ECSC GROUP PLC
ANNUAL REPORT 2017

ECSC Group plc

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ECSC Group plc

Company Information

Directors	Nigel Payne (Non-Executive Chairman) Ian Mann (Chief Executive Officer) Lucy Sharp (Chief Operating Officer) Stephen Hammell (Chief Financial Officer) David Mathewson (Non-Executive Director) Stephen Vaughan (Non-Executive Director)
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Telephone Number	01274 736 223
Company Secretary	Stephen Hammell
Website	www.ecsc.co.uk
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ECSC Group plc

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.

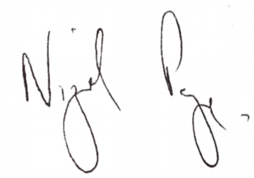
Following the IPO, the Board set about executing its strategy to utilise newly acquired growth capital to scale the business and leverage ECSC's position in this growing market. In executing its strategy, the degree of scale change implemented within the business has been substantial and has seen investment 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 Officer'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.

Chief Executive Officer's Review (continued)

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.

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.

Chief Executive Officer's Review (continued)

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

ECSC Group plc

Strategic Report year ended 31 December 2017 (continued)

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).

Financial Review (continued)

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.

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.

Financial Review (continued)

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 to meet its' liabilities as they fall due for at least the next 12 months.

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.

Further information on the impact of IFRS 15 is included in Note 4.1 to the Financial Statements.

ECSC Group plc

Strategic Report year ended 31 December 2017 (continued)

Financial Review (continued)

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

Principal Risks and Uncertainties

ECSC Group plc ('ECSC' or 'the Company' or 'the Group') is exposed to a number of Macro, Business and Financial risks. The Directors take a proactive approach to the identification and mitigation of these risks.

Summary of Risks

The most significant risks to the Group are summarised in the table below. These risks are explained in further detail following the summary. The table does not include all the potential risks associated with Group activities and are not in any order of priority.

Principal Risks	**Mitigating Actions/Factors**
Economic conditions	Expenditure on cyber security has become non-discretionary in nature and is less sensitive to economic fluctuations
Rapid technological change	Investment in proprietary intellectual property
Competition	Maintaining a broad, full-service offering
Cyber security breach	Certifications to ISO 27001, PCI DSS and Cyber Essentials; avoidance of technologies associated with common security breaches
Reputation	Consistent focus on legal, financial, regulatory and technological compliance
Dependence on key personnel	Board and Senior Management structure and remuneration is designed to reduce the risks associated with the loss of any single person
Ability to recruit and retain skilled personnel	Ongoing development of a wide range of employee benefits and incentives, career progression and technical development
Reliance on key systems	Disaster recovery and business continuity plans
Client acquisition	Expanded sales team and introduction of new sales leadership
Client retention	Expanded service delivery function and service management layer
Future funding requirements	Quotation on the Alternative Investment Market of the London Stock Exchange

Macro Risks

Economic Conditions
The Group could be affected by national and international economic factors outside its control, including an economic slowdown, changes in the monetary and fiscal policies of the Government, exchange rate fluctuations, commodity price volatility, inflation, increases in interest rates and banking sector conditions.

Any economic downturn, either globally or locally, may have an adverse effect on the demand for the Group's services. A more prolonged economic downturn may lead to an overall decline in the volume of the Group's activities and sales, restricting the Group's ability to realise a profit.

However, given the proliferation of cyber security breaches and the damage caused, in financial and reputational terms, expenditure by corporates on cyber security is increasingly of a non-discretionary nature, such that demand has become less sensitive to general economic fluctuations.

Principal Risks and Uncertainties (continued)

Geopolitical Risks
The Group's operations now or in the future may be adversely affected by factors outside the control of the Group, including election results, changes in Government policy, terrorist activities, labour unrest, civil disorder and political upheaval, war, subversive activities and sabotage, fires, floods, natural disasters and epidemics.

The Board has considered the impact of the UK's decision to leave the European Union and concluded that, since 98% of revenue (see note 6) is generated in the UK, the impact of any future potential barriers to free trade are likely to be immaterial to the Group.

Business Risks

Technology
The markets in which the Group operates are characterised by rapid technological change, changes in client requirements, frequent product and service introductions employing new technologies, and the emergence of new industry standards and practices that could render the Group's existing technology and services obsolete.

In order to compete successfully, the Group will need to continue to improve its services, and to develop and market new products that keep pace with technological change. This may place strain on the Group's capital resources, which may adversely impact the revenues and profitability of the Group.

The success of the Group depends on its ability to anticipate and respond to technological changes and client requirements in a timely and cost-effective manner. There can be no assurance that the Group will be able to effectively anticipate and respond to technological changes and client needs in the future.

Intellectual Property
In order to mitigate Technology risk and maximise its competitive advantage, the Group seeks to protect its intellectual property. Much of the Group's intellectual property is not of a nature that is capable of registration, so protection of intellectual property relies on maintaining the confidentiality of know-how, methodologies and processes which, in turn, are largely dependent on people. There is a risk that if the confidentiality of the Group's intellectual property were compromised, this could lead to a loss of competitive advantage. To mitigate this risk, the Group employs strict terms of confidentiality in its standard terms of employment.

The Group's software is largely developed in-house. However, some aspects of it are based on open-source licences such as the General Public Licence (a widely used form of licence within the free and open-source code software domain), which oblige ECSC to provide access to the source code of the relevant software package if a client requests it. There is a limited risk that ECSC could be pursued by way of enforcement action in this area, which may have a material adverse effect on the Group's performance.

Competition
There can be no guarantee that the Group's current competitors or new entrants to the market will not bring superior technologies, products or services to the market, or equivalent products at a lower price, which may have an adverse effect on the Group's business. Such companies may also have greater financial and marketing resources than the Group. These competitive risks are mitigated by maintaining a full service offer, spanning Consulting and Managed Services, with a strategic focus on expanding the recurring revenue base from retained clients, underpinned by a proactive account management process.

Principal Risks and Uncertainties (continued)

Cyber Security Breach
As with all providers in this sector, the potential embarrassment and reputational impact of a major cyber security breach for ECSC itself is significant. However, ECSC manages this risk in a number of ways:

- External certification to international security standards, such as ISO 27001 and PCI DSS.
- Avoidance of technologies commonly targeted for attack – ECSC makes extensive use of Linux-based technologies, including all operational desktop PCs and laptops, and does not support Bring Your Own Device (BYOD) policies for any company business, including for Associate Consultants.
- The Company directs the same level of security expertise at its own security as to that of its clients, avoiding the common issue with IT companies that their own internal IT is managed by a less capable internal team than their client-facing delivery team.

Reputation
The Group's reputation, in terms of the services it provides, the manner in which it conducts its business and the financial performance it achieves, are central to the Group's success.

The Group's services, and the software on which they are based, are complex and may contain undetected defects when first introduced. Such defects could damage the Group's reputation, ultimately leading to an increase in the Group's costs or reduction in its revenues.

Other issues that may give rise to reputational risk include, but are not limited to, failure to deal appropriately with legal and regulatory requirements in any jurisdiction (which may result in the issuance of a warning notice or sanction by a regulator or an offence being committed by a member of the Company or any of its employees or Directors), money-laundering, bribery and corruption, factually incorrect reporting, staff disputes, fraud (including on the part of clients), technological delays or malfunctions, the inability to respond to a disaster, lack of data privacy, and poor record-keeping.

In addition, failure to meet the expectations of clients, suppliers, employees, shareholders, regulators and other business partners may have a material adverse effect on the Group's reputation.

To mitigate these varied risks, the Group has adopted a strict and thorough approach to compliance, investing resources to meet relevant legal, financial, regulatory and technological standards and requirements.

Dependence on Directors and Senior Management
The Group's performance is substantially dependent on the continued services and performance of its Directors and senior management. Although certain Directors and key personnel have entered into Service Agreements or Letters of Appointment with the Group, there can be no assurance that the Group will retain their services. The loss of the services of any of the Directors or key personnel may have a material adverse effect on the business, operations, relationships and/or prospects of the Group.

The risk of loss of a Director or member of senior management is mitigated by offering market competitive remuneration for key roles, including appropriate levels of equity incentivisation via the share option schemes of the Group. In addition, death and critical illness insurance has been put in place for Ian Mann.

Ability to Recruit and Retain Skilled Personnel
The Group believes that it has the appropriate incentivisation structures to attract and retain the calibre of employees necessary to ensure the growth and development of the Group. However, any difficulties encountered in hiring appropriate employees and the failure to do so may have a detrimental effect upon the trading performance of the Group. The ability to attract new employees with the appropriate expertise and skills cannot be guaranteed.

Principal Risks and Uncertainties (continued)

Reliance on Key Systems
The Group's dependency upon technology exposes it to significant risk in the event that such technology or the Group's systems experience any form of damage, interruption or failure.

The Group's systems are vulnerable to damage or interruption from events including:
- power loss and infrastructure failure;
- fire or physical destruction;
- computer hacking activities; and
- acts of criminal damage or terrorism.

Any malfunctioning of the Group's technology and systems, or those of key third parties, even for a short period of time, could result in a lack of confidence in the Group's services, the termination of client contracts and potential claims for damages, with a consequential material adverse effect on the Group's operations and performance.

The Group has a well considered, certified and regularly rehearsed disaster recovery and business continuity plan to mitigate this risk.

New Client Acquisition and Retention of Existing Clients
The Group's future success depends on its ability to increase sales of its services and products to new clients, increase sales to its existing clients, and maintain existing client contractual relationships.

The rate at which new and existing clients purchase services and existing clients renew their contracts depends on a number of factors, including the efficacy of the Group's services and the utility of the Group's new offerings, as well as factors outside of the Group's control, such as clients' perceived need for security solutions, the introduction of services by the Group's competitors that are perceived to be superior to the Group's services, end clients' IT budgets and general economic conditions. A failure to increase sales as a result of any of the above could materially adversely affect the Group's financial performance and position.

These risks have been mitigated by the expansion of the sales team as part of the scale-up and by the introduction of new sales leadership. In addition, service delivery has been expanded into new areas of business with a service management layer established to improve efficiency and reduce service defects.

Failure to Develop, Launch and Market New Services
The Group's long-term growth and profitability is dependent on its ability to develop and successfully launch and market new services. The Group's revenues and market share may suffer if it is unable to successfully introduce new products in a timely fashion or if any new or enhanced products or services are introduced by its competitors that its customers find more advanced and/or better suited to their needs.

While the Group continuously invests in research and development to develop products in line with client demand and expectations, if it is not able to keep pace with product development and technological advances, including shifts in technology in the markets in which it operates, or to meet client demands, this could have a material adverse effect on the Group's financial performance and position.

Principal Risks and Uncertainties (continued)

Financial Risks

Future Funding Requirements
Although not presently anticipated by the Directors, the Group may need in the future (more than twelve months) to raise equity or debt capital to fund future acquisitions, expansion and/or business development. There can be no guarantee that the necessary funds will be available on a timely basis, on favourable terms, or at all, or that such funds, if raised, would be sufficient. If the Group is not able to obtain additional capital on acceptable terms, or at all, it may be forced to curtail or abandon acquisition opportunities, expansion and/or business development. The above could have a material adverse effect on Group performance.

This risk is partially mitigated by the Group's quotation on the Alternative Investment Market of the London Stock Exchange, which provides a conduit to equity investors.

Taxation Risk
Any change in ECSC's or its subsidiaries' tax status (including its EIS and/or VCT status) or a change in tax legislation could affect the Company's ability to provide returns to shareholders.

Venture Capital Trust ('VCT') Status of Company Shares
Company Shares are eligible for the purposes of section 258(3A) of the Income Tax Act 2007 (the 'ITA') and are 'qualifying holdings' for the purposes of Chapter 4, Part 6, ITA. In order for Shares to be 'qualifying holdings' for VCT purposes, the Company must satisfy and continue to satisfy the relevant requirements. Circumstances may arise where the Board believes that the interests of the Company are not best served by acting in a way which preserves its VCT-related status. In such circumstances, the Company cannot undertake to conduct its activities in a way designed to secure or preserve any such relief or status.

Enterprise Investment Scheme ('EIS') Status
The Company satisfies the conditions for being a qualifying company for the purposes of the EIS provisions. The actual availability of the relief under the EIS provisions will be contingent upon certain conditions being met by the Company. Circumstances may arise (which may include the sale of the company) where the Board believes that the interests of the Company are not best served by acting in a way that preserves EIS tax relief. In such circumstances, the Company cannot undertake to conduct its activities in a way designed to secure or preserve any EIS relief.

If the Company does not employ the proceeds of an EIS share issue for qualifying purposes within two years of issue, the EIS shares would cease to be eligible and all of the EIS tax reliefs of investors in respect of the EIS shares would be withdrawn.

If the Company ceases to carry on an EIS qualifying business or acquires or commences a business which is not insubstantial to the Group's activities and which is a non-qualifying trade for EIS purposes during the three year period from the last issue of shares to the EIS investors, this could prejudice the qualifying status of the company under the EIS provisions.

ECSC Group plc
Board of Directors

The Board of ECSC Group plc comprises three Executive Directors and three Non-Executive Directors.

The Board is responsible for the formulation of business strategy, operational execution, financial performance and compliance. The Executive Directors are responsible for day-to-day operational and financial management, whilst the Non-Executive Directors are responsible for delivering effective corporate governance.

The profile of each Director is as follows:

Nigel Payne (age 57) – Non-Executive Chairman

Nigel has over 25 years' experience as a director of both publicly listed and private companies. He has extensive experience of listing companies and fund raising, notably in his current roles as Non-Executive Chairman of Gateley plc, Non-Executive Chairman of Stride Gaming plc and Non-Executive Director of GetBusy plc. Nigel was previously CEO of Sportingbet plc, one of the world's largest internet gambling companies, which made a number of acquisitions whilst listed on the London Stock Exchange (both FTSE listed and AIM quoted). Nigel holds an executive MBA from the IMD Business School (Lausanne, Switzerland) and a degree in Economics and Accounting from Bristol University. The Board has reviewed Nigel's time commitment from his other directorships and has concluded that they average nine to ten working days per month. The Board is therefore comfortable that Nigel has sufficient available capacity to carry out his duties as Non-Executive Chairman of ECSC Group plc.

Ian Mann (age 50) – Chief Executive Officer

Ian has over 16 years of experience in the cyber-security sector, having founded ECSC. He was previously an advisor for GCHQ, and established a Cisco Networking Academy for Dixons City Technology College. Ian's professional certifications include CISSP, PCI QSA, and ISO Lead Auditor. Ian holds a B.Eng. in Electrical and Electronic Engineering from the University of Nottingham, and an MBA from the Open University.

Lucy Sharp (age 38) – Chief Operating Officer

Lucy has over 16 years of experience in the cyber-security sector, having joined ECSC at its inception. Lucy worked as an ISO 27001 consultant, leading this area prior to taking the position of Operations Director in 2012. Lucy has held a number of professional certifications, including CISSP, PCI QSA, and ISO Lead Auditor. Whilst working at ECSC, Lucy completed a Masters in Business Management at Leeds Metropolitan University.

Stephen Hammell (age 44) – Chief Financial Officer (appointed 2 May 2017)

Stephen has 20 years' experience in corporate finance, commercial banking and financial leadership gained with a number of multinational firms. Most recently, Stephen was Group Finance Director of eBECS Ltd, a high growth international IT consultancy, that he successfully guided through a divestment process to Computer Sciences Corporation. Prior to this, he was a Director in Corporate Finance at Grant Thornton and has also held corporate finance roles at PwC and Yorkshire Bank. Stephen qualified as a Chartered Accountant with Arthur Andersen and is a member of the Chartered Institute for Securities and Investment. He holds a first class honours degree in Economics and Management from the University of Leeds.

David Mathewson (age 70) – Non-Executive Director

David is a Chartered Accountant who has spent most of his career in merchant banking and as a non-executive director. He was an Executive Director of Noble Grossart Limited, Scotland's premier merchant bank, for many years. Previous non-executive roles include Chairman of Sportech Plc and he was also a Director of Playtech Group plc. During his tenure at Playtech, he was appointed Chief Financial Officer and oversaw the company move from AIM to the Main Market of the London Stock Exchange. He is currently a Non-Executive Director of AIM traded SEC SPA, an Italian company, Chairman of Veltyco Group Plc, also traded on AIM, and Chairman of Bioflow Ltd. The Board has reviewed David's time commitment from his other directorships and has concluded that they average six to seven working days per month. The Board is therefore comfortable that David has sufficient available capacity to carry out his duties as a Non-Executive Director of ECSC Group plc.

ECSC Group plc
Board of Directors

Stephen Vaughan (age 57) – Non-Executive Director
Stephen has considerable experience over the last 15 years as a Director of publicly listed and private companies. He is currently a Non-Executive Director of Redcentric plc and of Progressive Equity Research Limited and was previously CEO of publicly listed companies Phoenix IT plc, Communisis plc and Synstar plc and Chairman of Charteris plc. The Board has reviewed Stephen's time commitment from his other directorships and has concluded that they average three to four working days per month. The Board is therefore comfortable that Stephen has sufficient available capacity to carry out his duties as a Non-Executive Director of ECSC Group plc.

ECSC Group plc

Directors' Report for the year ended 31 December 2017

The Directors present their report and financial statements for the year ended 31 December 2017.

Principal Activities and Review of the Business

The principal activity of the Group during the year continued to be the provision of professional cyber security services. Future developments of the Group have been reviewed as part of the Strategic Report.

Principal Risks and Uncertainties

For information on the principal risks and uncertainties of the Group, please see pages 10 to 14 of the Strategic Report.

Results and Dividends

The loss for the period, after taxation, amounted to £3,409k (2016: loss of £399k). The Board has not declared a dividend for the year ended 31 December 2017 (2016: dividends of £254k were paid).

Going Concern

The Directors are satisfied that the Group has sufficient financial resources to continue to operate for the foreseeable future, which is considered to be at least the next 12 months. For this reason, the going concern basis is considered appropriate for the preparation of the financial statements (for more information see note 4.2 to the Financial Statements).

Research and Development

Research and development activities are grouped into three broad areas:

- Proprietary software, operating systems, applications, tools and documentation used to provide Managed Services.
- Proprietary software, tools and techniques used to provide Consulting Services.
- Core internal business systems to support revenue generating activities.

During the year ended 31 December 2017, activity has been focused on:

- The evolution and development of ECSC proprietary software for Managed Services, which has been extended to respond to emerging security threats, with a road map established for future developments.

- The development of internal systems to facilitate 24/7 service provision, including workflows and interfaces for incident handling and handover.

Corporate Governance

There is no compulsory regime of corporate governance to which the Directors of a UK company admitted to AIM must adhere to over and above the general duties imposed on such Directors under English Law. However, the Directors acknowledge the importance of the principles set out in the QCA Code. Although the QCA Code is not compulsory for AIM quoted companies, the Directors apply its principles to the Company, as far as they consider appropriate for a company of its size and nature.

The Board comprises of six Directors, three of whom are Executive Directors and three of whom are Non-Executive Directors, reflecting a blend of different experience and backgrounds. The Board considers Nigel Payne, David Mathewson and Stephen Vaughan to be independent Non-Executive Directors under the criteria identified in the UK Corporate Governance Code (September 2014). The Board meets regularly and is responsible for strategy, performance, approval of any major capital expenditure and the framework of internal controls. To enable the Board to discharge its duties, all Directors receive appropriate and timely information. Briefing papers are distributed to all Directors in advance of Board meetings.

Corporate Governance (continued)
The Board has established Audit, Remuneration, Nomination and Disclosure Committees with formally delegated duties and responsibilities and with written terms of reference. Each of these committees meet regularly and at least twice a year. From time to time, separate committees may be set up by the Board to consider specific issues when the need arises.

Audit Committee
The duties of the Audit Committee are to consider the relationship with the Company's auditor (appointment, re-appointment and terms of engagement), to review the integrity of the Company's financial statements, to keep under review the appropriateness of the Company's accounting policies, and to review the effectiveness and adequacy of the Company's internal financial controls. In addition, it will receive and review such reports as it from time to time requests from the Company's management and auditor. The Audit Committee meets at least twice a year and has unrestricted access to the Company's auditor. The Audit Committee comprises David Mathewson and Stephen Vaughan and is chaired by David Mathewson.

Remuneration Committee
The Remuneration Committee has responsibility for reviewing and determining, within agreed terms of reference, the Company's policy on the remuneration of Directors and other key employees and specific remuneration and benefits packages for Executive Directors, including pension rights and compensation payments. It is also responsible for making recommendations for grants of options under the Company Share Option Schemes. It meets not less than twice a year. The remuneration of Non-Executive Directors is a matter for the Board and no Director may be involved in any discussions as to his or her own remuneration. The Remuneration Committee comprises Stephen Vaughan and Nigel Payne and is chaired by Stephen Vaughan.

Nomination Committee
The duties of the Nomination Committee are to consider the structure, size and composition of the Board and make recommendations to the Board with regard to any changes. It is also responsible for identifying and nominating candidates to fill Board vacancies as and when they arise. The Nomination Committee also makes recommendations to the Board concerning, among other things, plans for succession for both Executive and Non-Executive Directors. It meets at least twice a year. The Nomination Committee comprises Nigel Payne and David Mathewson and is chaired by Nigel Payne.

Disclosure Committee
The Disclosure Committee is the first point of contact with the NOMAD for all routine and non-routine matters which the NOMAD wishes to discuss with the Board and shall carry out duties to ensure the Company's compliance with the AIM Rules and Market Abuse Regulations. The Disclosure Committee meets twice a year and comprises David Mathewson and Stephen Hammell and is chaired by David Mathewson.

Directors' Interests and Remuneration
The Directors who held office during the period were as follows:

Nigel Payne
Ian Mann
Lucy Sharp
Stephen Hammell (appointed 2 May 2017)
David Mathewson
Stephen Vaughan
Keith Kelly (resigned from Board 2 May 2017)

The following Directors had interests in the ordinary shares of the Company as at 31 December 2017:

	Number of Ordinary Shares	% of Issued Share Capital
Nigel Payne	14,970	0.2%
Ian Mann	1,698,690	18.7%
Lucy Sharp	230,419	2.5%
Stephen Vaughan	29,940	0.3%

Details of the Directors remuneration are included in the Remuneration Report on pages 20-22.

Substantial Interests

At 31 December 2017, the Company had been notified, under the Disclosure and Transparency Rules, of the following major shareholdings and the percentages of voting rights represented by such holdings, excluding the shareholdings and associated voting rights of the Directors noted above, as follows:

	Number of Ordinary Shares	% of Issued Share Capital
Ravinder Bahra	1,719,068	18.9%
Unicorn Asset Management	1,448,946	16.0%
Hargreaves Lansdown	343,721	3.8%
Artemis Investment Management	294,733	3.2%
Phil McLear	472,290	5.2%
Malcolm Hoare	300,300	3.3%
John Leach	283,920	3.1%

Annual General Meeting

The next Annual General Meeting will take place on 28 June 2018.

Statement of Disclosure of Information to Auditors

The Directors of the Company who held office at the date of approval of this Annual Report as set out above each confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

- each Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

BDO LLP has indicated its willingness to continue as auditor. Accordingly a resolution proposing its reappointment as auditor will be put to the members at the next Annual General Meeting.

On behalf of the Board

Nigel Payne

Nigel Payne
Non-Executive Chairman
12 March 2018

ECSC Group plc

Remuneration Report

Pay Policy

The remuneration policy is designed to provide an appropriate level of compensation to the Directors such that they are sufficiently rewarded and incentivised for their level of responsibility, the complexity of their role and to reflect their skills and experience. In addition, the use of equity-based incentives helps to align the interests of Directors and shareholders.

The Remuneration Committee sets the level of basic pay and other benefits for Executive Directors. It does this in line with its assessment of the appropriate market rate for the roles, wishing to be able to attract and retain good candidates for these roles. In addition, the Company operates an Executive Bonus Scheme covering the Executive Directors. The criteria for payment of bonuses (which are not pensionable if paid) are set by the Remuneration Committee at the beginning of each financial year. The award of any bonus is decided by the Remuneration Committee at the end of the year by reference to the objectives set for the year, the corresponding performance of the Company, and by using its discretion. No payments were made for the year ended 31 December 2017 under the Executive Bonus Scheme. The Company also operates a share based incentive scheme as outlined below.

Directors' Service Agreements and Letters of Appointment

The current Service Agreements and Letters of Appointment include the following key terms:

Name of Director	Role	Annual Salary/Fees	Date of Contract	Notice Period
Nigel Payne	Non-Executive Chairman	£40,000	30 Nov 2016	3 months
Ian Mann	Chief Executive Officer	£225,000	30 Nov 2016	6 months
Lucy Sharp	Chief Operating Officer	£100,000	30 Nov 2016	6 months
Stephen Hammell	Chief Financial Officer	£120,000	21 Apr 2017	6 months
Stephen Vaughan	Non-Executive Director	£32,000	7 Dec 2016	3 months
David Mathewson	Non-Executive Director	£32,000	30 Nov 2016	3 months

All of the Service Agreements and Letters of Appointment are governed by English Law. There are no existing or proposed arrangements which provide for benefits or additional payment upon any Director's termination of employment.

Variation of Executive Directors' Service Agreements

In September 2017, the Executive Directors – Ian Mann, Lucy Sharp and Stephen Hammell – agreed to defer payment of 10% of the salary amount payable under their respective Service Agreements and to reduce the Company's contributions to their occupational pension schemes to the minimum amount permitted by law, until further notice.

The amount deferred in respect of salary and pension contributions has been accrued as a liability of the Company in the year ended 31 December 2017. The total amount accrued was £12k for salaries and £10k for pension contributions.

Variation of Non-Executive Directors' Letters of Appointment

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.

During the period October 2017 to December 2017, the Company allocated options over 20,836 shares under this scheme with a Share Based Payment charge of £26k. Within this total, Nigel Payne was allocated 8,014 options (£10k charge), Stephen Vaughan was allocated 6,411 options (£8k charge) and David Mathewson was allocated 6,411 options (£8k charge).

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.

This arrangement was terminated on 1 January 2018 by returning the payment of service fees to monthly cash payments.

Share Incentives Granted

The Company operates an Enterprise Management Incentive ('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. The Remuneration Committee decided that, in order to maximise the incentive effect of this share option grant, it would unusually attach no performance conditions to it. The Remuneration Committee intend to adopt appropriate performance conditions for any further grants. The original intention was that these options were to be granted at the time of the IPO in December 2016 to long-standing employees at the flotation price without performance conditions. However, the intended timing of the grant was not deliverable due to the requirements of Rule 9 of the Takeover Code. In order for this grant to proceed, a number of shareholder consents were required and duly obtained by May 2017, at which point the grant was actioned on the original terms intended. The Remuneration Committee strongly felt that the exercise price of 167 pence per share (i.e. the flotation price) should be maintained for these options since the recipients were in no way responsible for the delay in granting the options. Consequently, in this case the exercise price was not set using the usual criteria, which is the average mid-market share price over the preceding 3 days.

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, predominantly due to recipients leaving the Company, 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 further employees. The exercise price was set by reference to the average mid-market share price over the 3 days preceding the grant of 135 pence per share. 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.

Outstanding Share Based Awards

The outstanding Share Based Awards of the Directors as at 31 December 2017 are:

Name of Director	**Type of Award**	**Date of Grant**	**Granted in Year**	**Lapsed in Year**	**Vested in Year**	**Not Vested at end of Year**	**Market Price at Grant**	**Exercise Price**
Lucy Sharp	Share Option	19 May 2017	69,758	-	-	69,758	497.5p	167.0p
Stephen Hammell	Share Option	7 Dec 2017	100,000	-	-	100,000	132.5p	140.0p

Employment of Mr Keith Kelly

The employment of Mr Keith Kelly, Finance Director, ended on 7 July 2017. During the period, Mr Kelly was paid salary of £52k under his Service Agreement and was paid a Performance Related Bonus of £20k. In addition to this, a termination payment of £91k was paid to Mr Kelly on leaving, including pay in lieu of notice of £50k, statutory redundancy of £4k and an ex-gratia payment of £37k.

Related Party Transaction with a Director

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

Remuneration and Share Incentives in the year ended 31 December 2017

The remuneration of Directors in the year ended 31 December 2017 was:

Name of Director	Salary or Fees Paid	Benefits-in-Kind	Pension	Annual Bonus	Share Based Payment	**Year ended 31 December 2017 Total**	Period ended 31 December 2016 Total
	£'000	£'000	£'000	£'000	£'000	**£'000**	£'000
Nigel Payne	18	-	-	-	10	**28**	2
Ian Mann	219	1	17	-	-	**237**	104
Lucy Sharp	98	5	8	-	24	**135**	134
Stephen Hammell	80	-	1	-	1	**82**	-
Stephen Vaughan	24	-	-	-	8	**32**	3
David Mathewson	24	-	-	-	8	**32**	3
Keith Kelly	143	-	5	20	-	**168**	143
Total	606	6	31	20	51	**714**	389

Notes:

- Benefits-in-Kind includes the provision of Company Cars and Private Medical insurance
- Share Based Payments are stated at the cost of the award recognised in the financial period
- Remuneration for Nigel Payne in the table above excludes payments to Merlin Consultancy

ECSC Group plc

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company Law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the EU. Under Company Law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for the reporting period. In preparing these financial statements, the Directors are required to:

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

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

Financial information is published on the Company's website. The maintenance and integrity of this website is the responsibility of the Directors. The work carried out by the Company's auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may occur to the financial statements after they are initially presented on the website.

It should be noted that legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

Stephen Hammell
Chief Financial Officer

David Mathewson
Non-Executive Director

12 March 2018

Independent Auditor's Report to the Members of ECSC Group plc

Opinion

We have audited the financial statements of ECSC Group plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2017, which comprise the consolidated statement of comprehensive income, the consolidated and company statement of financial position, the consolidated and company statements of changes in equity, the consolidated and company cash flow statement and the notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Capitalisation and carrying value of intangible assets	
The Group carries out internal research and development projects with judgement being applied by management to identify when the expenditure meets the criteria for capitalisation under the requirements of paragraph 57 of IAS38. At 31 December 2017 the carrying value of development costs as disclosed in note 12 to the consolidated financial statements was £0.4m and the additions during the year totalled £0.1m. Judgement is required by management in determining whether there are any indicators of impairment present in relation to intangibles. As at the 31 December 2017 management concluded that impairment indicators did not exist and therefore there was no requirement to perform a test of impairment. Further detail is included in note 5 to the Financial Statements.	We evaluated the nature and type of the development expenditure capitalised by reference to the appropriateness of the personnel costs capitalised. We confirmed the accuracy of expenses capitalised, on a sample basis, to supporting documentation. We assessed whether the project spend enhanced the intangible asset in use and was supportable by future economic benefit streams. We assessed management's judgement in relation to whether any indicators of impairment were present by understanding the ongoing use of the IP, the enhancement of it, the efficiency and margin generation it brings to the business together with the overall outlook and forecasts for its future use/sale. We were satisfied with management's judgement.
Completeness of disclosures in relation to Going Concern	
Following the IPO in December 2016, the Directors set about executing the strategy to utilise newly acquired growth capital to scale the business. Whilst this increase in resources has been largely delivered in line with the Directors' expectations, revenue growth has been below expectations. As part of our audit planning we carried out a preliminary assessment of going concern. However, cash flow forecasts are inherently uncertain particularly over growth assumptions and therefore the extent of the disclosure provided by the directors is judgemental and we considered the completeness of the disclosure in this area to be a key audit matter.	We have reviewed management's forecasts to 31 March 2019 and the challenged the assumptions that have been used including assessing sensitivity analysis that management produced. We have reviewed and challenged the disclosures made in the financial statements both in the Strategic Report and in note 4.2 to the financial statements. We assessed whether these adequately and completely disclose the basis of the judgements taken and the view formed by management with respect to the going concern basis of preparation.

Independent Auditor's Report to the Members of ECSC Group plc (continued)

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The materiality for the Group financial statements as a whole was set at £70,000 (2016: £47,500). This was determined with reference to a benchmark of revenue, of which this represents 1.65% (2016: 1.65%), which we consider to be one of the principal considerations for members of the company in assessing the financial performance of the business. We consider revenue to be the most appropriate benchmark as it provides a more stable benchmark than the current period loss before tax.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Performance materiality has been set at 75% (2016: 75%) of the above materiality. This has been assessed on criteria such as historic adjustment levels, complexity and controls of the Group.

We agreed with the Audit Committee that we would report to the committee all individual audit differences in excess of £2,500 (2016: £1,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements at the Group level. There are two components within the Group, of which there is only one, the parent company, which was subject to full scope audit by the Group audit team.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Independent Auditor’s Report to the Members of ECSC Group plc (continued)

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors’ report.

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

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

Responsibilities of directors

As explained more fully in the directors’ responsibilities statement set out on page 23, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group’s and the parent company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

M Langford

12 MARCH 2018

Mark Langford (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Leeds
United Kingdom
BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

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	**6**	**4,115**	**4,510**
Cost of Sales		(2,353)	(1,723)
Gross Profit	**6**	**1,762**	**2,787**
Other Income	**7**	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	**28**	(275)	(975)
Operating Loss	**8**	**(3,444)**	**(522)**
Finance Income		6	5
Loss before Taxation	**27**	**(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	**14**	53	-
Trade and Other Receivables	**15**	1,130	1,033
Corporation Tax Recoverable	**7**	122	183
Cash and Cash Equivalents	**16**	1,597	4,987
Total Current Assets		2,902	6,203
TOTAL ASSETS		**3,841**	**6,864**
LIABILITIES			
Current Liabilities			
Trade and Other Payables	**17**	(1,380)	(1,264)
Finance Leases	**18**	(20)	-
Total Current Liabilities		(1,400)	(1,264)
Non-current Liabilities			
Deferred Tax Liability	**10**	(15)	(49)
Finance Leases	**18**	(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	**20**	91	90
Share Premium Account	**20**	5,661	5,512
Share Option Reserve	**20**	93	-
Retained Earnings	**20**	(3,460)	(51)
TOTAL EQUITY		**2,385**	**5,551**

The financial statements were approved and authorised for issue by the Board of Directors on 12 March 2017 and were signed on its behalf by:

Director **12 March 2018**

ECSC Group plc **Registered Number: 03964848**

ECSC Group plc

Company Statement of Financial Position
As as 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**	491	298
Investments	**29**	-	-
Total Non-Current Assets		891	661
Current Assets			
Inventory	**14**	53	-
Trade and Other Receivables	**15**	1,204	1,033
Corporation Tax Recoverable	**7**	122	183
Cash and Cash Equivalents	**16**	1,592	4,987
Total Current Assets		2,971	6,203
TOTAL ASSETS		**3,862**	**6,864**
LIABILITIES			
Current Liabilities			
Trade and Other Payables	**17**	(1,403)	(1,264)
Finance Leases	**18**	(20)	-
Total Current Liabilities		(1,423)	(1,264)
Non-Current Liabilities			
Deferred Tax Liability	**10**	(15)	(49)
Finance Leases	**18**	(41)	-
Total Non-Current Liabilities		(56)	(49)
TOTAL LIABILITIES		**(1,479)**	**(1,313)**
NET ASSETS		**2,383**	**5,551**
EQUITY			
Equity attributable to Owners of the Parent:			
Share Capital	**20**	91	90
Share Premium Account	**20**	5,661	5,512
Share Option Reserve	**20**	93	-
Retained Earnings	**20**	(3,462)	(51)
TOTAL EQUITY		**2,383**	**5,551**

For the year ended 31 December 2017, Loss after Taxation for the Company was £3,411k (2016: loss of £399k)

S Howell

Director **12 March 2018**

ECSC Group plc **Registered Number: 03964848**

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

Company 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	-	-	-	(3,411)	**(3,411)**
Transactions:					
Exercise of Equity Warrant	1	149	-	-	**150**
Share Options Granted	-	-	93	-	**93**
Balance as at 31 December 2017	**91**	**5,661**	**93**	**(3,462)**	**2,383**

ECSC Group plc

Consolidated Cash Flow Statement

For the year 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	**28**	-	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	**23**	93	-
Cash (used in)/from Operating Activities before changes in Working Capital		**(3,085)**	**635**
Change in Inventory	**14**	(53)	1
Change in Trade and Other Receivables	**15**	(218)	(410)
Change in Trade and Other Payables	**17**	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	**24**	-	(254)
Proceeds from Issuance of Shares	**23**	150	5,818
Exceptional Items – IPO Costs	**28**	-	(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	**16**	**1,597**	**4,987**

ECSC Group plc

Company Cash Flow Statement

For the year 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		(3,440)	(517)
Adjustment for:			
Exceptional Items – IPO Costs	**28**	-	975
Amortisation of Intangibles	**12**	100	112
Depreciation of Property, Plant and Equipment	**13**	146	65
Loss on Disposal of Equipment		6	-
Share Based Payment Charge	**23**	93	-
Cash (used in)/from Operating Activities before changes in Working Capital		**(3,095)**	**635**
Change in Inventory	**14**	(53)	1
Change in Trade and Other Receivables	**15**	(292)	(410)
Change in Trade and Other Payables	**17**	139	643
Cash generated from Operating Activities		**(3,301)**	**868**
Corporation Tax Received/(Paid)		178	36
Net Cash Flow (used in)/from Operations		**(3,123)**	**905**
Acquisition of Property, Plant and Equipment	**13**	(302)	(296)
Disposal Proceeds		17	-
Development Costs Capitalised	**12**	(137)	(221)
Net Cash Flow used in Investing Activities		**(422)**	**(517)**
Dividends Paid	**24**	-	(254)
Proceeds from Issuance of Shares	**23**	150	5,818
Exceptional Items – IPO Costs	**28**	-	(1,288)
Net Cash Flow from Financing Activities		**150**	**4,276**
Net Increase in Cash & Cash Equivalents		**(3,395)**	**4,663**
Cash & Cash Equivalents at beginning of Period		4,987	324
Cash & Cash Equivalents at end of Period	**16**	**1,592**	**4,987**

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 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.

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 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. 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. The effect of this change will be to reduce set-up revenues recognised in the year ended 31 December 2018.

Application of IFRS 15 will have also impact of the recognition of revenue from Remote Support contracts. Under current accounting policies, 10% of a new Remote Support contract is recognised as revenue at commencement, with the remaining deferred and recognised on utilisation of services by the client. Under IFRS 15, the upfront recognition of 10% of revenue will cease and revenue will only be recognised as the client utilises services.

Notes to the Financial Statements (continued)
For the year ended 31 December 2017

4.1 Basis of Accounting (continued)

The Directors have assessed the impact of IFRS 15 on the reported revenue for the year ended 31 December 2017. If the standard had applied during that period, whilst reported cash flow would not have changed, reported revenue would have been reduced by approximately £125k in respect of Managed Service set-up and by approximately £15k in respect of Remote Support.

The Directors will adopt application of IFRS 9 "Financial Instruments" from 1 January 2018, which impacts the classification, measurement, recognition and derecognition of financial instruments. The Directors have considered the impact of IFRS 9 and concluded that, while there will be a change in how financial instruments are classified under the new standard, they expect all financial assets and liabilities to continue to be measured at amortised cost. The measurement of impairment of Trade Receivables will change with use of an expected loss model assessment.

A number of new standards, and amendments to standards and interpretations have been issued but are not yet effective and, in some cases, have not yet been adopted by the EU. The Directors do not expect that the adoption of these standards will have a material impact on the financial statements of the Group and Company in future periods, except that IFRS 16 will have an impact on the recognition of operating leases.

IFRS 16 requires that operating leases relating to certain properties and vehicles be capitalised as fixed assets, with recognition of a corresponding liability, in the balance sheet. This will result 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 Directors detailed review of the impact of IFRS 16 is still ongoing.

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 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.

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

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 Remote Support contracts is recognised with 10% of the contract value released to revenue at commencement and the remaining revenue deferred in the balance sheet and recognised on utilisation of services by the client. Remote Support revenue is included within Consulting in note 6.

Revenue from Managed Services contracts includes the 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.

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

4.4 Finance Income

Finance income is accrued on an annual basis, by reference to the principal outstanding at the applicable effective credit interest rate.

4.5 Government Grant Income

Government Grant Income is recognised in the Statement of Comprehensive Income over the period in which the Company recognises expenses for the related costs for which the grants are intended to compensate.

Government tax credits available on eligible Research and Development expenditure ('R&D Tax Credits') and not reclaimable through other means are recognised as Other Income and treated as a government grant. Government Grant Income also includes other grants received from government agencies (see note 7).

4.6 Operating Profit

Operating Profit is stated after all expenses, including those considered to be exceptional, but before finance income or expenses. Exceptional items are items of income or expense which, because of their nature or size, require separate presentation to allow shareholders to better understand the financial performance of the period and allow comparison with prior years.

4.7 Foreign Currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange prevailing at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange prevailing at the date of the transaction. Exchange differences are recognised in Operating Profit.

On consolidation, the results of overseas operations are translated into Sterling at rates approximating those prevailing when the transactions took place. All assets and liabilities of overseas entities are translated at the rate prevailing at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in Other Comprehensive Income and accumulated in the foreign exchange reserve.

4.8 Employee Benefits

<u>Short-Term Benefits</u>

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Company.

<u>Defined Contribution Pension Scheme</u>

The Company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Company. The annual contributions are charged to the Statement of Comprehensive Income. The Company also contributes to the personal pension plans of the Directors in accordance with their Service Contracts.

<u>Employee Share Based Payments</u>

Where equity settled share options are granted to employees (including Directors), the fair value of the options at the date of grant is charged to the Consolidated Statement of Comprehensive Income, as a Share Based Payment Charge, over the vesting period of the options, with a corresponding movement in the Share Option Reserve.

Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after modification, is also charged to the Consolidated Statement of Comprehensive Income over the remaining vesting period.

4.9 Operating Lease Agreements

Rentals applicable to operating leases where substantially all of the risks and rewards of ownership remain with the lessor are charged to the Statement of Comprehensive Income on a straight line basis over the full period of the lease. Any lease incentives are spread on a straight line basis over the full period of the lease.

4.10 Property, Plant and Equipment

All additions are initially recorded at historic cost. Depreciation is calculated so as to write-off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

• Leasehold Property	20% reducing balance
• Office Furniture and Equipment	20% reducing balance
• Computer Equipment	33% straight line
• Motor Vehicles	20% straight line

4.11 Finance Lease Agreements

Where substantially all of the risks and rewards of ownership of a leased asset are transferred to the Group ('Finance Lease'), the asset is treated as if it had been transferred outright. The amount initially recognised as an asset is the lower of the fair value of the leased asset and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability.

Lease payments are analysed between capital and interest. The interest element is charged to the Statement of Comprehensive Income over the period of the lease and is calculated to represent a constant proportion of the lease liability. The capital element reduces the liability owed to the lessor.

4.12 Research and Development Expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Expenditure on development activities generating an intangible asset is capitalised if all of the criteria set out in IAS 38 are met. Capitalised assets are amortised over their useful economic life, which is considered to be five years.

If the criteria set out in IAS 38 are not met, expenditure on development activities is recognised as an expenses in the period in which it is incurred.

4.13 Inventories

Inventories are carried at the lower of cost or net realisable value. Net realisable value is calculated based on the expected revenue from sale in the normal course of business less any costs to sell. Due allowance is made for obsolete and slow moving items.

4.14 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Assets

The Group and Company's Financial Assets include Cash and Cash Equivalents, Trade Receivables and Other Receivables.

- **Initial Recognition and Measurement**

  Financial Assets are classified, at initial recognition, as Loans and Receivables.

- **Subsequent Measurement**

  Loans and Receivables are measured at amortised cost, using the effective interest method, less impairment. Interest is recognised by applying the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

4.14 Financial Instruments (continued)

- **Derecognition of Financial Assets**

  The Company derecognises a Financial Asset only when the contractual rights to the cash flows from the asset expire, or it transfers the Financial Asset and substantially all the risks and rewards of ownership of the asset to another entity.

<u>Financial Liabilities and Equity Instruments</u>

The Group and Company's Financial Liabilities include Trade Payables, Accruals, Other Payables and Finance Leases. Financial Liabilities are classified as Financial Liabilities measured at amortised cost.

- **Classification as Debt or Equity**

  Financial Liabilities and Equity Instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a Financial Liability and an Equity Instrument.

- **Equity Instruments**

  An Equity Instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity Instruments are recorded at the proceeds received, net of direct issue costs.

- **Trade Payables, Other Payables and Accruals**

  Trade Payables, Accruals and Other Payables are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, where applicable, using the effective interest method, with interest expense recognised on an effective yield basis.

- **Finance Leases**

  Finance Leases are treated as Financial Liabilities measured at amortised cost.

- **Derecognition of Financial Liabilities**

  The Company derecognises financial liabilities when the Company's obligations are discharged, cancelled or expire.

<u>Offsetting of Financial Instruments</u>

Financial Assets and Financial Liabilities are offset, and the net amount reported in the Statement of Financial Position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

4.15 Cash and Cash Equivalents

Cash and Cash Equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

4.16 Impairment of Assets

Financial Assets

A Financial Asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A Financial Asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a Financial Asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale Financial Asset is calculated by reference to its fair value.

Individually significant Financial Assets are tested for impairment on an individual basis. The remaining Financial Assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is recognised in profit and loss. Any cumulative loss in respect of an available-for-sale Financial Asset recognised previously in equity is transferred to the Statement of Comprehensive Income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For Financial Assets measured at amortised cost and available-for-sale Financial Assets that are debt securities, the reversal is recognised in profit and loss. For available-for-sale Financial Assets that are equity securities, the reversal is recognised directly in equity.

Non-Financial Assets

The carrying amounts of the Company's Non-Financial Assets, other than Deferred Tax Assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risk specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit and loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4.17 Corporation Tax

Corporation Tax expense represents the sum of the tax currently payable and Deferred Tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible.

The Company's liability for current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the financial period.

Government tax credits available on eligible Research and Development expenditure and not reclaimable through other means are recognised as Other Income and treated as a government grant. This applies when there are no taxable profits against which to offset the tax credit. The amount receivable by the Group and Company is shown on the face of the balance sheet within Corporation Tax Recoverable.

4.18 Deferred Tax

Deferred Tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax.

Deferred Tax Assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred Tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

4.19 Contingent Liabilities and Contingent Assets

A Contingent Liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A Contingent Liability is not recognised but is disclosed in the Notes to the Accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A Contingent Asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Company. Contingent Assets are not recognised but are disclosed in the Notes to the Accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

4.20 Share Capital

Ordinary Share Capital is recorded at nominal value and proceeds received in excess of nominal value of shares issued, if any, is accounted for in the Share Premium Account. Both Ordinary Share Capital and Share Premium Account are classified as equity. Costs incurred directly to the issue of shares are accounted for as a deduction from Share Premium Account; otherwise such costs are charged to the Statement of Comprehensive Income.

4.21 Operating Segments

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components.

An operating segment's operating results are reviewed regularly by Directors of the Company to assess performance and make decisions about resource allocation.

The Board considers that the Company's activity constitutes three operating and three reporting segments as defined under IFRS 8.

4.22 Related Parties

Parties are considered to be related if one party has the ability (directly or indirectly) to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

5. 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. The basis for this judgement is detailed in note 4.2.

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

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).

<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.

6. 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**

7. 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.

8. 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

The amount charged in respect of Auditors' Remuneration for the Group and the Company audit was £32k. None of the subsidiaries (see note 29) of the Group were subject to audit in the year ended 31 December 2017.

9. Employee Benefit Expense

Employee Benefit Expense (including Directors) during the periods amounted to:

	GROUP Year ended 31 December 2017 £'000	GROUP 15 months ended 31 December 2016 £'000	COMPANY Year ended 31 December 2017 £'000	COMPANY 15 months ended 31 December 2016 £'000
Wages and Salaries	4,867	2,386	4,807	2,386
Social Security Costs	536	250	514	250
Pension Contributions	97	70	89	70
	5,500	**2,705**	**5,410**	**2,705**

In the year ended 31 December 2017, Employee Benefit Expense includes the element of Exceptional Costs (see note 28) that are staff related.

9. Employee Benefit Expense (continued)

Directors' remuneration for the Group and Company 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**

Details of Directors' remuneration can be found in the Remuneration Report on pages 20-22.

Key management personnel, being those persons having responsibility for planning, directing and controlling the activities of the Group, are considered to be the Directors listed on pages 15-16 (Board of Directors).

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.

10. Taxation (continued)

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 28) 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

11. Earnings per Share (continued)

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

GROUP & COMPANY

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

GROUP

	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).

13. Property, Plant and Equipment (continued)

COMPANY

	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	46	264	-	363
Disposals	-	-	(1)	(33)	(34)
At 31 December 2017	99	98	512	49	758
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	15	107	14	146
Disposals	-	-	-	(10)	(10)
At 31 December 2017	34	27	193	13	267
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**	**71**	**319**	**36**	**491**

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. Inventory

	GROUP As at 31 December 2017 £'000	GROUP As at 31 December 2016 £'000	COMPANY As at 31 December 2017 £'000	COMPANY As at 31 December 2016 £'000
Inventory	53	-	53	-

15. Trade Receivables and Other Receivables

	GROUP As at 31 December 2017 £'000	GROUP As at 31 December 2016 £'000	COMPANY As at 31 December 2017 £'000	COMPANY As at 31 December 2016 £'000
Trade Receivables	994	928	994	928
Other Receivables	10	8	10	8
Intercompany Receivables	-	-	100	-
Prepayments & Accrued Income	126	97	100	97
	1,130	**1,033**	**1,204**	**1,033**

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

Intercompany Receivables represent loans provided by ECSC Group plc to ECSC Australia Pty Ltd. The loans are repayable on demand.

16. Cash & Cash Equivalents

	GROUP As at 31 December 2017 £'000	GROUP As at 31 December 2016 £'000	COMPANY As at 31 December 2017 £'000	COMPANY As at 31 December 2016 £'000
Cash & Cash Equivalents	1,597	4,987	1,592	4,987

17. Trade Payables and Other Payables

	GROUP As at 31 December 2017 £'000	GROUP As at 31 December 2016 £'000	COMPANY As at 31 December 2017 £'000	COMPANY As at 31 December 2016 £'000
Trade Payables	130	484	127	484
Other Taxation and Social Security	327	210	321	210
Accruals	277	143	273	143
Deferred Income	613	388	613	388
Intercompany Payables	-	-	39	-
Other Payables	33	39	31	39
	1,380	**1,264**	**1,403**	**1,264**

The carrying amount of Trade Payables and Other Payables approximates to their fair value due to their short term nature.

18. 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:

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

Total payments under the Finance Lease are as follows:

Group & Company

	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).

19. Secured Facilities

The Group has been provided with payments 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.

20. 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.

20. Share Capital (continued)

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.

21. 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, are set out in note 4.14 to the financial statements. 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:

Financial Assets	**GROUP As at 31 December 2017 £'000**	**GROUP As at 31 December 2016 £'000**	**COMPANY As at 31 December 2017 £'000**	**COMPANY As at 31 December 2016 £'000**
Trade Receivables	994	928	994	928
Other Receivables	10	8	10	8
Intercompany Receivables	-	-	100	-
Cash and Cash Equivalents	1,597	4,987	1,592	4,987
Total Financial Assets	**2,601**	**5,923**	**2,696**	**5,923**
Financial Liabilities				
Trade Payables	130	484	127	484
Accruals	277	143	273	143
Intercompany Payables	-	-	39	-
Other Payables	33	39	31	39
Finance Leases	61	-	61	-
Total Financial Liabilities	**501**	**666**	**531**	**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 and Company has limited exposure to each of these risks as discussed below.

21. Financial Instruments and Financial Risk Management (continued)

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 it is, 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 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 and Company 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 and Company 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:

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

21. Financial Instruments and Financial Risk Management (continued)

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 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

22. 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.

ECSC Australia Pty Ltd

During the year ended 31 December 2017, ECSC Group plc incurred management fees to ECSC Australia Pty Ltd of £165k. As at 31 December 2017, the balance payable by ECSC Group plc to ECSC Australia Pty Ltd in respect of outstanding management fees was £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 2017, the loan balance payable by ECSC Australia Pty Ltd to ECSC Group plc was £100k. The loan is repayable on demand and attracts interest at the rate of 3% over base rate.

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.

23. 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:

May 2017

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.

December 2017

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.

23. Share Based Payments (continued)

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 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**
Number of Options:					
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**
Option Pricing Assumptions:					
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%	
Option Valuation:					
Option Valuation at grant date (£'000)	**312**	**53**	**16**	**26**	**407**
Share Based Payment Charge in 2017:					
Share Based Payment Charge (£'000)	**65**	**1**	**1**	**26**	**93**
Weighted Average Exercise Price:					
At grant date, forfeit date and end of period (pence)	167	140	125	-	

23. Share Based Payments (continued)

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 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.

24. 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

25. Commitments

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

	As at 31 December 2017 £'000	As at 31 December 2016 £'000
Not later than one year	195	141
Later than one year and not later than five years	520	208
More than five years	44	72
	759	**421**

26. Controlling Party

ECSC Group plc does not have an ultimate controlling party.

27. 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)**

28. 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.

29. 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

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