11 September 2019

ECSC Group plc

('ECSC' or the 'Company' or the 'Group')

Unaudited results for the six months ended 30 June 2019 and current trading update

ECSC Group plc (AIM: ECSC), a provider of cyber security services, announces its unaudited interim results for the six months ended 30 June 2019 and an update on current trading.

Highlights

- Managed Services division revenue up 63% to £1.24m (2018: £0.77m) with Consulting Services division revenue down 23% to £1.19m (2018: £1.56m), resulting in total revenue for the six months of £2.63m (2018: £2.65m)
- Gross Profit increase of 18% to £1.44m (2018: £1.22m)
- Adjusted* EBITDA** loss of £0.19m (2018: £0.49m)
- 59 new Consulting clients secured, an increase of 18% on 2018
- Partner Programme generating 17% of new client wins and 4% of Consulting revenue

Post-Period Highlights

- Strong growth of Consulting sales since period end
- Record revenue in July of £0.62m, up 42% on the same month prior year (2018: £0.44m), with circa £0.1m monthly adjusted EBITDA profit
- Record levels of Consulting bookings in Q3 and into Q4
- Cash of £0.4m at 6 September and unutilised bank facilities of £0.5m
- Trading broadly in line with expectations for the full year, on track to reach EBITDA profitability

*Adjusted EBITDA excludes one-off charges and share based charges
**EBITDA is defined as Earnings before Interest, Tax, Depreciation and Amortisation

Ian Mann, CEO, commented:
"We are pleased that from the start of H2 the previously reported reduced level of consulting services demand has now been reversed, with consulting growth recovering strongly to match the continued growth in managed services recurring revenue and cyber incident response service."

David Mathewson, Non-Executive Chairman, commented:
"Since period end, the return to profit, positive cash flow, and strong Q3/4 outlook are testament to the continued improvements across the business. The recent release of the first significant GDPR related cyber security breach fines highlights the continued need for ECSC's proven expertise and long-established services which is now showing in our current trading."

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Chairman's Statement

As stated at our AGM on 19 June 2019, following the strong results achieved in 2018 including revenue growth of 35%, overall revenues to 31 May 2019 were flat compared with 2018. This level of activity continued for the remainder of the half year period, with overall revenues of £2.63m generated across the six months.

However, since the end of June 2019 we have seen a significant improvement in overall performance and a return to profitability. This includes a return to strong growth within the Consulting division reflected in record levels of consulting bookings in Q3 and into Q4. Therefore, we expect revenues for the 2019 financial year to be broadly in line with current market expectations, and still expect to be EBITDA profitable (excluding the impact of share-based payments) for the full year 2019.

We have now seen the first significant intentions to fine announced by the UK's Information Commissioners' Office (ICO) under the new GDPR regulations, with British Airways at £183m and Marriott International at £99m. This confirms the significant potential impact of breaches for organisations failing to adequately address cyber risk. The significant rise in ECSC's incident response revenues demonstrates more organisations recognising the need for expert help when their cyber security fails.

The ECSC Kepler Artificial Intelligence (AI) technology, released in 2018, and delivered through the global Security Operation Centres (SOCs), continues to be central to the growth in the Managed Services division. Clients increasingly recognise that 24/7/365 cyber security breach detection, and expert incident response, is vital to the protection of personal information and maintenance of critical IT systems. For all but the largest global organisations, the outsourcing of these critical functions is the logical choice, and ECSC has the technology, expertise and processes to deliver.

On behalf of the Board, I would like to thank all of our clients, staff, new channel partners and advisors for their continued support and commitment during the year.

ECSC is well positioned in a growing cyber security marketplace, and we look forward with confidence to broadening our base of clients and delivering improved operating results.

David Mathewson

Non-Executive Chairman
11 September 2019

Chief Executives Officer's Statement

Despite the UK economic uncertainty, and its short-term impact on consulting projects, we have focussed on continued improvement across all areas of the business. These have all contributed to the strong growth of the Managed Services division and, post-period end, record trading in Consulting.

Our post-IPO investment in the Managed Services division, in both establishing the UK and Australian Security Operations Centres (SOCs), and the development of the ECSC proprietary Artificial Intelligence (AI) software 'Kepler' continues to drive growth. This technology is used extensively within our security devices to enable the identification, assessment and alerting of critical security events to the SOC teams for analysis and reporting to clients. Our continued investment in R&D activities demonstrates our commitment to maintaining systems at the forefront of cyber security managed service offerings.

Our new Partner Programme allows typically IT Value Added Resellers to directly sell selected ECSC services whilst referring more complex projects to the ECSC sales team to deliver. As of the end of July 2019, 66 partners have signed up to the programme, generating more than 50 sales opportunities and contributing to both new client acquisition and revenue. The Board sees the continued expansion of the Partner Programme to have the potential to significantly increase growth in the future. Sales and marketing resources are being directed to support the growing Partner Programme.

Further improvements were made to the performance of the sales team, with a significant focus on management and ongoing training and development. Additional resource in the marketing team has also led to a 50% increase in marketing leads.

Cyber security testing continues to account for the largest proportion of our consulting sales, and is typically the initial starting point for any client looking to improve their cyber security for the first time. Commonly, initial testing engagements turn into further sales across multiple service lines as a result of the company's 'land and expand' strategy. This is a result of our consultative sales approach and comprehensive breadth of service.

Consulting and assessment against standards, including ISO 27001, PCI DSS, and Cyber Essentials, have continued as organisations are increasingly required to demonstrate external verification of their cyber security capabilities to their customers, partners, stakeholders, and the ICO. Billing rates for consulting days have been robust and consistent during the year.

We have continued to invest in ECSC proprietary software in the year, including continuing development of our Managed Services Artificial Intelligence (AI) software embedded within many of our managed devices. The focus remains on delivery of our technology through managed services, avoiding the issues end-users continue to have with other vendor companies where cyber security technology is being sold without appropriate in-house resource, expert management and effective 24/7 monitoring.

The UK cyber security market remains an attractive segment of the wider IT sector. Against this backdrop, we are confident that the organic growth strategy of ECSC remains appropriate. Managed Services remains the strategic focus of the Board, to build our recurring revenue streams and target the fastest growing segment of the market.

Key Performance Indicators

The following Key Performance Indicators were established in mid-2018 to enable meaningful future performance measurement. A measure of R&D has been added with these results:

Performance Indicator	Rationale	Jun 2019 (interim)	Dec 2018 (full year)	Jun 2018 (interim)
Revenue Growth	Measurement of the success of the organic growth strategy	(0.6%)	35%	43%
Managed Services Recurring Revenue Growth	Visibility of the success of increasing the percentage of revenue from long-term recurring revenues	28%	46%	52%
Managed Services Recurring Revenue Proportion	Visibility of the success of increasing the percentage of revenue from long-term recurring revenues	35%	29%	29%
Managed Service Order Book	Combined measurement of new client contracts together with renewals of existing client contracts	£2.7m	£2.5m	£2.4m
Managed Services Gross Margin	Delivery efficiency measurement	69%	53%	41%
Consulting Repeat Revenue	Quasi-recurring from longer-term consulting clients	77%	78%	78%
Consulting Gross Margin	Delivery efficiency measurement	47%	57%	57%
Contract Liabilities (Deferred Income)	Contracted and invoiced revenue yet to be recognised	£1.1m	£0.9m	£0.9m
Research and Development (of revenue)	Investment in future cyber technologies, service enhancements and intellectual property	11.8%	8.5%	9.2%

We are delighted to report the post-period return to strong growth and profitability.

The team continues to acquire new clients, deliver quality service, develop our technologies, and build a solid base for continuing progress and improving financial performance.

Ian Mann
Chief Executive Officer
11 September 2019

Financial Review

Principal Activities

The principal activity of the Group during the period continued to be the provision of professional cyber security services, including Consulting, Managed Services and the sale of Vendor Products.

Comparative Financial Information

The Group applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated (see note 4).

	Unaudited 6 months ended 30 June 2019 £'000	**Unaudited 6 months ended 30 June 2018* £'000**	**Audited Year ended 31 December 2018* £'000**
Revenue			
Consulting	1,193	1,557	3,122
Managed Service	1,244	765	1,745
Vendor Products	87	161	228
Other	110	166	287
	2,634	**2,649**	**5,382**
Gross Profit			
Consulting	558	886	1,783
Managed Service	862	314	923
Vendor Products	16	31	42
Other	4	(11)	(8)
	1,440	**1,220**	**2,740**
EBITDA (Adjusted)*	(184)	(488)	(635)
EBITDA**	(249)	(641)	(866)
Operating (Loss)/ Profit (Adjusted)*	(474)	(664)	(1,027)
Operating (Loss)/ Profit	(539)	(817)	(1,258)

* Adjusted Operating Loss and Adjusted EBITDA excludes one-off charges and share based charges
** EBITDA is defined as Earnings before Interest, Tax, Depreciation and Amortisation

Revenue & Organic Growth

Total revenue in the period ended 30 June 2019 was £2.63m, down 0.6% on the comparable prior period (revenue in the six months ended 30 June 2018 was £2.65m). Within this, Consulting revenue was down by 23% to £1.19m (June 2018: £1.56m).

Managed Services division revenue rose by 63% in the period to £1.24m (June 2018: £0.77m). Within this division, Incident Response revenues rose to £0.31m (June 2018: £0.03m) during the period.

Vendor Products revenue in the period falling by 46% to £0.09m, (June 2018: £0.17m), but remains small contributing only 3% of revenues.

Margin Generation

Gross Profit in the period was £1.44m at 55% margin (prior year interim period: £1.22m at 46% margin).

Consulting margin fell to 47% in the period (prior year interim period: 57%). The Board expects Consulting margin to more closely track the trend of revenue generated in the future.

Managed Services margin rose to 69% (prior year interim period: 41%), this increase is a direct result of new contracts utilising the capacity built in 2018 and the growth in incident response revenues.

EBITDA & Operating Loss

EBITDA (Adjusted) in the period was a loss of £0.19m (June 2018: loss of £0.49m). EBITDA in the period was a loss of £0.25m (June 2018: loss of £0.64m).

Operating Loss (Adjusted) in the period was £0.48m (June 2018: Operating loss of £0.66m). Operating Loss in the period was £0.54m (June 2018: operating loss of £0.82m).

Cash Flow

The cash balance at the start of the year was £0.65m. During the period, the cash balance has fallen due to the EBITDA loss (£0.25m), capital expenditure (£0.07m), and development costs (£0.09m).

The cash balance at 30 June 2019 was £0.19m and £0.4m as at 6 September 2019.

Balance Sheet

The Group's Balance Sheet at 30 June 2019 had Net Assets of £0.57m (June 2018: £1.41m)

Going Concern

The Directors have assessed the going concern status of the Group by reference to a number of factors. In particular, the Directors have considered the strong rate of growth in the cyber security market, that the business continues to attract new clients and is not overly dependent on any single client, that the business continues to retain key staff following the restructuring, that the business has no Corporation Tax liability to HMRC. The Group has also agreed an invoice discounting facility with Barclay's of £500,000. As at the 30 June 2019 this was unutilised.

In undertaking their review, the Directors have reviewed financial projections for the years ending 31 December 2019 and 2020, a review which assumed continued revenue growth and cost efficiency.

In the event that this revenue and cost performance is not achieved, the Directors have also considered a sensitivity analysis based on lower revenue growth and have formulated contingency plans for this scenario, which enable the Group to preserve its financial resources.

As such, the Directors have concluded that the cash balance at 30 June 2019 is sufficient to fund the ongoing growth and development of the Group and to meet its' liabilities as they fall due for at least the next 12 months.

IFRS 16

The Directors adopted the application of IFRS 16 "Leases" from 1 January 2019, using a modified retrospective approach. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments

Further information on the impact of IFRS 16 is included in Note 4 to the Financial Statements.

David Mathewson
Non-Executive Chairman (Oversees the finance function)
11 September 2019

Consolidated Statement of Comprehensive Income
For the 6 months ended 30 June 2019

	Note	Unaudited 6 months ended 30 June 2019 £'000	Unaudited 6 months ended 30 June 2018* £'000	Audited Year ended 31 December 2018* £'000
Revenue	5	**2,634**	**2,649**	**5,382**
Cost of Sales		(1,194)	(1,429)	(2,642)
Gross Profit	5	**1,440**	**1,220**	**2,740**
Other Income		103	79	152
Sales & Marketing Costs		(943)	(909)	(1,817)
Administration Expenses		(1,139)	(1,207)	(2,333)
Operating (Loss)/Profit before Exceptional Items		**(474)**	**(664)**	**(1,027)**
Share Based Payments		65	54	111
Exceptional Items		-	99	120
Operating Loss		**(539)**	**(817)**	**(1,258)**
Finance Income		-	-	1
Finance Cost		(19)	-	-
Loss before Taxation		**(558)**	**(817)**	**(1,257)**
Taxation Credit	6	12	22	19
Loss for the Period		**(546)**	**(795)**	**(1,238)**
Other Comprehensive Income		-	-	
Total Comprehensive Income for the Period		**(546)**	**(795)**	**(1,238)**
Attributed to Equity Holders of the Company				
(Loss)/Earnings per Share	7	**pence**	**pence**	**pence**
Basic Loss per Share		(6.0)	(8.7)	(13.6)
Diluted Loss per Share		(6.0)	(8.7)	(13.6)

* The Group applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated (see note 4).

Consolidated Statement of Financial Position
As at 31 December 2018

	Note	Unaudited 6 months ended 30 June 2019 £'000	Unaudited 6 months ended 30 June 2018* £'000	Audited Year ended 31 December 2018* £'000
ASSETS				
Non-current Assets				
Intangible Assets	8	418	407	412
Property, Plant and Equipment		370	469	427
Right of use Assets		946	-	-
Deferred Tax Asset	6	15	7	4
Total Non-current Assets		1,749	883	843
Current Assets				
Inventory		39	28	18
Trade and Other Receivables		1,243	1,144	1,123
Corporation Tax Recoverable		258	201	155
Cash and Cash Equivalents	9	190	1,000	650
Total Current Assets		1,730	2,373	1,946
TOTAL ASSETS		**3,479**	**3,256**	**2,790**
LIABILITIES				
Current Liabilities				
Trade and Other Payables		(1,928)	(1,800)	(1,709)
Lease Liabilities		(154)	(20)	(20)
Total Current Liabilities		(2,082)	(1,820)	(1,729)
Non-current Liabilities				
Lease Liabilities		(828)	(31)	(20)
Total Non-current Liabilities		**(828)**	**(31)**	**(20)**
TOTAL LIABILITIES		**(2,910)**	**(1,851)**	**(1,749)**
NET ASSETS		**569**	**1,405**	**1,041**

EQUITY				
Equity attributable to Owners of the Parent:				
Share Capital	11	91	91	91
Share Premium Account	11	5,661	5,661	5,661
Share Option Reserve	11	251	147	186
Retained Earnings	11	(5,434)	(4,494)	(4,897)
TOTAL EQUITY		**569**	**1,405**	**1,041**

* The Group applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated (see note 4).

Consolidated Statement of Changes in Equity
For the 6 months ended 30 June 2019

	Share Capital £'000	**Share Premium Account £'000**	**Share Option Reserve £'000**	**Retained Earnings £'000**	**Total £'000**
Balance as at 31 December 2018*	**91**	**5,661**	**186**	**(4,897)**	**1,041**
IFRS 16 Adjustment (see note 4)	**-**	**-**	**-**	**9**	**9**
Loss and Total Comprehensive Income					
Income for the year ended 30 June 2019	-	-	-	(546)	**(546)**
Transactions with shareholders					
Share Based Payments	-	-	65	-	**65**
Balance as at 30 June 2019	**91**	**5,661**	**251**	**(5,434)**	**569**

*The Group applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated (see note 4).

Consolidated Cash Flow Statement
For the 6 months ended 30 June 2019

	Note	Unaudited 6 months ended 30 June 2019 £'000	Unaudited 6 months ended 30 June 2018* £'000	Audited Year ended 31 December 2018* £'000
Cash Flow from Operating Activities				
(Loss) before Taxation		(558)	(817)	(1,257)
Adjustment for:				
Amortisation of Intangibles	8	85	73	175
Depreciation		205	103	217
Share Based Payment		65	54	111
Lease payments		(98)	-	-
Finance Costs		19	-	-
Cash from Operating Activities before changes in Working Capital		**(282)**	**(587)**	**(754)**
Change in Inventory		(21)	25	35
Change in Trade and Other Receivables		(220)	(94)	(148)
Change in Trade and Other Payables		219	185	111
Cash used in Operating Activities		**(304)**	**(471)**	**(756)**
Corporation Tax received		-	-	122
Net Cash Flow used in Operations		**(304)**	**(471)**	**(634)**
Acquisition of Property, Plant and Equipment		(65)	(46)	(126)
Development Costs capitalised	8	(91)	(80)	(187)
Net Cash Flow used in financial Activities		**(156)**	**(126)**	**(313)**
Net (decrease)/increase in Cash & Cash Equivalents		**(460)**	**(597)**	**(947)**
Cash & Cash Equivalents at beginning of period	9	650	1,597	1,597
Cash & Cash Equivalents at end of period		**190**	**1,000**	**650**

* The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated (see note 4)

Notes to the Financial Statements
For the 6 months ended 30 June 2019

1. Corporate Information

ECSC Group plc is incorporated in England and Wales and quoted on the London Stock Exchange's Alternative Investment Market (AIM: ECSC). Further copies of these financial statements will be available at the Company's registered office: 28 Campus Road, Listerhills Science Park, Bradford, West Yorkshire, BD7 1HR. These condensed consolidated interim financial statements as at and for the six months ended 30 June 2019 were approved by the Board of Directors on 10 September 2019.

2. General Information

These financial statements may contain certain statements about the future outlook of ECSC Group plc. Although the Directors believe their expectations are based on reasonable assumptions, any statements about future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

3. Basis of Preparation

These interim financial statements for the period ended 30 June 2019 have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively 'IFRS') issued by the International Accounting Standards Board ('IASB') as adopted by the European Union ('adopted IFRS').

The financial statements for the period ended 30 June 2019 (and comparative) have been prepared on a consolidated basis. The consolidated financial statements present the results of the Company and its subsidiaries ('the Group') as if they formed a single entity. The financial statements of the Group and Company are both prepared in accordance with IFRS. They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of changes in the Group's financial position and performance since the last annual statements.

This is the first set of the Group's financial statements in which IFRS 16 has been applied. Changes to significant accounting policies are described in Note 4.

The financial statements have been presented in thousands of Pounds Sterling (£'000, GBP) as this is the currency of the primary economic environment that the Company operates in.

4. Accounting Policies

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

4.1 Basis of Accounting

The financial statements have been prepared on the historical cost basis except as stated.

New standards, amendments to and interpretations to published standards

The Group adopted IFRS 16 Leases from 1 January 2019. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has applied IFRS 16 using the modified retrospective approach, therefore the comparative information presented for 2018 has not been restated and is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

Definition of a lease

Previously. The Group determined at contract inception whether an arrangement was or contained a lease under IAS 7 IFRIC 4 Determining Whether an Arrangement contains Lease. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group has applied IFRS 16 only to contracts that were previously identified as leases. The Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

As a lessee

The Group leases a number of assets including properties and cars

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

The Group has benefited from the use of hindsight for determining lease term when considering options to extend and terminate leases.

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019.

The rate applied are:

- Cars: 7.50%
- Property: 4.25%

On transition to IFRS16, the Group moved £9k from Accruals to retained earnings, which representing rent savings.

The following is a reconciliation of total operating lease commitments at 31 December 2018 to the lease liabilities recognised at 1 January 2019:

	£'000	**£'000**
Total operating lease commitments disclosed at 31 December 2018		**1,155**
Recognised inclusions:		
• Lease components	115	
• Adjustments to commitments disclosures	18	
Recognition exemptions:		
• Leases with remaining lease term of less than 12 months	(103)	
		29
Operating lease liabilities before discounting		**1,184**
Discounted using incremental borrowing rate		(178)
Operating lease liabilities		1,006
Finance lease obligations		40
Total lease liabilities recognised under IFRS 16 at 1 January 2019		**1,046**

Impacts for the period

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised £946k of right-of-use assets and £952k of lease liabilities as at 30 June 2019.

Also in relation to those leases under IFRS 16, the Group has recognised depreciation and interest costs, instead of operating lease expense. During the six months ended 30 June 2019, the Group recognised £91k of depreciation charges and £19k of interest costs from these leases.

For the impact of IFRS 16 on EBITDA, see Note 13.

4.2 Going Concern

The Directors have reviewed whether the Group has adequate resources to continue in operational existence for the foreseeable future. In conducting this review, the Directors have considered a range of factors, including the market prospects for cyber security services, client relationships and dependency, supplier relationships and dependency, actual or potential litigation, staff retention and reliance, relationships with HMRC and regulators, financing arrangements, historic trading and cash flow performance, current trading and cash flow performance, and future trading and cash flow expectations. In undertaking their review, the Directors have reviewed financial projections for the years ending 31 December 2019 and 2020, a review which assumed continued revenue growth and cost efficiency.

In the event that this revenue and cost performance is not achieved, the Directors have also considered a sensitivity analysis based on lower revenue growth and have formulated contingency plans for this scenario, which enable the Group to preserve its financial resources.

Based on this review, the Directors have concluded that the Group has adequate resources to meet its liabilities as they fall due and continue in operational existence for the foreseeable future, which is considered to be at least the next 12 months. Consequently, the Directors have adopted the going concern basis in preparing the interim financial statements.

4.3 Revenue Recognition

Performance obligations and timing of revenue recognition

Revenue comprises the sales value of goods and services supplied during the year, exclusive of Value Added Tax and trade discounts. Revenue from the provision of Consulting services is recognised as services are rendered, based on the contracted daily billing rate and the number of days delivered during the period.

Revenue from Pre-paid contracts are deferred in the balance sheet and recognised on utilisation of service by the client. Pre-paid revenue is included within Consulting in note 5.

Revenue from Managed Services contracts includes:

Hardware and devise build – the hardware revenue is recognised on order in other revenue in note 6, any profit from hardware is deferred and recognised on a straight line basis over the term of the contract. Devise build is deferred and recognised on a straight line basis over the term of the contract.

Configuration and installation - is deferred and recognised on a straight line basis over the term of the contract.

Licensing - is deferred and recognised on a straight line basis over the invoice period.

Management and monitoring - is deferred and recognised on a straight line basis over the invoice period.

Revenue from the sale of products (vendor) is recognised when the significant risks and rewards of ownership have been transferred, which is considered to occur when the software or hardware product has been delivered to the client.

Determining the transaction price

The Group's revenue is derived from fixed price contracts and therefore the amount of revenues to be earned from each contract is determined by reference to those fixed prices.

Costs of obtaining long-term contracts and costs of fulfilling contracts

Commissions paid to sale staff for work in obtaining the Managed Service contracts are prepaid and amortised over the terms of the contract on a straight line basis.

Commissions paid to sale staff for work in obtaining the Prepaid Consulting are recognised in the month of invoice.

Contract Balances

	Contract Assets 30 June 2019 £'000	Contract Assets 31 December 2018 £'000	Contract Liabilities 30 June 2019 £'000	Contract Liabilities 31 December 2018 £'000
At 1 January	49	-	(949)	(829)
Commission expensed during the period	(17)	(13)	-	-
Commissions paid in advanced of contract completion	17	62	-	-
Recognised as revenue during the period		-	1112	2129
Invoiced in advanced of performance during period		-	(1,275)	(2,249)
	49	**49**	**(1,112)**	**(949)**

5. Revenue and Segment Information

The Group's principal revenue is derived from the provision of cyber security professional services.

During this period, the Directors received information on financial performance on a divisional basis. The Directors consider that there are three reportable operating segments: Consulting (including Remote Support services), Managed Services, and Vendor Products. There were a small number of other transactions recorded during each period which are not considered to be part of either of the three reportable operating segments. These are presented below within the ‘Other’ caption and are not significant.

The Directors do not receive any information on the financial position of each segment, including information on assets and liabilities. Accordingly, such information has not been presented.

The Group is not reliant on any single client, with no single client accounting for 10% or more of revenue. All revenue recognised is derived from external clients.

The Group’s revenue and gross profit by operating segment for the year ended 30 June 2019 were as follows:

	Unaudited 6 months ended 30 June 2019 £’000	Unaudited 6 months ended 30 June 2018 £’000	Audited Year ended 31 December 2018 £’000
Revenue			
Consulting	1,193	1,557	3,122
Managed Service	1,244	765	1,745
Vendor Products	87	161	228
Other	110	166	287
Total Revenue	**2,634**	**2,649**	**5,382**
Gross Profit			
Consulting	558	886	1,783
Managed Service	862	314	923
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Other	4	(11)	(8)
Gross Profit	**1,440**	**1,220**	**2,740**
Operating Loss	**(539)**	**(817)**	**(1,258)**
Finance Income	-	-	1
Finance Cost	(19)	-	-
Loss before Taxation	**(558)**	**(817)**	**(1,257)**

6. Taxation

Recognised in the Statement of Comprehensive Income

	Unaudited 6 months ended 30 June 2019 £’000	Unaudited 6 months ended 30 June 2018 £’000	Audited Year ended 31 December 2018 £’000
Corporation Tax Charge/(Credit)	-	-	-
Deferred Tax Credit	(12)	(22)	(19)
Total Tax Credit	**(12)**	**(22)**	**(19)**

Reconciliation of Total Tax Charge Credit

	Unaudited 6 months ended 30 June 2019 £'000	Unaudited 6 months ended 30 June 2018 £'000	Audited Year ended 31 December 2018 £'000
Loss before Tax	(539)	(817)	(1,257)
UK Corporation at rate of 19%	(53)	(155)	(164)
Expenses not deductible for tax purposes	1	1	2
Exercise of Share Options	-	-	(14)
Over/under provision in prior period – Deferred Tax	(12)	(22)	(19)
Tax losses on which Deferred Tax not recognised	52	154	176
Total Tax Credit	**(12)**	**(22)**	**(19)**

Deferred Tax Assets & Liabilities

	Unaudited 6 months ended 30 June 2019 £'000	Unaudited 6 months ended 30 June 2018 £'000	Audited Year ended 31 December 2018 £'000
Deferred Tax Assets	126	134	119
Deferred Tax Liabilities	(111)	(127)	(115)
Deferred Tax – Net Liabilities	**15**	**7**	**4**

Deferred Tax Assets of £0.13m is recognised in respect of unutilised trading losses, Share Based Payments and short-term timing differences. Deferred Tax Liabilities of £0.11m arise on timing differences in the carrying value of certain of the Company's assets for financial reporting purposes and for corporation tax purposes. These will reverse as the fair value of the related assets are depreciated over time. Deferred Tax balances have been calculated at the rate of 17%, being the rate of Corporation Tax rate expected to be in force when the timing differences reverse.

Unutilised Trading Losses

The Company continues to carry forward unutilised trading losses of £4.96m (unutilised trading losses were £0.47m as at 30 June 2019). A Deferred Tax Asset of £0.80m has been recognised as at 30 June 2019 in respect of the unutilised trading losses. No further Deferred Tax Asset has been recognised because the Board envisages that a significant period of time will be required to generate sufficient profits to utilise the trading losses carried forward.

7. Earnings per Share

Basic Earnings per Share is calculated by dividing the Profit for the period Attributable to Equity Holders of the Company by the weighted average number of Ordinary Shares outstanding during the period ('Basic Number of Ordinary Shares').

Diluted Earnings per Share is calculated by dividing the Profit for the period attributable to Equity Holders of the Company by the weighted average number of Ordinary Shares outstanding during the period plus the weighted average number of Ordinary Shares that would be issued on conversion of all the potential dilutive Ordinary Shares ('Diluted Number of Ordinary Shares'), subject to the effect of anti-dilutive potential shares being ignored in accordance with IAS 33.

Adjusted Earnings per Share is calculated by dividing Adjusted Profit by Diluted Number of Ordinary Shares.

The calculation of Basic, Diluted and Adjusted Earnings per Share is as follows:

	Unaudited 6 months ended 30 June 2019 £'000	Unaudited 6 months ended 30 June 2018* £'000	Audited Year ended 31 December 2018* £'000
Net Profit attributable to Equity Holders of the Company	(546)	(795)	(1,238)
Add back: Exceptional Costs	-	99	120
Add back: Share Based Payments	65	54	111
Adjusted Profit	(481)	(642)	(1,007)
Number of Ordinary Shares ('000)			
Initial Weighted Average	9,098	8,994	9,047
Exercise Share Option	-	14	14
Equity Warrant	-	90	37
Basic Number of Ordinary Shares	**9,098**	**9,098**	**9,098**
Weighted Average Dilutive Shares in Period	598	261	458
Diluted Number of Ordinary Shares	**9,696**	**9,359**	**9,556**
Earnings (Loss) per Share (pence):			
Basic Earnings per Share	(6.0)	(8.7)	(13.6)
Diluted Earnings per Share**	(6.0)	(8.7)	(13.6)
Adjusted Earnings per Share	(5.3)	(7.4)	(11.1)

* The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated (see note 4).

** In accordance with IAS 33, the effect of anti-dilutive potential shares has been ignored

During the year ended 31 December 2018, Ordinary Shares were issued as follows:

- On 27 April 2018, David Mathewson, Non-Executive Chairman exercised his options over 6,411 ordinary shares in the Company at nil cost per share.
- On 2 May 2018, Former Director exercised options of 8,041 ordinary shares in the Company at nil cost per share.

This share issue is taken into account in calculating the Basic Number of Ordinary Shares.

During the year ended 31 December 2018, the following dilutive events have occurred:

- On 18 April 2018, the Company granted options of 200,000 Ordinary Shares to the Non-Executive Directors.
- On 7 August 2018, the Company granted options over 185,000 Ordinary Shares to selected employees, of which 180,000 remain outstanding at year end.

These dilutive events are taken into account in calculating Diluted Number of Ordinary Shares.

8. Intangible Assets

GROUP & COMPANY

Development Costs

Costs	**£'000**
As at 1 January 2018	704
Additions	187
As at 31 December 2018	891
As at 1 January 2019	891
Additions (6 months)	91
As at 30 June 2019	982
Amortisation	
As at 1 January 2018	304
Charge	175
As at 31 December 2018	479
As at 1 January 2019	479
Charge (6 months)	85
As at 30 June 2019	564
Net Book Value	
As at 31 December 2018	412
As at 30 June 2019	418

9. Cash & Cash Equivalents

	Unaudited GROUP As at 30 June 2019 £'000	**Unaudited GROUP As at 30 June 2018 £'000**	**Audited GROUP As at 31 December 2018 £'000**
Cash & Cash Equivalents	190	1,000	650

10. Secured Facilities

The Group has been provided with payments facilities by Barclays Bank plc, including a BACS payment facility and a credit card facility.

Barclay's are also providing an invoice discounting facility of £500,000.

These payment facilities are secured by a debenture in favour of Barclays that creates fixed and floating charges over the assets of the Company.

11. Share Capital

Ordinary Share Capital

During the period ended 30 June 19, the movement in Share Capital was:

Ordinary Shares	Number of Authorised Shares	Number of Shares Issued and Fully Paid	Ordinary Share Capital £'000
As at 1 January 2018	11,992,131	9,084,072	91
Exercise of Share Options	-	14,425	-
As at 31 December 2018	**11,992,131**	**9,098,497**	**91**
As at 1 January 2019	11,992,131	9,098,497	91
As at 30 June 2019	**11,992,131**	**9,098,497**	**91**

On 27 April 2018, David Mathewson, Non-Executive Chairman exercised options over 6,411 Ordinary Shares at nil cost per share.

On 2 May 2018, a former Director exercised options over 8,041 Ordinary Shares at nil cost per share.

Share Premium Account

The balance of the Share Premium Account represents amounts received in excess of the nominal value (1 pence per share) of Ordinary Shares. This account is non-distributable.

Share Option Reserve

The balance of the Share Option Reserve represents the accumulated amounts charged to the Statement of Comprehensive Income in respect of Share Based Payments. This reserve is non-distributable.

Retained Earnings

The balance of the Retained Earnings account represents the accumulated retained profits or losses of the Group. This account is a distributable reserve, provided that the accumulated balance is positive.

12. Controlling Party

ECSC Group plc does not have an ultimate controlling party.

13. Adjusted (Loss)/Profit before Taxation and Adjusted EBITDA

Adjusted (Loss)/Profit before Taxation

	Unaudited 6 months ended 30 June 2019 £'000	Unaudited 6 months ended 30 June 2018* £'000	Audited Year ended 31 December 2018* £'000
Loss before Taxation	(558)	(817)	(1,257)
Share Based Payments	65	54	111
Exceptional Items	-	99	120
Adjusted (Loss)/Profit before Taxation	**(493)**	**(664)**	**(1,026)**

Adjusted EBITDA:

	Unaudited 6 months ended 30 June 2019 £'000	Unaudited 6 months ended 30 June 2018* £'000	Audited Year ended 31 December 2018* £'000
Operating Loss	**(539)**	**(817)**	**(1,258)**
Depreciation and Amortisation	290	176	392
EBITDA**	**(249)**	**(641)**	**(866)**
Share Based Payments	65	54	111
Exceptional Items	-	99	120
EBITDA (Adjusted)	**(184)**	**(488)**	**(635)**

	Unaudited 6 months ended 30 June 2019 £'000	Unaudited 6 months ended 30 June 2018* £'000	Audited Year ended 31 December 2018* £'000
Operating Loss	**(539)**	**(817)**	**(1,258)**
Share Based Payments	65	54	111
Exceptional Items	-	99	120
Operating Loss (Adjusted)	**(474)**	**(664)**	**(1,027)**

* The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated (see note 4).

14. Subsidiary Undertakings

ECSC Group plc currently has the following wholly-owned subsidiaries, which are incorporated and registered in England and Wales:

Name of Subsidiary	Registered Office	Date of Incorporation	Principal Activity
ECSC Services Limited	28 Campus Road Listerhills Science Park Bradford BD7 1HR	18 April 2017	Dormant
ECSC Labs Limited	28 Campus Road Listerhills Science Park Bradford BD7 1HR	18 April 2017	Dormant
ECSC Australia Limited	28 Campus Road Listerhills Science Park Bradford BD7 1HR	29 September 2016	Intermediary holding company

ECSC Australia Limited currently has the following wholly-owned subsidiary, which is incorporated and registered in Australia:

Name of Subsidiary	Registered Office	Date of Incorporation	Principal Activity
ECSC Australia Pty Limited	Governor Phillip Tower Level 36 1 Farrer Place Sydney NSW 2000	20 March 2017	Provision of professional cyber security services

The share capital of each Group entity is as follows:

Entity	Ordinary Shares in Issue	Nominal Value	Investment at Cost
ECSC Services Limited	1 share	£1	£1
ECSC Labs Limited	1 share	£1	£1
ECSC Australia Limited	1 share	£1	£1
ECSC Australia Pty Limited	100 shares	AUD 1	AUD 100
Total			**£60**

* AUD = Australian dollars