corero
FIRST LINE OF DEFENSE

PRODUCTS & SERVICES FOR REAL-TIME DDoS PROTECTION

ADVANCED DDoS DEFENCE TECHNOLOGY

BUILT ON NEXT GENERATION ARCHITECTURE

SOPHISTICATED DDoS ANALYTICS & VISUALISATION

Annual Report & Accounts 2015

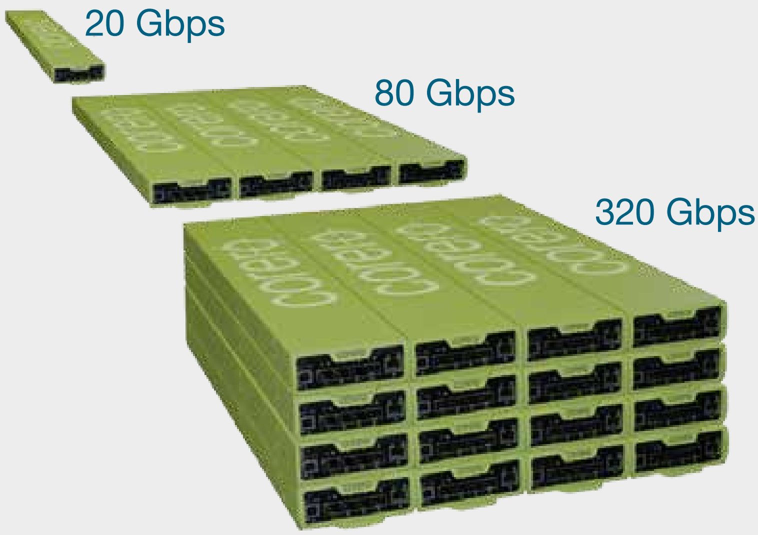
Corero Network Security plc

corero

FIRST LINE OF DEFENSE

Corero Network Security is dedicated to improving the security and availability of the Internet through the deployment of its award winning technology, with automatic DDoS attack detection and mitigation.

Corero Network Security is the leader in real-time, high-performance DDoS defence solutions. Service providers, hosting providers and online enterprises rely on Corero's award winning technology to eliminate the DDoS threat to their environment through automatic attack detection and mitigation, coupled with complete network visibility, analytics and reporting. This next-generation technology provides a First Line of Defense® against DDoS attacks in the most complex environments while enabling a more cost effective economic model than previously available. For more information, visit www.corero.com



SmartWall® Threat Defense System (TDS)

- Service/Hosting Providers and Online Enterprises
- On Premises or Cloud deployments
- Protection in modular increments of 10/20 Gbps
- In-line or scrubbing topologies

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OVERVIEW

Highlights

Customer wins across the SmartWall TDS target markets – service providers, hosting providers and online enterprises

FINANCIAL HIGHLIGHTS

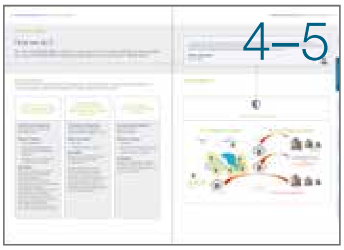
- Revenue up 11% to $8.3 million (2014: $7.5 million)
- Reduced EBITDA loss* $6.4 million (2014: $7.1 million)
- Reduced loss per share 8.5 cents (2014: 11.5 cents)
- Net cash $2.7 million at 31 December 2015 (2014: $6.0 million)

OPERATING HIGHLIGHTS

- Customer wins across the SmartWall TDS target markets
  - Including first Tier 1 service provider contract wins in the US and Europe
- Additional development facility established in Edinburgh, Scotland
- Orders for SmartWall TDS product up 186% to $4.3 million (2014: $1.5 million)

* before depreciation, amortisation and financing (and comprises the operating loss less depreciation and amortisation of intangibles)

ESSENTIAL READS


4–5

What we do

Corero DDoS protection solutions provide automatic detection and mitigation of DDoS attacks for Internet service providers, hosting providers, and the online enterprise.


6–7

Why we do it

DDoS attacks continue to rise in size, frequency, and complexity, impacting the security and availability of the Internet. Providers and the Internet connected business require automatic protection against this evolving threat landscape to avoid unplanned downtime, disruption and diversionary security incidents.


12–13

How we do it

The Corero SmartWall® TDS provides real-time protection against a continuously evolving spectrum of DDoS attacks by inspecting every packet for suspicious intent. Packets that are determined to be malicious are blocked before they can impact the service providers, hosting providers and the enterprises that they serve.

OVERVIEW

Chairman's Statement

The market opportunity for Corero's SmartWall TDS product has been validated with multiple key customer wins

Overview

Corero ended the year strongly, with final quarter billings of $3.2 million, the Company's highest quarterly billings for more than three years. The final quarter billings included Corero's first US Tier 1 service provider win, first European Tier 1 service provider win and a significant support services order of over $0.7 million.

In 2015 Corero sold the SmartWall TDS to over 20 service providers, hosting providers and enterprises, providing real-time DDoS and cyber threat protection, with an average order value exceeding $200,000. Winning the level and calibre of customers through competitive tenders demonstrates that the SmartWall TDS is a market leading and differentiated solution. SmartWall TDS trials are being conducted by several leading service providers and hosting providers and since the year end Corero has also secured its largest single hosting provider customer win to date.

Strategic focus

Corero is well positioned to capitalise on the evolving DDoS defence market and the increasing requirement for real-time, automatic DDoS mitigation. This is a market the SmartWall TDS was designed to address.

Market dynamics

The service provider and hosting provider requirements for real-time, in-line and automatic DDoS mitigation solutions are growing rapidly, driven by the increasing demand from their customers for DDoS protection. Corero is extremely encouraged with the market validation from numerous material customer wins in the past year.

The key market drivers are:

- Increasing adoption of the Cloud and continuing rise of security threats
- Network capacity needs are growing exponentially by number of Internet links and speed
- Frequency and magnitude of DDoS attacks continue to increase dramatically

The market opportunity for Corero is further driven by the demand for DDoS security services which are forecast to grow significantly through both Service Provider push and Enterprise pull or demand for such services.

The industry analysts are forecasting double digit growth for the DDoS market segment and forecast the DDoS market will be in excess of $1 billion in 3 years.

The key trends that will drive demand for Corero DDoS solutions are:

- Enterprises looking to providers for protection – buy a service versus build a solution
- Service providers looking to offer more high margin services – becoming more than just network transport
- Premium offerings include security services, for example DDoS-as-a-service

Jens Montanana
Chairman

$3.2 million
Q4 2015 the Company's highest quarterly billings for more than three years

Double digit growth
The industry analysts are forecasting double digit growth for the DDoS market

- Service provider networks evolving beyond traditional core and edge boundaries
- Hosting providers need always-on mitigation, due to their large attack surface represented by the aggregate online presence of the many customers that they host, and to deal with the increasing volume of DDoS attacks

I call our Corero SmartWall TDS, 'The Beast' because it just handles everything we throw at it. LA Dedicated continues to get pounded with attacks every day but they have no impact anymore. We haven't had any downtime since we installed this device. We have pretty much eliminated the DDoS problem for our company.

Robby Hicks, CEO, LA Dedicated
Hosting provider (US)

Outlook

Corero enters 2016 with growing confidence on the back of important customer wins in 2015, and a solid first quarter of sequential growth in 2016. We are currently engaged with a number of large opportunities where we believe the SmartWall TDS solution is well matched to the customer requirements.

Jens Montanana
Chairman
20 April 2016

STRATEGIC REPORT

What we do

The Corero SmartWall TDS provides real-time protection against DDoS attacks

PRODUCT OFFERING

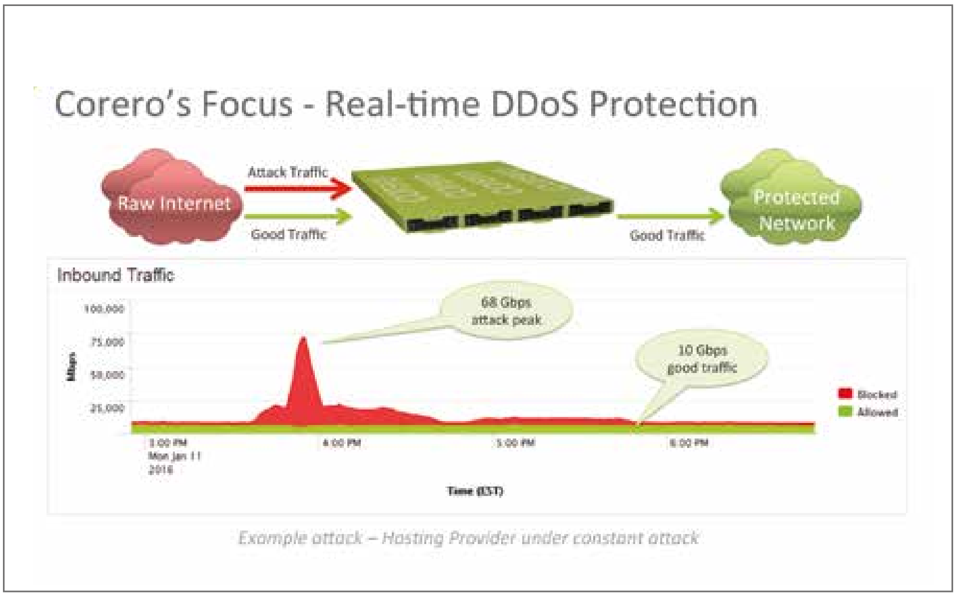
The Corero SmartWall TDS is a purpose-built family of network security appliances configurable to meet the needs of service and hosting providers and online enterprises all of which are impacted by the challenges of DDoS attacks. These appliances deliver automatic threat defence services in rapidly scalable deployments for high performance networks.

- SmartWall Network NTD Appliance
  Provides continuous visibility and security policy enforcement to establish a proactive First Line of Defense for inspecting traffic, detecting threats and blocking attacks.

It is capable of mitigating a wide range of DDoS attacks while maintaining full service connectivity and availability to avoid degrading the delivery of legitimate traffic.

- SmartWall Network Bypass Appliance
  Network availability is the key to maintaining an always on Internet presence. The Corero SmartWall Network Bypass Appliance provides organisations with 100% network connectivity to eliminate downtime of their Internet presence in case of power or equipment failures as well as during maintenance windows.

Ashley Stephenson
CEO Corero



With Corero, we get the whole package, said Zubel. Attack vectors are changing all the time, so dynamic protection is important for us. We get more visibility with SmartWall TDS and SecureWatch – it's more than just knowing that we are under attack. Corero has offered us a solution that is an intelligence tool as much as a DDoS mitigation tool.

Barry Zubel Head of IT, Jagex
Online Gaming (UK)

OUR TECHNOLOGY

SmartWall TDS

The Corero SmartWall TDS is deployed in-line at the network edge to provide continuous visibility and security policy enforcement so that organisations can employ a proactive First Line of Defense for inspecting traffic, detecting threats and blocking DDoS attacks, while maintaining full service connectivity and availability to avoid degrading the delivery of legitimate traffic. Key SmartWall TDS technology features:

- Leverages a "Do-No-Harm" architecture which scales in increments of 10 Gbps at 30 Mpps (packets per second) without disrupting any good user traffic
- Uses multi-levels of filtering functionality to detect and mitigate single and multi-vector DDoS attacks including pre-defined filters to instantaneously detect and mitigate known DDoS attacks, as well as programmable filters to mitigate zero-day DDoS attacks
- Heuristic and Behavioural analysis along with autonomic filtering allows for comprehensive protection against DDoS attacks

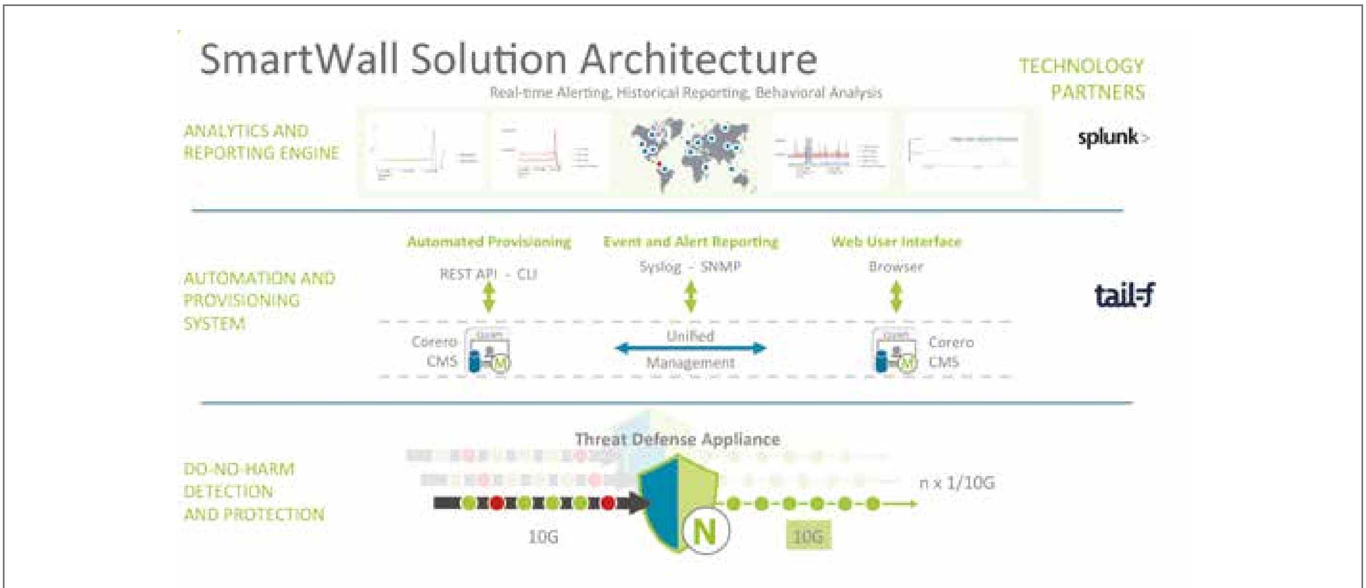
Additionally, the SmartWall TDS enables SecureWatch® Analytics, a powerful web-based security analytics portal that delivers comprehensive, easy-to-read, and actionable security dashboards based on DDoS tailored security feeds from the Corero SmartWall TDS products. The portal leverages Splunk® software for big data analytics and advanced visualisation capabilities and provides never-before-seen insights into network and security activity for rapid response in combating DDoS attacks and cyber threats.

OUR SERVICES

SecureWatch PLUS

A comprehensive suite of DDoS defence configuration, optimisation, 24x7 monitoring and attack mitigation services.

These services are customised to meet the security requirements and business goals of each customer. SecureWatch PLUS includes access to experts to assist in the realisation of the desired DDoS defence solution starting with the organisation-specific implementation, commissioning and testing, continuing with round-the-clock monitoring, and immediate response in the event of a DDoS attack.



STRATEGIC REPORT

Why we do it

DDoS attacks are accelerating in purpose, sophistication, complexity, scale and frequency

DDoS Attacks – 2015 Snapshot

Total Attack Bandwidth Gbps

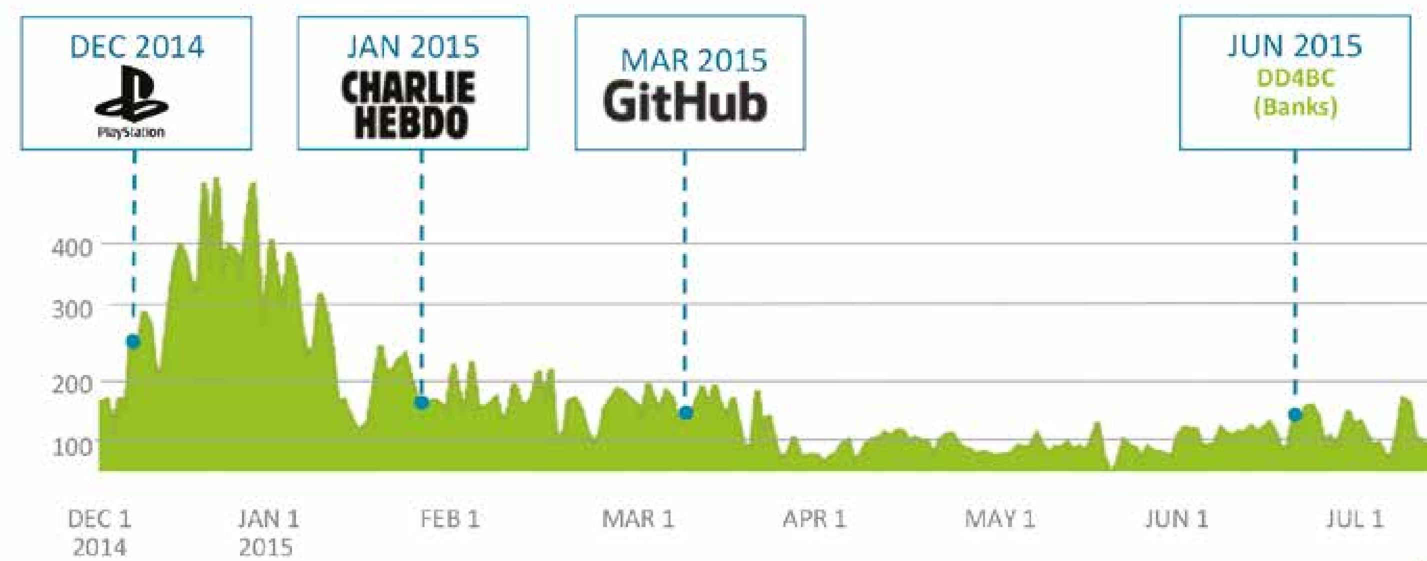
Data shown represents the top ~2% of reported attacks

$1.5m

per annum is the average cost to deal with DDoS attacks

49%

of companies expect DDoS attacks to increase in next 12 months



Source: Digital Attack Map and Ponemon Institute

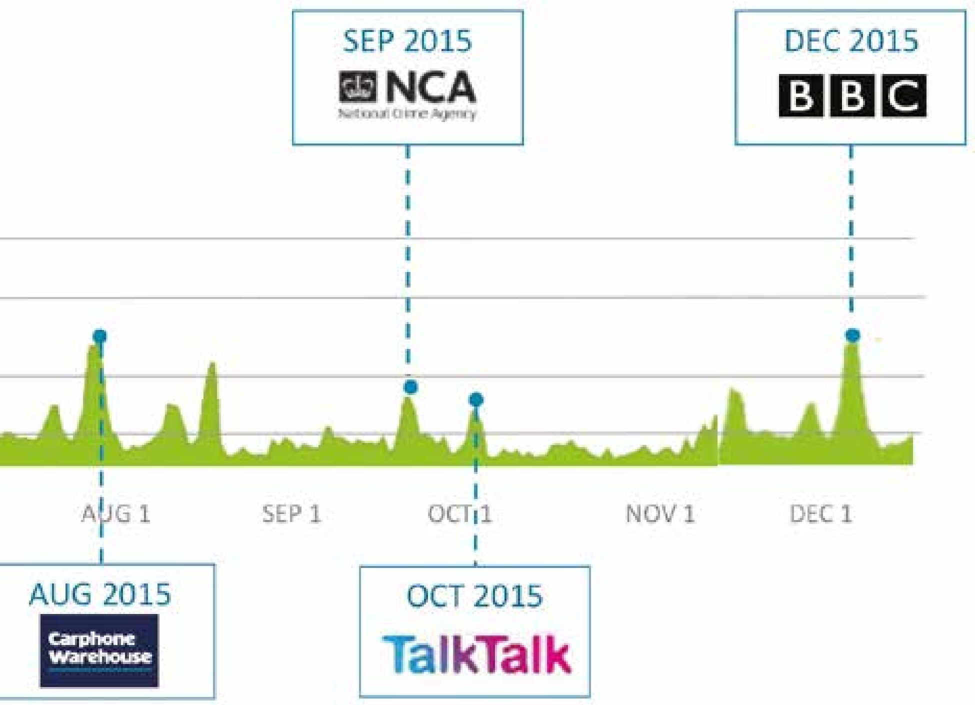
The world in which we operate

Cybersecurity is one of the fastest growing IT sectors. It impacts all individuals, businesses, institutions and governments, and poses an increasing risk to the economies of the world. Organisations worldwide are spending more each year on cyber security solutions to protect their brand or reputation, their commerce, their intellectual property, and their citizens.

Within the overall cyber threat landscape, an important developing field is protection against DDoS attacks which have become a widely used cyber weapon.

↓82%

Of companies reported DDoS attacks shut down or partially shut down their data centres



We guarantee the 5x9 SLA to our customers and we commit to maintaining 24/7 network uptime; therefore, it's crucial for us to deploy a dedicated, inline anti-DDOS appliance. Corero's SmartWall TDS solves the DDoS problem entirely, which improves our overall value proposition, and it allows us to extend our service offerings.

Salim Gasmi, CTO
SdV Plurimédia
Hoster (France)

DDoS attacks range in effectiveness, complexity, size, frequency, and duration, making DDoS attacks difficult to anticipate, prepare for, detect, and mitigate without specialised solutions.

DDoS attacks are highly disruptive attacks that hurt the victimised organisation's online operations, brand name and ability to conduct business. Consequently the demand for DDoS mitigation solutions continues to grow.

Frost & Sullivan
DDoS Mitigation Market
Global Markets Analysis
November 2015

STRATEGIC REPORT

Why we do it continued

DDOS ATTACKS ARE HERE TO STAY

- 44% of companies reported an increase in DDoS attacks in the past year and 49% expect they will increase in the next 12 months
- DDoS attacks are one of the top three security threats facing companies

Source: Ponemon Institute – The Cost of Denial-of-Service Attacks, March 2015

SOLVING THE DDOS PROBLEM PRESENTS UNIQUE TECHNICAL CHALLENGES

- Real time detection and mitigation is a complex problem beyond the scope of Cloud DDoS services, scrubbing centres and 'best effort' human intervention
- This is an opportunity for specialised security technology vendors like Corero

INCREASING DDOS RISK IS CREATING DEMAND FOR DDOS MITIGATION SOLUTIONS

- Growth in number of DDoS attacks – according to Akamai (whose content delivery network is one of the world's largest distributed computing platforms servicing between 15 and 30% of all web traffic) the third quarter of 2015 saw a record number of DDoS attacks (an increase of over 180% over the third quarter of 2014)
- DDoS attacks being used as a smokescreen for other cyber attacks

CYBER-CRIME CONTINUES TO BE COSTLY

- The average annualised cost of cyber-crime for organisations is $7.7 million per year
- DDoS attacks are the second most costly cyber attacks (behind web-based attacks)

Source: Ponemon Institute 2015 Global Report on Cost of Cyber Crime

DRIVERS FOR INVESTING IN DDOS SOLUTIONS

Service providers, hosting and cloud providers, and on-line enterprises need DDoS solutions with improved performance, faster physical interfaces, and advanced detection and mitigation technologies

- Data centre consolidation, data centre upgrades and the roll-out of cloud infrastructure will underpin the next generation of cloud services
- Large data centres and cloud providers are highly visible targets who must protect their own infrastructure and the customer who trusts these providers to host data, IT infrastructure and applications

Source: *Infonetics*

THE COMPETITIVE ENVIRONMENT

Corero is focused on security solutions to mitigate DDoS attacks. Corero has defined the market for on premises First Line of Defense and have developed the following key competitive advantages:

Real-time protection

Blocks both network-layer flooding attacks, as well as the more difficult to detect, low and slow application-layer attacks.

Unrivalled analytics and security event reporting

Sophisticated security event data presented in dashboards of actionable security intelligence.

Industry-leading density, scalability and performance

Protection is provided through configurable access policies with scalability from 10 Gbps to 1 Tbps in a single rack.

Granular configuration of security policies

Allows legitimate traffic to pass while blocking unwanted traffic.

Broad security coverage

Inspection of every packet, every flow and specific packet payload information to detect and mitigate single and multi-vector DDoS attacks.

Purpose-built security appliance

High performance traffic inspection using a multi-core processor architecture.

Powerful centralised management

Facilitates configuring, controlling, and monitoring all SmartWall TDS appliances from a central location.

Single solution

Family of SmartWall TDS appliances delivers comprehensive DDoS protection, forensics analysis and network resiliency.

Industry disrupting price for performance

With varied mitigation bandwidth licensing options, Corero provides the most comprehensive peer-point protection, at industry disrupting economic scale.

OPPORTUNITIES

The key trends expected to have a positive impact on the Corero market are:

- Hosting and service providers, and their customers, increasingly being impacted by DDoS attack threats
- Online enterprises, of all sizes, are seeing an increase in DDoS attacks which adversely impact revenue generation, customer satisfaction and brand value, and such attacks are increasingly used as a smokescreen for other cyber threats, such as a data breach
- Growth in cloud computing and the trend of organisations outsourcing their IT infrastructure is increasing demand for service providers and hosting providers to deliver protection against DDoS attacks

Corero is targeting a high growth security market; the market for DDoS mitigation (which includes products and services) is forecast by the leading industry analysts to more than double in the period to 2019 to reach more than $1.0 billion.

Key research conducted by Corero in late 2015 within the Internet Service Provider community asked respondents to rate the importance of DDoS defences in relation to other types of security for their customers, and an overwhelming number – 83 percent – said DDoS protection was equally important or more important. More than half of respondents (51 percent) said it was more important.

This same research confirmed the features deemed essential in a DDoS mitigation solution including the following important SmartWall TDS features:

- Ability to maintain bandwidth/ throughput
- Ability to handle high-volume, indiscriminate attacks
- Ability to handle attacks aimed at disrupting specific applications
- Ability to handle other non-DDoS network attacks
- Ability to provide reporting and visibility into attack types and mitigation that was provided
- Low false blocking rate
- Little to no human intervention required

KEY MARKET CHALLENGES

The market for security products and services is competitive and characterised by constant changes in technology, the evolving cyber threat landscape, customer requirements, and industry standards as well as frequent new product introductions. Corero needs to be focused on its chosen market and deliver continuous innovation to stay ahead of the competition. Corero will address this challenge by working closely with customers and prospects, to leverage the flexibility of the Corero technology platform to deliver continuously evolving leadership protection against the latest DDoS attacks and cyber threats.

STRATEGIC REPORT

Our performance

FINANCIAL PERFORMANCE

The year ended 31 December 2015 is the first full twelve month reporting period following Corero's decision to transition the business to focus exclusively on the SmartWall TDS product for the DDoS protection market.

- Revenue of $8.3 million, an increase of over 10% over the prior year (2014: $7.5 million)
- Reduced EBITDA loss before depreciation, amortisation and financing $6.4 million (2014: $7.1 million)

The loss for the year after taxation amounted to $11.2 million (2014: $10.1 million) and includes:

- Unrealised exchange gain of $0.4 million (2014: gain $0.4 million) arising on an intercompany loan;
- Finance costs of $0.02 million (2014: $0.02 million)

Reduced loss per share 8.5 cents (2014: 11.5 cents).

The Group's net assets at 31 December 2015 were $26.3 million (2014: $30.5 million).

REVIEW OF THE COMPANY'S BUSINESS

Highlights of 2015 include:

- Customer wins across the multiple SmartWall TDS target markets
  - Including first Tier 1 service provider contract wins in the US and Europe
- Additional development facility established in Edinburgh, Scotland
- Orders for SmartWall TDS product up 186% to $4.3 million (2014: $1.5 million)

Mobile and wireline service providers—including ISPs, converged carriers, cable MSOs and others are uniquely positioned to inherently change the way DDoS attacks impact downstream customers. As the DDoS threat landscape has evolved over time, so has the ability to surgically remove DDoS attack traffic from transiting freely through provider networks. With new solutions providing economies of scale for modern and sophisticated DDoS mitigation, providers are now enabled to completely eliminate the DDoS challenge.

Dave Larson, Corero COO

Unlocking the potential of this opportunity means these vendors need to not only sell to the obvious large data center, cloud and telecom service providers, but also Tier 2 and 3 service providers of all types, convincing them to invest in on-premises DDoS mitigation (like Corero's recent announcement with Block Communications). We're starting to see more real traction here, which is the primary reason we increased the forecast in this report.

Jeff Wilson, Infonetics Research Director, Cybersecurity Technology
DDoS Prevention Appliances Biannual Worldwide and Regional Market Share and Forecasts: 2nd Edition December 2015

REVIEW OF PERFORMANCE & PERFORMANCE INDICATORS

The Directors monitor a number of metrics, both financial and non-financial, on a monthly basis.

The most important financial metrics are as follows:

- Order intake: $7.9 million for the year ended 31 December 2015 (2014: $8.6 million);
- Gross margin: 75% for the year ended 31 December 2015 (2014: 78%);
- Operating expenses (gross of research and development costs capitalised and before depreciation and amortisation of intangibles): $15.0 million for the year ended 31 December 2015 (2014: $16.6 million); and
- Net cash: $2.7 million at 31 December 2015 (2014: $6.0 million)

The order intake in 2015, the first full year Corero focused its business on SmartWall TDS, included $4.3 million of SmartWall TDS orders (2014: $1.5 million) to over 20 service providers, hosting providers and enterprises, providing real-time DDoS and cyber threat protection, with an average order value exceeding $200,000 (a significant increase over the 2014 average order value of $74,000). In 2015 Corero announced the end of life of its previous generation products.

Operating expenses, gross of research and development costs capitalised of $2.3 million (2014: $3.6 million), of $15.0 million were below the prior year (2014: $16.6 million) reflecting lower development costs following the initial release of the SmartWall TDS product in mid-2014 and lower sales costs as result of the decision to focus the sales efforts on the North American and the EMEA markets.

Despite the 2015 EBITDA loss being lower than the prior year, the operating loss of $11.6 million was higher than the prior year (2014: $10.4 million) due to the increased amortisation of capitalised development expenditure in 2015 of $2.4 million (2014: $1.1 million) which came as a result of a full 12 months amortisation in 2015 following the SmartWall TDS launch in mid-2014. An impairment charge of $0.8 million in 2015 relating to previous generation products for which end of life announcements were made in 2015 also contributed to the higher operating loss.

CASH AND TREASURY

The closing cash balance was $2.7 million (2014: $6.0 million). Corero had no debt at 31 December 2015 (2014: $0).

The net reduction in cash from operating activities in the year ended 31 December 2015 was $7.7 million (2014: $5.4 million). In the year ending 31 December 2015, the Company raised $7.7 million (before expenses), of which the Chairman contributed $3.0 million, to fund the further development and sales of the SmartWall TDS.

STRATEGIC REPORT

How we do it

The sale of SmartWall TDS solutions to customers in Corero's target markets has demonstrated the value of SmartWall TDS in protecting organisations from the impact of DDoS attacks

BUSINESS MODEL

The Corero business model comprises the development, marketing and sale of network security products and services to provide customers with protection from DDoS attacks and cyber threats.

SECURITY APPLIANCE SALE – HARDWARE AND SOFTWARE PRODUCT

Contractual arrangement

Hardware sale and perpetual software license.

Nature of revenue

- New customer sale
- Existing customer upgrades for increased performance or expansion
- Existing customer add on sale of new software modules

Description

The Corero software comprises ostensibly Corero developed proprietary software complemented by third party licensed and open source software. The hardware solution is assembled by a third party contract manufacturer using industry standard hardware components and a Tilera Corporation multi-core CPU chip to deliver a high performance solution required for an in-line network security solution.

HARDWARE AND SOFTWARE SUPPORT, MONITORING AND UPDATE SERVICES

Contractual arrangement

Single/multi-year contracts for support and SecureWatch services.

Nature of revenue

- New sale
- Existing customer renewal

Description

Support and monitoring services are delivered by the Corero support team.

Updates are delivered to the Corero appliances in customer networks to provide proactive on-going protection from the latest cyber security threats. Corero undertakes its own research into such threats and also partners with third party organisations.

SECUREWATCH PLUS DDOS DEFENCE SERVICES

Contractual arrangement

Single/multi-year service contracts.

Nature of revenue

- New sale
- Add on sale to existing customer
- Existing customer renewal

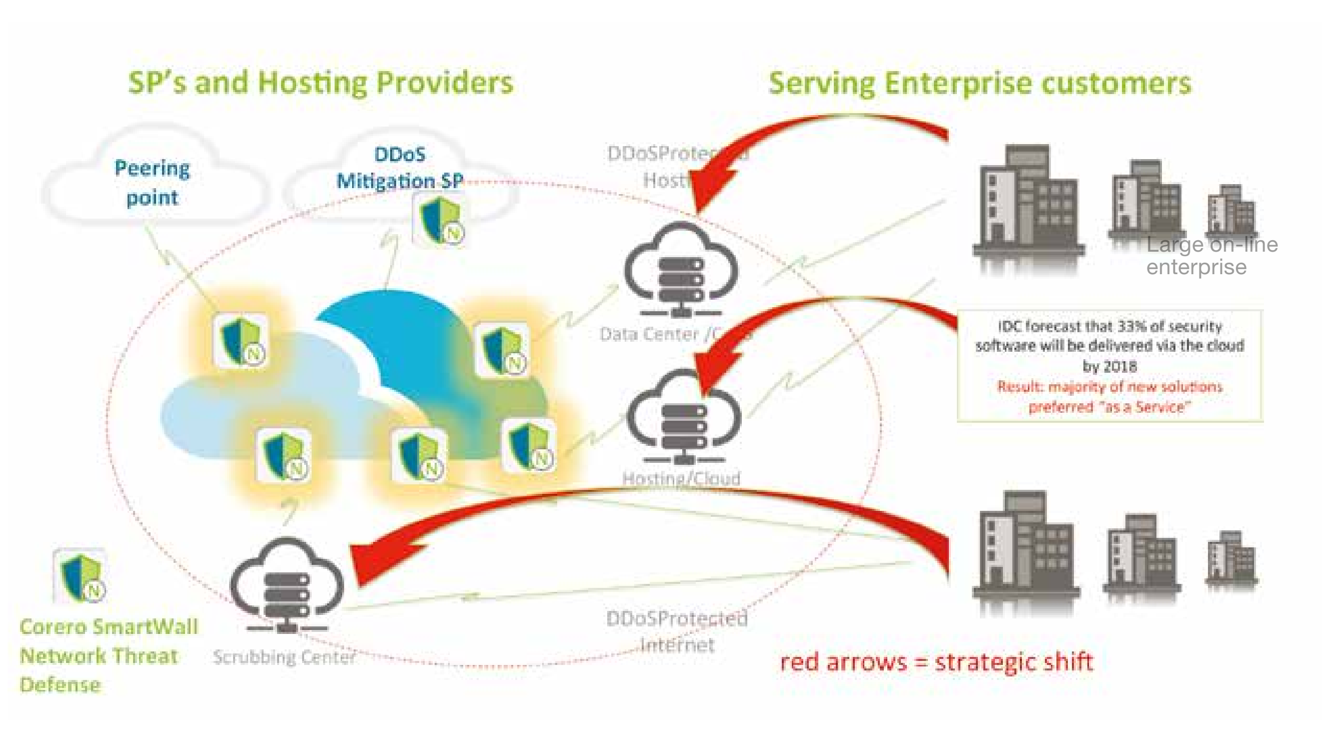
Description

24x7x365 monitoring and support services including DDoS attack mitigation services delivered by the Corero support team.

> Corero's first Tier 1 Internet Service Provider order is a significant milestone for the Company and is further validation of the SmartWall TDS product. The service provider market for real-time and automatic DDoS mitigation solutions is growing fast, driven by the increasing demand from their customers for DDoS protection as a service.
>
> **Ashley Stephenson**
> Corero CEO

TARGET MARKETS

FIRST LINE OF DEFENSE



STRATEGIC REPORT

How we do it continued

TARGET MARKETS

FIRST LINE OF DEFENSE

Service providers

Any Internet related provider, whether it be a telecom carrier, Internet or Multi-Service Provider (ISP/MSP) or Content Delivery Network (CDN) are unwilling accomplices to DDoS attacks and other cyber threats that transit or terminate on their networks.

Service providers and their customers are inseparably linked by the challenges DDoS attacks present. As DDoS attacks have grown in size, frequency and sophistication in recent years the demands to ensure service availability and service security from customers have risen in unison. The online Enterprise is looking to their service providers for assistance in securing their Internet service either through procuring "protected" Internet connectivity or Cloud DDoS mitigation services. In response, providers are increasingly looking to create additional revenue streams to differentiate their business, and DDoS defense as-a-service quickly becomes an opportunity for meeting this need.

The lifecycle of a DDoS attack is often measured by the time it takes to detect the attack plus the time required to analyse and effectively mitigate the event. If the victims' important Internet facing applications are taken down due to a DDoS attack or compromised by other cyber threats impacting Internet availability then the victim businesses face the prospect of multiple negative outcomes including lost revenue, lost customers, brand damage, poor customer satisfaction, and in some regulated industries, possible fines.

The target addressable market comprises some 500 Internet service providers, cable and mobile operators in North America and Europe with the targeted Corero deal sizes dependent on the size of the service provider:

- Small Tier 3 provider: $200,000 to $500,000
- Medium size Tier 2 provider: $500,000+
- Large Tier 1 provider: $1.0 million+

Hosting providers & data centres

The Corero First Line of Defense solutions deliver to hosting and data centre operators the ability to offer comprehensive DDoS and cyber threat protection to their hosted customers as an extension of their service offerings, improving their overall value proposition and providing an opportunity to offer differentiated value added security services.

Hosting providers and data centre operators must overcome the challenges associated with a wide range of hosting requirements; maintaining highly available applications, mission critical systems and maximum levels of reliability. However, DDoS attacks threaten their ability to do so. This is problematic as a Web hosting, co-location and data centre operator's livelihood is closely tied to the ongoing success of their customers' online services. SmartWall TDS is designed to overcome the challenges associated with a wide range of hosting requirements: maintaining highly available applications, mission critical systems and maximum levels of reliability.

The target addressable market comprises over 10,000 hosting and data centre providers in North America and Europe with the targeted Corero deal sizes dependent on the number of locations and size of the provider:

- Single location / small providers: $100,000 to $250,000
- Multiple locations / larger providers: $250,000+

Enterprises

Today's on-line enterprises are dependent on their online presence, whether it is for generating revenues, ensuring high employee productivity, or providing a superb customer experience.

Ubiquitous Internet access also makes the online enterprise susceptible to cyber-attacks such as DDoS, from around the world. The resulting service outages cause costly downtime, lost productivity, brand damage and impact the enterprise's legitimate users. Traditional security solutions like firewalls and IPS devices are ineffective against advanced cyber-threats and are frequently a target of attacks themselves. What enterprises require is a First Line of Defense solution which is built to withstand modern cyber threats, such as DDoS attacks and ensuring business continuity of their Internet facing services and applications.

On-line enterprises can protect themselves from DDoS attacks with a combination of on-premises or always-on DDoS mitigation (with a solution such as SmartWall TDS) to inspect raw Internet traffic and mitigate attacks in real time, coupled with Cloud DDoS mitigation services (from a service provider) for protection in the event of a full Internet pipe saturation attack.

The target addressable market comprises tens of thousands of mid to large corporations and public sector entities with the targeted average Corero deal size of $100,000+.

Network or website service availability is crucial to ensure customer trust and satisfaction, and vital to acquire new customers in a highly competitive market. When an end user is denied access to Internet-facing applications or if latency issues obstruct the user experience, it immediately impacts the bottom line.

Dave Larson
Corero COO

STRATEGIC REPORT

Our Difference

The Corero SmartWall TDS technology provides real-time DDoS protection, coupled with advanced visibility, reporting and analytics, allowing the Internet connected business to maintain service availability in the face of DDoS attacks

HOW WE CREATE VALUE

Order intake analysis*

WHERE WE CREATE VALUE

Geographic analysis*

* gross order intake

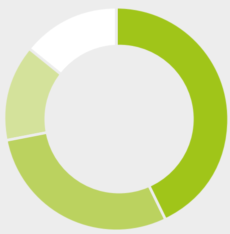
Corero's SmartWall TDS architecture, designed for in-line, always-on and automatic protection is the best-of-breed solution to the DDoS attacks of today and tomorrow. Corero's purpose built architecture delivers high performance and real-time protection, without false positives. This is accomplished through powerful programmable protections, advanced heuristics, and best-of-breed security analytics and visualisation.

Julian Palmer, Corero VP Engineering

RESOURCES AND RELATIONSHIPS WE RELY ON

Our people

Corero has a team of talented employees who are focused on delivering the Company's strategy.



Intellectual property

Corero's proprietary technology is primarily implemented in software. Corero holds a number of patents. With the ongoing investment in product software enhancements, the Company has filed and expects to file additional patent protections.

International reach

Corero has operations in Massachusetts, USA with the European headquarters being in the UK. In addition, Corero has sales operations servicing customers across North America and Europe.

Partners

Corero will invest in the development of channel partner relationships with security resellers and distributors to drive SmartWall TDS sales growth.

Finance

Corero's net cash at 31 December 2015 amounted to $2.7 million. In addition, on 21 April 2016 Corero announced a fund raise, comprising a conditional placing and subscription of $11.5 million, and an open offer of up to $1.4 million which is subject to shareholder approval at a general meeting of the Company on 9 May 2016. This cash has been allocated to fund organic investment in the SmartWall TDS product and investment in sales and marketing.

The Company's cash resources including the post year end fund raise are expected to be sufficient to fund its requirements for the foreseeable future.

STRATEGIC REPORT

Our strategy for sustainable growth

The Corero strategy is to protect against a continuously evolving DDoS threat landscape that threatens any Internet connected business, or the providers that serve them

The Company's strategic objectives and plans are summarised below:

	OBJECTIVES	PLAN
Product	• **Establish SmartWall TDS as a leading solution for DDoS protection**	• Raise Corero profile with analysts and press • Referenceable customers • Independent market testing • Thought leadership
	• **Improve Corero DDoS defence technology**	• Continuous improvement approach to development • New DDoS attack defences • Cloud deployment model • Additional forensics and analysis capability
Go To Market	• **Prioritise markets** – Geographic and provider segments • **Expand routes to market** – Systems integrators, OEM and partnerships	• US, UK and Europe sales focus • Target service providers, hosting/Cloud providers • Pursue system integrators and OEM channels

Recent high profile victims of DDoS attacks including Carphone Warehouse, the BBC, and HSBC are bringing the frequency and severity of DDoS attacks to the forefront. The disruption caused by a DDoS attack can expose weaknesses in organisations' cyber defences or overwhelm other security tools and IT infrastructure. The use of DDoS attacks as a smokescreen to camouflage other cyber-attacks, including data breaches and financial fraud, is a real threat, especially for any internet-connected business with sensitive data, such as credit card details or other sensitive personal data. Eliminating this risk, and the significant reputational damage of such an attack, requires real-time DDoS detection and mitigation solutions such as Corero's SmartWall TDS.

Ashley Stephenson, Corero CEO

We have received alerts from the Corero SOC team to let us know about events that were going on. When a major attack does come in, Corero gives us a courtesy notice to tell us it's already being blocked or in mitigation. It has minimised the negative impact to our service availability. Corero's solution does exactly what we hoped it would do. We specifically value the automated attack mitigation functionality. Corero's Support Operations Center monitors conditions for us and responds accordingly. Our team monitors traffic but we don't have to worry about it. We set it and forget it.

Stephen Clark, Director IP Networks at Telesystem Communications

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties for Corero are:

Sales growth	Corero's business success depends on growing SmartWall TDS product sales to new customers in its target market of hosting and service providers and on-line enterprises. To be successful Corero will focus its lead generation and sales resources, and product development, on these markets. If Corero is not successful in identifying customer prospects with a business need Corero can solve, this will compromise growth plans and success.
Market awareness	Corero is an emerging player in the DDoS prevention market and competes with much larger organisations. To raise market awareness of Corero and its DDoS mitigation solutions, the Company will invest in targeted public relations and marketing. If Corero is not successful in connecting with the market and raising its profile this will compromise growth plans.
Technology change and innovation	The DDoS mitigation market is competitive and characterised by constant changes in technology, customer requirements and frequent new product introductions and improvements. Cyber security and DDoS attacks are constantly evolving and changing as attackers develop new methods and tools to evade defences. To be a market leader and to grow, Corero needs to be focused on its chosen market and deliver continuous innovation by adding new DDoS attack defences to the SmartWall TDS solution.
People	Retaining and recruiting people with the necessary skills and experience. Revenue growth requires a strong sales and business development capability. Corero operates in a high growth market with new players emerging. If Corero is unable to recruit and retain the right skills this will compromise growth plans.

Corero is dependent on revenue growth to deliver on its strategy. Lower sales growth will reduce the Company's cash resources which could impact the investment in product development which may impact sales growth.

The Strategic Report on pages 4 to 19 is signed by order of the Board.

Duncan Swallow
Company Secretary
20 April 2016

GOVERNANCE

Board of Directors

Jens Montanana

Non-executive Chairman

Age: 55

Appointed: 9 August 2010

Jens is the founder and CEO of Datatec Limited, established in 1986. Between 1989 and 1993 Jens served as managing director and vice-president of US Robotics (UK) Limited, a wholly owned subsidiary of US Robotics Inc., which was acquired by 3Com. In 1993, he co-founded US start-up Xedia Corporation in Boston, an early pioneer of network switching and one of the market leaders in IP bandwidth management, which was subsequently sold to Lucent Corporation in 1999 for $246 million. In 1994, Jens became CEO of Datatec Limited which listed on the Johannesburg Stock Exchange in 1994 and on AIM in 2006. He has previously served on the boards and sub-committees of various public companies.

Ashley Stephenson

Chief Executive Officer

Age: 55

Appointed: 6 September 2013

Ashley first joined Corero Network Security as Executive Vice President of the Network Security division, with responsibility for product and solution strategy in March 2012, and was appointed chief executive officer of the division in January 2013. An IT industry executive and Internet technology entrepreneur, Ashley has operating experience in the United States, Europe and Asia. Previously, he was CEO of Reva Systems, acquired by ODIN, and Xedia Corporation, acquired by Lucent. He has provided strategic advisory services to a number of leading multi-national IT companies including technology vendors, distributors and services companies. Ashley began his career at IBM Research & Development in the UK. He is a graduate of Imperial College, London with a degree in Physics and an Associate of the Royal College of Science.

Andrew Miller

Chief Financial Officer

Age: 51

Appointed: 9 August 2010

Prior to joining the Company, Andrew was with the Datatec Limited group in a number of roles between 2000 and 2009 including the Logicalis Group Operations Director and Corporate Finance and Strategy Director. He led the Logicalis acquisition strategy, acquiring and integrating 12 companies in the US, UK, Europe and South America. Prior to this, Andrew gained considerable corporate finance experience in London with Standard Bank, West Deutsche Landesbank and Coopers & Lybrand. He trained and qualified as a chartered accountant and has a bachelor's degree in commerce from the University of Natal, South Africa.

Richard Last

Non-executive Director

Age: 58
Appointed: 22 May 2008

Richard is Chairman of a number of companies including Servelec Group plc, and Tribal Group plc, UK technology groups quoted on the London Stock Exchange; Gamma Communications plc, a UK telecommunications service provider which is listed on AIM; Arcontech Group PLC, a provider of IT solutions for the financial services sector which is listed on AIM; Lighthouse Group plc, an AIM listed financial services group; and the British Smaller Technology Companies VCT 2 plc, a fully listed Venture Capital Trust. He is also a director of a number of private companies. Richard is a Fellow of the Institute of Chartered Accountants in England and Wales (FCA). Richard is chairman of the Corero Audit Committee.

Andrew Lloyd

Non-executive Director

Age: 49
Appointed: 19 November 2012

Andrew has been involved in the IT software and systems sector for more than 25 years. His career has included roles in early stage companies, high-growth pre-IPO ventures as well as large corporations such as Computer Associates and Oracle. He is currently Chief Customer Officer of workforce management software company Workplace Systems Limited and previously was Senior Vice President of PRISMTECH Group's OpenSplice business. Andrew has a BSc (Hons), Electronic and Electrical Engineering from Heriot-Watt University, Scotland. Andrew is chairman of the Corero Remuneration Committee.

Duncan Swallow

Company Secretary

Age: 51
Appointed: 1 November 2007

Duncan is responsible for the Company secretarial function and is also the Group Financial Controller. Prior to joining the Company, Duncan was Divisional Financial Controller for CCH, a Wolters Kluwer business, specialising in providing books, online information, software, CPD and fee protection to tax and accounting professionals. He is a fellow of the Association of Chartered Certified Accountants.

GOVERNANCE

Directors' Report

for the year ended 31 December 2015

Group results

The Group's Statement of Comprehensive Income on page 31 shows a loss for the year of $11.2 million (2014: $10.1 million).

Going concern

The financial position and cash flows are described in the Strategic Report on pages 10 and 11. An indication of likely future developments affecting the Company is included in the Strategic Report on pages 9 and 18.

Forecasts and projections, taking into account reasonably possible changes in trading performance, show that the Company and Group will be able to operate within the level of current cash balances and facilities.

The Directors are satisfied, in view of the cash reserves of $2.7 million (2014: $6.0 million) held on the balance sheet at 31 December 2015 and the cash to be raised by the fund raise which will be announced by the Company on 21 April 2016, that the Company and the Group have adequate resources to continue operating for the foreseeable future.

For this reason the going concern basis has been adopted in preparing the accounts.

Dividends

The Directors have not recommended a dividend (2014: $nil).

Share capital

The issued share capital of the Company, together with details of movements in the Company's issued share capital during the financial period are shown in note 24 to the financial statements. As at the date of this report, 165,637,416 ordinary shares of 1p each ('ordinary shares') were in issue and fully paid with an aggregate nominal value of $2.6 million.

The market price of the ordinary shares at 31 December 2015 was 15.5p and the shares traded in the range 10.25p to 15.5p during the year.

Issue of shares

At the AGM held on 17 June 2015, shareholders granted authority to the Board under the Articles and section 551 of the Companies Act 2006 (the 'Act') to exercise all powers of the Company to allot relevant securities up to an aggregate nominal amount of £385,458. It is proposed at the forthcoming AGM to renew the authority to allot relevant securities up to an aggregate nominal amount of £552,125, being one-third of the nominal value of the current issued share capital.

Also at the AGM held on 17 June 2015, shareholders granted authority to the Board under the Articles and section 570(1) of the Act to exercise all powers of the Company to allot equity securities wholly for cash up to an aggregate nominal amount of £115,637 without application of the statutory pre-emption rights contained in section 561 (1) of the Act. It is proposed at the forthcoming AGM to renew the authority to allot relevant securities wholly for cash up to an aggregate nominal amount of £165,637 being 10% of the current nominal value of the issued share capital, without application of the statutory pre-emption rights.

Substantial shareholdings

The Company has been notified of the following holdings that are 3% or more of the Group's ordinary share capital as at 20 April 2016:

Ordinary shares of 1 pence each	Number	%
Jens Montanana*	65,440,354	39.5
Richard John Koch	23,841,000	14.4
Herald Investment Management	13,561,723	8.2
Sabvest Capital Holdings Limited	13,000,000	7.8
Peter Kennedy Gain**	10,533,333	6.4

* of which 20,936,545 are held in the name of JPM International Limited, which is wholly owned by Jens Montanana, and 12,000,000 are held in the name of The New Millennium Technology Trust of which Jens Montanana is a beneficiary.

**of which 4,900,000 shares are held in the name of Draper Gain Investments Ltd

Directors and directors' interests

The directors who served in office during the year and up to the date of this report and their interests in the Company's shares were as follows:

	20 April 2016		31 December 2015		31 December 2014	
Ordinary shares held	Number	%	Number	%	Number	%
Jens Montanana	65,440,354	39.5	65,440,354	39.5	45,690,354	39.5
Ashley Stephenson	38,000	0.0	38,000	0.0	38,000	0.0
Andrew Miller	823,255	0.5	823,255	0.5	723,255	0.8
Richard Last	1,316,667	0.8	1,316,667	0.8	1,066,667	0.9
Andrew Lloyd	–	–	–	–	–	–

The biographical details of the current Directors of the Company are given on pages 20 and 21.

Jens Montanana, Ashley Stephenson, Andrew Miller, Richard Last and Andrew Lloyd hold share options, details of which are shown in note 30 to the Financial Statements.

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its Directors. These remain in force at the date of this report.

Financial risk management objectives and policies

Capital management

The Group monitors its available capital, which it considers to be all components of equity against its expected requirements.

The Group's objectives when maintaining capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to ensure that sufficient funds can be raised for investing activities. In order to maintain or adjust the capital structure, the Company may return capital to shareholders, issue new shares, or sell assets to reduce debt. The Group does not review its capital requirements according to any specified targets or ratios.

Treasury management

The objectives of Group treasury policies are to ensure that adequate financial resources are available for development of the business while at the same time managing financial risks. Financial instruments are used to reduce financial risk exposures arising from the Group's business activities and not for speculative purposes.

The Group's treasury activities are managed by the Group finance function under the direction of the Group Financial Controller. The Group Financial Controller reports to the Board on the implementation of Group treasury policy.

The Group's business activities expose it to a variety of financial risks. The policies for managing these risks are described below:

- Liquidity risk – arises from the Group's management of working capital and finance charges. It is the risk that the Group will encounter difficulty in meetings its financial obligations as they fall due. Liquidity risk is managed by the finance function. Budgets are agreed by the Board annually in advance enabling the Group's cash flow requirements to be anticipated
- Credit risk – arises from cash and cash equivalents and from credit exposures to the Group's customers including outstanding receivables and committed transactions. Credit risk is managed with regular reports of exposures reviewed by management. The Group does not set individual credit limits but will seek to ensure that customers enter into legally enforceable contracts that include settlement terms that demonstrate the customers' commitment to the transaction and minimise this risk exposure

The amounts of trade receivables presented in the Statement of Financial Position are shown net of allowances for doubtful accounts estimated by management based on prior experience and their assessment of the current economic environment (note 17).

The credit risk on liquid funds and financial instruments is limited because the counterparties are banks with acceptable credit ratings assigned by international credit rating agencies.

GOVERNANCE

Directors' Report continued

for the year ended 31 December 2015

Financial risk management objectives and policies continued

Treasury management continued

The Group has no significant concentration of credit risk, with exposure spread over a number of customers.

- Cash flow interest rate risk – the Group's policy is to minimise interest rate cash flow risk exposure on its financing. The Group's policy is to balance the risk in relation to cash balances held by spreading these across a number of financial institutions as opposed to maximising interest income
- Currency risk – there is no material impact on the Group's profit or loss for the year from exchange rate movements, as foreign currency transactions are entered into by Group companies whose functional currency is aligned with the currencies in which it transacts

The principal risk which applies to the parent Company's financial statements is the risk that the returns generated by the subsidiaries might not support the carrying value of the cost of the investments in subsidiaries. The carrying value is tested at least annually for impairment and if necessary impaired.

Environment

The Group's activities are primarily office based and as such the directors believe that there is no significant environmental impact arising from the Group's activities. The Group complies with local WEEE regulations. No environmental performance indicators are therefore included within this report. The Group's environmental policy states: "We endeavour to recycle appropriate materials where possible and to efficiently use natural resources and energy supplies so as to minimise our environmental impact. We will comply with the relevant statutes and legislation. Furthermore employees are encouraged to be environmentally aware. Company cars are not provided."

Research and development

The development of computer software is an integral part of the Group's business and the Group continues to develop its core software in response to user demand, and particularly the changing IT security threat landscape, and changes in software technology. During the year the Group enhanced its existing products and developed new products. A capital investment of $2.3 million (2014: $3.6 million) was made during the year. Amortisation and impairment of $3.3 million (2014: $1.1 million) was charged to the Statement of Comprehensive Income during the year.

Employees

The quality and commitment of the Group's employees has played a major role in the Company's progress. This has been demonstrated in many ways, including strong customer satisfaction, the development of new product offerings and the flexibility employees have shown in adapting to changing business requirements. The Group operates sales commission, incentive bonus plans and share option plans to provide incentives for achievements which add value to the business.

Post balance sheet event

On 21 April 2016 Corero will announce a conditional firm placing and subscription to raise $11.5 million before expenses and an open offer of $1.4 million, which are subject to shareholder approval at a general meeting of the Company on 9 May 2016.

Annual General Meeting

The AGM will be held at the offices of Redleaf Communications, First Floor, 4 London Wall Buildings, London, EC2M 5NT, on 15 June 2016 at 9.30 a.m. The notice convening the meeting is on page 61 together with details of the business to be considered.

Auditors

In so far as each director is aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the directors have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

A resolution to re-appoint BDO LLP for the ensuing year will be proposed at the AGM.

By order of the Board

Duncan Swallow
Company Secretary
20 April 2016

Corporate Governance Report

As an AIM listed company, Corero is not required to comply with the UK Corporate Governance Code however, the Company has regard to the requirements of the Code and its activities in these areas are described below.

The Board

Corero recognises its responsibility to provide entrepreneurial and responsible leadership to the Group within a framework of prudent and effective controls (described below) allowing assessment and management of the key issues and risks impacting the business.

The Board sets Corero's overall strategic direction, reviews management performance and ensures that the Group has the necessary financial and human resources in place to meet its objectives. The Board is satisfied that the necessary controls and resources exist within the Group to enable these responsibilities to be met.

Operational management of the Group is delegated to the Chief Executive Officer.

The Board of Directors comprises the non-executive chairman, two executive directors and two non-executive directors whose Board and Committee responsibilities as at 31 December 2015 are set out below:

	Board	Audit	Remuneration
Jens Montanana	Chairman	Member	Member
Ashley Stephenson	Member		
Andrew Miller	Member		
Richard Last	Member	Chairman	Member
Andrew Lloyd	Member		Chairman

The composition of the Board of Directors is reviewed regularly. Appropriate training, briefings, and induction are available to all directors on appointment and subsequently as necessary, taking into account existing qualifications and experience.

Richard Last and Andrew Lloyd are considered to be independent.

Executive directors' normal retirement age is 60 and non-executive directors' normal retirement age is 65. One third of all directors are subject to annual reappointment by shareholders as well as any director appointed by the Board in the period since the last AGM. Richard Last and Andrew Lloyd will be offering themselves for re-election at the forthcoming AGM.

The Board of Directors meets on average once a quarter and additional meetings are held each year to review and approve the Group's strategy and financial plans for the coming year. Each director is provided with sufficient information to enable them to consider matters in good time for meetings and enable them to discharge their duties properly.

All directors have access to the advice and services of the Company Secretary. There is also a procedure in place for any director to take independent professional advice if necessary, at the Company's expense.

The Board also ensures that the principal goal of the Company is to create shareholder value, while having regard to other stakeholder interests and takes responsibility for setting the Company's values and standards.

GOVERNANCE

Corporate Governance Report continued

The Board continued

There is a documented schedule of matters reserved for the Board, the most significant of which are:

- responsibility for the overall strategy and management of the Group;
- approval of strategic plans and budgets and any material changes to them;
- approval of the acquisition or disposal of subsidiaries and major investments, projects and contracts;
- oversight of the Group's operations ensuring competent and prudent management, sound planning and management of adequate accounting and other records;
- changes relating to the Group's capital structure;
- final approval of the annual and interim financial statements and accounting policies;
- approval of the dividend policy;
- ensuring an appropriate system of internal control and risk management is in place;
- approval of changes to the structure, size and composition of the Board;
- review of the management structure and senior management responsibilities;
- with the assistance of the Remuneration Committee, approval of remuneration policies across the Group;
- delegation of the Board's powers and authorities;
- consideration of the independence of the non-executive directors; and
- receiving reports on the views of the Company's shareholders

In the year ended 31 December 2015, the Board received monthly briefings on the Group's performance (including detailed commentary and analysis), key issues and risks affecting the Group's business.

The Company maintains liability insurance for its directors and officers. The Company has also entered into indemnity agreements with the Directors, in terms of which the Company has indemnified its directors, subject to the Companies Act limitations, against any liability arising out of the exercise of the directors' powers, duties and responsibilities as a director or officer.

In the year ended 31 December 2015 the Board met on four scheduled occasions; further meetings and conference calls were held as and when necessary. Details of Directors' attendance at scheduled meetings in the year to 31 December 2015 is shown in the table below:

Meetings attended	
Jens Montanana	4/4
Ashley Stephenson	4/4
Andrew Miller	4/4
Richard Last	4/4
Andrew Lloyd	4/4

Board Committees

The Company has an Audit Committee and Remuneration Committee, details of which are set out below.

Audit Committee

The Audit Committee members comprise Richard Last, who is the committee chairman, and Jens Montanana, and meets twice a year. The Group Chief Financial Officer and Group Financial Controller, and the Company's external auditors attend the meetings. The Audit Committee considers the adequacy and effectiveness of the risk management and control systems of the Group. It reviews the scope and results of the external audit, its cost effectiveness and the objectivity of the auditors. It also reviews, prior to publication, the interim financial statements, preliminary results announcement, the annual financial statements and the other information included in the annual report.

The Audit Committee met twice in the year ended 31 December 2015. The attendance of individual Committee members at Audit Committee meetings in the year to 31 December 2015 is shown in the table below:

Meetings attended	
Richard Last	2/2
Jens Montanana	2/2

Remuneration Committee

The Remuneration Committee comprises Andrew Lloyd, who is the committee chairman, Jens Montanana and Richard Last. It meets at least twice a year and reviews and advises upon the remuneration and benefits packages of the executive directors. The remuneration of the chairman and non-executive directors is decided upon by the Board of Directors.

In the year ended 31 December 2015, the Remuneration Committee Board met on two scheduled occasions; further meetings and conference calls were held as and when necessary. The attendance of individual Committee members at Remuneration Committee meetings in the year to 31 December 2015 is shown in the table below:

Meetings attended	
Andrew Lloyd	2/2
Jens Montanana	2/2
Richard Last	2/2

Nominations Committee

Due to the size of the Board of Directors, the directors do not consider there to be any need for a nominations committee. Issues that would normally be dealt with by a nominations committee are handled by the Board of Directors. The Board of Directors will review the need for a nominations committee on a regular basis.

Internal controls

The directors are responsible for the Group's system of internal control and for reviewing its effectiveness whilst the role of management is to implement policies on risk management and control. The Group's system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve the Group's business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The Board continually reviews the effectiveness of other internal controls, including financial, operational, compliance controls and risk management. There were no specific reports tabled during the year ended 31 December 2015.

The Group operates a risk management process, which is embedded in normal management and governance processes. As part of the annual and budgeting process, the Group documents the significant risks identified, the probability of those risks occurring, their potential impact and the plans for managing and mitigating each of those risks.

The Group operates a series of controls to meet its needs. These controls include, but are not limited to, the annual strategic planning and budgeting process, a clearly defined organisational structure with authorisation limits, reviews by senior management of monthly financial and operating information including comparisons with budgets, monthly treasury and cash flow reports and forecasts to the Board.

The Audit Committee receives reports from management and observations from the external auditors concerning the system of internal control and any material control weaknesses. Significant risk issues, if any, are referred to the Board of Directors for consideration.

The Board of Directors makes an annual assessment of the effectiveness of the Group's internal control system, including financial, operational and compliance controls, before making this statement. The Board of Directors also considers issues included in reports received during the year, how the risks have changed during the year and reviews any reports prepared on internal controls by management and any issues identified by external auditors.

The Board of Directors does not believe it is currently appropriate to establish a separate, independent internal audit function given the size of the Group.

GOVERNANCE

Corporate Governance Report continued

Remuneration report

The Remuneration Committee's principal function is to set remuneration of the Group's executive directors and management to ensure they are fairly compensated.

Basic salaries are set to ensure high quality executive directors and management are attracted and retained by the Group. They reflect the knowledge, skill and experience of each individual director. Bonuses are non-pensionable and only payable if the Remuneration Committee assesses the director's achievements as worthy of the award.

The Remuneration Committee is also responsible for ensuring the Group's share option schemes are operated properly. Details of directors' share options at 31 December 2015 are disclosed in note 30 of the Financial Statements.

Details of directors' remuneration for the year ended 31 December 2015 is set out in note 27 of the Financial Statements. Jens Montanana has elected to waive the fees payable to him for the financial year ended 31 December 2015.

Ashley Stephenson, executive director, has a service agreement which provides for the payment of six months' base salary if the agreement is terminated by the Company without cause.

Andrew Miller, executive director, has an employment agreement which is terminable by either party on not less than three months' written notice increasing by one month at the end of each complete 12 month period of continuous employment provided that the notice period shall not exceed six months in total. The agreement contains provisions for early termination in certain circumstances.

None of the Non-executive Directors has a service agreement. Letters of appointment for Jens Montanana, Richard Last and Andrew Lloyd are for 12 month terms and provide that the appointment may be terminated by either party giving to the other not less than three months' notice.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). Under company law the directors must not approve the financial statements unless they give a true and fair view of the state of affairs of the Group and parent company and of the profit or loss of the Group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the AIM. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

FINANCIAL STATEMENTS

Independent Auditor's Report

to the members of Corero Network Security plc

We have audited the financial statements of Corero Network Security plc for the year ended 31 December 2015 which comprise the consolidated statement of comprehensive income, the consolidated and company statements of financial position, the group and company statements of cash flows, the consolidated and company statements of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2015 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Gary Hanson (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
20 April 2016

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2015

	Note	Total 2015 $'000	Total 2014* Restated $'000
Revenue		8,340	7,477
Cost of sales		(2,073)	(1,661)
Gross profit		6,267	5,816
Operating expenses before highlighted items		(12,699)	(12,961)
Depreciation and amortisation of intangible assets	12,13,14	(5,174)	(3,272)
Operating expenses		(17,873)	(16,233)
Operating loss		(11,606)	(10,417)
Finance income	5	11	22
Finance costs	6	(20)	(24)
Loss before taxation		(11,615)	(10,419)
Taxation	8	382	358
Loss for the year		(11,233)	(10,061)
Other comprehensive expense			
Difference on translation of UK functional currency entities		(482)	(479)
Total comprehensive expense for the year		(11,715)	(10,540)
Total loss for the year attributable to:			
Equity holders of the parent		(11,233)	(10,061)
Total		(11,233)	(10,061)
Total comprehensive expense for the year attributable to:			
Equity holders of the parent		(11,715)	(10,540)
Total		(11,715)	(10,540)

Basic and diluted loss per share		2015 Cents	2014 Cents
Basic and diluted loss per share	10	(8.5)	(11.5)

* Support department costs of $1.7million previously included in Cost of sales are now included in Operating expenses before highlighted items.

The notes on pages 37 to 60 form part of these financial statements.

FINANCIAL STATEMENTS

Consolidated Statement of Financial Position

as at 31 December 2015

	Note	2015 $'000	2014 $'000
Assets			
Non-current assets			
Goodwill	11	17,983	17,983
Acquired intangible assets	12	375	1,548
Capitalised development expenditure	13	7,620	8,624
Property, plant and equipment	14	893	1,175
Trade and other receivables	17	228	87
		27,099	29,417
Current assets			
Inventories	16	661	749
Trade and other receivables	17	3,738	2,724
Cash and cash equivalents		2,706	6,036
		7,105	9,509
Liabilities			
Current Liabilities			
Trade and other payables	18	(2,551)	(2,362)
Borrowings	19	–	(20)
Deferred income	21	(3,791)	(4,055)
		(6,342)	(6,437)
Net current assets		763	3,072
Non-current liabilities			
Deferred income	21	(1,439)	(1,570)
Deferred taxation	22	(85)	(467)
		(1,524)	(2,037)
Net assets		26,338	30,452
Total equity attributable to owners of the parent			
Ordinary share capital	24	2,573	1,804
Deferred share capital	24	–	7,051
Capital redemption reserve	25	7,051	–
Share premium	26	56,835	50,000
Share options reserve		282	285
Translation reserve		232	714
Retained earnings		(40,635)	(29,402)
Total equity		26,338	30,452

These financial statements were approved by the Board of Directors on 20 April 2016 and signed on their behalf.

Andrew Miller
Director

The notes on pages 37 to 60 form part of these financial statements.

Company Statement of Financial Position

as at 31 December 2015

	Note	2015 $'000	2014 $'000
Assets			
Non-current assets			
Investments in subsidiaries	15	28,797	42,747
Trade and other receivables	17	15,958	12,761
		44,755	55,508
Current assets			
Cash and cash equivalents		2,463	5,123
Liabilities			
Current Liabilities			
Trade and other payables	18	(202)	(223)
Net current assets		2,261	4,900
Net assets		47,016	60,408
Equity			
Ordinary share capital	24	2,573	1,804
Deferred share capital	24	–	7,051
Capital redemption reserve	25	7,051	–
Share premium	26	56,835	50,000
Share options reserve		282	285
Translation reserve		(3,755)	(219)
Retained earnings		(15,970)	1,487
Total equity		47,016	60,408

These financial statements were approved by the Board of Directors on 20 April 2016 and signed on their behalf.

Andrew Miller
Director

The notes on pages 37 to 60 form part of these financial statements.

FINANCIAL STATEMENTS

Statements of Cash Flows

for the year ended 31 December 2015

		Group		Company	
Cash flows from operating activities	Note	2015 $'000	2014 $'000	2015 $'000	2014 $'000
(Loss)/profit for the year		(11,233)	(10,061)	(17,457)	402
Adjustments for:					
Amortisation of acquired intangible assets	12	1,210	1,229	–	–
Amortisation and impairment of capitalised development expenditure	13	3,289	1,118	–	–
Depreciation	14	675	925	–	–
Finance income		(11)	(22)	(376)	(395)
Finance expense		20	24	–	–
Taxation	8	(382)	(358)	–	–
Share-based payment credit	30	(3)	(8)	(3)	(8)
Increase in provision		–	–	17,835	–
Decrease /(increase) in inventories		88	(334)	–	–
(Decrease)/increase in trade and other receivables		(1,167)	893	4	(4)
(Increase)/decrease in payables		(168)	1,234	72	47
Net cash from operating activities		(7,682)	(5,360)	75	42
Cash flows from investing activities					
Purchase of intangible assets	12	(37)	(142)	–	–
Capitalised development expenditure	13	(2,285)	(3,621)	–	–
Purchase of property, plant and equipment	14	(392)	(844)	–	–
Payments made to subsidiaries		–	–	(9,914)	(11,057)
Net cash used in investing activities		(2,714)	(4,607)	(9,914)	(11,057)
Cash flows from financing activities					
Net proceeds from issue of ordinary share capital		7,604	6,964	7,604	6,964
Finance income		11	22	11	21
Finance expense		(20)	(24)	–	–
Repayment of credit facility		(20)	(236)	–	–
Net cash from financing activities		7,575	6,726	7,615	6,985
Effects of exchange rates on cash and cash equivalents		(509)	(498)	(436)	(473)
Net decrease in cash and cash equivalents		(3,330)	(3,739)	(2,660)	(4,503)
Cash and cash equivalents at 1 January		6,036	9,775	5,123	9,626
Cash and cash equivalents at 31 December		2,706	6,036	2,463	5,123

The notes on pages 37 to 60 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 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 year	–	–	–	–	–	(10,061)	(10,061)
Other comprehensive income	–	–	–	–	(479)	–	(479)
Total comprehensive expense for the year	–	–	–	–	(479)	(10,061)	(10,540)
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 year	–	–	–	–	–	(11,233)	(11,233)
Other comprehensive income	–	–	–	–	(482)	–	(482)
Total comprehensive expense for the year	–	–	–	–	(482)	(11,233)	(11,715)
Contributions by and distributions to owners							
Share-based payments	–	–	–	(3)	–	–	(3)
Issue of share capital	769	–	6,835	–	–	–	7,604
Shares purchased for cancellation	(7,051)	7,051	–	–	–	–	–
Total contributions by and distributions to owners	(6,282)	7,051	6,835	(3)	–	–	7,601
31 December 2015	2,573	7,051	56,835	282	232	(40,635)	26,338

The share capital comprises the nominal values of all shares issued.

The capital redemption reserve comprises the amount transferred from deferred shares on redemption of the deferred shares.

The share premium account comprises the amounts subscribed for share capital in excess of the nominal value.

The share options reserve represents the cost to the Group of share options.

The translation reserve arises on retranslating the net assets of UK operations into US dollars.

The retained earnings are all other net gains and losses and transactions with owners not recognised elsewhere.

The notes on pages 37 to 60 form part of these financial statements.

FINANCIAL STATEMENTS

Company Statement of Changes in Equity

for the year ended 31 December 2015

	Share capital $'000	Capital redemption reserve $'000	Share premium account $'000	Share options reserve $'000	Translation reserve $'000	Retained earnings $'000	Total equity $'000
1 January 2014	8,384		43,507	293	3,259	1,085	56,528
Profit for the year	–		–	–	–	402	402
Other comprehensive income	–		–	–	(3,478)	–	(3,478)
Total comprehensive expense for the year	–		–	–	(3,478)	402	(3,076)
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	(219)	1,487	60,408
Loss for the year	–		–	–	–	(17,457)	(17,457)
Other comprehensive income	–		–	–	(3,536)	–	(3,536)
Total comprehensive expense for the year	–		–	–	(3,536)	(17,457)	(20,993)
Contributions by and distributions to owners							
Share-based payments	–	–	–	(3)	–	–	(3)
Issue of share capital	769	–	6,835	–	–	–	7,604
Shares purchased for cancellation	(7,051)	7,051	–	–	–	–	–
Total contributions by and distributions to owners	(6,282)	7,051	6,835	(3)	–	–	7,601
31 December 2015	2,573	7,051	56,835	282	(3,755)	(15,970)	47,016

The notes on pages 37 to 60 form part of these financial statements.

Notes to the Financial Statements

1. General information

Presentation currency

These consolidated financial statements are presented in US Dollars ("$") which represents the presentation currency of the Group. The average $-GBP sterling ("GBP") exchange rate, used for the conversion of the statement of comprehensive income, for the 12 months ended 31 December 2015 was 1.53 (2014: 1.65). The closing $-GBP exchange rate, used for the conversion of the Group's assets and liabilities, at 31 December 2015 was 1.48 (2014: 1.56).

Corero Network Security plc is a public limited company incorporated in the United Kingdom under the Companies Act 2006.

2. Significant accounting policies

2.1 Basis of preparation

The Group and parent Company financial statements have been prepared in accordance with EU endorsed International Financial Reporting Standards (IFRS), International Financial Reporting Interpretations Committee (IFRIC) interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

2.2 Going Concern

The financial statements have been prepared on a going concern basis.

The directors have prepared detailed income statement, balance sheet and cash flow projections for the period to 31 December 2017. These include the cash to be raised by the fund raise which will be announced by the Company on 21 April 2016. The cash flow projections have been subjected to sensitivity analysis at the revenue, cost and combined revenue and cost levels. The cash flow projections show that the Group will maintain a positive cash balance until at least December 2017.

As a result, the directors are of the opinion that the Group has adequate working capital to continue as a going concern for the foreseeable future and, in particular, for a period of at least 12 months from the date of approval of these financial statements.

2.3 Basis of consolidation

The consolidated financial statements incorporate the results, assets, liabilities and cash flows of the Company and each of its subsidiaries for the financial year ended 31 December 2015.

Subsidiaries are entities controlled by the Group. Control is deemed to exist when the Group has all of the following elements a) power over the subsidiary, b) exposure or rights to variable returns from that subsidiary, c) ability to use its power to affect the amount of the return from the subsidiary. The results, assets, liabilities and cash flows of subsidiaries are included in the consolidated financial statements from the date control commences until the date that control ceases.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

Intra-group balances and transactions are eliminated on consolidation.

2.4 Business combinations

The acquisition method is used to account for all acquisitions. The cost of an acquisition is measured at the fair values, on the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued.

At the date of acquisition, the identifiable assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

2.5 Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for services provided in the normal course of business, net of all related discounts and sales tax.

The Group has adopted the following policy in respect of revenue recognition:

1. Hardware and Software Products

When a sales arrangement contains multiple elements, such as hardware and software products, licenses and/or services, the Group allocates revenue to each element based on a selling price hierarchy, having evaluated each deliverable in an arrangement to determine whether they represent separate units of accounting. A deliverable constitutes a separate unit of accounting when it has standalone value.

The selling price for a deliverable is based on its vendor specific objective evidence ("VSOE") if available, third party evidence ("TPE") if VSOE is not available, or best estimated selling price ("BESP") if neither VSOE nor TPE is available. In multiple element arrangements where more-than-incidental software deliverables are included, revenue is allocated to each separate unit, accounting for each of the non-software deliverables and to the software deliverables as a group using the relative selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy.

The Group establishes the VSOE of selling price using the price charged for a deliverable when sold separately. The TPE of selling price is established by evaluating similar and interchangeable competitor products or services in standalone sales to similarly situated customers. The best estimate of selling price is established considering both internal and external factors such as pricing practices, customer pricing strategies, margin objectives, market conditions, competitor pricing strategies, and industry technology lifecycles.

2. Consulting and Professional Services

Revenue from the provision of consultancy and professional services is recognised as the work is performed.

FINANCIAL STATEMENTS

Notes to the Financial Statements continued

2. Significant accounting policies continued

3. Maintenance and Support Services

Revenue is recognised on a straight line basis over the life of the agreement.

2.6 Cost of sales

Cost of sales includes all direct costs associated with revenue generation, including services delivery, operation costs and amounts charged by external third parties for services and goods directly related to revenue. Examples of such costs would include, but not be limited to, royalties and third party hardware and software costs.

2.7 Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of each transaction. Foreign currency monetary assets and liabilities are retranslated using the exchange rates at the reporting date. Gains and losses arising from changes in exchange rates after the date of the transaction are recognised in profit or loss in the Statement of Comprehensive Income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated at the exchange rate at the date of the original transaction.

In the consolidated financial statements, the net assets of the Group's UK operations are translated into US dollars at the exchange rate at the reporting date. Income and expense items are translated into US dollars at the average exchange rates for the period. The resulting exchange differences are recognised in the translation reserve.

2.8 Intangible assets

Internally generated intangible assets

The Group's internally generated intangible asset relates to its development expenditure.

Development expenditure is capitalised only when it is probable that future economic benefit will result from the project and the following criteria are met:

- The technical feasibility of the product has been ascertained;
- Adequate, technical, financial and other resources are available to complete and sell or use the intangible asset;
- The Group can demonstrate how the intangible asset will generate future economic benefits and the ability to use or sell the intangible asset can be demonstrated;
- It is the intention of management to complete the intangible asset and use or sell it; and
- The development costs can be measured reliably

Expenditure not meeting these criteria is expensed in the Statement of Comprehensive Income – Profit and Loss.

After initial recognition, internally generated intangible assets are carried at cost less accumulated amortisation and any impairment losses. Amortisation is charged once the asset is capable of generating economic benefits.

Acquired intangible assets

Purchased computer software is carried at cost less accumulated amortisation and any impairment losses.

Customer contracts and the related customer relationships are carried at cost less accumulated amortisation and any impairment losses.

Identifiable intangible assets acquired as part of a business combination are initially recognised separately from goodwill, irrespective of whether the assets have been recognised by the acquiree before the business combination. An intangible asset is considered identifiable only if it is separable or if it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Intangible assets acquired as part of a business combination and recognised by the Group are computer software, customer contracts and the related customer relationships.

After initial recognition, assets acquired as part of a business combination are carried at cost less accumulated amortisation and any impairment losses.

Amortisation

Intangible assets are amortised on a straight line basis, to reduce their carrying value to zero over their estimated useful lives. The following useful lives were applied during the year:

- Computer software acquired – 3 years straight line
- Customer contracts and the related customer relationships – 7 years straight line
- Capitalised development expenditure – 5 years straight line

Amortisation costs are included within operating expenses in the Statement of Comprehensive Income.

Methods of amortisation and useful lives are reviewed, and if necessary adjusted, at each reporting date.

2.9 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses. Cost comprises the purchase cost of property, plant and equipment together with any directly attributable costs.

Subsequent costs are included in an assets carrying value or are recognised as a separate asset when it is probable that future economic benefits associated with the additional expenditure will flow to the Group and the cost of the item can be measured reliably. All other costs are charged to the Statement of Comprehensive Income – Profit and Loss as incurred.

Depreciation commences when an asset is available for use. Depreciation is calculated so as to write off the cost or value of an asset, net of anticipated disposal proceeds, over the useful life of that asset as follows:

- Leasehold improvements – period of the lease straight line
- Computer equipment – 3 years straight line
- Fixtures and fittings – 5 years straight line
- Office equipment – 5 years straight line

Methods of depreciation, residual values and useful lives are reviewed, and if necessary adjusted, at each balance sheet date.

The gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the item, and is included in the Statement of Comprehensive Income – Profit and Loss.

2.10 Inventory

Inventory is stated at the lower of cost or net realisable value. Cost is computed using standard cost, which approximates actual cost, on a first-in, first-out basis. Rapid technological change and new product introductions and enhancements could result in excess or obsolete inventory.

To minimise this risk, the Group evaluates inventory levels and expected usage on a periodic basis and records valuation allowances as required.

2.11 Impairment

At each reporting date, the Group assesses whether there is any indication that its assets have been impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. The value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. This present value is discounted using a pre-tax rate that reflects current market assessments of the time value of money and of the risks specific to the asset for which future cash flow estimates have not been adjusted. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss.

An impairment loss relating to assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in the Statement of Comprehensive Income – Profit and Loss.

Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the combination.

Goodwill is tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit by first reducing the carrying amount of any goodwill allocated to the cash-generating unit, and then reducing the carrying amounts of the other assets of the unit pro rata.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount but limited to the carrying amount that would have been determined had no impairment loss been recognised in prior years. A reversal of an impairment loss is recognised in the Statement of Comprehensive Income - Profit and Loss. Impairment losses on goodwill are not subsequently reversed.

2.12 Leases

Where substantially all of the risks and rewards incidental to ownership of a leased asset are transferred to the Company (a “finance lease”), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the Statement of Comprehensive Income – Profit and Loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company (an “operating lease”), the total rentals payable under the lease are charged to the Statement of Comprehensive Income – Profit and Loss on a straight-line basis over the lease term. The aggregate benefit of lease incentives are recognised as a reduction of the rental expense over the lease term on a straight-line basis.

2.13 Investments in subsidiaries

In the Company’s separate financial statements, investments in subsidiaries are carried at cost less any impairment provisions.

2.14 Taxation

The tax expense represents the sum of current tax and deferred tax.

Current tax

Current tax is based on taxable profit for the year and is calculated using tax rates enacted or substantively enacted at the reporting date. Taxable profit differs from accounting profit either because items are taxable or deductible in periods different to those in which they are recognised in the financial statements, or because they are never taxable or deductible.

Deferred tax

Deferred tax on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes is accounted for using the balance sheet liability method.

FINANCIAL STATEMENTS

Notes to the Financial Statements continued

2. Significant accounting policies continued

Using the balance sheet liability method, deferred tax liabilities are recognised in full for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, if the temporary difference arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit, it is not recognised as deferred tax asset or liability.

Deferred taxation is measured at the tax rates that are expected to apply when the asset is realised, or the liability settled, based on tax rates and laws enacted or substantively enacted at the reporting date.

2.15 Provisions

A provision is recognised when, as a result of a past event, the Group has a legal or constructive obligation, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of such an obligation can be made.

Provisions are measured at the best estimate of the expenditure required to settle the obligation at the reporting date. When the effect is material, the expected future cash flows required to settle the obligation are discounted at the pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the obligation.

2.16 Post-retirement benefits

The Group makes contributions in respect of certain employees to defined contribution pension plans under which it is required to pay fixed contributions to group and personal pension funds.

Contributions to the schemes are based on a proportion of the employees' earnings and are charged to the Statement of Comprehensive Income – Profit and Loss when incurred. The Group has no obligation beyond these contributions.

2.17 Financial instruments

The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes party to the contractual provisions of the instrument.

The particular recognition and measurement methods adopted for the Group's financial instruments are disclosed below:

Trade and other receivables

Trade and other receivables are stated at their fair value at time of initial recognition, reflecting where material the time value of money. A provision for impairment of trade receivables is established when there is evidence that the Group will not be able to collect all amounts due according to the original terms of these receivables. The amount of the provision is the difference between the carrying value and the present value of estimated future cash flows, discounted at the original effective interest rate.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits on call with banks.

Trade and other payables

Trade and other payables are not interest bearing and are stated at their fair value at time of initial recognition. Thereafter they are accounted for at amortised cost.

2.18 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of directly attributable issue costs.

2.19 Employee share option schemes

The Group operates an equity-settled share-based compensation plan. The fair value of the employees' services received in exchange for the grant of share options is measured at grant date and recognised as an expense on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is determined by reference to the Black-Scholes option pricing model.

At each reporting date, the Group revises its estimate of the number of options that are expected to become exercisable. When share options are exercised, the proceeds received, net of any transaction costs, are credited to share capital (nominal value) and share premium.

2.20 Receivables-backed working capital facility

The Group makes use of a receivables-backed working capital facility. Trade receivables are recognised as the Group retains the significant risks and benefits. The related funding is shown as a financial liability and accounted for on an amortised cost basis.

2.21 Standards and Interpretations not yet effective

There are no standards and interpretations other than IFRS 15 and 16 that are issued but not yet effective at the date of authorisation of these financial statements that the Group reasonably expects will have an impact on disclosures, financial position or performance when applied at a future date. The existing Group revenue recognition policy complies with IFRS 15 – Revenue from contracts with customers. IFRS 16 – Leases will change the way the Group currently accounts for property operating leases. None of the standards that became effective during the year had a material impact on the preparation of the financial statements.

3. Critical accounting judgements and key sources of estimation uncertainty

3.1 Critical judgements in applying the Group's accounting policies

In the process of applying the Group accounting policies, the following judgements have had a significant effect on the amounts recognised in the financial statements:

Internally generated research and development costs

Management monitors progress of internal research and development projects. Judgement is required in distinguishing the research phase from the development phase. Development costs are recognised as an asset when all criteria are met, whereas research costs are expensed as incurred. Management monitors whether the recognition requirements for development costs continue to be met. This is necessary as the economic success of any product development is uncertain.

3.2 Key accounting estimates and assumptions

Key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Impairment of intangible assets and property, plant and equipment

The Group tests goodwill at least annually for impairment, and whenever there is an indication that the asset may be impaired. All other intangible assets and property, plant and equipment are tested for impairment when indicators of impairment exist. Impairment is determined with reference to the higher of fair value less costs to sell and value in use. Value in use is estimated using discounted future cash flows. Significant assumptions are made in estimating future cash flows about future events including future market conditions, future growth rates and appropriate discount rates. Changes in these assumptions could affect the outcome of impairment reviews. Details of the main assumptions used in the assessment of the carrying value of the Group's cash generating unit is set out in note 11.

Impairment of investments and intercompany balances (applies to the Company Financial Statements only)
The directors have reviewed the carrying value of the intercompany balances and cost of investments in subsidiaries of the Company with reference to current and future trading conditions. The investment and intercompany balances between the Company and Corero Network Security, Inc. and Corero Network Security (UK) Limited have been reviewed with reference to a valuation based on a discounted free cash flow which the directors consider to be an appropriate valuation methodology, in conjunction with the goodwill impairment review.

Going Concern

The directors have reviewed the future profit and cash flow projections in conjunction with the current economic climate in order to express an opinion on the adequacy of working capital and the ability to continue as a going concern for the foreseeable future. The methodology contained in the projections are detailed in the note 2.2.

4. Segment reporting

Business segments

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 and its non-current assets are divided into the following geographical areas:

	2015 Revenue $'000	2015 Non-current assets $'000	2014 Revenue $'000	2014 Non-current assets $'000
North America	3,627	27,099	3,684	29,417
EMEA	4,375	–	3,284	–
Other countries	338	–	509	–
Total	8,340	27,099	7,477	29,417

FINANCIAL STATEMENTS

Notes to the Financial Statements continued

4. Segment reporting continued

EMEA revenue analysis

	2015 $'000	2014 $'000
UK	3,492	1,918
Europe	771	1,312
Other	112	54
Total	4,375	3,284

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 IAS.

The revenue is analysed as follows for each revenue category:

	2015 $'000	2014 $'000
Hardware and licence revenue	2,879	2,467
Maintenance and support services revenue	5,461	5,010
Total	8,340	7,477

5. Finance income

	2015 $'000	2014 $'000
Interest on bank deposits	11	22

6. Finance costs

	2015 $'000	2014 $'000
Bank interest payable (accounts receivable financing facility)	20	24
	20	24

7. Loss for the year

The following items have been included in arriving at the loss for the year before taxation:

	2015 $'000	2014 $'000
Amortisation of acquired intangible assets (note 12)	1,210	1,229
Amortisation of capitalised development (note 13)	2,446	1,118
Impairment of capitalised development (note 13)	843	–
Depreciation of property, plant and equipment (note 14)	675	925
Research and development cost	2,285	3,621
Operating lease rentals payable	384	324

Auditor's remuneration

	2015 $'000	2014 $'000
Remuneration received by the Company's auditor or an associate of the Company's auditor for the audit of these Financial Statements	84	83
The audit of the accounts of other group companies	15	15
Fees payable to the Company's auditor for taxation compliance services	21	26
Fees payable to the Company's auditor for taxation advisory services	–	3
	120	127

8. Tax on loss on ordinary activities

	2015 $'000	2014 $'000
Deferred tax credit for the year	382	358

The tax assessed on the loss on ordinary activities for the year differs from the weighted average UK corporate rate of tax of 20.25% (2014: 21.5%). The differences are reconciled below:

	2015	2014
Total tax reconciliation		
Loss before taxation	(11,615)	(10,419)
Theoretical tax credit at UK Corporation tax rate 20.25% (2014: 21.5%)	(2,352)	(2,240)
Effect of:		
– expenditure that is not tax deductible	428	(296)
– R&D tax credits	(130)	(277)
– accelerated capital allowances	(6)	(1)
– losses not utilised	2,060	2,814
– deferred tax credit	382	358
Actual taxation credit	382	358

Factors affecting future tax charges

As at 31 December 2015, the Group's cumulative fixed asset timing differences were $12,000 (2014: $811,000) and no deferred tax asset has been recognised in respect of these items.

In addition, the tax losses at that date amounted to $65.3 million (2014: $56.4 million). This comprised UK tax losses of $10.9 million and US tax losses of $54.4 million. $0.2 million of the tax losses relate to US capitalised R&D deductions which will be available at an accelerated level for one year. $9.0 million of the tax losses relate to pre-acquisition US tax losses which can be offset against taxable profits over 16 years (there is a limit on the utilisation of pre-acquisition tax losses of $0.7 million per annum and any unused loss may be carried forward to subsequent periods). All other US tax losses will expire in 20 years from the end of the accounting period in which the loss arose. UK tax losses do not expire.

The deferred tax assets of $2.0 million (2014: $1.8 million) at a rate 18%-19% relating to the UK tax losses and the deferred tax assets of $19.0 million (2014: $16.9 million) at a rate of 35% relating to the US tax losses and taxable temporary fixed asset differences have not been recognised due to uncertainties as to the extent and timing of their future recovery.

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9. Loss of the parent Company for the financial year

The Company has taken advantage of section 408 of the Companies Act 2006 and has not included an income statement in these financial statements. The parent Company's loss for the year was $17.5 million (2014: profit $0.4 million).

10. Loss per share

Loss per share is calculated by dividing the earnings attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the year. The effects of anti-dilutive ordinary shares resulting from the exercise of share options are excluded from the calculation of the loss per share. Therefore the diluted loss per share is equal to the loss per share.

	2015 loss $'000	2015 weighted average number of 1p shares Thousand	2015 loss per share Cents	2014 loss $'000	2014 weighted average number of 1p shares Thousand	2014 loss per share Cents
Basic and diluted loss per share	(11,233)	132,761	(8.5)	(10,061)	87,446	(11.5)

11. Goodwill

Group

	$'000
Cost	
At 1 January 2014	17,983
At 31 December 2014	17,983
At 31 December 2015	17,983
Impairment	
At 1 January 2014	–
At 31 December 2014	–
At 31 December 2015	–
Carrying amount	
At 31 December 2015	17,983
At 31 December 2014	17,983
At 1 January 2014	17,983

Goodwill is tested at least annually for impairment and whenever there are indications that goodwill might be impaired.

Goodwill is allocated to the Group's single cash-generating unit (CGU) Corero Network Security ("CNS").

The recoverable amount for the CNS CGU was determined based on a discounted cash flow calculation using cash flow projections over a 10 year period (2014: 10 year period). The key assumptions for the discounted cash flow calculation are those regarding revenue growth and discount rates as summarised in the table below and commented on below:

	2015	2014
Forecast cash flow period	Years 1–2	Years 1–2
Extrapolated cash flow period	Years 3–10	Years 3–10
Cumulative annual growth rate (CAGR) for revenue used for the forecast/extrapolated periods	14.5%	12.2%
Average revenue growth rates used for the forecast/extrapolated periods:		
Year 1–2 (forecast period)	68.8%	85.6%
Years 3–5 (extrapolated period)	18.2%	18.3%
Years 6–10 (extrapolated period)	4.0%	4.0%
Revenue growth rate used beyond the extrapolated period	1.5%	1.5%
Discount rate	18.0%	15.7%
Discount rate required for recoverable amount to equal carrying amount	20.6%	24.0%
Percentage reduction in forecast revenue for recoverable amount to equal carrying amount	9.0%	14.0%
Amount by which the CGU's recoverable amount exceeds its carrying amount	$7.7 million	$26.5 million

The pre-tax cash flows for the forecast period are derived from the most recent financial budget for the year ending 31 December 2016 and the plan for the year ending 31 December 2017 approved by the Board. The extrapolation for the period 2018 to 2025 is based on management estimates (with the key assumptions set out below).

The future pre-tax cash flows are discounted by a WACC of 18.0%.

The key assumptions underlying the cash flow projections and which the recoverable amount is most sensitive to are (i) the revenue growth rates forecast and extrapolated for the period 2016 to 2020 (ii) and the discount rate.

The cash flow forecasts assume a CAGR revenue growth of 29.2% in the period 2016 to 2020 (68.8% for the period 2016 to 2017) and 4.0% for the period 2021 to 2025 (a CAGR of 14.5% for 10 year forecast period). The management of the Group believe these growth rates are appropriate for the forecasts given the expected impact from the new product, SmartWall TDS which was launched in 2014 and started selling to customers in the second half of 2014. SmartWall TDS is expected to deliver a step change in revenue in the forecast period.

These growth rates are supported by the fact that the IT security market is forecast to grow strongly for the foreseeable future.

Worldwide spending on information security will reach $75 billion for 2015, an increase of 4.7% over 2014, according to the latest forecast from Gartner. The global cybersecurity market is expected to be worth $170 billion by 2020, according to security advisory firm SSP Blue. The cyber security market is estimated to grow at a compound annual growth rate (CAGR) of 9.8% from 2015 to 2020, according to a report from Markets and Markets.

The DDoS mitigation market is expected to almost double in the period 2014-2019 and exceed $1.0 billion per IDC Worldwide DDoS Prevention Products and Services Forecast, 2015-2019, September 2015.

The above market growth rates used in the future cash flow assumptions reflect that CNS is in the early stages of the commercial exploitation of its intellectual property. In addition, the business' strategy is to continue to develop its product and solution offerings to remain a market leader in its chosen markets thereby providing the opportunity to generate above market average growth rates.

The growth rate assumed in the period beyond the 10 year extrapolation period of 1.5% is considered reasonable as historically IT spend has exceeded GDP growth.

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Notes to the Financial Statements continued

11. Goodwill continued

The discount rate is based on a cost of equity using the Capital Asset Pricing Model with the key inputs being a risk-free interest rate estimate of 3.0% (based on 30 year US government bonds), comparable company betas, an equity risk premium of 7.4%, and small company risk premium of 4.5%. The WACC has been assessed based on that fact that the Company had no gearing at 31 December 2015. The WACC used in the valuation reflects current market assessments of the time value of money and the risks specific to CNS.

As stated above, the valuation to support the value in use of the CNS CGU is highly sensitive to changes in cash flow forecasts and discount rate assumptions, and there is no guarantee that the expected growth will be achieved. If the expected growth is not achieved, this could result in a requirement to impair the goodwill associated with the CNS CGU in the future. If the revenue growth in 2016 and 2017 is reduced by 30% (which in the assessment of management is reasonably possible), and a 15.0% reduction is made to overheads, this would result in an impairment of the carrying value of goodwill at 31 December 2015 of $15.4 million. If the discount rate is increased by 50% (which in the assessment of management is reasonably possible), this would result in an impairment of goodwill of $12.3 million.

Apart from the considerations in determining the value in use of the CNS CGU described above, the management of the Group is not currently aware of any other reasonably possible changes that would necessitate changes in its key estimates.

12. Acquired intangible assets

Group

	Computer software $'000	Customer relationships $'000	Total $'000
Cost			
At 1 January 2014	5,782	197	5,979
Additions	142	–	142
At 31 December 2014	5,924	197	6,121
Additions	37	–	37
At 31 December 2015	5,961	197	6,158
Amortisation			
At 1 January 2014	(3,265)	(79)	(3,344)
Charge for year	(1,201)	(28)	(1,229)
At 31 December 2014	(4,466)	(107)	(4,573)
Charge for year	(1,182)	(28)	(1,210)
At 31 December 2015	(5,648)	(135)	(5,783)
Net book value			
At 31 December 2015	313	62	375
At 31 December 2014	1,458	90	1,548
At 1 January 2014	2,517	118	2,635

Company

The Company has no intangible fixed assets (2014: $nil).

13. Capitalised development expenditure

Group

	$'000
Cost	
At 1 January 2014	7,229
Additions	3,621
At 31 December 2014	10,850
Additions	2,285
At 31 December 2015	13,135
Amortisation	
At 1 January 2014	(1,108)
Charge for year	(1,118)
At 31 December 2014	(2,226)
Charge for year	(2,446)
Impairment	(843)
At 31 December 2015	(5,515)
Net book value	
At 31 December 2015	7,620
At 31 December 2014	8,624
At 1 January 2014	6,121

The impairment recorded during 2015 of $843,000 related to expenditure on previous generation products. Corero announced their previous generation products end of life in mid-2015 which allowed customers to purchase products and support up to 31 December 2015. Having identified that these products would no longer generate cash inflows in the future sufficient to support their carrying value, management determined an impairment should be recorded.

Company

The Company has no capitalised development expenditure (2014: $nil).

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14. Property, plant and equipment

Group

	Computer Equipment $'000	Fixtures and Fittings $'000	Office Equipment $'000	Leasehold Improvements $'000	Total $'000
Cost					
At 1 January 2014	2,942	94	126	77	3,239
Additions	844	–	–	–	844
Disposals	(104)	–	–	–	(104)
At 31 December 2014	3,682	94	126	77	3,979
Additions	387	–	5	–	392
Disposals	(835)	–	–	–	(835)
At 31 December 2015	3,234	94	131	77	3,536
Depreciation					
At 1 January 2014	(1,664)	(65)	(120)	(47)	(1,896)
Charge for year	(887)	(13)	(6)	(19)	(925)
Disposals	17	–	–	–	17
At 31 December 2014	(2,534)	(78)	(126)	(66)	(2,804)
Charge for the year	(657)	(6)	(1)	(11)	(675)
Disposals	835	–	–	–	835
Foreign currency translation	1	–	–	–	1
At 31 December 2015	(2,355)	(84)	(127)	(77)	(2,643)
Net book value					
At 31 December 2015	879	10	4	–	893
At 31 December 2014	1,148	16	–	11	1,175
At 1 January 2014	1,278	29	6	30	1,343

Company

The Company has no property, plant and equipment (2014: $nil).

15. Investments in subsidiaries

	Company 2015 $'000	Company 2014 $'000
Net book value		
At 1 January	42,747	36,930
Investment in Corero Network Security, Inc.	6,197	8,087
Provision against investment in Corero Network Security, Inc.	(17,835)	–
Foreign currency translation	(2,312)	(2,270)
At 31 December	28,797	42,747

The directors have reviewed the carrying value of the cost of investments in subsidiaries of the Company with reference to current and future trading conditions and a valuation based on a discounted free cash flow which the directors consider to be an appropriate valuation methodology, in conjunction with the goodwill impairment review (note 11) and concluded that an impairment of the investment balances was required.

Included in the Company's investment in Corero Network Security, Inc. is a loan note instrument. These loan notes bear interest at 5% per annum that at the election of Corero Network Security, Inc. is payable quarterly or added to the principal amount. The loan notes are repayable on 31 October 2016.

	2015 $'000	2014 $'000
Loan note instrument	7,265	7,298

The Company owns:

100% of the issued share capital of Corero Network Security, Inc., a company incorporated in Delaware, USA. The principal business of the company consists of the development and sale of hardware and software security products.

100% of the issued share capital of Corero Group Services Limited, a company incorporated and registered in England and Wales. The principal business of the company consists of providing administration services to the Group.

100% of the issued share capital of Corero Network Security (UK) Limited, a company incorporated and registered in England and Wales. The principal business of the company consists of providing sales and marketing services on behalf of Corero Network Security, Inc.

16. Inventories

	Group 2015 $'000	Group 2014 $'000
Gross inventory	795	977
Less: provision for impairment	(134)	(228)
Net inventory	661	749

Net inventory comprises finished goods and raw materials.

The Company holds no inventory (2014: $nil).

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Notes to the Financial Statements continued

17. Trade and other receivables

	Group 2015 $'000	Group 2014 $'000	Company 2015 $'000	Company 2014 $'000
Trade receivables	2,973	2,002	–	–
Less: provision for impairment	–	(35)	–	–
Net trade receivables	2,973	1,967	–	–
Amounts owed by subsidiaries	–	–	15,875	12,674
Other debtors	275	309	83	87
Prepayments and accrued income	718	535	–	–
	3,966	2,811	15,958	12,761

Provision for impairment

	2015 $'000	2014 $'000
Balance 1 January	35	–
Charged to income	–	35
Utilisation	(15)	–
Release of unused amounts	(20)	–
Balance 31 December	–	35

The banking facility of the Group, summarised in note 19, is secured by assets of Corero Network Security, Inc. Up to 80% of the trade receivables of Corero Network Security, Inc., included under 'Group', can be financed and are therefore secured for credit enhancements.

None of the Company's trade and other receivables are secured by collateral or credit enhancements.

Amounts due from Group undertakings are recoverable after more than one year from the reporting date.

The age of trade receivables not impaired but past due are as follows:

	Group 2015 $'000	Group 2014 $'000
Not more than 3 months	125	551
More than 6 months but not more than 1 year	–	88
	125	639

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

The maturity profile of trade and other receivables is set out in the table below:

	Group 2015 $'000	Group 2014 $'000	Company 2015 $'000	Company 2014 $'000
In one year or less, or on demand	3,738	2,724	–	–
In more than one year, but not more than five years	228	87	15,958	12,761
	3,966	2,811	15,958	12,761

Balances due in more than one year, but not more than five years are now presented as non-current in the Statement of Financial Position.

The analysis of trade and other receivables by foreign currency is set out in the table below:

	Group 2015 $'000	Group 2014 $'000	Company 2015 $'000	Company 2014 $'000
US dollars	3,652	2,557	–	–
UK pound	314	254	15,958	12,761
	3,966	2,811	15,958	12,761

The Group's foreign currency receivables are denominated in the functional currency of the subsidiaries in which they arise. There is no impact on the loss for the year from exchange rate movements on such financial instruments.

18. Trade and other payables

	Group 2015 $'000	Group 2014 $'000	Company 2015 $'000	Company 2014 $'000
Trade payables	1,006	966	–	–
Other payables	7	62	–	–
Accruals	1,538	1,334	202	223
	2,551	2,362	202	223

None of the Group or Company's trade and other payables are secured by collateral or credit enhancements.

The directors consider that the carrying amount of trade and other payables approximates its fair value.

67% (2014: 89%) of the trade and other payables are due in less than 3 months.

The analysis of trade and other payables by foreign currency is set out in the table below:

	Group 2015 $'000	Group 2014 $'000
US dollars	1,784	1,809
UK pound	767	553
	2,551	2,362

The Group's foreign currency payables are denominated in the functional currency of the subsidiaries in which they arise. There is no impact on the loss for the year from exchange rate movements on such financial instruments.

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Notes to the Financial Statements continued

19. Borrowings

Group

	2015 $'000	2014 $'000
Current		
Accounts receivable financing facility	–	20
	–	20

Company

The Company has no borrowings (2014: $nil).

The accounts receivable financing facility was not utilised at the year end. The facility bears interest at c.16.8% of the financed value with a limit of US$1.5 million or 80% of the eligible accounts receivable balance. The funding is secured by a first lien on the corporate assets of Corero Network Security, Inc. and is guaranteed by Corero Network Security plc.

All receipts for financed assets are payable to a lockbox account held with the provider of the financing facility. The accounts receivable assets are exposed to the risk of non or late payment by customers. There are no restrictions on the use of the financed accounts receivable assets.

At 31 December 2015, the Group's liabilities have contractual maturities which are summarised below. These contractual maturities reflect the payment obligations which may differ from the carrying values of the liabilities at the balance sheet date.

Group

	In one year or less, or on demand	
	2015 $'000	2014 $'000
Trade and other payables	2,551	2,362
Borrowings	–	20
Total	2,551	2,382

Company

	In one year or less, or on demand	
	2015 $'000	2014 $'000
Trade and other payables	202	223
Total	202	223

20. Financial instruments

The Group's financial instruments are categorised as shown below:

Group

	Book Value 2015 $'000	Book Value 2014 $'000
Financial assets		
Trade and other receivables	3,248	2,276
Cash	2,706	6,036
	5,954	8,312

Group

	Book Value 2015 $'000	Book Value 2014 $'000
Financial liabilities		
Financial liabilities at amortised cost:		
Trade and other payables	2,551	2,362
Accounts receivable financing	–	20
	2,551	2,382

The Group manages liquidity and credit risk in line with the Financial risk management objectives and policies on page 23.

There are no differences between the fair values and book values held by the Group and Company.

The Company has a loan note instrument with CNS, Inc. at 31 December 2015 of $7.3 million (note 15) (2014: $7.3 million). The instrument is denominated and repayable in GBP which is the functional currency of the Company and therefore the Company does not bear any foreign exchange risk. As the Group's reporting currency is dollars, unrealised gains/losses on translation of the GBP balance are included within the Consolidated Statement of Comprehensive Income – Profit and Loss. A 5% weakening/strengthening of the GBP against the dollar would have the effect of increasing/decreasing the Company's and, by virtue of its effect on CNS, Inc., the Group's comprehensive income for the year and decreasing/increasing the Company's net assets by $0.4 million (2014: $0.4 million).

The Company has amounts due from subsidiaries at 31 December 2015 of $15.9 million (2014: $12.7 million). The amounts owing are denominated and repayable in GBP which is the functional currency of the Company and therefore the Company does not bear any foreign exchange risk. Unrealised gains/losses on translation of the GBP balance are included within the Consolidated Statement of Comprehensive Income – other comprehensive income.

The repayment of amounts receivable from subsidiaries, including the loan note from CNS, Inc. (note 15) is dependent on CNS CGU generating future revenue growth and cash flows. Note 11 sets out management's assumptions in assessing whether there is any impairment of the CNS CGU goodwill at 31 December 2015. The valuation model concluded that the CGU's recoverable amount exceeded its carrying amount. This assessment supports the carrying value of the amounts receivable from subsidiaries.

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Notes to the Financial Statements continued

21. Deferred income

Group

	2015 $'000	2014 $'000
Current	3,791	4,055
More than one year but less than five years	1,439	1,570
	5,230	5,625

The Group's deferred income balance will be recognised as revenue evenly over the remaining term of the support agreements in place. Support agreements expire at various times throughout the year with no particular seasonality.

Company

The Company has no deferred income (2014: $nil).

22. Deferred tax liability

Group

	$'000
1 January 2014	825
Credit to income statement	(358)
31 December 2014	467
Credit to income statement	(382)
31 December 2015	85

The deferred tax liability relates to the software and customer relationships acquired as part of the Top Layer Networks, Inc. acquisition in March 2011. The deferred tax liability has been calculated using a US Federal tax rate of 35%. The liability is released to the Statement of Comprehensive Income - Profit and Loss as the intangible software and customer relationship assets are amortised.

23. Pensions

The Group's pension arrangements are operated through defined contribution schemes.

Defined contribution schemes

	2015 $'000	2014 $'000
Defined contribution pension costs	101	70

24. Share capital

Authorised share capital

The authorised share capital comprises 745,821,970 (2014: 745,821,970) ordinary shares of 1p (1.48c) each.

Issued ordinary share capital

	$'000
1 January 2014	
85,637,416 ordinary shares of 1p each	1,333
Issued	
30,000,000 ordinary shares of 1p each (1.57c)	471
31 December 2014	
115,637,416 ordinary shares of 1p each	1,804
Issued	
50,000,000 ordinary shares of 1p each (1.54c)	769
31 December 2015	
165,637,416 ordinary shares of 1p each	2,573

On 28 August 2015, 50,000,000 ordinary shares with a nominal value of 1p were issued at 10p (15c) per share by way of a subscription.

Deferred share capital

2014: 1,518,000 deferred shares of £2.99 ($4.64) each.

	$'000
31 December 2014	7,051
Cancellation	(7,051)
31 December 2015	–

On 17 June 2015 the Company purchased the entire deferred share capital of 1,518,000 £2.99 shares for a consideration of 1p (1.57c). The deferred shares were subsequently cancelled on 22 June 2015.

25. Capital redemption reserve

	$'000
1 January 2015	–
Purchase of deferred shares	7,051
31 December 2015	7,051

26. Share premium

	$'000
1 January 2014	43,507
30,000,000 ordinary shares of 14p each (22c) less issue costs	6,493
31 December 2014	50,000
50,000,000 ordinary shares of 10p each (15c) less issue costs	6,835
31 December 2015	56,835

Consideration received in excess of the nominal value of the 50,000,000 shares issued on 28 August 2015 as a result of the subscription has been included in share premium, less registration, commission and professional fees of $78,000. The amount of such directly attributable costs deducted from share premium in 2014 was $99,000.

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27. Employees and directors

Employee expenses during the period

Group

	Total 2015 $'000	Total 2014 $'000
Wages and salaries	9,377	9,962
Social security costs	764	896
Other pension costs (note 24)	101	70
Cost of employee share scheme (note 30)	(3)	(8)
	10,239	10,920

Average monthly numbers of employees (including directors) employed

	2015 Number	2014 Number
Sales and marketing	19	21
Technical, support and services	30	37
Management, operations and administration	14	13
	63	71

Company

The Company has no employees (2014: nil).

Directors

	Salary & fees $'000	Bonus $'000	Benefits $'000	Pension $'000	Company National Insurance Contributions $'000	Total 2015 $'000	Total 2014 $'000
Executive directors							
Andrew Miller	228	120	10	23	28	409	316
Ashley Stephenson	270	135	21	–	–	426	291
Non-executive directors							
Andrew Lloyd	31	–	–	–	3	34	36
Jens Montanana	40	–	–	–	–	40	43
Richard Last	29	–	–	–	2	31	28
	598	255	31	23	33	940	714

Bonus payments of $255,000 were awarded during the period to 31 December 2015 (2014: $32,000).

Richard Last was paid $1,500 during the period to 31 December 2015 (2014: $7,000) as a contribution to office and secretarial costs.

The key management personnel share based payment charge was $nil (2014: $nil).

Andrew Miller has a service contract with a 6 month notice period. A subsidiary company provides for pension contributions (included in the table above) of 10% of basic salary payable to a personal pension plan.

No directors were accruing benefits from the Group's defined contribution pension arrangements (2014: $nil).

Post the year end, Jens Montanana notified the Company that he wished to waive his non-executive director fees for the year ended 31 December 2015 of $40,000. Jens Montanana waived his non-executive director fees for the year ended 31 December 2014 of $43,000.

28. Operating lease commitments

The Group has total future minimum lease payments under non-cancellable operating leases totalling $285,000 (2014: $239,000) analysed by year of expiry as follows:

	2015 $'000	2014 $'000
Land and building agreements expiring:		
Within one year	216	232
Within two to five years	62	–
Other agreements expiring:		
Within one year	7	7
	285	239

The Company has no operating lease commitments (2014: $nil).

29. Contingent liabilities

Corero Network Security (UK) Limited has secured a development grant of up to £600,000 over three years from Scottish Enterprise. Any monies becoming repayable by Corero Network Security (UK) Limited under the terms of the grant are guaranteed by Corero Network Security plc.

The Group and Company did not have any contingent liabilities in 2014.

30. Share options

The Company has the following share option schemes:

- Enterprise Management Incentive Scheme for its employees, which has been approved by HMR&C, 2010 Executive Enterprise Management Incentive Scheme, which has been approved by HMR&C, 2010 Unapproved Share Option Scheme, and
- Deferred Payment Share Plan

In August 2010, 1,257,000 options were granted to certain directors and employees under the 2010 Executive Enterprise Management Incentive scheme and 2010 Unapproved Share Option Scheme. The options granted vested immediately upon grant.

All other options granted in 2010–2015 have a three year vesting period, vesting one third on the first anniversary of grant, one third on the second anniversary of grant and one third on the third anniversary of grant. There are no vesting conditions. Shares acquired on the exercise of an option may not be sold until the expiry of the second anniversary following the date of option grant.

If an option holder ceases to be in employment or hold office within the Group, options granted shall immediately lapse unless such cessation is because of the option holder's death; the option holder's ill health or disability; the company that employs the option holder ceasing to be under the control of the Company or such company ceasing to be within the Group; the transfer of sale of the undertaking or part-undertaking in which the option holder is employed to a person who is neither under the control of the Company nor within the Group; or any other reason that the Board in its absolute discretion shall determine.

On a cessation of employment or office as set out above, options shall be exercisable to the extent they have vested according to the terms of the option agreement and the provisions of the relevant share option scheme and must be exercised within 30 days following such cessation unless it is by reason of death whereby the option holder's personal representatives must exercise the option within 12 months following the date of the option holder's death.

On the 18 March 2014, the Enterprise Management Incentive Scheme was extended by ten years to 20 April 2021.

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Notes to the Financial Statements continued

30. Share options continued

Share options granted at 31 December 2015 were as follows:

Option Holders	Date granted	Expiry date	Exercise price	At 1 January 2015	Granted	Exercised	Forfeit	At 31 December 2015
Enterprise Management Incentive Scheme								
Other Holders	March 2011	March 2021	36p (59c)	7,000	–	–	–	7,000
	March 2011	March 2021	40p (65c)	40,000	–	–	–	40,000
	March 2012	March 2022	54.5p (89c)	30,000	–	–	–	30,000
	September 2012	September 2022	43p (70c)	110,000	–	–	–	110,000
	April 2013	April 2023	25p (38c)	95,000	–	–	–	95,000
	May 2014	May 2024	25p (42c)	48,000	–	–	–	48,000
	September 2014	September 2024	25p (41c)	10,000	–	–	–	10,000
	April 2015	April 2025	15p (23c)	–	750,000	–	–	750,000
	October 2015	September 2025	15p (23c)	–	57,000	–	–	57,000
2010 Executive Enterprise Management Incentive Scheme								
Andrew Miller	August 2010	August 2020	25p (41c)	476,000	–	–	–	476,000
	September 2012	March 2022	54.5p (89c)	80,000	–	–	–	80,000
	April 2013	April 2023	25p (38c)	250,000	–	–	–	250,000
	May 2014	May 2024	25p (42c)	362,570	–	–	–	362,570
2010 Unapproved Share Option Scheme								
Jens Montanana	August 2010	August 2020	25p (41c)	165,000	–	–	–	165,000
	March 2012	March 2022	54.5p (89c)	30,000	–	–	–	30,000
	April 2013	April 2023	25p (38c)	80,000	–	–	–	80,000
Richard Last	March 2012	March 2022	54.5p (89c)	20,000	–	–	–	20,000
	April 2013	April 2023	25p (38c)	60,000	–	–	–	60,000
Andrew Lloyd	April 2013	April 2023	25p (38c)	60,000	–	–	–	60,000
	May 2014	May 2024	25p (42c)	40,000	–	–	–	40,000
Ashley Stephenson	March 2012	March 2022	54.5p (89c)	180,000	–	–	–	180,000
	April 2013	April 2023	25p (38c)	400,000	–	–	–	400,000
	May 2014	May 2024	25p (42c)	1,720,000	–	–	–	1,720,000
	April 2015	April 2025	15p (23c)	–	200,000	–	–	200,000
Andrew Miller	May 2014	May 2024	25p (42c)	387,430	–	–	–	387,430
	April 2015	April 2025	15p (23c)	–	300,000	–	–	300,000
Other holders	August 2010	August 2020	31p (50c)	308,000	–	–	–	308,000
	March 2011	March 2021	36p (59c)	95,500	–	–	(40,750)	54,750
	March 2011	March 2021	40p (65c)	290,000	–	–	–	290,000
	September 2011	September 2021	37.5p (61c)	163,500	–	–	–	163,500
	March 2012	March 2022	54.5p (89c)	216,250	–	–	–	216,250
	September 2012	September 2022	43p (70c)	34,500	–	–	(20,000)	14,500
	April 2013	April 2023	25p (38c)	414,500	–	–	(107,500)	307,000
	September 2013	September 2023	25p (40c)	115,000	–	–	(75,000)	40,000
	May 2014	May 2024	25p (42c)	1,880,750	–	–	(448,000)	1,432,750
	September 2014	September 2024	25p (41c)	440,000	–	–	–	440,000
	April 2015	April 2025	15p (23c)	–	1,803,000	–	–	1,803,000
	October 2015	September 2025	15p (23c)	–	352,000	–	–	352,000
				8,609,000	3,462,000	–	(691,250)	11,379,750

The closing mid-market price for the Company's shares at 31 December 2015 was 15.5p (22c) and the high and low for the year was 15.5p (24c) and 10.25p (16c). There are no performance conditions to be met before share options are exercisable. No options were exercised and 2,299,875 options were forfeited in the 12 months to 31 December 2014.

Andrew Miller has a contractual right (granted in March 2011) to purchase 140,000 ordinary shares in the Company from the Employee Share Ownership Trust at 40p per share pursuant to a grant made to him under the Deferred Payment Share Plan.

None of the directors holding office at the balance sheet date exercised options during the year.

Share based payments

The Remuneration Committee can grant options to employees of the Group under the Group's share option schemes.

Options are granted with a fixed exercise price which is equal to the market price at the date of the grant or higher price determined by the Remuneration Committee. The contracted life is ten years from the date of grant.

Options are valued using the Black–Scholes option–pricing model.

Options granted during 2015

The value of options granted during the year was calculated using the Black–Scholes option pricing model. The following variables and ranges were used:

Share price at date of grants	13p–14p (20c)
Exercise price	15p (23c)
Expected volatility	0.2%
Years to maturity	9.3–9.8
Risk free interest rate	1.12–1.17%

The following table provides information on all options outstanding at the end of the year:

Weighted average remaining contractual life	8.0 years
Average remaining contractual life	10.0 years
Options exercisable	4,526,583
Exercise price range	15p–55p (41c–91c)
Weighted average share price	21p (31c)
Weighted average exercise price	24p (36c)
Expected volatility	0.2%–6.4%
Risk free rate – 5 year gilt rate	0.63%–2.6%
Expected dividend yield	Nil

Volatility is calculated as the standard deviation of the closing daily share price over a period of 24 months prior to the grant date.

The total credit in the year to the Statement of Comprehensive Income - Profit and Loss relating to employee share based payments was $3,000 (2014: credit $8,000).

FINANCIAL STATEMENTS

Notes to the Financial Statements continued

31. Related parties and transactions

Related party transactions subsist between Group companies and relate to costs paid on behalf of the parent Company. The 2015 costs paid by other Group companies on behalf of the parent Company were $303,000 (2014: $355,000). The parent Company balance due from Corero Group Services Limted at 31 December 2015 was $4,948,000 (2014: $4,213,000) and Corero Network Security (UK) Limited $10,927,000 (2014: $8,461,000).

The parent Company has a loan note instrument with Corero Network Security, Inc. which bears interest at 5% per annum (note 15). The parent Company received $365,000 intercompany interest from Corero Network Security, Inc. during the year (2014: $374,000). The loan balance at 31 December 2015 was $7,265,000 (2014: $7,298,000) The instrument is denominated and repayable in GBP and subject to exchange rate movements.

On 30 July 2015, Jens Montanana lent the Company £500,000 pursuant to a share subscription advance by way of a loan agreement ("the Loan"). The Loan was non–interest bearing if repaid within 60 days, and was repayable on the earlier of (i) the day immediately following the date upon which the resolution proposed at the general meeting of the Company's shareholders on 27 August 2015 to approve the subscription was passed and (ii) 31 July 2016. Part of the subscription monies owed by Jens Montanana to the Company pursuant to a subscription agreement dated 7 August 2015 was satisfied by the release of the Company of its obligation to repay the Loan in full on 28 August 2015.

As part of the subscription on 28 August 2015, Jens Montanana contributed $3.0 million gross of the Loan repayment. Andrew Miller contributed $15,000 and Richard Last contributed $38,000 (note 24).

On 20 November 2014, Jens Montanana lent the Company £450,000 pursuant to a share subscription advance by way of a loan agreement ("the Loan"). The Loan was unsecured, and non–interest bearing if repaid within 60 days, and was repayable on the earlier of (i) the day immediately following the date upon which the resolution proposed at the general meeting of the Company's shareholders on 9 December 2014 to approve the fund raising was passed and (ii) 31 December 2015. Part of the subscription monies owed by Jens Montanana to the Company pursuant to a subscription agreement dated 20 November 2014 was satisfied by the release of the Company of its obligation to repay the Loan in full on 9 December 2014.

As part of a placing and subscription on 9 December 2014, Jens Montanana contributed $2.8 million gross of the Loan repayment (note 24).

The directors consider the Group's key management personnel to be the Board of directors of the Company whose compensation is detailed below:

	Salary & fees $'000	Bonus $'000	Benefits $'000	Pension $'000	2015 $'000	2014 $'000
Key management personnel	598	255	31	23	907	664

Company key management compensation was $nil (2014: $nil) as the key management are employed by subsidiaries.

Notice of AGM

Notice is hereby given that the annual general meeting (the "AGM") of Corero Network Security plc (the "Company") will be held at the offices of Redleaf Communications, First Floor, 4 London Wall Buildings, London, EC2M 5NT on 15 June 2016 at 9.30 a.m. for the following purposes:

Ordinary Business

To consider and, if thought fit, pass the following resolutions which will be proposed as ordinary resolutions:

1. **Report and accounts**

   To receive the audited annual accounts of the Company for the year ended 31 December 2015, together with the directors' report and the auditor's report on those annual accounts.

2. **Re-election of director**

   To re-elect Mr Andrew Lloyd, who retires by rotation in accordance with the Company's articles of association, as a director of the Company.

3. **Re-election of director**

   To re-elect Mr Richard Last, who retires by rotation in accordance with the Company's articles of association, as a director of the Company.

4. **Re-appointment of auditors**

   To re-appoint BDO LLP as auditors of the Company to hold office from the conclusion of this AGM until the conclusion of the next annual general meeting at which accounts are laid before the Company.

5. **Auditors' remuneration**

   To authorise the directors to determine the remuneration of the auditors.

Special Business

To consider and, if thought fit, pass the following resolutions of which resolution 6 will be proposed as an ordinary resolution and resolutions 7 and 8 will be proposed as special resolutions:

6. **Directors' authority to allot shares**

   THAT, in substitution for all existing and unexercised authorities and powers granted to the Directors prior to the date of this resolution in accordance with section 551 of the Companies Act 2006 ("Act"), the Directors be generally and unconditionally authorised for the purposes of section 551 of the Act to exercise all the powers of the Company to allot shares in the Company and grant rights to subscribe for or to convert any security into shares of the Company (such shares and rights to subscribe for or to convert any security into shares of the Company being "relevant securities") up to a maximum nominal amount of £552,124.72 on such terms and conditions as the Directors may determine provided that, unless previously revoked, varied or extended, this authority shall expire on the earlier of the date falling 15 months after the date of the passing of this resolution and the conclusion of the next annual general meeting of the Company except that the Company may at any time before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if this authority had not expired.

7. **Disapplication of pre-emption rights**

   THAT, in substitution for all existing and unexercised authorities and powers granted to the Directors prior to the date of this resolution in accordance with section 570(1) of the Act and subject to and conditional on the passing of resolution 6, the Directors be and are hereby empowered to allot equity securities (as defined in section 560(1) of the Act) of the Company for cash, pursuant to the authority of the Directors under section 551 of the Act conferred by resolution 6 above, and/or by way of a sale of treasury shares for cash (by virtue of section 573 of the Act), in each case as if section 561(1) of the Act did not apply to such allotment, provided that this power shall be limited to:

   (a) the allotment of equity securities in connection with an offer by way of a rights issue or an offer of equity securities open for acceptance for a period fixed by the Directors (i) to the holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings and (ii) to holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and

   (b) the allotment and/or sale of treasury shares for cash (otherwise than pursuant to resolution 7(a) above) of equity securities up to a maximum nominal amount of £165,637.42,

   and that, unless previously revoked, varied or extended, this power shall expire on the earlier of the date falling 15 months after the date of the passing of this resolution and the conclusion of the next annual general meeting of the Company except that the Company may before the expiry of this power make an offer or agreement which would or might require equity securities to be allotted (and treasury shares to be sold) after such expiry and the Directors may allot equity securities (and sell treasury shares) in pursuance of such an offer or agreement as if this power had not expired.

Notice of AGM continued

8. Authority to purchase Company's own shares

THAT the Company be generally and unconditionally authorised for the purposes of section 701 of the Act to make market purchases (as defined in section 693(4) of the Act) on a recognised investment exchange (as defined in section 693(5) of the Act) of ordinary shares of £0.01 each in the capital of the Company ("Ordinary Shares") and to hold such shares as treasury shares (as defined in section 724(3) of the Act) and/or on such terms and in such manner as the Directors may from time to time determine provided that:

(a) this authority shall be limited to the purchase of Ordinary Shares up to a maximum aggregate nominal value equal to £165,637.42 representing approximately 10 per cent. of the nominal value of the current issued ordinary share capital of the Company;

(b) the minimum price which may be paid for such Ordinary Shares is £0.01 (exclusive of expenses);

(c) the maximum price (exclusive of expenses) which may be paid for an Ordinary Share shall not be more than 5 per cent. above the average middle market quotations for an Ordinary Share on the relevant recognised investment exchange on which Ordinary Shares are traded for the five business days immediately preceding the date on which the Ordinary Share is purchased;

(d) unless previously revoked, varied or extended, the authority hereby conferred shall expire at the earlier of the date which is 15 months from the date of the passing of this resolution and the conclusion of the next annual general meeting of the Company; and

(e) the Company may make a contract or contracts to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts.

Registered Office:
Regus House
Highbridge
Oxford Road
Uxbridge
Middlesex
UB8 1HR

By order of the Board

Duncan Swallow
Company Secretary
20 April 2016

The following notes explain your general rights as a shareholder and your rights to attend and vote at the AGM or to appoint someone else to vote on your behalf:

Notes:

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), only those members registered in the register of members of the Company as at Close of Business on 13 June 2016 (or if the AGM is adjourned, on the day which is two business days before the time fixed for the adjourned AGM) shall be entitled to attend and vote at the AGM in respect of the number of shares registered in their name at that time. Any changes to the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the AGM.

2. Information regarding the annual general meeting, including information required by section 311A of the Act, is available from www.corero.com.

3. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the AGM to be held at 9.30 a.m. on 15 June 2016 and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider should refer to their CREST sponsors or voting service provider(s), who will be able to take the appropriate action on their behalf.

   In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the Company's agent, Capita Asset Services (CREST Participant ID: RA10), no later than 9.30 a.m. on 13 June 2016. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

   CREST members and, where applicable, their CREST sponsor or voting service provider should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsor or voting service provider are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

   The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

4. If you wish to attend the AGM in person, you should make sure that you arrive at the venue for the AGM in good time before the commencement of the meeting. You may be asked to prove your identity in order to gain admission.

5. A member who is entitled to attend, speak and vote at the AGM may appoint a proxy to attend, speak and vote instead of him. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares (so a member must have more than one share to be able to appoint more than one proxy). A proxy need not be a member of the Company but must attend the AGM in order to represent you. A proxy must vote in accordance with any instructions given by the member by whom the proxy is appointed. Appointing a proxy will not prevent a member from attending in person and voting at the AGM (although voting in person at the AGM will terminate the proxy appointment). A proxy form is enclosed. The notes to the proxy form include instructions on how to appoint the Chairman of the AGM or another person as a proxy. You can only appoint a proxy using the procedures set out in these Notes and in the notes to the proxy form.

6. To be valid, a proxy form, and the original or duly certified copy of the power of attorney or other authority (if any) under which it is signed or authenticated, should reach the Company's registrar, Capita Asset Services, PXS, 34 Beckenham Road, Beckenham BR3 4TU, by no later than 9.30 a.m. on 13 June 2016.

7. In the case of joint holders of shares, the vote of the first named in the register of members who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other joint holders.

8. A member that is a company or other organisation not having a physical presence cannot attend in person but can appoint someone to represent it. This can be done in one of two ways: either by the appointment of a proxy (described in Notes 1 and 3 to 5 above) or of a corporate representative. Members considering the appointment of a corporate representative should check their own legal position, the Company's articles of association and the relevant provision of the Companies Act 2006.

9. The following documents are available for inspection at the registered office of the Company during usual business hours on any weekday (Saturday, Sunday or public holidays excluded) from the date of this notice until the conclusion of the AGM and will also be available for inspection at the place of the AGM from 9.00 am on the day of the AGM until its conclusion:

   (a) copies of the executive directors' service contracts with the Company and any of its subsidiary undertakings; and
   (b) letters of appointment of the non-executive directors.

Corporate Directory

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

Secretary and Registered Office
Duncan Swallow
Regus House
Highbridge
Oxford Road
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Middlesex
UB8 1HR

Nominated Adviser and Broker
Cenkos Securities plc
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Auditor
BDO LLP
55 Baker Street
London
W1U 7EU

Solicitors
Dorsey and Whitney LLP
199 Bishopsgate
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EC2M 3UT

Bankers
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2 The Forbury
Reading
RG1 3EU

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Northern House
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