Annual Report and Accounts

For the year ended 31 December 2008

Annual Report and Financial Statements

For the year ended 31 December 2008

Directors and Advisers

Directors	Peter Waller (Executive Chairman) Bernard Snowe (Executive Director) Mark Robertson (Executive Director) Roy Mitchell (Non-executive Director) Richard Last (Non-executive Director)
Secretary and Registered Office	Duncan Swallow 3rd Floor, 3 London Wall Buildings London Wall London EC2M 5SY
Nominated Adviser and Stockbroker	John East & Partners Limited 10 Finsbury Square London EC2A 1AD
Auditors	Grant Thornton UK LLP Grant Thornton House Melton Street, Euston Square London NW1 2EP
Solicitors to the Company	DLA LLP 3 Noble Street London EC2V 7EE
Principal Bankers	HSBC Bank plc 69 Pall Mall London SW1Y 5EY
Registrars and Transfer Office	IRG plc Northern House Woodsome Park Fenay Bridge Huddersfield HD8 OLA
Website address	www.corero.com
Company Registration	Registered and Incorporated in England

About Corero

Corero designs, develops and delivers market leading software products for financial institutions through its Financial Markets Division, and business and education markets through its Business Systems Division.

Blue Curve software allows organisations to vastly improve the production and distribution of their financial research. It collates and presents complex financial data efficiently and quickly for analysts to make informed opinions on market conditions and trends. It speeds up the process of content creation, content approval and publishing. And it also makes sure that each piece of content conforms to the correct regulatory requirements, and that it gets sent to the right people, using the right method and at the right time.

Radica CAPS is the European leading software system that addresses the needs of asset servicing operations for the global banking & securities sector. By fully automating the life cycle of corporate actions and dividends, including taxation and new issues and placings, Radica reduces the serious operational risk of missing or miscalculating corporate events. This area of operations has traditionally been very manual with all the risk and cost associated with such processes. Radica is designed for a global market and can address the needs of financial institutions from Europe, North America or Asia Pacific.

Resource Financials, which is ICAEW accredited, is at the core of our suite of business applications. Solutions also exist for eProcurement, Project Costing, HR & Payroll, Continuing Professional Development and Learner Management. Together with Workflow and Web Applications covering Reporting, Timesheets, Expenses and Requisitions, there are over 20 highly integrated modules offering large and small enterprises modern and dynamic business solutions.

Resource EMS, our new Learner Management platform manages the students, tutors and processes within Further Education by electronically capturing the information required throughout the "learning lifecycle", by satisfying Government reporting requirements and, most importantly, by helping to secure the funding upon which Colleges depend.

Chairman's Statement
for the year ended 31 December 2008

Introduction

The results for the year ended 31 December 2008 showed a significant improvement over those for 2007 and the trading result is in line with my statement issued on 20 January 2009. The board is pleased with the result, which demonstrates the strength of our products, the quality and commitment of our staff and the success of the restructuring undertaken in the second half of 2007.

Results

For the year ended 31 December 2008, the Group reported revenues of £5.25 million (2007: £5.24 million). Trading profit was £0.27 million compared with a loss in 2007 of £0.8 million.

The directors felt it prudent to recognise an impairment charge of £0.68 million against the £1.87 million goodwill carrying value of the Blue Curve acquisition.

After taking into account this non cash item, the result turns our profit before taxation,of £0.02 million into a loss of £0.66 million, a very significant improvement over the previous year (2007: loss of £1.49 million).

The cash position of the group improved in the year under review. Cash at the end of 2008 was £1,145,000 (2007: £825,000) and is adequate to support the trading of the group. The administrative cost base for 2008 was £4.53 million, a reduction of £1.16 million, or 19.0 per cent when compared to 2007. Contracted support and services revenue was £2.9 million at 31 December 2008, which covers over 60 per cent. of the 2009 budgeted administrative expense.

Business Systems Division

2008 was a successful year for the Business Systems division, which achieved record revenue and profit figures, based to a large degree upon the successful conversion of existing customers to the Resource Education Management System ("REMS"), its new learner management product.

Whilst REMS took many of the headlines last year, we also continued to be seen as a market leading vendor of financial systems to the City Academy sector. We added 15 more City Academy customers to the growing list of those which have opted to use Resource Financials as their system of choice. These new wins mean that we have managed to increase our market share of academies to almost 30 per cent of those now open. The government continues to indicate that it plans to have over 200 City Academies open, or in the pipeline, by 2010 and still hopes to have more than 400 in total over the coming years. This continues to provide us with a steady stream of opportunities.

As a result of the launch of REMS, we secured two new clients, Walford & North Shropshire College and Ludlow College, making us the dominant vendor in Shropshire. We also added new customers for the full Resource financials and web applications suite. These were Heythrop College and Orchard Hill College, both in London, and Peterborough Regional College.

As we move into 2009 we believe that the education sector will continue to provide us with the majority of our opportunities and that our business remains stable in the current challenging economic environment. We also intend to make a significant further investment in our product, which will enable us to remain competitive, enhance customer retention and allow us to build upon the customer base we already have in the commercial 'Project Costing' market sector.

Chairman's Statement
continued

Financial Markets Division

Trading in the Financial Markets division was difficult in 2008 as a result of the current economic climate and the general downturn in the global Banking and Securities sector. Despite this, as a result of tight cost containment and much improved productivity, the division moved into profit in the second half of 2008 for the first time since the second half of 2006. This turnaround helped the division achieve an overall positive contribution for 2008, which was a vast improvement on the previous year.

A number of significant changes were made in the Financial Markets division, which helped us to achieve this result. These included a reduction in headcount, changes in the organisational structure and an integration of several operational teams. These changes make us confident that we can deliver improved customer service from a reduced cost base. We also believe that these changes should produce future profit growth.

2009 will be challenging as the market is only improving marginally. However, we enter it with a good degree of confidence and better visibility in our contracted revenues, due to the increasing proportion of recurring income arising from hosted services, annual licence fees and support revenues. We have also made a significant investment in our sales team in North America as we seek to capitalise on an increasing number of opportunities in that region. We also aim to make major improvements to both our Blue Curve and Radica product suites, helping them to maintain their premier position in the market. Our focus will remain on building long term sustainable revenue streams through providing high value software solutions and related services to the Banking and Securities sector globally.

Business Model and Strategy

Our strategy at the operating level remains one of running Corero as two separate businesses. These are our Financial Markets and Business Systems divisions, with the minimum of central resources required for co-ordination, development and implementation of corporate strategy and to meet public company requirements. The focus for 2009 is to maintain operating profitability, increase our market share, manage the cost base prudently and invest for future targeted growth. In the longer term we have a clear plan to increase the size of both businesses through organic growth and acquisition or merger where appropriate.

Staff

At the start of this statement I commented on the quality and commitment of our staff. It was a difficult year in some parts of our business and on behalf of the board I thank everyone for the excellent contribution they have made.

Outlook

Because of the current global economic situation it is difficult to predict future performance with certainty. However, the directors expect the group to maintain progress in 2009. The Business Systems division should continue to do well in the education sector, although we will need to make further investment in its products in order to take advantage of future market opportunities. We also expect the Financial Markets division to have a slightly better year, which we anticipate will set the foundations for growth in 2010 and 2011.

Peter Waller
Chairman
25 March 2009

Finance Officer's Report
for the year ended 31 December 2008

Financial Performance

The directors and managers of the Group use revenue growth, trading profit and cash generation as their Key Performance Indicators. Details of these indicators are disclosed throughout the financial statements.

For the year ended 31 December 2008, the Group reported a trading profit of £272,000 (2007: loss £798,000) and a loss before taxation of £658,000 (2007: loss £1,491,000). This represents a considerable turnaround at the trading level. The loss before taxation for 2008 included an impairment charge of £683,000 (2007: £nil).

Group revenues remained constant at £5,249,000 (2007: £5,244,000). The Business Systems division increased revenue by £490,000, whilst there was a decrease of £485,000 in revenue in the Financial Markets division.

The Business Systems division grew revenues to £3,208,000 (2007: £2,718,000) due to sales to new City Academy customers and from the launch of the new Resource Education Management System "REMS" product.

The Financial Markets division revenue declined to £2,041,000 (2007: £2,526,000). The decrease in Blue Curve revenues to £909,000 (2006: £1,296,000) was due to a lack of new licence sales and a reduction in the professional services revenue. Radica revenues were £1,132,000 (2007: £1,230,000) the reduction also being due to a lack of new licence sales.

Contracted annual licence and support revenues have remained at £2,900,000 (2007: £2,900,000) due to the net effect of price rises, new customers and cancellations of support contracts.

The trading profit from the Business Systems division grew 14 per cent. to £873,000 (2007: £766,000) based on new sales to City Academies and the successful conversion of existing customers to the new "REMS" Learner Manager product. This was the divisions' most successful year ever.

The Financial Markets division recorded a trading profit of £10,000 (2007: loss £468,000). The turnaround resulted from the reduction in headcount, tight control of costs and a reorganisation of the internal divisional structure.

Central costs have reduced by 44 per cent. to £611,000 (2007: £1,096,000). Central costs relate to the costs of the central services employees covering the areas of finance, HR, marketing, IT and the executive chairman, together with the regulatory costs of being an Aim listed PLC. Central costs are budgeted to remain at 2008 levels in 2009.

Non trading expenses - holiday pay accrual, amortisation of customer contracts and the related customer relationships, capitalisation of research and development, amortisation of research and development increased the profit by £80,000 (2007: £45,000).

Exceptional credits of £14,000 (2007 costs £401,000) related to the release of an appropriate part of the provision against future property lease costs for the surplus Blue Curve property made in 2007. The property lease was assigned in August 2008.

An impairment charge of £683,000 (2007: £nil) was made during the year. The impairment charge was a result of an impairment review of the Blue Curve goodwill.

Net interest on the 8% Convertible Unsecured Loan Stock less interest on bank deposits was £341,000 (2007: £337,000). This includes notional interest payments as required by International Accounting Standard 32.

Tax credits of £80,000 were received in the year which relate to prior year tax credits reclaimed. Total tax losses carried forward are approximately £6,565,000.

Finance Officer's Report
Continued

The loss for the year was £578,000 (2007: £1,443,000).

Loss per share was 1.27 pence (2007: loss 3.33 pence). The average number of shares in issue in 2008 was 45,569,702 (2007: 43,347,651).

Financial Position
Net trade receivables were £759,000 (2007: £1,319,000), which represented 25 days sales outstanding (2007: 26). Cash collection was maximised at year end, reducing the trade receivables and increasing the closing cash balance to £1,145,000 (2007: £825,000) despite improved creditor payment days.

Net cash generated from operations was £1,098,000 (2007: £697,000). This was partially spent on investment and financing activities leading to a net increase in cash and cash equivalents of £320,000 (2007: decrease £82,000).

Deferred income, which represents future revenues for the Group, reduced slightly to £1,892,000 (2007: £1,962,000).

The Group's net deficit at the year end was £1,646,000 (2007: £1,065,000).

Duncan Swallow
Group Financial Controller
25 March 2009

Directors Report
for the year ended 31 December 2008

Principal activities and business review

The principal activity of the Group during the year ended 31 December 2008 was the development and sale of computer software and the provision of computer services primarily to the financial and education sectors. The detailed review of the Group's performance is disclosed within the Chairman's statement.

Financial Performance Review
The Group's results for the year and financial position at the balance sheet date are shown in the attached financial statements.

Revenue Analysis (£'000)	**2008**	**2007**
Financial Markets Division	2,041	2,526
Business Systems Division	3,208	2,718
Totals	5,249	5,244
By Category		
Licence revenue	1,230	993
Professional services revenue	1,168	1,551
Support revenue	2,851	2,700
Totals	5,249	5,244
Annual value of customer support contracts at the balance sheet date	£2.9m	£2.9m
Days Sales Outstanding (based on countback method)	25	26

Trading Profit/(loss) Analysis

2008	**Total £'000**	**Financial Markets Division £'000**	**Business Systems Division £'000**	**Central Costs £'000**
Trading profit/(loss)	272	10	873	(611)
Non trading expenses*	80	(38)	118	-
Restructuring credit	14	5	-	9
Impairment charge	(683)	(683)	-	-
(Loss)/profit before financing	(317)	(706)	991	(602)

2007	**Total £'000**	**Financial Markets Division £'000**	**Business Systems Division £'000**	**Central Costs £'000**
Trading (loss)/profit	(798)	(468)	766	(1,096)
Non trading expenses*	45	(84)	123	6
Restructuring charge	(401)	(101)	(15)	(285)
Impairment charge	-	-	-	-
(Loss)/profit before financing	(1,154)	(653)	874	(1,375)

* Non trading expenses – holiday pay accrual, amortisation of customer contracts and the related customer relationships, capitalisation of research and development, amortisation of research and development.

Directors Report
continued

Principal risks and uncertainties facing the group

The Financial Markets Division derives its revenues and cash flows from the sales of complex systems to financial institutions. The timing of these sales, particularly to new clients, can be uncertain as they can be subject to extended sales cycles, and the wider impacts of the economy on target customers. The corporate actions market and research management are at an early stage with only a small percentage of financial institutions having purchased systems so far. To manage against this risk the group provides added value services and additional software licences to its existing user base, and closely manages the sales pipeline. The group invests in its intellectual property to maximise the attraction of its product portfolio to potential customers.

The Business Systems Division operates in a mature market where a customer's need to change their existing system is frequently driven by their corporate changes. The market for accounting software is well established and has many large suppliers, who can use their financial resources to discount their prices in order to gain market share. To manage against this risk a program of account management is in place to sell additional products and services to generate revenue from the existing user base, and to try and lower any potential attrition. This division has significant contracted support revenues from its user base.

These risks to earnings and cash flows arise due to the relative size of the group compared to its customer base, and the market opportunity. Consequently the board will use a program of selective acquisitions to support organic growth so as to increase value to shareholders

Credit risk
The group's principal financial assets are bank balances, cash, and trade receivables, which represent the group's principal exposure to credit risk in relation to it's financial assets.

The group's credit risk is primarily attributable to its trade receivables. Credit risk is managed by monitoring the aggregate amount and duration of exposure to any one customer depending upon their credit rating. The amounts presented in the balance sheet are net of allowances for doubtful debts, estimated by the group's management based on prior experience and their assessment of the current economic environment.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Dividends
The Directors have not recommended a dividend (2007: £nil).

Transfers to reserves
The loss for the year amounting to £578,000 (2007: loss £1,443,000) will be taken to retained earnings and carried forward to next year.

Directors Report
continued

Directors
The Directors who served in office during the year and their interests in the Company's shares as at 31 December:

Ordinary shares held		**2008 Number**	**%**	**2007 Number**	**%**
Mr P Waller		318,000	0.7	268,000	0.6
Mr M Robertson		4,591,485	10.1	4,591,485	10.1
Mr B Snowe		41,200	0.1	41,200	0.1
Mr R Mitchell		2,005,000	4.4	2,005,000	4.4
Mr R Last	Appointed 22.05.08	220,000	0.5	-	-

Mr P Waller, Mr M Robertson and Mr B Snowe hold share options, details of the options are shown in note 30.

Significant individual shareholdings
The group has been notified of the following holdings that are 3% or more of the group's ordinary share capital as at 31 December:

Ordinary shares held at:	**2008 Number**	**%**	**2007 Number**	**%**
AXA Framlington Investment Managers	3,661,413	8.0	3,703,413	8.1
Trivest VCT PLC	2,946,890	6.5	2,946,890	6.5
Mr P Porteous	1,463,000	3.2	1,463,000	3.2
Mr M Robertson	4,591,485	10.1	4,591,485	10.1
Mr C Peters	1,643,670	3.6	1,643,670	3.6
Mr B Fairman	5,255,006	11.5	5,255,006	11.5
Mr R Mitchell	2,005,000	4.4	2,005,000	4.4

*Mr Fairman is a partner of Foresight Venture Partners, who advise the Foresight Technology VCT and the TriVest VCT holds the above shares. Foresight Technology VCT holds £535,000 of the 8% Convertible Unsecured Loan Stock.

Directors Report
continued

Directors' Biographies

Mr Peter Waller, Executive Chairman (aged 62). Mr Waller brings to Corero a wealth of experience at a senior executive level from a 35-year career in the software and services sector. His executive positions in this sector include several senior positions in IBM UK and IBM Europe, managing director of Hitachi Data Systems UK and executive vice-president of Hitachi Data Systems Europe.

Since 2000 he has held 10 non-executive Board appointments in public and private companies and is currently the non-executive chairman of two private software and services companies, Rocela Limited and Keypoint Technologies Limited. He was previously the chairman of Blue Curve which was acquired by Corero in January 2006.

Mr Bernard Snowe, Executive Director (aged 50). As one of the founders of DSR UK Plc, Bernard was instrumental in helping to build the marketplace for the highly successful Resource range of business applications and was a key member of the management team retained following the acquisition of DSR in October 2000. Now with over twenty years experience in the Accounting and MIS marketplace, he has an in-depth knowledge of the UK Education sector as well as a number of commercial markets, such as Media & Marketing, TV Production, Architects and Consulting Engineers. Prior to DSR, Bernard was a consultant for the FPS Financial Services Group and Sales Manager for Hestair Dataline targeting IT systems at the legal and professional sectors in the UK. He graduated in 1980 with BA (Hons) in Geography awarded by Lancaster University.

Mr Mark Robertson, Executive Director (aged 41). Mark has over 18 years experience within financial markets software and joined Corero in 2006 following the acquisition of Blue Curve Limited. Mark founded Blue Curve in 1995, creating a respected software consulting firm specialising in the use of Internet technology within the Financial Markets. In 1999, Blue Curve expanded into software products with the launch of their Research.Net software, a complete platform for producing and distributing financial research. Mark raised venture capital funding in 2001 to further expand the software product business, which was now branded Blue Curve, and brought Peter Waller onto the board and non-executive chairman.

At the same time the original consulting business was spun out into another company called Appareo Limited, where Mark served as a non-executive Director, helping to sell the business to Sysmed in 2003.

Prior to founding Blue Curve, Mark was Associate Director in charge of global research technology at SBC Warburg. Mark also spent some years as an Equity Derivatives trader at First Interstate Capital Markets. Mark started his career in the City with Price Waterhouse Management Consultants after graduating from Heriot-Watt University with a First Class Honours in Electrical and Electronic Engineering.

Richard Last, Non-executive Director (aged 51). Richard Last is a Fellow of the institute of Chartered Accountants in England and Wales, he has substantial experience in the IT software and services sectors, and is Chairman and non-executive director of Patsystems plc a financial software business and of Arcontech Group plc both listed on AIM. He is also a non-executive director of Aim listed Lighthouse Group plc and The British Smaller Companies VCT plc and The British Smaller Technology Companies VCT2 plc, both of which are listed on the London Stock Exchange. In addition Richard is also a director and shareholder of a number of private companies including Sphinx CST Limited and APD Communications Limited both IT companies and is non-executive Chairman of CSE Global UK Limited a subsidiary of a Singapore Stock Exchange listed company. Mr Last is chairman of the remuneration committee.

Directors Report
continued

Roy Mitchell, Non-executive Director (aged 53). Mr Mitchell has held senior management positions with companies such as TI Group, PolyGram and Man Group plc. At Man he sat on the Boards of several subsidiary companies and was a member of the group finance committee and the risk committee. He has been an active investor in small cap companies for many years and has written a number of investment related articles. He is a member of the Institute of Chartered Accountants of Scotland and the Chartered Institute of Taxation. Mr Mitchell is chairman of the audit committee.

Group policy on payment of creditors

It is the Group's policy to agree to the terms of payment with suppliers when entering into each transaction, and to abide by them. The creditor payment period at 31 December 2008 was 29 days (2007:40 days).

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. Therefore no environmental performance indicators are included within this report. Corero's environmental policy states; "We endeavour to recycle appropriate materials where possible, to efficiently use natural resources and energy supplies so as to minimise our environmental impact. We will comply with the relevant statute 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 in response to user demand and changes in software technology. During the year the group continued to develop new and significantly enhance existing products across both of its business units. An investment of £399,000 (2007: £281,000) was made during the year. Amortisation of £238,000 (2007: £146,000) was charged to the profit and loss account during the year.

Employees

The quality and commitment of our people have played a major role in our business success. This has been demonstrated in many ways, including improvements in customer satisfaction, the development of our product lines and the flexibility they have shown in adapting to changing business requirements and new ways of working. Employees' performance is aligned to group goals through an annual performance review process that is carried out with all employees. It is the policy of the group that all staff are granted share options under the Company's Enterprise Management Incentive option scheme to align their interests with those of shareholders. The group operates various sales commissions and incentive bonus plans to provide incentives for achievements which add value to the business.

Key Employee Metrics	**2008**	**2007**
Average length of service at balance sheet date	6.1 years	4.9 years
Staff turnover in period	32%	37%

Directors Report
continued

Statement of Directors' Responsibilities for the Annual Report

The directors are responsible for preparing the Annual Report and the 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 financial statements in accordance with International Financial Reporting Standards as adopted by the EU. The financial statements are required by law to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. 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 International Financial Reporting Standards 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 proper accounting records which 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 1985. 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 the maintenance and integrity of the corporate and financial information on the group's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Disclosure of information to auditors

At the date of making this report each of the company's directors, as set out on pages 11 and 12, confirm the following:

- so far as each director is aware, there is no relevant information needed by the company's auditors in connection with preparing their report of which the company's auditors are unaware, and
- each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information.

Directors Report
continued

Auditors

A resolution to re-appoint Grant Thornton UK LLP as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

Signed by order of the Board

Mr Duncan Swallow
Company Secretary

Approved by the Directors on 25 March 2009

Corporate Governance

As an AIM listed company, Corero PLC is not required to comply with the Combined Code prepared by the Committee on Corporate Governance, appended to the Listing Rules of the FSA, however the company has regard to the requirements of the Code and its activities in these areas are described below.

Directors

The Board currently comprises the executive chairman, two executive Directors and two non-executive Directors. Due to the size of the company, the Directors do not believe that additional non-executive directors would be beneficial. The Directors will however review the position on a regular basis. Mr Mitchell is currently senior independent non-executive director.

The composition of the Board 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.

Executive Director's normal retirement age is 60 and Non-executive Director's normal retirement age is 65. One third of all Directors are subject to annual reappointment by shareholders.

The Board meets on average at least once a month 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. There is a formal schedule of matters reserved for the Board's decision.

All Directors have access to the advice and services of the Company Secretary, who is also responsible for ensuring that Board procedures are followed. There is also a procedure in place for any Director to take independent professional advice if necessary, at the Company's expense.

Board Committees

The Company has established a number of committees, details of which are set out below.

Audit Committee

The audit committee members comprise the non-executive Directors and the chairman of the Company, and meets twice a year. The 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 interims, preliminary announcement, the annual financial statements and the other information included in the full annual report. Mr Mitchell is chairman of the audit committee.

Remuneration Committee

The Remuneration Committee consists of the executive chairman and the non-executive Directors. 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 executive chairman and non-executive directors are decided upon by the full Board. Mr Last is chairman of the remuneration committee.

Nominations Committee

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

Corporate Governance
continued

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 Board policies on risk management and control. It should be recognised that 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.

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, which has been in place for the whole year and up to the date of approval of this annual report. This process is regularly reviewed by the Directors and accords with the internal control guidance prepared for Directors by the Turnbull Committee.

The Group operates a risk management process, which is embedded in normal management, and governance processes. As part of the annual strategic planning and budgeting process, each business unit 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. Each business unit carries out a risk review including the role of insurance in risk management. These plans are then reviewed by the Board as part of the strategic planning process. The plans are discussed, updated and reviewed during the course of the year, or when any control issues are identified, including matters arising from the external audit.

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 main Board with rules preventing speculation in derivatives.

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

The Board makes an annual assessment of the effectiveness of the group's internal control system, including financial, operational and compliance controls, before making this statement. In order to conduct this review, the Board obtains assurance directly from the Directors and appropriate senior management concerning compliance with the group's risk management and control policies and procedures. The Board also considers issues included in reports received during the year, how the risks have changed during the year and reviews reports on internal controls from management and any issues identified by external auditors. The Directors conduct an annual review of the effectiveness of the group's system of internal controls and risk management.

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

Remuneration Report

The Remuneration Committee's principal function is to set remuneration of the Group's executive Directors to ensure they are fairly compensated for their contribution to the group's performance.

Basic salaries are set to ensure high quality executive Directors 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 by the Remuneration Committee.

Corporate Governance
continued

Executive Directors have rolling service contracts with notice periods of not more than 12 months in writing. Pension provision is made at a rate of 11% of basic salary for Executive Directors, which is either payable by salary or directly into a nominated pension fund.

The Remuneration Committee is also responsible for ensuring the group's share option schemes are operated properly. Details of Directors' share options in the period ending 31 December 2008 are disclosed in note 30.

Going concern

The financial statements have been prepared on a going concern basis. The Group was both profitable, before the impairment charge, and cash generative for the year.

The Directors have prepared detailed profit and cash flow projections for the period to 30 September 2010. The profit projections are prepared on a current cost plus inflation basis with any additional headcount linked to incremental revenue. The projected receipts included in the cash flow projection have been reduced by 13% to represent uncertainty within the sales forecasts. The cash flow projections show that the Group will maintain a positive cash balance.

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.

Independent Auditors' Report

to the shareholders of Corero plc

We have audited the consolidated and parent company financial statements (the 'financial statements') of Corero plc for the year ended 31 December 2008 which comprise the principal accounting policies, the consolidated income statement, the consolidated and parent company balance sheets, the consolidated and parent company cash flow statements, the consolidated and parent company statement of recognised income and expense and notes 1 to 32. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's statement that is cross-referred from the Financial Performance Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Chairman's Statement, the Finance Officer's Report and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent Auditors' Report
continued

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2008 and of its loss for the year then ended;

- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2008;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' Report is consistent with the financial statements.

Grant Thornton UK LLP

Grant Thornton UK LLP
Registered Auditor
Chartered Accountants
London

25 March 2009

Consolidated Income Statement
for the year ended 31 December 2008

Group	Note	2008 £'000	2007 £'000
Revenue	2	5,249	5,244
Cost of sales		(363)	(303)
Gross profit		4,886	4,941
Trading expenses		(4,614)	(5,739)
Trading profit/(loss)		272	(798)
Non trading expenses		80	45
Restructuring credit/(charge)	6	14	(401)
Impairment charge		(683)	-
Loss before financing	9	(317)	(1,154)
Finance income	7	13	16
Finance costs	8	(354)	(353)
Loss before taxation		(658)	(1,491)
Taxation	10	80	48
Loss attributable to equity shareholders	25	(578)	(1,443)
Basic and diluted loss per share	12	(1.27p)	(3.33p)

All of the above operations are continuing.

Non trading expenses are the holiday pay accrual, amortisation of customer contracts and the related customer relationships, capitalisation of research and development, amortisation of research and development.

The notes on pages 24 to 54 form part of these financial statements.

Statement of recognised income and expense
for the year ended 31 December 2008

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Loss for the financial period	(578)	(1,443)	(349)	(339)
Total recognised losses relating to the year	(578)	(1,443)	(349)	(339)
Total recognised losses since the last financial statements	(578)	(1,443)	(349)	(339)

Balance Sheets
as at 31 December 2008

		Group		Company	
		2008	2007	2008	2007
	Note	£'000	£'000	£'000	£'000
Assets					
Non-current assets					
Goodwill	13	1,677	2,361	-	-
Other intangible assets	14	1,241	1,187	-	-
Property, plant and equipment	15	122	148	-	-
Investments in subsidiaries	16	-	-	3,493	3,493
		3,040	3,696	3,493	3,493
Current assets					
Trade and other receivables	17	975	1,639	5,605	5,926
Cash and cash equivalents		1,145	825	-	-
		2,120	2,464	5,605	5,926
Liabilities					
Current Liabilities					
Trade and other payables	18	(834)	(1,093)	-	-
Provisions	21	(14)	(90)	-	-
Deferred income	23	(1,892)	(1,962)	-	-
		(2,740)	(3,145)	-	-
Net current (liabilities)/assets		(620)	(681)	5,605	5,926
Non-current liabilities					
Convertible 8% unsecured loan stock	19	(4,058)	(4,027)	(4,058)	(4,027)
Provisions	21	(8)	(53)	-	-
		(4,066)	(4,080)	(4,058)	(4,027)
Net (liabilities)/assets		(1,646)	(1,065)	5,040	5,392
Shareholders' equity					
Ordinary share capital	24	4,557	4,557	4,557	4,557
Share premium	25	6,369	6,369	6,369	6,369
Merger reserve	25	1,023	1,023	1,023	1,023
Convertible unsecured loan stock equity reserve	25	146	146	146	146
Share options reserve	25	12	15	12	15
Retained earnings	25	(13,753)	(13,175)	(7,067)	(6,718)
Total equity attributable to equity holders of the parent	25	(1,646)	(1,065)	5,040	5,392

These financial statements were approved by the Board of Directors on 25 March 2009 and signed on their behalf.

Peter Waller
Director

The notes on pages 24 to 54 form part of these financial statements

Cash Flow Statements
for the year ended 31 December 2008

Group	Note	2008 £'000	2007 £'000
Net cash from operating activities	26	1,098	697
Cash flows from investing activities			
Purchase of intangible assets	14	(419)	(345)
Purchase of property, plant and equipment	15	(49)	(133)
Net cash used in investing activities		(468)	(478)
Cash flows from financing activities			
Interest paid		(323)	(317)
Interest received	7	13	16
Net cash used in financing activities		(310)	(301)
Net increase/(decrease) in cash and cash equivalents		320	(82)
Cash and cash equivalents at 1 January		825	907
Cash and cash equivalents at 31 December	20	1,145	825

The company has nil cash from operating activities and nil cash and cash equivalents.

Notes to the Financial Statements

1. General information

These consolidated financial statements are presented in pounds sterling, which represents the currency of the parent and each of its' UK subsidiaries. The functional currency of the US subsidiary is US dollars.

Corero PLC is a public limited company incorporated in the United Kingdom under the Companies Act 1985.

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 1985 applicable to companies reporting under IFRS.

The Group and parent company financial statements have been prepared under the historical cost convention. A summary of the significant Group accounting policies adopted in the preparation of the financial statements is set out below.

The financial statements have been prepared on a going concern basis. The Group was both profitable, before the impairment charge, and cash generative for the year.

The Directors have prepared detailed profit and cash flow projections for the period to 30 September 2010. The profit projections are prepared on a current cost plus inflation basis with any additional headcount linked to incremental revenue. The projected receipts included in the cash flow projection have been reduced by 13% to represent uncertainty within the sales forecasts. The cash flow projections show that the Group will maintain a positive cash balance.

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.

The preparation of financial statements which comply with IFRS requires the use of estimates and assumptions, and for management to exercise its judgement in the process of applying the Group's accounting policies. Critical judgements and key estimates and assumptions are disclosed in note 3.

2.2 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 2008.

Subsidiaries are entities controlled by the Group. Control is deemed to exist when the Group has the power, directly or indirectly to govern the financial and operating policies of an entity so as to obtain benefits from its activities. 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.

Notes to the Financial Statements
continued

2. Significant accounting policies (continued)

2.3 Business combinations

The purchase 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, plus any costs directly attributable to the acquisition.

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.

2.4 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.

Corero has adopted the following in respect of software revenue recognition

1. Software Products

Revenue results mainly from licences, which provide customers with the right to use these products. Such revenue is recognised on the following basis:

i. If an arrangement to deliver software or a software system, either alone or together with other products or services, requires significant production, modification, or customisation, the revenue for both services and software is recognised under the percentage of completion method.

ii. If services are essential to the functionality of the software and the payment terms are linked, the revenue for both software and services is recognised when the following conditions are met:

- A signed contract exists;
- Delivery has occurred;
- The sales price is fixed and determinable;
- Collection of the debt is probable;
- No significant obligations remain.

iii. If services are incidental to the functionality and/or the payment terms are linked to simple installations, revenue from the grant of perpetual or fixed term licences to use Corero's software is recognised when the above conditions are met and services revenue is recognised separately as the services are provided. Where services are not incidental to the functionality licence revenues are recorded as agreed project milestones are achieved.

Software rentals or licences invoiced on a periodic basis are recognised over the term of the agreement.

2. Consulting and Professional Services

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

3. Support income is recognised over the life of the agreement.

4. Interest income is accrued on a time basis using the effective interest method.

Notes to the Financial Statements

continued

2. Significant accounting policies (continued)

2.5 Cost of sales

Cost of sales represents 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, external consultants and third party hardware and software.

2.6 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 balance sheet date. Gains and losses arising from changes in exchange rates after the date of the transaction are recognised in the income statement.

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 foreign operations are translated at the balance sheet date. Income and expense items are translated at the average rates for the period. The resulting exchange differences are recognised in equity and included in the translation reserve. Such translation differences are recognised in the income statement on the disposal of the foreign operation.

2.7 Goodwill

Goodwill on acquisition of subsidiaries represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary. Goodwill is not amortised, but tested at least annually for impairment, and carried at cost less accumulated impairment losses. Impairment losses are immediately recognised in the income statement and are not subsequently reversed.

2.8 Intangible assets

Separately acquired intangible assets
Purchased computer software is carried at cost less accumulated amortisation and any impairment losses.

Internally generated intangible assets
The Group's internally generated intangible assets include development costs.

Development costs are 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 it or sell it; and
- The development costs can be measured reliably.

After initial recognition, internally generated intangible assets are carried at cost less accumulated amortisation and any impairment losses.

Acquisition as part of a business combination
Identifiable intangible assets acquired as part of a business combination are initially recognised separately from goodwill if the asset's fair value can be measured reliably, irrespective of whether the asset had been recognised by the acquiree before the business

Notes to the Financial Statements
continued

2. Significant accounting policies (continued)

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 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 their residual value, over their estimated useful lives. The following useful lives were applied during the year:

Computer software acquired	2 to 5 years straight line
Computer software internally generated	5 years straight line
Customer contracts and the related customer relationships	7 years straight line

Methods of amortisation, residual values and useful lives are reviewed, and if necessary adjusted, at each balance sheet 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 of property, plant and equipment together with any directly attributable costs.

Subsequent costs are included in an asset's 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 income statement 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	3 to 5 years straight line
Computer hardware	2 to 3 years straight line
Fixtures and fittings	2 to 5 years straight line
Office equipment	3 to 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 income statement.

2.10 Impairment

At each balance sheet 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.

Notes to the Financial Statements
continued

2. Significant accounting policies (continued)

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 income statement.

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 other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

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 income statement. Impairment losses on goodwill are not subsequently reversed.

2.11 Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred.

2.12 Finance leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases.

Property, plant and equipment held under finance leases are recognised as assets in the balance sheet at their fair values or, if lower, at the present value of the minimum lease payments, both determined at the inception of the lease. The corresponding obligation is recorded as finance lease obligations and presented within borrowings. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

2.13 Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the period of the leases. Operating lease incentives are amortised over the period of the lease.

Notes to the Financial Statements
continued

2. Significant accounting policies (continued)

2.14 Investments in subsidiaries

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

2.15 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 balance sheet 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 balance sheet 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.

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 deferred tax asset or liability 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.

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 balance sheet date.

2.16 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 balance sheet 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.

2.17 Post-retirement benefits

The Group operates two defined contribution group personal pension plans under which it is required to pay fixed contributions to separate funds controlled by trustees. Contributions in these schemes are based on a proportion of the employee's earnings and are charged to the income statement when incurred. The Group has no obligation to the schemes beyond these contributions.

Notes to the Financial Statements
continued

2. Significant accounting policies (continued)

2.18 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 on the Group's balance sheet 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 do not carry interest and are stated at their fair value at time of initial recognition, as reduced by appropriate allowances for estimated irrecoverable amounts. 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 effective interest rate.

Cash and cash equivalents
Cash and cash equivalents include cash in hand, deposits on call with banks and bank overdrafts. Bank overdrafts are disclosed as current borrowings on the balance sheet.

Trade and other payables
Trade and other payables are not interest bearing and are stated at their fair value at time of initial recognition.

Convertible unsecured loan stock
Under International Accounting Standard (IAS 32) 'Financial Instruments: Disclosure and Presentation', convertible loan stock is regarded as a compound instrument, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan stock and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in equity.

Issue costs are apportioned between the liability and the equity components of the convertible stock based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

At the time of initial recognition the interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan stock.

Fair value determination
Whenever available, the fair value of a financial instrument is derived from quoted prices in an active market. For assets held, fair value is the bid price and for liabilities held it is the asking price. If there is no active market, fair value is established by using a valuation technique. Valuation techniques include the use of information from recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of similar instruments and discounted cash flow analysis. The valuation technique used incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.

Notes to the Financial Statements
continued

2. Significant accounting policies (continued)

2.19 Equity instruments

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

2.20 Employee share option schemes

The Group operates an equity-settled share-based compensation plan. The fair value of the employee 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 balance sheet 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.

In accordance with the exemption available in IFRS 1, this accounting treatment has only been applied to grants of equity instruments after 7 November 2002 that had not vested at 1 January 2006.

2.21 Standards and Interpretations not yet effective

The following Standards and Interpretations have been issued, but are not yet effective and have not been early adopted by the Group:

	Title	Latest effective date - reporting periods starting on or later than	Date of EU Endorsement
IFRS 3	Business Combinations (Revised 2008)	01 July 2009	-
IAS 27	Consolidated and Separate Financial Statements	01 July 2009	-
IFRS 2	Amendment to IFRS 2 Share-based Payment: Vesting Conditions and Cancellations	01 January 2009	-
IAS 1	Presentation of Financial Statements	01 January 2009	-
IAS 23	Revision to IAS 23 Borrowing Costs	01 January 2009	-
	Amendment to IAS32 Financial Instruments: Presentation and IAS1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations arising on liquidation	01 January 2009	-
IFRS 8	Operating Segments	01 January 2009	21 November 2007

Notes to the Financial Statements
continued

2. Significant accounting policies (continued)

IAS 1 Presentation of Financial Statements (revised 2007) will result in changes to the presentation of the Group's financial statements as the format currently adopted for the Statement of Changes in Equity will no longer be permitted. Instead, the Group will present a Statement of Comprehensive Income combining the existing Income Statement with other income and expenses currently presented as part of the Statement of Changes in Equity. In addition, the Group will present a separate Statement of Changes in Equity showing owner changes in Equity.

The directors do not believe that the other standards and interpretations listed above will materially affect the Group.

Notes to the Financial Statements
continued

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 the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments
The Group has entered into commercial property leases in relation to offices. The Group has determined that the present value of outstanding lease payments do not exceed the market value of the properties. In conjunction with other considerations it has therefore treated them as operating leases.

Income taxes
The determination of the Group's tax liabilities requires the interpretation of tax law. The Group obtains appropriate professional advice from its tax advisors in relation to all significant tax matters. The directors believe that the judgements made in determining the Group's tax liabilities are reasonable and appropriate; however, actual experience may differ and materially affect future tax charges

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 adjusted future cash flows. Significant assumptions are made in estimating future cash flows about future events including future market conditions and future growth rates. Changes in these assumptions could affect the outcome of impairment reviews.

Impairment of investments and intercompany balances

The directors have reviewed the carrying value of the intercompany balances and cost of investments in subsidiaries in Corero PLC with reference to current and future trading conditions and do not believe any impairment is necessary in light of the current profit and cash flow forecasts.

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 and uncertainties contained in the projections are detailed in the Notes to the Financial Statements 2.1 Basis of preparation.

Notes to the Financial Statements
continued

4. Financial risk management

Treasury management
Group treasury policies are reviewed and approved by the board. 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 that include:
- Liquidity risk;
- Credit risk;
- Cash flow interest rate risk; and
- Currency risk.

The policies for managing these risks are described below:

Liquidity risk
The Group finances its operations through a combination of Convertible Unsecured Loan Stock and cash generated from operations. The Group's treasury policy aims to ensure that there are sufficient funds available to meet the projected cash flow requirements in the business plan.

Credit risk
The amounts of trade receivables presented in the balance sheet are 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 high credit ratings assigned by international credit rating agencies.

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

Currency risk
The Group is exposed to currency risk through movements in exchange rates on its purchases and sales that are not denominated in sterling.

Interest rate sensitivity

The Group's policy is to minimise interest rate cash flow risk exposure on our financing. The interest rate on the Convertible Unsecured Loan Stock is fixed. The Group and company have no other source of finance, therefore no analysis of interest rate sensitivity is required.

Fair value estimation
The fair values of cash and cash equivalents, receivables, payables and borrowings with a maturity of less than one year are assumed to approximate their book values.

The fair value of the Group's borrowings due in more than one year has been estimated by discounting expected future cash flows at prevailing market interest rates.

Notes to the Financial Statements
continued

5. Segment reporting

Business segments

The Group is managed according to two operating divisions: Financial Markets and Business Systems. These divisions are the basis on which the Group reports its primary segment information. The principal activities of each division is the design, development and delivery of market leading software products for financial institutions through its Financial Markets Division, and business and education markets through its Business Systems Division.

There are no inter-segment sales. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated assets and liabilities comprise items such as cash and cash equivalents, taxation, VAT, PAYE, prepayments and borrowings.

	Financial Markets		Business Systems		Unallocated		Total	
	£'000 2008	**£'000 2007**	**£'000 2008**	**£'000 2007**	**£'000 2008**	**£'000 2007**	**£'000 2008**	**£'000 2007**
Revenue	2,041	2,526	3,208	2,718	-	-	5,249	5,244
Segment result	(706)	(653)	991	874	(602)	(1,375)	(317)	(1,154)
Finance income	-	-	-	-	13	16	13	16
Finance costs	-	-	-	-	(354)	(353)	(354)	(353)
(Loss)/profit before taxation	(706)	(653)	991	874	(943)	(1,712)	(658)	(1,491)
Taxation	-	-	-	-	80	48	80	48
(Loss)/profit for the year from continuing operations	(706)	(653)	991	874	(863)	(1,664)	(578)	(1,443)

Notes to the Financial Statements
continued

5. Segment reporting (continued)

	Financial Markets		Business Systems		Unallocated		Total	
	£'000 2008	£'000 2007	£'000 2008	£'000 2007	£'000 2008	£'000 2007	£'000 2008	£'000 2007
Goodwill	1,168	1,852	509	509	-	-	1,677	2,361
Other intangible assets	871	940	370	247	-	-	1,241	1,187
Property, plant & equipment	67	77	55	71	-	-	122	148
Trade and other receivables	376	731	461	653	138	255	975	1,639
Cash and cash equivalents	-	-	-	-	1,145	825	1,145	825
Total assets	2,482	3,600	1,395	1,480	1,283	1,080	5,160	6,160
Segment liabilities	(15)	(26)	(267)	(192)	(4,632)	(5,045)	(4,914)	(5,263)
Deferred income	(526)	(653)	(1,366)	(1,309)	-	-	(1,892)	(1,962)
Total liabilities	(541)	(679)	(1,633)	(1,501)	(4,632)	(5,045)	(6,806)	(7,225)
Other segment items:								
Capital expenditure								
-Property plant and equipment (note 15)	10	93	39	40	-	-	49	133
-Intangible assets (note 14)	189	189	230	156	-	-	419	345
Depreciation (note 15)	41	32	34	31	-	-	75	63
Amortisation of intangible assets (note 14)	258	201	107	73	-	-	365	274
Impairment of goodwill (note 13)	683	-	-	-	-	-	683	-
Restructuring (credit)/cost (note 6)	(5)	101	-	15	(9)	285	(14)	401

Notes to the Financial Statements
continued

6. Administrative expenses - restructuring costs

	2008 £'000	2007 £'000
Staff restructuring including professional fees	5	(346)
Release of the provision against surplus premises arising on Blue Curve acquisition	30	(55)
Dilapidation costs of West Byfleet office	(21)	-
	14	(401)

7. Finance income

	2008 £'000	2007 £'000
Interest on bank deposits	13	16

8. Finance costs

	2008 £'000	2007 £'000
Interest payable on CULS	(320)	(285)
Bank interest payable	(3)	(6)
Amortisation of notional CULS interest charges under IAS 32	(31)	(62)
	(354)	(353)

9. Loss for the year

The following items have been included in arriving at the loss for the year	2008 £'000	2007 £'000
Depreciation of property, plant and equipment (note 15)	75	63
Impairment of goodwill (note 13)	683	-
Amortisation of intangible assets included in trading expenses and non trading expenses (note 14)	365	274
Operating lease rentals payable	251	199
Trade receivables impairment	15	(2)
Directors' remuneration including benefits in kind (note 27)	408	602
Product research and development	399	281

Auditor's remuneration	2008 £'000	2007 £'000
Service to the company and its subsidiaries		
Fees payable to the company's auditor for the audit of the annual financial statements	29	28
Fees payable to the company's auditor for other services	-	8
Fees payable to the company's auditors for taxation services	12	12

Notes to the Financial Statements
continued

10. Tax on loss on ordinary activities

The tax assessed on the loss on ordinary activities for the year differs from the UK corporate of tax of 28% (2007: 30%). The differences are reconciled below:

	2008 £'000	2007 £'000
Current tax		
Adjustments in respect of prior period	(80)	(48)
Total tax reconciliation		
Loss on ordinary activities before taxation	(658)	(1,491)
Theoretical tax credit at UK Corporation tax rate 28% (2007: 30%)	(184)	(447)
Effect of:		
-adjustments in respect of prior years	(80)	(48)
-other expenditure that is not tax deductible	195	11
-accelerated capital allowances	6	(4)
-other timing differences	(1)	(1)
-losses utilised/not utilised	(16)	441
Actual current taxation credit	(80)	(48)

Factors Affecting Future Tax Charge

As at 31 December 2008, the Group's cumulative movements on accelerated capital allowances claimed was £94,000 (2007:£117,000).

In addition, the Group's disallowed provisions as at 31 December 2008 amounted to £5,000 (2007: £1,000) and its tax losses at that date amounted to £6,565,000 (2007: £6,315,000).

The resultant deferred tax asset at a rate of 28% (2007: 28%) of £1,870,000 (2007: £1,801,000) has not been recognised due to uncertainties as to the extent and timing of its future recovery.

11. Loss of the parent company for the financial year

The Company has taken advantage of section 230 of the Companies Act 1985, and has not included an income statement in these financial statements.

12. Loss per share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average of ordinary shares outstanding during the period.

The CULS and share options were non-dilutive for both periods and thus the diluted loss per share is the same as the basic amount.

	2008	2007
Loss £'000 after taxation	(578)	(1,443)
Basic loss per share	(1.27p)	(3.33p)
Weighted average number of ordinary shares	45,569,702	43,347,651

Notes to the Financial Statements
continued

13. Goodwill

Group	Goodwill £'000
Cost	
At 1 January 2007 and 31 December 2008	2,361
Impairment	
At 1 January 2007	-
Charge for the year	-
At 31 December 2007	-
Charge for the year	683
At 31 December 2008	683
Net book value	
At 31 December 2007	2,361
At 31 December 2008	1,677

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 cash-generating units (CGUs) identified according to business segment.

As at 31 December 2008, the goodwill was allocated at the segment level as follows: £1,168,000 (2007: £1,852,000) relates to the Financial Markets division, and £509,000 (2007: £509,000) relates to the Business Systems division.

The recoverable amounts for the cash-generating units given above were determined based on value-in-use calculations using cash flow projections over a five year period. The key assumptions for the value-in-use calculations are those regarding growth and discount rates. The growth rates are based on the management's estimates of growth in those specific markets based on past experience and expected future developments. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU's.

The cash flows for the first four years of the cash flow projections are derived from the most recent financial forecasts approved by the management. The fifth year cash flow projection is based on an extrapolation of the growth rates used in the first four year projections. Future cash flows are discounted in line with the weighted average cost of capital of 10% pre-tax.

An impairment charge of £683,000 (2007: £nil) arose as a result of the impairment test.

Apart from the considerations described in determining the value in use of the cash generating units described above, the management of Corero is not currently aware of any other probable changes that would necessitate changes in its key estimates.

Notes to the Financial Statements
continued

14. Other intangible assets

Group	Computer software £'000	Customer contracts £'000	Total £'000
Cost			
At 1 January 2007	719	668	1,387
Additions			
-separately acquired	64	-	64
-internally generated	281	-	281
At 31 December 2007	1,064	668	1,732
Additions			
-separately acquired	20	-	20
-internally generated	399	-	399
At 31 December 2008	1,483	668	2,151
Amortisation			
At 1 January 2007	(180)	(91)	(271)
Charge for year	(179)	(95)	(274)
At 31 December 2007	(359)	(186)	(545)
Charge for year	(270)	(95)	(365)
At 31 December 2008	(629)	(281)	(910)
Net book value			
At 31 December 2007	705	482	1,187
At 31 December 2008	854	387	1,241

The Company has no intangible fixed assets (2007: £nil).

On the acquisition of Blue Curve Limited in January 2006 an intangible asset was acquired, namely customer contracts and the related customer relationships, per IAS 38. The customer contracts and the related customer relationships are to be amortised over a further 4 years. Research and development expenditure which has been capitalised per IAS 38 has been included in computer software.

Notes to the Financial Statements
continued

15. Property, plant and equipment

Group	Computer Equipment £'000	Fixtures & Fittings £'000	Office Equipment £'000	Leasehold Improvements £'000	Total £'000
Cost					
At 1 January 2007	214	28	49	60	351
Additions	43	21	8	61	133
At 31 December 2007	257	49	57	121	484
Additions	33	10	-	6	49
At 31 December 2008	290	59	57	127	533
Depreciation					
At 1 January 2007	(168)	(11)	(45)	(49)	(273)
Charge for year	(42)	(5)	(5)	(11)	(63)
At 31 December 2007	(210)	(16)	(50)	(60)	(336)
Charge for year	(40)	(9)	(7)	(19)	(75)
At 31 December 2008	(250)	(25)	(57)	(79)	(411)
Net book value					
At 31 December 2007	47	33	7	61	148
At 31 December 2008	40	34	-	48	122

The company has no property, plant and equipment (2007: £nil).

Software which is not integral to the equipment has been transferred to other intangible assets per IAS 38.

16. Investments in subsidiaries

	2008 Company £'000	2007 Company £'000
Cost and net book value		
At 1 January	3,493	3,493
At 31 December	3,493	3,493

The investments in subsidiary undertakings represent the acquisition of 100% of the issued ordinary share capital of Corero Systems Limited, Eclipse Learner Systems Limited and Blue Curve Limited, all companies are incorporated and registered in England and Wales, and their principal activities are that of computer consultancy and the development of computer software.

The Group has used acquisition accounting to account for all the acquisitions.

Notes to the Financial Statements
continued

17. Trade and other receivables

	2008 Group £'000	2007 Group £'000	2008 Company £'000	2007 Company £'000
Trade receivables	782	1,327	-	-
Less: provision for impairment	(23)	(8)	-	-
Net trade receivables	759	1,319	-	-
Amounts owed by subsidiaries	-	-	5,605	5,926
Other debtors	80	94	-	-
Prepayments and accrued income	136	226	-	-
	975	1,639	5,605	5,926

None of the Group or 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 balance sheet date.

The age of trade receivables not impaired is as follows:

	2008 Group £'000	2007 Group £'000
Not more than 3 months	489	1,074
More than 3 months but not more than 6 months	91	70
More than 6 months but not more than 1 year	185	77
More than one year	17	106
	782	1,327

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

	2008 Group £'000	2007 Group £'000	2008 Company £'000	2007 Company £'000
In one year or less, or on demand	901	1,565	-	-
In more than two years, but not more than five years	74	74	5,605	5,926
	975	1,639	5,605	5,926

Classification to Financial Assets

	2008 Group £'000	2007 Group £'000	2008 Company £'000	2007 Company £'000
Financial assets: loans and receivables	839	1,413	-	-
Non-financial assets	136	226	5,605	5,926
	975	1,639	5,605	5,926

Notes to the Financial Statements
continued

18. Trade and other payables

	2008 Group £'000	2007 Group £'000	2008 Company £'000	2007 Company £'000
Trade payables	160	352	-	-
Other taxation and social security	247	361	-	-
Other payables	18	17	-	-
Accruals	409	363	-	-
	834	1,093	-	-

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 their fair value.

Classification to Financial Liabilities

	2008 Group £'000	2007 Group £'000
Financial liabilities: loans and payables	425	730
Non-financial liabilities	409	363
	834	1,093

19. Borrowings

	2008 Group £'000	2007 Group £'000	2008 Company £'000	2007 Company £'000
Non-current				
Convertible unsecured loan stock	4,058	4,027	4,058	4,027

The CULS are redeemable, if not converted, on 31 October 2011 and are convertible into fully paid Ordinary Shares on the basis of 4 Ordinary Shares for every £1 nominal of convertible loan stock. Interest is payable in equal proportions on 30 June and 31 December in each year. The CULS holder has the option to convert the CULS into shares or redeem. If the mean average of the closing bid price of an Ordinary Share as shown on the London Stock Exchange for a period of at least 30 consecutive days is 100p or more, the Company is entitled to require a holder of CULS to convert all or part of his holding of CULS into fully paid Ordinary Shares on the basis set out above.

Notes to the Financial Statements

continued

19. Borrowings (continued)

The maturity profile of the Group and company's borrowings were as follows:

Group	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000
	In one year or less, or on demand		More than one year, but no more than two years		More than two years, but no more than five years	
Trade payables	160	352	-	-	-	-
Other short term financial liabilities	688	831	8	53	-	-
Deferred income	1,892	1,962	-	-	-	-
Convertible unsecured loan stock	-	-	-	-	4,907	5,227
Totals	2,740	3,145	8	53	4,907	5,227

Company	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000
	In one year or less, or on demand		More than one year, but no more than two years		More than two years, but no more than five years	
Convertible unsecured loan stock	-	-	-	-	4,907	5,227
Totals	-	-	-	-	4,907	5,227

20. Financial instruments

Group	Book Value 2008	Fair Value 2008	Book Value 2007	Fair Value 2007
Financial assets	£'000	£'000	£'000	£'000
Trade and other receivables	839	839	1,413	1,413
Cash	1,145	1,145	825	825
	1,984	1,984	2,238	2,238

Company	Book Value 2008	Fair Value 2008	Book Value 2007	Fair Value 2007
Financial assets	£'000	£'000	£'000	£'000
Trade and other receivables	5,605	5,605	5,926	5,926
	5,605	5,605	5,926	5,926

Notes to the Financial Statements
continued

20. Financial instruments (continued)

Group Financial liabilities	Book Value 2008 £'000	Fair Value 2008 £'000	Book Value 2007 £'000	Fair Value 2007 £'000
Trade and other payables	425	425	730	730
Provisions	22	22	143	143
CULS	4,058	4,000	4,027	4,240
	4,505	4,447	4,900	5,113

The carrying values of financial assets and liabilities approximates to their fair value.

21. Provisions

Group	Redundancy provision £'000	Onerous leases £'000	Total £'000
1 January 2008	53	90	143
Released to income statement	(5)	(40)	(45)
Utilised	(48)	(28)	(76)
31 December 2008	-	22	22

Provisions are analysed between current and non-current as follows:

	2008 £'000	2007 £'000
Current	14	90
Non-current	8	53
	22	143

The provision for onerous leases relates to a leasehold property from which the Group no longer trades, but is liable to fulfil rent and other property commitments up to the end of the lease.

The provisions have been classified as financial liabilities.

22. Pensions

The Group pension arrangements are operated through two defined contribution schemes.

Defined contribution schemes

	2008 £'000	2007 £'000
Defined contribution pension costs	95	123

Notes to the Financial Statements
continued

23. Deferred income

Group	2008 £'000	2007 £'000
Deferred income	1,892	1,962

Company deferred income was £nil (2007: £nil).

24. Ordinary shares

	2008 £'000	2007 £'000
Authorised		
120,000,000 ordinary shares of £0.10 each (2007: 120,000,000 ordinary shares of £0.10 each)	12,000	12,000
Issued and fully paid		
Ordinary shares of 10p each: 45,569,702	4,557	4,557

In April 2007, Corero issued 8,720,952 ordinary 10 pence shares to satisfy the deferred consideration due to Blue Curve Limited under the acquisition agreement entered into at the time of the acquisition (note 26b).

Notes to the Financial Statements
continued

25. Statement of changes in shareholder's equity

Group	Shares to be issued £'000	Share capital £'000	Share options reserve £'000	CULS equity reserve £'000	Merger reserve £'000	Share premium account £'000	Profit and loss reserve £'000	Total £'000
1 January 2007	1,531	3,685	15	146	364	6,369	(11,732)	378
Retained loss for year ended 31 December 2007	-	-	-	-	-	-	(1,443)	(1,443)
Deferred consideration for Blue Curve Limited	(1,531)	872	-	-	659	-	-	-
31 December 2007	-	4,557	15	146	1,023	6,369	(13,175)	(1,065)
Share based payments	-	-	(3)	-	-	-	-	(3)
Retained loss for year ended 31 December 2008	-	-	-	-	-	-	(578)	(578)
31 December 2008	-	4,557	12	146	1,023	6,369	(13,753)	(1,646)

Company	Shares to be issued £'000	Share capital £'000	Share options reserve £'000	CULS equity reserve £'000	Merger reserve £'000	Share premium account £'000	Profit and loss reserve £'000	Total £'000
1 January 2007	1,531	3,685	15	146	364	6,369	(6,379)	5,731
Retained loss for year ended 31 December 2007	-	-	-	-	-	-	(339)	(339)
Deferred consideration for Blue Curve Limited	(1,531)	872	-	-	659	-	-	-
31 December 2007	-	4,557	15	146	1,023	6,369	(6,718)	5,392
Share based payments	-	-	(3)	-	-	-	-	(3)
Retained loss for year ended 31 December 2008	-	-	-	-	-	-	(349)	(349)
31 December 2008	-	4,557	12	146	1,023	6,369	(7,067)	5,040

Share options reserve
A charge of £3,000 was made during the twelve months ended 31st December 2008 representing the estimated cost of any share options. The estimate was calculated using the Black Scholes option pricing model. No employee share options were exercised during the period.

Convertible unsecured loan stock equity reserve
Convertible loan stock is a compound instrument consisting of a liability component and an equity component. The fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, was transferred to reserves at the inception of the new instrument in August 2006.

Merger reserve
The premium on the issue of 5,606,060 10 pence ordinary shares in relation to the acquisition of Blue Curve Limited was transferred to the merger reserve during the year ended 31 December 2006. The premium on the issue of 8,720,952 10 pence ordinary shares in relation to the deferred consideration for Blue Curve Limited was transferred to the merger reserve during the year ended 31 December 2007.

Notes to the Financial Statements
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26. Cash flows from operating activities

a. Cash generated from operations

	Note	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Continuing operations					
Loss before taxation		(658)	(1,491)	(349)	(339)
Adjustments for:					
Depreciation	15	75	63	-	-
Amortisation of intangibles	14	365	274	-	-
Impairment of goodwill	13	683	-	-	-
Finance income	7	(13)	(16)	-	-
Finance expense	8	354	353	352	346
(Decrease)/increase in provisions	21	(121)	75	-	-
Share based payment credit		(3)	-	(3)	-
Changes in working capital					
(Increase)/decrease in trade and other receivables		664	824	-	3
Increase/(decrease) in payables		(328)	567	-	(10)
Cash generated from continuing operations		1,018	649	-	-
Corporation tax credit		80	48	-	-
Net cash from operating activities		1,098	697	-	-

b. Major non-cash transactions

Corero issued 8,720,952 ordinary 10 pence shares on 3 April 2007 to satisfy the deferred consideration due to Blue Curve Limited under the acquisition agreement entered into at the time of the acquisition in January 2006. The deferred consideration shares have been issued in accordance with the earn-out provisions of that agreement.

Notes to the Financial Statements
continued

27. Employee and directors

Employee benefit expense during the period

Group	2008	2007
	£'000	£'000
Wages and salaries	2,892	3,603
Social security costs	364	465
Other pension costs (note 22)	95	123
Cost of employee share scheme (note 30)	(3)	-
	3,348	4,191

Average monthly numbers of employees (including directors) employed

Group	2008 Number	2007 Number
Sales and Marketing	11	13
Consulting and Professional Services	8	12
Technical and Support	29	33
Administration	6	8
	54	66

The company has no employees (2007: nil).

Directors

	Salary, & fees £'000	Bonus £'000	Benefits £'000	Pension £'000	2008 £'000	2007 £'000
Mr M Robertson	131	-	1	14	146	63
Mr B Snowe	124	85	-	-	209	101
Mr P Waller	30	-	-	-	30	30
Mr I Selby	-	-	-	-	-	127
Mr J McGee	-	-	-	-	-	247
Non-executive						
Mr R Mitchell	12	-	-	-	12	-
Mr R Last	7	-	-	-	7	-
Mr B Fairman	4	-	-	-	4	17
Mr C Peters	-	-	-	-	-	17
	308	85	1	14	408	602

Bonus payments of £85,000 were awarded to an executive director during the period to 31 December 2008 (2007: £49,000).

The fee above for Mr R Last represents the period from his appointment in May to 31 December.

Mr Waller provided an additional £21,500 of consultancy services in addition to his salary, for the year ended 31 December 2008 (December 2007: £15,000).

Notes to the Financial Statements
continued

28. Operating lease commitments

The Group has total future minimum lease payments under non-cancellable operating leases totalling £946,000 (2007: £1,183,000) analysed by year of expiry as follows:

	2008 £'000	2007 £'000
Land and building agreements expiring:		
Within one year	27	22
Within two to five years	499	681
After more than five years	420	480
	946	1,183
Office equipment agreements expiring:		
Within one year	1	1

The Group sub-let certain leased properties and the total minimum sub-lease payments expected to be received under non-cancellable sub-leases at the balance sheet date were as follows:

	2008 £'000	2007 £'000
Rent receivable	-	8

The company has no operating lease commitments (2007: £nil).

29. Contingent liabilities

The Group and company do not have any contingent liabilities (2007: £nil).

Notes to the Financial Statements
continued

30. Share options

The Company has a share option scheme and an Enterprise Management Incentive Scheme for its employees, which have been approved by the Inland Revenue. Options are granted on similar terms to substantially all of the employees, but at the discretion of the Board. 25% are exercisable 12 months from the date of grant with the remainder vesting monthly over the following 3 years.

Depending upon the length of service at the date of the grant the options granted in September 2008 have differing vesting terms.

Length of service 1-2 years

Calendar years from date of option agreement	Fraction of options vesting
1	1/3
2	1/3
3	1/3

Length of service greater than 2 years

Calendar years from date of option agreement	Fraction of options vesting
0 (date of grant)	2/5
1	1/5
2	1/5
3	1/5

Notes to the Financial Statements

continued

30. Share options (continued)

Share options at 31 December 2008 were as follows:

Option Holders	Date granted	Expiry date	Exercise price	At 1 January 2008	Granted	Lapsed	At 31 December 2008
Enterprise Management Incentive Scheme							
P Waller	April 2006	April 2016	18.5p	75,276	-	-	75,276
	March 2008	December 2009	10.0p	-	500,000	-	500,000
B Snowe	April 2001	April 2011	32.5p	40,000	-	-	40,000
	October 2001	October 2011	17.5p	7,500	-	-	7,500
	December 2001	December 2011	25.5p	7,500	-	-	7,500
	January 2002	January 2012	27.5p	15,000	-	-	15,000
	February 2005	February 2015	16.5p	50,000	-	-	50,000
	April 2006	April 2016	18.5p	145,829	-	-	145,829
	March 2008	December 2009	10.0p	-	1,000,000	-	1,000,000
M Robertson	April 2006	April 2016	18.5p	200,000	-	-	200,000
	March 2008	December 2009	10.0p	-	1,000,000	-	1,000,000
Other Holders	April 2001	April 2011	32.5p	60,000	-	(60,000)	-
	October 2001	October 2011	17.5p	26,000	-	(26,000)	-
	December 2001	December 2011	25.5p	8,500	-	(8,500)	-
	January 2002	January 2012	27.5p	15,000	-	(15,000)	-
	January 2003	January 2013	24.5p	32,500	-	(13,500)	19,000
	October 2003	October 2013	36.5p	50,500	-	(40,500)	10,000
	October 2004	October 2014	18.7p	10,000	-	(10,000)	-
	February 2005	February 2015	16.5p	264,500	-	(248,500)	16,000
	April 2006	April 2016	18.5p	290,000	-	(205,000)	85,000
	September 2008	September 2018	10.0p	-	286,000	-	286,000
	September 2008	September 2018	10.0p	-	850,000	-	850,000
Approved Scheme							
B Snowe	December 2000	December 2010	40.0p	30,000	-	-	30,000
							-
Other Holders	December 2000	December 2010	40.0p	110,000	-	(105,000)	5,000

Notes to the Financial Statements

continued

30. Share options (continued)

Option Holders	Date granted	Expiry date	Exercise price	At 1 January 2008	Granted	Lapsed	At 31 December 2008
Unapproved Scheme							
M Robertson	April 2007	April 2017	18.5p	288,992	-	-	288,992
B Snowe	April 2007	April 2017	18.5p	263,163	-	-	263,163
				1,990,260	3,636,000	(732,000)	4,894,260

The closing mid market price for these shares at 31 December 2008 was 2.4p and the high and low for the year was 6.5p and 1.75p. There are no performance criteria to be met before share options are exercisable.

Changes in Directors' options held between 1 January 2008 and the 31 December 2008 are detailed in the following table.

Directors' share options

	At 1 January 2008	Granted during year	Lapsed during year	At 31 December 2008	Exercise price	Date from which partially exercisable	Expiry date
P Waller	75,276		-	75,276	18.5p	27 April 2007	26 April 2016
		500,000	-	500,000	10.0p	1 May 2008	31 December 2009
B Snowe	40,000		-	40,000	32.5p	27 April 2002	26 April 2011
	7,500		-	7,500	17.5p	15 October 2002	14 October 2011
	7,500		-	7,500	25.5p	14 December 2002	14 December 2011
	15,000		-	15,000	27.5p	30 January 2003	29 January 2012
	50,000		-	50,000	16.5p	7 February 2006	6 February 2015
	145,829		-	145,829	18.5p	27 April 2007	26 April 2016
	30,000		-	30,000	40.0p	19 December 2001	18 December 2010
	263,163		-	263,163	18.5p	20 April 2008	19 April 2017
		1,000,000	-	1,000,000	10.0p	1 May 2008	31 December 2009
M Robertson	200,000		-	200,000	18.5p	27 April 2007	26 April 2016
	288,992		-	288,992	18.5p	20 April 2008	19 April 2017
		1,000,000	-	1,000,000	10.0p	1 May 2008	31 December 2009

Notes to the Financial Statements
continued

30. Share Options (continued)

None of the Directors at the balance sheet date exercised options during the year.

Share based payments

Under the approved, unapproved and Enterprise Management Incentive option schemes the remuneration committee can grant options to employees of the group. New grants are only being made under the Enterprise Management Incentive Scheme.

Options are granted with a fixed exercise price which is equal to the market price or nominal value. The contracted life is ten years from the date of grant. Options generally become fully exercisable either three or four years after the date of the grant.

In line with the IFRS 2 accounting standard on share based payments, options which were issued before November 2002 and invested at 1 January 2006 have been ignored for the purposes of estimating the charge for share based payments. This has excluded options granted under the approved and unapproved schemes. Options are valued using the Black-Scholes option-pricing model.

The following variables and ranges, if applicable, were used in valuing share options per the Black-Scholes option-pricing model.

Variable	Range(s)
Share price - 31 December 2008.	2.4p
Exercise price	10.0p – 36.5p
Risk free rate - 5 year gilt rate at time option granted.	4.02% - 5.30%
Expected volatility - share price deviation based on 4.3 years preceding date of grant	4.4p - 9.6p
Expected volatility - share price deviation based on 6.0 years preceding date of grant	10.2p - 10.7p
Years to maturity	1.00 - 9.75

The total credit in the year relating to employee share based payments was £3,000 (2007: £nil).

31. Related parties and transactions

Related party transactions are between group companies and relate to costs paid on behalf of the parent company. The 2008 costs paid on behalf of the parent company were £321,000 (2007: £314,000)

	2008	**2007**
	£'000	**£'000**
Group key management compensation	408	602

Company key management compensation £nil (2007: £nil) as the key management are employed by the subsidiary. The directors per note 27 are the key management.

32. Events after the balance sheet date

There were no post balance sheet events.