13 March 2019

ECSC Group plc

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

Final Results for the year ended 31 December 2018

ECSC Group plc (AIM: ECSC) a leading provider of cyber security services, announces its audited final results for the year ended 31 December 2018.

Highlights

- Organic revenue growth of 35% to £5.4m (2017: 9.5% to £4.0m*)
- Managed Services division revenue up 56% to £1.7m (2017: 10% to £1.1m*)
- Consulting Service division revenue up 27% to £3.1m (2017: 15% to £2.4m)
- Gross Profit increase of 67% to £2.7m (2017: £1.6m*)
- Adjusted EBITDA** loss of £0.6m (2017: loss of £2.9m**)
- 95 new Consulting Service clients secured
- Successful up-selling in line with 'land and expand' strategy
- Partner Programme launched, expanding reach and routes to market
- Continued investment in proprietary AI software

* Restated for 2017 and showing like-for-like comparison, due to IFRS 15 adoption from 1 January 2018
** Adjusted EBITDA loss excludes one-off charges and share based charges (note 18)

Ian Mann, CEO of ECSC, commented:
"We are delighted to report such strong organic growth for the full year, well ahead of the previous year, with continued emphasis on building our Managed Services recurring revenue supported by our Consultancy Services. The team continues to acquire new clients, deliver quality service, develop our technologies and build a solid base for ongoing growth. We believe we are well positioned to build on the strong organic growth achieved in 2018 and we look forward to the future with confidence."

David Mathewson, Non-Executive Chairman, commented:
"The results reflect the extensive work completed internally within ECSC to control costs, implement improvements within sales, and leverage the capacity within the operational infrastructure. This improved performance is the result of a focussed and motivated team delivering strong growth, whilst keeping tight control over costs and cash management."

Enquiries:

ECSC Group plc **+44 (0) 1274 736 223**
David Mathewson (Non-Executive Chairman)
Ian Mann (Chief Executive Officer)

Allenby Capital (Nominated Adviser and Broker) **+44 (0) 203 3285 656**
David Hart
Nicholas Chambers

Alma PR (Financial PR) **+44 (0) 203 4050 205**
Josh Royston
Hilary Buchanan
Susie Hudson

For more information please visit the following: https://investor.ecsc.co.uk/

Chairman's Statement

These strong results represent the second full year of trading since the IPO in December 2016. This organic growth has been driven by the successful execution of our strategy combined with a number of external factors: the continued incidence of high-profile cyber security breaches, the implementation of the new Data Protection Act in May 2018, incorporating the General Data Protection Regulations ("GDPR), and the increasing priority accorded to cyber security in corporate boardrooms generally.

Whilst we are yet to see the resulting fines imposed by the Information Commissioners' Office (ICO) under the new regulations, organisations of all sizes now understand the requirement of mandatory breach reporting and the impact of fines of up to 2% of global turnover for cyber security breaches.

The benefits of our restructuring efforts earlier in 2018 are demonstrated in our performance for the year. This has produced a 35% increase in revenue for the year, and a significantly reduced monthly cost base. We are generating a steady flow of new clients as well as repeat business from our established clients.

The results reflect the extensive work completed internally within the Company to control costs, implement improvements within sales and leverage the capacity within the operational infrastructure. This improved performance is the result of a focussed and motivated team delivering strong growth, whilst keeping tight control over costs and cash management.

The new ECSC Kepler Artificial Intelligence (AI) technology, delivered through our global Security Operation Centres ("SOCs"), is 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.

I was delighted when we won another industry award recently for our managed security service, with regard to supporting systems requiring compliance to the Payment Card Industry Data Security Standard (PCI DSS).

On behalf of the Board, I would like to thank all of our clients, staff 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
12 March 2019

Chief Executive Officer's Review

Strong growth was seen across all divisions, which reflects the extensive in-house expertise, development, investment from previous years, and a growing cyber security market.

Consulting Division

We are pleased to report that Consulting revenue has grown by 27% from the previous year, with significant new client acquisitions varying in organisation size and across a wide range of sectors. Additionally, over the period 67% of Consulting sales constituted repeat business, a testament to our focus on building strong client relationships and delivering excellent service.

Cyber security testing continues to account for the largest proportion of our Consultancy 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 lead to further sales across multiple service lines as a result of the Company's 'land and expand' strategy, facilitated by our consultative sales approach and comprehensive breadth of service.

The requirement for companies to assess their businesses against recognised standards, including ISO 27001, PCI

DSS, and Cyber Essentials, has continued to grow as organisations are increasingly required to demonstrate external verification of their cyber security capabilities to their customers, partners, and stakeholders.

Managed Services Division

The growth of Managed Services is central to the Company's ongoing growth strategy. Managed Services provided the Group with multi-year, recurring revenues which enhance the quality and visibility of earnings. We are delighted to report revenue growth of 56% within this division; which includes both recurring revenues (46% growth) and related incident response activities.

Managed Services received significant investment in the year following the IPO, including the establishment of an additional SOC in Brisbane, Australia, allowing us to deliver true 24/7/365 security breach monitoring and response. The investment seems also allowed for the introduction of our Incident Response unit in London, hosting our Incident Response emergency equipment, thus enabling the Incident Response team to respond rapidly to our southern UK based clients. Furthermore, the investment allows for continued research and development into the ECSC proprietary AI software 'Kepler'. 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.

The Board continues to see the Managed Services revenue stream as a priority for growth. With strong foundations now in place in terms of the technical infrastructure and in-house expertise, we are able to leverage the capacity of this division and to ensure that the Company is well placed to secure additional Managed Services contracts in the future.

Vendor Products

Sales of third-party vendor products, whilst growing at 36% represents only 4% of overall sales. Whilst this is not a strategic segment of the business, this continues to be a useful service for those clients requiring a trusted provider to source products on their behalf.

Sales & Marketing

Further improvements were made to the structure of the sales team in 2018, including changes to the sales management personnel.

A significant focus has been placed on the management and ongoing training and development of the sales team, with monthly training introduced to provide a better understanding of our services and client needs.

Additional resource in the marketing team has led to an increase in marketing activities, allowing for more effectively targeted campaigns. This additional resource enables the Company to identify and respond to new opportunities for growth within our existing client base and new clients alike. With sales and marketing activity aligned, we are witnessing stronger performance across both teams.

Partner Programme

In Q4 2018, we launched our Partner Programme, allowing IT Value Added Resellers to directly sell selected ECSC services whilst referring more complex projects to the ECSC sales team to deliver. In addition to our own partner recruitment, training and support we are also collaborating with an established distributor to leverage their existing partners and support systems to include ECSC services.

The Board expects the continued expansion of the Partner Programme to have a positive impact impact on future growth.

Technology Development

We have continued to invest in ECSC's proprietary software in the year, including continued development of our Managed Services AI software that is embedded within many of our managed devices. The focus remains on delivery of our technology through Managed Services. This ensures we can provide end-users with a comprehensive offering including appropriate in-house resource, expert management and effective 24/7 monitoring.

Market Prospects & Organic Growth Strategy

The UK cyber security market continues to exhibit growth as highlighted in www.statista.com, and 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 segments of the market.

Key Performance Indicators

The following Key Performance Indicators were established in 2018 to enable meaningful measurements of the Group's performance:

Performance Indicator	Rationale	2018	2017	Management Comment
Revenue Growth	Measurement of the success of the organic growth strategy	35%	9%*	A strong year, compared with the long-term average of approximately 20% per year
Managed Services Recurring Revenue Growth	Visibility of the success of increasing the percentage of revenue from long-term recurring revenues	46%	25%*	This reflects new contract wins, renewals and contract expansions
Managed Services Recurring Revenue Proportion	Visibility of the success of increasing the percentage of revenue from long-term recurring revenues	29%	27%*	It remains the strategy to increase this proportion
Managed Service Order Book	Combined measurement of new client contracts together with renewals of existing client contracts	£2.5m	N/A	The best overall measure of progress and future managed services revenue
Managed Services Gross Margin	Delivery efficiency measurement	53%	33%*	Measuring the increased leveraging of IPO investment in delivery capacity
Consulting Repeat Revenue	Quasi-recurring from longer-term consulting clients	78%	68%	Given consulting growth of 27%, this represents significant client retention
Consulting Gross Margin	Delivery efficiency measurement	57%	50%	A reflection on capacity required for growth and management of consultant workload
Contract Liabilities	Contracted and invoiced revenue where performance obligations have yet to be settled	£0.9m	£0.8m*	This will reflect growth in long-term client relationships, particularly managed services

* Restated for 2017 and showing like-for-like comparison, due to IFRS 15 adoption from 1 January 2018

Outlook

We are delighted to report such strong organic growth for the full year, well ahead of the previous year, with continued emphasis on building our Managed Services recurring revenue supported by our Consultancy Services. The team continues to acquire new clients, deliver quality service, develop our technologies and build a solid base for ongoing growth. We believe we are well positioned to build on the strong organic growth achieved in 2018 and we look forward to the future with confidence.

Going Concern

Attention is drawn to Going Concern in the Financial Review

Ian Mann
Chief Executive Officer
12 March 2019

Financial Review

Principal Activities

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

Comparative Financial Information

The Comparative figures in these statutory accounts have been restated to adopt IFRS 15 (see note 4.3).

	Year ended 31 December 2018 £'000	**Restated Year ended 31 December 2017 £'000**
Revenue		
Consulting	3,122	2,449
Managed Service	1,745	1,118
Vendor Products	228	168
Other	287	263
	5,382	**3,998**
Gross Profit		
Consulting	1,783	1,228
Managed Service	923	364
Vendor Products	42	38
Other	(8)	15
	2,740	**1,645**
EBITDA (Adjusted)*		
Other Income	152	121
Sales & Marketing Costs	(1,817)	(2,545)
Administration Expenses	(1,710)	(2,160)
	(635)	**(2,939)**
EBITDA**		
Share Based Payments	(111)	(93)
Exceptional Items	(120)	(275)
	(866)	**(3,307)**
Depreciation and Amortisation	(392)	(254)
Operating Loss Adjusted*	**(1,027)**	**(3,193)**
Operating Loss	**(1,258)**	**(3,561)**

*Adjusted Operating Loss and EBITDA excludes one-off charges and share based charges (note 18)
**EBITDA is defined as Earnings before Interest, Tax, Depreciation and Amortisation

Adjusted KPI's are used by the Group in order to understand underlying performance and exclude items which distort compatibility, as well as being consistent with public broker forecasts and measures. The method of adjustments are consistently applied but may not be comparable with those used by other companies. Items that have been excluded include Share based charges and one-off charges.

Revenue & Organic Growth

Total revenue in the year ended 31 December 2018 was £5.38m, up 34.6% on the comparable prior period (revenue in the 12 months ended 31 December 2017 was £4.00m). Within this, Consulting revenue grew by 27% to £3.12m (2017: £2.45m).

Managed Services division revenue rose by 56% in the year to £1.75m (2017: £1.12m). This includes Incident Response revenues which rose to £0.18m (2017: £0.05m).

Vendor Products revenue in the year grew by 35.7% to £0.23m, (2017: £0.17m).

Due to the adoption of IFRS 15, revenues (Managed Service) in 2017 was reduced by £117k giving a contract liability of £117k. Further information on the impact of IFRS 15 is included in Note 4.3 to the Financial Statements.

Margin Generation

Gross Profit for the year was £2.74m, yielding a 51% margin (2017: £1.65m, yielding a 41% margin). This was due to improved margins in both Consulting and Managed Service.

The Consulting margin rose to 57% in the year (2017: 50%). This was due to the current pool of Consultants now better matched to our activity levels, the Board expects the Consulting margin to remain at a similar level in the future.

The Managed Services margin rose to 53% (2017: 33%), with the increase being a direct result of new contracts utilising the capacity built in 2017.

Cost Restructure & Exceptional Costs

During the first quarter of the year ended 31 December 2018, the Directors continued to undertake a cost restructure to reduce the operating losses of the Group and reduce the rate of cash burn following the rapid scale-up of the previous year.

The objective was to reduce the operating cost base by £45,000 per month, which was achieved by reducing headcount and by stricter controls with regard overheads.

In achieving these recurring cost savings, a number of one-off, exceptional costs were incurred, including payments in lieu of notice and lease cancellation costs. These exceptional costs totalled £0.12m (2017: £0.28k) (see note 19) in the year, the bulk of which were incurred in the first half of the year.

EBITDA & Operating Loss

Adjusted EBITDA for the year, which excludes one-off charges and share based charges, was a loss of £0.64m (2017: loss of £2.94m). EBITDA for the year was a loss of £0.87m (2017: loss of £3.31m).

Adjusted Operating Loss for the year, which excludes one-off charges and share based charges, was £1.03m (2017: loss of £3.19m). The Operating Loss in the year was £1.26m (2017: loss of £3.56m).

Cash Flow

The cash balance at the start of the year was £1.6m. During the year, the cash balance has fallen due to the EBITDA loss (£0.87m), capital expenditure (£0.15m), and development costs (£0.18m).

During the year, the Group received a refund of £0.12m from HMRC in respect of a surrender of R&D Tax Credits from earlier periods.

The cash balance at 31 December 2018 was £0.65m. The closing cash balance is as budgeted, and together with more active management of the Company's debtors, provides a solid base for the Company's growth plans for the year ahead.

Balance Sheet

The Group's Balance Sheet as at 31 December 2018 had Net Assets of £1.04m (2017: £2.17m). Retained Earnings and Distributable Reserves as at 31 December 2018 were a cumulative loss of £4.91m (2017: cumulative loss of £3.68m).

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; the fact that business continues to attract new clients and is not overly dependent on any single client; the fact that the business continues to retain key staff following the restructuring, the fact that the business has no Corporation Tax liability to HMRC and that the

Group has only modest financing facilities which are not subject to financial covenants. Moreover, having reduced the monthly operating losses significantly by way of the cost restructure, the rate of cash burn has also been significantly reduced.

In undertaking their review, the Directors have prepared 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 31 December 2018 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 from the date of approval of the financial statements.

IFRS 15

The Directors adopted the application of IFRS 15: Revenue from contracts with customers from 1 January 2018, applying the fully retrospective method of transition. The core principle is that revenue should only be recognised as the client receives the benefit of the goods or services provided under a commercial contract, in an amount that reflects the consideration to which the provider expects to be entitled for the transfer of the goods or services.

Further information on the impact of IFRS 15 is included in Note 4.3 to the Financial Statements.

Dividend

The Board has not declared a dividend for the year ended 31 December 2018 (2017: £nil).

David Mathewson
Non-Executive Chairman
12 March 2019

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2018

	Note	Year ended 31 December 2018 £'000	Restated* Year ended 31 December 2017 £'000
Revenue	**5**	**5,382**	**3,998**
Cost of Sales		(2,642)	(2,353)
Gross Profit	**5**	**2,740**	**1,645**
Other Income		152	121
Sales & Marketing Costs		(1,817)	(2,545)
Administration Expenses		(2,333)	(2,782)
Operating Loss before Exceptional Items		**(1,027)**	**(3,193)**
Share Based Payments	**15**	111	93
Exceptional Items	**19**	120	275

Operating Loss		**(1,258)**	**(3,561)**
Finance Income		1	6
Loss before Taxation		**(1,257)**	**(3,555)**
Taxation Credit	**6**	19	29
Loss for the Period		**(1,238)**	**(3,526)**
Other Comprehensive Income		-	-
Total Comprehensive Income for the Period		**(1,238)**	**(3,526)**
Attributed to Equity Holders of the Company			
Loss per Share	**7**	**pence**	**pence**
Basic Loss per Share		(13.6)	(39.0)
Diluted Loss per Share		(13.6)	(39.0)

* The comparative figures have been restated in accordance with Note 4.3

Consolidated Statement of Financial Position
As at 31 December 2018

			Restated*
		Year ended	**Year ended**
		31 December	**31 December**
		2018	**2017**
	Note	**£'000**	**£'000**
ASSETS			
Non-current Assets			
Intangible Assets	**8**	412	400
Property, Plant and Equipment	**9**	427	539
Deferred Tax Asset	**6**	4	-
Total Non-Current Assets		843	939
Current Assets			
Inventory		18	53
Trade and Other Receivables		1,123	1,130
Corporation Tax Recoverable		155	122
Cash and Cash Equivalents	**10**	650	1,597
Total Current Assets		1,946	2,902
TOTAL ASSETS		**2,790**	**3,841**
LIABILITIES			
Current Liabilities			
Trade and Other Payables		(1,709)	(1,596)

Finance Leases		(20)	(20)
Total Current Liabilities		(1,729)	(1,616)
Non-Current Liabilities			
Deferred Tax Liability	**6**	-	(15)
Finance Leases		(20)	(41)
Total Non-Current Liabilities		(20)	(56)
TOTAL LIABILITIES		**(1,747)**	**(1,672)**
NET ASSETS		**1,041**	**2,169**
EQUITY			
Equity attributable to Owners of the Parent:			
Share Capital	**12**	91	91
Share Premium Account	**12**	5,661	5,661
Share Option Reserve	**12**	186	93
Retained Earnings	**12**	(4,897)	(3,677)
TOTAL EQUITY		**1,041**	**2,169**

* The comparative figures have been restated in accordance with Note 4.3

Consolidated Statement of Changes in Equity
For the year ended 31 December 2018

	Share Capital £'000	Share Premium Account £'000	Share Option Reserve £'000	Retained Earnings £'000	Total £'000
Balance as at 31 December 2016 (as previously stated)	**90**	**5,512**	**0**	**(51)**	**5,551**
IFRS15 adjustment (see note 5)				**(100)**	**(100)**
Balance as at 31 December 2016 (as restated)	**90**	**5,512**	**0**	**(151)**	**5,451**
Loss and Total comprehensive income:					
Income for the year ended 31 December 2017	-	-	-	(3,526)	**(3,526)**
Transactions with shareholders					
Exercise of equity warrant	1	149	-	-	**150**
Grant of Share Options	-	-	93	-	**93**
Balance as at 31 December 2017 (as restated)	**91**	**5,661**	**93**	**(3,677)**	**2,168**
Balance as at 31 December 2017 (as previously stated)	**91**	**5,661**	**93**	**(3,460)**	**2,385**
IFRS15 adjustment (see note 5)				**(217)**	**(217)**

Balance as at 31 December 2017 (as restated)	**91**	**5,661**	**93**	**(3,677)**	**2,168**
Loss and Total comprehensive income:					
Income for the year ended 31 December 2018	-	-	-	(1,238)	**(1,238)**
Transactions with shareholders					
Issue of shares	-	-	(18)	18	**-**
Grant of Share Options	-	-	111	-	**111**
Balance as at 31 December 2018 (as restated)	**91**	**5,661**	**186**	**(4,897)**	**1,041**

Consolidated Cash Flow Statement
For the year ended 31 December 2018

	Note	Year ended 31 December 2018 £'000	Restated* Year ended 31 December 2017 £'000
Cash Flow from Operating Activities			
(Loss) before Taxation		(1,257)	(3,555)
Adjustment for:			
Amortisation of Intangibles	**8**	175	100
Depreciation of Property, Plant and Equipment	**9**	217	154
Loss on Disposal of Equipment		**-**	6
Share Based Payment	**15**	111	93
Cash used in Operating Activities before changes in Working Capital		**(754)**	**(3,203)**
Change in Inventory		35	(53)
Change in Trade and Other Receivables		(148)	(218)
Change in Trade and Other Payables		111	233
Cash used in Operating Activities		**(756)**	**(3,240)**
Corporation Tax received		122	178
Net Cash Flow used in Operations Activities		**(634)**	**(3,062)**
Acquisition of Property, Plant and Equipment	**9**	(126)	(358)

Disposal Proceeds		-	17
Development Costs capitalised	**8**	(187)	(137)
Net Cash Flow used in Investing Activities		**(313)**	**(478)**
Proceeds from Issuance of Shares	**12**	**-**	**150**
Net Cash used in Financial Activities		**-**	**150**
Net (decrease)/increase in Cash & Cash Equivalents		**(947)**	**(3,390)**
Cash & Cash Equivalents at beginning of period		1,597	4,987
Cash & Cash Equivalents at end of period	**10**	**650**	**1,597**

Notes to the Financial Statements
For the year ended 31 December 2018

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 financial statements for the year ended 31 December 2018 were approved by the Board of Directors on 12 March 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 financial statements for the year ended 31 December 2018 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 year ended 31 December 2018 (and comparatives) 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.

The information in this preliminary statement has been extracted from the financial statements for the year ended 31 December 2018 and, as such, does not contain all the information required to be disclosed in the financial statements prepared in accordance with IFRS. The Group's Annual Report for the year ended 31 December 2018 has yet to be delivered to the Registrar of Companies. The auditors have reported on these accounts. Their report was not qualified and did not contain a statement under Section 498 of the Companies Act 2006. The figures for the year ended 31 December 2018 and the ended 30 December 2017 do not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006.

The report of the auditor for the year ended 31 December 2018 was:

- unqualified;
- did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report; and
- did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

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.

The preliminary announcement was approved by the Board and authorised for issue on 12 March 2019.

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 not yet effective

The Directors will adopt application of IFRS 16 "leases" from 1 January 2019, applying the fully retrospective method of transition. The core principle is to report information that represents lease transactions and provides a basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.

The adoption of the standard will effectively bring the leases onto the statement of financial position as a 'right of use asset and a lease liability. The rental charge is replaced by depreciation, which will be recognised on a straight line basis, and interest.

The Directors have assessed the impact of IFRS 16 on the reported figures for the year ended 31 December 2018. If the standard had applied during that period, whilst reported cash flow would not have changed, it would have resulted in a reclassification of a proportion of operating lease costs from Administrative Expenses to the Amortisation charge, impacting EBITDA positively, with no change to Operating Profit. The value of the leases to be discounted as at 31 December 2018 is £1.10m.

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 prepared 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 financial statements.

4.3 Revenue Recognition

The Group has adopted application of IFRS 15 "Revenue from contracts with customers" from 1 January 2018, applying the fully retrospective method of transition. The core principle is that revenue should only be recognised as the client receives the benefit of the goods or services provided under a commercial contract, in an amount that reflects the consideration to which the provider expects to be entitled for the transfer of the goods or services.

The adoption of IFRS 15 has impacted the timing of the recognition of set-up revenues at the commencement of a new Managed Service contract. Under IAS 18, the set-up element of a Managed Service contract was recognised as revenue in full on delivery of the respective products and services, with the Managed Service element deferred and released to revenue over the term of the contract. Under IFRS 15, the set-up element also has to be deferred and recognised as revenue over the term of the contract.

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 6. There has been no change in recognition compared to the previous policy and there are no financial component in revenue.

Revenue from Managed Services contracts includes:

Hardware – hardware revenue is recognised on delivery and is included within other revenue as set out in note 6. This is when control of hardware passes to the customer.

Device build - Device build revenue is deferred and recognised on a straight line basis over the term of the contract. This represents a change in recognition under IFRS 15 compared to IAS 18, due to the performance obligation not being considered to distinct from management and monitoring performance obligation. Previously devise build was recognised as a set-up fee on completion of the work being performed.

Configuration and installation - deferred and recognised on a straight line basis over the term of the contract. This represents a change in recognition under IFRS 15 compared to IAS 18, due to the performance obligation not being considered to distinct from management and monitoring performance obligation. Previously configuration and instalment was recognised as a set-up fee on completion of the work being performed.

Licensing - deferred and recognised on a straight line basis over the invoice period, due to the performance obligation not being considered to distinct from management and monitoring performance obligation

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

Revenue from the sale of products (vendor) is recognised when control has passes to the customer, 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. Other than the change in recognition for configuration and instalments there have been no changes to revenue recognition on adoption of IFRS 15.

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 Consultancy are recognised in the month of invoice.

Transition

The Group has adopted application of IFRS 15: "Revenue from contracts with customers" from 1 January 2018, applying the fully retrospective method of transition.

	Audit 2017 £,000	**IFRS £,000**	**Restated 2017 £,000**
Comprehensive income			
Revenue	4,115	(117)	**3,998**
Statement of Financial Position			
Trade and other payables	1,380	216	**1,596**
Opening equity at 1 January 2017	5,551	(100)	**4,551**

Due to the adoption of IFRS 15, revenues (Managed Services) in 2017 were reduced by £117k giving a contract liability of £117k. Trade and other payable balance also includes £99k of contract liability relating to 2016. EPS changes due to adoption is as follows, basic loss per share before restated (37.7), restated (39.0).

Contract Balances

	Contract Assets 2018 £'000	**Contract Assets 2017 £'000**	**Contract Liabilities 2018 £'000**	**Contract Liabilities 2017 £'000**
At 1 January	-	-	(829)	(388)
IFRS 15 adjustment	-	-	-	(216)

Commission expensed during the period	(13)	-	-	-
Commissions paid in advanced of contract completion	62	-	-	-
Recognised as revenue during the period	-	-	2,129	1,225
Invoiced in advanced of performance during period	-	-	(2,249)	(1,450)
	49	**-**	**(949)**	**(829)**

Contract Assets balance of £49k (2017: £nil) is included in the Trade Receivables. Contract Liabilities balance of £949k (2017: £829k) is included in Trade Payables.

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 has fixed assets located in the UK (cost of £863k; NBV of £398k) and Australia (cost of £56k; NBV of £29k). The Group's revenue and gross profit by operating segment for the year ended 31 December 2018 were as follows:

	Year ended 31 December 2018 £'000	Restated* Year ended 31 December 2017 £'000
Revenue		
Consulting	3,122	2,449
Managed Service	1,745	1,118
Vendor Products	228	168
Other	287	263
Total Revenue	**5,382**	**3,998**
Gross Profit		
Consulting	1,783	1,228
Managed Service	923	364
Vendor Products	42	38
Other	(8)	15
Gross Profit	**2,740**	**1,645**

Operating Loss	**(1,258)**	**(3,561)**
Finance Income	1	6
Loss before Taxation	**(1,257)**	**(3,555)**

Revenue by country for the year ended 31 December 2018 was as follows:

	Year ended 31 December 2018 £'000	Restated* Year ended 31 December 2017 £'000
United Kingdom	5,214	3,919
USA	-	42
South Africa	-	-
Eire	46	16
France	45	5
Egypt	-	-
Channel Islands	67	11
Czech Republic	4	5
Switzerland	6	-
	5,382	**3,998**

The Group's United Kingdom revenue by operating segment for the year ended 31 December 2018 were as follows:

	Year ended 31 December 2018 £'000	Restated* Year ended 31 December 2017 £'000
Revenue United Kingdom		
Consulting	2,970	2,380
Managed Service	1,741	1,118
Vendor Products	227	168
Other	276	253
	5,214	**3,919**

6. Taxation

Recognised in the Statement of Comprehensive Income

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Corporation Tax Charge/(Credit)	-	5
Deferred Tax Credit	(19)	(34)
Total Tax Credit	**(19)**	**(29)**

Reconciliation of Total Tax Charge Credit

	Year ended 31 December 2018 £'000	Restated* Year ended 31 December 2017 £'000
Loss before Tax	(1,257)	(3,555)
UK Corporation at rate of 19.0% (2017 19.25%)	(164)	(658)
Expenses not deductible for tax purposes	2	2
Income not taxable for tax purposes	-	(14)
Exercise of Share Options	(14)	-
Over/under provision in prior period – Corporation Tax	-	5
Over/under provision in prior period – Deferred Tax	(19)	(34)
Tax losses on which Deferred Tax not recognised	176	670
Total Tax Credit	**(19)**	**(29)**

Deferred Tax Assets & Liabilities

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Deferred Tax Assets	119	95
Deferred Tax Liabilities	(115)	(110)
Deferred Tax – Net Asset/(Liability)	**4**	**(15)**

Deferred Tax Assets of £119K is recognised in respect of unutilised trading losses, Share Based Payments and short-term timing differences. Deferred Tax Liabilities of £115k 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 £4,747k (£3,930k, 2017). A Deferred Tax Asset of £807k (£647k, 2017) has not been recognised as at 31 December 2018 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 (after adding-back exceptional costs incurred in the period; see note 19) by Diluted Number of Ordinary Shares.

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

	Year ended 31 December	Restated* Year ended 31 December

	2018	2017
	£'000	**£'000**
Net Loss attributable to Equity Holders of the Company	(1,238)	(3,526)
Add back: Exceptional Costs	120	275
Add back: Share Based Payments	111	93
Adjusted Loss	**(1,007)**	**(3,158)**
Number of Ordinary Shares ('000)		
Initial Weighted Average	9,047	8,994
Exercise Share Option	14	-
IPO Placing	-	-
Equity Warrant	37	53
Basic Number of Ordinary Shares	**9,098**	**9,047**
Weighted Average Dilutive Shares in Period	458	129
Diluted Number of Ordinary Shares	**9,556**	**9,176**
Earnings per Share (pence):		
Basic Earnings per Share	(13.6)	(39.0)
Diluted Earnings per Share**	(13.6)	(39.0)
Adjusted Earnings per Share	(11.4)	(34.4)

* The comparative figures have been restated in accordance with Note 4.3
**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, a former Director exercised options over 8,041 ordinary shares in the Company at nil cost per share.

These share issues were 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 over 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 as at 31 December 2018.

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

8. Intangible Assets

Development Costs

Costs	**£'000**
As at 1 January 2017	567
Additions	137
As at 31 December 2017	704
As at 1 January 2018	704
Additions	187
As at 31 December 2018	891

Amortisation

As at 1 January 2017	204
Charges for the year	100
As at 31 December 2017	304
As at 1 January 2018	304
Charges for the year	175
As at 31 December 2018	479

Net Book Value

As at 31 December 2017	400
As at 31 December 2018	412

9. Property, Plant and Equipment

	Leasehold Property £'000	Office Equipment £'000	Computer Equipment £'000	Motor Vehicles £'000	Total £'000
Cost					
At 1 January 2017	46	52	249	82	429
Additions	53	67	299	-	419
Disposals	-	-	(1)	(33)	(34)
At 31 December 2017	99	119	547	49	814
Additions	4	1	92	8	105
Disposals	-	-	-	-	-
At 31 December 2018	103	120	639	57	919
Depreciation					
At 1 January 2017	24	12	86	9	131
Charge for Period	10	17	113	14	154
Disposals	-	-	-	(10)	(10)
At 31 December 2017	34	29	199	13	275
Charge for Period	14	21	171	11	217
Disposals	-	-	-	-	-
At 31 December 2018	14	21	171	11	217
Net Book Value					
At 31 December 2017	**65**	**90**	**348**	**36**	**539**
At 31 December 2018	**55**	**70**	**269**	**33**	**427**

As at 31 December 2018, assets held under Finance Leases had a Net Book Value of £40k (2017: £61k). The depreciation charge of the respective assets in the year was nil (2017: £nil).

10. Cash & Cash Equivalents

	GROUP As at 31 December 2018 £'000	GROUP As at 31 December 2017 £'000
Cash & Cash Equivalents	650	1,597

11. Secured Facilities

The Group has been provided with payment facilities by Barclays Bank plc, including a BACS payment facility and a credit card facility. These payment facilities are secured by a debenture in favour of Barclays that creates fixed and floating charges over the assets of the Company.

12. Share Capital

Ordinary Share Capital

During the period ended 31 December 2018 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 2017	8,994,131	8,994,121	90
Increase in Authorised Share Capital	2,998,000	-	-
Exercise of Equity Warrant	-	89,941	1
At at 31 December 2017	**11,992,131**	**9,084,072**	**91**
As at 1 January 2018	11,992,131	9,084,072	91
Exercise of Share Options	-	14,425	-
At at 31 December 2018	**11,992,131**	**9,098,497**	**91**

On 22 June 2017, the Authorised Share Capital of the Company was increased by 2,998,000 by way of an Ordinary Resolution.

On 9 June 2017, Stockdale Securities Limited exercised its Equity Warrant, subscribing for 89,941 new Ordinary Shares at an exercise price of 167 pence per share. This resulted in a capital inflow of £150k and a credit to the Share Premium Account of £149k.

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.

13. Financial Instruments and Financial Risk Management

The Group's and Company's principal financial instruments comprise:

- Cash and Cash Equivalents
- Trade Receivables
- Other Receivables
- Intercompany Receivables
- Trade Payables
- Accruals
- Intercompany Payables
- Other Payables
- Finance Lease Liabilities

The Group's and Company's accounting policies, including the criteria for recognition, and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability. The information about the extent and nature of these recognised financial instruments, including significant terms and conditions that may affect the amount, timing and certainty of future cash flows, are disclosed in the respective notes where applicable. The Group and Company does not use financial instruments for speculative purposes.

The principal financial instruments used by the Group and Company, from which financial instrument risk arises, are as follows:

	GROUP As at 31 December 2018 £'000	**GROUP As at 31 December 2017 £'000**
Financial Assets		
Trade Receivables	869	994
Other Receivables	8	10
Intercompany Receivables	-	-
Cash and Cash Equivalents	650	1,597
Total Financial Assets	**1,527**	**2,601**
Financial Liabilities		
Trade Payables	170	130
Accruals	205	277
Intercompany Payables	-	-
Other Payables	38	33
Finance Leases	40	61
Total Financial Liabilities	**453**	**501**

Fair Values

The Directors have assessed that the fair values of Cash and Cash Equivalents, Trade Receivables, Trade Payables, Other Payables and Finance Leases approximate to their carrying amounts largely due to the short-term maturities of these instruments. There are no fair value adjustments to assets or liabilities charged to the Statement of Comprehensive Income.

Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk – commodity price risk, interest rate risk; and foreign currency risk. The Group and Company has limited exposure to each of these risks as discussed below.

Capital Management

The Group and Company manages its capital to ensure that it will be able to continue as a going concern while attempting to maximise the return to stakeholders through the optimisation of the debt and equity structure. The capital structure of the Group and Company consists of issued Share Capital, Retained Earnings and Finance Leases.

The Group and Company do not generally enter into derivative transactions (such as interest rate swaps and forward foreign currency contracts) and has been throughout the period covered by these financial statements, the Group's and Company's policy that no trading in financial derivative instruments shall be undertaken.

Credit Risk

Credit risk is the risk that a counterparty will cause a financial loss to the Group by failing to discharge its obligations to the Group. The Group manages its exposure to this risk by applying limits to the amount of credit exposure to any one counterparty and employs strict minimum credit worthiness criteria as to the choice of counterparty. The maximum exposure to credit risk for receivables and other financial assets is represented by their carrying amount. The Group considers credit risk to be low due to its processes and the nature of its clients, which includes a broad spread of large corporates, SMEs and public sector organisations.

The Group uses an expected credit loss model for impairment that represents its estimate of incurred losses in respect of the Trade Receivables as appropriate.

The Group applies the IFRS 9 simplified approach to measure expected credit losses using a lifetime expected credit loss provision for trade receivables and contract assets. The expected loss rates are based on the Group's historical credit losses experienced over the two year period prior to the period end.

The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customer. Under the expected credit loss model impairment allowance wasn't material resulting in no provision being made.

A reconciliation of the movement in the impairment allowance for receivables is shown below:

	£'000
Provision for and doubtful debts as at 1 January 2018	2
Amount released	(2)
Amount provided	0
Expected credit loss provision as at 31 December 2018	**-**

Trade Receivables

Trade Receivables, net of impairment provisions, for the Group and Company as at 31 December 2018 were £869k (2017: £994k). These Trade Receivables are not secured by any collateral or credit insurance. The Group's standard terms are 30 days from date of invoice but non-standard terms may be agreed with certain customers. Invoices which remain unpaid for periods greater than agreed terms are assessed as overdue.

As at 31 December 2018, Trade Receivables past due for the Group and Company total £132k (2017: £139k) of which £nil (2017: £2k) have been impaired.

As at 31 December 2018, Trade Receivables of £132k (2017: £139k) were past due but not impaired, as follows:

	GROUP As at 31 December 2018	**GROUP As at 31 December 2017**

	£'000	£'000
Up to 3 months	131	113
3 months to 6 months	1	24
6 months to 12 months	-	2
	132	**139**

Cash Holdings

The Group only holds cash at mainstream banking institutions to mitigate the credit risk on cash deposits. The credit rating of the principal banking institution is A (Standard & Poor's).

Interest Rate Risk

The Company's exposure to changes in interest rates relates to Cash Holdings and Finance Leases.

Cash is held either on current or short term deposits at a floating rate of interest determined by the relevant bank's prevailing base rate.

The outstanding balance of Finance Leases at 31 December 2018 was £40k (2017:£61k). This relates to a single facility at a fixed rate of interest.

Interest Rate Sensitivity

When reviewing sensitivity to movement in interest rates, it is noted that interest rates are at historically low levels and that Cash balances significantly outweigh debt balances.

The Directors consider that any downward movement in interest rates would be immaterial to the Group. The Directors consider that an upward movement in interest rates would benefit the Group, although the impact of a 1% rise in interest rates would be immaterial.

Foreign Currency Exchange Risks

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of the changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities when revenue or expenses are denominated in a foreign currency.

The Group does not hedge its foreign currencies. Transactions with customers are mainly denominated in GBP.

The Group has suppliers that invoice in US dollars and Australian dollars.

Liquidity Risks

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due.

The maturity profile of the Group's financial liabilities at the reporting dates, based on contractual undiscounted payments, are summarised below:

	As at 31 December 2018 £'000	**As at 31 December 2017 £'000**
US Dollars	2	2
Australian Dollars	4	5
	6	**7**

14. Related Party Transactions

ECSC Australia Pty Ltd

During the year ended 31 December 2018, ECSC Group plc incurred management fees to ECSC Australia Pty Ltd of £330k (2017: £165k). As at 31 December 2018, the balance payable by ECSC Group plc to ECSC Australia Pty Ltd in respect of outstanding management fees was £50k (2017:£39k).

During the year ended 31 December 2017, ECSC Group plc provided loans totalling £100k to ECSC Australia Pty Ltd to fund the costs of establishing a Security Operations Centre in Brisbane, Australia. As at 31 December 2018, the loan balance payable by ECSC Australia Pty Ltd to ECSC Group plc was £96k. The loan is repayable on demand and attracts interest at the rate of 3% over base rate.

Directors Loans

During the year ended 31 December 2017, there were no new loan advances to Directors.

In January 2018, a loan totalling £20k was granted to one Director. The loan was interest free and was fully repaid May 2018.

15. Share Based Payments

Share Based Payment Schemes

The Company operates a number of equity-settled Share Based Payment schemes, as follows:

- Enterprise Management Incentive ('EMI') Scheme
- Save As You Earn ('SAYE') Share Option Scheme
- Non-Executive Director Remuneration Scheme ('NED Scheme')
- Non-Executive Directors Share Options ('NED1 Scheme')

EMI Scheme

May-2017

The EMI Scheme provides the opportunity for eligible Directors and employees to buy Ordinary Shares at a future date in accordance with the scheme rules. The options are subject to the option holder's continuing employment, are not transferable and have a life of 10 years. All grants under the scheme are subject to approval by the Remuneration Committee.

In May 2017, the Company granted options over 269,824 Ordinary Shares at an exercise price of 167 pence per share, subject to a three year vesting period, to 31 employees. There were no performance conditions attaching to this grant.

Within this grant, Lucy Sharp, a Director of the Company, was granted options over 69,758 Ordinary Shares.

During the year ended 31 December 2018, options over 15,810 Ordinary Shares (2017:79,524) options have lapsed, such that options over 174,490 Ordinary Shares remain exercisable in the future.

December-2017

In December 2017 the Company granted options over 148,000 Ordinary Shares at an exercise price of 140 pence per share, subject to a three year vesting period, to eight employees. There was a performance condition attaching to this grant.

In order for the options to vest, the share price of the Company must grow by at least 10% pa on a compound basis over the three year vesting period from a start point of 140 pence per share. This is a one-off performance condition that shall be tested at the end of the vesting period, and does not require 10% growth in individual years of the vesting period. If an event occurs before the expiry of the vesting period that causes the option to become exercisable under the scheme rules, then the Remuneration Committee, in its sole discretion, may waive or modify downwards the performance condition at the time of early vesting.

During the year ended 31 December 2018, options over 123,000 Ordinary Shares have lapsed, such that options over 25,000 Ordinary Shares remain exercisable in the future.

August-2018

In August 2018 the Company granted options over 185,000 Ordinary Shares a an exercise price of 93 pence per share, subject to a three year vesting period, to 14 employees. In order for the options to vest, the Ordinary Shares must trade at a minimum mid-market price of 200 pence per share over 30 consecutive trading days during the vesting period.

During the year ended 31 December 2018, options over 5,000 Ordinary Shares have lapsed, such that options over 180,000 Ordinary Shares remain exercisable in the future.

SAYE Scheme

The SAYE Scheme provides the opportunity for eligible Directors and employees to buy Ordinary Shares at a future date at the end of a linked savings contract. The options are subject to the scheme rules, are not transferable and have a life of 10 years. All grants under the scheme are subject to approval by the Remuneration Committee.

In November 2017, the Company granted options over 42,624 Ordinary Shares at an exercise price of 125 pence per share, subject to a three year vesting period, to 30 employees who applied to join the scheme.

During the year ended 31 December 2018, options over 14,400 Ordinary Shares (2017: 1,440) have lapsed, such that options over 26,784 Ordinary Shares remain exercisable in the future.

NED Scheme

In October 2017, the Company agreed to alter the payment of service fees payable to its three Non-Executive Directors from monthly cash payments to the grant of nil exercise share options. Since the options are in lieu of cash payments, there are no performance conditions attaching to the grant of these options and they may be exercised on grant.

During the period October 2017 to December 2017, the Company allocated options over 20,836 Ordinary Shares under this scheme. Within this total, Nigel Payne was allocated 8,014 options, Stephen Vaughan was allocated 6,411 options and David Mathewson was allocated 6,411 options.

These options were not formally granted during the year ended 31 December 2017 but were granted in March 2018 publication of the financial results of the Company for the year ended 31 December 2017.

From 1 January 2018, the payment of service fees has returned to monthly cash payments.

In April 2018 options over 14,425 Ordinary Shares were exercised, such that options over 6,411 Ordinary Shares remain exercisable in the future. remain exercisable in the future.

NED 1 Scheme

In April 2018, the Company granted options over 200,000 Ordinary Shares as an exercise price of 78 pence per share, subject to a three year vesting period. Within this total David Mathewson was allotted 100,000 options and Elizabeth Gooch was allotted 100,000 options. In order for the options to vest, the Ordinary Share must trade at a minimum mid-market price of 200 pence per share over 10 consecutive trading days during the vesting period.

Share Based Payment Charge

In accordance with the requirements of IFRS 2, the Company calculated the fair value of the share options at the date of grant using a Black Scholes option pricing model for the EMI and SAYE Schemes. For the NED scheme, the fair value of the services rendered was assessed.

A Share Based Payment charge is recognised by spreading the fair value of the option over the maturity period, with allowance made for options that have lapsed in the period.

The movement in the number of options during the year, the option pricing assumptions, the option valuation at the grant date and the Share Based Payment Charge in the year, for each scheme described above, is as follows:

Scheme	**EMI (May-17)**	**EMI (Dec'17)**	**EMI (Aug'18)**	**SAYE**	**NED**	**NED 1 (Apr'18)**	**Total**
Number of Options:							
Outstanding at 01 January 2017	-	-	-	-	-	-	**-**
Granted during the year	269,824	148,000	-	42,624	20,836		**481,284**
Forfeited during the year	(79,524)	-	-	(1,440)	-	-	**(80,964)**
Exercised during the year	-	-	-	-	-	-	**-**
Expired during the year	-	-	-	-	-	-	**-**
Outstanding at 31 December 2017	**190,300**	**148,000**	-	**41,184**	**20,836**	**-**	**400,320**
Exercisable at 31 December 2017	-	-	-	-	**20,836**	-	**20,836**

Outstanding at 01 January 2018	190,300	148,000	-	41,184	20,836	-	**400,320**
Granted during the year	-	-	185,000	-	-	200,000	**385,000**
Forfeited during the year	(15,810)	(123,000)	(5,000)	(14,400)	-	-	**(158,210)**
Exercised during the year	-	-	-	-	(14,425)	-	**(14,425)**
Expired during the year	-	-	-	-	-	-	**0**
Outstanding at 31 December 2018	**174,490**	**25,000**	**180,000**	**26,784**	**6,411**	**200,000**	**612,685**
Exercisable at 31 December 2018	-	-		-	**6,411**	-	**6,411**
Option Pricing Assumptions:							
Pricing Model	Black Scholes	Black Scholes	Black Scholes	Black Scholes		Black Scholes	
Weighted Average share price at grant date (pence)	312	135	93	131	125	79	
Weighted average exercise price (pence)	167	140	93	125	-	78	**603**
Weighted Average contract life	3 years	3 years	3 years	3 years	0 years	3 years	
Weighted Average risk free rate	1%	1%	1%	1%	1%	1%	
Volatility	40%	40%	40%	40%	40%	40%	
Option Valuation:							
Option Valuation at grant date (£'000)	**286**	**9**	**47**	**10**	**8**	**45**	**406**
Share Based Payments Charge in 2018:							
Share Based Payment Charge (£'000)	**90**	**2**	**6**	**3**	**-**	**10**	**111**
Weighted Average Exercise Price:							
At grant date, forfeit date and end of period (pence)	167	140	93	125	-	78	

The volatility assumption, calculated at the standard deviation of expected share price returns, is based on analysis of the share prices of comparable companies over the last 3-5 years.

Exercise of Stockdale Warrant

On 9 June 2017, Stockdale Securities Limited exercised its Equity Warrant granted in December 2016 over 89,941 shares at an exercise price of 167 pence per share. The share price on the day of exercise was 445 pence.

16. Commitments

The Group's future minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December 2018 £'000	**As at 31 December 2017 £'000**
Not Later than one year	174	195
Later than one year and not later than five years	503	520
More than five years	478	44

	1,155	**759**

17. Controlling Party

ECSC Group plc does not have an ultimate controlling party.

18. Adjusted Loss before Taxation and Adjusted EBITDA

Adjusted Loss before Taxation

		Restated*
	Year ended	**Year ended**
	31 December	**31 December**
	2018	**2017**
	£’000	**£’000**
Loss before Taxation	**(1,257)**	**(3,555)**
Share Based Payments	111	93
Exceptional Items	120	275
Adjusted Loss before Taxation	**(1,026)**	**(3,187)**

Adjusted EBITDA:

		Restated
	Year ended	**Year ended**
	31 December	**31 December**
	2018	**2017**
	£’000	**£’000**
Operating Loss	**(1,258)**	**(3,561)**
Depreciation and Amortisation	392	254
EBITDA**	(866)	(3,307)
Share Based Payments	111	93
Exceptional Items	120	275
EBITDA (Adjusted)*	**(635)**	**(2,939)**

		Restated
	Year ended	**Year ended**
	31 December	**31 December**
	2018	**2017**
	£’000	**£’000**

Operating Loss	**(1,258)**	**(3,561)**
Share Based Payments	111	93
Exceptional Items	120	275
Operating Loss Adjusted*	**(1,027)**	**(3,193)**

19. Exceptional Costs

During the year ended 31 December 2018, the Company continued to undertake a restructuring exercise to reduce its operating costs and mitigate its monthly operating losses. In achieving these recurring cost savings, a number of one-off, exceptional costs were incurred, including payments in lieu of notice and car termination costs. These Exceptional Costs totalled £120k and were charged to the Statement of Comprehensive Income in the year ended 31 December 2018.

Exceptional Costs are analysed as follows:

	As at 31 December 2018	**As at 31 December 2017**
	£'000	**£'000**
Payments in Lieu of Notice	76	185
Redundancy Payments	-	5
Ex-gratia Payments	-	37
Employee Benefit Expense	**76**	**227**
Taxation & Social Security Costs	12	23
Staff Related Costs	**88**	**250**
Car Termination Costs	11	18
Legal Costs	21	7
Exceptional Costs	**120**	**275**

20. 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