5 April 2018

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

Full year results

Corero Network Security plc, the AIM listed network security company, announces its audited results for the year ended 31 December 2017.

Key financial highlights:

- Total revenue $8.5 million (2016: $8.8 million) - strong performance of flagship SmartWall product broadly offsetting the decline in revenue from the legacy discontinued product
    - SmartWall revenue up 43%
    - Existing customer add-on orders up 320% over the prior year
- Reduced EBITDA loss* $5.1 million (2016: $6.4 million)
- Loss per share 3.1 cents (2016: 9.0 cents)
- Net cash $1.4 million at 31 December 2017 (2016: $2.9 million)

Key operating highlights:

- Signed partnerships with global blue-chip technology companies to accelerate revenue growth
    - Juniper Networks, McAfee, Gigamon
- High customer satisfaction with >95% renewal rates for support and services
- First two $1.0 million customers
- Encouraging uptake of DDoS protection as-a-service ("DDPaaS"), launched in late 2016
- New technology launched following two-year development programme
    - Added 100Gbps capacity product
    - Launched vNTD virtual software appliance

** before foreign exchange differences on an intercompany loan, depreciation, amortisation, impairment of goodwill and financing*

Ashley Stephenson, CEO of Corero, commented:

"2017 proved to be a year of progress across our business highlighted by the strong revenue growth in our SmartWall product, which secured multiple $1.0 million plus customers, in addition to several disruptive contract wins against key competitors. We also introduced an enhanced product portfolio alongside expanding our ecosystem of world class partners, which we believe will bolster our sales footprint in the current year.

"Corero enters 2018 with renewed confidence for the prospects of the business."

The Annual Report and Accounts for the year ended 31 December 2017 are available on the Company's website www.corero.com/investors.

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About Corero

Corero is the leader in real-time, high-performance DDoS defense solutions. Service providers, hosting providers and digital 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 industry leading technology provides cost effective, scalable protection capabilities 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

Review of business

Corero revenue for the year ended 31 December 2017 was $8.5 million (2016: $8.8 million) reflecting the expected reduction in revenue from the legacy discontinued product from $3.2 million in 2016 to $0.6 million in 2017. More pleasing however was the strong performance from the SmartWall product, with revenues up 43% over the prior year.

Revenue and the EBITDA loss for the year ending 31 December 2017 were impacted by delays in world-wide implementation schedules for a large digital enterprise customer win in Q3 2017 and an existing customer's ongoing deployment. The majority of the revenue from these two customers is now expected in the first half of 2018.

Operating performance against strategy

Corero's performance against its 2017 strategic objectives is summarised below:

- Establish SmartWall as the leading solution for real-time DDoS mitigation:
    - Continued progress in growing the customer base.
    - Addition of a number of high profile customers including Corero's first US federal government customer, two $1 million customers, first Australian customer and first potentially significant revenue share contract with a Tier 1 service provider.

- Improve SmartWall DDoS defence technology:
    - SmartWall software releases in 2017 have added new attack defences and improved forensics and analytics capabilities.

- New products to address the evolving requirements of the target market:
    - Corero further enhanced its market leading SmartWall product portfolio in 2017 through a two-year development program with a new SmartWall 100Gbps capable product. This along with the SmartWall virtual appliance software-only product, captures the growth in customer demand for 100Gbps connectivity and hybrid on-premises / Cloud DDoS mitigation deployments.
    - Corero announced the first sales of the 100Gbps product (totaling $0.4 million) in early January 2018.

- Target market focus:
    - Customer wins in 2017 have continued to validate the target market for real-time, automatic DDoS mitigation solutions; namely service providers, cloud providers and digital enterprises.

- Expand routes to market - Corero's strategy is to work with leading IT and network technology vendors to make DDoS mitigation an integral component of any well-engineered Internet facing network design thereby increasing its go-to-market opportunities:
    - Signed agreements with major global technology companies including Juniper Networks, Gigamon, and McAfee.
    - The technology alliance partnership with Juniper Networks, a US based multinational corporation that develops and markets networking and security products, has provided benefits in 2017 with the opportunity for Corero to expand its market reach by leveraging Juniper Networks' global footprint.

- Develop sales models to attract new target customers:
    - The DDoS protection as-a-service model launched in late 2016 has gained traction in 2017 with 16 customers by the year end.
    - The Service Portal, a turnkey solution for service provider customers to manage the delivery of DDoS mitigation services to their customers, has been an important competitive differentiator.

Market dynamics

Cyber-security risks are growing, both in their prevalence and in their disruptive potential. Another growing trend is the use of cyber-attacks to target critical infrastructure and strategic industrial sectors, raising fears that attackers could trigger a breakdown in systems that are essential to modern society. The World Economic Forum Global Risks Landscape for 2018 ranks cyber-attacks as the third most likely risk in its top 10 risk analysis, behind extreme weather events and natural disasters.

The head of the National Cyber Security Centre (NCSC), Ciaran Martin, recently commented that while the UK is fortunate to have avoided a so-called category one cyber-attack so far, it is only a matter of time before a catastrophic cyber-attack is launched on its critical infrastructure or election setup.

A recent report from Neustar revealed that many businesses viewed unsecured Internet of Things ("IoT") devices as a major concern. This is hardly surprising, given the recent developments in IoT botnets and the huge potential for unsecured IoT devices to be turned into a botnet army and used by hackers to launch DDoS attacks.

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

Businesses and government departments can protect their networks from DDoS attacks fueled by IoT-driven botnets by deploying a real-time, automated solution at the network edge, which can instantaneously detect and mitigate DDoS activity, thereby eliminate threats from entering a network. As with all DDoS threats, clear visibility is a crucial step in detecting and defending against attacks. The Corero SmartWall solution is this real-time automated solution providing rich actionable analytics.

As organisations develop their businesses to harness the benefits and power of technology we are seeing companies reassess their security architecture, including DDoS protection, as traditional approaches will not be sufficient to protect enterprises.

Outlook

Corero enters 2018 with the foundations in place for continued acceleration of SmartWall revenue growth as a result of:

- Strong market demand from the growing awareness of the threat and impact of DDoS attacks, and increased risk associated with the projected growth of IoT deployments.
- Pending regulations in the US, UK and Europe, including the Directive on the Security of Network and Information Systems (NIS Directive) which comes into force for all EU member states on the 9th May 2018, are expected to positively impact demand for DDoS mitigation investment in 2018 particularly by Digital Enterprises (including critical national infrastructure providers).

Corero's efforts to widen its partner network with global blue-chip technology companies has gathered momentum, expanding market reach and underpinning the Group's growth ambitions.

The Board therefore remains confident that Corero will deliver strong revenue growth in 2018.

Financial review

For the year ended 31 December 2017, the Group reported an EBITDA loss before unrealised foreign exchange differences on an intercompany loan, depreciation, amortisation, impairment of goodwill and financing of $5.1 million (2016: EBITDA loss $6.4 million).

SmartWall order intake for the year ended 31 December 2017 was $9.3 million, with 50% representing recurring revenue in the form of support, services, and DDoS protection as-a-service contracts (2016: SmartWall order intake was $6.7 million including recurring revenue order intake of $2.6 million).

Corero continued to manage its cost base in 2017 with overheads more than 10% below the prior year.

The loss for the year after taxation amounted to $8.6 million (2016: $17.2 million including an impairment to goodwill acquired of $9.0 million) and includes:

- Unrealised exchange loss of $0.6 million (2016: gain $1.2 million) arising on an intercompany loan;
- Finance costs of $0.004 million (2016: $0.006 million).

The loss per share was 3.1 cents (2016: loss per share 9.0 cents).

The Group's net assets at 31 December 2017 were $17.5 million (2016: $18.2 million).

The key financial metrics for the business are as follows:

- Order intake: $9.3 million for the year ended 31 December 2017 (2016: $7.1 million);
- Gross margin: 75% for the year ended 31 December 2017 (2016: 76%);
- Operating expenses (gross of research and development costs capitalised and before unrealised foreign exchange differences on an intercompany loan, depreciation and amortisation of intangibles): $13.7 million for the year ended 31 December 2017 (2016: $15.7 million); and
- Net cash: $1.4 million at 31 December 2017 (2016: $2.9 million)

The order intake in 2017 comprised $9.3 million of SmartWall orders, an increase of 38%. (2016: $6.7 million).

The average perpetual license order value in 2017 was $0.25 million (2016: $0.2 million), and the average as-a-service year one contract value was $0.04 million (2016: $0.04 million).

Cash and treasury

The closing cash balance was $1.4 million (2016: $2.9 million). Corero had no debt at 31 December 2017 (2016: $nil).

In the year ended 31 December 2017, the net reduction in cash from operating activities was $6.7 million (2016: $5.5 million). The Company raised $7.0 million (before expenses), of which the Chairman contributed $4.4 million, to fund the further development of the SmartWall product sales and marketing activities.

Corero is in advanced discussions with a UK bank to provide a term loan of £3.0 million ($4.2 million) ("Bank Loan"). The Bank Loan is contingent on the proposed equity fund raise of £3.0 million ($5.6 million) to be announced by the Company on 5 April 2018 ("Equity Fund Raise"), and is expected to be finalised and drawn down following the completion of the Equity Fund Raise.

The proposed Equity Fund Raise and Bank Loan will provide Corero with the funding required to execute the Company's strategy and become cash generating.

The Directors believe that on the basis of a successful Equity Fund Raise and draw down of the Bank Loan, the Company and the Group will have, or have access to, the necessary financial resources to continue operating for the foreseeable future.

Equity Fund Raise

A circular containing a notice of a General Meeting will be sent to shareholders on 5 April 2018 to be convened on 26 April 2018. Corero shareholders will be asked to approve the Equity Fund Raise. Since the participants in the Equity Fund Raise include shareholders which at 4 April 2018 held more than 75% of the Company's issued shares, it is anticipated that the resolutions to approve the Equity Fund Raise will be duly passed.

Should the Equity Fund Raise and Bank Loan not proceed, the Company will be required to seek further working capital funding in short order.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2017

	Total 2017 $'000	Total 2016 $'000
Revenue	8,531	8,772
Cost of sales	(2,126)	(2,071)
Gross profit	6,405	6,701
Operating expenses before highlighted items	(12,157)	(11,847)
Depreciation and amortisation of intangible assets	(2,938)	(3,128)
Impairment of goodwill	–	(8,992)
Operating expenses	(15,095)	(23,967)
Operating loss	(8,690)	(17,266)
Finance income	5	9
Finance costs	(4)	(6)
Loss before taxation	(8,689)	(17,263)
Taxation	116	85
Loss for the year	(8,573)	(17,178)
Other comprehensive expense		
Difference on translation of UK functional currency entities	805	(2,355)
Total comprehensive expense for the year	(7,768)	(19,533)
Total loss for the year attributable to:		
Equity holders of the parent	(8,573)	(17,178)
Total	(8,573)	(17,178)
Total comprehensive expense for the year attributable to:		
Equity holders of the parent	(7,768)	(19,533)
Total	(7,768)	(19,533)

Consolidated Statement of Financial Position
as at 31 December 2017

	2017 $'000	2016 $'000
Assets		
Non-current assets		
Goodwill	8,991	8,991
Acquired intangible assets	37	82
Capitalised development expenditure	7,664	7,901
Property, plant and equipment	770	970
Trade and other receivables	76	80
	17,538	18,024
Current assets		
Inventories	94	65
Trade and other receivables	2,955	2,227
Cash and cash equivalents	1,365	2,940
	4,414	5,232
Liabilities		
Current Liabilities		
Trade and other payables	(1,305)	(1,728)
Deferred income	(2,896)	(2,457)
	(4,201)	(4,185)
Net current assets	213	1,047
Non-current liabilities		
Deferred income	(287)	(855)
	(287)	(855)
Net assets	17,464	18,216
Total equity attributable to owners of the parent		
Ordinary share capital	4,556	3,119
Capital redemption reserve	7,051	7,051
Share premium	73,239	67,681
Share options reserve	322	301
Translation reserve	(1,318)	(2,123)
Retained earnings	(66,386)	(57,813)
Total equity	17,464	18,216

Consolidated Statement of Cash Flow
for the year ended 31 December 2017

	2017 $'000	2016 $'000
Loss for the year	(8,573)	(17,178)
Adjustments for non-cash movements:		
Amortisation of acquired intangible assets	55	325
Impairment loss on intangible assets	–	8,992
Amortisation and impairment of capitalised development expenditure	2,408	2,252
Depreciation	548	551
Loss on sale of property, plant and equipment	-	9
Finance income	(5)	(9)
Finance expense	4	6
Taxation	(116)	(85)
Qualifying research and development expenditure tax credit	116	-
Share-based payment charge	21	19
Decrease in inventories and as-a-service-assets	127	596
(Increase)/decrease in trade and other receivables	(33)	1,605
Decrease in payables	(596)	(2,623)
Net cash used in operating activities	(6,044)	(5,540)
Cash flows from investing activities		
Purchase of intangible assets	(10)	(32)
Capitalised development expenditure	(2,171)	(2,533)
Purchase of property, plant and equipment	(497)	(644)
Net cash used in investing activities	(2,678)	(3,209)
Cash flows from financing activities		
Net proceeds from issue of ordinary share capital	6,995	11,392
Finance income	5	9
Finance expense	(4)	(6)
Net cash from financing activities	6,996	11,395
Effects of exchange rates on cash and cash equivalents	151	(2,412)
Net increase/(decrease) in cash and cash equivalents	(1,575)	234
Cash and cash equivalents at 1 January	2,940	2,706
Cash and cash equivalents at 31 December	1,365	2,940

Consolidated Statement of Changes in Equity
for the year ended 31 December 2017

	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 2016	2,573	7,051	56,835	282	232	(40,635)	26,338
Loss for the year	–	–	–	–	–	(17,178)	(17,178)
Other comprehensive income	–	–	–	–	(2,355)	–	(2,355)
Total comprehensive expense for the year	–	–	–	–	(2,355)	(17,178)	(19,533)
Contributions by and distributions to owners							
Share-based payments	–	–	–	19	–	–	19
Issue of share capital	546	–	10,846	–	–	–	11,392
Total contributions by and distributions to owners	546	–	10,846	19	–	–	11,411
31 December 2016 and 1 January 2017	3,119	7,051	67,681	301	(2,123)	(57,813)	18,216
Loss for the year	–	–	–	–	–	(8,573)	(8,573)
Other comprehensive income	–	–	–	–	805	–	805
Total comprehensive expense for the year	–	–	–	–	805	(8,573)	(7,768)
Contributions by and distributions to owners							
Share-based payments	–	–	–	21	–	–	21
Issue of share capital	1,437	–	5,558	–	–	–	6,995
Total contributions by and distributions to owners	1,437	–	5,558	21	–	–	7,016
31 December 2017	4,556	7,051	73,239	322	(1,318)	(66,386)	17,464

1. General information

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 2017 was 1.29 (2016: 1.36). The closing $-GBP exchange rate, used for the conversion of the Group's assets and liabilities, at 31 December 2017 was 1.35 (2016: 1.23).

The principal accounting policies adopted in the preparation of the financial information in this preliminary announcement are unchanged from those used in the company's financial statements for the year ended 31 December 2016 and are consistent with those that the company has applied in its financial statements for the year ended 31 December 2017. The financial information set out above does not constitute the Company's Annual Report and Accounts for the year ended 31 December 2017. The Annual Report and Accounts for 2016 have been delivered to the Registrar of Companies and those for 2017 will be delivered shortly. The auditor's report for the Company's 2017 Annual Report and Accounts was unqualified but did draw attention to the material uncertainty relating to going concern in the light of the proposed future Equity Fund Raise and Bank Loan. The auditor's report did not contain statements under s498(2) or (3) of the Companies Act 2006.

Whilst the financial information included in this preliminary announcement has been computed in accordance with International Financial Reporting Standards (IFRSs) this announcement does not itself contain sufficient information to comply with IFRSs.

The Annual Report and Accounts for the year ended 31 December 2017 are available on the Company's website www.corero.com/investors.

The information in this preliminary announcement was approved by the board on 4 April 2018.