ECSC GROUP PLC

Annual Report Year Ended 31 December 2019

more secure

Contents

"We are delighted to report continued organic growth for the full year, with continued emphasis on building our Managed Services recurring revenue supported by our Consultancy Services. The team continues to acquire new clients, deliver quality service, develop our technologies and build a solid base for ongoing growth. We believe we are well positioned to build on the organic growth achieved in 2019 and we look forward to the future with confidence."

Ian Mann
Chief Executive Officer

COVID-19 Statement

Throughout this rapidly evolving situation, the Company's response has been led by the current medical and science-based advice and guidance from the UK and Australian governments. This will continue to be the case over the coming months and beyond.

We already have extensive remote and home working options in place, fully tested, supporting a range of conferencing technologies, all of which maintain our cyber security related certifications, associated technical standards and policies.

We do not anticipate any disruption in our ability to deliver our full range of services, as all services can be delivered remotely. Our aim, as always, is to ensure uninterrupted service to our consulting clients and Service Level Agreement (SLA) adherence for our managed security clients. Additionally, our incident response service remains in full operation. Our Security Operations Centres will continue to operate 24 hours a day, 7 days a week.

Although not affecting results in Q1, we anticipate some reduction in consulting activity with clients potentially cancelling, or delaying projects that they prefer to conduct on-site. However, the management team have extensive plans in place, including making use of the UK Government employment support, with the aim to reduce costs to a break-even level during any short-term period of revenue loss. We do not anticipate any reduction within the recurring revenue managed services.

Further detail regarding COVID-19 is included in the Chairman's Statement and Financial Review section of the Strategic Report on page 29.

Company Information

Directors
David Mathewson (Non-Executive Chairman)
Ian Mann (Chief Executive Officer)
Lucy Sharp (Chief Operating Officer)
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Financial Highlights

10%

Organic revenue growth to £5.9m
(2018: £5.4m)

23%

Gross profit increase to £3.3m
(2018: £2.7m)

48%

Managed Services division revenue up to £2.5m
(2018:£1.7m)

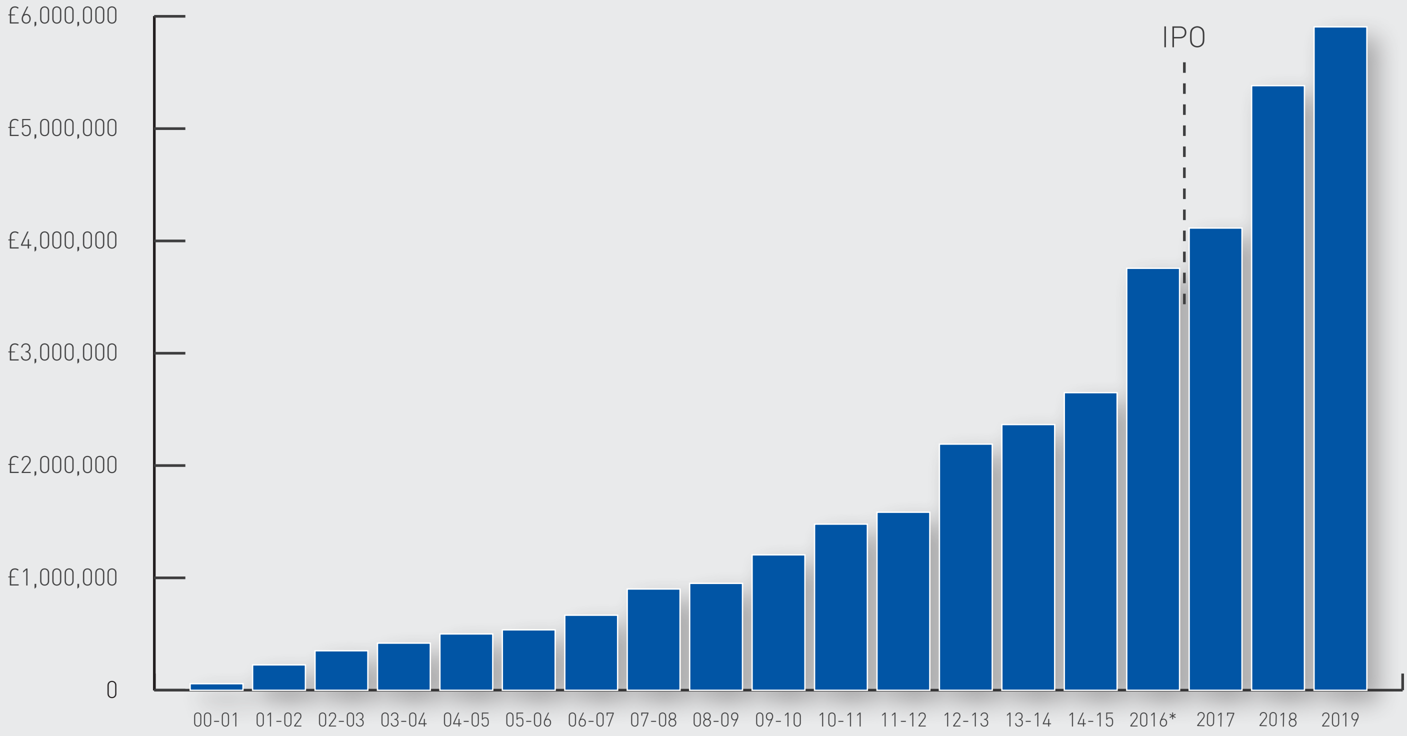
117

New Consulting Clients
(2018: 95)

ZERO

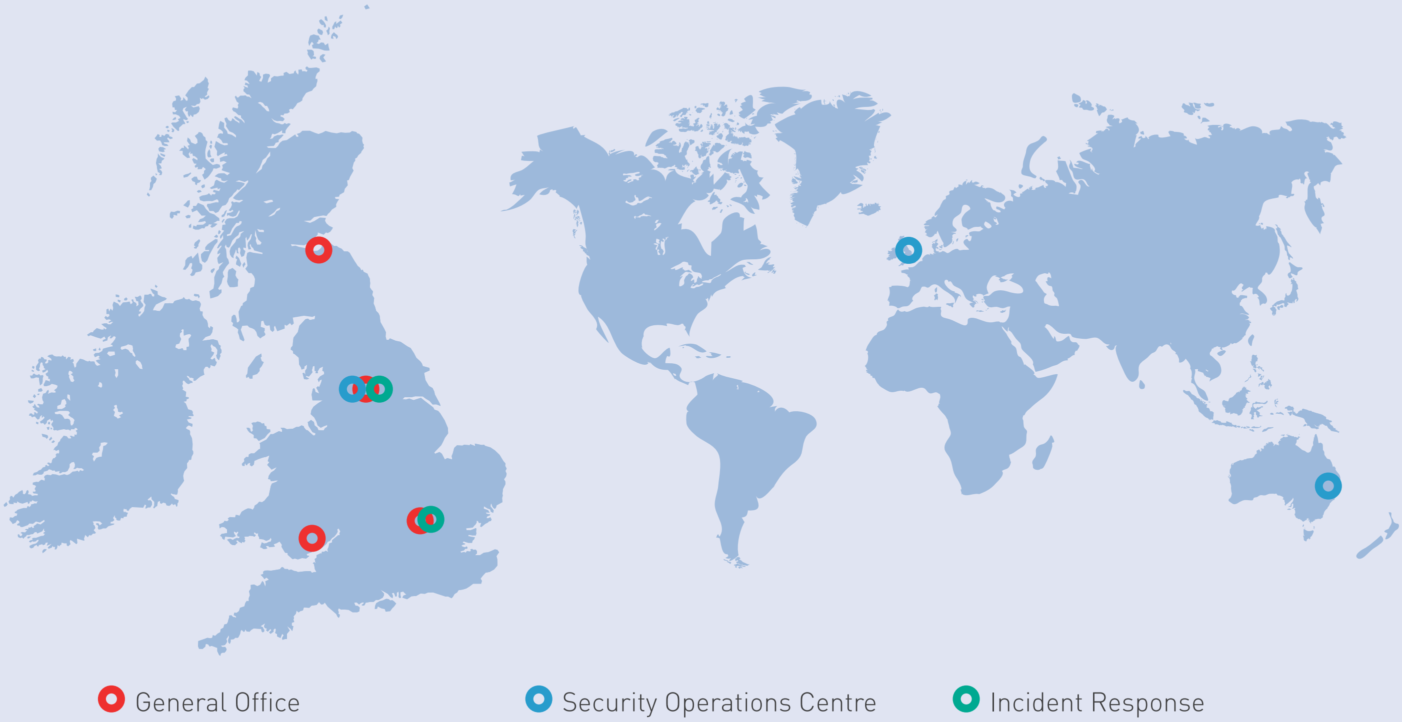
EBITDA loss
(adjusted)
(2018:£0.6m)

18 Years Of Organic Growth



* Adjusted for 12 months

Global Offering



Chairman's Statement

These results, which highlight solid growth and a return to adjusted EBITDA profitability and cash generation in H2, represent the third full year of trading since the IPO in December 2016. This continued organic growth has been driven by market demand, with increasing awareness of cyber security within corporate boardrooms, and a company strategy to deliver cyber security services to meet the evolving challenges that our clients face.

Despite the economic uncertainty that dominated the UK in 2019, ECSC continued to demonstrate resilience and a quality of delivery to ensure continued progress.

The announcements in July 2019 of the first multi-million pound General Data Protection Regulation (GDPR) related fines by the UK Information Commission's Office (ICO) are just the start of what are likely to be regular announcements regarding further fines, and reminders to everyone holding personal data that cyber security should be a priority.

As we move out of our IPO related investments, and associated losses, we aim to return to the pre-IPO levels of profitability, combined with continued organic growth. Following restructuring and work to control costs, we are pleased to report such improved financial performance across the business. This improved performance is the result of a focussed and motivated team delivering growth, whilst keeping tight control over costs and cash management.

The ECSC Kepler Artificial Intelligence (AI) technology announced in 2018, continues to drive the expansion of recurring managed service revenues, delivered through our global Security Operation Centres (SOCs) in the UK and Australia.

Clients increasingly recognise that 24/7/365 cyber security breach detection and expert incident response, is vital to the protection of personal information and maintenance of critical IT systems. For all but the largest global organisations, the outsourcing of these critical functions continues to be the logical choice, and ECSC has the technology, expertise and processes to deliver.

I was again delighted when ECSC won another industry award recently for our incident response service related to the Payment Card Industry Data Security Standard (PCI DSS).

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

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

The Directors have carried out an evaluation of financial forecasts ,sensitised to reflect a rational judgement of the level of risk. Management have devised a series of mitigating actions designed to preserve cash resources and to maintain delivery of our services to clients.

This exercise concluded that adequate financial resources are available to ensure that the Company could meet its obligations for a twelve month period with reasonable certainty. Accordingly the Directors conclude that it continues to be appropriate to prepare the Annual Report and Accounts on a going concern basis, whilst acknowledging an uncertainty now exists.

Further detail regarding COVID-19 is included in the Financial Review section of the Strategic Report below on page 29.

David Mathewson
David Mathewson
Non-Executive Chairman
24 March 2020

Chief Executive Officer's Review

We are very pleased that the record trading in H2 resulted in 10% organic annual revenue growth following a flat H1, and a return to adjusted EBITDA profitability. Annual growth in Managed service recurring revenue of 27% shows the effectiveness of our strategy of winning consulting clients and converting them into long-term managed services clients. The acceleration of new client acquisitions in 2019 continues to help to build a solid foundation for future growth.

Managed Services Division

The growth of Managed Services is central to the Company's ongoing growth strategy. Managed Services provide the Group with multi-year, recurring revenues which enhance the quality and visibility of earnings.

We are delighted to report revenue growth of 48% within this division; which includes both recurring revenues and related incident response activities.

Managed Services had received significant investment since the IPO, including the establishment of an additional Security Operations Centre (SOC) in Brisbane, Australia, allowing us to deliver true 24/7/365 security breach monitoring and response. The increase in managed services gross margin from 53% in 2018 to 68% in 2019 shows the increasing utilisation of the resources put in place through the IPO investment.

Furthermore, the investment allows for continued research and development into the ECSC proprietary AI software 'Kepler'. This technology is used extensively within our security devices to enable the identification, assessment and alerting of critical security events to the SOC teams for analysis and reporting to clients.

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

Consulting Division

We are pleased to report that Consulting revenue recovered from the decline in H1 and returned to growth and record levels in H2.

Although benefiting from record new client wins, we also saw 73% of consulting revenue being repeat purchases from existing clients, a testament to our focus on building strong client relationships and delivering excellent service.

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

The requirement for companies to assess their businesses against recognised standards, including ISO 27001, PCI DSS, and Cyber Essentials, has continued to grow as organisations are increasingly required to demonstrate external verification of their cyber security capabilities to their customers, partners, and stakeholders.

Vendor Products

As part of our strategy to move sales focus away from third-party vendor products to concentrate on our solutions and build the partner programme, sales of third-party vendor products fell by 29%, and now represent only 3% of revenues.

Sales & Marketing

Following the extensive changes made in the previous year, 2019 featured stability in the team, other than additions for the partner programme, and

Chief Executive Officer's Review cont.

improved overall performance.

The main focus remains on the management and ongoing training and development of the sales team, with monthly training continuing to provide a better understanding of our services and client needs.

The additional resource introduced into the marketing team in 2018 has continued to lead to an increase in marketing activities, allowing for more effectively targeted campaigns. This additional resource enables the Company to identify and respond to new opportunities for growth within our existing client base and new clients alike. With sales and marketing activity aligned, we are seeing continued stronger performance across both teams.

Partner Programme

In Q4 2018, we launched our Partner Programme, allowing IT Value Added Resellers to directly sell selected ECSC services whilst referring more complex projects to the ECSC sales team to deliver.

The recruitment of partners continued as planned throughout 2019, with circa 100 partners signed up by the end of the year, generating more than 100 new sales opportunities and delivering 17% of the additional new clients.

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

Technology Development

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

Market Prospects & Organic Growth Strategy

The UK cyber security market continues to exhibit growth, and remains an attractive segment of the wider IT sector.

Against this backdrop, we are confident that the organic growth strategy of ECSC remains appropriate. Managed Services remains the strategic focus of the Board, to build our recurring revenue streams and target the fastest growing segments of the market.

Key Performance Indicators

The Key Performance Indicators on page 10 were established in 2018 to enable meaningful measurements of the Group's performance. A measure of R&D spending has been added this year.

Outlook and COVID-19

We are delighted to report continued organic growth for the full year, with continued emphasis on building our Managed Services recurring revenue supported by our Consultancy Services. The team continues to acquire new clients, deliver quality service, develop our technologies and build a solid base for ongoing growth.

Whilst the current COVID-19 situation has the potential to impact the global economy, we predict that as organisations move rapidly to remote and cloud working, there will be an increase in cyber security incidents, and therefore potential increases in demand for some ECSC services.

However we do anticipate some increase in risks and uncertainty due to COVID-19. Further detail regarding COVID-19 is included in the Financial Review section of the Strategic Report below on page 29.

Going Concern

Attention is drawn to Going Concern in the Financial Review on page 29.

Chief Executive Officer's Review cont.

Performance Indicator	Rationale	2019	2018	2017	Management Comment
Revenue Growth	Measurement of the success of the organic growth strategy	10%	35%	9%*	Despite a challenging H1 with flat growth, H2 reverted to strong growth with record revenues
Managed Services Recurring Revenue Growth	Visibility of the success of increasing the percentage of revenue from long-term recurring revenues	27%	46%	25%	Continued strong growth due to new contract wins and contract expansions
Managed Service Recurring Revenue Proportion	Visibility of the success of increasing the percentage of revenue from long-term recurring revenues	34%	29%	27%	In line with the strategy to increase this proportion
Managed Services Order Book	Combined measurement of new client contracts together with renewals of existing client contracts	£2.6m	£2.5m	N/A	The management team's favoured overall measure of progress in managed services
Managed Services Gross Margin	Delivery efficiency measurement	68%	53%	33%	Indicative of increased leveraging of IPO investment in capacity
Consulting Repeat Revenue	Quasi-recurring from longer-term consulting clients	73%	78%	68%	Indicative of strong client retention and continued trust in ECSC quality
Consulting Gross Margin	Delivery efficiency measurement	54%	57%	50%	A direct result of the H1 decline in consulting revenues that return to growth in H2
Contract Liabilities (Deferred Income)	Contracted and invoiced revenue yet to be recognised	£1.2m	£0.9m	£0.8m*	Indicative of growth in long-term client relationships, where pre-payment is a feature
Research and Development (of revenue)	Continued investment in technology and intellectual property development	13%	8%	N/A	A new measure introduced to show continued investment in technologies for the future

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

Ian Mann
Chief Executive Officer
24 March 2020

Chief Operating Officer's Overview

Our People

We fully understand that we're only as good as the people who work for us. That's why we place great emphasis on trying to ensure that ECSC is an enjoyable place to work and that our people are not only recognised for the value they bring to our Company, but that recognition manifests itself in the way we look after the team of people we work with.

Everyone at ECSC, at every level, has a responsibility to act and carry out business in the right way. This means adopting a core set of values and behaviours that guide everything we do; how we work, how we act, and how we do business with our clients, our suppliers and our colleagues.

Working in such a fast paced, ever changing industry like cyber security means we need to attract, retain and develop, exceptional and highly motivated people. Our teams are inspired and empowered to deliver excellence in all that they do, which underpins our continued success.

In 2019 we saw our employee headcount increase by 18% to circa 100 employees across the organisation. During this time our retention rate also improved by 23% to 87%. This is testament to our continued people focused strategy, and in turn protects the strong, positive culture we have built at ECSC – one of continual development, learning and communication, which are reflected in our published values.

Resourcing

Our very effective in-house recruitment strategy ensures we have methods for attracting and recruiting the best people across all teams, guaranteeing the right mix of skills and diversity that compliment and enhance the current team.

Our company and the services we offer to our clients provides an exciting, challenging environment which commands continual learning and is therefore the perfect place for inquisitive, bright and motivated individuals.

By working closely with universities we have developed effective student placement and graduate placement schemes which ensures an appropriate pipeline of talent, so we have the right people in the right positions, for now and for the future.

People Management

Our approach is to ensure that people management is 'built-in' not a 'bolt-on', which is supported by our continuous performance management framework. This ensures all our people have regular, meaningful conversations with their Line Manager rather than the focus being on form filling. All our people managers go through our internal people management training programme so they are better placed to give consistent feedback, support and development their team members.

Investing in People

We place significant importance on the need to invest in the continuing professional development of our people, so they feel equipped to be the best they can be and are on the front foot in this ever changing cyber landscape. Keeping up to date with the latest cyber threats, vulnerabilities, exploits and countermeasures is key to ensuring we are recognised as experts in our field and are able to provide up-to-date advice and guidance to our clients, as well as driving thought leadership to the industry.

ECSC employees have wide and varied experience and knowledge. We expect our consultants to be highly qualified. Our minimum consultant qualification is the well respected Certified Information Systems Security Professional (CISSP). In addition, our PCI specialists are all Payment Card Industry Qualified Security Assessors (PCI QSA) and our ISO 27001 specialists have all passed the ISO 27001 Lead Auditor examination.

Chief Operating Officer's Overview cont.

Our testing specialists hold multiple industry specific certifications such as CREST Certified Infrastructure Tester (CCT) and Offensive Security Certified Professional (OSCP).

Our Security Operation Centre engineers and analysts hold a variety of qualifications and specialist knowledge in forensics, incident response, networking and threat identification and management.

Employee Engagement
Our aim is to continually embed our culture and improve employee engagement at all levels within ECSC. We recognise the importance of our people feeling they have a voice, are recognised and rewarded for the value they add, and see how their contribution goes towards the overall success of the business.

We are extremely proud of the most recent annual employee engagement survey which gives valuable insight into how our employees feel about management, their team leader/team, their own role, learning and development opportunities, reward and recognition, and the company's efforts towards well-being. Year on year we have seen the results of these surveys improve.

Lucy Sharp
Chief Operating Officer
24 March 2020

Employee Engagement Survey 2019

"I enjoy every single day here and learn something new each day"	"ECSC is one of the best companies I've worked for"	"The Senior Management Team are very approachable"

100%

want to make **a difference** in helping the company **succeed**

97% enjoy working with their team	**94%** feel proud of ECSC	**96%** see themselves working here in 12 months

Sample response to our latest Employee Engagement Survey

What We Do

Incident response 'emergency' service	Remotely manage client cyber security devices from ECSC's Security Operations Centre (SOC)	Cyber security reviews
Consultancy to help clients achieve ISO 27001 information security certification		Technical penetration testing of cyber security
Advise and assess clients for certification to the Payment Card Industry Data Security Standard (PCI DSS)	Develop Artificial Intelligence (AI)	Cyber Essentials Certifications

What We Do

For most organisations, understanding their cyber security responsibilities is often complex and challenging, with new threats discovered daily. The priority given by organisations to cyber security has changed significantly since we started 20 years ago, helped most recently by the introduction of the General Data Protection Regulation (GDPR), the mandatory reporting of breaches to the Information Commissioner's Office (ICO) and increased fines. Given the legal responsibility now placed on organisations to protect personal data, the sensible approach for most is to seek external help.

Despite the complexities of cyber security, a consultative approach remains at the heart of ECSC's offering. All communications are carried out in a format and language that is easy to understand by all.

ECSC's range of services can be broken down into three basic categories.

Despite regular scaremongering by certain product vendors, press releases from organisations that have suffered a breach, and at times the media, all breaches are preventable. We confidently make this statement based on 20 years experience in incident response.

Organisation's primary strategy should be breach prevention. ECSC helps in a number of ways. The most common is to test cyber security using similar techniques to those used by hackers. In the industry, this is referred to as penetration testing or ethical hacking. Finding the vulnerabilities before a hacker does and remedy accordingly.

Although it may be possible to prevent all breaches, it is also sensible to have an ability to detect breaches. Done correctly, this means that incidents can usually be contained before expensive data-loss occurs. Additionally, under GDPR, there is a requirement to be able to detect breaches.

ECSC's full 24/7/365 cyber security monitoring, alerting, and analysis from the both UK and Australian Security Operations Centres provides our managed service clients with peace of mind.

Although it makes little sense for all but the largest organisations to build, and try and retain, an internal incident response capability, it does makes sense to have a relationship with external experts that can respond 24/7.

ECSC's 20 years of incident experience mean that we can assist our clients from the smallest, and simplest event, to the most complex incident requiring extensive investigation, an on-site team, and guidance with external stakeholder and regulator communications.

HISTORY OF ECSC

ECSC is founded by Ian Mann

2000

Creation of the ECSC Secure Platform to enable us to develop key innovations in IT security

ECSC starts its Managed Services offering

2001

2002

ECSC wins 'Best New Technology' Award at the Yorkshire Internet Awards

Certification of our whole operation to BS 7799

2003

2006

Achieved certification to ISO 27001 within a month of its release

Certification to ISO 9001, covering our consulting and security management systems

2007

Payment Card Industry (PCI) Qualified Security Assessor (QSA) accreditation

2009

Certification to ISO 20000, covering our managed security services

PCI DSS Level-1 Certified Managed Security Service Provider

2010

2012

CREST Member Company

ECSC release the first method of blocking the Heartbleed Bug to the security community, enabling protection to organisations who have not yet carried out patching

2014

2015

ECSC SELECT division launched

Cardiff Office Opened

2016

ECSC Group plc is listed on the London Stock Exchange's AIM market

ECSC wins a PCI Award for Excellence

2017

Leeds Office Opened

Australia SOC Opened

ECSC wins a second PCI Award for Excellence

2018

ECSC is listed within SC Magazine's Global top 50 companies in the cyber security market

ECSC wins a third PCI Award for Excellence

2019

ECSC launch Partner Programme

The ECSC Story

"Thank you so much for getting us to this monumental point! We certainly wouldn't be anywhere near this point today without your incredible guidance, support and down-to-earth coaching throughout the planning, preparation and audit stages".

Head of Operations
PR and Communications

The ECSC story begins in the dotcom boom of the late 1990s. Ian Mann was conducting government consultancy and running one of the first UK Cisco training academies, teaching the first generation of Internet engineers. Having just completed an MBA, as most people do, Ian was looking to start his own business. He noticed that the security element of the network training was the biggest challenge for most students and therefore he concluded that this would be a growing need for organisations as they began to fully utilise the Internet.

With the financial help of his credit cards, two re-mortgages, family and friends, and a few work colleagues, ECSC was born. ECSC's second recruit was Lucy Sharp (now COO) who Ian employed as a school leaver.

Initially testing the security of organisations new connections to the Internet, and responding to security incidents, very quickly clients began to enquire whether ECSC could manage this critical area. So, in 2001, managed services began; taking internally develop technologies originally developed for ECSC's own use, and developing them for application in client environments.

As the industry began to mature, and international standards began to emerge, ECSC then started supporting clients efforts to achieve and manage a range of certifications.
Although focusing fully on ECSC, Ian continued to do some advisory work for the UK's GCHQ, and more recently trained their new cyber security recruits in the art of people hacking (having authored two books on the subject of social engineering).

The next significant appointment was Ian Castle, who joined in 2003 as CTO to co-ordinate the research and development that forms the foundation of the already award winning ECSC propitiatory technology and managed services.
The next current senior management appointments came in 2007, when Paul Lambsdown took charge of the sales function, Gemma Basharan joining the finance team in 2011, and Clare Macdonald establishing the marketing team in 2013.
Despite numerous offers to buy the business, in 2016 ECSC decided to raise the first institutional investment via an initial IPO on the London Stock Exchange AIM market.
This investment enabled the establishment of new Security Operations Centres in the UK and Australia, giving true 24/7/365 'eyes on glass' cyber security monitoring, without the need for engineers to work night shifts.

Today, the senior management team have over 80 years combined experience within ECSC.

Typical Client Journey

A client journey with ECSC tends to start from one of three starting points:

HELP, WE THINK WE'RE IN THE MIDDLE OF A BREACH!	THE OWNERS/DIRECTORS NEED TO KNOW IF WE ARE SECURE?	WE NEED TO DEMONSTRATE OUR CAPABILITY THROUGH A RECOGNISED CERTIFICATION
Incident response call-outs can happen at any time (although they are more common outside of business hours). The priority here is to help contain the breach, understand how to prevent re-occurrence and then deal with any ongoing impact. Following this, a longer-term view can be developed to help prevent a repeat and enable the organisation to function efficiently with an appropriate level of security.	The ECSC Cyber Security Reviews are often a good place to start, as they give non-technical managers and owners a clear picture of the risks and a pragmatic route to risk reduction and ongoing management. Where a technical person asks the same question, a more 'traditional' penetration test may be the best solution. By duplicating the approach of a hacker, we help a client uncover, and address, their vulnerabilities before a breach occurs.	The emergence of a number of UK and international standards, means that clients have an opportunity to demonstrate competence and develop trust with the their stakeholders. Increasingly, this is becoming essential to doing business in some sectors, and taking part in sales tenders. Although the initial objective may be 'get the badge', the process of certification usually does lead to organisational learning, and real enhanced security.

Although it is rare that a fully 24/7 managed solution is a starting point, it is increasingly the destination. Clients recognise that it is almost impossible to recruit and retain this level of expertise in-house, but do require the benefits associated with a 24/7 managed solution.

The ECSC approach has always been to understand the client's requirements, give honest, practical advice, and deliver effective solutions that contribute to building long-term partnerships based on trust and value.

Typical Client Challenges

Cyber security brings many and varied new challenges for organisations of all sizes and complexities. They cut across vertical sectors and traditional competencies.

There are some common features in the challenges that we help our clients to solve:

DIFFICULTY IN RECRUITING AND RETAINING SPECIALIST SKILLS IN CYBER SECURITY	THE RATE OF COMMUNICATION AND INFORMATION TECHNOLOGY CHANGE	UNDERSTANDING THE COMMON MYTHS PROPAGATED BY SOME VENDORS AND/OR THE MEDIA
This may be due to the cost of funding a specialist role, or not having the right environment to attract them. With a general skills shortage, qualified and experienced people have the choice of roles. They will tend to be attracted by the challenge and chance to further develop their skills, not just by the money. However, it can also be a case that you don't need some skills full-time, only at specific times. For example, it makes little sense for most organisations to try and recruit people skilled in emergency incident response. You may only need them once a year.	The increasing pace of change can nearly always be associated with new cyber security vulnerabilities. Despite what they say, technology providers do not make security a priority over their profits. For example, in the last 12-months, people migrating IT systems into the cloud have accounted for 90% of the breaches we have been called out to resolve.	These include the belief that you cannot prevent breaches (in 20 years of incident response, we have never seen or heard of a breach that wasn't preventable). Another common myth is that hackers target organisations because they are looking for specific targets. The reality is that most breaches are a result of organisations making technical or people mistakes that are then spotted and exploited by malicious hackers.

Client Perspective

It is fair to say that all ECSC clients want to prevent cyber security breaches. However, they also want more than this. They usual require a range of services that have some common elements:

EASY TO UNDERSTAND DELIVERY OUTPUTS THAT EXPLAIN CYBER SECURITY IN A LANGUAGE THEY UNDERSTAND	AN ONGOING PARTNERSHIP BUILT ON TRUST
Easy to understand delivery outputs that explain cyber security in a language they understand. This may be an ECSC Cyber Security Review that maps and grade technical weaknesses into a language that non-technical executives can understand. This custom ECSC approach is now proven to be the best way for non-technical senior managers to understand current risks, and measure progress towards a more defendable position. Another example is where we summarising complex penetration testing (ethical hacking) into a simple Pass/Fail result that managers and business owners can understand, with prioritised findings - each graded by risk. This allows clients to address findings in priority order.	It is common for our partnership with a client to develop over many years. Their requirements evolve as their technology usage changes, new threats emerge and they experience more value that our expertise can bring to their organisation. In most cases, small initial engagements develop, and in many cases these develop into full 24/7/365 outsourced managed services.
VALUE	**EMERGENCY RESPONSE**
Delivering the intended outcomes efficiently and professionally. Clients value the benefits of 20 years experience across the range of consulting, managed services and incident response. An unrivalled mix for any UK provider. This means less risk for clients than selecting new entrants.	If the worst happens, ECSC clients (and non clients) benefit from an experienced and calm response by an expert team. Early expert involvement in potential breaches means that incidents can usually be contained before expensive data-loss or system disruption occurs. If an incident does escalate, ECSC helps in all aspects of response management from the technical response and investigation to stakeholder and regulator communications.

Research and Development

Our continued investment in Research and Development takes many forms, all of which are of crucial importance to our continued success:

WHAT THE HACKERS ARE DOING	MANAGED SYSTEMS	INTERNAL SYSTEMS
Each day, globally, there are about 40 new technical 'vulnerabilities' discovered and published. Keeping track of these, and how they relate to your IT systems, is complex. However, in reality only a small number of these are critical but extensive experience is needed to recognise the important trends and developments. Within ECSC we formally review new vulnerabilities formally every 8 hours, 365 days a year and relate them to our systems, systems managed for clients, and wider IT environments. We do this, so our clients don't need to. Whilst technology continues to advance, most new offerings are designed to be pioneering and functional with security taking a back-seat. Meaning, new IT developments, such as cloud services, have introduced significant new vulnerabilities, resulting in an increase in the need for our incident response services.	With managed security devices deployed since 2001, ECSC has a long track record of intellectual property development, and delivering systems that work for our clients. The release of our Kepler Artificial Intelligence (AI) technology is an example, where we can process billions of pieces of security information from client's IT systems and allow our Security Operations Centres to operate with efficiency and speed. Although some people over hype AI, we see this as enhancing the effectiveness of real experts, but not yet replacing the need for skilled, experienced people.	Given the sensitivity of our client data, ECSC does not allow any third-parties to store or process our information. So, continued development of our internal systems is as important to allow us to refine processes and enhance our effectiveness. Our integrated management systems mean that we have complete process control from the start of our marketing activities through to consulting delivery and fully managed services.

Evolving Threats

Cyber security has evolved, as have the risks to every organisation. There is now the recognition that personal data has value, and with that a legal requirement to keep it secure.

Organisations also recognise that an increasing reliance on information technology means that a breach can have immense impact on day-to-day operations.

Originally, before the term cyber security was invented, most hacking was conducted by enthusiasts - often with no malicious intent. For example, the first computer virus was actually an experiment in a university that worked too well and spread globally.

However, as more and more organisation and individuals became connected to the Internet, criminals recognised the potential to exploit technology weaknesses, knowing the law enforcement agencies would have difficulties catching them.

As a result, we have seen huge increases in hacking that results in criminal behaviour. The most common being:

RANSOMWARE. Where the hacker encrypts data and demands a ransom to give you access to your own data. For an individual this may be their photo collection, whereas for an organisation it may be to cripple their whole IT system.

STEALING DATA. Information has value, as it can form the basis of fraud. So, credit card information and other personal data will always be a target as it can be sold on.

More recently, nation state hackers have gained significant media coverage, and, quite rightly, attention from the areas of government tasked with protecting critical national infrastructure. However, for most organisations they aren't a target for this activity. The reality remains that hacking is not targeted, rather it exploits mistakes and weaknesses identified by scanning the Internet for known vulnerabilities and also tricking IT users into causes breaches.

So, organisations need help in keeping up-to-date with the daily changing threat landscape, and understanding and controlling the potential impact of users being caught out. ECSC remains at the leading edge of both critical areas.

Market Opportunities

The EU General Data Protection Regulation (GDPR), enacted in the UK in May 2018 by a new Data Protection Act (DPA) represents the most significant legal protection to personal data in more than a decade. This new legislation has impacts upon the cyber security market place in three main ways:

1. Mandatory Reporting

Organisations now have to report breaches of personal data to the Information Commissioner's Office (ICO) within 72 hours of being made aware.

This means that breaches can no longer be hidden and kept 'in-house'. Organisations also need expert assistance to ensure that they have responded appropriately to avoid substantial fines.

2. New Maximum Fines

Increased from the previous £500,000 maximum to 10m Euros or 2% of total worldwide turnover.

3. Direct ICO Liability for Third-Parties

Previously IT providers could hide behind their agreed terms and conditions, with liability limits, if they caused a cyber security breach. The advent of GDPR gives them an independent liability to the ICO with the same maximum fines.

In addition, the GDPR states that third-party 'processors' must apply cyber security in relation to the risks present, not in proportion to their charges. This means all IT outsourcing organisations have to re-examine their approach to cyber security risk.

Other factors are also driving more market opportunities, including:

- The uptake of cloud IT services, where applying 'traditional' cyber controls can be difficult or impossible, and providers often lack the expertise to design security into their cloud offerings.
- Ongoing skills shortages in cyber security make more clients seek external help, either to test their security, help implement specific projects, or to outsource their cyber security management.
- The pace of IT system changes and new developments shows no sign of slowing. History shows that the quicker technology changes, the more cyber security vulnerabilities are introduced and the more breaches occur.

UK cyber security market estimated at over £3 billion

Proliferation of breaches making cyber security a strategic governance issue for company boards

UK legislation (GDPR) now in force making immediate breach reporting mandatory and fines up to 2% of global turnover

Cyber Security Experts
For Two Decades

STRATEGIC REPORT

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 Group has applied IFRS 16 from 1 January 2019, using the modified retrospective approach. Comparative information is not restated (see note 4).

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Revenue		
Consulting	2,922	3,122
Managed Service	2,585	1,745
Vendor Products	162	228
Other	236	287
	5,905	**5,382**
Gross Profit		
Consulting	1,574	1,783
Managed Service	1,745	923
Vendor Products	29	42
Other	12	(8)
	3,360	**2,740**
EBITDA (Adjusted)*		
Other Income	263	152
Sales & Marketing Costs	(1,958)	(1,817)
Administration Expenses	(1,664)	(1,170)
	1	**(635)**
EBITDA**		
Share Based Payments	(105)	(111)
Exceptional Items	(6)	(120)
	(110)	**(866)**
Depreciation and Amortisation	(594)	(392)
Adjusted Operating Loss*	**(593)**	**(1,027)**
Operating Loss	**(704)**	**(1,258)**

* Adjusted Operating Loss and EBITDA excludes one-off charges and share based charges.
* * EBITDA is defined as Earnings before Interest, Tax, Depreciation and Amortisation.
(As defined in note 25 in the Financial Statement)

Financial Review cont.

Revenue & Organic Growth

Total revenue in the year ended 31 December 2019 was £5.91m, up 10% on the comparable prior period (revenue in the 12 months ended 31 December 2018 was £5.38m). Within this, Consulting revenue fell by 6% to £2.92m (2018: £3.12m).

Managed Services division revenue rose by 48% in the year to £2.59m (2018: £1.75m). This includes Incident Response revenues which rose to £0.60m (2018: £0.18m).

Vendor Products revenue in the year fell by 29% to £0.16m (2018: £0.23m).

Margin Generation

Gross Profit for the year was £3.36m, yielding a 57% margin (2018: £2.74m, yielding a 51% margin). This was due to improved margins in Managed Service.

The Consulting margin fell to 54% in the year (2018: 57%). This was due to the flat growth in consulting in the first six months The Board expects the Consulting margin to improve to the prior year level in the future.

The Managed Services margin rose to 68% (2018: 53%), with the increase being a direct result of new contracts utilising the capacity built in 2017 and 2018.

EBITDA & Operating Loss

Adjusted EBITDA for the year, which excludes one-off charges and share based charges, broke-even (2018: loss of £0.64m). EBITDA for the year was a loss of £0.11m (2018: loss of £0.87m). The Group saw the second half of the year EBITDA positive which offset the loss from the first six months.

Adjusted Operating Loss for the year, which excludes one-off charges and share based charges, was £0.59m (2018: loss of £1.03m). The Operating Loss in the year was £0.70m (2018: loss of £1.26m).

Cash Flow

Cash and cash equivalents decreased by £0.30m to £0.35m at 31 December 2019 primarily due to the flat growth in Consulting in the first half of the year.

Lease payment costs of £0.20m are not included in EBITDA as they were in prior years due to IFRS 16 being implemented from 1 January 2019.

Intangible asset costs have increased to £1.09m (2018: £0.89m). This is offset by amortisation of £0.66m. The Group's development cost for the year was £0.19m. The Net Book Value at 31 December 2019 was £0.43m (2018: £0.41m). During the year, the Group received a refund of £0.15m from HMRC in respect of a surrender of R&D Tax Credits from earlier periods.

Property, plant and equipment (PPE) cost has increased to £0.95m (2018: £0.92m). This is offset by depreciation of £0.67m. The Group's capital expenditure for the year was £0.13m. The Net Book Value at 31 December 2019 was £0.28m (2018: £0.43m).

Trade and other receivables increased to £1.21m (2018: £1.12m) at 31 December 2019 which reflects the increase in trading activity in the second half of the year.

Trade and other payables increased to £2.14m (2018: £1.71m) at 31 December 2019. This includes £1.19m of deferred income (2018:£0.95m).

Key Performance Indicators

The Key Performance Indicators are set out on page 10.

Balance Sheet

The Group's Balance Sheet as at 31 December 2019 had Net Assets of £0.37m (2018: £1.04m). Retained Earnings and Distributable Reserves as at 31 December 2019 were a cumulative loss of £5.67m (2018: cumulative loss of £4.90m).

Going Concern and COVID-19

The Directors have assessed the going concern status of the Group by reference to a number of factors. In particular, the Directors have considered the strong rate of growth in the cyber security market; the fact that business continues to

Financial Review cont.

attract new clients and is not overly dependent on any single client; the fact that the business continues to retain key staff, the fact that the business has no Corporation Tax liability to HMRC and that the Group has a secured invoicing discounting facility of £0.5m. The facility was agreed for a minimum 12 months period with a three month notice period. The Board expects to renew the facility for a further 12 months following the annual review expected in July 2020. The Board are positive about the future EBITDA trajectory of the Company and continue to manage the cash position of the Company carefully. These factors give the Directors confidence in relation to going concern.

In undertaking their review, the Directors have prepared financial projections for the years ending 31 December 2020 and 2021, a review which assumed continued revenue growth and cost efficiency.

As such, the Directors concluded that the cash balance at 31 December 2019 is sufficient to fund the ongoing growth and development of the Group and to meet its liabilities as they fall due for at least the 12 months from the date of approval of the financial statements.

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 scenario, the Directors continue to conclude that the Going Concern assumption remains appropriate. Within the Principle Risks and Uncertainty section of the Strategic Report below, we further comment on the COVID-19 situation and considerations for our business.

It is becoming increasingly clear that there is now a fundamental uncertainty in the economic and health impacts of the current COVID-19 situation and that, in varying degrees, this will affect all businesses in every sector. It is premature to assess further impacts over and above those already considered.

IFRS 16

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

The Group has applied IFRS 16 using the modified retrospective approach, therefore the comparative information presented for 2018 has not been restated and is presented, as previously reported, under IAS 17 and related interpretations. Further information on the impact of IFRS 16 is included in Note 4.1 to the Financial Statements.

Dividend

The Board has not declared a dividend for the year ended 31 December 2019 (2018: £nil).

David Mathewson
Non-Executive Chairman
24 March 2020

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. We note the fast paced changing environment due to COVID-19 and comment upon this further below.

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	Sale team training and development, partner programme, and expanded marketing activities.
Client retention	Expanded service delivery function and service management layer
Future funding requirements	Flotation 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 UK 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 cont.

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.

Brexit

The continued political impasse, and resulting business uncertainty is likely to already have had an impact on decisions regarding significant investment. For ECSC, this materialised in delay in consultancy in the first half of 2019, and closing managed service contract wins in the second half of 2019.

The Board has considered the impact of leaving the European Union and concluded since 97% of revenue (see note 6) is generated in the UK, the impact of any future potential barriers to free trade are unlikely to directly impact the Group. However, there is potential to impact our clients and therefore their cyber security budgets as seen in 2019.

Coronavirus (COVID-19)

The Group is closely monitoring the impact and changing situations of the COVID-19. The Board has discussed the possible impact on the Group. For ECSC, this could materialise in delays to consultancy, especially on-site work as businesses reduce external visits.

The Board has considered ways to mitigate some of the risk of COVID-19 on the Group by extensive remote and home working options put in place, that are fully tested, supporting a range of conferencing technologies, while maintaining the Group's cyber security related certifications, associated technical standards and policies.

The Board does not anticipate any disruption to the Group's ability to deliver the full range of services, but has considered the potential impact on the Group's clients request for a lower consultancy demand. Sensitivity analysis has been performed on a potential decrease in consultancy income, as at 18 March 2020, to make an assessment of what is a reasonably likely impact/ consequence of the current pandemic together with the mitigating actions that would be performed to mitigate this risk. We also note that certain cost reductions have taken place already, in Q1 2020, beyond original forecasts.

The Board remains confident that there is sufficient headcount to deliver the current forecasted figures in the coming year and that there is flexibility to further reduce headcount and cost should the downside consultancy revenue scenario happen. Additional cost reductions may need to take place if a downturn in consulting continues longer, or impacts deeper, than has currently been considered. The Group has a track record of successfully reducing costs as required over the last 2 years with a minimal time/cost to doing so and therefore remain confident that they can remain within available headroom during the forecast period.

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.

Principal Risks and Uncertainties cont.

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.

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

Principal Risks and Uncertainties cont.

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 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.

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.

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

Principal Risks and Uncertainties cont.

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.

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.

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 additional 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 Board anticipates to renew the £0.5m invoice discounting facility it currently has with Barclays in July 2020. However there is no guarantee that the Group will be able to renew the facility. 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.

Statement by the Directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006.

The Board of Directors of ECSC Group plc consider that, individually and together, that they have acted in the way which in good faith would be most likely to promote the success of the company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Act) in the decisions taken during the year ended 31 December 2019.

The Board looked to promote the Success of the Company, having regard to the long term, whilst taking into account the interests of all stakeholders. It is designed to secure the long-term financial viability of the Company to the benefit of its members and all stakeholders, and in doing so have regard (amongst other matters) to:

- the likely consequence of any decisions in the long-term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and environments;
- the desirability of the company maintaining a reputation for high standards of business

Principal Risks and Uncertainties cont.

conduct; and
- the need to act fairly as between shareholders of the Company.

The following paragraphs summaries how the Directors fulfil their duties:

Risk management
We provide business-critical service to our clients. As we grow, our business and our risk environment also become more complex. It is therefore vital that we effectively identify, evaluate, manage and mitigate the risks we face and that we continue to evolve our approach to risk management.

For details on our principal risks and uncertainties and how we manage our risk environment, please see pages 28 to 33.

Our People
The Board recognises that our employees are fundamental to the delivery of our plan. We aim to be a responsible employer in our approach to the pay and benefits our employees receive. The health, safety and well-being of our employees is of primary concern in the way we do business and is monitored extensively by the Board and taken into account in all major decision-making.

For further information please see pages 11 to 13.

Business Relationships
Our strategy prioritises organic growth, driven by cross-selling and up-selling services to existing clients and bringing new clients into the Group. To do this we need to continue to develop and maintain strong client relationships.

We also aim to act responsibly and fairly in how we engage with our clients and suppliers, co-operate with our regulators and act on feedback received from these stakeholders. All of these considerations are taken into account by the Board when making strategic decisions for the Company.

Community and environment
Our plan considered the impact of the company's operations on the community, the environment and our wider social responsibilities. The Group wants to positively impact the lives of the people we work with and for, providing long-term benefits to its employees, customers, suppliers and individuals in our local and wider community. We will do this by acting in a socially responsible way; and encouraging our staff and business partners to strive for matching performance; encouraging our staff to be mindful of the effect of their actions on any natural resource.

Shareholders
The Board is committed to openly engaging with our shareholders, as we recognise the importance of a continuing effective dialogue, where with major institutional investors, private or employee shareholders. It is important to us that shareholders understand our strategy and objectives, so theses must be explained clearly, feedback heard and any issues or questions raised properly considered.

For further information on how we engage with out shareholders please see page 32.

As the Board of Directors, our intention is to behave responsibly to all stakeholders and to ensure that management operate the business in a responsible manner, operating within the high standards of business conduct and good governance expected for a business such as ours. Acting in this way will contribute to the delivery of our plan and we intend to maintain our reputation within the industry for responsible and compliant behaviour.

As the Board of Directors, our intention is also to make decisions which lead to the long-term success of the company whilst behaving responsibly toward our shareholders, treating them fairly and equally, so they benefit from the successful delivery of our strategy and plan.

Experienced Management Team

NON-EXECUTIVE DIRECTORS

DAVID MATHEWSON
Non-Executive Chairman

ELIZABETH GOOCH MBE
Non-Executive Director

SENIOR MANAGEMENT TEAM

IAN MANN
CEO
19 Years

LUCY SHARP
COO
19 Years

IAN CASTLE
CTO
16 Years

PAUL LAMBSDOWN
Sales
13 Years

GEMMA BASHARAN
Finance
8.5 Years

CLARE MACDONALD
Marketing
6.5 Years

Board of Directors

The Board of ECSC Group plc comprises two Executive Directors and two Non-Executive Directors. The Board has considered its independence and effectiveness, and is satisfied to the degree of competence and efficiency in place.

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:

David Mathewson (age 72) – Non-Executive Chairman
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, 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 Chairman of ECSC Group plc.

Ian Mann (age 52) – Chief Executive Officer
Ian has over 20 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 40) – Chief Operating Officer
Lucy has over 19 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.

Elizabeth Gooch MBE (age 58) – Non-Executive Director
Elizabeth Gooch is an award-winning UK tech entrepreneur, having started her career in industry, joining Forward Trust (a subsidiary of Midland Bank) and then Birmingham Midshires Building Society, before establishing eg solutions in 1988. She pioneered the introduction of industrial production management methodologies into the service sector and invented the eg operational intelligence ® software suite to embed these techniques into businesses. eg was listed on the Alternative Investment Market and was acquired by a major US Software Company in 2017. Elizabeth was named as one of The Telegraph's Most Disruptive Entrepreneurs and West Midlands Woman of the Year for her Outstanding Contribution to Technology. She was made a Member of the Order of the British Empire in the Queens Jubilee Birthday Honours 2012, in recognition of her achievements in delivering significant benefits for clients with the products she designed. Elizabeth is now CEO of The Tech Growth Factory; a company she established to assist the founders of small technology companies achieve their growth potential.

Directors' Report for the year ended 31 December 2019

The Directors present their report and financial statements for the year ended 31 December 2019.

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 28 to 33 of the Strategic Report.

Results and Dividends
The loss for the period, after taxation, amounted to £777k (2018: loss of £1,238k). The Board has not declared a dividend for the year ended 31 December 2019 (2018: £nil).

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 12 months from the date of approval of the financial statements. 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). We also draw your attention to the additional information in relation to the current COVID-19 situation which is included in our opening statement on page 3, [The Chairman's Statement, The Chief Operating Officer's Statement, the Finance Review section and the Principle Risks and Uncertainties section of The Strategic Report.]

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.

Chairman Corporate Governance
Overview
As Chairman of the Board of Directors of ECSC Group plc it is my responsibility to ensure that ECSC has both sound corporate governance and an effective Board. As Chairman, my responsibilities include leading the Board effectively, overseeing the Company's corporate governance model, communicating with share-holders, and ensuring that good information flows freely between Executives and Non-Executives in a timely manner.

ECSC Group plc has adopted the QCA Corporate Governance Code in line with the London Stock Exchange's recent changes to the AIM Rules, requiring all AIM-listed companies to adopt and comply or explain non-compliance with a recognised corporate governance code. The Board considers that the Group complies with the QCA Code so far as it is practicable having regard to the size, nature and current stage of development

Directors' Report for the year ended 31 December 2019

of the Company, and will disclose any areas of non-compliance in the text below. The Board believes that corporate governance is a framework which underpins the core values for running the business in which we all believe, including a commitment to open and transparent communications with stakeholders. Further details on Corporate Governance is on the Group's website at https://investor.ecsc.co.uk/governance/corporate-governance.html.

QCA Principles

1. **Establish a strategy and business model which promotes long-term value for shareholders**
   The Board has concluded that the highest medium and long-term value can be delivered to its shareholders by a focused strategy for the Company. Details of the Business strategy can be found on page 8-9.

2. **Seek to understand and meet shareholder needs and expectations**
   The Group is strongly committed to the maintenance of good investor relations and seeks, wherever possible, to build a relationship of mutual understanding with both its institutional and private client investors. The Company communicates how it is governed and is performing through its Annual Report and Accounts, full-year and half-year announcements, regulatory announcements and its website: https://investor.ecsc.co.uk/. The Group have a dedicated email address investor@ecsc.co.uk for shareholder enquiries.

3. **Take into account wider stakeholder and social responsibilities and their implications for long-term success.**
   The Board recognises that the long-term success of the Group is reliant upon the efforts of the employees of the Group and its suppliers, regulators and other stakeholders. The Group prepares an annual strategic plan and detailed budget which considers a wide range of key resources and stakeholders. Everyone within the Group is a valued member of the team, and our aim is to help every individual achieve their full potential. We offer equal opportunities regardless of race, gender, gender identity or reassignment, age, disability, religion or sexual orientation. See employee survey, (page 13).

4. **Embed effective risk management, considering both opportunities and threats, throughout the organisation.**
   The Board attaches considerable importance to the Company's system of internal control and risk management. An ongoing process has been established for identifying, evaluating, and managing the significant risks faced by the Group. Details of key risks to the business can be found on pages 28-33.

5. **Maintain the board as a well-functioning, balanced team led by the Chair.**
   ECSC is controlled by the Board of Directors. There are two independent Directors; David Mathewson and Elizabeth Gooch. There time commitment to ECSC are as follows:

   - David Mathewson: devotes at least two full working days in each calendar month to perform the duties of office; and
   - Elizabeth Gooch: reasonable endeavours to attend all meetings of the Board and/or committees of the Board of which she is a member and to attend all general meetings of the Company.

Directors' Report for the year ended 31 December 2019

Details of the Board and the roles can be found on pages 35.

6. **Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities.**
   The Directors have both a breadth and depth of skills and experience to fulfil their roles and deliver the strategy of the Group for the benefit of the shareholders over the medium to long-term. The Group believes that the current balance of skills in the Board as a whole, reflects a very broad range of commercial and professional skills. The Directors continue to develop their skill set and keep up to date with current regulations in their prospective markets.

   Details of the Directors' experience and areas of expertise are outlined on pages 35.

7. **Evaluate board performance based on clear and relevant objectives, seeking continuous improvement.**
   The Board informally review board performance as part of the day to day running of the business. ECSC Group plc has yet to carry out a formal assessment of board effectiveness and the Board will keep this under consideration and put in procedures when it is felt appropriate.

   The Company has adopted a code for Directors' and employees' dealings in securities which is appropriate for a company whose securities are traded on AIM, and is in accordance with the requirements of the Market Abuse Regulation which came into effect in 2016.

8. **Promote a corporate culture that is based on ethical values and behaviours.**
   The company has clearly defined values upon which our culture and behaviours are based. These are outlined in the Chief Operating Officer's Overview on page 11.

9. **Maintain governance structures and processes that are fit for purpose and support good decision-making by the board.**
   The Board is committed to, and ultimately responsible for, high standards of corporate governance, and has chosen to adopt the QCA Code. We review our corporate governance arrangements regularly and expect to evolve these over time, in line with the Group's growth. The Board delegates responsibilities to Committees and individuals as it sees fit, with the Chairman being responsible for the effectiveness of the Board, and the Executive Directors being accountable for the management of the Company's business and shareholder liaison.

10. **Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.**
    The Board is strongly committed to the maintenance of good investor relations and to having constructive dialogue with its shareholders. Executive Directors and Chair seek to meet with shareholders and other investors/potential investors at regular intervals during the year.

Directors' Report for the year ended 31 December 2019

Committee Chairman
This report sets out information about the remuneration of the Directors of the Company for the year ended 31 December 2019. As a company admitted to AIM, ECSC Group is not required to prepare a Directors Remuneration report. However, the board supports the principle of transparency and has prepared this report in order to provide information to shareholders on Directors remuneration arrangements.

THE REMUNERATION COMMITTEE

Committee Composition
Elizabeth Gooch MBE was appointed chair of the Committee on 16 April 2018. The other member of the committee is David Mathewson.

Committee Responsibilities
The Remuneration Committee's primary purpose is to ensure that the remuneration packages of the senior and most highly rewarded team at ECSC Group are both aligned to the company's purpose and values and linked to the successful delivery of the company's long-term strategy.

Committee Meetings
The Remuneration Committee met at least four times in the period, with other board members in attendance as appropriate. The Committees main activities during the year included:

- Approved proposals for changes in the remuneration of Directors for the forthcoming period.
- Agreed individual share option awards;
- Agreed targets and performance measures for bonus payments for the forthcoming financial period; and
- Administered the group's share schemes.

In determining the Directors remuneration for the year, the Committee consulted Ian Mann, Chief Executive and Lucy Sharp, Chief Operating Officer about its proposals.

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

David Mathewson
Ian Mann
Lucy Sharp
Elizabeth Gooch

Directors' Report for the year ended 31 December 2019

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 Elizabeth Gooch and is chaired by David Mathewson.

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 Elizabeth Gooch and David Mathewson and is chaired by David Mathewson.

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 Elizabeth Gooch and is chaired by David Mathewson.

Attendance at Board and Committee meetings

There were 12 Board meetings held during the year, all of which were attended by Ian Mann, Lucy Sharp and David Mathewson. Elizabeth Gooch attended 11 Board meetings during the year.

The Audit Committee had two meetings during the year at which both Elizabeth Gooch and David Mathewson attended.

The following Directors had interests in the ordinary shares of the Company as at 31 December 2019:

	Number of Ordinary Shares	% of Issued Share Capital
David Mathewson	35,419	0.39%
Ian Mann	2,248,690	24.72%
Lucy Sharp	242,635	2.67%
Elizabeth Gooch	50,000	0.55%

Details of the Directors remuneration are included in the Remuneration Report on pages 42-46.

Directors' Report for the year ended 31 December 2019

Substantial Interests

At 31 December 2019, the Company had been notified, under the Disclosure guidance 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
Unicorn Asset Management	1,448,946	15.93%
Ravinder Bahra	1,069,068	11.75%
Hargreaves Lansdown	343,721	3.78%
Artemis Investment Management	294,733	3.24%
Phil McLear	472,290	5.19%
Malcolm Hoare	300,300	3.30%
John Leach	283,920	3.12%

Annual General Meeting

The next Annual General Meeting will take place on 30 June.

Statement of Disclosure of Information to Auditor

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.

Auditor

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

David Mathewson
Non-Executive Chairman
24 March 2020

Remuneration Committee Report

As an AIM listed company ECSC Group plc is not required to comply with schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. Nor is it required to comply with the principles relating to Directors remuneration in the UK Corporate Code 2018 (the code). The content of this report is unaudited unless stated.

Remuneration Policy

The objectives of the remuneration policy are to ensure that the overall remuneration of Executive Directors is aligned with the performance of the Group and preserves an appropriate balance of reward and shareholder value.

The Company's policy is to remunerate Directors appropriately 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. The use of Annual Performance Bonuses and equity-based incentives, linked to Company performance, helps to align the interests of the Directors and Shareholders.

The Remuneration Committee sets the level of basic pay and other benefits for Executive Directors and other Senior Managers. 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 Annual Performance 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. The Company also operates a share based incentive scheme as outlined below.

The Company's policy is also that a substantial proportion of the remuneration of the Executive Directors should be performance related in order to encourage and reward improving business performance and shareholder returns. In determining remuneration arrangements for Executive Directors, the Committee is sensitive to pay and employment conditions elsewhere in the Cyber Security and general IT Software and Services markets, especially when determining base salary increases.

The committee has reviewed the Remuneration Policy for the forthcoming year and has concluded that it remains appropriate for the forthcoming three year period.

Remuneration Committee Report cont.

Remuneration for Executive Directors.

The main components of the remuneration arrangements for Executive Directors are as follows:

Purpose & Link to Strategy	Operation	Maximum Opportunity	Performance Conditions
Base Salary To provided fixed competitive remuneration that will attract and retain key employees and reflect their experience and position in the Group.	Reviewed annually taking into account industry-standard executive remuneration and pay levels elsewhere within the sector.	Salaries for the year ended 31 December 2019 are set out below.	None.
Benefits To provide market levels of benefits on a cost-effective basis.	Private health cover for the executive and their family, life insurance cover of one-times salary and a company car.	Private healthcare benefits are provided through third-party providers and therefore the cost to the Company may vary from year to year.	None.
Pension Providing post-retirement benefits.	The Group contributes to individual's personal pension schemes	10% of base salary	None.
Annual incentive Recognises achievements of annual objectives which support the short to medium term strategy of the Group	Performance targets are set by the Remuneration Committee at the start of the year with input, as appropriate, from the Executive Directors	The Executive Directors Annual Performance Bonus Scheme for 2019 was structured so as to pay up to 60% of basic salary for the Chief Executive and 40% of basic salary for the Chief Operating Officer based on the achievement of stretching targets in certain key performance indicators aligned with the Group's strategy.	The bonus related Key Performance Indicators for this period were Revenue, EBITDA, Cash and Gross Margin and they were appropriately weighted.
Executive Share Options Plan Setting value creation through share growth as a major objective for Executive Directors and senior managers. Alignment of option holder interests with those of shareholders through delivery of shares.	There is currently no Executive Share Option Plan in operation. The Group intend to introduce a scheme during 2019. The Chief Operating Officer, Lucy Sharp, participates in the EMI scheme. See below.	N/A	N/A

The committee reviewed the performance of the Executive Directors against the performance for the Annual Incentive scheme and concluded that the stretching targets agreed for the period had not been met. However, in recognition of achievements made with establishing a successful Partner Programme and other key objectives, the committee recommended payment of modest bonuses as detailed below.

The annual incentive paid to Executive Directors for the year ended 31 December 2019 was 11% of the basic salary of the Chief Executive and 9% of the basic salary of the Chief Operating Officer.

Remuneration Committee Report cont.

The basic salaries of all Directors have been adjusted for the forthcoming period, in line with the benchmarking exercise undertaken in the prior year. A revised Annual Performance Bonus Scheme for the Executive Directors has also been introduced for the forthcoming financial period and is structured so as to pay up to 25% of basic salary for both the Chief Executive and Chief Operating Officer. For the forthcoming period payment will continue to be based on the achievement of stretching targets in weighted Key Performance Indicators linked to the Group's strategy.

The committee intends to introduce a Long-Term Incentive Plan (LTIP) for the Executive Directors during 2020. Details of the scheme will be communicated to shareholders and any awards will be disclosed in next year's Remuneration Committee Report.

Remuneration for Non–Executive Directors

Remuneration of the Non-Executive Directors is determined by the Board within the limits set by the Company's Articles of Association and is based on fees paid in similar companies, the skills required, and the expected time commitment required of each individual. Non-Executive Directors are not entitled to pensions, annual bonuses or employee benefits. They are entitled to participate in share option arrangements relating to the Company's shares and both were allocated 100,000 options on 20 April 2018. The options had an exercise price of 78 pence and are subject to a three year vesting period and the performance condition that the Company's closing mid-market share price must exceed 200 pence for 10 consecutive business days following the vesting date. The grant represented 2.2% of the current issued share capital of the company.

Each of the Non-Executive Directors has a letter of appointment stating his/her annual fee and that his/her appointment is initially for a term of three years, subject to re-appointment at the AGM and renewable for further periods of three years. Their appointment may be terminated with three months written notice at any time.

David Mathewson also oversaw the finance function on a part time basis to support the work of Gemma Basharan, Financial Controller. This arrangement has provided the Group with a cost effective arrangement whilst improving financial reporting and controls. Additional fees were paid to David Mathewson during the period to compensate him for these additional duties.

Annual Bonus Payments for 2019

Following the success of the financial year ended 31 December 2019, the committee resolved to pay modest bonuses (as set out in the table below) in recognition of the performance of the Executive Directors during the year. The bonuses were paid after the financial year end.

Remuneration Committee Report cont.

Name of Director	Salary or Fees Paid £'000	Benefit-in-Kind £'000	Pension £'000	Annual Bonus £'000	Share Based Payments £'000	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Ian Mann	175	1	18	20	-	214	255
Lucy Sharp	115	13	12	10	31	181	163
David Mathewson	81	-	-	-	8	89	69
Elizabeth Gooch	40				8	48	30
Total	**411**	**14**	**30**	**30**	**47**	**532**	**517**

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.
- Ian Mann, Chief Executive is the highest paid Director.

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

	GROUP Year ended 31 December 2019 £'000	GROUP Year ended 31 December 2018 £'000	COMPANY Year ended 31 December 2019 £'000	COMPANY Year ended 31 December 2018 £'000
Wages and Salaries	4,091	4,155	3,944	3,971
Social Security Costs	440	476	392	427
Pension Contributions	153	112	134	96
Share Based Payments	105	111	105	111
	4,798	**4,854**	**4,575**	**4,605**

Directors Interests

Details of the Directors Shareholdings are included in the Director's Report on page 40.

Share Incentives

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.

In July 2019 the Company granted options over 175,000 shares at an exercise price of 78 pence per share, subject to a 3 year vesting period, to 13 employees. The exercise price was set by reference to the average mid-market share price being the closing market price on 15 July 2019 in accordance with HMRC guidelines. There was a performance condition attaching to this grant, ordinary shares trade at a mid-market minimum price of 200 pence per share over 30 consecutive trading days during the vesting period.

Remuneration Committee Report cont.

Outstanding Share Based Awards

The outstanding Share Based Awards of the Directors as at 31 December 2019 are:

Name Of Director	Type Of Reward	Date Of Grant	Granted In Year	Lapsed In Year	Vested In Year	Not Vested End Of Year	Market Price At Grant	Exercise Price
Lucy Sharp	Share Option	19 May 2017	69,758	-	-	69,758	497.5p	167.0p
Lucy Sharp	Share Option	16 July 2019	50,000	-	-	50,000	78.0p	78.0p
Elizabeth Gooch	Share Option	18 Apr 2018	100,000	-	-	100,000	79.0p	78.0p
David Mathewson	Share Option	18 Apr 2018	100,000	-	-	100,000	79.0p	78.0p

The closing mid-market price of the Group's shares at 31 December 2019 was 130.0 pence. During the financial year the share price reached a high of 152.5 pence and a low of 60.4 pence.

Directors Service Contracts

The Service contracts and letters of appointment of Directors include the following terms:

Executive Directors	Date of Appointment	Notice Period
Ian Mann	1 May 2018	6 months
Lucy Sharp	30 November 2016	6 months

Non-Executive Directors	Date of Appointment	Notice Period
David Mathewson	18 April 2018	3 months
Elizabeth Gooch	16 April 2018	3 months

Statement of Voting at General Meeting

At the Annual General Meeting of the Company held (last years date 19 June 2019), all resolutions were passed.

Approval

This report was approved by the Directors and signed by order of the Board.

Elizabeth Gooch MBE
Chairman of the Remuneration Committee
24 March 2020

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

David Mathewson

David Mathewson
Non-Executive Chairman
24 March 2020

Cyber Security Experts
For Two Decades

INDEPENDENT AUDITOR'S REPORT

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 2019 which comprise the Consolidated Statement of Comprehensive Income, Consolidated and Company Statements of Financial Position, Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Cash Flow Statements, and 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 financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards to 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 2019 and of the Group's loss 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.

Material uncertainty related to going concern

We draw attention to the disclosures in the front end of the Annual Report and the Accounting Policies at note 4.2 to the financial statements, which indicates the current uncertainty in respect of the Covid-19 global pandemic and the potential impact of this on the going concern assumption of the Group and Parent Company. As stated in the disclosures referenced, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

We considered going concern to be a key audit matter, because management's assessment of going concern involves significant assumptions and judgements which are based on their best estimates and analysis of the current market conditions together with the Group's and Parent Company's historical and forecast performance.

Independent auditor's report to the members of ECSC Group plc

The Group continued to be loss making for the fourth year running, having made a loss after tax of £776k (2018: £1,238k). At the reporting date, cash reduced to £351k (2018: £650k). The Group had positive operating cash flows for the year of £204k (2018: negative £634k).

In addition, the emerging Covid-19 global pandemic was considered regarding the resulting potential impact on the going concern assumption of the Group and Parent Company.

How our audit addressed the key audit matter

We had a number of discussions with management regarding the appropriate accounting treatment in this area throughout the audit process.

Our audit procedures included obtaining and examining management's forecasts for the next two years and considering these alongside the Board's own Going Concern paper.

We challenged management's assumptions used in the forecast period by considering available evidence, including actual monthly cash generation in 2019, available financing facilities and revenue pipeline for 2020 and beyond, as well as cost performance, to support these assumptions. We considered realistic scenarios as sensitivities to understand the robustness of the forecast trading model and the headroom available to the Group and Parent Company. Forecasts were then further sensitised in response to the ever-changing Covid-19 situation and we considered the potential impact of the measures outlined by the directors in the front-end disclosures in response to the emerging Covid-19 situation.

We reviewed the disclosures across the Annual Report as a whole 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.

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. Apart from the matter described in the Material uncertainty related to going concern section above, we have determined that there are no other key audit matters to be communicated in our report.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. 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.

Independent auditor's report to the members of ECSC Group plc

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 was set at £97,000 (2018: £89,000). This was determined with reference to a benchmark of Revenue, of which this represents 1.65% (2018: 1.65%), which we consider to be one of the principle considerations for members of the Parent Company in assessing the financial performance of the business.

The materiality levels applied for the Parent Company was set as £92,000 (2018: £88,000). This has been limited to the component materiality set for the audit of the Group, which is 95% of Group materiality.

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% (2018: 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 those charged with governance all individual audit differences in excess of £3,800 (2018: £3,500). 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

The scope of the Group audit was determined by obtaining an understanding of the Group structure and the nature and size of each component. We considered the Group's system of internal control, and assessed the risks of material misstatement in the financial statements at the Group level.

Financial information relating to the Parent Company and its non-significant components within the Group were subject to a full scope (for the Parent Company) and limited procedures (for non-significant components) audit by the Group audit team where relevant, covering 100% of the revenue and profit of the Group for the year.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Group Strategic Report, Directors' Report and
Consolidated Financial Statements, 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

Independent auditor’s report to the members of ECSC Group plc

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.

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

Responsibilities of Directors

As explained more fully in the Statement of Directors’ Responsibilities, 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent auditor's report to the members of ECSC Group plc

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.

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.

BDO LLP

Mark Langford (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Leeds, UK
24 March 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Revenue	6	**5,905**	**5,382**
Cost of Sales		(2,545)	(2,642)
Gross Profit	6	**3,360**	**2,740**
Other Income	7	263	152
Sales & Marketing Costs		(1,958)	(1,817)
Administration Expenses		(2,369)	(2,333)
Operating Loss before Exceptional Items and Share Based Payments		**(593)**	**(1.027)**
Share Based Payments	23	105	111
Exceptional Items	26	6	120
Operating Loss	8	**(704)**	**(1,258)**
Finance Income		-	1
Finance Cost		(46)	-
Loss before Taxation	25	**(750)**	**(1,257)**
Taxation (Charge)/Credit	10	(26)	19
Loss for the Year		**(776)**	**(1,238)**
Other Comprehensive Income		-	-
Total Comprehensive Income for the Year		**(776)**	**(1,238)**
Attributed to Equity Holders of the Company		**(776)**	**(1,238)**
Loss per Share	11	**pence**	**pence**
Basic Loss per Share		(8.5)	(13.6)
Diluted Loss per Share		(8.5)	(13.6)

*The Group has applied IFRS 16 from 1 January 2019, using the modified retrospective approach. Comparative information is not restated (see note 4).

The financial statements were approved and authorised for issue by the Board of Directors on 24 March 2020 and were signed on its behalf by:

David Mathewson
Director
24 March 2020

Consolidated Statement of Financial Position

	Note	Year ended 31 December 2019 £'000	Year ended 31 December 2018* £'000
ASSETS			
Non-current Assets			
Intangible Assets	12	429	412
Property, Plant and Equipment	13	283	427
Right-of-use Assets	18	896	-
Deferred Tax Asset	10	77	4
Total Non-current Assets		1,685	843
Current Assets			
Inventory	14	26	18
Trade and Other Receivables	15	1,210	1,123
Corporation Tax Recoverable	7	265	155
Cash and Cash Equivalents	16	351	650
Total Current Assets		1,852	1,946
TOTAL ASSETS		**3,537**	**2,790**
LIABILITIES			
Current Liabilities			
Trade and Other Payables	17	(2,137)	(1,709)
Lease Liability	18	(150)	(20)
Total Current Liabilities		(2,287)	(1,729)
Non-current Liabilities			
Deferred Tax Liability	10	(99)	-
Lease Liability	18	(781)	(20)
Total Non-current Liabilities		(880)	(20)
TOTAL LIABILITIES		**(3,167)**	**(1,749)**
NET ASSETS		**370**	**1.041**
EQUITY			
Equity attributable to Owners of the Parent:			
Share Capital	20	91	91
Share Premium Account	20	5,661	5,661
Share Option Reserve	20	291	186
Retained Earnings	20	(5,673)	(4,897)
TOTAL EQUITY		**370**	**1,041**

*The Group has applied IFRS 16 from 1 January 2019, using the modified retrospective approach. Comparative information is not restated (see note 4).

The financial statements were approved and authorised for issue by the Board of Directors on 24 March 2020 and were signed on its behalf by:

Company Statement of Financial Position

	Note	Year ended 31 December 2019 £'000	Year ended 31 December 2018* £'000
ASSETS			
Non-current Assets			
Intangible Assets	12	429	412
Property, Plant and Equipment	13	272	398
Right-of-use Assets	18	839	-
Deferred Tax Asset	10	77	4
Total Non-current Assets		1,617	814
Current Assets			
Inventory	14	26	18
Trade and Other Receivables	15	1,280	1,194
Corporation Tax Recoverable	7	265	155
Cash and Cash Equivalents	16	350	646
Total Current Assets		1,921	2,013
TOTAL ASSETS		**3,538**	**2,827**
LIABILITIES			
Current Liabilities			
Trade and Other Payables	17	(2,199)	(1,749)
Lease Liability	18	(128)	(20)
Total Current Liabilities		(2,327)	(1,769)
Non-current Liabilities			
Deferred Tax Liability	10	(99)	-
Lease Liability	18	(744)	(20)
Total Non-current Liabilities		(843)	(20)
TOTAL LIABILITIES		**(3,170)**	**(1,789)**
NET ASSETS		**368**	**1,038**
EQUITY			
Equity attributable to Owners of the Parent:			
Share Capital	20	91	91
Share Premium Account	20	5,661	5,661
Share Option Reserve	20	291	186
Retained Earnings	20	(5,675)	(4,900)
TOTAL EQUITY		**368**	**1,038**

*The Group has applied IFRS 16 from 1 January 2019, using the modified retrospective approach. Comparative information is not restated (see note 4).

For the year ended 31 December 2019, Loss after Taxation for the Company was £775k (2018:loss of £1,239k).

Consolidated Statement of Changes in Equity

	Share Capital £'000	Share Premium Account £'000	Share Option Reserve £'000	Retained Earnings £'000	Total £'000
Balance as at 31 December 2017	91	5,661	93	(3,667)	2,168
Loss and Total Comprehensive Income:					
Total Comprehensive Loss for the Year	-	-	-	(1,238)	**(1,238)**
Transactions with shareholders					
Issue of Shares	-	-	(18)	18	**-**
Share Based Payments	-	-	111	-	**111**
Balance as at 31 December 2018	91	5,661	186	(4,897)	1,041
Loss and Total Comprehensive					
Total Comprehensive Loss for the Year	-	-	-	(776)	**(776)**
Transactions with shareholders					
Issue of shares	-	-	-	-	**-**
Share Based Payments	-	-	105	-	**105**
Balance as at 31 December 2019	91	5,661	291	(5,673)	370

Company Statement of Changes in Equity

	Share Capital £'000	Share Premium Account £'000	Share Option Reserve £'000	Retained Earnings £'000	Total £'000
Balance as at 31 December 2017	91	5,661	93	(3,679)	2,166
Loss and Total Comprehensive Income:					
Total Comprehensive Loss for the Year	-	-	-	(1,239)	**(1,239)**
Transactions with shareholders					
Issue of Shares	-	-	(18)	18	**-**
Share Based Payments	-	-	111	-	**111**
Balance as at 31 December 2018	91	5,661	186	(4,900)	1,038
Loss and Total Comprehensive					
Total Comprehensive Loss for the Year	-	-	-	(775)	**(775)**
Transactions with shareholders					
Issue of shares	-	-	-	-	**-**
Share Based Payments	-	-	105	-	**105**
Balance as at 31 December 2019	91	5,661	291	(5,675)	368

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2019 £'000	Year ended 31 December 2018* £'000
Cash Flow from Operating Activities			
Loss before Taxation		(750)	(1,257)
Adjustment for:			
Amortisation of Intangibles	12	177	175
Amortisation of risght-of-use assets	18	200	-
Depreciation of Property, Plant and Equipment	13	217	217
Profit on Disposal of Equipment		(1)	-
Finance Costs		46	-
Share Based Payments	23	105	111
Cash used up in Operating Activities before changes in Working Capital		**(6)**	**(754)**
Change in Inventory	14	(8)	35
Change in Trade and Other Receivables	15	(349)	(148)
Change in Trade and Other Payables	17	428	111
Change on Other Non Cash Items	4	(13)	-
Cash Generated from Operating Activities		**52**	**(756**
Corporation Tax received		152	122
Net Cash Flow Generated from Operating Activities		**204**	**(634)**
Acquisition of Property, Plant and Equipment	13	(129)	(105)
Disposal Proceeds		16	-
Development Costs capitalised	12	(194)	(187)
Net Cash Flow used in Investing Activities		**(307)**	**(292)**
Principal Paid on Lease Liabilities (2018: principle paid on finance leases)	18	(195)	(21)
Interest Paid on Loans and Borrowings		(1)	-
Net Cash used in Financial Activities		**(196)**	**(21)**
Net decrease in Cash & Cash Equivalents		**(299)**	**(947)**
Cash & Cash Equivalents at beginning of period		650	1,597
Cash & Cash Equivalents at end of period	16	**351**	**650**

*The Group has applied IFRS 16 from 1 January 2019, using the modified retrospective approach. Comparative information is not restated (see note 4).

Company Cash Flow Statement

	Note	Year ended 31 December 2019 £'000	Year ended 31 December 2018* £'000
Cash Flow from Operating Activities			
Loss before Taxation		(749)	(1,259)
Adjustment for:			
Amortisation of Intangibles	12	177	175
Amortisation of risght-of-use assets	18	178	-
Depreciation of Property, Plant and Equipment	13	198	198
Profit on Disposal of Equipment		(1)	-
Finance Costs		43	-
Share Based Payments	23	105	111
Cash used up in Operating Activities before changes in Working Capital		**(49)**	**(775**
Change in Inventory	14	(8)	35
Change in Trade and Other Receivables	15	(348)	(145)
Change in Trade and Other Payables	17	450	129
Change on Other Non Cash Items	4	(13)	-
Cash Generated from Operating Activities		**32**	**(756)**
Corporation Tax received		152	122
Net Cash Flow Generated from Operating Activities		**184**	**(634)**
Acquisition of Property, Plant and Equipment	13	(128)	(105)
Disposal Proceeds		16	-
Development Costs capitalised	12	(194)	(187)
Net Cash Flow used in Investing Activities		**(306)**	**(292)**
Principal Paid on Lease Liabilities (2018: principle paid on finance leases)	18	(173)	(21)
Interest Paid on Loans and Borrowings		(1)	-
Net Cash used in Financial Activities		**(174)**	**(21)**
Net decrease in Cash & Cash Equivalents		**(296)**	**(946)**
Cash & Cash Equivalents at beginning of period		646	1,592
Cash & Cash Equivalents at end of period	16	**350**	**646**

*The Company has applied IFRS 16 from 1 January 2019, using the modified retrospective approach. Comparative information is not restated (see note 4).

NOTES TO THE FINANCIAL STATEMENTS

Notes to the Financial Statements

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 2019 were approved by the Board of Directors on 24 March 2020.

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 2019 have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFR') issued by the International Accounting Standards Board (IASB) as adopted by the European Union (adopted IFRS).

The Company has taken advantage of Section 408 of the Companies Act 2006 and has not included its individual statement of comprehensive income in these financial statements. The Company's overall result for the year is given in the company statement of financial position and statement of changes in shareholders' equity.

The financial statements for the period ended 31 December 2019 (and comparative) have been prepared on a consolidated basis. The consolidated financial statements present the results of the Company and its subsidiaries (the Group) as if they formed a single entity. The financial statements of the Group and Company are both prepared in accordance with IFRS.

Alternative performance measures (APM)
In the reporting of financial information, the Directors have adopted the APM 'Adjusted EBITDA" (APMs were previously termed 'Non-GAAP measures'), which is not defined or specified under International Financial Reporting Standards (IFRS).

This measure is not defined by IFRS and therefore may not be directly comparable with other companies' APMS, including those in the Group's industry. APMs should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measurements.

Purpose
The Directors believe that this APM assists in providing additional useful information on the underlying trends, performance and position of the Group. This APM is also used to enhance the comparability of information between reporting periods and business units, by adjusting for non-recurring or uncontrollable factors which affect IFRS measures, to aid the user in understanding the Group's performance.

Notes to the Financial Statements cont.

Consequently, APMs are used by the Directors and management for performance analysis, planning, reporting and incentive setting purposes and this remains consistent with the prior year. Adjusted APMs are used by the Group in order to understand underlying performance and exclude items which distort compatibility, as well as being consistent with public broker forecasts and measures (see note 25).

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

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

4. Accounting Policies

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

4.1 Basis of Accounting

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

New IFRS standards, amendments to and interpretations not applied to published standards

The following new standards, amendments to standards and interpretations will be mandatory for the first time in future financial years:

	Issued date	IASB mandatory effective date	EU endorsement status
New Standards			
IFRS 17 Insurance contracts	18-May-2017	01-Jan-2021*	TBC
Amendments to existing standards			
Amendments to References to the Conceptual Framework in IFRS Standards	29-May-2018	01-Jan-2020	Endorsed
Amendments to IFRS 3 Business Combinations – Definition of a Business	22-Oct-2018	01-Jan-2020	Expected Q1 2020
Definition of Material – Amendments to IAS 1 and IAS 8	31-Oct-2018	01-Jan-2020	Endorsed
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	26-Sept-2019	01-Jan-2020	Endorsed Jan 2020
Amendments to IAS 1: Classification of Liabilities as Current or Non-current	23-Jan-2020	01-Jan-2022	TBC

The application of these standards and interpretations is not expected to have a material impact on the Group's reporting financial performance or position.

Notes to the Financial Statements cont.

IFRS 16 Leases

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

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

Definition of a lease

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

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

Initial application of IFRS 16

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

The right-of-use assets recognised at 1 January 2019 was assessed for impairment. No impairment loss was identified.

Practical expedients utilised:

- The Group has applied a single discount rate to each portfolio of leases with reasonably similar characteristic.
- The Group has benefited from the use of hindsight for determining lease term when considering options to extend and terminate leases.
- Initial direct costs have been excluded from the measurement of the right-of-use assets.

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

The right-of-use asset is either:

Notes to the Financial Statements cont.

- Measured as if IFRS 16 had been applied from commencement of the lease, but using the lessee's incremental borrowing rate at 1 January 2019 to discount future payments; or
- Measured at the amount of the lease liability recognised in accordance with the measurement set out above, adjusted for accrued or prepaid operating lease payments at 1 January 2019.

The company has elected to apply the second option.

The amounts recognised for leases at 1 January 2019, have been measured as follows:

'Low-value' leases
When the value of the underlying asset (if new) as at 1 January 2019 is £5k or less, the group has continued to recognise the lease payments associated with those leases.

'Short-term' leases
Where the lease term ends before 31 December 2019, the Group has continued to recognised the lease payments associated with those leases on a straight-line basis over the lease term.

Finance leases under IAS 17
The carrying amounts of the lease liability and right-of-use asset as at 1 January 2019 are measured under IAS 17.

Significant judgements and major sources of estimation uncertainty
The group has applied judgement in applying the following transition provisions in IFRS 16:
- Determining whether leases have similar characteristics to apply a single discount rate. Lease portfolios have been grouped between leases of office building, motor vehicles, and IT equipment.
- The office building group are separately grouped into UK and Australia properties.

Impact of transition for the Group
The weighted average incremental borrowing rate applied to lease liabilities by the Group as at 1 January 2019 is 4.66%.

GROUP		31 December 2018 £'000	IRFS16 £'000	01 January 2019 £'000
Assets				
Property, plant and equipment	(a)	427	(41)	386
Prepayments	(b)	197	(23)	174
Accruals	(c)	205	(9)	196
Right-of-use assets	(d)	-	1,078	1,078
Liabilities				
Finance lease	(e)	40	(40)	-
Lease liabilities	(f)	-	1,063	1,063

Notes to the Financial Statements cont.

(a) Property, plant and equipment was adjusted to reclassify a lease previously classified as finance type to right-of-use assets. The adjustment reduced the cost of property, plant and equipment by £61k and accumulated depreciation by £20k resulting in a net adjustment of £41k.
(b) Prepayments was adjusted to reclassify the prepaid rental charges for office building and motor vehicles to right-of-use assets.
(c) Accruals was adjusted to reclassify the office building rent discounted period prior to 1 January 2019 to right-of-use assets.
(d) The adjustment to right-of-use assets is as follows:

	£'000
Adjusted noted in (a) – finance type leases	41
Adjusted noted in (b) – Prepayments	23
Adjusted noted in (c) – Accruals	(9)
Operating type leases	1,023
Right-of-use assets	1,078

(e) Finance lease was adjusted to reclassify a lease previously classified as finance type to lease liabilities.
(f) The following is a reconciliation of total operating lease commitments at 31 December 2018 to the lease liabilities recognised at 1 January 2019:

	£'000	£'000
Total operating lease commitments disclosed at 31 December 2018		**1,155**
Recognised inclusion:		
• Lease components	155	
• Adjustments to commitments disclosures	34	
Recognition exemptions:		
Leases with remaining lease term of less than 12 months	(100)	
		89
Operating lease liabilities before discounting		1,244
Discounted using incremental borrowing rate		(221)
Operating lease liability		1,023
Finance lease obligation		40
Total lease liabilities recognised under IFRS 16 at 1 January 2019		**1,063**

Notes to the Financial Statements cont.

Impact of transition for the Company

The weighted average incremental borrowing rate applied to lease liabilities by the Company as 1 January 2019 is 4.66%.

COMPANY		31 December 2018 £'000	IRFS16 £'000	01 January 2019 £'000
Assets				
Property, plant and equipment	(a)	398	(41)	357
Prepayments	(b)	172	(23)	149
Accruals	(c)	205	9	214
Right-of-use assets	(d)	-	999	999
Liabilities				
Finance lease	(e)	40	(40)	-
Lease liabilities	(f)	-	985	985

(a) Property, plant and equipment was adjusted to reclassify a lease previously classified as finance type to right-of-use assets. The adjustment reduced the cost of property, plant and equipment by £61k and accumulated depreciation by £20k resulting in a net adjustment of £41k.
(b) Prepayments was adjusted to reclassify the prepaid rental charges for office building and motor vehicles to right-of-use assets.
(c) Accruals was adjusted to reclassify the office building rent saving to right-of-use assets.
(d) The adjustment to right-of-use assets is as follows:

	£'000
Adjusted noted in (a) – finance type leases	41
Adjusted noted in (b) – Prepayments	23
Adjusted noted in (c) – Accruals	(9)
Operating type leases	945
Right-of-use assets	999

(e) Finance lease was adjusted to reclassify a lease previously classified as finance type to lease liabilities.
(f) The following is a reconciliation of total operating lease commitments at 31 December 2018 to the lease liabilities recognised at 1 January 2019:

Notes to the Financial Statements cont.

	£'000	£'000
Total operating lease commitments disclosed at 31 December 2018		**1,070**
Recognised inclusion:		
• Lease components	155	
• Adjustments to commitments disclosures	33	
Recognition exemptions:		
Leases with remaining lease term of less than 12 months	(100)	
		88
Operating lease liabilities before discounting		1,158
Discounted using incremental borrowing rate		(213)
Operating lease liability		945
Finance lease obligation		40
Total lease liabilities recognised under IFRS 16 at 1 January 2019		**985**

Impacts for the period

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised £896k of right-of-use assets and £931k of lease liabilities as at 31 December 2019, see Note 18.

Also in relation to those leases under IFRS 16, the Group has recognised amortisation and interest costs, instead of operating lease expense. During the year ended 31 December 2019, the Group recognised £200k of amortisation charges and £45k of interest costs from these leases, see Note 18.

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 2020 and 2021, 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 from the date of approval of the financial statements. Consequently, the Directors have adopted the going concern basis in preparing the financial statements.

Notes to the Financial Statements cont.

Further detail around the risks of COVID-19 and its potential impact on Going Concern are addressed extensively in the front end Statements of this Annual Report. The Directors draw attention to this extensive disclosure which indicates the current uncertainty in respect of the COVID-19 global pandemic. This event or condition indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a Going Concern.

4.3 Revenue Recognition

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.

Performance obligations and timing of revenue recognition

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

Revenue from Pre-paid contracts are deferred in the balance sheet and recognised on utilisation of service by the client. Pre-paid revenue is included within Consulting in note 6.

Revenue from Managed Services contracts includes:

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

Device build - Device build revenue is deferred and recognised on a straight line basis over the term of the contract.

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

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

Revenue from the sale of products (vendor) is recognised when control passes to the customer, which is considered to occur when the software or hardware product has been delivered to the client.

Determining the transaction price

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

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

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

Notes to the Financial Statements cont.

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

These costs are recognised in the Consolidated Statement of Comprehensive Income within Sales & Marketing costs.

Contract Balances

	Contract Assets 2019 £'000	Contract Assets 2018 £'000	Contract Liabilities 2019 £'000	Contract Liabilities 2018 £'000
At 1 January	49	-	(949)	(829)
Commission expensed during the period	(28)	(13)	-	-
Commissions paid in advance of contract completion	22	62	-	-
Recognised as revenue during the period	-	-	2,429	2,129
Invoiced in advance of performance during period	-	-	(2,666)	(2,249)
	43	**49**	**(1,186)**	**(949)**

Contract Assets balance of £43k (2018:£49k) is included in the Trade Receivables and Other Receivables (note 15). Contract Liabilities balance of £1,186k (2018: £949k) is included in Trade Payables and Other Payables (note 17).

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

A government grant is recognised only when there is reasonable assurance that (a) the entity will comply with any conditions attached to the grant and (b) the grant will be received.

The grant is recognised as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis.

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. Grants relating to income are deducted from the related expense.

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 (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

Notes to the Financial Statements cont.

the period and allow comparison with prior years.

4.7 Foreign Currencies

Financial 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

Short-Term Benefits

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.

Defined Contribution Pension Scheme

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.

Employee Share Based Payments

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 (2018 only)

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

Notes to the Financial Statements cont.

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 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 expense in the period in which it is incurred.

4.12 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.

4.13 Financial Instruments

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 as amortised cost and initially measured at fair value.

- **Subsequent Measurement**
  Financial assets are subsequently 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.

  The Group has applied the simplified method of the expected credit loss model when calculating impairment losses on its financial assets measured at amortised cost, such as trade receivables. This resulted in greater judgement due to the need to factor in forward-looking information when estimating the appropriate amount to provisions.

Notes to the Financial Statements cont.

- **Derecognition of Financial Assets**
  The Group and 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.

- **Invoice Discounting Facility**
  The Group and Company will continue to retain substantially all the credit risk and therefore will continue to recognise the receivables.

Financial Liabilities and Equity Instruments

The Group and Company's Financial Liabilities include Trade Payables, Accruals and Other Payables. Financial Liabilities are classified 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.

- **Derecognition of Financial Liabilities**
  The Company derecognises financial liabilities when the Company's obligations are discharged, cancelled or expire.

Offsetting of Financial Instruments

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.

4.14 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.

Notes to the Financial Statements cont.

4.15 Impairment of Assets
Non-Financial Assets
The carrying amounts of the Group and 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.

4.16 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.

4.17 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

Notes to the Financial Statements cont.

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.

4.18 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.

4.19 Operating Segments

An operating segment is a component of the Group and 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 the 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.

4.20 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.

Judgements

Going Concern

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 12 months from the date of approval of the financial statement. The Group has done sensitivity analysis around a possible COVID-19

Notes to the Financial Statements cont.

impact especially on consulting revenue, further detail regarding the impact is detail on page 29.

Development Costs Capitalised & Amortised

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 2019 was £429k (2018: £412k).

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 2019, the amount of staff time capitalised into Intangible Assets was £194k (2018: £187k).

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 2019, the useful economic life of all Intangible Assets was estimated to be 5 years, resulting in an amortisation charge of £177k (2018: £175k). If the useful economic life of Intangible Assets was estimated to be 3 years, the amortisation charge would have been approximately £242k (2018: £235k).

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, no 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.

Notes to the Financial Statements cont.

The Group has PPE located in the UK (cost of £896k; NBV of £272k) and Australia (cost of £57k; NBV of £11k). The Group's revenue and gross profit by operating segment for the year ended 31 December 2019 were as follows:

	Year ended 31 December 2019 £'000	Year ended 31 December 2018* £'000
Revenue		
Consulting	2,922	3,122
Managed Service	2,585	1,745
Vendor Products	162	228
Other	236	287
Total Revenue	**5,905**	**5,382**
Gross Profit		
Consulting	1,574	1,783
Managed Service	1,745	923
Vendor Products	29	42
Other	12	(8)
Gross Profit	**3,360**	**2,740**
Operating Loss	**(704)**	**(1,258)**
Finance Income	-	1
Finance Cost	(46)	-
Loss before Taxation	**(750)**	**(1,257)**

*The Group has applied IFRS 16 from 1 January 2019, using the modified retrospective approach. Comparative information is not restated (see note 4).

Revenue by country for the year ended 31 December 2019 was as follows:

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
United Kingdom	5,708	5,214
Europe	116	101
United States	9	-
Channel Island	66	67
Middle East	2	-
Other Countries	4	-
Total	**5,905**	**5,382**

Notes to the Financial Statements cont.

The Group's United Kingdom revenue by operating segment for the year ended 31 December 2019 were as follows:

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Revenue United Kingdom		
Consulting	2,760	2,970
Managed Service	2,580	1,741
Vendor Products	144	227
Other	224	276
Total	**5,708**	**5,214**

7. Other Income

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Withholding Tax	-	3
Gain on sale of Asset	1	-
R&D Tax Credits	262	152
Total	**263**	**155**

A credit has been recognised within Other Income as a result of R&D Tax Credit surrenders. For the year ended 31 December 2019, the surrender resulted in a credit of £262k, included within Corporation Tax Recoverable.

Notes to the Financial Statements cont.

8. Operating Loss

Operating Loss is stated after charging:

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Depreciation of Fixed Assets	217	217
Amortisation of Intangibles - Development Costs	177	175
Amortisation of leases	200	-
R&D expenditure	785	591
Short-term and low value lease expense	62	-
Auditors Remuneration - Audit Services	42	33
Auditors Remuneration - Non-Audit Services		
Taxation Compliance Services	8	8
Other Taxation and Compliance Services	13	14
Exceptional items	6	120
Inventories Expensed	44	104

The amount charged in respect of Auditors' Remuneration for the Group and the Company audit was £42k. None of the subsidiaries (see note 27) of the Group were subject to audit in the year ended 31 December 2019

9. Employee Benefit Expense

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

	GROUP Year Ended 31 December 2019 £'000	GROUP Year Ended 31 December 2018 £'000	COMPANY Year Ended 31 December 2019 £'000	COMPANY Year Ended 31 December 2018 £'000
Wages and Salaries	4,091	4,155	3,944	3,971
Social Security Costs	440	476	392	427
Pension Contributions	153	112	134	96
Share Based Payments	105	111	105	111
	4,789	**4,854**	**4,575**	**4,605**

Directors' remuneration for the Group and Company is as follows:

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Salaries, Bonus, Benefits-in-Kind	455	505
Pension Contributions	30	38
Share Based Payments	47	33
Social Security Costs	57	63
	589	**639**

Notes to the Financial Statements cont.

Details of Directors' remuneration can be found in the Remuneration Report on pages 42-46.
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 35 (Board of Directors).

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

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Salaries, Bonus, Benefits-in-Kind	196	210
Pension Contributions	18	12
	214	**222**

Group

The average monthly number of employees during the year was:

	Year ended 31 December 2019	Year ended 31 December 2018
Directors	4	4
Operational	81	82
	85	**86**

Company

The average monthly number of employees during the year was:

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Directors	4	4
Operational	77	78
	81	**82**

Notes to the Financial Statements cont.

10. Taxation

Recognised in the Statement of Comprehensive Income

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Corporation Tax Charge/(Credit)	-	-
Deferred Tax Charge/(Credit)	26	(19)
	26	**(19)**

Reconciliation of Total Tax Charge/(Credit)

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Loss before Tax	(750)	(1,257)
UK Corporation At Rate Of 19.0%	(143)	(164)
Expenses Not Deductible For Tax Purposes	2	2
Income Not Taxable For Tax Purposes	-	-
Exercise Of Share Options	-	(14)
Difference Between Current And Deferred Tax Rates	-	-
Over/Under Provision In Prior Period - Corporation Tax	-	-
Over/Under Provision In Prior Period - Deferred Tax	26	(19)
Tax Losses on Which Deferred Tax Not Recognised	141	176
Total Tax Charge/(Credit)	**26**	**(19)**

Deferred Tax Assets & Liabilities

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Deferred Tax Assets	77	119
Deferred Tax Liabilities	(99)	(115)
Deferred Tax - Net Asset/(Liability)	**(22)**	**4**

Deferred Tax Assets of £77K is recognised in respect of unutilised trading losses, Share Based Payments and short-term timing differences. Deferred Tax Liabilities of £99k 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 expected to be in force when the timing differences reverse.

Notes to the Financial Statements cont.

Unutilised Trading Losses

The Company continues to carry forward unutilised trading losses of £5,666k (2018: £4,941k). A Deferred Tax Asset of £22k (£83k, 2018) has been recognised as at 31 December 2019 in respect of the unutilised trading losses. No further Deferred Tax Asset has been recognised because the Board envisages that a significant period of time will be required to generate sufficient profits to utilise the trading losses carried forward.

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 25) by Diluted Number of Ordinary Shares.

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

	Year ended 31 December 2019 £'000	Year ended 31 December 2018* £'000
Net Loss Attributable To Equity Holders Of The Company	(776)	(1,238)
Add Back: Exceptional Costs	6	120
Add Back: Share Based Payments	105	111
Adjusted Loss	**(665)**	**(1,007)**
Number Of Ordinary Shares ('000)		
Initial Weighted Average	9,098	9,047
Bonus Issue	-	-
Exercise Share Option	-	14
IPO Placing	-	-
Equity Warrant	-	37
Basic Number Of Ordinary Shares	**9,098**	**9,098**
Weighted Average Dilutive Shares In Period	661	458
Diluted Number Of Ordinary Shares	**9,759**	**9,556**
Earnings Per Share (Pence):		
Basic Losses Per Share	(8.5)	(13.6)
Diluted Losses Per Share**	(8.5)	(13.6)
Adjusted Losses Per Share	(7.3)	(11.1)

Notes to the Financial Statements cont.

* The Group has applied IFRS 16 from 1 January 2019, using the modified retrospective approach. Comparative information is not restated (see note 4).
** In accordance with IAS 33, the effect of anti-dilutive potential shares has been ignored.

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

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

These share issues were taken into account in calculating the Basic Number of Ordinary Shares.

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

- On 18 April 2018, the Company granted options over 200,000 Ordinary Shares to the Non-Executive Directors.
- On 7 August 2018, the Company granted options over 185,000 Ordinary Shares to selected employees, of which 180,000 remain outstanding as at 31 December 2018.

During the year ended 31 December 2019, the following dilutive events have occurred:

- On 16 July 2019, the Company granted options over 175,500 Ordinary Shares to selected employees, including 50,000 to Director Lucy Sharp, of which 175,500 remain outstanding as at 31 December 2019.

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

Notes to the Financial Statements cont.

12. Intangible Assets
Group & Company
Development Costs

Costs	**£'000**
As at 1 January 2018	704
Additions	187
As at 31 December 2018	891
As at 1 January 2019	891
Additions	194
As at 31 December 2019	**1,085**
Amortisation	
As at 1 January 2018	304
Charges for the year	175
As at 31 December 2018	479
As at 1 January 2019	479
Charges for the year	177
As at 31 December 2019	**656**
Net Book Value	
As at 31 December 2018	412
As at 31 December 2019	**429**

Notes to the Financial Statements cont.

13. Property, Plant and Equipment

GROUP

	Leasehold Property £'000	Office Equipment £'000	Computer Equipment £'000	Motor Vehicles £'000	Total £'000
Cost					
At 1 January 2018	99	119	547	49	814
Additions	4	1	92	8	105
Disposals	-	-	-	-	-
At 31 December 2018	103	120	639	57	919
Reclassification due to IFRS16	-	-	(61)	-	(61)
Additions	12	16	101	-	129
Disposals	-	-	-	(34)	(34)
At 31 December 2019	**115**	**136**	**679**	**23**	**953**
Depreciation					
At 1 January 2018	34	29	199	13	275
Charge for Period	14	21	171	11	217
Disposals	-	-	-	-	-
At 31 December 2018	48	50	370	24	492
Reclassification due to IFRS16	-	-	(20)	-	(20)
Charge for Period	15	25	168	9	217
Disposals	-	-	-	(19)	(19)
At 31 December 2019	**63**	**75**	**518**	**14**	**670**
Net Book Value					
At 31 December 2018	55	70	269	33	427
At 31 December 2019	**52**	**61**	**161**	**9**	**283**

Notes to the Financial Statements cont.

COMPANY

	Leasehold Property £'000	Office Equipment £'000	Computer Equipment £'000	Motor Vehicles £'000	Total £'000
Cost					
At 1 January 2018	99	98	512	49	758
Additions	4	1	92	8	105
Disposals	-	-	-	-	-
At 31 December 2018	103	99	604	57	863
Reclassification due to IFRS16	-	-	(61)	-	(61)
Additions	12	15	101	-	128
Disposals	-	-	-	(34)	(34)
At 31 December 2019	**115**	**114**	**644**	**23**	**896**
Depreciation					
At 1 January 2018	34	297	193	13	267
Charge for Period	14	14	159	11	198
Disposals	-	-	-	-	-
At 31 December 2018	48	41	352	24	465
Reclassification due to IFRS16	-	-	(20)	-	(20)
Charge for Period	15	17	157	9	198
Disposals	-	-	-	(19)	(19)
At 31 December 2019	**63**	**58**	**489**	**14**	**624**
Net Book Value					
At 31 December 2018	55	58	252	33	398
At 31 December 2019	**52**	**56**	**155**	**9**	**272**

14. Inventory

	GROUP Year Ended 31 December 2019 £'000	GROUP As At 31 December 2018 £'000	COMPANY Year Ended 31 December 2019 £'000	COMPANY As At 31 December 2018 £'000
Inventory	26	18	26	18

Notes to the Financial Statements cont.

15. Trade Receivables and Other Receivables

	GROUP As At 31 December 2019 £'000	GROUP As At 31 December 2018 £'000	COMPANY As At 31 December 2019 £'000	COMPANY As At 31 December 2018 £'000
Trade Receivables	973	869	973	869
Other Receivables	8	8	8	8
Intercompany Receivables	-	-	92	96
Prepayments	182	197	160	172
Accrued Income	4	-	4	-
Contract Asset	43	49	43	49
	1,120	**1,123**	**1,280**	**1,194**

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, no expected credit loss is attributed to them.

Cash flow movement:
Group: movement in Trade Receivables and Other Receivables minus £262k R&D tax credit (note 7)
Company: movement in Trade Receivables and Other Receivables minus £262k R&D tax credit (note 7)

16. Cash & Cash Equivalents

	GROUP As At 31 December 2019 £'000	GROUP As At 31 December 2018 £'000	COMPANY As At 31 December 2019 £'000	COMPANY As At 31 December 2018 £'000
Cash & Cash Equivalents	351	650	350	646

Notes to the Financial Statements cont.

17. Trade Payables and Other Payables

	GROUP As At 31 December 2019 £'000	GROUP As At 31 December 2018 £'000	COMPANY As At 31 December 2019 £'000	COMPANY As At 31 December 2018 £'000
Trade Payables	197	170	195	167
Other Taxation and Social Security	436	347	434	344
Accruals	259	205	258	205
Contract Liabilities	1,186	949	1,186	949
Intercompany Payables	-	-	72	50
Other Payables	59	38	54	34
	2,137	**1,709**	**2,199**	**1,749**

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

18. Leases

On commencement of a contract (or part of a contract) which gives the group the right to use an asset for a period of time in exchange for consideration, the group recognises a right-of-use asset and a lease liability unless the lease qualifies as a 'short-term' lease or a 'low-value' lease.

All leases are accounted for by recognising a right-of-use and a lease liability except for:

- Leases of low-value assets
  Leases where the underlying asset is 'low-value', £5k lease payments are recognised as an expense on a straight-line basis over the lease term. The group has elected to apply the 'low-value' lease exemption to all qualifying leases, but the election can be made on a lease-by-lease basis.

- Short term lease
  Where the lease term is twelve months or less and the lease does not contain an option to purchase the leased asset, lease payments are recognised as an expense on a straight-line basis over the lease term.

The group sometimes negotiates break clauses in its property leases. On a case-by-case basis, the group will consider whether the absence of a break clause would exposes the group to excessive risk. Typically factors considered in deciding to negotiate a break clause include:

- the length of the lease term;
- the economic stability of the environment in which the property is located; and
- whether the location represents a new area of operations for the group.

IFRS 16 was adopted 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, see Note 4. The following policies apply subsequent to the date of initial application, 1 January 2019.

Notes to the Financial Statements cont.

Right-of-use Assets

A right-of-use asset is recognised at commencement of the lease and initially measured at the amount of the lease liability, plus any incremental costs of obtaining the lease and any lease payments made at or before the leased asset is available for use by the group.

The right-of-use asset is subsequently measured at cost less accumulated amortisation and any accumulated impairment losses. The amortisation methods applied is on a straight-line basis over the term of the lease.

Amortisation charge for the year included in 'administrative expenses' for right-of-use assets.

GROUP

	Office buildings £'000	Motor vehicles £'000	IT equipment £'000	Total £'000
At 1 January 2019	981	56	41	**1,078**
Additions	-	18	-	**18**
Amortisation	(132)	(48)	(20)	**(200)**
NBV at 31 December 2019	**849**	**26**	**21**	**896**

COMPANY

	Office buildings £'000	Motor vehicles £'000	IT equipment £'000	Total £'000
At 1 January 2019	**902**	**56**	**41**	**999**
Additions	-	18	-	**18**
Amortisation	(110)	(48)	(20)	**(178)**
NBV at 31 December 2019	**792**	**26**	**21**	**839**

Lease Liability

The lease liability is initially measured at the present value of the lease payments during the lease term discounted using the interest rate implicit in the lease, or the incremental borrowing rate if the interest rate implicit in the lease cannot be readily determined.

The lease term is the non-cancellable period of the lease plus extension periods that the group is reasonably certain to exercise and termination periods that the group is reasonably certain not to exercise.

The lease liability is subsequently increased for a constant periodic rate of interest on the remaining balance of the lease liability and reduced for lease payments.

Interest expense for the year on lease liabilities is recognised in 'finance costs'.

Notes to the Financial Statements cont.

GROUP	Office buildings £'000	Motor vehicles £'000	IT equipment £'000	Total £'000
At 1 January 2019	968	55	40	**1,063**
Additions	-	18	-	**18**
Interest Expense	42	3	-	**45**
Lease Payments	(121)	(53)	(21)	**(195)**
At 31 December 2019	**889**	**23**	**19**	**931**

COMPANY	Office buildings £'000	Motor vehicles £'000	IT equipment £'000	Total £'000
At 1 January 2019	890	55	40	**985**
Additions	-	18	-	**18**
Interest Expense	39	3	-	**42**
Lease Payments	(99)	(53)	(21)	**(173)**
At 31 December 2019	**830**	**23**	**19**	**872**

Group and Company

- Short-term lease expense £60k
- Low value lease expense £2k

	Up To 12 months £'000	1-5 years £'000	more than 5 years £'000
Lease Payments	188	603	316
Interest Expense	(38)	(117)	(21)
Lease Liabilities	**150**	**486**	**295**

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. Barclay's are also providing an invoice discounting facility of £500,000. These payment facilities are secured by a debenture in favour of Barclays that creates fixed and floating charges over the assets of the Company.

Notes to the Financial Statements cont.

20. Share Capital

Ordinary Share Capital

During the period ended 31 December 2019, the movement in Share Capital was:

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

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

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

Share Premium Account

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

Share Option Reserve

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

Retained Earnings

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

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

Notes to the Financial Statements cont.

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 2019 £'000**	**GROUP As At 31 December 2018 £'000**	**COMPANY As At 31 December 2019 £'000**	**COMPANY As At 31 December 2018 £'000**
Trade Receivables	973	869	973	869
Other Receivables	8	8	8	8
Intercompany Receivables	-	-	92	96
Cash and Cash Equivalents	351	650	350	646
Total Financial Assets	**1,332**	**1,527**	**1,423**	**1,619**
Financial Liabilities				
Trade Payables	197	170	195	167
Accruals	259	205	258	205
Intercompany Payables	-	-	72	50
Other Payables	59	38	54	34
Total Financial Liabilities	**515**	**413**	**579**	**456**

Fair Values

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

Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk – commodity price risk, interest rate risk; and foreign currency risk. The Group and Company has limited exposure to each of these risks as discussed below. Notes to the Financial Statements (continued)
For the year ended 31 December 2019

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

Notes to the Financial Statements cont.

structure. The capital structure of the Group and Company consists of issued Share Capital, Retained Earnings and Finance Leases.

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

Credit Risk

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

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

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

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

Trade Receivables

Trade Receivables, net of impairment provisions, for the Group and Company as at 31 December 2019 were £973k (2018: £869k). These Trade Receivables are not secured by any collateral or credit insurance. The Group's standard terms are 30 days from date of invoice but non-standard terms may be agreed with certain customers. Invoices which remain unpaid for periods greater than agreed terms are assessed as overdue.

As at 31 December 2019, Trade Receivables past due for the Group and Company total £391k (2018: £132k) of which nil (2018: nil) have been impaired.

Notes to the Financial Statements cont.

As at 31 December 2019, Trade Receivables of £391k (2018: £132k) were past due but not impaired, as follows:

	GROUP As At 31 December 2019 £'000	GROUP As At 31 December 2018 £'000	COMPANY As At 31 December 2019 £'000	COMPANY As At 31 December 2018 £'000
Up to 3 months	389	131	389	131
3 months to 6 months	2	1	2	1
6 months to 12 months	-	-	-	-
	391	132	391	132

Cash Holdings

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

Interest Rate Risk

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

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

The outstanding balance of Finance Leases at 31 December 2019 was £20k. 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.

Notes to the Financial Statements cont.

The Group has suppliers that invoice in US dollars and Australian dollars. The balances exposed to credit risk at year end were as follows:

	As At 31 December 2019	As At 31 December 2018
US Dollars	145	1,566
Australian Dollars	935	4,411
	1,080	5,977

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. Budgets and forecasts are agreed and set by the Board in advance to ensure the Group's cash requirement to be anticipated.

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

	As At 31 December 2019 £'000	As At 31 December 2018 £'000
Due within 3 months		
Trade Payables, Other Taxation ans Social Security, Accruals, Other Payables	951	758
	951	**758**

The trade receivables as at December 2019 of £973k expected to be collected within 3 months to cover the £951k financial liabilities.

22. Related Party Transactions

ECSC Australia Pty Ltd

During the year ended 31 December 2019, ECSC Group plc incurred management fees to ECSC Australia Pty Ltd of £312k (2018: £330k). As at 31 December 2019, the balance payable by ECSC Group plc to ECSC Australia Pty Ltd in respect of outstanding management fees was £72k (2018: £50k).

As at 31 December 2019, the loan balance payable by ECSC Australia Pty Ltd to ECSC Group plc was £92k (2018:£96k). The loan is repayable on demand and attracts interest at the rate of 3% over base rate.

Athene VCS

During the year ended 31 December 2019, Athene VCSa company owned by Elizabeth Gooch (Non-Executive Director), invoiced ECSC Group plc £5k for strategic review service. This transition was entered into on an arm's length basis. The balance payable as at the 31 December 2019 was £nil (2018: £nil).

Notes to the Financial Statements cont.

Directors Loans

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

During the year ended 31 December 2019, 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)
- Non-Executive Directors Share Options (NED1 Scheme)

EMI Scheme
August-2018

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

During the year ended 31 December 2019, options over 10,000 (2018: 5,000) Ordinary Shares have lapsed, such that options over 170,000 Ordinary Shares remain exercisable in the future.

Jul-2019

In July 2019 the Company granted options over 175,500 Ordinary Shares at an exercise price of 78 pence per share, subject to a three year vesting period, to 13 employees. In order for the options to vest, the Ordinary Shares must trade at a minimum mid-market price of 200 pence per share over 30 consecutive trading days during the vesting period. None have lapsed by the year ended 31 December 2019.

Within this grant, Lucy Sharp, a Director of the Company, was granted 50,000 Ordinary Shares.

None have lapsed by the year ended 31 December 2019, such that options over 175,500 Ordinary Shares remain exercisable in the future.

NED 1 Scheme

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

Notes to the Financial Statements cont.

None have lapsed by the year ended 31 December 2019, such that options over 200,000 Ordinary Shares remain exercisable in the future.

Scheme	EMI (May-17)	EMI (Dec'17)	EMI (Aug'18)	EMI (Jul'19)	SAYE	NED	NED 1 (Apr'18)	Total
Number of Options:								
Outstanding at 01 January 2018	190,300	148,000	-	-	41,184	20,836	-	**400,320**
Granted during the year	-	-	185,000	-	-	-	200,000	**385,000**
Forfeited during the year	(15,810)	(123,000)	(5,000)	-	(14,400)	-	-	**(158,210)**
Exercised during the year	-	-	-	-	-	(14,425)	-	**(14,425)**
Expired during the year	-	-	-	-	-	-	-	**-**
Outstanding at 31 December 2018	**174,490**	**25,000**	**180,000**	**-**	**26,784**	**6,411**	**200,000**	**612,685**
Exercisable at 31 December 2018	-	-	-	-	-	6,411	-	**6,411**
Outstanding at 01 January 2019	174,490	25,000	180,000	-	26,784	6,411	200,000	**612,685**
Granted during the year	-	-	-	175,500	-	-	-	**175,500**
Forfeited during the year	(21,950)	-	(10,000)	-	(7,200)	-	-	**(39,150)**
Exercised during the year	-	-	-	-	-	-	-	**-**
Expired during the year	-	-	-	-	-	-	-	**-**
Outstanding at 31 December 2019	**152,540**	**25,000**	**170,000**	**175,500**	**19,584**	**6,411**	**200,000**	**749,035**
Exercisable at 31 December 2019	**-**	**-**	**-**	**-**	**-**	**6,411**	**-**	**6,411**
Option Pricing Assumptions:								
Pricing Model	Black Scholes	Black Scholes	Black Scholes	Black Scholes	Black Scholes		Black Scholes	
Weighted Average share price at grant date (pence)	312	135	93	78	131	125	79	
Weighted average exercise price (pence)	167	140	93	78	125	-	78	**680**
Weighted Average contract life	3 years	3 years	3 years	3 years	3 years	0 years	3 years	
Weighted Average risk free rate	1%	1%	1%	1%	1%	1%	1%	
Volatility	40%	40%	40%	40%	40%	40%	40%	
Option Valuation:								
Option Valuation at grant date (£'000)	**250**	**9**	**45**	**38**	**8**	**8**	**45**	**403**
Share Based Payments Charge in 2019:								
Share Based Payment Charge (£'000)	**64**	**3**	**15**	**6**	**2**	**-**	**15**	**105**
Weighted Average Exercise Price:								
At grant date, forfeit date and end of period (pence)	167	140	93	78	125	-	78	

Notes to the Financial Statements cont.

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:

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.

24. Controlling Party

ECSC Group plc does not have an ultimate controlling party.

25. Adjusted Loss before Taxation and Adjusted EBITDA

The Group has applied IFRS 16 from 1 January 2019, using the modified retrospective approach. Comparative information is not restated (see note 4).

Adjusted Loss before Taxation

	Year Ended 31 December 2019 £'000	Year Ended 31 December 2018 £'000
Loss Before Taxation	**(750)**	**(1,257)**
Share Based Payments	105	111
Exceptional Items	6	120
Adjusted (Loss) Before Taxation	**(639)**	**(1,026)**

Notes to the Financial Statements cont.

Adjusted EBITDA:

	Year Ended 31 December 2019 £'000	**Year Ended 31 December 2018 £'000**
Operating Loss	**(704)**	**(1,258)**
Depreciation and Amortisation	594	392
EBITDA**	**(110)**	**(866)**
Share Based Payments	105	111
Exceptional Items	6	120
Adjusted EBITDA*	**1**	**(635)**

	Year Ended 31 December 2019 £'000	**Year Ended 31 December 2018 £'000**
Operating Loss	**(704)**	**(1,258)**
Share Based Payments	105	111
Exceptional Items	6	120
Adjusted Operating Loss*	**(593)**	**(1,027)**

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

26. Exceptional Costs

Exceptional costs for the year included £6k of one-off legal costs relating to EIS advance assurance work done in the year.

Exceptional Costs are analysed as follows:

	As At 31 December 2019 £'000	As at 31 December 2018 £'000
Payments in Lieu of Notice	-	76
Employee Benefit Expense	**-**	**76**
Taxation & Social Security Costs	-	12
Staff Related Costs	**-**	**88**
Car Termination Costs	-	11
Legal Costs	**6**	21
Exceptional Costs	**6**	**120**

Notes to the Financial Statements cont.

27. 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 Dollaers

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Who would have believed we would ever get to this point! I know it is silly, but I am sat here with a huge smile on my face for once!

[ECSC Employee] has just left for his train - and I am the only person in the office to know the news!

Thanks very much - we've a few to go yet, but the support we have had on this long slog has been first class!

Compliance Manager, Major Train Operator

[ECSC Employee] was extremely helpful and helped us through the certification procedures and what would be required and expected. However, [ECSC Employee] went over and above at each opportunity, offering up suggestions on up-skilling our in house teams and gave tips on things to look out for and improve upon.

[ECSC Employee] ensured he was on hand at all times throughout the process, offering up several communication methods, and helped us work through issues working with a third party to ensure we completed the requirement in time to help us achieve certification.

ECSCs professional services have gone over and above expectations. [ECSC Employee] is a true asset to the company, and I would be more than happy to work with him again on our next project.

Security and Infrastructure Analyst, Online Retailer

I've got to say what a great piece of work your team have produced - really impressed with the quality of the document and the people.

I am confident that this will be the start of a long and illustrious relationship with [ECSC Client].

Senior Support Analyst, Major Utilities Supplier