For a more secure society

NCC Group plc

ANNUAL REPORT AND ACCOUNTS
for the year ended 31 May 2018

www.nccgroup.com | Stock Code: NCC

Why we exist

nccgroup

NCC Group is a global expert in cyber security and risk mitigation, working with businesses to protect their brands, their data, their value and even their reputations against the ever evolving threat landscape.

The Group's independence, knowledge, experience and global footprint ensures that we can help businesses identify, assess, mitigate and respond to the risks they face within this fluid and hostile environment.

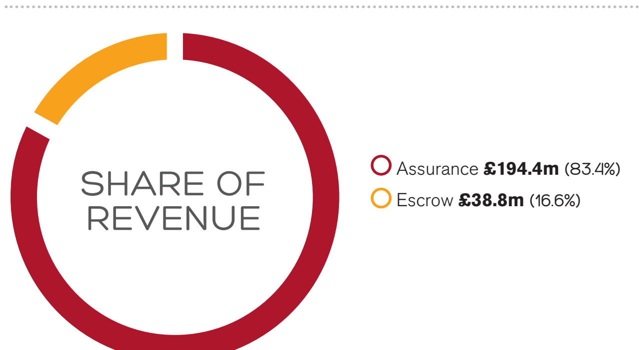
NCC Group is passionate about making the internet a safer place for all members of our society and revolutionising the way in which organisations think about cyber security.

OUR VISION

We have a vision to:

1. **Grow our business**
2. **Become the leading cyber security advisor in the markets of our choice**
3. **Be recognised as trusted leaders in our field**

OUR STRUCTURE



INVESTMENT CASE

- We operate in high growth markets
- Our expertise is highly valued by our customers
- We are at the forefront of thought leadership in cyber security
- Our Escrow business holds a strong position in an attractive niche
- In a highly fragmented market, our scale creates opportunity for significant value creation through targeted bolt-on acquisitions
- We are targeting mid-teens adjusted* operating margins by 2020, through a combination of self-help measures and maintaining double digit growth

READ MORE ABOUT OUR BUSINESS MODEL AND STRATEGIC ALIGNMENT GOALS ON PAGES 22 TO 25

NAVIGATING THE REPORT

For further information within this document and relevant page numbers

Additional information available online

Image captions

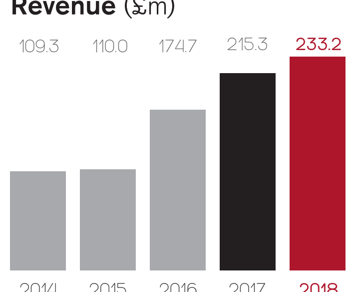
VISIT US ONLINE AT WWW.NCCGROUP.COM

* See pages 122 to 124 for an explanation and definition of Alternative Performance Measures.

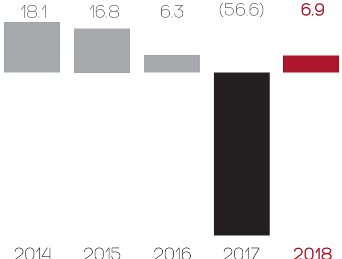
Financial highlights

GAAP Measures

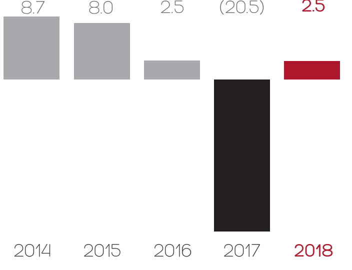
Revenue (£m)



Profit/Loss before tax (£m)

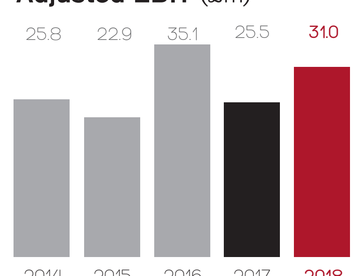


Basic EPS (pence)

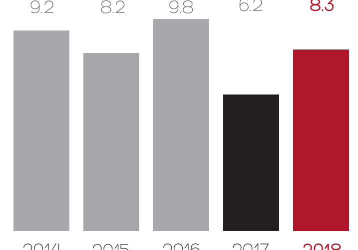


Alternative Performance* Measures

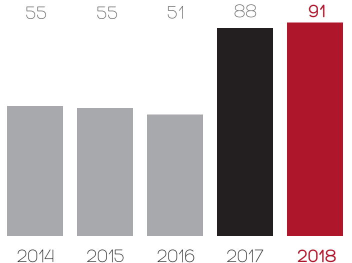
Adjusted EBIT (£m)



Adjusted EPS (pence)



Cash Conversion (%)



Operational highlights

- Relocated 400+ staff to new Group headquarters in Manchester, UK
- Organisational restructure completed around geographical units and customer segments
- Completed portfolio rationalisation with sales of Web Performance and Software Testing

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* See pages 122 to 124 for an explanation and definition of Alternative Performance Measures.

Chairman's statement

NCC Group has a unique opportunity; we hold leading positions in growing markets around the world, our customers value us and our staff are exceptionally skilled. These foundations will allow us to create significant value for all of our stakeholders."

CHRIS STONE NON-EXECUTIVE CHAIRMAN

Introduction

In my second annual statement to shareholders, I am pleased to report that good progress has been made against the strategic goals we set for ourselves at the start of the year. The business has been successfully stabilised following a period of volatility. We have reorganised our senior management teams to improve our go-to market strategy. We have also maintained double digit Adjusted organic* growth in our Assurance division, improved our Group Gross Margin ratio (GM%) and completed the divestment of the two business units identified as non-core in the Strategic Review.

Business performance

The financial performance for the year represented a strong recovery from the declining trajectory experienced at the end of the prior financial year. We delivered 13.8% Adjusted organic* growth in our retained assurance businesses while Escrow delivered the expected more modest Adjusted organic* growth of 2.7%, in line with its more mature UK market position (excluding the impact of prior year revenue correction).

Improving our Group GM% ratio was a key strategic objective following significant declines in the last few years. I am pleased to say that both divisions improved strongly in the year: Assurance GM% grew by 5.3% points to 34.2% and Escrow by 4.5% points to 76.3%. Both results were largely due to improved cost control and utilisation gains. There is more to be achieved in this area.

Adjusted Operating Profit* from continuing operations grew by 21.6%, to £31.0m (2017: £25.5m). Operating profit* grew significantly to a profit of £13.7m compared to the loss of £42.9m in the prior year, primarily reflecting improved business performance and lower exceptional costs in the current year.

Our business performance is shown in more detail in the Strategic Report on pages 14 to 48.

Strategy update

The results of the Strategic Review were announced in our final results presentation in July 2017. Since then we have been busy implementing the plans that we set out to address the findings of the review. Firstly, we implemented a new organisational approach to our market places and sectors of operation with a new Target Operating Model. Secondly, we started to mobilise a number of initiatives, both tactical and strategic, to make long-term process improvements which are expected to deliver returns in the coming years. Thirdly, the non-core Web Performance and Software Testing businesses were both sold to different purchasers for net cash consideration of £9.2m after disposal costs and £0.7m of cash disposed of.

Further details on our strategic plan and progress against our objectives are set out in the Strategic Report on pages 24 to 25.

Dividend

The Board has reviewed business performance in the current year alongside our historical progressive dividend policy. The Board is mindful of balancing the improving trend in performance with the clear need for investment over the next few years. The Board therefore recommends that the dividend is maintained at the current level.

A final dividend of 3.15p is therefore being recommended by the Board, making a total for the year of 4.65p. If approved, the final dividend in respect of the year ended 31 May 2018 will be paid on 5 October 2018 to shareholders on the register as at 7 September 2018 (ex-dividend date of 6 September 2018).

Board composition

There have been a number of changes to the Board during the year. On 1 December 2017 we announced Adam Palser as the Group's new Chief Executive Officer. Adam brings a track record of success in the professional services, B2B and cyber security sectors. At that time, Brian Tenner stood down from his role as interim Chief Executive Officer and returned full-time to his duties as Chief Financial Officer.

During the year we were pleased to welcome Mike Ettling and Jennifer Duvalier to the Board as Non-Executive Directors. Mike brings with him a wealth of experience of both the digital and cloud sectors. Jennifer adds invaluable experience in corporate culture and organisational matters – factors which are critical to NCC Group's future success.

In line with best practice, after nine years' tenure, Debbie Hewitt MBE, Senior Independent Director, stepped down from the Board on 28 March 2018. In addition, as part of the broader Board succession planning, Thomas Chambers, Non-Executive Director, relinquished his role as Chairman of the Audit Committee in April 2018. After six years' tenure he will resign from the Board following the Company's AGM on 26 September 2018. We thank Debbie and Thomas for their valuable contributions during their tenures. The Board is appreciative of the roles that Debbie and Thomas have both played and wish them well for the future.

* See pages 122 to 124 for an explanation and definition of Alternative Performance Measures.

ASSURANCE GM% GREW
5.3%

ESCROW GM% GREW
4.5%

Chris Batterham, Non-Executive Director, became Senior Independent Director from 29 March 2018 and Chairman of the Audit Committee from 1 April 2018. Jonathan Brooks, Non-Executive Director, became Chairman of the Remuneration Committee as of 29 March 2018.

With Adam and Brian in their permanent roles, I relinquished my executive responsibilities on 1 December 2017 and reverted to my role of Non-Executive Chairman with additional responsibilities as Chairman of both the Nomination Committee and the Cyber Security Committee.

Finally, following the year end, we announced that Brian Tenner would be leaving the Group in August 2018 to pursue other interests. I would like to thank Brian for the enormous contribution he made at NCC Group. He joined at a critical time, combining his role as CFO with that of interim CEO to great effect during the 2017 Strategic Review and the months that followed.

I am pleased to announce that Brian's successor will be Tim Kowalski, an experienced public company finance director, who will join the Group and the Board on 23 July 2018 and assume the responsibilities of the CFO when Brian leaves the Company.

Board effectiveness

As Chairman, I am responsible for the leadership of the Board and ensuring its effectiveness in all aspects of its performance. We note that the recent changes in membership represent an ongoing transition period for the Board as well as the Group.

The Board continues to actively oversee the Group's strategic development, monitoring the delivery of its business objectives and the evolving implementation of new organisational and management structures. We maintain our focus on an effective corporate governance framework that keeps pace with the rate of growth and change inside and outside of NCC Group.

Our business is entirely reliant on the skills and experience of our staff. We are fortunate to have them choose to build their careers with NCC Group, as we take our business forward"

Employees

Our employees continue to show their commitment to our business and to delivering excellent service to our customers. We have seen active engagement in our internal projects and many great ideas for improving our systems and processes.

We acknowledge that it is only through offering rewarding career paths for our staff that we can expect to attract and retain the very best talent.

On behalf of the Board I therefore offer our sincere thanks and appreciation to all of the Group's employees for their continued dedication in delivering excellent service to our customers while rebuilding the foundations of NCC Group.

Current trading and outlook

Shareholders will remember that last year, I reflected on a very challenging period in the Group's history with operational and financial performance having been well below expectations. This was accompanied by significant Board and management change. While much remains to be done, I am confident that the building blocks for long-term sustainable improvement in business performance and shareholder returns are starting to be put in place.

In terms of the trading outlook for the financial year ending 31 May 2019, the Board expects Escrow to maintain its low single digit Adjusted organic* revenue growth while investing in additional sales and delivery capability as well as a new client portal to enhance our customers' experience. The Assurance business will continue to deliver steady double digit Adjusted organic* revenue growth with improving net margins.

The combination of double digit Adjusted organic* growth and steadily improving margins in the two operating divisions are expected to deliver improvements in Adjusted Operating Profit* margins of c.1% p.a. for the next two years in line with the Board's current expectations, while also allowing us to make considered and targeted investments to support the business transformation programme.

There remains a lot of work to do to implement new processes, systems and structures but the opportunity and outlook for the Group remains very positive"

Chris Stone
NON-EXECUTIVE CHAIRMAN
17 July 2018

* See pages 122 to 124 for an explanation and definition of Alternative Performance Measures.

Chief Executive's review

We want to maximise sustainable and profitable growth by being a sought-after, strategic, full-spectrum advisor in cyber security to clients across the globe."

ADAM PALSER CHIEF EXECUTIVE OFFICER

Introduction

Following my appointment as CEO of NCC Group in December 2017, I am pleased to report on a period which has seen considerable progress towards the goals set out a year ago.

The fundamental conclusions of the 2017 Strategic Review remain the right ones. Put simply, NCC Group has a great market opportunity, but the business had outgrown its operating model. The strategic plan that was put in place had five key priorities: Grow, Implement, Improve, Lead and Develop. Those priorities are still essentially the right ones, but how we go about implementing some of them will change.

It has been a year of recovery. The results delivered in the period demonstrate NCC Group's ability to grow revenue in our continuing operations (Adjusted organic* growth 11.8%). This was accompanied by improved cashflow with our cash conversion ratio* up 3.0% points to 90.0% and a GM% gain of 4.9% points to 41.2%.

The impact of overhead increases committed in prior years meant the Operating Profit* margin gain was only 1.5% points but this is an important contrast to the years leading up to this one, in which NCC Group revenue grew strongly but at the expense of margins and cashflow. There remains plenty to do operationally to consolidate this performance but it is a very positive start.

A growing, dynamic market for cyber services

The Assurance division operates in markets which are experiencing a growing demand for cyber resilience service, driven by the increased awareness of individuals, businesses and governments around the world of the breadth, importance and potential impact of cyber threats. Growth in the year reflects the global trends of growing connectivity, increased complexity, greater regulation and rising costs of compliance. These factors continue and should sustain the double-digit growth rates we've seen in recent years in our core Assurance markets.

A renewed focus on Escrow

While Adjusted organic* growth in our Escrow division was aligned more closely with GDP type growth rates at 2.7%, this was in line with previously stated ambitions and the division continues to generate strong profits and cashflow. Increasingly, we view the lengthy client list and high-performing sales teams of our Escrow division as assets for the Group and intend to promote cross-working and lead generation between the Escrow and Assurance divisions of NCC Group.

The road ahead

Our ambition is to retain our status as a leading expert in cyber resilience: knowledgeable about the impact that the latest technology or regulatory changes will have on the risk profile of individuals, businesses and society. We will achieve this by continuing to invest in research and attracting high-calibre individuals.

Over the past 12 months, NCC Group has delivered value to clients across multiple sectors, geographies and technologies. Our services have supported the highest business priorities (including due diligence for M&A transactions and working with boards and executive teams to define risk appetite and best practice) through to the deepest technical issues (including, for example, cryptography, leading-edge hardware and transport systems).

We already work with over half of the FTSE350 companies across the lifecycle of cyber. However, in aggregate, it is true to say that today we are very transactional in our approach to working with many clients. We don't yet provide an end-to-end services solution for any of them. This is a significant opportunity for us to pursue.

In order to fulfil our potential there remains much to be done: upgrading our sales capability, making our delivery engine more efficient, developing our people and – crucially – implementing fit-for-purpose systems and processes as opposed to the patchwork of working practices inherited from years of acquisitions and forced growth.

* See pages 122 to 124 for an explanation and definition of Alternative Performance Measures.

In the last six months we have already taken actions which include:

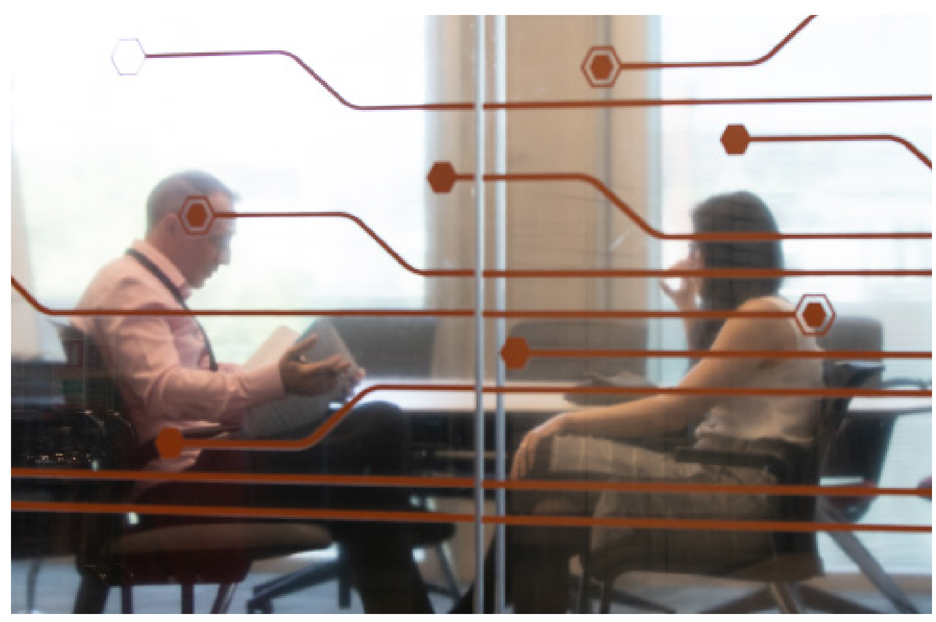
- Upgrading our leadership with the appointment of key individuals at the executive level and throughout the business
- The introduction of best-in-class training in commercial skills to complement the technical excellence for which we are already known
- Investing in Escrow to upgrade our product offering and sales capability in North America as the first steps towards returning Escrow to confident growth
- Accelerating the integration of our 2016 acquisition in the US, VSR
- Changing incentive schemes to align with group priorities
- Introducing a focus on profit and cash alongside revenue growth.

Securing Growth Together

These are some examples of ongoing initiatives. But in order to build the foundations of success in a structured and relentless way we launched in May our transformation programme – Securing Growth Together – with four core workstreams:

- Win Business
- Deliver Business
- Support the Business
- Develop our People

In the immediate future we will focus on organic improvements to the business while we will always be vigilant for opportunistic acquisitions in the near term. Within 12-18 months we intend to actively resume Adjusted organic* growth.



Measuring success

We're not setting formal targets at this stage, but our direction of travel is clear: good top line growth, improving margins and operational efficiency, continued innovation, all enabled by further developing our people. We expect to show clear progress on all of these, together with a more focused, agile and streamlined business.

Success will come through working together with a shared set of values which are tangible and meaningful rather than just lofty and noble. In essence I want our culture to be one in which our people have fun, make money and do great things for our clients.

Furthermore, we intend to provide more comprehensive and joined-up support to clients so that they can focus on their core activities and continue to thrive while we take away the pain and challenge of cyber risk.

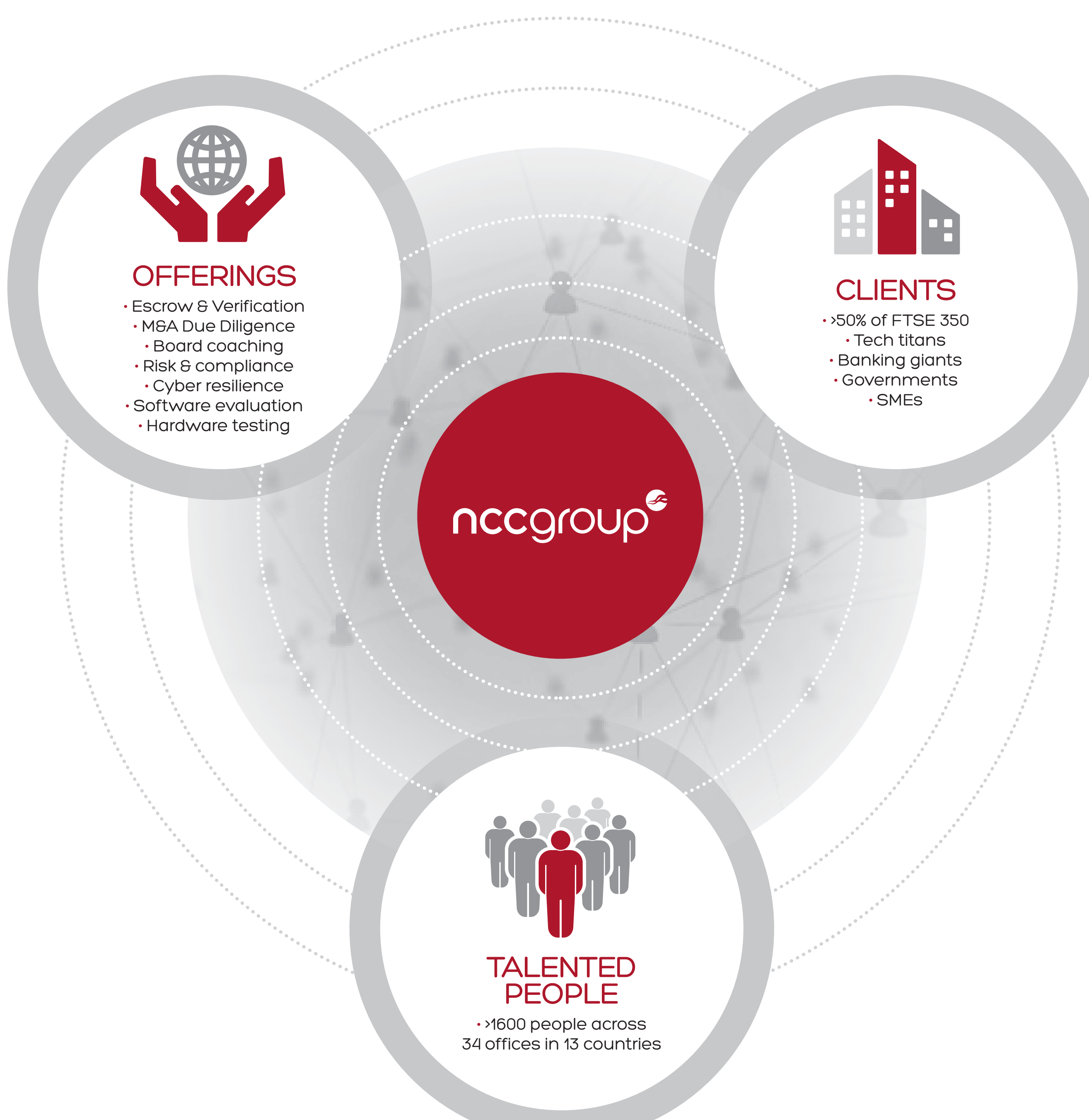
Adam Palser
CHIEF EXECUTIVE OFFICER
17 July 2018

* See pages 122 to 124 for an explanation and definition of Alternative Performance Measures.

Group at a glance

STRONG FOUNDATIONS

Multiple sectors, geographies and technologies



NCC Group helps clients at all stages of their business lifecycle and with any security or risk challenge they face. We are on hand whether a client be; conducting an acquisition and require cyber due diligence services; investing in a mission critical business system; looking to prepare for the advent of a new regulation; or needing hands on incident response in the aftermath of a breach.

CASE STUDY
M&A CYBER DUE DILIGENCE

Working closely with our client, we carried out a critical cyber security due diligence programme covering technology, operations and compliance.

At very short notice, we responded to a request to support the due diligence activities of a proposed acquisition.

Assembling a team of specialists covering advisory, technical security consulting, GDPR compliance and breach detection, we delivered 145 days of effort within a two week window to support our client's decision making process.

As well as looking at the inherent acquisition risk, we also identified the level of latent technical debt and the remediation activities necessary to bring the target company in line with the cyber security and privacy requirements of our client.

Once the deal was announced publically we moved to a second phase of engagement to supporting the acquirer's further understanding and integration planning activities.

CASE STUDY
INCIDENT RESPONSE

We responded to an unknown breach which was later attributed to a nation state.

When our client discovered that it had been the victim of a breach, we deployed a range of collection apparatus and tooling in order to acquire a rich understanding of the breach environment.

Our incident, malware and threat intelligence analysts collaborated to identify the source, scale and impact of the breach.

In conjunction with Government partners we were able to attribute the attack to a sophisticated nation state actor and gain understanding of their areas of interest through data they ex-filtrated.

We then worked with the organisation to remediate the issues that were initially exploited resulting in improved and enhanced resilience to future incidents.

CASE STUDY
PREPARATION FOR ADVENT OF NEW REGULATION

We worked with our client, a global travel company to assess its readiness to meet the requirements of the General Data Protection Regulation (GDPR).

We mapped the flow of data into the organisation, how it was used, stored and shared with external stakeholders, including retention and security of data across in excess of 20 locations. This helped us to identify areas where there were gaps in meeting the requirements of the new regulation. We then performed targeted ISO 27001:2001 gap analysis at key locations that had the highest complexity of data processing and requested that the remaining locations conducted self-assessments for us to analyse further.

Upon completion of our work, the client had a good understanding of how data flows into, around and out of the organisation, a comprehensive data asset inventory and record of processing activities for the organisation to maintain.

Additionally, the findings and recommendations from the remaining aspects of the review were aligned to good practice and prioritised using a risk-based approach to develop a roadmap showing practical steps required to reduce risk and meet the requirements of GDPR.

CASE STUDY
CONTINUITY OF BUSINESS CRITICAL SOFTWARE

We worked with our client to ensure that its investment in a new business critical system was protected with software escrow and verification.

Our client, a leading holiday operator, decided to introduce a new reservations platform to replace its legacy systems. With an escrow and software verification solution, we worked with them to ensure that provisions were in place to protect it should an event occur that had the potential to disrupt the ongoing service of the application and affect customer experience.

When its software supplier unfortunately went into administration, the holiday operator needed to invoke the escrow agreement and requested a source code release from NCC Group. The fact that the holiday operator had taken steps to mitigate risk, and had ownership of the build reports for the reservation system, played a crucial part in the legal negotiations that followed with its supplier's administrators.

Only because the holiday operator had carried out verification of the source code through NCC Group's Full Verification and Build Assured Verification did it have a full build report for the system and was able to carry on maintaining and supporting the application by appointing an alternative contractor to do so.

Group at a glance

NCC Group is a leading independent cyber security advisor, sought after for our expert solutions that enable individuals, businesses and society to thrive. We are trusted to protect and secure our customers' critical assets.

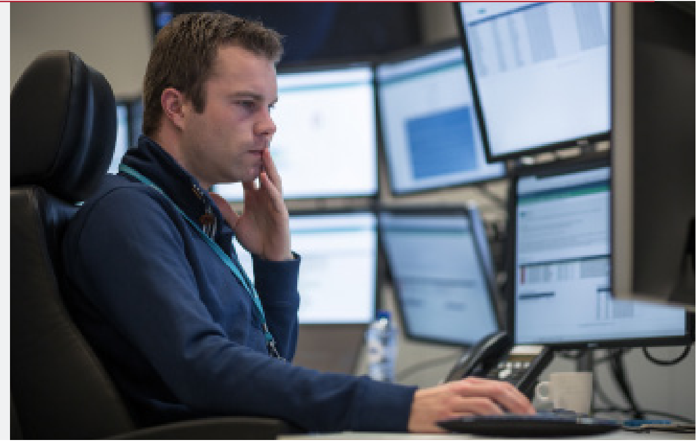
We aim to innovate and continually develop new products and services to match the rapidly evolving and complex digital world. Our goal is to stay at the forefront of thought leadership and delivery in our current markets while expanding geographically where appropriate.

Our Group operates in two distinct but complementary divisions: **Assurance** and **Escrow**.

The two divisions are also disclosed in the Financial Statements as our two Reporting Segments. While these are managed and reported internally as similar groups of activities, throughout this report we are able to disclose additional revenue information at a geographical level but also at a sub-level of similar services. This additional analysis is to aid the users of the accounts in understanding our different types of revenue.

ASSURANCE KEY FACTS

- One of the leading pure play cyber security businesses focusing on services as opposed to products
- Customers in 50+ different countries
- Largest customer is 4.0% of sales
- Broad range of professional services (81.9%) of Assurance revenue) and rapidly growing managed services (13.1%) delivered by integrated teams across many virtual markets
- Balance of Assurance revenue (5%) generated by the sale of products
- Deep specialism in a number of industry sectors



ESCROW KEY FACTS

- Leading provider of Escrow services in the UK
- Growing positively in the USA and Europe
- Customers in 85 different countries
- Top ten customers represent 7.6% of sales
- Largest customer is 1.2% of sales

READ MORE ON OUR PERFORMANCE ON PAGES 26 TO 39

Where NCC Group operates

We have a significant market presence in the UK, the USA, continental Europe, and a smaller footprint in a number of other international locations. All of our geographical markets present opportunities for growth by leveraging our core competencies.

USA
£68.4m

UK
£100.3m

Europe & ROW
£64.5m

KEY: ASSURANCE ESCROW

OUR REVENUE* SPLIT

ESCROW CONTRACTS **£26.3M**

ESCROW PROFESSIONAL SERVICES **£12.5M**

ASSURANCE

PROFESSIONAL SERVICES **£159.1M**

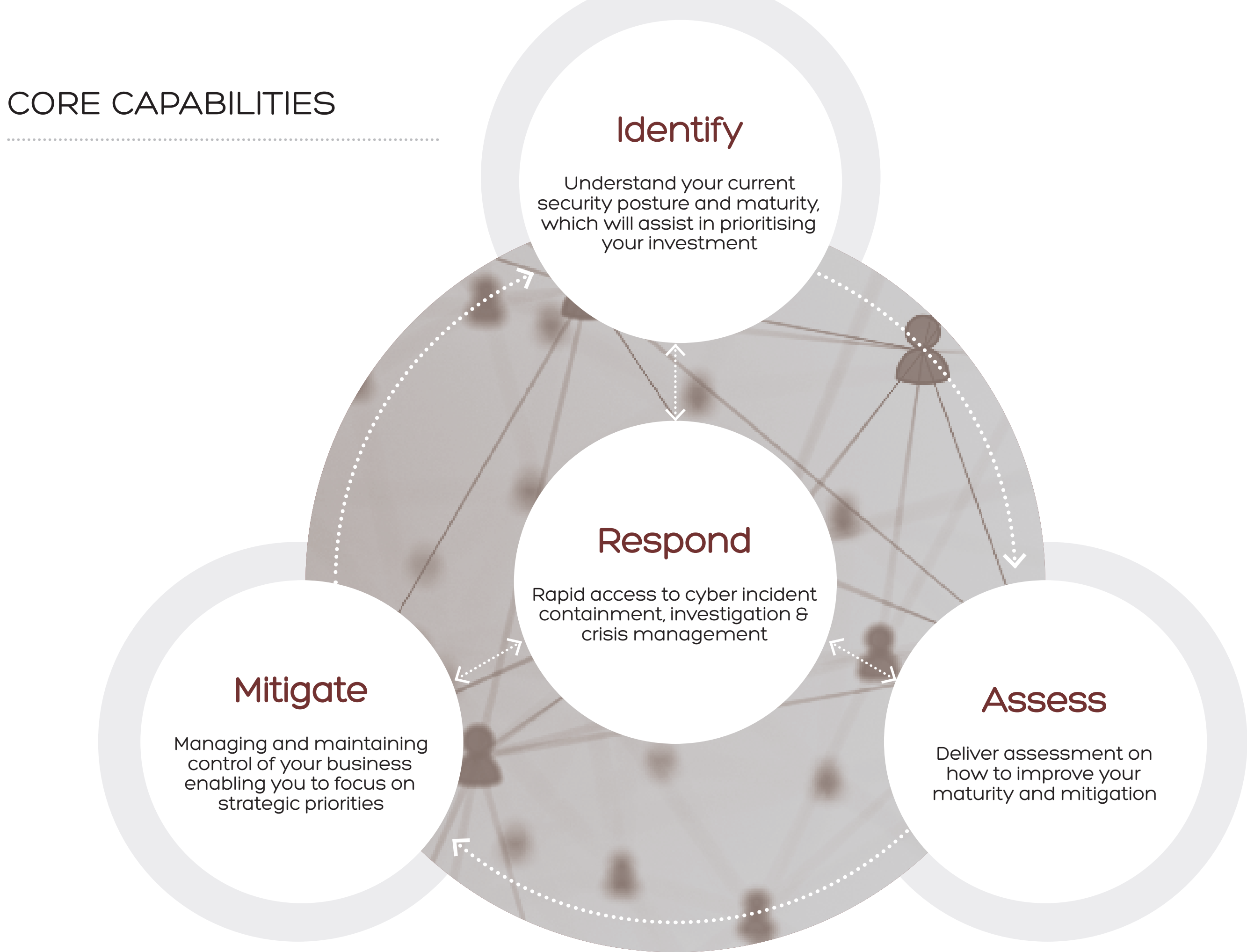
MANAGED SERVICES **£25.5M**

PRODUCTS **£9.8M**

* Types of revenue groupings within the Escrow and Assurance divisions, they are not management units or profit centres.

Group at a glance

CORE CAPABILITIES



In today's threat landscape, understanding the risks that organisations and their customers are exposed to is more important than ever.

Understanding the impact and the steps that organisations can undertake to make themselves resilient is key to protecting their brand, reputation and sensitive customer information.

Building a cyber-resilient organisation can be a complex process but it is not impossible.

Through an extensive suite of services, NCC Group provides organisations with peace of mind that their most important assets are protected, available and operating as they should be, at all times.

With extensive technical depth and strategic vision, NCC Group is ideally placed to help organisations identify, assess, mitigate and respond to the risks they face.

Identify strategic improvement

- Strategic advice and planning
- Data risk identification
- Compliance accreditation

Examples
- M&A technical due diligence
- Incident response planning
- Data mapping
- Payment card compliance gap analysis

Technical assessments to enable effective mitigation

- Threat identification
- Vulnerability identification
- Planning for change
- Strategic advice and planning
- Data risk identification
- Government and industry compliance
- Software development life cycle

Examples
- Penetration testing
- Reverse engineering
- Cryptographic review
- Static code analysis
- Policy review

Effective solutions to business challenges

- Software assurance
- Implementing change
- Asset verification
- Industry standards compliance
- Hosted and managed services
- Virtual security team

Examples
- Managed threat protection
- Technology solutions
- Security analytics
- First responder training

Trusted services for effective recovery

- Cyber incident response
- Post incident analysis
- Asset recovery

Examples
- Cyber incident helpline
- Cyber forensics
- Software escrow
- Takedown services
- Trusted advisor

Identify

Services designed to help organisations understand their current security posture, allowing strategic improvements to be identified and investment prioritised. These solutions aim to help an organisation understand what the Board's cyber security strategy is or should be, the data and assets they have, where high value data resides and if they are meeting regulatory obligations.

Assess

Technical assessments to enable effective mitigation. This allows organisations to conduct informed risk mitigation planning and understand how to improve their cyber maturity.

These services help organisations to understand their:

- Cyber threats
- Vulnerability exposure
- Regulatory obligations and whether they are compliant
- Application security and functionality
- Change plan

Mitigate

Mitigating organisations' cyber risks through a complete spectrum of consultancy and managed services which can help organisations to:

- Ensure their software and applications meet business requirements
- Comply with industry standards
- Implement change effectively
- Manage and monitor their cyber infrastructure effectively
- Understand staff training and support needs
- Protect investment in business critical software

Respond

Trusted discreet services for effective recovery support. An end-to-end response solution, from incident planning to investigation, crisis management and asset recovery. With one of the largest incident response teams in the world, NCC Group is equipped to reduce the likelihood of a breach becoming a greater problem than it ought to be. NCC Group offers services across the entire incident response lifecycle.

Group at a glance

ASSURANCE DIVISION OVERVIEW

We are one of the world's largest and most trusted cyber security companies, offering unique capability and scale, strong technical reputation, and expertise valued by our customers.

We work with our clients to help them to understand their current cyber posture, tackle the latest threats, contain and mitigate any breach and become more proactive when managing risk by developing strategies to improve overall cyber security maturity.

Through our Assurance division we offer a range of complementary professional services to our clients (including expert technical security testing, risk management and governance consultancy) and managed services (which include monitoring, detection and response services).

Our two security operations centres (SOCs) provide 24x7 frontline support to major organisations, offering peace of mind that their business critical infrastructure is continuously monitored by world class consultants.

We are experts in transforming our knowledge of the threat landscape into valuable actionable information for our clients. Our expert threat intelligence services provide information on which threat actors are out there, what their intent is and which tactics, techniques and procedures they use to execute attacks. Through both human and technical information gathering we take raw data and information from a variety of sources and turn it into strategically, tactically or operationally valuable information for our clients.

Our people are our most important asset and we have assembled one of the world's largest security consulting teams. We focus on attracting and retaining pioneers and leaders in their respective fields, while at the same time training the next generation and investing significantly in research and development.

We innovate and invest to enable government, business and society to stay secure as the threat landscape evolves around us. Through our specialist practices we have opened a dedicated automotive cyber security assessment, research and training facility to ensure the next generation of autonomous and connected vehicles are cyber secure, and have launched a Centre for Evolved Next-generation Threat Assurance (CENTA) to make critical national infrastructure more cyber resilient.

We encourage all of our security consultants to conduct their own research, and regularly host our Cyber Research and Innovation Council to ensure we hear from our customers and stakeholders as to the challenges they are facing, and how we are able to respond.

We are proud of our record of excellence, contribution to industry and ambition to be the leading cyber security company in the world. Through our Assurance division we represent global cyber security industry leadership and are committed to innovation and focused on always being a step ahead of the attackers.

Group at a glance

ESCROW DIVISION OVERVIEW

The Escrow division offers a high value product to customers who rely on business critical applications and software packages for the day-to-day running of their business functions and processes. In today's integrated business world, these applications typically extend well beyond accounting and reporting systems into Enterprise Resource Planning (ERP) tools and even deeper into an organisation's service delivery capability such as design tools in an advertising agency or manufacturing equipment in an engineering company.

These applications are often supplied by third party technology partners. However, if a software developer or Software as a Service (SaaS) partner goes out of business or changes hands, the continuing availability of these applications could be in doubt and hence business continuity is potentially put at risk.

NCC Group's escrow and verification services assure the long-term availability of business critical software and applications for licensees while protecting the intellectual property rights (IPR) of technology partners. Working with all parties involved in the development, supply and use of business critical software applications, NCC Group assures that source code and other information is available and tested to assure the quality of the source code behind vital applications, providing assurance that should it ever need to be recreated from the original source code, the knowledge and guidance to do so will be available.

We continue to develop our SaaS service to respond to the continuing evolution of our marketplace and to assist our customers in their movement towards the Cloud.

Further, we provide registry data escrow services (an ICANN regulatory requirement) for registrars and registries of domains. The IP address of each domain registered within a TLD is safely secured along with Registrar Data Escrow.

Due to its importance to clients, Escrow provides the Group with excellent recurring revenues along with good margins and cash generation. The Escrow division remains a key cornerstone of the Group and is the platform upon which the organisation has been built. The fundamentals of the Group are fully encapsulated in this division, which is based around the very highest standards of customer care and equitable treatment to all parties contained within a contractual relationship.

Where possible, Escrow will work with the Assurance division to offer complementary services to protect customers against a full range of cyber risks. A good example of this has been the development of offering SAST (static application security testing) services to technology partners on source code that is being deposited and verified with the Group's Escrow division.

The Group is one of the world's leading and most established software escrow providers, with more than 35 years' experience and protects over 18,000 organisations worldwide, combining longevity and trust with technical expertise. The expertise contained within the Escrow division, along with its credentials, offerings, global scale and reputation, sets NCC Group apart from other escrow providers.

Strategic Report

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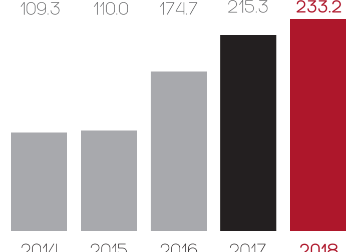
The Strategic Report includes an overview of our strategy and business model as well as our markets and competitive position. We explain our performance over the financial year ended 31 May 2018. We also outline the principal risks we face and how we manage them.

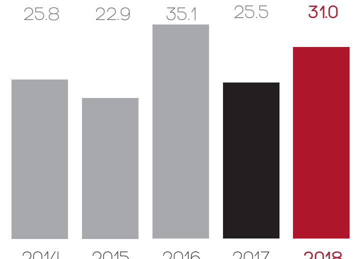
Highlights

FINANCIAL HIGHLIGHTS

Total Group revenue (£m)



Adjusted* Operating Profit (£m)



- Group revenue from continuing operations grew by 8.3% to £233.2m (2017: £215.3m) made up of:
  - Adjusted Organic* growth of £24.1m
  - Impact of acquisitions in the prior year: (£4.0m all in Assurance)
  - Impact of changes in weighted average foreign exchange rates between financial years 2017 and 2018: (£2.6m adverse)
  - Assurance: 13.8% Adjusted organic* growth to £194.4m
  - Escrow: 2.7% Adjusted organic* growth to £38.8m
- Adjusted Operating Profit* grew 21.6% to £31.0m (2017: £25.5m)
- Profit before tax recovered to £11.9m from a loss in the prior year of £44.8m
- Basic EPS from continuing operations 4.5p (2017: loss 16.6p)
- Adjusted* basic EPS: 8.3p (2017: 6.2p) , adjusted effective tax rate of 22.4%
- Total dividend maintained at 4.65p per share with final dividend proposed of 3.15p per share
- Net debt* reduced to £27.8m (2017: £43.7m)
- Cash conversion ratio* improved to 90% (2017: 87%)

STRATEGIC AND OPERATIONAL HIGHLIGHTS

- Good progress made on the implementation of the Strategic Review, new initiatives in place to broaden and deepen the strategic plan.
- Transformation programme launched internally under the brand 'Securing Growth Together'.
- Organisational restructure completed around geographical business units and customer segments.
- Completed portfolio rationalisation in disposing of Web Performance and Software Testing businesses.
- Significant changes to the Board and Executive management team.
- Initiatives now underway to develop skills and capabilities as well as deepening industry specialisms and alignment.

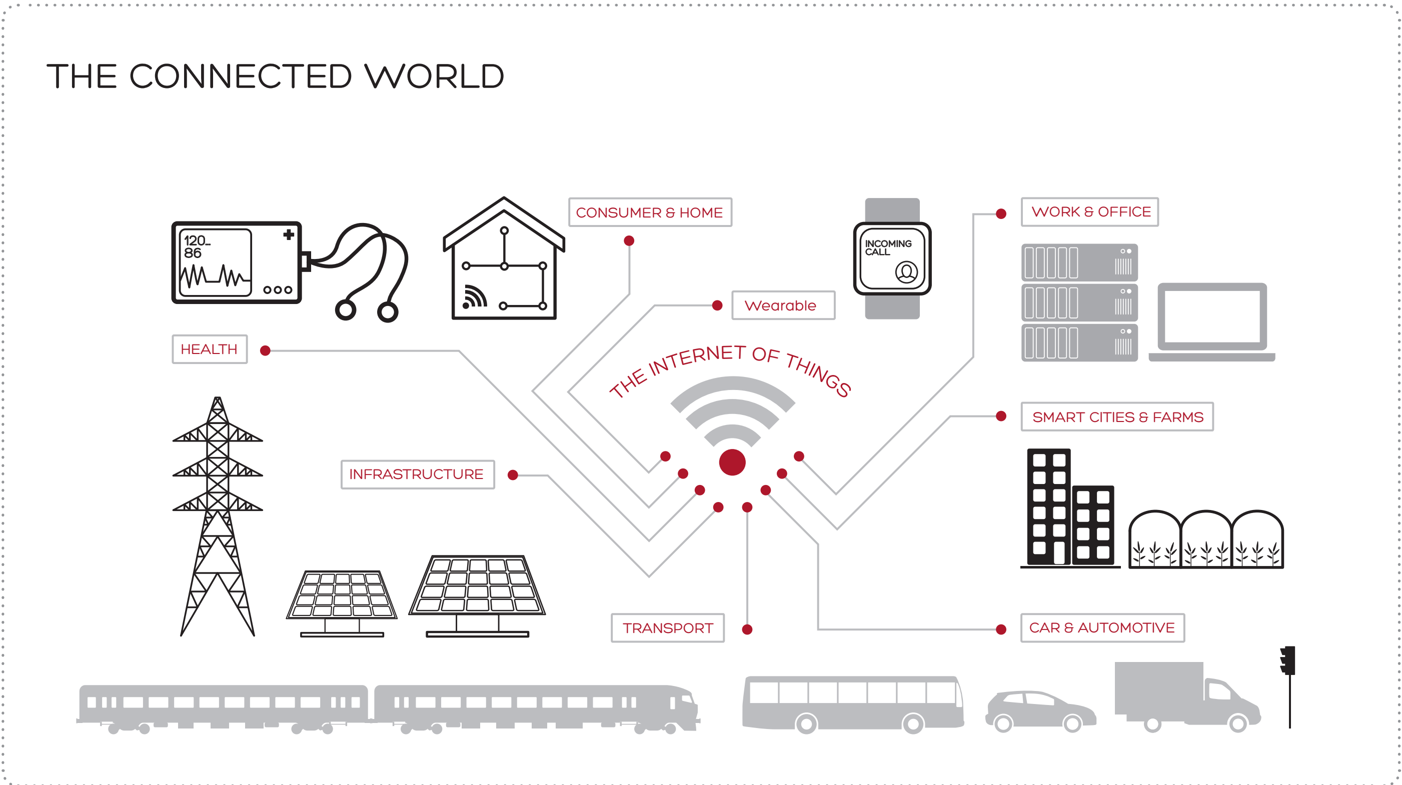
OUTLOOK FOR 2018/19

- Leverage high value products and services through our global sales channels by lowering internal barriers to Group-wide co-operation.
- Maintain double digit growth.
- Short-term focus on internal self-help measures and efficiencies in a buoyant market.
- Medium-term cost investments in the transformation programme (£3.0m-£4.0m p.a. for two years).
- Medium-term goal of steady, annual, incremental net margin growth.

* See pages 122 to 124 for an explanation and definition of Alternative Performance Measures..

STRATEGIC REPORT

The market landscape



The landscape

For better or worse, last year was memorable across the technology and cyber security landscapes. Data breaches were massive and numerous, global ransomware outbreaks brought organisations to a standstill and disruptive technologies and organisations - including various cryptocurrencies - was (and still is) the talk of the town although at times coupled with high volatility.

On top of that, our increasingly connected society has become a playground for malicious threat actors be they nation state, organised crime or lone individuals. And when everything is connected, everything is vulnerable. The consequences of an attack range from the frustrating to the kinetic. Our global society is now built on digital connectivity, and these connections are growing at lightning speed.

It wasn't long ago that digital connectivity meant a desktop PC and a modem. Now it encompasses mobile phones, tablets, cars, trains, planes and homes – communicating with each other over networks such as the internet, ZigBee or similar. The internet of things (IoT) has made the physical world digital, as we attempt to connect anything and everything to make our lives simpler and more enjoyable.

With more and more devices comes an avalanche of data. Many still reference the IBM statistic from 2015, that 90% of data in the world had been created in the previous two years. This is an unstoppable trend.

As a truly global society we are becoming reliant on this data. In business it informs strategy, allows for personalised customer interaction and streamlines processes. For consumers it enables improved health and fitness measurements, frictionless travel experiences and tailored products and services.

The reliance on data by both businesses and consumers is inextricably linked. Consumers are demanding a certain type of experience from the brands they engage with. Businesses are reacting accordingly.

Privacy and security

Against this backdrop, global policy makers are working hard to create legislation and regulation that can cope with this data explosion, focusing predominately on privacy and security. In the European Union (EU) that manifested itself as the General Data Protection Regulation (GDPR), a set of sweeping changes that affected all 28 EU member states and those that trade with businesses in the EU from 25 May 2018. Any data that businesses collect, process and share about employees, contractors, consultants, customers, suppliers, clients or visitors must comply with the principles of GDPR. Hefty punishment can be levelled against the non-compliant, with the Supervisory Authority in each country (the Information Commissioner's Office (ICO) in the UK) now able to fine offenders a maximum €20 million, or 4% of global turnover (whichever is greater). The ICO previously had a fine ceiling of £500,000.

While GDPR affects all businesses, the Network and Information Security (NIS) Directive aims to ensure critical infrastructure and digital services are more resilient from cyber-attacks and failure. Another directive from the EU, the rules apply to roughly 600 organisations in the UK across digital infrastructure, energy, drinking water supply and distribution, health and transport, as well as digital services including cloud providers.

The UK government and its regulators have indicated that there will be reasonable expectations of compliance. The stated ambition for the first year of the NIS Directive is to develop a clear picture of the UK's critical national infrastructure's network and information system security. Organisations are expected to invest up to £17.5 million additional security spending in the first year as they review and assess their cyber security readiness.

Regulations are moving forward in North America too, with discussions around their own version of GDPR continuing apace. While the Cambridge Analytica data scandal brought digital privacy into the spotlight, the USA was ahead of the curve in respect of government standards with its FedRAMP accreditation which it unveiled in December 2011. This programme promotes data security and a cloud-first mindset in federal agencies. Any commercial cloud storing federal data has to go through a FedRAMP accreditation process and it's proved a success thus far with the 100th cloud service offering certified in April.

In China, a new data protection law became effective on 1 May 2018, providing much stricter guidelines around the protection of personal information. This trend for greater security and integrity in data storage and processing is very much global.

This international movement has been a reaction to a growing threat. The security of this data is at risk from a range of actors – from nation states to organised crime and 'script kiddies' operating from everywhere and anywhere.

What motivates these actors in turn informs their attack strategies. Nation states driven by geopolitics are more likely to focus on espionage through highly advanced attacks, although Russia also demonstrated the desire to disrupt. Organised criminals will follow the cash, looking to make as much money for as little effort as possible. Hacktivists want to make a political point and will opt for online vandalism or disruptive attacks, while script-kiddies are often simply pushing the boundaries and seeing what's possible.

The concern for organisations is that the time taken for the advanced threats - often developed by nation states – to fall into the hands of the other actors is falling. Threats that were only a worry for the biggest targets can now be turned on the majority.

Online security still seems to be behind the curve in keeping pace with the numerous types of organisations and individuals that seek to disrupt the internet and organisations' use of systems and data. The threat of being hacked or having valuable data stolen continues to evolve rapidly and at a seemingly unstoppable pace. Attacks using phishing, fake payment requests and ransomware are now everyday events. These attacks often cause significant operational disruption whose economic consequences can vastly outweigh any cost of remediation or prevention. Our challenge is to ensure that customers understand that a relatively modest upfront investment in advice or other cyber services can ultimately save significant sums in remediation and reputational damage clean-up costs.

An evolving security market

This macro environment is contributing to a flourishing cyber security market. The unstoppable growth in connectivity – coupled with the complexity of the likes of artificial intelligence and next-generation transport systems – will only increase the potential vulnerabilities let alone address the legacy latent technical security debt. This puts both businesses and individuals at greater risk.

The wave of regulatory change has made compliance an even more important discussion point for boards across the world, while increasing the costs of compliance failure in tandem. All of this provides ample opportunities for cyber security businesses as both advisors and technical experts.

While the cyber security market itself has reached a satisfactory level of maturity, cyber security still isn't normalised across other industries – particularly complementary sectors like insurance and law. As this process continues we expect it to drive further market growth for security businesses.

At a high level, we expect the market to continue growing with ever more competition and increasing demand of deep sectoral or technology knowledge be it in advisory, technical, operations or response.

- Cyber will increasingly become a science
- Trend of using cyber insurance and other risk transfer mechanisms increasingly in overall risk management strategies is set to continue.
- Much as GDPR and NIS have driven national legislation, we expect governments and their regulators around the globe to legislate further.
- Further regulation to control cyber security proliferation and national capabilities
- Growing demand for advice on secure implementation of machine learning/artificial intelligence
- IoT and general growth of embedded devices will drive the hardware security market
- Companies will demand their cyber security partners to have deep sector expertise relevant to them
- Security of start-ups becomes a requirement
- An increase in companies using cryptocurrency, block chains and smart contract to create sustainable valuable companies

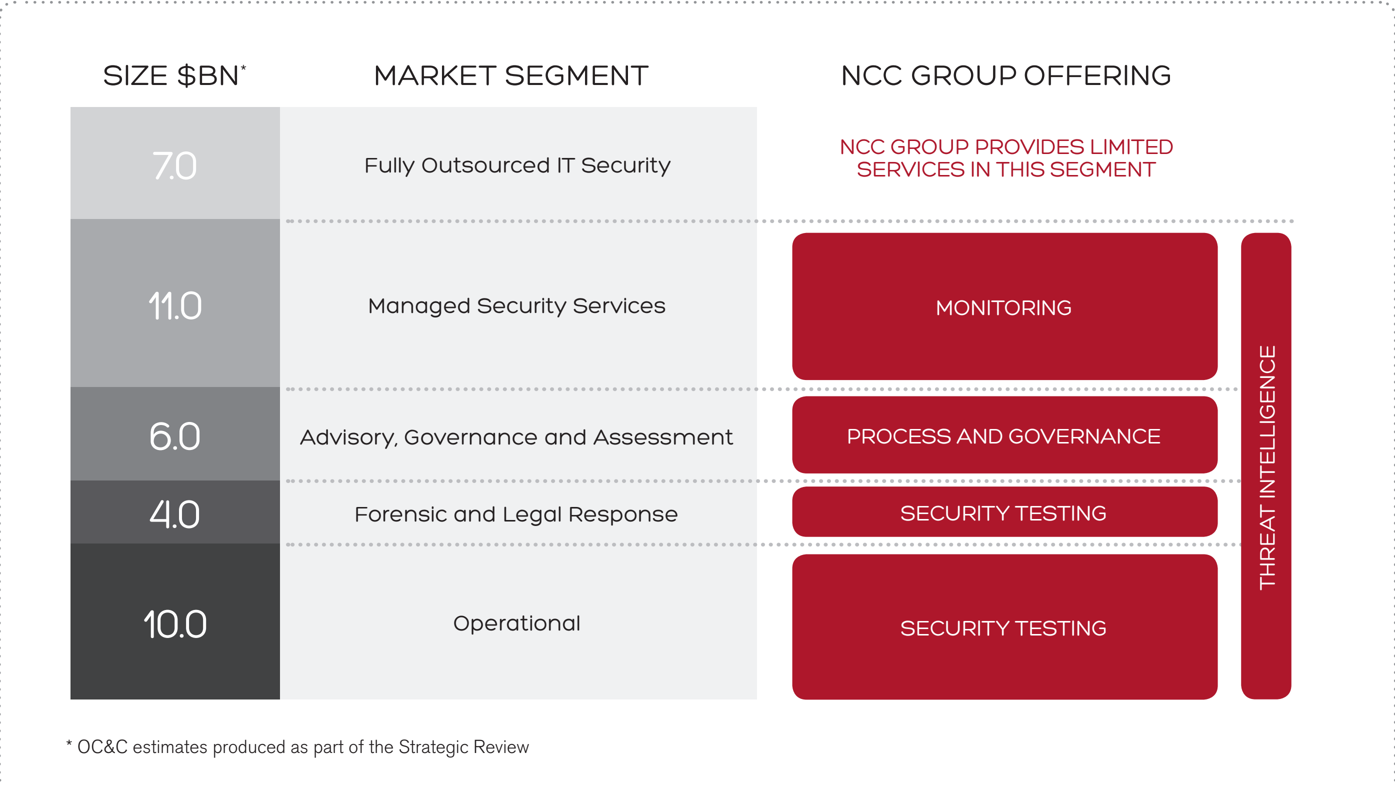
The world in which we live cannot be made completely safe from cybercrime.

As the number and range of threats proliferate, being innovative and using our experience and skills to help organisations prepare and become more resilient becomes more important than ever.

The market opportunity

The market opportunity

Fundamentally, NCC Group is operating in a dynamic and fast growing market. Or rather, a series of related but separate fast growing markets. These statements apply whether one considers the marketplace from a product and service perspective, from a geographical perspective, or from an industry vertical perspective. Change is literally the one constant in almost all aspects of the market.



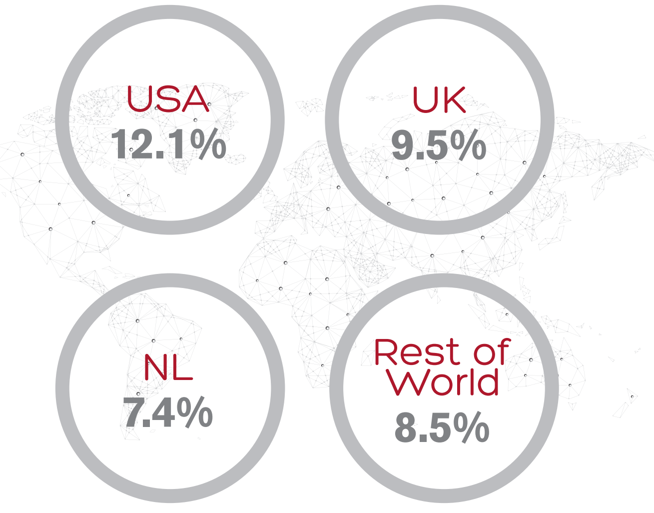
* OC&C estimates produced as part of the Strategic Review

Estimated market size

The addressable market is clearly very large at $38bn in total and very fragmented. Management estimate that NCC Group is one of the largest "pure play" cyber security companies focusing on services as opposed to products but yet has relatively low market shares in most segments and geographies.

Market research as part of last year's Strategic Review confirmed that market growth is likely to continue and that customers' propensity to pay more for high quality advice and solutions is growing.

Estimated CAGR 2016-20*



Customers' buying behaviours and key purchasing criteria (KPCs)

Customers made clear that their key buying criteria focus more on quality of technical expertise and advice as opposed to price. While value for money (effectively a ratio or a comparison of quality and cost) is very important, that reflects more on the demand for quality than low cost.

This is highlighted in the chart below that shows the relative importance of customers' Key Purchasing Criteria (i.e the factors that influence their buying decisions).

Interestingly, customers did not place as high a value on the ability to source internationally, even those customers who did buy in multiple territories.

In summary, on the items that matter most to customers in their buying decisions, NCC Group scores well or very well with the exception of customer service, which appears to be an industry-wide issue.

KPC 1 – Technical expertise

Consistently noted as having top-tier technical talent, Fox-IT seen as most technically advanced player in the Netherlands.

KPC 2 – Customer service

UK and US customers often feel NCC Group is too transactional. Fox-IT customers value their trusted partnership.

KPC 3 – Value for money

NCC Group and Fox-IT generally perceived as good value. Customers very willing to pay more for quality.

KPC 4 – Speed of delivery

Seen as "mid-sized", competing with boutique pure-plays, NCC Group advantages include wider capabilities and flexibility.

KPC 5 – Brand/Reputation

Well known by security professionals in the UK and US. Fox-IT highly regarded in the Netherlands (Dutch government work).

KPC 6 – Low price

Seen to be expensive but price rarely the deciding factor. NCC Group rated highly as good "value for money".

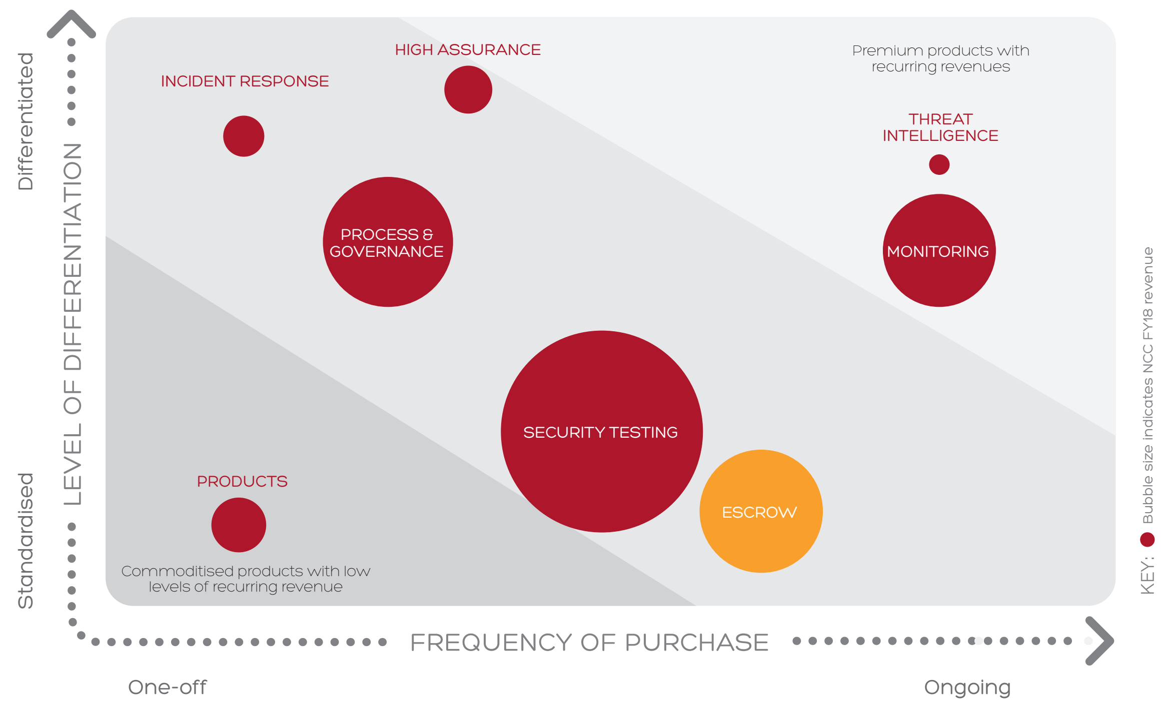
Our competitive position

We must continue to drive innovation and thought leadership in our key market segments. The key is to ensure that our thought leadership also leads to practical new solutions to apply to the challenges and issues that our customers face. Finding the right balance of 'blue sky' thinking and ideas that can be rapidly commercialised.

Innovation and creativity are two key foundations for the Group's continued development and growth. Our Target Operating Model is designed to ensure that these remain a core feature of the business.

The recent well publicised cyber-attacks on a wide range of public and private enterprises around the world are a reminder of the need to constantly innovate.

The graphic below shows the current range and scale of the services and products offered by NCC Group in the cyber security market.



Strategic review and transformation

TODAY'S TRUTH

Market dynamics continue to benefit NCC Group

Securing Growth Together transformation programme

All businesses go through transitional phases and we are no exception. NCC Group has a great future, but only if we build it ourselves. It is after all 'Only Us', a phrase we use to encapsulate the need for each one of us to materially contribute to success.

We know that we must change so that NCC Group can survive, and thrive, and we have established our Securing Growth Together programme as a supportive structured framework through which we will improve NCC Group.

It isn't just about avoiding the challenges, and perhaps the mistakes of the recent past – it is about fulfilling our potential.

We have the opportunity to drive the new cyber agenda in this complex, changing landscape but we must organise ourselves correctly in order to succeed.

Vision and strategic alignment

Crucial to our success on this journey is engaging our whole organisation around a common set of goals, a shared purpose and values; working together to create enduring success for NCC Group. Crystallising our vision and strategic priorities for the next three years is an essential prerequisite. It provides us with the basis to understand where we need to change and adapt; to make the right choices and invest judiciously to fuel our growth and strengthen our position in the market; and to create an organisation where all of us together are energised and supported to make NCC Group the most rewarding place to be.

We are making significant progress in charting our future. Our leadership team is actively engaged in a strategy clarification and implementation process which will deliver our three-year strategy roadmap, and the critical performance metrics and priority initiatives we need to focus on. This process is enabling us to challenge past assumptions, and foster open constructive debate while delivering a robust, logical roadmap connecting the different parts of our organisation and clearly articulating how we deliver value to our markets, customers, and shareholders.

None of this can happen without recognising that our future success depends on the excellence and talent of our people – that is the foundation of our strategy roadmap. We are committed as a leadership team to create the conditions for our people to thrive and be fully engaged with NCC Group's vision and journey.

The vision and strategy alignment process will help us embed the NCC Group strategy within the organisation. It will support every individual to understand the strategy, what it means with respect to their role; and how each of us can contribute to the corporate goals with clarity and confidence.

Business model

HOW WE ADD VALUE

Research and innovation

Research and innovation forms a critical cornerstone of NCC Group's cyber security offering. Our world-class research allows us to continually understand, discover, exploit and mitigate threats in technology, people and processes.

Innovation allows us to deliver services and ensures we productise our research and development activities to be at the forefront of premium markets while efficiently delivering legacy commoditised services.

Professional services:

NCC Group's security experts provide a wide range of integrated professional services including end-to-end services in all facets of cyber security to our clients professional services. Some of these revenue streams are shown below.

Educating people on topics from GDPR and crisis management to malicious code analysis

We educate business leaders in cyber security, executives in compliance issues and technical teams in the lowest level facets of attack and defence. Our Netherlands training facility sees military and civilians from across the globe take part in comprehensive training programmes.

Assessing strategy, maturity, people, processes and technology

Our consultants work with our clients to assess their end-to-end business needs to identify and quantify risk. Our unique offering sees us work with a full spectrum of clients from cyber security transformation to assessing the technology in autonomous next generation vehicles.

Responding to incidents

NCC Group is recognised by both the UK and Dutch governments as a trusted partner to respond to incidents of national importance. For our commercial customers, we provide a world-class service in cyber incident response from situation management through to technical analysis and remediation.

Products and cloud services

By virtue of being exposed to a broad spectrum of client needs coupled with a culture of research and innovation, NCC Group continually looks for intellectual property development and commercialisation opportunities to create further value within the Group. This pursuit has seen us develop and acquire a rich portfolio of products and cloud services.

Safeguarding

Our products help ensure our clients' data is safe with our escrow cloud service meeting modern day demands for continual deposits. Our DNS, DHCP and IP Address Management (DDI) Guard product help s safeguard the network infrastructure of clients ranging from national telecommunications providers to international financial services firms.

Informing

We have developed a range of managed services to proactively monitor, report and respond to issues in clients' environments. From threat intelligence such as InTELL and Domain Intelligence through to cloud scanning of network infrastructure, we provide unique insights and cost-effective solutions. Our cloud services also enable our clients to measure the performance of their cyber security investment. Examples include our Piranha Phishing Simulation platform and Security Operations Centre solutions. As investment increases with regard to cyber security, senior management are increasingly looking for key performance indicators which can be quantified.

Defending

We have a broad range of defence products and services. Our Data Diode is accredited to levels allowing governments and critical national infrastructure to connect their networks in a safe and secure manner. Our Cyber Threat Management platform (CTMp) is the platform which NCC Group uses for its own Security Operations Centres but is available to customers who also wish to build their own. For clients looking for multi-factor authentication to mitigate weak or compromised passwords, our Signify 2 factor authentication solution provides a cost-effective solution.

Managed Security Services:

Managed Security Services (MSS) are another revenue type within our Assurance Reporting segment. Examples of MSSs are shown below.

Our Security Operations Centres (SOCs)

Our Security Operations Centres in the UK and the Netherlands process over 1 billion events a year across a range of managed security services. Ranging from highly sophisticated network and endpoint threat detection and response through to security infrastructure management and operations, our reach spans the globe with equipment in six of the world's seven continents.

NCC Group has leveraged its 24/7 SOCs to provide a number of new services this financial year, including providing a cyber support line to over 750,000 small and medium sized enterprises in the UK and various emergency response lines for cyber insurers.

Managed vulnerability scanning services

Our managed scanning services cover networks, applications and their source code. We provide cost-effective services to our clients and their business-as-usual requirements, both on demand and as ongoing, annually renewing services. Our offerings scale from SMEs looking for basic accreditation and certification through to large multinationals who wish to outsource their external and internal scanning requirements to a trusted provider.

Our strategy

STRATEGIC PRIORITIES AND KEY PERFORMANCE INDICATORS

Our continually evolving strategic plan is designed to deliver more sustainable revenue growth at improved margins, increases in shareholder value and an improved service and product offering to customers. Our strategic goals build on those established in the prior year, all of which remain fundamentally sound, with additional metrics focused on cash generation, a key attribute for a healthy business.

Strategic priorities	Rationale and current status
GROW At a managed pace and in areas of core strength	In attractive and growing markets where NCC Group enjoys strong competitive differentiators, we aim to deliver medium-term growth in excess of market rates. By focusing on higher value added services we will avoid growth for its own sake while simultaneously protecting our margins. Having implemented the structure of a new operating model, we need to overlay new go-to market strategies that match our capabilities to customer needs, markets and buying power. This will enrich the quality of growth that the business delivers.
EXECUTE Our new operating model	The Strategic Review identified that we do not organise ourselves in a way that brings simplicity and efficiency to our service delivery. We will execute a new and clear operating model that delivers better customer service at an improving gross margin.
IMPROVE Business processes and systems	Our existing business processes are inefficient, and in many cases difficult to scale. They often rely on manual activity and disparate information systems that can lead to a lack of clarity in decision-making. We will design and implement improved business processes with reduced manual interventions to lower our costs to serve.
LEAD Technical thinking and product development in a rapidly evolving and dynamic market sector	The market is evolving so quickly that we need to be at the forefront of developing new services and responses to address emerging threats. Our customers' needs are also changing; not just in response to new threats but also in respect of how and where they carry out their business. We need to respond to those changes in how we position ourselves and our services.
DEVELOP Our people to allow them to reach their full potential and contribute fully to NCC Group	All of our key strategic goals will rely fundamentally on our people and their skills so we need to ensure that we attract and retain high quality staff. We need to ensure they are properly trained, gain the right experience and are also properly incentivised – by recognition and the working environment as much as by reward.

KEY:

We are developing a new set of KPIs that align more closely to our strategic priorities. Some of these are still under development as noted below. We will report on each one as we implement our strategy.

KPIs and our performance in 2018	Focus and goals for 2019
(Above prior year) **Adjusted Organic* revenue growth (metric unchanged)** **2018: 11.8% (2017: 7.6%)** → Medium-term goal of above market growth rates while controlling costs → Adjusted Organic* growth in retained Assurance (13.8%) and Escrow (2.7%)	→ Continue roll-out of value-based sales skills → Align sales specialisms to market sectors where appropriate → Support internal development of an integrated "Manage, Detect & Respond" (MDR) service offer
(Above prior year) **GM% to improve (metric unchanged)** **2018: 41.2% (2017: 36.3%)** → Significant benefit from revenue growth effectively delivered by an unchanged number of delivery staff → Just under 1% benefit from mix improved by planned cut in resale of third party products → Medium-term goal to drive up margin, building foundations for sustainable growth	→ Our transformation programme, "Securing Growth Together" aims to LEAN the organisation and improve the GM% ratio in the medium-term → Potential for major benefits for customer service, efficiency and working capital
(Below prior year) **G&A* ratio to improve (metric unchanged)** **2018: 27.9% (2017: 24.5%)** → Overhead increases this year were largely committed in 2017 (new premises and full year impact of new support staff) → Many improvement projects underway in delivery and back office functions (NEW) (Above prior year) **Cash conversion ratio* (metric unchanged)** **2018: 90% (2017: 87%)** → Improving as earnings quality rises in parallel with better working capital management	→ "Securing Growth Together" will require investment of approximately £3.0m-£4.0m in additional costs in 2019 and 2020 → Expect benefits to flow in the following years
(NEW) → Launch of CENTA service (Centre for Evolved Next Generation Threat Assurance) → Unique high value offering in regulated financial services and governments → Continued release of leading-edge research on cloud and container technologies	→ Continued demonstration that NCC Group has a holistic view of cyber security → Understanding of opportunities and risk associated with emerging technologies → Brand growth with non-traditional audiences
(Below prior year) **Employee turnover 23.5% (2017: 21.8%)** → Strategic Review feedback told us our staff feel valued and enjoy working at NCC Group → Values and leadership training being developed → Staff retention rates at Group level are unchanged year on year	→ We will develop and implement employee performance appraisal and development systems → Creation of the NCC Group Academy focusing on helping our staff achieve their full potential

* See pages 122 to 124 for an explanation and definition of Alternative Performance Measures.

Group performance review for 2018

ADAM PALSER CHIEF EXECUTIVE OFFICER

Continuing Adjusted organic* revenue growth and significantly improved gross margins demonstrate the Group's ability to deliver high quality earnings growth."

ADAM PALSER CHIEF EXECUTIVE OFFICER

Group revenue

Group revenue from continuing operations increased by 8.3% to £233.2m (2017: £215.3m). Adjusted organic* growth was 11.8%. The results of the Web Performance and Software Testing businesses have been treated as discontinued operations in the current and prior year Income Statements following their disposal during the year. The disposal of Domain Services in the prior year has also been treated as a discontinued operation. The Income Statement therefore shows the profit after tax of the discontinued operations as a one line item. More detailed analysis of the results attributable to the discontinued operations are set out in note 5.

The table below shows an analysis of the movements in revenue between 2017 and 2018:

	FY 2017 £m	FX £m	Acquisitions £m	Disposals £m	Third party products £m	Escrow PY correction £m	Adjusted Organic* Growth £m	FY 2018 £m	Organic Growth Ratio%
Escrow	37.2	(0.4)	–	–		1.0	1.0	**38.8**	+2.7%
Assurance	178.1	(2.2)	4.0	–	(8.6)	–	23.1	**194.4**	+13.8%
Continuing total	**215.3**	**(2.6)**	**4.0**	**–**	**(8.6)**	**1.0**	**24.1**	**233.2**	+11.8%
Domain Services	2.6	–	–	(2.6)	–	–	–	**–**	(100%)
Web Performance	9.3	–	–	(1.5)	–	–	(0.9)	**6.9**	(11.5%)
Software Testing	17.3	–	–	–	–	–	(2.7)	**14.6**	(15.6%)
Discontinued total	**29.2**	**–**	**–**	**(4.1)**	**–**	–	**(3.6)**	**21.5**	
Group total	**244.5**	**(2.6)**	**4.0**	**(4.1)**	**(8.6)**	**1.0**	**20.5**	**254.7**	**+8.8%**

Adjusted organic* growth ratio is calculated as Adjusted organic* growth divided by FY2017 less FX, third party products and PY Escrow revenue correction. The FX reduction above is the translational impact resulting from a 6.1% weakening in the weighted average FX rate for the US$ which was partly offset by a 3.2% strengthening of the weighted average Euro FX rate. The movement related to "Acquisitions" reflects the fact that PSC Inc and VSR LLC were bought half way through the prior year and hence the current year benefited from an additional six months of ownership.

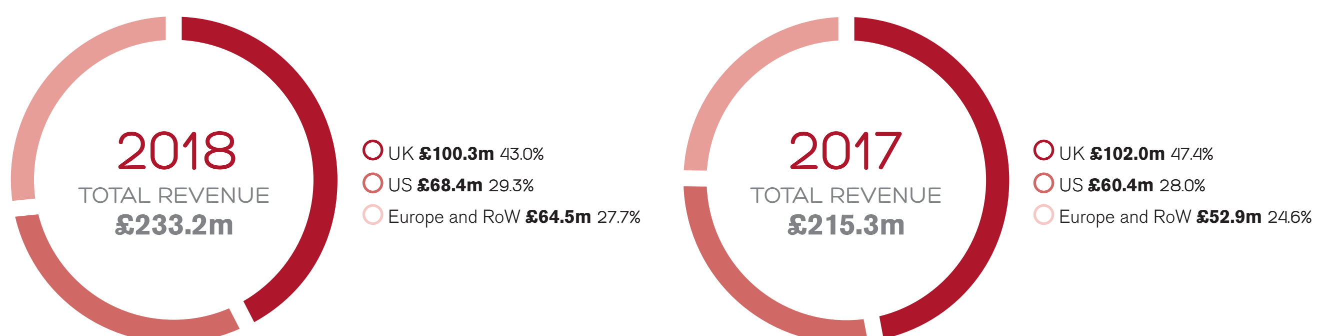
The disposals column shows the impact of not owning the discontinued operations for the full year. Web Performance was sold in March 2018 and hence just over two months of revenue were excluded, whereas there was a negligible impact from the sale of Software Testing in May 2018.

Last year, as a result of the Strategic Review, we reported that we would seek to rebalance the business away from single transaction reselling of third party products, unless they complemented our professional services or our monitoring activities. The £8.6m reduction above represents the completion of this strategic objective. In addition, we have moved to new lower risk terms and conditions for the Group so that if we do facilitate the procurement of a third party product for a customer, we act as an

* See pages 122 to 124 for an explanation and definition of Alternative Performance Measures.

Group performance review for 2018

REVENUE BY LOCATION



Note: some businesses sell a modest amount of services in other countries and report that revenue within their own geography

agent only and record a commission on the transaction as opposed to the gross revenue and cost values. This change was made midway through the financial year with an estimated additional full year impact next year to reduce revenue by £2.6m (all else being equal). We expect no further material reductions in this revenue line.

The balance of revenue movements are attributable to organic drivers. Adjusted organic* growth was robust at £24.1m (11.8%) with the bulk of the growth being driven by strong Assurance organic performance up 13.8%.

The amount of Group revenue earned outside the UK increased by £19.6m, reflecting strong growth in all overseas territories. The apparent £1.7m reduction in the UK reflects the £8.6m impact of the withdrawal from third party products without which the UK would show year-on-year growth of £6.9m or 6.8%. This lower UK growth rate reflects the higher proportion of UK sales from our Escrow division which typically grows at a much lower rate than the Assurance business.

The Group continued to have minimal reliance on any one customer or sector. Within Assurance the largest customer represents 3.9% of Assurance revenue. The largest customer in Escrow represents just over 1% of Escrow revenue.

Group revenue – impact of IFRS 15, Revenue Recognition

The Group has undertaken an in-depth risk-based analysis of the likely impact of IFRS 15 on its reported results. The analysis showing what the reported 2018 revenue, profit and opening reserves adjustments would have been if IFRS 15 had been applied is shown in note 1 to the Financial Statements. In summary, revenue and profit in the year would have been unchanged. The lack of a material impact of the new standard reflects the fact that the vast majority of the Group's revenue was effectively already recognised in accordance with the principles of IFRS 15.

Group profitability – alternative performance measures (APMs)

The Group makes use of alternative performance measures in addition to GAAP measures in order to assist the reader in forming an understanding of the underlying performance of the business. The explanation and derivation of the Groups APMs are set out in note 3.

Group profitability

The financial performance of the Group was ahead of the Board's expectations, with a firm second half performance. Operating profit* from continuing operations was £13.7m which was a significant improvement on the operating loss in the prior year of £42.9m. The prior year saw £57.6m of ISI's whereas these totalled £7.6m in the current year. A detailed listing and explanation of each ISI is shown in note 6. The prior years ISIs included £48.6m in respect of the impairment of goodwill of two business units.

The larger ISI's in the current year were in respect of a loss making contract provision (£2.5m), onerous lease provisions and property costs (£2.7m) and restructuring costs (£1.6m).

Adjusted operating profit* from continuing operations increased by 21.6% to £31.0m (2017: £25.5m). The primary drivers for this improvement were the Adjusted organic* revenue growth discussed above, which combined with gains in GM% in both business segments, to deliver a £17.9m (22.9%) increase in gross profit. GM% itself improved by 4.9% points in 2018 to 41.2% (2017: 36.3%). The gross profit margin improvement of each division is discussed further within the Operating Segments' performance reports below. Key highlights were the improvement in the utilisation of professional consultancy staff in Assurance coupled with a reduction of sales of low margin third party products.

The improvement from growth and GM% gains was then partly offset by a £12.4m (23.5%) increases in general and administrative expenses, which includes a £1.3m (26.5%) increase in depreciation and a £2.7m (103.8%) increase in the amortisation charge for the year (excluding the amortisation of acquired intangibles).

Property costs increased £1.8m, most of which was driven by the already committed investments in new offices, the key one being the relocation of the UK Head Office in Manchester (August 2017). New staff to support both operating divisions as well as the full year impact of staff recruited in 2017 and their associated on-costs added a further increase of £3.5m. We invested £1.6m of our gross profit gains in professional fees to support our change programme. Finally, we experienced transactional FX losses in the current year of £0.6m versus a prior year gain of £0.6m resulting in an adverse swing of £1.2m.

The £1.3m increase in depreciation charges was primarily driven by charges linked to the start of depreciation of the fit out costs of the new premises noted above. The £2.7m increase in amortisation costs was driven by a number of factors:

* See pages 122 to 124 for an explanation and definition of Alternative Performance Measures.

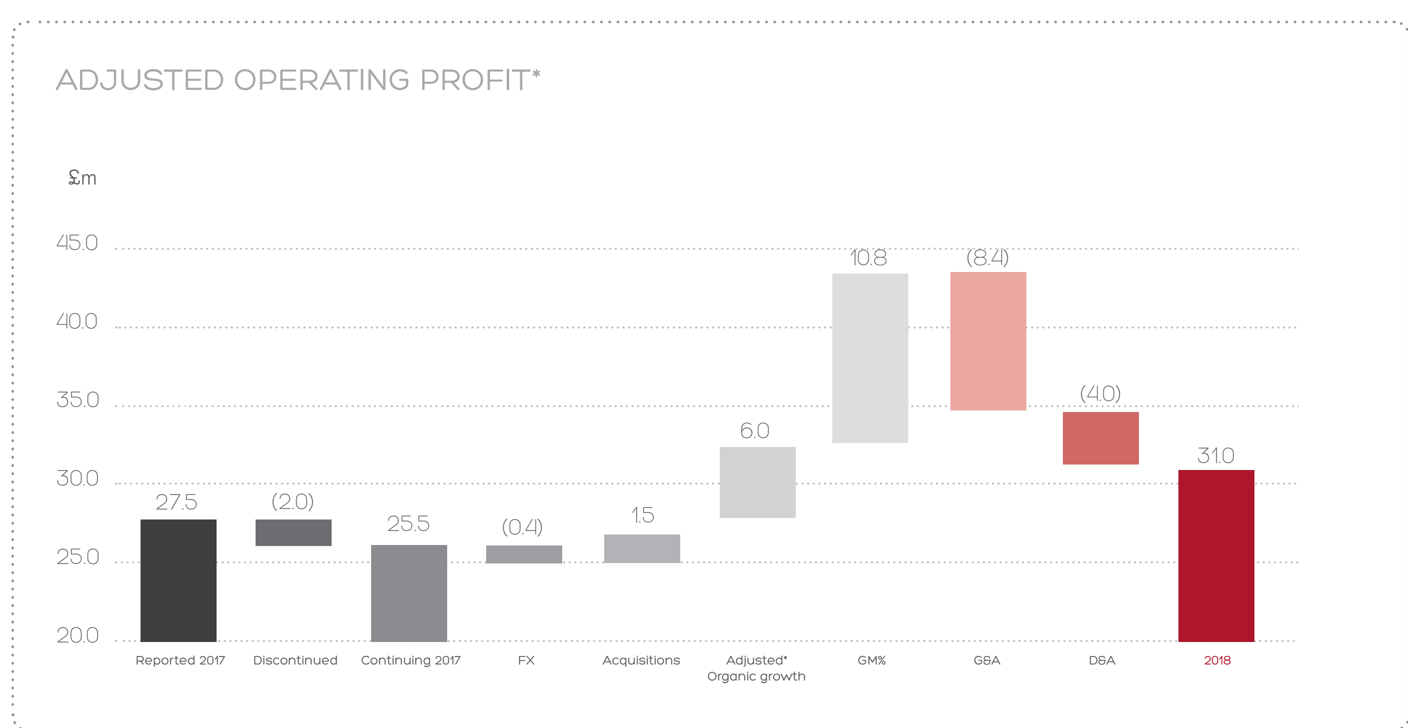
- During the year, we conducted a strategic review of our capitalised product portfolio and software assets linked directly to each product. This resulted in the commercial decision to withdraw from some revenue generating product sales. It also identified some projects as having slower commercial ramp ups than previously expected. We therefore accelerated the amortisation on those products projects which resulted in a one-off charge of £1.5m. This has been treated as an ordinary operating charge and not an Individually Significant Item because it relates to a number of individually smaller items and such project portfolio reviews are an ongoing part of normal product lifecycle management.
- The same risk-based review led to a decision to shorten the useful economic lives of a number of capitalised development projects from ten years to five years with effect from the start of the current financial year. This change in estimate increased the year's amortisation charge by £0.4m and this impact will continue in future until the end of the useful lives of those assets.
- The £0.8m balance of the increase in amortisation charges was the direct result of a full year's amortisation of the Fox CTMp MSS technology platform as well as the start of amortisation of spend in the current year that saw all existing Fox customers transfer to the new platform. The platform also went live internally in NCC Group in preparation for the UK commercial launch of services which occurred on 1 June 2018.

The improvements in Adjusted operating profit* shows that the immediate actions taken at the start of the financial year to control cost of sales, combined with implementing the findings of the Strategic Review, are delivering real improvements that reversed the significant decline seen in the second half of the prior year.

Central costs and allocations

In a number of territories the different reporting segments of Assurance and Escrow are often co-located with each other or with head office functions. Equally, in order to benefit from economies of scale, purchases and head office supporting functions are often run on a shared basis. In order to arrive at a more accurate picture of operating segment performance, it is necessary to allocate centrally collected shared costs to each segment. Allocations are made directly where possible and in other cases are made on the basis of activity costing or another mechanical attribution basis (such as ratio of shared space or a per user basis).

During this financial year, a full review of central costs and their allocation bases has been completed as the previous model, which had last been updated a number of years ago, was no longer an accurate reflection of how resources were being consumed in the Group due to the much higher growth rates seen in Assurance. The updated review resulted in an increased proportion of central costs to the Assurance division and a lower proportion to Escrow. We have restated the prior year allocation to give a more accurate comparable figure in both segments, as the reallocation basis in the current year is equally appropriate to the prior year. There is no overall impact of the reallocation on the Group's total result. The impact of the restatement is set out in note 4.



* See pages 122 to 124 for an explanation and definition of Alternative Performance Measures.

Group performance review for 2018

ASSURANCE DIVISION — BUSINESS PERFORMANCE REVIEW

Assurance revenue

The Assurance division accounts for 83.4% of continuing Group revenue (2017: 82.7%). The table below shows the primary drivers of growth in Assurance revenue.

Revenue (continuing operations)	Growth £m
Year ended 31 May 2017	**178.1**
Impact of FX movements	(2.2)
Prior year acquisitions	4.0
MSS – third party re-sales	(8.6)
Adjusted organic* growth (analysed further below)	23.1
Total Assurance revenue growth	**16.3**
Year ended 31 May 2018	**194.4**

In the year, Assurance revenue benefited from the full year impact of the PSC and VSR acquisitions completed in 2017, adding £4.0m to current year revenue. The adverse impact in FX movements of £2.2m is mainly driven by the average USD FX rate weakening compared to GBP by 6.1% with a partial offset from a 3.2% strengthening in the Euro FX rate.

As noted earlier, the Group consciously decided to de-emphasise the sale of third party products and the steps to achieve this started in the prior year and completed in the current year. This sales reduction, while not a discontinued operation, does represent a decision to significantly reduce an individual revenue line that was acquired with the Accumuli plc group of businesses. As previously reported in the Interim Results, there is no material allocation of Group resources in this area to deliver growth, although we do expect the current revenue level to continue. The Group therefore excludes it when calculating Assurance Adjusted organic* growth.

Assurance Adjusted organic* growth in the year was £23.1m or 13.8%. This strong performance was supported by all four of our key territories, as shown in the table below.

Adjusted organic* Assurance growth by selling territory	Change £m	Change %
UK and RoW	**8.9**	+11.1%
North America	**8.3**	+15.9%
Netherlands	**5.0**	+17.2%
Denmark and Baltics	**0.9**	+21.3%
Total Adjusted organic* Assurance growth	**23.1**	+13.8%

The disappointment was the revenue performance in UK MSS (though its operating profit* was in line with expectations). There have been a number of change initiatives impacting the MSS business unit, particularly amongst the sales and management teams during the year. A new market approach is now underway with greater business integration between the UK and Fox. Managed Security Services are seen as a scalable offering within the Group. The management team has now settled down and the Fox CTMp technology has now been deployed to support SOC services in the UK. The commercial launch of the UK SOC services was held on the first day of the new financial year. We therefore aim to set the business back on the road to growth, albeit from a low starting point.

The table below analyses Assurance revenue streams by type of service/product.

	2018		2017	
	£m	% of total	£m	% of total
Professional services	**159.1**	**81.9**	135.6	76.1
Managed services	**25.5**	**13.1**	22.8	12.8
Product sales (own and third party)	**9.8**	**5.0**	19.7	11.1
Total	**194.4**	**100.0**	178.1	100.0

As noted previously, the analysis groups our revenue streams into distinct types of revenue as opposed to representing management units or profit centres. The professional services growth above is slightly flattered by the full-year impact of the VSR and PSC acquisitions, but even with those removed, we delivered good Adjusted organic* growth. Our growth is supported by our scale which allows us to capture share when others face more pressing resource constraints. In the UK, our RM&G consultancy service line that focuses on Board or Strategic level cyber risk has continued to show good year-on-year revenue growth (27.6%). This has been supported by an improved effectiveness in identifying opportunities from other cyber consultancy activities, coupled with our overseas business units working with the UK team to grow this service offering. We have also started to implement value-based pricing that had a modest impact in the current year, but will have an increasing role in the future.

Professional Services in the Netherlands, which were historically a smaller part of the overall business, are being supported in their growth efforts by other parts of the Group and in the year delivered growth of 11.4%. In managed services (sometimes known as CTMp or MSS), our Dutch business continued to show good growth of £2.8m (22.0%). In addition, our High Assurance service line grew by £2.1m (29.9%). This demonstrates the recovering profile of some key customer relationships in the Netherlands.

* See pages 122 to 124 for an explanation and definition of Alternative Performance Measures.

Assurance gross profit

The growth in revenue (whether by geography or by service/product type) contributed to the improvement in gross profit and GM% with the latter increasing by 5.3% to 34.2% (FY17 28.9%). In absolute terms, the gross profit improved £15.0m to £66.5m (2017: £51.5m). The increase was the result of growing revenues being serviced by a more controlled approach to headcount growth than in prior years – which in turn improved utilisation rates.

An exception to this was in our business in the Netherlands, where costs increased ahead of revenue resulting in lower operational leverage than would have been expected. Plans are in place to remedy the situation going forward under the new Managing Director. In addition, Assurance benefited from the full year impact of the higher margin activity acquired in North America (VSR and PSC). Lastly, the dilutive effect of low margin third party product re-selling was reduced by the completion of the initiative to resize this income line (improved mix).

Assurance overheads

General and administrative costs increased by £3.8m to £34.6m (2017: £30.8m) and this offset some of the gross profit gains. The division invested £2.3m in support of the additional revenue, in indirect staff and their associated costs such as travel expenditure. Amortisation in the division increased by £1.6m, with £0.5m relating to a full year charge for the CTMp platform which saw all Netherlands customers migrated in the financial year. A further £1.1m came from the strategic product review discussed in the Group overview section as well as the associated shortening of useful economic lives.

Assurance operating profit*

The improved revenue and GM%, less the increase in overheads and central cost allocations, resulted in the overall operating profit* margin, improving by 2.9% to 8.7% (2017: 5.8%). The central cost allocation includes property costs, which increased significantly during the year as a result of the investment in new office locations, notably the head office building in Manchester but also refurbished or expanded presences in a number of other UK and North American offices.

During the year, we identified a loss making contract (in the Fox-IT business) that started in 2014. A detailed project review identified that the contract would require significant additional effort to complete and this additional effort would result in the contract being loss making over its life. A provision was made, during the year, for the remaining net loss to be incurred and £1.5m of costs during the year were charged to this contract provision. A similar programme of work to that required in the rest of the Group to professionalise the challenging internal business processes of Fox-IT is underway. The objectives and initiatives of Securing Growth Together are also being applied to Fox-IT. In the current year, those challenging internal processes mean that the growth delivered in the year did not translate into operating profit* gains.

The table below shows the adjusting operating profit* result for continuing operations in the Assurance division.

	2018 £m	2017 £m
Revenue	**194.4**	178.1
Cost of sales	**(127.9)**	(126.6)
Gross profit	**66.5**	51.5
GM%	***34.2%***	***28.9%***
G&A before adjusting items	**(34.6)**	(30.8)
Central cost allocation	**(14.9)**	(10.3)
Adjusted operating profit*	**17.0**	10.4
Adjusted operating profit margin*	***8.7%***	***5.8%***
Adjusting items (note 3)	**(12.5)**	(63.9)
Operating profit*/(loss)	**4.5**	(53.5)

The central cost allocation for 2017 reported in the prior year Annual Report and Accounts was £6.1m. The figure in the table above provides the reader with a comparator which is more closely aligned to the current central cost allocation model of the Group.

* See pages 122 to 124 for an explanation and definition of Alternative Performance Measures.

Group performance review for 2018

ESCROW DIVISION — BUSINESS PERFORMANCE REVIEW

Revenue performance

The Escrow division now accounts for 16.6% of Group revenues (2017: 17.3%). Escrow revenue for the year grew by £1.6m (4.3%) to £38.8m (2017: £37.2m). However, as explained below, approximately half of this growth resulted from a prior year revenue recognition issue in UK Escrow. Adjusting for this correction, Escrow Adjusted organic* growth therefore was closer to 2.7%.

	31 May 2018 £m	31 May 2017 £m	% Change
UK and Rest of the World	**27.5**	25.4	+8.3%
USA	**7.5**	7.9	(5.1%)
Europe	**3.8**	3.9	(2.6%)
Total Escrow revenue	**38.8**	37.2	+4.3%

Escrow UK

Escrow UK revenue was £27.5m (2017: £25.4m), with verifications increasing year on year by £2.0m to £8.2m. The Escrow revenue comparison benefited from a one-off change in revenue recognition as noted at the end of last year which reduced revenue in that year, accounting for approximately £1.0m of revenue growth in the current year. Adjusting for this correction in the prior year would have seen reasonable UK growth of 4.2%. The division also started to reorganise the process to deliver verification testing and this led to an increase in the volume of work actually delivered in the current period to further enhance the quality of revenue and earnings in the year.

Escrow UK recurring revenues remained stable at £14.1m (2017: £14.1m) and terminations remain at around 11% with just under 90% of all contracts renewed (2017: 90%). We expect UK growth to remain modest given the relative market maturity and our market share.

Escrow USA

Escrow USA revenues fell by 5.1% to £7.5m (2017: £7.9m). All of this reduction came from adverse FX movements, with the business remaining broadly flat which was still a disappointing result. The US business continues to receive management focus with new appointments being made to the sales team, coupled with secondment of experienced UK sales team members that we anticipate will allow us to build our market share in the USA in the new financial year. In addition, we intend to invest some of our gross profit gains made in the year ending 31 May 2018 in further initiatives to support growth in North America including the relocation of the divisional managing director to the US business which also signals our intent in that marketplace.

Escrow Europe

Escrow Europe revenues fell 2.6% to £3.8m (2017: £3.9m) with recurring revenues of £2.3m (£2.1m 2017). This was despite a 3.2% strengthening in the Euro FX rate in which much of our European business is transacted. The European business continues to provide the division with a foothold in Europe from which to generate growth. Europe, like the USA business unit, will be invested in with new headcounts to drive enhanced market share and return the region to growth.

Escrow Rest of the World

During the year a review of the satellite office in Dubai was carried out and while we do believe there are customer opportunities in the region, we have decided to forgo a physical presence and any customers will be serviced from our UK business going forward.

Escrow revenues can be further analysed by service lines as follows:

	31 May 2018 £m	31 May 2017 £m	% Change
Escrow contracts	**26.3**	26.3	–
Verification testing	**11.3**	9.6	+17.7%
Other services	**1.2**	1.3	(7.7%)
Total Escrow revenue	**38.8**	37.2	+4.3%

This analysis is presented to provide the reader with an understanding of the different revenue types within the operating segment. They do not represent separate management units or profit centres.

* See pages 122 to 124 for an explanation and definition of Alternative Performance Measures.

Escrow profitability analysis

The table below shows a summarised Income Statement for the Escrow division as a whole:

	2018 £m	2017 £m
Revenue	**38.8**	37.2
Cost of sales	**(9.2)**	(10.5)
Gross profit	**29.6**	26.7
GM%	***76.3%***	***71.8%***
G&A before adjusting items	**(3.9)**	(3.7)
Central cost allocation	**(4.1)**	(2.8)
Adjusted operating profit*	**21.6**	20.2
Adjusted operating profit margin*	***55.7%***	***54.3%***
Adjusting items (note 3)	**0.2**	(1.0)
Operating profit*	**21.8**	19.2

Growth in Escrow operating profit* was primarily driven by GM% gains that resulted from the unwind of additional costs added to the division in the first half of FY17. These had been all but removed by the end of FY17. In addition, the change in application of revenue recognition criteria in the prior year also led to a one-off £1.0m increase in gross and net margin in the current year. GM% grew by 4.5% to 76.3% (2017: 71.8%). The prior year revenue correction had artificially suppressed GM% and hence 2.6% points of the current year recovery were attributable to the unwinding of that factor.

The GM% gains support the operating profit margin* gains for the year of 1.4%, growing to 55.7% (2017: 54.3%). The combination of lower direct costs and revenue recognition step change were partly offset by additional overhead costs and the start of an investment programme designed to consolidate our position in the US market.

As explained earlier, the central cost allocation for 2017 reported in the prior year Annual Report and Accounts was £3.9m. The figure in the table above provides the reader with a comparator that is more closely aligned to the current central cost allocation model of the Group.

Escrow strategic goals

Our over-arching goal is to return Escrow to confident growth. This includes the following short-term goals:

- To maintain our market-leading position in the UK, delivering modest annual Adjusted organic* growth;
- To continue to develop evolving solutions for customers in a SaaS and cloud-based world;
- To build on our scalable capability in the USA;
- To explore opportunities for collaboration with the Assurance division in potential new territories and also to review opportunities to benefit from shared customer relationships; and
- To begin to grow our European operations.

Adam Palser
CHIEF EXECUTIVE OFFICER

* See pages 122 to 124 for an explanation and definition of Alternative Performance Measures.

Group performance review for 2018

BRIAN TENNER CHIEF FINANCIAL OFFICER

The Group has delivered improving cash flows to match growth in profitability. Further gains in both can be achieved as we improve internal processes and systems."

BRIAN TENNER CHIEF FINANCIAL OFFICER

FINANCIAL MATTERS

Adjusting items

The Group separately identifies those items which, in management's judgement, need to be disclosed by virtue of their nature, size or incidence in order for the users of the Annual Report and Accounts to obtain a proper understanding of the performance of the business (known as "Adjusting Items", see note 3).

Individually Significant Items (see note 6) are one type of adjusting item and those incurred during the year and prior year are set out in the table below:

Individually Significant Items (ISIs)	2018 £m	2017 £m
Loss-making contract	**(2.5)**	–
Revisions to deferred and contingent consideration	**(0.6)**	(2.9)
Restructuring costs	**(1.6)**	(1.3)
Onerous leases and other property-related costs	**(2.7)**	(2.2)
Market-related costs	**(0.2)**	–
Impairment of goodwill	**–**	(48.6)
Acquisition costs	**–**	(0.8)
Vacation pay catch-up provision	**–**	(1.8)
Total ISIs – continuing operations	**(7.6)**	(57.6)
Impairment of goodwill	**–**	(5.7)
Impairment of other intangible assets	**–**	(7.7)
Total ISIs – discontinued operations	**–**	(13.4)
Total all ISIs	**(7.6)**	(71.0)

Group performance review for 2018

Current period

During the year we carried out an in depth review of a project underpinning a long-term contract to develop a prototype product and then to convert that into an actual product, once approved, for supply to a customer. The review identified that the three-year-old project would require significant additional effort to complete and that costs were higher than the original cost estimates when the contract was first signed. A financial assessment of the project was then carried out using the latest estimated time and costs to complete and it was identified that over the course of the life of the contract it would be loss making. We have therefore recognised a provision in the period for the expected net loss that will be incurred in completing the contract.

The change in value of deferred and contingent consideration (in the current and prior period) is driven by changes in FX rates on outstanding payments denominated in foreign currencies. As explained in note 34 to the Financial Statements, the final tranche of deferred consideration on Fox-IT was paid in full after the year end.

Restructuring costs in the current year relate to the costs of completing the Strategic Review and subsequent work to develop and implement the Target Operating Model. In addition, there were some redundancy costs amongst the senior management team that were a direct result of the new operating model as well as consultancy support in delivering the ongoing change programme.

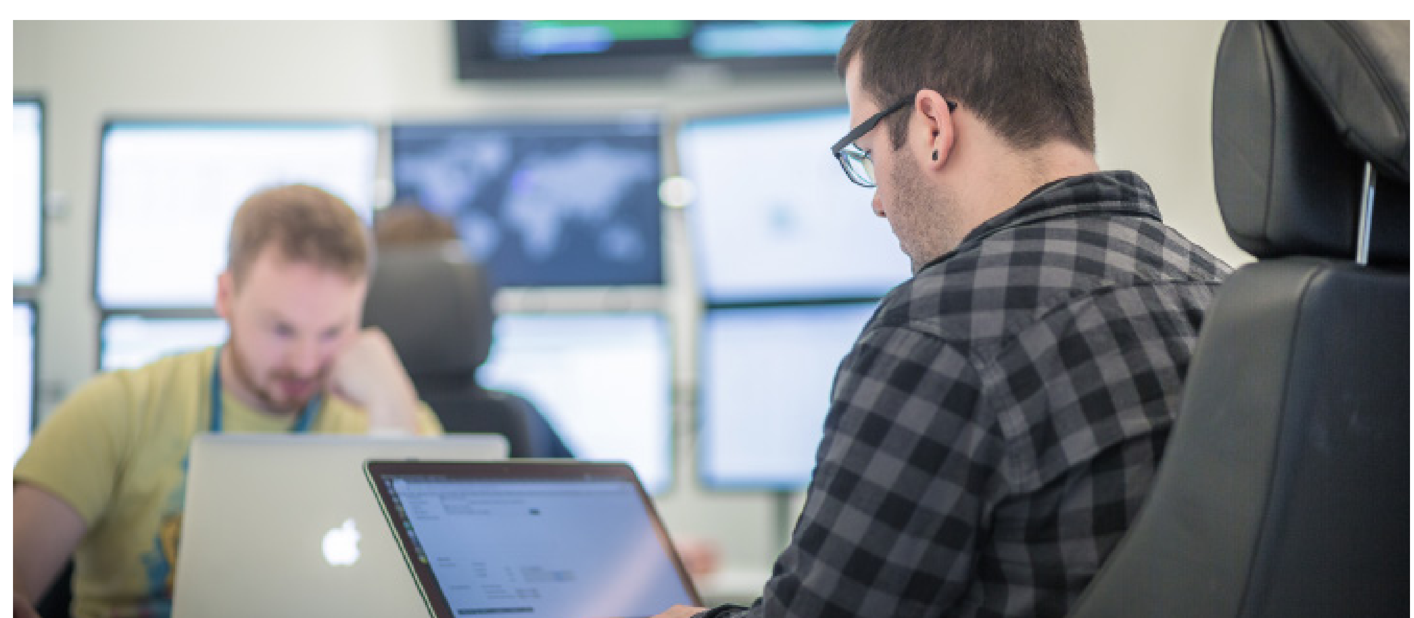
Market-related costs in the current year were in respect of the shareholder circular issued ahead of the AGM in September 2017 to remedy a number of invalid dividend payments made in previous years.

Onerous leases and property-related costs were in respect of a number of items. During the year, the Group carried out a review of its UK property portfolio and capacity requirements. This led to the identification of two onerous property leases where the facilities in question were either empty or significantly under-utilised. As a result, a provision has been established for the forecast discounted net cash flows that will result on both properties after allowing for estimated income from potential subletting. Both properties were empty and unused as at 31 May 2018. Other property costs included here related to pre-occupancy double running costs of the Manchester head office that started in the prior year and were completed in the first half of the year when the building was occupied.

Prior period

In the prior year, a number of impairments were recognised in respect of goodwill and other intangible assets. The Fox-IT and former Accumuli businesses had underperformed against their original growth forecasts since their acquisition dates. Integration and leveraging of value from the acquisitions was also slower than anticipated. The net result of those factors was to recognise an impairment of the goodwill that arose on the acquisition of Accumuli plc by £24.3m and a coincidentally identical figure for Fox-IT. The carrying value of goodwill in our Web Performance business was impaired by £5.7m as a result of a slower than expected ramp-up in revenue from a number of new service lines.

Details of the other ISIs in the prior year are shown in note 6 to the Financial Statements.



* See pages 122 to 124 for an explanation and definition of Alternative Performance Measures.

Taxation

The Group's adjusted* effective tax rate is 22.4% (2017: 29.3%), which is a significant reduction on the prior year. The improvement in the effective tax rate reflects a combination of lower federal tax rate in the US from 1 January 2018 and also some basic tax planning implemented as part of a low risk approach to managing the Group's tax affairs. This was possible following the appointment of the Group's first Tax and Treasury Manager at the start of the financial year. The effective tax rate remains marginally above the UK standard rate of corporation tax reflecting the origin of a reasonable proportion of Group profits in overseas territories with higher rates of tax than the UK.

The Group has also been active in identifying tax incentives offered by different governments in respect of R&D activities, where the Group had not been as diligent as we should have been in claiming these entitlements. In the US in particular, the Group has identified a risk weighted claim for unclaimed R&D tax credits dating back four years that amounts to £2.5m of net tax benefit. The Group will additionally benefit from an ongoing annual credit estimated at £0.7m per annum of tax value.

The adjusted* effective tax rate above excludes the benefit of the historical R&D tax claim as this is not considered to be part of the Group's underlying business performance. Including this item, the Group's reported effective tax rate would be 17.4%.

The historical USA R&D tax claim and the ongoing annual claims will create real tax cash flow benefits for the Group in the short term as well as reducing the overall tax burden and effective rate going forward.

The Group's longer term strategy for tax and treasury matters is based on a low risk appetite and any new strategies will operate inside those parameters. All else being equal, the Group expects to be able to operate with an ongoing adjusted* effective tax rate of approximately 22-23%. This would change if a significant proportion of Group profits started to arise in territories with higher corporate tax rates than the UK or US.

The Group's total reported post-tax profit from all operations was £6.9m (2017: loss of £56.6m).

Earnings per share

The Adjusted* basic earnings per share from operations was 8.3p (2017: 6.2p).

The table below reconciles basic EPS to Adjusted* EPS on the Group's definitions of adjusting items including their tax impact.

	2018 pence	**2017 pence**
Basic EPS/(loss per share) as per the income statement	**2.5**	(20.4)
Discontinued operations	**2.0**	3.5
Amortisation of acquired intangibles (note 14)	**2.0**	2.7
Individually Significant Items (note 6)	**2.2**	20.2
Share-based payments (note 25)	**–**	–
Unwinding discount on deferred consideration (note 9)	**0.1**	0.2
Deferred tax on US historical R&D tax credits	**(0.8)**	–
Impact of US tax rate change	**0.3**	–
Adjusted* basic EPS	**8.3**	6.2

The adjusted* fully diluted earnings per share from continuing operations was 8.3p (2017: 6.2p) while reported fully diluted profit per share was 2.5p (2017: loss of 20.4p).

STRATEGIC REPORT

* See pages 122 to 124 for an explanation and definition of Alternative Performance Measures.

Group performance review for 2018

Dividend

The Board is recommending a final dividend of 3.15p per ordinary share, making a total for the year of 4.65p. This represents a dividend equal to that paid in the prior year. While dividend cover is now positive (2017: negative coverage based on a basic adjusted* loss per share from continuing operations) the Board is conscious of the need to invest in short-term initiatives to build sustainable longer term growth and margin improvement. The dividend policy will therefore remain under review.

In the first half of the current financial year, shareholders voted at the AGM in September 2017 to pass a series of resolutions to rectify an administrative non-compliance issue that had been identified at the end of the prior year in respect of distributable reserves and the payment of previous dividends. Additional controls are now in place to ensure that this situation does not arise again.

Cash

The table below summarises the Group's cash flow for the year:

	2018 £m	2017 £m
Cash inflow before changes in working capital	**40.0**	33.8
Changes in working capital	**(0.5)**	(2.1)
Operating cash flow before interest and tax	**39.5**	31.7
Interest paid	**(1.8)**	(1.9)
Income taxes paid	**(4.7)**	(1.8)
Net cash flow from operating activities	**33.0**	28.0
Net capital expenditure	**(7.7)**	(6.9)
Capitalised development costs	**(5.0)**	(7.4)
Free cash flow*	**20.3**	13.7
Acquisitions	**(3.1)**	(26.5)
Net proceeds from business disposals	**9.2**	–
(Repayment)/Drawdown of loans	**(5.4)**	18.9
Dividends	**(12.8)**	(12.8)
Share issues	**1.5**	0.7
Net cash flow	**9.7**	(6.0)

The Group generated £39.5m of cash from operating activities before interest and tax (2017: £31.7m), an increase of 24.6% in the year and compares favourably to an increase of 21.5% in adjusted* EBITDA. This figure is used in calculating the Group's Cash conversion ratio*.

Working capital benefited from improved collection processes and a reduction in overdue debt. Overdue trade debt fell in the year by 7% as a result of additional management focus and improved processes.

In addition, good progress has been made on accelerating our accrued income processes so that accrued income is billed to clients at a faster and more appropriate rate. The total value of accrued income that was aged over two months fell during the year from £4.8m to £3.2m at the end of May 2018, a fall of 33.3%. Most of the gains were at the older end of the age range. The proportion of current accrued income also rose from 59% to 70%.

In absolute terms the Group actually has relatively low levels of net working capital*. Trade and other receivables (including accrued income) less trade and other creditors and deferred income (where the Group has been paid in advance for services), arrives at a traditional net working capital* figure of £3.5m (2017: £2.5m). The small increase reflects the sale of Web Performance which typically had net negative working capital as customers paid in advance for monitoring services.

The Group measures how effectively adjusted operating profit* is converted into actual cash flows. This is done using the cash conversion ratio*. The calculation of the cash conversion ratio* is set out below:

Continuing and discontinued	2018 £m	2017 £m
Net operating cash flow before interest and tax (A)	**39.5**	31.7
Adjusted* EBITDA (B)	**44.0**	36.2
Cash conversion ratio* (%) (A)/(B)	**90%**	87%

While our progress this year is good, there remains much to be achieved in working capital management.

Interest cash costs remained modest though increased slightly on last year as leverage (calculated for banking purposes) in the second half was over 1.5 times and hence Group debt attracted a higher interest margin.

The difference in cash tax paid from 2017 to 2018 is a result of payments on account in 2016 covering lower actual payments in the UK in 2017 that resulted from lower profitability in that year. The current year cash tax figure is therefore more representative of the likely ongoing cash tax profile.

Net capital expenditure was £12.7m (2017: £14.3m), and includes tangible expenditure of £7.7m (2017: net £7.3m after a £3.7m capital contribution from the landlord of the Manchester head office) and capitalised development costs of £5.0m (2017: £3.7m). Tangible expenditure will fall next year by approximately £4.0m following the completion of the Manchester head office fit-out during the year.

The decrease in capitalised development expenditure and software expenditure reflects a reduction in capitalised internal costs as new systems and products moved from a build phase to business as usual activity, offset in part by additional investment in the year on the Fox-IT CTMp monitoring platform prior to the migration of all Netherlands customers to the platform and the start of roll-out of commercial services in the UK at the end of the year. The outlook for total capital expenditure (tangible and intangible) is to fall to around £8.0m-£10.0m per annum.

* See pages 122 to 124 for an explanation and definition of Alternative Performance Measures.

Acquisition expenditure relates to the payment of contingent consideration in respect of the acquisition of PSC and VSR in the USA in the prior year and the part payment of 10% of the second tranche of Fox-IT deferred consideration in November 2017. Both US businesses performed well in the first year of their earn-outs and achieved 100% of the maximum potential pay-out based on profit targets set at the time of acquisition. The remaining portion of the Fox-IT deferred consideration was paid in full after the year end as set out in note 34. Disposal proceeds were in respect of the sale of Web Performance and Software Testing which are detailed further in note 5 to the Financial Statements.

The table below reconciles the net cash flow in the year to the change in net debt*.

	2018 £m	2017 £m
Opening net debt*	**(43.7)**	(12.7)
Net increase in cash and cash equivalents	**9.7**	(6.0)
Foreign exchange impacts	**0.8**	(6.1)
Change in net debt* from cash flows	**5.4**	(18.9)
Closing net debt*	**(27.8)**	**(43.7)**

* See pages 122 to 124 for an explanation and definition of Alternative Performance Measures.

Financing facilities

The Group's facilities and covenants are summarised below:

- Maximum facility £100.0m (£20.0m amortising term loan and £80m revolving credit facility) with an additional accordion facility of £50.0m on top – current net debt* is £27.8m (2017: £43.7m)
- Liability for deferred acquisition consideration is included in net debt* for covenant purposes giving banking net debt* as at 31 May 2018 of £37.7m. The fact that this was paid after rather than before the year end therefore had no impact on the Group's covenant or interest margin calculations (see note 34 Post Balance Sheet Events).
- Leverage limit of 2.5 times Adjusted* EBITDA – current leverage 0.89 times.
- Net interest (Adjusted* EBITDA/Net interest) cover minimum 3.5 times – current ratio 28.3 times.

The Group remains comfortably within its banking facilities and covenants. The terms and ratios above are specifically defined in the Group's banking documents (in line with normal commercial practice) and are materially similar to GAAP or the Group's Alternative Performance Measures of the same name. The exception is net debt* which as described above includes unpaid deferred consideration. There are commercially confidential documents and hence further details of any immaterial differences are not disclosed.

Brian Tenner

CHIEF FINANCIAL OFFICER

Principal risks and uncertainties

RISK MANAGEMENT

We have conducted a comprehensive review and relaunched our risk management processes reflecting the current and future needs of the business."

Relaunch of Risk Management

During the year we appointed a risk management subject matter expert, the Director of Risk & Assurance. Following this appointment, the Board commissioned an evaluation of our existing risk management framework. The review led to the implementation of a range of enhancements to build on the established platform.

The Group has now developed and implemented a new Risk Management Policy, against which we are relaunching enterprise-wide risk management. This policy sets out protocols covering roles and responsibilities for the risk framework and the definition of risk appetite as set by the Board (see the risk framework diagram). A web-based tool, the Integrated Risk Management System (IRMS), has been deployed to record risk registers and to track risk mitigation action plans, helping embed ownership of risks and treatment actions while also providing access to live management information.

Risks are evaluated at a number of levels of the organisation, commencing with those which link to the Group achieving its strategic objectives. These risks are presented overleaf under our principal risks and uncertainties.

Risks are identified primarily by the management team through the use of a structured risk framework. Non-executive reviews carried out by two Board Committees; the Cyber Security Committee for IT centric risks and the Audit Committee for all other risk types. The Chief Information Security Office (CISO) reports to the Cyber Committee and the Director of Risk and Assurance reports to the Audit Committee.

While distinct from the established CISO role, the Director of Risk and Assurance works closely with the CISO to facilitate risk oversight across the full range of risk types.

RISK MANAGEMENT FRAMEWORK

As described below risks are considered at various levels across the Group, commencing with a strategic view of risk

THE BOARD

- Sets the "tone at the top" - the culture adopted in respect of risk
- Responsible for risk management and internal control processes
- Sets direction for key areas of focus e.g. Cyber risk
- Defines acceptable levels of risk - our risk appetite
- Monitors adherence to our risk appetite and management's responsiveness to excessive risk

CYBER SECURITY AND GROUP AUDIT COMMITTEES

- Supporting the Board reviewing the end-to-end risk management process
- Emphasis given to risk identification and management responsiveness to the treatment of excessive risk
- Maintains a particular focus on strategic type risks

GROUP RISK FUNCTION AND THE CHIEF INFORMATION SECURITY OFFICER

- Facilitates the development and maintenance of risk registers
- Assists management to scope risk treatment actions
- Monitors the status of risk treatment actions
- Reports progress to the Board sub Committees - the CISO reports to the Cyber Security Committee on IT centric risk, the Risk and Assurance Director reports on all other risk areas to the Audit Committee

BUSINESS UNITS

- Maintains local risk registers and plans
- Ongoing action management and tracking
- Embeds the Group culture and risk appetite at a local level.

RISK HEAT MAP

1. Business Strategy (VR)
2. Management of Strategic Change
3. Availability of critical information systems (VR)
4. Attracting and retaining appropriate staff capacity and capability (VR)
5. Cyber risk (including GDPR) (VR)
6. Quality of Management Information Systems (MIS) and internal business processes
7. Quality and Security Management Systems

(VR) = **Viability Risk**

IMPACT

PROBABILITY

Risk management processes and controls

The Board monitors the ongoing process by which relevant material risks are identified, evaluated and managed via the two sub-committees noted above. On a quarterly basis, the sub-committees review the detailed risk registers that have been prepared and updated across the business along with the status of actions plans that are in place to treat risks which are considered to be excessive.

Evaluation and treatment of risk

Risks are evaluated using a simple but robust model which forms part of the new Risk Management Policy. The model, which is capable of application across multiple risk types, is sufficiently sensitive to record risks that have the potential to impact Viability Reporting obligations.

Risks are evaluated without considering the operation of any existing controls. This is done to form a view of inherent risk.

The impact of existing mitigating controls are then considered along with their effectiveness to determine the extent of residual risk. The assessments are made using a combination of impact and likelihood criteria to arrive at a total risk score. Residual risk is then considered against the Group Risk Appetite which is a judgemental scoring matrix created by the Board to identify risks as being within or outside acceptable parameters for the Group.

Output from the evaluation of strategic risks has been used to help shape the Group's Transformation Programme. Where risks are assessed as being outside of appetite, treatment actions are agreed including owners, priorities and due dates, either within the Transformation governance structures or milestone plans owned by senior business leaders. The IRMS is used to track these actions, with data mining capabilities to produce reports to the Cyber Security and Audit Committees.

The Group uses a simple Risk Heat Map (above) to record an up-to-date view of residual risk. Viability risks are principal risks that the Directors consider are so extreme that they could jeopardise the business viability if they crystallise.

Principal risks and uncertainties

The Group continues to operate in a particularly dynamic and evolving marketplace. The very latest strategic risk register has been developed to reflect those factors.

The Directors have carried out a robust assessment of the principal risks facing the Group including those that would threaten its business model, future performance, solvency or liquidity. Detailed descriptions of the current principal risks and uncertainties faced by the Group, their potential impact and mitigating processes and controls are set out below. The tables also highlight whether the risk is assessed as increasing or decreasing with a similar assessment for the position last year. This includes identifying new principal risks and uncertainties.

Principal risks and uncertainties

Risk Areas	Potential Impact	Mitigation
1 Business Strategy VR A comprehensive business strategy is essential to the continued success of the Group as we strive to maximise shareholder value.	A poor strategy or ineffective execution of a strategy could have a material negative impact on the Group's financial performance and value. It would potentially weaken the Group compared to its competitors and risk the Group's established position in the marketplace.	2018 2017 Members of the Board have significant experience in evolving business strategies. Following the recent appointment of the current CEO, the Group is in the process of reviewing and updating the strategy. The results are expect to help shape and refine the Group's already established Transformation Programme.
2 Management of Strategic Change As the Group adapts and executes its strategy there are a number of complex projects and initiatives that not only need to be delivered but also require understanding and support from all staff.	Poor change management could lead to ineffective implementation of projects that then cost more to deliver, take longer to deliver and result in fewer benefits being realised (or all three). Poor delivery of change could ultimately impair business performance.	2018 2017 During the year the Group has established a Strategic Change Management capability. This includes access to Programme Management professionals and the deployment of associated change management processes, for example the operation of senior change oversight committees.
3 Availability of critical information systems VR The Group is heavily reliant on continued and uninterrupted access to its IT systems. As well as environmental and physical threats, the Group is a natural target for individuals who may seek to disrupt the Group's commercial activities.	If the Group's critical systems failed, this could affect the Group's ability to provide services to our customers.	2018 2017 The Group has made significant investment in its IT infrastructure to ensure it continues to support the growth of the organisation. The Group has controls in place in order to reduce the risk of actual loss of critical systems. Further, controls are operated to ensure the availability of back-up media in the event of prolonged loss of systems. Initiating to standardise and simplify while increasing resilience continue to be implemented. Additional focus is being periodically given to proving the recoverability of systems and data.
4 Attracting and retaining appropriate staff capacity and capability VR The Group would be adversely impacted if it were unable to attract and retain the right calibre of skilled staff. Some roles within the Group operate in highly technical and extremely specialised areas in which there are shortages of skilled people.	Loss of key employees or significant staff turnover could result in a lack of necessary expertise or continuity to execute the Group's strategy. An inability to attract and retain sufficient high-calibre employees could become a barrier to the continued success and growth of NCC Group.	2018 2017 Staff are offered a rewarding career structure and attractive salary packages, which can include participation in share schemes. Linked to the development of our people, the Group is reviewing our values, personal performance management processes and aligned development programmes.

Risk Areas	Potential Impact	Mitigation
5 Cyber risk (including GDPR) (VR) As a provider of security services, the Group is a high profile target and could therefore be subject to attacks specifically designed to disrupt the Group's business and harm the Group's reputation. There could also be implications relating to our GDPR control obligations. Such events could adversely affect the market's perception of the Group as well as causing business disruption.	Failure to maintain control over customer, colleague, commercial and/or operational data could lead to a range of impacts, including reputational damage. The misuse of personal data, for example without the customer's consent or retaining for longer than is necessary, may also result in reputational harm, regulatory investigations and potential fines.	2018 2017 The Board operates a Cyber Security Committee chaired by a Senior Non-Executive Director. The CISO reports to each meeting, in line with the new Group Risk Management Policy. Security testing is regularly carried out on the Group's infrastructure and there are extensive response plans, which were reviewed during the year, in the event of a major security incident. Comprehensive plans are in place and being delivered associated with discharging our GDPR obligations. Progress is monitored by the Cyber Security Committee. Employees also receive regular security training and updates. During the remainder of 2018, the Group expects to commission a health check of Cyber security governance and control.
6 Quality of Management Information Systems (MIS) and internal business processes In addition to meeting statutory reporting obligations, ensuring that trusted and relevant MIS is available on a day-to-day basis to inform management decisions and drive performance.	Suboptimal business decision-making and performance as key financial performance data is not available or trusted.	2018 2017 The Group finance function has developed a forward-facing Finance Functional Strategy. Enhancements were identified covering system and process standardisation. A comprehensive milestone plan is in place and progress is tracked and reported to each Audit Committee. Standardised business process control standards were recently issued across all parts of the Group. As the new financial year progresses, control self-assessment techniques will be implemented along with an aligned programme of Internal Audits.
7 Quality and Security Management Systems We aspire to attain and retain key internationally recognised standards which form an important component for many of our customers.	The risk of the Group failing to retain a core standard e.g. 9001, 27001 or PCI, with a consequential loss of key customer accounts or ability to operate.	2018 2017 We operate a comprehensive programme to ensure the retention of our core standards. This includes a portfolio of aligned policies and cascading business processes. A programme of internal audit provides assurance over the design and application of these policies and procedures. External assessors provide a further layer of review and challenge, confirming during the year the retention of our Quality and Security standards.

TREND EFFECT

TREND DIRECTION

DECREASING

STRATEGIC REPORT

Principal risks and uncertainties

Other risks

Furthermore, as the Group's international footprint expands, there is an inherent risk of adverse foreign exchange movements affecting profitability. At present this risk is limited due to the low level of inter-territorial trading but it will increase in future. Inability to refinance the Group's core banking facilities could call into doubt the Group's longer term viability. Equally, if those facilities lacked the appropriate flexibility and structure, this could inhibit delivery of the Group's strategy. The Group's current banking facilities cover all of its expected needs of the Group for the period of such facilities and are sufficiently flexible to allow the Group to function effectively. The Group has a Tax and Treasury Manager. Part of their role is to support the CFO in developing a Treasury strategy and overseeing its implementation.

Impact of Brexit on the Group

The Group continues to have little inter-territorial trade from the UK into Europe and vice versa. While Brexit has already had an impact on exchange rates, there is inevitably some uncertainty around the likely impact of Brexit on businesses. The Group does not believe that Brexit will have a significant impact on its operations as currently structured. UK cyber regulation is likely to stay closely attuned to evolving regulation in Europe, such as GDPR where implementation will proceed in both Europe and the UK as envisaged. Regulations governing international data transfers are already in place and the Group works within these with little change expected from Brexit itself.

With regards to staffing, NCC Group has significant in-region presence within the UK and continental Europe. As such, should free movement be impeded in the future, we do not foresee a material impact. In the medium term, should free movement of labour be impeded then future recruitment requirements in the UK will be offset in part through our involvement in supporting initiatives designed to create capacity in UK nationals in computer science and cyber.

Viability Statement

In accordance with the requirements of the 2016 revisions to the UK Corporate Governance Code, the Directors assessed the longer term prospects of the Group. The assessment took into account the Group's current competitive and financial position as well as the potential impact of the principal risks documented above on pages 42 to 43 of the Annual Report. The assessment emphasised those risks that could theoretically threaten the Group's ability to operate or to continue in existence (with the VR designation).

The Directors determined that a three-year period to 31 May 2021 was an appropriate time frame for the viability assessment based on the markets and sectors in which we operate. The rapid changes occurring in our marketplaces mean that a longer period would not have an acceptable level of forecasting accuracy. The Directors note that even a three-year period in a rapidly evolving marketplace can present challenges for forecasting accuracy. The Group's core banking facilities have an expiry date in November 2020 and so will expire within the three-year time horizon. However, the Directors have no reason to assume that the required facilities will not be renewed ahead of that date, in line with market practice.

In making their assessment, the Directors have considered the Group's current financial position and cash flow generation and undertaken a sensitivity analysis over the key trading assumptions combined with the potential impact of one or more of the principal risks on the business materialising within the three-year period.

The Directors used the principal risks noted above to develop a set of plausible scenarios that could have a potentially high impact on the longer term viability of the business. These were then used as sensitivity analysis against the baseline projections above.

The probability and potential impact of these risks crystallising were used to assess their possible impact on the Group's financial resources and liquidity. At the same time, consideration was given to mitigating actions in response to these risks and the ability of the Group's financing arrangements to absorb any such impacts. In addition, comfort was taken from the distributed nature of many of the Group's operations as well as diverse income generating product lines.

The sensitivities included one in which cash flow/EBIT was 20% lower in every month of the three-year forecast period than the same month one year earlier. Even in this extreme scenario with no relief or compensating response by management, the Group would retain adequate cash and debt facilities to maintain its viability.

Based on the results of the analysis outlined above, the Directors confirm that they have a reasonable expectation that the Group will remain viable and be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment. Furthermore, the Directors have no reason to doubt that the Group will continue in existence beyond the three-year period under assessment.

Corporate social responsibility

NCC Group's Jeff Bennison handing over a £5k cheque to the CICU at South Tees Hospitals NHS Foundation Trust.

NCC Group takes its corporate social responsibilities very seriously and recognises the important contributions to the business made by the wider community of stakeholders, in particular investors, employees, clients, suppliers and local communities."

NCC Group recognises that by acting responsibly it can deliver a sustainable business, while contributing to the community and preserving the environment.

The Board takes into account social, environmental, human rights and ethical issues in its discussions and decision-making, as well as the health and safety of employees. We continually seek to reduce our environmental impact and fully invest in our staff and their development.

Stakeholders

Investors

The investors in the Group need to trust that their capital is being responsibly used to provide them with sustainable returns. The Group communicates regularly with its investors in meetings and roadshows to keep them up to date with both the opportunities and challenges faced by the Company.

During this year, the Directors maintained engagement with investors through various meetings and telephone calls, details of which can be found on page 62 of the Governance Report.

Employees

People are fundamental to the Group's business, and the support and involvement of the talented individuals who form its team is vital to the continued success of the Group overall.

The Group endeavours to attract and retain the brightest and best people in its industry and to make sure they are given the opportunity to develop their talents. We are committed to providing a productive working environment and we recognise the importance of training and career development, which we will deliver through the creation of the NCC Academy which will standardise Group-wide training delivery.

Each employee has a training record and is positively encouraged to up-skill. All roles where an additional professional qualification can be achieved are actively supported and rewarded. The Group employs a training manager who ensures all relevant staff have the necessary training plans in place.

On a daily basis, the Group provides relevant technical, administrative and sales training and each employee is required to dedicate a certain amount of time each month to research and development. The majority of the training is provided in-house (through on-the-job side-by-side coaching, internal workshops or as part of a research team) although external courses and trainers are used where it is appropriate to do so.

It is not possible to directly quantify the total amount spent on training within the Group, as this is part of the normal working week.

The Group has a policy of keeping employees informed of, and engaged in, its business strategy through the Intranet, regular employee briefings and divisional meetings. Information is cascaded from the Board downward to ensure that relevant Group targets are communicated, as well as ensuring that cultural values are aligned.

Comments and suggestions from employees on the Group's performance and management are actively encouraged. Direct access to the senior management team is actively promoted and encouraged and the Group maintains an Open Door Policy.

Every employee and contractor has access to an external whistle-blowing helpline pursuant to the Group's Whistle-blowing Policy.

Modern slavery

The Group recognises that modern slavery is a crime and a violation of fundamental human rights. The term modern slavery includes not only slavery but also servitude, forced and compulsory labour and human trafficking, all of which have in common the deprivation of a person's liberty by another in order to exploit them for personal or commercial gain.

The Company has a zero tolerance approach to modern slavery and is committed to acting ethically and with integrity in all of its business dealings and relationships, and to implementing and enforcing effective systems and controls to ensure modern slavery is not taking place anywhere in its business or in any of its supply chains. The Company communicates its zero tolerance approach to all its suppliers, contractors and business partners and this message is reiterated in its "Anti-Slavery and Human Trafficking Statement" on the Group's website. It expects high standards from all of its contractors, suppliers and other business partners, and also expects that its suppliers will hold their own suppliers to the same standards.

Corporate social responsibility

Equality and diversity

NCC Group is committed to inclusion and diversity, and aims to be an attractive and fair employer for all.

The Group maintains an Equality and Diversity Policy which aims to create a working environment free from unlawful discrimination, victimisation and harassment in which all employees are treated with dignity and respect. As part of this we work to ensure that all employees, whatever their personal circumstances, receive the same opportunities for training, career development and promotion.

The Board recognises the need to positively support gender diversity in a technology business, which has traditionally and historically attracted more men. We believe that requirements to publish gender pay gap figures are a positive move towards transparency around a key issue within the cyber security industry.

The Group's results highlight the imbalance of male and female colleagues across the organisation and confirm the particular challenge we face in attracting women to a career in cyber security: the gender pay gap in the Group's Security Services division is high compared to the UK average of 18.1%, and the UK technology sector of 25%.

NCC Group is taking steps to improve our gender mix at all levels as part of a broader diversity strategy which includes:

- An NCC Group Diversity Steering Group, chaired by a member of the Executive Committee, with an initial focus on gender, to increase the visibility of the cyber security industry and promote the positive aspects of cyber security careers to attract female talent, including at universities and colleges across the UK;
- Enhanced maternity and paternity policies to encourage and support working parents alongside a continuation of inclusive recruitment, promotion and training and development processes;
- Support and sponsorship of UK Government and National Cyber Security Centre initiatives, such as the CyberFirst Girls Competition, aimed at inspiring 14 and 15 year old girls to pursue opportunities in cyber.

NCC Group also understands its responsibility to embrace diversity in all its forms to tackle the persistent skills gap and enrich the cyber security profession.

We know that neurodiversity has a demonstrable commercial, productivity and social benefit and is committed to developing an in-depth understanding of the processes and requirements needed to create neurodiverse employment opportunities. NCC Group is a member of the Cyber Growth Partnership Neurodiversity Working Group that aims to improve outcomes in cyber for those with neurodiverse conditions and is creating guidance and information hubs for the industry as well as working with the National Autistic Society to consider the feasibility of a Neurodiverse Employer Accreditation Scheme.

Finally, we are developing non-traditional and creative routes into our cyber security careers while putting in place the required support infrastructure and mechanisms. NCC Group actively encourages candidates from non-traditional backgrounds into technical careers to foster our teams' diversity of thought, looks beyond university degrees to understand people's talent and aptitude underneath the surface, and invests in training and support for those wishing to enter the cyber security profession mid-career.

As required by UK legislation, NCC Group reviewed and published our gender pay gap, as of 5 April 2018.

Women's Hourly Rate v Men	Mean* Hourly Rate	Median** Hourly Rate	Mean Bonus Pay	Median Bonus Pay
Security Services	30.3% lower	34.4% lower	34.9% lower	53.6% lower
Escrow	13.7% lower	5.6% lower	53.2 % lower	83.8% lower
Corporate	34.1% lower	5.9% lower	75.3% lower	0% lower
Total UK	30.2% lower	32.6% lower	50.5% lower	61.5% lower

* The mean is determined by adding all the data points of a data sample and then dividing the total by the number of points. The resulting number is known as the mean or the average.

** The median is the value separating the higher half of a data sample from the lower half (the middle value).

Health and safety

No activity is so critical or urgent that it may be done in an unsafe and uncontrolled manner. Everyone who works for NCC Group should expect to return home at night in the same fit and healthy state in which they came to work. This ethos extends beyond physical threats and extends to the general well-being of all those working across the Group.

No serious accidents were reported during the year. However, as part of continuous improvement we recently completed a self-evaluation of Health and Safety risk management. As a result, the Group is in the process of enhancing Health and Safety management and systems. We will build on the established platform, ensuring that we continue to meet our statutory control obligations and will launch the NCC Safe for Life Framework, which will include leadership, training, hazard assessment and incident management. The IRMS, referenced on page 40, incorporates aligned functionality which will help ensure the new management system is embedded across our business.

Clients

NCC Group values each and every client and is proud of the long-standing nature of its client relationships. Continuing client satisfaction is central to its ongoing success and is regularly measured and monitored through the ISO 9001 certified quality programme. This includes written and telephone satisfaction surveys each month.

Rare instances of negative feedback are treated with the utmost seriousness and dealt with swiftly by management through to resolution. Each Operational Director takes direct responsibility for customer satisfaction, with the CEO investigating directly if a division's performance fails to meet the 75% threshold. No investigations were required in the year reported on.

The Group recognises and understands that its relationships with those with whom it deals are the key to its success and, as such, takes its obligations and commitments to those people and organisations very seriously. The Group's independence, reputation as a supplier of quality services and the trust of its clients are all key assets that it aims to protect at all times. It aims to engender in its employees principles of honesty and integrity and the desire to work to the best of their ability. To ensure best service for the Group's clients all employees are required both to comply with the Company's Code of Ethics and to undergo annual anti-bribery and equality and diversity refresher training.

The community

NCC Group believes in supporting good causes and encourages its staff to get involved too, with considerable success to date.

The Group has donated over £80,000 to good causes this year. NCC Group launched its third annual "12 Days of Christmas" charity campaign in December 2017, which resulted in a total of £60,000 being donated to 12 charities in the run-up to Christmas. In addition we held a charity raffle and donated £20,000 to Macmillan, of which half of this was donated by employees. We also support a number of local and national charities.

The Group believes in community and encourages its staff to do the same. Every year NCC Group staff members participate in and organise football tournaments, golf days, silent auctions, raffles, bake days, sport days and many more fundraising activities.

NCC Group has also committed to offering student bursaries as part of the government-backed CyberFirst initiative in a bid to encourage more youngsters to take up careers in cyber security. The CyberFirst programme, which was set up by GCHQ's National Cyber Security Centre (NCSC), aims to provide secondary school-aged students with the tools and knowledge to live and work securely online while highlighting the wide range of career options available to them.

Recognising our responsibility for a more secure society, we have engaged our political audiences with a view to increasing their awareness of the modern cyber threats facing the UK today, and educating them on the solutions and approaches we believe will improve UK businesses' and citizens' cyber resilience.

From working closely with the National Cyber Security Centre, responding to government consultations and parliamentary inquiries, and hosting civil servants and our local MPs across our UK offices, to organising briefings and showcases bringing our multiple political audiences together, we sought to use our experience and expertise to ensure decision-makers understand what the UK cyber industry needs to be internationally successful, and to help promote the UK Government's declared aim to make the UK the safest place to live and do business online.

The Group is apolitical and does not support any political party in any jurisdiction nor has it ever made a political donation.

Human rights

The Board has an overall responsibility for ensuring the Group upholds and promotes respect for human rights and supports, through the Group's Human Rights Policy, the UN Declaration of Human Rights which underpins its policies and actions.

Suppliers

The Group's policy is to pay suppliers in accordance with the agreed terms and conditions. Although the Group does not follow any code or standard on payment policy, where terms have not been specifically agreed, invoices dated in one calendar month are paid close to the end of the following month. At 31 May 2018, the Group had an average of 35.28 days purchases outstanding in trade creditors (2017: 34.82 days).

Corporate social responsibility

Environment and sustainability

The impact of the Group's operations on the environment is limited compared with for example a manufacturing business, however we seek to minimise any detrimental impact that our activities might have on the environment.

The Group continues to support the selection of hybrid or electric vehicles through the company car scheme.

Due to the size and nature of the Group, an external environmental audit is not required. This area will be reassessed as the Group grows in conjunction with any new legislative developments.

The Group's Environmental Policy aims to reduce the energy our business uses by:

- Conserving energy and other natural resources and improving efficient use of those resources. The relocation to our new Head Office has delivered energy consumption improvements via, for example, modern heating and lighting systems.
- Improving the efficiency of materials used.
- Reducing waste and increasing reuse and recycling wherever possible.
- Reducing the need for travel and encouraging the use of alternative means of transport, for example, via the Cycle to Work scheme and car sharing.
- Providing all staff with relevant environmental training and guidance.

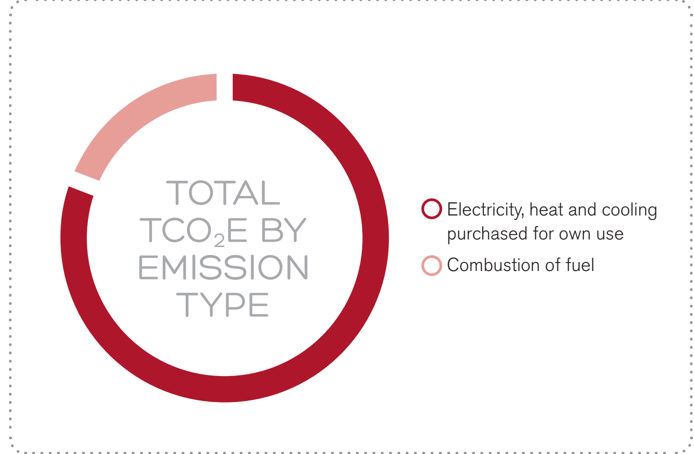
The new subject matter expert, referenced in the Health and Safety section, will bring further focus to this area.

Greenhouse gas emissions

This section includes our mandatory reporting of greenhouse gas emissions pursuant to the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2014 ("The Regulations").

The greenhouse gas report period is aligned with our financial reporting year and so runs from 1 June to 31 May for each reported year.

The method we have used to calculate GHG emissions is the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), together with the latest emission factors from recognised public sources including, but not limited to, Defra, the International Energy Agency, the US Energy Information Administration, the US Environmental Protection Agency and the Intergovernmental Panel on Climate Change.



Our emissions cover scope 1 and scope 2 and we have used revenue as the intensity ratio as it best reflects the size and scale of the business. Our aim is to reduce the overall carbon intensity for the Group by at least 10% over the next three years.

	2018	2017	2016	2015
Absolute carbon emissions (tCO_2e)	**1,761**	1,550	2,264	1,449
Group revenue (£m) (including discontinued)	**254.7**	244.5	209.1	129.8
Carbon intensity for whole Group	**6.9**	6.6	10.8	11.2
Year-on-year carbon intensity change	**0.3**	(4.2)	(0.4)	0.4
Year-on-year carbon intensity change (as a %)	**4.5**	(38.8)	(3.57)	3.7

For and on behalf of the Board

Adam Palser
CHIEF EXECUTIVE OFFICER
17 July 2018

Brian Tenner
CHIEF FINANCIAL OFFICER
17 July 2018

Governance

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The UK Corporate Governance Code embodies core principles of accountability, transparency, probity and a focus on long-term success. The Board firmly believes that a business that is governed in accordance with these principles will be a successful and well-managed business.

Chairman's letter

We see achieving best practice governance standards as a journey on which we will regularly review the context, progress and maintenance of these standards, for the benefit of all of our stakeholders."

CHRIS STONE NON-EXECUTIVE CHAIRMAN

The Board is committed to creating and maintaining a culture where strong levels of governance thrive throughout the organisation, specifically ensuring that we send out consistent messages on our values and acceptable behaviours from our staff, our customers, our suppliers and our advisers.

Governance standards

During the prior year, shareholder and employee feedback led the Board to carry out a comprehensive, independent review of all aspects of its governance. This review was led by the Senior Independent Director, who was supported by independent external advisers. The review included a comprehensive analysis of our governance systems and procedures.

The weaknesses identified in our governance systems and procedures included the application of policies on expenses and social media, the process for the instigation and authorisation of legal claims where conflicts of interest existed, the perceived independence of advisers and the perceived lack of an open and transparent leadership culture. I am pleased to report that the key shortcomings identified in the Governance Review were all addressed in the early part of the current year. This included the recruitment of two additional independent Non-Executive Directors, changes to some external advisers and the review of the content and application of a number of internal policies.

In consultation with the Chairman of the Audit Committee, it was agreed that now was the appropriate time to move forward with the creation of an Internal Audit and Risk Management function led by a new Associate Director of Risk and Assurance.

The culture of the Company is also high on the Board's agenda. The Board considers culture to be an essential ingredient in meeting our long-term, sustainable returns to shareholders.

The Board, the Executive Committee and senior management continue to promote the Company's culture and standards throughout the business and lead by example to provide a strong corporate governance framework.

Board changes

The year ended May 2018 was another year of significant change for the Board. Details of the changes are set out in my statement on pages 2 to 3.

Statement of compliance with the UK Corporate Governance Code

The Company measures itself against the requirements of the UK Corporate Governance Code 2016 ("Code"), which is available on the Financial Reporting Council website (www.frc.org.uk).

From June 2017 to May 2018, the Company complied with the Code in full. The non-compliance identified in the prior year was remedied during the year with respect to Provision B.2.1 where the Company did not comply with the requirement that the Nomination Committee had a majority of members who were independent Non-Executive Directors. During this time, the Senior Independent Non-Executive Director did, however, have a casting vote.

Chris Stone

NON-EXECUTIVE CHAIRMAN

17 July 2018

Governance framework

The different parts of the Company's Governance framework are shown below, with a description of how they operate and the linkages between them.

BOARD

The Board provides leadership and is responsible for the overall management of NCC Group, its strategy, long-term objectives and risk management. It ensures the right company structure is in place to deliver long-term value to shareholders and other stakeholders.

FOR FURTHER DETAILS OF THE ROLE OF THE BOARD SEE PAGE 56.

BOARD COMMITTEES

Support the Board in its work with specific areas of review and oversight objectives and risk management. They ensure the right company structure is in place to delivery long-term value to shareholders and other stakeholders.

AUDIT COMMITTEE

Primary function is to assist the Board in fulfilling its financial and risk responsibilities. It also reviews financial reporting and the internal controls in place and the external audit process.

FOR FURTHER INFORMATION SEE PAGES 65-71

NOMINATION COMMITTEE

Responsible for considering the Board's structure, size, composition and succession planning.

FOR FURTHER INFORMATION SEE PAGES 72-73

REMUNERATION COMMITTEE

Responsible for determining the overall remuneration of the Executive Directors and the remuneration of senior managers within the broader institutional context of remuneration practice.

FOR FURTHER INFORMATION SEE PAGES 76-94

CYBER SECURITY COMMITTEE

Responsible for overseeing and advising on cyber risk exposure of the Group and its future cyber risk strategy, the Group's cyber security breach response and crisis management plan and the review of reports on any cyber security incidents.

FOR FURTHER INFORMATION SEE PAGES 74-75

CHIEF EXECUTIVE

Has responsibility for managing the business and overseeing the implementation of the strategy agreed by the Board.

EXECUTIVE COMMITTEE

The Executive Committee currently comprises the Group's most senior business and operational executives. It is responsible for assisting the Chief Executive in the performance of its duties including:

- developing the annual operating plan
- monitoring the performance of the different divisions of the Company against the plan
- carrying out a formal risk review process
- reviewing the Company's policies and procedures
- prioritisation and allocation of resources
- overseeing the day-to-day running of the Company

Board of Directors

The Board sets the tone of the Company's values and ethical standards and manages the business to best meet its obligations to shareholders and other stakeholders. The NCC Group plc Board comprises the following Directors.

Chris Stone

Non-Executive Chairman

Appointed to the Board as Executive Chairman on 6 April 2017. Following the appointment of Adam Palser, Chris became Non-Executive Chairman on 1 December 2017. Chris was appointed Chairman of both the Nomination and Cyber Security Committees from 16 January 2018.

Career

Chris has held various non-executive director and chief executive roles of listed and private equity-backed technology companies, including being a non-executive director of CSR plc from 2012 until its acquisition by Qualcomm in 2015. From 2013 to 2016, he was CEO of Radius Worldwide. Prior to this, Chris was CEO of Northgate Information Solutions plc, a UK listed company, from 1999 to 2011.

External appointments

Chris is also the Chairman of AIM listed CityFibre plc, a national alternative provider of wholesale fibre network infrastructure.

Adam Palser

Chief Executive Officer

Adam joined NCC Group on 1 December 2017.

Career

Prior to NCC Group, Adam was the CEO of NSL Ltd, the public services provider. He joined NSL in 2015 and led the successful transformation and sale of the business for its private equity owner, leaving in March 2017. Before that he held a number of senior roles at QinetiQ between 2003 and 2013, most recently as EMEA Business Development Director. Prior to that, Adam had responsibility for QinetiQ's cyber, information warfare and professional services businesses.

External appointments

Adam does not currently have any external appointments.

Brian Tenner

Chief Financial Officer

Brian joined the Board as Chief Financial Officer on 1 February 2017. He was appointed as interim Chief Executive Officer on 1 March 2017 following the departure of the previous CEO Rob Cotton. Brian resumed the role of CFO following the appointment of Adam Palser on 1 December 2017.

Brian has announced his intention to leave the Group to pursue other interests in August 2018.

Career

Prior to joining NCC Group, Brian held a number of senior finance positions with both publicly listed and private multinational companies, including as CFO of Renold plc from 2010 to 2016, Scapa plc from 2007 to 2010 and British Nuclear Group from 2003 to 2007. Brian qualified as a Chartered Accountant with PwC in 1994.

External appointments

Brian does not currently have any external appointments.

Christopher Batterham

Senior Independent Non-Executive Director

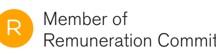
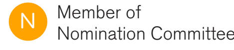
Chris joined NCC Group in May 2015. Chris was appointed as Senior Independent Director on 29 March 2018 and Chairman of the Audit Committee on 1 April 2018.

Career

Chris is a qualified chartered accountant and was Finance Director of Unipalm plc, before becoming CFO of Searchspace Limited until 2005.

External appointments

Chris is currently a non-executive director of Blue Prism Group plc.

KEY: R Member of Remuneration Committee; N Member of Nomination Committee; C Member of Cyber Security Committee; A Member of Audit Committee; ● Chairman of Committee

Jonathan Brooks
Independent Non-Executive Director

R C A

Jonathan joined the Board on 16 March 2017. Jonathan was appointed as Chairman of the Remuneration Committee on 29 March 2018.

Career
Jonathan was Chief Financial Officer of ARM Holdings plc from 1995 until 2002. He has also held a number of senior finance and non-executive director positions with other listed and private multinational companies, including directorships with Aveva Group plc and FDM Group (Holdings) plc.

External appointments
Jonathan has been a non-executive director of IP Group plc since August 2011.

Thomas Chambers
Independent Non-Executive Director

A R C

Thomas joined NCC Group in September 2012. As announced on 16 January 2018, Thomas stepped down as the Chair of the Audit Committee with effect from 31 March 2018 and is resigning from the Board at this year's AGM.

Career
Thomas was CFO of smartphone operating systems developer Symbian Limited from 2001 until its sale to Nokia Oyj in 2009. Prior to that he was CFO of First Telecom. He is a chartered accountant and has held roles with Kleinwort Benson, the European Bank for Reconstruction and Development and Price Waterhouse.

External appointments
Thomas is Chairman of recruitment company Propel London Ltd and a non-executive director of Kings Arms Yard Plc and The Universities and Colleges Admissions Service. Thomas was previously Chairman of residential energy provider Impello Plc (trading as First Utility).

Jennifer Duvalier
Independent Non-Executive Director

R N C

Jennifer joined the Board on 25 April 2018.

Career
Jennifer was Executive Vice President of People at ARM Holdings plc, with responsibility for all People and Internal Communications activity globally, from September 2013 to March 2017.

External appointments
Jennifer is currently non-executive director of Mitie Group plc and of Guardian Media Group plc, where she also chairs the Remuneration Committee. She is a member of Council of the Royal College of Art and Chair of its Remuneration Committee.

Mike Ettling
Independent Non-Executive Director

Mike Ettling joined NCC Group on 22 September 2017.

Career
With strong sector and non-executive experience, Mike was President of SAP-Successfactors globally. He has had an extensive executive career in global technology businesses including NorthgateArinso, Unisys, Synstar and EDS and was formerly a non-executive director of Backoffice Associates LLC, a US PE-backed data business.

External appointments
Mike is currently non-executive director of Impellam PLC, an AIM-listed recruitment business, Telkom BCX Ltd, a South African IT and telecommunications business and Topia Inc, a Silicon Valley cloud relocation software business.

Please note that all of the Directors who held office during FY 2018 are listed above. In addition, Debbie Hewitt resigned from the Board on 28 March 2018. Debbie was the Chairman of both the Nomination and Cyber Security Committees until 16 January 2018 and the Chairman of the Remuneration Committee and Senior Independent Director until 28 March 2018.

Executive committee

The senior management team forms the ExCom, which typically meets weekly. Senior members of the executive team are invited to make presentations on specific topics or to discuss particular operational issues. The meetings are chaired by the Chief Executive Officer or the Chief Financial Officer if the Chief Executive Officer is unavailable.

The current members of the Executive Committee, in addition to the CEO and CFO are:

ASSURANCE

Roger Rawlinson

Managing Director, Assurance UK & RoW.

Roger is responsible for the operational management and growth of the Group's Assurance Division in the UK and RoW. He has worked for NCC Group for over 20 years in a variety of testing and consultancy roles and was appointed a Director in 2004.

Nick Rowe

Managing Director, Assurance North America

Nick joined the Group in 1998 and has held positions in business development, sales, consulting and operations management. Following a series of acquisitions in the USA, Nick has been focused on managing the complexities of business integration and growing the Group's North American operation since relocating from the UK in 2013.

Erik Ploegmakers

Managing Director, Assurance Netherlands (also known as Fox-IT)

Erik is responsible for business strategy, strengthening relationships within government and industry and the integration of business operations with the wider NCC Group. Erik is a Master of Law (criminal law and eLaw). After his studies, he became a Forensic researcher at Fox-IT, and in 2007 he became COO of the FoxReplay business unit. Following periods at DearBytes and PwC, he joined KPN, where he held the position of Managing Director Security Services. On 1 March 2018, he returned to Fox-IT as Global Head of Crypto & High Assurance.

Tomas Sorensen Boye

Managing Director, Assurance Denmark and Nordics

Tomas is the Group's Managing Director in Denmark. He joined the Company in 2016 as Commercial Director and took up the position of Managing Director in April 2018. Over a 20-year career in the technology industry, Tomas has focused heavily on increasing the value that various products and services bring to customers. Prior to NCC Group, Tomas has held senior roles within KiSS Technology, Cisco and GreenWave Systems.

Rob Horton

Global Head of Assurance Delivery

Rob joined the Group in 2008 and has managed and grown security consulting services in the Assurance division, as well as overseeing the integration of a number of the acquired security consulting companies into the Group.

Rob was a director of NGS Software, a security consulting company he co-founded, from its formation in 2001 through to its acquisition by and successful integration into the Group.

ESCROW

Daniel Liptrott

Managing Director, Escrow

Daniel is responsible for the management and strategic development of the Escrow division globally. Daniel joined the Group in November 2013 from private practice where he had been a corporate partner at a number of international law firms. From 2006 until 2013 he was the Group's outside counsel at Eversheds LLP and advised on a range of issues including its move to the Main Market of the London Stock Exchange in 2007 and each of the Group's subsequent acquisitions until 2013.

GROUP DIRECTORS

Steve Boughton

Global Operations Director

Steve is responsible for the operational efficiency and effectiveness of the Group around the world. He joined the business in March 2018 and previously served as Managing Director of QinetiQ's technical advisory business, leading software and service subsidiaries in the UK, Canada and Australia. Most recently Steve was the Chief Operating Officer of the NSL group, supporting the business through its sale in 2017.

Ollie Whitehouse

Chief Technical Officer

Ollie is Chief Technical Officer and is responsible for the Group's technical strategy, research and development. Over the past 20 years, Ollie has worked in a variety of cyber security consultancy, applied research and management roles, including being responsible for security research and assessment at RIM (BlackBerry) in Europe. Ollie is a research and science advisor to the UK Government on cyber security and is also a mentor at the CyLon incubator and board member of the UK Cyber Security Challenge.

Suzy Cross

General Counsel and Company Secretary

Suzy joined the Group in January 2018. Suzy has over 20 years' legal experience and is a trusted adviser to the Board. Suzy previously served as General Counsel in Dechra Pharmaceuticals plc, Victrex plc and Speedy Hire plc, all groups listed on the main market of the London Stock Exchange. As a qualified solicitor, Suzy is able to execute the role of Company Secretary by advising the Board on governance issues and the regulatory environment.

Board composition and division of responsibilities

Role profiles are in place for the Chairman and Chief Executive Officer, which clearly set out the duties of each role.

Role	Responsibilities
The Chairman of the Board (Chris Stone)	Is responsible for the running of the Board and promoting a culture of openness and debate. The Chairman, in conjunction with the CEO and other Board members, plans the agendas, which are issued with the supporting Board papers in advance of the Board meetings. These supporting papers provide appropriate information to enable the Board to discharge its duties which include monitoring, assessing and challenging the executive management of the Group.
The Chief Executive Officer (Adam Palser)	Together with the senior management team, is responsible for the day-to-day running of the Group and regularly provides performance reports to the Board. The role of CEO is separate from that of the Chairman to ensure that no one individual has unfettered powers of decision.
The Chief Financial Officer (Brian Tenner)	Works closely with the CEO with specific responsibility for all financial matters, including Group accounting policies, financial control, tax and treasury management, risk management and financial probity. The CFO is also accountable for the transparency and appropriateness of management information and key performance indicators, internally and externally.
The Senior Independent Director (Chris Batterham)	Provides a sounding board for the Chairman and serves as an intermediary for other Directors, employees and shareholders when necessary. The main responsibility is to be available to the shareholders should they have concerns that they have been unable to resolve through normal channels or when such channels would be inappropriate.
The other Non-Executive Directors (Jonathan Brooks, Thomas Chambers, Jennifer Duvalier and Mike Ettling)	Maintain an ongoing dialogue with the Executive Directors which includes constructive challenge of performance and the Group's strategy.
Company Secretary (Suzy Cross)	Ensures good information flows within the Board and its Committees and between senior management and Non-Executive Directors. The Company Secretary is responsible for facilitating the induction of new Directors and assisting with their professional development as required. All Directors have access to the advice and services of the Company Secretary to enable them to discharge their duties as Directors. The Company Secretary is responsible for ensuring that Board procedures are complied with and for advising the Board through the Chairman on governance matters. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

Experience of the Board

The members of the Board bring a wide range of skills and experience to the Group. This diverse skill set allows the Board to appropriately challenge and lead the Group's strategy. As noted previously, the Board consciously chose a new Non-Executive Director with specific digital market experience in order to meet an identified gap. The chart below summarises their key areas of significant experience.

	Strategy development	Sales and marketing	Human resources	Corporate governance	Financial management	M&A	Professional services
Chris Stone	✓			✓		✓	✓
Adam Palser	✓	✓					✓
Brian Tenner	✓			✓	✓	✓	✓
Chris Batterham	✓			✓	✓	✓	
Jonathan Brooks			✓	✓	✓	✓	
Thomas Chambers	✓			✓	✓	✓	
Jennifer Duvalier	✓		✓	✓			✓
Mike Ettling	✓	✓	✓	✓		✓	

Board composition and division of responsibilities

Meetings and attendance

The Board considers that each Director is able to allocate sufficient time to the Company to discharge their responsibilities effectively. The Non-Executive Directors are contracted to spend a minimum of 24 days per annum on NCC Group affairs.

A summary of each current Director's attendance at meetings that they were eligible to attend of the Board and its committees during the financial year ended 31 May 2018 is shown below. Unless otherwise indicated, all Directors held office throughout the year:

	Board	Audit	Remuneration	Nomination	Cyber
Chris Stone[1]	11(11)	n/a	n/a	3(3)#	0(0)#
Adam Palser[2]	4(4)	n/a	n/a	n/a	n/a
Brian Tenner	10(11)	n/a	n/a	n/a	n/a
Thomas Chambers	10(11)	4(4)	11(11)	6(6)	n/a
Chris Batterham	11(11)	4(4)#	11(11)	6(6)	2(2)
Jonathan Brooks[3]	11(11)	4(4)	10(11)#	5(6)	2(2)
Jennifer Duvalier[4]	0(1)	n/a	0(1)	0(0)	0(0)
Mike Ettling[5]	8(8)	n/a	n/a	n/a	n/a
Debbie Hewitt[6]	9(9)	3(3)	9(9)	3(3)	2(2)

Committee Chair.

1 Appointed as a member and chair of both the Nomination and Cyber Security Committees from January 2018.

2 Appointed December 2017.

3 Missed one Remuneration Committee meeting due to a prior commitment before becoming Chair of the Remuneration Committee in March 2018.

4 Appointed April 2018

5 Appointed September 2017.

6 Resigned from the Board and stepped down as Chairman of the Remuneration Committee in March 2018.
Stepped down as Chairman of the Nomination and Cyber Security Committees in January 2018.

Independent advice

All Directors have access to the advice and services of the Company Secretary and Directors are entitled to take independent professional advice if necessary, at the expense of the Company.

Conflicts of interest

The Companies Act 2006 requires Directors to avoid situations where they have, or could have, a direct or indirect interest that conflicts or potentially conflicts with the interests of the Company. The Company's Articles of Association require any Director with a conflict or potential conflict to declare this to the Board. That Director will not then be involved in the discussions relating to the proposal, transaction, contract or arrangement in which they have an interest, unless agreed otherwise by the Directors of the Company in the limited circumstance specified in the Articles of Association, nor will they be counted in the quorum or be permitted to vote on any issue in which they have an interest.

Directors' and Officers' liability (D&O) insurance

The Company maintains D&O insurance to cover the cost of defending civil proceedings brought against them in their capacity as a Director or Officer of the Company (including those who served as Directors or Officers during 2017/2018).

Board independence

As required by the Code, at least 50% of the Board, excluding the Chairman, are independent Non-Executive Directors. The Board comprises two Executive Directors, five independent Non-Executive Directors and the Non-Executive Chairman.

The Board has debated and considers that all of the current Non-Executive Directors are independent, and in so doing considered the profile of all of the individuals, concluding that none of them:

- has ever been an employee of the Group;
- has ever had a material business relationship with the Group or receives any remuneration other than their salary or fees;
- has close family ties with advisers, other Directors or senior management of the Group that could reasonably be expected to cause a conflict;
- holds cross-directorships or has significant links with other Directors through involvement with other companies or bodies;
- represents a significant shareholder; or
- has at the point of this report served on the NCC Group Board for more than nine years from the date of their first election.

The Non-Executive Directors provide a strong independent element on the Board and are well placed to constructively challenge and help develop proposals on strategy and succession planning. Between them they bring an extensive and broad range of experience to the Group.

Details of the Directors' respective experience is set out in their biographical profiles on pages 52 to 53.

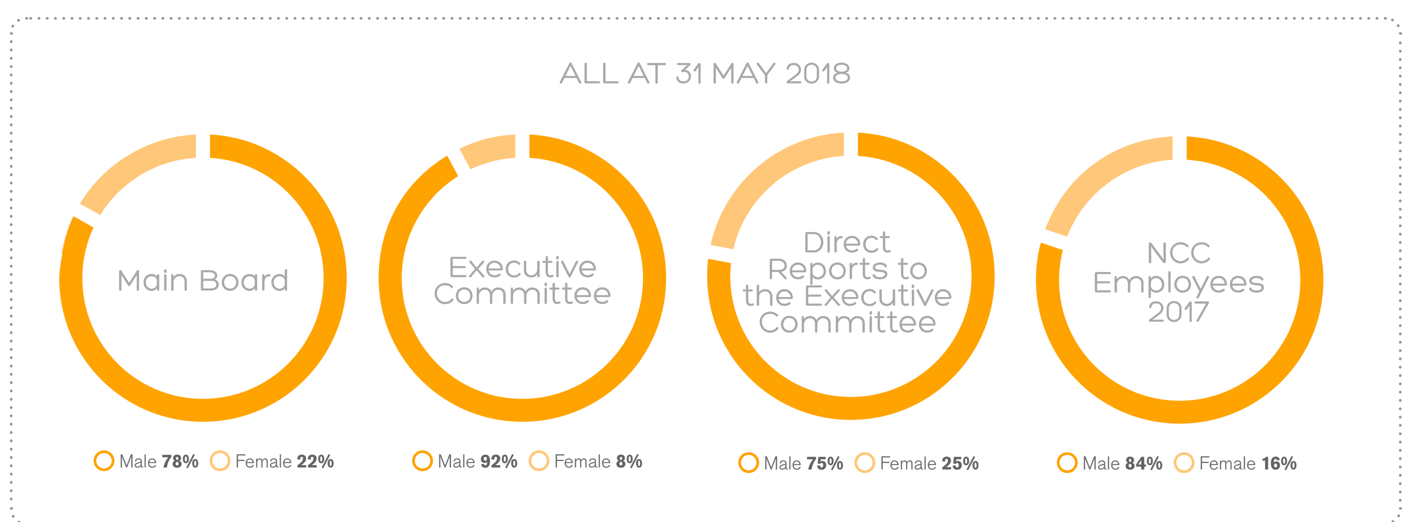
The terms and conditions of appointment of Non-Executive Directors are available for inspection at the Company's registered office during normal business hours.

Diversity

The principle of Board diversity is strongly supported by the Board. It is the Board's policy that appointments to the Board will always be based on merit so that the Board has the right balance of individuals in place. The Board recognises that diversity of thought, approach and experience is an important consideration and is therefore one of the selection criteria used to assess candidates prior to any Board appointments.

The Company's policy is to find, develop and maintain a diverse workforce at all levels and it is committed to developing a culture where women can achieve and retain senior positions.

The table below sets out the current position of the Company on a gender basis:



Board composition and division of responsibilities

Given the relatively small size of the Board, it would not seem appropriate to impose specific formulaic gender or diversity targets but it is the Company's intention to increase the gender and ethnic diversity of the Board and senior management team as opportunities arise.

Annual re-election

In accordance with the Code, the Directors appointed in the financial year ended 31 May 2018 are subject to election by shareholders at the AGM in September 2018 and, in line with best practice, all others are subject to re-election annually.

Director induction, training and development

Adam Palser, Mike Ettling and Jennifer Duvalier joined the Board during the year and were provided with an induction on appointment, which included visits to the Group's operations and meetings with operational and executive management. Each Director's induction is tailored to their experience and background with the aim of enhancing their understanding of the Group's business, the operating divisions, employees, customers, suppliers and advisers and the role of the Board in setting the tone of our culture and governance standards.

The Company acknowledges the importance of developing the skills of the Directors to run an effective Board. To assist in this, Directors are given the opportunity to attend relevant courses and seminars to acquire additional skills and experience to enhance their contribution to the ongoing progress of the Group. All of the Directors attend sessions which are aimed at updating the Board on trends and developments in corporate governance.

Board and Committee effectiveness review

The performance of the Board and its committees are appraised annually and an internal effectiveness review was completed for the year ended 2018. The evaluation identified changes which would improve the working of the Board, including:

- Increased strategic discussion. Extensive work has been carried out throughout the year on producing a clear vision for the Group going forward.
- Board composition and succession, including the enhancement of the Board with two additional Non-Executives who brought HR/remuneration experience and technology expertise.
- Strengthening of the Senior Management team. This has been addressed by appointing several new senior managers including a Group Operations Director, a Group Sales and Marketing Director, a Director of Risk and Assurance and a Transformation Programme Manager to oversee and drive through a change programme linked to the Group's strategy.

During the year, each of the Audit Committee, Remuneration Committee, Nomination Committee and Cyber Security Committee carried out an internal self-evaluation on their effectiveness. The conclusion from the Committee reviews is that, overall, the Committees are working well but some recommendations were made, including a more robust approach to monitoring and managing risk and an extensive review of the senior management team.

Individual Director appraisals process

During the year, the Senior Independent Non-Executive Director evaluated the performance of the Chairman and the Chairman evaluated the performance of each Director. In addition, the Non-Executive Directors met independently from the Executive Directors to discuss with the Chairman the overall functioning of the Board and his contribution in making it effective.

Going forward, appraisals have been or will be carried out by the following individuals:

Director being appraised	Appraiser
Chairman	Reviewed by the Non-Executive Directors, excluding the Chairman, and feedback facilitated by the Senior Independent Non-Executive Director.
Chief Executive Officer	Reviewed by all of the Non-Executive Directors and CFO and feedback facilitated by the Chairman.
Chief Financial Officer	Reviewed by all of the Non-Executive Directors and feedback facilitated by the CEO and Chairman.
Non-Executive Directors	Reviewed by the Executive Directors and by their Non-Executive Director peers and feedback collated and given by the Chairman.

Operation of Governance Framework

Role of the Board

The Board is responsible for reviewing, challenging and approving the strategic direction of the Group, while providing strong values-based leadership of the Company, within a framework of prudent and effective controls, which enable risk to be assessed and appropriately managed. The Board reviews the Group's business model and strategic objectives to ensure that the necessary financial and human resources are in place to achieve these objectives, to sustain them over the long-term and to review management performance in their delivery.

The Board sets the tone of the Company's values and ethical standards and manages the business in a manner to meet its obligations to shareholders and other stakeholders.

It receives information on at least a monthly basis to enable it to review trading performance, forecasts and strategy and it has a schedule of matters specifically reserved for its decision. The most significant of these are:

- Approval of strategic plans, annual operating plans and any material changes to them.
- Oversight of the Group's operations ensuring competent and prudent management, sound planning, an adequate system of internal control and governance.
- Through the Audit Committee, oversight of financial reporting systems and information and adherence to appropriate accounting policies.
- Changes to the structure, size and composition of the Board and Executive Committee, oversight of the Company culture and ethical standards of the leadership and the independence of Non-Executive Directors, taking into consideration prudent succession planning.
- Approval of the acquisition or disposal of subsidiaries and major investments and capital projects.
- Approval of the dividend, treasury and banking policies, including the Group's capital structure.
- Through the Remuneration Committee, the delivery of an effective Executive Remuneration Policy.
- Receiving reports on the views of the Company's shareholders and approval of all documents put to shareholders at a general meeting or circulated to shareholders; and appointment of key advisers.

The Board has reviewed this schedule during the year and added specific matters where they feel it is critical to the ongoing success of the business.

As noted above, the operational management of the Group is delegated to the Executive Committee of NCC Group. The Board also delegates other matters to Board committees and management as appropriate.

Risk management

The Board has ultimate responsibility for ensuring that business risks are effectively managed. The Board has delegated regular review of the risk management procedures to the Cyber Security Committee in relation to cyber risks and to the Audit Committee in relation to all other risks, who collectively reviews the overall risk environment on at least an annual basis. The day-to-day management of business risks is the responsibility of the Executive Committee.

Internal control

The Group has a system of internal controls which aim to support the delivery of the Group's strategy by managing the risk of failing to achieve business objectives and to protect the stewardship of the Group's assets. As with all such systems, the goal is to manage risk within acceptable parameters rather than to eliminate risk entirely. The Group can therefore only provide reasonable and not absolute assurance that the business objectives and asset stewardship will be provided successfully.

In addition, the Group insures against various risks, but certain risks remain difficult to insure, due to the breadth and cost of cover. In some cases, external insurance is not available at all, or at least not at an economically viable price. The Group regularly reviews both the type and amount of external insurance that it buys. For a more detailed review of risk management processes, the principal risks faced by the Group and their mitigation, as well as a risk "heat map" see pages 40 to 44.

Executive remuneration

During the year, we operated within the Remuneration Policy approved by shareholders at the 2017 AGM. Details of how the Remuneration Policy has been applied during this financial year are set out on pages 84 to 90 of the Remuneration Committee report.

Shareholder relations

Share capital structure

The Company's issued share capital at 31 May 2018 consisted of 277,660,081 ordinary shares of one pence each. There are no special control rights or restrictions on share transfer or special rights pertaining to any of the shares in issue and the Company does not have preference shares.

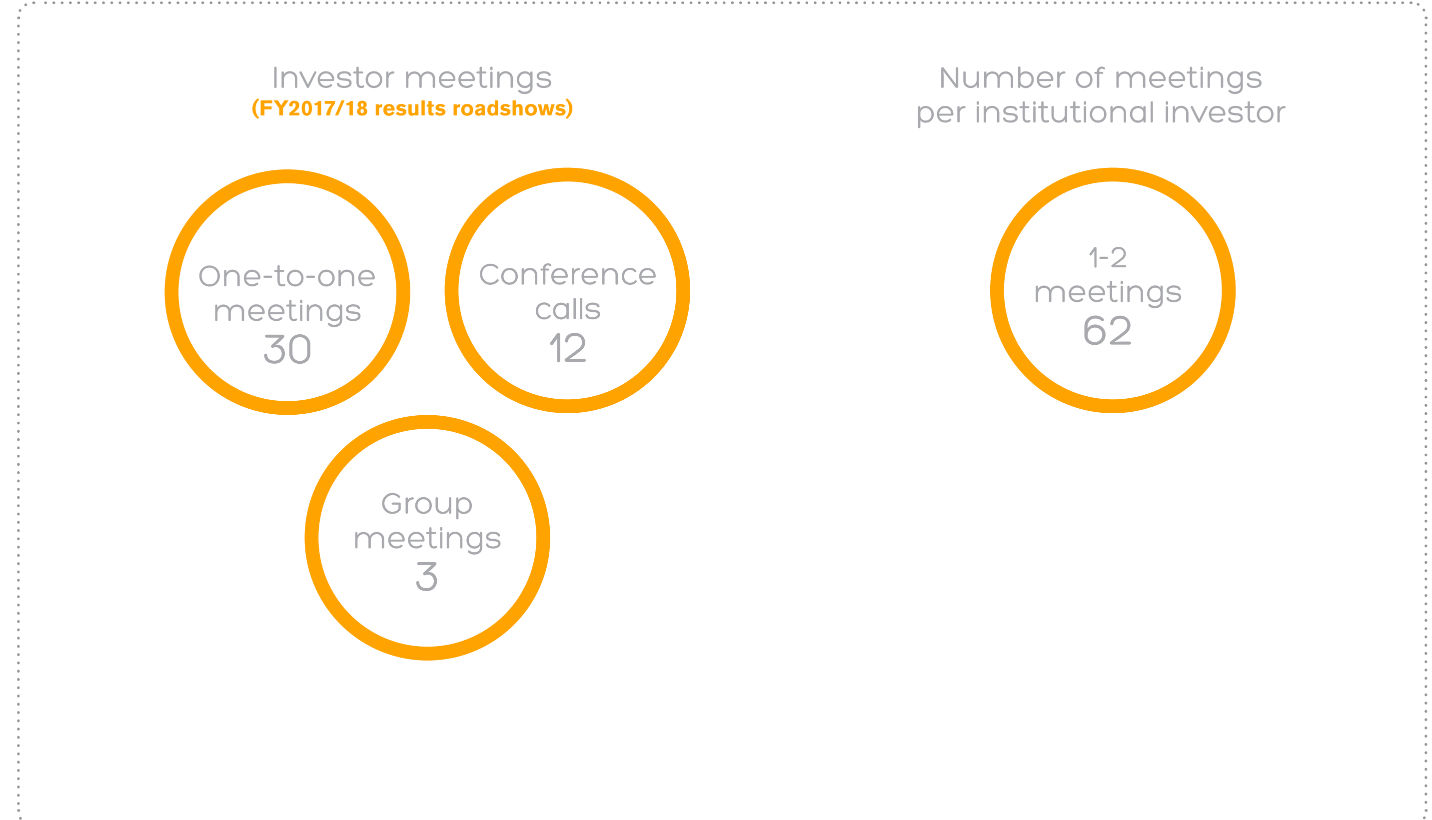
As far as is reasonably known to management, the Company is not directly or indirectly owned or controlled by another Company or by any government.

Board engagement with shareholders

Communications with shareholders are given high priority. There is a regular dialogue with institutional investors including presentations after the Company's year-end and half-year results announcements. A programme of meetings take place throughout the year with major institutional shareholders and private shareholders have the opportunity to meet the Board face-to-face and ask questions at the Annual General Meeting. During the financial year the Directors held a number of meetings with shareholders as set out in the table below.

Board shareholder updates

Feedback from major institutional shareholders is provided to the Board on a regular basis and, where appropriate, the Board takes steps to address their concerns and recommendations.

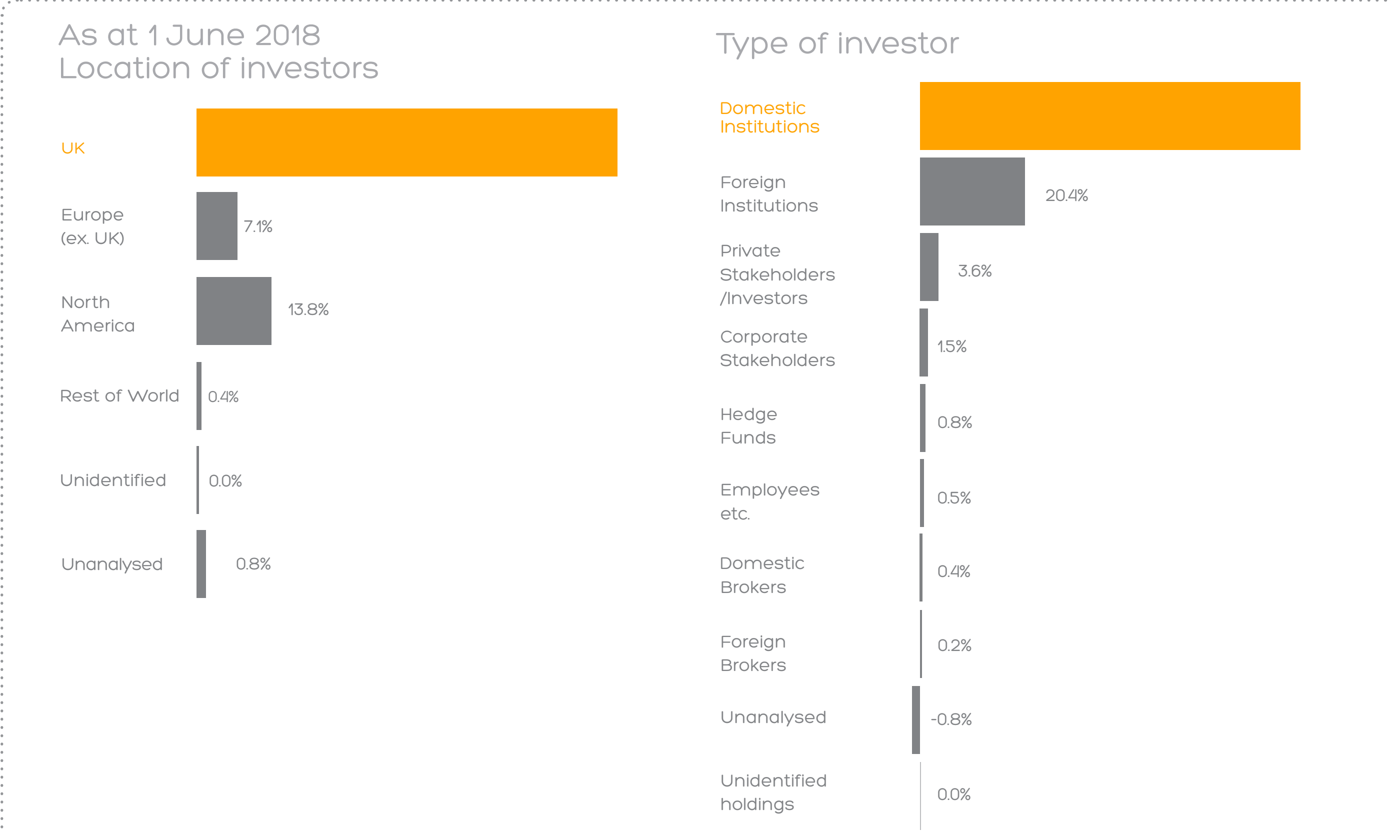


Substantial shareholdings

As at 2 July 2018, the Company had been notified of the following interests of 3% or more in the issued share capital of the Company under the UK Disclosure and Transparency Rules:

Shareholder	Number of ordinary shares 2018	Number of ordinary shares 2017	% of NCC's total share capital 2018	% of NCC's total share capital 2017
Neptune Investment Management	**19,970,909**	17,632,559	**7.19**	6.38
Montanaro Asset Management	**17,189,287**	21,745,000	**6.19**	7.86
Schroder Investment Management	**15,847,864**	11,508,326	**5.71**	4.16
Fidelity Management & Research	**12,836,424**	9,735,500	**4.62**	3.52
Legal And General Investment Management	**11,818,304**	15,207,286	**4.26**	5.50
Artemis Investment Management	**10,037,863**	10,439,726	**3.61**	3.78
Fidelity Management & Research	**9,704,800**	9,065,956	**3.49**	3.28
Baillie Gifford & Co	**9,521,050**	11,389,759	**3.43**	4.12
Kames Capital	**7,844,516**	–	**2.83**	–
Vanguard Group	**6,970,600**	–	**2.51**	–
Total above	**121,741,614**	–	**43.84**	40.45

There have been no notifications under DTR 5 between the date of the information in this table and 17 July 2018 when the Annual Report and Accounts were signed.



Shareholder relations

Directors' shareholdings

For details of Directors' shareholdings, remuneration and interests in the Company's shares and options, together with information on service contracts see pages 76 to 94 of the Directors' remuneration report.

Annual General Meeting

The Annual General Meeting (AGM) is an opportunity for shareholders to vote on certain aspects of Group business and provides a useful forum for one-to-one communication with private shareholders. At the AGM shareholders receive presentations on the Company's performance and may ask questions of the Board. The Chairman seeks to ensure that the Chairmen of the Audit, Remuneration, Nomination and Cyber Security Committees are available at the meeting to answer questions and for all Directors to attend.

The table below shows the different resolutions proposed at the 2017 AGM, the proportions of possible votes that were cast and the proportions in favour and against each resolution (resolutions 1 to 13 and resolution 18 were passed as ordinary resolutions and resolutions 14 to 17 were passed as special resolutions).

		Votes for	%	Votes against	%	Total votes cast	% of issued share capital voted	Votes withheld
1.	To receive the report and accounts	202,831,822	98.14	3,843,011	1.86	206,674,833	74.74	0
2.	To approve the directors' remuneration report (other than the directors' remuneration policy) for the year ended 31 May 2017	206,367,814	99.85	307,019	0.15	206,674,833	74.74	0
3.	To approve the directors' remuneration policy for the financial year ended 31 May 2017	202,309,191	99.84	318,649	0.16	202,627,840	73.28	4,046,993
4.	To declare a final dividend of 3.15p per share	202,831,822	98.14	3,843,011	1.86	206,674,833	74.74	0
5.	To re-appoint KPMG as auditor	206,671,774	100.00	3,059	0.00	206,674,833	74.74	0
6.	To authorise the Audit Committee to determine the auditor's remuneration	206,670,667	100.00	555	0.00	206,671,222	74.74	3,611
7.	To elect Chris Stone as a Director	206,517,139	99.92	157,694	0.08	206,674,833	74.74	0
8.	To elect Brian Tenner as a Director	206,666,259	100.00	8,574	0.00	206,674,833	74.74	0
9.	To elect Jonathan Brooks as a Director	206,663,200	99.99	11,633	0.01	206,674,833	74.74	0
10.	To re-elect Debbie Hewitt as a Director	204,583,232	98.99	2,091,601	1.01	206,674,833	74.74	0
11.	To re-elect Thomas Chambers as a Director	202,610,325	98.03	4,064,508	1.97	206,674,833	74.74	0
12.	To re-elect Chris Batterham as a Director	206,663,199	99.99	11,634	0.01	206,674,833	74.74	0
13.	To authorise the Directors to allot shares	203,306,674	98.37	3,368,159	1.63	206,674,833	74.74	0
14.	To authorise the Directors to disapply pre-emption rights up to 5% of the issued share capital	200,303,684	96.92	6,371,149	3.08	206,674,833	74.74	0
15.	To authorise the Directors to disapply pre-emption rights for an additional 5% in relation to an acquisition or capital investment	191,202,537	92.51	15,472,296	7.49	206,674,833	74.74	0
16.	To authorise the purchase of own shares pursuant to s.701 of the Companies Act 2006	202,286,591	97.88	4,388,242	2.12	206,674,833	74.74	0
17.	To reduce the notice period required for General Meetings	201,873,402	97.68	4,801,431	2.32	206,674,833	74.74	0
18.	To approve amendments to the NCC Group US Employee Stock Purchase Plan	206,663,767	99.99	10,511	0.01	206,674,278	74.74	555

The 2018 AGM will be held at 11.00am on Wednesday 26 September 2018 at the Group's head office at XYZ Building, 2 Hardman Boulevard, Spinningfields, Manchester, M3 3AQ. The notice convening this meeting has been sent to shareholders at the same time as publication of this Annual Report and Accounts and is available at www.nccgroup.trust/uk/about-us/investor-relations/.

By order of the Board

Chris Stone
NON-EXECUTIVE CHAIRMAN
17 July 2018

Audit committee report

The Audit Committee continues to support the management team in developing improved governance structures that will support further growth in scale and complexity."

CHRIS BATTERHAM COMMITTEE CHAIRMAN

The Audit Committee's key objectives

The purpose of the Audit Committee is to assist the Board in the discharge of its fiduciary duties of stewardship of the Group's assets. The Committee particularly focuses on systems and processes of management control, the reporting of internal management information and externally reported financial information. The Committee also provides a forum for reporting by the external auditors.

The Audit Committee's responsibilities

The Committee's main responsibilities include:

- Monitoring the integrity of the financial statements relating to the Group's financial performance and their compliance with the provisions of IFRS, the UK Corporate Governance Code, Disclosure and Transparency Rules and other regulations.
- Reviewing material information and significant accounting judgements contained in it.
- Advising the Board on the continuing appropriateness of the Group's existing accounting policies and the application of any new or modified accounting and reporting standards.
- Advising the Board on the effectiveness of the processes ensuring that the Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable.
- Reviewing the audit findings with the external auditors including discussing any major issues that arise during an audit, the accounting and audit judgements made, the level of any errors identified during the audit and the effectiveness of the audit process itself.
- Reviewing the effectiveness of the Group's internal control systems.
- Reviewing the nature and extent of significant financial risks and how they can be mitigated.
- Making recommendations to the Board in relation to the appointment of the external auditors, approving their remuneration and terms of engagement.
- Overseeing the relationship with the external auditors including, but not limited to, assessing their independence, objectivity and effectiveness.
- Reporting to the Board on the procedures for responding to whistleblowing, fraud or potential breaches of anti-bribery legislation.

A full copy of the Committee's Terms of Reference can be found in the Investor Relations section of the Group's website at www.nccgroup.trust/uk/about-us/investor-relations.

Activities during the year

This year, the Committee:

- Reviewed and challenged the reporting around discontinued operations and subsequent disposals.
- Supported new Board members in their on-boarding process as well as assisting changes in the roles of the Non-Executive Directors including the transition of the Chairman's role from Thomas Chambers to myself.
- Led discussion with the external auditors on the process for the proposed partner rotation at the end of the reporting cycle in the current financial year.
- Sponsored a review of the potential impact of the new revenue recognition accounting standard, IFRS15.
- Initiation and consideration of a revised risk review undertaken by the new Director of Risk and Assurance.
- Reviewed the ongoing programme to enhance the quality of the Group's external reporting, including in the Annual Report and Accounts.

Audit committee report

Composition

The Audit Committee is chaired by me, a Chartered Accountant of 39 years' standing. I have previously served as the Finance Director of Unipalm plc, before becoming Chief Financial Officer of Searchspace Limited. Both businesses operated in digital technology sectors. My earlier career included roles with BICC Group and accountants Arthur Andersen. The Board considers that I have the recent and relevant experience required by the UK Corporate Governance Code 2016.

The other members of the Committee who served throughout the year are: Thomas Chambers (who I succeeded as Chairman in March 2018) and Debbie Hewitt, the Senior Independent Non-Executive Director, who stepped down from the Committee and the Board in March 2018. In addition, Jonathan Brooks, who joined the Board in March 2017, was appointed to the Committee at the end of June 2017 and served throughout the year. All members of the Committee are considered to be independent and the Committee as a whole continues to have competence in the technology sector.

Summary biographies of each member of the Committee are included on pages 52 to 53.

Meeting frequency and attendance

The Terms of Reference for the Committee require at least three meetings per year. During this financial year the Committee met four times. As well as the members of the Committee, the meetings are usually attended by the Chairman, the other Non-Executive Directors, the Chief Executive and the Chief Financial Officer. The external auditors also attend each meeting. During the year the Committee met, on a number of occasions, with the external auditors without the Executive Directors being present. In addition, following the appointment of the Group's new Director of Risk and Assurance who heads up the Group's Internal Audit function, a number of meetings were held with them without management being present.

The attendance of individual Committee members at Audit Committee meetings is shown in the table below:

Attended	Meetings attended
Chris Batterham	4(4)
Jonathan Brooks	4(4)
Thomas Chambers	4(4)
Debbie Hewitt	3(3)

Significant issues considered during the year in relation to the Financial Statements

During the year, the Committee reviewed and considered the following areas in respect of financial reporting and the preparation of the interim and annual Financial Statements:

- The appropriateness of the accounting policies used.
- Significant areas of management judgement or estimation.
- The effectiveness and changes to the financial control environment.
- Compliance with external and internal financial reporting standards and policies.
- Disclosure and presentation of GAAP and non-GAAP information.
- Whether the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary to assess the Group's financial position, performance, business model and strategy.

In carrying out this review the Committee considered the advice of the Group's finance team and the external auditors' reports setting out their views on the accounting treatments and judgements included in the Financial Statements.

2017 Annual Report and Accounts FRC review

During the year the Group received a letter from the Conduct Committee of the Financial Reporting Council (FRC), a body appointed to review the annual report and accounts of public and large companies. The reviews are intended to support continuous improvement in the quality of reporting. The letter was sent following a review of the Group's 2017 Annual Report and Accounts. The letter focused on the disclosures given around accounting errors in respect of prior years, acquisitions arising in that financial year (PSC and VSR), sensitivity analyses around impairment reviews and the Group's use of Alternative Performance Measures (APMs).

The Audit Committee was able to clarify a number of matters for the FRC. The Committee undertook to improve the quality and clarity of disclosures around how the Group assesses materiality. In addition, the Committee undertook to enhance and expand on disclosures regarding significant accounting judgements and estimates, and sensitivity analyses. With respect to APMs, the Committee also undertook to provide a fuller rationale for their use, as well as their calculation and reconciliation to the reported financial statements.

Significant accounting areas and areas of significant management judgement

The table below summarises some of the significant accounting issues and judgements that the Committee considered during the year in relation to the Financial Statements. These are split between those items which are identified either as recurring items that the Committee regularly reviews or as items of current year focus. The table also sets out the financial context and potential impact of each item as well as the impacted KPIs. Finally, the table shows the degree of judgement that the Committee feels has to be applied for each item. Items with a significant impact but with a "low" judgement level will typically have extensive independent third party evidence of the bases for any judgement. Areas assessed as requiring a "high" level of judgement tend to rely more heavily on management estimates and historical trends than extensive independent third party evidence.

Review items	Relevance to the Financial Statements	Related KPIs	Estimation required
Goodwill carrying values (recurring)	Group net assets £208.2m Goodwill value £187.1m	–	High
Intangible asset-carrying values (recurring)	Group net assets £208.2m Intangible assets value £240.0m	Adjusted* operating margin	High
Onerous leases (current year focus)	Group net assets £208.2m Adjusted operating profit* £31.0m	Adjusted* operating margin	Low
Loss-making contracts (current year focus)	Group net assets £208.2m Adjusted operating profit* £31.0m	Adjusted* operating margin	Low
Revenue recognition (current year focus)	Revenue £233.2m Adjusted operating profit* £31.0m	Revenue and growth rates Adjusted* operating margin	Low
Individually significant items (recurring)	Net charges (£7.6m) Adjusted operating profit* £31.0m	Adjusted* operating margin	Medium
Taxation (current year focus)	Adjusted operating profit* £31.0m Profit after tax£12.4m	Earnings per share Effective tax rate	Low
IFRS15 Revenue Recognition (current year focus)	Disclosure only this year	Revenue growth Adjusted* operating margin	Low

Goodwill carrying value

(Recurring item: see note 14 to the Financial Statements)

The Group has made a number of historical acquisitions which generated goodwill at the time of purchase. At the start of the current financial year, the Group had goodwill of £187.1m.

In accordance with IAS 36, management has determined appropriate cash generating units (CGUs) on which to base the annual impairment review for goodwill and indefinite-lived intangible assets by comparing the recoverable amount to the carrying value. Impairment reviews are based on discounted future cash flow models that can contain a significant degree of management estimate in terms of the basis of the CGUs, the associated forecast cash flows, the appropriate growth rates to apply to revenues and margins, and the discount rates to be used. This is set out in more detail in note 14 to the Financial Statements.

The Committee has reviewed the rationale used to determine the CGUs and assumptions used in future cash flows that underpin the valuation of goodwill. The CGUs used in the review of goodwill changed in the prior year. This reflected the outcome of the Strategic Review that led to an updated management view of the lowest appropriate level of asset groupings that generate separately identifiable cash inflows. There have been no changes to the CGUs in the current year other than in respect of the two businesses that were disposed of (each having been treated as a separate CGU for a number of years).

Intangible assets-carrying value

(Including acquired intangibles, software and capitalised development costs') (Recurring item: see note 14 to the Financial Statements.)

The total value of acquired intangible assets at the start of the year was £49.7m. Acquired intangible assets are amortised over a period of 10 years. Movements in the balance sheet values during the year are set out in note 14 to the Financial Statements. Annual impairment reviews of each intangible asset are based on the same underlying discounted future cash flow models that are used in assessing the carrying value of goodwill. These models can contain a significant degree of management estimate in terms of the forecast cash flows, the appropriate growth rates to apply to revenues and margins, and the discount rates to be used. This is set out in more detail in note 14 to the Financial Statements.

The Committee reviews the assumptions and estimates underpinning the cash flow models each year given the high level of estimation required in assessing cash flows over an extended period of time to arrive at recoverable values.

Finally, the Group is also undertaking a number of development projects aimed at producing new products and services. These activities are collectively referred to as "Development" costs and where IFRS recognition criteria are met, costs incurred are capitalised.

During the year, management undertook a risk-based review of capitalised development projects as well as their potentially useful economic lives. This resulted in the amortisation charge in the current year including £1.5m in respect of accelerated amortisation of a number of capitalised project costs where long-term viability of the projects was no longer deemed sufficiently certain to support their carrying value. The review of the Useful Economic Lives (UELs) associated with

Audit committee report

the remaining capitalised development projects concluded that five years was a more appropriate UEL than the previous ten-year period. Management has concluded that while the projects may have technical feasibility over that longer period, the rate of change and the potential for technological obsolescence mean that a shorter UEL of five years would better match the risk and return profiles. This had an impact in the year of £0.4m of additional amortisation charges being the full-year effect since 1 June 2017. The Committee was content that the £1.9m impact of the portfolio review represented an appropriate change in accounting estimate that should be treated as an ordinary operating charge as a part of our normal product lifecycle management activity. Hence it has not been treated as an Individually Significant Item.

Onerous leases

(Current year focus item: see note 20 to the Financial Statements)

During the year, the Group identified leases on two UK properties that were surplus to requirements. Discounted cash flow models were reviewed and challenged on their assumptions. The Committee is satisfied that liability for onerous leases is properly recorded.

Loss-making contracts

(Current year focus item: see note 20 to the Financial Statements)

During the year, the Group reviewed a major long-term contract in the Netherlands for the development and supply of a new product. Management prepared estimates of future income, costs and resulting cash flows associated with the contract. The annual cash flows were then discounted using appropriate risk-adjusted discount rates to arrive at the Net Present Value (NPVs) of the contract in question.

The Committee reviewed and challenged the interpretation of accounting standards and the assumptions underpinning the cash flows and discount rates. The Committee is satisfied that the contract is loss-making and that the liabilities recorded are reasonable.

Revenue recognition and accrued income

(Current year focus item: see note 1 to the Financial Statements)

In the prior year, the Committee spent a significant amount of time considering the Group's revenue recognition policies and practise. This reflected the upcoming change in revenue recognition rules in 2019 (IFRS 15) the reliance on manual processes and controls within the business, and the inherent risks around revenue recognition more generally. The broad conclusion of this exercise was that despite the over-reliance on manual systems and processes, no material systematic issues or errors were identified with the substance of reported revenue in the major business units in the current and previous years.

Given the importance of revenue recognition and the deemed inherent risk, it was felt appropriate to maintain revenue recognition on the Committee's agenda for the current year. The Committee built upon the risk-based work in the prior year and reviewed a number of smaller individual service line revenue recognition policies and concluded that they remained appropriate.

With respect to the sale of third party products, where new low risk terms and conditions of sale have been implemented in most cases, the Committee agreed with management's conclusion that these should now be recognised on a net or agency basis rather than a gross basis. It should be noted that it was the change in fact pattern occasioned by the new terms and conditions, alongside the new criteria in IFRS15 to identify sales that should be treated on an agency basis that led to this change in practice as opposed to a change in policy. There was no impact on any profitability measures.

Individually Significant Items

(Current year focus item: see note 6 to the Financial Statements)

Individually significant items by their nature and scale could have a significant impact on the reporting of "Adjusted" metrics such as Adjusted* EBITDA, Adjusted* EBIT and Adjusted* EPS. It is critical that these are properly categorised in order to allow a user of the financial statements to form an accurate picture of the underlying performance of the business. The Committee challenged management to provide the rationale for the treatment of certain costs as exceptional. The Committee has also challenged management on the use of "Adjusted" or non-GAAP reporting metrics. All "Adjusted" metrics are fully disclosed and reconciled to GAAP measurements in the Financial Statements.

Following this review and challenge to management, the Committee concluded that the items that have been designated as individually significant and hence excluded from "Adjusted" measures of performance, were sufficiently material and unrelated to the underlying business to be properly classified in this way.

Taxation

(Current year focus item: see note 10 to the Financial Statements)

As part of the publication of the Interim Results in January 2018, a large fall was projected for the Group's full year Adjusted* effective Tax Rate as a result of the significant planned cut in rates of corporation tax in the USA from 35% to 21%. The actual Adjusted* effective Tax Rate for the Group for the year ended 31 May 2018 was 22.4% (2017: 29.3%).

The change in tax rates in the USA had a significant impact on the Group's effective tax rate. It also had an impact on deferred tax assets and liabilities that needed to be evaluated. In addition, the cut in tax rate also had an impact on the discounted net cash flows used to evaluate the recoverability of goodwill and other intangible assets in the USA in respect of historical additions. The Committee therefore deemed it appropriate to review this area given its materiality and the nature of the one-off change.

Furthermore, the Group initiated a programme to claim the US equivalent of R&D tax credits in respect of our US operations. This led to a significant historical claim which has been accrued with an appropriate risk haircut and will also create an ongoing tax benefit. Both historical and ongoing tax benefits will create real cash flow benefits for the Group. The Committee considered whether or not the US R&D tax credits should be treated as operating income as in the UK or should be treated as a tax item. The Committee concluded that since the US tax credit is itself not a form of taxable income (unlike the UK) it should be treated as a tax item. Given its size and historical nature, it was also confirmed the benefit from it should be excluded in calculating Adjusted* EPS.

Executive management have now appointed a Group Tax and Treasury Manager to look after the Group's international tax affairs. The role will continue to be supported by the incumbent tax advisory firms, to target two objectives:

* See pages 122 to 124 for an explanation and definition of Alternative Performance Measures.

- Firstly, to ensure that the Group's more complex and growing international footprint is fully compliant with all local legislation and transfer pricing regulations.
- Secondly, that the Group's tax affairs are managed in as effective a way as possible while adhering to a low risk appetite for tax planning activities.

The Committee is satisfied that the Group's policy, disclosures and financial position in respect of taxation are appropriate.

IFRS 15 Revenue Recognition

(Current year focus item: see note 1 to the Financial Statements)

The new revenue recognition accounting standard (IFRS 15) is due to be implemented in next year's Annual Report and Account. In advance of the implementation, companies have been encouraged by the FRC to disclose prospectively the estimated impact of the new standard on an illustrative basis using the most recent year's results.

During the year, the Committee supported a detailed review of revenue recognition criteria and policies in those service lines which were deemed to have a higher risk of requiring changes after the implementation of the new standard. A more detailed description of the review and its outcome is shown in note 1 to the Financial Statements.

The Committee is satisfied that the outcomes shown in note 1 are an accurate reflection of the likely material impacts on the Group's results.

The Group's approach to materiality

In considering the materiality of any individual issue or issues in aggregate, the Group looks at a range of qualitative and quantitative measures to assess whether or not a user of the accounts would be likely to be influenced by the item in question. The range of measures includes (but is not limited to) the primary financial statements themselves, the individual line item in question, and whether or not the issue moves the result from one side of an inflection point to another (for example, turning a profit into a loss or a net asset into a net liability). Qualitative and quantitative measures are both considered as is any potential impact on remuneration or banking arrangements such as debt covenants.

Where a matter arises in respect of the current year but which relates to a prior period estimate for example, we assess the impact on individual reporting periods as if any amendments had been made to the prior year Income Statement and opening Balance Sheet at the start of the period. This reflects the Group's approach to the application of IAS 8, paragraph 42 that requires the 'Retrospective Correction' of material prior period errors.

Internal audit

In the prior year, the Group decided that the scale and complexity of its operations justified the creation of an internal audit function. During the year the Group appointed a Director of Risk and Assurance, who joined in the third quarter. The role is responsible for internal audit, the assurance of other quality systems and processes, and further embedding risk management processes throughout our operations. In the short term, the role will also focus on advising management in the design of appropriate internal controls that support the implementation of our new business processes and systems.

The initial internal audit plan was approved by the Committee during the financial year, for implementation on a phased basis in the new financial year.

Internal controls and risk management

The Board is responsible for establishing, maintaining and monitoring the Group's system of internal control and reviewing its effectiveness. The Committee monitors the performance of management in this area.

Internal control systems are designed to meet the particular needs of the Group and the risks to which it is exposed. By their nature, however, internal control systems are designed to manage rather than eliminate the risk of failure and can provide only reasonable but not absolute assurance against material misstatement or loss. Key elements of the internal control system are described below. Enhancements during the year are highlighted while the other elements have all been in place throughout the year:

- Defined management structure and delegation of authority to Committees of the Board, subsidiary boards and associated business units (enhanced by more detailed authorities and guidance notes).
- Recruitment standards and training to ensure the integrity and competence of staff.
- Anti-bribery, security and compliance training.
- Information provided to management covering financial performance and key performance indicators, including non-financial measures (enhanced by new KPIs and targeted management reports).
- A detailed budgeting process where business units prepare plans for the coming year (enhanced with new standardised reporting and consolidation models and systems).
- Procedures for the approval of capital expenditure and investments and acquisitions (enhanced by standardised capital approval request forms).
- Monthly operational reviews to monitor and reforecast results as required against the annual operating plan, with major variances followed up and management action taken where appropriate.
- Clearly documented internal procedures set out in the Group's ISO 9001:2008 accredited quality manual.
- Regular internal audits of key processes and procedures under the Group's ISO 9001 and ISO 27001 accredited quality assurance process.
- Monitoring of any whistleblowing or fraud reports.

The external auditors provide independent advice on those areas of internal control which they assess during the course of their work for the Group and whose findings are regularly reported to the Board and the Audit Committee.

The Group's non cyber security risks are monitored by the Audit and Risk Committee on behalf of the Board which sets aside time for an in-depth discussion of notable or changing risks to the business. A detailed description of the Group's Risk Management processes and controls is set out in the Strategic Report on pages 40 to 44.

Audit committee report

Whistleblowing and confidential reporting procedures

The Group operates a confidential reporting and whistleblowing procedure (known as our "Open Door Policy"). The policy aims to support the stewardship of the Group's assets and the integrity of the financial statements as well as protecting staff welfare. The procedure is reviewed annually by the Committee to ensure that it remains fit for purpose.

During the year, the Committee appointed an independent third party reporting agent to be the first point of contact for those who do not wish to use normal internal line management channels for reporting their concerns. This is advertised internally via staff notice boards and our intranet.

The Committee reviews any whistleblowing or confidential reporting of concerns raised during the year with respect to their nature, scale and any associated or consequential risks. During the year, the Committee received one reported matter that did not come through the independent whistleblowing process and, on detailed review, concerned private use of social media by a junior member of staff. No further action was warranted by the Committee.

Review of the Audit Committee's effectiveness

The Committee has reviewed and considered the effectiveness of its performance during the year. The review included the views of members of the Committee and of regular attendees at the various meetings (including the Executive Directors). I am satisfied that the degree of rigour and challenge applied in performing the Committee's responsibilities is appropriate, effective and continues to improve.

External auditors' effectiveness and appointment

The Committee reviews and makes recommendations regarding the reappointment of the external auditors following a formal review of the auditors' performance following the July Audit Committee meeting. In making these recommendations the Committee considers:

- The experience, industry knowledge and expertise of the auditors.
- The scope and planning of the audit and any variations from the plan.
- The quality of the processes adopted.
- The fees charged.
- Their attitude to and handling of key audit judgements.
- Their ability to challenge and communicate effectively with management.
- The quality of the final report.

During the financial year, Thomas Chambers (former Committee Chairman) and myself, once I had taken over the Chairman role, attended regular meetings with KPMG's engagement partner without management being present. This provided the opportunity for open dialogue. The engagement partner demonstrated their understanding of the Group's business risks and the consequential impact on the financial statements. Feedback on the conduct of the audit from the engagement partner's perspective is used to determine if any challenges in the prior year audit would be sufficiently addressed in the next audit cycle.

The Group's current auditors, KPMG LLP, have been in place since 1 November 2013 with a competitive audit tender process having last been undertaken in November 2011. The UK Competition and Markets Authority's (CMA) Statutory Audit Services Order (Order) states, amongst other matters, that FTSE 350 listed companies should put their external audit contract out to public tender at least every ten years.

In the prior year it was agreed that in a period of significant Board changes and operational upheaval, it would not be in the best interests of the Group to subject the external audit contract to another formal tender exercise during the current financial year.

The Group will keep this position under review during the new financial year. The Group intends to remain in full compliance with the requirement to carry out a formal tender at least once every ten years.

Therefore, having fully considered the performance, independence and objectivity of the external auditors and the reports they have produced in the current financial year, the Committee has concluded that it is appropriate to recommend to the Board the reappointment of KPMG LLP as the Group's external auditors' for the next financial year.

FINANCIAL INFORMATION	NARRATIVE DISCLOSURES	INDEPENDENT REVIEWERS	AUDIT COMMITTEE CHAIR
Prepared by individual business units Consolidated by Group Finance team Reviewed by Group Financial Controller and CFO	Prepared by Group Finance team Various reports prepared by Committee Chairs, CEO and CFO	Senior members of the Executive Committee Those who have not been major contributors	Review of detailed verification documents Review of findings and observations from independent reviewers

Auditors' independence and objectivity

The Committee received a formal statement of independence from the external auditors.

The Company also operates a rigorous policy designed to ensure that the auditors' independence is not compromised by their undertaking inappropriate non-audit work. The Audit Committee's approval is therefore required for any fees for non-audit work paid to the auditors in excess of £10,000 (ten thousand pounds) in any financial year. However, the Company recognises that it can receive particular benefit from certain non-audit services provided by the external auditors due to their technical skills and detailed understanding of the Company's business. A copy of the full policy on the payment of fees to the external auditors for non-audit services can be found on the company website at www.nccgroup.com

During this financial year non-audit fees of £27,500 (2017: £17,500) were paid to the external auditors for the half year review.

All significant pieces of non-audit work are put to informal tender to suitable parties that, if appropriate, can include the external auditors. Upon review as to suitability and price, the work will then be placed with the service provider recommended. If this is the external auditors, then Audit Committee approval is required in accordance with the policy noted above.

Related party transactions and other fees approved by the Committee

Refer to note 31 for related party transactions in the year.

In the prior year, the former Non-Executive Chairman, Paul Mitchell, was also the Non-Executive Chairman of Rickitt Mitchell. During that year the Audit Committee approved corporate finance fees payable to Rickitt Mitchell & Partners Ltd of £0.3m in relation to the completed acquisitions PSC and VSR and the disposal of the Open Registry businesses. There were no such fees payable in the current year.

The Non-Executive Chairman was excluded from all discussions on the approval of fees payable to Rickitt Mitchell & Partners Ltd.

Fair, balanced and understandable

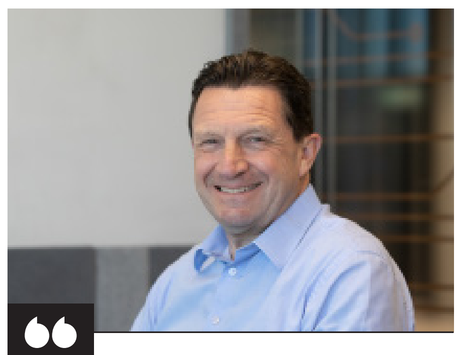
At the request of the Board, the Committee considered whether the 2018 Annual Report and Accounts, when taken as a whole, was fair, balanced and understandable (FBU) and whether it provided the necessary information for shareholders to assess NCC Group's position and performance, business model and strategy.

The independent reviewers noted above were not major contributors to the Annual Report and Accounts but, at the same time, as members of the Executive Committee, are deemed to be sufficiently well informed on the Group's activities to be able to give appropriate feedback on the FBU criteria.

Taking all of the inputs and subsequent amendments into account, the Committee was satisfied that, taken as a whole, the Report and Accounts are fair, balanced and understandable.

Chris Batterham
CHAIRMAN, AUDIT COMMITTEE
17 July 2018

Nomination committee report



The Committee has had a busy year with a number of Executive and Non-Executive changes to the Board."

CHRIS STONE COMMITTEE CHAIRMAN

Debbie Hewitt stepped down as Chairman of the Nomination Committee in January 2018 and I was appointed as the new Committee Chairman. Other members of the Committee are the following independent Non-Executive Directors: Thomas Chambers, Chris Batterham, Jonathan Brooks and Jennifer Duvalier, the latter of whom joined the Committee when she joined the Board in April 2018. Thomas Chambers has announced his intention to resign from the Board at the 2018 AGM and Thomas will step down as a member of the Committee from that date.

The Nomination Committee's objectives and responsibilities

The Nomination Committee is responsible for reviewing the size, structure, balance, composition and progressive refreshing of the Board and its committees and as such its duties include:

- Reviewing the structure of the Board.
- Evaluating the balance of skills, knowledge, experience and diversity on the Board.
- Making recommendations for further recruitment to the Board or proposing changes to the existing structure of the Board, or individual Directors.
- Reviewing the leadership needs of the Company, both Executive and Non-Executive.
- Succession planning for Directors and other senior Executives within the business.
- Recruiting, appointing and exiting of Directors.
- Overseeing membership of, and succession to, the various Board committees.
- Reviewing the time commitment required from the Non-Executive Directors on NCC business.

The Chairman of the Board leads the process for the appointment of new Non-Executive Directors to the Board and for the appointment of the Chief Executive Officer. The Chief Executive, in conjunction with the Chairman, leads the process for the Chief Financial Officer. The Senior Independent Director leads the process for a new Chairman of the Board.

In relation to an appointment to the Board, the Committee draws up a specification and assesses the capabilities and experience required for such a role, including an assessment of the time commitment required. Candidates are sought by third party advisers and where appropriate through assessment of internal candidates and are then formally considered by the Nomination Committee. Extensive external referencing is completed.

All appointments are made on merit and against objective criteria with due regard for the benefits of diversity on the Board, including gender and race. The Company and the Committee value the aims and objectives of the Davies report and the Hampton-Alexander Review on women on boards and support and apply the Group's diversity policy set out on page 46.

No formal measurable objectives for female and ethnic representation at Board level have currently been set as the Committee is committed, while having regard to the diversity policy, to recommend only the most appropriate candidates for appointment to the Board. Currently 22% of the Directors and officers on the Board are women and there is no ethnic representation.

When a new Director is appointed they receive a full, formal and tailored induction into the Company and discuss with the Chairman any immediate training requirements.

The Committee's terms of reference can be found in the Group's Investors' section of the Company's website: www.nccgroup.trust/uk/about-us/investor-relations

The terms of reference are reviewed annually and updated when necessary.

Committee meetings

The Committee is required, in accordance with its terms of reference, to meet at least twice per year. During this financial year, the Committee met six times.

The attendance of individual Committee members at Nomination Committee meetings is shown in the table below. Unless otherwise indicated, all Directors held office throughout the year.

Attended	Meetings attended
Chris Stone (Chair from January 2018)	3(3)
Debbie Hewitt (Chair until January 2018)	3(3)
Chris Batterham (member)	6(6)
Jonathan Brooks (member)	5(6)
Thomas Chambers (member)	6(6)
Jennifer Duvalier (member)	0(0)

Committee effectiveness

During the year, the Nomination Committee carried out an internal self-evaluation on its effectiveness. A small number of recommendations were made, including a broader review of succession planning.

External search consultancies

In accordance with B.2.4 of the Code, during the year the Committee engaged Matrix Interim Management in the recruitment of Adam Palser (Chief Executive Officer) and Heidrick & Struggles in relation to the recruitment of Jennifer Duvalier (Non-Executive Director). None of the above companies have any connection with the Company.

In relation to the appointment of Mike Ettling, the Nomination Committee had agreed that the Board would be enhanced by the appointment of a new Non-Executive Director with specific technology expertise. The Chairman had previously worked with Mike Ettling and suggested that it would be worth considering Mike as he had both strong sector and non-executive director experience. Following a rigorous interview process with the Committee and the rest of the Board, it was agreed that Mike was an excellent candidate and an offer was accordingly made.

Chris Stone
CHAIRMAN, NOMINATION COMMITTEE
17 July 2018

Cyber security committee report

The Group continues to constantly evolve its capability to detect and react to potential risks in the ever evolving cyber threat landscape."

CHRIS STONE COMMITTEE CHAIRMAN

The Cyber Security Committee was formed to focus specifically on the cyber risks faced by the business. This reflects the growing threat posed by cyber risks, the nature of our business, and the potential damage to the business as a high value target for malicious acts. The Committee's activities aim to challenge and support improvements to the Group's internal cyber security policy and defences as well as compliance with the General Data Protection Regulations (GDPR) and other data protection requirements.

I became Chairman of the Committee in January 2018 when Debbie Hewitt, Senior Independent Director, stepped down as Chair of the Committee. Prior to that, Debbie had been Chairman since the formation of the Committee in November 2016. Chris Batterham and Jonathan Brooks, Non-Executive Directors, also served as members of the Committee throughout the year and Jennifer Duvalier joined the Committee following her appointment in April 2018.

The Group's Director of Risk and Assurance and the Group's Chief Information Security Officer (CISO) are standing invitees of the Committee. The Executive Directors are invited to attend Committee meetings when the Committee considers it to be appropriate.

The Cyber Security Committee's objectives and responsibilities

The Cyber Security Committee is responsible for assessing the performance of the Group's internal security and defences and as such its duties are to:

- Oversee and advise the Board on the current cyber risk exposure of the Group and future cyber risk strategy.
- Review at least annually the Group's cyber security breach response and crisis management plan.
- Review reports on any cyber security incidents and the adequacy of resulting actions.
- Receive and consider the regular reports from the CISO.
- Ensure the CISO is given the right of direct access to the Committee.
- Consider and recommend actions in respect of all cyber risk issues escalated by the CISO, Head of IT and the compliance function.
- Keep under review the effectiveness of the Company's controls, services and products to analyse potential vulnerabilities that could be exploited.
- Regularly assess what are the Group's most valuable intangible assets and the most sensitive Group and customer information and assess whether the controls in place sufficiently protect those assets and information.
- Review the Group's ability to identify and manage new cyber risks.
- Assess the adequacy of resources and funding for cyber security defence and control activities.
- Regularly review the cyber risk posed by third parties including outsourced IT and other partners.
- Oversee cyber security due diligence undertaken as part of an acquisition and advise the Board of the risk exposure.
- Annually assess the adequacy of the Group's cyber insurance cover.

The Board leads the process for the appointment of new members to the Committee on the recommendation of the Nomination Committee and in consultation with the Chairman of the Committee.

The Committee's terms of reference can be found in the Group's Investors' section of the Company's website, www.nccgroup.trust/uk/about-us/investor-relations. The terms of reference are reviewed annually and updated when necessary.

Committee activities during the year

During the financial year the Committee assessed the Group's short-term tactical requirements, including the introduction of a new Cyber Security Breach Response and Crisis Management Plan, while simultaneously addressing longer term strategic goals around ensuring the Group's resilience to potential cyber attacks of all levels.

The Committee reviewed and approved a revised Cyber Security Strategy that sets medium-term goals measured against a maturity framework for cyber security posture. Our goal is to enhance our performance on each of the categories. The categories of cyber security posture and maximum scores are shown in the spider diagram on page 75.

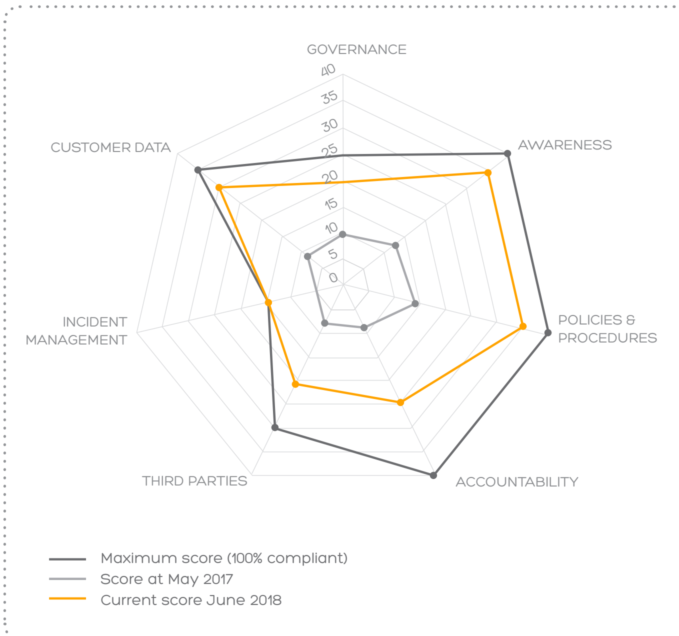
While each company faces different risks aligned to their own operations and industry sectors, these can be grouped in accordance with the diagram opposite. We seek to achieve an appropriate level of maturity that matches our risk appetite.

The Group increased its capability to detect and react to potential incidents with the addition of new, or enhanced, security controls and our intention is to continue to invest in the Group's infrastructure to ensure that the Group keeps up with the ever evolving cyber threat landscape.

Following our own advice to customers, we adopted a risk-based approach to prioritise our efforts to prepare for GDPR.

NCC Group has made considerable progress with its GDPR compliance programme, which began with the appointment of a Group Data Privacy Officer in May 2017. Since that point, areas of most notable progress include:

- Awareness - all UK and EU staff receive bespoke GDPR training on an annual basis, with new starters receiving this within 2 weeks of their arrival. US employees also receive online data privacy training. Awareness programmes are also running continuously across the Group.
- Customer Data - this data has been reviewed, categorised, and where necessary, purged. Development work has been undertaken on our CRM and marketing tools to ensure that all customer contact preferences are logged effectively. Sales teams have been trained on the compliant usage of this data.
- Incident management - procedures for dealing with security and/or personal data breaches have been reviewed and any gaps identified have been filled.
- Policies and procedures - new, robust policies for staff and customers relating to GDPR have been created and published. Data flow maps and data asset inventories have been created and reviewed.



Of course, compliance is an ongoing process, and work continues apace. We have set realistic target scores for the Group, to ensure that appropriate organisational and technical measures are in place to protect the personal data we process, whilst continuing with our pragmatic and risk-based approach.

The Committee also reviewed the Company's cyber risk insurance and initiated an external benchmarking exercise to understand the robustness of its performance and risk processes relative to other external organisations. This resulted in a rebalancing of our insurance spend to give a greater coverage on cyber-related risks.

Committee meetings

The Committee is required, in accordance with its terms of reference, to meet at least three times per year. During this financial year, the Committee met two times.

The attendance of individual Committee members at the Cyber Security Committee meetings is shown in the table below. Unless otherwise indicated, all Directors held office throughout the year.

Attended	Meetings attended
Chris Stone[1] (Chair)	0(0)
Debbie Hewitt[2] (Chair)	2(2)
Chris Batterham (member)	2(2)
Jonathan Brooks (member)	2(2)
Jennifer Duvalier[3] (member)	0(0)

1 Appointed as a member and Chairman of the Committee in January 2018.
2 Until January 2018.
3 Appointed April 2018.

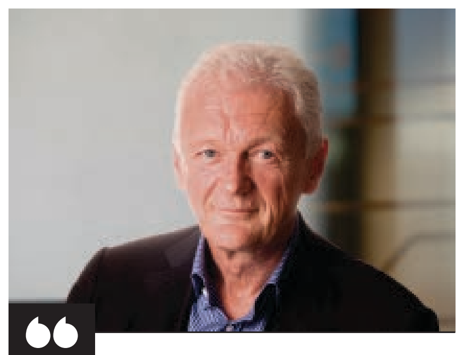
Committee effectiveness

During the year, the Cyber Security Committee carried out an internal self evaluation on its effectiveness, as it continues to mature since its formation in November 2016. As an output of this evaluation, the Committee, along with the Board, resolved that cyber security was a sufficiently important risk for the business that the Committee should remain focused on this specific set of risks. Therefore, the Board decided in April 2018 to maintain the previous structure in which the responsibility for broader risk management should remain with the Audit Committee. The terms of reference for the Committee were therefore not amended (as had previously been intended when its remit would have increased to cover all risk management activities).

Chris Stone
CHAIRMAN, CYBER SECURITY COMMITTEE
17 July 2018

Remuneration committee report

ANNUAL STATEMENT



The committee has reviewed the Group's remuneration policy to assess its appropriateness and alignment with business strategy."

JONATHAN BROOKS
CHAIRMAN, REMUNERATION COMMITTEE

I became Chair of the Remuneration Committee following the resignation of the previous Chair, Debbie Hewitt, at the end of March 2018. On behalf of your Board, I am therefore pleased to present our Directors' Remuneration Report (DRR) for the year ended 31 May 2018.

The Report is divided into three sections: an Annual Statement, a summary of our Directors' Remuneration Policy and the Annual Report on Remuneration (which sets out the actual application of the Policy).

Annual Statement

During the year, we operated within the Remuneration Policy that was approved by shareholders at the 2017 AGM, a copy of which can be found in the next section of this Report.

Along with Debbie Hewitt's resignation, there were a number of other Board changes during 2017/2018, including the appointment of a new Chief Executive Officer, Adam Palser, and two new Non-Executive Directors, Mike Ettling and Jennifer Duvalier.

Adam Palser joined the business as our new Chief Executive Officer on 1 December 2017. He was awarded a base salary of £425,000 and benefits and incentives in line with our Policy. This salary was 20% lower than the £528,000 salary of the previous CEO.

For the 2018-19 financial year, both the Chief Executive Officer and the Chief Financial Officer have been awarded an increase in base salary of 2.5%. By reference, the general salary review awarded to all other UK-based employees was also 2.5%.

In line with policy, Non-Executive Director fees are reviewed annually and these were also increased by 2.5% to apply from 1 June 2018. Details of these increases are given in the Annual Report on Remuneration on page 84.

The annual bonus for the year ended 31 May 2018 for both the Chief Executive Officer and Chief Financial Officer was based on the satisfaction of stretching financial and strategic targets. This resulted in an overall payment of 32.5% of basic salary earned in the financial year. With respect to the financial targets, these were set last year at an adjusted EBIT from continuing operations of between £31.0m and £34.0m (i.e. excluding the results for the Web Performance and Software Testing businesses) and by delivering an adjusted EBIT of £31.0m this resulted in a bonus of 15% (out of a maximum of 75%) of base salary being achieved. With respect to the strategic objectives, two out of three were met: a maximum 12.5% bonus was achieved for selling the Web Performance and Software Testing businesses during the year as well as a maximum bonus of 5% for implementing the new Target Operating Model organisation. The Remuneration Committee decided that no bonus was payable with respect to the third strategic target of improving the quality of the reporting of KPIs for the new organisation. 35% of the bonuses will be deferred in shares and held for two years. No LTIPs vested in the year for these two executives.

For 2018/19, the Committee intends to keep the same annual bonus structure, with up to 75% being attributed to the achievement of financial targets and 25% for strategic targets. For 2018-19, recognising the need to increase investment in infrastructure which will increase the cost base of the business, the adjusted EBIT target has been set between £33.0m and £36.0m, with bonuses of between 15% and 75% of base salary being calculated by linear interpolation. The strategic targets include developing and implementing a strategic plan for Fox IT and certain of its product offering (12.5%), implementing ERP and CRM systems for the business (7.5%) and developing the KPI reporting (5%). As in prior years, the bonus will continued to be self-funding and as such, no bonus will be payable, even for strategic targets, unless the minimum profit target is met. 35% of any bonus earned will be deferred into nominal cost share options and after a vesting period of two years, these shares must be retained until the shareholding guideline is achieved. Clawback and malus provisions are in place for the annual bonus.

With respect to the LTIP for 2018-2021, the Committee intends to make awards of up to 100% of base salary and these will vest after three years as long as a number of demanding performance targets are satisfied. 60% of the potential award will be based on the achievement of a demanding EPS target, 30% to the achievements of certain cash targets and 10% to relative TSR targets. Clawback and malus provisions are in place for the LTIP. In order to further align executives with shareholders, executives are required to retain any vested shares (net of tax) for a period of two years. After this holding period, vested shares must also be retained if the shareholding guideline has not been met.

At the Annual General Meeting in September 2017, 99.84% of shareholders voted in favour of the revised Remuneration Policy and 99.85% of shareholders voted in favour of the adoption of the Annual Report on Remuneration. The Remuneration Committee appreciated the support for our approach. The 2018 Annual Statement and Annual Report on Remuneration will be put to an advisory vote at the Annual General Meeting in September 2018, providing shareholders with the opportunity to voice their opinions on how the Committee has implemented the Remuneration Policy this year. We look forward to receiving your support on our approach to Remuneration at the Annual General Meeting.

Jonathan Brooks
CHAIRMAN, REMUNERATION COMMITTEE
17 July 2018

Remuneration committee report

DIRECTORS' REMUNERATION POLICY

The Remuneration Committee determines the Company's policy on the remuneration of the Executive Directors and other senior executives. The principles which underpin the Remuneration Policy for the Company are to:

- Ensure Executive Directors' rewards and incentives are directly aligned with the interests of the shareholders in order to reinforce the strategic priorities of the Group, optimise the performance of the Group and create sustained growth in shareholder value, without encouragement to take excessive undue risk.
- Provide the level of remuneration required to attract, retain and motivate Executive Directors and senior executives of an appropriate calibre.
- Ensure a proper balance of fixed and variable performance-related components, linked to short and longer term objectives.
- Reflect market competitiveness, taking account of the total value of all the benefit elements.

Our Remuneration Strategy has been designed to reflect the needs of a complex multinational organisation, which has grown both organically and by acquisition.

Remuneration for the Executive Directors is structured so that the variable pay elements (annual bonus and long-term incentives) form a significant proportion of the overall package. This provides a strong link between the remuneration paid to Executive Directors and the performance of the Group as well as providing a strong alignment of interest between the Executive Directors and shareholders.

For the purposes of section 226D-(6)(b) of the Companies Act 2006, this policy took effect from the date of the 2017 AGM, which was held on 21 September 2017.

Current Policy Table for Executive Directors

Purpose and link to short and long-term strategic objectives	Operation (including framework to assess performance)	Maximum opportunity
Salary		
Attract, retain and reward high calibre Executive Directors.	The Remuneration Committee reviews salaries for Executive Directors annually unless responsibilities change. Pay reviews take into account Group and personal performance and externally benchmarked market data for companies operating in IT services, management consulting and relevant high-tech sectors, which, although not directly comparable, provide an indicative range. In setting appropriate salary levels the Committee takes into account pay and employment conditions of employees elsewhere in the Group, alongside the impact of any increase to base salaries on the total remuneration package. Any changes are effective from 1 June each year.	Details of current salaries are set out in the Annual Report on Remuneration (page 83). Salary increases are normally in line with those for other employees but also take account of other factors such as changes to responsibility and the complexity of the role.
Benefits		
Attract, retain and reward high calibre Executive Directors.	Benefits in kind include the provision of a car or car allowance, payment of private fuel, car insurance, private medical insurance, life assurance and permanent health insurance. Executive Directors may be invited to participate in the Sharesave Scheme approved by HMRC.	Market-competitive benefits. SAYE Sharesave Scheme subject to HMRC approved limits.
Pension		
To provide a competitive benefit, which attracts high calibre executives and which allows flexible retirement planning to suit individual needs.	Executive Directors are entitled to a company pension contribution, which is paid into the Group defined contribution personal pension scheme. They can also opt to have the same level of contribution made as a percentage of base salary.	10% of basic salary into the Group Scheme, providing they make a contribution of not less than 5% of basic salary, or a basic salary supplement of 10% of base salary.

Remuneration committee report

DIRECTORS' REMUNERATION POLICY

Purpose and link to short and long-term strategic objectives	Operation (including framework to assess performance)	Maximum opportunity
Annual bonus		
Drive and reward sustainable business performance.	Based on a range of stretching targets measured over one year. This might include, but not exclusively, profit measures and other strategic objectives such as cash management, brand development, customer satisfaction and retention, business unit sales growth and employee engagement. Performance below the minimum performance target results in no bonus. No more than 20% of the maximum opportunity is paid for achievement of the threshold performance targets. Payments rise from the threshold payment to 100% of the maximum opportunity for levels of performance between the threshold and maximum targets. The rate of the rise and the various payment targets are determined annually by the Committee. The Committee has discretion to reduce the formulaic bonus outcome if individual performance is determined to be unsatisfactory or if the individual is the subject of disciplinary action. 35% of any bonus payment is invested in nominal cost share options and deferred for a two-year period. Dividend equivalents are paid on vesting share options. Malus and clawback provisions are in place for both cash and deferred elements.	Chief Executive Officer 100% of base salary. Chief Financial Officer 100% of base salary.
Long Term Incentive Plan		
To drive long-term performance in line with Group strategy and incentivise through share ownership.	Awards have a performance period of three years. The level of vesting is determined by measures appropriate to the strategic priorities of the business. At least half of any award will be subject to financial performance measures. Measures might include, but not exclusively, EPS, cash flow and relative TSR metrics. Initially, the targets will represent a maximum of 60% of total potential for EPS growth, 30% for the achievement of cash flow targets and 10% for the achievement of relative TSR targets. The Remuneration Committee has the discretion to determine the number of measures to be used. Performance below the threshold target results in no vesting. For performance between the threshold target and maximum performance target, vesting starts at 20% and rises to 100% of the shares vesting. Any awards granted under this policy to Executive Directors which vest and are exercised after the completion of the three-year performance period must be held for a further two years after vesting, even if the Director has met the 200% shareholding guideline. Should a change in control of the Group occur, crystallisation of any LTIP awards is within the discretion of the Remuneration Committee. Malus and clawback provisions are in place.	Award over shares with a face value at grant of: 100% of salary p.a. for the Chief Executive Officer. 100% of salary p.a. for the Chief Financial Officer.

Purpose and link to short and long-term strategic objectives	Operation (including framework to assess performance)	Maximum opportunity
Executive Director Shareholding Guideline		
To align the interests of Executive Directors with the interests of all of the Company's shareholders.	The Executive Directors are expected to build and retain a shareholding in the Group at least equivalent to 200% of base salary. Executives will be required to retain all vested deferred bonus shares and LTIP shares released from the holding period until they have attained the minimum shareholding guideline and even then they may only sell when they have held vested LTIP shares for a minimum period of two years. For the avoidance of doubt, Executive Directors are permitted to sell sufficient shares in order to meet any tax obligation arising from vesting shares.	

Choice of performance measures and target setting

For both the annual bonus and LTIPs, the objective of our Policy is to choose performance measures which help drive and reward the achievement of our strategy and which also provide alignment between executives and shareholders. The Committee reviews metrics annually to ensure they remain appropriate and reflect the future strategic direction of the Group.

Targets for each performance measure are set by the Committee with reference to internal plans and external expectations. Performance is generally measured so that incentive payouts increase pro rata for levels of performance in between the threshold and maximum performance targets.

With regard to the annual bonus, the Remuneration Committee believes that a simple and transparent scheme with sufficiently stretching targets and an element of bonus deferral prevents short-term decisions being made and ensures that the executive is focused on the delivery of sustainable business performance.

With regard to the LTIP, the Committee believes in setting demanding objectives, which reward steady, progressive growth, in order to incentivise and encourage long-term growth and enhance shareholder value.

Performance measures and targets are disclosed in the Annual Report on Remuneration. In cases where targets are commercially sensitive, for example annual profit targets for the annual bonus, they will be disclosed retrospectively in the year in which the bonus is paid.

Differences in pay policy for employees and Executive Directors

The Remuneration Policy for executive directors is replicated throughout the Group and aims to attract and retain the best staff and to focus their remuneration on the delivery of long-term sustainable growth by using a mix of salary, benefits, bonus and longer-term incentives.

As a result, no element of Executive Director Remuneration Policy is operated exclusively for Executive Directors:

- The annual performance-related pay scheme for Executive Directors is largely the same as that of the Executive Committee and Senior Managers within the business and all are aligned with similar business objectives.
- Participation in the LTIP is extended to other senior executives where possible.
- The pension scheme is operated for all permanent employees.

The main difference between pay for Executive Directors and employees is that for Executive Directors, the variable element of total remuneration is much greater while the total remuneration opportunity is also higher to reflect the increased responsibility of the role.

Executive shareholding guidelines

The Committee considers that Executive Directors of the Company should retain a personal holding of shares in the Company, so as to align their interests with the interests of the Company's shareholders.

In any event, 35% of the value awarded as part of the annual bonus scheme will be awarded as nominal cost deferred share options, to be held for a period of no less than two years and share options vesting under the LTIP scheme, if exercised, are to be held for a minimum of two years after the vesting date.

Remuneration committee report

DIRECTORS' REMUNERATION POLICY

Non-Executive Director policy table

Purpose and link to strategy	Operation	Maximum opportunity
Fees		
Attract, reward and retain experienced Non-Executive Directors.	Fees for the Non-Executive Directors are determined by the Board within the limits set by the Articles of Association and are based on information on fees paid in similar companies, taking into account the experience of the individuals and the relative time commitments involved. There will be separate disclosures of fees paid for Chairing the Audit and Remuneration Committees and for acting as Senior Independent Director. Fees for the Non-Executive Directors are reviewed annually. Any reasonable business-related expenses (including tax thereon) can be reimbursed if determined to be a taxable benefit.	Current fee levels are set out in the Annual Report on Remuneration on page 84. Overall fee limit will be within the current £300,000 limit set out in the Company's Articles of Association, approved on 21 September 2010, which is subject to increase on 21 September each year by the same percentage increase as the percentage increase in the General Index of Retail Prices for all items (or such other comparable index as may be substituted for it from time to time before such anniversary) in the 12 months immediately preceding such date.

Approach to recruitment

The principles applied in the recruitment of a new Executive Director is for the remuneration package to be set in accordance with the terms of the approved Remuneration Policy for existing Executive Directors in force at the time of appointment. Further details of this Policy for each element of remuneration is set out below.

Salary

Salaries for new hires, including internal promotions, will be set to reflect their skills and experience, the Company's intended pay positioning and the market rate for the applicable role.

Where it is appropriate to offer a below median salary initially, the Committee will have the discretion to allow phased salary increases over a period of time for newly appointed Directors, even though this may involve increases in excess of the rate for the wider workforce and inflation.

Benefits

Benefits will be provided in line with those offered to other Executive Directors, taking account of local market practice, with relocation expenses or arrangements provided if necessary. Tax equalisation may also be considered if an Executive is adversely affected by taxation due to their employment with the Company. The Company may also pay legal fees and other costs incurred by the individual. These would all be disclosed.

Incentive opportunity

The aggregate ongoing incentive opportunity offered to new recruits will be no higher than that offered under the annual bonus plan and the LTIP to the existing Executive Directors. Different performance measures and targets may be set initially for the annual bonus plan, taking into account the responsibilities of the individual and the point in the financial year at which they join.

"Buyout" awards

Sign-on bonuses are not generally offered by NCC Group but at Board level, the Committee may offer additional cash and/or share-based "buyout" awards when it considers these to be in the best interests of the Company and, therefore, shareholders, including awards made under Listing Rule 9.4.2 R. Any such "buyout" payments would be based solely on remuneration lost when leaving the former employer and would reflect the delivery mechanism such as cash, shares, options, time horizons and performance requirements attaching to that remuneration.

Transitional arrangements for internal appointments to the Board

In the case of an internal appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its terms on grant, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment may continue, provided that they are put to shareholders for approval at the first AGM following their appointment.

Policy on payment for loss of office

Payments on termination for Executive Directors are restricted to the value of salary and contractual benefits for the duration of the notice period. It is the policy of the Remuneration Committee to seek to mitigate termination payments and pay what is due and fair. There are no predetermined special provisions for Executive Directors with regard to compensation in the event of loss of office. The Company may also pay an amount considered to be reasonable by the Committee where loss of office is due to redundancy or in respect of fees for legal advice for the outgoing Director.

Elements of variable remuneration would be treated as follows:

Annual bonus

The treatment of annual bonus payments upon cessation of employment is determined on a case-by-case basis. When the Committee determines that the payment of an annual bonus is appropriate, the annual bonus payment is typically:

- Prorated for the period of time served from the start of the financial year to the date of termination and not for any period in lieu of notice or garden leave.
- Subject to the normal bonus targets, tested at the end of the year, and would take into account performance over the notice period.
- Subject to deferral of 35% of the value.

The Committee also has the discretion to determine whether any nominal cost deferred share options from previous annual bonus payments will vest at the normal vesting date or earlier on leaving or whether they lapse. If the Committee exercises this discretion, it can also determine if the vesting should be prorated to reflect time served since the beginning of the deferral date. The same discretionary principle would apply to the payment of dividends on any shares that have been deferred, but not yet vested. This too would be prorated to reflect tenure.

Long Term Incentive Plan

Under the LTIP, unvested awards will normally lapse upon cessation of employment. However, in line with the plan rules, the Committee has discretion to allow awards to vest at the normal vesting date, or earlier. If the Committee exercises this discretion, awards are normally prorated to reflect time served since the date of grant and based on the achievement of the performance criteria. The holding period detailed above will apply to such incentives.

All Employee Share Schemes

The Executive Directors, where eligible for participation in all employee share schemes, participate on the same basis as for other employees.

Approach to service contracts and letters of appointment

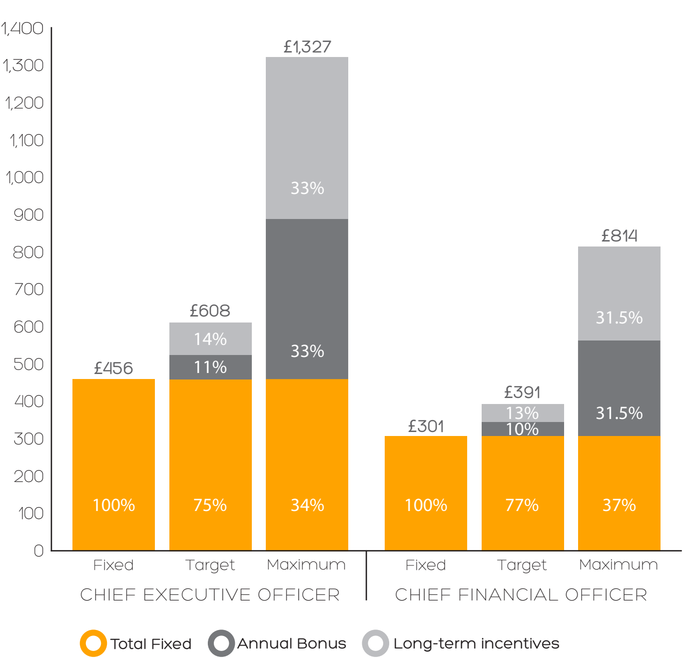
The Committee's policy is to offer service contracts for Executive Directors with notice periods of between six and 12 months exercisable by either party. In addition, the Executive Directors are subject to a non-compete clause from the date of termination, where enforceable.

All Non-Executive Directors' appointments are terminable on at least three months' notice on either side.

The Executive Directors and Non-Executive Directors offer themselves for re-election every year.

Illustration of remuneration scenarios

The chart below details the hypothetical composition of each Executive Director's remuneration package and how it could vary at different levels of performance under the policy set out above.



Amounts shown in the chart are in £000.

Note that the charts are indicative, as share price movement has been excluded. Assumptions made for each scenario are as follows.

- **Minimum**. Fixed remuneration only: salary, benefits and pension. Salary based on 2018/19 salary and benefits based on 2017/18 disclosed benefit amounts.
- **Target**. Fixed remuneration plus minimum annual bonus opportunity of £65,400 for the Chief Executive Officer and £38,400 for the Chief Financial Officer, which is equivalent to 15% of salary for both the Chief Executive Officer and Chief Financial Officer, plus 20% vesting of the maximum award under the Long Term Incentive Plan.
- **Maximum**. Fixed remuneration plus maximum annual bonus opportunity, £436,000 for the Chief Executive Officer and £256,000 for the Chief Financial Officer, equivalent to 100% of salary for both the Chief Executive Officer and Chief Financial Officer, as well as, 100% vesting of the maximum award under the Long Term Incentive Plan being 100% of salary for both Executives.

Remuneration committee report

DIRECTORS' REMUNERATION POLICY

Statement of consideration of employment conditions elsewhere in the Group

The Remuneration Committee does not consult directly with employees when determining Remuneration Policy for Executive Directors. However, as stated above, the annual bonus and LTIP are operated for other employees to ensure alignment of objectives across the Group and the terms of the pension scheme (save for the contribution entitlements) are the same for all permanent employees. In addition, the Committee compares information on general pay levels and policies across the Group when setting Executive Director pay.

How shareholder views are taken into account

The Remuneration Committee considers shareholder feedback received on the Directors' Remuneration Report each year and guidance from shareholder representative bodies more generally. Shareholders' views are key inputs when shaping remuneration policy. When any material changes are proposed to the Remuneration Policy, the Remuneration Committee Chairman will inform major shareholders in advance and will generally offer a meeting to discuss these.

Key areas of discretion in the Remuneration Policy

The Committee operates the Group's variable incentive plans according to their respective rules and in accordance with HMRC rules where relevant. To ensure the efficient administration of these plans, the Committee will apply certain operational discretions. These discretions are implicit in the policy stated above, but we have listed them for clarity. These include, but are not limited to:

- Whether annual bonus is paid to Executives once notice has been served.
- Discretion in exceptional circumstances to amend previously set incentive targets or to adjust the proposed payout to ensure a fair and appropriate outcome.
- Certain decisions relating to the LTIP awards for which the Committee has discretion as set out in the rules of the relevant share plans which have been approved by shareholders.
- The decisions on exercise of clawback rights.

Legacy arrangements

For the avoidance of doubt, in approving this Policy Report, authority is given to the Company to honour any commitments entered into with current or former Directors before the current legislation on remuneration policies came into force or before an individual became a Director, such as the payment of outstanding incentive awards, even where it is not consistent with the policy prevailing at the time such commitment is fulfilled.

Details of any payments to former Directors will be set out in the Annual Report on Remuneration as they arise.

External directorships for Executive Directors

Executive Directors may accept one external Non-Executive Directorship with the prior agreement of the Board, provided it does not conflict with the Group's interests and the time commitment does not impact upon the Executive Director's ability to perform their primary duty. The Executive Directors may retain the fee from external directorships.

Our Non-Executive Chairman, Chris Stone, held the position of Executive Chairman for an eight month period from April 2017 until Adam Palser was appointed Chief Executive Officer on 1 December 2017. During the time that Chris was Executive Chairman, he held more than one external Non-Executive Directorship but with the consent of the Board which judged that his other directorships did not conflict with, nor impact, his ability to perform his interim role as Executive Chairman.

Remuneration committee report

ANNUAL REPORT ON REMUNERATION

This part of the report has been prepared in accordance with Part 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and 9.8.8R of the Listing Rules.

The following report will be subject to an advisory shareholder vote at the 2018 AGM, which is scheduled to be held on 26 September 2018. The information on pages 83 to 94 has been audited where indicated.

How will the Remuneration Policy be implemented in the year ending 31 May 2019?

Executive Directors' base salaries. The Committee has decided to award a salary increase of 2.5% to both the Chief Executive Officer and Chief Financial Officer. With regard to all other UK-based employees, the general increase has been 2.5%, except those who have been promoted or where adjustments were made to employees who were out of line with the general market, where larger increases have been made.

No executive salary increases were awarded last year due to the fact that Chris Stone, who was then acting as executive Chairman, was appointed in April 2017 and Brian Tenner, who was then acting as Interim Chief Executive, was appointed in February 2017.

When Adam Palser was appointed as the new Chief Executive Officer on 1 December 2017, Brian Tenner resumed his role as Chief Financial Officer and his salary reverted to £250,000 from £350,000 and Chris Stone reverted to Non-Executive Chairman and his fees were reduced from £350,000 to £135,000.

£000	Base salary at 31 May 2018	Base salary to 31 May 2019	% Change
Chief Executive Officer	**£425**	£436	2.5
Chief Financial Officer	**£250**	£256	2.5

Pension and benefits. There will be no changes to pension or benefits provision.

Annual bonus. The annual bonus maximum for the Chief Executive Officer and the Chief Financial Officer in 2018/19 will be 100% of salary with 75% based on the achievement of actual operating profit (EBIT) targets and 25% on the achievement of strategic objectives. To ensure that the bonus is self-funding, no bonus, including any due for achievement of strategic targets, will be payable if the minimum EBIT target is not met. The profit target will be based on delivery of the Group's own internal plans, which are comprehensively set, scrutinised and agreed by the Board.

In addition, to ensure that this bonus opportunity results in shareholder alignment and provides greater retention value, 35% of any bonus payment will be deferred in shares for two years. The bonus, deferred share options and associated dividends are also subject to malus and clawback provisions.

The targets relating to the 2017/18 bonus payments are shown on page 86.

Long Term Incentive Plan (LTIP). It is expected that awards of 100% of base salary will be made under the LTIP in July or August 2018. These will be subject to a two-year post-vesting holding period for Executive Directors. As well as the holding period, the Executives have to achieve a shareholding guideline of 200% of salary (post shares sold to cover any tax) before they can sell any shares that vest. The awards are also subject to malus and clawback provisions.

The vesting of these LTIP awards will be based on Earnings Per Share (60%), a cash flow metric (30%) and a relative Total Shareholder Return metric (10%). The performance conditions for 2018-19 will be the same as for 2017-18:

- Earnings per share needs to grow at between a threshold 9% and a maximum of 12% per annum over three years to qualify for an award of between 20% and 60% of salary.
- The relative TSR component is worth up to 10% of salary. If the business achieves a level of share performance equivalent to the mid FTSE 250, then this will qualify for an award of 2%. Achieving a share price equivalent to upper quartile for the FTSE 250 will result in the maximum award of 10%.
- Finally, the cash conversion metric enables executives to earn a further 30% of salary. A cash conversion rate of 70% represents the threshold, qualifying for an award of 6% of salary, with the maximum award of 30% due if the target is 80%. The cash conversion ratio* is calculated as net cash from operating activities divided by Adjusted* EBITDA.

The Committee believes that these three measures are transparent, easy to understand, easy to track and communicate, cost-effective to measure and fundamentally aligned to the Group's strategic goals.

* See pages 122 to 124 for an explanation and definition of Alternative Performance Measures.

Remuneration committee report

ANNUAL REPORT ON REMUNERATION

Non-Executive Directors' remuneration

In line with the current Policy, Non-Executive Director fees are reviewed annually. It is proposed that the fees are increased by 2.5%, to apply with effect from 1 June 2018.

Annualised Fees £000s	As at 1 June 2017	As at 1 June 2018
Chris Stone*	**£350**	£138
Thomas Chambers**	**£52**	£46
Chris Batterham***	**£45**	£59
Jonathan Brooks ****	**£45**	£53
Mike Ettling	**–**	£46
Jennifer Duvalier	**–**	£46

* Executive Chair fees were £350,000 but these reduced to £135,000 from December 2017 when the new Chief Executive Officer was appointed and Chris Stone became Non-Executive Chairman

** Thomas Chambers returned to a base fee of £45,000 when he stepped down as Chair of the Audit Committee on 31 March 2018

*** Chris Batterham's fee increased by £6,000 when he became Senior Independent Non-Executive Director and by £7,000 when he became Chair of the Audit Committee, in each case on 1 April 2018

**** Jonathan Brooks' fee increased by £7,000 when he became Chair of the Remuneration Committee on 29 March 2018

How has the Remuneration Policy been implemented in the year ended 31 May 2018?

This section sets out how the Remuneration Policy was implemented in 2017/18. The key implementation decisions during the year related to:

- Determination of annual bonus outcomes for the 2017/18 performance period.
- Terms of the new Directors appointed to the Board, including the Chief Executive Officer.
- The performance targets of the annual bonus scheme, which will apply for the year ending 31 May 2019.
- The performance targets and value of awards to be granted under the LTIP, which will vest in 2021.

Further detail on these decisions, together with other information on payments made to Directors, is set out in the following sections.

Single Total Figure of Remuneration (Audited)

The detailed emoluments received by the Executive and Non-Executive Directors for the year ended 31 May 2018 are below. No payments were made for loss of office.

Director £000	Year ended	Base salary / Non-Executive Director fees £000	Benefits[1] £000	Pension benefits[2] £000	Annual bonus[3] £000	Long-term incentive[4] £000	Other[5] £000	Total £000
Chris Stone[6]	31 May 2018	243	–	–	–	–	–	243
	31 May 2017	52	–	–	–	–	–	52
Adam Palser[7]	31 May 2018	213	6	4	–	–	–	223
Brian Tenner[8]	31 May 2018	300	15	30	–	–	–	345
	31 May 2017	108	5	11	–	–	–	124
Debbie Hewitt[9]	31 May 2018	48	–	–	–	–	–	48
	31 May 2017	86	–	–	–	–	–	86
Thomas Chambers[10]	31 May 2018	51	–	–	–	–	–	51
	31 May 2017	43	–	–	–	–	–	43
Chris Batterham[11]	31 May 2018	47	–	–	–	–	–	47
	31 May 2017	38	–	–	–	–	–	38
Jonathan Brooks[12]	31 May 2018	46	–	–	–	–	–	46
	31 May 2017	8	–	–	–	–	–	8
Mike Ettling[13]	31 May 2018	31	–	–	–	–	–	31
Jennifer Duvalier[14]	31 May 2018	4	–	–	–	–	–	4

1 Taxable benefits include the provision to every Executive Director of a car or car allowance, payment of private fuel, car insurances, private medical insurance, life assurance and permanent health insurance.

2 Pension benefits include employer contributions to the Group pension scheme and payments in lieu of pension contributions.

3 Annual bonus payments for performance in the relevant financial year. 35% of this bonus is deferred in shares for two years.

4 Long-term incentive awards vesting under the LTIP.

5 The value of the awards vesting under the SAYE.

6 Chris Stone was initially appointed Executive Chairman on 6 April 2017 and paid a total fee of £350,000. Chris became Non-Executive Chairman on 1 December 2017 following the appointment of the new Chief Executive Officer whereupon his fees reverted to £135,000.

7 Adam Palser was appointed as Chief Executive Officer on 1 December 2017.

8 Brian Tenner was appointed as Chief Financial Officer to the Board on 1 February 2017. He was paid a supplement of £100,000 from 1 March 2017 to recognise his appointment as Interim Chief Executive Officer. Brian resumed his role of Chief Financial Officer on 1 December 2017 and his salary reverted from £350,000 to £250,000.

9 Debbie Hewitt resigned from the Board on 28 March 2018 and accordingly stepped down as Senior Independent Director and Chair of the Remuneration Committee from this date. In 2017, Debbie was paid an additional fee of £35,000 to recognise the additional hours committed from the period from October 2016 to May 2017, when she chaired a number of additional Committees, led the recruitment of new Executive and Non-Executive Directors and oversaw the initiation of the Strategic Review.

10 Thomas Chambers stepped down as Chair of the Audit Committee with effect from 31 March 2018 and his fee was accordingly reduced from £52,000 to £45,000.

11 Chris Batterham was appointed Senior Independent Director and Chair of the Audit Committee from 1 April 2018 and his fee was accordingly increased from £45,000 to £58,000 (£6,000 supplement in relation to the Senior Independent Director role and £7,000 supplement for the Audit Committee Chair role).

12 Jonathan Brooks was appointed Chair of the Remuneration Committee with effect from 29 March 2018 and his fee was accordingly increased from £45,000 to £52,000.

13 Mike Ettling was appointed as Non-Executive Director in September 2017.

14 Jennifer Duvalier was appointed as Non-Executive Director in April 2018.

Remuneration committee report

ANNUAL REPORT ON REMUNERATION

Additional information in respect of the Single Total Figure of Remuneration

Annual bonus

2017/18 Annual bonus (audited)

For the year ended 31 May 2018, the maximum potential bonus opportunity for Adam Palser was 100% of salary but prorated to reflect that he joined part way through the year (£212,500). For Brian Tenner, the maximum potential was also 100% of salary but adjusted to reflect that part of the year Brian was acting as Interim Chief Executive Officer and for the remainder of the year resumed the role of Chief Financial Officer (£300,000 being his average salary for the year). The actual bonus paid to Adam Palser was £69,062 and to Brian Tenner was £97,500 based on the achievement of the performance conditions set out below. 35% of each payment will be deferred in shares for two years.

The performance measures and targets are set out below:

Financial targets – up to 75% of the bonus

		31 May 2018 Adjusted* EBITDA	31 May 2018 potential annual bonus payments	
			Adam Palser	Brian Tenner
Performance condition - continuing business	Threshold	£31m	£31,875	£45,000
	Maximum	£34m	£159,375	£225,000
Actual performance/Bonus payments		£31m	£31,875	£45,000

Strategic targets – up to 25% of the bonus

% of bonus	Target	31 May 2018 potential annual bonus payments		Achieved?
		Adam Palser	Brian Tenner	
5%	If adequate progress has been made in the implementation of the new Target Operating Model (TOM). *The new TOM was a key output from the strategic work undertaken in 2017. Its objective was for NCC to be able to offer an integrated 'go to market' proposition from each geographical location. This required significant reorganisation and the Committee deemed the objective to have been achieved.*	£10,625	£15,000	Yes
7.5%	If a new Board key performance indicator (KPI) pack is produced to reflect the new TOM. *The Group has suffered from inadequate KPI reporting which needed to be significantly enhanced to map the new TOM organisation. It was not considered that sufficient progress had been made on this target to warrant a bonus payment.*	£15,938	£22,500	No
12.5%	If NCC Group Performance Testing Limited and NCC Group SDLC Limited are both successfully sold or transferred to a third party during the financial year ended 31 May 2018. *During the strategic reviews conducted in 2017, these businesses were identified as not being cyber-related businesses, and so not core to our overall strategy. In addition, they required significant investment if they were not to decline and were identified as important activities to divest, which was achieved during the financial year.*	£26,563	£37,500	Yes

Long-term incentive plan vesting

LTIP awards vest based on a three-year performance period. As the Chief Executive Officer and Chief Financial Officer have been employed since 1 December 2017 and 1 February 2017 respectively, no LTIP awards vested for the executive directors during the year.

Appointment terms for new Directors

Chief Executive Officer

Adam Palser, Chief Executive Officer, joined the business on 1 December 2017. The remuneration arrangements provided to him were in accordance with the current approved Policy and are as follows:

- Base salary of £425,000.
- Maximum annual bonus potential of 100% of salary, with 35% of any payment deferred in shares, for two years.
- Annual grant under the LTIP of 100% of salary.
- Employer pension contribution of 5% of salary.
- Benefits of monthly car allowance of £1,100 per month, private fuel, life assurance of 4 × salary, private medical insurance for self and family and income protection insurance.
- Notice period of six months until 1 December 2018. Thereafter the notice period increases to 12 months.

Scheme interests awarded during the year (audited)

LTIP awards granted in the year

During the financial year, the Executive Directors were granted awards which are due to vest on 31 May 2020, subject to the performance conditions set out below. The awards were as follows:

Executive	Number of LTIP awards[1]	Basis	Face value[2]	Performance condition	Performance period
Adam Palser	178,601	100% of base salary*	£425,000	Vesting determined by: ○ growth in Adjusted* EPS over the performance period ○ TSR over the performance period vs FTSE 250 comparator group ○ Average cash conversion ratio* over the performance period	1 June 2017 to 31 May 2020
Brian Tenner	148,777	100% of base salary**	£350,000	As above.	1 June 2017 to 31 May 2020

1 LTIP awards are structured as nominal-cost options (£1 being payable upon each exercise).

2 Based on a share price of £1.98 in relation to Adam Palser and £2.35 in relation to Brian Tenner which was the closing mid-market price of the Company's shares on the day before the respective date of grant.

* Prorated to reflect that Adam Palser joined part way through the year.

** Based on Brian Tenner's salary of £350,000 at the time of grant when he was acting as interim Chief Executive Officer.

Remuneration committee report

ANNUAL REPORT ON REMUNERATION

The performance condition for these awards is set out below:

Proportion	Component	Metric	Threshold	Threshold vesting %	Target	Target vesting %	Maximum	Maximum vesting %	Vesting basis
60%	EPS	Average growth over a three–year period	9%	20%	n/a	n/a	20%	100%	Straight line between threshold and max
10%	TSR	TSR over three years vs FTSE 250 comparator group (excluding investment funds)	Median	20%	n/a	n/a	Upper quartile	100%	Straight line between threshold and max
30%	Cash conversion	Average Cash conversion ratio* over 3 years (net cash from operations divided by Adjusted* EBITDA)	70%	20%	75%	50%	80%	100%	Straight lines between threshold and target, then target to max

SAYE options granted in the year.

The Group operates an HMRC-approved SAYE scheme. All eligible employees, including Executive Directors, may be invited to participate on similar terms for a fixed period of three years. During the year Brian Tenner opted to participate in this scheme.

These awards will be included in the other column of the single figure table in the 2020/21 annual remuneration report, once they have vested.

Executive	Date of grant	Number of options	Basis	Face value[1]	Exercise price	Performance condition	Vesting date
Brian Tenner	25 Aug 2017	11,568	£500 per month contribution over a three–year period	£22,442	£1.556	Awards vest subject to continued employment	October 2020

1 Calculated on the price of £1.94, which was the average midmarket share price over the three days preceding the date of grant.

Directors' interests in shares (audited)

The tables below set out details of the Executive Directors' outstanding share awards, which will vest in future years subject to performance conditions and/or continued service.

Summary of maximum LTIP awards outstanding

	Total LTIP Options held at 31 May 2017	Granted during the period	Exercised during the period	Share price on date of exercise	Lapsed during the period	Total LTIP Options held at 31 May 2018
Adam Palser	–	178,601	–	–	–	**178,601**
Brian Tenner	–	148,777	–	–	–	**148,777**

All awards granted under the LTIP are subject to continued employment and the satisfaction of the performance conditions as set out above. The awards were all nominal cost options.

* See pages 122 to 124 for an explanation and definition of Alternative Performance Measures.

Share ownership (audited)

The beneficial and non-beneficial interests of the current Directors in the share capital of NCC Group at 31 May 2018 are set out below.

	Beneficial interests in ordinary shares[1]		Maximum share awards subject to performance conditions[2]		Share options		Total	
	31 May 2017	31 May 2018	31 May 2017	31 May 2018	31 May 2017	31 May 2018	31 May 2017	31 May 2018
Chris Stone	–	**50,000**	–	**–**	–	**–**	–	**50,000**
Adam Palser	–	**–**	–	**178,601**	–	**–**	–	**178,601**
Brian Tenner	–	**111,309**	–	**148,777**	–	**11,568**[3]	–	**271,654**
Thomas Chambers	20,900	**29,134**	–	**–**	–	**–**	20,900	**29,134**
Chris Batterham	22,000	**50,000**	–	**–**	–	**–**	22,000	**50,000**
Mike Ettling	–	**–**	–	**–**	–	**–**	–	**–**
Jonathan Brooks	–	**30,000**	–	**–**	–	**–**	–	**30,000**
Jennifer Duvalier	–	**–**	–	**–**	–	**–**	–	**–**

1 This information includes holdings of any connected persons.
2 These awards represent the outstanding LTIP interests, which are included in the table above which are due to vest in May 2020.
3 Representative SAYE scheme interest, which are due to vest in October 2020.

The beneficial and non-beneficial interests of the Directors who departed from the Group during the year in the share capital of NCC Group at 31 May 2018 are set out below.

	Beneficial interests in ordinary shares[1]		Maximum share awards subject to performance conditions		Share options		Total	
	31 May 2017	31 May 2018	31 May 2017	31 May 2018	31 May 2017	31 May 2018	31 May 2017	31 May 2018
Debbie Hewitt	37,389	**51,289**	–	**–**	–	**–**	37,389	**51,289**

1 This information includes holdings of any connected persons.

Remuneration committee report

ANNUAL REPORT ON REMUNERATION

Shareholding requirements

The Executive Directors are expected to build and retain a shareholding in the Group at least equivalent to 200% of base salary. Executives will be required to retain all vested deferred bonus shares and LTIP shares released from the holding period until they have attained the minimum shareholding guideline and even then, only when they have held vested LTIP shares for a minimum period of two years. For the avoidance of doubt, Executive Directors are permitted to sell sufficient shares in order to meet any tax obligation arising from vesting shares.

	Shareholding requirements (% of current salary)	Current shareholding (% of salary)	Requirement met
Adam Palser	200	–	No
Brian Tenner	200	95%	No

Relative importance of the spend on pay

The following table sets out the percentage change in distributions to shareholders and employee remuneration costs.

	31 May 2018 £m	31 May 2017 £m	% Change
Employee remuneration costs[1]	**146.5**	136.3	7.5%
Dividends[2]	**12.8**	12.8	-

1 Based on the figure shown in note 8 to the Financial Statements.

2 Based on the cash returned to shareholders in the year ended 31 May 2018 through dividends as shown in note 11 to the Financial Statements.

Percentage increase in the remuneration of the Chief Executive

The table below shows the movement in the salary, benefits and annual bonus for the Chief Executive between the current and previous financial year compared to all employees of the Company.

Element of remuneration		% increase
Salary	Chief Executive	2.5
	Employees	2.5
Taxable benefits	Chief Executive (% of salary)	–
	Employees (% of salary)	–
Annual Bonus	Chief Executive (% of salary)	2.5
	Employees (% of salary)	2.5

Performance graph and table

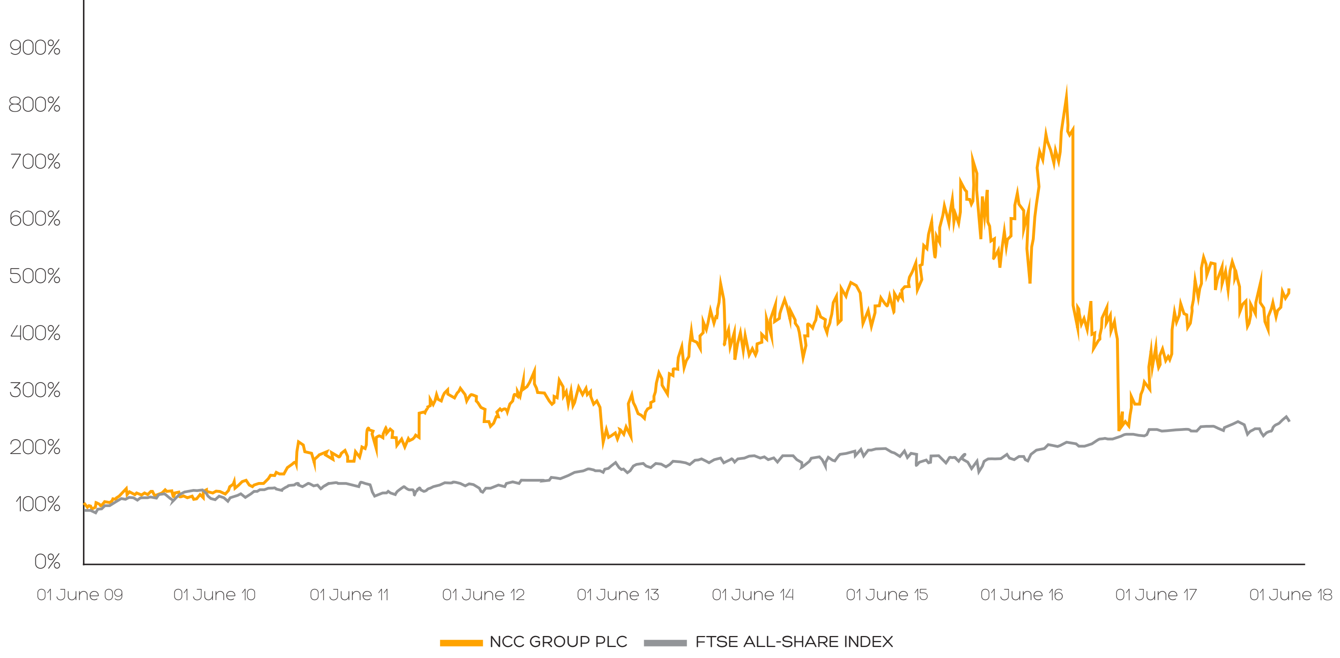
The following graph shows the total shareholder return, with dividends reinvested, from 31 May 2009 against the corresponding changes in a hypothetical holding in shares in the FTSE All Share Index.

The FTSE All Share represents broad equity indices in which the Company is a constituent member and gives a market capitalisation-based perspective.

During the year, the Company's share price varied between £1.57 and £2.38 and ended the year at £2.13.

Nine year historical TSR performance growth in the value of a hypothetical £100 holding over eight years FTSE All Share comparison based on spot value.

The share price was £1.71 on 1 June 2018 and £2.13 on 31 May 2018; an increase of 25% in the year.



GOVERNANCE

Remuneration committee report

ANNUAL REPORT ON REMUNERATION

The table below shows the total remuneration for the Chief Executive over the same eight-year period, including share awards valued at the date they vested.

Year ended	Chief Executive	Total remuneration (£000)	Annual bonus (% of max)[3]	Long-term incentives (% of max)[4]
31 May 2018	Adam Palser[1]	£223	32.5	–
	Brian Tenner[2]	£175	32.5	–
31 May 2017	Rob Cotton	£610	–	–
31 May 2016	Rob Cotton	£1,091	70	20
31 May 2015	Rob Cotton	£993	73	15
31 May 2014	Rob Cotton	£1,089	73	50
31 May 2013	Rob Cotton	£1,118	0[5]	63
31 May 2012	Rob Cotton	£1,074	85	70
31 May 2011	Rob Cotton	£1,222	67	54
31 May 2010	Rob Cotton	£836	71	72

1 Adam Palser was appointed on 1 December 2017. The total remuneration figure above is in respect of the period from 1 December 2017 to 31 May 2018.

2 During the year ended 31 March 2018, Brian Tenner acted as Interim Chief Executive Officer for the period 1 June 2017 to 30 November 2017. The total remuneration figure above is the total remuneration received in relation to that six month period.

3 Note that this shows the annual bonus payments as a percentage of the maximum opportunity.

4 Shows the number of shares, which vested as a percentage of the maximum number of shares, which could have vested.

5 In 2012/13 Rob Cotton waived his right to a bonus, which would have been equal to 32% of salary. This was equivalent to 50% of the maximum bonus opportunity.

Membership and attendance

The Remuneration Committee membership consists solely of Non-Executive Directors and comprises Jonathan Brooks as Chairman, Thomas Chambers, Chris Batterham and Jennifer Duvalier. Debbie Hewitt stepped down as Chair of the Committee on 28 March 2018.

The Executive Chairman, Chief Financial Officer and Company Secretary attend the Remuneration Committee by invitation of the Chairman of the Committee from time to time and assist the Committee with its considerations. No Director is involved in setting their personal remuneration plan.

The attendance of individual Committee members at Remuneration Committee meetings is shown in the table below:

Attended	Meetings attended
Jonathan Brooks[1]	10(11)
Debbie Hewitt[2]	9(9)
Thomas Chambers	11(11)
Chris Batterham	11(11)
Jennifer Duvalier[3]	0(1)

1 Appointed Chair of the Remuneration Committee on 29 March 2018.
2 Stepped down as Chair of the Remuneration Committee on 28 March 2018.
3 Appointed 25 April 2018.

Advisers to the Committee

During the year, the Committee received advice on senior executive remuneration from Aon Hewitt Consultants and was comfortable that the advice was objective and independent. The total fee charged 2017/18 was £15,813. Aon Hewitt did not provide any other services to the Company during the year.

The Committee reviews the performance and independence of its advisers on an annual basis.

Service contracts and letters of appointment

The service contracts and letters of appointment of the current Directors include the following terms.

	Date of contract	Notice period
Executive		
Adam Palser	1 December 2017	6 months increasing to 12 months from 1 December 2018
Brian Tenner	1 February 2017	6 months
Non-Executive		
Chris Stone	6 April 2017	3 months
Debbie Hewitt	18 September 2008	3 months
Thomas Chambers	20 September 2012	3 months
Chris Batterham	9 April 2015	3 months
Jonathan Brooks	13 March 2017	3 months
Mike Ettling	1 September 2017	3 months
Jennifer Duvalier	25 April 2018	3 months

Remuneration committee report

ANNUAL REPORT ON REMUNERATION

Dilution

The LTIP has a dilution limit, for new and treasury shares, of 10% of the issued ordinary share capital of the Company in any ten-year period for any share option scheme operated by the Company. As at 31 May 2018 the Company had utilised 17,516,337 (31 May 2017: 17,752,848) ordinary shares through LTIP, SAYE, EMI, CSOP, ISO and ESPP awards counting towards the 10% limit which represents 6.31% (2017: 6.42%) of the issued ordinary share capital of the Company.

Statement of shareholder voting

At the 2017 AGM, the Directors' Remuneration Policy received the following votes from shareholders.

	Total number of votes	% of votes cast
For	202,309,191	99.84
Against	318,649	0.16
Total votes cast (for and against excluding withheld votes)	202,627,840	100.0
Votes withheld[1]	4,046,993	
Total votes cast (including withheld votes)	206,674,833	100.0

1 A vote withheld is not a vote in law and is not counted in the calculation of the proportion of votes cast "for" and "against" a resolution.

At last year's AGM, the Directors' Remuneration Report received the following votes from shareholders.

	Total number of votes	% of votes cast
For[1]	206,367,814	99.85
Against	307,019	0.15
Total votes cast (for and against excluding withheld votes)	206,674,833	100.0
Votes withheld	0	
Total votes cast (including withheld votes)	206,674,833	100.0

1 Any proxy appointments which give discretion to the Chairman at the meeting have been included in the "for" total.

Approved by the Board and signed on its behalf:

Jonathan Brooks
CHAIRMAN, REMUNERATION COMMITTEE
17 July 2018

Directors' report

The Directors present their report and the Group and Company Financial Statements of NCC Group plc (the 'Company') and its subsidiaries (together the 'Group') for the financial year ended 31 May 2018.

Principal activities

The Company is a public limited company incorporated in England, registered number 4627044, with its registered office at XYZ Building, 2 Hardman Boulevard, Spinningfields, M3 3AQ as of August 2017.

The principal activity of the Group is the provision of independent advice and services to customers through the provision of escrow and cyber assurance services. The principal activity of the Company is that of a holding company.

Strategic report

Pursuant to sections 414A-D Companies Act 2006, the strategic report can be found on pages 14 to 48. This report sets out the development and performance of the Group's business during the financial year, the position of the Group at the end of the year and a description of the principal risks and uncertainties facing the Group.

UK Corporate Governance Code

The Company's statement on corporate governance can be found in the Corporate Governance Report, the Audit Committee Report, the Nomination Committee Report and the Directors' Remuneration Report on pages 49 to 97. The Corporate Governance Report, the Audit Committee Report, the Nomination Committee Report and the Directors' Remuneration Report form part of this Directors' Report and are incorporated into it by reference.

Results and dividends

The Group's and Company's audited Financial Statements for the financial year ended 31 May 2018 are set out on pages 98 to 156.

The Directors propose a final dividend of 3.15p per ordinary share, which together with the interim dividend of 1.5p per ordinary share paid on 23 February 2018 makes a total dividend of 4.65p for the year.

The final dividend will, if approved by shareholders at the Annual General Meeting, be paid on 5 October 2018 to shareholders on the register at the close of business on 7 September 2018. The ex dividend date will be 6 September 2018.

Going concern

In adopting the going concern basis for preparing the Financial Statements, the Directors have considered, among other matters, the Group's principal risks and uncertainties as set out on pages 40 to 44. Based on the Group's cash flow forecasts and financial projections, the Board is satisfied that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason and as detailed in note 1 to the Financial Statements (Basis of preparation), the Directors consider it appropriate to continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

Viability statement

The Directors have assessed and concluded on the viability of the Group over a three-year period, in accordance with provision C2.2 of the UK Corporate Governance Code 2016, as set out on page 44.

Post balance sheet events

Following the balance sheet date, the Group decided to discontinue the arbitration process it had commenced in respect of the final tranche of deferred consideration payable in respect of the acquisition of Fox-IT (€11.25m/£9.9m as recorded in the Group's balance sheet as at 31 May 2018). The decision was based on a desire to focus the Group's efforts on the future growth and further development of the Fox-IT business. It was felt that a long running process could have a detrimental effect on local management (none of whom were present during the original sale process) and on initiatives to begin to leverage the value within the business. The full deferred consideration payable was therefore paid on 27 June 2018.

There were no other post balance sheet events.

Share capital and control

At the Company's Annual General Meeting held on 21 September 2017, the Directors were granted authority to allot up to 92,170,046 ordinary shares representing approximately a third of the Company's issued share capital. In addition, the Directors were granted authority to allot a further 92,170,046 ordinary shares, again representing approximately a third of the Company's issued share capital, solely to be used in connection with a pre-emptive rights issue.

As at 31 May 2017, the Company's issued ordinary share capital comprised 277,660,081 ordinary shares with a nominal value of one pence each, of which no ordinary shares were held in treasury.

During the year ended 31 May 2017, 1,149,944 shares in the Company were issued further to the exercise of options pursuant to the Company's share option schemes.

The holders of ordinary shares are entitled, among other rights, to receive the Company's annual reports and accounts, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights.

Details of the movements of the called up share capital of the Company are set out in note 26 to the Financial Statements.

All rights and obligations attaching to the Company's ordinary shares are set out in the Company's Articles of Association (Articles), copies of which can be obtained from the Companies House website or by writing to the Company Secretary. Unless otherwise provided in the Articles or the terms of issue of any shares, any shareholder may transfer any or all of his shares. The Directors may refuse to register a transfer of shares in certificated form that are not fully paid-up or otherwise in accordance with the Articles.

Authority to purchase own shares

At the Company's Annual General Meeting held on 21 September 2017, shareholders authorised the Company to make market purchases of up to 27,651,013 ordinary shares representing approximately 10% of the issued share capital. This authority was not used during the financial year ended 31 May 2018. At the 2018 Annual General Meeting, shareholders will be asked to give a similar authority.

The Company currently holds nil ordinary shares in treasury.

Directors' report

Directors

Biographical details of the Company's current Directors are set out on pages 52 to 53. In addition, Debbie Hewitt was a Director of the Company in the financial year. Subject to law and the Company's Articles of Association, the Directors may exercise all of the powers of the Company and may delegate their power and discretion to committees.

The Company's Articles of Association give the Directors power to appoint and replace Directors. Under the terms of reference of the Nomination Committee, any appointment to the Board of the Company must be recommended by the Nomination Committee for approval by the Board. The Articles of Association also require two Directors to retire by rotation each year end and each Director must offer himself for re-election at least every three years. However, in accordance with previous years and in accordance with best practice all Directors will submit themselves for re-election at the AGM each year.

Directors' remuneration

The Remuneration Committee, on behalf of the Board, has adopted a policy that aims to attract and retain the Directors needed to run the Group successfully. Details of the Directors' remuneration are set out in the Remuneration Report on pages 83 to 94.

Directors' interests

Directors' interests in shares and share options in the Company are detailed in the Directors' Remuneration Report set out on page 89.

Directors' and Officers' insurance and indemnities

The Company maintains Directors' and Officers' liability insurance, which provides appropriate cover for any legal action brought against its Directors. The Directors of the Company have also entered into individual deeds of indemnity with the Company which constitute as qualifying third party indemnity provisions for the purposes of section 234 of the Companies Act 2006.

The deeds were in effect during the course of the financial year ended 31 May 2018 for the benefit of the Directors and, at the date of this report, are in force for the benefit of the Directors in relation to certain losses and liabilities which they may incur (or have incurred) in connection with their duties, powers or office.

Corporate social responsibility

The Corporate social responsibility report on pages 45 to 48 provides an update on the Group's policies and activities in respect of its wider stakeholders, employees, employment of disabled persons, clients, suppliers, charities and the community, environmental, ethical and health and safety issues and modern slavery. During the year the Company made no political donations (2017: £nil).

Greenhouse gas emissions

The Board is committed to maintaining the environment and limiting wherever possible its greenhouse gas emissions. This is covered on page 48 in the Corporate Social Responsibility report.

Change of control

In the event of a change of control of the Company, the Group and each of its lenders shall enter into negotiation for a period to determine how the Group's loan facilities may continue and if after negotiation there is no agreement the lender has the right to cancel the commitment.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each 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 to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

A resolution to reappoint KPMG LLP as auditors will be put to the members at the Annual General Meeting.

Annual General Meeting

The notice of the Company's Annual General Meeting to be held at 11am on 26 September 2018 at its head office at XYZ Building, 2 Hardman Boulevard, Spinningfields, Manchester, M3 3AQ, along with details of the business to be proposed and explanatory notes, will be available on the Group's website together with the Annual Report. All shareholders will be notified by post or email, at their request, when the documents have been made available.

Information to be disclosed under LR 9.8.4R:

Listing Rule	Detail	Page Ref
LR 9.8.4 (1)	Capitalised interest	96
LR 9.8.4 (4)	Long-term incentive schemes	83–89

Capitalised interest

During the period, no interest was capitalised by the Group (2017: £nil). The tax benefit on this amount was £nil (2017: £nil).

On behalf of the Board

Adam Palser
CHIEF EXECUTIVE OFFICER
17 July 2018

Brian Tenner
CHIEF FINANCIAL OFFICER
17 July 2018

Directors' responsibilities statement

Statement of Directors' responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and parent Company Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company Financial Statements on the same basis.

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 Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and 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 they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.
- The strategic report/Directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

For and on behalf of the Board

Adam Palser
CHIEF EXECUTIVE OFFICER
17 July 2018

Brian Tenner
CHIEF FINANCIAL OFFICER
17 July 2018

Financial Statements

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Independent auditor's report

TO THE MEMBERS OF NCC GROUP PLC ONLY

Opinions and conclusions arising from our audit

1. Our opinion is unmodified

We have audited the financial statements of NCC Group plc (the Company) for the year ended 31 May 2018 which comprise the consolidated Income Statement, consolidated Statement of Comprehensive Income, consolidated Statement of Financial Position, Company Statement of Financial Position, consolidated Statement of Cash Flows, Company Statement of Cash Flows, Statements of Changes in Equity, and the related notes, including the accounting policies in note 1.

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 May 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU 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 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the Directors on 1 November 2013. The period of total uninterrupted engagement is for the five financial years ended 31 May 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: group financial statements as a whole	£0.80m (2017:£0.74m) 4.6% (2017: 5.0%) of the Group profit before tax normalised to exclude property costs and onerous leases, loss making contract and market related costs	
Coverage	91% (2017:96%) of group profit before tax	
Risks of material misstatement		**vs 2017**
Recurring risks	Recoverability of goodwill	◄►
	Software and development costs intangible assets	▼
	Recoverable amount of investment in subsidiary – parent company	◄►

The risk of material misstatement in software and development costs intangible assets has reduced following the sale of two businesses which undertook a number of significant software development costs.

Independent auditor's report

TO THE MEMBERS OF NCC GROUP PLC ONLY

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, 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. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Recoverability of goodwill (£187.1m; 2017: £198.7m) *Refer to page 67 (Audit Committee Report), page 17 (accounting policy) and page 133 (financial disclosures).*	**Forecast based valuation:** Due to the inherent uncertainty involved in forecasting and discounting future cash flows which are the basis of the assessment of recoverability, the outcome could vary significantly if different assumptions were applied in the model.	Our procedures included: ○ **Historical comparison:** Assessing the Group's forecasting accuracy by comparing actual results in the year to what was previously forecast for the year. ○ **Benchmarking assumptions:** Critically evaluating the risk adjusted discount rates, having regard for market observable data with regards to risk free rates and returns on equity for comparator companies. We also evaluated the assumptions for cost inflation and the terminal growth rate. ○ **Our sector experience:** Using our valuation specialists and our discount rate tool to determine an appropriate discount rate adjusted for forecasting risk and comparing this to the rate used by the Group. ○ **Comparing valuations:** Comparing the sum of the discounted cash flows to the Group's market capitalisation adjusted for debt to assess the reasonableness of the value in use calculations. ○ **Sensitivity analysis:** Performing breakeven analysis on the key assumptions. ○ **Assessing transparency:** Assessing the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflect the risks inherent in the valuation of goodwill. **Our results** ○ We found the recoverability of goodwill to be acceptable (2017 result: acceptable).

	The risk	Our response
Software and development costs intangible assets (Additions in the year £5.0m, Net book value £12.9m; 2017: Additions in the year £7.4m, Net book value £19.2m) *Refer to page 67 (Audit Committee Report), page 16 (accounting policy) and page 133 (financial disclosures).*	**Accounting treatment** The Group capitalises internal and external costs in respect of software and development projects. The Group has also capitalised costs in relation to the finance and operational systems upgrades that represent substantial improvements to these assets. The Directors apply judgement in the classification of expenditure as capital in nature rather than ongoing operational expenditure. **Forecast based valuation:** There remains a degree of uncertainty around whether expected revenues and profits will be realised and be sufficient to ensure the recoverability of the assets recognised on the balance sheet. Certain of the key inputs, specifically timing and amount of capital expenditure, customer sign up rates and related cost of sales, and discount rate applied to future cash flows require significant estimation and judgement.	Our procedures included: ○ **Testing application:** Agreeing a sample of costs to supporting documentation to understand the nature of the items and evaluate the appropriateness of their classification as capitalised costs, having regard to the relevant accounting standards. This included assessing whether major projects are technically feasible and commercially viable by reference to existing and future orders and assessing whether there is an indicator of impairment. ○ **Historical comparison:** Assessing the Group's forecasting accuracy by comparing actual results in the period to what was previously forecast for the year for each significant project to assess whether an impairment is required. ○ **Assessing transparency:** Assessing the adequacy of the Group's disclosures about the capitalisation of software and development intangible assets and the degree of estimation involved in assessing their recoverability. **Our results** ○ We found the capitalisation of software and development costs as intangible assets in the year to be acceptable (2017 result: acceptable) and found the resulting estimate of the recoverable amount of capitalised software and development costs to be acceptable (2017 result: acceptable).
Recoverability of investments in subsidiaries (£60.8m; 2017: £60.7m) *Refer to page 67 (Audit Committee Report), page 117 (accounting policy) and page 152 (financial disclosures).*	**Low risk, high value** The carrying amount of the parent company's investments in subsidiaries represents 27% (2017: 27%) of the company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.	Our procedures included: ○ **Test of detail:** comparing the carrying amount of 100% of investments with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. ○ **Assessing subsidiary audits:** Assessing the work performed by the subsidiary audit team on a sample of those subsidiaries and considering the results of that work, on those subsidiaries' profits and net assets. ○ **Our sector experience:** for the investments where the carrying amount exceeded the net asset value, comparing the carrying amount of the investment with the expected value of the business based on its value in use. **Our results** ○ We found the group's assessment of the recoverability of the investment in and inter company balances receivable from subsidiaries to be acceptable.

We continue to perform procedures over business combinations accounting. However, following a lack of new business combinations in the current year, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

Independent auditor's report

TO THE MEMBERS OF NCC GROUP PLC ONLY

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £0.8m, determined with reference to a benchmark of group profit before tax, normalised to exclude property costs and onerous leases, loss making contract and market related costs see note 6, of which it represents 4.6% (2017: 4.7%).

Materiality for the parent company financial statements as a whole was set at £0.60m (2017: £0.45m), determined with reference to a benchmark of company total assets, of which it represents 0.3% (2017: 0.2%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £40,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

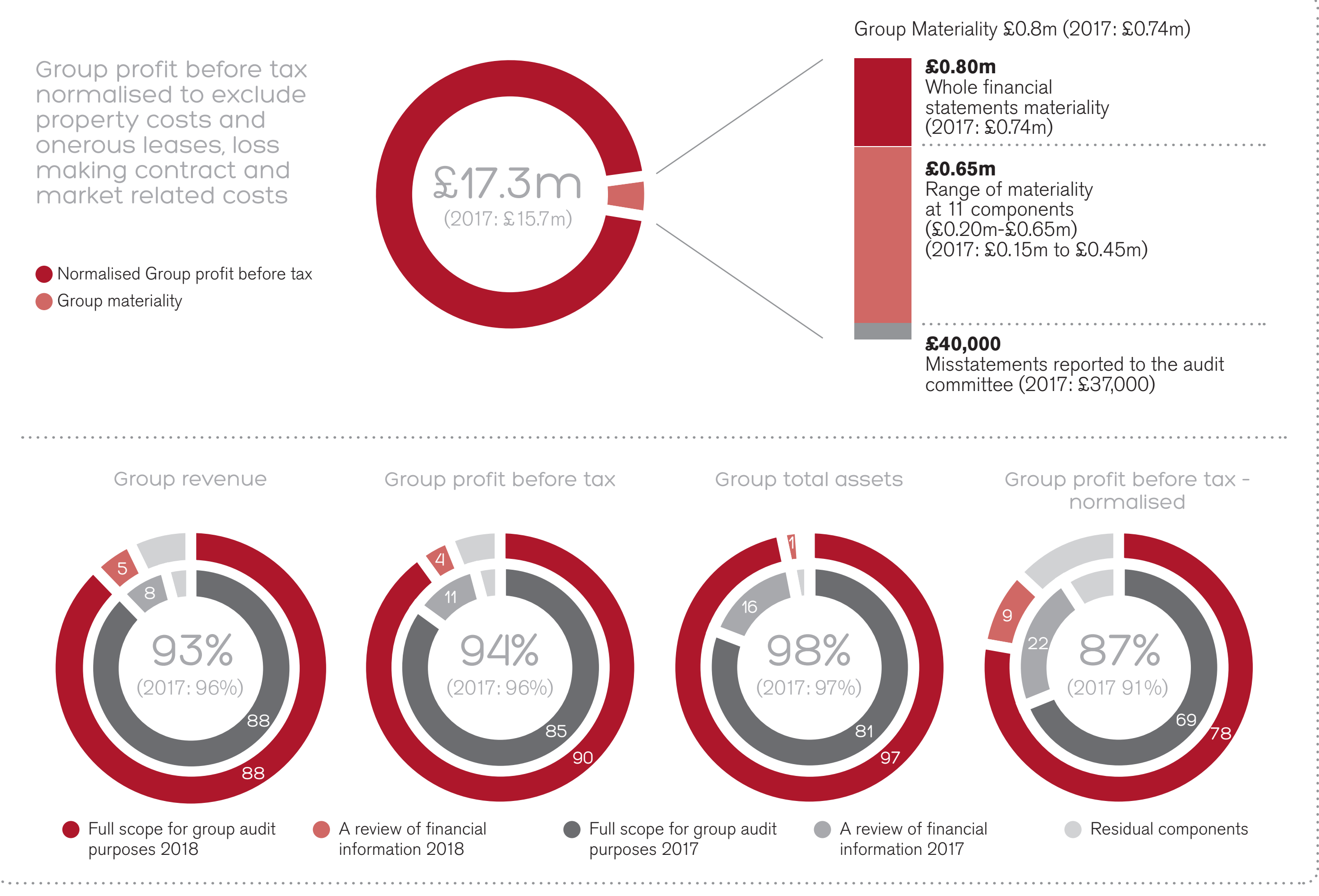
Of the Group's 22 (2017: 21) reporting components, we subjected 11 (2017: 11) to full scope audits for group purposes. We conducted reviews of financial information (including enquiry) at a further three (2017: five) non-significant components as these components were not individually financially significant enough to require an audit for Group reporting purposes but a review was performed to provide further coverage over the Group's results.

The components within the scope of our work accounted for the percentages illustrated opposite.

The remaining 5% of total group revenue, 9% of group profit before tax, 1% of total group assets and 9% of group profit before tax normalised to exclude individually significant items is represented by eight reporting components, none of which individually represented more than 2% of any of total group revenue, group profit before tax or total group assets. For these residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £0.20m to £0.65m, having regard to the mix of size and risk profile of the Group across the components. The work on one of the 22 components (2017: one of the 21 components) was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team. The Group team performed procedures on the items excluded from normalised group profit before tax.

The Group team visited one (2017: one) component location in Delft, Netherlands (2017: Delft, Netherlands) to assess the audit risk and strategy. Telephone discussions were also held with these component auditors. At these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.



4. We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- if the related statement under the Listing Rules set out on page 96 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' Report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' Remuneration Report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the Viability Statement on page 44 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Viability Statement. We have nothing to report in this respect.

Corporate Governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Report does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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 and the part of the Directors' Remuneration Report to be audited 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.

We have nothing to report in these respects.

Independent auditor's report

TO THE MEMBERS OF NCC GROUP PLC ONLY

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 97, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and 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 they 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

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 other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities 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 the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience, and through discussion with the Directors and other management (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

In addition we considered the impact of laws and regulations in the specific areas of health and safety, anti-bribery, and employment law regulatory capital and liquidity and certain aspects of company legislation. Our work in respect of these was limited to enquiry of the Directors and other management. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at Group level, with a request to report on any indications of potential existence of non-compliance with relevant laws and regulations (irregularities) in these areas, or other areas directly identified by the component team.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the 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 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 Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Stuart Burdass (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One St Peter's Square
Manchester
M2 3AE

17 July 2018

Consolidated income statement

FOR THE YEAR ENDED 31 MAY 2018

	Notes	2018 Total £m	2018 Adjustments (note 6) £m	2018 Adjusted* £m	2017 Total £m	2017 Adjustments (note 6) £m	2017 Adjusted* £m
Revenue	4	**233.2**	**–**	**233.2**	215.3	–	215.3
Cost of sales		**(137.1)**	**–**	**(137.1)**	(137.1)	–	(137.1)
Gross profit		**96.1**	**–**	**96.1**	78.2	–	78.2
Administration expenses comprising:		**(82.4)**	**17.3**	**(65.1)**	(121.1)	68.4	(52.7)
General and administrative expenses		**(65.1)**	**–**	**(65.1)**	(52.7)	–	(52.7)
Amortisation of acquired intangibles	14	**(9.4)**	**9.4**	**–**	(10.3)	10.3	–
Individually Significant Items	6	**(7.6)**	**7.6**	**–**	(57.6)	57.6	–
Share-based payments	25	**(0.3)**	**0.3**	**–**	(0.5)	0.5	–
Operating profit*/(loss)	4, 6	**13.7**	**17.3**	**31.0**	(42.9)	68.4	25.5
Interest expense		**(1.5)**	**–**	**(1.5)**	(1.4)	–	(1.4)
Discount on acquisition consideration		**(0.3)**	**0.3**	**–**	(0.5)	0.5	–
Net financing costs	9	**(1.8)**	**0.3**	**(1.5)**	(1.9)	0.5	(1.4)
Profit/(loss) before taxation		**11.9**	**17.6**	**29.5**	(44.8)	68.9	24.1
Taxation	10	**0.5**	**(7.1)**	**(6.6)**	(2.1)	(4.8)	(6.9)
Profit/(loss) - continuing operations		**12.4**	**10.5**	**22.9**	(46.9)	64.1	17.2
(Loss) - discontinued operations, net of tax	5	**(5.5)**	**5.5**	**–**	(9.7)	9.7	–
Profit/(loss) for the year		**6.9**	**16.0**	**22.9**	(56.6)	73.8	17.2
Earnings per share							
Basic EPS – continuing		**4.5p**			(17.0)p		
Diluted EPS – continuing		**4.4p**			(17.0)p		
Basic EPS – discontinuing		**(2.0)p**			(3.5)p		
Diluted EPS – discontinuing		**(1.9)p**			(3.5)p		
Basic EPS – all operations		**2.5p**			(20.4)p		
Diluted EPS – all operations		**2.5p**			(20.4)p		

The Company has elected to take the exemption under section 408 of the Companies Act 2006 from presenting the parent company profit and loss account.

Consolidated statement of comprehensive income

FOR THE YEAR ENDED 31 MAY 2018

	2018 £m	2017 £m
Profit/(loss) for the year	**6.9**	(56.6)
Items that may be reclassified subsequently to profit or loss (net of tax)		
Foreign exchange translation differences	**0.3**	17.9
Total comprehensive income/(loss) for the year, net of tax	**7.2**	(38.7)
Attributable to:		
Equity holders of the parent	**7.2**	(38.7)

Consolidated statement of financial position

AT 31 MAY 2018

	Notes	2018 £m	2018 £m	2017 £m	2017 £m
Non-current assets					
Plant and equipment	13	**19.4**		18.3	
Intangible assets	14	**240.0**		267.6	
Investments	15	**0.4**		0.4	
Deferred tax assets	18	**4.5**		4.2	
Total non-current assets			**264.3**		290.5
Current assets					
Trade and other receivables	16	**67.5**		66.7	
Inventories	17	**0.8**		1.1	
Cash and cash equivalents		**21.2**		12.3	
Total current assets			**89.5**		80.1
Total assets			**353.8**		370.6
Current liabilities					
Trade and other payables	19	**35.7**		29.7	
Provisions	20	**2.6**		1.5	
Consideration on acquisitions	22	**11.9**		12.9	
Deferred revenue	21	**29.0**		35.6	
Current tax payable		**1.3**		3.0	
Total current liabilities			**80.5**		82.7
Non-current liabilities					
Deferred tax liability	18	**9.8**		14.2	
Provisions	20	**6.3**		3.5	
Consideration on acquisitions	22	**–**		2.1	
Interest-bearing loans	19, 23	**49.0**		56.0	
Total non-current liabilities			**65.1**		75.8
Net assets			**208.2**		212.1
Equity					
Issued capital	26	**2.8**		2.8	
Share premium		**149.5**		148.0	
Merger reserve		**42.3**		42.3	
Retained earnings		**(12.8)**		(7.1)	
Currency translation reserve		**26.4**		26.1	
Total equity attributable to equity holders of the parent			**208.2**		212.1

Company statement of financial position

AT 31 MAY 2018

	Notes	2018		2017	
		£m	£m	£m	£m
Non-current assets					
Goodwill	32	**14.4**		14.4	
Investments in subsidiaries	33	**60.8**		60.7	
Total non-current assets			**75.2**		75.1
Current assets					
Intercompany receivables	16	**153.8**		149.5	
Cash and cash equivalents		**0.1**		0.2	
Total current assets			**153.9**		149.7
Total assets			**229.1**		224.8
Current liabilities					
Intercompany payables		**–**		–	
Total current liabilities			**–**		–
Net assets			**229.1**		224.8
Equity					
Issued capital	26	**2.8**		2.8	
Share premium		**149.5**		148.0	
Merger reserve		**42.3**		42.3	
Retained earnings		**34.5**		31.7	
Total equity			**229.1**		224.8

These Financial Statements were approved by the Board of Directors on 17 July 2018 and were signed on its behalf by:

Adam Palser
CHIEF EXECUTIVE OFFICER

Brian Tenner
CHIEF FINANCIAL OFFICER

NCC Group plc
4627044

Consolidated statement of cash flows

FOR THE YEAR ENDED 31 MAY 2018

Cash flow from operating activities (includes continuing and discontinued operations)

	Notes	2018 £m	2017 £m
Profit/(loss) for the year		**6.9**	(56.6)
Adjustments for:			
Depreciation	13	**6.5**	5.2
Depreciation – Individually Significant Items	6	**–**	0.9
Share-based charges	25	**0.2**	0.6
Amortisation of acquired intangible assets	14	**9.4**	10.3
Amortisation of internally developed intangible assets and software		**5.9**	3.5
Net financing costs	9	**1.8**	1.9
Profit on sale of plant and equipment	7	**–**	(0.1)
Individually Significant Items (non-cash impact)	6	**3.5**	68.0
Loss/(profit) on disposal of subsidiaries	5	**6.4**	(1.2)
Income tax expense	10	**(0.6)**	1.3
Cash inflow for the year before changes in working capital		**40.0**	33.8
Increase in trade and other receivables		**(5.0)**	(2.3)
Increase in trade and other payables		**4.5**	0.2
Cash generated from operating activities before interest and tax		**39.5**	31.7
Interest paid		**(1.8)**	(1.9)
Income taxes paid		**(4.7)**	(1.8)
Net cash generated from operating activities		**33.0**	28.0
Cash flows from investing activities			
Purchase of plant and equipment	13	**(7.7)**	(11.0)
Capital contribution for property, plant and equipment		**–**	3.7
Proceeds from disposal of property		**–**	0.4
Software and development expenditure	14	**(5.0)**	(7.4)
Acquisition of businesses		**(3.1)**	(28.4)
Cash acquired with subsidiaries		**–**	1.9
Net proceeds from sale of subsidiaries	5	**9.9**	1.7
Cash disposed of from sale of subsidiaries	5	**(0.7)**	(1.7)
Net cash used in investing activities		**(6.6)**	(40.8)
Cash flows from financing activities			
Proceeds from the issue of ordinary share capital		**1.5**	0.7
Drawdown of borrowings		**7.5**	45.5
Repayment of borrowings		**(12.9)**	(26.6)
Equity dividends paid	11	**(12.8)**	(12.8)
Net cash used in financing activities		**(16.7)**	6.8
Net increase/(decrease) in cash and cash equivalents		**9.7**	(6.0)
Cash and cash equivalents at beginning of year		**12.3**	20.7
Effect of foreign currency exchange rate changes		**(0.8)**	(2.4)
Cash and cash equivalents at end of year		**21.2**	12.3

Consolidated statement of cash flows

FOR THE YEAR ENDED 31 MAY 2018

Reconciliation of net change in cash and cash equivalents to movement in net debt*

	2018 £m	2017 £m
Net increase/(decrease) in cash and cash equivalents	**9.7**	(6.0)
Change in net debt* resulting from cash flows	**5.4**	(18.9)
Effect of foreign currency on cash flows	**(0.8)**	(2.4)
Foreign currency translation differences on borrowings	**1.6**	(3.7)
Change in net debt* during the year	**15.9**	(31.0)
Net debt* at start of year	**(43.7)**	(12.7)
Net debt* at end of year	**(27.8)**	(43.7)

Net debt* comprises

	2018 £m	2017 £m
Cash and cash equivalents	**21.2**	12.3
Total borrowings	**(49.0)**	(56.0)
Net debt* at end of year	**(27.8)**	(43.7)

Company statement of cash flows

FOR THE YEAR ENDED 31 MAY 2018

	Notes	2018 £m	2017 £m
Cash flow from operating activities			
Profit for the year		**15.5**	29.0
Adjustments for:			
Impairment of investments	33	**–**	13.0
Equity dividends received		**–**	(42.0)
(Increase)/decrease in intercompany net receivable balances		**(4.3)**	12.3
Net cash generated from operating activities		**11.2**	12.3
Cash flows from financing activities			
Proceeds from the issue of ordinary share capital		**1.5**	0.7
Equity dividends paid	11	**(12.8)**	(12.8)
Net cash used in financing activities		**(11.3)**	(12.1)
Net increase in cash and cash equivalents		**(0.1)**	0.2
Cash and cash equivalents at beginning of year		**0.2**	–
Cash and cash equivalents at end of year		**0.1**	0.2

Statements of changes in equity

FOR THE YEAR ENDED 31 MAY 2018

Group

	Issued share capital £m	Share premium £m	Merger reserve £m	Currency translation reserve £m	Reserve for own shares £m	Retained earnings £m	Total £m
Balance at 1 June 2017	**2.8**	**148.0**	**42.3**	**26.1**	**–**	**(7.1)**	**212.1**
Profit for the year	–	–	–	–	–	6.9	6.9
Foreign currency translation differences	–	–	–	0.3	–	–	0.1
Total comprehensive income for the year	**–**	**–**	**–**	**0.3**	**–**	**6.9**	**7.2**
Transactions with owners recorded directly in equity							
Dividends to equity shareholders	–	–	–	–	–	(12.8)	(12.8)
Share-based payment transactions	–	–	–	–	–	–	–
Current and deferred tax on share-based payments	–	–	–	–	–	0.2	0.2
Shares issued	–	1.5	–	–	–	–	1.5
Total contributions by and distributions to owners	**–**	**1.5**	**–**	**–**	**–**	**(12.6)**	**(11.1)**
Balance at 31 May 2018	**2.8**	**149.5**	**42.3**	**26.4**	**–**	**(12.8)**	**208.2**

	Issued share capital £m	Share premium £m	Merger reserve £m	Currency translation reserve £m	Reserve for own shares £m	Retained earnings £m	Total £m
Balance at 1 June 2016	2.8	147.3	42.3	8.2	(0.2)	62.5	262.9
Loss for the year	–	–	–	–	–	(56.6)	(56.6)
Foreign currency translation differences	–	–	–	17.9	–	–	17.9
Total comprehensive income for the year	–	–	–	17.9	–	(56.6)	(38.7)
Transactions with owners recorded directly in equity							
Dividends to equity shareholders	–	–	–	–	–	(12.8)	(12.8)
Share-based payment transactions	–	–	–	–	–	0.2	0.2
Current and deferred tax on share-based payments	–	–	–	–	–	(0.4)	(0.4)
Shares issued	–	0.7	–	–	–	–	0.7
Purchase of own shares	–	–	–	–	0.2	–	0.2
Total contributions by and distributions to owners	–	0.7	–	–	0.2	(13.0)	(12.1)
Balance at 31 May 2017	2.8	148.0	42.3	26.1	–	(7.1)	212.1

Statements of changes of equity

FOR THE YEAR ENDED 31 MAY 2018

Company

	Share capital £m	Share premium £m	Merger reserve £m	Reserve for own shares £m	Retained earnings £m	Total £m
Balance at 1 June 2017	**2.8**	**148.0**	**42.3**	**–**	**31.7**	**224.8**
Profit for the year	**–**	**–**	**–**	**–**	**15.5**	**15.4**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**15.5**	**15.5**
Transactions with owners recorded directly in equity	**–**	**–**	**–**	**–**	**–**	**–**
Dividends to equity shareholders	**–**	**–**	**–**	**–**	**(12.8)**	**(12.8)**
Increase in subsidiary investment for share-based charges	**–**	**–**	**–**	**–**	**0.1**	**0.1**
Shares issued	**–**	**1.5**	**–**	**–**	**–**	**1.5**
Total contributions by and distributions to owners	**–**	**1.5**	**–**	**–**	**(12.7)**	**(11.2)**
Balance at 31 May 2018	**2.8**	**149.5**	**42.3**	**–**	**34.5**	**229.1**

	Share capital £m	Share premium £m	Merger reserve £m	Reserve for own shares £m	Retained earnings £m	Total £m
Balance at 1 June 2016	2.8	147.3	42.3	(0.2)	14.9	207.1
Profit for the year	–	–	–	–	29.0	29.0
Total comprehensive income for the year	–	–	–	–	29.0	29.0
Transactions with owners recorded directly in equity						
Dividends to equity shareholders	–	–	–	–	(12.8)	(12.8)
Increase in subsidiary investment for share-based charges	–	–	–	–	0.6	0.6
Shares issued	–	0.7	–	–	–	0.7
Purchase of own shares	–	–	–	0.2		0.2
Total contributions by and distributions to owners	–	0.7	–	0.2	(12.2)	(11.3)
Balance at 31 May 2017	2.8	148.0	42.3	–	31.7	224.8

Notes to the financial statements

FOR THE YEAR ENDED 31 MAY 2018

1 Accounting policies

Basis of preparation

NCC Group plc ("the Company") is a company incorporated in the UK, with its registered office at XYZ Building, 2 Hardman Boulevard, Manchester, M3 3AQ. The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The parent Company financial statements present information about the Company as a separate entity and not about the Group. These financial statements have been approved for issue by the Board of Directors on 17 July 2018.

Both the parent Company and the Group financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRS"). On publishing the parent Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for consideration payable on acquisitions that is measured at fair value.

Functional and presentation currency

The Group and Company financial statements are presented in millions of Pounds Sterling (£m) and all values are rounded to one decimal place except when otherwise indicated.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 14 to 48. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Business and Financial Review on pages 2 to 13. In addition, note 24 to the financial statements includes the Group's policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to credit risk and liquidity risk.

The Group funds its strategic acquisitions and meets its day-to-day working capital requirements via a multi-currency revolving credit facility of £80.0m, a £20.0m multi-currency term loan that amortises by £2.5m every six months and an overdraft of £5m. At 31 May 2018, the amount drawn down under the facilities was £49.0m. This facility was agreed in November 2015 and is due for renewal in November 2020.

The Directors have reviewed the trading and cash flow forecasts of the Group as part of their going concern assessment and have taken into account reasonable downside sensitivities which reflect uncertainties in the current operating environment. The possible changes in trading performance show that the Group is able to operate within the level of the banking facilities and, as a consequence, the Directors believe that the Group is well placed to manage its business risks successfully. After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for a period of at least 12 months. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

New standards

No new standards have been adopted for the first time that affect the reported results or financial position.

New IFRS and amendments to IAS and interpretations

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU). The Group does not intend to early adopt these standards:

IFRS 15 Revenue from Contracts with Customers: Summary financial impact of transition to IFRS 15

The summary impacts of the transition to IFRS 15 on the Group's revenue, Operating Profit*, Adjusted Operating Profit*, Profit after Tax for the year ended 31 May 2018 are set out below:

	Revenue £m	Operating profit* £m	Adjusted operating profit* £m	PAT £m
Existing GAAP (IAS 18 basis)	233.2	13.7	31.0	6.9
Spreading of set-up/initial/up-front Escrow fees	0.4	0.4	0.4	0.3
Spreading set-up/initial/up-front fees for Assurance MSS	(0.6)	(0.6)	(0.6)	(0.5)
IFRS 15 basis	233.0	13.5	30.8	6.7

The impact on the Group's balance sheet would be similarly negligible.

1 Accounting policies continued

IFRS 15 continued

The Group expects to adopt the Retrospective Method of adoption. This means that in the Annual Report and Accounts for the year ended 31 May 2019, the Group will make adjustments to the Income Statements and the Statements of Financial Position as if IFRS 15 had always been in effect for the year ended 31 May 2019 and also the comparator year ended 31 May 2018. The Group also expects to take advantage of the three transition expedients available in this option (bold italics are a qualitative assessment of the impact each choice has on the Group):

a. "For completed contracts, an entity need not restate contracts that begin and end within the same annual reporting period; ***Significant benefit given the sheer number of contracts in NCC Group.***

b. For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods; ***Incident response contracts are variable in duration depending on the emerging situation so it is helpful not to have to estimate anticipated value in past periods.***

c. For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognise that amount as revenue". ***Significant benefit given the sheer number of contracts in NCC Group.***

All three of the practical expedients above shall be applied consistently to all contracts within all reporting periods presented.

None of the above choices actually deliver materially different outcomes in terms of reported results or financial position from alternate valid choices. However, they do make the practical implementation of a relatively complex accounting standard much easier from a systems, process and workload perspective.

There are also three variable options available in applying IFRS 15 (whichever transition option is selected):

a. Expenses of acquiring a contract can be expensed immediately if it lasts less than one year. ***This applies to the majority of NCC Group business.***

b. Contracts with similar terms and features can be treated as a "portfolio" as opposed to individually assessed. ***Important for NCC Group as we have a huge range of small but very similar contracts on largely identical terms and conditions.***

c. Treatment of any significant financing component in revenue stream. ***Limited relevance to NCC Group.***

Where the transition to IFRS 15 impacts revenue recognition for individual service lines, the costs associated with the revenue will now either be held on the balance sheet and amortised over the same period as the revenue is recognised (in the case of third party costs) or continue to be expensed as incurred in the case of internal labour costs.

IFRS 9 Financial Instruments – Recognition and Measurement

Measurement will be effective from the year ending 31 May 2019 onwards. Management is still considering the impact of the new standard which is not expected to have a significant impact and an update will be provided in the interim financials which are due to be published in January 2019.

IFRS 16 Leases

IFRS 16 Leases will be effective from the year ending 31 May 2020 onwards and the impact on the financial statements will be significant to NCC Group plc. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for all lease contracts. Therefore, the substantial majority of the Group's operating lease commitments (approximately £30m on an undiscounted basis, as shown in note 28) would be brought on to the balance sheet and amortised and depreciated separately. There will be no impact on cash flows although the presentation of the cash flow statement will change significantly. Management is still considering the impact of this new standard and is as yet unable to quantify its likely impact.

Business combinations

Business combinations are accounted for by applying the acquisition method at the acquisition date, which is the date on which control is transferred to the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Acquisitions on or after 1 June 2010

For acquisitions on or after 1 June 2010, the Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in the income statement.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any deferred or contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of contingent consideration are recognised in the income statement. On a transaction-by-transaction basis, the Group elects to measure non-controlling interests either at its fair value or at its proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date.

Notes to the financial statements

FOR THE YEAR ENDED 31 MAY 2018

1 Accounting policies continued

Acquisitions before 1 June 2010

For acquisitions before 1 June 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

Contingent consideration on business combinations was recognised only to the extent that it could be reliably estimated and it was probable that the consideration would be paid. Any subsequent changes to the carrying value of the contingent consideration were recognised as adjustments to goodwill.

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intangible assets and goodwill

Goodwill represents amounts arising on acquisition of subsidiaries. In respect of business acquisitions that have occurred since 1 June 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired including identifiable intangible assets. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

In respect of acquisitions prior to 1 June 2004, goodwill is included at its deemed cost, which represents the amount recorded under UK GAAP at 31 May 2004 which was broadly comparable, save that only separable intangibles were recognised and goodwill was amortised.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the investee.

Research and development

Expenditure on research activities is recognised in the income statement as an expense as incurred. Expenditure on development activities is capitalised as "development costs" if the product or process is technically and commercially feasible and the Group intends, has the technical ability and has sufficient resources to complete development, future economic benefits are probable and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes.

Software costs

The Group capitalises "software costs" in accordance with the criteria of IAS 38. Software costs comprise two elements, IT licences for periods of one year or more, and the third party and internal employee time costs for internal system developments. Capitalised costs are initially measured at cost and amortised on a straight-line basis over the licence term or the period for which the developed system is expected to be in use as a business platform.

The expenditure capitalised includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use and capitalised borrowing costs. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Other intangible assets

Expenditure on internally generated goodwill is recognised in the income statement as an expense as incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and less accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill, is recognised in the income statement as an expense as incurred.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful economic lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangibles are amortised from the date they are available for use. The estimated useful lives are as follows:

Acquired customer contracts and relationships	– between three and ten years
Software	– between one and seven years
Capitalised development costs	– between three and five years (shortened from ten years)

1 Accounting policies continued

Impairment excluding deferred tax assets

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Group'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. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. 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 the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually 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 (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, (CGUs). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. An impairment loss in respect of goodwill is not reversed. In respect of other assets, 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 would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Related party transactions

Details of related party transactions are set out in note 31 to these financial statements.

Plant and equipment

Plant and equipment assets are carried at cost less accumulated depreciation and any recognised impairment in value. To the extent that borrowing costs relate to the acquisition, construction or production of a qualifying asset, borrowing costs are capitalised as part of the cost of that asset. Depreciation is charged to the income statement on a straight-line basis over the estimated useful economic lives of each part of an item of plant and equipment as follows:

Computer equipment	– between three and five years
Plant and equipment	– between three and five years
Furniture	– between three and five years
Fixtures and fittings	– term of the lease
Motor vehicles	– four years

Plant and equipment is also tested for impairment whenever there is an indication of potential impairment.

Investments

Investments in subsidiaries are carried at cost less impairment. Investments in property and unlisted shares are carried at cost less impairment which is based on the fair value at acquisition.

Inventory

Inventory is held at the lower of cost or net realisable value.

Revenue recognition

(wording represents the current GAAP (IAS 18) policy – to be revised next year for IFRS 15 with impacts as shown in note 1)

Revenue represents the value of goods and services provided during the period, excluding VAT and similar taxes. The application of this policy in each of the operating segments is as follows:

Assurance

The Assurance division groups its revenue into three types of income streams.

i) Professional services income streams (which includes technical security testing, risk management and governance and other advisory services). These are usually made up of relatively short-term discreet statements of work and are recognised on a percentage completion basis according to the number of days worked in comparison to the total contracted number of days by including the profit or loss earned on work completed to the balance sheet date. Provisions are made for any losses on uncompleted contracts expected to be incurred after the balance sheet date.

ii) Managed services income streams (which includes 24/7 monitoring services and front line support for incident response). These are typically of an extended delivery duration where the customer derives continual benefits over periods ranging from one to three years and are recognised over the life of the contracted service delivery. In some cases, a higher proportion of the total costs can be incurred in the first month due to set-up costs. Where this is the case, a greater proportion of the associated revenue is also recognised at the same time as the costs, with the remainder deferred over the life of the contract.

Notes to the financial statements
FOR THE YEAR ENDED 31 MAY 2018

1 Accounting policies continued

This is a revenue recognition policy that will change in most cases under IFRS 15 as the customer does not acquire any benefit from the set up activity and hence this revenue will in future be spread over the same period as the service delivery. For the avoidance of doubt, 'up-front fees', 'initial fees' and 'set-up fees' all represent activities carried out at the start of the provision of a specific service to a specific customer.

iii) Sales of products (own manufactured and resale of third party products). Revenue is recognised when the significant risks and rewards of ownership of the products have passed to the buyer, which is considered to be upon delivery under the contractual terms, and when the amount of revenue can be measured reliably. On certain sales of third party products, the risks undertaken by the Group are now minimal following a change in our standard terms and conditions and in these cases the Group acts as an agent and hence only records a commission on sale as opposed to gross revenue and costs of sale.

Escrow

The Escrow division groups its revenue into two main types of income streams.

i) Escrow contracts revenue streams relate to the provision of an escrow service over a period of time, usually at least a year and potentially up to three years. Such income is recognised on a straight line basis over the life of the service delivery agreement on the basis that benefit is consumed by the customer evenly over the period. Currently, fees are recognised on completion of the services attributable to the initial set-up of a new contract. This approach to revenue recognition on initial/set-up/deposit fees (all of which are incurred at the start of an Escrow contract) will also change under IFRS 15 on the basis of no separate benefit accruing to the customer, apart from the Escrow service itself. Note this will be the case even though our commercial terms and conditions allow us to recover these costs if the Escrow agreement is cancelled.

ii) Verifications and other Escrow services are recognised on completion of the related services which are typically delivered over a short period of time (typically a matter of weeks). These include SAAS services and ICANN services.

Determination and presentation of operating segments

The Group determines and presents operating segments based on the information that is provided to the Board, whom acts as the Group's chief operating decision-maker (CODM) in order to assess performance and to allocate resources.

An operating segment is a component of the Group 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 Group's other components. An operating segment's results are reviewed regularly by the CODM to make decisions about resources to be allocated to the segment and to assess its performance.

The Group reports its business in two key segments: The Escrow division and the Assurance division. Within the Escrow division we manage some aspects of the day-to-day business on a geographical basis and this allows us to disclose revenue and operating profit* for those geographies. However, while we can manage and disclose some aspects of those as individual operating segments, they are all managed under the Escrow division's senior executive team. That team takes the decisions on resource allocation, product development, marketing and areas for focus and investment. For this reason, the Escrow division is regarded as the appropriate reporting segment with additional operating segment disclosures presented to give the user of the accounts a further level of granularity.

Within the Assurance division, the business has historically differentiated between its core cyber security and consulting activities on the one hand and on the other its Web Performance activity and its Software Testing activity. However, similar to Escrow, the different activities came together under an Assurance management team for strategic and resource allocation decision-making. The new Target Operating Model for the Assurance division going forward confirms that clustering of activities around a central theme or "golden thread" of cyber security.

Allocation of central costs

Some costs are collected and managed in one location but are actually incurred on behalf of multiple operating segments or reporting segments. These costs are then allocated to the reporting segments. The allocation is based on logical or activity driven cost algorithms. The allocation is necessary to give an accurate picture of the consumption of resources by each reporting segment.

Individually Significant Items

The Group separately identifies items as individually significant if the item is considered unusual by its nature or scale, and is of such significance that separate disclosure is relevant to understanding the Group's financial performance and therefore requires separate presentation in the financial statements in order to fairly present the financial performance of the Group. Such items are referred to as "Individually Significant Items" and are described in note 6.

Foreign currencies

Transactions in foreign currencies are recorded using the appropriate monthly exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated using the exchange rate ruling at the balance sheet date and the gains or losses on translation are included in the income statement.

The assets and liabilities of overseas subsidiaries denominated in foreign currencies are retranslated at the exchange rate ruling at the balance sheet date. The income statements of overseas subsidiary undertakings are translated at the weighted average exchange rates for the financial year. Gains and losses arising on the retranslation of opening net assets are taken to the currency translation reserve. They are released to the income statement upon disposal of the subsidiary to which they relate.

Operating lease payments

Operating lease rentals are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense, over the term of the lease.

1 Accounting policies continued

Employee benefits – defined contribution pensions

The Group operates a defined contribution pension scheme. The assets of the scheme are kept separate from those of the Group in an independently administered fund. The amount charged as an expense in the income statement represents the contributions payable to the scheme in respect of the accounting period.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payment transactions

Share-based payments in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group. They are treated as an adjusting item in arriving at the non-GAAP "Adjusted" Metrics.

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment transactions in which the Group receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Group's equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

Where the Company grants options over its own shares to the employees of a subsidiary it recognises in its individual financial statements, an increase in the cost of investment in that subsidiary equivalent to the equity-settled share-based payment charge is recognised in respect of that subsidiary in its consolidated financial statements with the corresponding credit being recognised directly in equity.

Holiday or vacation pay

The Group recognises a liability in the balance sheet for any earned but not yet taken holiday entitlement for staff.

Earned holiday is calculated on a straight line basis over a holiday year which can vary by business unit. Taken holiday is based on actually taken holiday. Any movement in the liability between the opening and closing balance in the year is recorded as an employee cost or a reduction in employee costs in the Income Statement in the year.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Net financial expenses

Finance expenses are recognised in the profit and loss account in the period in which they are incurred.

Taxation

Tax on the profit or loss for the year comprises current and deferred taxation. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current taxation

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred taxation

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Intra-group financial instruments

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Notes to the financial statements

FOR THE YEAR ENDED 31 MAY 2018

1 Accounting policies continued

Trade and other receivables

Trade and other receivables are stated at their nominal amount less impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits repayable on demand. Bank overdrafts that are repayable on demand form part of the Group's cash management and are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

Treasury shares

NCC Group plc shares held by the Group are deducted from equity as "treasury shares" and are recognised at cost. Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from sale and the original cost being taken to reserves. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of equity shares.

Non-current assets held for sale and discontinued operations

A non-current asset or a group of assets containing a non-current asset (a disposal group) is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year.

On initial classification as held for sale, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to profit or loss. The same applies to gains and losses on subsequent remeasurement although gains are not recognised in excess of any cumulative impairment loss. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be measured in accordance with the Company's accounting policies. Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated.

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation has been discontinued from the start of the comparative period.

2 Use of estimates and judgements

The preparation of financial statements requires management to exercise judgement in applying the Group's accounting policies. Different judgements would have the potential to change the reported outcome of an accounting transaction or statement of financial position. It also requires the use of estimates that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis, with changes recognised in the period in which the estimates are revised and in any future periods affected. The table below shows those areas of accounting judgements and estimates that the Directors consider material and that could reasonably change significantly in the next year. In some cases, the accounting area requires both an accounting judgement and an estimate.

Accounting area	Accounting Judgement?	Accounting Estimate?
Carrying value of intangible assets	Yes	Yes
Capitalising development costs	Yes	Yes
Individually Significant Items	Yes	No
Loss-making contract	No	Yes

2.1 Estimation uncertainties

Information about estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying values of assets and liabilities within the next financial year are addressed below.

Carrying values of intangible assets (including goodwill, acquired intangible assets and capitalised software and development costs)

The Group has significant balances relating to goodwill at 31 May 2018 as a result of acquisitions of businesses in previous years. The carrying value of goodwill at 31 May 2018 is £187.1m (2017: £198.7m). Goodwill balances are tested annually for impairment. Tests for impairment are primarily based on the calculation of a value in use for each CGU. Acquired intangibles and capitalised development and software costs are also allocated to CGUs. This involves the preparation of discounted cash flow projections, which require significant estimates of both future operating cash flows and an appropriate risk-adjusted discount rate. The commercial viability of individually capitalised development project costs is also part of the overall assessment of carrying values (see note 14 regarding specific impairments of individual capitalised project costs).

2.1 Estimation uncertainties continued

Future cash flow estimates are made up of two critical estimates: the rate of revenue growth, the associated rate of cost growth (or, in other words, margin improvement or contraction if costs grow at a different rate from revenue).

The calculation of an appropriate discount rate to apply to the future cash flow estimate is itself an estimate. While some aspects of discount rate calculations can be more mechanical in nature (such as using the 30-year gilt yield as a proxy for the risk free rate) others such as entity or sector specific risk adjustments rely more on management estimates.

The estimates used and the sensitivity analysis on what are regarded as reasonably possible changes are provided in note 14.

The calculation of an appropriate discount rate to apply to the future cash flow estimate is itself an estimate. While some aspects of discount rate calculations can be more mechanical in nature (such as using the 30-year gilt yield as a proxy for the risk free rate) others such as entity or sector specific risk adjustments rely more on management estimates. The discount rate is also a key component in assessing the Terminal Value which is often an important part of any valuation. Sensitivity analysis on what are regarded as reasonably possible changes is provided in note 14.

2.2 Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements are addressed below.

Carrying value of intangible assets – assessment of CGUs

A CGU is the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Identification of a CGU does involve judgement. The Directors have reviewed the continuing applicability of the judgements made in the prior year in determining the CGUs within the Group and in allocating goodwill to these CGUs. The Directors have concluded that the same CGUs continue to be applicable in the current year.

Individually Significant Items

The Group categorises certain items as ISIs on the basis of management judgement. These judgements have regard to the Group's approach to materiality as set out on page 69 of the Audit Committee report. Some items are deemed material because of scale, some because of their nature or frequency of occurrence, and others through a combination of both. These judgements can be significant not only in changing the Group's Adjusted* results, refer note 3, but can also have a significant impact on senior management and executive reward which in some cases are linked to Adjusted* results as opposed to GAAP results (as set out in note 3).

To the extent that they relate to provisions for future costs or income that involves a degree of uncertainty (such as in onerous property leases) ISIs can also be a source of estimation uncertainty. Clearly where the review of the carrying value has led to an impairment event that is material enough in scale or nature to be classified as an ISI, all of the estimation uncertainties that applied in the review of carrying value also apply to the calculation of the impairment value itself.

Loss-making contract

Some aspects of the Group's revenue derive from relatively long-term contracts, whilst this is in respect of a very limited number of contracts, the risk of loss on such long term contracts could have a significant impact. In such situations project managers use established methodologies to estimate the percentage complete of a project and hence the amount of revenue that should have been recognised to date. One such example occurred in the current year where we carried out a detailed bottom-up project assessment and identified that a contract in our business in the Netherlands was not as complete as previously estimated. This in turn led to a full life contract review and the recognition of a provision for the remaining loss on the contract as a whole. In some cases, long-term contract revenue is signed off by reference to meeting customer agreed milestones in which case the degree of estimation can be lower. Furthermore, identifying whether or not an as yet incomplete contract will be loss-making over its life includes estimates of future costs to complete. This inevitably includes estimates and allowances for unknown contingencies and assumptions about labour rates and future prices.

Capitalisation of development costs

Development activities involve a plan or design for the production of new or substantially improved products or processes. Judgement is required in determining whether the project is technically and commercially feasible; estimation is required in assessing the future economic benefit. Such judgements are inherently subjective and can have a material impact on determining the viability of the project and ultimately whether the costs should be capitalised.

Notes to the financial statements

FOR THE YEAR ENDED 31 MAY 2018

3 Alternative performance measures

The Board and Executive management use a number of alternative performance measures (APMs) in their day-to-day management of the business and in setting employee targets. The Group's primary financial profitability measure used in guiding external stakeholders and in internal management reviews is Adjusted operating profit*. It is management's view that Adjusted operating profit* is more closely aligned to the underlying performance of the business. Adjusted* EBITDA is also disclosed as this is used by some stakeholders and in some other KPIs used in the business (such as the Cash conversion ratio*).

These APMs are not defined measures in IFRS and therefore these measures may not be comparable with similar APMs in other businesses. These APMs are not intended to be a replacement for, or be superior to, IFRS measures.

The "Adjusted" alternative performance measures are arrived at by excluding the impact of a number of Adjusting Items that the Directors consider are not part of underlying business performance for the reasons referred to below. The various adjusting items are set out in the table below:

	2018 £m	2017 £m
Amortisation of acquired intangible assets (note 14)	**9.4**	10.3
Individually Significant Items (see note 6)	**7.6**	57.6
Share-based payments (note 25)	**0.3**	0.5
Discount unwind on acquisition consideration (note 9)	**0.3**	0.5
Adjustments to profit/(loss) before taxation	**17.6**	68.9

Rationale for adjusting items

At all times the Group aims to ensure that the Annual Report and Accounts are fully compliant with International Financial Reporting Standards and that they give a Fair Balanced and Understandable view of the Group's performance, cash flows and financial position. IAS 1, Presentation of Financial Statements, requires the separate presentation of items that are material in nature or scale in order to allow the user of the accounts to understand underlying business performance. In management's opinion, the adjusting items below are material items that require separate disclosure and adjustment to allow the user of the accounts to understand the underlying business performance. Adjusting items are reviewed by both the Audit and the Remuneration Committee's, each time they arise, to ensure that they are appropriately categorised and disclosed and to understand their impact on executive and senior management incentive schemes which use Alternative Performance Measures when setting and evaluating targets.

The amortisation of acquired intangibles is a non-cash accounting charge driven by acquisition-based growth as opposed to Adjusted organic* growth (organic growth is considered below). An alternative view could be that the charge should be included in underlying results to reflect the "cost" of an acquisition in the Income Statement. All things considered, including the similar treatment by comparator companies, the Directors have concluded that this item is validly disclosed as an adjusting item. The same logic applies to the non-cash unwinding of discounts on deferred and contingent acquisition consideration.

Individually Significant Items are considered separately in note 6. The Directors consider share-based payments to be a valid adjusting item on the basis that fair values are volatile due to movements in share price which may not be reflective of the underlying performance of the Group.

3 Alternative performance measures continued

Adjusted EBITDA and Adjusted operating profit

The reconciliation of Adjusted operating profit* and Adjusted* EBITDA to reported profit or loss before tax is shown below:

	2018 £m	2017 £m
Adjusted EBITDA from continuing operations	**42.5**	33.0
Depreciation	**(6.2)**	(4.9)
Amortisation of software and capitalised development costs	**(5.3)**	(2.6)
Adjusted operating profit from continuing operations	**31.0**	25.5
Amortisation of acquired intangible assets	**(9.4)**	(10.3)
Individually Significant Items (note 6)	**(7.6)**	(57.6)
Share-based payments	**(0.3)**	(0.5)
Interest expense	**(1.5)**	(1.4)
Discount on acquisition consideration	**(0.3)**	(0.5)
Profit before tax from continuing operations	**11.9**	(44.8)

The calculation of Adjusted* EPS follows the same logic shown above in respect of Adjusted* EBITDA and Adjusted operating profit* but also includes the impact of taxation and any one-off taxation items. The calculation of Adjusted* EPS is shown in note 12.

Adjusted organic growth

Adjusted organic* growth is used to convey the amount of revenue growth that has been delivered by management through their controllable actions in the day to day running of the business. It therefore excludes growth delivered through the impact of acquisitions or disposals and also the strategic decision to exit the sale of third party products as each of these are considered to be the result of corporate activity rather than day to day operating activities. Finally, it also excludes the translational impact of changes in weighted average foreign exchange rates as these are outside of management control. The foreign exchange impact is calculated by applying the current year weighted average foreign exchange rates to the prior year revenues denominated in foreign currencies and is the difference between that calculation and the sterling equivalent reported with in the FY2017 Annual Report and Accounts. The prior year is adjusted for a correction in the application of revenue recognition in Escrow which were included in the Annual Report and Accounts in the prior year.

The calculation of Adjusted organic* growth is set out on page 27 for the Group and the two divisions.

Cash conversion ratio

The cash conversion ratio* is a measure of how effectively Adjusted operating profit* (refer above) is converted into cash and effectively highlights both non-cash accounting items within operating profit* and also movements in working capital. It is calculated as Net cash flow from operating activities before interest and tax (which is disclosed on the face of the cash flow statement) divided by Adjusted* EBITDA (which is one of the Group's APM described above). The cash conversion ratio* is used by many comparable companies in our sector and hence is disclosed to show the quality of cash generation and also to allow comparison to other similar companies.

The calculation of the cash conversion ratio* is set out below:

Continuing and discontinued	2018 £m	2017 £m
Net operating cash flow before interest and tax (A) (Consolidated statement of cash flows)	**39.5**	31.7
Adjusted* EBITDA (B) (see below)	**44.0**	36.2
Cash conversion ratio* (%) (A)/(B)	**90%**	87%

Adjusted EBITDA for continuing operations is £42.5m, see above, and from discontinued operations is £1.5m, total £44.0m (2017: £33.0m, £3.2m, and £36.2m respectively.

Notes to the financial statements

FOR THE YEAR ENDED 31 MAY 2018

3 Alternative performance measures continued

Net debt

Net debt is defined as total cash and cash equivalents less interest bearing loans. Both of these amounts are shown in the Statement of financial position. This APM is used to convey the overall net indebtedness of the Group and to assess the Group's overall gearing.

	2018 £m	2017 £m
Cash and cash equivalents (Consolidated statement of financial position)	**21.2**	12.3
Interest-bearing loans (notes 9, 19 and 23)	**(49.0)**	(56.0)
Net Debt	**(27.8)**	(43.7)

Net debt, when compared to available borrowing facilities, also gives an indication of available financial resources to fund potential future investments.

4 Segmental information

The Group is organised into the following two (2017: two) reportable segments, Escrow and Assurance. The two reporting segments provide distinct types of service while within each of the reporting segments, the operating segments provide a homogeneous group of services. The operating segments are grouped into the reporting segments on the basis of how they are reported to the Chief Operating Decision Maker (CODM) for the purposes of IFRS 8: "Operating Segments", who is considered to be the Board of Directors of NCC Group. Operating segments are aggregated into the two reportable segments based on the types and delivery methods of services they provide, common management structures, and their relatively homogenous commercial and strategic market environments. Performance is measured based on reporting segment profit, which comprises reporting segment operating profit* excluding amortisation of acquired intangible assets, share-based payment charges and Individually Significant Items. Interest and tax are not allocated to business segments and there are no intra-segment sales.

Segmental analysis 2018

	Escrow £m	Assurance £m	Central & Head Office £m	Group £m
Revenue	38.8	194.4	–	233.2
Cost of sales	(9.2)	(127.9)	–	(137.1)
Gross profit	29.6	66.5	–	96.1
Gross profit %	*76.3%*	*34.2%*	*0.0%*	*41.2%*
G&A* before adjusting items	(3.9)	(34.6)	(26.6)	(65.1)
Central cost reallocation	(4.1)	(14.9)	19.0	–
Adjusted operating profit*	**21.6**	**17.0**	**(7.6)**	**31.0**
Adjusting items (note 3)	0.2	(12.5)	(5.0)	(17.3)
Operating profit*	**21.8**	**4.5**	**(12.6)**	**13.7**

4 Segmental information continued

Segmental analysis 2017

Restated (see note below)	Escrow £m	Assurance £m	Central & Head Office £m	Group £m
Revenue	37.2	178.1	–	215.3
Cost of sales	(10.5)	(126.6)	–	(137.1)
Gross profit	26.7	51.5	–	78.2
Gross profit %	*71.8%*	*28.9%*	*0.0%*	*36.3%*
G&A before adjusting items	(3.7)	(30.8)	(18.2)	(52.7)
Central cost reallocation	(2.8)	(10.3)	13.1	–
Adjusted operating profit*	20.2	10.4	(5.1)	25.5
Adjusting items (note 3)	(1.0)	(63.9)	(3.5)	(68.4)
Operating profit*	19.2	(53.5)	(8.6)	(42.9)

* The segmental figures above for central cost allocations have been restated to be on the same basis as the current year allocation to give a more accurate picture of the underlying result and movement between years. The reallocation rationale is explained on page 29. Management consider that the revised reallocation rationale is appropriate to the prior year given that the overall Group result is unchanged by this. However, the Escrow operating profit* in last year's accounts was reported as £18.1m, Assurance was a loss of £55.6m, Domain Services a loss of £4.2m and Central and head office recorded a loss of £11.7m, totalling a loss of £53.4m. This included a loss on Discontinued operations (including Domain Services) of £10.5m.

There are no customer contracts which account for more than 10% of segment revenue.

	2018 £m	2017 £m
Revenue by geographical destination		
UK	**100.3**	102.0
US	**68.4**	60.4
Europe and RoW	**64.5**	52.9
Total revenue from continuing operations	**233.2**	215.3
Revenue from discontinued operations	**21.5**	29.2
Total revenue	**254.7**	244.5

	2018 £m	2017 £m
Revenue by category		
Sale of goods	**9.8**	23.8
Revenue from services	**223.4**	191.5
Total revenue	**233.2**	215.3

5 Discontinued operations

In July 2017, the Group also announced its intention to sell Web Performance and Software Testing, both part of the Assurance division but not aligned to the core cyber security activities of the division. The Web Performance business was sold on 28 March 2018. The Software Testing business was sold on 24 May 2018. The results of these businesses have been classified as discontinued operations. The comparative consolidated statement of profit or loss and OCI have been re-presented to show the discontinued operations separately from continuing operations. In January 2017, in the prior financial year, the Group sold Open Registry, part of the Domain Services division and it too has been shown as a discontinued operation.

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5 Discontinued operations continued

The tables below provide an analysis of discontinued operations for revenue, EBITDA and profit before tax as these are considered to be the most relevant to understanding underlying business performance.

(Loss)/profit of discontinued operations	2018 £m	2017 £m
Revenue	21.5	29.2
Cost of sales	(17.2)	(22.9)
Gross profit	4.3	6.3
General administrative expenses	(3.6)	(4.3)
Individually Significant Items*	–	(13.4)
Share-based payments	0.1	(0.3)
Operating profit*/(loss)	0.8	(11.7)
(Loss)/gain on sale of discontinued operations before tax	(6.4)	1.2
Loss on discontinued operations before tax	(5.6)	(10.5)
Taxation	0.1	0.8
Loss on discontinued operations after tax	(5.5)	(9.7)

* Individually Significant Items are shown in note 6.

Effect of discontinued operations on assets and liabilities*	2018 £m	2017 £m
Intangible assets	6.2	4.7
Plant and equipment	0.5	0.6
Trade and other receivables	4.5	8.6
Cash and cash equivalents	0.7	1.9
Trade and other payables	(5.8)	(11.5)
Net assets/(liabilities)	6.1	4.3

* Comprising Web Performance and Software Testing for FY17 and FY18 and Open Registry in FY17.

Cash flows from (used in) discontinued operations*	2018 £m	2017 £m
Net cash from/(used) in operating activities	1.1	(1.3)
Net cash from/(used) in investing activities	(1.4)	1.2
Consideration received, satisfied in cash	11.3	1.7
Cash and cash equivalents, disposed of	(0.7)	(1.9)
Net cash used in operating activities	–	(1.5)
Net cash flows for the year	10.3	(1.8)

* Comprising Open Registry, Web Performance and Software Testing for FY17 and FY18.

5 Discontinued operations continued

Summary of gain/(loss) on disposal of subsidiary	2018 £m	2017 £m
Consideration received or receivable:		
Cash consideration	**11.3**	1.7
Fair value of contingent consideration	**–**	1.5
Total disposal consideration	**11.3**	3.2
Carrying amount of net assets disposed of	**(6.1)**	0.2
Elimination of goodwill	**(10.2)**	(2.1)
Professional fees and other costs	**(1.4)**	(0.1)
(Loss)/gain on disposal before tax	**(6.4)**	1.2
Taxation	**–**	–
(Loss)/gain on disposal after tax	**(6.4)**	1.2

6 Individually Significant Items

The Group separately identifies items as Individually Significant Items. Each of these is considered by the Directors to be sufficiently unusual in terms of nature or scale so as not to form part of the underlying performance of the business. They are therefore separately identified and excluded from adjusted results (as explained in note 3).

Individually Significant Items (ISIs)	2018 £m	2017 £m
Loss-making contract	**(2.5)**	–
Revisions to deferred and contingent consideration	**(0.6)**	(2.9)
Restructuring costs	**(1.6)**	(1.3)
Onerous leases and other property-related costs	**(2.7)**	(2.2)
Market-related costs	**(0.2)**	–
Impairment of goodwill	**–**	(48.6)
Acquisition costs	**–**	(0.8)
Vacation pay catch-up provision	**–**	(1.8)
Total ISIs – continuing operations	**(7.6)**	(57.6)
Impairment of goodwill	**–**	(5.7)
Impairment of other intangible assets	**–**	(7.7)
Total ISIs – discontinued operations	**–**	(13.4)
Total all ISIs	**(7.6)**	(71.0)

Current period

The onerous contract represents a loss-making contract which was identified through a review conducted by management in the year, whereby it was considered that significant additional effort would be required to satisfy the contractual commitments that led to the contract being estimated to be loss making over its lifetime. The Group has a very small number of long-term contracts and hence this is a very unusual occurrence for the Group. It was therefore deemed, both in terms of its unusual nature and size that it should be treated as an ISI.

Adjustments to deferred and contingent consideration were in respect of FX movements as no adjustments to expected payments were made in the period. The Group treats any change in deferred or contingent consideration that is driven by changes in foreign exchange rates as an ISI because

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6 Individually Significant Items continued

this is unconnected to business performance. Other changes in deferred and contingent consideration are treated as an ISI as they relate to acquisition activity which is not part of the underlying performance of the business.

Restructuring costs are significant and are driven primarily by the Strategic Review and hence are treated as an ISI given the one off nature of the Strategic Review and the level of the costs.

Following a review of the UK property portfolio and capacity requirements, management identified two onerous property leases which were either unutilised or significantly under-utilised. The amount provided for represents the forecasted discounted net cash flows, after allowing for estimated income from subletting. Both properties were vacant and not in use as at 31 May 2018. In addition, double running costs of the Manchester head office, prior to occupancy, are also included here. These costs are treated as an ISI because they arise in connection with unoccupied properties and this is not considered to be part of the underlying performance of the business.

Market-related costs in the period were in respect of the shareholder circular and exercise to remediate a number of invalid dividends. This exercise completed successfully at the September EGM. The correction of invalid dividends being paid in the prior year by means of a shareholder circular is a highly unusual (one-off) occurrence and hence while small in scale was deemed not to form part of the underlying business performance.

Prior period

A goodwill impairment of £48.6m was recognised in respect of the CGUs for Fox-IT Holdings BV and Accumuli plc. The Fox and former Accumuli businesses (the latter now known as MSS) had underperformed compared to our original acquisition forecasts and also encountered integration challenges that have slowed the pace of commercial leverage of the different new service and product lines across the rest of the Group. The other Individually Significant Items are disclosed more fully in the prior year Annual Report and Accounts.

7 Expenses and auditors' remuneration

	2018 £m	2017 £m
Profit/(loss) before taxation is stated after charging/(crediting):		
Amounts receivable by auditors and their associates in respect of:		
Audit of these financial statements	**0.2**	0.1
Audit of financial statements of subsidiaries pursuant to legislation	**0.1**	0.1
Total audit*	**0.3**	0.2
Depreciation of property, plant and equipment (note 13)	**6.5**	5.2
Impairment of fixtures and fittings* (note 13)	**–**	0.9
Amortisation and other amounts written off intangible fixed assets:		
Amortisation of development costs (note 14)	**2.4**	1.5
Amortisation of software costs (note 14)	**2.9**	2.0
Amortisation of acquired intangibles (note 14)	**9.4**	10.3
Impairment of goodwill* (note 14)	**–**	54.3
Impairment of capitalised development costs*	**–**	5.7
Impairment of software costs*	**–**	2.0
Foreign exchange losses/(gains)	**0.6**	(0.6)
Operating lease rentals charged:		
– Hire of property, plant and equipment	**1.3**	3.2
– Other operating leases	**4.5**	1.6
Research and development expenditure	**0.5**	1.7
Loss/(profit) on sale of subsidiary companies (included within adjusting items, notes 3, 5)	**6.4**	(1.2)
Profit/(loss) on disposal of plant and equipment	**0.1**	(0.1)

*The only non-audit service provided by the auditor was the half year review for which the fee was £27,500 (2017: £17,500).

8 Staff numbers and costs

Directors' emoluments are disclosed in the Remuneration Committee report. Total aggregate emoluments of the Directors in respect of 2018 were £1.0m (2017: £1.2m). Employer contributions to pensions for Executive Directors for qualifying periods were £nil (2017: £0.1m). The aggregate net value of share awards granted to the Directors in the period was £0.3m (2017: £0.1m). The net value has been calculated by reference to the closing mid-market price of the Company's shares on the day before the date of grant. During the year, no share options were exercised by Directors (2017: 89,804 with a market value of £0.3m).

Group

The average monthly number of persons employed by the Group during the year, including Directors' is analysed by category as follows:

	Number of employees	
	2018	**2017**
Operational	**1,113**	1,042
Administration, sales and marketing	**700**	655
	1,813	1,697

The actual number of employees was significantly lower at the year end following the disposals of Web Performance and Software Testing. The aggregate payroll costs of these persons were as follows:

	2018 £m	**2017 £m**
Wages and salaries	**134.0**	118.2
Share-based payments (note 25)	**0.3**	0.6
Social security costs	**9.0**	11.7
Other pension costs (note 30)	**3.2**	5.8
	146.5	136.3

9 Net financing costs

	2018 £m	**2017 £m**
Interest payable on bank loans and overdrafts	**1.5**	1.4
Unwinding discount on deferred and contingent consideration	**0.3**	0.5
Financial expenses	**1.8**	1.9

The unwinding of discount on deferred and contingent consideration payable relates to future payments for the historical acquisitions of subsidiary companies where the future payments have been discounted to their present value.

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10 Taxation

Recognised in the income statement

	2018 £m	2017 £m
Current tax expense		
Current year	**2.4**	3.1
Adjustment to tax expense in respect of prior periods	**(0.6)**	–
Impact of prior year US R&D tax credits	**(0.2)**	–
Foreign tax	**1.8**	0.9
Total current tax	**3.4**	4.0
Deferred tax expense		
Origination and reversal of temporary differences	**(2.3)**	(1.9)
Reduction in tax rate	**(0.6)**	(0.4)
Recognition of previously unrecognised tax losses	**–**	–
Recognition of previously unrecognised/(de-recognition of previously recognised) deductible timing differences	**1.3**	0.4
Impact of prior year US R&D tax credits	**(2.3)**	–
Total deferred tax	**(3.9)**	(1.9)
Tax expense/(benefit) on continuing operations	**(0.5)**	2.1

Reconciliation of effective tax rate

	2018 £m	2017 £m
Profit/(loss) before taxation	**11.9**	(44.8)
Current tax using the UK corporation tax rate of 19.00% (2017: 19.83%)	**2.3**	(8.9)
Effects of:		
Items not taxable for tax purposes	**(0.5)**	10.6
Adjustment to tax charge in respect of prior periods	**0.9**	(0.2)
Impact of prior year US R&D tax credits	**(2.5)**	–
Differences between overseas tax rates	**1.4**	0.4
Movements in temporary differences not recognised	**(1.5)**	0.6
Effect of rate change	**(0.6)**	(0.4)
Total tax expense/(benefit) on continuing operations	**(0.5)**	2.1

Current and deferred tax recognised directly in equity was a credit of £0.2m (2017: charge of £0.2m). The UK Government enacted Finance Act 2016 in September 2016 including provisions to reduce the main rate of corporation tax to 17% with effect from 1 April 2020. Accordingly, the UK deferred tax balances have been revalued in these accounts where relevant.

10 Taxation continued

The United States Tax Cuts and Jobs Act was enacted on 22 December 2017 and included several provisions that impact NCC Group. Notably a reduction in the US federal rate of corporate income tax from 35% to 21% (effective 1 January 2018), which has impacted the FY18 tax charge primarily due to a re-valuation of deferred tax assets and liabilities relating to US operations. The Group FY18 tax charge has also been affected by a significant R&D tax credit claim in the US, which is discussed further in the Group Performance Review and Audit Committee report.

The net deferred tax liability in the year fell from £10.0m to £5.3m, primarily as a result of the cut in the US Federal tax rate from 35% to 21% in the year.

11 Dividends

	2018 £m	2017 £m
Dividends paid and recognised in the year	**12.8**	12.8
Dividends proposed but not recognised in the year	**8.7**	8.7
Dividends per share paid and recognised in the year	**4.65p**	4.65p
Dividends per share proposed but not recognised in the year	**3.15p**	3.15p

12 Earnings per share (EPS)

The calculation of Adjusted* EPS for continuing operations only is based on the following:

	2018 £m	2018 £m	2017 £m	2017 £m
Profit/(loss) for year for total operations		**6.9**		(56.6)
Loss for the year for discontinued operations		**5.5**		9.7
Profit/(loss) for the year for continuing operations		**12.4**		(46.9)
Amortisation of acquired intangible assets (note 14)	**9.4**		10.3	
Individually Significant Items (note 6)	**7.6**		57.6	
Unwinding of discount (note 9)	**0.3**		0.5	
Share-based payments (note 25)	**0.3**		0.5	
Tax arising on the above items	**(5.6)**		(4.8)	
Deferred tax recognised on US R&D tax credits	**(2.3)**		–	
Impact of US rate changes not accounted for in ISIs	**0.8**			
		10.5		64.1
Adjusted* profit from continuing operations used for Adjusted* EPS		**22.9**		17.2
Loss from discontinued operations		**(5.5)**		(9.7)
Adjusted* profit from all operations		**17.4**		7.5

	Number of shares m	Number of shares m
Basic weighted average number of shares in issue	**277.0**	276.3
Dilutive effect of share options	**2.3**	–
Diluted weighted average shares in issue	**279.3**	276.3

For the purposes of calculating the dilutive effect of share options, the average market value is based on quoted market prices for the period during which the options are outstanding.

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13 Plant and equipment

	Computer equipment £m	Plant and equipment £m	Fixtures and fittings £m	Motor vehicles £m	Total £m
Cost:					
At 1 June 2016	18.6	0.4	12.2	0.5	31.7
Additions	4.2	0.1	6.6	0.1	11.0
Acquired as part of business combination	0.5	–	–	–	0.5
Disposals	(0.3)	(0.4)	(0.2)	(0.2)	(1.1)
Movement in foreign exchange rates	0.8	–	1.0	–	1.8
At 31 May 2017	**23.8**	**0.1**	**19.6**	**0.4**	**43.9**
Additions	2.3	0.1	5.3	–	7.7
Disposals	(8.8)	–	(4.3)	–	(13.1)
Movement in foreign exchange rates	–	–	(0.2)	–	(0.2)
At 31 May 2018	**17.3**	**0.2**	**20.4**	**0.4**	**38.3**
Depreciation:					
At 1 June 2016	12.9	0.4	5.5	0.2	19.0
Charge for year	3.3	–	1.9	–	5.2
Impairment	–	–	0.9	–	0.9
Acquired as part of business combination	0.4	–	–	–	0.4
Disposals	(0.3)	(0.4)	(0.2)	(0.1)	(1.0)
Movement in foreign exchange rates	0.6	–	0.4	–	1.0
At 31 May 2017	**16.9**	**–**	**8.5**	**0.1**	**25.5**
Charge for year	3.9	0.2	2.3	0.1	6.5
Disposals	(8.0)	–	(4.3)	–	12.3
Movement in foreign exchange rates	(1.2)	–	0.4	–	(0.8)
At 31 May 2018	**11.6**	**0.2**	**6.9**	**0.2**	**18.9**
Net book value:					
At 31 May 2018	**5.7**	**–**	**13.5**	**0.2**	**19.4**
At 31 May 2017	6.9	0.1	11.1	0.2	18.3

14 Intangible assets

	Software £m	Development costs £m	Customer contracts and relationships £m	Goodwill £m	Total £m
Cost:					
At 1 June 2016	27.0	4.2	76.2	236.2	343.6
Acquisitions through business combinations	–	–	7.7	12.1	19.8
Reclassification	(11.1)	11.1	–	–	–
Additions – internally developed	3.7	3.7	–	–	7.4
Disposals of subsidiaries/disposals	–	(0.1)	(3.4)	–	(3.5)
Effects of movements in exchange rates	0.6	0.4	6.5	16.6	24.1
At 31 May 2017	**20.2**	**19.3**	**87.0**	**264.9**	**391.4**
Additions – internally developed	2.5	2.5	–	–	5.0
Disposal of subsidiaries/disposals	(3.0)	(10.9)	0.1	(9.8)	(23.6)
Effects of movements in exchange rates	–	–	(0.5)	(1.7)	(2.2)
At 31 May 2018	**19.7**	**10.9**	**86.6**	**253.4**	**370.6**
Accumulated amortisation and impairment losses:					
At 1 June 2016	9.3	–	25.1	11.9	46.3
Reclassification	(2.1)	2.1	–	–	–
Charge for year	2.0	1.5	10.3	–	13.8
Impairment charge	2.0	5.7	–	54.3	62.0
Effects of movements in exchange rates	–	(0.2)	1.9	–	1.7
At 31 May 2017	**11.2**	**9.1**	**37.3**	**66.2**	**123.8**
Reclassification	–	–	–	–	–
Charge for year	2.9	2.7	9.4	–	15.0
Impairment charge	–	–	–	–	–
Disposals of subsidiaries/disposals	(2.1)	(6.0)	0.1	–	(8.0)
Effects of movements in exchange rates	–	–	(0.2)	–	(0.1)
At 31 May 2018	**12.0**	**5.8**	**46.6**	**66.2**	**130.6**
Net book value:					
At 31 May 2018	**7.7**	**5.1**	**40.0**	**187.2**	**240.0**
At 31 May 2017	9.0	10.2	49.7	198.7	267.6

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14 Intangible assets continued

Cash-generating units (CGUs): Goodwill and intangible assets are allocated to CGUs in order to be assessed for potential impairment. CGUs are defined by accounting standards as the lowest level of asset groupings that generate separately identifiable cash inflows that are not dependent on other CGUs. Following the Strategic Review, the Directors have reconsidered the CGUs within the Group. The CGUs and the allocation of goodwill to those CGUs is shown in the table below. The table also includes the discount rate used to assess the NPV of the future cash flows of each CGU:

Cash-generating units	Goodwill 2018 £m	Goodwill 2017 £m
Escrow UK	**22.9**	222.9
Escrow Europe	**7.4**	8.3
Escrow USA	**8.0**	7.3
Total Escrow	**38.3**	38.5
Assurance UK: Professional Services	**33.0**	18.5
Assurance US: Professional Services	**27.0**	28.1
PSC	**9.5**	9.8
VSR	**2.2**	2.3
Assurance Netherlands	**63.0**	62.7
Assurance UK: MSS	**14.1**	28.6
Web Performance (disposed of in 2018)	**–**	2.2
Software Testing (disposed of in 2018)	**–**	8.0
Total Assurance	**148.8**	160.2
Total Group	**187.1**	198.7

The CGUs are unchanged on the prior year save for the disposal of Web Performance and Software Testing CGUs during the year. The assessment of CGUs is a key accounting judgement as set out in note 2.

Discount rates can change relatively quickly for reasons both inside and outside management control. Those outside management direct control or influence include changes in the Group's Beta, changes in risk free rates of return and changes in Equity Risk Premia. In context, the estimated changes in risk free rates and the Group's Beta from last year to this have reduced all of the CGU discount rates by around 0.5%. Matters inside management control are the delivery of performance in line with plans or budgets and the production of high or low risk plans. In the current year, performance has on average been closer to planned performance and forward plans are considered to have a lower risk profile than prior years as forecast growth rates in revenue and margins have been moderated to reflect the need to improve internal systems and processes before higher growth could again be sustained. These factors also combine to lower the estimated discount rate for all CGUs.

When assessing impairment, the recoverable amount of each CGU is based on value-in-use calculations (VIU). VIU calculations are an area of material management estimate as set out in note 2. These calculations require the use of estimates, specifically: pre-tax cash flow projections; long-term growth rates; and a pre-tax discount rate. Cash flow projections are based on the Group's detailed annual operating plan for the forthcoming financial year which has been approved by the Board.

Assumptions have then been applied for expected revenue and margin growth forecasts for subsequent four years from the end of 2019 to 2023 (forecasts which have also been approved by the Board). These assumptions are based on management's experience of growth and knowledge of the industry sectors, markets and our own internal opportunities for growth and margin enhancement. The projections beyond five years use an estimated long-term growth rate of 2.5% (2017: 2.5%) for EBITDA. This represents management's best estimate of a long-term annual growth rate aligned to an assessment of long-term GDP growth rates. A higher sector-specific growth rate would be a valid alternative estimate. A different set of assumptions may be more appropriate in future years dependent on changes in the macroeconomic environment.

The discount rates used are based on management's calculation of the WACC using the capital asset pricing model to calculate the cost of equity. Specific rates are used for each CGU in the VIU calculation and the rates reflect management's assessment on the level of relative risk in each respective CGU. The pre-tax discount rates used in the VIU calculations are shown above.

14 Intangible assets continued

The key assumptions for each CGU are shown in the table below:

	5 year Revenue CAGR% 2018	5 year Revenue CAGR% 2017	EBITDA Margin% Growth 2018	EBITDA Margin% Growth 2017	Pre-tax discount rate 2018	Pre-tax discount rate 2017
Escrow UK	**3.1%**	3.5%	**(0.2%)**	1.8%	**12.1%**	11.4%
Escrow Europe	**2.7%**	3.5%	**(5.9%)**	1.7%	**12.3%**	11.8%
Escrow USA	**4.6%**	3.5%	**3.5%**	1.7%	**13.4%**	14.9%
Assurance UK: Professional Services	**3.4%**	8.6%	**6.3%**	5.9%	**11.9%**	12.6%
Assurance US: Professional Services	**9.7%**	8.9%	**3.3%**	7.6%	**13.4%**	14.6%
PSC	**8.6%**	19.9%	**2.6%**	3.1%	**13.4%**	14.5%
VSR	**10.2%**	22.7%	**(6.6%)**	(6.8%)	**13.4%**	14.5%
Assurance Netherlands (Fox-IT)	**12.2%**	19.1%	**12.8%**	17.8%	**14.3%**	17.0%
Assurance UK: MSS	**9.5%**	11.6%	**11.1%**	20.8%	**14.9%**	15.4%

The Directors have considered a range of sensitivities where they consider a reasonably possible change in key assumption could occur as follows:

- Revenue growth rates: in the type of high growth sector in which the Group's Assurance division operates, a significant proportion of the VIU is generated by the assumption that high growth will continue. If the revenue growth is achieved at unchanged profit margins each year then it is a very significant contributor to the terminal value, a key part of the VIU. A decrease of 10% is considered a reasonably possible change in revenue growth rates. A more significant decrease is not considered reasonably possible on the basis of the accuracy of the Group's previous revenue forecasts as in the great majority of cases, actual sales were within 10% of the forecasts.
- EBITDA margin growth: EBITDA (as a proxy for operating cash flow before changes in working capital) is also a key contributor to VIU. If revenue itself is unchanged over a period, margins can still be improved through efficiency gains or losses, which also has a significant impact on VIU. Revenue growth itself can also enhance EBITDA margins due to operational leverage achieved when costs grow at a slower rate than revenue. A change in the EBITDA growth assumption in excess of that which would be caused by a 10% fall in revenue growth is not considered by the Directors to be a reasonably possible change as they consider that cost control actions can be used to mitigate against changes in revenue.
- The discount rate for each CGU - as described above, both factors inside and outside management control impact the discount rate and 1% is considered a reasonably possible change in assumption due to changing market conditions.

EBITDA as an absolute measure is the primary cash flow driver and is directly impacted by the key assumptions relating to revenue growth and EBITDA margin. The sensitivities and their potential impacts on those CGU's where a reasonably possible change in a key assumption would lead to an impairment are shown below:

	Fox-IT	UK MSS
Surplus over carrying value of assets	£1.4m	£1.8m
Total VIU	£87.1m	£26.7m
Assumptions used in the VIU calculation		
Revenue growth CAGR	12.2%	9.5%
Change required to eliminate surplus	(0.5%)	(0.4%)
Pre-tax discount rate	14.3%	14.9%
Change required to eliminate surplus	(0.1%)	(0.9%)

The headroom in the other CGU's is significant such that reasonably possible changes in the key assumptions above would not lead to an impairment.

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14 Intangible assets continued

Development and software costs are included in the CGU asset bases and the associated discounted cash flow models. Capitalised development projects and software intangible assets are considered, on an asset by asset basis, for impairment where there are indicators of impairment. During the year, the Directors carried out a detailed strategic review of the capitalised product portfolio. This led to some specific projects being fully impaired as further development activity is not expected to continue, leading to a total impairment charge of £1.5m. For the remaining development and software assets, the Directors considered that based on forecast cashflow projections for the respective projects, the level of headroom is significant and therefore no sensitivity analysis is presented

15 Investments

	Group 2018 £m	Group 2017 £m
Interest in unlisted shares	**0.4**	0.4

The investment in unlisted shares relates to a 3.35% ordinary shareholding in an unlisted company acquired as part of the Accumuli acquisition. The investment's carrying value at acquisition date was considered appropriate as the fair value in which the Directors consider there has been no change in the year.

16 Trade and other receivables

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Trade receivables	**41.7**	40.9	**–**	–
Prepayments	**7.2**	6.6	**–**	–
Other receivables	**1.5**	1.5	**–**	–
Accrued income	**17.1**	17.7	**–**	–
Amounts owed by Group undertakings	**–**	–	**153.8**	149.5
	67.5	66.7	**153.8**	149.5

The ageing of trade receivables at the end of the reporting period was:

Group

	Gross 2018 £m	Impairment 2018 £m	Gross 2017 £m	Impairment 2017 £m
Not past due	**25.9**	**–**	19.8	–
Past due 0–30 days	**6.8**	**–**	12.1	–
Past due 31–90 days	**8.0**	**–**	7.7	–
Past due more than 90 days	**2.3**	**(1.3)**	2.0	(0.7)
	43.0	**(1.3)**	41.6	(0.7)

The Company had no trade receivables (2017: £nil).

The Group establishes a provision for impairment that represents its estimate of incurred losses in respect of specific trade receivables. The aging profile of trade receivables improved significantly during the year with the proportion of debt not past due rising from 47.6% to 60.8% due to improved collections processes. The provision basis was updated in the current year to include a specific provision for the statistically normal rate of default by customers.

16 Trade and other receivables continued

The movement in the provision for impairment was:

	Group 2018 £m	Group 2017 £m
Balance at 1 June	**(0.7)**	(0.7)
(Created)/utilised in the year	**(0.7)**	–
Balance at 31 May	**(1.4)**	(0.7)

17 Inventory

	Group 2018 £m	Group 2017 £m
IT hardware for resale	**0.8**	1.1

The majority of inventory represents stock of sensors for use in our Managed Security Services businesses which turns relatively rapidly and hence there is limited risk of obsolescence. In addition, the Group holds stock of certain critical components for key customers of our own product sales (as opposed to third party sales).

18 Deferred tax assets and liabilities (Group)

Recognised deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Plant and equipment	**–**	–	**(0.5)**	(1.9)	**(0.5)**	(1.9)
Short–term temporary differences	**3.3**	1.4	**–**	–	**3.3**	1.4
Intangible assets	**–**	–	**(9.3)**	(12.3)	**(9.3)**	(12.3)
Share–based payments	**0.5**	0.3	**–**	–	**0.5**	0.3
Tax losses	**0.7**	2.5	**–**	–	**0.7**	2.5
Deferred tax asset/(liability)	**4.5**	4.2	**(9.8)**	(14.2)	**(5.3)**	(10.0)

Movement in deferred tax during the year:

	1 June 2017 £m	Recognised in income £m	Exchange differences £m	Recognised in equity £m	Disposals £m	31 May 2018 £m
Plant and equipment	(1.9)	1.5	–	–	(0.1)	**(0.5)**
Short–term temporary differences	1.4	1.9	–	–	–	**3.3**
Intangible assets	(12.3)	2.3	(0.1)	–	0.8	**(9.3)**
Share–based payments	0.3	0.1	–	0.2	(0.1)	**0.5**
Tax losses	2.5	(1.8)	–	–	–	**0.7**
	(10.0)	4.0	(0.1)	0.2	0.6	**(5.3)**

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18 Deferred tax assets and liabilities (Group) continued

	1 June 2016 £m	Recognised in income £m	Exchange differences £m	Recognised in equity £m	Acquisitions £m	31 May 2017 £m
Plant and equipment	(2.2)	0.3	–	–	–	(1.9)
Short-term temporary differences	1.8	(0.4)	–	–	–	1.4
Intangible assets	(13.3)	3.1	(0.9)	–	(1.2)	(12.3)
Share-based payments	0.8	(0.1)	–	(0.4)	–	0.3
Tax losses	2.7	(0.2)	–	–	–	2.5
	(10.2)	2.7	(0.9)	(0.4)	(1.2)	(10.0)

The Group has recognised a deferred tax asset of £0.7m (2017: £2.5m) on tax losses as management consider it probable that future taxable profits will be available against which it can be utilised. The Group has not recognised a deferred tax asset on £10.4m (2017: £6.2m) of tax losses carried forward due to uncertainties over their future recovery. The Group has recognised a deferred tax asset in respect of R&D tax claims submitted in the USA that are expected to be fully utilised within one year. The amount recognised has been discounted to reflect a modest risk to the total amount claimed.

Included in recognised and unrecognised tax losses are losses of £0.5m that will expire in 2034 (2017: £2.9m). Other losses may be carried forward indefinitely.

No deferred tax liability is recognised on temporary differences of £nil (2017: £nil) relating to the unremitted earnings of overseas subsidiaries as the Group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future.

19 Trade and other payables

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Trade payables	**8.1**	4.3	**–**	–
Non-trade payables	**7.4**	6.7	**–**	–
Accruals	**20.2**	18.7	**–**	–
	35.7	29.7	**–**	–

20 Provisions

	Lease incentives £m	Loss making contracts £m	Onerous leases £m	Total £m
Balance as at 1 June 2017	5.0	–	–	5.0
Provisions arising in the year	1.7	2.6	2.4	6.7
Provisions utilised during the year	(0.8)	(1.6)	(0.4)	(2.8)
Balance as at 31 May 2018	**5.9**	**1.0**	**2.0**	**8.9**
Non-current	5.5	(1.0)	1.8	6.3
Current	0.4	2.0	0.2	2.6

Property provisions of £5.9m represent capital contributions of £3.5m towards fit-out costs on the new Manchester Head Office building and a rent-free allowance of £2.8m which are being amortised over the period of the lease.

The loss-making contract represents the estimated remaining net lifetime loss on a long-term development and supply contract. This is explained in more detail in note 2. The provision will be utilised over the remaining period of the contract which is expected to be completed in 2020. The provision includes an estimation of hours to complete, which if increased by 10% would increase the provision by £0.3m.

20 Provisions continued

The onerous lease provisions arose due to vacant premises in Reading (£0.4m) and an unused floor in the Manchester head office building (£1.6m). The Reading provision will be utilised over the next three years and the Manchester provision will be utilised over the next ten years. In the discounted cash flow model, cash outflows are discounted at 2.6% and cash inflows at 6.1%. A 1% change in the discount rate on the cash outflows increases the provision by £0.2m. At present the Directors do not consider that void or rent free periods could be significantly longer than those already assumed in calculating the provisions. Hence a material change in the provision is not considered reasonably likely to happen.

21 Deferred revenue

	Group 2018 £m	Group 2017 £m
Deferred revenue	**29.0**	35.6

Deferred revenue consists of: Escrow agreements £13.9m (2017: £13.5m), Assurance contracts £15.1m (2017: £19.2m), Website monitoring and load testing agreements of £nil (2017: £2.9m). The revenue has been deferred and will be released to the income statement over the contract term in accordance with the Group's accounting policy. This will be largely unchanged under IFRS 15.

22 Outstanding consideration on acquisitions

As disclosed in note 32, the deferred consideration was paid in full in June 2018. The balances presented above are presented at the fair value of the amounts payable in respect of contingent consideration is stated at the maximum amount payable as it is believed that on current trading performance and trends the full amount will be due. The first tranches of contingent consideration were paid in full during the year.

	2018			2017		
	Deferred £m	Contingent £m	Total £m	Deferred £m	Contingent £m	Total £m
Current	**9.9**	**2.0**	**11.9**	10.9	2.0	12.9
Non-current	**–**	**–**	**–**	–	2.1	2.1
Total	**9.9**	**2.0**	**11.9**	10.9	4.1	15.0

23 Non-current liabilities

	Group 2018 £m	Group 2017 £m
Secured and interest-bearing bank loan	**49.0**	56.0
Deferred tax (note 18)	**9.8**	14.2
Consideration on acquisitions (note 22)	**–**	2.1
Provisions (note 20)	**6.3**	3.5
Total non-current liabilities	**65.3**	75.8

For more information about the contractual terms of the Group's interest-bearing secured bank loan, see note 24.

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24 Financial instruments

Financial risk management

The Group has exposure to the followings risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Currency risk
- Interest rate risk

The Board has overall responsibility for establishing appropriate management of exposure to risk. The Audit Committee oversees how management identify and address risks to the Group.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt* divided by total capital. Net debt* is calculated as total interest-bearing loans as shown in the consolidated balance sheet, less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt*. As at 31 May 2018 the Group's gearing ratio was 11.8% (2017: 17.1%).

The contingent consideration on acquisitions reflects the estimated cash outflows and is discounted using a risk-adjusted discount rate.

Financial instruments policy

All instruments utilised by the Company and Group are for financing purposes. The financial management and treasury activities of the Group are controlled centrally for all operations with local finance teams responsible for day-to-day banking activities.

Fair value of financial instruments

As at 31 May 2018 the Group and Company had no other financial instruments other than those disclosed below. The carrying value of contingent consideration on acquisitions, held at the year end, is valued using a level 3 valuation method as defined by IFRS 13 Fair Value measurement. There have been no transfers between levels in the year.

The following table presents the Group's financial assets and liabilities that are measured at fair value by level of fair value hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The loan is held at amortised cost which is considered to equate to fair value. All other assets and liabilities are held at either fair value or their carrying value which approximates to fair value.

	2018			2017		
	Level 1 £m	Level 2 £m	Level 3 £m	Level 1 £m	Level 2 £m	Level 3 £m
Investments	**–**	**0.4**	**–**	–	0.4	–
Trade receivables	**41.7**	**–**	**–**	(40.9)	–	–
Other receivables	**–**	**1.5**	**–**	–	1.5	–
Cash and cash equivalents	**21.2**	**–**	**–**	(12.3)	–	–
Interest-bearing loans	**–**	**49.0**	**–**	–	(56.0)	–
Trade and other payables	**(35.7)**	**–**	**–**	(29.7)	–	–
Deferred consideration	**(9.9)**	**–**	**–**	**(10.9)**	–	–
Contingent consideration	**–**	**–**	**(2.0)**	–	–	(4.1)

A reconciliation of level 3 fair values is displayed in the following table:

24 Financial instruments continued

	Contingent consideration
Balance at 1 June 2017	4.1
Unwinding of discount	0.1
Payments made	(2.1)
Foreign exchange difference	(0.1)
Balance at 31 May 2018	2.0

Credit Risk

The contingent consideration is expected to realise full pay-out based on current trading performance. Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Exposure to credit risk

The carrying value of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Trade receivables	**41.7**	40.9	**–**	–
Cash and cash equivalents	**21.2**	12.3	**–**	–
	62.9	53.2	**–**	–

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

Debtors by geographical segment	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
UK	**23.4**	21.6	**–**	–
USA	**10.7**	10.9	**–**	–
Rest of Europe	**6.4**	6.4	**–**	–
Rest of the World	**1.2**	2.0	**–**	–
	41.7	40.9	**–**	–

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24 Financial instruments continued

The maximum exposure to credit risk at the reporting date by business segment was:

Debtors by business segment	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Group Escrow	**9.3**	8.9	**–**	–
Assurance	**32.4**	32.0	**–**	–
	41.7	40.9	**–**	–

The trade receivables of the Group typically comprise many small amounts due from a large number of customers. The Group's customer base, while concentrated largely in the UK, represents a spread of industry sectors. The largest amount due from a single customer at the reporting date represented of 2.9% of total Group receivables (2017: 8.6%). All of the Group's cash is held with financial institutions of high credit rating.

The provisions in respect of trade receivables are used to record probable impairment losses unless the Group is satisfied that no recovery of the amounts owing is possible. If the amount is considered irrecoverable, it is written off against the financial asset directly and any provision for impairment is released at the same time. The Group has a dedicated credit control team who regularly reviews customer debt balances to assess the risk of recovery. The allowance is all for debts older than 90 days (2017: older than 90 days). The ageing of Group debt and associated impairment loss is reported to the Board on a monthly basis.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risks by regular reviews of forecast and actual cash flows in line with contractual maturities of financial liabilities and the Revolving Credit Facility available. Forecast cash flows are reported to the Board on a monthly basis.

The following are the contractual maturities of financial liabilities, including interest payments, of the Group:

At 31 May 2018	Carrying amount £m	Contractual cash flows £m	6 months or less £m	6–12 months £m	1–2 years £m	2+ years £m
Secured bank borrowings	**(49.0)**	**(49.0)**	**–**	**–**	**–**	**(49.0)**
Trade and other payables	**(35.7)**	**(35.7)**	**(35.7)**	**–**	**–**	**–**
Deferred consideration	**(9.9)**	**(9.9)**	**(9.9)**	**–**	**–**	**–**
Contingent consideration	**(2.0)**	**(2.0)**	**–**	**(2.0)**	**–**	**–**
At 31 May 2017						
Secured bank borrowings	(56.0)	(56.0)	–	–	–	(56.0)
Trade and other payables	(29.7)	(29.7)	(29.7)	–	–	–
Deferred consideration	(10.7)	(10.9)	(10.9)	–	–	–
Contingent consideration	(4.1)	(4.3)	–	(2.1)	(2.1)	–

The financial liabilities of the Company all have contractual maturities within six months (2017: within six months).

24 Financial instruments continued

Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group entities. The Group's management review the size and probable timing of settlement of all financial assets and liabilities denominated in foreign currencies. The Group's exposure to currency risk is as follows:

	2018				2017			
	Sterling £m	EUR £m	USD £m	Other £m	Sterling £m	EUR £m	USD £m	Other £m
Receivables	**21.3**	**5.7**	**12.0**	**2.7**	25.1	3.6	9.9	2.2
Cash and cash equivalents	**7.4**	**2.5**	**9.8**	**1.5**	2.1	3.8	5.3	1.1
Bank borrowings	**(10.5)**	**–**	**(38.5)**	**–**	(12.4)	–	(43.6)	–
Deferred consideration	**–**	**(9.9)**	**–**	**–**	–	(10.7)	–	–
Trade and other payables	**(20.9)**	**(6.9)**	**(6.2)**	**(1.7)**	(18.4)	(6.3)	(3.6)	(1.4)

A change in exchange rate of 10% would have an impact of £11.6m on revenue, £1.7m on operating profit*, £5.0m on net assets and £3.5m on borrowings.

Interest rate risk

The Group and Company finances its operations through a mixture of retained profits and bank borrowings. The Group borrows and invests surplus cash at floating rates of interest based upon bank base rate. The financial assets of the Group at the end of the financial year were as follows:

	2018 £m	2017 £m
Sterling denominated financial assets	**7.4**	2.1
Euro denominated financial assets	**2.5**	3.8
US dollar denominated financial assets	**9.8**	5.3
Other denominated financial assets	**1.5**	1.1
Current trade and other receivables	**41.7**	40.9
	62.9	53.2

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24 Financial instruments continued

The financial assets of the Company at the end of the financial year were as follows:

	2018 £m	2017 £m
Sterling denominated financial assets	**0.1**	0.2
Amounts owed by Group undertakings	**153.8**	149.5
	153.9	149.7

A change of 100 basis points in interest rates would result in a difference in annual pre-tax profit of £0.5m (2017: £0.5m).

The financial liabilities of the Group and their maturity profile are as follows:

	2018				2017			
	Sterling £m	EUR £m	USD £m	Other £m	Sterling £m	EUR £m	USD £m	Other £m
Less than one year	**–**	**(9.9)**	**(7.0)**	**–**	–	10.9	–	–
1–2 years	**–**	**–**	**(5.0)**	**–**	–	–	2.1	–
2–3 years	**(10.5)**	**–**	**(28.5)**	**–**	–	–	2.1	–
3–5 years	**–**	**–**	**–**	**–**	12.4	–	43.6	–
Current trade and other payables	**(20.9)**	**(6.9)**	**(6.2)**	**(1.7)**	18.4	6.3	3.6	1.4

As at 31 May 2018 the Group had a funding facility comprising a multi-currency revolving credit facility of £80m (2017: £80m), a £20m multi-currency term loan (2017: £25m) and an overdraft of £5m (2017: £5m). The term loan amortises at a rate of £2.5m every six months. The interest payable on drawn down funds ranges from 0.9% to 2.0% above LIBOR subject to the Group's net debt* and interest to EBITDA ratios. At 31 May 2018 the amount drawn down under the facilities was £49m (2017: £56m). This facility was agreed in November 2015 and is due for renewal in November 2020. At the end of May 2018, the effective rate was 3.1% (2017: 2.0%).

25 Share-based payments

The Company has a number of share option schemes under which options to subscribe for the Company's shares have been granted to Directors and staff, details of which are illustrated in the tables below. Expected term of options represents the period over which the fair value calculations are based. The share-based payment charge for the year was £0.1m (2017: £0.6m).

CSOP Scheme (equity-settled)

Under the CSOP Scheme, options granted will be subject to performance criteria. Options will vest if the average EPS growth for the three years following their grant is greater than 10% per annum.

Date of grant	Expected term of options	Exercisable between	Exercise price	2018 number outstanding
July 2012	6 years	July 2015 – July 2022	£1.36	98,924
August 2015	6 years	August 2018 – August 2025	£2.45	303,135
July 2016	6 years	July 2019 – July 2026	£3.28	195,366
August 2016	6 years	August 2019 – August 2023	£3.37	59,280

Sharesave schemes (equity-settled)

The Company operates sharesave schemes, which are available to all UK and Netherlands-based employees and full-time Executive Directors of the Company and its subsidiaries who have worked for a qualifying period.

Date of grant	Expected term of options	Exercisable between	Exercise price	2018 number outstanding
August 2015	3.25 years	October 2018 – February 2019	£1.87	485,578
August 2016	3.16 years	October 2019 – March 2020	£2.62	185,425
March 2017	3 years	May 2020 – October 2020	£0.92	961,485
August 2017	3 years	May 2021 – October 2021	£1.56	1,879,497
March 2018	3 years	May 2021 – October 2021	£1.58	136,087

Employee stock purchase plan (equity-settled)

The Company operates a stock purchase plan, which is available to all US-based employees who have worked for a qualifying period. All options are to be settled by equity. Under the scheme the following options have been granted and are outstanding at year end.

Date of grant	Expected term of options	Exercisable between	Exercise price	2018 number outstanding
February 2018	1 year	February 2019	£1.69	351,035

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25 Share-based payments continued

ISO scheme (equity-settled)

Under the ISO Scheme, options granted will be subject to performance criteria. Options will vest if the average EPS growth for the three years following their grant is greater than 10% per annum.

Date of grant	Expected term of options	Exercisable between	Exercise price	2018 number outstanding
January 2013	3 years	January 2016 – January 2023	£1.48	20,338
August 2015	3 years	August 2018 – August 2025	£2.46	129,940
January 2016	3 years	January 2019 – January 2026	£3.24	19,476
July 2016	3 years	July 2019 – July 2022	£3.26	202,709

The following tables illustrate the number of share options for the schemes.

LTIP schemes (equity-settled)

The vesting condition for the award of the LTIP schemes, related to options granted July 2015 and July 2016 relates to growth in the Group's EPS over the performance period. If growth is equal to 25% or more per annum then 100% of the award will vest. If, however, growth is less than 10% per annum, none of the award will vest. Between these two points, vesting is determined on a straight-line basis.

Options granted on or after October 2017 have three separate vesting conditions as set out below:

- 60% will vest based on achieving an increase in Group EPS of 9%. If growth is equal to 20% or more per annum then 100% of the award will vest. If, however, growth is less than 9% per annum, none of the award will vest. Between these two points, vesting is determined on a straight-line basis.
- 30% will vest based on achieving a cash conversion ratio* expressed as a percentage over the measurement period is greater than 70% per annum on average. If cash conversion is greater than or equal to 80% per annum then 100% of the award will vest. If, however, cash conversion is less than 70% per annum, none of the award will vest. Between these two points, vesting is determined on a straight-line basis.
- 10% will vest based on the Group's Total Shareholder Return (TSR) ranking when measured against the FTSE250. If the Group's TSR is consistent with the median group 20% of the award will vest, below this level, none of the award will vest. If the TSR is within the upper quartile or above, 100% of the award will vest; between the median and upper quartile vesting is determined on a straight-line basis.

Date of grant	Expected term of options	Exercisable between	Exercise price	2018 number outstanding
July 2015	3 years	June 2018 – July 2019	nil*	378,289
July 2016	3 years	June 2019 – July 2020	nil*	368,808
October 2017	3 years	June 2019 – July 2021	nil*	349,626
November 2017	3 years	June 2019 – July 2021	nil*	427,004
January 2018	3 years	June 2019 – July 2021	nil*	178,601

* The option exercise price is nil; however, £1 is payable on each occasion of exercise.

25 Share-based payments continued

RSU schemes (equity-settled)

Options granted related to the RSU schemes on or after October 2017 have three separate vesting conditions as set out below:

- 60% will vest based on achieving an increase in Group EPS of 9%. If growth is equal to 20% or more per annum then 100% of the award will vest. If, however, growth is less than 9% per annum, none of the award will vest. Between these two points, vesting is determined on a straight-line basis.
- 30% will vest based on achieving a cash conversion ratio* expressed as a percentage, over the measurement period of greater than 70% per annum on average. If cash conversion is greater than or equal to 80% per annum then 100% of the award will vest. If, however, cash conversion is less than 70% per annum, none of the award will vest. Between these two points, vesting is determined on a straight-line basis.
- 10% will vest based on the Group's Total Shareholder Return (TSR) ranking when measured against the FTSE250. If the Group's TSR is consistent with the median group 20% of the award will vest, below this level, none of the award will vest. If the TSR is within the upper quartile or above, 100% of the award will vest; between the median and upper quartile vesting is determined on a straight-line basis.

The options are to be settled in equity.

Date of grant	Expected term of options	Exercisable between	Exercise price	2018 number outstanding
November 2017	3 years	June 2019 – July 2021	£0.01	208,053
January 2018	3 years	June 2019 – July 2021	£0.01	20,058

Deferred share scheme (equity-settled)

Date of grant	Expected term of options	Exercisable between	Exercise price	2018 number outstanding
July 2016	1 year	July 2018 – July 2020	nil*	27,183

* The option exercise price is nil; however, £1 is payable on each occasion of exercise.

Phantom schemes (cash-settled)

Phantom schemes were used on a temporary basis during the year to allow the grant of LTIPs to members of the Executive Committee based in certain overseas locations at a time when the Group's Option Scheme rules were not structured to allow overseas grants. This was remedied during the year and no further grants of Phantom Options are expected. The vesting conditions for the award of the Phantom schemes, related to options granted August 2016, relates to growth in the Group's EPS over the performance period. If growth is equal to 25% or more per annum then 100% of the award will vest. If, however, growth is less than 10% per annum, none of the award will vest. Between these two points, vesting is determined on a straight-line basis.

Options granted on or after October 2017 have three separate vesting conditions as set out below:

- 60% will vest based on achieving an increase in Group EPS of 9%. If growth is equal to 20% or more per annum then 100% of the award will vest. If, however, growth is less than 9% per annum, none of the award will vest. Between these two points, vesting is determined on a straight-line basis.
- 30% will vest based on achieving a cash conversion ratio* expressed as a percentage over the measurement period is greater than 70% per annum on average. If cash conversion is greater than or equal to 80% per annum then 100% of the award will vest. If, however, cash conversion is less than 70% per annum, none of the award will vest. Between these two points, vesting is determined on a straight-line basis.
- 10% will vest based on the Group's Total Shareholder Return (TSR) ranking when measured against the FTSE250. If the Group's TSR is consistent with the median group 20% of the award will vest, below this level, none of the award will vest. If the TSR is within the upper quartile or above, 100% of the award will vest; between the median and upper quartile vesting is determined on a straight-line basis.

Date of grant	Expected term of options	Exercisable between	Exercise price	2018 number outstanding
August 2016	3 years	June 2018 – July 2020	nil*	19,779
October 2017	3 years	June 2019 – July 2021	nil*	113,120
November 2017	3 years	June 2019 – July 2021	nil*	8,189

* The option exercise price is nil; however, £1 is payable on each occasion of exercise.

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FOR THE YEAR ENDED 31 MAY 2018

25 Share-based payments continued
Measurement of fair values
The fair value of services received in return for share options is calculated with reference to the fair value of the award on the date of grant. The fair value is spread over the period during which the employee becomes unconditionally entitled to the award, adjusted to reflect actual and expected levels of vesting. Black-Scholes and Binomial models have been used to calculate the fair values of options on their grant date for all options issued after 7 November 2002, which had not vested by 1 January 2005. The LTIPs, RSUs and Phantoms granted in the current year have introduced a market-based performance criteria of 10%; the Monte Carlo model has been used to calculate the fair value of this proportion of the grant.

The assumptions used in the model are illustrated in the table below:

	Grant date	Fair value at measurement date	Exercise price	Expected volatility	Option expected term	Risk-free interest rate
CSOP scheme	August 12	£0.35	£1.36	35%	6 years	2.75%
CSOP scheme	July 13	£0.25	£1.40	32%	6 years	2.75%
CSOP scheme	August 15	£1.45	£2.46	103%	6 years	2.75%
CSOP scheme	July 16	£0.65	£3.28	31%	3 years	1.50%
CSOP scheme	August 16	£0.66	£3.37	31%	3 years	1.50%
Sharesave scheme	August 14	£0.68	£1.51	32%	3.25 years	2.75%
Sharesave scheme	August 15	£1.53	£1.87	103%	3.25 years	2.75%
Sharesave scheme	August 16	£0.95	£2.62	31%	3.16 years	1.50%
Sharesave scheme	March 17	£0.43	£0.92	46.6%	3 years	1.50%
Sharesave scheme	August 17	£0.88	£1.56	47.5%	3 years	1.96%
Sharesave scheme	March 18	£0.76	£1.58	47.8%	3 years	2.20%
ESPP scheme	February 18	£0.40	£1.69	32.4%	1 year	1.82%
ISO scheme	August 15	£1.45	£2.46	103%	3 years	2.75%
ISO scheme	February 16	£1.91	£3.24	103%	3 years	2.75%
ISO scheme	July 16	£0.64	£3.26	31%	3.16 years	1.50%
LTIP	July 14	£1.92	£nil*	32%	3 years	2.75%
LTIP	July 15	£2.14	£nil*	103%	3 years	2.75%
LTIP	July 16	£2.75	£nil*	31%	3 years	1.81%
90% of LTIP under Black Scholes	October 2017	£2.22	£nil*	47.5%	3 years	1.96%
10% of LTIP under Monte Carlo	October 2017	£2.20	£nil*	47.5%	3 years	1.96%
90% of LTIP under Black Scholes	November 2017	£2.18	£nil*	47.6%	3 years	1.96%
10% of LTIP under Monte Carlo	November 2017	£2.16	£nil*	47.6%	3 years	1.96%
90% of LTIP under Black Scholes	January 2018	£1.98	£nil*	47.7%	3 years	2.00%
10% of LTIP under Monte Carlo	January 2018	£1.98	£nil*	47.7%	3 years	2.00%
90% of RSU under Black Scholes	November 2017	£2.17	£0.01	47.6%	3 years	1.96%
10% of RSU under Monte Carlo	November 2017	£2.16	£0.01	47.6%	3 years	1.96%
90% of RSU under Black Scholes	January 2018		£0.01	47.7%	3 years	2.00%
10% of RSU under Monte Carlo	January 18		£0.01	47.7%	3 years	2.00%
Phantom	July 16	£2.75	£nil*	31%	3 years	1.81%
90% of Phantom under Black Scholes	October 17	£2.22	£nil*	47.5%	3 years	1.96%
10% of Phantom under Monte Carlo	October 17	£2.20	£nil*	47.5%	3 years	1.96%
90% of Phantom under Black Scholes	November 17	£2.18	£nil*	47.6%	3 years	1.96%
10% of Phantom under Monte Carlo	November 17	£2.16	£nil*	47.6%	3 years	1.96%
Deferred shares July 2016	July 16	£3.14	£nil*	31%	3 years	1.81%

* The option exercise price is nil; however, £1 is payable on each occasion of exercise.

25 Share-based payments continued

The expected volatility has been based on an evaluation of the historical volatility of the Company's share price, particularly over the historical period commensurate with the expected term. The expected term of the instruments has been based on historical experience and general option holder behaviour. For the options granted in the year ended 31 May 2018, dividend yield assumed at the time of option grant is 2.0% (2017: 2.1%).

Reconciliation of outstanding share options

The options outstanding at 31 May 2018 have an exercise price in the range of £nil to £3.37 (2017: £nil to £3.37) and a weighted average contractual life of three years (2017: three years). The weighted average share price at the time the share options were exercised in the year was £2.14 and weighted average share price at the time the share options were forfeited in the year was £1.94.

Scheme	Number of instruments as at 1 June 2017	Instruments granted during the year	Options exercised in the year	Forfeitures in the year	**Number of instruments as at 31 May 2018**
Approved EMI scheme August 2007	10,908	–	(10,908)	–	**–**
Approved EMI scheme February 2008	2,862	–	–	(2,862)	**–**
CSOP scheme July 2012	110,780	–	(11,856)	–	**98,924**
CSOP scheme July 2013	14,252	–	(1,589)	(12,663)	**–**
CSOP scheme August 2015	325,401	–	–	(22,266)	**303,135**
CSOP scheme July 2016	234,820	–	–	(39,454)	**195,366**
CSOP scheme August 2016	59,280	–	–	–	**59,280**
Sharesave scheme August 2014	683,424	–	(670,774)	(12,650)	**–**
Sharesave scheme August 2015	614,751	–	(413)	(128,760)	**485,578**
Sharesave scheme August 2016	440,094	–	–	(254,669)	**185,425**
Sharesave scheme March 2017	1,057,848	–	–	(96,363)	**961,485**
Sharesave scheme August 2017	–	1,883,769	(4,272)	–	**1,879,497**
Sharesave scheme March 2018	–	136,087	–	–	**136,087**
ESPP scheme February 2017	592,592	–	(451,721)	(140,871)	**–**
ESPP scheme February 2018	–	351,035	–	–	**351,035**
ISO scheme January 2013	20,338	–	–	–	**20,338**
ISO scheme January 2014	30,074	–	–	(30,074)	**–**
ISO scheme January 2015	50,000	–	–	(50,000)	**–**
ISO scheme August 2015	129,940	–	–	–	**129,940**
ISO scheme January 2016	19,476	–	–	–	**19,476**
ISO scheme July 2016	202,709	–	–	–	**202,709**
LTIP July 2014	308,625	–	–	(308,625)	**–**
LTIP July 2015	378,289	–	–	–	**378,289**
LTIP July 2016	377,586	–	–	(8,778)	**368,808**
LTIP October 2017	–	349,626	–	–	**349,626**
LTIP November 2017	–	439,853	–	(12,849)	**427,004**
LTIP January 2018	–	178,601	–	–	**178,601**
RSU November 2017	–	208,053	–	–	**208,053**
RSU January 2018	–	20,058	–	–	**20,058**
Phantoms August 2016	19,779	–	–	–	**19,779**
Phantoms November 2017	–	113,120	–	–	**113,120**
Phantoms October 2017	–	8,189	–	–	**8,189**
Deferred shares July 2015	37,869	–	(37,869)	–	**–**
Deferred shares July 2016	27,183	–	–	–	**27,183**

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25 Share-based payments continued

Scheme	Number of instruments as at 1 June 2016	Instruments granted during the year	Options exercised in the year	Forfeitures in the year	Number of instruments as at 31 May 2017
Approved EMI scheme August 2007	34,825	–	(23,917)	–	**10,908**
Approved EMI scheme February 2008	2,862	–	–	–	**2,862**
CSOP scheme July 2012	157,508	–	(46,728)	–	**110,780**
CSOP scheme July 2013	28,504	–	(14,252)	–	**14,252**
CSOP scheme August 2015	325,401	–	–	–	**325,401**
CSOP scheme July 2016	–	234,820	–	–	**234,820**
CSOP scheme August 2016	–	59,280	–	–	**59,280**
Sharesave scheme August 2013	457,436	–	(406,024)	(51,412)	**–**
Sharesave scheme August 2014	1,055,822	–	(14,038)	(358,360)	**683,424**
Sharesave scheme August 2015	1,087,209	–	(13,040)	(459,418)	**614,751**
Sharesave scheme August 2016	–	897,390	–	(457,296)	**440,094**
Sharesave scheme March 2017	–	1,057,848	–	–	**1,057,848**
ESPP scheme February 2016	92,820	–	–	(92,820)	**–**
ESPP scheme February 2017	–	592,592	–	–	**592,592**
ISO scheme January 2013	40,676	–	(20,338)	–	**20,338**
ISO scheme January 2014	45,111	–	(12,549)	(2,488)	**30,074**
ISO scheme January 2015	50,000	–	–	–	**50,000**
ISO scheme August 2015	142,121	–	–	(12,181)	**129,940**
ISO scheme January 2016	19,476	–	–	–	**19,476**
ISO scheme July 2016	–	202,709	–	–	**202,709**
LTIP July 2013	767,262	–	(150,385)	(616,877)	**–**
LTIP July 2014	638,636	–	–	(330,011)	**308,625**
LTIP July 2015	698,464	–	–	(320,175)	**378,289**
LTIP July 2016	–	644,483	–	(266,897)	**377,586**
Phantoms August 2016	–	19,779	–	–	**19,779**
Deferred shares July 2015	94,382	–	–	(56,513)	**37,869**
Deferred shares July 2016	–	81,384	–	(54,201)	**27,183**

Expense recognised in the profit and loss account

A charge of £0.1m (2017: £0.6m) has been made to administrative expenses in the Group income statement in respect of share-based payment transactions including the provision for National Insurance contributions.

26 Called up share capital

	Number of shares	2018 £m	2017 £m
Allotted, called up and fully paid			
Ordinary shares of 1p each at the beginning of the year	276,510,137	**2.8**	2.8
Ordinary shares of 1p each issued in the year	1,149,944	**–**	–
Ordinary shares of 1p each at the end of the year	277,660,081	**2.8**	2.8

During the year, 1,149,944 new ordinary shares of one pence were issued as a result of exercise of share options. The proceeds of £1.5m were credited to the share premium account. As at 31 May 2018, no shares were held in treasury (2017: nil).

27 Profit attributable to members of the parent Company

The profit for the year dealt with in the accounts of the parent Company was £15.5m (2017: £29.0m).

28 Other financial commitments

Non-cancellable operating lease rentals are payable as follows:

	2018		2017	
	Land and Buildings £m	Other £m	Land and Buildings £m	Other £m
Within one year or less	**4.5**	**0.7**	4.5	1.3
Between one and five years	**17.2**	**0.5**	22.5	1.1
Over five years	**10.3**	**0.2**	27.0	–
	32.0	**1.4**	54.0	2.4

There are no contingent liabilities not provided for at the end of the financial year.

29 Contingencies

There are no contingent liabilities not provided for at the end of the financial year. Similarly, there are no contingent assets.

30 Pension scheme

The Group operates a defined contribution pension scheme that is open to all eligible employees. The pension cost charge for the year represents contributions payable by the Group to the fund and amounted to £3.2m (2017: £5.8m).

For the Company, the pension cost charge for the year represents contributions payable by the Company to the fund and amounted to £nil (2017: £nil).

31 Related party transactions

The Group's key management personnel comprise the Directors of the Group. The Group and Company's transactions with those Directors are disclosed in the Directors' Remuneration Report. There were no other related party transactions during the year.

In the prior year, corporate finance fees of £0.3m were paid to Rickitt Mitchell & Partners Ltd. Paul Mitchell held the positions of Non-Executive Chairman of NCC Group until 31 May 2017 and was also the Non-Executive Chairman of Rickitt Mitchell & Partners Ltd.

32 NCC Group plc company goodwill

The goodwill of £14.4m (2017: £14.4m) represents a transfer from investments of the value attributable to the continuing business, assets and liabilities of RandomStorm Limited, which was hived up to a fellow NCC Group subsidiary company, NCC Group Security Services Limited, in June 2016.

Notes to the financial statements

FOR THE YEAR ENDED 31 MAY 2018

33 Investments in subsidiary undertakings

Company	Shares in Group undertakings £m
At 1 June 2016	87.5
Transfer to goodwill	(14.4)
Impairment charge	(13.0)
Increase in subsidiary investment for share-based charges	0.6
At 31 May 2017	**60.7**
At 1 June 2017	60.7
Transfer to goodwill	–
Impairment charge	–
Increase in subsidiary investment for share-based charges	0.1
At 31 May 2018	**60.8**

Fixed asset investments are recognised at cost. The transfer of £14.4m relates to the value of the Accumuli plc investment cost which can be attributed to RandomStorm Limited, a subsidiary company of the Accumuli group. The continuing business, assets and liabilities of RandomStorm Limited were hived up to a fellow NCC Group subsidiary company, NCC Group Security Services Limited, in June 2016. The impairment of £13m in the prior year relates to the investment cost of Accumuli plc and has been calculated by comparing the discounted future cash flows of the continuing business with the carrying value of the investment, further details on the method for calculating the discounted cash flows are described in note 14.

33 Investments in subsidiary undertakings continued

The undertakings in which the Company has a 100% interest at 31 May 2018 are as follows:

Subsidiary undertakings	Country of incorporation	Principal activity	Registered office
NCC Group (Solutions) Limited	England and Wales	Holding company	XYZ Building, 2 Hardman Boulevard, Spinningfields, Manchester, M3 3AQ (XYZ)
NCC Services Limited	England and Wales	Escrow and Assurance	XYZ
NCC Group Escrow Limited	England and Wales	Dormant	XYZ[1]
The National Computing Centre Limited	England and Wales	Dormant	XYZ[1]
NCC Group Security Services Limited	England and Wales	Assurance	XYZ[1]
NCC Group Audit Limited	England and Wales	Assurance	XYZ[1]
NCC Group Pte Limited	Singapore	Assurance	112 Robinson Road, #12–01, Robinson 112, Singapore (068902)
NCC Group FZ-LLC	United Arab Emirates	Escrow	Office 15, Building 16, Dubai Internet City Dubai, UAE
Axzona Limited	England and Wales	Dormant	Ground Floor, 37 York Place, Edinburgh, EH1 3HP
NCC Group Escrow Europe BV	Netherlands	Escrow	Van Heuven Goedhartlaan 13, 1181 LE Amstelveen, The Netherlands
NCC Group Escrow Europe (Switzerland) AG	Switzerland	Escrow	Ibelweg 18A, CH–6300 Zug, Switzerland
NCC Group GmbH	Germany	Escrow	Leibnizstrasse 1, 85521 Ottobrunn, Germany
FortConsult A/S	Denmark	Assurance	2nd Floor, Svanevej 12, DK–2400 København NV, Denmark ("FC HQ")
FC Holding Lithuania ApS	Denmark	Assurance	FC HQ
FC Holding Russia ApS	Denmark	Assurance	FC HQ
FortConsult UAB	Lithuania	Assurance	Kareiviu g. 19–188, LT – LT – 09133, Vilnius, Lithuania
NCC Group Security Services, Inc.	USA	Assurance	123 Mission Street, Suite 900, San Francisco, CA 94105, USA (US HQ)*
NCC Group Escrow Associates LLC	USA	Escrow	US HQ*
NCC Group Secure Registrar, Inc.	USA	Domain Services	US HQ*
NCC Group Domain Services, Inc.	USA	Domain Services	US HQ*
NCC Group Inc.	USA	Escrow & Assurance	US HQ*
NCC Group Pty Limited	Australia	Assurance	Level 17, 383 Kent Street, Sydney NSW 2000
NCC Group Security Services Corporation	Canada	Assurance	51 Breithaupt Street, Suite 100, Kitchener, Ontario N2H 5G5, Canada
Accumuli Limited	England and Wales	Holding company	XYZ[1]
Accumuli (Holdings) Limited	England and Wales	Holding company	XYZ[1]
ArmstrongAdams Limited	England and Wales	Assurance	XYZ[1]
Randomstorm Limited	England and Wales	Non–trading	XYZ[1]

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33 Investments in subsidiary undertakings continued

Subsidiary undertakings	Country of incorporation	Principal activity	Registered office
Eqalis Limited	England and Wales	Non–trading	XYZ[1]
Accumuli Security Services Limited	England and Wales	Non–trading	XYZ[1]
NCC Group Signify Solutions Limited	England and Wales	Assurance	XYZ[1]
Fujin Technology Limited	England and Wales	Non–trading	XYZ[1]
Accumuli Security Systems Limited	England and Wales	Non–trading	XYZ[1]
Accumuli Security Technology Limited	England and Wales	Non–trading	XYZ[1]
Accumuli Security ASH Limited	England and Wales	Non–trading	XYZ[1]
NCC Group Accumuli Security Limited	England and Wales	Assurance	XYZ[1]
Accumuli B.V.	Netherlands	Holding company	Doezastraat 1, 2311GZ, Leiden, The Netherlands
Boxing Orange MSS Limited	England and Wales	Dormant	XYZ[1]
Fox-IT Holding B.V.	Netherlands	Assurance	Olof Palmestraat 6, 2616 LM Delft The Netherlands (Fox HQ)
Fox-IT Group B.V.	Netherlands	Assurance	Fox HQ
Fox-IT B.V.	Netherlands	Assurance	Fox HQ[2]
Fox-IT Operations B.V.	Netherlands	Assurance	Fox HQ[2]
Fox-IT Crypto B.V.	Netherlands	Assurance	Fox HQ[2]
Payment Software Company Inc	USA	Assurance	591 West Hamilton Avenue, Suite 200, Campbell, California 95008, USA
Payment Software Company Limited	England and Wales	Assurance	Upper Deck Admirals Quarters, Portsmouth Road, Thames Ditton, Surrey, USA
Virtual Security Research LCC	USA	Assurance	76 Sumner St, 4th Floor, Boston, MA 02110

[1] 2 Hardman Boulevard, Spinningfields, Manchester, M3 3AQ

[2] Olof Palmestraat 6, 2616 LM Delft, The Netherlands

The following subsidiaries were disposed of during the financial year:

Name of company	Country of incorporation	Principal activity	Date of Disposal
NCC Group Performance Testing Limited	England and Wales	Assurance	28 March 2018
NCC Group SDLC Limited	England and Wales	Assurance	24 May 2018

The undertakings in which the Company holds less than a 100% interest at the year end are as follows:

Undertaking	% interest	Country of incorporation	Principal activity
Tracks Inspector B.V.	35%	Netherlands	Assurance
Deposit AB Escrow Europe	25%	Sweden	Assurance

34 Post balance sheet events

Following the balance sheet date, the Group decided to discontinue the arbitration process it had commenced in respect of the final tranche of deferred consideration payable in respect of the acquisition of Fox-IT (€11.25m/£9.9m as recorded in the Group's balance sheet as at 31 May 2018). The decision was based on a desire to focus the Group's efforts on the future growth and further development of the Fox business. It was felt that a long-running process could have a detrimental effect on local management (none of whom were present during the original sale process) and on initiatives to begin to leverage the value within the business. The full deferred consideration payable was therefore paid on 27 June 2018.

There were no other post balance sheet events.

35 Prior period acquisitions

Payment Software Company Inc

NCC Group Inc acquired Payment Software Company Inc (PSC), a company based in California, USA, on 28 September 2016. The consideration was $16.6m initial cash and contingent consideration payments of $1.9m. Fair values are based on the estimated cash outflows discounted using a risk-adjusted discount rate, due on earn-out periods to 31 December 2017 and 31 December 2018. The two contingent payments are payable in cash on the achievement of specific profit based performance targets which we expect to be achieved and paid in full.

The goodwill of £9.8m represents the benefits expected to be generated from sales and profit growth from the wider NCC Group customer base in the US market. The goodwill is not expected to be deductible for tax purposes. Acquisition costs of £0.4m were recognised as Individually Significant Items (note 6). The 2017 Income Statement includes eight months' post acquisition trading (£5.9m revenue and £1.2m operating profit).

			Fair values
Acquiree's identifiable net assets at the acquisition date:		**£m**	**£m**
Intangible assets – acquired			5.7
Trade and other receivables			1.5
Deferred tax liability (includes deferred tax arising on intangible assets acquired)			(2.0)
Cash			1.8
Creditors & accruals			(1.2)
Net identifiable assets			5.8
Goodwill on acquisition			9.8
Total consideration			15.6
Satisfied by:	Initial cash consideration	**12.8**	
	Deferred cash consideration	**3.0**	
	Finance discount on deferred consideration	**(0.2)**	
		15.6	
Net cash outflow			12.8
Cash acquired			(1.8)
Net cash outflow excluding cash acquired			11.0

Notes to the financial statements

FOR THE YEAR ENDED 31 MAY 2018

35 Prior period acquisitions continued

Virtual Security Research LLC

NCC Group Inc acquired Virtual Security Research LLC (VSR), a company based in Boston, USA, on 11 November 2016. The consideration was $3.7m initial cash and contingent payments of $0.9m. Fair values are based on the estimated discounted outflows, due on in periods to 31 December 2017 and 2018. The two contingent payments are payable in cash on the achievement of specific profit based targets (expected to be paid in full).

Acquiree's identifiable net assets at the acquisition date:			Fair values £m
		£m	£m
Intangible assets – acquired			2.0
Trade and other receivables			0.5
Cash			0.1
Creditors & accruals			(0.7)
Net identifiable assets			1.9
Goodwill on acquisition			2.3
Total consideration			4.2
Satisfied by:	Initial cash consideration	**2.9**	
	Deferred cash consideration	**1.3**	
		4.2	
Net cash outflow			2.9
Cash acquired			0.1
Net cash outflow excluding cash acquired			2.8

The goodwill of £2.3m represents the benefits expected to be generated from sales and profit growth from the wider NCC Group customer base in the US market. The goodwill is expected to be deductible for tax purposes. Acquisition costs relating to professional fees totalling £0.2m were incurred and are recognised as individually significant items in the income statement (note 6). The Group's 2017 consolidated income statement includes six full month's of post-acquisition trading, with VSR contributing revenue of £1.1m and operating profit of £0.5m.

Glossary of terms

Term	Definition and usage
2016 Code	Guidance, issued by the Financial Reporting Council in 2016, on how companies should be governed, applicable to UK listed companies including NCC Group.
Adjusted*	Any result described as adjusted excludes the impact of exceptional items, share–based payments, unwinding of discount on deferred or contingent consideration, amortisation of acquired intangible assets and any tax on any of these items.
AGM	Annual General Meeting of shareholders of the Company held each year to consider ordinary and special business as provided in the Notice of AGM.
Alternative Performance Measure(APM)	An Alternative Performance Measure (which is denoted in each case or use thereof by * is a non–GAAP performance metric used by management either internally or externally to present management's view of the underlying business performance. They are not superior to GAAP–based measures and are simply an alternative way of looking at performance.
Average working capital % of sales	Calculated as the average of each months' closing working capital divided by rolling 12 months' sales in each month.
Board	The Board of Directors of the Company (for more information see pages 52 to 53).
CAGR	Compound Annual Growth Rate (usually with a specified period over which it has been calculated).
Cash conversion ratio*	Calculated as net cash from operating activities before interest and tax divided by Adjusted* EBITDA, expressed as a percentage.
CDO	Cyber Defence Operations
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CHRO	Chief Human Resources Officer
CISO	Chief Information Security Officer
Company, Group, NCC, we, our or us	We use these terms, depending on the context, to refer to either NCC Group plc the individual company or to NCC Group plc and its subsidiaries collectively.
CTO	Chief Technology Officer
Directors/Executive Directors/ Non-Executive Directors	The Directors/Executive Directors and Non–Executive Directors of the Company whose names are set out on pages 52–53 of this Report.
EBIT	Earnings before interest and tax.
EBIT Margin%	EBIT Margin is calculated as follows: Adjusted* EBIT divided by revenue.
EBITDA	Earnings before interest, tax, depreciation and amortisation. Calculated as operating profit* before exceptional items and adding back depreciation and amortisation charged.
EPS	Earnings per share. Profit for the year attributable to equity shareholders of the parent allocated to each ordinary share.
FCA	Financial Conduct Authority
Financial year	For NCC Group this is an accounting year ending on 31 May.
FRC	Financial Reporting Council
Free cash flow	Net cash from operating activities less capital expenditure.
FRS	A UK Financial Reporting Standard as issued by the UK Financial Reporting Council (FRC).
Gross profit	Gross profit is revenue less direct costs of sale. It excludes costs considered to be overheads that are supporting the business as a whole as opposed to a specific revenue item.

Glossary of terms

Term	Definition and usage
Gross margin%/GM%	Gross margin% is calculated as follows: Gross profit divided by revenue.
HMRC	Her Majesty's Revenue & Customs, the tax collecting authority of the UK.
IAS or IFRS	An International Accounting Standard or International Financial Reporting Standard, as issued by the International Accounting Standards Board (IASB). IFRS is also used as the term to describe international generally accepted accounting principles as a whole. Financial statements are prepared in independence with IFRS as adopted by the EU.
Individually significant items	Items that the Directors consider to be material in nature, scale or frequency of occurrence that need to be excluded when calculating some non–GAAP performance measures in order to allow users of the Financial Statements to gain a full understanding of the underlying businesses performance.
KPMG	The Company's external auditors, KPMG LLP.
LTIP	Long Term Incentive Plan established to align the interests of senior and Executive management with those of shareholders. The plan is formally known as the NCC Group Long Term Incentive Plan 2013 (approved by shareholders in 2013).
MD	Managing Director
MSS	Managed Security Services
Ordinary shares	Voting shares entitling the holder to part ownership of a company.
Adjusted organic* growth	The increase or decrease in current financial year revenue or profit (as specified) compared to the comparative prior year revenue or profit, excluding the results of acquisitions and disposals and strategic decisions to deliberately significantly reduce certain lines of income (namely the re–sale of third party products in the UK) expressed in value or percentage terms.
Reasonable certainty	Deferred tax assets are recognised if they can be utilised within three years of the balance sheet date unless there are specific circumstances making it more or less likely that these assets will be utilised.
RMG	Risk, Management and Governance
ROCE%	Return on Capital Employed is calculated as follows: Adjusted operating profit* divided by average operating assets and goodwill. Operating assets include tangible and intangible fixed assets, working capital and other non–current assets.
ROS%	Return on sales is calculated as follows: Adjusted operating profit* divided by revenue.
Sales working capital	The sum of trade debtors and accrued income used in calculating the KPI of sales working capital ratio to rolling 12 month revenue.
SAYE	Save As You Earn, being a tax efficient scheme to encourage employee share ownership.
Subsidiary	A company or other entity that is controlled by NCC Group.
TSC	Technical Security Consulting
TSR	Total Shareholder Return which is share price growth plus dividends reinvested (where applicable) over a specified period of time, divided by the share price at the start of the period.
UK GAAP	United Kingdom Generally Accepted Accounting Practice. Generally accepted accounting principles in the UK. These differ from IFRS and from US GAAP.
Underlying	Restate prior period information at current year exchange rates to give a like–for–like comparison.

Company information

Directors

Chris Stone	– Executive Chairman
Adam Palser	– Chief Executive Officer (from 1 December 2017)
Brian Tenner	– Chief Financial Officer
Debbie Hewitt MBE	– Senior Independent Non-Executive Director (until 28 March 2018)
Chris Batterham	– Senior Independent Non-Executive Director (from 29 March 2018)
Thomas Chambers	– Non-Executive Director
Jonathan Brooks	– Non-Executive Director
Mike Ettling	– Non-Executive Director (from 1 September 2017)
Jennifer Duvalier	– Non-Executive Director (from 25 April 2018)

Company Secretary
Suzy Cross

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