

20 March 2012

Corero Network Security plc (AIM: CNS)
("Corero", the "Company" or the "Group")

Full year results

Corero Network Security plc, the AIM listed network security and business software provider, is pleased to announce its full year audited results for the year ended 31 December 2011.

Financial highlights

- Consolidated revenue £11.3 million (2010: £3.0 million)
- Consolidated operating profit* £287,000 (2010: £333,000)
- Adjusted consolidated loss before tax** £260,000 (2010: loss £32,000)
- Loss per share 2.75p (2010: 0.68p)
- Cash of £4.3 million at 31 December 2011 (2010: £7.2 million)
- Raised £4.56 million (before costs) on 6 March 2012 by way of a placing to support the growth of the Corero Network Security business

* before depreciation, amortisation, acquisition and restructuring costs and financing

** excluding acquisition and restructuring costs and amortisation of acquired intangible assets

Operating highlights

- Corero Network Security division
 - Acquired Top Layer Networks in March 2011, renamed Corero Network Security
 - Repositioned through investments in product development and a new international sales organisation
 - 78 new customers in 2011 with an average order value of £36,000
 - Sales order intake up on the previous year
 - Management team reshaped
 - Launch of DDoS Defence System ('DDS'), a network-layer and application-layer Distributed Denial of Service ('DDoS') defence product
- Corero Business Systems division
 - Revenue up 45% on 2010
 - 36% operating profit margin (2010: 34%)
 - Won contracts from 192 Academies (2010:70)
 - Reseller agreement signed with Serco Learning, part of FTSE 100 Serco plc
 - Management team strengthened

Jens Montanana, Corero Chairman said: *"The progress in the Corero Network Security division since the Top Layer acquisition, and strong performance of Corero Business Systems, has been very encouraging.*

"Corero Network Security and Corero Business Systems are well placed to capitalise on the opportunities in their respective markets and deliver growth with a strong sales pipeline of opportunities going into 2012.

"The placing in March 2012 which raised £4.3 million after costs will allow Corero to further penetrate the network security market and ensure that it is well placed to fully exploit opportunities in network security, an area which is becoming ever more relevant to businesses in light of increasing cyber attacks."

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About Corero Network Security

Corero Network Security plc, is a software focused business with a leading position in its two markets: network security and business management solutions.

- Corero Network Security is an international network security company and the leading provider of Distributed Denial of Service (DDoS) defence and Intrusion Prevention System (IPS) solutions. Corero's products and services provide comprehensive, integrated, high-performance protection against constantly evolving network-borne cyber threats. Customers include enterprises, service providers and government organisations worldwide. Corero's appliance-based solutions are highly adaptive and pre-emptively respond to modern cyber attacks, known and unknown, protecting critical information and online assets. Corero's products have superior performance, are highly scalable, and feature the lowest latency and best reliability in the industry
- Corero Business Systems is a leading provider of powerful and dynamic modular accounting, human resources, payroll and learner management information software to the schools (including academies) and further education sectors in the UK and internationally.

Overview

2011 was a transformational year for Corero with the acquisition and successful integration of Top Layer Networks, Inc. ("Top Layer") coupled with the continuing growth of the Corero Business Systems division ("CBS"). The Top Layer acquisition closed on 2 March 2011 and Top Layer was rebranded Corero Network Security ("CNS") in June 2011.

Corero plc was also renamed as Corero Network Security plc on 29 June 2011.

CNS has made significant progress post acquisition, with the establishment of an international sales team and considerable investment into product development, leading to increased sales momentum and order intake. In addition, CBS has experienced strong growth during the period.

In the year ended 31 December 2011 the Group reported revenues of £11.3 million (2010: £3.0 million) and operating profit before depreciation, amortisation, acquisition and restructuring costs and financing of £287,000 (2010: £333,000).

Business strategy

The strategy for the Corero Network Security division is to drive organic revenue growth through increased marketing and industry visibility of the business' approach and product capabilities. In addition, Corero will continue to develop its international, channel focused sales model to access new markets and customers. The division will also invest in product development, with the emphasis on Cyber defence/attack solutions with its IPS and DDoS protection product offerings and services. The business will continue to explore opportunities that can complement its buy and build strategy.

The strategy for the Corero Business Systems division will be to continue to invest for growth. The focus will remain on the education sector where CBS has a strong market position, particularly in the further education college and academy markets in England. Development will continue on Resource Financials & HR and Resource EMS with additional modules to meet customer requirements. Opportunities in new customer segments and in international markets will also be evaluated.

The Group will continue to manage and operate Corero as two separate divisions with a small central overhead.

Operational Review

Corero Network Security review

Corero's acquisition of Top Layer marked the first step in the Company's stated strategy to build an international network security business delivering software and hardware solutions to mid-market and enterprise customers, telecommunication service providers and government agencies, through an international network of distributors, integrators and specialised channels partners.

CNS reported revenue of £6.9 million and an operating loss before depreciation, amortisation, acquisition and restructuring costs and financing of £550,000 in the period since the 2 March 2011 acquisition date.

CNS sales order intake (bookings) in the year ended 31 December 2011 was \$12.0 million (£7.5 million) with an average value per customer of \$47,000 (£29,000). This compared to \$11.7 million (£7.6 million) in 2010 with an average value per customer of \$32,000 (£21,000). The increase in order intake along with the increase in the average value per customer was encouraging, particularly in the light of the restructuring of the US sales team post the acquisition and establishing the international team in the second half of 2011.

CNS secured 78 new customers in 2011 with an average order value per customer of \$57,000 (£36,000). This added new customers in the core vertical markets of finance and banking, education, defence, on-line gaming and e-Retail. New customer wins included significant orders from: bwin (one of the world's largest on-line gaming companies); City of Baltimore; a leading spread betting and CFD provider; an award winning developer and publisher of online games; and Bridgepoint Education (an on-line & campus based Higher

Education provider). Particularly pleasing was new business wins with major telecommunications service providers in France and Spain.

In addition, material upgrade orders were secured from existing customers including Party Gaming (which was acquired by bwin in 2011); a Texas based clinical healthcare provider; one of the largest health insurance associations in the United States; one of the largest insurers in the United States; and an agency of the United States Department of Defense.

In 2011, CNS secured maintenance and Threat Update Service renewals of \$2.8 million (£1.75 million) including material renewals from a leading US based insurer and one of the world's largest energy companies.

In the period since the acquisition closed, a number of important milestones have been achieved:

- Management team reshaped with the appointment of new CEO, VP of Engineering, Chief Marketing Officer, VP Sales North America and VP of Finance.
- Launch of DDoS Defence System ('DDS'), a network-layer and application-layer Distributed Denial of Service ('DDoS') defence product.
- Launch of DDoS defence support services, SecureWatch Plus, a comprehensive suite of DDoS defence, configuration optimisation, monitoring and response services.
- Significant new investment and progress made in growing the product development team.
- Sales teams recruited in France, Italy, Malaysia, Spain and Taiwan.
- The rebranding of Top Layer to "Corero Network Security".
- Licensing agreement with Kaspersky Lab, a leading developer of threat management solutions, to augment Corero's Intrusion Prevention ("IPS") solution.
- Appointment of over 30 new channel partners.

The security market dynamics and opportunity for Corero Network Security

The network security market is forecast to continue to grow strongly, fuelled by escalating cyber threats, economic disruption and associated costs as cyber attacks multiply, and growing security compliance and business continuity requirements (Gartner forecast cumulative annual growth of over 8% in the period to 2014).

The nature, frequency and sophistication of cyber attacks continue to increase across all spectrums:

- Cyber-crime driven by financial motivation of cyber criminals.
- Cyber-activism which in 2011 saw hacktivism (the convergence of hacking and activism) activities increase significantly with the exploits of groups such as Anonymous and Lulzsec.
- Cyber-espionage and cyber-warfare impacting both government and commercial organisations targeting national security information, trade secrets and intellectual property assets. Cyberspace is increasingly being regarded as the new frontline of warfare – the fifth domain along with land, sea, air and space.
- Cyber-terrorism which US intelligence agencies consider is likely to overtake terrorism as the number one threat facing the US.

According to independent research recently commissioned by Corero, DDoS attacks are becoming increasingly prevalent with 31% of organisations having suffered an attack in the past 12 months. The research, conducted by VansonBourne, questioned 300 mid to large-sized enterprises in the UK and US and found US companies were twice as likely to be attacked as those in the UK, with 63% of US and 29% of UK IT directors concerned over future attacks. Political and ideological motivation was cited as the largest source of DDoS attacks among UK companies with the retail sector most concerned. In the US 52% of attacks were caused by competitors seeking unfair business advantages.

The security market is fragmented, with Gartner estimating that only 44% of the market share belongs to the top five vendors. In this fragmented and ever changing market many established leaders are losing market share to smaller players with new offerings to meet new threats.

CNS's products and services offer an effective first line of defence against cyber attacks. With a strong software centric platform, Corero has the flexibility and performance to address the

challenges of customers today and into the future.

Corero Business Systems review

Revenues for the CBS division increased by 45% in 2011 to £4.4 million (2010: £3.0 million). CBS sales order intake in the year to 31 December 2011 was £5.1 million (compared to £3.4 million in 2010).

CBS reported an operating profit before depreciation, amortisation, acquisition and restructuring costs and financing of £1.6 million (2010: £1.0 million).

The CBS division won new contracts from 192 Academies in the 12 months ended 31 December 2011, compared with 70 in 2010, underlying its strong position in this growth market. In addition, despite the tight Public Sector spending environment, CBS won four new contracts with sixth form colleges in 2011. These included three colleges, St John Rigby in Wigan, Joseph Chamberlain in Birmingham and St Dominic's in Harrow for the Resource EMS solution, CBS' Learner Management Information System and one new college, Blackpool Sixth Form, for its Resource Financials solution.

Key achievements in 2011 include:

- Reseller agreement signed with Serco Learning, part of FTSE 100 Serco plc.
- Strategic partnerships with two schools and academy groups:
 - The School Partnership Trust - a Leeds based educational charity, awarded 'Accredited Schools Group Status' in 2010, with 20 schools and Academies.
 - The Kemnal Academies Trust - a Kent based multi-Academy Trust with 26 secondary and primary Academies, who are establishing one of the first new Teaching Schools.
- Strengthening of the management team by appointment of Sales Director, HR Manager, Product Manager and Service Delivery Manager.
- Additional sales talent recruited - sales team increased from 6 at 31 December 2010 to 10 at 31 December 2011.
- Launch of Resource Financials v7, CBS' next generation financial software solution.

Financial performance

For the year ended 31 December 2011, the Group reported an operating profit before depreciation, amortisation, acquisition and restructuring costs and financing of £287,000 (2010: £333,000) and a loss after taxation of £1.2 million (2010: profit £404,000). This included an unrealised exchange gain of £73,000 arising on intercompany balances.

Central costs were £756,000 (2010: £693,000). Central costs relate to the Group finance and administration functions as well as the costs associated with the Company's listing on AIM. Central costs in 2011 include a full year of costs of the management team and directors appointed in August 2010.

Interest costs were £224,000 (2010: £199,000) comprising interest on the Loan Notes issued by Top Layer Networks, Inc (subsequently renamed Corero Network Security, Inc) as part of the purchase consideration for Top Layer and the Corero Network Security working capital facility. The interest in 2010 relates to interest on the Cumulative Unsecured Loan Stock ('CULS') which was redeemed by the Company in the year ended 31 December 2010.

Interest received was £61,000 (2010: £32,000).

The loss per share was 2.75p (2010: 0.68p).

The Group's net assets at the year end were £11.5 million (2010: £6.9 million).

The closing cash balance was £4.3 million (2010: £7.2 million). The net reduction in cash and cash equivalents was £931,000 (2010: net increase £768,000).

In 2011 the Company raised £2.3 million (before expenses) of which the directors contributed £0.9 million.

Post balance sheet event

On 6 March 2012, the Company raised £4.56 million (before issue costs), of which the directors and senior management contributed £1.4 million, by way of a placing of 10,615,694 new ordinary shares at a price of 43p per share. The money was raised to support the growth of the Corero Network Security business by investing in the sales of marketing functions of the business to gain end-user customer and channel partner awareness, and investing in its product development capabilities.

Outlook

Significant progress has been made in the Corero Network Security business. The business and management team have been reshaped and the groundwork laid to drive incremental business in many exciting new international markets. This division is well positioned to deliver growth in 2012.

Corero Business Systems performed strongly in 2011 and is expected to continue its robust and profitable development into 2012. The early opportunities identified in this division's core customer segment have enabled the business to build a strong presence and annuity base in the UK education market.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2011

	Existing continuing	Acquired	Continuing total	Total
	2011	2011	2011	2010 ⁽¹⁾
	£'000	£'000	£'000	£'000
Revenue	4,393	6,872	11,265	3,020
Cost of sales	(857)	(1,699)	(2,556)	(593)
Gross profit	3,536	5,173	8,709	2,427
Operating expenses before highlighted items	(2,699)	(5,723)	(8,422)	(2,094)
- Depreciation and amortisation of intangible assets	(219)	(730)	(949)	(198)
- Acquisition and restructuring costs	(306)	(297)	(603)	(60)
Operating expenses	(3,224)	(6,750)	(9,974)	(2,352)
Operating profit/(loss)	312	(1,577)	(1,265)	75
Finance income	61	-	61	32
Finance costs	-	(224)	(224)	(199)
Profit/(loss) before taxation	373	(1,801)	(1,428)	(92)
Taxation	-	192	192	-
Profit/(loss) for the year from continuing/acquired operations	373	(1,609)	(1,236)	(92)
Profit from discontinued operations	-	-	-	4
Profit from sale of discontinued operations	-	-	-	492
Profit/(loss) for the year	373	(1,609)	(1,236)	404
Total profit/(loss) for the year attributable to:				
Equity holders of the parent	345	(1,609)	(1,264)	404
Non-controlling interest	28	-	28	-
	373	(1,609)	(1,236)	404
Other comprehensive income				
Difference on translation of foreign subsidiary	-	25	25	-
Total comprehensive income/(expense) for the year	373	(1,584)	(1,211)	404
Total comprehensive income/(expense) for the year attributable to:				
Equity holders of the parent	345	(1,584)	(1,239)	404
Non-controlling interest	28	-	28	-
Total	373	(1,584)	(1,211)	404

(1) restated for change in cost of sales accounting policy as per Interim Results.

There were no acquisitions in 2010.

Basic and diluted (loss)/earnings per share

	2011	2010
	Pence	Pence
Basic loss per share from continuing and acquired operations	(2.75)	(0.68)
Basic earnings per share from discontinued operations	-	3.67
Basic (loss)/earnings per share	(2.75)	2.99
Diluted loss per share from continuing and acquired operations	(2.58)	(0.62)
Diluted earnings from discontinued operations	-	3.35
Diluted (loss)/earnings per share	(2.58)	2.73

In the previous year the diluted earnings per share figure was omitted from the approved financial statements in error. As a result this has been calculated and included within the financial statements this year. There was no difference between basic and diluted earnings per share for the year ended 31 December 2009.

Consolidated Statement of Financial Position
as at 31 December 2011

	2011	2010
	£'000	£'000
Assets		
Non-current assets		
Goodwill	12,144	509
Acquired intangible assets	3,008	5
Capitalised development expenditure	1,484	591
Property, plant and equipment	655	36
	<u>17,291</u>	<u>1,141</u>
Current assets		
Inventories	241	-
Trade and other receivables – due in less than one year	3,266	818
Trade and other receivables – due in more than one year	158	2
Cash and cash equivalents	4,312	7,186
	<u>7,977</u>	<u>8,006</u>
Liabilities		
Current Liabilities		
Trade and other payables	(2,824)	(735)
Borrowings	(176)	-
Deferred income	(5,416)	(1,485)
Provisions	-	(4)
	<u>(8,416)</u>	<u>(2,224)</u>
Net current (liabilities)/assets	(439)	5,782
Non-current liabilities		
Borrowings	(3,557)	-
Deferred income	(808)	-
Deferred taxation	(1,012)	-
	<u>(5,377)</u>	<u>-</u>
Net assets	<u>11,475</u>	<u>6,923</u>
Equity		
Ordinary share capital	477	319
Deferred share capital	4,542	4,542
Shares to be issued	80	-
Share premium	19,846	14,341
Merger reserve	-	1,023
Share options reserve	166	146
Non-controlling interest	28	-
Translation reserve	25	-
Retained earnings	(13,689)	(13,448)
Total surplus attributable to equity holders	<u>11,475</u>	<u>6,923</u>

Consolidated Statement of Cash Flows

for the year ended 31 December 2011

Cash flow from operating activities	2011	2010
	£'000	£'000
Continuing operations		
Loss before taxation	(1,428)	(92)
Adjustments for:		
Amortisation of acquired intangible assets	576	7
Amortisation of capitalised development costs	201	168
Depreciation	172	22
Finance income	(61)	(32)
Finance expense	224	199
Decrease in provisions	(4)	(8)
Share based payment charge	20	131
Changes in working capital		
Increase in inventories	(94)	-
Increase in trade and other receivables	(1,729)	(344)
Increase in payables	1,192	424
Cash (used)/generated from continuing operations	(931)	475
Net cash from discontinued operations	-	293
Net cash from operating activities	(931)	768
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	(2,283)	-
Purchase of intangible assets	(38)	-
Capitalised development expenditure	(1,094)	(367)
Purchase of property, plant and equipment	(629)	(24)
Net cash used in investing activities	(4,044)	(391)
Cash flows from financing activities		
Net proceeds from issue of ordinary share capital	2,089	6,383
Term loan received	162	-
Finance income	61	32
Finance expense	(10)	(292)
Capital element of finance lease repayments	(14)	-
Repayment of credit facility	(187)	-
Net cash from financing activities	2,101	6,123
Net (decrease)/increase in cash and cash equivalents	(2,874)	6,500
Cash and cash equivalents at 1 January	7,186	686
Cash and cash equivalents at 31 December	4,312	7,186

Consolidated Statement of Cash Flows

continued

Significant non-cash transactions

- a) The conversion of 50% of the convertible unsecured loan stock to equity
- b) Disposal proceeds of the sale of the Financial Markets division
- c) Part of the purchase consideration for the acquisition of Top Layer Networks, Inc

Consolidated Statement of Changes in Equity
for the year ended 31 December 2011

	Ordinary and deferred share capital £'000	Shares to be issued £'000	Share premiu m account £'000	Merger reserve £'000	Share options reserve £'000	CULS equity reserve £'000	Non- controlling interest £'000	Translation reserve £'000	Profit and loss reserve £'000	Total £'000
1 January 2010	4,557	-	6,369	1,023	14	146	-	-	(13,898)	(1,789)
Share based payments	-	-	-	-	132	-	-	-	-	132
Redemption of CULS	-	-	-	-	-	(146)	-	-	146	-
CULS fair value adjustments	-	-	-	-	-	-	-	-	567	567
Issue of share capital	304	-	7,972	-	-	-	-	-	(667)	7,609
Profit for year ended 31 December 2010	-	-	-	-	-	-	-	-	404	404
31 December 2010	4,861	-	14,341	1,023	146	-	-	-	(13,448)	6,923
Share based payments	-	-	-	-	20	-	-	-	-	20
Issue of share capital	158	-	5,505	-	-	-	-	-	-	5,663
Merger reserve transfer	-	-	-	(1,023)	-	-	-	-	1,023	-
Shares to be issued	-	80	-	-	-	-	-	-	-	80
Other comprehensive income	-	-	-	-	-	-	-	25	-	25
Loss for the year ended 31 December 2011	-	-	-	-	-	-	28	-	(1,264)	(1,236)
31 December 2011	5,019	80	19,846	-	166	-	28	25	(13,689)	11,475

Notes

1. Segment reporting

	Reportable Operating Segments				Unallocated Items		Total	
	Network Security		Business Systems		Central Costs			
	2011	2010	2011	2010	2011	2010	2011	2010
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Revenue to external customers								
Product and licence	3,042	-	1,233	556	-	-	4,275	556
Professional services	152	-	1,266	699	-	-	1,418	699
Support	3,678	-	1,894	1,765	-	-	5,572	1,765
Total	6,872	-	4,393	3,020	-	-	11,265	3,020
Cost of sales	(1,699)	-	(857)	(593)	-	-	(2,556)	(593)
Gross profit	5,173	-	3,536	2,427	-	-	8,709	2,427
Operating expenses	(5,723)	-	(1,947)	(1,406)	(732)	(557)	(8,402)	(1,963)
Share options charge	-	-	-	-	(20)	(131)	(20)	(131)
Operating (loss)/profit before depreciation, amortisation, acquisition and restructuring costs and financing	(550)	-	1,589	1,021	(752)	(688)	287	333
Depreciation	(146)	-	(22)	(26)	(4)	(5)	(172)	(31)
Amortisation of intangible assets	(584)	-	(193)	(167)	-	-	(777)	(167)
Operating (loss)/profit before acquisition and restructuring costs and financing	(1,280)	-	1,374	828	(756)	(693)	(662)	135
Acquisition and restructuring costs	(297)	-	-	-	(306)	(60)	(603)	(60)
(Loss)/profit before financing	(1,577)	-	1,374	828	(1,062)	(753)	(1,265)	75
Finance income	-	-	-	-	61	32	61	32
Finance costs	(224)	-	-	-	-	(199)	(224)	(199)
(Loss)/profit before taxation	(1,801)	-	1,374	828	(1,001)	(920)	(1,428)	(92)
Taxation	192	-	-	-	-	-	192	-
(Loss)/profit after taxation	(1,609)	-	1,374	828	(1,001)	(920)	(1,236)	(92)

2. Sundry Information

The financial information set out above does not constitute the Company's Annual Report and Financial Statements for the years ended 31 December 2011 or 2010. The Annual Report and Financial Statements for 2010 have been delivered to the Registrar of Companies and those for 2011 will be delivered following the Company's annual general meeting. The auditor's reports on both the 2011 and 2010 accounts were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498(2) or (3) of the Companies Act 2006. Whilst the financial information included in this preliminary announcement has been computed in accordance with International Financial Reporting Standards (IFRSs) this announcement does not itself contain sufficient information to comply with IFRSs.

Copies of the Annual Report and Financial Statements for the year to 31 December 2011 will be posted to shareholders shortly and will be obtainable from the Company's registered offices or www.coreropl.com when published.

The information in this preliminary announcement was approved by the board on 19 March 2012.