Interim Report and Accounts 2018

Corero Network Security plc

A leader in real-time, high performance, DDoS protection.

corero

Corero Network Security is the leader in real-time, high-performance DDoS defence solutions.

Service providers, hosting providers and digital enterprises rely on Corero's award winning SmartWall technology to eliminate the DDoS threat to their environment through automatic attack detection and mitigation, coupled with complete network visibility, analytics and reporting.

Contents

What is a DDoS attack?

A Distributed Denial of Service attack is a cyber-threat, in which multiple computer systems attack a target, such as a server, website or other network asset, and cause a denial of service for users of the targeted resource. The flood of incoming messages, connection requests or malformed packets to the target system, forces it to slow down or shut down, thereby denying service to legitimate users or systems. DDoS attacks are a threat to service availability, network security, brand reputation and ultimately lead to lost revenues.

Attackers are continuing to leverage DDoS attacks as part of their cyber-threat arsenal to either disrupt business operations or provide a smokescreen while they access sensitive corporate information, and they are doing it in increasingly creative ways that circumvent traditional security solutions or reduce the previous effectiveness of DDoS scrubbing centres.

Market demand

The demand for DDoS protection is being driven by the increasing number and severity of DDoS attacks. Corero's latest DDoS Trends Report highlighted the following:

- Low volume, sub-saturating attacks continue to dominate (95% less than 5Gbps);
- The number of attacks is up 40% year-over-year;
- Whilst still infrequent, attacks over 10Gbps have doubled;
- Attacks are becoming even shorter in duration (77% under 10 minutes); and
- One in five victims are attacked again within 24 hours of an initial attack.

7x	77%	21%	40%
Attacks per day	Attacks 10 Minutes or Less	Chance of repeat attack in 24 hours	Increase in attacks per quarter

(Source: Corero Half Year 2018 DDOS Trends Report)

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www.corero.com/investors/

Highlights

Solid start to 2018 and good progress in implementing growth strategy.

Group revenue

$5.0m

(H1 2017: $4.8 million)

SmartWall revenue up

39.3%

versus H2 2017 to $4.9 million
(and up 11.9% versus H1 2017)

Recurring revenue increased to

47.7%

of total revenue (H1 2017: 40.7%)

- EBITDA* loss halved to $1.4 million (H1 2017: loss $2.9 million)
- Adjusted operating costs** 18% below H1 2017
- Loss before tax of $3.0 million (H1 2017: loss $4.6 million)
- Loss per share 0.9 cents (H1 2017: loss per share 1.9 cents)
- Successful equity fund raise in April 2018 of $5.4 million (after costs)
- Net cash at 30 June 2018 of $5.0 million (30 June 2017: $5.1 million)

Operating Highlights

- Average new customer order intake value maintained at $0.35 million (H1 2017: $0.35 million)
- Follow-on orders from existing customers of $2.3 million (H1 2017: $1.4 million)
- Continued high levels of customer delight
  - Services renewal rate remained strong at 93% (H1 2017: 96%)

Post Period Highlights

- Signed global resale partnership with Juniper Networks (NYSE: JNPR)
  - Expected to materially contribute to revenue growth in 2019

Full Year Trading Update and Outlook

- Progress in H1 2018 supported by a growing H2 2018 pipeline of new business opportunities
- With a positive security market backdrop and the recently announced global resale partnership with Juniper Networks, the Board is positive about the trading prospects for the Company
- Board remains confident that revenue for the year ending 31 December 2018 will be in-line with market expectations with significantly reduced losses

"I am pleased to report that we have made a solid start to 2018 and continue to make good progress implementing our growth strategy. Our focus on developing go-to-market partnerships is gathering significant momentum, evidenced by yesterday's announcement regarding the global agreement with Juniper Networks to resell Corero's SmartWall DDoS protection software and services.

"We anticipate our go-to-market partner relationships will deliver incremental revenue in H2 2018. The partnership with Juniper Networks is expected to materially contribute to revenues in 2019 as the relationship expands and their worldwide sales team is engaged.

"The global market for DDoS defence solutions is projected by leading analysts to grow strongly for the foreseeable future. This demand, together with our market leading SmartWall technology and expanding partner network, underpins our confidence in our ability to expand our business and market share."

Ashley Stephenson

CEO of Corero

* EBITDA loss is defined as loss before depreciation, amortisation, financing, tax and unrealised foreign exchange differences on an intercompany loan

** Adjusted operating costs is defined as costs before depreciation, amortisation, financing, tax and unrealised foreign exchange differences on an intercompany loan

Interim Review

Progress in H1 2018 supported by a growing pipeline of new business opportunities.

Overview

H1 2018 was a period of steady progress for Corero, in which we continued to focus on service providers, hosting providers and digital enterprises who are most at risk from DDoS attacks.

Revenue for the six months to 30 June 2018 was $5.0 million (H1 2017: $4.8 million), comprising almost entirely of sales from SmartWall, Corero's market leading DDoS mitigation solution, which grew 39.3% versus H2 2017. Recurring revenue increased to 47.7% of total revenue (comprising revenues from security maintenance and support services and DDoS protection as-a-service revenue) versus 40.7% in H1 2017.

Corero closely managed costs in the six months ended 30 June 2018, with adjusted operating expenses** of $5.3 million, 18% below H1 2017 (H1 2017: $6.5 million).

The EBITDA* loss for the six months ended 30 June 2018 reduced to $1.4 million (H1 2017: $2.9 million).

The loss for the period reflects the continuing investment in Corero's technology and sales and marketing activities. Corero is focused on delivering accelerated sales growth through expanded routes to market, which with gross margins exceeding 75%, is expected to result in improved profitability and targeted EBITDA breakeven in the year ending 31 December 2019.

In April 2018, the Company completed a placing and subscription to raise $5.4 million (after costs) and a $4.1 million bank term loan to support SmartWall sales and marketing activities in the US and Europe, for further development of the SmartWall product and for general working capital requirements.

Operating Performance Against Strategy

Corero management remain focused on scaling up SmartWall revenue as a means to achieving profitability and expects the recently announced global resale partnership agreement with Juniper Networks to contribute to revenue in the second half of 2018 and materially accelerate our growth in 2019.

Against this backdrop, management remain focused on delivering on the following strategic ambitions:

- expanding Corero's routes to market;
- growing our customer base; and
- maintaining our competitive advantage in real-time DDoS mitigation.

Expanding routes to market

We have extended our relationship with Juniper Networks, an industry leader in automated, scalable and secure networks, with 2017 reported revenue of over $5 billion. This new global resale partnership will enable Juniper Networks to resell Corero's SmartWall software and services, extending the previous Technology Alliance Partnership ("TAP") announced in February 2017.

In addition, we continue to make progress broadening our end-user customer reach through our channel partner strategy, initially focused on Europe. To that end, Corero recruited an experienced European channel executive in Q4 2017, which has aided progress in H1 2018 in building a network of appropriate channel partners.

Growing the Group's customer base

Corero continues to win new business across its target market of service and hosting providers and digital enterprises. Highlights include:

- continued demand for the SmartWall 10Gbps solution with new customer wins including a market leading UK based multi-brand media company ($0.5 million), a cloud-based web developer ($0.3 million), and a digital enterprise ($0.2 million);
- further initial wins for the new SmartWall 100Gbps solution including a North American Service Provider customer ($0.5 million), as the adoption of 100Gbps connectivity starts to grow; and
- the average new customer order intake value was maintained at $0.35 million (H1 2017: $0.35 million).

* EBITDA loss is defined as loss before depreciation, amortisation, financing, tax and unrealised foreign exchange differences on an intercompany loan

** Adjusted operating costs is defined as costs before depreciation, amortisation, financing and unrealised foreign exchange differences on an intercompany loan

DDOS attack threats are pervasive with IOT growth a significant threat.

The market for virtual DDoS mitigation solutions is in the early stages of development and customer demand is relatively nascent. Corero is starting to see opportunities with initial sales expected in 2019.

Corero has continued to enjoy high levels of customer delight, an important metric given that delighted customers will typically be positive references for new customer opportunities. Highlights include:

- services renewal rate remains strong at 93% (H1 2017: 96%), including a $0.5 million one year customer support renewal; and
- follow-on orders from existing customers of $2.3 million (H1 2017: $1.4 million), including $1.2 million from an existing customer's ongoing global roll-out of SmartWall.

Maintaining competitive advantage in real-time DDoS mitigation

Corero delivered a major SmartWall release in July 2018 which included additional DDoS protection features and enhanced analytics.

Financial Summary

The Group has made a strong start to 2018, reporting revenues of $5.0 million (H1 2017: $4.8 million). Revenue from our SmartWall products grew 11.9% over H1 2017 to $4.9 million (39.3% over H2 2017). As expected, revenue from legacy products reduced to $0.1 million (H1 2017: $0.4m).

Total operating expenses were $6.8 million (H1 2017: $8.2m).

- Operating expenses net of capitalised R&D costs and before depreciation and amortisation of intangible assets were $5.2 million (H1 2017: $6.8 million). Capitalised R&D costs were $0.9 million (H1 2017: $1.3 million).
- Operating expenses include an unrealised exchange gain of $0.1 million (H1 2017: loss $0.3 million) arising from an intercompany loan.
- Depreciation and amortisation of intangible assets was $1.6 million (H1 2017: $1.4 million).

Losses before taxation were $3.0 million (H1 2017: loss $4.6 million) including amortisation of capitalised R&D of $1.4 million (H1 2017: $1.1 million) and amortisation of acquired intangible software assets $0.01 million (H1 2017: $0.03 million). The reported loss per share was 0.9 cents (H1 2017: loss per share 1.9 cents).

Corero had cash at bank of $9.0 million as at 30 June 2018 (2017: $5.1 million), having raised $5.4 million (after costs) in April 2018 from an equity placing and subscription and $3.8 million (net of costs) from a bank term loan concluded in April 2018 and drawn down in May 2018 (the "Debt Facility").

The Company had debt of $4.0 million at 30 June 2018 (H1 2017: nil) comprising the Debt Facility.

The net reduction in cash from operating activities in the 6 months ended 30 June 2018 was $0.3 million (H1 2017: net reduction $3.7 million) reflecting the loss for the period and decrease in working capital investment in the period of $0.9 million (H1 2017: working capital increase of $0.3 million). The Debt Facility replaced an existing accounts receivable financing facility of $1.5 million.

DDoS Attack Threats are Pervasive with IoT Growth a Significant Threat

The demand for DDoS protection is being driven by the increasing number and severity of DDoS attacks. Corero's latest DDoS Trends Report highlighted the following:

- low volume, sub-saturating DDoS attacks continue to dominate (95% less than 5Gbps);
- the number of DDoS attacks is up 40% year-on-year;
- attacks over 10Gbps have doubled;
- DDoS attacks are becoming even shorter in duration (82% under 10 minutes); and
- one in five victims are attacked again within 24 hours of an initial DDoS attack.

Interim Review continued

Corero recently published the results of its survey on the Impact of DDoS on the Enterprise, the key findings of which were:

- individual DDoS attacks can cost enterprises $50,000 per attack;
- despite this high figure, 78% cited the loss of customer trust and confidence as the most damaging effect on their business;
- 85% believe that DDoS attacks are used as a precursor or smokescreen for data breach activity; and
- alarmingly, 71% reported that their organisation has experienced a ransom-driven DDoS attack.

In Spring 2018, the record for the largest DDoS attack was broken twice in a few days, with GitHub, a web-based hosting service provider, experiencing a 1.3 Tbps DDoS attack, followed by a 1.7 Tbps attack on a US Service Provider. These attacks exploited a previously unknown vulnerability known as “Memcached.” Corero’s SmartWall solution successfully mitigated these attacks for its customers. Following these attacks, Corero disclosed to the Internet community a practical “kill switch” countermeasure for the Memcached vulnerability.

In terms of the IoT threat, there is a growing risk that unsecured IoT devices can be turned into a botnet army and used by hackers to launch DDoS attacks. The growth in IoT devices is forecast to explode in the next five years, with IHS Markit Research, a leading industry analyst, forecasting that over 62 billion devices will be connected before the end of 2023.

IoT devices still suffer from basic security vulnerabilities and it is precisely this lack of security that makes them so attractive to hackers, but it’s not just a password problem anymore. Attackers understand that manufacturers and users are waking up to the problem of passwords on IoT devices, and so are seeking more complex ways to access them. As this trend continues, and hackers become increasingly inventive when searching for new devices and ways to enlist them, there is really no limit to the size and scale of future DDoS attacks driven by IoT botnets. Any device that has an internet connection and a processor can be exploited. In an ideal world, we belive that all devices should be forced to go through some sort of network configuration before being used.

Strong Market Drivers

The cybersecurity market continues to offer strong growth opportunities driven by:

- increasing geo-political tensions and lack of governance and enforcement models;
- speed of technology innovation increasing vulnerabilities – mobile, social, Cloud, IoT;
- expansive vulnerabilities driving exponential growth in attacker groups and attack types; and
- threat levels expanding from hacktivism to crime to espionage to terrorism and warfare.

Corero is targeting the high growth security market; the market for DDoS prevention appliances is forecast by IHS Markit Technology to be $1.7 billion by 2022 (up from $0.9bn in 2017) with a CAGR of 13.9% in the period 2017 to 2022. This growth is driven by a growing awareness of the threat of DDoS attacks and the increased focus and resourcing of governments (most notably in the US and UK) on national security strategies and policies on cybersecurity including GDPR and the NIS Directive in Europe, and the US Dept. Commerce and Homeland Security.

Outlook

Strong global demand as a result of the growing awareness of the threat and impact of DDoS attacks, continues to underpin our sales pipeline and accelerate conversations with service and hosting providers and digital enterprises.

Corero remains well-positioned to be a major disrupter in the DDoS protection market and leader in delivering real-time DDoS mitigation.

The Group has also made significant progress in broadening its go-to-market access through partnerships with other technology vendors and building its channel partner network, with a number of these recent initiatives , most notably the recently announced extension of our relationship with Juniper Networks, expected to support sales momentum in H2 2018 and more substantially in 2019.

The Board is positive about the prospects for the Company and expects revenue for the year ending 31 December 2018 to be in-line with market expectations with significantly reduced losses.

Consolidated Interim Statement of Comprehensive Income

for the six month period ended 30 June 2018

	Unaudited six months ended 30 June 2018 $'000	Restated* Unaudited six months ended 30 June 2017 $'000	Restated* Unaudited year ended 31 December 2017 $'000
Revenue	5,022	4,813	8,531
Cost of sales	(1,155)	(1,275)	(2,126)
Gross profit	3,867	3,538	6,405
Operating expenses before highlighted items	(5,165)	(6,824)	(11,993)
Depreciation and amortisation of intangible assets	(1,608)	(1,359)	(2,938)
Operating expenses	(6,773)	(8,183)	(14,931)
Operating loss	(2,906)	(4,645)	(8,526)
Finance income	2	3	5
Finance costs	(72)	(4)	(4)
Loss before taxation	(2,976)	(4,646)	(8,525)
Taxation	–	–	116
Loss for the period	(2,976)	(4,646)	(8,409)
Other comprehensive expense			
Items that will or may be reclassified to the profit and loss:			
Difference on translation of UK functional currency entities	(275)	452	805
Total comprehensive expense for the period	(3,251)	(4,194)	(7,604)
Total loss for the period attributable to:			
Equity holders of the parent	(2,976)	(4,646)	(8,409)
Total	(2,976)	(4,646)	(8,409)
Total comprehensive expense for the period attributable to:			
Equity holders of the parent	(3,251)	(4,194)	(7,604)
Total	(3,251)	(4,194)	(7,604)

*See note 2 for details regarding the restatement as a result of a change in accounting policy

Basic and diluted loss per share	30 June 2018 Cents	Restated 30 June 2017 Cents	Restated 31 December 2017 Cents
Basic and diluted loss per share	(0.9)	(1.9)	(3.0)

Consolidated Interim Statement of Financial Position

as at 30 June 2018

	Unaudited as at 30 June 2018 $'000	Restated* Unaudited as at 30 June 2017 $'000	Restated* Unaudited as at 31 December 2017 $'000
Assets			
Non-current assets			
Goodwill	8,991	8,991	8,991
Acquired intangible assets	25	50	37
Capitalised development expenditure	7,156	8,074	7,664
Property, plant and equipment	757	1,070	770
	16,929	18,185	17,462
Current assets			
Inventories	98	112	94
Trade and other receivables	3,281	2,192	3,195
Cash and cash equivalents	9,049	5,118	1,365
	12,428	7,422	4,654
Liabilities			
Current Liabilities			
Trade and other payables	(2,098)	(1,611)	(1,305)
Deferred income	(2,921)	(2,581)	(2,896)
Borrowings	(399)	–	–
	(5,418)	(4,192)	(4,201)
Net current assets	7,010	3,230	453
Non-current liabilities			
Deferred income	(612)	(398)	(287)
Borrowings	(3,589)	–	–
	(4,201)	(398)	(287)
Net assets	19,738	21,017	17,628
Equity			
Ordinary share capital	5,515	4,556	4,556
Capital redemption reserve	7,051	7,051	7,051
Share premium	77,641	73,239	73,239
Share options reserve	322	301	322
Translation reserve	(1,593)	(1,671)	(1,318)
Retained earnings	(69,198)	(62,459)	(66,222)
Total equity	19,738	21,017	17,628

*See note 2 for details regarding the restatement as a result of a change in accounting policy

Consolidated Interim Statement of Cash Flows

for the six month period ended 30 June 2018

	Unaudited six months ended 30 June 2018 $'000	Restated* Unaudited as at 30 June 2017 $'000	Restated* Unaudited as at 31 December 2017 $'000
Cash flows from operating activities			
Loss for the period	(2,976)	(4,646)	(8,409)
Adjustments for:			
Amortisation of acquired intangible assets	12	32	55
Amortisation of capitalised development expenditure	1,413	1,085	2,408
Depreciation	244	260	548
Finance income	(2)	(3)	(5)
Finance expense	72	4	4
Taxation	–	–	(116)
Qualifying research and development expenditure tax credit	–	–	116
Share based payment charge	–	–	21
Decrease/(increase) in inventories and as-a-service assets	27	(47)	127
(Increase)/decrease in trade and other receivables	(304)	131	(197)
Increase/(decrease) in payables	1,187	(481)	(596)
Net cash used in operating activities	(327)	(3,665)	(6,044)
Cash flows from investing activities			
Purchase of intangible assets	–	–	(10)
Capitalised development expenditure	(905)	(1,258)	(2,171)
Purchase of property, plant and equipment	(263)	(353)	(497)
Net cash used in investing activities	(1,168)	(1,611)	(2,678)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital	5,361	6,995	6,995
Finance income	2	3	5
Finance expense	(72)	(4)	(4)
Proceeds from borrowings (before costs)	4,082	–	–
Net cash from financing activities	9,373	6,994	6,996
Effects of exchange rates on cash and cash equivalents	(194)	460	151
Net increase/(decrease) in cash and cash equivalents	7,684	2,178	(1,575)
Cash and cash equivalents at 1 January	1,365	2,940	2,940
Cash and cash equivalents at balance sheet dates	9,049	5,118	1,365

*See note 2 for details regarding the restatement as a result of a change in accounting policy

Consolidated Interim Statement of Changes in Equity

for the six month period ended 30 June 2018

	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 2017 (as previously stated)	3,119	7,051	67,681	301	(2,123)	(57,813)	18,216
Prior period adjustment – IFRS 15 Revenue from Contracts with Customers	–	–	–	–	–	111	111
1 January 2017 (as restated)	3,119	7,051	67,681	301	(2,123)	(57,702)	18,327
Loss for the period	–	–	–	–	–	(4,757)	(4,757)
Other comprehensive expense	–	–	–	–	452	–	452
Total comprehensive expense for the period	–	–	–	–	452	(4,757)	(4,305)
Contributions by and distributions to owners							
Issue of share capital	1,437	–	5,558	–	–	–	6,995
Total contributions by and distributions to owners	1,437	–	5,558	–	–	–	6,995
30 June 2017 (as restated)	4,556	7,051	73,239	301	(1,671)	(62,459)	21,017
Prior period adjustment – IFRS 15 Revenue from Contracts with Customers	–	–	–	–	–	53	53
30 June 2017 (as restated)	4,556	7,051	73,239	301	(1,671)	(62,406)	21,070
Loss for the period						(3,816)	(3,816)
Other comprehensive expense	–	–	–	–	353	–	353
Total comprehensive expense for the period	–	–	–	–	353	(3,816)	(3,463)
Contributions by and distributions to owners							
Share based payments	–	–	–	21	–	–	21
Total contributions by and distributions to owners	–	–	–	21	–	–	21
31 December 2017 and 1 January 2018 (as restated)	4,556	7,051	73,239	322	(1,318)	(66,222)	17,628
Loss for the period	–	–	–	–	–	(2,976)	(2,976)
Other comprehensive expense	–	–	–	–	(275)	–	(275)
Total comprehensive expense for the period	–	–	–	–	(275)	(2,976)	(3,251)
Contributions by and distributions to owners							
Issue of share capital	959	–	4,402	–	–	–	5,361
Total contributions by and distributions to owners	959	–	4,402	–	–	–	5,361
30 June 2018	5,515	7,051	77,641	322	(1,593)	(69,198)	19,738

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 2018 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 Annual Report and Accounts for the year ending 31 December 2017 ("2017 Annual Report and Accounts"). The financial information for the half years ended 30 June 2018 and 30 June 2017 do not constitute statutory accounts within the meaning of Section 434(3) of the Companies Act 2006 and have neither been audited or reviewed.

The annual financial statements of Corero Network Security plc are prepared in accordance with IFRSs as adopted by the European Union. The statutory Annual Report and Financial Statements for 2017 have been filed with the Registrar of Companies. The Independent Auditors' Report on that Annual Report and Financial Statement for 2017 was unqualified, drew attention to a material uncertainty relating to going concern and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006. Subsequent to the approval of the 2017 Annual Report and Accounts, the Company completed an equity fund raise of $5.4 million (after costs) and, as explained further in note 5, secured a bank term loan (the "Debt Facility") of $4.1 million.

The comparative financial information for the year ended 31 December 2017 included within this report does not constitute the full statutory accounts for that period and has been restated for the change in accounting policy for IFRS 15 Revenue from Contracts with Customers.

The consolidated financial statements have been prepared on a going concern basis as the Directors believe that the current sales prospects, combined with the Group's existing cash resources and the Debt Facility, 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 25 September 2018 and approved for issue on 26 September 2018.

2. Significant accounting policies

Corero has applied the same accounting policies and methods of computation in its interim financial statements as in its 2017 Annual Report and Accounts, except for those that relate to new standards and interpretations effective for the first time for periods beginning on (or after) 1 January 2018 ("New Standards"). The New Standard which impacts the Group's financial reporting and represents a change in accounting policy, is IFRS 15 (Revenue from Contracts with Customers). This standard will be adopted in the Annual Report and Accounts for the year ending 31 December 2018.

Details of the impact of the new standard IFRS 15 are given below. Other new and amended standards and Interpretations issued by the IASB applicable for the current financial year are not expected to impact the Group as they are either not relevant to the Group's activities or require accounting treatment which is consistent with the Group's current accounting policies. In addition, certain other new and amended standards and Interpretations issued by the IASB, including IFRS 16 (Leases), are only applicable for the first time after 31 December 2018 and will, if applicable to the Group, be incorporated in the Annual Report and Accounts for year ending 31 December 2019.

IFRS 15 Revenue from Contracts with Customers

The Group's revenue is derived from the following products and services:

- Hardware and perpetual software licenses;
- Support services for a defined term;
- Installation and training services;
- DDoS protection as-a-service ("DDPaaS") for a defined term;
- SecureWatch Managed Service (enhanced security monitoring services) for a defined term; and
- Software subscription licenses for a defined term.

Notes to the interim financial statements continued

2. Significant accounting policies continued

Performance obligations, timing of revenue recognition and revenue recognition

Revenue is recognised when control of the goods (hardware and software) transfer to the customer and services are delivered. Goods are shipped free on board ("FOB") from Corero, or Corero's contract manufacturer, to the customer. The point of transfer of control for hardware is at the point of FOB shipment to the customer and for software at the point of electronic transfer to the customer.

Revenue recognised on transfer of control of hardware and software products.	Hardware, perpetual software licenses and software subscription licenses.
Revenue recognised over-time (over the term of the contract).	Support, DDPaaS and SecureWatch Managed services.
Revenue recognised once the service has been delivered.	Installation and training services.

Determining the transaction price

The contract price is determined by reference to the Corero Sales Quotation or DDPaaS Agreement and is a fixed price. Certain DDPaaS contracts have an element of the transaction value or all of the transaction price determined by reference to a share of the customers' revenue generated from the Corero solution ("Revenue Share"). This Revenue Share revenue is recognised when the Revenue Share is determined or can be reasonably estimated.

Corero does not have any other variable consideration payable by the customer and does not pay any consideration to the customer. There is no provision for purchase price adjustments, right of return or price concessions.

Allocating amounts to performance obligations

For contracts containing only a single performance obligation (annual support services, DDPaaS and SecureWatch Managed Service) there is no requirement to make an allocation of the contract price. For contracts containing multiple products the transaction price is allocated to the separate performance obligations based on relative stand-alone selling prices ("SSP"). SSP equates to the historic best estimated selling price methodology previously applied consistently by Corero in prior year financial statements. The SSP is determined using defined price lists and historic customer discount rates.

Incremental costs of obtaining a contract

Sales commission paid to Corero sales employees is an incremental cost of obtaining a contract. Sales commission relating to the support revenue from a new sales contract is recorded in prepayments and amortised over 5 years. Corero has considered the requirements of the IFRS 15 standard with regards to the amortisation period which requires amortisation on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. The expectation, supported by historic evidence, is that customers will generally renew their support contracts for more than 3 years with the additional expectation of follow-on hardware and software (and associated services) business from a significant number of existing customers. Based on this, Corero has assessed that a reasonable period for capitalised sales commission to be amortised is 5 years. Periodic customer reviews will be undertaken to ascertain if there is any evidence that the value of the customer relationship has been negatively impacted, in which case the prepayment will be appropriately written down. Applying the practical expedient, Corero recognises the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the prepayment that Corero otherwise would have recognised is one year or less.

Fulfilment costs

Corero's principal fulfilment costs relate to the costs of the Corero customer support team which delivers the customer support services, DDPaaS services and the SecureWatch Managed services. These costs are not separately allocated or identifiable against specific customers. Therefore, these costs are recognised in the period in which they are incurred.

The Group chose to adopt IFRS 15 on a fully retrospective basis. After reviewing the requirements of IFRS 15, Corero has concluded that no restatement to previously recognised revenue was required and there was no requirement to amend existing contract liabilities. None of the practical expedients relating to contracts with customers were therefore required to be applied.

The impact of adopting IFRS 15 on a fully retrospective basis for the capitalisation and amortisation of sales commission was to reduce the operating expenditure/loss for the relevant reporting periods and increase trade and other receivables. The capitalised sales commission balance at 30 June 2018 was $203,000 (30 June 2017: $111,000, and 31 December 2017: $164,000). The amortisation of sales commission was $21,000 in the 6 months ended 30 June 2018 ($6,000 in the 6 months ended 30 June 2017 and $15,000 in the year ended 31 December 2017).

There was no impairment loss in relation to the costs capitalised in the relevant reporting periods.

3. 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 2018			30 June 2017		
	Loss $'000	Weighted average number of 1p shares Thousand	Loss per share Cents	Loss $'000	Weighted average number of 1p shares Thousand	Restated Loss per share Cents
Basic and diluted loss per share	(2,976)	339,813	(0.9)	(4,646)	243,922	(1.9)

	31 December 2017		
	Loss $'000	Weighted average number of 1p shares Thousand	Restated Loss per share Cents
Basic and diluted loss per share	(8,409)	280,130	(3.0)

4. Segment reporting

The Group is managed according to one business unit, Corero Network Security, which makes up the Group's reportable operating segment. This business unit forms the basis on which the Group reports its primary segment information to the Board, which management consider to be the Chief Operating Decision maker for the purposes of IFRS 8 Operating Segments.

The Group's revenues from external customers are divided into the following countries:

	6 months ended 30 June 2018 $'000	6 months ended 30 June 2017 $'000	12 months ended 31 December 2017 $'000
USA	2,702	3,727	5,660
UK	967	881	1,866
Germany	374	–	43
Switzerland	374	–	224
APAC	202	–	–
Australia	166	–	395
Ireland	113	–	–
Other European countries	54	197	329
ROW	70	–	–
UAE	–	8	14
Total	5,022	4,813	8,531

Notes to the interim financial statements continued

4. Segment reporting continued

Revenues from external customers are identified on the basis of invoicing systems and adjusted to take into account the difference between invoiced amounts and deferred revenue adjustments required by IFRS.

The revenue is analysed for each revenue category as:

	6 months ended 30 June 2018 $'000	6 months ended 30 June 2017 $'000	12 months ended 31 December 2017 $'000
Hardware and licence revenue	2,628	2,852	4,510
DDoS Protection as-a-service revenue	343	77	323
Maintenance and support services revenue	2,051	1,884	3,698
Total	5,022	4,813	8,531

The revenue is analysed by timing of delivery of goods or services as:

	6 months ended 30 June 2018 $'000	6 months ended 30 June 2017 $'000	12 months ended 31 December 2017 $'000
Point in time delivery	2,628	2,852	4,510
Over time	2,394	1,961	4,021
Total	5,022	4,813	8,531

5. Borrowings

	30 June 2018 $'000	30 June 2017 $'000	31 December 2017 $'000
Bank loan*	3,988	–	–

The Company concluded negotiations for the Debt Facility in April 2018. The Debt Facility comprises a four-year term GBP sterling bank loan of £3.0 million, which was drawn down in May 2018, with quarterly repayments commencing on 31 March 2019. These quarterly repayments increase from £150,000 on 31 March 2019 to £310,000 on 31 March 2022 such that the loan will be repaid in full by 31 March 2022, with no early repayment penalties or redemption premium. Interest is payable quarterly in arrears based on 3-month GBP Libor plus 7.5%. The loan is secured (debentures and guarantees from all Group companies) and has revenue and cash consumption covenants, which are tested quarterly and monthly respectively.

* of which $0.4 million is due within 12 months

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