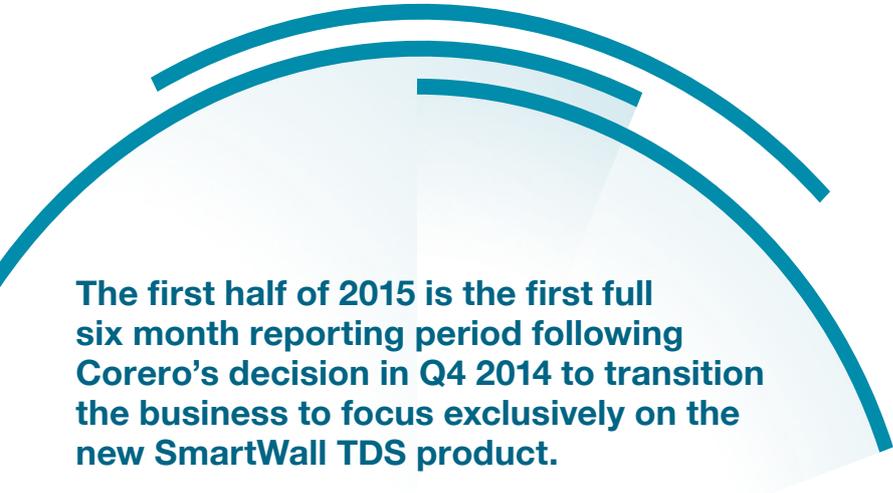
Ashley Stephenson

CEO

INTERIM REVIEW

Interim results

for the six month period ended 30 June 2015



The first half of 2015 is the first full six month reporting period following Corero's decision in Q4 2014 to transition the business to focus exclusively on the new SmartWall TDS product.

Overview

Highlights in the first half of 2015 include:

- Flagship SmartWall TDS order (value of over \$0.5 million) from a US service provider
 - Solution comprises multiple Corero SmartWall TDS products deployed at three regional locations with supporting SecureWatch Analytics services for a 12-month period
 - The Corero solution provides real-time DDoS protection and analytics covering all Internet traffic arriving in the provider's network
- Customer wins across the multiple SmartWall TDS target markets
 - Service providers, hosting providers and on-line enterprises
- SmartWall TDS trials in progress with three of the top 10 US Internet service providers
 - Service providers are increasingly seeing the value of the Corero approach to solving DDoS challenges through 'always on', automatic threat protection and visibility
- Key sales team appointments adding significant service provider sales experience
 - Scott Prouty appointed Senior Vice President of Sales, North America
 - Prior to joining Corero, Prouty served as Vice President of Service Provider Sales, North America for RedSeal Networks where he led the sales and go-to-market strategy for building the company's service provider customer base, which included some of the largest service providers in North America
 - Previously, at Arbor Networks, he held the position of Vice President Sales, Americas and as founder of the sales organisation, led the company to rapid growth
- Partnership with Verisign to deliver hybrid DDoS protection solutions
 - For Verisign and Corero customers, this integration combines on-premises technology from Corero to defeat saturating DDoS attacks alongside cloud-based DDoS Protection Service from Verisign for high volume and complex application layer attacks that exceed the customer's network and resource capacity
- New development facility in Edinburgh, Scotland
 - Adds significant security, virtualisation and software-defined networking (SDN) expertise
 - The new lab is operational and is fully integrated with the Company's US based facility in Hudson, MA

Since the half-year, Corero has secured its largest SmartWall TDS order to date; a \$0.7m sale to a US regional service provider.

Financial Summary

In the six months to 30 June 2015, Corero reported revenues of \$4.0 million (H1 2014: \$3.7 million) and an EBITDA loss of \$3.5 million (H1 2014: loss \$3.9 million). The EBITDA loss is net of capitalised R&D of \$1.1 million relating to incremental feature development of the SmartWall TDS product, a reduction over H1 2014 capitalised R&D of \$2.2 million following the completion of the initial SmartWall TDS product development in June 2014. Operating costs net of capitalised R&D were \$5.9 million (H1 2014: \$6.3 million) and below the prior year reflecting the lower headcount in the period. This was as a result of the skills rebalancing in the second half of 2014 as the development efforts were focused on enhancements to the SmartWall TDS DDoS defence capability following general availability release of the SmartWall TDS in mid-2014.

The loss before taxation was \$5.6 million (H1 2014: loss \$5.2 million) including amortisation of capitalised R&D of \$1.1 million (H1 2014: \$0.2 million) reflecting a full six month's amortisation following the first sale of the new SmartWall TDS product in June 2014. The reported loss per share was 4.7 cents (H1 2014: 5.9 cents).

Corero had cash of \$1.1 million at 30 June 2015 (2014: \$5.4 million) and net cash of \$0.5 million (2014: net cash of \$5.0 million). The net reduction in cash from operating activities in the 6 months ended 30 June 2015 was \$4.1 million (H1 2014: net reduction \$2.1 million).

Post Balance Sheet Event

On 28 August 2015, the Company raised \$7.7 million (£5.0 million) (before expenses), of which the Directors contributed \$3.1 million (£2.0 million). The fundraising was completed by way of a subscription for 50,000,000 new ordinary shares at a price of 10p per share, to support SmartWall TDS sales and marketing activities in North America and Europe, and the further development of the SmartWall TDS product.

Market Opportunity

Corero is continuing to see a shift in enterprises looking to their service providers for delivery of protection against DDoS attacks. The Company's SmartWall TDS products enable it to address the growing service provider demand for DDoS protection solutions.

Despite longer sales cycles in the large service provider market, the opportunity in this segment is larger than Corero had originally anticipated. Demand is being driven by the immediate need for next generation technology solutions to deliver DDoS and cyber threat protection services to service provider customer bases and also to protect the growing Cloud services infrastructure from the impact of DDoS and cyber threats. Corero believes traction in this market segment would be transformational for the success of the Company.

Outlook

Based upon the growing level of interest and increasing number of significant proof of concept trials, and the significant customer win since the half-year, the outlook for the SmartWall TDS product offering is very encouraging.

The Board remains confident in the Company's prospects and look forward to updating the market on its continued progress.



FINANCIAL STATEMENTS

Consolidated Interim Statement of Comprehensive Income

for the six month period ended 30 June 2015

	Unaudited six months ended 30 June 2015 \$'000	Unaudited six months ended 30 June 2014 \$'000	Audited year ended 31 December 2014 \$'000
Revenue	4,032	3,672	7,477
Cost of sales	(1,674)	(1,226)	(3,372)
Gross profit	2,358	2,446	4,105
Operating expenses before highlighted item	(5,856)	(6,338)	(11,250)
Depreciation and amortisation of intangible assets	(2,116)	(1,313)	(3,272)
Operating expenses	(7,972)	(7,651)	(14,522)
Operating loss	(5,614)	(5,205)	(10,417)
Finance income	8	11	22
Finance costs	(13)	(17)	(24)
Loss before taxation	(5,619)	(5,211)	(10,419)
Taxation	191	186	358
Loss for the period	(5,428)	(5,025)	(10,061)
Other comprehensive (expense)/income			
Difference on translation of UK functional currency entities	(109)	233	(479)
Total comprehensive expense for the period	(5,537)	(4,792)	(10,540)
Total loss for the period attributable to:			
Equity holders of the parent	(5,428)	(5,025)	(10,061)
Total	(5,428)	(5,025)	(10,061)
Total comprehensive expense for the period attributable to:			
Equity holders of the parent	(5,537)	(4,792)	(10,540)
Total	(5,537)	(4,792)	(10,540)
	30 June 2015 Cents	30 June 2014 Cents	31 December 2014 Cents
Basic and diluted loss per share	(4.7)	(5.9)	(11.5)

Consolidated Interim Statement of Financial Position

as at 30 June 2015

	Unaudited six months ended 30 June 2015 \$'000	Unaudited six months ended 30 June 2014 \$'000	Audited year ended 31 December 2014 \$'000
Assets			
Non-current assets			
Goodwill	17,983	17,983	17,983
Acquired intangible assets	938	2,071	1,548
Capitalised development expenditure	8,553	8,066	8,624
Property, plant and equipment	1,072	1,333	1,175
	28,546	29,453	29,330
Current assets			
Inventories	466	518	749
Trade and other receivables	2,420	2,247	2,811
Cash and cash equivalents	1,128	5,386	6,036
	4,014	8,151	9,596
Liabilities			
Current Liabilities			
Trade and other payables	(2,291)	(2,118)	(2,362)
Borrowings	(653)	(406)	(20)
Deferred income	(3,460)	(3,087)	(4,055)
	(6,404)	(5,611)	(6,437)
Net current (liabilities)/assets	(2,390)	2,540	3,159
Non-current liabilities			
Deferred income	(965)	(2,110)	(1,570)
Deferred taxation	(276)	(639)	(467)
	(1,241)	(2,749)	(2,037)
Net assets	24,915	29,244	30,452
Equity			
Ordinary share capital	1,804	1,333	1,804
Capital redemption reserve	7,051	–	–
Deferred share capital*	–	7,051	7,051
Share premium	50,000	43,507	50,000
Share options reserve	285	293	285
Translation reserve	605	1,426	714
Retained earnings	(34,830)	(24,366)	(29,402)
Total equity	24,915	29,244	30,452

*On 17 June 2015 the Company purchased the entire deferred share capital of 1,518,900 £2.99 shares for a consideration of 1p. The deferred shares were subsequently cancelled on 22 June 2015.



FINANCIAL STATEMENTS

Consolidated Interim Statement of Cash Flows

for the six month period ended 30 June 2015

	Unaudited six months ended 30 June 2015 \$'000	Unaudited six months ended 30 June 2014 \$'000	Audited year ended 31 December 2014 \$'000
Cash flows from operating activities			
Loss for the period	(5,428)	(5,025)	(10,061)
Adjustments for:			
Amortisation of acquired intangible assets	613	612	1,229
Amortisation of capitalised development expenditure	1,140	228	1,118
Depreciation	363	473	925
Finance income	(8)	(11)	(22)
Finance expense	13	17	24
Taxation	(191)	(186)	(358)
Share-based payment credit	–	–	(8)
Decrease/(increase) in inventories	283	(189)	(334)
Decrease in trade and other receivables	391	1,483	893
(Decrease)/increase in payables	(1,271)	504	1,234
Net cash from operating activities	(4,095)	(2,094)	(5,360)
Cash flows from investing activities			
Purchase of intangible assets	(3)	(48)	(142)
Capitalised development expenditure	(1,069)	(2,173)	(3,621)
Purchase of property, plant and equipment	(260)	(463)	(844)
Net cash used in investing activities	(1,332)	(2,684)	(4,607)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital	–	–	6,964
Finance income	8	11	22
Finance expense	(13)	(17)	(24)
Receipt/(repayment) of credit facility	633	149	(236)
Net cash from financing activities	628	143	6,726
Effects of exchange rates on cash and cash equivalents	(109)	246	(498)
Net decrease in cash and cash equivalents	(4,908)	(4,389)	(3,739)
Cash and cash equivalents at 1 January	6,036	9,775	9,775
Cash and cash equivalents at balance sheet dates	1,128	5,386	6,036

Consolidated Interim Statement of Changes in Equity

for the six month period ended 30 June 2015

	Share capital \$'000	Capital redemption reserve \$'000	Share premium account \$'000	Share options reserve \$'000	Translation reserve \$'000	Retained earnings \$'000	Total attributable to equity holders of the parent \$'000
1 January 2014	8,384	–	43,507	293	1,193	(19,341)	34,036
Loss for the period	–	–	–	–	–	(5,025)	(5,025)
Other comprehensive income	–	–	–	–	233	–	233
Total comprehensive expense for the period	–	–	–	–	233	(5,025)	(4,792)
30 June 2014	8,384	–	43,507	293	1,426	(24,366)	29,244
Loss for the period	–	–	–	–	–	(5,036)	(5,036)
Other comprehensive income	–	–	–	–	(712)	–	(712)
Total comprehensive expense for the period	–	–	–	–	(712)	(5,036)	(5,748)
Contributions by and distributions to owners							
Share-based payments	–	–	–	(8)	–	–	(8)
Issue of share capital	471	–	6,493	–	–	–	6,964
Total contributions by and distributions to owners	471	–	6,493	(8)	–	–	6,956
31 December 2014	8,855	–	50,000	285	714	(29,402)	30,452
Loss for the period	–	–	–	–	–	(5,428)	(5,428)
Other comprehensive income	–	–	–	–	(109)	–	(109)
Total comprehensive expense for the period	–	–	–	–	(109)	(5,428)	(5,537)
Contributions by and distributions to owners							
Buy back of deferred shares	(7,051)	–	–	–	–	–	(7,051)
Creation of capital redemption reserve*	–	7,051	–	–	–	–	7,051
Total contributions by and distributions to owners	(7,051)	7,051	–	–	–	–	–
30 June 2015	1,804	7,051	50,000	285	605	(34,830)	24,915

* The capital redemption reserve arose as result of the Company's purchase of the entire deferred share capital of 1,518,900 £2.99 shares for a consideration of 1p on 17 June 2015 and subsequent cancellation on 22 June 2015.

FINANCIAL STATEMENTS

Notes to the interim financial statements

1. General information and basis of preparation

Corero Network Security plc (the “Company”) is a company domiciled in England. The condensed consolidated interim financial statements of the Company for the six months ended 30 June 2015 comprise the Company and its subsidiaries (together referred to as the “Group”).

These condensed consolidated financial statements have been prepared in accordance with IAS 34, “Interim Financial Reporting”, as adopted by the European Union. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the 2014 Annual Report. The financial information for the half years ended 30 June 2015 and 30 June 2014 does not constitute statutory accounts within the meaning of Section 434(3) of the Companies Act 2006 and is unaudited.

The annual financial statements of Corero Network Security plc are prepared in accordance with IFRSs as adopted by the European Union. The comparative financial information for the year ended 31 December 2014 included within this report does not constitute the full statutory accounts for that period. The statutory Annual Report and Financial Statements for 2014 have been filed with the Registrar of Companies. The Independent Auditors’ Report on that Annual Report and Financial Statement for 2014 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

The consolidated financial statements have been prepared on a going concern basis as the Directors believe that the current sales prospects, combined with existing working capital resources, fund raise post the balance sheet date and available funding options, should ensure that the Group has adequate working capital to service its existing business for the foreseeable future. The directors have made this assessment based on internal forecasts and cash flow projections.

These consolidated interim financial statements were approved by the Board on 29 September 2015 and approved for issue on 30 September 2015.

2. Loss per share

Loss per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

At the reporting dates there were no potentially dilutive ordinary shares. Therefore the diluted loss per share is equal to the loss per share.

	30 June 2015 loss \$'000	30 June 2015 weighted average number of 1p shares Thousand	30 June 2015 loss per share Cents	30 June 2014 loss \$'000	30 June 2014 weighted average number of 1p shares Thousand	30 June 2014 loss per share Cents
Basic and diluted loss per share	(5,428)	115,637	(4.7)	(5,025)	85,637	(5.9)

	31 Dec 2014 loss \$'000	31 December 2014 weighted average number of 1p shares Thousand	31 Dec 2014 loss per share Cents
Basic and diluted earnings per share	(10,061)	87,446	(11.5)

3. Post Balance Sheet Event

On 28 August 2015, the Company raised \$7.7 million (£5.0 million) before expenses by way of a subscription for 50,000,000 new ordinary shares at a price of 10p per share.

Corporate Directory

Directors

Jens Montanana (Non-executive Chairman)
 Ashley Stephenson (CEO)
 Andrew Miller (CFO and COO)
 Richard Last (Non-executive Director)
 Andrew Lloyd (Non-executive Director)

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