



PRODUCTS & SERVICES FOR REAL-TIME DDoS PROTECTION



ADVANCED DDoS
DEFENCE TECHNOLOGY



BUILT ON NEXT
GENERATION
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SOPHISTICATED
DDoS ANALYTICS &
VISUALISATION

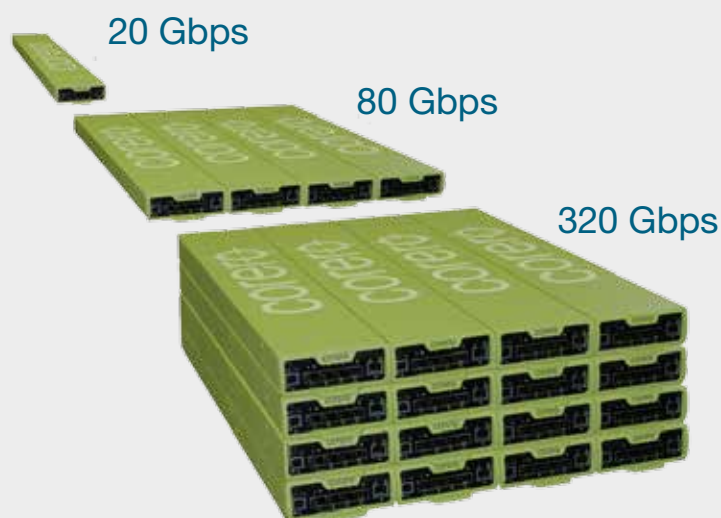
Interim Report & Accounts 2016

Corero Network Security plc



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 defense 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

The Board is encouraged by the increase in SmartWall TDS revenue, which has grown considerably for the third consecutive six month period, with significant customer wins

FINANCIAL HIGHLIGHTS

- Revenue \$4.8 million, a 20% increase over the prior period (H1 2015: \$4.0 million)
 - SmartWall TDS revenue growth 125% over H1 2015 (37% over H2 2015)
 - Increase in average new customer contract value (\$218,000 vs \$141,000)
- EBITDA loss* \$2.5 million (H1 2015: loss \$3.5 million)
- Loss before tax \$4.1 million (H1 2015: loss \$5.6 million)
- Loss per share 2.4 cents (H1 2015: loss per share 4.7 cents)
- Equity fund raise of \$11.4 million net of costs (10 May 2016)
- Net cash of \$8.7 million at 30 June 2016 (30 June 2015: net cash \$0.5 million)

* before depreciation, amortisation and financing costs

OPERATING HIGHLIGHTS

- Significant European SmartWall TDS wins from hosting and regional service providers
- Largest customer win to date (\$0.7 million) from US provider in the cloud services market
- Significant US hosting provider customer win against market leader
- First customer win from mobile network operator
- Earned top position and coveted “Recommended” rating in NSS Labs DDoS product test
 - Validation of the industry-leading capabilities of Corero’s SmartWall TDS
- Winner of multiple awards
- “Best Network Security Solution” (2016 Cyber Defense Magazine InfoSec Awards)

“During the first half of 2016 Corero made significant progress establishing itself as a leading DDoS technology and product vendor. Corero’s SmartWall TDS received NSS Test labs “Recommended” rating providing important independent validation of its security efficacy with negligible false positives at unprecedented levels of price/performance.

In the same period several Top 10 providers in their respective markets selected our SmartWall product. We have an increasing number of satisfied customers who are willing to be industry references for the breakthrough levels of automation, security and service that Corero delivers.

Looking forward we expect new deal momentum to continue and for consumption of our DDoS Protection “as-a-service” offering to increase. We are also optimistic of securing strategic partnerships with some of the largest ecosystem players in the networking, security and cloud markets.

We are disappointed to fall short of market expectations for the full year, but remain positive for the future prospects for the Company.”

Ashley Stephenson

CEO

INTERIM REVIEW

Interim results

for the six month period ended 30 June 2016

Corero has made encouraging progress in winning repeatable business in the Tier 2 and 3 Service Provider and Hosting Provider markets to date. Demand in these market segments for automatic, in-line, real time DDoS protection continues to grow and represents a significant opportunity for Corero and its SmartWall TDS product.

Overview

Highlights in the first half of 2016 include:

- Significant European SmartWall TDS wins from hosting and regional service providers
- Largest customer win to date (\$0.7 million) from US provider in the cloud services market
- Significant US hosting provider customer win against market leader
- First customer win from mobile network operator
- Earned top position and coveted “Recommended” rating in NSS Labs DDoS product test
 - Validation of the industry-leading capabilities of Corero’s SmartWall TDS
- Winner of multiple awards
- “Best Network Security Solution” (2016 Cyber Defense Magazine InfoSec Awards)

Financial Summary

In the six months to 30 June 2016, Corero reported revenue of \$4.8 million (H1 2015: \$4.0 million) and an EBITDA loss of \$2.5 million (H1 2015: loss \$3.5 million). SmartWall TDS revenue grew 125% over H1 2015 (37% over H2 2015).

Operating costs net of capitalised R&D were \$6.3 million (H1 2015: \$6.7 million). Included in operating costs was an unrealised exchange gain of \$0.8m (H1 2015: loss \$0.02 million) arising on an intercompany loan. Capitalised R&D costs were \$1.5 million (H1 2015: \$1.1 million).

The loss before taxation was \$4.1 million (H1 2015: loss \$5.6 million) including amortisation of capitalised R&D of \$1.1 million (H1 2015: \$1.1 million) and amortisation of acquired intangible software assets \$0.2 million (H1 2015: \$0.5 million). The software intangible assets were amortised over 5 years ending in March 2016. The reported loss per share was 2.4 cents (H1 2015: 4.7 cents).

Corero had cash of \$8.7 million at 30 June 2016 (2015: \$1.1 million), having raised £7.9 million net of costs in May 2016. The Company has no debt at 30 June 2016 (2015: \$0.7 million). The net reduction in cash from operating activities in the 6 months ended 30 June 2016 was \$2.0 million (H1 2015: net reduction \$4.1 million).

Market Opportunity

Corero has made encouraging progress in winning repeatable business in the Tier 2 and 3 Service Provider and Hosting Provider markets to date. Demand in these market segments for automatic, in-line, real time DDoS protection



\$4.8 million revenue

In the six months to 30 June 2016, Corero reported revenue of \$4.8 million (H1 2015: \$4.0 million)



125% growth

SmartWall TDS revenue grew 125% over H1 2015

continues to grow and represents a significant opportunity for Corero and its SmartWall TDS product.

The Company has also successfully engaged with a number of US and European Tier 1 Service Providers, which has validated the appeal of the Company's technology in this market. To help broaden and accelerate its go-to-market, Corero has commenced strategic partner relationship discussions with some of the world's leading technology vendors. Corero believes that a strategic partner would be able to accelerate the adoption of Corero's technology in this market sector and deliver significant revenue growth.

Full year trading update and outlook

The Board is encouraged by the increase in SmartWall TDS revenue, which has grown considerably for the third consecutive six month period, with significant customer wins, both in terms of size and strategic importance. This growth is expected to continue into the second half of 2016.

Whilst new contract momentum is expected to continue, revenues and results for the full year to 31 December 2016 will be notably below market expectations. This is firstly as a result of large opportunities taking longer to close than originally anticipated. The Company continues to pursue these opportunities

and remains optimistic that it is well positioned to win the business.

Secondly, the Company expects an increase in Service Providers and Hosting Providers seeking to utilize Corero's products and technology via an "as-a-service" subscription-based offering. This sales model reduces recognised revenue at the time of the customer order, but increases the contract value and revenues over the life of the deal.

Based on the progress in the first half of 2016 and expectation of new business wins in the remainder of 2016, the Board is positive about the future prospects for the Company.

FINANCIAL STATEMENTS**Consolidated Interim Statement of Comprehensive Income**

for the six month period ended 30 June 2016

	Unaudited six months ended 30 June 2016 \$'000	Unaudited six months ended 30 June 2015 Restated* \$'000	Audited year ended 31 December 2015 \$'000
Revenue	4,791	4,032	8,340
Cost of sales	(1,002)	(865)	(2,073)
Gross profit	3,789	3,167	6,267
Operating expenses before highlighted item	(6,274)	(6,665)	(12,699)
Depreciation and amortisation of intangible assets	(1,601)	(2,116)	(5,174)
Operating expenses	(7,875)	(8,781)	(17,873)
Operating loss	(4,086)	(5,614)	(11,606)
Finance income	4	8	11
Finance costs	(6)	(13)	(20)
Loss before taxation	(4,088)	(5,619)	(11,615)
Taxation	68	191	382
Loss for the period	(4,020)	(5,428)	(11,233)
Other comprehensive expense			
Difference on translation of UK functional currency entities	(1,533)	(109)	(482)
Total comprehensive expense for the period	(5,553)	(5,537)	(11,715)
Total loss for the period attributable to:			
Equity holders of the parent	(4,020)	(5,428)	(11,233)
Total	(4,020)	(5,428)	(11,233)
Total comprehensive expense for the period attributable to:			
Equity holders of the parent	(5,553)	(5,537)	(11,715)
Total	(5,553)	(5,537)	(11,175)
	30 June 2016 Cents	30 June 2015 Cents	31 December 2015 Cents
Basic and diluted loss per share			
Basic and diluted loss per share	(2.4)	(4.7)	(8.5)

*Support costs of \$0.8 million previously included in Cost of sales are now included in Operating expenses before highlighted items

Consolidated Interim Statement of Financial Position

as at 30 June 2016

	Unaudited six months ended 30 June 2016 \$'000	Unaudited six months ended 30 June 2015 \$'000	Audited year ended 31 December 2015 \$'000
Assets			
Non-current assets			
Goodwill	17,983	17,983	17,983
Acquired intangible assets	139	938	375
Capitalised development expenditure	8,056	8,553	7,620
Property, plant and equipment	882	1,072	893
	27,060	28,546	26,871
Current assets			
Inventories	641	466	661
Trade and other receivables	2,350	2,420	3,966
Cash and cash equivalents	8,693	1,128	2,706
	11,684	4,014	7,333
Liabilities			
Current Liabilities			
Trade and other payables	(2,346)	(2,291)	(2,551)
Borrowings	–	(653)	–
Deferred income	(3,043)	(3,460)	(3,791)
	(5,389)	(6,404)	(6,342)
Net current assets/(liabilities)	6,295	(2,390)	991
Non-current liabilities			
Deferred income	(1,162)	(965)	(1,439)
Deferred taxation	(17)	(276)	(85)
	(1,179)	(1,241)	(1,524)
Net assets	32,176	24,915	26,338
Equity			
Ordinary share capital	3,119	1,804	2,573
Capital redemption reserve	7,051	7,051	7,051
Share premium	67,680	50,000	56,835
Share options reserve	282	285	282
Translation reserve	(1,301)	605	232
Retained earnings	(44,655)	(34,830)	(40,635)
Total equity	32,176	24,915	26,338

FINANCIAL STATEMENTS**Consolidated Interim Statement of Cash Flows**

for the six month period ended 30 June 2016

	Unaudited six months ended 30 June 2016 \$'000	Unaudited six months ended 30 June 2015 \$'000	Audited year ended 31 December 2015 \$'000
Cash flows from operating activities			
Loss for the period	(4,020)	(5,428)	(11,233)
Adjustments for:			
Amortisation of acquired intangible assets	239	613	1,210
Amortisation of capitalised development expenditure	1,074	1,140	3,289
Depreciation	288	363	675
Finance income	(4)	(8)	(11)
Finance expense	6	13	20
Taxation	(68)	(191)	(382)
Share based payment credit	–	–	(3)
Decrease in inventories	20	283	88
Decrease/(increase) in trade and other receivables	1,585	391	(1,167)
Decrease in payables	(1,160)	(1,271)	(168)
Net cash from operating activities	(2,040)	(4,095)	(7,682)
Cash flows from investing activities			
Purchase of intangible assets	(3)	(3)	(37)
Capitalised development expenditure	(1,510)	(1,069)	(2,285)
Purchase of property, plant and equipment	(277)	(260)	(392)
Net cash used in investing activities	(1,790)	(1,332)	(2,714)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital	11,391	–	7,604
Finance income	4	8	11
Finance expense	(6)	(13)	(20)
Receipt/(repayment) of credit facility	–	633	(20)
Net cash from financing activities	11,389	628	7,575
Effects of exchange rates on cash and cash equivalents	(1,572)	(109)	(509)
Net increase/(decrease) in cash and cash equivalents	5,987	(4,908)	(3,330)
Cash and cash equivalents at 1 January	2,706	6,036	6,036
Cash and cash equivalents at balance sheet dates	8,693	1,128	2,706

Consolidated Interim Statement of Changes in Equity

for the six month period ended 30 June 2016

	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 2015	8,855	–	50,000	285	714	(29,402)	30,452
Loss for the period	–	–	–	–	–	(5,428)	(5,428)
Other comprehensive expense	–	–	–	–	(109)	–	(109)
Total comprehensive expense for the period	–	–	–	–	(109)	(5,428)	(5,537)
Contributions by and distributions to owners							
Shares purchased for cancellation	(7,051)	7,051	–	–	–	–	–
Total contributions by and distributions to owners	(7,051)	7,051	–	–	–	–	–
30 June 2015	1,804	7,051	50,000	285	605	(34,830)	24,915
Loss for the period	–	–	–	–	–	(5,805)	(5,805)
Other comprehensive expense	–	–	–	–	(373)	–	(373)
Total comprehensive expense for the period	–	–	–	–	(373)	(5,805)	(6,178)
Contributions by and distributions to owners							
Share based payments	–	–	–	(3)	–	–	(3)
Issue of share capital	769	–	6,835	–	–	–	7,604
Total contributions by and distributions to owners	769	–	6,835	(3)	–	–	7,601
31 December 2015	2,573	7,051	56,835	282	232	(40,635)	26,338
Loss for the period	–	–	–	–	–	(4,020)	(4,020)
Other comprehensive expense	–	–	–	–	(1,533)	–	(1,533)
Total comprehensive expense for the period	–	–	–	–	(1,533)	(4,020)	(5,553)
Contributions by and distributions to owners							
Issue of share capital	546	–	10,845	–	–	–	11,391
Total contributions by and distributions to owners	546	–	10,845	–	–	–	11,391
30 June 2016	3,119	7,051	67,680	282	(1,301)	(44,655)	32,176

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

FINANCIAL STATEMENTS

Notes to the interim financial statements

1. General information and basis of preparation

Corero Network Security plc (the “Company”) is a company domiciled in England. The condensed consolidated interim financial statements of the Company for the six months ended 30 June 2016 comprise the Company and its subsidiaries (together referred to as the “Group”).

These condensed consolidated financial statements have been prepared in accordance with IAS 34, “Interim Financial Reporting”, as adopted by the European Union. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the 2015 Annual Report. The financial information for the half years ended 30 June 2016 and 30 June 2015 does not constitute statutory accounts within the meaning of Section 434(3) of the Companies Act 2006 and is unaudited.

The annual financial statements of Corero Network Security plc are prepared in accordance with IFRSs as adopted by the European Union. The comparative financial information for the year ended 31 December 2015 included within this report does not constitute the full statutory accounts for that period. The statutory Annual Report and Financial Statements for 2015 have been filed with the Registrar of Companies. The Independent Auditors’ Report on that Annual Report and Financial Statement for 2015 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

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

These consolidated interim financial statements were approved by the Board on 12 September 2016 and approved for issue on 13 September 2016.

2. Loss per share

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

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

	30 June 2016 loss \$'000	30 June 2016 weighted average number of 1p shares Thousand	30 June 2016 loss per share Cents	30 June 2015 loss \$'000	30 June 2015 weighted average number of 1p shares Thousand	30 June 2015 loss per share Cents
Basic and diluted loss per share	(4,020)	168,276	(2.4)	(5,428)	115,637	(4.7)

	31 Dec 2015 loss \$'000	31 December 2015 weighted average number of 1p shares Thousand	31 Dec 2015 loss per share Cents
Basic and diluted earnings per share	(11,233)	132,761	(8.5)

Corporate Directory

Directors

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

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