13 March 2018

ECSC Group plc

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

Final Results for the year ended 31 December 2017

ECSC Group plc (AIM: ECSC), a provider of cyber security services, announces its audited final results for the year ended 31 December 2017.

IFRS 15, a new accounting standard for revenue recognition, came into force on 1 January 2018. The Group has adopted IFRS 15 from 1 January 2018 and will apply the standard for the first time to its Interim and Final results for the year ended 31 December 2018. The results contained in this announcement are prepared under the accounting policies of the Group contained in Group's Admission Document, in accordance with IAS 18. For more details, please refer to the Financial Review on page 8 of this announcement.

Highlights

- Organic revenue growth of 9.5% to £4.12m (2016: £3.76m)
    - Consulting revenue up 15% to £2.45m (2016: £2.12m)
    - Managed Services revenue up 10% to £1.24m (2016: £1.12m), within which the recurring revenue element was up 20% to £0.97m (2016: £0.81m)
    - Vendor Product and Other revenues down 16% to £0.43m (2016: £0.51m)
    - 10 new Managed Services contracts secured in the year with an annualised contract value of £0.32m
- Gross Profit of £1.76m (2016: £2.28m), driven by the scaling of Consulting and Managed Services headcount
- EBITDA loss (pre-exceptional costs of £0.28m) of £2.92m (2016: £0.49m profit)
- Operating Loss (pre-exceptionals) of £3.17m (2016: £0.34m profit)
- Cash outflow of £3.4m, leaving cash of £1.6m at year end (2016: £4.99m)
- Cost restructuring executed in the final quarter, materially reducing monthly operating losses and the rate of cash burn
- Basic Earnings per Share loss of of 37.7 pence (2016: loss of 7.7 pence)
- Diluted Earnings per Share* loss of 37.7 pence (2016: loss of 7.7 pence)

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

  ** The comparative figures above are for the 12 months ended 31 December 2016

Ian Mann, CEO of ECSC, commented:

"Our first year as a public company has been a period of significant change for the Group. We have delivered on our planned investment and achieved growth, but we have experienced a number of challenges. These have had a detrimental effect on reported performance.

"During the year we have invested heavily to drive growth in the business. Our consulting resources and sales team have been expanded and we now have a full 24 hours Security Operations capability with the opening of our new centre in Brisbane, Australia. We have continued to invest in the proprietary software embedded in our managed security devices at the heart of our Managed Services offering. All of this has been achieved in line with the plans we set out at the time of the IPO.

"However, the rate of revenue growth has been significantly less than expected in our plans. As we reported during the year, corporate decision-making cycles have been longer than anticipated, especially in Managed Services. This has delayed conversion of the sales pipeline. As a result, our revenues and profits have fallen short of the levels planned at the IPO. In response to this situation, the Board took action to reduce costs, bringing down operating losses and the rate of cash burn. However, we have done this in ways which protect key revenue generating resources, thereby providing a platform that has the best chance to deliver future growth and shareholder value.

"Despite these challenges, I am encouraged that further growth can be achieved in 2018. Our clients continue to recognise the growing importance of cyber security and the market is developing in ways favourable to our skills and offerings."

The information contained in this announcement is deemed to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. Upon publication of this announcement, this inside information is now considered to be in the public domain.

Enquiries:

ECSC Group plc **+44 (0) 1274 736 223**

Nigel Payne (Non-Executive Chairman)

Ian Mann (Chief Executive Officer)

Stephen Hammell (Chief Financial Officer)

www.ecsc.co.uk

Stockdale Securities (NOMAD and Broker) **+44 (0) 20 7601 6100**

Robert Finlay

Hanan Lee

Alma PR (Financial PR) **+44 (0) 20 8004 4217**

Joshua Royston

Hilary Buchanan

For more information please visit or contact the following: www.ecsc.co.uk

Notes to Editors

ECSC is a proven provider of cyber security services with a blue-chip client base that offers a comprehensive range of solutions.

The Company has over 16 years' experience in the design, implementation and management of cyber security solutions. ECSC's consultancy-led approach, and its combination of custom methodologies and in-house proprietary technologies, enables the Company to provide individually tailored services to its clients. The Company has significant intellectual property, including bespoke products delivering remotely managed cyber security services and custom-made internal support and delivery systems.

The Company floated on AIM in December 2016 to accelerate its growth strategy and to take advantage of the importance attached to cyber security by company boards as a result of the recent proliferation of high profile cyber security breaches.

Chairman's Statement

ECSC completed its IPO in December 2016 against a backdrop of growth in the cyber security market. This growth was driven by three factors - the continued incidence of high profile cyber security breaches, the implementation of the 2018 Data Protection Act, incorporating the General Data Protection Regulations ('GDPR') in May 2018, and the priority accorded to cyber security in the corporate boardroom.

Following the IPO, the Board set about executing its strategy to utilise newly acquired growth capital to scale the business and leverage ECSC's position in this growing market. In executing its strategy, the degree of scale change implemented within the business has been substantial and has seen investment into the Company's operational infrastructure, an increase in its sales and consulting resources, and further development of its proprietary security software embedded within its managed security devices.

Whilst this increase in resources has been largely delivered in line with the Board's expectations, revenue growth has been below expectations. ECSC continues to see corporate boards recognising the importance of cyber security and allocating budgets for effective solutions. The need for board level involvement and a consequential extended approval process has, however, extended the sales cycle beyond that originally anticipated. With a slower ramp-up of sales clearly evidenced, in September 2017 the Board reduced its full year revenue and earnings expectations.

At the same time and in response to lower revenue levels, the Board implemented a significant and targeted cost efficiency programme to materially reduce cash burn whilst protecting key revenue generating resources. Notwithstanding the success of this programme, the combination of reduced revenue yield whilst scaling-up resources and the slower sales cycle generally, has resulted in a substantial financial loss for the year, somewhat higher than original expectations set at the time of the IPO – albeit in line with the Board's revised expectations set in September 2017.

With a reduced cash burn and augmented resources in place, ECSC has an improved platform of technical and commercial resources from which to leverage the still-evident market opportunity. The absolute priority for ECSC now is higher and faster revenue growth, and the Board will continue to monitor the rate of growth closely and will manage resources accordingly.

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.

Nigel Payne
Non-Executive Chairman
12 March 2018

Chief Executive's Review

Our first year as a public company has been a period of significant change for the Group that has required the business to confront a number of challenges and obstacles. Whilst there have been some successes along the way, revenue growth of 9.5% in the year was significantly slower than expectations, and this has had a detrimental effect on reported performance. Each of our Operating Segments – Consulting, Managed Services and Vendor Products – have encountered and addressed challenges in the year.

Consulting

Consulting has grown by 15% during the year, which was slightly above the market growth rate but below market expectations at the time of the IPO. During the year, we expanded headcount from 14 to a peak of 26, reducing to 20 by the year end. I have been pleased with the quality of staff recruited, especially the new Service Directors, whose role is to safeguard, and further develop, the high quality of services we deliver to clients.

Billing rates for Consulting days have been robust and consistent during the year. The main challenge has been managing staff utilisation levels against the backdrop of rapid headcount expansion and the slower than expected revenue growth, which has served to constrain margins generated. This was addressed by reducing headcount in the final quarter of the year, which now better matches the activity levels we are experiencing.

The Consulting segment has now launched its GDPR service offering which has seen an increase in sales order intake in recent months.

Managed Services

The growth of Managed Services recurring revenue is a fundamental pillar of the Board's expansion strategy. Accordingly, Managed Services has seen significant investment in the year, including the establishment of a 24/7/365 Security Operations Centre ('SOC') in Brisbane, Australia, and an Incident Response unit in London, and continued investment into ECSC proprietary software, used within our security devices. Headcount was expanded from 18 to a peak of 25, reducing slightly to 23 by year end. I was pleased with the process to establish our Australian SOC in particular, which was completed on time and within budget, and is providing an advantage to us in new sales processes, especially where competitors lack this capability, and in expanding revenue from existing clients who wish to utilise the new facility.

During the year, we won 10 new Managed Service contracts, from a variety of sectors, with an annualised contract value of £324k, driving revenue growth of 10% in this segment. However, this was below our expectations at the time of the IPO and the main challenge we have faced during the year has been the closure rate of new Managed Services contracts. With the increased importance attached to cyber security by corporate boards, the decision-making process to enter into new contracts has been much longer than we anticipated and this has slowed pipeline conversion. With the lower than expected revenue, and the need to maintain headcount to support service delivery, margin performance has also been below market expectations at the time of the IPO.

The Board continues to see this revenue stream as a priority for growth and, with the technical infrastructure fully in place, the priority is to secure additional contracts to leverage the performance of this segment.

Vendor Products

Sales of third-party Vendor Products has been lower in the year. This is not a strategic segment of the business and is not viewed as a value-added service offering.

Sales & Marketing

The largest investment made in the year has been the expansion of our sales team, including establishing an internal telesales team in Leeds and the take-on of new external field sales staff. Headcount was increased from 8 at IPO to 38, reducing to 26 by year end. Whilst the initial recruitment and training process was executed on time and budget, a number of new recruits under-performed.

In response to the challenges the business has faced, the sales team was reorganised in October 2017, with headcount reduced, new leadership installed, and the structure of the team adjusted to increase the level of resource committed to the Managed Services pipeline, to better match the market opportunity. We have also delivered enhanced training support to the retained staff, focusing our efforts on our better performers.

I have been pleased with our investment in Marketing, where headcount was increased from 2 to 4 in the year. The expanded team have focused their activities on campaigns and events, and have promoted our presence in the cyber security market efficiently and effectively.

Chief Executive's Review

Technology Development

We have continued to invest in ECSC proprietary software in the year, including developing our Managed Services software embedded within our managed devices in light of emerging security threats, and enhancing our internal systems to facilitate improved workflows and reporting.

Central Infrastructure

To support the scale-up of the Group, we have invested in central functions in the year, strengthening the capability of our Finance and HR teams, and investing in an internal IT system upgrade to improve robustness and performance. These changes have been achieved efficiently and within budget.

Market Prospects & Organic Growth Strategy

The UK cyber security market continues to exhibit growth rates of 10%-12% pa and remains an attractive segment of the wider IT sector. Moreover, the growth of outsourced managed services continues to outstrip the cyber security market as a whole.

Against this backdrop, I am confident that the organic growth strategy of ECSC remains appropriate. Managed Services remains the strategic focus of the Group, to build our recurring revenue streams and target the fastest growing segment of the market, supported by the increased commitment of sales and marketing resources.

Sales Pipeline

Since the reorganisation of the sales team in October 2017, significant effort has been made to build the quality and size of the Managed Services pipeline, supported by new marketing activities. The Managed Services pipeline is now at the highest level seen in the last 12 months. However, the challenge remains the timely conversion of this pipeline into reported revenue, and this is the focus of the sales team at present.

Outlook

Following a year of transformation, ECSC now has a platform to pursue the opportunity in the cyber security market. The absolute priority for the Group is driving faster revenue growth and I look forward to providing a further update on progress in due course.

Ian Mann

Chief Executive Officer

12 March 2018

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 are for the 15 months ended 31 December 2016. To assist the reader in year-on-year comparative analysis, the following table has been prepared that sets out financial performance for the 12 months ended December 2016:

	12 months ended 31 December 2017 £'000	12 months** ended 31 December 2016 £'000	15 months ended 31 December 2016 £'000
Revenue			
Consulting	2,449	2,121	2,562
Managed Services	1,235	1,124	1,330
Vendor Products	168	230	235
Other	263	282	383
	4,115	**3,757**	**4,510**
Gross Profit			
Consulting	1,228	1,389	1,701
Managed Services	481	877	1,059
Vendor Products	38	37	37
Other	15	(23)	(10)
	1,762	**2,281**	**2,787**
EBITDA (pre-Exceptionals)*	**(2,915)**	**489**	**630**
EBITDA (after Exceptionals)	**(3,190)**	**(486)**	**(345)**
Operating (Loss)/Profit (pre-Exceptionals)	**(3,169)**	**343**	**453**
Operating (Loss)/Profit (after Exceptionals)	**(3,444)**	**(632)**	**(522)**

* EBITDA is defined as Earnings before Interest, Tax, Depreciation and Amortisation.
** The comparative figures for the 12 months ended 31 December 2016 are unaudited.

Revenue & Organic Growth

Total revenue in the year ended 31 December 2017 was £4.12m, up 9.5% on the comparable prior period (revenue in the 12 months ended 31 December 2016 was £3.76m). Within this, Consulting revenue grew by 15% to £2.45m (2016: £2.12m), a positive performance in a period where the business has invested heavily in new capacity.

Managed Services revenue rose by 10% in the year to £1.24m (2016: £1.12m). This was driven by 20% growth in recurring revenues from contracted clients, which expanded to £0.97m (2016: £0.81m), underpinned by 10 new contract wins in the year with an annualised value of £0.32m. Managed Services set-up revenues also rose to £0.22m (2016: £0.16m). Incident Response revenues were lower in the year, falling to £0.05m (2016: £0.16m), due to a relatively low volume of call-outs.

Vendor Products revenue in the year was modest at £0.17m, down slightly on prior year (2016: £0.23m).

Margin Generation

Gross Profit in the year was £1.76m at 43% margin (2016: £2.28m at 61% margin). This was broadly as expected, given the rapid scale-up of Consulting and Managed Services capacity in the year.

Consulting margin fell to 50% in the year (2016: 65%). The underlying billing rates for Consulting days has been robust during the year, with the decline in margin driven by lower utilisation of new staff during the rapid scale-up of the segment. With the current pool of Consultants now better matched to our activity levels, the Board expects Consulting margin to more closely track the trend of revenue generated.

Financial Review (continued)

Managed Services margin fell to 39% (2016: 78%), reflecting expansion of the Managed Services headcount, investment into the Australian SOC to provide 24/7/365 service capability, and a reduction in the development activities of the team, with the amount capitalised into Intangible Assets in the year falling to £0.14m (2016: £0.22m). With the investment in new Managed Services infrastructure now complete, the Board expects Managed Services margin to more closely track the trend of revenue generated.

Cost Restructure & Exceptional Costs

During the final quarter of the year ended 31 December 2017, the Directors undertook 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 first half of the year.

The objective was to reduce the operating cost base by £0.16m per month, which was achieved by reducing headcount by 25 staff and by stricter control of overheads. The headcount reductions impacted Consulting, Managed Services, Sales, and Central staff.

In achieving these recurring cost savings, a number of one-off, exceptional costs were incurred, including payments in lieu of notice, redundancy payments and lease cancellation costs. These exceptional costs totalled £0.28m in the year, the bulk of which were incurred in the final quarter.

EBITDA & Operating Loss

EBITDA (pre-Exceptionals) in the year was a loss of £2.92m (2016: £0.49m profit), reflecting both the rapid scaling of the business in the first half of the year and the cost savings of the final quarter. EBITDA (after Exceptionals) in the year was a loss of £3.19m (2016: loss of £0.48m).

Operating Loss (pre-Exceptionals) in the year was £3.17m (2016: Operating Profit of £0.34m). Operating Loss (after Exceptionals) in the year was £3.44m (2016: loss of £0.63m).

Cash Flow

The cash balance at the start of the year was £4.99m, boosted by the IPO proceeds. During the year, the cash balance has fallen due to the EBITDA loss (£2.92m), exceptional costs (£0.28m), working capital investment (£0.16m), capital expenditure (£0.42m), and development costs (£0.14m). The main items of capital expenditure are computer equipment for new staff, an internal IT system upgrade, leasehold property improvements, and the establishment costs for the new SOC in Australia. The internal IT upgrade was part-funded by a Finance Lease of £0.06m.

During the year, the Group received a refund of £0.18m from HMRC in respect of a surrender of R&D Tax Credits from earlier periods. In addition, Stockdale Securities Limited exercised its Equity Warrant, subscribing for 89,941 new Ordinary Shares. This resulted in a cash inflow of £0.15m.

The cash balance at 31 December 2017 was £1.6m.

Balance Sheet

The Group balance sheet at 31 December 2017 had Net Assets of £2.39m (2016: £5.55m), with the largest asset being the cash balance of the Group. Retained Earnings and Distributable Reserves as at 31 December 2017 were a cumulative loss of £3.46m (2016: cumulative loss of £0.05m).

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, and that the Group has only modest financing facilities that 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 2018 and 2019, 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 2017 is sufficient to fund the ongoing growth and development of the Group and meet its' liabilities as they fall due for at least the next 12 months.

Financial Review (continued)

Key Performance Indicators ('KPIs')

The Directors monitor business performance against a number of financial and non-financial KPIs, including revenue growth and gross margin by Operating Segment, EBITDA margin, performance against budget and prior year, cash burn rate, client concentration, volume of client complaints and industry awards. The principal KPIs have been disclosed in this Financial Review.

IFRS 15 Adoption

The Directors will adopt 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.

The adoption of IFRS 15 will impact the timing of the recognition of set-up revenues at the commencement of a new Managed Service contract. In the year ended 31 December 2017, 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. The effect of this change will be to reduce set-up revenues recognised in the year ended 31 December 2018.

Dividend

The Board has not declared a dividend for the year ended 31 December 2017 (2016: £0.25m).

Stephen Hammell
Chief Financial Officer
12 March 2018

ECSC Group plc
Consolidated Statement of Comprehensive Income
For the year ended 31 December 2017

	Note	Year ended 31 December 2017 £'000	Restated* 15 months ended 31 December 2016 £'000
Revenue	**5**	**4,115**	**4,510**
Cost of Sales		(2,353)	(1,723)
Gross Profit	**5**	**1,762**	**2,787**
Other Income	**6**	121	158
Sales & Marketing Costs		(2,545)	(1,245)
Administrative Expenses		(2,782)	(2,222)
Operating (Loss)/Profit before Exceptional Items		**(3,169)**	**453**
Exceptional Items	**22**	(275)	(975)
Operating Loss	**7**	**(3,444)**	**(522)**
Finance Income		6	5
Loss before Taxation	**8**	**(3,438)**	**(517)**
Taxation Credit	**10**	29	118
Loss for the Period		**(3,409)**	**(399)**
Other Comprehensive Income		-	-
Total Comprehensive Income for the Period		**(3,409)**	**(399)**
Attributable to Equity Holders of the Company		**(3,409)**	**(399)**
(Loss)/Earnings per Share	**11**	**pence**	**pence**
Basic Loss per Share		(37.7)	(7.7)
Diluted Loss per Share		(37.7)	(7.7)

* The comparative figures have been restated in accordance with Note 3.

ECSC Group plc
Consolidated Statement of Financial Position
As at 31 December 2017

	Note	As at 31 December 2017 £'000	As at 31 December 2016 £'000
ASSETS			
Non-current Assets			
Intangible Assets	**12**	400	363
Property, Plant and Equipment	**13**	539	298
Total Non-current Assets		939	661
Current Assets			
Inventory		53	-
Trade and Other Receivables	**14**	1,130	1,033
Corporation Tax Recoverable	**6**	122	183
Cash and Cash Equivalents		1,597	4,987
Total Current Assets		2,902	6,203
TOTAL ASSETS		**3,841**	**6,864**
LIABILITIES			
Current Liabilities			
Trade and Other Payables	**15**	(1,380)	(1,264)
Finance Leases	**16**	(20)	-
Total Current Liabilities		(1,400)	(1,264)
Non-current Liabilities			
Deferred Tax Liability	**10**	(15)	(49)
Finance Leases	**16**	(41)	-
Total Non-current Liabilities		(56)	(49)
TOTAL LIABILITIES		**(1,456)**	**(1,313)**
NET ASSETS		**2,385**	**5,551**
EQUITY			
Equity attributable to Owners of the Parent:			
Share Capital	**17**	91	90
Share Premium Account	**17**	5,661	5,512
Share Option Reserve	**17**	93	-
Retained Earnings	**17**	(3,460)	(51)
TOTAL EQUITY		**2,385**	**5,551**

ECSC Group plc
Consolidated Statement of Changes in Equity
For the year ended 31 December 2017

	Share Capital £'000	**Share Premium Account £'000**	**Share Option Reserve £'000**	**Retained Earnings £'000**	**Total £'000**
Balance as at 30 September 2015	22	75	-	602	**699**
Profit and Total Comprehensive Income for the period ended 31 December 2016	-	-	-	(399)	**(399)**
Transactions:					
Dividends	-	-	-	(254)	**(254)**
Issue of Shares	2	83	-	-	**85**
Bonus Issue	26	(26)	-	-	**-**
Issue of Shares at IPO	30	4,970	-	-	**5,000**
Exercise of Share Options	10	723	-	-	**733**
Share Issue Costs	-	(313)	-	-	**(313)**
Balance as at 31 December 2016	**90**	**5,512**	**-**	**(51)**	**5,551**
Profit and Total Comprehensive Income for the year ended 31 December 2017	-	-	-	(3,409)	**(3,409)**
Transactions:					
Exercise of Equity Warrant	1	149	-	-	**150**
Grant of Share Options	-	-	93	-	**93**
Balance as at 31 December 2017	**91**	**5,661**	**93**	**(3,460)**	**2,385**

ECSC Group plc
Consolidated Cash Flow Statement
For the period ended 31 December 2017

	Note	Year ended 31 December 2017 £'000	15 months ended 31 December 2016 £'000
Cash Flow from Operating Activities			
Loss before Taxation		(3,438)	(517)
Adjustment for:			
Exceptional Items – IPO Costs	**22**	-	975
Amortisation of Intangibles	**12**	100	112
Depreciation of Property, Plant and Equipment	**13**	154	65
Loss on Disposal of Equipment		6	-
Share Based Payment Charge	**20**	93	-
Cash (used in)/from Operating Activities before changes in Working Capital		**(3,085)**	**635**
Change in Inventory		(53)	1
Change in Trade and Other Receivables	**14**	(218)	(410)
Change in Trade and Other Payables	**15**	116	643
Cash generated from Operating Activities		**(3,240)**	**868**
Corporation Tax Received/(Paid)		178	36
Net Cash Flow (used in)/from Operations		**(3,062)**	**905**
Acquisition of Property, Plant and Equipment	**13**	(358)	(296)
Disposal Proceeds		17	-
Development Costs Capitalised	**12**	(137)	(221)
Net Cash Flow used in Investing Activities		**(478)**	**(517)**
Dividends Paid	**21**	-	(254)
Proceeds from Issuance of Shares	**20**	150	5,818
Exceptional Items – IPO Costs	**22**	-	(1,288)
Net Cash Flow from Financing Activities		**150**	**4,276**
Net Increase in Cash & Cash Equivalents		**(3,390)**	**4,663**
Cash & Cash Equivalents at beginning of Period		4,987	324
Cash & Cash Equivalents at end of Period		**1,597**	**4987**

ECSC Group plc
Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

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 2017 were approved by the Board of Directors on 12 March 2018.

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 2017 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 2017 (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.

The information in this preliminary statement has been extracted from the financial statements for the year ended 31 December 2017 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 2017 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 2017 and 15 months ended 30 December 2016 do not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The accounts for the 15 months ended 30 December 2016 have been reported on by the Company's auditor and delivered to the Registrar of Companies.

The report of the auditor for the year ended 31 December 2017 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 presentation of certain costs in 2016 have been restated. Certain staff costs have been re-allocated from Administrative Expenses to Cost of Sales. This is to allocate direct Consulting and Managed Services staff costs against revenue earned in these activities. The effect of this change is to increase Cost of Sales and to reduce Administrative Expenses by £708k in the 15 months ended 31 December 2016. This change has no impact on the reported profit/loss or EBITDA for that period or on the opening and closing Statement of Financial Position for the comparative period.

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 2018.

4. Critical Accounting Judgements, Estimates and Sources of Estimation Uncertainty

In applying the accounting policies, the Directors may at times be required to make critical accounting judgements and estimates about the carrying amount of assets and liabilities. These estimates and assumptions, when made, are based on historical experience and other factors that the Directors consider are relevant.

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the end of the financial year, that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are stated below.

<u>Going Concern</u>

Management apply their judgement in reviewing whether the Group has adequate resources to continue in operational existence for the foreseeable future, which is considered to be at least the next 12 months.

<u>Revenue Recognition</u>

Management consider the nature of the Company's contracts with clients and recognise revenue on an appropriate basis in accordance with IFRS. This process involves the use of judgements and estimates.

Managed Services contracts include an up-front recognition of revenue on the provision of services identified as set-up activities (software installation, configuration, tuning, testing; security governance consulting), with the remaining revenue deferred and recognised on a straight line basis over the term of the contract. The identification of set-up activities requires management judgement, whilst the allocation of contracted revenue to those activities requires management estimates. In the year ended 31 December 2017, within Managed Services revenue of £1,235k (2016: £1,330k), set-up revenues of £215k were recognised up-front (2016: £185k). If the judgements and estimates were changed to recognise less set-up revenue, more Managed Services contracted revenue would be deferred in the balance sheet and recognised over the term of the contract.

<u>Development Costs Capitalised & Amortised</u>

Management apply their judgement in determining whether an identified intangible software asset meets the criteria for capitalisation under IAS 38.

Management estimate the percentage of development staff time used to enhance and improve the Company's intangible software assets in order to capitalise a proportion of salary costs each period. In the year ended 31 December 2017, the amount of staff time capitalised into Intangible Assets was £137k (2016: £221k).

Development Costs capitalised into Intangible Assets are amortised over management's estimate of the useful economic life of the asset recognised. In the year ended 31 December 2017, the useful economic life of all Intangible Assets was estimated to be 5 years, resulting in an amortisation charge of £100k (2016: £112k). If the useful economic life of Intangible Assets was estimated to be 3 years, the amortisation charge would have been approximately £189k (2016: £152k).

The carrying value of Intangible Assets as at 31 December 2017 was £400k (2016: £363k).

<u>Research and Development ('R&D') Tax Claim</u>

A credit of £121k (2016: £182k) has been recognised in the Statement of Comprehensive Income as a result of an R&D Tax Claim being made in respect of the year ended 31 December 2017. The R&D Tax Claim is based on management's estimate of the amount of development staff time expended on projects judged to be dedicated to overcoming technological uncertainties in the cyber security field.

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 £758k; NBV of £491k) and Australia (Cost of £56k; NBV of £48k).

The Group's revenue and gross profit by operating segment for the year ended 31 December 2017 were as follows:

	Year ended 31 December 2017 £'000	15 months ended 31 December 2016 £'000
Revenue		
Consulting	2,449	2,562
Managed Services	1,235	1,330
Vendor Products	168	235
Other	263	383
	4,115	**4,510**
Gross Profit		
Consulting	1,228	1,701
Managed Services	481	1,059
Vendor Products	38	37
Other	15	(10)
	1,762	**2,787**

Revenue by country for the year ended 31 December 2017 was as follows:

	Year ended 31 December 2017 £'000	15 months ended 31 December 2016 £'000
United Kingdom	4,036	4,234
USA	42	91
South Africa	-	65
Eire	16	58
France	5	32
Egypt	-	15
Channel Islands	11	15
Czech Republic	5	-
	4,115	**4,510**

6. Other Income

	Year ended 31 December 2017 £'000	15 months ended 31 December 2016 £'000
Other Income	121	158

A credit has been recognised within Other Income as a result of R&D Tax Credit surrenders. For the year ended 31 December 2017, the surrender resulted in a credit of £121k, included within Corporation Tax Recoverable.

In 2016 a surrender in respect of the FY14, FY15 and FY16 periods was submitted that resulted in a credit of £182k (included within Corporation Tax Recoverable), with £135k recognised in Other Income and £47k recognised in Corporation Tax Charge (see note 10). In 2016 grant income of £23k was also recognised in Other Income.

7. Operating Loss

Operating Loss is stated after charging:

	Year ended 31 December 2017 £'000	15 months ended 31 December 2016 £'000
Depreciation of Owned Assets	154	65
Amortisation of Intangibles – Development Costs	100	112
Auditors Remuneration – Audit Services	32	23
Auditors Remuneration – Non-Audit Services:		
- Taxation Compliance Services	11	5
- Other Taxation Services	7	13
- Other Assurance Services	10	112
Operating Lease Charge – Property	90	56
Operating Lease Charge – Other	43	78
Inventories Expensed	92	149

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

Adjusted (Loss)/Profit before Taxation

	Year ended 31 December 2017 £'000	15 months ended 31 December 2016 £'000
Loss before Taxation	**(3,438)**	**(517)**
Exceptional Items	275	975
Adjusted (Loss)/Profit before Taxation	**(3,163)**	**458**

Adjusted EBITDA

	Year ended 31 December 2017 £'000	15 months ended 31 December 2016 £'000
Operating (Loss)/Profit	**(3,169)**	**453**
Depreciation	154	65
Amortisation	100	112
EBITDA	**(2,915)**	**630**
Exceptional Items	(275)	(975)
Adjusted EBITDA	**(3,190)**	**(345)**

9. Employee Benefit Expense

Employee costs (including Directors) during the periods amounted to:

	Year ended 31 December 2017 £'000	15 months ended 31 December 2016 £'000
Wages and Salaries	4,867	2,386
Social Security Costs	536	250
Pension Contributions	97	70
	5,500	**2,705**

In the year ended 31 December 2017, Employee Benefit Expense includes the element of Exceptional Costs (see note 22) that are staff related.

Directors' remuneration is as follows:

	Year ended 31 December 2017 £'000	15 months ended 31 December 2016 £'000
Salaries, Bonus, Benefits-in-Kind	632	362
Pension Contributions	31	27
Share Based Payments	51	-
Social Security Costs	73	44
	787	**433**

Amounts paid to the highest paid Director in the period were as follows:

	Year ended 31 December 2017 £'000	15 months ended 31 December 2016 £'000
Salaries, Bonus, Benefits-in-Kind	220	137
Pension Contributions	17	6
	237	**143**

The average monthly number of employees during the year was:

	Year ended 31 December 2017 No.	15 months ended 31 December 2016 No.
Directors	6	7
Operational	97	34
Total	**103**	**41**

10. Taxation

Recognised in the Statement of Comprehensive Income

	Year ended 31 December 2017 £'000	15 months ended 31 December 2016 £'000
UK Corporation Tax – Prior Year Adjustment	-	(62)
UK Corporation Tax – Current Tax on Profit for the Year	5	(47)
Corporation Tax Charge/(Credit)	5	(109)
Deferred Tax Credit	(34)	(9)
Total Tax Credit	**(29)**	**(118)**

Reconciliation of Total Tax Charge/(Credit)

	Year ended 31 December 2017 £'000	15 months ended 31 December 2016 £'000
Loss before Tax	(3,438)	(517)
UK Corporation at rate of 19.5%/19.0% (2016: 20.5%/20.0%)	(658)	(103)
Expenses not deductible for tax purposes	2	169
Income not taxable for tax purposes	(14)	-
Exercise of Share Options	-	(175)
Difference between current and Deferred Tax rates	-	(9)
Over/under provision in prior period – Corporation Tax	5	-
Over/under provision in prior period – Deferred Tax	(34)	-
Tax losses on which Deferred Tax not recognised	670	-
Total Tax Credit	**(29)**	**(118)**

Deferred Tax Assets & Liabilities

	Year ended 31 December 2017 £'000	15 months ended 31 December 2016 £'000
Deferred Tax Assets	95	41
Deferred Tax Liabilities	(110)	(90)
Deferred Tax – Net Liability	**(15)**	**(49)**

Deferred Tax Assets of £95k are recognised in respect of unutilised trading losses, Share Based Payments and short-term timing differences. Deferred Tax Liabilities of £110k 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 £3,831k (unutilised trading losses were £622k as at 31 December 2016). A Deferred Tax Asset of £75k has been recognised as at 31 December 2017 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.

11. 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 22) by Diluted Number of Ordinary Shares.

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

	Year ended 31 December 2017 £'000	**15 months ended 31 December 2016 £'000**
Net Profit attributable to Equity Holders of the Company	(3,409)	(399)
Add back: Exceptional Costs	275	975
Adjusted Profit	(3,134)	576
Number of Ordinary Shares ('000):		
Initial Weighted Average	8,994	2,395*
Bonus Issue	-	2,635
Exercise of Share Options	-	40
IPO Placing	-	125
Equity Warrant	53	-
Basic Number of Ordinary Shares	**9,047**	**5,195**
Weighted Average Dilutive Shares in Period	129	-
Diluted Number of Ordinary Shares	**9,176**	**5,195**
Earnings per Share (pence):		
Basic Earnings per Share	(37.7)	(7.7)
Diluted Earnings per Share**	(37.7)	(7.7)
Adjusted Earnings per Share	(34.2)	11.1

* Stated after share split in period ended 31 December 2016
** In accordance with IAS 33, the effect of anti-dilutive potential shares has been ignored

On 28 October 2016, the Company passed a resolution to consolidate the A and B Ordinary Shares of £1 each in issue into a single class of shares. A resolution was then passed to split each existing Ordinary Share of £1 each in issue into 100 Ordinary Shares with a nominal value of 1 pence each. The Company then passed a resolution to issue 110 Ordinary Shares of 1 pence each by way of a Bonus Issue pro rata to existing shareholders. In accordance with IFRS this has been reflected in weighted average number of Ordinary Shares above.

During the year ended 31 December 2017, Ordinary Shares were issued as follows:

- On 9 June 2017, the Company allotted 89,941 Ordinary Shares to Stockdale Securities Limited following their election to exercise the Equity Warrant granted at the time of the IPO of the Company.

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

During the year ended 31 December 2017, the following dilutive events have occurred:

- On 19 and 22 May 2017, the Company granted options over 269,285 Ordinary Shares to selected employees, of which 190,300 remain outstanding at year end;
- On 10 November 2017, the Company granted options over 42,624 Ordinary Shares to selected employees, of which 41,184 remain outstanding at year end;
- On 7 December 2017, the Company granted options over 148,000 Ordinary Shares to selected employees, all of which remain outstanding at year end;
- As at 31 December 2017, the Company had allocated options over 20,836 Ordinary Shares to the Non-Executive Directors.

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

12. Intangible Assets

Development Costs

	£'000
Cost	
As at 30 September 2015	346
Additions	221
As at 31 December 2016	567
As at 1 January 2017	567
Additions	137
As at 31 December 2017	704
Amortisation	
As at 30 September 2015	92
Amortisation Charge for the Period	112
As at 31 December 2016	204
As at 1 January 2017	204
Amortisation Charge for the Year	100
As at 31 December 2017	304
Net Book Value	
As at 30 September 2015	**254**
As at 31 December 2016	**363**
As at 31 December 2017	**400**

13. Property, Plant and Equipment

	Leasehold Property £'000	Office Equipment £'000	Computer Equipment £'000	Motor Vehicles £'000	Total £'000
Cost					
At 30 September 2015	46	19	95	-	160
Additions	-	33	181	82	296
Disposals	-	-	(27)	-	(27)
At 31 December 2016	46	52	249	82	429
Additions	53	67	299	-	419
Disposals	-	-	(1)	(33)	(34)
At 31 December 2017	99	119	547	49	814
Depreciation					
At 30 September 2015	17	8	68	-	93
Charge for Period	7	4	45	9	65
Disposal	-	-	(27)	-	(27)
At 31 December 2016	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
Net Book Value					
At 30 September 2015	**29**	**11**	**27**	**-**	**67**
At 31 December 2016	**22**	**40**	**163**	**73**	**298**
At 31 December 2017	**65**	**90**	**348**	**36**	**539**

As at 31 December 2017, assets held under Finance Leases had a Net Book Value of £61k (2016: nil). The depreciation charge of the respective assets in the year was nil (2016: nil).

14. Trade Receivables and Other Receivables

	As at 31 December 2017 £'000	As at 31 December 2016 £'000
Trade Receivables	994	928
Other Receivables	10	8
Prepayments and Accrued Income	126	97
	1,130	**1,033**

The carrying amount of Trade and Other Receivables approximates to their fair value.

15. Trade Payables and Other Payables

	As at 31 December 2017 £'000	As at 31 December 2016 £'000
Trade Payables	130	484
Other Taxation and Social Security	327	210
Accruals	277	143
Deferred Income	613	388
Other Payables	33	39
	1,380	**1,264**

The carrying amount of Trade and Other Payables approximates to their fair value.

16. Finance Leases

The Group entered into a Finance Lease in November 2017 to fund investment in IT equipment. Capital repayments under the Finance Lease are structured as follows:

	As at 31 December 2017 £'000	As at 31 December 2016 £'000
Payable in one year or less	20	-
Payable between one and two years	20	-
Payable between two and five years	21	-
Payable in five years or more	-	-
Finance Lease Balance	**61**	**-**

Total payments under the Finance Lease are as follows:

	Capital	Interest	Total
Payable in one year or less	20	1	21
Payable between one and two years	20	1	21
Payable between two and five years	21	-	21
Payable in five years or more	-	-	-
Finance Lease Balance	**61**	**2**	**63**

There have been no cash flows arising from changes in liabilities from financing activities (2016: none).

17. Share Capital

Ordinary Share Capital

As at 1 October 2015, the Ordinary Share Capital had a nominal value of £1 per share. At this time, there were two classes of Ordinary Shares, A Shares and B Shares, ranking equally in all respects.

Ordinary Shares	**Number of Authorised Shares**	**Number of Shares Issued and Fully Paid**	**Ordinary Share Capital £'000**
As at 1 October 2015:			
A Shares	16,178	16,178	16
B Shares	6,203	6,203	6
Total Ordinary Shares of £1 each	**22,381**	**22,381**	**22**
Issue of Ordinary Shares	1,569	1,569	2
Ordinary Shares of £1 each (Single Class)	**23,950**	**23,950**	**24**
Ordinary Shares of 1 pence each	**2,395,000**	**2,395,000**	**24**
Bonus Issue	2,634,500	2,634,500	26
Ordinary Shares of 1 pence each as at 28 October 2016	**5,029,500**	**5,029,500**	**50**
Admission to AIM:			
Exercise of Share Options	970,620	970,620	10
Placing on Admission	2,994,011	2,994,011	30
As at 31 December 2016	**8,994,131**	**8,994,131**	**90**

On 14 October 2015, 1,569 shares were issued for £85k, resulting in a credit to Share Premium Account of £83k.

On 28 October 2016, the Company passed a resolution to consolidate the A and B Ordinary Shares of £1 each in issue into a single class of shares.

On 28 October 2016, the Company passed a resolution to split each existing Ordinary Share of £1 each in issue into 100 Ordinary Shares and reduce the nominal value to 1 pence per share.

On 28 October 2016, the Company passed a resolution to issue 110 Ordinary Shares of 1 pence each for every 100 shares held by way of a Bonus Issue pro rata to the existing shareholders.

These ordinary shares carry no right to fixed income and have no preferences or restrictions attached to them.

On 14 December 2016, 970,620 new Ordinary Shares were issued immediately prior to Admission on AIM to satisfy the exercise of share options.

As part of the Admission (and in accordance with the terms of the Placing Agreement) 2,994,011 shares were allotted and issued to new investors.

Consideration of £5,818k was received in respect of the above transactions in the period ended 31 December 2016.

During the period ended 31 December 2017, the movement in Share Capital was:

Ordinary Shares of 1 pence each:	**Number of Authorised Shares**	**Number of Shares Issued and Fully Paid**	**Ordinary Share Capital £'000**
As at 1 January 2017	**8,994,131**	**8,994,131**	**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**

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.

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.

18. Financial Instruments and Financial Risk Management

The Group's principal financial instruments comprise:

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

The Group'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, are set out in note 4.14 to the Annual Report. 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 does not use financial instruments for speculative purposes.

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

Financial Assets	**As at 31 December 2017 £'000**	**As at 31 December 2016 £'000**
Trade Receivables	994	928
Other Receivables	10	8
Cash and Cash Equivalents	1,597	4,987
Total Financial Assets	**2,601**	**5,923**
Financial Liabilities		
Trade Payables	130	484
Accruals	277	143
Other Payables	33	39
Finance Leases	61	-
Total Financial Liabilities	**501**	**666**

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 3 types of risk – commodity price risk, interest rate risk, foreign currency risk. The Group has limited exposure to each of these risks, as discussed below.

Capital Management

The Group 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 consists of issued Share Capital, Retained Earnings and Finance Leases.

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

Credit Risk

Credit risk is the risk that a counter-party 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 establishes an allowance for impairment that represents its estimate of incurred losses in respect of the Trade and Other Receivables as appropriate. The allowance comprises a provision against individually significant exposures.

Trade Receivables

Trade Receivables, net of impairment provisions, for the Group as at 31 December 2017 were £994k (2016: £928k). These Trade Receivables are not secured by any collateral or credit insurance. Normal credit terms are 30 days.

As at 31 December 2017, Trade Receivables past due for the Group total £141k (2016: £206k) of which £2k (2016: £5k) have been impaired.

As at 31 December 2017, Trade Receivables of £139k (2016: £201k) were past due but not impaired, as follows:

	As at 31 December 2017 £'000	**As at 31 December 2016 £'000**
Up to 3 months	113	114
3 months to 6 months	24	82
6 months to 12 months	2	5
	139	**201**

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 Group'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 2017 was £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. The balances exposed to credit risk at year end are as follows:

	As at 31 December 2017 £'000	As at 31 December 2016 £'000
US Dollars	2	14
Australian Dollars	5	-
	7	**14**

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:

Due within 3 months	As at 31 December 2017 £'000	As at 31 December 2016 £'000
Trade Payables, Other Taxation and Social Security, Accruals, Other Payables	767	876

19. Related Party Transactions

During the year, dividends were paid to the Directors and their close family members as follows:

	Year ended 31 December 2017 £'000	15 months ended 31 December 2016 £'000
Dividends paid to Directors and their close family members	-	254

Merlin Consultancy

During the year ended 31 December 2017, Merlin Consultancy Ltd, a company owned by Nigel Payne (Non-Executive Chairman), invoiced ECSC Group plc £13k for services rendered. These transactions were entered into on an arm's length basis. The balance payable as at 31 December 2017 was £nil (2016: £nil).

Non-Executive Directors' Share Options

The three Non-Executive Directors of ECSC Group plc agreed to change the payment of service fees under their Letters of Appointment from cash payments to the grant of nil exercise price share options in October 2017. The monthly entitlement to share options for each Non-Executive Director is calculated by dividing 1/12th of their respective annual service fee by the average closing middle market share price for the 5 business days preceding the end of each month. As the share options are granted in lieu of cash fees and are not performance based, they are not subject to performance criteria nor do they have minimum holding periods. This arrangement became effective on 1 October 2017 and was terminated on 1 January 2018.

During the period October 2017 to December 2017, the Company allocated options over 20,836 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. It is intended that these options will be granted during March 2018 following publication of the financial results of the Company.

Unicorn Asset Management

In October 2017, ECSC Group plc provided professional cyber security services to Unicorn Asset Management, a substantial shareholder in the Company, generating Consulting revenue of £20k. This transaction was entered into on an arm's length basis. The balance receivable as at 31 December 2017 was £nil (2016: £nil).

Directors' Loans

In October 2015, loans totalling £85k were granted to two Directors to enable them to exercise share options. The loans were interest free and were repayable on a sale or flotation of the Company, or earlier at the borrowers' discretion. The loans were discounted to £80k and were fully repaid in the period ended 31 December 2016. An additional loan of £13k was made to a Director in the period ended 31 December 2016. This loan was interest free and was repaid in the period ended 31 December 2016.

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

20. 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')

EMI Scheme

The EMI Scheme provides the opportunity for eligible Directors and employees to buy ECSC 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.

During the year there were two grants of options under this scheme:

<u>May 2017</u>

In May 2017, the Company granted options over 269,824 shares at an exercise price of 167 pence per share, subject to a 3 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 shares.

During the year, options over 79,524 options have lapsed, such that options over 190,300 shares remain exercisable in the future.

<u>December 2017</u>

In December 2017, the Company granted options over 148,000 shares at an exercise price of 140 pence per share, subject to a 3 year vesting period, to 8 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 3 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.

Within this grant, Stephen Hammell, a Director of the Company, was granted options over 100,000 shares.

SAYE Scheme

The SAYE Scheme provides the opportunity for eligible Directors and employees to buy ECSC 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 shares at an exercise price of 125 pence per share, subject to a 3 year vesting period, to 30 employees who applied to join the scheme.

During the year, options over 1,440 options have lapsed, such that options over 41,184 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 exercise on grant.

During the period October 2017 to December 2017, the Company allocated options over 20,836 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. It is intended that these options will be granted during March 2018 following publication of the financial results of the Company. From 1 January 2018, the payment of service fees has returned to monthly cash payments.

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)**	**SAYE**	**NED**	**Total**
<u>Number of Options:</u>					
Outstanding at 1 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**
<u>Option Pricing Assumptions:</u>					
Pricing Model	Black Scholes	Black Scholes	Black Scholes		
Weighted average share price at grant date (pence)	312	135	131	125	
Weighted average exercise price (pence)	167	140	125	-	**144**
Weighted average contract life	3 years	3 years	3 years	0 years	
Weighted average risk free rate	1%	1%	1%	1%	
Volatility	40%	40%	40%	40%	
<u>Option Valuation:</u>					
Option Valuation at grant date (£'000)	**312**	**53**	**16**	**26**	**407**
<u>Share Based Payment Charge in 2017:</u>					
Share Based Payment Charge (£'000)	**65**	**1**	**1**	**26**	**93**
<u>Weighted Average Exercise Price:</u>					
At grant date, forfeit date and end of period (pence)	167	140	125	-	

The weighted average contracted life of all options at the end of the period is 9 years 2 months.

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.

Although the NED Scheme options were not formally granted during the period, a charge has been recognised in the Statement of Comprehensive Income, as the services to which the Share Based Payments relate were received by the Company during the period. Since the NED scheme terminated on 31 December 2017, the fair value of the allocated options has been charged in full during the year ended 31 December 2017.

Exercise of Stockdale Warrant

On 9 June 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.

21. Dividends

Dividends Paid	Year ended 31 December 2017 £'000	15 months ended 31 December 2016 £'000
Ordinary A Shares	-	167
Ordinary B Shares	-	87
Ordinary Shares (single class)	-	-
Total	**-**	**254**

Dividend per Share (unadjusted)	**£**	**£**
Ordinary A Shares	-	10.31
Ordinary B Shares	-	14.04
Ordinary Shares (single class)	-	-

Dividend per Share (adjusted to reflect the Share Split and Bonus Issue described in Note 20)	**£**	**£**
Ordinary A Shares	-	-
Ordinary B Shares	-	-
Ordinary Shares (single class)	-	0.05

22. Exceptional Costs

During the year ended 31 December 2017, the Company undertook a restructuring exercise to reduce its operating costs and mitigate its monthly operating losses. Costs savings were achieved by reducing headcount in a number of departments and by reducing overhead costs. In achieving these recurring cost savings, a number of one-off, exceptional costs were incurred, including payments in lieu of notice, redundancy payments and car termination costs. These Exceptional Costs totalled £275k and were charged to the Statement of Comprehensive Income in the year ended 31 December 2017.

Exceptional Costs are analysed as follows:

	Year ended 31 December 2017 £'000	15 months ended 31 December 2016 £'000
Payments in Lieu of Notice	185	-
Redundancy Payments	5	-
Ex-gratia Payments	37	-
Employee Benefit Expense	**227**	**-**
Taxation & Social Security Costs	23	
Staff Related Costs	**250**	**-**
Car Termination Costs	18	-
Legal Costs	7	-
IPO Costs – charged to Statement of Comprehensive Income	-	975
IPO Costs – allocated to Share Premium Account	-	313
Exceptional Costs	**275**	**1,288**

As part of the process of admission to trading on AIM for the first time in December 2016, costs of £1,288k were incurred. Of this total, costs of £313k were allocated against Share Premium Account. The remaining costs of £975k were charged to the Statement of Comprehensive Income in the 15 months ended 31 December 2016.

23. 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