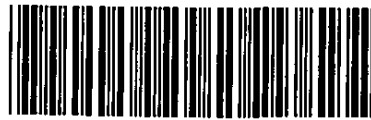


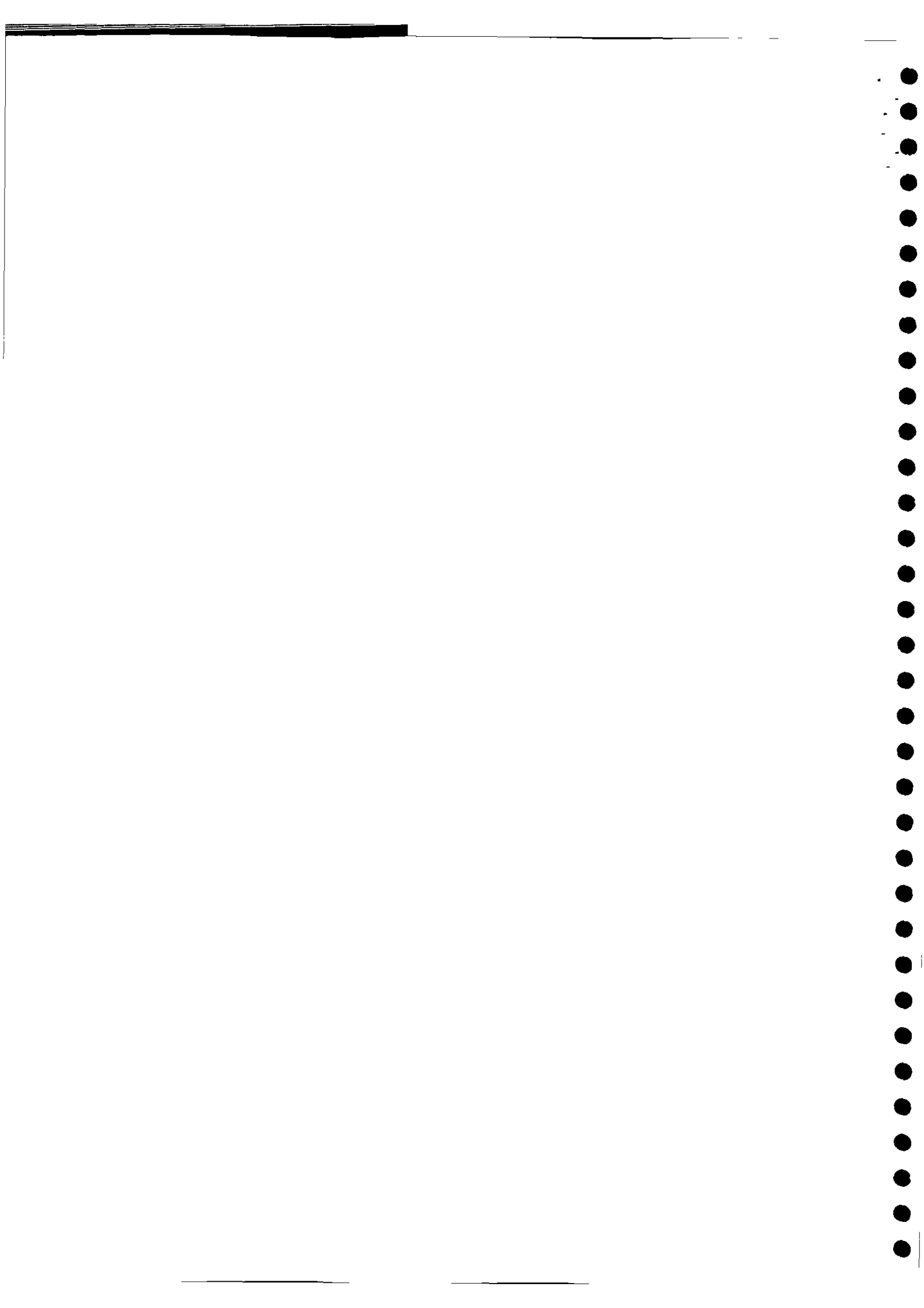
Annual Report and Financial Statements

For the year ended 31 December 2010

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Annual Report and Financial Statements**For the year ended 31 December 2010**

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Directors and Advisers

Directors	Jens Montanana (Non-executive Chairman) Andrew Miller (Executive Director) Bernard Snowe (Executive Director) Richard Last (Non-executive Director)
Secretary and Registered Office	Duncan Swallow 169 High Street Rickmansworth Hertfordshire WD3 1AY
Nominated Adviser and Broker	FinnCap 60 New Broad Street London EC2M 1JJ
Auditor	Grant Thornton UK LLP Grant Thornton House Melton Street, Euston Square London NW1 2EP
Solicitors to the Company	Dorsey and Whitney LLP 21 Wilson Street London EC2M 2TD
Principal Bankers	Lloyds TSB 42 Mark Road Hemel Hempstead HP2 7DW
Registrars	Capita Registrars Limited Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA
Website address	www.corero.com
Company Registration	Registered and Incorporated in England

Corero plc ('Corero', or 'the Group'), is focused on building a network security solutions business through acquisition to deliver high-growth solutions and related services to mid-market and enterprise customers through international channels. In addition, Corero's Business Systems division serves the business and education sectors by delivering powerful, dynamic modular accounting and business management software and services.

Highlights**Post period end - acquisition and placing**

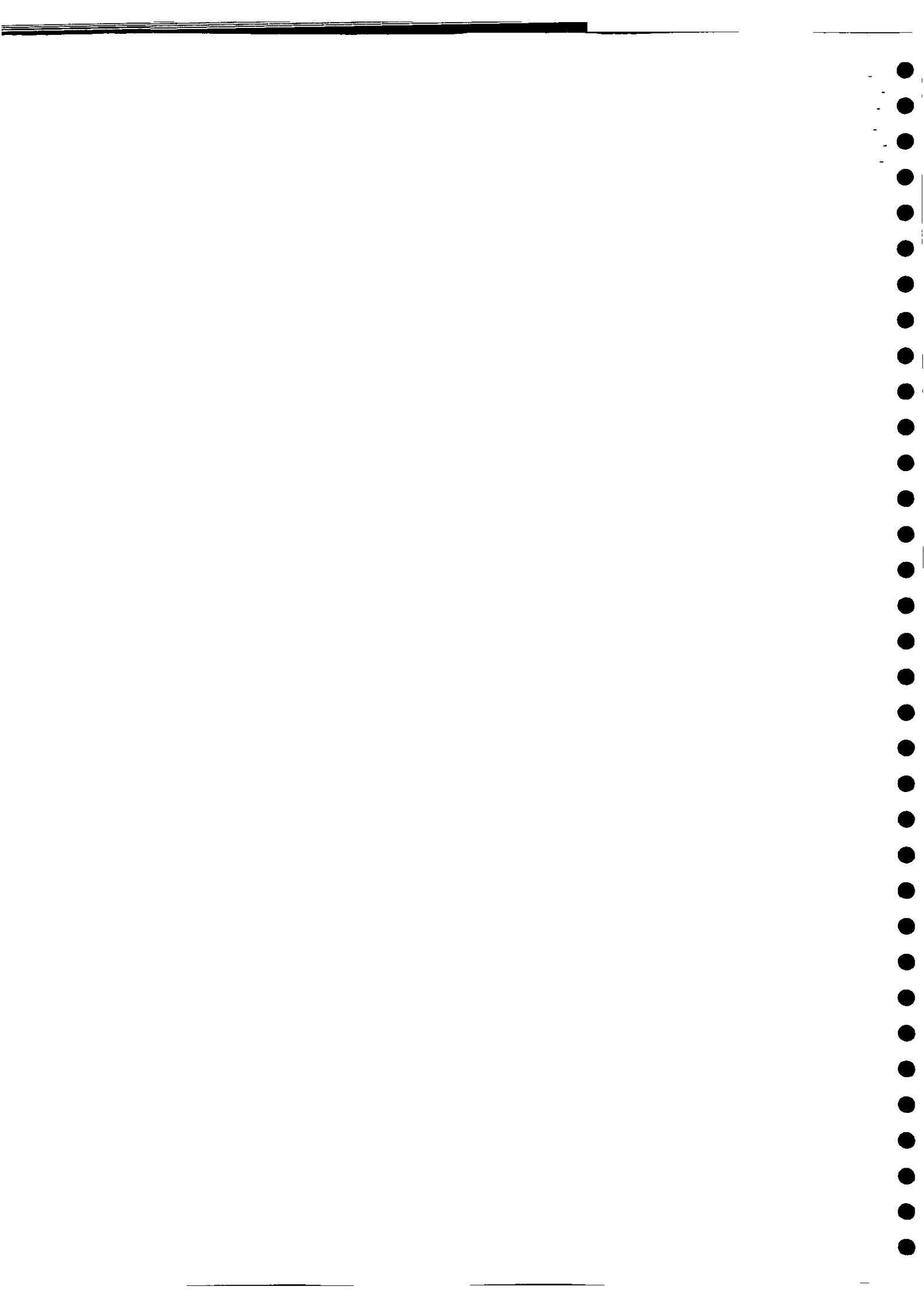
- In March 2011, Corero acquired Top Layer Networks, Inc ("Top Layer") for maximum consideration of \$15.3 million in shares, loan notes and cash
- First step in strategy of building security systems business focused on the network security market
- Top Layer focuses on network security infrastructure software solutions which help commercial and government organisations protect critical on-line assets from cyber threats
- Raised £2.3 million in a placing of ordinary shares

2010 results

- Trading profit of £223,000
- Total comprehensive income £404,000 (2009 loss £176,000)
- Strong performance by Business Systems division - 12% revenue growth

August 2010 transaction

- The Group was transformed in August 2010 by
 - £6.5 million equity raising
 - Sale of the Financial Markets division for assumption by purchaser of £2.0 million of convertible unsecured loan stock ("CULS")
 - Conversion of remaining £2.0 million of CULS to ordinary shares



About Corero

On 6 August 2010, Corero was transformed financially and operationally by a £6.5 million equity fund raising, the sale of its Financial Markets division ("discontinued operations"), the conversion of the convertible unsecured loan stock to ordinary shares and the appointment of two new directors and senior executives

The Group's strategy is to build, through a combination of acquisition and organic development, a network security propriety technology business focused on delivering software and hardware solutions and related support services to mid-market commercial and enterprise customers and telecommunication service providers, through international channels. Corero Security Systems will operate alongside the Corero Business Systems division, which supplies accounting and management information software solutions to the education and commercial markets

Corero Security Systems

On 7 February 2011, Corero announced the acquisition of Top Layer for a maximum consideration of \$15.3 million. Top Layer is based in Hudson, Massachusetts, and focuses on developing and bringing to market network security infrastructure solutions such as Intrusion Prevention Systems ("IPS") and Distributed Denial of Service ("DDoS") protection solutions that help commercial and government organisations protect their critical on-line assets from the losses and risks associated with cyber threats

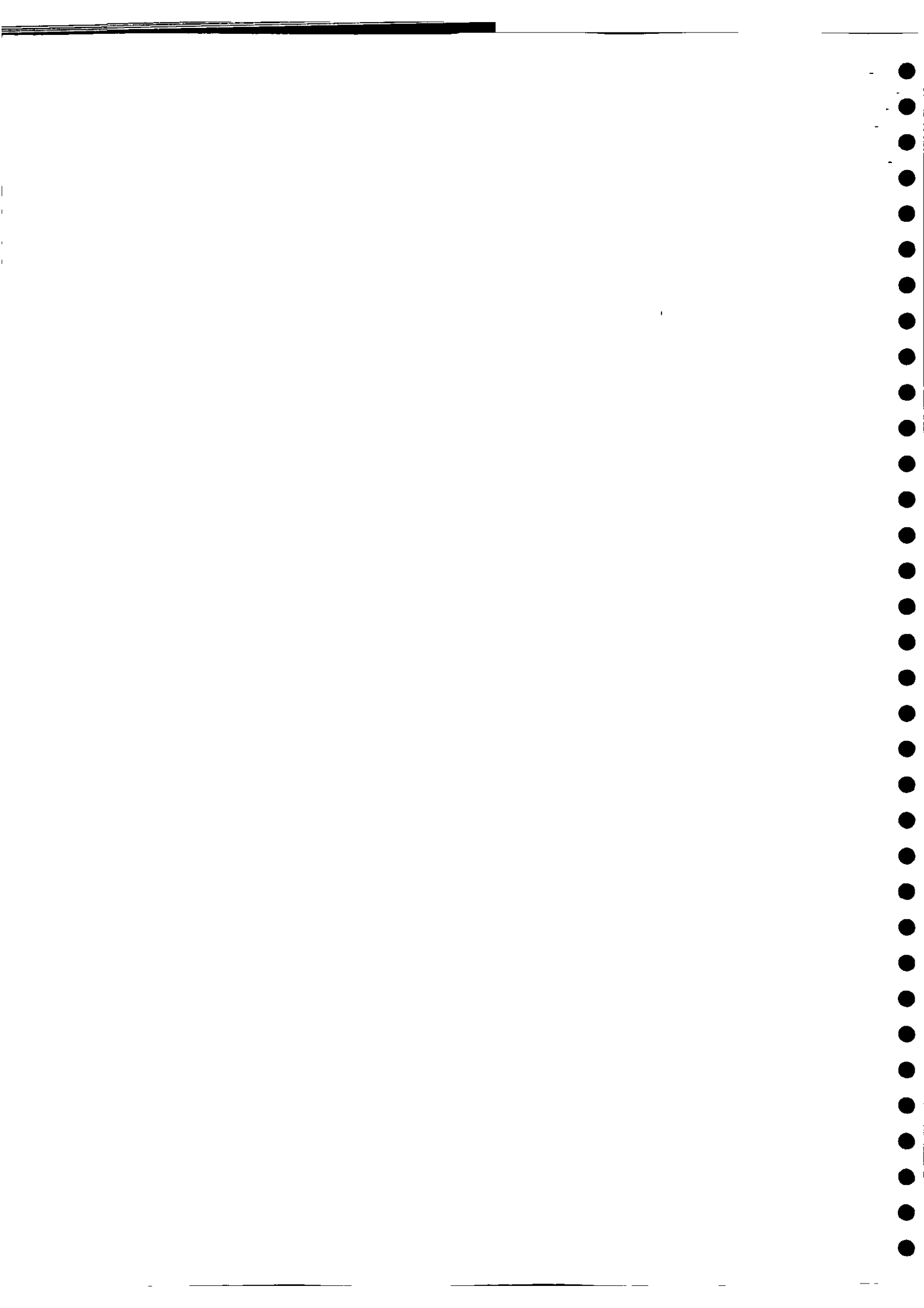
Top Layer has a strong proprietary technology offering with a multi-core processing platform to support high performance security applications and a scalable architecture, which will be developed to add functionality to broaden its network security offering

Corero Business Systems

The Business Systems division is a provider of accounting, human resources, payroll and management information software solutions to the academy, school, further education and commercial markets. The Business Systems' software solutions include Resource Financials & HR, a financial software solution, and Resource Education Management System ("EMS"), a learner management information system aimed at the sixth form and further education sector

Resource Financials & HR is a flexible financial management system with a suite of highly integrated modules including core accounting ledgers, the complete purchase to pay process including e-procurement, billing and contract management, project costing with timesheets and expenses, fixed asset accounting and tracking, and document scanning and management. Complementing these core modules are a range of web based applications covering reporting, purchase and sales requisitioning, timesheet and expense entry and approval

Resource EMS manages the complete learner life-cycle, from initial enquiry through to completion within the further education market in England. Combining both core and web portal technology, Resource EMS delivers key aspects of learner and employer administration including web and portal enrolments, applications and enquiries through to Individual Learner Plans, pastoral care and achievement. Resource EMS is one of the most comprehensive solutions available in the UK market with modules covering course provision, timetables, registers, work based learning and exams as well as satisfying the requirement for statutory returns



Chairman's Statement

Introduction

The results for the year ended 31 December 2010 showed a good improvement on 2009 and are in line with the trading update issued on 26 January 2011

Results

The Group reported a trading profit of £223,000 including a trading profit from discontinued operations of £108,000 (2009 £313,000 including £350,000 trading profit from discontinued operations) Revenues were £4.0 million including £1.0 million revenue from discontinued operations (2009 £4.9 million including £2.2 million revenue from discontinued operations)

The total comprehensive income was £404,000 (2009 loss £176,000)

The cash position of the Group at the end of 2010 was £7.2 million (2009 £686,000)

Security Systems division

In July 2010, Corero announced its intention to build a network security solutions business through acquisition to deliver solutions and related services to mid-market and enterprise customers through international channels. The acquisition of Top Layer, which was announced on 7 February 2011, is the first step in this strategy.

Top Layer presents an exciting prospect for Corero by providing a core platform on which to build a leading network security systems business in a market that offers significant growth potential.

Network security market opportunity

Network security is a resilient area of IT spend and is generally considered by organisations to be non-discretionary. There are a number of reasons for this:

- The rapid growth of the internet has resulted in considerable growth of cyber crime, together with an increase in the threat of insider fraud and data theft
- Existing security solutions cannot protect against emerging or as yet unknown threats - the evolution of new threats needs continuous advances in security technology
- The security market is constantly changing and evolving. Many business drivers and IT trends are forcing changes in security practices and related technology adoption
 - The network perimeter is rapidly dissolving as external access to corporate networks, cloud computing domains, consumer and social networking and software-as-a-service are now making the concept of a determinable secure network border more irrelevant
 - Virtualisation is disrupting traditional security models and causing a significant rethink of network security
 - The web is the new frontier for attacks - traditional web protection practices such as URL filtering and antivirus protection at the gateway have failed to keep up with today's security issues
- As a direct result of increasing cybercrime, new legislation creates an ever-increasing compliance requirement for information security

There is a growing awareness of cyber crime and its very real threats and costs which will boost demand for network security solutions. A recently published government study reported the annual cost of cyber crime in the UK, including attacks on the government, individuals and on businesses, to be in excess of £27 billion.



Chairman's Statement

continued

Business Systems division

Despite a tough economic backdrop and pressure on public sector finances, the division reported a strong performance, posting an operating profit of £675,000 compared to £544,000 in 2009, on revenues of £3.0 million which showed a 12% increase over 2009.

The highlight of the year was winning a total of 70 academies, compared with 25 in 2009, showing its strong position in this growth market and maintaining its c. 30% market share. Under the previous Labour government, 203 academies opened since the start of the academy initiative in 2003. Following the election in May 2010, the Education Secretary announced a widening of the academy programme so that all schools could apply and become an academy. In the first instance schools that were rated by Ofsted as outstanding were fast tracked through the process but in November 2010 this was then extended to all schools and included the announcement that Free Schools could be set up and Special Schools could also join the academy programme. The result has been a doubling of the number of academies that are now open to over 400 by the start of 2011 with an increasing number of schools applying to become academies. The success in this market underpins Corero's reputation for high levels of customer service aligned to a proven product offering at a competitive price.

The economic outlook and cuts to public sector funding has had an impact on the spending pattern of both Sixth Form and Further Education Colleges. The business is working hard to provide customers with added value solutions to allow them to streamline business processes and increase their operational efficiencies.

Business strategy

The strategy for the Security Systems division will be to drive Top Layer's revenue growth through increased marketing and industry visibility of Top Layer's approach and product capabilities and developing an international, channel focused sales model which will enable the Group to access new markets and customers. In terms of product development, the emphasis will be on leveraging Top Layer's IPS and DDoS protection product offerings and developing a broader network security portfolio, including a next generation firewall offering, both organically and through complementary acquisitions.

The strategy for the Business Systems division will be to continue to invest and grow the business focusing on the education sector where it has a strong market position, particularly in the further education college and academy markets in England. Development will continue on Resource Financials & HR and Resource EMS with additional modules to meet customer requirements and, in particular, Resource Financials 7, the next generation financial software solution, which is planned to be released in the first half of 2011.

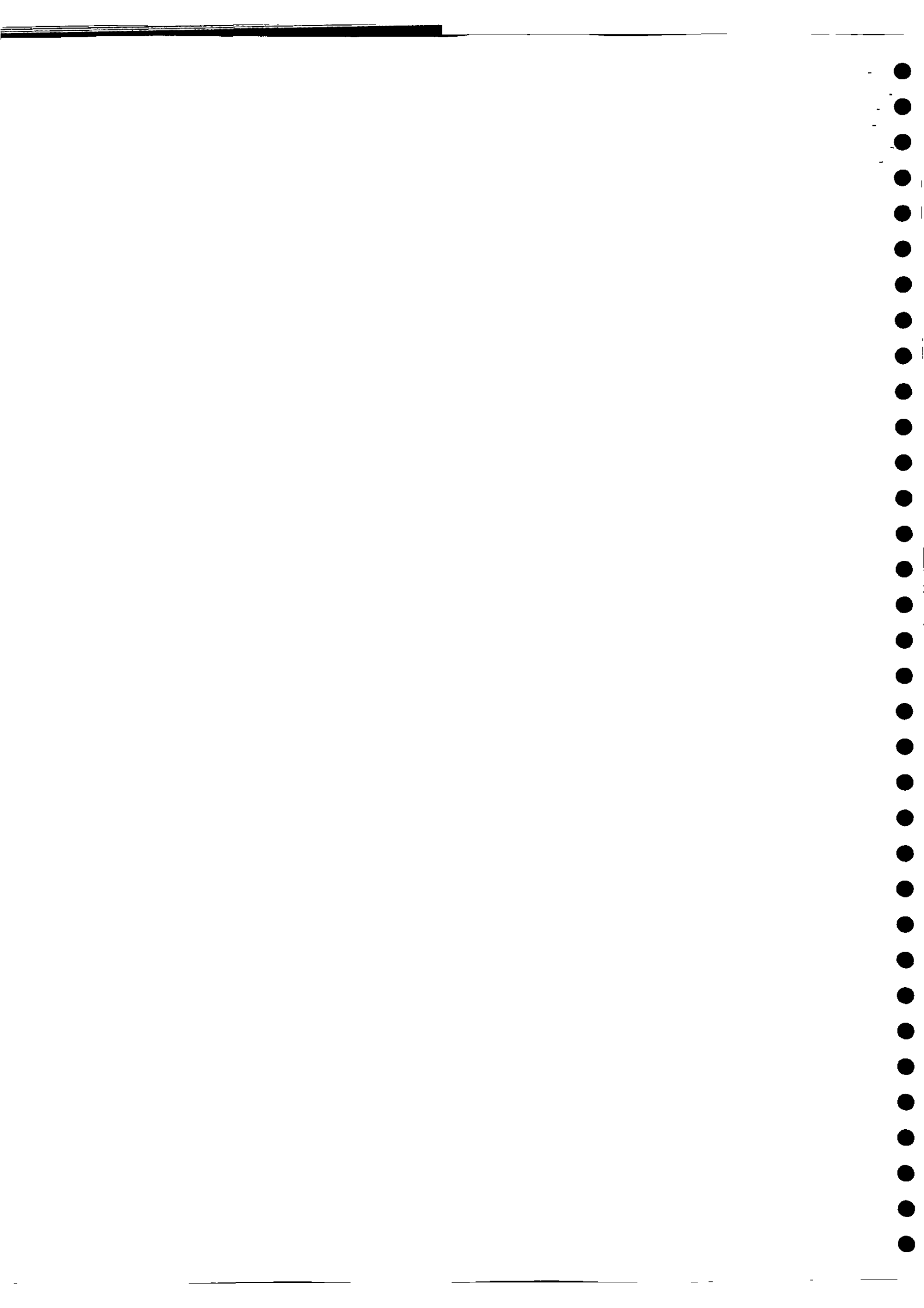
The Group will manage and operate Corero as two separate divisions during 2011, with a minimum central overhead.

Staff

On behalf of the board I would like to thank the employees of Corero for their efforts in the last financial year and at the same time thank Peter Waller, who resigned as a director and Chairman on the 4th February 2011, for his contribution to the Company.

Outlook

Top Layer is an established player in the enterprise market for high end network security systems and brings key proprietary intellectual property and a scalable software platform. The Group sees real opportunities to develop Top Layer's products and drive revenue growth. Our expertise will address the fast developing next generation firewall market and complement Top Layer's existing business by growing international sales channels.



Chairman's Statement

continued

The Business Systems division is expected to continue to produce a good profit contribution and continue to win new business in the growing academy market

Jens Montanana

Chairman

17 March 2011

Finance Report

for the year ended 31 December 2010

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.

In August 2010, the Group sold its Financial Markets division leaving the Business Systems division as its continuing operation.

For the year ended 31 December 2010, the Group reported a trading profit of £223,000 including a trading profit from discontinued operations of £108,000 (2009 £313,000 including a trading profit from discontinued operations of £350,000) and a profit after taxation of £404,000 (2009 loss £176,000).

The revenue from the Business Systems division grew by 12% from £2.7 million to £3.02 million and trading profit increased to £675,000 (2009 £544,000).

Central costs reduced by 4 per cent to £560,000 (2009 £581,000). Central costs relate to the Group. The additional costs of the new management team appointed in August 2010 are included in central costs.

As a result of share options issued in August 2010 to the new management team, there was a charge in the year of £131,000 (2009 £2,000).

Non trading items which include a holiday pay accrual, capitalisation of research and development, amortisation of research and development and non trading legal and professional fees were a net credit of £91,000 (2009 net credit £26,000). The increase in 2010 was due to an increase in the capitalised research and development.

Interest on the 8 per cent CULS up to the redemption in August 2010 was £199,000 (2009 £317,000 (a full year)). Interest paid during 2010 was £292,000 (2009 £241,000). The deferred interest due from 1 January 2009 on £2.0 million of the CULS was paid in August 2010.

The trading profit from discontinued operations was £108,000 (2009 £350,000) and the profit from discontinued operations was £4,000 (2009 £150,000). The profit before taxation on the disposal of discontinued operations was £492,000. Further details are provided in note 11.

Loss per share on continuing operations was 0.7p (2009 loss 21.5p). Profit per share including discontinued operations was 3.0p (2009 loss 11.6p).

Cash and financial position

The Group's cash and financial position has been transformed with the proceeds of the £6.5 million equity raising (before costs) and redemption of the £4.0 million CULS in August 2010.

The closing cash balance was £7.2 million (2009 £686,000). The net increase in cash and cash equivalents, excluding the proceeds of the share issue, was £117,000 (2009 net decrease £459,000).

The Group's net assets at the year end were £6,923,000 (2009 net liabilities £1,789,000).

Duncan Swallow

Group Financial Controller
17 March 2011

Directors' Report

for the year ended 31 December 2010

Principal activities and business review

The principal activity of the Group during the year ended 31 December 2010 was the development and sale of computer software and the provision of computer services primarily to the financial and education sectors. In August 2010 the Company raised £6.5 million (before costs) through a share subscription and placing, sold the Financial Markets division for the assumption of £2.0 million of the CULS (see note 11), and converted the remaining £2.0 million CULS to ordinary shares. A review of the Group's performance is disclosed within the Chairman's statement and Finance report.

Financial Performance Review

The Group's results for the year and financial position at the balance sheet date are set out in the Consolidated Statement of Comprehensive Income and Statement of Financial Position.

The revenue analysis for the year ended 31 December 2010 is summarised below:

	Continuing operations		Discontinued operations	
	£'000 2010	£'000 2009	£'000 2010	£'000 2009
Financial Markets Division	-	-	986	2,222
Business Systems Division	3,020	2,700	-	-
Total	<u>3,020</u>	<u>2,700</u>	<u>986</u>	<u>2,222</u>

By Category

Licence revenue	556	345	270	700
Professional services revenue	699	668	175	356
Support revenue	1,765	1,687	541	1,166
Total	<u>3,020</u>	<u>2,700</u>	<u>986</u>	<u>2,222</u>

The annual value of customer support contracts at the balance sheet date for continuing operations was £1.8 million (2009: £1.8 million).

The days sales outstanding (based on the count back method) for continuing operations was 40 (2009: 37 (including discontinued operations)).

The profit/(loss) before financing from continuing operations for the year ended 31 December 2009 and 2010 is summarised below:

2010	Business Systems Division £'000	Central Costs £'000	Total £'000
Trading profit/(loss)	675	(560)	115
Share options Charge	-	(131)	(131)
Other non trading items	153	(62)	91
Profit/(loss) before financing	<u>828</u>	<u>(753)</u>	<u>75</u>

Directors' Report

continued

2009

	Business Systems Division £'000	Central Costs £'000	Total £'000
Trading profit/(loss)	544	(581)	(37)
Share options Charge	-	(2)	(2)
Other non trading items	88	(62)	26
Profit/(loss) before financing	<u>632</u>	<u>(645)</u>	<u>(13)</u>

Principal risks and uncertainties facing the Group

The Business Systems Division operates in a mature market where a customers' need to change their existing financial and management information systems is generally driven by corporate changes. The market for financial and management information software is well established with a number of large suppliers who have the financial resources to discount 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 reduce the risk of potential attrition. This division's contracted support revenues for the year ended 31 December 2010 represented 60% of total revenue. As a result of Corero Business System's reputation for high levels of customer service aligned to a proven product offering at a competitive price, the business was successful in retaining and acquiring new customers in 2010.

Credit risk

The Group's principal financial assets are bank balances, short term deposits, and trade receivables.

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 dependent 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 banking institutions.

Dividends

The Directors have not recommended a dividend (2009 £nil)

Transfers to reserves

The profit for the year amounting to £404,000 (2009 loss £176,000) will be taken to retained earnings and carried forward to next year.

Post balance sheet events

On 7 February 2011, Corero announced the acquisition of Top Layer for a maximum consideration of \$15.3 million to be satisfied by shares, loan notes and cash, and a placing which raised £2.3 million before costs. The acquisition of Top Layer became effective on 2 March 2011.

On 2 March 2011, the Company raised £2.3 million (before costs) by way of a placing of 6,571,429 new ordinary shares at a price of 35p per share.

Directors' Report

continued

Directors

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

Ordinary shares held	31 December 2010		31 December 2009	
	Number	%	Number	%
Mr B Snowe	1,373	-	1,373	0.1
Mr R Last	7,333	-	7,333	0.5
Mr J Montanana	Appointed 6 August 2010 10,400,000	32.5	-	-
Mr A Miller	Appointed 6 August 2010 600,000	1.9	-	-
Mr P Waller	Resigned 4 February 2011 20,600	0.1	15,600	1.0
Mr M Robertson	Resigned 6 August 2010 -	-	163,049	10.7
Mr R Mitchell	Resigned 26 January 2010 32,166	0.1	66,833	4.4

Mr B Snowe, Mr J Montanana, Mr A Miller and Mr P Waller hold share options, details of the options are shown in note 31 to the Financial Statements

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:	31 December 2010		31 December 2009	
	Number	%	Number	%
Mr J Montanana*	10,400,000	32.54	-	-
Mr A Stewart**	5,500,000	17.21	-	-
Investec Bank plc	2,000,000	6.26	-	-
Herald Investment Management	2,000,000	6.26	-	-
F&C Asset Management	1,555,556	4.87	-	-
AXA Framlington Investment Management	1,467,602	4.59	122,046	8.0
UBK S p A	1,200,000	3.75	-	-

*of which 8,400,000 are held in the name of JPM International Limited, which is wholly owned by Mr J Montanana

** held in the name of BFG Investments Group Limited which is wholly owned by Mr A Stewart

Directors' Report

continued

Directors' biographies

Mr Bernard Snowe, Executive Director (aged 52) one of the founders of DSR UK Plc ("DSR"), was instrumental in helping to build the marketplace for Resource Financials and Resource EMS and was a key part of the management team retained following the acquisition of DSR by Corero in October 2000. Mr Snowe has over twenty years experience in the Accounting and MIS marketplace, and is highly experienced within the education sector in the UK, establishing Resource as the market leading finance application to Colleges and Academies. Prior to DSR, Mr Snowe was a consultant for the FPS Financial Services Group and Sales Manager for Hestair Dataline. He graduated in 1980 with BA (Hons) in Geography from Lancaster University.

Mr Richard Last, Non-executive Director (aged 53) is a fellow of the Institute of Chartered Accountants in England and Wales, has substantial experience in the IT software and services sectors and is chairman and non-executive director of The British Smaller Companies VCT 2 plc, which is listed on the main market of the London Stock Exchange, and Parseq plc, Patsystems plc and Arcontech Group PLC, all of which are AIM listed. He is also a non-executive director of AIM listed Lighthouse Group plc. In addition Mr Last is a director and shareholder of a number of private companies. Mr Last is chairman of the audit committee.

Mr Andrew Miller, COO and Executive Director (aged 47) was with the Datatec Limited group in a number of roles between 2000 and 2009 including the Logicalis Group Limited ("Logicalis") Operations Director and Corporate Finance and Strategy Director. Mr Miller led the Logicalis acquisition strategy, acquiring and integrating 12 companies in the US, UK, Europe and South America. Prior to this, Mr Miller gained considerable corporate finance experience in London with Standard Bank, West Deutsche Landesbank and Coopers & Lybrand. Mr Miller trained and qualified as a chartered accountant and has a bachelor's degree in commerce from the University of Natal, South Africa.

Mr Jens Montanana, Non-executive Chairman (aged 50) is the founder and CEO of Datatec Limited, established in 1986. Between 1989 and 1993 Mr Montanana served as managing director and vice-president of US Robotics (UK) Limited, a wholly owned subsidiary of US Robotics Inc, which was acquired by 3Com. In 1993, he co-founded US start up Xedia Corporation in Boston, an early pioneer of network switching and one of the market leaders in IP bandwidth management, which was subsequently sold to Lucent Corporation in 1999 for \$246 million. In 1994, Mr Montanana became CEO of Datatec Limited. Datatec Limited listed on the Johannesburg Stock Exchange in 1994 and on AIM in 2006. Mr Montanana has previously served on the boards and sub-committees of various public companies. Mr Montanana is chairman of the remuneration committee.

Group policy on payment of creditors

It is the Group's policy to agree terms of payment with suppliers when entering into each transaction, and to abide by them. The creditor days outstanding (based on the count back method) at 31 December 2010 was 24 days (2009 29 days (including discontinued operations)).

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. No environmental performance indicators are therefore 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."

Directors' Report

continued

Research and development

The development of computer software is an integral part of the Group's business and the Group continues to develop its core software in response to user demand and changes in software technology. During the year the Group enhanced its existing software products and developed new software products. An investment of £367,000 (2009 £292,000) was made during the year. Amortisation of £270,000 (2009 £297,000) was charged to the statement of comprehensive income during the year.

Employees

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

The key employee metrics are summarised below.

Continuing operations	2010	2009
Average length of service at balance sheet date	7.8 years	7.9 years
Staff turnover in period	3%	12%

Directors' Report

continued

Statement of Directors' Responsibilities for the Annual Report

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

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

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

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

In so far as each director is aware

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

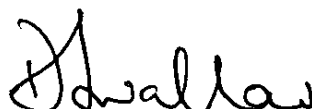
The directors are responsible for the maintenance and integrity of the corporate and financial information on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

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 489(4) of the Companies Act 2006.

Signed by order of the Board

Mr Duncan Swallow
Company Secretary



Approved by the Board of Directors on 17 March 2011

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 of Directors currently comprises the non executive chairman, two executive directors and one non-executive director. The Board of Directors intend to appoint a further independent non-executive director in 2011.

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

Executive directors normal retirement age is 60 and non-executive directors normal retirement age is 65. One third of all directors are subject to annual reappointment by shareholders.

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

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

Attendance at Board of Directors meetings during 2010

	22 Jan	11 Feb	11 Mar	25 Mar	15 Apr	19 May	20 Jun
P Waller	P	P	P	P	P	P	P
M Robertson	P	P	P	A	P	P	P
R Last	P	P	P	A	P	P	A
B Snowe	P	P	P	P	P	P	P
R Mitchell	A	n/a	n/a	n/a	n/a	n/a	n/a
J Montanana	n/a	n/a	n/a	n/a	n/a	n/a	n/a
A Miller	n/a	n/a	n/a	n/a	n/a	n/a	n/a

	12 Jul	20 Jul	10 Aug	2 Sept	15 Sept	20 Oct	8 Dec	15 Dec
P Waller	P	P	P	P	P	P	P	P
M Robertson	P	P	n/a	n/a	n/a	n/a	n/a	n/a
R Last	P	P	P	A	P	P	P	P
B Snowe	P	P	P	P	P	P	A	P
R Mitchell	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
J Montanana	n/a	n/a	A	A	P	P	P	P
A Miller	n/a	n/a	A	A	P	P	P	P

Key

P Present

A Not present

n/a Not applicable (post resignation or pre appointment)

Corporate Governance

continued

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 Director and Chairman of the Company, and meets twice a year. The Group Financial Controller, Chief Operating Officer 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 Last is chairman of the audit committee.

Director's attendance at Audit Committee meetings during 2010

		11 Mar	15 Dec
R Last		P	P
P Waller		P	P
A Miller		n/a	P

Remuneration Committee

The Remuneration Committee consists of the Chairman and the Non-executive Director. It meets at least twice a year and reviews and advises upon the remuneration and benefits packages of the executive directors. The remuneration of the chairman and non-executive directors is decided upon by the Board of Directors. Mr Montanana is chairman of the remuneration committee.

Director's attendance at Remuneration Committee meetings during 2010

		2 Feb	15 Sep
J Montanana		n/a	P
P Waller		P	P
R Last		P	P

Nominations Committee

Due to the size of the Board of Directors, 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 Board of Directors. The Board of Directors 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 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.

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

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

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

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

Remuneration report

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

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.

Executive directors have rolling service contracts with notice periods of not more than 6 months in writing. Pension provision is made at a rate of 10 per cent of basic salary for executive directors.

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 2010 are disclosed in note 31 of the Financial Statements.

Corporate Governance

continued

Going concern

The financial statements have been prepared on a going concern basis. The Group was profitable and generated cash from operating activities during the year.

The directors have prepared detailed profit, balance sheet and cash flow projections for the period to 31 December 2012 based on the enlarged group incorporating the acquisition of Top Layer which took place subsequent to the balance sheet date (see note 33). The cash flow projections have been subjected to sensitivity analysis at the revenue, cost and combined revenue and cost levels. The cash flow projections show that the Group will maintain a positive cash balance until at least 31 December 2012.

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 Auditor's Report

to the members of Corero plc

We have audited the financial statements of Corero plc for the year ended 31 December 2010 which comprise the Consolidated Statement of Comprehensive Income, the Group and parent Company Statement of Financial Position, the Group Consolidated Cash Flow Statement, the Group and parent Company Statements of Changes in Shareholders' Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2010 and of the Group's profit for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union,
- the parent Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditors' Report

continued

Matters on which we are required to report by exception

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

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

Grant Thornton UK LLP

Philip R Westerman
Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

17 March 2011

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2010

Group	Note	2010 £'000	2009* £'000
Revenue	2	3,020	2,700
Cost of sales		(230)	(148)
Gross profit		<u>2,790</u>	<u>2,552</u>
Trading expenses		(2,675)	(2,589)
Trading profit/(loss)**		115	(37)
Share options charge	31	(131)	(2)
Other non trading items	6	91	26
Profit/(loss) before financing	9	<u>75</u>	<u>(13)</u>
Finance income	7	32	-
Finance costs	8	(199)	(317)
Loss before taxation		<u>(92)</u>	<u>(330)</u>
Taxation	10	-	4
Loss for the year from continuing operations		<u>(92)</u>	<u>(326)</u>
Profit for the year from discontinued operations	11	4	150
Profit from sale of discontinued operations	11	492	-
Profit/(loss) for the year		<u>404</u>	<u>(176)</u>
Other comprehensive income		-	-
Profit/(loss) and total comprehensive income/(loss) for the year – attributable to equity holders of the parent		<u>404</u>	<u>(176)</u>
Basic and diluted (loss)/earnings per share	13		
Loss from continuing operations		(0 7p)	(21 5p)
Earnings from discontinued operations		3 7p	9 9p
Total		3 0p	(11 6p)

2009 restated for discontinued operations***Trading profit including discontinued operations £223,000 (2009: £313,000)**

The notes on pages 27 to 63 form part of these financial statements

Statement of Financial Position

as at 31 December 2010

	Note	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Assets					
Non-current assets					
Goodwill	14	509	1,677	-	-
Other intangible assets	15	596	1,119	-	-
Property, plant and equipment	16	36	78	-	-
Investment in subsidiaries	17	-	-	411	3,493
		1,141	2,874	411	3,493
Current assets					
Trade and other receivables	18	756	885	2,844	1,797
Other short term financial assets	18	64	-	64	-
Cash and cash equivalents		7,186	686	6,345	-
		8,006	1,571	9,253	1,797
Liabilities					
Current Liabilities					
Trade and other payables	19	(735)	(630)	(2)	-
Provisions	22	(4)	(12)	-	-
Deferred income	24	(1,485)	(1,458)	-	-
		(2,224)	(2,100)	(2)	-
Net current assets/(liabilities)		5,782	(529)	9,251	1,797
Non-current liabilities					
Convertible unsecured loan stock	20	-	(4,134)	-	(4,134)
		-	(4,134)	-	(4,134)
Net assets/(liabilities)		6,923	(1,789)	9,662	1,156
Shareholders' equity					
Ordinary share capital	25	319	15	319	15
Deferred share capital	25	4,542	4,542	4,542	4,542
Share premium	26	14,341	6,369	14,341	6,369
Merger reserve		1,023	1,023	1,023	1,023
Convertible unsecured loan stock equity reserve		-	146	-	146
Share options reserve		146	14	146	14
Retained earnings		(13,448)	(13,898)	(10,709)	(10,953)
Total surplus/(deficit) attributable to equity holders of the parent		6,923	(1,789)	9,662	1,156

Statement of Financial Position

continued

These financial statements were approved by the Board of Directors on 17 March 2011 and signed on their behalf

Andrew Miller
Director

A handwritten signature in black ink, appearing to read 'Andrew Miller', is written over a horizontal line.

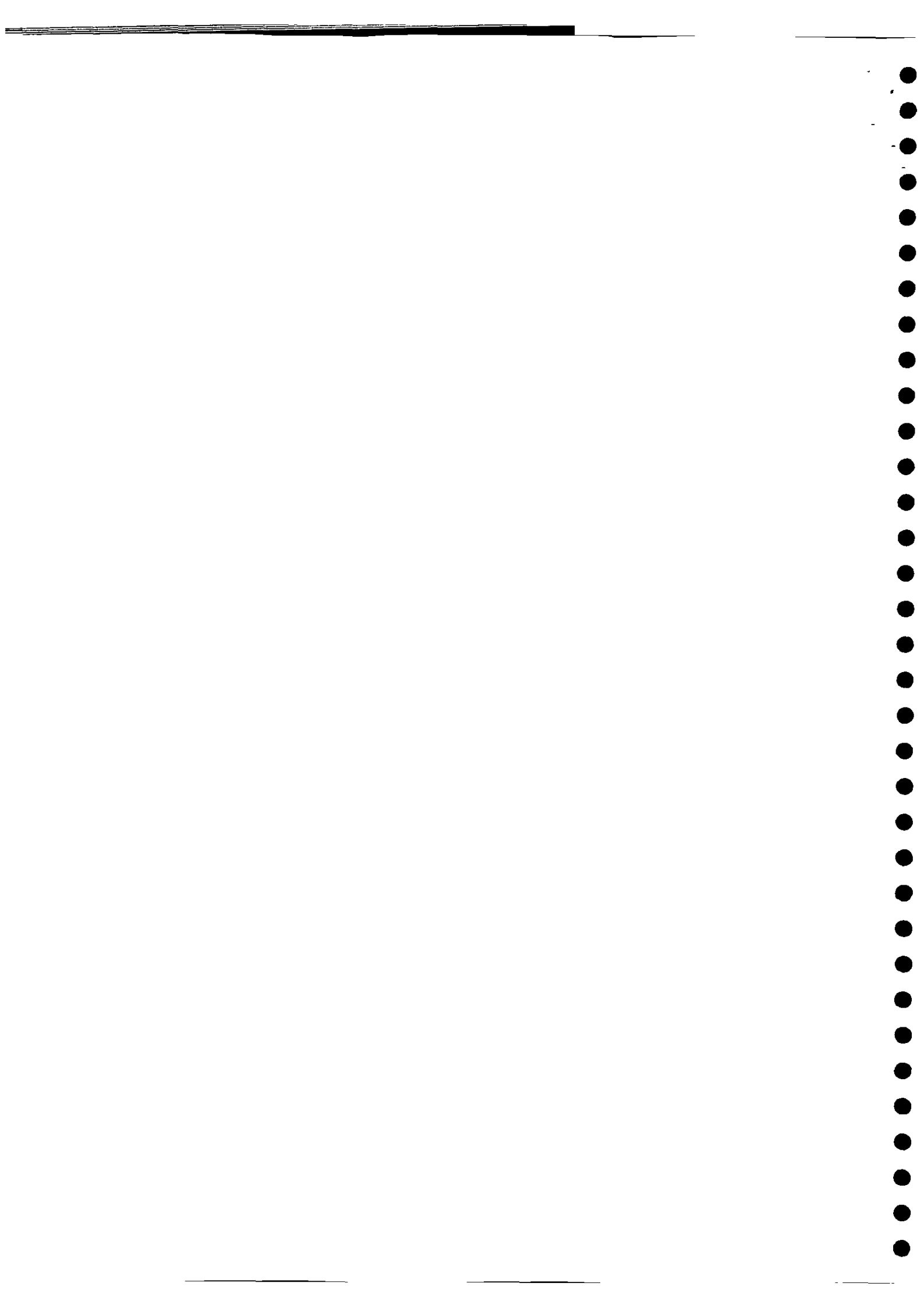
The notes on pages 27 to 63 form part of these financial statements

Consolidated Cash Flow Statement

for the year ended 31 December 2010

Group	Note	2010 £'000	2009 £'000
Net cash from operating activities	27	768	85
Cash flows from investing activities			
Purchase of intangible assets	15	(367)	(292)
Purchase of property, plant and equipment	16	(24)	(11)
Net cash (used in) investing activities		(391)	(303)
Cash flows from financing activities			
Proceeds from issue of share capital		6,383	-
Interest paid		(292)	(241)
Interest received	7	32	-
Net cash from/(used in) financing activities		6,123	(241)
Net increase/(decrease) in cash and cash equivalents		6,500	(459)
Cash and cash equivalents at 1 January		686	1,145
Cash and cash equivalents at 31 December		<u>7,186</u>	<u>686</u>

The notes on pages 27 to 63 form part of these financial statements



Consolidated statement of changes in shareholders' equity

for the year ended 31 December 2010

Group	Share capital	Share options reserve	CULS equity reserve	Merger reserve	Share premium account	Profit and loss reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
31 December 2009	4,557	14	146	1,023	6,369	(13,898)	(1,789)
Share based payments	-	132	-	-	-	-	132
Redemption of CULS			(146)			146	-
CULS fair value adjustments						567	567
Issue of share capital	304				7,972	(667)	7,609
Total comprehensive profit for year ended 31 December 2010	-	-	-	-	-	404	404
31 December 2010	4,861	146	-	1,023	14,341	(13,448)	6,923

Company	Share capital	Share options reserve	CULS equity reserve	Merger reserve	Share premium account	Profit and loss reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
31 December 2009	4,557	14	146	1,023	6,369	(10,953)	1,156
Share based payments	-	132	-	-	-	-	132
Redemption of CULS			(146)			146	-
CULS fair value adjustments						567	567
Issue of share capital	304				7,972	(667)	7,609
Total comprehensive profit for year ended 31 December 2010	-	-	-	-	-	198	198
31 December 2010	4,861	146	-	1,023	14,341	(10,709)	9,662

The notes on pages 27 to 63 form part of these financial statements

Share options reserve

A charge of £132,000 (2009 £2,000) was made during the period ended 31 December 2010 representing the increase in the estimated cost to the company of the issued 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 equity element, representing the embedded option to convert the liability into equity of the Group, was transferred to reserves at the inception of the original instrument in August 2006. The reserve was transferred directly to retained earnings on redemption of the CULS in August 2010.

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 2008.

Profit and loss reserve

The CULS were redeemed in two equal portions under two separate transactions in August 2010 – see note 20. The carrying value of the CULS at redemption was £4,027,000, half of

Consolidated statement of changes in shareholders' equity

for the year ended 31 December 2010

continued

this being £2,013,000 Half the CULS redeemed were fair valued at £1,333,000 The difference between the carrying value of £2,013,000 and the fair value of £1,333,000 of £680,000 was credited to the profit and loss reserve

The remaining half of the CULS were fair valued at £2,127,000 The difference between the carrying value of £2,014,000 and the fair value of £2,127,000 of £113,000 was debited to the profit and loss reserve

On conversion of half the CULS to equity, 4,444,444 1p ordinary shares were issued at 45p each, the share premium being £1,956,000 The fair value of the shares issued, based on the market value of the shares on the first day of trading, was 30p, giving a share premium of £1,289,000 The difference between the issue premium of £1,956,000 and the fair value premium of £1,289,000 of £667,000 was debited to the profit and loss reserve

Notes to the Financial Statements

1. General information

These consolidated financial statements are presented in pounds sterling, which represents the functional 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 2006.

2. Significant accounting policies

2.1 Basis of preparation

The Group and parent Company financial statements have been prepared in accordance with EU endorsed International Financial Reporting Standards (IFRS), International Financial Reporting Interpretations Committee (IFRIC) interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. No comparative statement of financial position has been presented for the financial year ended 31 December 2008 as there are no changes to the results previously reported.

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 profitable and generated cash from operating activities during the year.

The directors have prepared detailed profit, balance sheet and cash flow projections for the period to 31 December 2012 based on the enlarged group incorporating the acquisition of Top Layer which took place subsequent to the balance sheet date (see note 33). The cash flow projections have been subjected to sensitivity analysis at the revenue, cost and combined revenue and cost levels. The cash flow projections show that the Group will maintain a positive cash balance until at least 31 December 2012.

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 2010.

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.

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 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 at the start of 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 costs.

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 reporting date. Gains and losses arising from changes in exchange rates after the date of the transaction are recognised in profit or loss in the Statement of Comprehensive Income.

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

In the consolidated financial statements, the net assets of the Group's foreign operations are translated at the reporting date. Income and expense items are translated at the average rates for the period. The resulting exchange differences are recognised in other comprehensive income and included in the translation reserve. Such translation differences are recognised in profit or loss 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.



Notes to the Financial Statements

Continued

2. Significant accounting policies (continued)

Acquisition as part of a business combination

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

Intangible assets acquired as part of a business combination and recognised by the Group are 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

Amortisation costs are included within other non trading items in the Consolidated Statement of Comprehensive Income.

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.

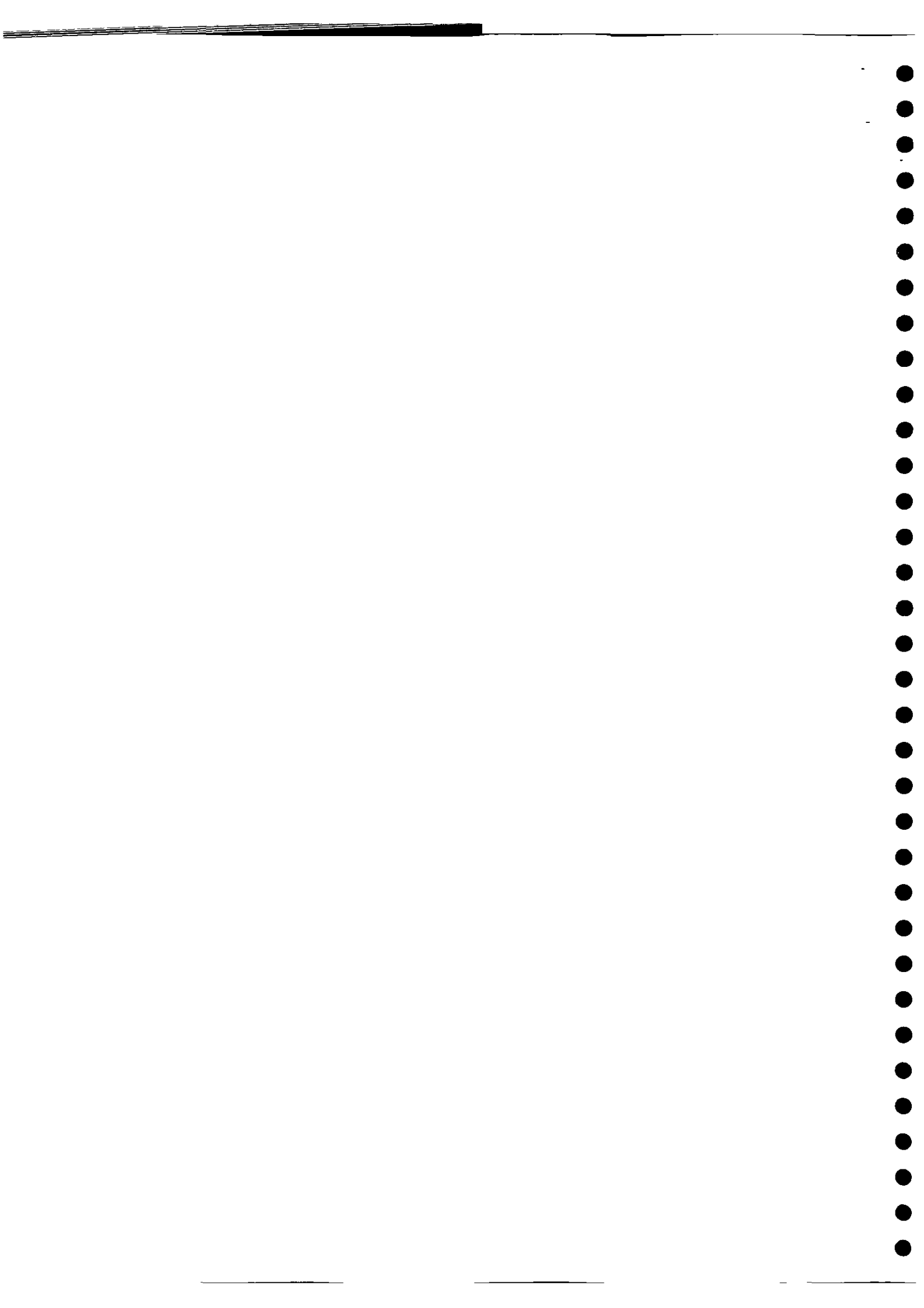
Subsequent costs are included in an asset's carrying value or are recognised as a separate asset when it is probable that future economic benefits associated with the additional expenditure will flow to the Group and the cost of the item can be measured reliably. All other costs are charged to the statement of comprehensive income 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 profit or loss.



Notes to the Financial Statements

continued

2. Significant accounting policies (continued)

2.10 Impairment

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

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

An impairment loss relating to assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in the profit or loss.

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

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

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit by first reducing the carrying amount of any goodwill allocated to the cash-generating unit, and then reducing the 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 profit or loss. Impairment losses on goodwill are not subsequently reversed.

2.11 Borrowing costs

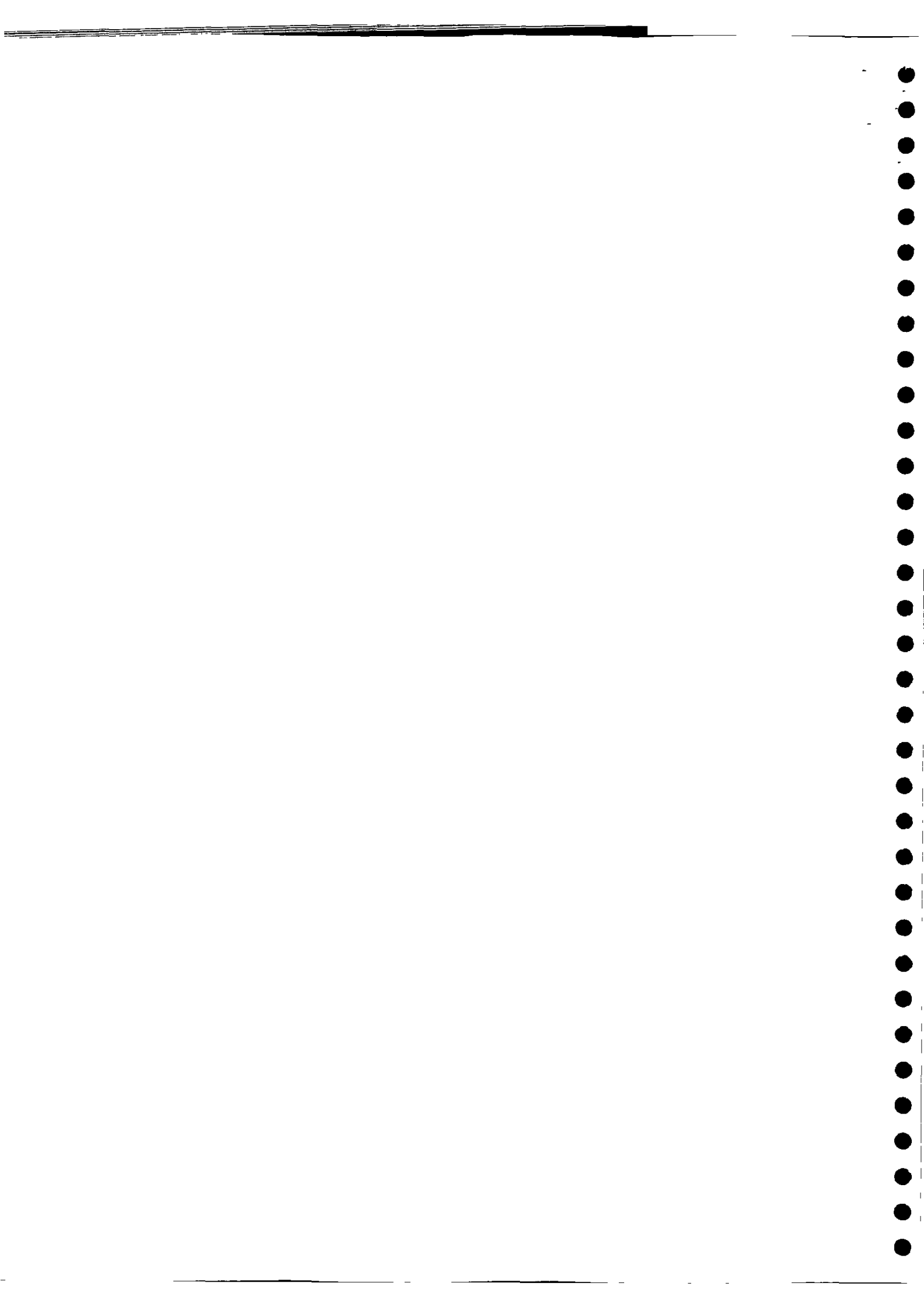
All borrowing costs directly attributable to a qualifying asset are capitalised as part of the cost of the asset.

2.12 Operating leases

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

2.13 Investments in subsidiaries

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



Notes to the Financial Statements

continued

2. Significant accounting policies (continued)**2.14 Taxation**

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

Current tax

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

Deferred tax

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

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

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

2.15 Provisions

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

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

2.16 Post-retirement benefits

The Group operates a defined contribution Group personal pension plan under which it is required to pay fixed contributions to separate funds controlled by trustees. Contributions to the scheme are based on a proportion of the employee's earnings and are charged to the profit or loss when incurred. The Group has no obligation to the scheme beyond these contributions.

Notes to the Financial Statements

continued

2. Significant accounting policies (continued)

2.17 Financial instruments

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

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

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

Trade and other receivables

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

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits on call with banks and bank overdrafts. Bank overdrafts are disclosed as current borrowings in the statement of financial position

Trade and other payables

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

Convertible unsecured loan stock

Under International Accounting Standard 32 (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 loan 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)

2.18 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.

2.19 Employee share option schemes

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

At each reporting date, the Group revises its estimate of the number of options that are expected to become exercisable.

When share options are exercised, the proceeds received, net of any transaction costs, are credited to share capital (nominal value) and share premium.

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.

2.20 Profit from discontinued operations

A discontinued operation is a component of the Company that has been disposed of and represents a separate major line of business or geographical area of operations.

The profit from discontinued operations, including prior year components of profit, are presented in a single amount in the income statement. The amounts, which comprise the post-tax profit of discontinued operations and the post-tax gain resulting from the disposal of the assets of discontinued operations, are further analysed in note 11.

The disclosures for discontinued operations in the prior year relate to all operations that have been discontinued by the reporting date for the latest period presented.

2.21 Standards and Interpretations not yet effective

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's Financial Statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

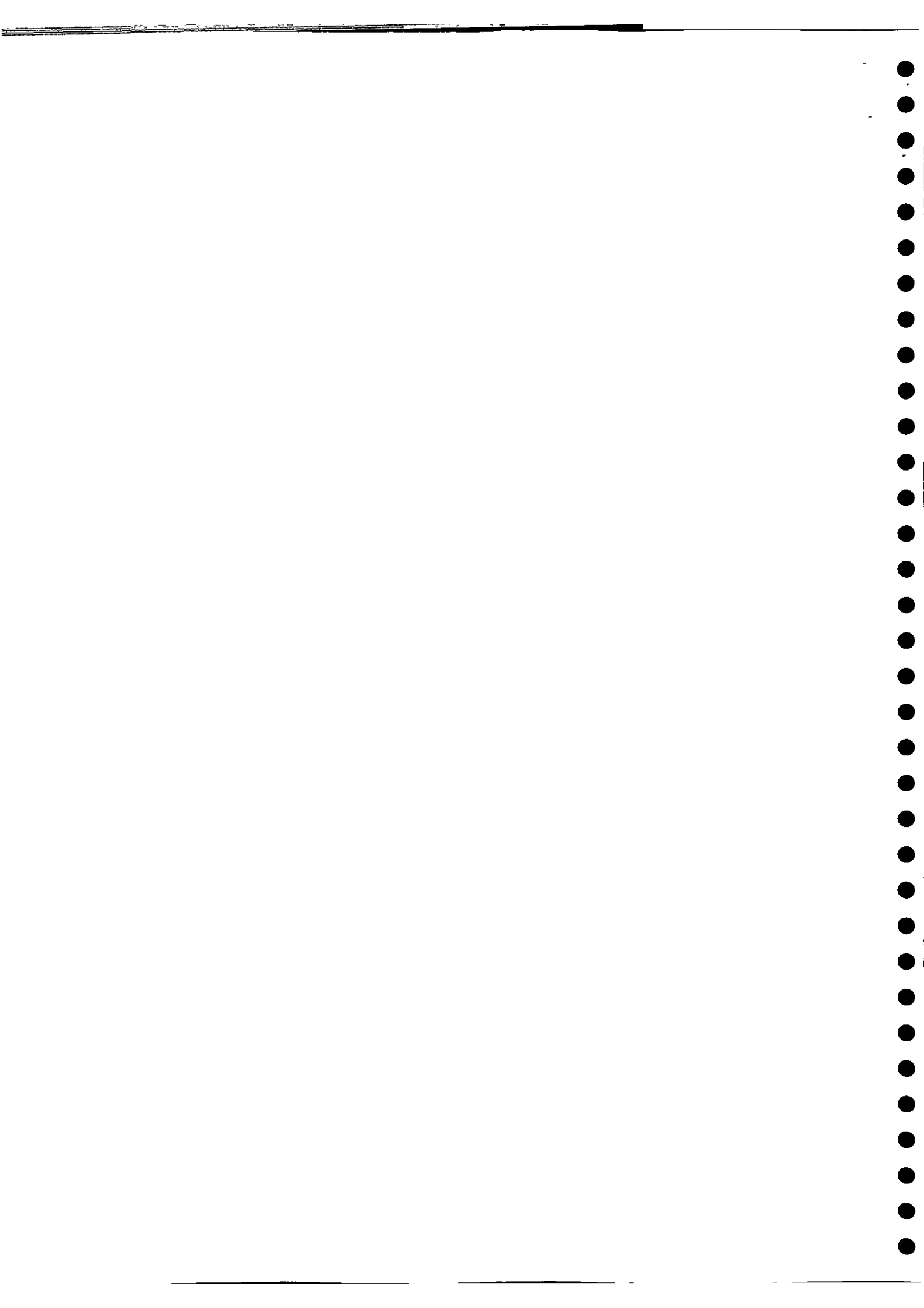


Notes to the Financial Statements

continued

Annual Improvements 2010 (effective from 1 July 2010 and later)

The IASB has issued Improvements to IFRS 2010 (2010 Improvements). Most of these amendments become effective in annual periods beginning on or after 1 July 2010 or 1 January 2011. The 2010 Improvements amend certain provisions of IFRS 3R, clarify presentation of the reconciliation of each of the components of other comprehensive income and clarify certain disclosure requirements for financial instruments. The Group's preliminary assessments indicate that the 2010 Improvements will not have a material impact on the Group's Financial Statements.



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

Internally generated research and development costs

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

3.2 Key accounting estimates and assumptions

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

Impairment of intangible assets and property, plant and equipment

The Group tests goodwill at least annually for impairment, and whenever there is an indication that the asset may be impaired. All other intangible assets and property, plant and equipment are tested for impairment when indicators of impairment exist. Impairment is determined with reference to the higher of fair value less costs to sell and value in use. Value in use is estimated using 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

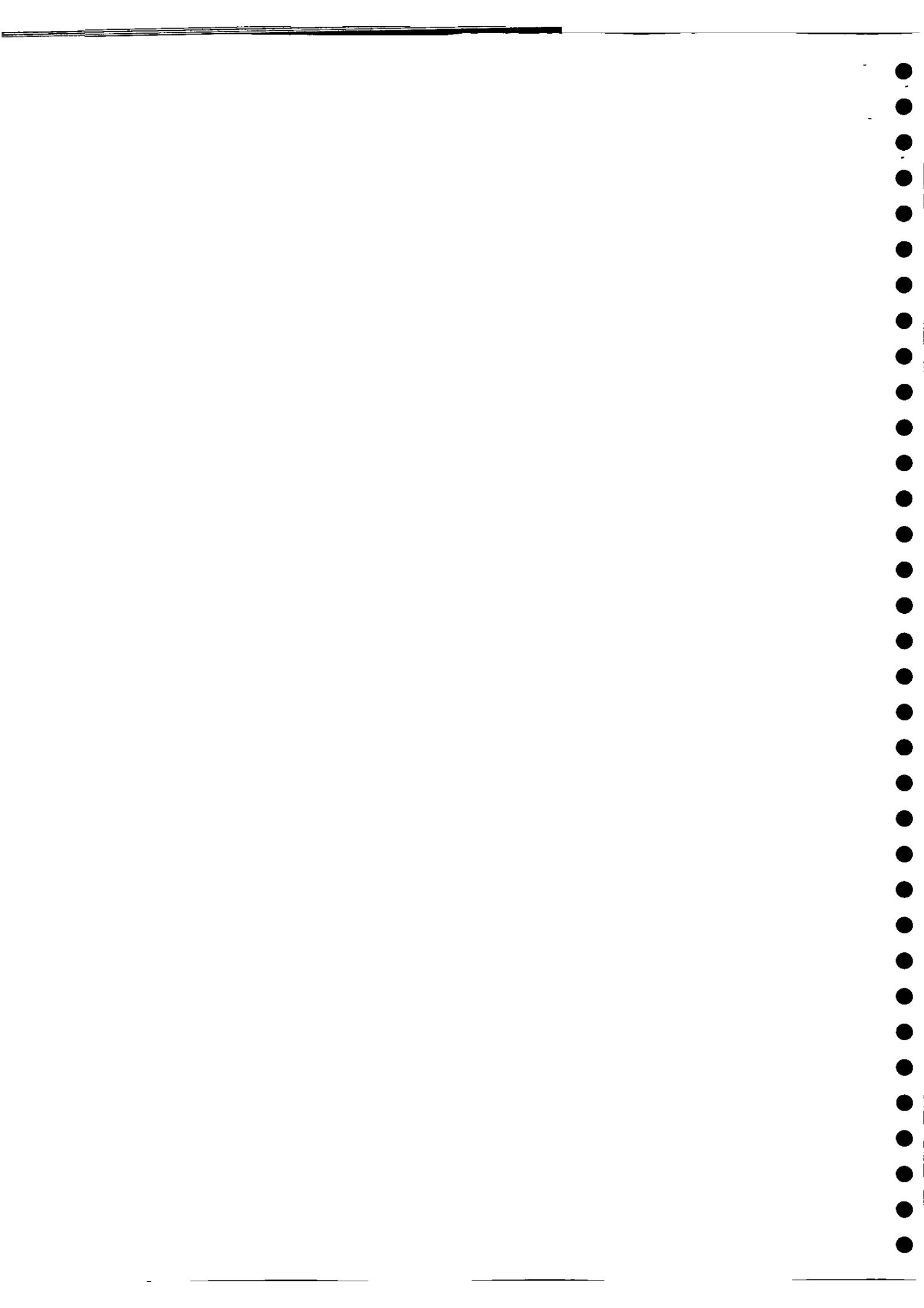
The directors have reviewed the carrying value of the intercompany balances and cost of investments in subsidiaries of Corero plc with reference to current and future trading conditions and have impaired the intercompany balance between the Company and Corero Systems Limited based on the estimated market value of Corero Systems Limited. The estimated market value has been calculated by reference to a multiple of the 2011 budgeted revenue which the directors consider to be an appropriate valuation method. Consideration was also given to the sum of a discounted future cash flow based on profitability. This method gave a similar result as the revenue multiplier.

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 note 2.1.

Conversion of CULS to equity

On 6 August 2010, £2.0 million of CULS were converted to equity shares. The directors have used all information available to them to ascertain a fair value for the liability as at the date of conversion as £1.3 million. This involved a number of judgements and estimation/valuation techniques to determine the fair value. The credit of £0.7 million has been credited to retained earnings in accordance with accounting standards.



Notes to the Financial Statements

continued

4,444,444 ordinary 1p shares were issued at closing mid-market price of 30p to satisfy the conversion. The directors consider the mid-market price to represent the best estimate of the fair value of shares issued at that date.



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 ('CULS'), equity fundraisings and cash generated from operations although the CULS were disposed of in full during the year. As disclosed elsewhere (notes 11 and 20) in the Financial Statements, the CULS were settled through the sale of the Financial Markets division and conversion to ordinary shares in August 2010.

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 18).

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.

Interest rate sensitivity

The Group's policy is to minimise interest rate cash flow risk exposure on its financing. The interest rate on the CULS was fixed. The Group and Company no longer require a source of interest bearing financing, 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.



Notes to the Financial Statements

continued

5. Segment reporting

Business segments

The Group was managed according to two operating divisions Financial Markets and Business Systems. The Financial Market division was sold in August 2010 thereby becoming a discontinued operation. The Business System division remained within the Group. These divisions are the basis on which the Group reports its operating segment information. The Business Systems division develops and supplies accounting and management information software solutions to the education and business sectors. The Financial Markets division developed and supplied software products for financial institutions.

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. Unallocated costs comprise mainly central and parent company overheads.

Continuing Operations

	Business Systems		Unallocated		Total	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Revenue from external customers	3,020	2,700	-	-	3,020	2,700
Trading profit/(loss)	675	544	(560)	(581)	115	(37)
Share options charge	-	-	(131)	(2)	(131)	(2)
Other non trading items	153	88	(62)	(62)	91	26
Profit/(loss) before financing	828	632	(753)	(645)	75	(13)
Finance income	-	-	32	-	32	-
Finance costs	-	-	(199)	(317)	(199)	(317)
Profit/(loss) before taxation	828	632	(920)	(962)	(92)	(330)
Taxation	-	-	-	4	-	4
Profit/(loss) for the year from continuing operations	828	632	(920)	(958)	(92)	(326)

Discontinued Operations

	Financial Markets	
	2010 £'000	2009 £'000
Revenue from external customers	986	2,222
Trading profit	108	350
Other non trading items	(104)	(200)
Profit before financing	4	150

In addition, the profit on sale of discontinued operations was £492,000

Notes to the Financial Statements

continued

5. Segment reporting (continued)

	Business Systems		Unallocated		Total	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Goodwill	509	509	-	-	509	509
Other intangible assets	596	446	-	-	596	446
Property, plant & equipment	36	36	-	-	36	36
Non current assets	1,141	991	-	-	1,141	991
Trade and other receivables	532	319	288	157	820	476
Cash and cash equivalents	-	-	7,186	686	7,186	686
Total assets	1,673	1,310	7,474	843	9,147	2,153
Segment liabilities	(252)	(121)	(487)	(4,584)	(739)	(4,705)
Deferred income	(1,485)	(1,237)	-	-	(1,485)	(1,237)
Total liabilities	(1,737)	(1,358)	(487)	(4,584)	(2,224)	(5,942)
Net assets/(liabilities)	(64)	(48)	6,987	(3,741)	6,923	(3,789)

See page 41 for a reconciliation of segmental net assets/(liabilities) to the Group net assets/(liabilities)

Other segment items:

	Business Systems		Unallocated		Total	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Depreciation	22	27	-	-	22	27
Amortisation of intangible assets	175	145	-	-	175	145

The Group's revenues from external customers and its non-current assets are divided into the following geographical areas

Continuing operations

Geographical area	2010 £'000	2010 £'000	2009 £'000	2009 £'000
	Revenue	Non-current assets	Revenue	Non-current assets
United Kingdom (domicile)	3,020	1,141	2,700	991
Total	3,020	1,141	2,700	991

Discontinued operations

Geographical area	2010 £'000	2010 £'000	2009 £'000	2009 £'000
	Revenue	Non-current assets	Revenue	Non-current assets
United Kingdom (domicile)	634	-	1,984	1,883
Europe	108	-	105	-
USA	25	-	26	-
Other countries	219	-	107	-
Total	986	-	2,222	1,883

Notes to the Financial Statements

continued

5. Segment reporting (continued)

Revenues from external customers in the Group's domicile, United Kingdom, as well as its major markets have been identified on the basis of the Group's invoicing systems

The Group's revenue may be analysed as follows for each revenue category

	Continuing operations		Discontinued operations	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Licence revenue	556	345	270	700
Professional services revenue	699	668	175	356
Support revenue	1,765	1,687	541	1,166
Totals	3,020	2,700	986	2,222

The totals presented for the Group's operating segments reconcile to the entity's key financial figures as presented in its Financial Statements as follows

Segmental revenues	2010	2009
	£'000	£'000
Segmental revenues	3,020	2,700
Discontinued operations	986	2,222
Group revenues	4,006	4,922

Segmental profit/(loss)	2010	2009
	£'000	£'000
Segmental profit/(loss) before financing	75	(13)
Result from discontinued operations	4	150
Profit from sale of discontinued operations	492	-
Finance income	32	
Finance costs	(199)	(317)
Taxation	-	4
Group profit/(loss)	404	(176)

Segmental net assets/(liabilities)	2010	2009
	£'000	£'000
Segmental assets	9,147	2,153
Discontinued operations	-	2,292
Segmental liabilities	(2,224)	(5,942)
Discontinued operations	-	(292)
Group net assets/(liabilities)	6,923	(1,789)

Notes to the Financial Statements

continued

6. Other non trading items

	2010	2009
	£'000	£'000
Holiday pay accrual	(6)	(10)
Capitalisation of research and development	326	221
Amortisation of research and development	(168)	(131)
Legal and professional fees relating to CULS redemption and new share option schemes	(61)	-
Legal and professional fees relating to CULS amendments and new Memorandum and Articles of Association	-	(54)
	<u>91</u>	<u>26</u>

7. Finance income

	2010	2009
	£'000	£'000
Interest on bank deposits	<u>32</u>	<u>-</u>

8. Finance costs

	2010	2009
	£'000	£'000
Interest payable on CULS	(176)	(240)
Amortisation of notional CULS interest charges	(23)	(76)
Bank interest payable	-	(1)
	<u>(199)</u>	<u>(317)</u>

9. Loss for the year

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

	2010	2010	Total
	Continuing	Discontinued	Total
	£'000	£'000	£'000
Depreciation of property, plant and equipment (note 16)	22	13	35
Amortisation of intangibles (note 15)	175	160	335
Operating lease rentals payable	71	83	154
Trade receivables impairment	(4)	-	(4)

	2009	2009	Total
	Continuing	Discontinued	Total
	£'000	£'000	£'000
Depreciation of property, plant and equipment (note 16)	27	27	54
Amortisation of intangibles (note 15)	145	269	414
Operating lease rentals payable	72	170	242
Trade receivables impairment	(8)	-	(8)

Notes to the Financial Statements

continued

Auditor's remuneration	2010	2009
	£'000	£'000
Service to the Company and its subsidiaries		
Fees payable to the Company's auditor for the audit of the annual financial statements	33	31
Fees payable to the Company's auditor for other services	-	2
Fees payable to the Company's auditors for taxation services	22	6

Fees payable to Grant Thornton UK LLP for non-audit services to the Company itself are not disclosed in the individual accounts of Corero plc because the Company's consolidated accounts are required to disclose such fees on a consolidated basis

10. Tax on loss on ordinary activities

The tax assessed on the loss on ordinary activities for the year differs from the UK corporate rate of tax of 28% (2009 28%) The differences are reconciled below

	2010	2009
	£'000	£'000
Current tax		
Adjustments in respect of prior period	-	(4)
Total tax reconciliation		
Loss on ordinary activities before taxation and result from discontinued operations	(92)	(330)
Theoretical tax credit at UK Corporation tax rate 28% (2009 28%)	(26)	(92)
Effect of:		
-adjustments in respect of prior years	-	(4)
-other expenditure that is not tax deductible	102	2
-accelerated capital allowances	(3)	10
-other timing differences	(3)	(2)
-losses utilised/not utilised	(70)	40
Actual current taxation credit	-	(4)

Factors Affecting Future Tax Charge

As at 31 December 2010, the Group's cumulative movements on accelerated capital allowances claimed was £54,000 (2009 £58,000)

In addition, the Group's disallowed provisions as at 31 December 2010 amounted to £13,000 (2009 £7,000) and its tax losses at that date amounted to £4,834,000 (2009 £7,035,000)

The resultant deferred tax asset at a rate of 26% (2009 28%) of £1,257,000 (2009 £2,002,000) has not been recognised due to uncertainties as to the extent and timing of its future recovery

Notes to the Financial Statements

continued

11. Discontinued Operations

11.1 Profit from sale of discontinued operations

On 6 August 2010, the business and assets of the Financial Markets division were sold for a total consideration of £2,127,000, settled by the assumption by the purchaser of the Company's liability to CULS holders with a nominal value of £2 0million and deferred interest of £127,000. The carrying value of the Financial Markets division was considered to approximate to its fair value, having taken into account historical and forecast results for the division. The profit on disposal of the division amounted to £492,000, further details of which are set out below.

11.2 Results from discontinued operations up to the date of disposal

	2010	2009
	£'000	£'000
Revenue	986	2,222
Cost of sales	(49)	(53)
Gross profit	<u>937</u>	<u>2,169</u>
Trading expenses	(829)	(1,819)
Trading profit	<u>108</u>	<u>350</u>
Other non trading items	(104)	(200)
Profit before taxation	<u>4</u>	<u>150</u>
Taxation	-	-
Profit for the year	<u><u>4</u></u>	<u><u>150</u></u>

The profit on the sale can be analysed as follows

	£'000	£'000
Disposal proceeds		2,127
Net assets disposed of		
Goodwill	(1,168)	
Customer contracts and related customer relationships	(233)	
Research and development	(322)	
Fixed assets	<u>(34)</u>	<u>(1,757)</u>
Deferred income release	337	
Legal and professional fees	(101)	
Bonuses and benefits	(24)	
Property related costs	<u>(90)</u>	<u>122</u>
Profit on sale		<u><u>492</u></u>

Notes to the Financial Statements

Continued

Cash flows generated by the Financial Markets division until the date of disposal are summarised as follows

	2010 £'000	2009 £'000
Profit before taxation	4	150
Adjustments for		
Depreciation	13	27
Amortisation of intangibles	160	269

Changes in working capital

Decrease/(increase)		
in trade and other receivables	409	(32)
Decrease in payables	(293)	(219)
Cash generated from discontinued operations	<u>293</u>	<u>195</u>

12. Profit/(loss) of the parent Company for the financial year

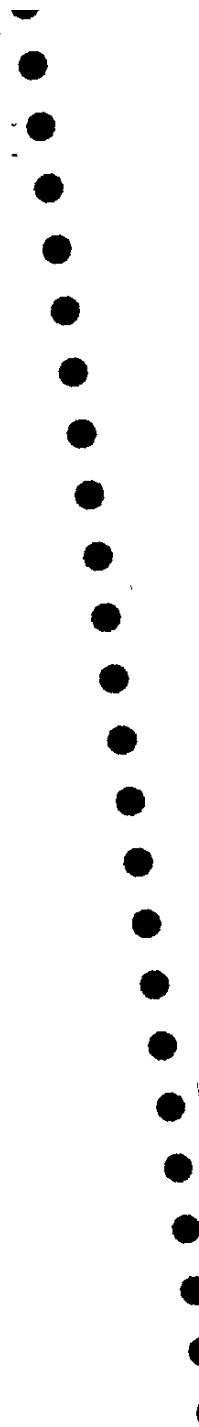
The Company has taken advantage of section 408 of the Companies Act 2006, and has not included an income statement in these financial statements. The parent Company profit for the year was £198,000 (2009 loss £3,886,000)

13. Profit/(loss) per share

Basic loss per share is calculated by dividing the profit/(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

	2010	2009
Loss £'000 after taxation – continuing operations	(92)	(326)
Basic loss per share – continuing operations	(0.7p)	(21.5p)
Profit £'000 – discontinued operations	496	150
Basic profit per share – discontinued operations	3.7p	9.9p
Weighted average number of ordinary shares	13,529,948	1,518,990



Notes to the Financial Statements

Continued

14. Goodwill

Group	2010	2009
	£'000	£'000
Cost		
At 1 January	2,360	2,360
Disposal (note 11)	(1,851)	-
At 31 December	<u>509</u>	<u>2,360</u>
Impairment		
At 1 January	683	683
Disposal (note 11)	(683)	-
At 31 December	<u>-</u>	<u>683</u>
Carrying amount at 31 December	<u>509</u>	<u>1,677</u>

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 2010 goodwill relates solely 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 four year period. The key assumptions for the value-in-use calculations are those regarding growth and discount rates. The average revenue growth rate of 7 per cent for the Business Systems division is 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 projections are derived from the most recent financial forecasts approved by management. Future cash flows are discounted in line with the weighted average cost of capital of 10% pre-tax.

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

15. Other intangible assets

Group	Computer software £'000	Customer contracts £'000	Total £'000
Cost			
At 1 January 2009	1,483	668	2,151
Additions			
-internally generated	292	-	292
At 31 December 2009	1,775	668	2,443
Additions			
-internally generated	367	-	367
Disposals (note 11)	(895)	(668)	(1,563)
At 31 December 2010	1,247	-	1,247
Amortisation			
At 1 January 2009	(629)	(281)	(910)
Charge for year	(318)	(96)	(414)
At 31 December 2009	(947)	(377)	(1,324)
Charge for year	(277)	(58)	(335)
Disposals (note 11)	573	435	1,008
At 31 December 2010	(651)	-	(651)
Net book value			
At 31 December 2009	828	291	1,119
At 31 December 2010	596	-	596

Company

The Company has no intangible fixed assets (2009 £nil)

On the acquisition of Blue Curve Limited in January 2006 certain intangible assets (in accordance with IAS38) were acquired, namely customer contracts and the related customer relationships. These intangible assets were disposed of as part of the sale of the Financial Markets division (see note 11). Development expenditure which has been capitalised in accordance with IAS 38 has been included in computer software above.

Notes to the Financial Statements

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16. Property, plant and equipment

Group	Computer Equipment £'000	Fixtures & Fittings £'000	Office Equipment £'000	Leasehold Improvements £'000	Total £'000
Cost					
At 1 January 2009	290	59	57	127	533
Additions	10	1	-	-	11
Disposals	(37)	(1)	-	(5)	(43)
At 31 December 2009	263	59	57	122	501
Additions	20	2	2	-	24
Disposals (note 11)	(126)	(22)	(16)	(60)	(224)
At 31 December 2010	157	39	43	62	301
Depreciation					
At 1 January 2009	(250)	(25)	(57)	(79)	(411)
Charge for year	(25)	(13)	-	(16)	(54)
Disposals	37	-	-	5	42
At 31 December 2009	(238)	(38)	(57)	(90)	(423)
Charge for year	(15)	(8)	-	(12)	(35)
Disposals (note 11)	122	17	14	40	193
At 31 December 2010	(131)	(29)	(43)	(62)	(265)
Net book value					
At 31 December 2009	25	21	-	32	78
At 31 December 2010	26	10	-	-	36

Company

The Company has no property, plant and equipment (2009 £nil)

Software which is not integral to the equipment has been included in other intangible assets in accordance with IAS 38

17. Investments in subsidiaries

	2010 Company £'000	2009 Company £'000
Cost and net book value		
At 1 January	3,493	3,493
Investment write down	(3,082)	-
At 31 December	411	3,493

The Company owns 100% of the ordinary issued share capital of Corero Systems Limited, Eclipse Learner Systems Limited and Corero Dormant One Limited (formerly Blue Curve Limited). All three companies are incorporated and registered in England and Wales. Corero Systems Limited's principal activity is the development of computer software and consultancy. Eclipse Learner Systems Limited and Corero Dormant One Limited are dormant.

Notes to the Financial Statements

continued

companies During the year, applications were filed at Companies House to strike off Eclipse Learner Systems Limited and Corero Dormant One Limited (formerly Blue Curve Limited) Corero Dormant One owns 100% of the share capital of Corero North America and Corero Dormant Two Corero North America has one employee and no income Corero North America is incorporated and registered in the USA Corero Dormant Two owns 100% of the issued share capital of Corero Dormant Three Both companies are incorporated and registered in England and Wales The Group has used acquisition accounting to account for its acquisitions

18. Trade and other receivables

	2010	2009	2010	2009
	Group	Group	Company	Company
	£'000	£'000	£'000	£'000
Trade receivables	540	462	-	-
Less provision for impairment	(10)	(15)	-	-
Net trade receivables	530	447	-	-
Amounts owed by subsidiaries	-	-	2,844	1,797
Other debtors	66	77	64	-
Prepayments and accrued income	224	361	-	-
	<u>820</u>	<u>885</u>	<u>2,908</u>	<u>1,797</u>

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 reporting date

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

	2010	2009
	Group	Group
	£'000	£'000
Not more than 3 months	248	275
More than 3 months but not more than 6 months	59	5
More than 6 months but not more than 1 year	5	25
More than one year	-	33
	<u>312</u>	<u>338</u>

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

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

	2010	2009	2010	2009
	Group	Group	Company	Company
	£'000	£'000	£'000	£'000
In one year or less, or on demand	818	811	64	-
In more than two years, but not more than five years	2	74	2,844	1,797
	<u>820</u>	<u>885</u>	<u>2,908</u>	<u>1,797</u>

Notes to the Financial Statements

continued

Classification of Financial Assets

	2010	2009	2010	2009
	Group	Group	Company	Company
	£'000	£'000	£'000	£'000
Financial assets loans and receivables	596	524	64	-
Non-financial assets	224	361	2,844	1,797
	<u>820</u>	<u>885</u>	<u>2,908</u>	<u>1,797</u>

19. Trade and other payables

	2010	2009	2010	2009
	Group	Group	Company	Company
	£'000	£'000	£'000	£'000
Trade payables	164	132	-	-
Other taxation and social security	203	174	-	-
Other payables	3	17	-	-
Accruals	365	307	2	-
	<u>735</u>	<u>630</u>	<u>2</u>	<u>-</u>

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

	2010	2009	2010	2009
	Group	Group	Company	Company
	£'000	£'000	£'000	£'000
Financial liabilities loans and payables	735	630	2	-
	<u>735</u>	<u>630</u>	<u>2</u>	<u>-</u>

20. Borrowings

	2010	2009	2010	2009
	Group	Group	Company	Company
	£'000	£'000	£'000	£'000
Non-current				
Convertible unsecured loan stock	-	4,134	-	4,134

The circular to the shareholders and CULS holders dated 14 July 2010 contained details of two separate offers to the CULS holders

(i) CULS offer - in respect of each holding of CULS the Company offered holders to redeem 50% of every £1 nominal of CULS holding in consideration for

- £1 nominal of 8% Rivington Street Ventures Limited stock
- £0 0638905 zero coupon Rivington Street Ventures Limited stock



Notes to the Financial Statements

Continued

20. Borrowings (continued)

(ii) CULS compromise - in respect of the balance of each holding to compromise their rights and the obligations and liabilities of the Company shall be released in consideration for the issue of one new ordinary share for every £0.45 nominal of CULS

At the meeting of the CULS holders on 6 August 2010, the CULS holders voted to accept to redeem 50% of every £1 nominal of CULS holding in consideration for £1 nominal of 8 per cent Rivington Street Ventures Limited stock and £0.0638905 zero coupon Rivington Street Ventures Limited stock (CULS offer)

This equated to a total offer value of £2.1 million. The carrying value at 6 August 2010 of 50% of the CULS liability was £2.0 million. The fair value of the CULS redeemed was determined by the directors to be £2.1 million based on the combined value of the 8 per cent stock and zero coupon stock issued by Rivington, Rivington being an independent third party. The difference between the liability and the fair value was debited to retained earnings during the year.

At the meeting of the CULS holders on 6 August 2010, the CULS holders voted to accept an offer to compromise their rights for 50% of every £1 nominal of CULS holding (the CULS compromise), in consideration for the issue of one new ordinary share for every £0.45 nominal of CULS. This equated to 4,444,444 ordinary shares for £2.0 million of £1 nominal CULS.

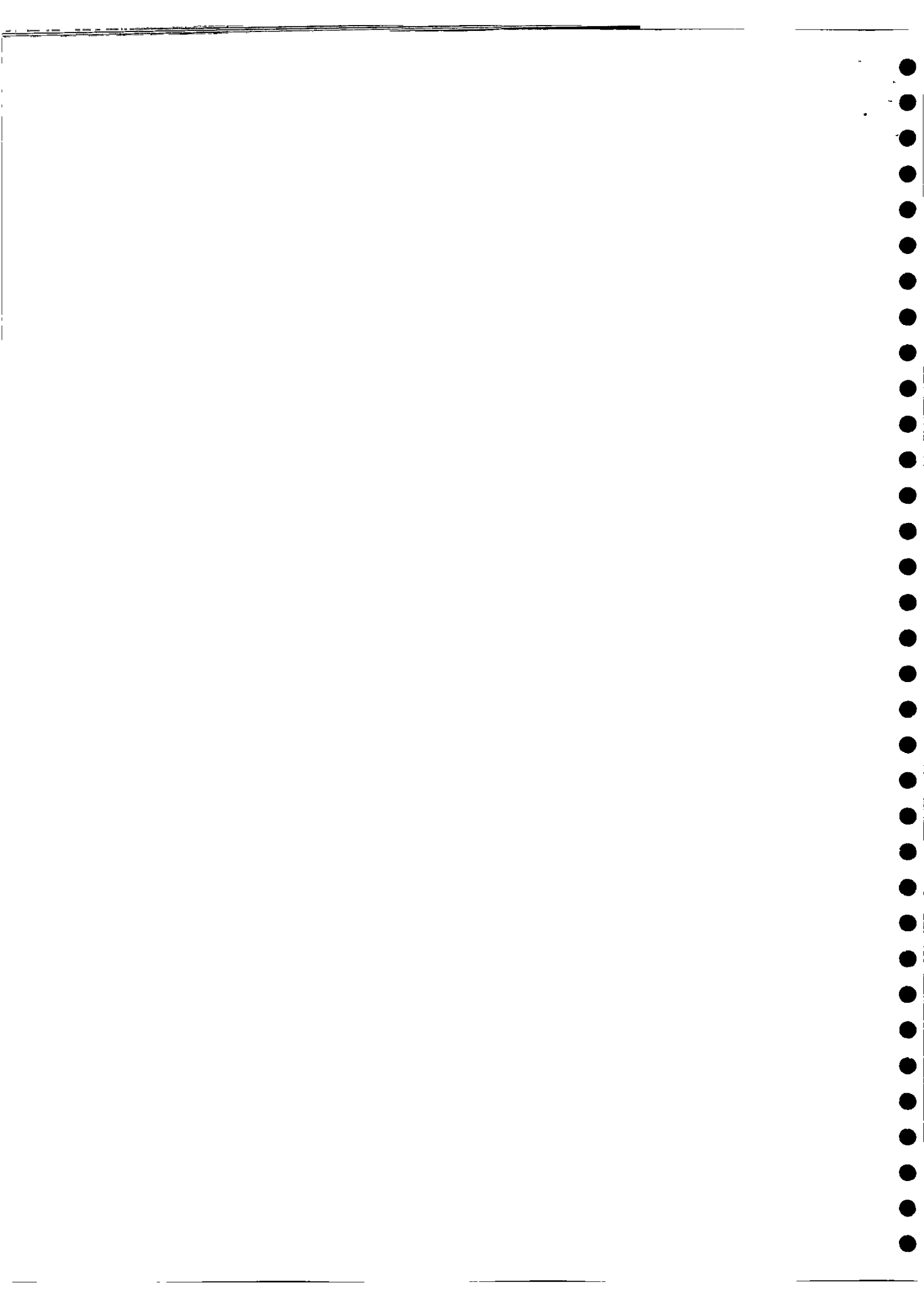
The fair value of the CULS redeemed was determined by the directors to be £1.3 million. This was based on the 4,444,444 issued shares multiplied by the market value of 30p per share on 9 August 2010, the first day of trading of the new shares.

The carrying value at 9 August 2010 of 50% of the CULS liability was £2.0 million. The difference between the carrying value and the fair value was credited to retained earnings during the year.

At 31 December 2010, the Group liabilities have contractual maturities which are summarised below. These contractual maturities reflect the payment obligations which may differ from the carrying values of the liabilities at the balance sheet date.

Group	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
	In one year or less, or on demand		More than five years	
Trade payables	164	132	-	-
Other short term financial liabilities	575	510	-	-
Convertible unsecured loan stock	-	-	-	5,920
Total	739	642	-	5,920

Company	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
	In one year or less, or on demand		More than five years	
Other short term financial liabilities	2	-	-	-
Convertible unsecured loan stock	-	-	-	5,920
Total	2	-	-	5,920



Notes to the Financial Statements

continued

21. Financial instruments

Group	Book Value	Fair Value	Book Value	Fair Value
	2010	2010	2009	2009
	£'000	£'000	£'000	£'000
Financial assets				
Loans and receivables	596	596	524	524
Cash	7,186	7,186	686	686
	<u>7,782</u>	<u>7,782</u>	<u>1,210</u>	<u>1,210</u>

Group	Book Value	Fair Value	Book Value	Fair Value
	2010	2010	2009	2009
	£'000	£'000	£'000	£'000
Financial liabilities				
Financial liabilities at amortised cost	735	735	630	630
Provisions	4	4	12	12
Convertible unsecured loan stock	-	-	4,134	4,000
	<u>739</u>	<u>739</u>	<u>4,776</u>	<u>4,642</u>

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

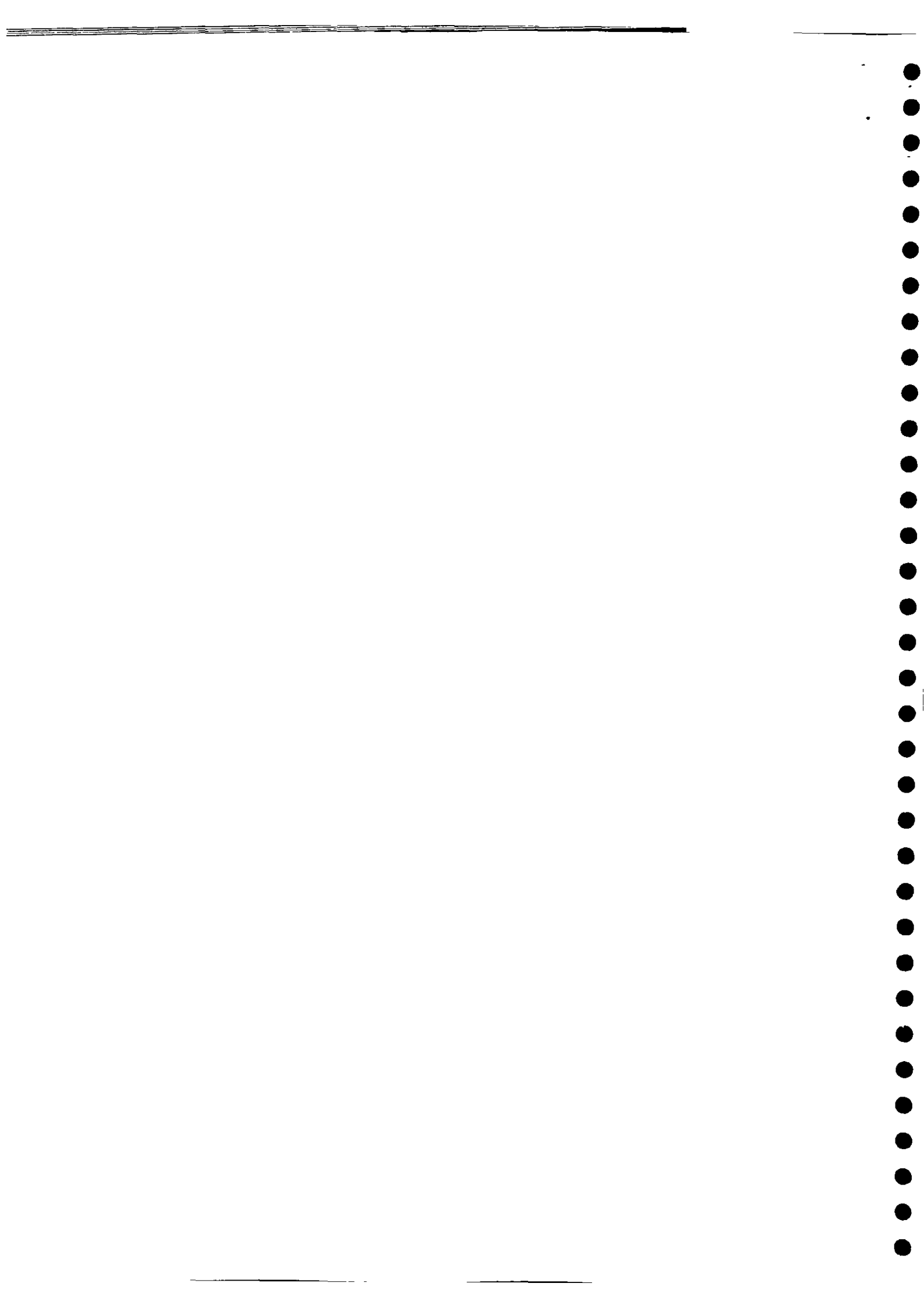
22. Provisions

Group	Onerous leases £'000
1 January 2010	12
Utilised	<u>(8)</u>
31 December 2010	<u>4</u>

Provisions are analysed between current and non-current as follows

	2010 £'000	2009 £'000
Current	<u>4</u>	<u>12</u>
	<u>4</u>	<u>12</u>

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



Notes to the Financial Statements

Continued

23. Pensions

The Group pension arrangements are operated through two defined contribution schemes

Defined contribution schemes

	2010	2010	Total
	Continuing	Discontinued	Total
	£'000	£'000	£'000
Defined contribution pension costs	54	23	77

	2009	2009	Total
	Continuing	Discontinued	Total
	£'000	£'000	£'000
Defined contribution pension costs	57	46	103

24. Deferred income

Group	2010	2009
	£'000	£'000
Deferred income	1,485	1,458

Company

Company deferred income was £nil (2009 £nil)

25. Share capital

	2010	2009
	£'000	£'000
Authorised		
745,821,970 ordinary shares of 1p each	7,458	7,458
1,518,990 deferred shares of £2.99 each	4,542	4,542
	<u>12,000</u>	<u>12,000</u>

Issued and fully paid

Deferred Shares	2010
	£'000
1 January 2010	
1,518,990 deferred shares of £2.99 each	4,542
31 December 2010	<u>4,542</u>

The deferred shares arose as a result of the capital reorganisation that took place in June 2009

Notes to the Financial Statements

continued

Ordinary Shares	2010 £'000
1 January 2010	
1,518,990 ordinary shares of 1p each	15
Additions	
26,000,000 ordinary shares of 1p each	260
4,444,444 ordinary shares of 1p each	44
31 December 2010	<u>319</u>

On 9 August 2010, 26,000,000 ordinary shares with a nominal value of 1p were issued at 25p per share

On 9 August 2010, 4,444,444 ordinary shares with a nominal value of 1p were issued at 45p per share for £2 0 million of nominal CULS as a result of the CULS Compromise - see note 20

26. Share premium

	2010 £'000
1 January 2010	6,369
26,000,000 ordinary shares at 24p each less costs	6,016
4,444,444 ordinary shares at 44p each	1,956
31 December 2010	<u>14,341</u>

Consideration received in excess of the nominal value of the 26,000,000 shares issued on 9 August 2010, as a result of the subscription and placing has been included in the share premium, less registration, placing commission and professional fees of £224,000 associated with the share issue

Notes to the Financial Statements

continued

27. Cash flows from operating activities

	Note	2010 Group £'000	2009* Group £'000
Continuing operations			
Loss before taxation		(92)	(330)
Adjustments for			
Depreciation		22	27
Amortisation of intangibles		175	145
Finance income	7	(32)	-
Finance expense	8	199	317
Decrease in provisions	22	(8)	(10)
Share based payment charge		131	2
Changes in working capital			
(Increase)/decrease in trade and other receivables		(344)	122
Increase /(decrease) in payables		424	(387)
Cash generated from continuing operations		475	(114)
Corporation tax credit		-	4
Net cash from continuing operations		475	(110)
Net cash from discontinued operations	11	293	195
Net cash from operating activities		768	85

*2009 restated for discontinued operations

Significant non-cash transactions

- a) The conversion of 50% of the CULS to equity – see note 20
b) Disposal proceeds of the sale of the Financial Markets division – see notes 11 and 20

28. Employees and directors

Employee expenses during the period
Group

	2010		2010
	Continuing	Discontinued	Total
	£'000	£'000	£'000
Wages and salaries	1,791	562	2,353
Social security costs	226	56	282
Other pension costs (note 23)	54	23	77
Cost of employee share scheme (note 31)	131	-	131
	2,202	641	2,843

Notes to the Financial Statements

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	2009	2009	
	Continuing	Discontinued	Total
	£'000	£'000	£'000
Wages and salaries	1,685	1,131	2,816
Social security costs	198	123	321
Other pension costs (note 23)	57	46	103
Cost of employee share scheme (note 31)	2	-	2
	<u>1,942</u>	<u>1,300</u>	<u>3,242</u>

Average monthly numbers of employees (including directors) employed**Group**

	2010	2010	
	Continuing	Discontinued	Total
	Number	Number	Number
Sales and Marketing	8	1	9
Consulting and Professional Services	5	1	6
Technical and Support	16	5	21
Administration	4	1	5
	<u>33</u>	<u>8</u>	<u>41</u>

	2009	2009	
	Continuing	Discontinued	Total
	Number	Number	Number
Sales and Marketing	8	4	12
Consulting and Professional Services	5	3	8
Technical and Support	15	9	24
Administration	5	1	6
	<u>33</u>	<u>17</u>	<u>50</u>

The Company has no employees (2009 nil)

Notes to the Financial Statements

continued

Directors

	Salary & fees	Bonus	Benefits	Pension	Share based paymts	2010	2009
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Executive directors							
Mr M Robertson	79	36	2	8	-	125	194
Mr B Snowe	136	82	2	-	-	220	179
Mr P Waller	41	-	-	-	-	41	53
Mr A Miller	56	-	1	4	51	112	-
Non-executive directors							
Mr R Mitchell	-	-	-	-	-	-	8
Mr R Last	13	-	-	-	-	13	8
Mr J Montanana	3	-	-	-	18	21	-
	<u>328</u>	<u>118</u>	<u>5</u>	<u>12</u>	<u>69</u>	<u>532</u>	<u>442</u>

Bonus payments of £118,000 were awarded to the executive directors during the period to 31 December 2010 (2009 £87,000)

29. Operating lease commitments

The Group has total future minimum lease payments under non-cancellable operating leases totalling £300,000 (2009 £713,000) analysed by year of expiry as follows

	2010 £'000	2009 £'000
Land and building agreements expiring		
Within two to five years	300	353
After more than five years	-	360
	<u>300</u>	<u>713</u>

The Company has no operating lease commitments (2009 £nil)

30. Contingent liabilities

The Group and Company do not have any contingent liabilities (2009 £nil)

Notes to the Financial Statements

continued

31. Share options

The Company has the following share option schemes

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

Depending upon the length of service at the date of the grant the options granted in prior years 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

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

Notes to the Financial Statements

continued

Share options at 31 December 2010 were as follows

Option Holders	Date granted	Expiry date	Exercise price	At 1 January 2010	Granted	Lapsed	At 31 December 2010
Enterprise Management Incentive Scheme							
P Waller	April 2006	April 2016	555p	2,509	-	-	2,509
B Snowe	April 2001	April 2011	975p	1,333	-	-	1,333
	October 2001	October 2011	525p	250	-	-	250
	December 2001	December 2011	765p	250	-	-	250
	January 2002	January 2012	825p	500	-	-	500
	February 2005	February 2015	495p	1,667	-	-	1,667
	April 2006	April 2016	555p	4,861	-	-	4,861
M Robertson	April 2006	April 2016	555p	6,667	-	(6,667)	-
Other Holders	January 2003	January 2013	735p	633	-	-	633
	October 2003	October 2013	1,095p	333	-	-	333
	February 2005	February 2015	495p	533	-	-	533
	April 2006	April 2016	555p	500	-	-	500
	September 2008	September 2018	300p	7,700	-	(7,700)	-
	September 2008	September 2018	300p	28,000	-	(666)	27,334
Approved Scheme							
B Snowe	December 2000	December 2010	1,200p	1,000	-	(1,000)	-
Other Holders	December 2000	December 2010	1,200p	167	-	(167)	-
2010 Executive Enterprise Management Incentive Scheme							
A Miller	August 2010	August 2020	25p	-	476,000	-	476,000
2010 Unapproved Share Option Scheme							
J Montana	August 2010	August 2020	25p	-	165,000	-	165,000
Other holders	August 2010	August 2020	25p	-	308,000	-	308,000
	August 2010	August 2020	31p	-	308,000	-	308,000

Notes to the Financial Statements

continued

Option Holders	Date granted	Expiry date	Exercise price	At 1 January 2010	Granted	Lapsed	At 31 December 2010
Unapproved Share Option Scheme							
B Snowe	April 2008	April 2017	555p	8,772	-	-	8,772
M Robertson	April 2008	April 2017	555p	9,633	-	(9,633)	-
				75,308	1,257,000	(25,833)	1,306,475

The closing mid market price for these shares at 31 December 2010 was 40p and the high and low for the year was 47 5p and 26 85p. There are no performance criteria to be met before share options are exercisable.

Changes in directors options held between 1 January 2010 and the 31 December 2010 are detailed in the following table

	At 1 January 2010	Granted during year	Lapsed during year	At 31 December 2010	Exercise price	Date from which partially exercisable	Expiry date
P Waller	2,509	-	-	2,509	555p	27 April 2009	26 April 2016
B Snowe	1,333	-	-	1,333	975p	27 April 2002	26 April 2011
	250	-	-	250	525p	15 October 2002	14 October 2011
	250	-	-	250	765p	14 December 2002	14 December 2011
	500	-	-	500	825p	30 January 2003	29 January 2012
	1,667	-	-	1,667	495p	7 February 2006	6 February 2015
	4,861	-	-	4,861	555p	27 April 2009	18 April 2016
	1,000	-	(1,000)	-	1,200p	19 December 2001	18 December 2010
	8,772	-	-	8,772	555p	20 April 2010	19 April 2017
M Robertson	6,667	-	(6,667)	-	555p	27 April 2008	26 April 2016
	9,633	-	(9,633)	-	555p	20 April 2009	19 April 2017
A Miller	-	476,000	-	476,000	25p	August 2010	August 2020
J Montanana	-	165,000	-	165,000	25p	August 2010	August 2020

Notes to the Financial Statements

continued

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

Share based payments

The remuneration committee can grant options to employees of the Group under the Group's share option schemes

Options are granted with a fixed exercise price which is equal to the market price or nominal value. The contracted life is ten years from the date of grant. Options generally become fully exercisable either three or five 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 vested at 1 January 2006 have been ignored for the purposes of estimating the charge for share based payments. Options are valued using the Black-Scholes option-pricing model.

Options granted during 2010

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

Share price at date of August 2010 grants	31p
Exercise price	25p - 31p
Expected volatility	6.4%
Years to maturity	9.6
Risk free interest rate	2.15%

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

Weighted average remaining contractual life	9.5 years
Exercise price range	25p - 1,095p
Weighted average share price	39p
Weighted average exercise price	39p
Expected volatility	6.4%-10.7%
Risk free rate - 5 year gilt rate	2.15%-5.3%
Expected dividend yield	Nil

The total charge in the year relating to employee share based payments was £131,000 (2009: £2,000).

32. Related parties and transactions

Related party transactions are between Group companies and relate to costs paid on behalf of the parent Company. The 2010 costs paid on behalf of the parent Company were £501,000 (2009: £295,000).

	2010	2009
	£'000	£'000
Group key management compensation	532	442

Company key management compensation was £nil (2009: £nil) as the key management are employed by the subsidiary. The directors per note 28 are the key management.

Notes to the Financial Statements

Continued

33. Events after the balance sheet date

33.1 Acquisition

On 2 March 2011, the Company acquired the entire issued share capital of Top Layer. Top Layer is based in Hudson, Massachusetts, and focuses on developing and bringing to market network security infrastructure solutions such as Intrusion Prevention Systems that help commercial and government organisations protect their critical on-line assets from losses and risks associated with cyber threats.

Corero acquired Top Layer as the first step in executing its acquisition strategy to build a leading network security systems business. Top Layer has a strong proprietary technology offering with a multi-core processing platform to support high performance security applications and scalable architecture.

The aggregate consideration for the acquisition was \$15,288,160.

Settled as follows:

- \$6,304,602 by the issue, credited as fully paid, of 9,038,855 completion consideration shares (such number of shares having been calculated using a share price of 45p and a US dollar-to-sterling exchange rate of 1.55),
- \$5,000,000 by the issue of loan notes by Top Layer. These loan notes bear interest at 8% per annum and are repayable on 2 March 2014,
- \$3,860,000 in cash (of which \$500,000 was paid into an escrow account), and
- Deferred consideration of \$123,558, to be satisfied by the issue of 177,145 deferred consideration shares (such number of shares having been calculated using a share price of 45p and a US dollar-to-sterling exchange rate of 1.55), payable on 2 September 2012 subject to adjustment for set off against any warranty claims brought by the Company in accordance with the terms of the acquisition agreement.

Notes to the Financial Statements

Continued

The assets and liabilities of Top Layer at the date of acquisition were

	Book value	Fair value
	\$'000	\$'000
Property, plant and equipment	259	259
Other non-current assets	137	137
Inventory	222	222
Trade and other receivables	1,426	1,426
Cash and cash equivalents	124	124
Trade and other payables	(2,190)	(2,190)
Other short term financial liabilities	(590)	(590)
Deferred income	(6,309)	(6,309)
Other non-current liabilities	(302)	(302)
Net liabilities	<u>(7,223)</u>	<u>(7,223)</u>
Goodwill		16,994
Customer contracts and related customer relationships		197
Software		5,320
Satisfied by consideration		<u>15,288</u>
Consideration comprises		
Completion consideration shares		6,305
Loan notes		5,000
Cash		3,860
Deferred consideration shares		123
Total consideration		<u>15,288</u>

33.2 Placing

On 2 March 2011, the Company raised £2 3 million (before costs) by way of a placing of 6,571,429 new ordinary shares at a price of 35p per share