nccgroup

Resilience through uncertainty

Annual report and accounts
for the year ended 31 May 2020

NCC Group exists to make the world safer and more secure

We are a global cyber and software resilience business operating across multiple sectors, geographies and technologies. Using our global insights into the cyber threats facing our connected society, we are passionate about helping organisations assess, manage and develop their cyber resilience posture and allowing them to take advantage of the opportunities the world has to offer, because they know that their business, software and personal data are safe and secure.

Read more online: **www.nccgroupplc.com**

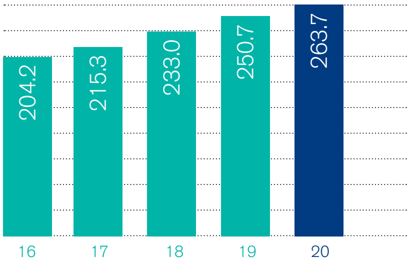
Contents

Highlights [1]

GAAP measures

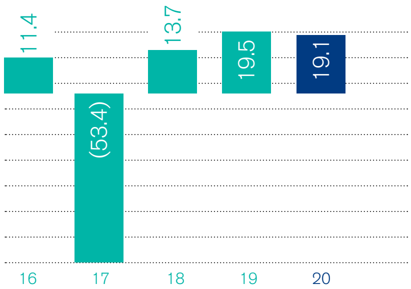
Revenue

£263.7m



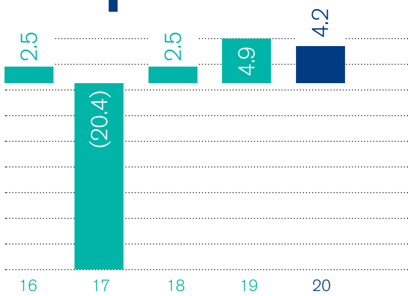
Statutory operating profit [2]

£19.1m



Basic EPS [2]

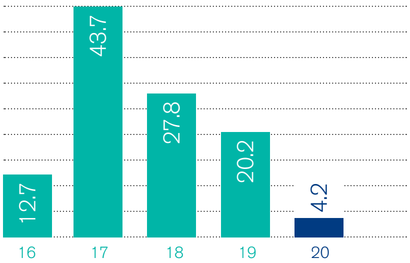
4.2p



Alternative Performance Measures [2, 3]

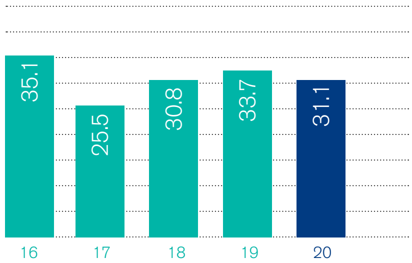
Net debt [2, 3]

£4.2m



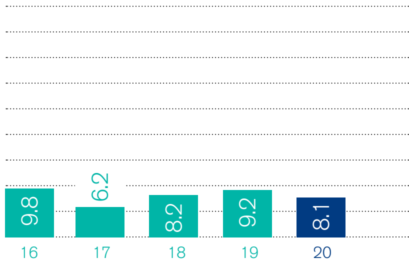
Adjusted operating profit [2, 3]

£31.1m



Adjusted EPS [2, 3]

8.1p



Footnotes for Strategic Report

1 References to the Group's results are for continuing operations.

2 Following the adoption of IFRS 16 'Leases' with effect from 1 June 2019, the Group has adopted the accounting standard using the modified retrospective approach to transition and has accordingly not restated prior years; the results for the year ended 31 May 2020 are not directly comparable with those reported under the previous applicable accounting standard IAS 17 'Leases'. On this basis, to provide meaningful comparatives, the results for the year ended 31 May 2020 have therefore also been presented under IAS 17 with the like-for-like numbers shown on an IAS 17 basis ('Pre-IFRS 16'). This Alternative Performance Measure (APM) will be presented for one year until the comparatives also include the adoption of IFRS 16.

3 See Note 3 for an explanation of Alternative Performance Measures (APMs) and adjusting items, including a reconciliation to statutory information. Further information is also contained within the Chief Financial Officer's Review.

Overview of our year

The long-term prospects for the cyber resilience market are excellent

Covid-19 has impacted demand but we foresee a strong growth opportunity as the economy normalises

Our transformation continues and we are successfully navigating Covid-19 disruption

Our full year performance demonstrates our resilience and presents a strong platform for future growth

A year of further strategic progress

"

The Group has clearly demonstrated resilience through uncertain times and we now look forward to developing further opportunities in the cyber and software resilience markets.

CHRIS STONE
Non-Executive Chair

Introduction

At the end of a financial year which has seen massive disruption to economies and trading environments worldwide, it is a pleasure to be able to report to all our stakeholders that NCC Group has made good progress on nearly all of our strategic objectives. Most importantly, our trading performance for the year has demonstrated our resilience and the fundamental attractiveness of our market positions. Growing our revenues in such a difficult environment is a significant achievement, and underscores the strength of our platform. This bodes well for future years.

Our transformation programme has enabled us to successfully navigate the Covid-19 disruption. Our primary concern during this time has been the wellbeing of our colleagues and customers. We switched quickly to remote working – facilitated by the investment we have made in systems and infrastructure through our Securing Growth Together transformation programme – which has enabled us to continue to deliver robustly for our clients throughout this period of disruption.

Our two objectives through the pandemic were:

- To maintain a strong balance sheet to position ourselves to capitalise on opportunities in the future.
- To preserve our technical capability and capacity so that we can meet future growth demands.

I am pleased to report that we have managed to achieve both of these objectives. Our cash generation and preservation has been very strong, and whilst the decision to preserve capability and capacity had an impact on profitability, it means that we can look forward to a strong growth opportunity as the economy normalises. The long-term prospects for the cyber and software resilience market are excellent.

Business performance

Overall, the Group delivered revenue growth of 5.2%, adjusted EBITDA[2, 3] of £41.2m and adjusted operating profit on a like-for-like basis[3] of £31.1m. On a statutory basis, after IFRS 16, operating profit decreased by 2.1% to £19.1m (2019: £19.5m [2]) and profit before taxation decreased 9.6% to £16.1m giving rise to a statutory EPS of 4.2p (2019: 4.9p [2]) and adjusted basic EPS[2, 3] of 8.1p (2019: 9.2p [2]) respectively.

The Group delivered improved cash flow with cash conversion[2, 3] of 117.0% compared to 109.6%[2] in 2019, resulting in a reduction in the Group's net debt on a like-for-like basis[2, 3] to £4.2m (2019: £20.2m), after benefiting from certain government tax deferral programmes that amounted to £4.6m.

Assurance experienced encouraging UK growth following softer demand in the prior year and continued growth within North America. We have also made good progress in Europe and APAC. Most significantly, we have further developed our global MDR (Managed Detection and Response) proposition with growth of c.14%. Within Software Resilience (Escrow), we have repositioned the business as a sustainable software resilience service and are starting to stabilise revenue. In addition, we have accelerated the adoption of our cloud resilience proposition, and started developing our channel propositions.

Our business performance can be found in more detail on **pages 4 to 6**

Strategy and transformation programme update

Our strategy remains unchanged and we continue in our mission "To make the world safer and more secure". To underpin our vision "To become the leading cyber security adviser globally", we launched our three year transformation programme, entitled Securing Growth Together (SGT), in May 2018.

As reported with our half year results, our transformation programme, SGT, continues to deliver on a number of fronts in terms of how we lead the market, win business and deliver it, while supporting growth and developing our people.

As part of the programme, we have been replacing all of our key systems to create one way of operating across the firm. It is pleasing to see that we have continued our momentum from the prior year and have now rolled out new HR systems and the major components of the finance systems (Workday) for all our Global operations.

Further details on our strategy are provided on **pages 20 and 21**

Dividend

We are recommending an unchanged final dividend of 3.15p (2019: 3.15p) per ordinary share making a total for the year of 4.65p (2019: 4.65p), with our dividend policy remaining under review.

The final dividend will be paid on 6 November 2020, subject to approval at the AGM on 20 October 2020, to shareholders on the register at the close of business on 9 October 2020. The ex-dividend date is 8 October 2020.

Board composition

There have been no changes to the Board during the year.

Board governance and effectiveness

As Chair, I am responsible for the leadership of the Board and ensuring its effectiveness in all aspects of its performance. We have an established and experienced Board which actively oversees the Group's strategic development, monitors the delivery of its business objectives and considers risks and mitigating actions. In particular, the Board has completed a robust assessment of the Group's emerging and principal risks.

Further information on risk management and the key risk identification procedures are set out on **pages 30 to 36**

During the year, we have been further embedding the requirements of the UK Corporate Governance Code 2018 (the 'Code'), particularly the renewed focus on identifying and engaging with all our stakeholders. We have put particular emphasis this year in improving our engagement with our colleagues around the world. My colleague Jennifer Duvalier has led this initiative which has included direct conversations with groups of colleagues in each of our main locations, albeit remotely managed. During the year we complied with all other aspects of the Code.

Please see the Corporate Governance Statement starting on **page 49** for further information

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. In particular, the identification and management of risk (including emerging risks) has continued to be a focus for us in monitoring progress against the Securing Growth Together transformation programme and consideration of the impact of other risks, such as Brexit and Covid-19, on our global business.

Colleagues

We are a people business and our technical colleagues are at the core of our customer offer. Our colleagues remain the cornerstone of this business and they have continued to show their commitment and resilience through the challenges of Covid-19 in delivering excellent service to our customers. We seek to provide challenging and rewarding career paths for all our staff and following our employee engagement survey we will continue to create a great place to work and focus on becoming the employer of choice in our markets.

We recognise that we still have progress to make in terms of improving the diversity of the Board and our Executive Team, and ensuring that we are an inclusive and diverse organisation. We now have global volunteers focused on supporting our four key areas: gender, race and ethnicity, neurodiversity and LGBTQIA+.

> **"On behalf of the Board I would like to offer our sincere thanks and appreciation to all of the Group's colleagues for their continued resilience, professionalism and contribution.**

Improvement will not happen overnight, but we are very mindful of the need to continuously improve and take positive action, and the matter is fully on our agenda and in our thoughts as a Board to ensure that anyone can feel welcome in NCC Group and enjoy the same opportunities to fulfil their potential.

On behalf of the Board I therefore offer our sincere thanks and appreciation to all of the Group's colleagues for their continued resilience and professionalism in delivering this performance through an ambitious transformation programme while navigating Covid-19 challenges.

Sustainability

Prior to the global pandemic we began a gap analysis exercise to identify the priority focus areas for our environmental, social and governance (ESG) framework. We are now in a position to develop our ESG programme by setting focus areas, which during FY21 will help inform our improvement targets (further details on our ESG framework is provided on page 42).

Outlook

- We have successfully weathered the initial impact of Covid-19 and our experience of doing so gives us confidence that we should be resilient, profitable and cash generative through any likely aftershocks this financial year.
- Parts of our customer base have been impacted by uncertainty, financial pressures or logistical issues. Consequently, we have observed procurement cycles lengthen and become less predictable. In some of the more affected sectors, including Leisure and Entertainment, we expect some customers to postpone work for 12 months or more.
- The long-term growth prospects for the cyber resilience market continue to be excellent as the connected environment and society's dependence on that connected environment continue to grow.

Against this backdrop:

- Our trading to date has been slightly ahead of the same period last year, albeit last year was a soft comparator period and the start of this year has been boosted by some exceptional M&A support engagements.
- The range of outcomes for the full financial year remains unusually broad and depends, in particular, on the speed and timing with which our customers' buying patterns return to normal.
- In the medium-term, our financial objectives remain the same as last year: to achieve double-digit revenue growth with margin improvement in Assurance and to return Software Resilience (Escrow) to sustainable growth.
- Owing to the resilience we have demonstrated as a Group and the confidence we have in our continued profitability and cash generation, we are recommending an unchanged final dividend of 3.15p (2019: 3.15p) per ordinary share.

Chris Stone
Non-Executive Chair
3 September 2020

Resilience through uncertainty

"I am pleased with our trading performance for the year. Thanks to the stunning way in which my NCC Group colleagues have risen to the challenge we have weathered the impact of the Covid-19 pandemic to date and emerged with a stronger balance sheet while preserving the technical capability that makes NCC Group so distinctive.

ADAM PALSER
Chief Executive Officer

"The investment and progress we have made through our Securing Growth Together programme underpinned our recent resilience and the Group is well placed to thrive when the economy recovers.

We are all Zoom-bies and Teamsters now

The tumult and uncertainty of the Covid-19 pandemic have thrown into sharp relief the importance of the connected, digital world for society. Remote working has become the norm; firms across the world have brought forward their plans to adopt cloud technology by years in the space of a few months, and consequently the associated cyber risks have proliferated.

In the near term, many of our customers are experiencing uncertainty, financial pressures or logistical challenges owing to the impact of the pandemic, which have, unsurprisingly, lowered demand below the run rate we expected coming into this calendar year. However, we believe that the long-term prospects for the cyber resilience market are stronger than ever and, as and when the economy returns to trend growth, we believe that firms like NCC Group will benefit from the need for organisations to "pay down the compliance debt" that has accumulated as connected systems are mobilised in a hurry without the usual care and attention.

As in recent years, the cyber market is a dynamic and busy place. Cyber threats are now so pervasive, complicated and rapidly changing that "silver bullets" no longer exist (if they ever did). Increasingly, it is the role of cyber services firms like NCC Group to help our customers navigate through the complexity of cyber risks. Our ability to quickly and efficiently build skills, tools and capability through research enables us to remain at the forefront of this exciting market without taking significant risks.

Securing Growth Together (SGT): fulfilling our potential

Since my arrival in December 2017, my colleagues in NCC Group have worked relentlessly to transform the business and achieve our ambition to become the leading provider of cyber resilience solutions globally.

It is a pleasing validation of our direction and purpose that, despite the global upheavals that have occurred this year, our destination is still relevant and we have made determined progress towards it:

- Our mission is to make the world safer and more secure.
- Our vision is to be the leading cyber security advisor globally, trusted to protect and secure our customers' critical assets and sought after for our complete people-led, technology-enabled cyber resilience solutions that enable our customers to thrive.
- Our three values are: Work Together; Be Brilliantly Creative; and Embrace Difference.

Our vehicle for transforming the firm and achieving our vision is the Securing Growth Together programme which, at its heart, can be summarised as:

1. Connecting this global firm, creating one global way of working and generating the information we need to run the business in an agile and assertive way.
2. Creating stronger relationships with our customers by delivering a full suite of services and thus guiding them throughout their journey to cyber resilience.

The programme is run through five workstreams, which have given rise to following highlights:

- The investment and progress we have made through the first two years of SGT underpinned our resilience through these uncertain times. In particular, we had the systems, communication and collaboration tools that enabled us to work together as one firm and transition seamlessly to remote working.
- The number of large orders secured from clients has increased, driven in particular by the strong increase in demand for Managed Detection and Response services (sales orders growth of 24.2%), which helps to underpin our forward order book.
- Our technical teams are larger, our retention is higher, and we have completed more high impact research than in previous years.

Thus, we begin this new financial year in stronger shape than we have ever been before.

Resilience through uncertainty

We first felt the impact of Covid-19 on our operations in the Asia Pacific region in January, which, in some ways, provided a helpful early warning. In February, and before the World Health Organization (WHO) declared Covid-19 a global pandemic, we had developed our Covid-19 management strategy and mobilised a crisis management team that met daily (to start with) to steer us through the challenge ahead.

From the outset, our objectives have been to "Survive & Thrive": to maintain a strong Balance Sheet and to preserve our technical capacity and capability so that investors can have confidence in our enduring ability to generate value and to position ourselves for the future upswing of the economy. Our Covid-19 management strategy consisted of five themes:

- Anticipate and measure.
- Be resilient.
- Stay profitable.
- Exploit any downtime.
- Prepare for the bounce back.

The heart of "staying profitable" was, of course, to continue to sell and deliver value to our customers. Inspiring examples of work undertaken by my colleagues include:

- The deployment of our internal "Firebase" appliance, originally developed as part of a UK research programme, across all of our territories, which helped us to operate remotely, even for our largest customers.
- Introducing "SOC as a Service" to help customers experiencing resource shortages and office closures which affected their own Security Operations Centres.
- Our global "Evolve to Remote" marketing campaign to aggregate and promote those services which could be bought and delivered remotely.

I am pleased that this approach has enabled us to manage the impact of the pandemic so far and we have not made any Covid-19 redundancies or furloughed any colleagues.

Our resilience has unquestionably been helped by the strength of our customer base, which, in turn, is a validation of the quality of our services. We now work for 65 of the Fortune 500 (2019: 52) and 89 of the FTSE 350 (2019: 82). It should be noted, however, that some of our customers operating in more affected sectors (including, for example, entertainment and leisure) have delayed or cancelled work and are expected to do so for much of the coming financial year.

NCC Group was on course to meet expectations for the year ended 31 May 2020 until the outbreak of Covid-19. The impact on FY20 sales order delivery amounted to an estimated £15m as demand decreased due to the financial and logistical challenges that our customers were facing. However, our seamless transition to remote working, facilitated by the investments we have made through our Securing Growth Together transformation programme, enabled us to deliver a resilient performance while maintaining a strong balance sheet and preserving our technical capacity and capability to meet future demand.

While the whole firm has moved to remote working, we have now developed detailed specific working practices for a proportion of our colleagues to return to our customers' offices safely when the opportunity arises. Where appropriate we do expect to give our people more opportunity to continue to work remotely and are taking this moment to review our global property footprint and how we employ that space effectively.

At the time of writing, the pandemic is not yet over and there is still significant uncertainty in our customer base and the wider world. However, I am delighted with the way my colleagues have navigated the challenge so far and have confidence in our ability to continue to do so.

Playing a full part in society

From a social responsibility perspective, we provided unique threat intelligence free of charge in the first few months of the pandemic to national Computer Emergency Response Teams, hospitals and national institutes of public health around the world, to help them build cyber resilience and ensure they could focus on patient care without distraction.

Beyond the advent of Covid-19, another momentous event, which had a profound impact on the firm was the tragic death of George Floyd. The anger and shock that swept across the world – felt not just in our North American teams but throughout NCC Group – inspired us to redouble our efforts to ensure we are an inclusive and diverse organisation. Building on our existing plans we now have global volunteers focused on supporting our four key areas: gender, race and ethnicity, neurodiversity and LGBTQIA+. It is a matter of personal importance to me that anyone can feel welcome in NCC Group and enjoy the same opportunities for career progression.

More broadly, this year has seen the development of our ESG framework and a sustained focus on the wellbeing of all those who work in NCC Group. Our Mental Health First Aid and awareness programme are two of the more structured ways we have sought to underpin our colleagues' wellbeing, above and beyond the plethora of virtual quiz nights, 'meet the pets' sessions and other social interactions that have sprung up over the course of the last twelve months.

FY20 performance overview

Group revenues increased by 5.2% representing more people, skills, capabilities and customer impact than before. From a divisional perspective, all Assurance regions experienced growth, with the North America and Europe & APAC regions particularly encouraging at 9.1% and 8.3% respectively, with the UK region increasing by 2.9%. Software Resilience (Escrow) revenue decreased 1.3% to £37.5m (2019: £38.0m) although momentum is building as H2 revenues were flat against H2 of the previous year and up compared to H1. Gross margin reduced slightly to 39.6% (2019: 40.6%) because we built sales and technical capacity through the year but suffered a dip in demand from Covid-19 in the second half of the year. Adjusted EBITDA [2, 3] and operating profit [2] were down 5.7% to £41.2m (2019: £43.7m) and 7.7% to £31.1m (2019: £33.7m) respectively, giving rise to an adjusted basic EPS [2, 3] of 8.1p (2019: 9.2p). The Group delivered improved cash flow with cash conversion [3] of 117.0% compared to 109.6% [2] in 2019, resulting in a reduction in the Group's net debt on a like-for-like basis [2, 3] to £4.2m (2019: £20.2m). On a statutory basis, after IFRS 16, operating profit decreased by 2.1% to £19.1m (2019: £19.5m [2]) and profit before taxation decreased 9.6% to £16.1m (2019: £17.8m) giving rise to a statutory EPS of 4.2p (2019: 4.9p [2]).

Summary

Financial:

- The Group achieved revenue growth during the year despite the Covid-19 disruption.
- Effective cash management resulted in another excellent year for cash conversion and reduced net debt on a like-for-like basis [2, 3] to £4.2m from £20.2m, after benefiting from certain government tax deferral programmes that amounted to £4.6m.

Operational:

- We were resilient through uncertainty while maintaining a strong Balance Sheet and preserving our technical capacity and capability in order to meet future demand.
- Our recurring and long-term revenues from Software Resilience and our Managed Detection and Response services have provided us with some protection.
- Our Securing Growth Together transformation programme has made strong progress with continued deployment of our global systems infrastructure.

> "I would like to thank all my colleagues for their continued resilience and professionalism during these challenging times.

Outlook

- We have successfully weathered the initial impact of Covid-19 and our experience of doing so gives us confidence that we should be resilient, profitable and cash generative through any likely aftershocks this financial year.
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Adam Palser
Chief Executive Officer
3 September 2020

Connecting colleagues during a pandemic at scale
Building a resilient organisation to last…

The book has not been written on how to engage during a pandemic, so we wrote our own.

We started by crowdsourcing ideas via our internal social media and through this came up with a series of initial initiatives to help connect not only colleagues but their families too. We know more about our colleagues now than we ever did – fully embracing and accepting our new ways of working, with pets and children topping the list. Colleagues were supported locally and globally to make their temporary remote working environments work for them while continuing to support our customers with confidence.

Using our internal news platform we were also able to start increasing support for mental wellbeing. Regular pulse checks and personal stories of resilience from colleagues all helped to create an environment where it is “okay to not be okay”. This has evolved into a global programme with line manager training and the launch of mental health first aid training for colleagues keen to support their peers.

Internally we increased leadership visibility at a local and a global level, with regular open live sessions with CEO Adam Palser. Using a live platform, Adam answers questions live on a host of subjects from across the global business. This was a valuable channel when colleagues were deeply affected by the tragic death of George Floyd on 25 May 2020, an event which inspired us to review if we are doing enough to be an inclusive and diverse organisation.

Creating an environment where all colleagues feel psychologically, emotionally and physically safe to be authentic is the foundation of creating a great place to work. Colleagues were invited to help us build on our existing plans and we now have global volunteers focused on supporting our four key areas:

- Gender
- Race and ethnicity
- Neurodiversity
- LGBTQIA+

Volunteers have created an annual plan on engagement, which includes our new programme NCC Conversations offering up workshops and engagement sessions on topics that matter to colleagues.

Our colleagues will help us create the future as we launch our future world of work study – ensuring we do not lose the resilience we gained during this time.

Read more on colleague engagement on **pages 43 to 45**

Throughout the Annual Report you will meet some of our colleagues who share what lockdown meant for them…

“It’s hard to tell which is growing faster, the website or my new chilli plants.”
Kai Kurihara – Manchester

Survive and thrive during a global pandemic

Prior to the global pandemic being announced by the World Health Organisation, we set up a global Executive incident management team and appointed local incident management teams to prepare for the eventual lockdown.

Our priority was and still remains colleague welfare and customer safety. This enables us to maintain a strong Balance Sheet, and maintain the capacity and capability we expect we will need to meet future demand.

We adopted five key themes to help guide us to ensure that our business not only survives but emerges ready to thrive from the uncertainty.

While the pandemic is not yet over, our experiences have made us stronger and wiser. The investments we have made in our technology, processes and systems meant we transitioned quickly and confidently to remote working and continue to support our customers with over 95 per cent of our services able to be delivered remotely.

1. Anticipate and measure

Plan for different outcomes and track KPIs to inform our decision making

- Scenario planning
- Preparation of contingency plans with different levels of response
- Harnessing our new systems to gather information
- Regular communication

2. Be resilient

Ensure the safety of our colleagues and customers; maintain continuous operations

- Global systems set up to ensure colleagues delivering customer work were supported to do this remotely
- Activated a global wellbeing programme to support colleagues – from how to work in a temporary remote office to personal mental health support
- Supported global health care providers with free threat intelligence to help ensure their cyber resilience during the first few months of the pandemic – so they could focus efforts and resources on helping people get well

"Luckily I already had a screen big enough for lockdown."
Sharique Shaikh – Leatherhead

Jamie Rose

Natasha Gardner

3. Stay profitable

Proactively sell remote services; careful control of cost and cash

- Enabled more than 95 per cent of our services to be delivered remotely
- Launched our Evolve-to-Remote campaign to support customers around the specific challenges they would be facing by moving their businesses to remote working
- Modified existing services to meet unique challenges customers were having such as SOC as a Service (see below) – giving customers short-term solutions to lockdown issues

4. Exploit any downtime

Strengthen the firm every day through research and development

- Continuing to forge new industry partnerships – including becoming a founding member of the new global industry collaboration – the Open Source Security Foundation
- Publication of our blueprint for smart cities and a threat report to help users map and identify the cyber threats emerging during the pandemic
- Developed our environmental, social and governance framework, including enhancing our inclusion and diversity plan through global online collaboration with colleagues

Read more on smart cities on **page 13**

5. Prepare for the bounce back

Preserve capability and capacity; invest selectively for the future

- Reimagining our future world of work by learning and listening from the experience of the pandemic including how flexible working could be an enabler for a more inclusive and diverse workforce
- Continued investment in services and solutions to broaden our portfolio and better serve our customers

NCC Group launches SOC as a Service to help customers experiencing resource shortages and office closures

Exploring how we could help businesses around the world during the pandemic, we offered our cyber security expertise through new solutions, which can be delivered remotely and meet the current needs of customers.

One example was the development of our remote Security Operations Centre (SOC) solution to businesses that were struggling to keep their in-house SOCs running due to resourcing issues or office closure. This remote SOC can be set up in a matter of days without needing to set foot on a client site, helping us to quickly alleviate some of the pressure our customers may be facing when it comes to maintaining around-the-clock security monitoring.

The SOC as a Service solution launched with short-term contracts, (as little as three months), rather than a typically longer three year contract, and includes a full upfront health check and assessment, as well as fully managed detection and response services, providing businesses with peace of mind.

What we do

NCC Group is a global cyber and software resilience business operating across multiple sectors, geographies and technologies.

We work with over 14,000 customers worldwide to address their challenges in the complex and increasingly connected digital world. This includes:

Getting the basics of cyber hygiene correct

Knowing what and how to prioritise

Coping with the scarcity of skilled resources needed to deliver quality improvement, change and operations

Responding to the increasing compliance, regulatory and legislative burden

Quantifying cyber spend efficiency and return on investment

Our divisions

Across our two divisions, we improve our customers' resilience posture.

This means that we deliver solutions that result in outcomes that match our customers' goals, budgets and risk appetite, giving them peace of mind that their most important assets – their business, software and personal data – are safe.

Assurance

We demystify cyber for our customers, and ensure that:

- Our customers understand the cyber threats and vulnerabilities across their technology environments, supply chains, processes and products.
- Our customers maintain their licence to do business, having achieved their governance, compliance and accreditation objectives in a changing regulatory environment.
- Our customers' resilience against cyber threats is materially improved as a result of implementing remediation plans and solutions.
- Our customers are able to reduce risk and achieve greater resilience for less investment.
- Our customers can outsource their cyber defence operations and increase their confidence in detecting and responding to cyber events.

Read more on our markets on **page 16**

Software Resilience (Escrow)

We protect the development, supply and use of business critical technology and software applications:

- Our services ensure buyers are safeguarded from supplier failure, software vulnerabilities and unforeseen technology disruption.
- Our on-premise and cloud offering can demonstrate robust business continuity and risk mitigation, and suppliers benefit from enhanced credibility and intellectual property rights protection.
- Our escrow contract services secure the long-term availability of business critical software data and applications.
- Our verification services assure customers that the knowledge and guidance are readily available to manage, maintain or recreate an application from the original source, should it ever be needed.
- Our cloud Escrow as a Service offering, helps customer transition to the cloud securely, so they can adopt the latest technology with confidence.

Read more on our markets on **page 17**

Where we operate

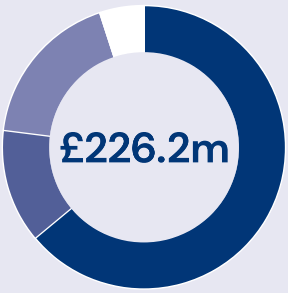
We operate as one global business, with in-country delivery tailored to local needs and culture.

We have a significant market presence in the UK, North America and Continental Europe and a rapidly growing footprint in Asia Pacific with offices in Australia, Japan and Singapore.

Group revenues

UK	North America	Europe and Asia Pacific
£117.4m	£90.2m	£56.1m

Assurance revenue



- Technical Security Consulting **£145.6m** (2019: £134.8m)
- Risk Management Consulting **£28.7m** (2019: £35.3m)
- Managed Detection and Response **£41.4m** (2019: £36.4m)
- Products **£10.5m** (2019: £6.2m)

Software Resilience (Escrow) revenue

- Software Resilience contracts **£25.8m** (2019: £26.5m)
- Verification services **£11.7m** (2019: £11.5m)

Read more on our markets on **pages 16 and 17**

"Watching our global NCC Group community come together and rise to the challenges presented by Covid-19 has been inspirational. Colleagues around the world are working every day to make our firm stronger. Teams across NCC Group mobilised to ensure that we could continue to deliver maximum impact for our customers remotely. We pooled our expertise across regions and practices, and we supported each other as one global team. We are emerging in better shape than before and are positioned to take full advantage of the inevitable opportunities that the future will present.

ADAM PALSER
Chief Executive

Read more on **pages 8 and 9**

Our strategic roadmap

Our increasingly connected society presents a world of opportunity.

But it is essential for us all to proactively manage any risk to our safety and security. As you go about your daily routines you can be safe in the knowledge that we are passionate about keeping you and your personal data, the technology and devices you use, and the critical assets, and software your business relies on, safe and secure. It is our mission and is what drives our strategic roadmap...

Mission

We exist to make the world safer and more secure.

Vision

To be the leading cyber resilience provider globally. Trusted to protect and secure our customers' critical assets. Sought after for our complete people-led, technology-enabled cyber resilience solutions that enable our customers to thrive.

Delivering our vision through our Securing Growth Together transformation programme

We continue to transform our business.

Our vehicle for transforming the firm and achieving our vision is the Securing Growth Together programme, which is about connecting our global firm and creating stronger relationships with our customers.

The programme is run through five workstreams:

- Lead the market
- Win business
- Deliver excellence
- Support growth
- Develop our people

Read more in our Chief Financial Officer's Review on **pages 22 to 29**

Delivering value to our customers

Cyber threats are now so pervasive, complicated and rapidly changing that "silver bullets" no longer exist. We help our customers navigate through the complexity of cyber risks. Through our global research capability, technical expertise and full suite of services we are able to guide customers through the risks to achieve cyber resilience.

Assess cyber risk | Develop cyber maturity | Manage cyber operation

Read more in our business model on **pages 18 and 19**

Our values

NCC Group is a distinctive place to work and our values help us to make decisions without the need to reach for a comprehensive instruction manual telling people what to do in every situation.

- We work together
- We are brilliantly creative
- We embrace difference

Read more on our sustainability on **pages 40 to 46**

Research and innovation: Protecting the cities of the future

Constant research and innovation to match the rapidly evolving and complex digital environment is an intrinsic part of NCC Group's business model. One of our current research priorities is the cyber resilience of smart cities: it is a great example of where our research is making a real difference to our customers and the global community we are a part of.

The individual touch points that make up a smart city form a significant part of our daily lives. From street parking sensors to waste management systems and street lighting, an ever increasing range of technology shapes our experiences of and interactions with cities. Smart offices might be able to detect temperature and humidity to gauge the safety of a space, or smart city technology could be used to automatically shut stations when they are too congested.

With smart city technology becoming ever more ubiquitous, the security challenges around availability and privacy are also increasing in importance. The threats to smart cities cover a wide spectrum, including everything from citizens abusing technology to commit fraud, to nation-state actors affecting or disrupting the operation of entire smart cities. Many of those systems will be critical, so the ability to affect, significantly damage or cause significant ill effect by exploiting any underpinning technical or procedural issues in smart city components can be an issue.

So now more than ever, it is crucial that resilience is built into every individual piece of technology that makes up a smart city. This is not just the responsibility of planners and developers of smart cities, but also of the end system and device manufacturers along with third party integrators and operators who will build, deploy and operate smart city applications.

As governments and regulators around the world focus on what they can do to guide, advise and mandate the secure development of smart cities, NCC Group's research team has developed "a Blueprint for Secure Smart Cities" that looks at what testing and governance are needed to secure smart city infrastructure, applications and Internet of Things (IOT) components.

At the same time, we are engaged with local authorities and municipalities to help them deliver their smart city visions securely while addressing citizens' concerns about the vast amount of data smart city applications will collect. And we are working with the manufacturers of the sensors that underpin many smart cities, to help them understand how they can maximise the security assurance in their systems, and the data they aggregate from their sensor networks.

The capabilities of smart cities are endless, and the future will be bright and exciting if security is embedded from the outset.

200,000 [1]

members of the G20 Global Smart Cities Alliance on Technology Governance seeking to advance the responsible and ethical use of smart city technologies

500 [2]

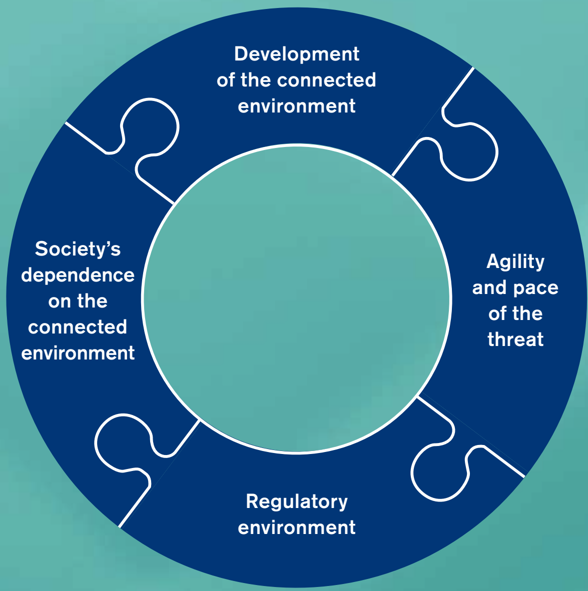
gateways to be installed in Scotland, providing a wireless sensor network to collect data from IOT devices

"Working from home is a breeze with the cutest coworkers ever."
Sourya Biswas – San Francisco

Sources
1 https://globalsmartcitiesalliance.org/about.
2 https://www.ukauthority.com/articles/glasgow-to-get-99-lora-coverage-for-iot.

The global cyber resilience market offers excellent long-term growth prospects

Four dominant factors continue to drive the global demand for cyber resilience – the proliferation of connected devices; our increasing dependence on this connected environment as a society; the greater opportunities for mischief this creates for cyber threat actors; and the increased regulatory requirements that follow (along with consequent costs of compliance failure). Changing working patterns and the accelerated digitisation and adoption of technology that the worldwide response to Covid-19 has driven only exacerbate these trends.



Development of the connected environment

50 bn[1]
connected devices worldwide by 2030

Owing to changes in underlying business models and the value of data, the drive towards pervasive connectivity and digitisation continues. With increased connectivity comes the need for infrastructure to support it, and all the while connectivity is enabling new paradigms in computing, processing and service delivery not previously possible, which further accelerate the rate of innovation. Innovation brings huge opportunity but also serious cyber risk that needs to be discovered, assessed, managed and maintained.

Society's dependence on the connected environment

4 hrs, 2 mins[2]
per day spent online by the average UK adult in April 2020

From education to smart cities, from government service delivery to online retail, from transport to healthcare - as industries become digitised and connected to deliver efficiencies and new ways of working society becomes increasingly dependent on this new connected world and not in an always-obvious manner. The complexity of this connectivity and interdependence means the risk of contagion from a breach leading to disruption in one part of a system affecting another has never been higher.

Sources
1 https://ieeexplore.ieee.org/document/8326056.
2 https://www.ofcom.org.uk/about-ofcom/latest/media/media-releases/2020/uk-internet-use-surges.
3 https://safeatlast.co/blog/ransomware-statistics.
4 https://dataprivacymanager.net/5-biggest-gdpr-fines-so-far-2020.

Agility and pace of the threat

>£1 bn [3]
"revenue" from ransomware attacks in 2019/20

The barriers to entry for all those wishing to become a cyber-aggressor continue to fall while the level of cyber resilience and robustness has not, for the most part, increased correspondingly. While governments have, through international accords such as The Wassenaar Arrangement, tried to stem the proliferation of advanced capabilities, the reality is that advanced hacking today is just too easy.

Regulatory environment

£145m [4]
total fines issued under GDPR to date

Most mature governments deem the free market to have failed at delivering the level of cyber resilience required. Mature governments are enacting strategies to protect their citizens. This includes creating central functions or organisations for cyber defence within national governance structures, enacting legislation and strengthening regulatory requirements, all of which increase the demand for cyber resilience solutions.

NCC Group is a growing and profitable firm that demonstrates strong cash conversion and is able to stay at the forefront of the growing and exciting cyber industry through the efficient use of research to develop new skills and capabilities.

A strong foundation of cost effective research and innovation, recurring revenue and cash discipline means we can efficiently take advantage of the growth opportunities in the global cyber resilience market.

Research and innovation

3,300
research days in 2019/20

Technical expertise is highly valued by customers. Our leading-edge work provides us with low-cost effective research which is an intrinsic part of our business model. We innovate and continually develop skills and tools to match the rapidly evolving and complex digital environment and the threat actors that work to exploit it.

Recurring revenue

High margins,
sustainable cash flow

We have recurring high margin revenues and sustainable cash flows from our globally scalable Managed Detection and Response (MDR) and Software Resilience (Escrow) services, and a quality customer base.

Cash discipline

117.0% [2, 3]
cash conversion in 2019/20

We have strengthened our balance sheet through disciplined cash management which positions us to exploit further opportunities in the future. Unlike other businesses in the technology space, we are an inherently asset-light business, limiting our capital expenditure and promoting our agility and flexibility to respond to changing circumstances.

Market dynamics

Global cyber and software resilience markets continue to evolve rapidly, requiring us to be alert and agile. Having preserved our technical capacity and capability, we continue to invest selectively to enhance our proposition and create growth opportunities from changing market dynamics.

Assurance

The Assurance market continues to be competitive for both talent and customers alike, with a rich mix of new start-ups in both the technology and services spheres along with the maturing of established professional and managed services providers. This already dynamic landscape is made even more complex by frequent mergers and acquisitions of cyber security companies globally.

Trend

Competitors continue to struggle to attract individuals at their desired levels organically, which constrains the rate at which they can grow.

Our response

NCC Group has pursued a diversified strategy for the past seven years that consists of:

- Growing our own talent with world class technical training, resulting in good retention of those we develop
- Development of an inclusive and supportive culture to attract, engage and retain talent
- Investing in people's careers with increasingly clear and structured career development paths
- Attracting experienced individuals
- Using our global footprint to build resource hubs of talent to take support delivery into key markets

The above strategy, coupled with our remuneration, allows us to be competitive for talent so that we generally do not face the same challenges.

Trend

Commoditisation of penetration testing and certain advisory propositions continues, resulting in increased use of near-shore and off-shore delivery as well as investment in automation.

Our response

As a professional services firm in a technology-dominated market, we continue to provide a differentiated service. We believe in the professionalisation of cyber resilience solutions and promote the development of "cyber as a science", replacing magic bullet solutions with rigorously quantifiable and evidence-based risk mitigations. NCC Group continues to invest wisely in in-house research and development, and in doing so, develops value added services to help clients interpret and respond to their business and technical challenges. In a highly fragmented market we provide an ever-evolving agile global delivery platform to support our world-class capability to have maximum impact.

Trend

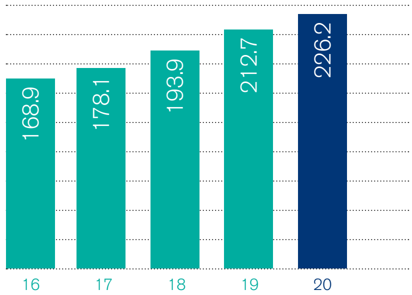
Continued increase in competition in Managed Detection and Response (MDR) and Managed Security Service Providers (MSSPs) as competitors look to grow their annual recurring revenue streams and increase their margins.

Our response

NCC Group is one of the few providers to offer a broad range of services from Incident Response to fully outsourced SOC and across a range of technologies which now includes the market leading Sentinel ADP Defender suite from Microsoft. Our unique Threat Intelligence services and use of analytics and machine learning to identify threats provide a differentiated detection and protection service, whilst our multi-geography SOCs offer resilient global coverage.

Assurance revenue (£m)

£226.2m



Read more on our business model on **pages 18 and 19**

Read more on our strategy on **pages 20 and 21**

Software Resilience (Escrow)

Traditional software resilience solutions remain a fundamental way for organisations to assure their software against failure and unplanned disruption. However, our new business models, driven by accelerated cloud adoption and the reliance on software throughout our connected environment now offer phenomenal growth potential for innovative software and technology resilience solutions, meeting the needs of our customers' maturing business continuity requirements.

Trend

More customers looking to transition to cloud-based services results in an increasing need to ensure resilience of applications and data outside of their physical environment and legacy controls.

Our response

Risk and resilience are critical considerations for this transition. Through our unique tooling and wide range of service delivery – from third party escrow of cloud configurations to rapid online source code deposits, NCC Group is well positioned to capitalise on these opportunities.

Trend

The operational technology market is rapidly moving away from proprietary protocols previously used to monitor and manage industrial process assets and manufacturing/industrial equipment to the use of IP-based applications.

Our response

NCC Group's Software Resilience portfolio is well placed to not only support this transition but also add extra value to the provision of both legal and technical protection against any disruption in these software application supply chains.

Trend

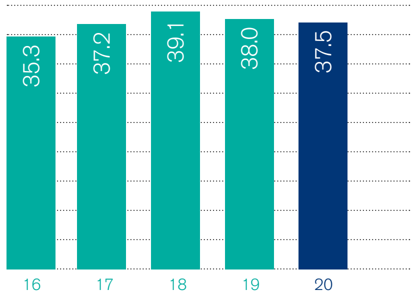
As technology and business requirements change, previous escrow clients are looking to cyber security providers that can offer a wider range of resilience solutions for their businesses.

Our response

Leveraging investment in services and the full extent of NCC Group, our Software Resilience business now extends far beyond providing software escrow services; today we provide operational resilience, business continuity, regulatory compliance, risk mitigation and software security, and we expect these opportunities to grow even further.

Software Resilience (Escrow) revenue (£m)

£37.5m



Creating value

Inputs

Securing Growth Together strategy
- In a fast-moving and complex environment our enduring strategy enables us to be agile to continue to make sustainable investments, creating the world's leading cyber resilience, risk mitigation and remediation specialist.

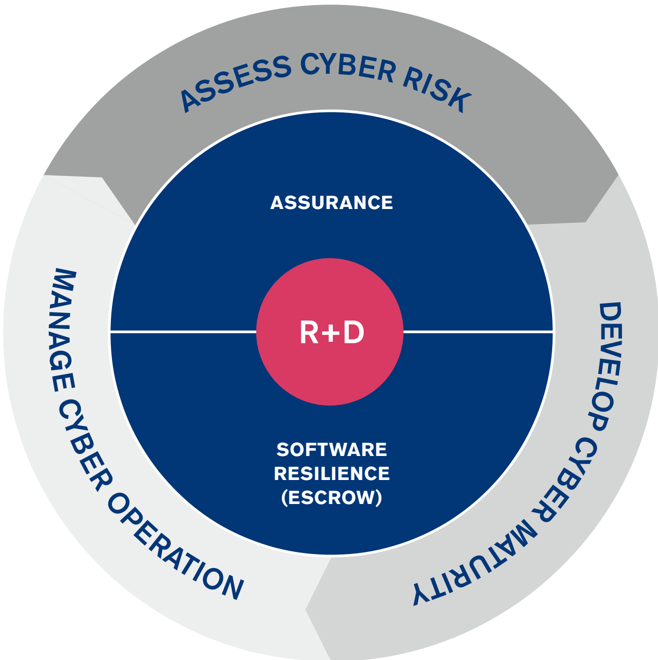
Talented and motivated colleagues
- We are a global community of talented individuals working together, being brilliantly creative and embracing difference to help make the world safer and more secure.

Culture of innovation
- We are a research-driven firm where every researcher is also an active consultant.
- Serving more than 14,000 customers worldwide we discover hundreds of thousands of vulnerabilities per year.
- Our research areas extend into almost every area of security – the outcomes of which result in our vulnerability advisories, whitepapers, open source tools and knowledge-sharing presentations delivered all over the world at security and industry-specific conferences.

Stronger partner relationships
- We are active members of the global cyber security community, working in collaboration and in partnership with key industry players. More than 7,000 successful global partnerships have delivered integrated, seamless solutions to customers.

Market leading reputation
- We understand our customers' challenges and the risk these pose to their business. Successful delivery to more than 14,000 customers worldwide means we are in a strong position to help them understand and improve their cyber resilience posture and how best to mitigate against evolving threats, keeping them up to date and aligned to regulations and compliance needs throughout.

How we create value



RESEARCH AND DEVELOPMENT INVESTMENT

We continue to innovate and develop new technical testing capabilities to keep pace with the rapid change in technology and threat landscapes. Our ongoing research allows us to understand and quantify risk for our clients with regard to the technologies they use and the threats to the sectors and industries in which they operate.

Read more on our strategy on **pages 20 and 21**

ASSURANCE
As one of the world's leading cyber security service providers we are best placed to help businesses assess, develop and manage the cyber security risks they face. Through an unrivalled suite of services, we provide organisations with peace of mind that their most important assets are protected.

SOFTWARE RESILIENCE (ESCROW)
Regardless of whether the infrastructure or data is on-premise or in the cloud – the security and regulatory compliance of business critical technology needs to be assured. Through our data and application continuity solutions we safeguard buyers from supplier failure, software vulnerabilities and unforeseen technology disruption while providing credibility and IPR protection for software suppliers.

ASSESS CYBER RISK
A fast and global response with the ability to understand what the problem is, using experience and/or relevant industry frameworks. The value is not just in the assessment but in the clear advice and guidance from the results to improve cyber resilience.

DEVELOP CYBER MATURITY
We work together with our customers to help them develop security capability or fix the issues identified during the assess stage. It is only once these areas have been remediated that the true return on investment will be realised against their cyber spend.

MANAGE CYBER OPERATION
The ever evolving threat landscape means that beyond the initial assess and develop phases it is vital to continually improve levels of security, detect incidents and react to them. We help companies manage their own capability or provide it through efficient security managed services.

Value creation

Colleagues
- Our core strength is the expertise of our people and we aim to create an environment where everyone can reach their full potential. From our technical teams to our professional teams, we work together in support of our customers. At NCC Group colleagues are part of a phenomenal knowledge network, connected through online collaboration and communication platforms with access to formal and on the job learning opportunities.

Customers
- The cyber landscape is complex and our unrivalled global footprint, technical community and scientific approach mean we can confidently say: we understand it, we are good at it and we can help mitigate the risks.
- We advise on the right solution to match our customers' cyber resilience posture requirements – based on goals, budgets and risk appetite.
- We balance our global knowledge with client-specific prioritisation of risks to ensure the right actions are taken to mitigate them.

Our network
- We are active members of the cyber security community, working in collaboration and in partnership with key industry players around the world. Our network extends to ensuring we have the relevant accreditations and certifications to assure our customers of our professional service. This includes our partner programme.

Shareholders
- Our scale provides us insights and understanding of the vulnerability landscape and our technical teams and tools allow us to provide insight into the patterns of vulnerability. This, along with our people-led culture, gives us competitive advantage and superior shareholder value.

Continued transformation

The table summarises the five workstreams that make up SGT, what we said we would do, how we measure our progress and what we have achieved over and above demonstrating resilience through uncertainty

Link to risks:

1. Business strategy
2. Management of strategic change
3. Global pandemic — Covid-19
4. Availability of critical information systems
5. Attracting and retaining appropriate colleagues' capacity and capability
6. Cyber risk (including data protection)
7. Quality of Management Information Systems (MIS) and internal business processes
8. Quality of security management systems
9. Brexit

KPI trend:

- ↑ Improved
- → Unchanged
- ↓ Declined

Lead the market

Deliver world-class research and thought leadership coupled with leaders who can engage audiences and convey our message across all channels.

What we said we would do

- Continue high-impact research

What we have achieved

- Launched a new research blog publishing 81 posts and reaching over 62,000 individuals in its first 6 months
- Published leading research in Cloud, Cryptography, IoT, Deepfakes and Nation State/Organised Crime Threat Actors
- Published strategically important whitepapers on topics such as Smart Cities and Space (Satellite) Security

KPIs ↑

Research days

3,300

(2019: 2,745)

Tier 1 conference talks and papers

76

(2019: 46)

Principal risks

1 2 4 5 6 7 8

Win business

Win high value work as a result of a deep understanding of our customers' cyber needs in the context of their business.

What we said we would do

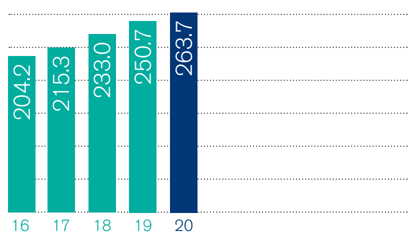
- Complete the global roll-out of Gated Business Lifecycle (GBL) in the first half of FY20
- Develop Software Resilience (Escrow) channel model to boost volumes
- Complete roll-out of Salesforce in North America and RoW

What we have achieved

- Soft launch of Software Resilience (Escrow) partner model
- Salesforce deployed globally
- Accelerated the sales of our Managed Detection and Response offerings

KPIs ↑

Revenue (£m)



No. of orders with a value greater than £250k

144

(2019: 87)

Software Resilience (Escrow) cloud proposition orders

£1.2m

(2019: £0.2m)

Principal risks

1 6

Read more on our risks on pages 30 to 36

Deliver excellence

Deliver consistently high quality solutions that our customers value, fully utilising our global capability and the technical excellence of our consultants.

What we said we would do

- Unified platform for global scheduling and visibility
- Embed new ways of working with our clients, providing a distinctive service

What we have achieved

- Top-level executive incentives are now aligned to promote global working
- Better visibility and management of our global pool of resources

KPIs

Net promoter score

50

(2019: N/A)

Technical specialists increased by

91

(9.4% increase)

Principal risks

1 2 3 4 5 6 7 8

Support growth

Provide the tools and processes that enhance how we work today enabling access to quality management.

What we said we would do

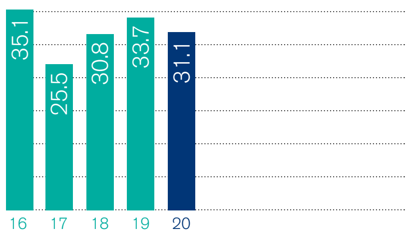
- Deploy systems that provide us with the information we need to run the business in an assertive and agile way

What we have achieved

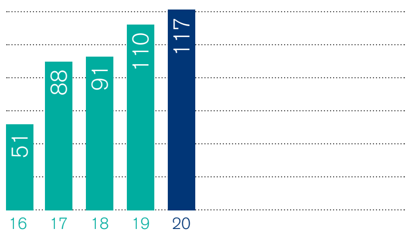
- Workday HCM, Salesforce and UK payroll implemented on schedule
- Improved information and visibility have supported our continued disciplined cash generation and working capital improvement
- Impact of remote working has slowed the deployment of some systems but we remain on track to complete in January 2021

KPIs

Adjusted operating profit (£m)[2,3]



Cash conversion (%)[2]



Principal risks

1 2 3 4 5 7 9

Develop our people

Create a positive colleague experience like no other offered in the industry, investing in our talent and organisation to unlock our full potential.

What we said we would do

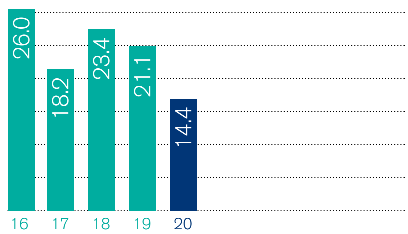
- Support new recruits to recreate effective sales team
- Support our people on learning and development and ways of working
- Be a hub for cyber talent
- Be a quirky, distinctive environment where individuals and teams thrive

What we have achieved

- Created UK Employee Forums to enhance the dialogue within the firm
- Launched a "Manager Essentials" training programme to improve our leadership capability

KPIs

Attrition rate (%)



Engagement score (Best Companies)

One to Watch

Principal risks

1 3 5

Resilient financial performance

"

We continue to grow with a strong balance sheet and are well placed to thrive in the future.

TIM KOWALSKI
Chief Financial Officer

Overview

We have continued to deliver good financial results despite the impact of Covid-19, demonstrating resilience in our business model. Group revenue increased by 5.2% to £263.7m (2019: £250.7m) despite Covid-19 resulting in sales order delivery of approximately £15m being delayed or cancelled. Within this, Assurance revenues increased by 6.3% to £226.2m (2019: £212.7m). All Assurance regions experienced growth, with the North America and Europe & APAC regions particularly encouraging at 9.1% and 8.3% respectively, with the UK region increasing by 2.9%. Software Resilience (Escrow) revenue was 1.3% behind prior year as North America and UK fell by 6.0% and 0.4% respectively.

Gross profit increased by 2.6% to £104.4m (2019: £101.8m) with margin percentage decreasing to 39.6% (2019: 40.6%) due to our continued investment in sales and technical capacity which we have maintained during Covid-19 in order to meet expected strong demand as we get beyond the current disrupted trading environment. Assurance margin percentage decreased to 34.0% (2019: 34.6%) and Software Resilience (Escrow) decreased to 73.3% (2019: 74.5%).

Administrative expenses (excluding depreciation and amortisation and adjusting items) have increased by £0.9m compared to the prior year mainly due to continued investment in people, increased licence costs in relation to new systems implemented across the Group and provisions for property costs, partially offset by the net benefit of IFRS 16 (£4.2m). This gives rise to a reduction in statutory operating profit of £19.1m (2019: £19.5m[2]) and a reduction in adjusted[3] operating profit on a like-for-like basis[2] of £31.1m (2019: £33.7m). Adjusted operating profit[3] after the impact of IFRS 16 (-£1.8m) decreased by 13.1% to £29.3m (2019: £33.7m). Adjusted depreciation and amortisation after the impact of IFRS 16 (+£6.0m) amounted to £24.9m (2019: £19.0m) giving rise to adjusted EBITDA[3] of £45.4m (2019: £43.7m). Adjusted profit before taxation[3] decreased by 17.8% to £26.3m (2019: £32.0m). Statutory profit before taxation decreased by 9.6% to £16.1m (2019: £17.8m). Adjusted EPS[3] and statutory EPS after the impact of IFRS 16 (-£2.4m) amounted to 7.2p (2019: 9.2p) and 4.2p (2019: 4.9p) respectively.

Our balance sheet remains strong; we have continued to demonstrate effective cash management and reduced net debt on a like-for-like basis[2,3] to £4.2m from prior year levels of £20.2m after capital expenditure of £13.2m (2019: £9.1m). Net debt reduced on a like-for-like[2,3] basis to £4.2m, including cash balances of £95.0m (2019: £34.9m) following the full draw down of our revolving credit facility in April 2020 to provide the Group with maximum cash flexibility. As at 31 May 2020, the Group also had a timing benefit of c.£4.6m from certain government taxation payment deferral schemes that are repayable in FY21. The Group has a committed revolving credit facility of £100m which is due for renewal in June 2024 following our refinancing in June 2019. Leverage remains in line with the prior year at 0.1x, with sufficient headroom forecasted.

Summary Income Statement:

£m	2020 (IFRS 16)[2]	2020 (Pre-IFRS 16)[2]	2019 (Pre-IFRS 16)[2]	Like-for-like % change (Pre-IFRS 16)[2]
Revenue	263.7	263.7	250.7	5.2%
Cost of sales	(159.3)	(159.3)	(148.9)	(7.0)%
Gross profit	104.4	104.4	101.8	2.6%
Other administration expenses	(59.0)	(63.2)	(58.1)	(8.8)%
Adjusted [3] EBITDA	45.4	41.2	43.7	(5.7)%
Depreciation and amortisation	(16.1)	(10.1)	(10.0)	(1.0)%
Adjusted [3] operating profit	29.3	31.1	33.7	(7.7)%
Adjusting items	(10.2)	(10.2)	(14.2)	28.2%
Statutory operating profit	19.1	20.9	19.5	7.2%

£m	2020 (IFRS 16)[2]	2020 (Pre-IFRS 16)[2]	2019 (Pre-IFRS 16)[2]	Like-for-like % change (Pre-IFRS 16)[2]
Adjusted [3] profit before taxation	26.3	29.3	32.0	(8.4)%
Adjusting items	(10.2)	(10.2)	(14.2)	28.2%
Profit before taxation	16.1	19.1	17.8	7.3%

£m	2020 (IFRS 16)[2]	2020 (Pre-IFRS 16)[2]	2019 (Pre-IFRS 16)[2]	Like-for-like % change (Pre-IFRS 16)[2]
Adjusted [3] profit for the year	20.0	22.4	25.5	(12.2)%
Adjusting items after taxation	(8.3)	(8.3)	(12.0)	30.8%
Profit for the year	11.7	14.1	13.5	4.4%
Basic EPS				
Adjusted [3]	7.2p	8.1p	9.2p	(12.0)%
Statutory	4.2p	5.1p	4.9p	4.1%

Revenue summary:

£m	2020 (IFRS 16)[2]	2020 (Pre-IFRS 16)[2]	2019 (Pre-IFRS 16)[2]	Like-for-like % change (Pre-IFRS 16)[2]
Assurance	226.2	226.2	212.7	6.3%
Software Resilience (Escrow)	37.5	37.5	38.0	(1.3)%
Total revenue	263.7	263.7	250.7	5.2%

Adjusted operating profit [3] summary:

	2020 (IFRS 16)[2]	2020 (Pre-IFRS 16)[2]	2019 (Pre-IFRS 16)[2]	Like-for-like % change (Pre-IFRS 16)[2]
Statutory operating profit	19.1	20.9	19.5	7.2%
Adjusting items	10.2	10.2	14.2	28.2%
Adjusted operating profit [3]	29.3	31.1	33.7	(7.7)%

Adjusted operating profit [3]

	2020 (IFRS 16)[2]	2020 (Pre-IFRS 16)[2]	2019 (Pre-IFRS 16)[2]	Like-for-like % change (Pre-IFRS 16)[2]
Assurance	22.3	22.0	22.6	(2.7)%
Software Resilience (Escrow)	16.9	17.9	19.0	(5.8)%
Central and head office	(9.9)	(8.8)	(7.9)	(11.4)%
Total adjusted operating profit [3]	29.3	31.1	33.7	(7.7)%
Adjusted operating profit margin % [3]	11.1%	11.8%	13.4%	(1.6)% pts

Basis of preparation

IFRS 16

Following the adoption of IFRS 16 'Leases' with effect from 1 June 2019, the Group has adopted the accounting standard using the modified retrospective approach to transition and has accordingly not restated prior years; consequently the results for the year ended 31 May 2020 are not directly comparable with those reported under the previous applicable accounting standard, IAS 17 'Leases'.

On this basis, to provide meaningful comparatives, the results for the year ended 31 May 2020 have therefore also been presented on a like-for-like IAS 17 basis ('Pre-IFRS 16'). This Alternative Performance Measure (APM) will be presented for one year until the comparatives also include the adoption of IFRS 16. The net impact of IFRS 16 is to decrease statutory and adjusted operating profit by £1.8m and reduce statutory and adjusted profit before taxation by £3.0m.

Alternative Performance Measures (APMs)

Throughout this Financial Review, other APMs are presented as well as statutory measures and these measures are consistent with prior years. This presentation is also consistent with the way that financial performance is measured by management, is reported to the Board, is the basis of financial measures for senior management's compensation schemes and provides supplementary information that assists the user to understand the financial performance, position and trends of the Group.

For completeness, a reconciliation of Income Statement APMs[3] to statutory information is shown below:

2020 (IFRS 16) Continuing operations	Revenue £m	Gross profit £m	EBITDA £m	Depreciation and amortisation £m	Operating profit £m	Profit before taxation £m	Taxation £m	Profit from continuing operations £m
Adjusted	**263.7**	**104.4**	**45.4**	**(16.1)**	**29.3**	**26.3**	**(6.3)**	**20.0**
Share-based payments	—	—	(1.4)	—	(1.4)	(1.4)	(0.2)	(1.6)
Amortisation of acquired intangibles	—	—	—	(8.8)	(8.8)	(8.8)	2.1	(6.7)
Statutory	**263.7**	**104.4**	**44.0**	**(24.9)**	**19.1**	**16.1**	**(4.4)**	**11.7**

2020 (Pre-IFRS 16) Continuing operations	Revenue £m	Gross profit £m	EBITDA £m	Depreciation and amortisation £m	Operating profit £m	Profit before taxation £m	Taxation £m	Profit from continuing operations £m
Adjusted	**263.7**	**104.4**	**41.2**	**(10.1)**	**31.1**	**29.3**	**(6.9)**	**22.4**
Share-based payments	—	—	(1.4)	—	(1.4)	(1.4)	(0.2)	(1.6)
Amortisation of acquired intangibles	—	—	—	(8.8)	(8.8)	(8.8)	2.1	(6.7)
Statutory	**263.7**	**104.4**	**39.8**	**(18.9)**	**20.9**	**19.1**	**(5.0)**	**14.1**

2019 (Pre-IFRS 16) Continuing operations	Revenue £m	Gross profit £m	EBITDA £m	Depreciation and amortisation £m	Operating profit £m	Profit before taxation £m	Taxation £m	Profit from continuing operations £m
Adjusted	250.7	101.8	43.7	(10.0)	33.7	32.0	(6.5)	25.5
Individually Significant Items	—	—	(3.6)	—	(3.6)	(3.6)	0.5	(3.1)
Share-based payments	—	—	(1.7)	—	(1.7)	(1.7)	(0.1)	(1.8)
Amortisation of acquired intangibles	—	—	—	(9.0)	(9.0)	(9.0)	1.8	(7.2)
Profit on disposal of investments	—	—	0.1	—	0.1	0.1	—	0.1
Statutory	250.7	101.8	38.5	(19.0)	19.5	17.8	(4.3)	13.5

See Note 3 for a detailed reconciliation of the Pre-IFRS 16 performance and the glossary of terms for APMs to the equivalent IFRS measures on pages 159 and 160.

During the year, management has reviewed the application of APMs and has considered ongoing FRC and ESMA best practice guidance in this area. Accordingly, management has concluded that for future accounting periods, share-based payments and amortisation of acquired intangibles, which are currently presented as adjusting items, should be included within underlying results. The decision to adopt this presentation for future reporting periods rather than in the current reporting period is because the implementation of IFRS 16 in the year (which does not require the restatement of 2019 comparatives) means that the 2020 results are not on a like-for-like basis with 2019, and management considers that it would be very difficult to understand the true, underlying performance of the Group if this presentational change to the Income Statement was made in the current reporting period. The impact of this proposal in future reporting periods will be a reduction in adjusted measures.

To illustrate this, the Income Statement for the year ended 31 May 2020 has been shown below under the proposed basis:

£m	2020 (IFRS 16)[2] Proposed basis	2020 (IFRS 16)[2] As currently reported	Variance
Revenue	263.7	263.7	—
Cost of sales	(159.3)	(159.3)	—
Gross profit	104.4	104.4	—
Administrative expenses:			
Depreciation and amortisation	(24.9)	(16.1)	(8.8)
Other administration expenses	(60.4)	(59.0)	(1.4)
Total administrative expenses	(85.3)	(75.1)	(10.2)
Adjusted [3] operating profit	19.1	29.3	(10.2)
Adjusting items	—	(10.2)	10.2
Statutory operating profit	19.1	19.1	—

Divisional performance

Divisional performance includes the allocation of certain central costs incurred on behalf of the divisions. Segmental information is disclosed below:

	2020 (IFRS 16)[2]				2019 (Pre-IFRS 16)[2]			
	Assurance £m	Software Resilience (Escrow) £m	Central and head office £m	Group £m	Assurance £m	Software Resilience (Escrow) £m	Central and head office £m	Group £m
Revenue	226.2	37.5	—	263.7	212.7	38.0	—	250.7
Cost of sales	(149.3)	(10.0)	—	(159.3)	(139.2)	(9.7)	—	(148.9)
Gross profit	76.9	27.5	—	104.4	73.5	28.3	—	101.8
Gross margin %	34.0%	73.3%	—	39.6%	34.6%	74.5%	—	40.6%
Administrative expenses[2]	(43.9)	(10.0)	(5.1)	(59.0)	(45.4)	(9.3)	(3.4)	(58.1)
Adjusted EBITDA[3]	33.0	17.5	(5.1)	45.4	28.1	19.0	(3.4)	43.7
Depreciation and amortisation	(10.7)	(0.6)	(4.8)	(16.1)	(5.5)	—	(4.5)	(10.0)
Adjusted operating profit[3]	22.3	16.9	(9.9)	29.3	22.6	19.0	(7.9)	33.7
Adjusted operating profit %	9.9%	45.1%	—	11.1%	10.6%	50.0%	—	13.4%

Assurance

The Assurance division accounts for 85.8 per cent of Group revenue (2019: 84.8 per cent) and 73.7 per cent of Group gross profit (2019: 72.2 per cent).

Assurance revenue analysis – by originating country:

	2020 (IFRS 16)[2] £m	2019 (Pre-IFRS 16)[2] £m	Reported % change
UK	91.5	88.9	2.9%
North America	82.4	75.5	9.1%
Europe and APAC	52.3	48.3	8.3%
Total Assurance revenue	226.2	212.7	6.3%

As noted above, global Assurance revenue in the year increased by 6.3% to £226.2m (2019: £212.7m) despite approximately £15m of sales order delivery being cancelled or delayed as a result of Covid-19, without which the division would have achieved double digit sales growth.

In the year, UK revenues increased by 2.9% to £91.5m (2019: £88.9m) as sales growth flattened in the second half of the year due to Covid-19. North America has continued strong revenue growth of 9.1% to £82.4m (2019: £75.5m), with double digit growth up to and including Q3 being curtailed by delays and cancellations due to Covid-19.

Assurance Europe and APAC was impacted by a slow first quarter but still achieved growth of 8.3% to £52.3m (2019: £48.3m).

Value-based selling within our Assurance services remains a priority and this is demonstrated by average order values increasing during the year.

Chief Financial Officer's review continued

Divisional performance continued

Assurance continued

Assurance revenue analysed by type of service/product line:

	2020 (IFRS 16) [2] £m	2019 (Pre-IFRS 16) [2] £m	Reported % change
Technical Security Consulting (TSC)	**145.6**	134.8	8.0%
Risk Management Consulting (RMC)	**28.7**	35.3	(18.7)%
Managed Detection and Response (MDR)	**41.4**	36.4	13.7%
Product sales (own and third party)	**10.5**	6.2	69.4%
Total Assurance revenue	**226.2**	212.7	6.3%

Technical Security Consulting, our core professional service, continued to grow by 8.0% to £145.6m (2019: £134.8m) as a result of continued strong growth supported by global resourcing with varied timing of Covid-19 felt across geographies. Our global average order value increased by 16.9% compared to 2019.

Risk Management Consulting, a service that addresses the business risks of cyber, declined by 18.7% to £28.7m (2019: £35.3m), with revenue falling across all regions. Work is underway to clarify our offer and support our sales teams in order to return this service line to growth.

Managed Detection and Response, a service line that provides operational cyber defence and managed security services, grew by a pleasing 13.7% to £41.4m (2019: £36.4m) with our order book growing to £62.0m (2019: £49.9m). This service line scales with less people-intensity than our professional services business lines and MDR engagements tend to be contracted for a longer duration which adds stability to our forward order book. Management believes that our global platform is well-placed to help customers navigate an environment of increasing threats and rising technology requirements; we are therefore focused on continuing the rapid growth of this service line.

The increase of 69.4% in product sales is mainly due to high assurance products in Europe and APAC.

Assurance gross profit is analysed as follows:

	2020 (IFRS 16) [2] £m	2020 (IFRS 16) [2] % margin	2019 (Pre-IFRS 16) £m	2019 (Pre-IFRS 16) % margin	Reported % pts change
UK	**33.5**	**36.6%**	31.0	34.9%	1.7% pts
North America	**25.9**	**31.4%**	25.3	33.5%	(2.1)% pts
Europe and APAC	**17.5**	**33.5%**	17.2	35.6%	(2.1)% pts
Assurance gross profit and % margin	**76.9**	**34.0%**	73.5	34.6%	(0.6)% pts

Gross margin declined by 0.6% pts as a result of continued investment in technical and sales colleagues with utilisation reducing to 71.2% (2019: 75.4%) as the Group preserved its technical capacity. The reduction in adjusted operating profit [3] of 1.3% to £22.3m (2019: £22.6m) was driven by the ongoing investment in sales and technical talent. Accordingly, adjusted operating profit [3] margin decreased to 9.9% (2019: 10.6%).

Software Resilience (Escrow)

The Software Resilience (Escrow) division accounts for 14.2% of Group revenues (2019: 15.2%) and 26.3% of Group gross profit (2019: 27.8%).

Software Resilience (Escrow) revenue analysis – by originating country:

	2020 (IFRS 16) [2] £m	2019 (Pre-IFRS 16) [2] £m	Reported % change
UK	**25.9**	26.0	(0.4)%
North America	**7.8**	8.3	(6.0)%
Europe and APAC	**3.8**	3.7	2.7%
Total Software Resilience (Escrow) revenue	**37.5**	38.0	(1.3)%

Our overall performance gave rise to a flat H2 sales performance, demonstrating momentum, with our cloud proposition generating sales orders of c.£1.2m and revenue of £0.5m (2019: £0.2m). Our proposition continues to create opportunities, with increasing demand materialising as clients seek to improve their resilience.

Our UK operations grew in H2 2020 by 2.3%, which is our largest element of our business, underpinning the return to sustainable growth. North America declined by 6.0% due to the impact of Covid-19 and also higher verification project revenues in FY19.

During the year, the Group launched its partner program to the Independent Software Vendor (ISV) sector and co-developed with Azure a digital vault to enable rapid global compliant escrow services of multi-jurisdiction data.

Global renewal rates declined to 87.0% (2019: 89.6%) although this was within management expectations following the integration of the sales teams under a new Global MD, with the focus now on stabilisation.

Software Resilience (Escrow) revenues analysed by service line:

	2020 (IFRS 16) [2] £m	2019 (Pre-IFRS 16) [2] £m	Reported % change
Software Resilience (Escrow) contracts	25.8	26.5	(2.6)%
Verification services	11.7	11.5	1.7%
Total Software Resilience (Escrow) revenue	**37.5**	38.0	(1.3)%

Our contract revenue had negligible impact from Covid-19 with the stabilised base growing by 1.6% from H1 2020 to H2 2020. Verification services grew 1.7% to £11.7m (2019: £11.5m) despite lower volume in North America. Significant verification revenue is under contract.

Gross margin is analysed as follows:

	2020 (IFRS 16) [2] £m	2020 (IFRS 16) [2] % margin	2019 (Pre-IFRS 16) £m	2019 (Pre-IFRS 16) % margin	Reported % pts change
UK	19.5	75.3%	19.7	75.8%	(0.5)% pts
North America	5.3	67.9%	5.7	68.7%	(0.8)% pts
Europe and APAC	2.7	71.1%	2.9	78.4%	(7.3)% pts
Software Resilience (Escrow) gross profit and % margin	**27.5**	**73.3%**	28.3	74.5%	(1.2)% pts

Software Resilience (Escrow) gross margin decreased by 1.2% pts to 73.3% (2019: 74.5%). Overheads have increased due to the investment in sales and operational management to return the division to growth, the first signs of which are apparent in the H2 performance, and depreciation and amortisation. These factors gave rise to a reduced adjusted operating profit [3] of £16.9m (2019: £19.0m).

Cash flow and net debt [2, 3]

The table below summarises the Group's cash flow and net debt [2, 3]:

	2020 (IFRS 16) £m	2020 (Pre-IFRS 16) £m	2019 (Pre-IFRS 16) £m
Operating cash inflow before movements in working capital	**46.7**	**40.2**	41.3
(Increase)/decrease in trade and other receivables	(11.0)	(11.0)	6.0
(Increase)/decrease in inventories	(0.2)	(0.2)	0.1
Increase in trade and other payables	19.2	19.2	0.5
Cash generated from operating activities before interest and taxation	**54.7**	**48.2**	47.9
Interest element of lease payments	(1.2)	—	—
Other interest paid	(1.6)	(1.6)	(1.7)
Taxation paid	(4.8)	(4.8)	(6.4)
Net cash generated from operating activities	**47.1**	**41.8**	39.8
Plant and equipment	(2.8)	(2.8)	(3.0)
Software and development	(10.4)	(10.4)	(6.1)
Acquisitions	—	—	(10.9)
Net proceeds from business disposals (including cash disposed)	—	—	1.8
Dividends paid	(12.9)	(12.9)	(12.9)
Principal elements of lease payments	(5.3)	—	—
Share issues	1.1	1.1	0.3
Net movement	**16.8**	**16.8**	9.0
Opening net debt (Pre-IFRS 16) [2,3]	(20.2)	(20.2)	(27.8)
Non-cash movements (release of deferred issue costs)	(0.2)	(0.2)	—
Foreign exchange	(0.6)	(0.6)	(1.4)
Closing net debt (Pre-IFRS 16) [2, 3]	(4.2)	(4.2)	(20.2)
Lease liabilities	(38.2)		
Closing net debt (IFRS 16)	(42.4)		
Free cash flow (net cash generated from operating activities less capital expenditure)	33.9	28.6	30.7

Chief Financial Officer's review continued

Cash flow and net debt[2,3] continued

Net debt[2,3] can be reconciled as follows:

	2020 (IFRS 16) £m	2019 (Pre-IFRS 16) £m
Cash and cash equivalents	**95.0**	34.9
Borrowings (net of deferred issue costs of £0.8m)	**(99.2)**	(55.1)
Net debt (Pre-IFRS 16)[2,3]	**(4.2)**	(20.2)
Lease liabilities	**(38.2)**	
Net debt (IFRS 16)	**(42.4)**	

Net debt reduced on a like-for-like basis[2,3] to £4.2m, including cash balances of £95.0m (2019: £34.9m) following the full draw down of our revolving credit facility in April 2020 to provide the Group with maximum cash flexibility.

On a reported basis, the Group generated £54.7m of cash from operating activities before interest and taxation (2019: £47.9m), an increase of 14.2% (on a like-for-like basis, an increase of 0.6%). The Group measures how effectively adjusted EBITDA[3] is converted into actual cash flows using the cash conversion ratio[3].

The calculation of the cash conversion ratio[3] is set out below:

	2020 (IFRS 16)[2] £m	2020 (Pre-IFRS 16)[2] £m	2019 (Pre-IFRS 16) £m	Like-for-like change (Pre-IFRS 16) £m
Net operating cash flow before interest and taxation (A)	**54.7**	**48.2**	47.9	0.6%
Adjusted EBITDA[3] (B)	**45.4**	**41.2**	43.7	(5.7)%
Cash conversion[3] (A)/(B)	**120.5%**	**117.0%**	109.6%	7.4% pts

As at 31 May 2020, the Group had a timing benefit of £4.6m from government payment deferral schemes, of which £3.4m related to indirect taxes and £1.2m to corporation tax. If the benefit of the £3.4m relating to indirect taxes is excluded from the above calculations the cash conversion ratios on an IFRS 16 and Pre-IFRS 16 basis would be 113.0% and 108.7% respectively. This timing benefit will reverse in the year ending 31 May 2021.

During the year, the Group has improved its working capital management, in particular trade and other payables is due to effective cash management.

Cash conversion[3] for FY20 is still expected to normalise and is targeted at c.85 per cent over the medium term.

The decrease in tax paid is mainly due to the deferral of £1.2m under government deferral schemes.

Net capital cash expenditure during the year was £13.2m (2019: £9.1m) which includes tangible expenditure of £2.8m (2019: £3.0m) and capitalised software and development costs of £10.4m (2019: £6.1m), which have increased due to the implementation costs of new systems as part of the SGT programme. Additional cash capital expenditure will be incurred during 2021 as we finish the installation of our new systems.

Adjusting items[3]

Pre-tax adjusting items are set out below:

	2020 (IFRS 16)[2] £m	2019 (Pre-IFRS 16)[2] £m
Individually Significant Items	**—**	3.6
Share-based payments	**1.4**	1.7
Amortisation of acquired intangibles	**8.8**	9.0
Profit on disposal of investments	**—**	(0.1)
Total pre-tax adjusting items	**10.2**	14.2

During the year, the Group has incurred no Individually Significant Items (ISIs) (2019: £3.6m).

As noted above and in accordance with FRC and ESMA guidance, management concluded that for future accounting periods, share-based payments and amortisation of acquired intangibles will be reclassified under statutory performance, reducing the number of adjusted measures.

Net finance costs

On a like-for-like basis[3], statutory finance costs for the year were £1.8m compared to £1.7m in 2019. On an IFRS 16 basis[2], net finance costs also include lease interest costs of £1.2m, giving rise to total statutory finance costs of £3.0m (2019: £1.7m).

Taxation

The Group's adjusted[3] effective tax rate is 23.5% (2019: 20.3%). On a statutory basis, the effective tax rate is 27.3% (2019: 24.2%).

The effective tax rate remains above the UK standard rate of corporation tax of 19%, reflecting the origin of a reasonable proportion of Group profits in overseas territories with higher rates of tax than the UK. Statutory corporate tax rates within North America equate to approximately 29% (Federal and State combined) for the year to 31 May 2020. During the year the Group has recognised an additional provision of £0.8m against a deferred tax asset in relation to US R&D tax credits.

The Group's longer-term strategy for tax and treasury matters remains that of a low-risk appetite and any new strategies will operate inside this framework.

Earnings per share (EPS)

	2020 (IFRS 16)[2] pence	2020 (Pre-IFRS 16)[2] pence	2019 (Pre-IFRS 16) pence
Statutory earnings			
Basic EPS	**4.2p**	**5.1p**	4.9p
Diluted EPS	**4.2p**	**5.0p**	4.8p
Adjusted earnings[3]			
Basic EPS	**7.2p**	**8.1p**	9.2p
Diluted EPS	**7.1p**	**8.0p**	9.1p

On a like-for-like basis, basic adjusted EPS[2,3] was 8.1p (2019: 9.2p) and on a statutory basis it was 5.1p (2019: 4.9p).

Dividends

Dividends of £12.9m paid in the year (2019: £12.9m) comprised the final dividend for 2019 of 3.15p and the interim dividend for 2020 of 1.50p.

Given the confidence we have in our continued profitability and cash generation, we are recommending an unchanged final dividend of 3.15p (2019: 3.15p) per ordinary share making a total for the year of 4.65p (2019: 4.65p), with our dividend policy remaining under review.

The final dividend will be paid on 6 November 2020, subject to approval at the AGM on 20 October 2020, to shareholders on the register at the close of business on 9 October 2020. The ex-dividend date is 8 October 2020.

Financing facilities

The Group is financed through a combination of bank facilities, retained profits and equity.

As at 31 May 2020, the Group had committed bank facilities (revolving credit facility) of £100.0m (2019: £97.8m), of which £100.0m (2019: £55.1m) had been drawn under these facilities, following the full draw down of our facility in April 2020 to provide the Group with maximum cash flexibility. These arrangements were agreed in June 2019 and are due for renewal in June 2024. Under these arrangements the Group can also request an additional accordion facility to increase the total size of the revolving credit facility by up to £75m.

On our banking covenants, leverage as at 31 May 2020 amounted to 0.1x (2019: 0.5x) and net interest cover amounted to 22.7x (2019: 24.6x). The Group was in compliance with the terms of all its facilities, including the financial covenants, at 31 May 2020 and expects to remain in compliance with the terms going forward. The terms and ratios 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 excludes IFRS 16 lease liabilities.

Going concern

The Directors have acknowledged the "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting", published in September 2014, and also the Covid-19 Thematic Review published by the Financial Reporting Council in July 2020.

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 4 to 6.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Chief Executive Officer and Chief Financial Officer Reviews on pages 4 to 6 and 22 to 29. In addition, Note 25 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 Financial Statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have prepared cash flow and covenant compliance forecasts for the period to March 2022 which indicate that, taking account of reasonably possible downsides and the anticipated impact of Covid-19 on the operations and its financial resources, the Group and Company will have sufficient funds to meet its liabilities as they fall due for that period.

The Group is financed primarily by a £100m revolving credit facility, further details of which are disclosed in Note 24 to the Financial Statements. The Group is required to comply with financial covenants for leverage (net debt to adjusted EBITDA [2, 3]) and interest cover (adjusted EBITDA [2, 3] to interest charge) which are tested bi-annually at 31 May and 30 November each year. In April 2020, the Group drew down the entire available funds of £100m under this RCF facility in order to provide maximum cash flexibility during the Covid-19 crisis.

Although the Group has demonstrated resilience to the challenging environment resulting from Covid-19, the Directors acknowledge that the financial performance of the Group was adversely impacted during the last quarter of the year ended 31 May 2020, and for this reason the base case budget for FY21 reflects the assumption of a continued impact from Covid-19 on Group revenues up until November 2020 at a similar level to that experienced in the last quarter of FY20.

The Directors have prepared a number of severe but potentially plausible scenarios, which are based on the financial impact of the Group's principal risks and uncertainties (see page 37) as follows:

- Loss of revenue from June 2020 resulting from the ineffective execution of the business strategy
- Loss of revenue from June 2020 arising from the failure of critical systems, leading to inability to provide services to customers
- A fine of 4% of revenue and additional loss of revenue arising from the failure to maintain control over commercial/customer data
- A further Covid-19 impact representing a further decline in revenues over and above the impact already reflected in the base case budget

These scenarios have been modelled individually and also in combination in order to assess the Group's ability to withstand multiple challenges, although the Directors do not believe a scenario combining these risks to be plausible. The impact of these sensitivities has been reviewed against the Group's projected cash flow position, available bank facilities and compliance with financial covenants. Should these occur, mitigating actions would be required to ensure that the Group remains liquid and financially viable, which include a reduction of planned capital expenditure, headcount reduction, freezing pay and recruitment and not paying a dividend to shareholders. All mitigating actions are within the Directors' control. These forecasts, including the severe but plausible downsides when the mitigating actions are included, show that the Group is able to operate within the level of the banking facilities, with no forecasted covenant breaches and that the Group will have sufficient funds to meets its liabilities as they fall due for that period.

Having reviewed the current performance, forecasts, debt servicing requirements, total facilities and risks, the Directors are confident that the Company and the Group have sufficient funds to continue to meet their liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements. Accordingly, they continue to adopt the going concern basis of accounting in preparing the Group's financial statements for the year ended 31 May 2020.

Brexit

The United Kingdom formally departed the European Union and became a third country on the basis of the ratified Withdrawal Agreement on 31 January 2020. Until the end of the transition period on 31 December 2020, current rules and regulations continue to apply while the UK and the EU negotiate their future relationship.

Until a future UK–EU trade agreement is agreed, there is continuing uncertainty for businesses operating in the UK and across borders. This will likely continue until the end of the transition period on 31 December 2020.

NCC Group and its subsidiaries continue their planning through their Brexit Steering Group, which meets regularly. As the Group's operations around the world include business entities based in Continental Europe we believe NCC Group is structurally resilient to any future disruptions caused by the next phase of Brexit. The main risks to the UK business are:

- Any reduction in demand from an economic slowdown
- Real or perceived differences in data protection standards, and possibly additional rules and regulations, which impact the Group's global ways of working

Tim Kowalski
Chief Financial Officer
3 September 2020

Embedded risk management systems

> Supporting the Group in pursuing its strategy for sustainable and profitable growth.

Risk management

Risk is an inherent part of doing business and risk management is a fundamental part of good corporate governance. A successful risk management process balances risk and reward and is underpinned by sound judgment of their impact and likelihood. The Board has overall responsibility for ensuring that NCC Group has an effective risk management framework, which is aligned to our business objectives.

The Board has established a Risk Management Policy, which has established protocols, including:

- Roles and responsibilities for the risk management framework
- Risk scoring framework
- A definition of risk appetite

The integrated approach to risk management diagram on page 31 summarises the Group's overall approach to risk management, which is supported by a web-based tool – the Integrated Risk Management System (IRMS). The tool is designed to follow the risk management model described in the next section and records both strategic and operational risk registers and tracks risk mitigation action plans, helping embed ownership of risks and treatment actions while also providing access to live management information, which is used at both a Board and operational management level.

NCC Group's approach to risk management

NCC Group adopts both a "top down" and "bottom up" approach to risk, to manage risk exposure across the Group to enable the effective pursuit of strategic objectives. The approach is summarised in the diagram on page 31.

The approach is one of collaboration, which supports our comprehensive approach to risk identification, from the "top down" and "bottom up". The Group believes that this is the most efficient and effective way to identify its business risks.

Top down – strategic risk management

The Board, Audit Committee and Cyber Committee review risks on an ongoing basis and are supported by the Executive Committee and subject matter specialists (including Assurance, Software Resilience (Escrow), Information Security, Data Protection and Health and Safety). The Board gives consideration to the Group's strategic objectives and any barriers to their achievement.

Bottom up – operational risk management

The Board and Executive Committee engage with colleagues at every level of the Group in recognition of the importance of their expertise, contribution and views. In relation to matters of wrongdoing, or risks not being recognised and adequately managed, the Group has a robust and effective whistleblowing procedure, which is supported by the Safecall reporting line.

Managing risk from the top down

Top down Strategic risk management		**Bottom up** Operational risk management
▪ Establishing guidance on the Group's risk management and establishing the parameters for risk appetite and associated decision making ▪ Identification, review and management of identified Group strategic risks and associated actions ▪ Ongoing consideration of: – IT and cyber centric risk – Environment risk	**Board** **Audit Committee** **Cyber Committee**	▪ Periodically assessing the effectiveness of the embedded Group risk management process ▪ Challenging the content of the strategic risk register to support a comprehensive and balanced assessment of risk ▪ Reporting on the principal risks and the uncertainties of the Group
▪ Implementing and embedding the Group's Risk Management Policy and approach ▪ Directing the delivery of the Group's identified actions associated with managing/mitigating risk ▪ Identification of key risk indicators; monitoring; and taking timely action where appropriate	**Executive Board and Leadership team**	▪ Responsible for reviewing the operational risks across the business units and Group ▪ Challenging the appropriateness and adequacy of proposed action plans to mitigate risk ▪ Giving due consideration to the aggregation of risk across the Group ▪ Provisioning suitable cross functional/business unit resource to effectively manage risk where appropriate
▪ Instrumental in developing the risk management framework adopted by the Board ▪ Providing governance and control over the IRMS ▪ Conduit between the Board and the business units – providing training and support where appropriate ▪ Developing and executing a risk-based internal audit plan to assess the management of risks	**Global Governance function, incl. dedicated CISO**	▪ Ongoing monitoring and reporting to the Board in relation to the progress being made by the business units in implementing agreed action plans to mitigate strategic risk ▪ CISO dedicated to the identification, management, monitoring and reporting of data security risks
▪ Execution of the delivery of the Group's identified actions associated with managing risk ▪ Timely reporting on the implementation and progress of agreed action plans ▪ Provision of key risk indicator updates	**Business units**	▪ Identification and reporting of strategic risk to the Board ▪ Provision of reports and data relating to significant emerging risks to the Group (internal and external) ▪ Implementation of risk management approach which promotes the ongoing identification, evaluation, prioritisation, mitigation and monitoring of operational risk

Effective pursuit of strategic objectives

Managing risk from the bottom up

Principal risks and uncertainties continued

Risk management model

The Board has overall responsibility for ensuring that NCC Group adopts an effective risk management model, which is aligned to our objectives and promotes good risk management practice. We have therefore adopted the model described in this section and summarised in the diagram above.

The Board, Audit Committee, Cyber Committee and Executive Committee review risks on an ongoing basis throughout the year. The appropriateness and relevance of the risks and issues tracking system – IRMS – are monitored by the global governance team to ensure that it continues to be updated, meet the needs of the Group and remain in line with good risk management practice. In addition, there is a robust process in place for monitoring and reporting the implementation of agreed actions.

We are satisfied that the risk management policy, framework and model currently in place are sufficient to manage risk across the Group.

The key areas of identifying, assessing, addressing and monitoring risks are explained in more detail below:

Identify

Risks exist within all areas of our business and it is important for us to identify and understand the degree to which their impact and likelihood of occurrence will affect the delivery of our key objectives. This is achieved through day-to-day working practices and incorporates risks in both the internal and external environment. Examples of identification include horizon scanning for legislative and market changes, operational and delivery reviews (such as SGT), procedures in relation to projects and change and independent systems audits.

All identified risks are initially assessed for their "inherent" risk (risk with no controls in place), using a scoring mechanism that accounts for the likelihood of an event occurring and the impact that it may have on the Group. The scoring mechanism adopted takes account of high impact, low likelihood events and these risks are managed in a timely manner.

In addition to ongoing risk identification, an annual exercise is undertaken to review the Group's strategic risk universe by the Board. This exercise is reliant on the "top down", "bottom up" approach discussed earlier.

Assess

Following the identification of the Group's inherent risks exposure, a comprehensive assessment of the effectiveness of current mitigating controls is undertaken. This exercise takes account of the design of the current control environment and the application of these controls prior to assessing the Group's current exposure to risk – mitigated risk score. The Board uses a number of sources of information to support the scoring of risk and these include, but are not limited to:

- Management updates
- Action tracking and reporting
- Control environment policies and procedures
- Independent audit activity
- Project monitoring reports

Address
An assessment of whether additional actions are required to reduce our risk exposure is undertaken, with actions falling into one of four categories:

- **Treat** – develop an action plan (applying responsibility, deadlines and prioritisation) that may include the implementation of additional controls, or increase the requirement for additional assurance over the adequacy and effectiveness of the existing controls
- **Transfer** – use a third party specialist to undertake the activity, thus mitigating the risk
- **Tolerate** – determine the risk is within appetite
- **Terminate** – exit the activity

Output from the evaluation of strategic risks has resulted in milestone plans owned by senior business leaders, or has been used in the development of the Group's Transformation Programme.

Monitor
Ongoing monitoring of risks and related actions is key to the implementation of our risk management model and, therefore, NCC Group is committed to making enterprise-wide risk management part of business as usual. Examples of ongoing monitoring of business risks include, but are not limited to:

- Annual review of the external audit strategy and plan by the Audit Committee and Chief Financial Officer to ensure inclusion of key financial risks
- Annual review of the annual internal audit plan to validate that it incorporates key areas of business risk
- A review of internal audit reports issued during the period, including a summary of progress against previously raised management actions
- Annual review of the strategic risk register by the Board to ensure that it includes risks arising in year

Internal control
While risk management identifies threats to the Group achieving its strategic objectives, internal controls are designed to provide assurance that these objectives are being achieved, such as the effectiveness and efficiency of operations and delivery, accurate and reliable financial reporting, and compliance with applicable laws and regulation.

NCC Group has established a robust internal control framework which is made up of a number of components:

Control environment
The control environment has primarily been established taking account of the Group's values (working together; being brilliantly creative; and embracing difference), and its Code of Ethics, which sets the foundations for the expected behaviours, values and competencies for all colleagues across the Group. The Board, Executive Committee and its extended leadership team lead by example and strive to maintain effective control environments, while also maintaining integrity and transparency.

Risk assessments
Risk assessments are conducted at both a strategic and operational level of the Group and support the Group in understanding the risks that it faces and the controls in place to mitigate them. Importantly, they provide a mechanism to identify operational improvements and are vital in our transformational programmes.

Policies and procedures
Established policies communicate expected behaviours and these are supported through procedures and guidelines defining required processes and controls. This in turn supports the business to adopt efficient and effective control environments.

Information and communication
Access to accurate and timely data is key in supporting our colleagues to make decisions and to be well informed in order to conduct, manage and control their areas of responsibility. During the year, the Group has focused on its data systems – successfully implementing Workday HR and currently rolling out the Workday Finance system.

Activity monitoring
Financial minimum controls have been established during the current financial year for local finance teams. The financial minimum controls were self-assessed at the year end and will be audited by the internal audit function from FY21. The financial minimum controls framework was established in consultation with the Chief Financial Officer, the Group Financial Controller and the local Finance Directors and has taken account of the implementation of Workday Finance.

Financial accounting and reporting follow generally accepted accounting practices.

Group review and approval procedures exist in relation to major areas of risk and require Executive Committee/Board approval, including mergers and acquisitions, major contracts, capital expenditure, litigation, treasury management and taxation policies.

Compliance with all legislation, current and new, is closely monitored.

Risk and control reporting structure
During the current financial year, NCC Group has focused on establishing the "three lines of defence", to provide a robust internal controls structure that will support the Board, Audit Committee, Cyber Committee, Executive Committee and extended leadership team with accurate and reliable information in relation to the systems of internal control. This has resulted in the recruitment of a Director of Global Governance, who was on-boarded in January 2020.

The Group has three lines of defence:

- **First line** – Group policies and procedures
- **Second line** – Global Governance function, incorporating Health and Safety; Information Security; Data Protection; Compliance & Standards; and Corporate Legal
- **Third line** – independent challenge and assessment, including ISO certification; and internal and external audit

Principal risks and uncertainties continued

Principal risks and uncertainties

The Group continues to operate in a particularly dynamic and evolving marketplace. The current strategic risk register has been developed to reflect those factors and includes those risks 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:

Strategic

1. Business strategy VR

Link to strategy: Lead the market, Win business, Deliver excellence, Support growth, Develop our people

A comprehensive business strategy is essential to the continued success of the Group as we strive to maximise shareholder value.

Accountable Executive
Adam Palser,
Chief Executive Officer

Potential impact
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.

Risk movement/impact

Key controls and mitigating factors
Members of the Board have significant experience in evolving business strategies. The Board is significantly engaged in both setting and reviewing strategy and held a dedicated strategy session in March 2020.

2. Management of strategic change

Link to strategy: Lead the market, Deliver excellence, Support growth

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 colleagues.

Accountable Executive
Adam Palser,
Chief Executive Officer

Potential impact
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.

Risk movement/impact

Key controls and mitigating factors
The Group has established a Strategic Change Management capability and this includes access to programme management professionals and the deployment of associated change management processes, for example the operation of senior change oversight committees.

Operational

3. Global pandemic – Covid-19 NR

Link to strategy: Deliver excellence, Support growth, Develop our people

NCC Group has a number of features which give the Group a greater resilience in the face of a global pandemic. Failure to prepare for this may cause disruption and uncertainty to our business, as well as risk the health and safety of our people. Any disruption or uncertainty could have an adverse effect on our business, financial results and operations.

Accountable Executive
Tim Kowalski,
Chief Financial Officer

Potential impact
The potential impact of a pandemic for the Group could be:

- The inability to operate due to local restrictions impacting our customers
- The potential inability to deliver work if required onsite
- Risk of colleagues being exposed due to travel/onsite work requirements
- Colleagues being unable to work due to illness or being restricted due to shielding/quarantine either for themselves or people they live with
- Lower demand due to many of our customers experiencing uncertainty, financial pressures or logistical challenges effecting the Group's revenue, profitability and cash generation

Risk movement/impact

Key controls and mitigating factors
We established a global response team and mobilised our whole workforce to remote working ahead of local lockdown/shelter-in-place orders. Local task forces were established and processes were in place to protect colleagues and customers from risk of infection. Local office track and trace measures were put in place with 24 hour reporting to support global operations.

We also enabled more than 95 per cent of our services to be delivered remotely with a dedicated global marketing campaign to support customers around their specific Covid-19 challenges. Existing services were modified to provide customers short-term solutions to lockdown issues.

For further information in relation to the Group's specific Covid-19 response, please see pages 8 and 9 of the Strategic Report.

Risk movement: Increased, Decreased, Unchanged **Risk impact:** High, Medium, Low

Viability risk: VR **New risk:** NR

4. Availability of critical information systems VR

Link to strategy: Lead the market | Deliver excellence | Support growth

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.

Accountable Executive
Steve Boughton,
Global Operations Director

Potential impact
If the Group's critical systems failed, this could affect our ability to provide services to our customers.

Risk movement/impact

Key controls and mitigating factors
The Group continues to make significant investment in its IT infrastructure to ensure it continues to support the growth of the organisation. This has been particularly pertinent, during home working, as part of Covid-19.

The Group has controls in place in order to reduce the risk of actual loss of critical systems; this has included a review of single points of failure and these have been mitigated. Further, controls are operated to ensure the availability of backup media in the event of prolonged loss of systems.

Initiating to standardise and simplify while increasing resilience continues to be implemented. Additional focus is being periodically given to proving the recoverability of systems and data.

5. Attracting and retaining appropriate colleagues' capacity and capability VR

Link to strategy: Lead the market | Deliver excellence | Support growth | Develop our people

The Group would be adversely impacted if it were unable to attract and retain the right calibre of skilled colleagues. Some roles within the Group operate in highly technical and extremely specialised areas in which there are shortages of skilled people.

Accountable Executive
Colin Watt,
Global Chief People Officer

Potential impact
Loss of key colleagues or significant colleague 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 colleagues could become a barrier to the continued success and growth of NCC Group.

Risk movement/impact

Key controls and mitigating factors
Colleagues are offered a rewarding career structure and attractive salary and benefits packages, which can include participation in share schemes.

Comprehensive communications with our colleagues are ongoing and include all-hands calls, The Wire, and Group and local communications.

Linked to the development of our people, the Group continues to review our values, has launched personal performance management processes in 2020 and has aligned development programmes.

6. Cyber risk (including data protection) VR

Link to strategy: Lead the market | Win business | Deliver excellence

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.

Accountable Executive
Tim Kowalski,
Chief Financial Officer

Potential impact
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.

Risk movement/impact

Key controls and mitigating factors
The Board operates a Cyber Committee chaired by the Chair of the Board.

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 Committee. Colleagues also receive regular security training and updates.

Risk movement: Increased | Decreased | Unchanged **Risk impact:** High | Medium | Low

Viability risk: VR **New risk:** NR

Principal risks and uncertainties continued

Principal risks and uncertainties continued

Operational continued

7. Quality of Management Information Systems (MIS) and internal business processes VR

Link to strategy: Lead the market, Deliver excellence, Support growth

We need to ensure that trusted and relevant MIS are available on a day-to-day basis to inform management decisions and drive performance.

Accountable Executive
Tim Kowalski,
Chief Financial Officer

Potential impact
Suboptimal business decision making and performance as key financial performance data is not available or trusted.

Risk movement/impact ↓

Key controls and mitigating factors
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 the Audit Committee.

Standardised business process control standards are in place 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.

8. Quality and security management systems

Link to strategy: Lead the market, Deliver excellence

We aspire to attain and retain key internationally recognised standards. These form an important component for many of our customers.

Accountable Executive
Tim Kowalski,
Chief Financial Officer

Potential impact
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.

Risk movement/impact ↔

Key controls and mitigating factors
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.

9. Brexit VR

Link to strategy: Support growth

Failure to prepare for the UK's departure from the EU may cause disruption to, and create uncertainty around, our business. Any disruption or uncertainty could have an adverse effect on our business, financial results and operations.

Accountable Executive
Tim Kowalski,
Chief Financial Officer

Potential impact
Uncertainty around the UK's departure from the EU continues as a result of the political deadlock. The risks associated with Brexit are the possibility of a "no-deal" scenario and also the potential for an abrupt departure from the EU.

Risk movement/impact ↔

Key controls and mitigating factors
Similar to any UK company, we list Brexit as a significant risk due to the uncertainty surrounding the final form Brexit will actually take and when it will happen.

We continue to plan for Brexit internally and the Brexit Steering Group meets regularly.

As our operations around the world include business entities based in Continental Europe, we believe NCC Group is structurally resilient to any disruption caused by Brexit. The main risks to our business from Brexit are:

- Any reduction in demand from an economic slowdown
- Real or perceived differences in data protection standards, which impact our global ways of working

Risk movement: ↑ Increased ↓ Decreased ↔ Unchanged **Risk impact:** High Medium Low

Viability risk: VR **New risk:** NR

Extraordinary risk during the year

During the year, the global pandemic of Covid-19 occurred and while this had an impact on financial performance, it also provided opportunities. The Group mobilised its Executive Support Team and its business continuity plan in January 2020 and this enabled a number of planned initiatives to be brought forward to support a Group-wide response to remote working and delivery.

We have also successfully negotiated with our clients where appropriate to work remotely, which has minimised disruption to service delivery.

Viability statement

The context for assessment

In accordance with the requirements of the UK Corporate Governance Code, the aim of the viability statement is for the Directors to report on the assessment of the prospects of the Group meeting its liabilities over the assessment period, taking into account the current financial position, outlook, principal risks and uncertainties, key judgments and estimates in preparing the Financial Statements.

The Directors have based their assessment of viability on the Group's current business model and strategic plan, which is updated and approved annually by the Board, in line with our objectives to deliver sustainable and profitable growth, increase shareholder value and offer an improved service and product offering to our customers. This is underpinned by the strategic priorities outlined on pages 20 and 21 of the Strategic Report. The effective management of principal risks and uncertainties is outlined within pages 30 to 36 and this assessment emphasises those risks that could theoretically threaten the Group's ability to operate, or to continue in existence (with the VR designation).

The assessment period

The Directors have assessed the viability of the Group over the three-year period to May 2023, as this is an appropriate planning time horizon given the speed of change and customer demand in the industry and is in line with the Group's strategic planning period.

Assessment of viability

The viability of the Group has been assessed taking into account the Group's current financial position, available bank facilities, and the Board approved FY21 budget and three year strategic plan.

The Directors have produced a base case budget for FY21 which reflects the assumption of a continued impact from Covid-19 on Group revenues up until November 2020 at a similar level to that experienced in the last quarter of FY20. In addition, years 2-3 of the strategic plan reflect a reduced growth rate and that the growth is starting from a lower base (FY21). The Directors have also modelled the impact of certain scenarios arising from the principal risks, which have the greatest potential impact on viability in the period under review, as set out in the table below. In addition to these risks, the Directors have further stress tested the forecasts by applying a further decline in revenue over and above the Covid-19 impact already reflected in the base case strategic plan. Further details of how these sensitivities have been applied is provided in the 'Going Concern' disclosures in Note 1 to the Financial Statements.

The impact of these sensitivities has been reviewed against the Group's projected cash flow position, available bank facilities and compliance with financial covenants over the three-year viability period. Should these occur, mitigating actions would be required to ensure that the Group remains liquid and financially viable, which include a reduction of planned capital expenditure, headcount reduction, freezing pay and recruitment and not paying a dividend to shareholders, all of which are within the Directors' control.

Conclusions

Based on these severe but possible scenarios, the Directors have a reasonable expectation that the Group and Company will be able to continue in operation and remain commercially viable over the three year period of assessment.

Scenario	Associated principal risks and uncertainties	Description and potential impact
Business strategy	Attracting and retaining appropriate colleagues' capacity and capability	Failure to deliver the SGT transformation programme. Loss of key colleagues or inability to attract and retain key talent. The potential impact of the above would act as a barrier to future growth.
Systems failure	Availability of critical information systems Cyber risk (including data protection)	A critical systems failure, leading to an inability to provide services to customers. The potential impact of this would be short-term reputational damage and an inability to do business in the short term, impacting revenue and profits.
Cyber security breach	Cyber risk (including data protection)	A cyber security breach occurs with theft of data and disruption to business services. The potential impact of this would be long-term reputational damage significantly impacting future revenue.
Covid-19 (over and above base case short-term impact)	Global pandemic – Covid-19	The world was victim to a global pandemic of Covid-19 in early 2020. Most affected countries were locked down for a minimum of six weeks. The potential longer-term impact of this would be loss of jobs due to loss of revenue. There would also be reputational damage if there was a cyber security breach due to the remote working we have put in place to safeguard our people.

Consistent and authentic engagement

We believe by understanding and meeting the needs of our stakeholders, we will secure long-term success. This is achieved through consistent and authentic engagement.

Here we have highlighted our key stakeholders, their identified needs and how we have engaged with them. Engagement of each stakeholder is done so with the NCC Group values at the heart of everything we do. We use insights to support our approach, addressing opportunities to build enduring and trusted relationships. Insights are gathered during our day-to-day business and are used to improve decision making at every level of the organisation – from the Board down to operations.

Section 172 statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way they consider, in good faith, would most likely promote the success of the company for the benefit of its members as a whole but having regard to a range of factors set out in section 172(1)(a)–(f) in the Companies Act 2006. In discharging our section 172 duty, we have regard for these factors taking them into consideration when decisions are made. Examples of how the Directors have oversight of stakeholder matters and have regard for these matters when making decisions are set out on these pages.

Customers

Providing solutions which help to keep their businesses safe and secure.

The opportunity

- Understanding our customers' challenges
- Developing solutions which improve and enhance our customers' cyber resilience
- Ability to work collaboratively with them and their partners

How we listen and engage

- Active account management
- Regular client surveys and acting on their feedback
- Investing in research to understand and quantify the risk with regard to the technology they use and the threats to the sectors and industries in which they operate

2019/20 highlights

- New Group Sales and Marketing Director joined in October 2019
- Appointed Security Assessment Partner for Google's Gmail programme
- Fox-IT and ZyLAB joined forces to deliver a highly efficient solution to search digital files
- Accredited and awarded a security label from ENX to perform automotive security assessments for the German car manufacturing industry through the TISAX framework
- Recognised as an Accountability Agent in the United States as NCC Group Security Services, Inc. under the emerging Asia-Pacific Economic Cooperation (APEC) Cross-Border Privacy Rules (CBPR) and Privacy Recognition for Processors (PRP) systems

Covid-19 action

- Quickly established remote working capability to ensure we could continue to support our customers' cyber resilience needs

Colleagues

We are a people business and our 1,800+ colleagues around the world each have a significant role to play in helping to make the world safer and more secure.

The opportunity

- Understanding our mission, vision, values and strategy
- Understanding what is expected of them and knowing how they are contributing to our success
- Having quality time with their line manager, and feeling listened to and supported, enabling them to have the confidence they have the skills to do their job well
- Feeling they belong and can thrive

How we listen and engage

- Global internal communication and collaboration platforms to provide access to information for all colleagues
- Learning and knowledge sharing conferences for our technology community
- Annual colleague survey with local team engagement action planning
- Global and local engagement events

2019/20 highlights

- Appointed Jennifer Duvalier as our lead Non-Executive Director for colleague engagement and during the year:
  - Launched the Listening sessions with a video to explain their importance, set expectations and create open and direct dialogue
  - Hosted sessions with small groups of colleagues face to face and also online
  - Included colleague engagement as a regular Board meeting agenda item to provide updates and feedback
- Annual colleague survey had a response rate of 80 per cent
- Developed a UK Colleague Forum as part of a broader plan to develop a global ambassador network
- Became members of Stonewall's Global Diversity Champion programme and appointed the first global LGBTQIA+ Committee
- Launched Manager Essentials programme
- Launched a dedicated research blogging platform to support the development of our technical community

Covid-19 action

- Activated a global wellbeing programme, from awareness to mental health first aid training
- Implemented a management system to prepare colleagues for return to onsite/office environments when appropriate

Shareholders

NCC Group is committed to engaging with our shareholders through continued sufficient and effective communication.

The opportunity
- Financial performance
- Dividend
- Sound long-term sustainable strategy
- Sound corporate governance and stewardship

How we listen and engage
- CEO and CFO regularly meet investors
- Investor roadshows after the full and half year results
- Chair meets investors on an annual basis
- Open door policy with investors
- The AGM
- New NCC Group plc website launched, which articulates the investment story

2019/20 highlights
- All resolutions passed at 2019 AGM with at least 89 per cent of votes for, with over 69 per cent of the issued share capital voting
- All directors attended the AGM and were available to answer shareholder questions
- Brokers and financial PR firm presented to the Board
- Regular reports to the Board on investors and their feedback

Covid-19 action
- Enabled more than 95 per cent of our services to be delivered remotely to maintain continuous operations, while carefully managing costs and cash

Suppliers

We engage with a number of different suppliers across the business.

The opportunity
- Long-term trusted partnerships facilitating real margin improvement
- Strong working relationships
- Collaboration
- Fair contract and payment terms

How we listen and engage
- We now have a dedicated and experienced procurement function which actively manages and monitors key suppliers and supply chain trends
- Meetings held with key suppliers
- Supplier surveys (PQQ) an embedded part of the procurement process
- Intention to host a supplier conference
- Supplier "Code of Conduct" refreshed and relaunched

2019/20 highlights
- Launched Workday and Salesforce across the business as strategic enablers
- Engaged a global facilities management provider and outsourced two initial sites
- Introduction of risk-based analysis of NCC Group's supply chain
- Launch of the NCC Group Source to Pay Policy which underpins NCC Group's relationship with its supply chain

Our network

NCC Group has a diverse network, which is critical to the ongoing success of the business. This ranges from regulators and governments, to schools, universities and academics, to other partners and our local communities.

The opportunity
- Being mindful of our environmental impact
- Being a responsible corporate citizen, e.g. paying our fair share of tax
- Providing work experience
- Charitable giving
- Being a trusted partner to governments around the world
- Engaging with global think tanks and trade associations to understand cyber research priorities and opportunities, and offer expertise to shape policy and industry positions
- Regularly sending speakers to cyber conferences and roundtable events

How we listen and engage
- UK Computer Misuse Act reform campaign to ensure appropriate legal frameworks suitable for the 21st century
- Responding to government consultations and parliamentary inquiries, and hosting politicians and civil servants at our offices and in Parliament, to offer expert input into policy development and debate including on issues such as cyber risk metrics, Internet of Things security standards and 5G
- Apprenticeship, graduate and work experience schemes, including support for the UK's CyberFirst scheme, and the NeuroCyber community
- Strategic partnerships with and trusted advisor to the UK and Netherlands National Cyber Security Centres
- Emerging relationships with the Australian National Cyber Security Centre

2019/20 highlights
- Assisting UK government on formulating its post-2021 National Cyber Security Strategy
- Support to the UK National Cyber Security Centre through its Industry 100 scheme in Threat Operations, Parliament and Policy and Telecommunications
- Developing a partnership with the UK's Small Charities Coalition to enable NCC Group colleagues to provide cyber advice and mentoring to charities
- Support the launch of the Manchester Cyber Resilience Centre through sponsorship and appointment of Steve Boughton on the Board
- Sponsorship and contributor to the Software Assurance Maturity Model (SAMM)

Covid-19 action
- Support to national health care and cyber bodies around the globe during Covid-19 through the provision of healthcare sector relevant threat intelligence related to organised crime at no cost

Acting responsibly for our future

Our environmental, social and governance (ESG) framework captures our commitment to positively impact the communities we serve and gives focus to our actions to achieve this.

> "
> **Each day at NCC Group our technologists and professionals wake up with one mission – to help make the world safer and more secure.**

YVONNE HARLEY
Group Head of Communications

Our environmental, social and governance (ESG) framework covers issues from colleague wellbeing through to global societal issues such as climate change, local benefits and customer satisfaction.

We believe that NCC Group has a significant role to play due to the importance of technology in achieving the United Nations Sustainable Development Goals. The benefits of a clear, strategic and long-term approach to sustainability benefit both our business by strengthening our resilience and protecting our licence to operate via regulatory compliance, and our wider stakeholders including our people, our communities and broader society.

Our ESG framework was developed following a gap analysis exercise earlier this year, which identified the priority focus areas for our business. It also includes new opportunities presented by the global pandemic in terms of how we work.

Like other businesses, we found ourselves in a unique and uncharted position with the transformation of our business to operating nearly 100 per cent remotely. We took this as an opportunity, not just in terms of engagement with colleagues but also customers, and it provided us with some tangible insights into how we could operate in the future as an even more responsible business. Due to the ongoing uncertainty in relation to timescales of opening offices safely, we are taking a measured approach to considering how we can harness the benefits for our future sustainability goals.

Our priority during the pandemic was, and remains, the welfare of our people and ensuring the safety of our customers.

At this stage of developing our ESG programme, we are setting focus areas, which over the course of the next financial year will help inform what our targets for improvement should be. When we set targets they will be authentic and realistic and will have the right resource behind them to make them happen and to ensure we are acting responsibly for our future.

Our contribution to the United Nations Sustainable Development Goals

The United Nations Sustainable Development Goals (SDGs) provide us with a blueprint to achieving a better and more sustainable future for all, building on our existing inclusion and diversity agenda. NCC Group's purpose, to make the world safer and more secure, reinforces our commitment to improve against the SDGs that are most relevant for our business and our stakeholders.

If we look at the importance of technology in achieving these goals then we can better understand how we can play our part:

- Empower individuals so they can advocate and innovate
- Digital financial services enable the non-banker to bank
- Connectivity increases productivity of SMEs
- Social inclusion through technologies that are accessible and trusted
- Reach the unreached with education
- Improve quality healthcare through telemedicine technology
- New technologies monitor, track, provide information to farmers and provide access to markets
- Country to city – transmission to smart cities will support climate action
- Saving lives in disasters through technology
- Innovation and infrastructure – information and communications technologies (ICT) partnerships and platforms

SDGs

Our key sustainability focus areas and objectives

Our stated objective in our Code of Ethics Policy is to treat everyone and everything with respect. This sets the tone for how we do business and informs our key focus areas and our objectives:

ENVIRONMENT

Respect our environment

- Increase education and action on recycling in our physical and remote office environments
- Reduction in our reliance on printing by adopting a digital-first policy for marketing and internal communication materials

Reduce our non-essential travel

- Use technology to continue to innovate how we engage as an organisation and realise the social benefits this has with respect to inclusion and general health and wellbeing
- Ensure a considered approach to how we work in the future and the role remote working has in increasing the opportunity for employment within our industry, as well as enabling our people to balance the various priorities in their lives

Evolve to remote

- Continue investment in our services and innovative solutions to enable agile deployment quickly and effectively to support customers and enhance their cyber resilience
- Review how we use our existing office space, how our people work and how we deliver services to our customers

SOCIAL

Community investment and benefit

- Continue to develop our cyber skills volunteer programmes, working with local partners to enable our colleagues to give back to their communities

Health, safety and wellbeing

- Invest in creating a network of trained Mental Health First Aiders in key locations across the Group
- Continue investment into and review ways of working to ensure that our colleagues and customers are operating safely at all times, including during the global pandemic

Skills, diversity and development

- Invest in our performance management programme to ensure that every colleague has the opportunity to achieve their very best and fulfil their potential
- Embrace difference and create opportunity for all to contribute to the success of NCC Group through a dedicated inclusion and diversity programme
- Make time to enable colleagues to personally reflect on how what they do contributes to making the world safer and more secure

GOVERNANCE

Quality services and satisfied customers

- Build long-term sustainable relationships, earn trust through meeting their needs and deliver the highest quality of services
- Evaluate our performance and welcome feedback to ensure we continually improve, and deal with any issues swiftly and properly
- Win business fairly and use our internal process to assess and carefully consider doing business with any customer which may compromise our Code of Ethics

Responsible supply chain

- Enter into any supplier or partner relationship with a mutual understanding of each other's Code of Ethics and general business policies.
- Have in place a Supplier Code of Conduct to ensure we protect the integrity of our ethics across the supply chain

Good governance enabling investment, innovation and sustainable growth

- Provide accurate and timely information to shareholders and at all times observe the relevant regulations and corporate governance principles to protect the integrity of our business operations
- Consider the interests of all our stakeholders, including our people, when we make decisions on NCC's future priorities and plans

Environmental

In 2019 we launched a pilot next generation management programme. The one year programme offered a group of high potential colleagues the opportunity to develop key skills to support their move into management. The final part of the programme was to work on a real business improvement opportunity and they were tasked with proposing how NCC Group should tackle climate change.

The team swiftly got into action, slightly delayed due to the understandable shift in priorities as we had to move the whole organisation to remote working due to the impact of the pandemic. The team used the delay to consider how new ways of working may have presented us with opportunities to accelerate positive change. Remote working and flexible working both have a positive impact on reducing the pressure we place on local infrastructure.

Using both qualitative and quantitative survey methods, the team was looking at the whole picture in terms of climate change. Clear from the outset is that, whatever we do, it must be authentic and for the right reasons. While the move to remote working has reduced our office environment footprint, research is being undertaken to look at attitudes in the home environment too and also touches on the mental health impact to understand the whole picture.

Whatever the outcome, the global pandemic is enabling us to confidently have the conversation with our customers and colleagues on how we operate in the future and the positive impact this can have on climate action.

Over and above this, our commitment to minimising the impact of our operations on the environment continues. Due to the size and nature of the Group, an external environmental audit is not required. This area will be assessed 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:

1. Conserving energy and other natural resources and improving efficient use of those resources
2. Improving the efficiency of materials used
3. Reducing waste and increasing reuse and recycling wherever possible
4. Reducing the need for travel and encouraging the use of alternative means of transport, for example public transport, cycle to work schemes and car sharing
5. Promoting flexible working to reduce the impact on local infrastructures
6. Providing all colleagues with relevant environmental training and guidance

The above all being informed by the results of our climate change study.

Of our 105 company cars...

32.8% are alternative fuel

20.0% are hybrid

12.3% are pure electric

Our average fleet CO_2 of 107 (down from 111 in 2019)

Greenhouse gas emissions

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

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, BEIS, the US Energy Information Administration, the US Environmental Protection Agency and the Intergovernmental Panel on Climate Change. This section is included as per our mandatory reporting of greenhouse gas emissions pursuant to the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2014 and the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

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 be environmentally responsible business and to continue to reduce the scope 2 and scope 2 carbon intensity for the Group year on year.

	2020	2019	2018	2017	2016
Absolute carbon emissions (tCO_2e)	1,499	1,542	1,761	1,550	2,264
Group revenue (£m) (including discontinued)	263.7	250.7	254.5	244.5	209.1
Carbon intensity for the whole Group (tCO_2e/£m)	5.7	6.2	6.9	6.6	10.8
Year on year carbon intensity change (tCO_2e/£m)	(0.5)	(0.7)	0.3	(4.2)	(0.4)
Year on year carbon intensity change (as a %)	(8)	(10.1)	4.5	(38.8)	(3.6)

The total UK energy use in kWh for the year ended 31 May 2020 amounted to 47,220,024kWh. Due to the fragmented nature of this energy use information on a global basis, management is putting appropriate processes in place to collate this information going forward on a global basis.

Social

Colleagues

Each day at NCC Group our technologists and professionals wake up with one mission – to help make the world safer and more secure.

Together our colleagues form a phenomenal knowledge network easily accessed thanks to the investment made in our vibrant online collaboration and communication platforms like Microsoft Teams and Yammer.

We invest in formal and peer-to-peer learning too. There is always someone organising a lunch and learn on the latest ethical hacking technique or sharing leading research insights. We have a dedicated research blogging platform, where colleagues are actively encouraged to share their ideas with the wider public technical community. We also have a global newsroom that offers a platform for non-technical blogging.

Internally we have a news service that helps to keep colleagues connected to all the latest news from around the Group. Our CEO, Adam Palser, is a regular visitor to offices around the world, popping in for a coffee and a casual chat. While the global pandemic has restricted travel, virtual coffees or live sessions with the CEO have become popular features of our communications activity, thanks to our Securing Growth Together investment in communication and collaboration technology.

Social continued

Colleagues continued

These tools helped us stay connected as a community during the pandemic restrictions, enabling us to seamlessly work remotely to support our customers. They were used to accelerate our global wellbeing initiatives and provide colleagues with a number of support routes as appropriate.

We aim to create an environment where everyone can reach their full potential.

Values

At NCC Group, we trust our colleagues to do the right thing, guided by our values.

We work together

No matter how brilliant an individual might be, they are no match for a team. Our best and most impactful work has always resulted from collaboration. We act in the best interests of the whole Group and we never miss an opportunity to help each other and our customers. We exist to help keep our customers safe and secure – the better we understand our customers and their values the better we can help them thrive. So we work closely with our customers too.

We are brilliantly creative

We like to win. We are brilliantly creative – not pointlessly or stupidly or obstructively creative. We like to and are good at solving hard problems. We work hard but, in our world, success does not just come from hard work – it comes from looking at things differently and never being satisfied with the way things are. In being brilliantly creative, we need to work together – we expect collaboration, innovation and diversity, which brings us onto our third value.

We embrace difference

The ability to think in a different way (to, for example, how systems were intended to be used) is what leads to much cyber vulnerability and is the cornerstone of the security testing and risk work we do.

So we work together, we are brilliantly creative and:

- We welcome and actively seek out diversity in our thinking and in our internal representation
- We seek constructive challenge as we gather information before making a decision
- We want to keep NCC Group's quirky and distinctive culture (unusual in an attractive and interesting way)

Listening to colleagues

In 2019, we ran our second consecutive colleague engagement survey – b:Heard. With an 80 per cent participation rate it provided us yet again with a great platform to continue to improve the workplace experience for colleagues.

In addition to the ongoing feedback through our social and collaboration channels we appointed Jennifer Duvalier, as the designated Non-Executive Director, for our colleague engagement programme. You can read more details on page 58 of the Corporate Governance Report about how this has been progressing.

In the UK, we launched a new colleague forum as a pilot for our planned global ambassador network, which will ensure every colleague's voice is heard no matter where they are, what they do or how they choose to engage. Local representatives will form the global network and it will be an important part of our engagement strategy going forward.

Inclusion and diversity

We want to create an environment where all colleagues feel psychologically, emotionally and physically safe to be authentic and representative of the diversity of the world they live in, to share their personal experiences and to have equal opportunity to achieve.

We want to drive the focus globally but empower local action, ensuring that we reflect and embrace our differences.

Neurodiversity

As members of the UK Neurocyber group, we strive to create an environment where people with autism spectrum disorder conditions are treated as individuals and given help and assistance to meet their personal needs to enable them to be successful in the workplace.

Race and ethnicity

We are a global business with colleagues in various countries around the world and our aim is to attract the best candidates, regardless of where they come from. We work hard to be an inclusive workplace where everyone is treated with respect and we will not tolerate any sort of discrimination or harassment. But saying it is not enough, and like many companies addressing the ongoing challenges with racial disparity, we are increasing our efforts.

Case study

Inclusion

As part of our ongoing commitment to creating a diverse and inclusive workplace, we signed up to Stonewall's Global Diversity Champion programme in January this year. This has been followed by the establishment of a global LGBTQIA+ Committee, creating a positive workplace experience for our LGBTQIA+ colleagues, and supporting the work we are doing around SDG 10 – Reduced inequalities.

We are using Stonewall's extensive resources and guidance to help inform how we do business – from people policies to travel – ensuring the safety and wellbeing of all colleagues.

> **"This membership, along with our colleagues' personal experiences and passion, enables us to create an even better place to work. We want to ensure everyone feels welcome and has an equal opportunity to play a part in the Group's success.**
>
> COLIN WATT
> Global Chief People Officer

Case study

Military forces

In February we took our first step in pledging support to the military forces community and their families by signing the UK's Armed Forces Covenant. The Covenant is a promise made by organisations to ensure that those who serve or who have served in the armed forces, and their families, are treated fairly.

The Covenant was signed by CEO Adam Palser alongside Lieutenant General James Hockenhull OBE, Late Int Corps, witnessed by members of our team who previously served in the UK Armed Forces. This supports the work we are doing under SDG 8 – Decent work and economic growth.

"Signing the Armed Forces Covenant is the first step in an enduring and important relationship with the Armed Forces community. Over time, we will work to strengthen and expand this relationship, confident in the knowledge that it will bring benefits to both NCC Group and the regular, reserve and retired forces community, not just in the UK but wider too.

ADAM PALSER
CEO

This is an inclusive process with opportunities for colleagues across the firm to be involved, share experiences and help set the vision for how it should feel in the future. The scope will include, but not be limited to, our hiring process, the channels we use for recruiting, promotion and career progressions, inclusivity and fairness, metrics and tracking of progress.

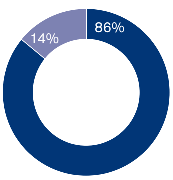
Gender

We take our role as a responsible employer seriously and see the UK requirement to publish gender pay gap figures as a positive move towards transparency around a key issue within our industry. We recognise that steps need to be taken to improve our gender mix at all levels as a part of our broader strategy and the investment we are making under our sustainability agenda is supporting us to achieve this. Our full report is available to view on our website. We are striving to improve gender equality through the following steps:

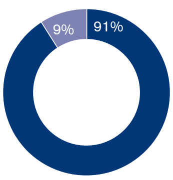
- Transforming the way we recruit so diversity is promoted in all forms
- Focusing on flexible working, addressing unconscious bias and standardised interview formats
- Celebrating International Women's Day to encourage visible role models who shared their experiences, including our Non-Executive Director Jennifer Duvalier, and motivate others to achieve their career potential
- Working in collaboration with industry initiatives such as the UK government's CyberFirst programme aimed at developing the next generation of cyber professionals

The statistics setting out the position of the Group on a gender basis are disclosed below (as at 31 May 2020):

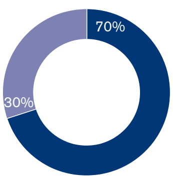
Main Board



Executive Committee



Direct reports to the Executive Committee



■ Male ■ Female

LGBTQIA+

We believe in a workplace that empowers people to be proud of who they are and feel safe, regardless of their sexual orientation and/or gender identity. We want to be the best company to work for, for everyone including lesbian, gay, bisexual, transgender, queer/questioning, intersex, asexual and other colleagues.

With colleagues travelling all over the world, our travel policy takes into account any potential issues for our LGBTQIA+ colleagues and seeks to ensure they are not disadvantaged as a result or put into an unsafe environment.

Flexible working

Prior to the global pandemic we were already trialling flexible working in several of our global offices following requests from colleagues. Now with the experience from the pandemic we are keen to continue to explore how we may work in the future and while we have this under our environment element of ESG, we are conscious of the positive impact it can have on the personal lives of colleagues too. Flexible (including remote) working is an enabler to attracting and retaining a diverse workforce.

Leadership development and talent management

During the year we made two changes to the Executive Committee. Max Baldwin joined as Group Sales and Marketing Director and Simon Fieldhouse joined as Global MD – Software Resilience (Escrow). You can read more about their appointments on page 54.

A pilot next generation 12 month management programme ran in our global Software Resilience (Escrow) business to support ambitious individuals in getting the experience they needed to move into a management role. Since the programme launch, seven out of eight of those taking part have now successfully applied for and achieved promotion to a management role and are applying the skills they learned. The pilot will now be developed into a Group-wide offering as part of our ongoing investment in developing talent.

Case study
Wellbeing

While we quickly transitioned to fully remote working across our Group we recognised the need to focus on health and wellbeing as part of our response activities.

Using pulse surveys we gave colleagues a chance to raise their hand to ask for help. This was enhanced with local initiatives too and complemented existing colleague support mechanisms in place. From formal programmes to informal programmes, teams were quick to be creative and innovative to ensure they stayed connected.

A lockdown toolkit was created, providing individuals and line managers with ideas on how to stay connected, use technology to support ideation and innovation, and have a healthy routine at home.

The key was ensuring that colleagues knew it was okay to say they were not okay and that someone was there to support them. This increased focus on wellbeing is driving our FY21 mental wellbeing programme, which will see line manager training and mental health first aiders being trained across the Group.

> **It is okay to not be okay and here at NCC Group mental health and wellbeing is firmly on our agenda in support of Sustainable Development Goal 3 – Good health and wellbeing.**
>
> **YVONNE HARLEY**
> Group Head of Communications
> and a Mental Health First Aider

Governance

Anti-corruption and anti-bribery
We do not tolerate bribery and corruption. We have established policies on anti-bribery and gifts and hospitality. Anti-bribery awareness is part of the colleague induction process and regular refresher training is also provided. Colleagues can also report any concerns to their manager or, if required, a confidential reporting service operated by an independent third party and with plc Board scrutiny.

We aim to engender in our colleagues principles of honesty and integrity, and the desire to work to the best of their ability. We strive to act in a professional, honest and ethical manner in all our dealings with our clients, colleagues, shareholders, suppliers and the community. Our reputation is paramount and nothing we do should detract from, or compromise, our standing in the market and the community. Our independence and impartiality as a Group is fundamental. We have a Code of Ethics Policy, which all colleagues are required to adhere to.

Human rights (including anti-slavery and human trafficking)
We recognise our responsibility to uphold and protect the rights of individuals in all aspects of our operations across the world. Our Human Rights Policy makes it clear that we will observe and uphold the principles contained in the Universal Declaration of Human Rights and the International Labour Organization Fundamental Conventions. We believe that human rights belong equally to all people without distinction as to race, colour, sex, language, religion, political or other convictions, national or social origin, birth or other traits. We support freedom of association, the abolition of forced labour and the elimination of child labour.

We have a zero-tolerance approach to modern slavery and are committed to acting ethically and with integrity in all of our business dealings and relationships. We communicate this to all our suppliers, contractors and business partners at the outset of the relationship and regularly thereafter. Our Modern Slavery Statement is available on our website.

Governance and oversight
The Board recognises that robust governance and oversight are vital to maintaining a strong business, which can weather a changing business environment. With this in mind, the Group has a dedicated Global Governance function, which has been designed to work together to ensure seamless oversight of the control environment and management decision making. The team is made up of:

- Group Legal Services
- Information Security
- Data Protection
- Compliance and Standards
- Health and Safety
- Internal Audit

Global Governance is an independent function, with all of these functions reporting into the Group Board, or its sub-committees: Audit Committee and Cyber Committee.

The primary remit of the team is to validate compliance with the Group's policies and procedures, legislation and regulations and good practice. In addition, the team adds value through its proposition to drive efficiency, effectiveness and consistency across the Group. 2020 has seen the establishment of the minimum financial controls self-assessment and a minimum health and safety framework self-assessment to drive accountability and continual improvement across all of our offices. This process empowers local office management to identify control environment improvements outside of the standard audit processes and actions are uploaded and monitored via the IRMS system.

This Strategic Report was approved by the Board of Directors and signed on its behalf by:

Adam Palser
Chief Executive Officer
3 September 2020

Tim Kowalski
Chief Financial Officer
3 September 2020

Read more on our governance on **page 49**

Giving back:
Free cyber threat intelligence to global healthcare providers

In response to the continued and sustained attacks on healthcare providers, we offered our unique healthcare threat intelligence free of charge to help hospitals build cyber resilience.

The offer went out direct and through our existing contacts to national Computer Emergency Response Teams, hospitals and national institutes of public health around the world.

The report, compiled by our Fox-IT threat intelligence team based in the Netherlands, included:

- An Executive briefing
- Threat actor descriptions
- How to apply threat intelligence to systems
- Chronology of targeted ransomware in hospitals and health clinics
- A Technical Indicator of Compromise pack related to targeted ransomware threat actors for deployment to institutions or national capabilities

With regular updates, those taking up the offer also had access to a specialist team of threat intelligence analysts and incident responder who were on hand to answer questions arising from the report.

With the world's healthcare systems increasingly reliant on technology, and under significant pressure dealing with a global pandemic, building resilience is crucial. The provision of this threat intelligence free of charge was important to help them build this resilience for the longer term. And it was our way of saying thank you to those working hard to keep us safe and healthy.

"Thinking of our NHS in everything we do."
Matt Trueman – Cheltenham

Governance

As Directors we recognise the renewed focus on the contribution that a successful company can make to wider society in general, in addition to generating value for shareholders, and as a Board we want to ensure that we have effective engagement with, and encourage participation from, shareholders and other stakeholders.

IN THIS SECTION:

Committed to good governance

"One of the most significant changes to the Code affecting NCC Group is in respect of workforce engagement. As a people business, this is a crucial area for us to focus on and get right.

CHRIS STONE
Non-Executive Chair

2019/20 highlights

- Appointed a designated NED for workforce engagement who reports to every Board meeting
- Obtained a better understanding of our stakeholders and how we engage with them
- An increased focus on ESG matters
- Kept normal Board and strategy day scheduled during lockdown and no meetings cancelled

2020/21 priorities

- Continuing to focus on our stakeholders particularly colleague engagement
- Restarting off-site and overseas Board meetings and engaging with local colleagues
- Six month health check on Board evaluation priorities
- Continuing to focus on succession planning and diversity and inclusion

Dear Shareholder

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 for our colleagues, our customers, our suppliers and our advisers.

Governance standards

As a Board we have focused our attention on the requirements of the UK Corporate Governance Code 2018 (the 'Code') and are reporting against this Code in our Annual Report and Accounts. A key focus for the 2018 Code is culture and ensuring that it aligns with the Group's purpose, strategy and values. Culture has been high on the Board's agenda for some time and the Board considers culture to be an essential ingredient in meeting our long-term, sustainable returns to shareholders and indeed our stakeholders.

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

One of the most significant changes to the Code affecting NCC Group is in respect of workforce engagement. Our main stakeholder is our colleagues and we wanted to develop meaningful mechanisms to ensure that we, as a Board, have meaningful and regular dialogue with our dedicated and committed workforce. This then puts us in a strong position to deliver our strategy.

To assist us with this, during the year, Jennifer Duvalier, a Non-Executive Director, was appointed as our designated Non-Executive Director for workforce engagement. Jennifer (along with other Non-Executive colleagues, including me) has been meeting and speaking with colleagues around the world and reporting back on findings at each Board meeting via a dedicated agenda slot. As a people business, this is a crucial area for us to focus on and get right.

Chair's introduction to governance continued

Our approach

As individual Directors we recognise our statutory duty to act in the way we each consider, in good faith, would be most likely to promote the success of NCC Group for the benefit of its members as a whole, as set out in section 172 of the Companies Act 2006. Our role as the Board is to set the strategy of the Group and ensure that management operates the business in accordance with this strategy. We believe this approach will promote the Group's long-term success and our customers' interests as well as create value for shareholders and have regard to our other key stakeholders such as our colleagues.

The Board's intention is to hand over the business to our successors in a better and more sustainable position for the future. We recognise the renewed focus on the contribution that a successful company can make to wider society in general in addition to generating value for shareholders, and as a Board we want to ensure that we have effective engagement with, and encourage participation from, shareholders and other stakeholders. During the year we have reflected on who our key stakeholders are and assessed our current engagement mechanisms to ensure the effectiveness of that engagement. We then factor into our decision making any feedback from that engagement.

Board changes

We have made no changes to the Board during the year. The biographies of all the Board members can be found on pages 52 and 53.

Board composition and diversity

We recognise that we still have progress to make in terms of improving the diversity of the Board and our Executive Committee. We will look to address this during future Board and Executive Committee appointments.

Given that this is a fairly young Board in terms of tenure, this improvement in diversity will not happen overnight but we are extremely cognisant of the need to make significant strides in this area to improve this and it is fully on our Board agenda.

With regard to our current diversity, I am satisfied that we have an appropriately diverse Board in terms of experience, skills and personal attributes among our Board members. The Directors have many years of experience gained across a variety of industries and sectors, ensuring a mix of views and providing a broad perspective.

Board tenure as at 31 May 2020

Effectiveness

As Chair, I am responsible for providing leadership to ensure that the Board operates effectively. I have been supported in this by all the Directors, in particular Chris Batterham, our Senior Independent Director. The annual reviews of Board effectiveness help the Board to consider how it operates and how its operations can be improved. This year, the review was undertaken internally and the findings of this review have provided us with ideas to further improve the manner in which the Board operates, and build on previous evaluations. The results were very useful and insightful and have been incorporated into our plans for the coming year. In particular, Board succession planning remains a priority, particularly as we look to ensure the Board and Executive Committee have the right set of skills and experience to support the Group in the years ahead as the business evolves.

I have been very impressed about how effectively the business as a whole, and indeed the Board, has transitioned to remote working during the Covid-19 pandemic. Although I feel that longer meetings are best done face to face, we have continued to hold all of our scheduled Board and Committee meetings as planned and also our strategy day. While being mindful of the impact of Covid-19 on the wider world and us as a business, our approach as a Board has been one of "business as usual" and we continue to focus on important longer-term strategic and governance issues facing the Group, while supporting management on more short-term tactical decisions.

Our investors

We are in regular contact with our large investors through a regular scheduled programme of meetings attended by either our CEO or CFO or both of them. Chris Batterham, our Senior Independent Director, and I are also available to meet with investors should the need arise.

I met with our larger investors in February 2020 and fed back my findings to Board colleagues at the next Board meeting. In addition, our brokers undertook an investor survey on the back of our half year results in January and the results of this were presented and discussed at a Board meeting. Our aim is to engage with our shareholders in an open and meaningful way.

Ensuring that the Directors' remuneration packages align the Directors' and senior managers' interests with the long-term interests of NCC Group and its shareholders is always a key area of interest for investors. Our Directors' Remuneration Policy was last approved by shareholders at the 2017 AGM and at the 2020 AGM we will be asking shareholders to approve a new Remuneration Policy.

The 2017 Directors' Remuneration Policy and indeed the Directors' Remuneration Reports over the last three years have received over 99 per cent of votes in favour, recognising the continued support of our shareholders for our approach to executive remuneration. The UK Corporate Governance Code 2018 has increased the role and remit of the Remuneration Committee and this is reported on within the Remuneration Report.

Statement of compliance with the UK Corporate Governance Code

The Company measures itself against the requirements of the UK Corporate Governance Code 2018 (the 'Code'), which is available on the Financial Reporting Council website (www.frc.org.uk).

From 1 June 2019 to 31 May 2020, the Company complied with the Code in full.

Chris Stone
Non-Executive Chair
3 September 2020

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

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.

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 deliver 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, the internal controls in place and the external audit process.

Read more on **pages 64 to 69**

Nomination Committee

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

Read more on **pages 70 and 71**

Cyber Committee

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

Read more on **pages 72 and 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.

Read more on **pages 74 to 92**

Chief Executive Officer

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

Executive Committee (ExCom)

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

- Developing the budget
- 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
- Being responsible for people, talent and culture

For further details on Board composition and division of responsibilities see **page 56**

Board of Directors

Our business is led by our Board of Directors. Biographical and other details of the Directors as at 31 May 2020 are as follows:

CHRIS STONE
Non-Executive Chair

N C

Appointment to the Board:
6 April 2017

Career experience
Chris has held various Non-Executive Director and Chief Executive roles at listed and private equity backed technology companies. He was CEO of Northgate Information Solutions plc, a UK listed company, from 1999 to 2008, when it was sold to a private buyer, and stayed as CEO until 2011. From 2013 to 2016, he was CEO of Radius Worldwide. During this period he was also a Non-Executive Director of CSR plc, and Chair of the Remuneration Committee, from 2012 until its acquisition by Qualcomm in 2015. Chris was also Chair of AIM listed CityFibre plc from January 2017 until June 2018, when it was sold to private equity buyers.

External appointments
Chris is also the Chair of Everynet BV, a privately owned Internet of Things infrastructure business, and Chair of AIM listed Idox plc.

ADAM PALSER
Chief Executive Officer

Appointment to the Board:
1 December 2017

Career experience
Adam's executive experience includes former CEO of NSL Ltd and EMEA Business Development Director at QinetiQ. His ten year QinetiQ career included responsibility for its cyber, information warfare and professional services business. 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. Adam has a First Class degree and Doctorate in Chemistry from Balliol College, Oxford, and is an alumnus of Stanford University's School of Business.

External appointments
Adam does not currently have any external appointments.

TIM KOWALSKI
Chief Financial Officer and Company Secretary

Appointment to the Board:
23 July 2018

Career experience
Tim is an accomplished CFO with significant listed and private company experience. Prior to joining NCC Group, Tim was Group Finance Director of Findel Plc between 2010 and 2017 and prior to that held similar roles with Homestyle Group Plc and N Brown Group Plc. Tim qualified as a Chartered Accountant with KPMG.

External appointments
Tim does not currently have any external appointments.

CHRIS BATTERHAM
Senior Independent Non-Executive Director

A C N R

Appointment to the Board:
1 May 2015

Career experience
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 the Senior Independent Director and Non-Executive Deputy Chair of Blue Prism Group plc, and Non-Executive Director at Nanoco Group plc.

Committee key:

A Member of Audit Committee
C Member of Cyber Committee
N Member of Nomination Committee
R Member of Remuneration Committee
Committee Chair

JONATHAN BROOKS

Independent
Non-Executive Director

R A C N

Appointment to the Board:
16 March 2017

Career experience
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. Jonathan was a Non-Executive Director of IP Group plc between August 2011 and March 2020.

External appointments
Jonathan does not currently have any external appointments.

JENNIFER DUVALIER

Independent
Non-Executive Director

C N R

Appointment to the Board:
25 April 2018

Career experience
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 and Chair of the Remuneration Committee of Mitie Group plc and of Guardian Media Group plc. She is Non-Executive Director of The Cranemere Group Ltd, a member of The Council of the Royal College of Art and Chair of its Remuneration Committee, and a senior adviser to the Cleveland Clinic London and to the Corporate Research Forum.

MIKE ETTLING

Independent
Non-Executive Director

A

Appointment to the Board:
22 September 2017

Career experience
Mike has strong sector and non-executive experience. He has had an extensive career in global technology businesses including SAP-Sucessfactors, NorthgateArinso, Unisys, Synstar and EDS and was formerly a Non-Executive Director of Backoffice Associates LLC, a US PE-backed data business, and also formerly a Non-Executive Director of Telkom BCX Ltd, a South African IT and telecommunications business.

External appointments
Mike is currently CEO of Unit4, a world leader in enterprise applications for services and people organisations. He is also Non-Executive Director of Impellam PLC, an AIM listed recruitment business, and Topia Inc, a Silicon Valley cloud relocation software business.

DIVERSITY OF SKILLS AND EXPERIENCE

Strategy development

Sales and marketing

Human resources

Corporate governance

Financial management

M&A

Professional services

Executive Committee

MAX BALDWIN

Group Sales and Marketing Director

Max joined the Group in October 2019 and has responsibility for Group-level sales and marketing activities, driving the business to meet its strategic growth targets. Previously holding senior executive growth, leadership and transformation roles in Airbus, AusNet Services, IBM, L-3 Harris and Ultra Electronics, his experience spans selling into multiple sectors: Aerospace, Defence and Security, IT, Global Services, Energy and Education.

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.

SIMON FIELDHOUSE

Global Managing Director, Software Resilience (Escrow)

Simon joined NCC Group in September 2019 and is responsible for the management and strategic development of the NCC Group Software Resilience (Escrow) division. Prior to NCC Group, Simon was the CEO of Hardware.com, an international value-added reseller of hybrid IT solutions operating in the UK, the USA, Europe and South Africa. He joined Hardware Group in 2004 as founding employee and led the growth and scale up of the business over 14 years in various roles including Global Sales Director and Chief Commercial Officer. Simon's early career includes International Marketing Director of Type 20 SRL, a subsidiary of eyewear giant Luxottica Group, and has also launched several start-ups in the Sports and Media sector.

YVONNE HARLEY

Group Head of Communications

Yvonne joined the Group in July 2018. With over 25 years in communications, Yvonne has international experience across a wide range of industry sectors including broadcasting, telecommunications, finance, oil and gas, and shipping. Former roles include Head of Communications roles at V.Group, BP and Castrol. Her experience and education cover the whole spectrum of stakeholder management – from public affairs to colleague engagement and media relations.

ROBERT HORTON

Global Head of Assurance Delivery

Acting MD of Assurance Netherlands (Fox-IT) effective from April 2020

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.

NICK ROWE

Managing Director, Assurance North America

Nick joined NCC Group in 2009 and held positions in both sales and delivery leadership, initially in the UK Assurance division. With 20 years' experience working in professional services, he specialises in the complex people and operational challenges of fast paced, high tech consulting teams.

Following a series of acquisitions in the USA, Nick relocated to California in 2013 to focus on managing the complexities of business integration and establishing the Group's North American operations. Currently as Managing Director of the North American Assurance division, he is responsible for the continued growth and execution of the Group's strategy in the region.

TOMAS SORENSEN BOYE

Managing Director, Assurance Europe

Tomas is the Group's Managing Director in Denmark. He joined NCC Group 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.

IAN THOMAS

Managing Director, Assurance UK and RoW

Ian joined NCC Group in December 2018 and is responsible for the Group's UK and APAC Assurance division. Prior to that he was UK MD at Sopra Steria for two and a half years, following a successful interim career working for a number of global businesses and private equity backed firms, in Managing Director and Sales Director positions. He was at Cable & Wireless for eight years, where he ran global Service Assurance and the Wholesale and Public Sector divisions. Ian's early career includes 14 years at British Airways running contact centres and offshore operations.

COLIN WATT

Global Chief People Officer

Colin is the Global Chief People Officer for NCC Group. He is responsible for the human resources team across the Group. Prior to joining NCC Group, Colin was the Director of Employee Engagement and Relations at Shop Direct, the online digital retailer. He previously held a number of senior leadership roles in Telefonica's O2UK, Research, European and Global HR teams and Co-operative Financial Services.

OLLIE WHITEHOUSE

Chief Technical Officer

Ollie Whitehouse is Chief Technical Officer at NCC Group 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 adviser to UK government on cyber security and is also a mentor at the CyLon incubator and an executive steering board member for the Internet of Things Security Foundation.

Board composition and division of responsibilities

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

Role	Responsibilities
Chair of the Board (Chris Stone)	Is responsible for the running and leadership of the Board, setting its agenda and ensuring its effectiveness on all aspects of its role, and promoting a culture of openness, debate and the highest standards of corporate governance. The Chair, 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.
Chief Executive Officer (Adam Palser)	Together with the senior management team (ExCom), is responsible for the day-to-day running of the Group's business, implementing the strategy and policies approved by the Board, and regularly providing performance reports to the Board. The role of CEO is separate from that of the Chair to ensure that no one individual has unfettered powers of decision.
Chief Financial Officer (Tim Kowalski)	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.
Senior Independent Director (Chris Batterham)	Provides a sounding board for the Chair and serves as an intermediary for other Directors, colleagues 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.
Non-Executive Directors (Jonathan Brooks, Jennifer Duvalier and Mike Ettling)	Bring experience and independent judgment to the Board. Maintain an ongoing dialogue with the Executive Directors which includes constructive challenge of performance and the Group's strategy.
Designated Non-Executive Director for engagement with the workforce (Jennifer Duvalier)	Leads on Board engagement with the workforce (please see separate section on page 58).
Company Secretary (Tim Kowalski)	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 Chair on governance matters. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

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 the Group's 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 2020 is shown below. Unless otherwise indicated, all Directors held office throughout the year.

	Board	Audit	Nomination	Cyber	Remuneration
Chris Stone	7	N/A	1	2	N/A
Adam Palser	7	N/A	N/A	N/A	N/A
Tim Kowalski	7	N/A	N/A	N/A	N/A
Chris Batterham	7	4	1	2	6
Jonathan Brooks	7	4	1	2	6
Jennifer Duvalier	7	N/A	1	2	6
Mike Ettling	7	4	N/A	N/A	N/A

Committee Chair

What have we looked at as a Board during 2019/20?

At every meeting the Board reviews the minutes from the previous meeting and the status of any outstanding actions. Colleague engagement is a standing agenda item presented by Jennifer Duvalier as our designated Non-Executive Director for workforce engagement. The CEO and CFO present their monthly performance update reports, which are also circulated to Board members in months where there is no scheduled Board meeting. In recent months, the Board has had reports on the Group's trading in light of Covid-19 along with the defensive measures the Group has taken in response to the pandemic. Potential opportunities created by Covid-19 have also been discussed.

The Board has also reviewed the following during 2019/20:

Leadership and colleagues

- Received an update on employee engagement and the results of the annual employee engagement survey
- Noted and approved the Group's values
- Approved a number of share scheme grants to employees including UK Sharesave, International Sharesave (in the Netherlands), and the Employee Stock Purchase Plan (in the US)
- Approved new Sharesave scheme launches in Australia, Denmark and Spain
- Approved a new all employee Share Incentive Plan
- Had an update from the Global Chief People Officer (CPO) on people, talent and succession planning
- Discussed and approved the approach to employee vetting
- Received an update on the composition of the Executive Committee
- Started a colleague engagement programme, with an appointed designated NED to lead, with regular updates to the Board
- Appointed a permanent Global Chief People Officer (CPO), Group Sales and Marketing Director, and Global Managing Director, Software Resilience (Escrow)

Strategy

- Received regular updates on the Group's transformation programme, "Securing Growth Together" (SGT)
- Held a dedicated one day strategy session (see page 58)
- Discussed the strategy day and the key points arising out of it
- Approved the establishment of a subsidiary company in Japan
- Received a presentation from the new Group Sales and Marketing Director on his first impressions and areas of opportunity, plus also an overlay of sales and marketing against strategy

Governance

- Completed the Board, Committee and Chair effectiveness reviews and discussed the results of these reviews, agreeing on key focus areas for the coming year
- Approved the Notice of AGM and Proxy Form
- Had a presentation on the Group's ESG framework (labelled as "sustainability" internally)
- Attended the AGM
- Recommended new Articles of Association to shareholders for approval at the AGM
- Set Board and Committee meeting dates for the next three years
- Reflected on Board stakeholder engagement and mechanisms for this
- Approved the change in Company Secretary
- Reviewed and approved the Delegated Authority Matrix along with the schedule of matters reserved for decision by the Board
- Reviewed and approved the terms of reference for all of the Board Committees
- Approved some minor amendments of an administrative nature to employee share plan rules
- Discussed and approved the Group's Modern Slavery Statement
- Reviewed Directors' outside directorships and potential conflicts of interest and also Directors' shareholdings
- Received a briefing on international travel and risks
- Noted and agreed the Board's annual programme of business

Financial

- Reviewed and approved the Annual Report and Accounts, ensuring that it is fair, balanced and understandable
- Discussed and approved the full year and half year results and associated presentations to investors
- Approved the interim and final dividends and discussed the dividend policy
- Noted and approved the 2019/20 Group insurance cover renewal
- Approved the drawing down of the Group's revolving credit facility to provide the Group with maximum cash flexibility
- Provided regular updates on the Group's cost reduction initiatives
- Discussed and approved the 2020/21 budget and had presentations from divisional MDs on their individual budgets
- Received presentations from the brokers and financial PR advisers
- Considered and approved trading updates
- Received regular updates from investor meetings and noted circular investor letters
- Received presentations on shareholder perspectives on the Company
- Started a colleague engagement programme, with an appointed designated NED to lead

Other Group business

- Kept updated on a number of strategic projects including the implementation of new business systems such as Salesforce and Workday
- Approved a number of major customer contracts
- Received updates on the Group's office location strategy
- Received regular updates on Brexit
- Received regular updates on material litigation affecting the Group

Board composition and division of responsibilities continued

Board strategy session

In March 2020 the Board held a dedicated one day strategy session which allowed for "deep dives" into all aspects of the Group's businesses. All Managing Directors from across the Group attended for the day so that ideas could be discussed and shared. Finance Directors from the Group's businesses also attended for their particular briefing session. Board members received a briefing pack in advance of the day which contained a high level presentation for each business along with additional background briefing material.

The day was divided into sections focusing on a different area of the business and included the three year strategic plans from the businesses around the Group such as:

- Assurance (UK, North America, Europe and APAC)
- Software Resilience (Escrow) (UK, North America, Europe and APAC)
- Overall corporate strategy

The Directors used the insights gained from the strategy sessions in their consideration of the 2020/21 budget and associated approvals.

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 are required to inform the Board without delay should they be aware of any actual or potential conflicts of interest and an annual check on conflicts and a report to the Board is undertaken each year.

Board independence

As required by the Code, at least 50 per cent of the Board, excluding the Chair, are independent Non-Executive Directors. The Board comprises two Executive Directors, four independent Non-Executive Directors and the Non-Executive Chair.

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 a colleague 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 the 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
- Has at the point of this report served on the Board for more than nine years from the date of their first election

Case study

Colleague engagement

Jennifer Duvalier agreed to become the designated Non-Executive Director to lead the Board's colleague engagement programme.

Jennifer also undertakes the designated Non-Executive Director role at Mitie Group plc meaning she has the relevant experience as to what is needed and can draw on her successful HR career. She is committed to understanding the views of our colleagues and ensuring they are incorporated into the Board's decision making process.

Colleagues were introduced to Jennifer via our internal social channels where she explained her role through a video and written communications. Jennifer has access to these channels to enable her to engage fully outside of the formal events.

Since the programme launched in January 2020, Jennifer has met colleagues in Atlanta, Chicago, Edinburgh and New York – virtually and face to face. The preference is face to face; however, with the pandemic we switched to virtual events as it was important to keep momentum. Jennifer has also been joined, on occasion, by our Chair, Chris Stone, to meet colleagues, all of whom are invited from below the mid-management level and all parts of the business to ensure diversity of thought.

Feedback from each session's participants is shared anonymously to the Board and to our CEO, Adam Palser. This enables action to be taken, further strengthening the value of listening. Colleagues attending are invited to give their feedback and so far, results have been positive and valued.

"I have really enjoyed getting out and meeting with colleagues across the Group. I have been very pleased by the positive comments received and have been impressed by the people I have met. Of course, there are things to be addressed in the short and long term and I hope that as the designated Non-Executive Director I am able to facilitate positive change and ensure that the colleague voice is heard strongly within the Boardroom and reflected within all the decisions we as a Board make.

JENNIFER DUVALIER
Designated Non-Executive Director

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 are set out in their biographical profiles on pages 52 and 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 (and indeed diversity across the Group) 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. Read more about diversity in the Nomination Committee Report on page 71.

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

Annual re-election

In accordance with the Code, any Directors appointed in the financial year are subject to election by shareholders at the AGM and, in line with best practice, all the other Directors are subject to re-election annually.

Director induction, training and development

No new members of the Board were appointed during the year.

New Directors are provided with an induction on appointment, which would include 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 strategy, business, operating divisions, colleagues, 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 is appraised annually and an internal effectiveness review was completed for 31 May 2020. The overall rating was very positive meaning that the Board and its Committees are functioning well.

The results were presented to the March 2020 Board meeting and following that the Chair held one-to-one calls with Board colleagues for "deeper dives" into any areas they wished to discuss in more detail. The Chair provided a final verbal update on the 2020 evaluation and its focus areas at the April 2020 Board meeting and has held sessions with the CEO to discuss areas highlighted by the evaluation process. We have also scheduled in a progress check in September 2020 (six months on from the evaluation process) to ascertain how we are doing against our proposed improvements and whether we need to do anything different in the second half of the financial year.

The evaluation identified changes which would improve the working of the Board, including:

- An increased focus on diversity
- Assessing and monitoring culture
- A continued focus on strategy and strategic discussion
- An increased focus on succession planning and ensuring that these plans are reviewed on a regular basis
- An increased focus on CSR/ESG

Although all of the above were considered important, it was agreed that the key area to focus on would be succession planning.

How will we improve in these areas?

To focus on the above actions, we have agreed the following:

Action	Progress and our plan
An increased focus on diversity	▪ Opportunity to improve diversity when there is a natural change of Board members ▪ Presenters to Board encouraged to highlight diversity statistics within their business area ▪ Unconscious bias training undertaken by the ExCom and will be undertaken by the Board
Assessing and monitoring culture	▪ More Board discussion on ensuring our culture aligns with our values ▪ Presenters to Board encouraged to highlight culture initiatives within their business area ▪ Having a designated NED for workforce engagement reporting back to every Board meeting will help with this ▪ NEDs to spend more time in the business and at different offices (this may need to be done virtually in the short to medium term) ▪ Reporting on the "mood" of the business within the monthly CEO reports ▪ Discussing the results of both the annual colleague engagement survey and the more regular "pulse" surveys

Board composition and division of responsibilities continued

Board and Committee effectiveness review continued

Action	Progress and our plan
A continued focus on strategy and strategic discussion	▪ One day dedicated strategy session now held annually, attended by all divisional Managing Directors and Finance Directors ▪ Ensuring strategy is more of an ongoing Board discussion between annual strategy days ▪ Shifting Board discussion away from short-term tactical issues to more longer-term strategic issues ▪ Annual budgets presented by each divisional Managing Director ▪ Board will check in on strategy halfway through the year
An increased focus on succession planning and ensuring that these plans are reviewed on a regular basis	▪ Additional Nomination Committee meeting planned during the coming year to focus on succession planning for the Board and senior management including a discussion on Executive Director succession planning in general terms ▪ Chris Stone (Nomination Committee Chair) and Colin Watt (Global Chief People Officer) have also met separately to scope a separate workstream on succession planning
An increased focus on CSR/ESG (labelled as "sustainability" internally)	▪ Global Head of Communications taken on ESG lead within the Group and presents every six months to the Board ▪ Gap analysis will be undertaken to provide an action plan to close the gaps ▪ Recognition that this area will become an ever more important area for new and existing clients when they are evaluating who to buy from and partner with ▪ Impact of NCC Group's operations will be reflected upon, e.g. energy use particularly from servers and client travel ▪ Separate social impact/social value report to be done in the future ▪ Partnerships with organisations such as Stonewall and the establishment of a global LGBTQIA+ Committee

Progress from the previous year

The 2020 evaluation process also reviewed progress on actions identified in the 2019 and 2018 evaluation processes.

Area identified in 2019 and 2018 evaluation processes	2020 evaluation – progress
An increased focus on succession planning and ensuring that these plans are reviewed on a regular basis	Good progress and firmly on the Board's and Nomination Committee's agenda (see above table for further details).
An increased focus on corporate social responsibility	Good progress and firmly on the Board's agenda (see above table for further details).
A continued focus on strategy and strategic discussion	Good progress (see above table for further details).
Enhancing Board interactions and communications with the Company and its customers	Good progress. The Board has interacted with a lot more colleagues on both a Company-wide basis and via receiving presentations from various members of the ExCom plus senior managers. Presentations from the Group Sales and Marketing Director on the customer perspective and regular updates on customers within the CEO's Report.
Developing Board involvement in the Group's culture related initiatives	Good progress (see above table for further details).
Strengthening of the senior management team	Good progress during the year with the appointment of: ▪ Global Chief People Officer ▪ Global Managing Director, Software Resilience (Escrow) ▪ Group Sales and Marketing Director Plus other senior positions now filled, e.g. Director of Global Governance and Group Financial Controller.

BOARD, COMMITTEE AND CHAIR EVALUATION PROCESS 2020

Company Secretary reviewed 2019 questionnaires and evaluation exercise results and, based on this, proposed questionnaires for the 2020 evaluation exercise.

The proposed questionnaires were reviewed and approved by the Chair and Committee Chair and (for the Chair's review) the Senior Independent Director.

Questionnaires were added to an online survey website which ensured the anonymous and efficient collection of answers.

Board members, the Company Secretary and regular Committee attendees were then invited to complete the questionnaires.

The responses were collated and analysed by the Company Secretary who then shared these with the Chair and Committee Chair and (for the Chair's review) the Senior Independent Director.

Summary reports together with the results and comments received were prepared for the Board and Committee meetings where the results were discussed and key actions for the coming year agreed.

The Chair held one-to-one meetings with Board members where areas of interest could be discussed in more detail.

The Senior Independent Director met with the Chair to discuss the Chair evaluation results.

Committee evaluation

During the year, each of the Audit, Remuneration, Nomination and Cyber Committees 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, as per the table below.

Committee	Focus areas
Audit	▪ Continuing to focus on systems implementation and risk and internal audit ▪ Ensuring more of a connection between our risk appetite and internal audit programme to ensure that the most material risks are covered
Cyber	▪ Taking the papers/presentations as read and focusing on more value-adding dialogue and discussion rather than going through the Committee briefing packs ▪ Further updates on the industry, cyber threats, dark web, etc. ▪ More frequent updates on the nature of the changing cyber threat landscape
Nomination	▪ The main area for Committee focus would be succession planning for the Board and senior management and in particular a discussion on Executive Director succession planning in general terms over the next 6–12 months
Remuneration	▪ Having further opportunity for more open and unfettered discussion ▪ Undertaking a review of the remuneration advisers ▪ Ensuring that the Group's reward structure aligns to the key issues facing the Group rather than standard industry practice

Individual Director appraisals process

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

Board composition and division of responsibilities continued

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's 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.

The Board 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, the annual budget and any material changes to them
- Oversight of the Group's operations, ensuring competent and prudent management, sound planning, and 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 the 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 and senior management Remuneration Policy
- Receiving reports on the views of shareholders and approval of all documents put to shareholders at a general meeting or circulated to shareholders
- Approval of the appointment of key advisers

The Board has reviewed and revised this schedule during the year and added specific matters where it feels they are critical to the ongoing success of the business and are of a significant nature to merit the Board having such a decision reserved to it. Also during the year, the Group Authority Matrix (which documents the levels of authority delegated from the Board to various role holders within the Group) was revised and refreshed. The schedule of matters reserved for decision by the Board and the Group Authority Matrix are complementary documents and are designed to ensure that decisions are either made by the Board or delegated to an appropriate senior colleague within the Group.

As noted above, the operational management of the Group is delegated to the Executive Committee. 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 Committee in relation to cyber risks and to the Audit Committee in relation to all other risks. The Board 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 aims 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 in conjunction with its insurance brokers. For a more detailed review of risk management processes, the principal risks faced by the Group and their mitigation, see pages 30 to 36.

The Audit Committee is responsible for reviewing the effectiveness of the risk management and internal control systems. The steps it takes in relation to the review are set out on page 68.

The Audit Committee makes a recommendation to the Board on effectiveness which the Board considers, together with reports from the Cyber Committee, in forming its own view on the effectiveness of the risk management and internal control systems.

During the year ended 31 May 2020, the Board reviewed the effectiveness of the Group's risk management and internal control systems. We confirm that the processes outlined above and on page 68 have been in place for the year under review and up to the date of approval of this Annual Report and Accounts and that these processes accord with the UK Corporate Governance Code and the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. We also confirm that no significant failings or weaknesses were identified in relation to the review.

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 77 to 83 of the Remuneration Committee Report.

Shareholder engagement

Share capital structure

The Company's issued share capital at 31 May 2020 consisted of 278,909,171 ordinary shares of 1p 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 the Board, 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 takes 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 AGM.

We are in regular contact with our large investors through a regular scheduled programme of meetings attended by either our CEO or CFO or both of them. Chris Batterham, our Senior Independent Director, and I are also available to meet with investors should the need arise. I met with our larger investors in February 2020 and fed back my findings to Board colleagues at the next Board meeting. In addition, our brokers undertook an investor survey on the back of our half year results in January and the results of this were presented and discussed at a Board meeting. Our aim is to engage with our shareholders in an open and meaningful way. During the financial year the Directors held a number of meetings with shareholders as set out 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.

Investor meetings

One-to-one meetings	Conference calls	Group meetings
20	**5**	**1**

Substantial shareholdings

As at 31 May 2020, the Company had been notified of the following interests of 3 per cent or more in the issued share capital of the Company under the UK Disclosure and Transparency Rules:

Shareholder	Number of ordinary shares	% of NCC's total share capital
Legal & General Investment Management	23,614,274	8.50%
Schroder Investment Management	15,364,318	5.53%
Castlefield Fund Partners	14,325,000	5.16%
Montanaro Asset Management	14,301,032	5.15%
Artemis Investment Management	13,822,640	4.98%
Unicorn Asset Management	10,796,426	3.89%

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 84 to 92 of the Directors' Remuneration Report.

Annual General Meeting

The 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 Chair seeks to ensure that the Chairs of the Audit, Remuneration, Nomination and Cyber Committees are available at the meeting to answer questions and all Directors attend.

The Company prepares separate resolutions on each substantially separate issue to be voted upon at the AGM. The result of the vote on each resolution is published on the Company's website after the AGM and will be announced via the regulatory information service. At the 2019 AGM, shareholders representing over 69.44 per cent of the Company's issued share capital returned their proxy votes.

On behalf of the Board

Chris Stone
Non-Executive Chair
3 September 2020

Ensuring integrity of our internal controls

> "The Committee particularly focuses on systems and processes of management control, the reporting of internal management information and externally reported financial information.

CHRIS BATTERHAM
Committee Chair

2019/20 highlights

- Thorough review of impact of Covid-19 on key judgmental areas
- Established new policy on the use of APMs and ISIs in view of best practice
- Review of IFRS 16 implementation
- Review of accounting policy for MDR revenue recognition
- Review of SGT progress and time/cost overruns

2020/21 priorities

- Review SGT progress during final year of programme, and ensure controls are in place to prevent additional time/cost overruns
- Monitor ongoing impact of Covid-19 on key areas of judgment
- Ensure compliance with new policy on APMs and ISIs

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, and 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 Guidance and Transparency Rules and other regulations
- Reviewing material information and significant accounting judgments contained in the Annual Report and Accounts
- 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 judgments 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

During the year, the Committee:

- Initiated and considered a revised risk review undertaken by the new Director of Global Governance who was appointed in January 2020
- Reviewed the ongoing programme to enhance the quality and clarity of the Group's external reporting, including in the Annual Report and Accounts
- Considered and approved updated policies including policies on: Treasury, Foreign Exchange, Tax Strategy and Individually Significant Items
- Received a presentation from the Group Health and Safety Manager
- Received regular briefings from the Director of Global Governance summarising risk management and control issues
- Reviewed the findings from the internal audit projects conducted during the year and approved the internal audit plan for the forthcoming year
- Reviewed the findings from the audit for the year ended 31 May 2019 and from the auditors' review of the half year results to 30 November 2019
- Reviewed all significant accounting areas and areas of significant management judgment. Reviewed KPMG audit conclusions in these areas
- Reviewed the impact of IFRS 16 'Leases' and disclosures following transition
- Reviewed the accounting policy for revenue recognition with respect to Managed Detection and Response, a significant growth area for the Group, to ensure accordance with IFRS 15
- Reviewed management's Going Concern and Viability Statement assessment, including Brexit and Covid-19 considerations. Reviewed KPMG audit conclusions in these areas
- Reviewed the impact of Covid-19 and management's conclusions on how this has impacted other judgmental areas such as impairment reviews and provisions for doubtful debts and expected credit losses
- Reviewed the progress of Securing Growth Together as we enter our final year of the programme, and commenced a review of the reasons for any time and cost overruns experienced (e.g. systems implementation)
- Reviewed management's assessment and our tax advisers' advice on transfer pricing due to the changing nature of the Group's global operations. Reviewed KPMG audit conclusions in these areas
- Was updated on progress in relation to the Securing Growth Together programme and received an internal audit health check report on the programme

Composition

The Audit Committee is chaired by me, a Chartered Accountant of 41 years' standing. I have previously served as the Finance Director of Unipalm plc, before becoming Chief Financial Officer of Searchspace Limited until 2005. 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 Code.

The other members of the Committee who served throughout the year are Jonathan Brooks and Mike Ettling. 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 and 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, standing invitations are given to the Chair, the other independent Non-Executive Directors, the Chief Executive Officer and the Chief Financial Officer, with other attendees also appearing by invitation. 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 in 2020 of the Group's Director of Global Governance who heads up the Group's internal audit function, a number of meetings were held with her without management being present.

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

Attendee	Meetings attended
Chris Batterham	
Jonathan Brooks	
Mike Ettling	

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 judgment 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 Alternative Performance Measures (APMs)
- 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 challenged the significant estimates and judgments made by the Group's finance team and considered the external auditors' reports setting out their views on the accounting treatments and judgments included in the Financial Statements.

Significant accounting areas and areas of significant management judgment or estimation uncertainty

The table below summarises the significant accounting issues, judgments and estimates 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 metric. Finally, the table shows the degree of judgment or estimation that the Committee feels has to be applied for each item. Items with a significant impact but with a "low" judgment level will typically have extensive independent third party evidence of the bases for any judgment. Areas assessed as requiring a "high" level of judgment 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 metric	Accounting judgment	Estimation required
Goodwill carrying values (recurring)	Group net assets £214.1m Goodwill value £193.1m	Adjusted [1] operating margin	N/A	High
Intangible assets – carrying values (recurring)	Group net assets £214.1m Intangible assets value £39.2m	Adjusted [1] operating margin	N/A	Low
Individually Significant Items and APMs (recurring)	Net charges £nil Adjusted operating profit [1] £29.3m	Adjusted [1] operating margin	Yes	Low
Long-term loss-making contracts (recurring)	Group net assets £214.1m Adjusted operating profit [1] £29.3m	Adjusted [1] operating margin	N/A	High
Revenue recognition – Managed Detection and Response revenues (IFRS 15) (current year focus)	Revenue £263.7m Adjusted operating profit [1] £29.3m	Revenue and growth rates Adjusted [1] operating margin	Yes	Low
Adoption of IFRS 16 'Leases' (current year focus)	Group net assets £214.1m Adjusted operating profit [1] £29.3m	Adjusted [1] operating margin	Yes	Medium

1 See Note 3 for an explanation and definitions of Alternative Performance Measures (APMs) and adjusting items. See Note 3 to the Financial Statements for a reconciliation to statutory information.

Goodwill carrying value

(Recurring item: see Note 12 to the Financial Statements)

The Group has made a number of historical acquisitions which generated goodwill at the time of purchase. On 31 May 2020, the Group had goodwill of £193.1m.

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 (higher of discounted future cash flows or fair value) 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 the discount rates to be used. This is set out in more detail in Note 12 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, particularly in relation to Fox-IT since this CGU is the most sensitive to movements in estimates and assumptions. There have been no changes to the CGUs in the current year.

The Committee concluded that no impairment should be recognised as either the discounted future cash flows or fair value was higher than carrying value. Sensitivity analysis is contained within Note 12 to the Financial Statements.

Intangible assets – carrying value

(Including acquired intangibles, software and capitalised development costs) (Recurring item: see Note 12 to the Financial Statements)

The total value of acquired intangible assets on 31 May 2020 was £39.2m. Acquired intangible assets are amortised over a period of ten years. Movements in the balance sheet values during the year are set out in Note 12 to the Financial Statements. Annual impairment reviews of each intangible asset are based on the same underlying discounted future cash flow models and fair value data that are used in assessing the carrying value of goodwill. These intangibles are included in their respective cash generating units. These models can contain a 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. Fair values are derived from external third party data. This is set out in more detail in Note 12 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 also undertakes 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 (including employee costs) are capitalised. The total value of development costs on 31 May 2020 was £4.2m, including additions of £1.3m.

During the year, management undertook a further review of assets likely to be impacted by the new system implementations arising from the Securing Growth Together programme. This resulted in no further write-offs. In previous years, write-offs for a number of legacy systems (net of R&D tax credit) were recognised as an Individually Significant Item.

Individually Significant Items and APMs

Individually Significant Items by their nature and scale could have a significant impact on the reporting of "adjusted" metrics such as "adjusted operating profit" [1], "adjusted EBITDA" [1] and "adjusted EPS" [1]. 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 Individually Significant. The Committee has also challenged management on the use of "adjusted" or APMs. All APMs are fully disclosed and reconciled to GAAP measurements in the Financial Statements.

During the year, management has reviewed the application of APMs and has considered ongoing FRC and ESMA best practice guidance in this area. Accordingly, management has concluded that for future accounting periods, share-based payments and amortisation of acquired intangibles, which are currently presented as adjusting items, should be included within underlying results. The decision to adopt this presentation for future reporting periods rather than in the current reporting period is because the implementation of IFRS 16 in the year (which does not require the restatement of 2019 comparatives) means that the 2020 results are not on a like-for-like basis with 2019, and management considers that it would be very difficult to understand the true, underlying performance of the Group if this presentational change to the Income Statement was made in the current reporting period. The impact of this proposal in future reporting periods will be a reduction in adjusted measures. Further details, including an illustration of how the Income Statement for the year ended 31 May 2020 would have been presented under this proposed basis, is included in Note 3 to the Financial Statements.

Following this review and challenge to management, the Committee concluded that no ISIs should be recognised in the year ended 31 May 2020 and concurred with management's conclusions on the future presentation of the Income Statement with respect to share-based payments and amortisation of intangibles.

Loss-making contracts

(Recurring item: see Note 21 to the Financial Statements)

During the year, the Group reviewed the major long-term contract in the Netherlands for the development and supply of a new product which was identified as a loss-making contract in 2018. This review was undertaken due to a significant change in the expected phasing of the contract revenues, although the overall expected loss from the contract is unchanged. This revenue phasing change relates to the final deliverable within the contract, which is now expected to be recognised in 2021. Management has reviewed the previous estimates of future income, costs and resulting cash flows associated with the contract, as well as the net present value (NPV) calculations of the contract.

The Committee reviewed and challenged the assumptions underpinning the cash flows and discount rates and is satisfied that the contracts have been correctly treated, and that in the case of the loss-making contract the liabilities recorded are reasonable.

In addition, during the year, the Group reviewed an additional long-term contract in the Netherlands for the development and supply of a new product. This review was undertaken due to a change in the expected number of hours to complete the contract during 2021. Management reviewed the previous estimates of future income, costs and resulting cash flows associated with the contract, as well as the net present value (NPV) calculations of the contract. Following this review, management's conclusions were to recognise a provision for this additional long-term contract of £0.2m. The Committee reviewed and challenged the assumptions underpinning this recognition and is satisfied that the contract has been correctly treated, and that in the case of the loss-making contract the liabilities recorded are reasonable.

Revenue recognition – Managed Detection and Response revenues (IFRS 15)

(Current year focus item: see Note 2 to the Financial Statements)

Managed Detection and Response (MDR) services is a growing revenue stream within the Group's Assurance division. A typical MDR contract has a number of performance obligations and sub-revenue streams, including set-up fees, post "go-live" fees, licence fees and monitoring services. Due to the growing nature of this revenue stream, management has performed a full review of the revenue recognition principles in relation to MDR revenues using the five-step model. Following this review, management concluded on a critical judgment in relation to IFRS 15 agency/principal control criteria. In particular, as control is not conclusive, management reviewed specific IFRS 15 guidance, applying it to the different types of MDR contracts.

The Committee has reviewed management's assessment of the revenue recognition principles in relation to each element of the Group's MDR contracts and is satisfied that they are reasonable.

Lease accounting (IFRS 16)

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

The Group implemented IFRS 16 'Leases' with effect from 1 June 2019. The Group has adopted the accounting standard using the modified retrospective approach to transition and has accordingly not restated prior periods. The results for the year ended 31 May 2020 are not directly comparable with those reported under the previous applicable accounting standard (IAS 17). On this basis, to provide meaningful comparatives, the results for the year ended 31 May 2020 have therefore also been presented under IAS 17 with the "like-for-like" numbers shown on an IAS 17 basis (Pre-IFRS 16). This Alternative Performance Measure will be presented for one year until the comparatives also include the adoption of IFRS 16.

The impact of adopting IFRS 16 is that leases which were previously classified as operating leases under IAS 17 for certain properties, equipment and motor vehicles are now recognised in the Financial Statements using the new requirements of IFRS 16.

The Group does not lease any server equipment in relation to the provision of Software Resilience services or have embedded leases within Assurance service contracts.

The Committee discussed the financial impact, the treatment being adopted and the IFRS 16 transitional disclosures, and is satisfied that the Group's leases have been correctly accounted for and disclosed.

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.

Internal audit

The internal audit function is responsible for internal audit, the assurance of other quality systems and processes, and monitoring the embedding of risk management processes throughout our operations. The internal audit plan was approved by the Committee during the financial year and a number of audits were performed, the findings of which have been reviewed by the Committee. The Group will look to increase the scope of the audit plan during FY21.

Internal controls and risk management

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

We have an ongoing process for identifying, evaluating and managing the principal risks faced by the Group which has been in place for the year under review and up to the date of approval of the Annual Report and Accounts. The Group's non-cyber security risks are monitored by the Audit Committee on behalf of the Board which sets aside time for an in-depth discussion of notable or changing risks to the business. A description of the process for managing risk together with a description of the principal risks and strategies to manage those risks is provided on pages 30 to 36.

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 risk management and internal control system are described below. Enhancements during the year are highlighted while the other elements have all been in place throughout the year.

Controls relating to financial reporting and preparation of the Annual Report and Accounts

- 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, discretionary cost reviews 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

Other controls

- 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 for all employees
- 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 regularly report their findings on those areas of internal control which they assess as part of the external audit and half year review to the Board and the Audit Committee.

Our internal control effectiveness is assessed through the performance of regular checks, which in the year ended 31 May 2020 included:

- Assessment of the identification and management of risks connected to the Group's strategy and management of strategic change
- Reviewing and testing the Group's financial reporting processes
- Performing compliance monitoring activities
- Assessment of the Group's processes for identifying and mitigating potential conflicts of interest
- Monitoring the completion of the Group's mandatory employee training

Whistleblowing and confidential reporting procedures

The Group operates a confidential reporting and whistleblowing procedure (known as our "Whistleblowing 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.

In the previous 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 noticeboards 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.

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 and effective and continues to improve.

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 any non-audit work undertaken by the auditors. 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 £50,000 (2019: £27,500) 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.

The external auditors were not engaged during the year to provide any services which may have given rise to a conflict of interest. The Committee is satisfied that the overall levels of audit and non-audit fees (i.e. the half year review fee) are not material relative to the income of the external auditors as a whole and therefore that the objectivity and independence of the external auditors were not compromised.

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 auditors' explanations of significant risks to audit quality by reference to the Company's specific circumstances and changes to the risks, including Covid-19 implications
- The fees charged
- Their attitude to and handling of key audit judgments
- Their ability to challenge and communicate effectively with management
- The quality of the final report
- The FRC's Audit Quality Review report relating to KPMG

During the financial year, I attended regular meetings with KPMG's engagement partner without management being present. This provided the opportunity for open dialogue. The engagement partner demonstrated his 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 lead audit partner rotates every five years to ensure independence and was last rotated in 2018. While the Company is not a FTSE 350 listed company, we continue to comply with the UK Competition and Markets Authority's (CMA) Statutory Audit Services Order ('Order') which states, among other matters, that FTSE 350 listed companies should put their external audit contract out to public tender at least every ten years.

The Group will continue to 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 effectiveness, 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.

Related party transactions and other fees approved by the Committee

Refer to Note 32 for related party transactions in the year. There were no such fees payable in the current year.

Fair, balanced and understandable

At the request of the Board, the Committee considered whether the 2020 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 reviews outlined in the diagram below include reviews of all material matters, as reported elsewhere in this Annual Report and Accounts, and reviews of the balance of good and bad news and ensure the Annual Report and Accounts correctly reflects:

- The Group's position and performance as described on pages 4 to 6 and 22 to 29
- The Group's business model as described on pages 18 and 19
- The Group's strategy, as described on pages 20 and 21

The independent reviewers 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. They undertake a qualitative review of disclosures and a review of internal consistency throughout the Annual Report and Accounts.

The Directors' statement on a fair, balanced and understandable Annual Report and Accounts is set out on page 96.

Chris Batterham
Chair, Audit Committee
3 September 2020

FAIR, BALANCED AND UNDERSTANDABLE

Financial information
- Prepared by individual business units
- Consolidated by Group Finance team
- Reviewed by Group Financial Controller and CFO

Narrative disclosures
- Prepared by Group Finance team
- Reviewed by Group Financial Controller and CFO
- Various reports prepared by Committee Chairs, CEO and CFO

Independent reviewers
- Senior members of the Executive Committee
- Those who have not been major contributors

Audit Committee Chair
- Review of detailed verification documents
- Review of findings and observations from independent reviewers

Assessing skills and capabilities

"We recognise that we still have much progress to make in terms of improving the diversity of the Board and our Executive Team (and indeed our workforce as a whole). The matter is fully on our agenda.

CHRIS STONE
Committee Chair

2019/20 highlights

- Succession planning and senior talent session held
- Briefed on plans to be a destination employer with a quirky, distinctive environment
- Obtained a more in-depth understanding of diversity and inclusion throughout the Group

2020/21 priorities

- Succession planning – deep dive session planned
- Continue to maintain sharp focus on diversity and inclusion at a senior level and throughout the organisation
- Being aware of future skills needs for the organisation

The members of the Nomination Committee are me along with Chris Batterham, Jonathan Brooks and Jennifer Duvalier.

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 Chair 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 Officer, in conjunction with the Chair, leads the process for the Chief Financial Officer. The Senior Independent Director leads the process for a new Chair 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, taking into account the Board's existing composition, including relevant experience and understanding of our stakeholder groups.

We also assess the time commitment required. Candidates are sought by third party executive search consultants and, where appropriate, through the assessment of internal candidates and are then formally considered by the Nomination Committee. Extensive external referencing is completed.

Diversity

Our objective is to have a broad range of skills, backgrounds, experiences and personal attributes within the Board as this ensures the Board is best placed to serve the Company.

All appointments are made on merit and against objective criteria with due regard for the benefits of diversity on the Board, including gender, nationality, and educational and professional background, as well as individual characteristics which will enhance diversity of thinking on the Board. The Company and the Committee value the aims and objectives of the Hampton-Alexander Review on FTSE women leaders and the Parker Review on ethnic diversity of UK boards and support and apply the Group's diversity policy.

The Group's gender diversity statistics are set out on page 45. At Board level, we currently have one female on our Board and no BAME Board members, but we note that diversity extends beyond the measurable statistics of gender and ethnicity. As such, while we do not set any particular targets, we continue to take diversity in its wider context into account, having regard to the diversity policy, and recommend only the most appropriate candidates for appointment to the Board.

That said, we recognise that we still have much progress to make in terms of improving the diversity of the Board and our Executive Team (and indeed our workforce as a whole). We will look to address this during future Board and Executive Committee appointments. Given that this is a fairly young Board in terms of tenure, this improvement in diversity will not be a quick process but we are very mindful of the need to improve this and take positive action, and the matter is fully on our agenda.

When a new Director is appointed they receive a full, formal and tailored induction into the Company and discuss with the Chair 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.nccgroupplc.com/investor-relations.

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

Committee meetings

During this financial year, the Committee held one scheduled meeting.

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.

Attendee	Meetings attended
Chris Stone	
Chris Batterham	
Jonathan Brooks	
Jennifer Duvalier	

Activities during the year

During the year, the Committee:

- Evaluated the skills, knowledge and experience around the Board table
- Reviewed the structure, size and composition of the Board
- Reviewed the Directors' length of service
- Reviewed the diversity of the Board
- Reviewed the memberships of all Committees
- Reviewed the expected time commitment of the Chair and the Non-Executive Directors

During the year, the Nomination Committee had an in-depth presentation from the Chief People Officer and the Global Head of Learning and Development which focused on people, talent and succession planning. This presentation looked at the overall current position and in particular senior succession, i.e. the Executive Committee and its direct reports. The presentation also described a roadmap to a 2022 future state where we wish to be a "destination employer with a quirky, distinctive environment." In terms of our ongoing focus on improving diversity, we are:

Processes

- Reviewing all our processes/documentation as part of our Workday system go-live – i.e. ensuring the wording on adverts and job descriptions is gender neutral
- Providing better tracking and reporting at all points of the colleague cycle to check for bias

Training

- Introducing a manager essentials programme which covers recruiting and managing a diverse team
- Providing unconscious bias training for leadership groups

Colleague voice

- Building on the NCC Cares Champions, creating colleague forums so that all colleagues have a voice and feel a greater sense of belonging and inclusion, regardless of their characteristics/how they identify

Long term

- Building strategic partnerships with organisations with hard to reach groups – women in technology, neurodiversity groups and BAME groups
- Connecting the initiatives we are involved in so we get the best return for investment – work experience, mentoring and Cyberfirst bursaries

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 the call for some additional work on succession planning for the Board, the Executive Committee and senior management.

The intention is to again have a Committee discussion on all senior roles during the 2020/21 financial year, to ensure that we have the depth and breadth of diverse talent to deliver our strategy.

External search consultancies

No external search consultancies were utilised in the year.

Chris Stone
Chair, Nomination Committee
3 September 2020

A focus on cyber risks

> "Through the Committee, the Group maintains a strong focus on information security and data protection risks, the controls we have in place to mitigate them, and how fluctuations in the cyber threat landscape affect both the risks and mitigations.

CHRIS STONE
Committee Chair

2019/20 highlights

- Implementing Microsoft Defender ATP
- Continued safe rollout of new cloud systems
- Successfully dealing with an upswing in SARs in a timely manner, hitting deadlines, and outsourcing for the first time
- Progress on our strategy despite challenging volumes of BAU and urgent Covid-19 related activities such as Cyberstore, LinkedIn and Google for re-marketing, and ImPartner and Hubspot for marketing

2020/21 priorities

- Enhancing SOC detection use cases
- Running cyber exercises to test our response processes
- Development of an Information Security and Data Protection (ISDP) Champion Framework throughout the Group
- Development of a global risk management framework

The Cyber Committee was formed to focus specifically on the cyber risks faced by the Group. This reflects the significant 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 information security and data protection policies, defences and controls, so as to comply with data protection regulations around the world (including GDPR, the EU's General Data Protection Regulation), and ensure that the Group looks after its own information, and the information that its customers entrust to it, with the proper care and attention.

The Committee was formed in November 2016 and I have been Chair since January 2018.

Chris Batterham, Jonathan Brooks and Jennifer Duvalier (all independent Non-Executive Directors) served as members of the Committee throughout the year.

The Group's Director of Global Governance, the Group's Chief Information Security Officer (CISO), and the Group's Data Protection Officer (DPO) 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 Committee's objectives and responsibilities

The Cyber 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 update reports from the CISO and DPO and ensure the CISO and DPO are given the right of direct access to the Committee
- Consider and recommend actions in respect of all cyber risk issues escalated to it
- 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 Committee's terms of reference can be found in the Group's Investors section of the Company's website: https://www.nccgroupplc.com/investor-relations/corporate-governance/. The terms of reference are reviewed annually and updated when necessary.

Committee effectiveness

During the year, the Cyber Committee carried out an internal self-evaluation on its effectiveness, as it continues to mature since its formation in November 2016. The Committee was found to be working effectively and I am satisfied that the degree of rigour and challenge applied in performing the Committee's responsibilities is appropriate and effective and continues to improve. In terms of specific focus areas for the year ahead we agreed on the following:

- Taking the papers/presentations as read and focusing on more value-adding dialogue
- Further updates on the industry, cyber threats, dark web, etc.
- More frequent updates on the nature of the changing cyber threat landscape

As an output of both this and previous evaluations, the Committee, along with the Board, reaffirmed that cyber security is a sufficiently important risk for the business that the Committee should remain focused on this specific set of risks. Therefore, the current structure in which the responsibility for broader risk management remains with the Audit Committee will continue.

Committee activities during the year

The Committee assessed the Group's short-term tactical requirements, while simultaneously addressing longer-term strategic goals around ensuring the Group's resilience to all levels of cyber attack. A strong focus was on making sure that the Group's adoption of new cloud-based systems as part of the Securing Growth Together programme continued to progress smoothly, with the necessary layered defences to protect the information that we entrust to these systems.

The Committee oversees the Information Security and Data Protection (ISDP) Steering Group which comprises the CISO and the DPO along with a number of Executive Committee members and Managing Directors, ensuring that cyber security and data protection matters are discussed at the very highest levels within the Group.

The Committee 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.

The Group continues to improve its cyber security controls, taking full advantage of the expertise within the Group that it offers to its customers. We implemented Microsoft Defender ATP – a significant change to our corporate endpoint protection regime – in January 2020, dramatically improving the granularity of security monitoring that the SOC is able to carry out on the Group's systems. This meant that we were able to transition to full remote working during the coronavirus pandemic confident in our ability to detect attacks even when endpoints are not connected to the corporate network.

In terms of our global data protection compliance programme and internal data privacy activities, our approach continues to be proportionate, pragmatic and risk based. New laws such as the Californian Consumer Privacy Act have been interwoven in our policies and training, alongside a continuing Group-wide focus on GDPR compliance. The Group continues to develop strategies, policies and processes to improve its data protection maturity.

Noteworthy highlights since our previous report include:

- Raised awareness of the requirements for data protection impact assessments (DPIA), in particular where new cloud systems are being implemented as part of the Securing Growth Together programme. DPIAs are now completed as a matter of course for significant new systems
- Growth of the data privacy team in the UK to make sure that the Group continues to have the necessary resource to cover all its data protection obligations. We now have an experienced and well resourced data protection team with colleagues primarily in the UK but also in the US, where we have a hybrid compliance and privacy role
- Strengthened data breach reporting procedures for employees and management in case of a data breach involving personal data
- Implementation of legitimate interest assessments using a bespoke tool
- Brexit preparation activities to facilitate the continued free flow of data to third countries in the event of a no deal Brexit

Committee meetings

During this financial year, the Committee met twice and the attendance of individual Committee members at the Cyber Committee meetings is shown in the table below. Unless otherwise indicated, all Directors held office throughout the year.

Attendee	Meetings attended
Chris Stone	
Chris Batterham	
Jonathan Brooks	
Jennifer Duvalier	

Chris Stone
Chair, Cyber Committee
3 September 2020

Remuneration Committee report

Annual statement

Developing our policy

"In light of the Covid-19 pandemic, we have only made incremental changes to our Remuneration Policy for the period 2020–23. Once the pandemic is behind us, we do expect to undertake a more comprehensive review of our Policy, possibly as early as 2021, to ensure it better reflects the needs of the business. We have also embedded the key changes to the Committee's responsibilities following the recent changes arising from the 2018 UK Corporate Governance Code.

JONATHAN BROOKS
Committee Chair

2019/20 highlights

- Responded to the impact of Covid-19 and adapted variable remuneration quickly
- Consulted with shareholders on new Remuneration Policy and 2019/20 and 2020/21 incentives
- Launched new colleague share plans in Australia, Denmark and Spain
- Reviewed our share plan rules

2020/21 priorities

- Intention to consult with shareholders once impact of Covid-19 is better known
- Remaining agile with regard to remuneration during Covid-19 pandemic
- Embedding new Restricted Share Plan for wider employee share ownership

On behalf of your Board, I am pleased to present our Directors' Remuneration Report (DRR) for the year ended 31 May 2020.

The report is divided into three sections: an Annual Statement, 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. At the 2020 AGM, we will be asking shareholders to vote on a new Remuneration Policy that will apply for the period 2020–23. A copy of the 2020–23 Remuneration Policy, which shows the key changes from the 2017–20 Remuneration Policy, can be found in the next section of this report. This revised Remuneration Policy has few changes from the current Remuneration Policy other than to ensure that there is pension alignment (by the end of 2022) between our Executive Directors Adam Palser (5%) and Tim Kowalski (10%), and the wider UK workforce pension of 4.5% of base salary, and secondly to formalise our post-employment shareholding policy. During the coming year we intend to undertake a comprehensive review of the policy to ensure that it better reflects the future needs and shape of the business and incentivises performance appropriately. Depending on the outcome of that review, we may put a revised policy to shareholders at the 2021 AGM. This will also allow us to assess the impact of Covid-19 on the business.

At the 2020 AGM we will also be seeking shareholder approval for the following executive share plans:

- Long Term Incentive Plan (LTIP) – refreshing the rules and ensuring they adhere to best practice
- Deferred Annual Bonus Share Plan (DABS Plan) – making this a standalone plan and allowing us more flexibility to satisfy these awards with newly issued shares rather than exclusively via shares bought in the market
- Restricted Share Plan (RSP) – this will enable RSP grants at Executive Committee level and below

There were no Board changes during 2019/20.

Our commitment to senior management owning a meaningful shareholding in the Company continues as it does across the entire Group. During the year, we continued to offer employee share plans in the UK, the US and Canada, and the Netherlands, which, as usual, proved popular in terms of take-up. For the first time, this year we launched employee share plans in Australia, Denmark and Spain and were very encouraged by the overall participation levels.

For the 2020/21 financial year, in line with the general workforce, neither the Chief Executive Officer nor the Chief Financial Officer have been awarded an increase in base salary. Should the wider workforce receive a pay rise during 2020/21 then we will revisit this during the year, but any increases will not be more than those for the wider workforce.

In line with the Policy, Non-Executive Director fees are also reviewed annually. Again, in line with the wider workforce and the Executive Directors no increases were proposed following this review. As reported last year, following a review of expenses and the expense claim process for Non-Executive Directors, a simplification was proposed and approved which would remove the ability to claim expenses but introduced, with effect from 6 April 2019, an expense allowance which would be incorporated into base fees. In light of the Covid-19 crisis and the fact that the Board was meeting virtually, this expense allowance was not paid for March, April and May 2020.

Details of these fees and allowances are given in the Annual Report on Remuneration on page 85.

Performance related pay – bonus

The annual bonus for the year ended 31 May 2020 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 23 per cent of base salary for the CEO and 20 per cent of base salary for the CFO. With respect to the financial targets, these were set last year at an adjusted operating profit [1] from continuing operations of between £37.0m and £40.0m. Performance was on track during the first three quarters of trading. However, with the impact of Covid-19, the last quarter fell short, although in the opinion of the Board, the Company performed very well in the circumstances. No colleagues were furloughed, there were no redundancies due to Covid-19 and external financial support was not required. The final result saw an adjusted operating profit [1] of £31.1m which, while short of the threshold target, in the context of the economic downturn and uncertain outlook represented a good outcome for the Company, being only some 8 per cent lower than the corresponding result in 2019. Nonetheless, the missed financial target resulted in no bonuses for financial targets being paid. However, given the creditable result for the business, the Remuneration Committee was minded to modify the financial underpin and pay the strategic element of the bonus, and so undertook a consultation exercise with its major shareholders, who were broadly supportive. Consequently, the Committee exercised its discretion to assess the underpin on the basis of performance over the first three quarters and taking account of the fact that the Company had not received external support and that underlying performance remains good. As a result of performance against the strategic objectives the CEO earned a bonus of 23 per cent of base salary and the CFO a bonus of 20 per cent of base salary. As a reminder, the strategic objectives for the CEO and CFO for 2019/20 are set out below, and further information on the assessment of performance is provided later in the report.

2019/20 objectives

CEO only

- Colleague engagement, diversity and inclusion
- Continued delivery of efficiencies through the Securing Growth Together programme
- Develop and implement a strategic plan for Software Resilience (Escrow) and EaaS growth

CFO only

- Colleague engagement, diversity and inclusion
- Best-in-class finance and administration functions
- Develop and streamline KPI reporting

2020/21 objectives

For 2020/21, in anticipation of the continued trading uncertainties following the Covid-19 pandemic, the Committee intends to keep the annual bonus structure the same, comprising financial and strategic elements. However, we intend to increase the amount of bonus attributable to strategic targets to 40 per cent, with 60 per cent being attributed to the achievement of financial targets. The increased weighting of 40 per cent on the strategic element will only apply for the 2020/21 financial year and after this will revert back to our normal practice of 25 per cent. The increased focus on strategic goals will help us continue to lay the foundations for future growth which were already being successfully laid before the impact of the Covid-19 pandemic. We intend to use the increased weighting to increase the significance of a range of measures under management's control which we use to assess performance. This should result in a more rounded assessment of performance for 2020/21 and provide a better incentive and greater alignment with shareholders in an uncertain year.

Furthermore, rather than set a single profit underpin, the Company has modelled a range of scenarios including a scenario where the impact of the pandemic is prolonged as well as a more optimistic scenario assuming a steady recovery in demand in the second half of the year. Following shareholder consultation, we intend to use the first scenario for the underpin when determining the strategic element of the bonus. For the financial element of the bonus, our current plan is to divide the year in two, with the first six months of the year qualifying for a financial bonus based on the slower recovery scenario, with the financial target for the second half of the year being based on a more optimistic one, assuming a sustained recovery materialises.

The adjusted operating profit [1] target for 2020/21 will be reported on within the 2021 Remuneration Report with bonuses of between 12 per cent and 60 per cent of base salary being calculated by linear interpolation.

1 See Note 3 to the Financial Statements for an explanation of Alternative Performance Measures (APMs) and adjusting items. See Note 3 to the Financial Statements for a reconciliation to statutory information.

Annual statement continued

2020/21 objectives continued

Strategic targets for both the CEO and CFO in 2020/21 include:

- **Broadening the product portfolio:** the broad objective is to offer the complete portfolio of products and services tailored to specific customer sectors and to be able to deliver this globally. This will be broken down by market with specific revenue objectives for different products. There will be a basket of specific and measurable targets within this strategic objective (20%)
- **Sustainability:** to act as a responsible corporate citizen to ensure our future. This will include objectives with respect to training of future leaders in the Group, diversity targets for recruitment, the development of action plans to improve engagement with under-represented groups and the assessment of customer and employee experience (10%)
- **Specific improvements and efficiencies:** delivered through strategic programmes with the objective of placing data and process re-engineering at the heart of the business. This will include the development of global support functions, certain identified key hires, as well as specific global product lines (10%)

35 per cent 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.

Performance related pay – LTIP

The LTIP outcome for those LTIPs issued in 2017 was an award equivalent to 52.37% of the maximum award, which in the case of the CEO constituted an award of 93,533 shares.

With respect to the LTIP for 2020–23, the Committee intends to make awards of up to 100 per cent of base salary and these will vest after three years as long as a number of demanding performance targets are satisfied. As in previous years, 60 per cent of the potential award will be based on the achievement of a demanding EPS target, 30 per cent on the achievements of certain cash targets and 10 per cent on relative TSR targets. It is intended to issue LTIPs to the Executive Directors shortly after publication of the full year results in September or October 2020, although the issue of these may be delayed depending on an assessment of the impact of Covid-19 on the business until February 2021.

Clawback and malus provisions are in place for the LTIP.

In order to further align Executives with shareholders, Executives are required to retain any LTIP vested shares (net of tax) for a period of two years. After this holding period, all vested shares must also be retained if the shareholding guideline has not been met. In addition, our post-employment shareholding policy requires the two year holding period to be enforced once an Executive has left employment, and requires any outstanding deferred bonus awards to vest at the normal time.

At the AGM in September 2019, 100 per cent of shareholders voted in favour of the adoption of the Annual Report on Remuneration. The 2020 Annual Statement and Annual Report on Remuneration will be put to an advisory vote at the AGM on 20 October 2020, providing shareholders with the opportunity to voice their opinions on how the Committee has implemented the Remuneration Policy this year. As always, the Committee remains committed to engagement and transparency and I welcome the opportunity for discussion of the Group's remuneration with any shareholder, at our AGM or at any other time during the year.

During the coming year, we will be considering and developing our Remuneration Policy. Depending on the outcome of that review, a new Policy for the period 2021–24 may be put to shareholders at the 2021 AGM. As part of this process, before finalising any proposals for change, we would consult with our major shareholders.

We will also be continuing to focus on the Committee's additional responsibilities that fall under its consideration and review remit arising from the 2018 UK Corporate Governance Code.

These include:

- Ensuring that the Remuneration Policy continues to support and incentivise the achievement of our strategy
- Setting the remuneration for the Executive Committee (i.e. the layer of senior management immediately below Board level)
- Ensuring that the Committee takes into account workforce remuneration and related policies when setting executive remuneration and that executive awards are aligned with culture
- Reviewing and reporting on the CEO to colleague pay ratio between our CEO and UK workforce

Jonathan Brooks
Chair, Remuneration Committee
3 September 2020

Remuneration Committee report

Directors' remuneration policy

The Remuneration Committee determines the Company's policy on the remuneration of the Executive Directors and (from 1 June 2019) the Executive Committee (ExCom). 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 long-term sustained growth in shareholder value, without encouragement to take 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 and delivered in a mix of cash and shares
- 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 will take effect from the date of the 2020 AGM on 20 October 2020.

Current Policy table for Executive Directors

Purpose and link to short and long-term strategic objectives	Operation (including framework to assess performance)	Maximum opportunity	Changes since last Directors' Remuneration Policy
Salary			
To attract, retain and reward high calibre Executive Directors	The Remuneration Committee reviews salaries for Executive Directors and also the Executive Committee (ExCom) from 1 June 2020 annually unless responsibilities change. Pay reviews take into account Group and personal performance. Salaries are set on appointment and benchmarked periodically against 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 colleagues 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 Executive Director salaries are set out on page 85. Salary increases are normally in line with those for other colleagues but also take account of other factors such as changes to responsibility and the complexity of the role.	N/A
Benefits			
To attract, retain and reward high calibre Executive Directors	Benefits in kind currently 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 or other benefits introduced for all employees.	Market-competitive benefits. SAYE Sharesave Scheme subject to HMRC-approved limits.	N/A
Pension			
To provide a competitive benefit, which attracts high calibre Executives and 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 per cent of base salary into the Group scheme, providing they make a contribution of not less than 5 per cent of base salary, or a base salary supplement of 10 per cent of base salary. Pensions will be brought in line with workforce levels by the end of 2022.	Alignment of Executive Directors' pensions with the wider workforce by the end of 2022.

Remuneration Committee report continued

Directors' remuneration policy continued

Current Policy table for Executive Directors continued

Purpose and link to short and long-term strategic objectives	Operation (including framework to assess performance)	Maximum opportunity	Changes since last Directors' Remuneration Policy
Annual bonus			
To 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 colleague engagement. Performance below the minimum performance target results in no bonus. No more than 20 per cent of the maximum opportunity is paid for achievement of the threshold performance targets. Payments rise from the threshold payment to 100 per cent 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. At least 35 per cent of any bonus payment is normally deferred into shares or nominal cost share options which vest after 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 per cent of base salary. Chief Financial Officer: 100 per cent of base salary.	N/A
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 and must be held for a further two years after vesting. The level of vesting is determined by measures appropriate to the strategic priorities of the business. At least half of any award will normally be subject to financial performance measures. Measures might include, but not exclusively, EPS, cash flow and relative TSR metrics. 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 per cent and rises to 100 per cent of the shares vesting. 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 per cent of salary p.a.	N/A

Purpose and link to short and long-term strategic objectives	Operation (including framework to assess performance)	Maximum opportunity	Changes since last Directors' Remuneration Policy
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 per cent 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 or withholding obligation arising from vesting shares. Retention of shares post-employment: As a minimum, the Committee will normally enforce bonus deferral and post-vesting holding periods after an employee has left employment.	N/A	Addition of post-employment shareholding policy.

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 Executives are 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 colleagues and Executive Directors

The principles behind the Remuneration Policy for Executive Directors are cascaded down through the Group and their aims are 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 the 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 other senior managers within the business and all are aligned with similar business objectives.
- Participation in the LTIP is extended to the Executive Committee and other senior managers where possible.
- The pension scheme is operated for all permanent colleagues.

The main difference between pay for Executive Directors and colleagues is that, for Executive Directors, the variable element of total remuneration is greater while the total remuneration opportunity is also higher to reflect the increased responsibility of the role. In addition, we have the ability to grant awards of restricted shares to Executive Committee members. This will enable us to be competitive in certain markets, most notably the USA, where such plans are very much part of any executive remuneration package.

Executive shareholding guidelines

The Committee considers that Executive Directors should retain a personal holding of shares in the Company, so as to align their interests with the interests of shareholders. As stated in the policy table, Executive Directors are expected to build a shareholding equal to 200% of base salary.

In any event, 35 per cent of the value achieved as part of the annual bonus scheme will be deferred into nominal cost 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. During 2020 and 2021, the Committee may vary this percentage of 35% upwards to as much as 100% of bonus.

Non-Executive Director Policy table

Purpose and link to short and long-term strategic objectives	Operation (including framework to assess performance)	Maximum opportunity	Changes since last Directors' Remuneration Policy
Fees			
To 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. Additional fees may be paid in certain circumstances such as taking on extra duties, or if exceptionally the time commitment is significantly increased. An expenses allowance is paid or alternatively any reasonable business related expenses (including tax thereon) can be reimbursed if determined to be a taxable benefit.	Current fee levels are set out on page 85. The overall fee limit will be within the current £750,000 limit set out in the Company's Articles of Association, approved on 25 September 2019, which is subject to increase on 25 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.	The overall fee limit is now £750,000. Extra fees may be paid in certain circumstances such as taking on extra duties.

Approach to recruitment

The principle 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 are 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 salary initially below median levels, 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 and pension

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 Director 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. Pension would be set in line with the workforce level.

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 the 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 9.4.2R. 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 or to settle or compromise any legal claims. Assistance with outplacement may also be provided.

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 per cent of the value

The Committee also has the discretion to determine whether any nominal cost share options from previous deferral of 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 dividend equivalents on any shares that have been deferred, but not yet vested.

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-colleague share schemes

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

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.

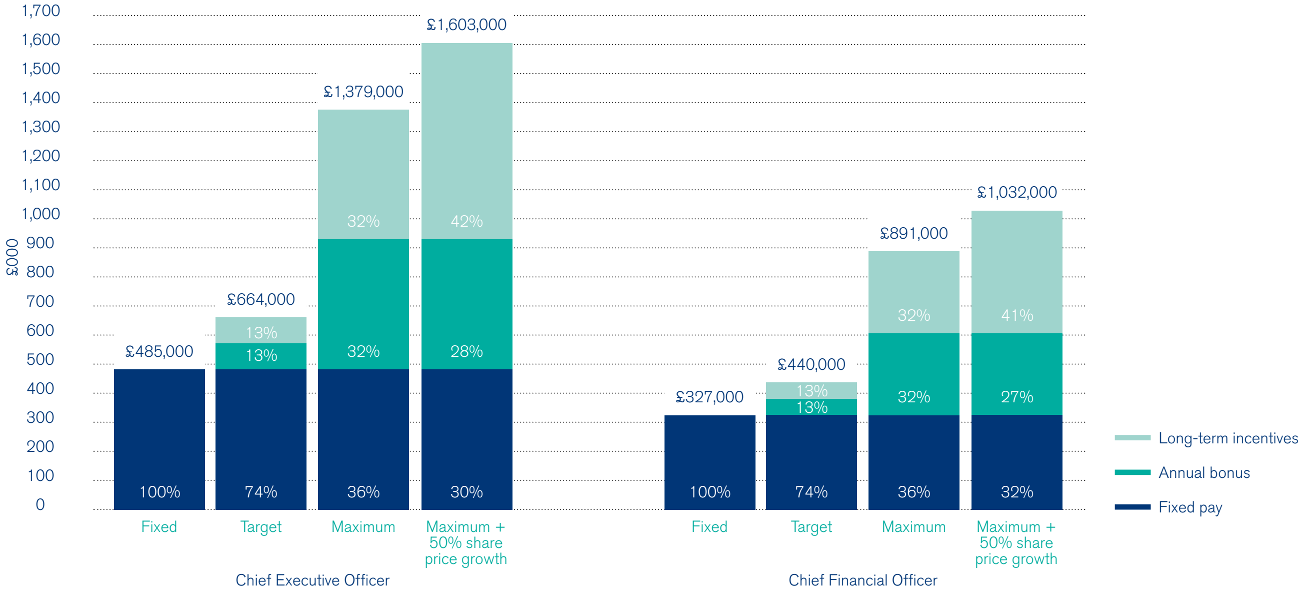
The Executive Directors and Non-Executive Directors offer themselves for re-election at the AGM every year.

Remuneration Committee report continued

Directors' remuneration policy continued

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.



Note that the charts are indicative, as actual amounts may depend on share price. Assumptions made for each scenario are as follows:

- **Minimum.** Fixed remuneration only: salary, benefits and pension. Salary based on 2020/21 salary and benefits based on 2019/20 disclosed benefit amounts.
- **Target.** Fixed remuneration plus minimum annual bonus opportunity of 20 per cent of salary for both the Chief Executive Officer and Chief Financial Officer, plus 20 per cent vesting of the maximum award under the Long Term Incentive Plan.
- **Maximum.** Fixed remuneration plus maximum annual bonus opportunity equivalent to 100 per cent of salary for both the Chief Executive Officer and Chief Financial Officer, as well as 100 per cent vesting of the maximum award under the Long Term Incentive Plan, being 100 per cent of salary for both Executives.
- **Effect of a 50% increase in share price.** Same assumptions as for the maximum scenario, but with the additional assumption that the value of LTIP awards increases by 50% as a result of share price appreciation over the performance period.

Statement of consideration of employment conditions elsewhere in the Group

The Remuneration Committee does not consult directly with colleagues when determining the Remuneration Policy for Executive Directors. However, as stated above, the annual bonus and LTIP are operated for other colleagues 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 colleagues. 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 Chair will inform major shareholders in advance and will generally offer a meeting to discuss these. In developing the current proposals, the Committee Chair consulted with shareholders representing 60% of NCC's issued shares, the majority of whom expressed their support for the policy.

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 the following:

- Selecting the participants in the incentive plans on an annual basis
- Determining the timing of grants of awards and/or payments
- Determining the quantum of awards and/or payments (within the limits set out in the Policy table above)
- Reviewing performance against annual bonus and LTIP performance metrics
- Determining the extent of pay out or vesting based on the assessment of performance
- Making the appropriate adjustments required in certain circumstances, for instance for changes in capital structure
- Determining "good leaver" status for incentive plan purposes and applying the appropriate treatment
- Undertaking the annual review of weighting of performance measures and setting targets for the incentive plans, where applicable, from year to year
- Discretion to override formulaic outcomes of the incentive schemes if an event occurs which results in the annual bonus plan or LTIP performance conditions and/or targets being deemed no longer appropriate (e.g. material acquisition or divestment); the Committee will have the ability to adjust appropriately the measures and/or targets and alter weightings, provided that the revised conditions are not materially less challenging than the original conditions
- Discretion to override formulaic vesting outcomes if they are judged by the Committee not to be an accurate reflection of Company performance

Legacy arrangements

For the avoidance of doubt, in approving the Remuneration Policy, 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.

Remuneration Committee report continued

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 2020 AGM, which is scheduled to be held on 20 October 2020. The information on pages 84 to 92 has been audited where indicated.

How will the Remuneration Policy be implemented in the year ending 31 May 2021

Executive Directors' base salaries

The Committee has decided not to award a salary increase to either the Chief Executive Officer or Chief Financial Officer given that salaries across the Group have been frozen due to Covid-19. This will be reviewed during 2020/21.

The table below details the Executive Directors' salaries as at 31 May 2020 and salaries which took effect from 1 June 2020.

	Base salary at 31 May 2020 £000	Base salary at 1 June 2020 £000	% change
Chief Executive Officer	447	447	—
Chief Financial Officer	282	282	—

Pension and benefits

There will be no changes to the pension or benefits provision. The CEO receives an employer pension contribution of 5% and the CFO of 10%. The pension contribution for the wider workforce is 4.5%.

Annual bonus

The annual bonus maximum for the Chief Executive Officer and the Chief Financial Officer in 2020/21 will be 100 per cent of salary with 60 per cent based on the achievement of certain adjusted operating profit [1] targets and 40 per cent based on the achievement of strategic targets as outlined on page 76. The financial underpin to the bonus will be based on a scenario which assumes a prolonged impact of Covid-19 on the business. For the financial element of the bonus, our current plan is to divide the year in two, with the first six months of the year qualifying for a financial bonus based on the slower recovery scenario, with the financial target for the second half of the year being based on a more optimistic one, assuming a sustained recovery materialises. To the extent they are no longer commercially sensitive, these targets will be disclosed in next year's report.

In addition, to ensure that this bonus opportunity results in shareholder alignment and provides greater retention value, 35 per cent of any bonus payment will be deferred into nominal cost share options for two years.

The bonus, nominal cost share options and associated dividend equivalents are also subject to malus and clawback provisions.

Long Term Incentive Plan (LTIP)

It is expected that awards of 100 per cent of base salary will be made under the LTIP in September or October 2020, though the issue of these may be delayed depending on an assessment of the impact of Covid-19 on the business, until February 2021. These will be subject to a two year post-vesting holding period for the Executive Directors. As well as the holding period, the Executives have to achieve a shareholding guideline of 200 per cent 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 per cent), a cash flow metric (30 per cent) and a relative total shareholder return metric (10 per cent). The performance targets for 2020/21 are expected to be the same as for 2019/20, subject to final review by the Board based on its assessment of the longer-term impact of Covid-19 on trading conditions.

- Earnings per share needs to grow at between a threshold of 9 per cent and a maximum of 20 per cent per annum over three years to qualify for an award of between 12 per cent and 60 per cent of salary respectively.
- The cash conversion metric enables Executives to earn 30 per cent of salary. A cash conversion ratio of 70 per cent represents the threshold, qualifying for an award of 6 per cent of salary, with the maximum award of 30 per cent due if the cash conversion ratio [1] achieved is 80 per cent or higher.
- Finally, the relative TSR component is worth up to 10 per cent of salary. If the business achieves a level of TSR equivalent to the median of the FTSE 250 (excluding investment trusts), then this will qualify for an award of 2 per cent. Achieving a TSR equivalent to upper quartile for the FTSE 250 will result in the maximum award of 10 per cent of salary.

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.

1 See Note 3 to the Financial Statements for an explanation of Alternative Performance Measures (APMs) and adjusting items. See Note 3 to the Financial Statements for a reconciliation to statutory information.

Non-Executive Directors' remuneration

In line with the current Policy, Non-Executive Director fees are reviewed annually.

Annualised fees	As at 1 June 2020 £000	As at 1 June 2019 £000
Chris Stone	**147**	147
Chris Batterham	**64**	64
Jonathan Brooks	**58**	58
Mike Ettling	**51**	51
Jennifer Duvalier	**51**	51

How has the Remuneration Policy been implemented in the year ended 31 May 2020?

This section sets out how the Remuneration Policy was implemented in 2019/20. The key implementation decisions during the year related to:

- The determination of annual bonus outcomes for the 2019/20 performance period
- The performance targets and value of awards to be granted under the LTIP, which will vest in 2022

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 2020 are below:

Director	Year ended	Salary/ Non-Executive Director fees [1] £000	Benefits [2] £000	Pension benefits [3] £000	Total fixed pay £000	Annual bonus [4] £000	Long-term incentive [5] £000	Total variable pay £000	Total £000
Chris Stone	**31 May 2020**	**145**	**—**	**—**	**145**	**—**	**—**	**—**	**145**
	31 May 2019	140	—	—	140	—	—	—	140
Adam Palser	**31 May 2020**	**447**	**16**	**22**	**485**	**103**	**154**	**257**	**742**
	31 May 2019	436	12	22	470	209	—	209	679
Tim Kowalski [6]	**31 May 2020**	**282**	**17**	**28**	**327**	**56**	**—**	**56**	**383**
	31 May 2019	237	13	24	274	104	—	104	378
Chris Batterham	**31 May 2020**	**63**	**—**	**—**	**63**	**—**	**—**	**—**	**63**
	31 May 2019	60	—	—	60	—	—	—	60
Jonathan Brooks	**31 May 2020**	**57**	**—**	**—**	**57**	**—**	**—**	**—**	**57**
	31 May 2019	54	—	—	54	—	—	—	54
Jennifer Duvalier	**31 May 2020**	**50**	**—**	**—**	**50**	**—**	**—**	**—**	**50**
	31 May 2019	47	—	—	47	—	—	—	47
Mike Ettling	**31 May 2020**	**50**	**—**	**—**	**50**	**—**	**—**	**—**	**50**
	31 May 2019	47	—	—	47	—	—	—	47
Total	**31 May 2020**	**1,094**	**33**	**50**	**1,177**	**159**	**154**	**313**	**1,490**
	31 May 2019	1,021	25	46	1,092	313	—	313	1,405

1 In 2018/19, a review was undertaken of the expenses and the expense claiming processes for the Chair and Non-Executive Directors. Following this review, and taking into account the additional complexities of applying tax and National Insurance to many but not all of the expense claims, a simplification was proposed and approved to remove the ability to claim expenses for all UK travel expenses, but instead to provide a compensatory increase to base fees. The compensatory increase was based on the average cost to the Company of previous expense claims, and was set at £4,750 for the Non-Executive Directors and £8,200 for the Chair. This increase resulted in a new base fee level of £50,750 for the NEDs and £146,575 for the Chair, effective from 6 April 2019. In light of Covid-19 and the fact that Board meetings were being held virtually, these allowances were not paid for the months of March, April and May 2020.

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

3 Pension benefits include employer contributions to the Group pension scheme and payments in lieu of pension contributions. The Company provided pension payments in lieu of pension contributions for two Executive Directors during the year ended 31 May 2020.

4 Annual bonus payments for performance in the relevant financial year; 35 per cent of this bonus is deferred into nominal cost share options for two years. Dividend equivalents accrue on these shares.

5 Long-term incentive awards vesting under the LTIP. 93,533 shares vested to Adam Palser with respect to the LTIP granted in 2017. These have been valued using a share price of £1.651 which is the three month average share price over March, April and May 2020. These shares were awarded based on a share price of £1.98 on the day before the date of grant. As a result, the change in share price since the date of grant has resulted in a reduction in value of £30,772.40.

6 Tim Kowalski was appointed as Chief Financial Officer on 23 July 2018.

Remuneration Committee report continued

Annual report on remuneration continued

Additional information in respect of the single total figure of remuneration

Annual bonus

2019/20 annual bonus (audited)

For the year ended 31 May 2020, the maximum potential bonus opportunity for Adam Palser was 100 per cent of salary. For Tim Kowalski, the maximum potential bonus opportunity was also 100 per cent of salary. For the year ended 31 May 2020, bonuses of 23% and 20% of base salary respectively were payable.

As disclosed in the Annual Statement, following consultation with shareholders on the operation of the underpin in 2019/20 and 2020/21, the Committee exercised its discretion to assess the underpin on the basis of performance over the first three quarters and taking account of the fact that the Company had not relied on external support and that underlying performance remains good. It therefore determined that the underpin had been met and that bonuses in respect of the strategic element of the bonus could be paid.

The actual bonus awarded to Adam Palser was £102,699 and to Tim Kowalski was £56,375 based on the achievement of the performance conditions set out below. 35% of each payment will be deferred into nominal cost share options for two years, with the remaining 65% paid in cash. The performance measures and targets are set out below.

Financial targets – up to 75 per cent of the bonus

	Performance targets			Adam Palser	Tim Kowalski
31 May 2020 Adjusted operating profit [1]	Threshold	£37m	Weighting (% of salary)	0%	0%
	Maximum	£40m	Weighting (% of salary)	0%	0%
	Actual	£31.1m	Payout (% of salary)	0%	0%
Strategic targets	The strategic targets were set individually for the Executive Directors based on key strategic objectives for the year in their area of responsibility – see below		Weighting (% of salary)	25%	25%
			Payout (% of salary)	23%	20%
			Payout (% of salary)	23%	20%
			Total bonus	**£102,699**	**£56,375**

1 See Note 3 for an explanation and definitions of Alternative Performance Measures (APMs) and adjusting items. See Note 3 to the Financial Statements for a reconciliation to statutory information.

Strategic targets – up to 25 per cent of the bonus

The table below highlights the key strategic targets and achievements for each Executive Director.

		31 May 2020	
Maximum % of bonus	Target and performance outcome	Adam Palser	Tim Kowalski
CEO: 8% CFO: 5%	Colleague engagement, diversity and inclusion. Target: Improve gender representation at senior level, implement measures to improve awareness of inclusion and diversity and complete global implementation of flexible working policy. Assessment: Fully met. Gender representation was improved at the senior level. Partnership with Stonewall and trial of enhanced training on equality, diversity, inclusivity and unconscious bias. Completed the implementation of flexible working policies, which is supported by our remote working capability, the success of which was immediately proven by the successful continuation of operations throughout the Covid-19 pandemic.	**8%**	**5%**
CEO: 7%	Continued delivery of efficiencies through the Securing Growth Together programme. Target: £5m of cost savings and completion of project milestones due in 2019/20. Assessment: Partially met. Cost savings target exceeded but some milestones delayed into 2020/21.	**5%**	**N/A**
CEO: 10%	Develop and implement a strategic plan for Software Resilience (Escrow) and EaaS growth. Target: Develop strategic plan with three year targets for Software Resilience. Achieve target for EaaS sales. Assessment: Fully met. Strategic plan in place together with three year targets. EaaS sales target exceeded by over 25%.	**10%**	**N/A**
CFO: 10%	Best-in-class finance and administration functions. Target: Meet plan milestones for development of Workday system and on-budget delivery. Key roles filled and performing across the finance function. Assessment: Partially met. Achievement of Workday system milestones delayed but already live in many divisions. Key roles filled and already demonstrating value.	**N/A**	**7%**
CFO: 10%	Develop and streamline KPI reporting and management of net debt. Target: Improve reporting of KPIs. Reduce net debt below £11m. Demonstrate impact of Workday on KPI reporting. Assessment: Partially met. KPI reporting improved and net debt managed to below £5m. However, delay in Workday implementation meant the impact on KPI reporting could not be demonstrated.	**N/A**	**8%**

Long-term incentive plan vesting

The LTIP awards made in June 2017 vested in May 2020. Adam Palser was a beneficiary of these and achieved a vesting of 52.37% of the award of 178,601 shares, being 93,533 shares:

Executive	Number of LTIP awards [1]	Basis	Performance condition	Performance period
Adam Palser	178,601	100% of base salary	Vesting determined by: ▪ Growth in adjusted [3] EPS over the performance period ▪ Average cash conversion ratio [3] over the performance period ▪ TSR over the performance period vs FTSE 250 comparator group	1 June 2017 to 31 May 2020

The performance conditions for these awards are set out below:

Proportion	Component	Metric	Threshold	Maximum vesting	Actual performance	Actual % vested	Vesting basis
60%	Adjusted EPS [3]	Average growth over a three year period	9%	20%	10.22%	17.32%	Straight line between threshold and maximum
30%	Cash conversion	Average cash conversion ratio [3] over three years	70%	80%	105.6%	30%	Straight line between threshold and target, then target and maximum
10%	TSR	TSR over three years vs FTSE 250 comparator group (excluding investment trusts)	Median	Upper quartile	Above mid/ below UQ%	5.05%	Straight line between threshold and maximum

Long-term incentives granted during the year (audited)

During the financial year, the Executive Directors were granted awards which are due to vest on 31 May 2022, 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	245,338	100% of base salary	£447,000	Vesting determined by: ▪ Growth in adjusted [3] EPS over the performance period ▪ Average cash conversion ratio [3] over the performance period ▪ TSR over the performance period vs FTSE 250 comparator group	1 June 2019 to 31 May 2022
Tim Kowalski	154,876	100% of base salary	£282,000	As above	1 June 2019 to 31 May 2022

The performance conditions for these awards are set out below:

Proportion	Component	Metric	Threshold	Threshold vesting	Target	Target vesting	Maximum	Maximum vesting	Vesting basis
60%	Adjusted EPS [3]	Average growth over a three year period	9%	20%	N/A	N/A	20%	100%	Straight line between threshold and maximum
30%	Cash conversion	Average cash conversion ratio [3] over three years	70%	20%	75%	50%	80%	100%	Straight line between threshold and target, then target and maximum
10%	TSR	TSR over three years vs FTSE 250 comparator group (excluding investment trusts)	Median	20%	N/A	N/A	Upper quartile	100%	Straight line between threshold and maximum

1 LTIP awards are structured as nominal cost options (£1 being payable upon each exercise).
2 Based on a share price of £1.82, which was the closing mid-market price of the Company's shares on the day before the date of grant.
3 See Note 3 to the Financial Statements for an explanation of Alternative Performance Measures (APMs) and adjusting items. See Note 3 to the Financial Statements for a reconciliation to statutory information.

Remuneration Committee report continued

Annual report on remuneration continued

SAYE options granted in the year

The Group operates an HMRC-approved SAYE scheme. All eligible colleagues, including Executive Directors, may be invited to participate on similar terms for a fixed period of three years. During the year Adam Palser and Tim Kowalski did not join any new SAYE schemes.

Neither Executive Director participated in the 2020 SAYE scheme as both contribute the maximum £500 per month to the 2018 SAYE scheme.

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 2019	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 2020**
Adam Palser	375,886	245,338	—	—	(85,068)	**536,156**
Tim Kowalski	124,434	154,876	—	—	—	**279,310**

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.

Share ownership (audited)

The beneficial and non-beneficial interests of the current Directors in the share capital of NCC Group plc at 31 May 2020 are set out below:

	Beneficial interests in ordinary shares [1]		Maximum share awards subject to performance conditions [2]		Share options [3]		Deferred Bonus Plan [4]		Vested but unexercised nil cost options		Total	
	31 May 2020	31 May 2019	**31 May 2020**	31 May 2019	**31 May 2020**	31 May 2019	**31 May 2020**	31 May 2019	**31 May 2020**	31 May 2019	**31 May 2020**	31 May 2019
Chris Stone	**124,382**	124,382	**—**	—	**—**	—	**—**	—	**—**	—	**124,382**	124,382
Adam Palser	**23,779**	23,199	**442,623**	375,886	**10,273**	10,273	**52,225**	10,993	**93,533**	—	**622,433**	420,351
Tim Kowalski	**23,614**	23,614	**279,310**	124,434	**10,273**	10,273	**20,462**	—	**—**	—	**333,659**	158,321
Chris Batterham	**50,000**	50,000	**—**	—	**—**	—	**—**	—	**—**	—	**50,000**	50,000
Jonathan Brooks	**50,000**	50,000	**—**	—	**—**	—	**—**	—	**—**	—	**50,000**	50,000
Jennifer Duvalier	**9,500**	9,500	**—**	—	**—**	—	**—**	—	**—**	—	**9,500**	9,500
Mike Ettling	**50,000**	50,000	**—**	—	**—**	—	**—**	—	**—**	—	**50,000**	50,000

1 This information includes holdings of any connected persons.
2 These awards represent the outstanding LTIP interests, included in the table above, which are due to vest in either July/August 2021 or July/August 2022.
3 Representative SAYE scheme interests, which are due to vest in October 2021.
4 Nominal cost share options granted under the 2018–20 and 2019–21 Deferred Bonus Plans on 23 August 2018 and 4 September 2019. Subject to a service condition, tax and National Insurance.

Shareholding requirements

The Executive Directors are expected to build and retain a shareholding in the Group equivalent to at least 200 per cent 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. Executive Directors will also be required to retain all shares vesting from SAYE schemes. For the avoidance of doubt, Executive Directors are permitted to sell sufficient shares in order to meet any tax obligation arising from vesting shares.

The percentages within this table have been calculated using a three month average share price (1 March 2020 to 31 May 2020) of £1.651 and include Adam Palser's 2017–2020 LTIP of 93,533 shares on a net of tax and National Insurance basis.

	Shareholding requirements (% of salary)	**Shareholding as at 31 May 2020 (% of salary)**	Requirement met
Adam Palser	200%	**37%**	No
Tim Kowalski	200%	**20%**	No

Appointment terms for new Directors

No new Directors were appointed within the year.

Relative importance of the spend on pay

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

	31 May 2020 £m	31 May 2019 £m	% change
Colleague remuneration costs [1]	**170.1**	154.5	10.1%
Dividends [2]	**12.9**	12.9	0%

1 Based on the figure shown in Note 7 to the Financial Statements.
2 Based on the total cash returned to shareholders in the year ended 31 May 2020 through dividends, as shown in Note 10 to the Financial Statements (excluding the proposed 2020 final dividend).

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 colleagues of the Company.

The comparator group for salaries and benefits is all colleagues in the UK – there were no benefit policy changes in this time.

The comparator group for the bonus is those in the management population who also have an annual scheme and excludes those on commission and incentive plans.

Element of remuneration		% increase
Salary	Chief Executive	2.5
	Colleagues	3.0
Taxable benefits	Chief Executive (% of salary)	—
	Colleagues (% of salary)	—
Annual bonus	Chief Executive (% of salary)	(50.7%)
	Colleagues (% of salary)	(12.5%)

Chief Executive pay compared to pay of UK employees

The following table shows the ratio between the single total figure of remuneration (STFR) of the Chief Executive for 2019/20 and the lower quartile, median and upper quartile pay of our UK colleagues. The salary and total pay and benefits for the lower quartile, median and upper quartile employee is also shown.

Total pay ratio

Financial year	Method	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
2019/20	Option B	18:1	12:1	8:1

	CEO	25th percentile	50th percentile	75th percentile
Salary (£000)	447	32	56	81
Total pay and benefits (£000)	742	41	62	95

Option B was chosen to calculate the CEO pay ratio. This option uses the most recent gender pay gap information to determine the relevant employee at the 25th, 50th and 75th percentile. We have omitted joiners and leavers from the data to ensure that the data is on a like-for-like basis. This option was chosen in preference to the other possibilities as it uses the most accurate and comprehensive data currently available. It refers to gender pay data as at April 2020.

The pay ratio is consistent with the pay, reward and progression policies currently in place at NCC. A common pay structure operates throughout our organisation in the United Kingdom with a greater focus on performance-related pay for more senior levels.

Remuneration Committee report continued

Annual report on remuneration continued

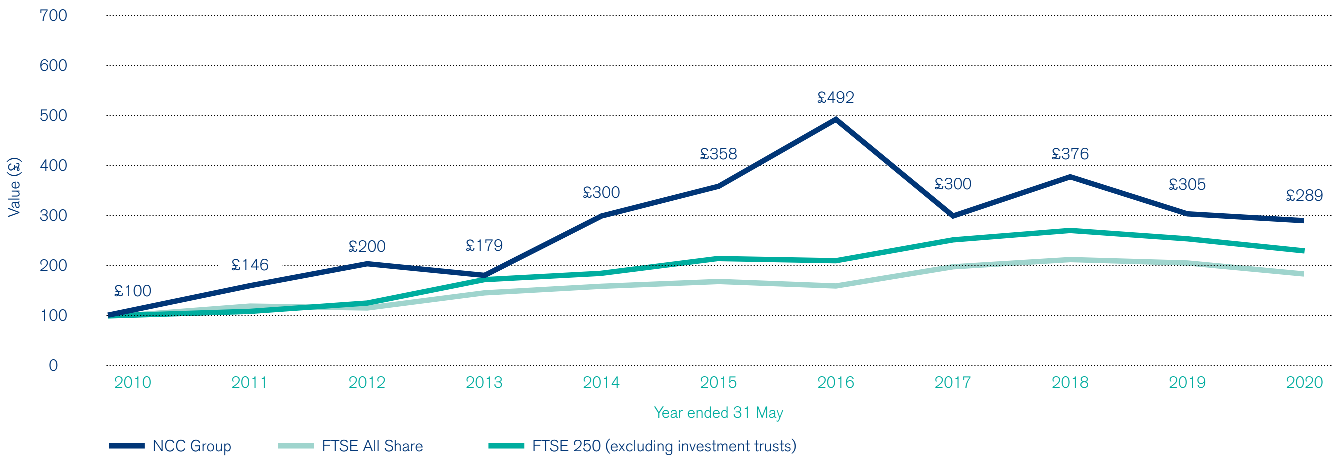
Performance graph and table

The following graph shows the total shareholder return, with dividends reinvested, from 31 May 2010 against the corresponding changes in a hypothetical holding in shares in both the FTSE All Share and FTSE 250 Indices.

The FTSE All Share and FTSE 250 Indices represent broad equity indices. The Company is a constituent member of the FTSE All Share Index and the Committee has adopted the FTSE 250 Index for part of its LTIP performance measure. Both indices give a market capitalisation-based perspective.

During the year, the Company's share price varied between £1.34 and £2.335 and ended the financial year at £1.534.

Ten year historical TSR performance is the growth in the value of a hypothetical £100 holding over ten years. It has been calculated for NCC Group plc, and the FTSE All Share and FTSE 250 Indices (excluding investment trusts) based on spot values.



The share price was £1.656 on 1 June 2019 and £1.534 on 31 May 2020.

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

Year ended [1,2,3]	Total remuneration £000	Annual bonus % of maximum [4]	Long-term incentives % of maximum [5]
31 May 2020	742	23	52
31 May 2019	679	48	—
31 May 2018[1]	292[1]	32.5	—
31 May 2018[2]	257[2]	32.5	—
31 May 2017	610	—	—
31 May 2016	1,091	70	20
31 May 2015	993	73	15
31 May 2014	1,089	73	50
31 May 2013	1,118	—[6]	63
31 May 2012	1,074	85	70
31 May 2011	1,222	67	54
31 May 2010	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 May 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 Rob Cotton was CEO in the period above between 1 June 2009 and 31 May 2017.
4 Note that this shows the annual bonus payments as a percentage of the maximum opportunity.
5 This shows the LTIP vesting level as a percentage of the maximum opportunity.
6 In 2012/13 Rob Cotton waived his right to a bonus, which would have been equal to 32 per cent of salary. This was equivalent to 50 per cent of the maximum bonus opportunity.

Membership and attendance

The Remuneration Committee membership consists solely of Non-Executive Directors and comprises Jonathan Brooks as Chair, Chris Batterham and Jennifer Duvalier.

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

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

Attendee	Meetings attended
Jonathan Brooks	
Chris Batterham	
Jennifer Duvalier	

Adviser to the Committee

During the year, the Committee received advice on senior executive remuneration from Aon plc and was comfortable that the advice was objective and independent. Aon plc is a member of the Remuneration Consultants Group and is a signatory to its Code of Conduct. The total fee charged in 2019/20 for providing advice in relation to executive remuneration was £40,740. Aon plc did not provide any other services to the Company during the year. From 1 June 2020, following the transfer of the lead partner from Aon to Alvarez and Marsal, Alvarez and Marsal will be the adviser to the Committee.

The Committee reviews the performance and independence of its adviser 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	12 months
Tim Kowalski	23 July 2018	6 months
Non-Executive		
Chris Stone	6 April 2017	3 months
Chris Batterham	9 April 2015	3 months
Jonathan Brooks	13 March 2017	3 months
Jennifer Duvalier	25 April 2018	3 months
Mike Ettling	1 September 2017	3 months

Dilution

The LTIP has a dilution limit, for new and treasury shares, of 10 per cent 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 2020 the Company had utilised 15,250,101 (31 May 2019: 13,792,836) ordinary shares through LTIP, SAYE, CSOP, ISO and ESPP awards counting towards the 10 per cent limit which represents 5.47 per cent (2019: 4.96 per cent) of the issued ordinary share capital of the Company. To clarify, this figure of 5.47 per cent includes both discretionary and all-colleague share schemes.

Remuneration Committee report continued

Annual report on remuneration continued

Statement of shareholder voting

The following votes were received from the shareholders in respect of the Directors' Remuneration Report and in respect of the Remuneration Policy:

	Remuneration Report (2019 AGM)		Remuneration Policy (2017 AGM)	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For [1]	192,916,766	100.0	202,309,191	99.84
Against	8,003	—	318,649	0.16
Total votes cast (for and against excluding withheld votes)	192,924,769	100.0	202,627,840	100.0
Votes withheld [2]	5,136,633		4,046,993	
Total votes cast (including withheld votes)	198,061,402	100.0	206,674,833	100.0

1 Includes Chair's discretionary votes.
2 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.

Approved by the Board and signed on its behalf:

Jonathan Brooks
Chair, Remuneration Committee
3 September 2020

The Directors present their 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 2020.

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.

The principal activity of the Group is the provision of independent advice and services to customers through the provision of Software Resilience (Escrow) and cyber assurance services. The principal activity of the Company is that of a holding company.

Results and dividends

The Group's and Company's audited Financial Statements for the financial year ended 31 May 2020 are set out on pages 107 to 158.

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 6 March 2020, makes a total dividend of 4.65p for the year.

The final dividend will be paid on 6 November 2020, subject to approval at the AGM on 20 October 2020, to shareholders on the register at the close of business on 9 October 2020. The ex-dividend date is 8 October 2020.

Post-Balance Sheet events

There were no Post-Balance Sheet events.

Share capital and control

At the AGM held on 25 September 2019, the Directors were granted authority to allot up to 92,610,200 ordinary shares representing approximately a third of the Company's issued share capital. In addition, the Directors were granted authority to allot a further 92,610,200 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 2020, the Company's issued ordinary share capital comprised 278,909,171 ordinary shares with a nominal value of 1p each, of which no ordinary shares were held in treasury.

During the year ended 31 May 2020, 1,078,546 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 27 to the Financial Statements and the information in this Note is incorporated by reference and forms part of this Directors' Report.

All rights and obligations attaching to the Company's ordinary shares are set out in the Company's Articles of Association (the '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, the terms of issue of any shares, any restrictions from time to time imposed by laws or regulations (for example, insider trading laws) or pursuant to the EU Market Abuse Regulations whereby certain Directors, officers and colleagues of the Group require the approval of the Company to deal in ordinary shares of the Company, any shareholder may transfer any or all of their shares.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights.

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 AGM held on 25 September 2019, shareholders authorised the Company to make market purchases of up to 27,783,000 ordinary shares representing approximately 10 per cent of the issued share capital. This authority was not used during the financial year ended 31 May 2020. At the 2020 AGM, shareholders will be asked to give a similar authority.

The Company does not currently hold any ordinary shares in treasury.

Directors

Biographical details of the Company's current Directors are set out on pages 52 and 53. 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 one-third of the 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. During the year, no Director had any material interest in any contract of significance in the Group's business.

Directors' report continued

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 (including those who served as Directors or Officers during 2019/20). This cover was in place throughout the financial year ended 31 May 2020 and up to the date of this Directors' Report. 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 2020 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.

Colleagues

The Group uses a number of ways to engage with its colleagues on matters that impact them and the performance of the Group. These include briefings by members of the Executive Committee, regular team meetings, the Group's intranet site, global communications and update emails which together provide, among other information, an awareness of the financial and economic factors affecting the Company's performance. Further information on how the Directors engage with colleagues along with how colleague interests are taken into account during decision making can be found within the Corporate Governance Report on page 58.

We conduct a colleague engagement survey to ensure all colleagues are given a voice in the organisation. In 2018, using insights from our survey and subsequent colleague engagement, we defined new values for the organisation. Details of these values are set out in the Sustainability Report on page 44.

We offer colleagues the opportunity to purchase ordinary shares in the Company through participation in the Company's Save As You Earn Scheme. At the 2019 AGM, shareholders also approved a Share Incentive Plan. Both schemes help to encourage colleague interest in the performance of the Group.

Equal opportunities

The Group is committed to providing equality of opportunity to all colleagues without discrimination and applies fair and equitable employment policies which seek to promote entry into and progression within the Group. Appointments are determined solely by application of job criteria, personal ability, behaviour and competency.

In the opinion of the Directors, all colleague policies are deemed to be effective and in accordance with their intended aims.

Disabled persons

Disabled persons have equal opportunities when applying for vacancies, with due regard to their aptitudes and abilities. Procedures ensure that disabled colleagues are fairly treated in respect of training and career development. For those colleagues becoming disabled during the course of their employment, the Group is supportive so as to provide an opportunity for them to remain with the Group, wherever reasonably practicable.

Political donations

During the year the Company made no political donations (2019: £nil).

Sustainability Report

The Company's Sustainability Report on pages 40 to 46 provides an update on the Group's policies and activities in respect of its wider stakeholders, including colleagues; community, environmental, ethical and health and safety issues; and modern slavery.

Overseas branches

The Group has one overseas branch in Spain. This is a branch of NCC Group Security Services Limited.

Research and development

We are committed to using innovative, cost effective and practical solutions for providing high quality services and we recognise the importance of ensuring that we focus our investment on the development of technology. The Group's research and development expenditure is predominantly associated with computer and software systems.

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 colleagues 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 the 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 reasonable steps to ascertain any relevant audit information and ensure the auditors are aware of such information.

Reappointment of auditors

The Board approved the Audit Committee's recommendation to put a resolution to shareholders recommending the reappointment of KPMG LLP as the Company's auditors and KPMG LLP have indicated their willingness to accept the reappointment as auditors to the Company. The Audit Committee, in its recommendation, confirmed that (1) the recommendation was free from influence by a third party and (2) no contractual term of the kind mentioned in Article 16(6) of the EU Regulation 537/2014 has been imposed on the Company. A resolution to reappoint KPMG LLP as auditors will be put to the members at the AGM.

Annual General Meeting

The notice of the Company's AGM to be held at 10.30am on 20 October 2020 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 and Accounts. All shareholders will be notified by post or email, at their request, when the documents have been made available.

The health and wellbeing of the Company's shareholders, employees and customers is of paramount importance and never more so with the extraordinary challenges presented by the Covid-19 pandemic. This significantly restricts our ability to follow our usual AGM format and, having regard to their own safety and that of others, in particular should "stay at home" measures or other restrictions be in force at the time, shareholders are respectfully asked not to attend the AGM, especially as the meeting is being held at the Company's offices where we do have a small number of key employees undertaking essential work.

GOVERNANCE

Capitalised interest

During the period, no interest was capitalised by the Group (2019: £nil). The tax benefit on this amount was £nil (2019: £nil).

Reporting requirements

The following sets out the location of additional information forming part of the Directors' Report which is incorporated by reference into this report:

Reporting requirement	Location
Board's assessment of the Group's internal control systems	Corporate Governance Report on pages 51 to 62 and Audit Committee Report on page 68
Details of uses of financial instruments and specific policies for managing financial risk	Note 25 (Financial Instruments) on pages 147 to 151
Directors' interests	Directors' Remuneration Report on page 88
Directors' Responsibilities Statement	Directors' Responsibilities Statement on page 96
Directors' remuneration including disclosures required by Schedule 5 and Schedule 8 of SI2008/410 – Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008	Directors' Remuneration Report on pages 84 to 92
DTR4.1.8.R – Management Report – the Directors' Report and Strategic Report comprise the management report	Directors' Report on pages 93 to 95 and Strategic Report on pages 1 to 47
Going concern statement	Chief Financial Officer's Review on page 29
Greenhouse gas emissions and energy consumption	Sustainability Report on page 43
Likely future developments of the business and Group	Strategic Report on pages 4 to 6
LR 9.8.4 (4) – Long-term incentive schemes	Directors' Remuneration Report on pages 84 and 87 to 89
LR 9.8.6 (2) – Substantial shareholders	Shareholder relations section of Corporate Governance Report on page 63
Statement on corporate governance	Corporate Governance Report, Audit Committee Report, Nomination Committee Report and Directors' Remuneration Report on pages 49 to 92
Strategic Report – Companies Act 2006 section 414A-D	Strategic Report on pages 1 to 47

The Strategic Report on pages 1 to 47 and this Directors' Report on pages 93 to 95 have been approved and authorised for issue by the Board. They were signed on its behalf by:

Adam Palser
Chief Executive Officer
3 September 2020

Tim Kowalski
Chief Financial Officer
3 September 2020

Directors' responsibilities statement

Statement of Directors' responsibilities in respect of the Annual Report and Accounts and the Financial Statements

The Directors are responsible for preparing the Annual Report and Accounts 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 both 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 judgments 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
- Use 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 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 comply 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 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
3 September 2020

Tim Kowalski
Chief Financial Officer
3 September 2020

Financial statements

Resilient financial performance.

IN THIS SECTION:

ADDITIONAL INFORMATION:

Independent auditor's report

to the members of NCC Group plc

1. Our opinion is unmodified

We have audited the financial statements of NCC Group plc ("the Company") for the year ended 31 May 2020 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated balance sheet, Consolidated cash flow statement, Consolidated statement of changes in equity, Company balance sheet, Company cash flow statement, Company statement 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 2020 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 (IFRSs as adopted by the EU);
- 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 first appointed as auditor by the directors on 1 November 2013. The period of total uninterrupted engagement is for the seven financial years ended 31 May 2020. 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	£0.8m (2019: £0.95m) 5% of Group profit before tax (2019: 4.4% Group profit before tax normalised to exclude individually significant items as disclosed in Note 5)	
Coverage	93% (2019: 88%) of the total profits and losses that made up group profit before tax	
Key audit matters		**vs 2019**
Recurring risks	Recoverability of goodwill in respect of Fox-IT cash generating unit ('CGU')	◀▶
	New: Fox-IT long term contract accounting	New
	Assurance revenue recognition	◀▶
	Recoverability of parent company's investment in subsidiaries	◀▶
Event driven	The impact of uncertainties due to the UK exiting the European Union on our audit	◀▶
	Going concern	▲

2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, 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 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
The impact of uncertainties due to the UK exiting the European Union on our audit *Refer to page 36 (Principal Risks), page 37 (Viability Statement), page 114 (Accounting Policies)*	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, in particular as described in recoverability of goodwill in respect of Fox-IT cash generating unit ('CGU') and Fox-IT long term contract accounting below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the Group's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement 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. Brexit is one of the most significant economic events for the UK and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: ▪ **Our Brexit knowledge**: We considered the directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks; ▪ **Sensitivity analysis:** When addressing recoverability of goodwill in respect of Fox-IT CGU and Fox-IT long term contract accounting and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios including Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty; ▪ **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on recoverability of goodwill with respect of Fox-IT CGU and Fox-IT long term contract accounting, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks; **Our results** ▪ As reported under recoverability of goodwill in respect of Fox-IT CGU and Fox-IT long term contract accounting, we found the resulting estimates and related disclosures in relation to these key audit matters and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Independent auditor's report continued
to the members of NCC Group plc

2. Key audit matters: including our assessment of risks of material misstatement continued

	The risk	Our response
Going concern *Refer to page 34 (Principal risks), page 37 (Viability Statement), page 65 (Audit Committee Report), pages 118–119 (accounting policy)*	**Disclosure Quality** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation of the Group and Parent company. That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. There is increased risk this year due to the economic uncertainty caused by Covid-19. The risks most likely to adversely affect the Group's and Company's available financial resources over this period were: ▪ The uncertainty of the impact of Covid-19, with the future range of possible effects on financial performance currently unknown to performance, given the rapidly evolving nature; ▪ Market demand and increased pressure from competitors, and; ▪ Working capital requirements. There are also less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	Our procedures included: ▪ **Funding assessment:** Evaluated the directors' assessment of the Group's compliance with debt covenants and the headroom on available committed facilities; ▪ **Historical comparison:** Assessed the Group's forecasting accuracy by comparing actual results in the year to the Group's previous forecast for the year; ▪ **Sensitivity analysis:** Considered sensitivities over the level of available financial resources indicated by the Group's forecasts, taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively; ▪ **Benchmarking assumptions:** Critically evaluated the cash flow forecast assumptions and performed additional stress testing considering the downside in performance seen to date during Covid-19 and lockdown, particularly in relation to growth rates with respect of revenue and costs to assess if these are realistic, achievable and consistent with external and internal information and other matters identified in the course of the audit including actual performance post year end; ▪ **Evaluating directors' intent:** Evaluated the achievability of the actions the directors consider they would take to improve the position should the risks materialise; ▪ **Assessing transparency:** Assessed the completeness and accuracy of the matters covered in the going concern disclosure particularly in relation to the sensitivity of the outcome of the cash flow forecasts and compliance with covenants. **Our results** ▪ We found the going concern disclosure without any material uncertainty to be acceptable (2019 result: acceptable).

2. Key audit matters: including our assessment of risks of material misstatement continued

	The risk	Our response
Recoverability of goodwill in respect of Fox-IT Cash Generating Unit ('CGU') (£64.3 million; 2019: £63.1 million) *Refer to page 66 (Audit Committee Report), page 128 (accounting policy) and pages 137–140 (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. This risk is specifically related to the cash generating unit ('CGU') for Fox-IT where there is minimal headroom on the carrying value of goodwill. The effect of these matters is that, as part of our risk assessment, we determined that the value in use of Fox-IT has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality of the financial statements as a whole, and possibly many times that amount. The financial statements (Note 12) disclose the sensitivity estimated by the Group.	Our procedures included: ▪ **Historical comparison:** Assessed the Group's forecasting accuracy by comparing actual results in the year to what was previously forecast for the year. Critically evaluated the assumptions for future revenue with regard to actual growth rates in previous years; ▪ **Benchmarking assumptions:** Challenged, with the support of our own valuation specialists, the risk adjusted discount rates, having regard for market observable data with regard to risk free rates and returns on equity for comparator companies. We also evaluated the assumptions for cost inflation, long term growth rates and the terminal growth rate, comparing to external sources of data including industry growth rates and order book; ▪ **Sensitivity analysis:** Performed breakeven analysis on the key assumptions, including discount rate and revenue growth; ▪ **Comparing valuations:** Compared 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; ▪ **Assessing transparency:** Assessed whether the group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of the CGU. **Our results** ▪ We found the carrying value of the goodwill related to Fox-IT CGU to be acceptable (2019 result: acceptable).
Fox-IT long-term contract accounting Revenue associated with long term contracts £1.1m (2019: £nil) Provision for long-term contracts £0.2m (2019: £1.0m) Contract costs – costs to fulfil £2.1m (2019: £1.2m) *Refer to page 67 (Audit Committee Report), page 129 (accounting policy) and page 146 (financial disclosures)*	**Subjective estimates** The contractual arrangements that underpin the measurement and recognition of revenue and associated profit by Fox-IT can be complex, with significant subjective estimates involved in the assessment of current and future contract performance. In particular, where services rendered are provided through long-term contracts which are not completed at the balance sheet date. Within Fox-IT, the forecasts used in assessing the contract outturn positions are inherently judgemental, due to the uncertainty involved in forecasting future cash flows including costs to complete. Where the contract is loss-making or low margin, these assumptions may have a significant impact on the accounting recognition in the period and may result in impairment of related contract assets or onerous contract provisions being required. The effect of these matters is that, as part of our risk assessment, we determined that the assessment of onerous contract provisions has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (Note 2) disclose the sensitivity estimated by the Group.	Our procedures included: ▪ **Test of details:** For a sample of the selected contracts, agreed costs incurred to date (such as direct costs, labour charges and hardware costs) to quotations and purchases orders for external costs and challenged the internal hours charged, to be able to assess the stage of completion; ▪ **Personnel enquiries:** Corroborated forecasts used in the long-term contracting accounting through discussions with operational management for the same sample of contracts regarding their expectations for the contracts, including forecast costs to complete and the timetable to completion for the contracts; ▪ **Historical comparison:** Assessed the forecasting accuracy of costs to complete by comparing actual results in the year to what was previously forecast for the year. ▪ **Assessing transparency:** Assessed the completeness and accuracy of the matters covered in the disclosures relating to Fox-IT long term contract accounting and assessed the adequacy of the group's disclosures about the sensitivity of the impact of reasonably possible changes in the key assumption in the long term contract accounting. **Our results** ▪ We found the resulting estimates of the onerous contract provision and the assessment of the recoverability of the related contract assets for Fox-IT long-term contracts to be acceptable.

Independent auditor's report continued
to the members of NCC Group plc

2. Key audit matters: including our assessment of risks of material misstatement continued

	The risk	Our response
Assurance revenue recognition Contract assets – accrued income £18.0m (2019 £14.7m) Contract liabilities – deferred income £40.9m (£36.2m) *Refer to page 67 (Audit Committee Report), pages 122–124 and page 128 (accounting policy) and page 146 (financial disclosures)*	**2020/2021 sales** Incentives and pressures relating to meeting market expectations increase the risk of fraudulent premature revenue recognition. There is a heightened risk around the cut off point at the year end with regards to ensuring revenue, including deferred and accrued income, is recognised in the correct accounting period, particularly in the assurance business where projects are ongoing at the year end and there are judgements in determining completion/progress to date.	Our procedures included: ▪ **Tests of detail:** Agreed a sample of revenue transactions within the cut off period to supporting documentation to assess whether these have been recorded in the correct accounting period. This included specific item testing of a sample of items held in accrued and deferred income at the year end; ▪ **Test of detail:** Used data & analytics tools to identify journals with unusual account combinations involving revenue close to the year end and performed testing over the identified items. This included enquiry to understand the nature and substance of the transaction and obtaining supporting documentation. **Our results** ▪ The results of our procedures were satisfactory (2019 result: satisfactory).
Recoverability of parent company's investments in subsidiaries (£78.3 million; 2019: £60.8 million) *Refer to page 119 (accounting policy) and page 156–158 (financial disclosures)*	**Low risk, high value** The carrying amount of the Parent Company's investments in subsidiaries represents 34% (2019: 28%) 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: ▪ **Tests of detail:** Compared a sample of the carrying amount of the investments with the relevant subsidiaries' draft balance sheet as at 31 May 2020 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:** Assessed the work performed by the group and subsidiary audit teams on a sample of those subsidiaries and considering the results of that work, on those subsidiaries' profits and net assets. **Our results** ▪ We found the group's assessment of the recoverability of the investment in subsidiaries to be acceptable (2019 result: acceptable).

We continue to perform procedures on the capitalisation of software and development costs as intangibles on our audit. However, following a number of systems being implemented in the year, the judgement levels have reduced considerably. Therefore, we have not assessed this as one of the most significant risks in our current year audit and it is not separately identified in our audit report this year.

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 £0.80 million (2019: £0.95 million), determined with reference to a benchmark of Group profit before tax of £16.1 million (2019: £21.4 million being Group profit before tax normalised to exclude individually significant items as disclosed in Note 5), of which it represents 5.0% (2019: 4.4%).

Materiality for the Parent Company financial statements as a whole was set at £0.30 million (2019: £0.90 million), determined with reference to a benchmark of Company total assets, of which it represents 0.1% (2019: 0.6%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £40,000 (2019: £47,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 23 (2019: 23) reporting components, we subjected 10 (2019: 11) to full scope audits for Group purposes. We conducted reviews of financial information (including enquiry) at a further 4 (2019: 4) 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.

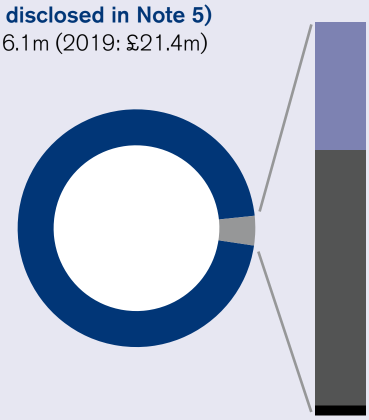
The components within the scope of our work accounted for 95% (2019: 96%) of total Group revenues, 93% (2019: 88%) of total profits and losses that made up Group profit before tax and 98% (2019: 96%) of total Group assets.

The remaining 5% of total Group revenue, 7% of Group profit before tax and 2% of total Group assets is represented by 9 reporting components. 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 £0.10m to £0.625m (2019: £0.2m to £0.65m), having regard to the mix of size and risk profile of the Group across the components. The work on 1 of the 23 components (2019: 1 of the 23 components) was performed by component auditors and the rest, including the audit of the Parent Company, was performed by the Group team.

The Group audit team had planned to visit component locations in the Netherlands and the US. However, these visits were prevented by movement restrictions relating to the Covid-19 pandemic. Instead, video conferences were held with component auditors in the Netherlands to discuss audit strategy, risk assessment, key accounting judgements and estimates and the outcomes of audit testing. The US components were audited remotely by the Group audit team.

Group profit before tax (2019: Group profit before tax normalised to exclude individually significant items as disclosed in Note 5)
£16.1m (2019: £21.4m)



Normalised Group PBT
Group materiality

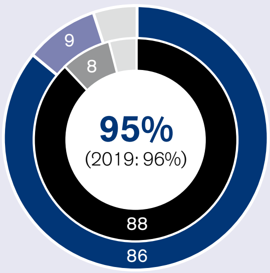
Group Materiality
£0.80m (2019: £0.95m)

£0.80m
Whole financial statements materiality (2019: £0.95m)

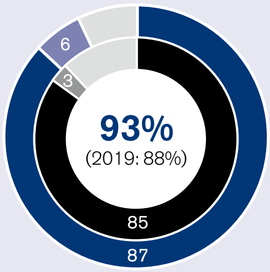
£0.625m
Range of materiality at 10 components (£0.10m–£0.625m) (2019: £0.20m to £0.65m)

£0.04m
Misstatements reported to the audit committee (2019: £0.047m)

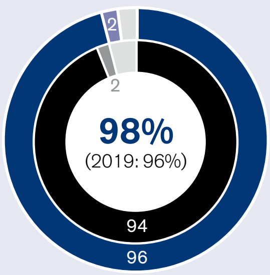
Group revenue



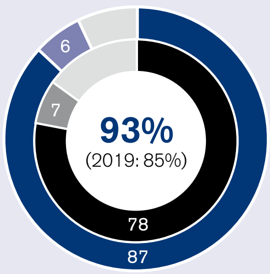
Total profits and losses that made up Group profit before tax



Group total assets



Total profits and losses that made up Group profit before individually significant items and tax



Full scope for group audit purposes 2020
Reviews of financial information (including enquiry) 2020
Full scope for group audit purposes 2019
Reviews of financial information (including enquiry) 2019
Residual components

Independent auditor's report continued
to the members of NCC Group plc

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, 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
- the related statement under the Listing Rules set out on page 29 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 emerging and 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 37 that they have carried out a robust assessment of the emerging and 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.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

5. We have nothing to report on the other information in the Annual Report continued

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 Statement does not properly disclose a departure from the 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.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 96, 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.

Independent auditor's report continued
to the members of NCC Group plc

7. Respective responsibilities continued

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 general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards) the policies and procedures regarding compliance with laws and regulations.

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.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, data protection laws, regulatory capital and liquidity and certain aspects of company legislation.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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.

Mick Davies (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One St. Peter's Square
Manchester
M2 3AE
3 September 2020

Consolidated income statement
for the year ended 31 May 2020

	Notes	2020 [3] Adjusted [1] £m	2020 [3] Adjusting items [1] £m	2020 [3] Statutory £m	2019 [3] Adjusted [1] £m	2019 [3] Adjusting items [1] £m	2019 [3] Statutory £m
Revenue	4	**263.7**	**–**	**263.7**	250.7	–	250.7
Cost of sales	4	**(159.3)**	**–**	**(159.3)**	(148.9)	–	(148.9)
Gross profit	4	**104.4**	**–**	**104.4**	101.8	–	101.8
Administrative expenses [2]	4						
Depreciation and amortisation		**(16.1)**	**(8.8)**	**(24.9)**	(10.0)	(9.0)	(19.0)
Other administrative expenses		**(59.0)**	**(1.4)**	**(60.4)**	(58.1)	(5.2)	(63.3)
Total administrative expenses [2]		**(75.1)**	**(10.2)**	**(85.3)**	(68.1)	(14.2)	(82.3)
Operating profit	4	**29.3**	**(10.2)**	**19.1**	33.7	(14.2)	19.5
Net finance costs	8	**(3.0)**	**–**	**(3.0)**	(1.7)	–	(1.7)
Profit before taxation	6	**26.3**	**(10.2)**	**16.1**	32.0	(14.2)	17.8
Taxation	9	**(6.3)**	**1.9**	**(4.4)**	(6.5)	2.2	(4.3)
Profit for the year attributable to the owners of the Company		**20.0**	**(8.3)**	**11.7**	25.5	(12.0)	13.5
Earnings per ordinary share	11						
Basic EPS				**4.2p**			4.9p
Diluted EPS				**4.2p**			4.8p

Consolidated statement of comprehensive income
for the year ended 31 May 2020

	2020 [3] £m	2019 [3] £m
Profit for the year attributable to the owners of the Company	**11.7**	13.5
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss (net of tax)		
Foreign exchange translation differences	**4.0**	1.5
Total comprehensive income for the year (net of tax) attributable to the owners of the Company	**15.7**	15.0

The accompanying Notes 1 to 35 are an integral part of these consolidated Financial Statements.

Footnotes for Financial Statements

1 See Note 3 for an explanation of Alternative Performance Measures (APMs) and adjusting items, including for a reconciliation to statutory information.

2 Administrative expenses include £0.7m (2019: £0.4m) of credit losses on financial assets.

3 See Note 1 for further details on the impact of the adoption of IFRS 16 with effect from 1 June 2019.

Consolidated balance sheet

at 31 May 2020

	Notes	2020[3] £m	2019[3] £m
Non-current assets			
Goodwill	12	**193.1**	189.4
Other intangible assets	12	**39.2**	41.8
Property, plant and equipment	13	**13.9**	16.9
Right-of-use assets	14	**28.7**	–
Investments	15	**0.3**	0.3
Deferred tax asset	18	**0.5**	1.1
Total non-current assets		**275.7**	249.5
Current assets			
Inventories	16	**0.9**	0.7
Trade and other receivables	17	**73.2**	61.6
Current tax receivable		**0.6**	0.6
Cash and cash equivalents	24	**95.0**	34.9
Total current assets		**169.7**	97.8
Total assets		**445.4**	347.3
Current liabilities			
Trade and other payables	19	**46.4**	31.6
Borrowings	24	**–**	5.0
Lease liabilities	20	**5.3**	–
Provisions	21	**2.0**	2.7
Contract liabilities - deferred revenue	22	**39.5**	36.2
Total current liabilities		**93.2**	75.5
Non-current liabilities			
Borrowings	24	**99.2**	50.1
Lease liabilities	20	**32.9**	–
Deferred tax liability	18	**2.9**	5.4
Provisions	21	**1.7**	5.5
Contract liabilities - deferred revenue	22	**1.4**	–
Total non-current liabilities		**138.1**	61.0
Total liabilities		**231.3**	136.5
Net assets		**214.1**	210.8
Equity			
Issued capital	27	**2.8**	2.8
Share premium	27	**150.9**	149.8
Merger reserve	27	**42.3**	42.3
Currency translation reserve	27	**31.9**	27.9
Retained earnings	27	**(13.8)**	(12.0)
Total equity attributable to equity holders of the parent		**214.1**	210.8

The accompanying Notes 1 to 35 are an integral part of these consolidated Financial Statements.

These Financial Statements were approved and authorised for issue by the Board of Directors on 3 September 2020. They were signed on its behalf by:

Adam Palser
Chief Executive Officer
3 September 2020

Tim Kowalski
Chief Financial Officer
3 September 2020

Consolidated cash flow statement
for the year ended 31 May 2020

Cash flow from operating activities	Notes	2020[3] £m	2019[3] £m
Profit for the year		11.7	13.5
Adjustments for:			
Depreciation of property, plant and equipment	13	5.8	5.6
Depreciation of right-of-use assets	14	6.0	–
Share-based payments	26	1.4	1.7
Amortisation of acquired intangible assets	12	8.8	9.0
Amortisation of internally developed intangible assets and software	12	4.4	4.4
Impairment of right-of-use assets	14	1.1	–
Lease financing costs	8	1.2	–
Other financing costs	8	1.8	1.7
Foreign exchange		–	0.2
Individually Significant Items (non-cash impact)	5	–	3.6
Profit on disposal of investments		–	(0.1)
Profit on disposal of right-of-use assets		(0.1)	–
Loss on sale of plant and equipment		–	0.2
Research and development tax credits		(0.6)	(0.3)
Income tax expense	9	4.4	4.3
Decrease in provisions		0.8	(2.5)
Cash inflow for the year before changes in working capital		**46.7**	41.3
(Increase)/decrease in trade and other receivables		(11.0)	6.0
(Increase)/decrease in inventories		(0.2)	0.1
Increase in trade and other payables		19.2	0.5
Cash generated from operating activities before interest and taxation		**54.7**	47.9
Interest element of lease payments		(1.2)	–
Other interest paid		(1.6)	(1.7)
Taxation paid		(4.8)	(6.4)
Net cash generated from operating activities		**47.1**	39.8
Cash flows from investing activities			
Purchase of property, plant and equipment		(2.8)	(3.0)
Software and development expenditure		(10.4)	(6.1)
Acquisition of businesses		–	(10.9)
Net proceeds from sale of subsidiaries and investments		–	1.8
Net cash used in investing activities		**(13.2)**	(18.2)
Cash flows from financing activities			
Proceeds from the issue of ordinary share capital	27	1.1	0.3
Principal element of lease payments		(5.3)	–
Drawdown of borrowings (net of deferred issue costs)		44.3	13.0
Issue costs related to borrowings		(1.0)	–
Repayment of borrowings		–	(8.6)
Equity dividends paid	10	(12.9)	(12.9)
Net cash generated/(used) in financing activities		**26.2**	(8.2)
Net increase in cash and cash equivalents		**60.1**	13.4
Cash and cash equivalents at beginning of year		**34.9**	21.2
Effect of foreign currency exchange rate changes		–	0.3
Cash and cash equivalents at end of year	24	**95.0**	34.9

Reconciliation of net change in cash and cash equivalents to movement in net debt[1]		2020 £m	2019 £m
Net increase in cash and cash equivalents		60.1	13.4
Change in net debt resulting from cash flows (net of deferred issue costs)		(43.3)	(4.4)
Non-cash movements (release of deferred issue costs)		(0.2)	–
Effect of foreign currency on cash flows		–	0.3
Foreign currency translation differences on borrowings		(0.6)	(1.7)
Change in net debt[1] during the year		**16.0**	7.6
Net debt[1] at start of year (Pre-IFRS 16)		**(20.2)**	(27.8)
Net debt[1] at end of year (Pre-IFRS 16)		**(4.2)**	(20.2)
Lease liabilities	20	**(38.2)**	
Net debt[1] at end of year (IFRS 16)		**(42.4)**	

The accompanying Notes 1 to 35 are an integral part of these consolidated Financial Statements.

Consolidated statement of changes in equity
for the year ended 31 May 2020

	Notes	Issued share capital £m	Share premium £m	Merger reserve £m	Currency translation reserve £m	Retained earnings £m	Total £m
Balance at 31 May 2018 and 1 June 2018		2.8	149.5	42.3	26.4	(14.4)	206.6
Profit for the year		–	–	–	–	13.5	13.5
Foreign currency translation differences		–	–	–	1.5	–	1.5
Total comprehensive income for the year		–	–	–	1.5	13.5	15.0
Transactions with owners recorded directly in equity							
Dividends to equity shareholders	10	–	–	–	–	(12.9)	(12.9)
Share-based payments	26	–	–	–	–	1.7	1.7
Current and deferred tax on share-based payments	9	–	–	–	–	0.1	0.1
Shares issued	27	–	0.3	–	–	–	0.3
Total contributions by and distributions to owners		–	0.3	–	–	(11.1)	(10.8)
Balance at 31 May 2019 and 1 June 2019 (as reported)		2.8	149.8	42.3	27.9	(12.0)	210.8
Impact of change in accounting policies in respect of IFRS 16[3] (Note 1)		–	–	–	–	(2.0)	(2.0)
Balance at 1 June 2019 (restated[3])		2.8	149.8	42.3	27.9	(14.0)	208.8
Profit for the year		**–**	**–**	**–**	**–**	**11.7**	**11.7**
Foreign currency translation differences		**–**	**–**	**–**	**4.0**	**–**	**4.0**
Total comprehensive income for the year		**–**	**–**	**–**	**4.0**	**11.7**	**15.7**
Transactions with owners recorded directly in equity							
Dividends to equity shareholders	10	**–**	**–**	**–**	**–**	**(12.9)**	**(12.9)**
Share-based payments	26	**–**	**–**	**–**	**–**	**1.4**	**1.4**
Shares issued	27	**–**	**1.1**	**–**	**–**	**–**	**1.1**
Total contributions by and distributions to owners		**–**	**1.1**	**–**	**–**	**(11.5)**	**(10.4)**
Balance at 31 May 2020		**2.8**	**150.9**	**42.3**	**31.9**	**(13.8)**	**214.1**

The accompanying Notes 1 to 35 are an integral part of these consolidated Financial Statements.

Company balance sheet
at 31 May 2020

Company no: 4627044

	Notes	2020 £m	Restated [1] 2019 £m
Non-current assets			
Goodwill	12	–	–
Investments in subsidiary undertakings	33	78.3	75.2
Trade and other receivables	17	142.0	–
Total non-current assets		220.3	75.2
Current assets			
Trade and other receivables	17	–	141.4
Cash and cash equivalents	24	6.8	0.2
Total current assets		6.8	141.6
Total assets		227.1	216.8
Current liabilities			
Trade and other payables	19	13.0	–
Total current liabilities		13.0	–
Total liabilities		13.0	–
Net assets		214.1	216.8
Equity			
Issued capital	27	2.8	2.8
Share premium	27	150.9	149.8
Merger reserve	27	42.3	42.3
Retained earnings	27	18.1	21.9
Total equity		214.1	216.8

1 See Note 34 for prior year adjustment.

The accompanying Notes 1 to 35 are an integral part of these Financial Statements.

These Financial Statements were approved and authorised for issue by the Board of Directors on 3 September 2020. They were signed on its behalf by:

Adam Palser
Chief Executive Officer
3 September 2020

Tim Kowalski
Chief Financial Officer
3 September 2020

Company cash flow statement
for the year ended 31 May 2020

	Notes	2020 £m	2019 £m
Cash flow from operating activities			
Profit for the year	28	**6.0**	0.3
Cash inflow for the year before changes in working capital		**6.0**	0.3
(Increase)/decrease in trade and other receivables		**(0.6)**	12.4
Increase in trade and other payables		**13.0**	–
Net cash generated from operating activities		**18.4**	12.7
Cash flows from financing activities			
Proceeds from the issue of ordinary share capital	27	**1.1**	0.3
Equity dividends paid	10	**(12.9)**	(12.9)
Net cash used in financing activities		**(11.8)**	(12.6)
Net increase in cash and cash equivalents		**6.6**	0.1
Cash and cash equivalents at beginning of year		**0.2**	0.1
Cash and cash equivalents at end of year		**6.8**	0.2

The accompanying Notes 1 to 35 are an integral part of these Financial Statements.

Company statement of changes in equity
for the year ended 31 May 2020

	Notes	Share capital £m	Share premium £m	Merger reserve £m	Retained earnings £m	Total £m
Balance at 31 May 2018 and 1 June 2018		2.8	149.5	42.3	34.5	229.1
Profit for the year		–	–	–	0.3	0.3
Total comprehensive income for the year		–	–	–	0.3	0.3
Transactions with owners recorded directly in equity						
Dividends to equity shareholders	10	–	–	–	(12.9)	(12.9)
Shares issued	27	–	0.3	–	–	0.3
Total contributions by and distributions to owners		–	0.3	–	(12.9)	(12.6)
Balance at 31 May 2019 and 1 June 2019		2.8	149.8	42.3	21.9	216.8
Profit for the year		**–**	**–**	**–**	**6.0**	**6.0**
Total comprehensive income for the year		**–**	**–**	**–**	**6.0**	**6.0**
Transactions with owners recorded directly in equity						
Dividends to equity shareholders	10	**–**	**–**	**–**	**(12.9)**	**(12.9)**
Increase in subsidiary investment for share-based charges		**–**	**–**	**–**	**3.1**	**3.1**
Shares issued	27	**–**	**1.1**	**–**	**–**	**1.1**
Total contributions by and distributions to owners		**–**	**1.1**	**–**	**(9.8)**	**(8.7)**
Balance at 31 May 2020		**2.8**	**150.9**	**42.3**	**18.1**	**214.1**

The accompanying Notes 1 to 35 are an integral part of these Financial Statements.

Notes to the financial statements

for the year ended 31 May 2020

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 principal activity of the Group is the provision of independent advice and services to customers through the supply of Software Resilience (Escrow) and cyber assurance services. 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 3 September 2020.

Both the Parent Company and the Group Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS as adopted by the EU') and Article 4 of the IAS Regulation. The Parent Company Financial Statements have also been prepared in accordance with the provisions of the Companies Act 2006. On publishing the Parent Company Financial Statements here together with the Group Financial Statements, the Company is also 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.

Brexit

Management has reviewed the potential impact of Brexit on the Financial Statements. As the Group's operations around the world include business entities based in Continental Europe management believes the Group is structurally resilient to any disruption caused by Brexit. The main risks to the Group from Brexit are any reduction in demand from an economic slowdown and real or perceived differences in data protection standards which impact our global ways of working. On this basis, management has concluded that the impact should be limited; this includes any impact on the IFRS 9 expected credit loss model. Management also notes no changes to this assessment from a post Balance Sheet event perspective.

Covid-19

Management has reviewed the potential impact of Covid-19 on the financial statements. Accordingly, consideration has been given to the impact on the IFRS 9 expected credit loss model, IFRS 15 collectability assessments, IFRS 16 lease term assessments (no material impact on lease term assessment), the annual impairment review and the Going Concern and viability assessments.

Application of significant new EU-endorsed accounting standard – IFRS 16 'Leases'

Background and adoption

During the year, the Group adopted IFRS 16 'Leases'. The date of the initial application of IFRS 16 for the Group is 1 June 2019. The Group has adopted the accounting standard using the modified retrospective approach to transition and has accordingly not restated prior periods. The results for the year ended 31 May 2020 are not directly comparable with those reported under the previous applicable accounting standard IAS 17 'Leases' and IFRIC 4 'Determining Whether an Arrangement Contains a Lease'. On this basis, to provide meaningful comparatives, the results for the year ended 31 May 2020 have therefore also been presented under IAS 17 with the "like-for like" numbers shown on an IAS 17 basis (Pre-IFRS 16). This Alternative Performance Measure (APM) will be presented for one year until the comparatives also include the adoption of IFRS 16. Further details are provided in Note 3 to the Financial Statements.

In applying the modified retrospective approach the Group has valued right-of-use assets on a lease by lease basis using the approach that IFRS 16 had always been applied but using the incremental borrowing rate at the date of the application.

Implications of IFRS 16 adoption

The implications of IFRS 16 adoption are noted as follows:

- A number of lease contracts previously disclosed under IAS 17 within the Financial Statements, which gave rise to recurring expenses within operating expenses, have been recognised on the Balance Sheet as a "right-of-use asset" for the year ended 31 May 2020.
- A corresponding lease liability (current and non-current) reflecting the Group's commitment to pay consideration to third parties under these contracts has also been recognised, increasing the Group's net debt although the net cash flow profile remains the same for the Group.
- The Group has depreciated the right-of-use asset through the Income Statement over the shorter of the assets' useful lives and the assessed lease term.
- The Group has recognised interest on the liability using the Group's incremental borrowing rate. Interest has been charged to finance costs.
- The profile of the overall expense in profit and loss has now changed, as the interest expense will be more front-loaded compared to a straight-line operating lease rental expense under IAS 17.

Specifically, management had to conclude on whether a contract is or contains a lease, with the following being considered:

- Whether there is an identified asset that the Group has the right to obtain substantially all the economic benefits from.
- Whether the Group has the right to direct how and for what purpose the asset is used.
- Whether the Group has the right to operate the asset without the supplier having the right to change those operating instructions.
- Whether the Group has designed the asset in a way that predetermines how and for what purpose the asset will be used.

1 Accounting policies continued

Application of significant new EU-endorsed accounting standard – IFRS 16 'Leases' continued

Implications of IFRS 16 adoption continued

In addition, management has also considered other salient factors in the assessment of the standard such as:

- The length of assessed lease term taking into account the non-cancellable period of the lease including periods covered by an option to extend or an option to terminate if the Group is reasonably certain to exercise either option.
- The applicability of interest rate implicit in the lease or the Group's incremental borrowing rate.

Following the above assessment, management has concluded that the following items that were previously classified as operating leases under IAS 17 have been recognised in the Financial Statements using the new requirements of IFRS 16:

- Certain properties
- Equipment leases
- Motor vehicles

The Group does not lease any server equipment in relation to the provision of software resilience services or have embedded leases within Assurance service contracts.

Exemptions and practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Reliance on previous assessments on whether leases are onerous.
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 June 2019 as short-term leases.
- Right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment) have not been recognised.
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Transition elections

The Group has offset the previously recognised onerous leases immediately before transition as opposed to performing an impairment review under IAS 36.

Impact on covenants and cash flows

The Group renegotiated its banking facilities in June 2019. The debt covenants on the Group's borrowing facilities have been unaffected by the application of IFRS 16 as the covenant calculations are based on the accounting principles in place prior to 1 January 2019. The IFRS 16 changes have not impacted the interest paid by the Group for its banking facilities. The overall net cash flow for the Group is also unaffected by IFRS 16; however, the cash flows in the Consolidated Cash Flow Statement are now split between a principal portion and a finance portion, which are presented within financing activities and operating cash flows respectively. Previously under IAS 17 the operating lease payments were presented as operating cash flows.

New accounting policies under IFRS 16

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- The contract involves use of the identified asset; this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity or a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified.
- The Group has the right to obtain substantially all of the economic benefits from use of the asset and throughout the period of use.
- The Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where all the decisions about how and for what purpose the asset is used are predetermined, the Group has the right to direct the use of the asset if either:
  - The Group has the right to operate the asset.
  - The Group designed the asset in a way that predetermines how and for what purpose it will be used.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. The Group has used its incremental borrowing rate of 3.3% as the discount rate for the calculation of the lease liabilities on the transition to IFRS 16.

Notes to the financial statements continued

for the year ended 31 May 2020

1 Accounting policies continued

Application of significant new EU-endorsed accounting standard – IFRS 16 'Leases' continued

New accounting policies under IFRS 16 continued

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the Income Statement if the carrying amount of the right-of-use asset has been reduced to zero. As noted above, the Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low value assets, including certain IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

This policy is now applied to contracts entered into, or changed, on or after 1 June 2019.

Other judgments

Lease term

The lease term is a key judgment into calculating the lease liability under IFRS 16. Management considers it appropriate to initially set a lease term equal to the non-cancellable period of the lease. The lease term is reassessed only in specific circumstances, for example where management makes the decision to renew a lease, exercise an option to extend a lease or exercise a break clause. In these circumstances the adjustment to the right-of-use asset and associated lease liability is accounted for as an addition or disposal (as appropriate) in the period of reassessment.

Summary of financial impact on consolidated Financial Statements

The application of this standard has had a significant impact on the Group's consolidated Financial Statements for the year ended 31 May 2020 as follows:

Consolidated Income Statement financial impact:

Statutory	2020 (IFRS 16) £m	Rent and finance costs £m	ROU asset impairment £m	Depreciation £m	Taxation £m	2020 (Pre-IFRS 16) £m
Revenue	263.7	–	–	–	–	263.7
Cost of sales	(159.3)	–	–	–	–	(159.3)
Gross profit	104.4	–	–	–	–	104.4
Administrative expenses						
– Depreciation and amortisation	(24.9)	–	–	6.0	–	(18.9)
– Other administrative expenses	(60.4)	(5.3)	1.1	–	–	(64.6)
Total administrative expenses	(85.3)	(5.3)	1.1	6.0	–	(83.5)
Operating profit	19.1	(5.3)	1.1	6.0	–	20.9
Net finance costs	(3.0)	1.2	–	–	–	(1.8)
Profit before taxation	16.1	(4.1)	1.1	6.0	–	19.1
Taxation	(4.4)	–	–	–	(0.6)	(5.0)
Profit for the period attributable to the owners of the Company	11.7	(4.1)	1.1	6.0	(0.6)	14.1
Earnings per ordinary share						
Basic EPS	4.2p					5.1p
Diluted EPS	4.2p					5.0p

Consolidated Statement of Comprehensive Income financial impact:

	2020 (IFRS 16) £m	Adjustment on application of IFRS 16 £m	2020 (Pre-IFRS 16) £m
Total comprehensive income for the year (net of tax) attributable to the owners of the Company	15.7	2.4	18.1

During the year ended 31 May 2020, the following charges arising from lease arrangements were recognised in the Consolidated Income Statement:

	2020 £m
Depreciation of right-of-use assets	6.0
Finance costs – interest on lease liabilities	1.2
Profit on disposal of right-of-use assets	(0.1)
Impairment of right-of-use assets	1.1

1 Accounting policies continued

Application of significant new EU-endorsed accounting standard – IFRS 16 'Leases' continued

Summary of financial impact on consolidated Financial Statements continued

Consolidated Balance Sheet on transition:

	2019 (Pre-IFRS 16) £m	Right-of-use assets and liabilities on transition £m	Onerous leases and lease incentives offset £m	Taxation £m	2019 (IFRS 16) £m
Non-current assets					
Goodwill	189.4	–	–	–	189.4
Other intangible assets	41.8	–	–	–	41.8
Property, plant and equipment	16.9	–	–	–	16.9
Right-of-use assets	–	33.2	(6.7)	–	26.5
Investments	0.3	–	–	–	0.3
Deferred tax assets	1.1	–	–	0.5	1.6
Total non-current assets	249.5	33.2	(6.7)	0.5	276.5
Current assets					
Inventories	0.7	–	–	–	0.7
Trade and other receivables	61.6	–	–	–	61.6
Current tax receivable	0.6	–	–	–	0.6
Cash and cash equivalents	34.9	–	–	–	34.9
Total current assets	97.8	–	–	–	97.8
Total assets	347.3	33.2	(6.7)	0.5	374.3
Current liabilities					
Trade and other payables	31.6	–	–	–	31.6
Borrowings	5.0	–	–	–	5.0
Lease liabilities	–	5.2	–	–	5.2
Provisions	2.7	–	(2.5)	–	0.2
Contract liabilities – deferred revenue	36.2	–	–	–	36.2
Total current liabilities	75.5	5.2	(2.5)	–	78.2
Non-current liabilities					
Borrowings	50.1	–	–	–	50.1
Lease liabilities	–	30.5	–	–	30.5
Deferred tax liability	5.4	–	–	–	5.4
Provisions	5.5	–	(4.2)	–	1.3
Total non-current liabilities	61.0	30.5	(4.2)	–	87.3
Total liabilities	136.5	35.7	(6.7)	–	165.5
Net assets	210.8	(2.5)	–	0.5	208.8
Equity					
Issued capital	2.8	–	–	–	2.8
Share premium	149.8	–	–	–	149.8
Merger reserve	42.3	–	–	–	42.3
Currency translation reserve	27.9	–	–	–	27.9
Retained earnings	(12.0)	(2.5)	–	0.5	(14.0)
Total equity attributable to equity holders of the parent	210.8	(2.5)	–	0.5	208.8

Notes to the financial statements continued

for the year ended 31 May 2020

1 Accounting policies continued

Application of significant new EU-endorsed accounting standard – IFRS 16 'Leases' continued

Summary of financial impact on consolidated Financial Statements continued

At 31 May 2019, the Group had £35.6m of non-cancellable operating lease commitments. The difference between the operating lease commitments disclosed in the Group consolidated Financial Statements for the year ended 31 May 2019 and the lease liabilities recognised on the date of transition can be explained as follows:

	£m
Undiscounted future minimum lease payments under operating leases at 31 May 2019	35.6
Short-term leases	(1.4)
Increase in minimum lease commitments	6.1
Impact of discounting	(6.2)
Other	1.6
IFRS 16 lease liability recognised at 1 June 2019	35.7

The increase in minimum lease commitments relates to leases where the minimum lease payments disclosed at 31 May 2019 were calculated by reference to break clauses, but under IFRS 16 have been calculated including periods covered by options to extend the lease where the Group is reasonably certain that such options will be exercised, and periods covered by an option to terminate the lease if the Group is reasonably certain not to exercise that option.

Of the lease liability of £35.7m recognised at 1 June 2019, £33.6m related to property leases and £2.1m related to other leases.

New and amended accounting standards that have been issued but are not yet effective

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but have not been applied in these financial statements as they were not yet mandatory:

- IFRS 17 'Insurance Contracts'*
- 'Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)'*
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- 'Definition of Material (Amendments to IAS 1 and IAS 8)'
- 'Definition of a Business (Amendments to IFRS 3)'*
- Revised 'Conceptual Framework' and 'Amendments to References to the Conceptual Framework in IFRS Standards'
- Covid-19-Related Rent Concessions amendment to IFRS 16

* Standards and interpretations not yet endorsed.

The following accounting standards and interpretations became effective this financial year and have been applied for the first time in these financial statements:

- IFRS 16 'Leases'
- 'Annual Improvements to IFRS Standards 2015-2017 Cycle'
- 'Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)'
- 'Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)'
- 'Prepayment Features with Negative Compensation (Amendments to IFRS 9)'
- IFRIC 23 'Uncertainty over Income Tax Treatments'

Basis of measurement

The consolidated Financial Statements have been prepared on the historical cost basis except for consideration payable on acquisitions, the revaluation of certain financial instruments and investments.

Functional and presentation currency

The Group and Company Financial Statements are presented in millions of Pounds Sterling (£m) because that is the currency of the principal economic environment in which the Group operates.

Going concern

The Directors have acknowledged the "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting", published in September 2014, and also the Covid-19 Thematic Review published by the Financial Reporting Council in July 2020.

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 4 to 6.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Chief Executive Officer and Chief Financial Officer Reviews on pages 4 to 6 and 22 to 29. In addition, Note 25 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.

1 Accounting policies continued

Going concern continued

The Financial Statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have prepared cash flow and covenant compliance forecasts for the period to March 2022 which indicate that, taking account of reasonably possible downsides and the anticipated impact of Covid-19 on the operations and its financial resources, the Group and Company will have sufficient funds to meet its liabilities as they fall due for that period.

The Group is financed primarily by a £100m committed revolving credit facility which matures in June 2024, further details of which are disclosed in Note 24 to the Financial Statements. The Group is required to comply with financial covenants for leverage (net debt to Adjusted EBITDA [1]) and interest cover (Adjusted EBITDA [1] to interest charge) which are tested bi-annually at 31 May and 30 November each year. In April 2020, the Group drew down the entire available funds of £100m under this RCF facility in order to provide maximum cash flexibility during the Covid-19 crisis.

Although the Group has demonstrated resilience to the challenging environment resulting from Covid-19, the Directors acknowledge that the financial performance of the Group was adversely impacted during the last quarter of the year ended 31 May 2020, and for this reason the base case budget for FY21 reflects the assumption of a continued impact from Covid-19 on Group revenues up until November 2020 at a similar level to that experienced in the last quarter of FY20.

The Directors have prepared a number of severe but potentially plausible scenarios, which are based on the financial impact of the Group's principal risks and uncertainties (see page 37) as follows:

- Loss of revenue from September 2020 resulting from the ineffective execution of the business strategy
- Loss of revenue from September 2020 arising from the failure of critical systems, leading to inability to provide services to customers
- A fine of 4% of revenue and additional loss of revenue arising from the failure to maintain control over commercial/customer data
- A further Covid-19 impact representing a further decline in revenues throughout FY21 over and above the impact already reflected in the base case budget

These scenarios have been modelled individually and also in combination in order to assess the Group's ability to withstand multiple challenges, although the Directors do not believe a scenario combining these risks to be plausible. The impact of these sensitivities has been reviewed against the Group's projected cash flow position, available bank facilities and compliance with financial covenants. Should these occur, mitigating actions would be required to ensure that the Group remains liquid and financially viable, which include a reduction of planned capital expenditure, headcount reduction, freezing pay and recruitment and not paying a dividend to shareholders. All of the mitigating actions included in these forecasts are within the Directors' control. These forecasts, including the severe but plausible downsides when the mitigating actions are included, show that the Group is able to operate within its available banking facilities, with no forecasted covenant breaches and that the Group will have sufficient funds to meets its liabilities as they fall due for that period.

Having reviewed the current performance, forecasts, debt servicing requirements, total facilities and risks, the Directors are confident that the Company and the Group have sufficient funds to continue to meet their liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements. Accordingly, they continue to adopt the going concern basis of accounting in preparing the Group's financial statements for the year ended 31 May 2020.

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

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 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.

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.

Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Intercompany transactions and balances between subsidiaries are eliminated on consolidation.

1 Accounting policies continued

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, if the Group has the technical ability and sufficient resources to complete development, if 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 more than one year, 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. Software costs are 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

Financial instruments

Financial assets and financial liabilities, in respect of financial instruments, are recognised in the Group Balance Sheet when the Group becomes a party to the contractual provisions of the instrument.

Classification and measurement of financial assets and liabilities

Classification of financial assets is generally based on the business model in which the financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at amortised cost if it is held with the objective of collecting the contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. All other financial assets are measured at fair value through other comprehensive income or the Income Statement.

Financial assets at amortised cost

Trade and other receivables

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as financial assets measured at amortised cost.

Under the IFRS 9 "expected credit loss" model, a credit event (or impairment "trigger") no longer needs to occur before credit losses are recognised.

The Group analyses the risk profile of trade receivables based on past experience and an analysis of the receivables' current financial position, potential for a default event to occur, adjusted for specific factors, general economic conditions of the industry in which the receivables operate and assessment of both the current and the forecast direction of conditions at the reporting date. A default event is considered to occur when information is obtained that indicates that a receivable is unlikely to be paid to the Group.

Credit risk is regularly reviewed by management to ensure the expected credit loss (ECL) model is being appropriately applied. The Group has performed the calculation of ECL separately for each business unit.

1 Accounting policies continued

Financial liabilities at amortised cost

Trade payables

Trade payables are other financial liabilities initially measured at fair value and subsequently measured at amortised cost.

Impairment of 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 32 to these Financial Statements.

Property, plant and equipment

Property, 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

Property, 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

Summary

The Group provides independent global cyber Assurance security and Software Resilience (Escrow) services.

The revenue streams in relation to Assurance include:

- Technical Security Consulting (TSC) – cyber-security consultancy services
- Risk Management Consulting (RMC) – focus on the business risks of cyber from a governance perspective
- Managed Detection and Response (MDR) – operational cyber defence, incident response, scanning, simulation and managed security operations centres (SOCs)
- Product Sales – sale of own manufactured and/or resale of third party products

The revenue streams in relation to Software Resilience (Escrow) include:

- Escrow contract services – securely maintain in "escrow" the long-term availability of business critical software and applications
- Verifications services – verify source code, and provide a fully managed secure service and result validation

Notes to the financial statements continued
for the year ended 31 May 2020

1 Accounting policies continued
Revenue recognition continued
Summary continued
While the detailed recognition is contract specific, and set out in the table on pages 122 to 125, in most cases:

- TSC and RMC revenues are recognised on an input method over time
- MDR revenues are bifurcated according to the separate performance obligations (see pages 123 and 124) below
- Product sales are recognised when control passes, usually on delivery
- Escrow contract revenues are recognised over time
- Verification services are recognised on the completion of the verification service

Revenue is presented net of VAT and other sales related taxes.

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer.

Due to the nature of the Group's activities, the Group transaction price for the majority of its contracts is entirely variable consideration as these contracts are on a times and material basis, using set contractual rates per hour/day worked, giving rise to no estimation or reversal risk at period end. The Group does not have any material obligations in respect of returns, refunds or warranties. The impact of any financing component within contracts with customers has been assessed and concluded to be immaterial.

On contract inception, the probability of collectability is assessed across the Group and, unless there is a significant change in facts and circumstances, revenue is recognised. During the year, no instances have been identified where reassessment of the collectability has had to be reassessed, nor have there been any new contracts with customers for which the collection of consideration has not been assessed at inception as probable. This current year assessment also takes into account the impact of Covid-19 on the Group's customer base.

Detailed policies
The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers by reportable segments, including significant payment terms, and the related revenue recognition policies.

Assurance

Revenue stream	Nature	Timing of satisfaction of performance obligations and significant payment terms	Revenue recognition policies, including determination of transaction price and rationale
Technical Security Consulting (TSC)	TSC is the Group's core consulting service represented by consultants providing cyber-security consultancy services to a customer over time or to a set deliverable. Some contracts may contain multiple services (e.g. cyber security assessment and certified product evaluation services). These will be identified as separate performance obligations, and the transaction price allocated to each of these is determined by using the fixed contract rate based upon day rates, being the relative stand-alone selling price basis. Specifically, the contract terms range from time and materials (based upon consultants' time and expenses) and discrete statements of work, whereby the customer benefits gradually over the period over which the work is performed, unless there is a set deliverable (for example: a defined security assessment report).	The customer simultaneously receives and consumes the benefits provided by the Group's performance over the period over which the work is performed and one promise (performance obligation) is identified. Work is performed on a daily basis. Invoices are raised monthly or based on an agreed invoicing profile with the customer. Invoices are usually payable within 30 days. No discounts or retrospective rebates are provided.	Revenue is recognised on an input basis to measure the satisfaction of performance obligations over time. This is done according to the number of days worked in comparison to the total contracted number of days of the performance obligation. The work performed occurs on a daily basis (for example: security assessment of a customer's security environment). It is considered that as the customer benefits over time based on consultants' time, the input method faithfully depicts the Group's performance towards complete satisfaction of the single performance obligation. Transaction price is determined by fixed contract rates based upon day rates and number of days.
		Where a set deliverable is required and the customer receives the incremental benefit at the end, this represents one performance obligation. In this situation, the contract will have no abortive revenue rights; therefore, the Group has no right to consideration for performance to date. Invoicing will usually be on completion of the set deliverable and payable within 30 days.	Revenue is recognised at a point in time, on completion of the performance obligation deliverable. It is considered that as the customer benefits once the set deliverable is received, the point in time method faithfully depicts the Group's performance towards complete satisfaction of the single performance obligation. Transaction price is determined by fixed contract rates.
	The Group in certain situations operates on agreed customer terms which allow the Group to recover any abortive revenue from its customer in the event that a customer terminates a contract before the contract or deliverable is complete.	The customer simultaneously receives and consumes the benefits provided over the period over which the work is performed by the Group and one performance obligation is identified. Invoices in relation to the abortive revenue will be recognised when aborted. Invoices are usually payable within 30 days.	Revenue is recognised on an input basis to measure the satisfaction of performance obligations over time. This is done according to the number of days worked in comparison to the total contracted number of days of the performance obligation. Transaction price is determined by fixed contract rates based upon day rates and number of consultancy days.

1 Accounting policies continued

Revenue recognition continued

Assurance continued

Revenue stream	Nature	Timing of satisfaction of performance obligations and significant payment terms	Revenue recognition policies, including determination of transaction price and rationale
Risk Management Consulting (RMC)	These services focus on the business risks of cyber from a governance perspective whereby the Group provides cyber-security risk management consultancy to the customer over time or to a set deliverable. These services help customers protect critical systems and information, in particular, by defining security strategies, policies, security architecture, security awareness and training and undertaking risk assessments.	Revenue is recognised on the same basis as outlined for TSC.	
Managed Detection and Response (MDR)	These services provide operational cyber defence, incident response, scanning, simulation and managed security operations centres (SOCs). Services are typically for an extended delivery duration, with contract lengths varying up to a maximum of five years. The proposition will also provide the customer with software licence(s) to enable these services to occur. On this basis, the Group operates two types of MDR contracts: ▪ A Managed Service Provider (MSP) model whereby the customer is supplied with one complete integrated MDR service including the software licence(s) ▪ A reseller model whereby the Group sources the software licence(s) on behalf of the customer and provides the managed detection and response services These services will also include set-up fees. Set-up fees represent workshops, design, and configuration to create a "connection" between systems. Following services going live, the Group will also provide a certain level of professional service consultancy days based on a day rate (post-go-live fees).	The customer will benefit from the services over the period of the contract. However, the type of MDR contract will depend on how the customer benefits from the software licence(s). Where a MSP model is selected by the customer, the Group recognises three performance obligations: ▪ Set-up fees ▪ Post-go-live fees ▪ Combined monitoring cyber and licence service The MSP model is considered to be under a principal arrangement whereby the Group controls the service prior to transfer. Where a reseller model is selected by the customer, the Group recognises four performance obligations: ▪ Sourced software licence(s) ▪ Set-up fees ▪ Post-go-live fees ▪ Monitoring cyber service The reseller model is considered to be under an agency arrangement whereby the customer receives the benefit and control of the licence on delivery. Invoices are raised monthly or based on an agreed invoicing profile with the customer. Invoices are usually payable within 30 days.	The amount of revenue recognised in relation to software licence(s) depends on whether the Group acts as an agent or as a principal. The Group acts as principal when the Group controls the specified software licence or service prior to transfer (MSP model). When the Group acts as a principal the revenue recorded is the gross amount billed. The transaction price is determined by a contract price (cost plus mark-up). The transaction price for the overall service is outlined within the customer contract. In certain scenarios, the contract will outline the price for each performance obligation, which is considered to be the stand-alone selling price of the services/goods, and the transaction price is allocated to each performance obligation on this basis. Where the contract does not stipulate the price per performance obligation, management determines the relative stand-alone selling price for each performance obligation based on a market assessment approach for the services provided in comparison to market prices, and the contract transaction price is allocated to each performance obligation in proportion to those stand-alone selling prices. Under a reseller model, the Group's responsibility is to arrange for a third party to provide a specified software licence(s) to the customer. In these cases, the Group is acting as an agent and the Group does not control the relevant licence(s) before it is transferred to the customer. In particular, the Group does not have inventory risk, have access to its source code or hold the IP rights. When the Group is acting as an agent, the revenue is recorded at the net amount retained (commission) at a point in time as the customer receives immediate benefit from access to the licence and the Group does not have any further obligations in relation to the provision of the licence. The commission transaction value represents the mark-up on the licence provided. Set-up fees are recognised over time of the set-up. In particular, the level of administrative tasks involved in the set-up process is considered immaterial and therefore the work performed is considered a distinct promised service and incremental benefit of the installation to the customer. The fees are based on day rates incurred (defined by an in-house day rate sales pricing matrix). Accordingly, the charge out rates are recognised and allocated to these tasks when performed akin to technical professional day rate services. These rates are considered to be the standalone selling prices and are not discounted or reduced for other services.

Notes to the financial statements continued
for the year ended 31 May 2020

1 Accounting policies continued
Revenue recognition continued
Assurance continued

Revenue stream	Nature	Timing of satisfaction of performance obligations and significant payment terms	Revenue recognition policies, including determination of transaction price and rationale
Managed Detection and Response (MDR) continued			Post-go-live fees are recognised on delivery of consultancy services over time as the customer obtains incremental benefit from the hours provided. Revenue is recognised on an input basis (day rates) to measure the satisfaction of performance obligations over time. Transaction price is determined by fixed contract rates based upon day rates and number of post-go-live consultancy days. One performance obligation, being a combined monitoring cyber and licence service, is identified in relation to the MSP model monitoring service. Revenue is recognised over the contract length as the software and monitoring process is an overall service, whereby the Group retains control of the licence and provides a complete monitoring service to the customer. If the customer cancels the contract, the Group will retain control of the licence. The customer benefits from a 24/7 monitoring service whereby benefit is obtained daily and therefore revenue is recognised on straight-line basis as the performance obligation is satisfied over time. The transaction price is determined by fixed contract rates for the combined services. Revenue in relation to the reseller model monitoring service is recognised over the contract length on a straight-line basis as the performance obligation is satisfied over time. The customer benefits from a 24/7 monitoring service whereby benefit is obtained daily on straight-line basis. The above MDR policies include one key judgments in relation to agent vs principal. Further detail in relation to this judgment is made in the critical accounting judgments within Note 2 to the financial statements.
Product sales	This revenue represents the sale of own manufactured and/or resale of third party products with no connection to other Group services.	The customer only benefits from the products on delivery. Invoices are raised monthly or based on an agreed invoicing profile with the customer. Invoices are usually payable within 30 days.	Revenue is recognised when control of the product is transferred to the customer. This occurs upon delivery under the contractual terms. On certain sales of third party products, the control of the product is considered to pass from the vendor to the end customer 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.
Software Resilience (Escrow)			
Escrow contract services	These services securely maintain in “escrow” the long-term availability of business critical software and applications while protecting the intellectual property rights (IPR) of technology partners. The service will include set-up time which is administrative in nature.	The customer benefits from the service evenly over a contract period, usually at least a year and potentially up to three years. The service represents one performance obligation. Invoices are raised based on an agreed invoicing profile with the customer. Invoices are usually payable within 30 days.	Revenue is recognised over time on a straight-line basis representing the service delivery agreement. The nature of the agreement gives rise to the customer having the benefit of software resilience if and when required over the contract period. Revenue is recognised on a straight-line basis as the pattern of benefit to the customer as well as the Group’s efforts to fulfil the contract are generally even throughout the period. The transaction price is determined by a contract price. Set-up time is not considered distinct and a separate performance obligation due to the administrative nature and therefore is recognised over the period of the contract.

1 Accounting policies continued
Revenue recognition continued
Software Resilience (Escrow) continued

Verifications services	These services verify source code based upon an agreed scope between all parties, and provide a fully managed secure service and result validation, typically delivered over a short period of time (days). These include SAAS services and ICANN services.	The customer benefits from the service on completion because the source code will have been verified/validated. The service represents one performance obligation. Invoices are raised monthly or based on an agreed invoicing profile with the customer. Invoices are usually payable within 30 days.	Revenue is recognised on completion of the verification services. Transaction price is determined by fixed contract rates based upon day rates and number of verification days.

Contract costs
Contract costs comprise incremental sales commissions paid to sales agents which can be directly attributed to an acquired or retained contract. Capitalised commission costs are amortised on a systematic basis that is consistent with the transfer to the customer of the services when the related revenues are recognised. In all other cases, all internal and external costs of obtaining the contract are recognised as incurred.

Costs directly incurred in fulfilling a contract with a customer, which comprise of labour hours on long-term contracts are recognised as an asset and amortised on a systematic basis that is consistent with the transfer to the customer of the services when the related revenues are recognised.

Accrued income
Accrued income represents the Group's rights to consideration for work completed but not billed at the reporting date. Remaining balances are transferred to receivables when the rights become unconditional.

Deferred revenue
Deferred revenue represents advanced consideration received from customers, for which revenue is recognised over time.

Long-term loss-making contracts
Long-term contracts are reviewed annually to establish if the contract is onerous in nature. In particular, the long-term contract becomes an onerous contract when the unavoidable costs (i.e. the lower of the cost of fulfilling the contract and any compensation or penalties arising from failure to fulfil it) exceed the economic benefits expected to be received under the contract. The assessment of cost to fulfil include costs that relate directly to the contract and include direct costs of production, direct costs of supplies/hardware from external suppliers (materials), direct labour in relation to performance obligations and if appropriate any potential contractual fine dependent on items (performance obligations) not being delivered/performed. Any assets dedicated to the specific contract are also tested for potential impairment.

Determination and presentation of operating segments
The Group determines and presents operating segments based on the information that is provided to the Board, which 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 Assurance division and the Software Resilience (Escrow) division. The two reporting segments provide distinct types of service. 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 CODM. 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 homogeneous commercial and strategic market environments. Both of the Group's divisions (segments) are run by a senior executive team, those teams make all decisions on resource allocation, product development, marketing and areas for focus and investment.

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 5.

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 overseas subsidiary undertakings are taken to the currency translation reserve. They are released to the Income Statement upon disposal of the subsidiary to which they relate.

Notes to the financial statements continued
for the year ended 31 May 2020

1 Accounting policies continued

Operating lease payments
Operating lease rentals in respect of short-term leases (less than one year) and low value assets which are exempt from being accounted for under IFRS 16, are charged to the Income Statement on a straight-line basis over the period of the lease.

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 (see Note 3).

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 within the Income Statement.

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.

Borrowings
Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, 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 finance costs
Net finance costs are recognised within the Income Statement in the year in which they are incurred.

Taxation
Taxation on the profit or loss for the year comprises current and deferred taxation. Taxation 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 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 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.

1 Accounting policies continued

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.

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.

2 Critical accounting judgments and key sources of estimation uncertainty

Group

The preparation of Financial Statements requires management to exercise judgment in applying the Group's accounting policies. Different judgments 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 critical accounting judgments 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 judgment and an estimate.

Accounting area	Accounting judgment?	Accounting estimate?
Carrying value of intangible assets (including goodwill)	No	Yes
Individually Significant Items	Yes	No
Long-term loss-making contracts	No	Yes
Revenue recognition – MDR	Yes	No
Capitalisation of development costs	Yes	No

2.1 Critical accounting judgments

Information about critical accounting judgments made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated Financial Statements are as follows.

Individually Significant Items (ISIs)

During the year, the Group has not recognised any ISIs, however in the prior year the Group categorises certain items as ISIs on the basis of accounting judgment.

These prior year judgments have regard to the Group's approach to materiality. 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 judgments can be significant not only in changing the Group's adjusted [1] results (refer to Note 3) but can also have a significant impact on senior management and executive reward which in some cases are linked to adjusted [1] 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 this also involves a degree of judgment on the appropriate level of provision (such as in onerous property leases).

2 Critical accounting judgments and key sources of estimation uncertainty continued

2.1 Critical accounting judgments continued

Revenue recognition – MDR

The application of IFRS 15 in relation to MDR requires the Group to make critical judgments which affect the determination of the amount and timing of revenue from contracts with customers.

The critical judgment relates to agent vs principal. Where the Group obtains control of a good or a right to services in advance of transferring those goods or services to the customer, then the Group is considered principal and revenue recorded is the gross amount billed. Otherwise, it is an agent. Within this context, control is considered the ability to direct the use of, and obtain substantially all of the remaining benefits from, the goods or services (or prevent others from doing so).

Due to the nature of the MDR contracts, control is not conclusive and therefore management has reviewed other specific guidance in accordance with IFRS 15.B34A, B37 as follows:

- Under the MSP model, the Group purchases a licence from a third party that it then combines with other goods or services to produce the specified good or service promised to the customer i.e. monitoring cyber service. Management applies judgment that this is considered a principal relationship because the Group holds the contracting relationship with the third party end user licence agreement.
- Under the reseller model, the Group does not hold the contractual relationship with the third party end user licence agreement. In addition, the following other factors give rise to an agency relationship:
  - The customer holds the contractual relationship with third party end user licence agreement
  - The Group's terms and conditions with the customer notes the Group's limited responsibilities in relation to licence
  - The Group holds no inventory risk and the Group does not hold speculative inventory, as each licence is unique and based on each customer requirements
  - The Group does not control the licence software, have access to its source code or hold the IP rights

Capitalisation of development costs

Development activities involve a plan or design for the production of new or substantially improved products or processes. Judgment is required in determining whether the project is technically and commercially feasible; judgment is required in assessing the future economic benefit. Such judgments are inherently subjective and can have a material impact on determining the viability of the project and ultimately whether the costs should be capitalised.

2.2 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.

Whilst every effort is made to ensure that such estimates and assumptions are reasonable, by their nature they are uncertain, and as such changes in estimates and assumptions may have a material impact. Estimates and assumptions used in the preparation of the Financial Statements are continually reviewed and revised as necessary at each reporting date.

Carrying values of intangible assets (including goodwill and acquired intangible assets)

The Group has significant balances relating to goodwill at 31 May 2020 as a result of acquisitions of businesses in previous years. The carrying value of goodwill at 31 May 2020 is £193.1m (2019: £189.4m). 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.

Future cash flow estimates are based on two critical estimates: the rate of revenue growth and the discount rate. These estimates are deemed to be particularly critical in the current year due to consideration of the short and long-term impact of Covid-19 on the individual CGUs, and as disclosed in Note 12, are particularly critical in relation to Fox-IT since this CGU is the most sensitive to movements in estimates.

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 12.

2 Critical accounting judgments and key sources of estimation uncertainty continued

2.2 Estimation uncertainties continued

Long-term loss-making contracts

Some aspects of the Group's revenue derive from relatively long-term contracts. Long-term loss-making contracts are represented by the following:

- Contract 1 – a onerous provision was recognised in the year ended 31 May 2018 that has consequently incurred costs to fulfil giving rise to a contract asset at 31 May 2020 of £2.1m (2019: £1.2m). The contract costs represent costs relating to future performance obligations and benefits to the customer in relation to the long-term onerous contract (see Notes 17, 21 and 23).
- Contract 2 – a onerous provision recognised during the year of £0.2m (see Note 21).

Management prepares projections, which require significant estimates of both revenue and cost recognition. Revenue is recognised based on the input method of IFRS 15 in relation to labour hours and therefore management has to estimate the number of hours still required to complete the long-term projects and labour cost to complete. Due to the level of estimation, sensitivity analysis on what is regarded a severe but plausible scenario for each contract is provided below:

- Contract 1 – a 5% increase in total labour hours to the project would give rise to a further provision of up to £0.4m (or impairment of the existing contract asset).
- Contract 2 – a 2% increase in total labour hours to the project would give rise to a further provision of up to £0.2m.

Any increase in hours beyond this would lead to a material increase in provision.

Company

There are no critical accounting judgments or key sources of estimation uncertainty.

3 Alternative Performance Measures (APMs) and adjusting items

The consolidated Financial Statements include APMs as well as statutory measures. These APMs used by the Group are not defined terms under IFRS and may therefore not be comparable with similarly titled measures reported by other companies. They are not intended to be a substitute for, or superior to, Generally Accepted Accounting Practice (GAAP) measures. All APMs relate to the current year results and comparative periods where provided.

This presentation is also consistent with the way that financial performance is measured by management and reported to the Board, and the basis of financial measures for senior management's compensation schemes, and provides supplementary information that assists the user in understanding the financial performance, position and trends of the Group. At all times, the Group aims to ensure that the Annual Report and Accounts 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.

The APMs were the same as those that applied to the audited consolidated Financial Statements for the year ended 31 May 2019 and the unaudited interim Financial Statements for the period ended 30 November 2019. See below for a reconciliation of adjusted information to statutory information and refer to the Glossary on pages 159 and 160 for comprehensive descriptions of all APMs, including their relevance in providing supplementary information that assists the user to understand better the financial performance, position and trends of the Group.

Performance is based on adjusted operating profit [1], defined as operating profit or loss before adjusting items, as presented to the CODM.

Adjusting items during the year and prior year are:

- Individually Significant Items
- Share-based payments
- Amortisation of acquisition intangibles
- Profit on disposal of investment

During the year, the Group has adopted IFRS 16 'Leases' using the modified retrospective approach to transition and has accordingly not restated prior years. Consequently the results for the year ended 31 May 2020 are not directly comparable with those reported under the previous applicable accounting standard IAS 17 'Leases' and IFRIC 4 'Determining whether an arrangement contains a lease'.

On this basis, to provide meaningful comparatives, certain figures for the year ended 31 May 2020 have therefore also been presented under IAS 17 with the "like-for-like" numbers shown on an IAS 17 basis ('Pre-IFRS 16'). This alternative performance measure (APM), will be presented for one year until the comparatives also include the adoption of IFRS 16.

Notes to the financial statements continued
for the year ended 31 May 2020

3 Alternative Performance Measures (APMs) and adjusting items continued

Reconciliation of adjusted information to statutory information

The following tables include details of adjusting items and reconciles adjusted information to statutory information for continuing operations:

Year ended 31 May 2020 (IFRS 16)	Revenue £m	Gross profit £m	EBITDA £m	Depreciation and amortisation £m	Operating profit £m	Profit before taxation £m	Taxation £m	Profit from continuing operations £m
Adjusted	**263.7**	**104.4**	**45.4**	**(16.1)**	**29.3**	**26.3**	**(6.3)**	**20.0**
Share-based payments	**–**	**–**	**(1.4)**	**–**	**(1.4)**	**(1.4)**	**(0.2)**	**(1.6)**
Amortisation of acquired intangibles	**–**	**–**	**–**	**(8.8)**	**(8.8)**	**(8.8)**	**2.1**	**(6.7)**
Statutory	**263.7**	**104.4**	**44.0**	**(24.9)**	**19.1**	**16.1**	**(4.4)**	**11.7**

Year ended 31 May 2020 (Pre-IFRS 16)	Revenue £m	Gross profit £m	EBITDA £m	Depreciation and amortisation £m	Operating profit £m	Profit before taxation £m	Taxation £m	Profit from continuing operations £m
Adjusted	**263.7**	**104.4**	**41.2**	**(10.1)**	**31.1**	**29.3**	**(6.9)**	**22.4**
Share-based payments	**–**	**–**	**(1.4)**	**–**	**(1.4)**	**(1.4)**	**(0.2)**	**(1.6)**
Amortisation of acquired intangibles	**–**	**–**	**–**	**(8.8)**	**(8.8)**	**(8.8)**	**2.1**	**(6.7)**
Statutory	**263.7**	**104.4**	**39.8**	**(18.9)**	**20.9**	**19.1**	**(5.0)**	**14.1**

Year ended 31 May 2019 (Pre-IFRS 16)	Revenue £m	Gross profit £m	EBITDA £m	Depreciation and amortisation £m	Operating profit £m	Profit before taxation £m	Taxation £m	Profit from continuing operations £m
Adjusted	250.7	101.8	43.7	(10.0)	33.7	32.0	(6.5)	25.5
Individually Significant Items (Note 5)	–	–	(3.6)	–	(3.6)	(3.6)	0.5	(3.1)
Share-based payments	–	–	(1.7)	–	(1.7)	(1.7)	(0.1)	(1.8)
Amortisation of acquired intangibles	–	–	–	(9.0)	(9.0)	(9.0)	1.8	(7.2)
Profit on disposal of investment	–	–	0.1	–	0.1	0.1	–	0.1
Statutory	250.7	101.8	38.5	(19.0)	19.5	17.8	(4.3)	13.5

During the year ended 31 May 2020, cash adjusting items were £nil (2019: £3.6m).

During the year, management has reviewed the application of APMs and have considered ongoing FRC and ESMA best practice guidance in this area. Accordingly, management has concluded that for future accounting periods, share-based payments and amortisation of acquired intangibles, which are currently presented as adjusting items, should be included within underlying results. The decision to adopt this presentation for future reporting periods rather than in the current reporting period is because the implementation of IFRS 16 in the year (which does not require the restatement of 2019 comparatives) means that the 2020 results are not on a like-for-like basis with 2019, and management considers that it would be very difficult to understand the true, underlying performance of the Group if this presentational change to the income statement was made in the current reporting period. The impact of this proposal in future reporting periods will be a reduction in adjusted measures.

3 Alternative Performance Measures (APMs) and adjusting items continued

Reconciliation of adjusted information to statutory information continued

To illustrate this, the income statement for the year ended 31 May 2020 has been shown below under the proposed basis:

£m	2020 (IFRS 16) Proposed basis	2020 (IFRS 16) As currently reported	Variance
Revenue	**263.7**	**263.7**	–
Cost of sales	**(159.3)**	**(159.3)**	–
Gross profit	**104.4**	**104.4**	–
Administrative expenses:			
Depreciation and amortisation	**(24.9)**	**(16.1)**	**(8.8)**
Other administration expenses	**(60.4)**	**(59.0)**	**(1.4)**
Total administrative expenses	**(85.3)**	**(75.1)**	**(10.2)**
Adjusted operating profit [1]	**19.1**	**29.3**	**(10.2)**
Adjusting items	–	**(10.2)**	**10.2**
Statutory operating profit	**19.1**	**19.1**	–

Net debt

Net debt [1] is set out below:

	2020 £m	2019 £m
Cash and cash equivalents (Note 24)	**95.0**	34.9
Borrowings (Note 24)	**(99.2)**	(55.1)
Net debt [1] **(Pre-IFRS 16)**	**(4.2)**	(20.2)
Lease liabilities	**(38.2)**	
Net debt [1] **(IFRS 16)**	**(42.4)**	

Cash conversion ratio

The calculation of the cash conversion ratio [1] is set out below:

Continuing	2020 (IFRS 16) £m	2020 (Pre-IFRS 16) £m	2019 £m
Cash generated from operating activities before interest and taxation (A)	**54.7**	**48.2**	47.9
Adjusted EBITDA (B)	**45.4**	**41.2**	43.7
Cash conversion ratio (%) (A)/(B)	**120.5%**	**117.0%**	109.6%

As at 31 May 2020, the Group had a timing benefit of £4.6m from government payment deferral schemes, of which £3.4m related to indirect taxes and £1.2m to corporation tax. If the benefit of the £3.4m relating to indirect taxes is excluded from the above calculations the cash conversion ratios on an IFRS 16 and Pre-IFRS 16 basis would be 113.0% and 108.7% respectively. This timing benefit will reverse in the year ending 31 May 2021.

4 Segmental information

The Group is organised into the following two (2019: two) reportable segments: Assurance and Software Resilience (Escrow). The two reporting segments provide distinct types of service. 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', which is considered to be the Board of Directors of NCC Group plc. 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 homogeneous commercial and strategic market environments. Performance is measured based on reporting segment profit, which comprises adjusted operating profit [1]. Interest and tax are not allocated to business segments and there are no intra-segment sales.

As disclosed in Note 3, due to the adoption of IFRS 16 'Leases' during the year, the results for the year ended 31 May 2020 are not directly comparable with the previous year. On this basis, to provide meaningful comparatives, the segmental results below for the year ended 31 May 2020 have therefore also been presented under IAS 17 with the like-for like numbers shown on an IAS 17 basis (Pre-IFRS 16), as this is the basis on which the CODM allocates resources and assesses performance.

Notes to the financial statements continued
for the year ended 31 May 2020

4 Segmental information continued

Segmental analysis 2020	Assurance £m	Software resilience (Escrow) £m	Central and head office £m	Group £m
Revenue	226.2	37.5	–	263.7
Cost of sales	(149.3)	(10.0)	–	(159.3)
Gross profit	76.9	27.5	–	104.4
Gross margin %	34.0%	73.3%	–	39.6%
General administration expenses allocated [1]	(43.9)	(10.0)	(5.1)	(59.0)
Adjusted EBITDA [1]	33.0	17.5	(5.1)	45.4
Depreciation and amortisation	(10.7)	(0.6)	(4.8)	(16.1)
Adjusted operating profit [1]	22.3	16.9	(9.9)	29.3
Adjusting items [1]				(10.2)
Operating profit				19.1
Impact of IFRS 16				1.8
Operating profit (Pre-IFRS 16 [1])				20.9

Segmental analysis 2019	Assurance £m	Software Resilience (Escrow) £m	Central and head office £m	Group £m
Revenue	212.7	38.0	–	250.7
Cost of sales	(139.2)	(9.7)	–	(148.9)
Gross profit	73.5	28.3	–	101.8
Gross margin %	34.6%	74.5%	–	40.6%
General administration expenses allocated [1]	(45.4)	(9.3)	(3.4)	(58.1)
Adjusted EBITDA [1]	28.1	19.0	(3.4)	43.7
Depreciation and amortisation	(5.5)	–	(4.5)	(10.0)
Adjusted operating profit [1]	22.6	19.0	(7.9)	33.7
Adjusting items [1]				(14.2)
Operating profit				19.5

Segmental analysis 2020	Assurance £m	Software resilience (Escrow) £m	Central and head office £m	Group £m
Additions to non-current assets	3.5	0.1	9.6	13.2
Reportable segment assets	88.0	18.4	339.0	445.4
Reportable segment liabilities	73.9	14.5	142.9	231.3

Segmental analysis 2019	Assurance £m	Software resilience (Escrow) £m	Central and head office £m	Group £m
Additions to non-current assets	4.4	–	5.1	9.5
Reportable segment assets	78.7	19.0	249.6	347.3
Reportable segment liabilities	48.9	12.8	74.8	136.5

Included within Central and head office are assets and liabilities not specifically allocated to the reporting segments and include investments, head office tangible and intangible assets, deferred tax assets and liabilities, right-of-use assets and associated lease liabilities, Parent Company cash balances, the RCF facility and certain provisions.

4 Segmental information continued

The net book value of non-current assets is analysed geographically as follows:

	2020 £m	2019 £m
UK	**196.5**	180.0
North America	**68.6**	60.8
Europe and APAC	**10.6**	8.7
	275.7	249.5

Revenue is disaggregated by primary geographical market, by category and timing of revenue recognition as follows:

	Assurance £	Software resilience (Escrow) £m	2020 Total £m	Assurance £	Software resilience (Escrow) £m	2019 Total £m
Revenue by originating country						
UK	**91.5**	**25.9**	**117.4**	88.9	26.0	114.9
North America	**82.4**	**7.8**	**90.2**	75.5	8.3	83.8
Europe and APAC	**52.3**	**3.8**	**56.1**	48.3	3.7	52.0
Total revenue	**226.2**	**37.5**	**263.7**	212.7	38.0	250.7

	Assurance £	Software resilience (Escrow) £m	2020 Total £m	Assurance £	Software resilience (Escrow) £m	2019 Total £m
Revenue by category						
Services	**215.7**	**37.5**	**253.2**	206.5	38.0	244.5
Products	**10.5**	**–**	**10.5**	6.2	–	6.2
Total revenue	**226.2**	**37.5**	**263.7**	212.7	38.0	250.7
Timing of revenue recognition						
Services and products transferred over time	**41.4**	**25.7**	**67.1**	36.4	26.5	63.1
Services and products transferred at a point in time	**184.8**	**11.8**	**196.6**	176.3	11.5	187.6
Total revenue	**226.2**	**37.5**	**263.7**	212.7	38.0	250.7

There are no customer contracts in either 2020 or 2019 which account for more than 10% of segment revenue.

5 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)	2020 £m	2019 £m
SGT – legacy systems accelerated amortisation (net of R&D tax credit)	**–**	3.8
Revisions to deferred and contingent consideration	**–**	(0.8)
Onerous leases and other property related costs	**–**	0.6
Total ISIs – continuing operations	**–**	3.6

There were no Individually Significant Items in the year. The Individually Significant Items in the prior year are explained below:

SGT – legacy systems accelerated amortisation

As part of the transformation projects underway across the Group, the Group accelerated amortisation on legacy systems in advance of new systems coming into effect. The charge in the prior year was a large, one-off transaction which was not expected to be repeated and therefore was deemed to be an ISI. The charge is net of an R&D tax credit.

Revisions to deferred and contingent consideration

The revisions to deferred and contingent consideration in the prior year represent changes to amounts payable by the Group on the purchase of overseas subsidiaries, as well as foreign exchange differences on that consideration. Due to the size of the movement and that there was no connection to the underlying performance of the business, this was treated as an ISI.

Notes to the financial statements continued
for the year ended 31 May 2020

5 Individually Significant Items continued

Onerous leases and other property related costs

Following a review of the UK property portfolio and capacity requirements in the prior year, management identified three onerous property leases. The amount provided for represents the forecasted discounted net cash flows, and the cost was treated as an ISI because it arose in connection with unoccupied properties which are not considered to be part of the underlying performance of the business.

6 Expenses and auditors' remuneration

Continuing activities	2020 £m	2019 £m
Profit before taxation is stated after charging/(crediting):		
Amounts receivable by auditors and their associates in respect of:		
Audit of these Financial Statements	**0.4**	0.2
Audit of Financial Statements of subsidiaries pursuant to legislation	**0.1**	0.1
Total audit [1]	**0.5**	0.3
Depreciation of property, plant and equipment (Note 13)	**5.8**	5.6
Depreciation of right-of-use assets (Note 14)	**6.0**	–
Impairment of right-of-use assets (Note 14)	**1.1**	–
Amortisation of development costs (Note 12)	**2.0**	1.7
Amortisation of software costs (Note 12)	**2.4**	2.7
Amortisation of acquired intangibles (Note 12)	**8.8**	9.0
Accelerated amortisation of software costs (included within ISIs) (Note 12)	**–**	4.3
R&D tax credit relating to accelerated amortisation of software costs (included within ISIs)	**–**	(0.5)
Cost of inventories recognised as an expense	**0.5**	0.6
Foreign exchange losses	**–**	0.2
Operating lease rentals charged:		
– Hire of property, plant and equipment [2]	**0.5**	6.2
Research and development expenditure	**0.6**	0.4
Profit on disposal of investment	**–**	(0.1)
Profit on disposal of ROU assets	**(0.1)**	–

1 The only non-audit service provided by the auditors was the half year review for which the fee was £50,000 (2019: £27,500).

2 The charge to the income statement in respect of operating lease rentals for 2020 relates entirely to short-term leases for which the Group has taken exemption from applying the principles of IFRS 16.

7 Staff numbers and costs

Directors' emoluments are disclosed in the Remuneration Committee Report. Total aggregate emoluments of the Directors in respect of 2020 were £1.5m (2019: £1.6m). Employer contributions to pensions for Executive Directors for qualifying periods were £50,000 (2019: £46,000). The aggregate net value of share awards granted to the Directors in the period was £0.7m (2019: £0.7m). 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 (2019: nil).

The average monthly number of persons employed by the Group during the year, including Directors, is analysed by category as follows:

	Number of employees	
	2020	2019
Operational	**1,518**	1,380
Administration	**355**	343
Total	**1,873**	1,723

The aggregate payroll costs of these persons were as follows:

	2020 £m	2019 £m
Wages and salaries	**148.4**	133.2
Share-based payments (Note 26)	**1.4**	1.7
Social security costs	**14.7**	13.0
Other pension costs (Note 31)	**5.6**	6.6
Total payroll costs	**170.1**	154.5

8 Net finance costs

	2020 £m	2019 £m
Interest payable on bank loans and overdrafts	**1.8**	1.7
Interest expense on lease liabilities	**1.2**	–
Net finance costs	**3.0**	1.7

The above finance costs relate entirely to liabilities not at fair value through profit or loss.

9 Taxation

Recognised in the income statement

	2020 £m	2019 £m
Current tax expense		
Current year	**2.0**	2.1
Adjustment to tax expense in respect of prior periods	**(0.6)**	1.3
Impact of prior year US R&D tax credits	**–**	(0.5)
Foreign tax	**4.4**	2.3
Total current tax	**5.8**	5.2
Deferred tax expense		
Origination and reversal of temporary differences	**(1.5)**	0.3
Movement in tax rate	**(0.3)**	0.1
Recognition of previously unrecognised deductible timing differences	**(0.4)**	–
Impact of prior year US R&D tax credits	**0.5**	(0.7)
Adjustment to tax expense in respect of prior periods	**0.3**	(0.6)
Total deferred tax	**(1.4)**	(0.9)
Tax expense on continuing operations	**4.4**	4.3

The current tax charge includes a prior year credit of £0.6m in connection with the review of corporation tax creditors of Group companies across a number of territories (though arising primarily in connection with revisions relating to Dutch subsidiaries).

Reconciliation of effective tax rate

	2020 £m	2019 £m
Profit before taxation	**16.1**	17.8
Current tax using the UK corporation tax rate of 19% (2019: 19%)	**3.1**	3.4
Effects of:		
Items not deductible/assessable for tax purposes	**0.8**	0.6
Adjustment to tax charge in respect of prior periods	**(0.3)**	0.7
Impact of prior year US R&D tax credits	**0.5**	(1.2)
Differences between overseas tax rates	**0.9**	1.3
Movements in temporary differences not recognised	**(0.3)**	(0.6)
Movement in tax rate	**(0.3)**	0.1
Total tax expense on continuing operations	**4.4**	4.3

Current and deferred tax recognised directly in equity was £nil (2019: credit £0.1m).

A change to the UK corporation tax rate was announced in the March 2020 Budget. This was substantively enacted on 17 March 2020 and the corporation tax rate now applicable from 1 April 2020 remains at 19% rather than the previously enacted reduction to 17%. Accordingly, the UK deferred tax balances have been calculated using a rate of 19% (2019: 17%).

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).

Notes to the financial statements continued

for the year ended 31 May 2020

9 Taxation continued

Tax uncertainties

The tax expense reported for the current year and prior year are affected by certain positions taken by management where there may be uncertainty. The most significant source of uncertainty arises from claims for US R&D tax credits relating to historical periods. Uncertainty arises as a result of a degree of uncertainty concerning interpretation of US legislation and because the statute of limitations has not expired. The aggregate net tax benefit to the income statement relating to the US R&D tax credits is £4.3m. The deferred tax asset relating to the US R&D tax credits is £0.8m, although due to the uncertainty we have made a full provision of £0.8m against this asset.

10 Dividends

	2020 £m	2019 £m
Dividends paid and recognised in the year	**12.9**	12.9
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

The proposed final dividend for the year ended 31 May 2020 of 3.15p per ordinary share on approximately 278.9m ordinary shares (approximately £8.8m) was approved by the Board on 3 September 2020 and will be recommended to shareholders at the AGM on 20 October 2020. The dividend has not been included as a liability as at 31 May 2020. The payment of this dividend will not have any tax consequences for the Group.

11 Earnings per ordinary share

Earnings per ordinary share are shown on a statutory and an adjusted [1] basis to assist in the understanding of the performance of the Group.

	2020 (IFRS 16) £m	**2020 (Pre-IFRS 16) £m**	2019 £m
Statutory earnings – continuing operations	**11.7**	**14.1**	13.5
Adjusted [1] profit from continuing operations (Note 3)	**20.0**	**22.4**	25.5

	Number of shares m	**Number of shares m**	Number of shares m
Basic weighted average number of shares in issue	**278.0**	**278.0**	277.8
Dilutive effect of share options	**2.5**	**2.5**	1.5
Diluted weighted average shares in issue	**280.5**	**280.5**	279.3

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.

	2020 (IFRS 16) Pence	**2020 (Pre-IFRS 16) Pence**	2019 Pence
Basic earnings per ordinary share			
Statutory – continuing operations	**4.2**	**5.1**	4.9
Adjusted [1]	**7.2**	**8.1**	9.2

	2020 (IFRS 16) Pence	**2020 (Pre-IFRS 16) Pence**	2019 Pence
Diluted earnings per ordinary share			
Statutory – continuing operations	**4.2**	**5.0**	4.8
Adjusted [1]	**7.1**	**8.0**	9.1

12 Goodwill and other intangible assets

Group	Goodwill £m	Software £m	Development costs £m	Customer contracts and relationships £m	Total £m
		Other intangible assets			
Cost					
At 1 June 2018	253.4	19.7	10.9	86.6	370.6
Additions – internally developed	–	4.6	1.8	–	6.4
Effects of movements in exchange rates	2.2	–	–	0.5	2.7
At 31 May 2019	255.6	24.3	12.7	87.1	379.7
Additions – internally developed	**–**	**9.1**	**1.3**	**–**	**10.4**
Transfers	**–**	**0.2**	**(0.2)**	**–**	**–**
Disposals	**–**	**(9.1)**	**(2.3)**	**–**	**(11.4)**
Effects of movements in exchange rates	**3.7**	**–**	**–**	**1.1**	**4.8**
At 31 May 2020	**259.3**	**24.5**	**11.5**	**88.2**	**383.5**
Accumulated amortisation and impairment losses					
At 1 June 2018	(66.2)	(12.0)	(5.8)	(46.6)	(130.6)
Charge for year [1]	–	(7.0)	(1.7)	(9.0)	(17.7)
Effects of movements in exchange rates	–	–	–	(0.2)	(0.2)
At 31 May 2019	(66.2)	(19.0)	(7.5)	(55.8)	(148.5)
Charge for year [1]	**–**	**(2.4)**	**(2.0)**	**(8.8)**	**(13.2)**
Disposals	**–**	**9.1**	**2.3**	**–**	**11.4**
Effects of movements in exchange rates	**–**	**–**	**(0.1)**	**(0.8)**	**(0.9)**
At 31 May 2020	**(66.2)**	**(12.3)**	**(7.3)**	**(65.4)**	**(151.2)**
Net book value					
At 31 May 2019	189.4	5.3	5.2	31.3	231.2
At 31 May 2020	**193.1**	**12.2**	**4.2**	**22.8**	**232.3**

1 Charge for the year includes accelerated amortisation of £nil (2019: £4.3m) (included within ISIs).

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. The Directors have reviewed the continuing applicability of the judgments made in the prior year in determining the CGUs within the Group and in allocating goodwill to these CGUs. The assessment of CGUs is a key accounting judgment as set out in Note 2 of the consolidated Financial Statements.

The CGUs and the allocation of goodwill to those CGUs is shown below:

Cash generating units	**Goodwill 2020 £m**	Goodwill 2019 £m
UK	**22.9**	22.9
North America	**8.7**	8.4
Europe and APAC	**7.5**	7.3
Total Software Resilience (Escrow)	**39.1**	38.6
UK: professional services	**47.3**	47.1
North America: professional services	**29.5**	28.2
North America: Payment Software Company Inc.	**10.4**	10.0
North America: Virtual Security Research LLC	**2.5**	2.4
Europe and APAC: Fox-IT	**64.3**	63.1
Total Assurance	**154.0**	150.8
Total Group	**193.1**	189.4

Notes to the financial statements continued

for the year ended 31 May 2020

12 Goodwill and other intangible assets continued

Impairment review

Goodwill is tested for impairment annually at the level of the CGU to which it is allocated. In each of the tests carried out as at 31 May 2020, the recoverable amount of the CGUs concerned was measured on a value in use basis (VIU). VIU represents the present value of the future cash flows that are expected to be generated by the CGU to which the goodwill is allocated.

Capitalised development and software costs are included in the CGU asset bases when performing the impairment review. Capitalised development projects and software intangible assets are also considered, on an asset-by-asset basis, for impairment where there are indicators of impairment. During the year, management carried out a detailed review of the capitalised product portfolio and, based on cash flow projections for the respective projects, concluded that no impairment was required.

VIU calculations are an area of material management estimation as set out in Note 2 to the consolidated Financial Statements. These calculations require the use of estimates, specifically: pre-tax cash flow projections; long-term growth rates; and a pre-tax discount rate. Further detail in relation to these key assumptions used in the Group's goodwill annual impairment review is as follows:

Pre-tax cash flow projections

Pre-tax cash flow projections are based on the Group's budget for the forthcoming financial year and longer term three year strategic plans to 2023, which have both been approved by the Board. The budget and three year strategic plan are compiled by the business unit management teams using a detailed, bottom-up process with respect to revenue, margin and overheads, taking into account factors specific to that business unit as well as wider economic factors such as the impact of Covid-19.

Assumptions have then been applied for expected revenue, margin growth, overheads and EBITDA [1] for the subsequent two years from the end of 2023. EBITDA [1] is considered a proxy for operating cash flow before changes in working capital. Pre-tax cash flow projections also include assumptions on working capital and capital expenditure requirements for each CGU.

These assumptions are based on management's experience of growth and knowledge of the industry sectors, markets and the Group's internal opportunities for growth and margin enhancement. The projections beyond five years into perpetuity use an estimated long-term growth rate. Management has taken into account the impact of Covid-19 in formulating the above assumptions, and the underlying uncertainty of Covid-19 has been reflected in the assumptions underpinning the cash flow forecasts for each CGU rather than the pre-tax discount rates used in the impairment test. The impact of Covid-19 has been reflected in the Group's forecasts primarily by a reduction to the revenue growth rates to allow for such factors as a reduction in contract renewal rates and new business won. This can be seen in the table below which shows that the assumed revenue growth rates are below the prior year assumptions for several CGUs.

Forecast working capital and capital expenditure included within the pre-tax cash flow projections are based on management's expectations of future expenditure required to support the Group and current run rate requirements.

The revenue growth rate is considered a critical estimate by management. Revenue growth is considered to be the most critical estimate, rather than EBITDA [1] growth which was used in the prior year, due to the Group's relatively stable overhead base and high operating leverage. Gross margins for each CGU are assumed to be maintained and therefore direct costs are assumed to increase in line with revenue growth. The table below summarises the cumulative average growth rate (CAGR) assumed for revenue over the five year forecast period to 2025, for each CGU:

	Revenue CAGR (%) 2020	Revenue CAGR (%) 2019
Software Resilience (Escrow) UK	**5.5%**	3.9%
Software Resilience (Escrow) North America	**1.2%**	(0.7)%
Software Resilience (Escrow) Europe and APAC	**5.1%**	(0.4)%
Assurance UK	**8.3%**	10.2%
Assurance North America	**9.6%**	13.0%
Assurance North America: Payment Software Company Inc.	**7.3%**	12.8%
Assurance North America: Virtual Security Research LLC	**6.5%**	10.0%
Assurance Europe and APAC: Fox-IT	**13.1%**	9.5%

The revenue % growth for Fox-IT is considered by management to be appropriate for the specific industry to which the CGU operates, albeit above the long-term average growth rate of the country. Management believes this specific growth rate is more appropriate, as the CGU operates in a high growth industry. Management has considered available external market data in determining the revenue growth rates over the five year forecast period.

12 Goodwill and other intangible assets continued

Long-term growth rates

To forecast growth beyond the detailed cash flows into perpetuity, a long-term average growth rate ranging between 1.9–2.5% (2019: 1.7%) has been used based on the specific geography of the CGU, as shown in the table below. This range 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. These rates are not greater than the published International Monetary Fund average growth rates in gross domestic product for the next five year period in each relevant territory in which the CGUs operate.

	2020	2019
Software Resilience (Escrow) UK	1.9%	1.7%
Software Resilience (Escrow) North America	2.5%	1.7%
Software Resilience (Escrow) Europe and APAC	1.9%	1.7%
Assurance UK	1.9%	1.7%
Assurance North America	2.5%	1.7%
Assurance North America: Payment Software Company Inc.	2.5%	1.7%
Assurance North America: Virtual Security Research LLC	2.5%	1.7%
Assurance Europe and APAC: Fox-IT	1.9%	1.7%

Pre-tax discount rates

Discount rates can change relatively quickly for reasons both inside and outside of management's control. Those outside management's direct control or influence include changes in the Group's Beta, changes in risk-free rates of return and changes in Equity Risk Premia.

The discount rates are determined using a capital asset pricing model and reflect current market interest rates, relevant equity and size risk premiums and the risks specific to the CGU concerned. On this basis, specific discount 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 table below summarises the pre-tax discount rates used for each CGU:

	Pre-tax discount rate 2020	Pre-tax discount rate 2019
Software Resilience (Escrow) UK	15.4%	9.4%
Software Resilience (Escrow) North America	13.5%	10.6%
Software Resilience (Escrow) Europe and APAC	13.6%	9.2%
Assurance UK	11.6%	9.6%
Assurance North America	13.5%	10.6%
Assurance North America: Payment Software Company Inc.	18.7%	12.0%
Assurance North America: Virtual Security Research LLC	13.5%	11.9%
Assurance Europe and APAC: Fox-IT	12.7%	13.9%

Sensitivity analysis

Sensitivity analysis has been performed in respect of certain scenarios where management considers a reasonably possible change in key assumptions could occur. A reasonably possible change in key assumptions could occur as follows:

- Revenue is the primary cash flow driver (since due to the Group's operating leverage, revenue is the key driver of EBITDA [1], considered as a proxy for operating cash flow before changes in working capital and capital expenditure), and a key contributor to VIU. Revenue growth assumptions were sensitised for each specific CGU by reducing the five year CAGR % by a range of 0.5% pts (Fox-IT) to 5.0% pts (other CGUs), as this is considered by management as a reasonably possible change due to the estimation uncertainty.
- The discount rate for each CGU: both factors inside and outside of management's control impact the discount rate and 2% is considered a reasonably possible change in assumption due to changing market conditions.

The outcome of this analysis indicated that there is headroom in most CGUs except, as in the prior year, for Fox-IT. Management has considered the short and long-term impact of Covid-19 on the challenging growth targets for this CGU and believes a reasonably possible change in the key assumptions of a 0.5% pts reduction in the revenue CAGR or a 2% pts increase in the discount rate would significantly reduce the headroom. The impact of these changes in assumptions is illustrated in the table on page 140, together with the change in each assumption that would result in the VIU falling below the carrying amount.

1 See Note 3 for an explanation of Alternative Performance Measures (APMs) and adjusting items, including a reconciliation to statutory information.

Notes to the financial statements continued
for the year ended 31 May 2020

12 Goodwill and other intangible assets continued
Sensitivity analysis continued

	Fox-IT
Carrying value of assets (goodwill, development and software costs, right-of-use assets)	**£72.9m**
Total VIU	**£92.3m**
Surplus over carrying value of assets	**£19.4m**
Assumptions used in the VIU calculation:	
Five year revenue CAGR %	**13.1%**
Impact of reduction of 0.5% pts to five year revenue CAGR % on VIU	**£(13.8)m**
Change required in five year revenue CAGR % for VIU to fall below the carrying amount	**0.7% pts**
Pre-tax discount rate	**12.7%**
Impact of 2% pts increase in pre-tax discount rate on VIU	**£(16.1)m**
Change required in the pre-tax discount rate for VIU to fall below the carrying amount	**2.5% pts**
Impact of both 0.5% pts reduction to revenue CAGR and 2% pts increase in pre-tax discount rate on VIU	**£(27.5)m**

13 Property, plant and equipment

	Computer equipment £m	Fixtures, fittings and equipment £m	Motor vehicles £m	Total £m
Cost				
At 1 June 2018	17.3	20.6	0.4	38.3
Additions	2.7	0.4	–	3.1
Disposals	(0.4)	(0.2)	(0.2)	(0.8)
Movement in foreign exchange rates	–	0.3	–	0.3
At 31 May 2019	19.6	21.1	0.2	40.9
Additions	**2.9**	**(0.1)**	**–**	**2.8**
Disposals	**(2.8)**	**(0.3)**	**(0.1)**	**(3.2)**
Movement in foreign exchange rates	**–**	**0.3**	**–**	**0.3**
At 31 May 2020	**19.7**	**21.0**	**0.1**	**40.8**
Depreciation				
At 1 June 2018	(11.6)	(7.1)	(0.2)	(18.9)
Charge for year	(3.3)	(2.3)	–	(5.6)
Disposals	0.3	0.2	0.1	0.6
Movement in foreign exchange rates	–	(0.1)	–	(0.1)
At 31 May 2019	(14.6)	(9.3)	(0.1)	(24.0)
Charge for year	**(3.0)**	**(2.8)**	**–**	**(5.8)**
Disposals	**2.6**	**0.6**	**–**	**3.2**
Movement in foreign exchange rates	**(0.3)**	**–**	**–**	**(0.3)**
At 31 May 2020	**(15.3)**	**(11.5)**	**(0.1)**	**(26.9)**
Net book value				
At 31 May 2019	5.0	11.8	0.1	16.9
At 31 May 2020	**4.4**	**9.5**	**–**	**13.9**

14 Right-of-use assets

	Land and buildings £m	Motor vehicles £m	Total £m
Cost			
At 1 June 2019	–	–	–
Initial recognition on adoption of IFRS 16 (Note 1)	**24.6**	**1.9**	**26.5**
Additions	**11.0**	**1.1**	**12.1**
Disposals	**(2.8)**	**–**	**(2.8)**
At 31 May 2020	**32.8**	**3.0**	**35.8**
Depreciation			
At 1 June 2019	–	–	–
Charge for year	**(4.9)**	**(1.1)**	**(6.0)**
Impairment charge	**(1.1)**	**–**	**(1.1)**
At 31 May 2020	**(6.0)**	**(1.1)**	**(7.1)**
Net book value			
At 31 May 2019	–	–	–
At 31 May 2020	**26.8**	**1.9**	**28.7**

In the previous year, the Group only recognised lease assets and lease liabilities in relation to leases that were classified as finance leases under IAS 17 'Leases'. For adjustments recognised on the adoption of IFRS 16 on 1 June 2019, please refer to Note 1.

The impairment charge of £1.1m in the year relates to leased properties which are not currently occupied by the Group, which have been tested for impairment separately rather than within the CGU impairment tests. The impairment charge is based on the estimated recoverable amount of the right-of-use asset at the assumed date of disposal or termination of the lease, which is considered to be £nil.

15 Investments

	Group 2020 £m	Group 2019 £m
Interest in unlisted shares	**0.3**	0.3

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 to use as the fair value. The Directors consider there has been no change in the year.

16 Inventory

	Group 2020 £m	Group 2019 £m
Goods for resale	**0.9**	0.7

The Group holds stock of certain critical components for key customers in relation to our own product sales (as opposed to third party products). The carrying value of inventory is expected to be recovered or settled within one year. There have been no write-downs of inventory in the year (2019: £nil).

Notes to the financial statements continued
for the year ended 31 May 2020

17 Trade and other receivables

Current	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Trade receivables	**41.6**	36.7	**–**	–
Prepayments	**10.6**	8.4	**–**	–
Contract costs	**2.1**	1.2	**–**	–
Other receivables	**0.9**	0.6	**–**	–
Contract assets – accrued income	**18.0**	14.7	**–**	–
Amounts owed by Group undertakings	**–**	–	**142.0**	141.4
Total	**73.2**	61.6	**142.0**	141.4
Disclosed as follows:				
Current assets	**73.2**	61.6	**–**	141.4
Non-current assets	**–**	–	**142.0**	–
	73.2	61.6	**142.0**	141.4

The carrying value of trade and other receivables classified at amortised cost approximates fair value.

The contract costs to fulfil represent recoverable costs relating to future performance obligations and economic benefits to the customer in relation to a long-term onerous contract (see Note 21). No impairment charge has been recognised during the year.

Accrued income represents the Group's rights to consideration for work completed but not billed at the reporting date. Remaining balances are transferred to receivables when the rights become unconditional. No credit losses have been recognised in respect of contract assets or amounts owed by Group undertakings (Parent Company only) in the year (2019: £nil) since they are not material. The increase in accrued income in the year is due to the growth of the Assurance division.

Amounts owed by Group undertakings in the Parent Company balance sheet have been disclosed as repayable after more than one year. Although these are repayable on demand, the disclosure as non-current is based on management's expectation of the timing of repayment, which has changed from the prior year.

The ageing of trade receivables, other receivables and accrued income at the end of the reporting period was:

Group	Gross 2020 £m	Expected credit losses 2020 £m	Net 2020 £m	Gross 2019 £m	Expected credit losses 2019 £m	Net 2019 £m
Trade receivables:						
Not past due	**19.6**	**–**	**19.6**	25.5	(0.2)	25.3
Past due 0–30 days	**14.4**	**(0.1)**	**14.3**	7.1	(0.1)	7.0
Past due 31–90 days	**6.5**	**(0.2)**	**6.3**	3.2	(0.1)	3.1
Past due more than 90 days	**3.6**	**(2.2)**	**1.4**	2.7	(1.4)	1.3
	44.1	**(2.5)**	**41.6**	38.5	(1.8)	36.7
Other receivables:						
Not past due	**0.9**	**–**	**0.9**	0.6	–	0.6
	0.9	**–**	**0.9**	0.6	–	0.6
Contract assets – accrued income:						
Not past due	**18.0**	**–**	**18.0**	14.7	–	14.7
Total	**63.0**	**(2.5)**	**60.5**	53.8	(1.8)	52.0

The Company had no trade receivables (2019: £nil).

The standard period for credit sales varies from 30 days to 60 days. Trade receivables which are over 30 days past due are considered to be credit impaired. The Group assesses creditworthiness of all trade debts on an ongoing basis providing for expected credit losses in line with IFRS 9. The Group has considered credit risk rating grades, these are based on the ageing categories above. Covid-19 has not had a material impact on the collection of trade receivables, and consequently has not materially impacted our forward looking estimates for expected credit losses. New customers are subject to stringent credit checks.

17 Trade and other receivables continued

The movement in the expected credit losses of trade and other receivables is as follows:

	Group 2020 £m	Group 2019 £m
Balance at 1 June	**(1.8)**	(1.4)
Charged to the Income Statement	**(0.7)**	(0.4)
Balance at 31 May	**(2.5)**	(1.8)

18 Deferred tax assets and liabilities (Group)

Deferred tax assets and liabilities on the consolidated Statement of Financial Position are offset in accordance with IAS 12. A summary of this, offset with significant jurisdictions, is shown below:

	2020				
Asset/(liability)	**UK £m**	**US £m**	**Netherlands £m**	**Denmark £m**	**Total £m**
Plant and equipment	**0.4**	**0.1**	**0.4**	**–**	**0.9**
Short-term temporary differences	**0.1**	**4.2**	**–**	**–**	**4.3**
IFRS 16 assets/liabilities	**0.3**	**0.2**	**0.1**	**–**	**0.6**
Intangible assets	**(1.8)**	**(4.6)**	**(2.7)**	**–**	**(9.1)**
Share-based payments	**0.2**	**0.2**	**0.1**	**–**	**0.5**
Tax losses	**–**	**–**	**–**	**0.4**	**0.4**
Deferred tax asset/(liability)	**(0.8)**	**0.1**	**(2.1)**	**0.4**	**(2.4)**
Analysed as follows:					
Non-current assets	**–**	**0.1**	**–**	**0.4**	**0.5**
Non-current liabilities	**(0.8)**	**–**	**(2.1)**	**–**	**(2.9)**

	2019				
Asset/(liability)	UK £m	US £m	Netherlands £m	Denmark £m	Total £m
Plant and equipment	0.4	(0.4)	0.4	–	0.4
Short-term temporary differences	0.1	4.4	–	–	4.5
Intangible assets	(1.9)	(3.4)	(4.9)	–	(10.2)
Share-based payments	0.4	0.2	–	–	0.6
Tax losses	–	–	0.1	0.3	0.4
Deferred tax (liability)/asset	(1.0)	0.8	(4.4)	0.3	(4.3)
Analysed as follows:					
Non-current assets	–	0.8	–	0.3	1.1
Non-current liabilities	(1.0)	–	(4.4)	–	(5.4)

Movement in deferred tax during the year:

	1 June 2019 £m	Recognised in income £m	Exchange differences £m	Recognised in equity £m	Adjustment to opening reserves £m	**31 May 2020 £m**
Plant and equipment	0.4	0.5	–	–	–	**0.9**
Short-term temporary differences	4.5	(0.4)	0.2	–	–	**4.3**
IFRS 16 assets/liabilities	–	–	–	–	0.5	**0.5**
Intangible assets	(10.2)	1.4	(0.2)	–	–	**(9.0)**
Share-based payments	0.6	(0.1)	–	–	–	**0.5**
Tax losses	0.4	–	–	–	–	**0.4**
Total	(4.3)	1.4	–	–	0.5	**(2.4)**

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18 Deferred tax assets and liabilities (Group) continued

	1 June 2018 £m	Recognised in income £m	Exchange differences £m	Recognised in equity £m	Adjustment to opening reserves £m	31 May 2019 £m
Plant and equipment	(0.5)	0.9	–	–	–	0.4
Short-term temporary differences	3.3	1.2	–	–	–	4.5
Intangible assets	(9.3)	(0.9)	–	–	–	(10.2)
Share-based payments	0.5	–	–	0.1	–	0.6
Tax losses	0.7	(0.3)	–	–	–	0.4
Total	(5.3)	0.9	–	0.1	–	(4.3)

The Group has recognised a deferred tax asset of £0.4m (2019: £0.4m) on tax losses as management considers 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 £13.9m (2019: £11.0m) of tax losses carried forward in the UK (£10.6m), Australia (£2.2m), North America (£0.6m) and Singapore (£0.5m) due to current uncertainties over their future recoverability (and in the case of the UK and North America because of specific legislative restrictions). A potential deferred tax asset of £0.8m in respect of R&D tax claims submitted in North America has not been recognised due to uncertainty.

No deferred tax liability is recognised on temporary differences of £0.3m (2019: £0.1m) 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 2020 £m	Group 2019 £m	**Company 2020 £m**	Company 2019 £m
Trade payables	**10.8**	7.8	**–**	–
Non-trade payables	**11.7**	5.4	**–**	–
Accruals	**23.9**	18.4	**–**	–
Amounts owed to Group companies	**–**	–	**13.0**	–
Total	**46.4**	31.6	**13.0**	–

The carrying value of trade and other payables classified as financial liabilities measured at amortised cost approximates fair value.

20 Lease liabilities

	Land and buildings £m	Motor vehicles £m	Total £m
At 1 June 2019	–	–	–
Initial recognition on adoption of IFRS 16 (Note 1)	33.6	2.1	35.7
Additions	9.6	1.1	10.7
Disposals	(2.9)	–	(2.9)
Lease payments	(5.4)	(1.1)	(6.5)
Interest expense	1.1	0.1	1.2
At 31 May 2020	**36.0**	**2.2**	**38.2**
Analysed as follows:			
Current			5.3
Non-current			32.9

The maturity of lease liabilities is as follows:

	2020 £m	2019 £m
Less than one year	**5.3**	–
Two to five years	**15.7**	–
More than five years	**17.2**	–
Total lease liabilities	**38.2**	–

20 Lease liabilities continued

The total cash outflow for leases in the year was £7.0m (2019: £6.2m), which consists of £6.5m lease payments disclosed above and £0.5m lease payments charged to the income statement in respect of short-term leases. The prior year figure of £6.2m was all charged to the income statement in accordance with IAS 17 'Leases'.

21 Provisions

	Lease incentives £m	Loss-making contracts £m	Onerous property costs £m	Other provisions £m	Total £m
Balance as at 1 June 2018	5.9	1.0	2.0	–	8.9
Provisions arising in the year	(1.8)	–	2.7	–	0.9
Provisions utilised in the year	–	(1.0)	(0.6)	–	(1.6)
Balance as at 31 May 2019 and 1 June 2019	4.1	–	4.1	–	8.2
Provision transferred to right-of-use assets on implementation of IFRS 16	**(4.1)**	**–**	**(2.6)**	**–**	**(6.7)**
Provisions created in the year	**–**	**0.2**	**2.1**	**0.6**	**2.9**
Provisions utilised during the year	**–**	**–**	**(0.7)**	**–**	**(0.7)**
Balance as at 31 May 2020	**–**	**0.2**	**2.9**	**0.6**	**3.7**
Analysed as follows (2020):					
Current	**–**	**0.2**	**1.2**	**0.6**	**2.0**
Non-current	**–**	**–**	**1.7**	**–**	**1.7**
Analysed as follows (2019):					
Current	0.4	–	2.3	–	2.7
Non-current	3.7	–	1.8	–	5.5

The lease incentives provision represents capital contributions towards fit-out costs and rent-free incentives. On the implementation of IFRS 16, the opening provision of £4.1m has been transferred and offset against the associated right-of-use assets.

The loss-making contracts represent the estimated remaining net lifetime loss on two long-term development and supply contracts. This is explained in more detail in Note 2. During the year, costs have been incurred to fulfil one contract; these costs amounting to £2.1m are included within contract costs within receivables (see Note 17). The contract is expected to be completed in 2021. An additional long-term development and supply contract has also been provided for as at 31 May 2020 amounting to £0.2m and is expected to be completed in 2021. During the year, revenue has been recognised in relation to this long-term contract of £1.2m.

The onerous property costs provision relates to vacant premises in Reading and unused floors in the Manchester head office building. On the implementation of IFRS 16, the opening provision of £2.6m relating to the onerous rent costs has been transferred and offset against the associated right-of-use asset. The provision of £2.9m at 31 May 2020 includes £2.5m of non-rent costs relating to the onerous properties including rates, service charges and insurance, and also the estimated costs of disposing or terminating these leases which includes rent incentives, renovation costs and letting fees. The provision at 31 May 2020 also includes estimated dilapidations liabilities of £0.4m relating to the Group's leased premises. Both of these provisions are expected to be unwind over the period of the relevant leases (2021–2034).

Other provisions of £0.6m includes reorganisation costs to which the Group was committed at the balance sheet date and are expected to be incurred within the next financial year.

22 Contract liabilities – deferred revenue

Deferred revenue represents advanced consideration received from customers, for which revenue is recognised over time. Deferred revenue is analysed as follows and is considered a contract liability:

	Group 2020 £m	Group 2019 £m
Assurance	**29.8**	25.1
Software Resilience (Escrow)	**11.1**	11.1
Total	**40.9**	36.2
Analysed as follows:		
Current	**39.5**	36.2
Non-current	**1.4**	–
	40.9	36.2

Revenue recognised in the year ended 31 May 2020 that was included in the contract liability at 1 June 2019 amounted to £35.3m.

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22 Contract liabilities – deferred revenue continued

The above deferred revenue will be allocated to the remaining performance obligations for the year ending as follows:

	Group 2020				Group 2019			
	2021 £m	2022 £m	2023 £m	Total £m	2020 £m	2021 £m	2022 £m	Total £m
Assurance	**28.5**	**0.9**	**0.4**	**29.8**	25.1	–	–	25.1
Software resilience (Escrow)	**11.0**	**0.1**	**–**	**11.1**	11.1	–	–	11.1
Total	**39.5**	**1.0**	**0.4**	**40.9**	36.2	–	–	36.2

The Group has taken advantage of the IFRS 15 practical expedient not to disclose when revenue will unwind for all contracts less than 12 months in length. The increase in deferred revenue in the year is due to the growth of the Assurance division.

23 Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

	Note	Group 2020 £m	Group 2019 £m
Receivables, which are included in trade and other receivables	17	**41.6**	36.7
Contract assets – accrued income	17	**18.0**	14.7
Contract costs – costs to obtain		**0.4**	0.3
Contract costs – costs to fulfil an onerous contract	17, 21	**2.1**	1.2
Contract liabilities – deferred income	22	**(40.9)**	(36.2)

Receivables represent invoiced services usually payable within 30 days whereby performance obligations have been satisfied.

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date.

The contract assets were not impacted by any impairment charge. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer. Invoices usually become payable within 30 days.

The contract costs to obtain represent incremental sales commissions to obtain specific contracts.

The contract costs to fulfil represent recoverable costs relating to future performance obligations and economic benefits to the customer in relation to a long-term onerous contract (see Note 21). Due to nature of the onerous contract, no revenue has been directly recognised within the income statement during the year. The net year on year movement of the costs to fulfil the contract equates to Revenue amounting to £1.1m offset by costs incurred of £2.0m.

Contract liabilities primarily relate to advanced consideration received from customers, for which revenue is recognised over time in line with the respective performance obligation.

No information is provided about remaining performance obligations at 31 May 2020 or at 31 May 2019 that have an original expected duration of one year or less, as allowed by IFRS 15.

24 Cash and cash equivalents and borrowings

Cash and cash equivalents

Cash and cash equivalents comprise:

	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Cash at bank and in hand	**95.0**	34.9	**6.8**	0.2

Borrowings are analysed as follows:

	Maturity	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Current liabilities					
Bank term loan	2020	**–**	5.0	**–**	–
Non-current liabilities					
Revolving credit facility	2024	**99.2**	23.5	**–**	–
Bank term loan	2020	**–**	26.6	**–**	–
Total borrowings		**99.2**	55.1	**–**	–

24 Cash and cash equivalents and borrowings continued

Cash and cash equivalents continued

The maturity profile is as follows:

	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Less than one year	–	5.0	–	–
Two to five years	99.2	50.1	–	–
Total borrowings	99.2	55.1	–	–

In June 2019, the Group renegotiated its previous term loan and multi-currency revolving credit facilities into a new fully revolving credit facility ('RCF') of £100m with a new five year term up to June 2024, on similar terms (pricing and covenants). The interest payable on drawn down funds ranges from 0.9% to 2.0% above LIBOR subject to the Group's leverage (net debt [1] to Adjusted EBITDA [1]) ratio. Under the new arrangements, the Group can request an additional accordion facility to increase the total size of the revolving credit facility by up to £75m. The Group is required to comply with financial covenants for leverage (net debt [1] to Adjusted EBITDA [1]) and interest cover (Adjusted EBITDA [1] to interest charge) which are tested bi-annually at 31 May and 30 November each year. Arrangement fees incurred of £1.0m are being amortised over the term. Since the new facility is on broadly similar pricing terms to the previous facility, the refinancing has been accounted for as a non-substantial modification with no gain or loss arising on modification.

As at 31 May 2020, the Group had committed bank facilities of £100.0m (2019: £97.8m), of which £100.0m (2019: £55.1m) had been drawn under these facilities, leaving £nil (2019: £42.7m) of undrawn facilities. Unamortised arrangement fees of £0.8m (2019: £nil) have been offset against the amounts drawn down, resulting in a carrying value of borrowings at 31 May 2020 of £99.2m (2019: £55.1m).

Under the terms of the RCF, the Group can select an 'interest period' for amounts drawn down (defined as a 'Loan') of one week, one month, two months, three months or six months, and repayment of the Loan must be made at the end of the specified interest period. However, the Group has the unconditional option to roll a Loan into a new interest period. Accordingly, the contractual repayment of the RCF is the facility termination date of June 2024 and hence the outstanding balance on the RCF has been disclosed as non-current.

The fair value of borrowings is not materially different to its amortised cost.

25 Financial instruments

Loans and borrowings

	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Non-current				
Variable rate:				
Revolving credit facility	(99.2)	(23.5)	–	–
Bank term loan	–	(26.6)	–	–
	(99.2)	(50.1)	–	–
Current				
Variable rate:				
Bank term loan	–	(5.0)	–	–
	–	(5.0)	–	–
Total loans and borrowings (excluding IFRS 16 lease liabilities)	(99.2)	(55.1)	–	–
Cash	95.0	34.9	6.8	0.2
Comparable (net debt [1])/cash (excluding IFRS 16 lease liabilities)	(4.2)	(20.2)	6.8	0.2
Non-current				
IFRS 16 lease liabilities	(32.9)	–	–	–
Current				
IFRS 16 lease liabilities	(5.3)	–	–	–
(Net debt [1])/cash	(42.4)	(20.2)	6.8	0.2

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25 Financial instruments continued
Reconciliation of movements in liabilities to cash flows arising from financing activities

Group	2020 £m	2019 £m
Revolving credit facility/bank term loan:		
Drawdown on facility	**44.3**	13.0
Repayment of facility	**–**	(8.6)
Transaction costs	**(1.0)**	–
Release of deferred arrangement fees	**0.2**	–
Foreign exchange movement	**0.6**	1.7
Movement in liability	**44.1**	6.1
IFRS 16 lease liability:		
IFRS 16 transition adjustment	**35.7**	–
New leases entered into	**10.7**	–
Leases terminated	**(2.9)**	–
Principal element of lease payments	**(5.3)**	–
Interest element of lease payments	**(1.2)**	–
Interest cost (non-cash)	**1.2**	–
Movement in liability	**38.2**	–

Financial risk management
The Group has exposure to the following 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 identifies and addresses 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 [1] divided by total capital. Net debt [1] is calculated as total borrowings 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 [1]. As at 31 May 2020 the Group's gearing ratio was 1.9% (2019: 8.7%).

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 2020 the Group and Company had no other financial instruments other than those disclosed below. In addition, no embedded derivatives have been identified. The carrying value of contingent consideration on acquisitions, held at the prior year end, is valued using a level 3 valuation method as defined by IFRS 13 'Fair Value Measurement' and IFRS 9 'Financial Instruments'. 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).

25 Financial instruments continued

Fair value of financial instruments continued

Borrowings are 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.

	2020			2019		
	Level 1 £m	Level 2 £m	Level 3 £m	Level 1 £m	Level 2 £m	Level 3 £m
Financial assets at fair value through profit or loss						
Investments (Note 15)	–	0.3	–	–	0.3	–

Credit risk

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 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Trade receivables	41.6	36.7	–	–
Other receivables	0.9	0.6	–	–
Accrued income	18.0	14.7	–	–
Cash and cash equivalents	95.0	34.9	6.8	0.2
Total	155.5	86.9	6.8	0.2

The maximum exposure to credit risk for trade receivables and other receivables at the reporting date by geographic region was:

Debtors by geographical segment	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
UK	21.9	18.7	–	–
North America	13.5	11.8	–	–
Europe and APAC	7.1	6.8	–	–
Total	42.5	37.3	–	–

The maximum exposure to credit risk at the reporting date by business segment was:

Debtors by business segment	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Assurance	35.4	30.3	–	–
Software Resilience (Escrow)	7.1	7.0	–	–
Total	42.5	37.3	–	–

The trade receivables of the Group typically comprise many amounts due from a large number of customers and represent a spread of industry sectors. The largest amount due from a single customer at the reporting date represented 9.2% of total Group receivables (2019: 1.9%). This figure is considered to be exceptionally high due to a high value of sales in the latter part of the year and has been substantially settled by cash receipts after the year end, and hence management does not consider the Group has any exposure from concentration of credit risk. 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 expected credit losses. The Group has dedicated credit control teams which regularly review customer debt balances to assess the risk of recovery.

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for the year ended 31 May 2020

25 Financial instruments continued

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.

As disclosed in Note 24, in June 2019 the Group entered into a new revolving credit facility (RCF) of £100m with a new five year term up to June 2024, which is considered by the Directors to be sufficient to meet the liquidity needs of the Group in the medium term. However, in view of the impact of Covid-19 the Directors have taken the following additional measures during the period to improve the Group's liquidity:

- Fully drawn down the available £100m on the RCF in order to provide maximum cash flexibility.
- Taken advantage of government tax payment deferral schemes which resulted in a timing benefit of £4.6m as at 31 May 2020.

These measures have been taken to reduce our leverage and strengthen our financial liquidity, and allows the Group to not only weather the Covid-19 crisis but to continue to selectively invest in the business to enhance our technical capacity and capability to ensure the Group can meet the anticipated growth in demand for the Group's services as normal activity resumes.

The following are the contractual maturities of financial liabilities, including interest payments, of the Group:

At 31 May 2020	Carrying amount £m	Contractual cash flows £m	< 1 year £m	1–2 years £m	2+ years £m	5+ years £m
Borrowings	**(99.2)**	**(104.4)**	**(1.1)**	**(1.1)**	**(102.2)**	**–**
Lease liabilities	**(38.2)**	**(44.8)**	**(6.4)**	**(5.6)**	**(13.5)**	**(19.3)**
Trade and other payables	**(46.4)**	**(46.4)**	**(46.4)**	**–**	**–**	**–**
At 31 May 2019						
Borrowings	(55.1)	(58.4)	(6.4)	(52.0)	–	–
Trade and other payables	(31.6)	(31.6)	(31.6)	–	–	–

The contractual cash flows for borrowings disclosed above relate to the Group's RCF facility, which terminates in June 2024. The contractual cash flows include an estimate of the interest payable based on the assumption that the facility remains fully drawn at £100m, and is calculated based on LIBOR plus a margin of 0.9% based on the current leverage ratio.

Currency risk

The Group is exposed to currency risk on sales, purchases, cash and borrowings that are denominated in a currency other than the respective functional and presentational currency of the Group. The Group's management reviews 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:

	2020					2019				
	Sterling £m	**EUR £m**	**USD £m**	**Other £m**	**Total £m**	Sterling £m	EUR £m	USD £m	Other £m	Total £m
Trade receivables	**16.9**	**5.0**	**17.6**	**2.1**	**41.6**	14.7	4.4	15.1	2.5	36.7
Other receivables	**0.7**	**–**	**–**	**0.2**	**0.9**	0.4	0.1	–	0.1	0.6
Cash and cash equivalents	**30.3**	**17.7**	**40.0**	**7.0**	**95.0**	8.0	12.3	10.3	4.3	34.9
Borrowings	**(49.9)**	**–**	**(49.3)**	**–**	**(99.2)**	(23.5)	–	(31.6)	–	(55.1)
Lease liabilities	**(24.2)**	**(2.5)**	**(10.6)**	**(0.9)**	**(38.2)**	–	–	–	–	–
Trade and other payables	**(20.9)**	**(13.2)**	**(9.0)**	**(3.3)**	**(46.4)**	(20.7)	(5.7)	(2.3)	(2.9)	(31.6)
Total	**(47.1)**	**7.0**	**(11.3)**	**5.1**	**(46.3)**	(21.1)	11.1	(8.5)	4.0	(14.5)

A change in exchange rate of 10% would have an impact of £14.8m (2019: £13.8m) on revenue, £1.9m (2019: £2.4m) on operating profit, £7.9m (2019: £6.5m) on net assets and £4.9m (2019: £3.2m) on borrowings.

25 Financial instruments continued

Interest rate risk

The Group and Company finance their operations through a combination 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 and Company at the end of the financial year were as follows:

Group	2020 £m	2019 £m
Sterling denominated financial assets	**30.3**	8.0
Euro denominated financial assets	**17.7**	12.3
US dollar denominated financial assets	**40.0**	10.3
Other denominated financial assets	**7.0**	4.3
Total	**95.0**	34.9

The financial assets and liabilities of the Company at the end of the financial year were as follows:

Company	2020 £m	2019 £m
Financial assets		
Sterling denominated financial assets	**6.8**	0.2
Amounts owed by Group undertakings	**142.0**	141.4
Total	**148.8**	141.6
Financial liabilities		
Amounts owed to Group undertakings	**13.0**	–
Total	**13.0**	–

A change of 100 basis points in interest rates would result in a difference in annual pre-tax profit of £1.0m (2019: £0.6m). The Directors do not consider that the LIBOR reform will impact the Group in the medium term, however they will be discussing any implications with its lenders in advance of the LIBOR reform process being implemented in 2021.

The financial liabilities of the Group and their maturity profile are as follows:

	2020					2019				
	Sterling £m	EUR £m	USD £m	Other £m	Total £m	Sterling £m	EUR £m	USD £m	Other £m	Total £m
Less than one year	**(2.7)**	**(0.9)**	**(1.4)**	**(0.3)**	**(5.3)**	–	–	(5.0)	–	(5.0)
Two to five years	**(57.9)**	**(1.5)**	**(55.0)**	**(0.5)**	**(114.9)**	(23.5)	–	(26.6)	–	(50.1)
More than five years	**(13.5)**	**(0.1)**	**(3.5)**	**(0.1)**	**(17.2)**	–	–	–	–	–
Trade and other payables	**(20.9)**	**(13.2)**	**(9.0)**	**(3.3)**	**(46.4)**	(20.7)	(5.7)	(2.3)	(2.9)	(31.6)
Total	**(95.0)**	**(15.7)**	**(68.9)**	**(4.2)**	**(183.8)**	(44.2)	(5.7)	(33.9)	(2.9)	(86.7)

26 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 employees, 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 £1.4m (2019: £1.7m) of which £1.3m (2019: £1.7m) related to equity settled payments and £0.1m (£nil) to cash-settled payments. Share-based payments reduced during the year due to the reduced likelihood of a number of historical schemes meeting scheme performance criteria resulting in a reversal of historical charges.

Company Share Option (CSOP) scheme – equity settled

Under the CSOP scheme, 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	2020 Number outstanding
July 2012	7 years	July 2015–July 2022	£1.36	**80,868**
August 2018	7 years	August 2021–August 2028	£2.20	**49,995**
August 2018	7 years	August 2021–August 2028	£2.20	**27,270**
September 2019	7 years	September 2022–September 2029	£1.79	**385,451**

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26 Share-based payments continued

Sharesave schemes – equity settled

The Company operates sharesave schemes, which are available to all employees based in the UK, Netherlands, Denmark, Spain and Australia, 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	2020 Number outstanding
March 2017	3 years	May 2020–October 2020	£0.92	293,545
August 2017	3 years	October 2020–March 2021	£1.56	998,855
March 2018	3 years	May 2021–October 2021	£1.58	78,098
August 2018	3 years	October 2021–March 2022	£1.75	441,049
March 2019	3 years	May 2022–October 2022	£0.99	415,608
March 2020	3 years	May 2023–October 2023	£1.84	748,967
March 2020	3 years	May 2023–October 2023	£1.84	387,695

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 in	Exercise price	2020 Number outstanding
February 2020	1 year	February 2021	£1.93	439,735

Incentive Stock Option (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	2020 Number outstanding
August 2018	7 years	August 2021–August 2028	£2.22	9,016
September 2019	7 years	September 2022–September 2029	£1.82	82,410

Long Term Investment Plan (LTIP) schemes – equity settled

The vesting condition for the award of the LTIP schemes, related to options granted in 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 9% 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% over three years. 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 [1] expressed as a percentage over the measurement period of greater than 70% per annum on average. If cash conversion [1] 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 FTSE 250 (excluding investment trusts). 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	2020 Number outstanding
October 2017	3 years	June 2020–August 2020	£nil *	257,224
November 2017	3 years	June 2020–August 2020	£nil *	300,412
January 2018	3 years	June 2020–August 2020	£nil *	178,601
August 2018	3 years	June 2021–August 2021	£nil *	935,485
September 2019	3 years	June 2022–August 2022	£nil *	1,307,975
March 2020	3 years	June 2022–August 2022	£nil *	194,116

* The option exercise price is £nil; however, £1 is payable on each occasion of exercise.

26 Share-based payments continued

Restricted State Unit (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% over three years. 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 [1] expressed as a percentage over the measurement period of greater than 70% per annum on average. If cash conversion [1] 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 FTSE 250 (excluding investment trusts). 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	2020 Number outstanding
November 2017	3 years	June 2020–August 2020	£0.01	**187,980**
January 2018	3 years	June 2020–August 2020	£0.01	**20,058**
August 2018	3 years	June 2021–August 2021	£0.01	**227,501**
September 2019	3 years	June 2022–August 2022	£0.01	**686,607**

Deferred share scheme – equity settled

Date of grant	Expected term of options	Exercisable between	Exercise price	2020 Number outstanding
August 2018	2 years	June 2020–August 2028	£nil *	**10,993**
September 2019	2 years	June 2021–August 2029	£nil *	**61,694**

* The option exercise price is £nil; however, £1 is payable on each occasion of exercise.

Phantom schemes – cash settled

Phantom schemes are used 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. The vesting conditions for the award of the Phantom schemes, related to options granted in August 2016, relate 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 in October 2017 and November 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 [1] expressed as a percentage over the measurement period of greater than 70% per annum on average. If cash conversion [1] 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 FTSE 250 (excluding investment trusts). 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.

Options granted in September 2019 do not have any performance criteria.

Date of grant	Expected term of options	Exercisable between	Exercise price	2020 Number outstanding
October 2017	3 years	June 2020–October 2021	£nil *	**113,120**
November 2017	3 years	June 2020–November 2021	£nil *	**8,189**
September 2019	3 years	September 2022-September 2023	£nil *	**67,036**

* The option exercise price is £nil; however, £1 is payable on each occasion of exercise.

Notes to the financial statements continued
for the year ended 31 May 2020

26 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 and RSUs granted in the current year have introduced a market-based performance criterion of 9%; 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	July 2012 – September 2019	£0.35–£0.63	£1.36–£2.20	35.0–48.0%	7 years	0.35–2.75%
Sharesave scheme	March 2017 – May 2020	£0.43–£0.88	£0.92–£1.84	39.7–53.2%	3 years	0.50–2.20%
ESPP scheme	February 2020	£0.55	£1.84	37.6%	1 year	0.50%
ISO scheme	August 2018 – September 2019	£0.54–£0.65	£1.82–£2.22	40.7–48.4%	7 years	0.38–1.50%
LTIP scheme	October 2017 – March 2020	£1.61–£2.22	£nil *	37.4–51.5%	3 years	0.21–2.00%
RSU scheme	November 2017 – September 2019	£1.60–£2.17	£nil *–£0.01	47.6–51.5%	3 years	0.32–2.00%
Deferred shares	August 2018 – September 2019	£1.84–£1.90	£nil *	40.4–55.0%	2 years	0.35–1.50%
Phantom schemes	August 2016 – September 2019	£1.84–£2.75	£nil *	31.0–47.6%	3 years	1.81–1.96%

* The option exercise price is £nil; however, £1 is payable on each occasion of exercise.

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 2020, dividend yield assumed at the time of option grant is 2.7% (2019: 2.6%).

Reconciliation of outstanding share options

The options outstanding at 31 May 2020 have an exercise price in the range of £nil to £2.22 (2019: £nil to £3.37) and a weighted average contractual life of three years (2019: three years).

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, outstanding share awards during the year:

	2020 No ('000)	**2020 WAEP**	2019 No ('000)	2019 WAEP
Outstanding at 1 June	**7,326**	**£1.01**	7,128	£1.13
Granted during the year	**4,438**	**£0.88**	3,363	£0.99
Exercised during the year	**(1,098)**	**£1.35**	(171)	£1.76
Forfeited in the year	**(1,671)**	**£1.39**	(2,994)	£1.30
Outstanding at 31 May	**8,995**	**£0.83**	7,326	£1.01
Exercisable at end of year	**385**	**£0.99**	98	£1.39

26 Share-based payments continued

Reconciliation of outstanding share options continued

Scheme	Number of instruments as at 1 June 2019	Instruments granted during the year	Options exercised in the year	Forfeitures in the year	**Number of instruments as at 31 May 2020**
CSOP schemes	350,009	413,383	(11,028)	(208,780)	**543,584**
Sharesave/SAYE schemes	3,286,637	1,150,979	(488,417)	(585,382)	**3,363,817**
ESPP schemes	723,263	439,735	(598,572)	(124,691)	**439,735**
ISO schemes	159,512	82,410	–	(150,496)	**91,426**
LTIP schemes	2,208,617	1,525,500	–	(560,304)	**3,173,813**
RSU schemes	447,194	686,607	–	(11,655)	**1,122,146**
Deferred shares	10,993	61,694	–	–	**72,687**
Phantom schemes	139,585	78,209	–	(29,449)	**188,345**
	7,325,810	4,438,517	(1,098,017)	(1,670,757)	**8,995,553**

The liability for the cash-settled share-based payments at 31 May 2020 was £0.3m (2019: £0.2m).

27 Called up share capital and reserves

Allotted, called up and fully paid	**2020 Number of shares**	2019 Number of shares	**2020 £m**	2019 £m
Ordinary shares of 1p each at the beginning of the year	**277,830,625**	277,660,081	**2.8**	2.8
Ordinary shares of 1p each issued in the year	**1,078,546**	170,544	**–**	–
Ordinary shares of 1p each at the end of the year	**278,909,171**	277,830,625	**2.8**	2.8

During the year, 1,078,546 (2019: 170,544) new ordinary shares of 1p were issued as a result of the exercise of share options. The proceeds of £1.1m (2019: £0.3m) were credited to the share premium account. As at 31 May 2020, no shares were held in treasury (2019: nil).

Share premium

The share premium account records the difference between the nominal amount of shares issued and the fair value of the consideration received. The share premium account may be used for certain purposes specified by UK law, including to write off expenses incurred on any issue of shares and to pay fully paid bonus shares. The share premium account is not distributable but may be reduced by special resolution of the Company's ordinary shareholders and with court approval.

Merger reserve

The merger reserve arose in 2015 from the acquisition of Accumuli plc through a share-for-share exchange in part consideration for the business.

Currency translation reserve

The results of overseas operations are translated at the average foreign exchange rates for the year, and their balance sheets are translated at the rates prevailing at the Balance Sheet date. Exchange differences arising on the translation of opening net assets and results of overseas operations are recognised in the currency translation reserve. All other exchange differences are included in the Income Statement.

Retained earnings

Retained earnings for the Group are made up of accumulated reserves. For the Company, retained earnings are made up of accumulated reserves and are considered distributable reserves.

Notes to the financial statements continued
for the year ended 31 May 2020

28 Profit attributable to members of the Parent Company
The profit for the year dealt with in the accounts of the Parent Company was £6.0m (2019: £0.3m).

29 Other financial commitments
Non-cancellable operating lease rentals are payable as follows:

	2020		2019	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year or less	0.1	–	5.5	0.5
Between one and five years	–	–	15.1	0.3
Over five years	–	–	14.2	–
Total	0.1	–	34.8	0.8

Following the adoption of IFRS 16 in the current year, the lease commitments at 31 May 2020 disclosed above represent short term (less than one year) leases only for which the Group has taken the exemption from accounting for under IFRS 16. A reconciliation of the lease commitments at 31 May 2019 disclosed above and the lease liabilities recognised on the date of transition to IFRS 16 is included in Note 1.

30 Contingencies
There are no contingent liabilities not provided for at the end of the financial year (2019: £nil). Similarly, there are no contingent assets (2019: £nil).

31 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 £5.6m (2019: £6.6m).

For the Company, the pension cost charge for the year represents contributions payable by the Company to the fund and amounted to £nil (2019: £nil).

32 Related party transactions
The Group's key management personnel comprise the Executive Directors of the Group. Details of the remuneration paid to key management personnel are as follows:

Group	2020 £m	2019 £m
Salary costs (including bonus)	1.3	1.4
Benefits in kind	–	–
Share-based payments	0.2	–
Total	1.5	1.4

There were no other related party transactions during the year.

33 Investments in subsidiary undertakings

Company	Shares in Group undertakings £m
At 1 June 2018 and at 31 May 2019 – as reported	60.8
Prior year adjustment (see Note 34)	14.4
At 1 June 2018 and 31 May 2019 – as restated	75.2
Increase in subsidiary investment for share-based charges	3.1
At 31 May 2020	78.3

Fixed asset investments are recognised at cost.

33 Investments in subsidiary undertakings continued

The undertakings in which the Company has a 100% interest at 31 May 2020 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 central/ head office costs	XYZ [1]
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	20 Collyer Quay, #19-03, Singapore (049319)
NCC Group FZ-LLC	United Arab Emirates	Escrow	Office 30, Building 16, Dubai Internet City, Dubai, UAE
NCC Group Security Services Espana SLU	Spain	Assurance	Calle Serrano Galvache, 56, Edificio Abedul, 4a planta, 28033 Madrid, Spain
NCC Group Escrow Europe BV	Netherlands	Escrow	Van Heuven Goedhartlaan 13A, 1181LE Amstelveen, The Netherlands
NCC Group Escrow Europe (Switzerland) AG	Switzerland	Escrow	Ibelweg 18A, 6300 Zug, Switzerland
NCC Group GmbH	Germany	Escrow	Leibnizstrasse 1, 85521 Ottobrunn, Germany
NCC Group A/S	Denmark	Assurance	2nd Floor, Svanevej 12, DK–2400 København NV, Denmark
NCC Group UAB	Lithuania	Assurance	Kareiviu g. 11B, 6th Floor, LT 09109, Vilnius, Lithuania
NCC Group Security Services, Inc.	USA	Assurance	650 California Street, Suite 2950. San Francisco California, CA 94108 USA (North America HQ2)
NCC Group Escrow Associates LLC	USA	Escrow	North America HQ [2]
NCC Group Secure Registrar, Inc.	USA	Domain services	North America HQ [2]
NCC Group Domain Services, Inc.	USA	Domain services	North America HQ [2]
NCC Group Inc.	USA	Escrow and central/ head office costs	North America HQ [2]
NCC Group Pty Limited	Australia	Assurance	Level 13, 92 Pitt Street, Sydney NSW 2000, Australia
NCC Group Security Services Corporation	Canada	Assurance	51 Breithaupt Street, Suite 100, Kitchener, Ontario N2H 5G5, Canada
NCC Group Japan KK	Japan	Assurance	Level 18, Yesibu Garden Place Tower, 4-20-3 Ebisu Shibuya-Ku, Tokyo
ArmstrongAdams Limited	England and Wales	Assurance	XYZ [1]
NCC Group Signify Solutions Limited	England and Wales	Assurance	XYZ [1]
NCC Group Accumuli Security Limited	England and Wales	Assurance	XYZ [1]
Fox-IT Holding B.V.	Netherlands	Assurance	Olof Palmestraat 6, 2616 LM Delft The Netherlands (Fox-IT [4])
Fox-IT Group B.V.	Netherlands	Assurance	Fox-IT [3]
Fox-IT B.V.	Netherlands	Assurance	Fox-IT [3]
Fox-IT Operations B.V.	Netherlands	Assurance	Fox-IT [3]
Fox-IT Crypto B.V.	Netherlands	Assurance	Fox-IT [3]
Payment Software Company Inc.	USA	Assurance	591 West Hamilton Avenue, Suite 200, Campbell, California 95008, USA
Payment Software Company Limited	England and Wales	Assurance	XYZ [1]
Virtual Security Research LCC [4]	USA	Assurance	76 Sumner St, 4th Floor, Boston, MA 02110, USA

Notes to the financial statements continued
for the year ended 31 May 2020

33 Investments in subsidiary undertakings continued

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
Deposit AB Escrow Europe	24%	Sweden	Assurance

The Directors consider the above ownership structure and no Board representation gives rise to no significant influence over the undertaking. Accordingly, the undertaking has not been consolidated.

1 2 Hardman Boulevard, Spinningfields, Manchester M3 3AQ.

2 650 California Street, Suite 2950. San Francisco California, CA 94108 USA.

3 Olof Palmestraat 6, 2616 LM Delft, The Netherlands.

4 On 1 June 2020, Virtual Security Research LLC was merged into NCC Group Security Services, Inc., with NCC Group Security Services, Inc. being the surviving entity of the merger.

34 Prior year adjustment (Company)

During the year ended 31 May 2020, the Parent Company identified that £14.4m of goodwill held on the Parent Company balance sheet should be restated to be presented within the carrying value of the Parent Company investments in subsidiaries.

This goodwill was recognised when the trade and assets of Randomstorm Limited were transferred from Randomstorm Limited to NCC Group Security Services Limited on 1 June 2016. The Directors consider that a better presentation of this transaction would have been to transfer this amount from cost of investment in Randomstorm Limited to NCC Group Security Services Limited. As a result, the cost of investment balance was understated by £14.4m and goodwill overstated by £14.4m as at the prior year end.

These adjustments have no impact on the Group results, or on the Parent Company's net assets, net current assets, profit or loss in the prior year or cash flows. A third balance sheet for 2018 comparatives has not been presented as the Directors do not believe this provides any additional information to the 2019 restated balance sheet, as this is a reclassification within non-current assets and does not impact any company KPIs.

The prior period has accordingly been restated.

35 Post-balance sheet events

There were no post-Balance Sheet events.

Glossary of terms – Alternative Performance Measures (APMs)

APMs are the way that financial performance is measured by management and reported to the Board, and the basis of financial measures for senior management's compensation schemes, and provide supplementary information that assists the user in understanding the underlying trading results.

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note reference for reconciliation	Definition, purpose and considerations made by the Directors
Income Statement measure – continuing operations:				
Adjusted operating profit (EBIT)	Operating profit or loss	Operating profit or loss before adjusting items Adjusting items represent amortisation of acquired intangibles, profit on the disposal of investments, share-based payments and Individually Significant Items	3	Represents operating profit before adjusting items to assist in the understanding of the Group's performance. Adjusting items represent amortisation of acquired intangibles, profit on the disposal of investments, share-based payments and Individually Significant Items. The Directors consider amortisation of acquired intangibles is a non-cash accounting charge inherently linked to losses associated with historical acquisitions of businesses in accordance with the Group's adjusting items accounting policy. This APM's purpose is to allow the user to understand the Group's underlying financial performance as measured by management, reported to the Board and used as a financial measure in senior management's compensation schemes. 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 an adjusting item. The same principles apply to the profit on the disposal of investments. Individually Significant Items are items that are considered unusual by nature or scale, and are 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. The Directors consider share-based payments to be an 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. See Note 2 for proposed changes to adjusting items in forthcoming reporting periods.
Earnings before interest, tax, depreciation and amortisation (EBITDA)	Operating profit or loss	Operating profit or loss, before depreciation and amortisation, net finance costs and taxation	3	Represents operating profit before depreciation and amortisation. EBITDA is disclosed as this is a measure widely used by various stakeholders.
Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA)	Operating profit or loss	Operating profit or loss before adjusting items, depreciation and amortisation, net finance costs and taxation	3	Represents operating profit before adjusting items, depreciation and amortisation to assist in the understanding of the Group's performance. Adjusted EBITDA is disclosed as this is a measure widely used by various stakeholders and used by the Group to measure the cash conversion ratio noted below.

Glossary of terms – Alternative Performance Measures (APMs) continued

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note reference for reconciliation	Definition, purpose and considerations made by the Directors
Income Statement measure – continuing operations (continued):				
Adjusted profit before taxation	Profit before taxation	Profit before taxation before adjusting items	3	Represents profit before taxation before adjusting items and provides supplementary information on the Group's profitability before taxation.
Adjusted basic EPS	Basic EPS	Basic EPS excluding adjusting items	12	Represents basic EPS excluding adjusting items and provides supplementary information that assists the user in understanding the underlying trading results.
Balance Sheet measure				
Net debt (Pre IFRS 16) – like for like basis	Total borrowings (excluding lease liabilities) offset by cash and cash equivalents	Total borrowings offset (excluding lease liabilities) by cash and cash equivalents	3	Represents total borrowings offset by cash and cash equivalents. It is a useful measure of the progress in generating cash, strengthening of the Group Balance Sheet position, overall net indebtedness and gearing. Net debt, when compared to available borrowing facilities, also gives an indication of available financial resources to fund potential future business investment decisions and/or potential acquisitions.
Cash flow measure				
Cash conversion ratio (Pre IFRS 16)	Ratio % of net cash flow from operating activities before interest and taxation divided by operating profit	Ratio % of net cash flow from operating activities before interest and taxation divided by adjusted EBITDA	3	The cash conversion ratio is a measure of how effectively adjusted operating profit (as detailed 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 taxation (as disclosed on the face of the Cash Flow Statement) divided by adjusted EBITDA for continued and discontinued activities. The cash conversion ratio is a measure widely used by various stakeholders and hence is disclosed to show the quality of cash generation and also to allow comparison to other similar companies.
Like-for-like measures				
				During the year, the Group has adopted IFRS 16 'Leases'. The date of the initial application of IFRS 16 for the Group is 1 June 2019. The Group has adopted the accounting standard using the modified retrospective approach to transition and has accordingly not restated prior years, consequently the results for the year ended 31 May 2019 are not directly comparable with those reported under the previous applicable accounting standard IAS 17 'Leases' and IFRIC 4 'Determining whether an arrangement contains a lease'. On this basis, to provide meaningful comparatives, the results for the year ended ended 31 May 2020 have therefore also been presented under IAS 17 with the "like-for-like" numbers shown on an IAS 17 basis (Pre-IFRS 16). This alternative performance measure (APM), will be presented for one year until the comparatives also include the adoption of IFRS 16.

Glossary of terms – other terms

Other terms	Definition and usage
2016 Code/2018 Code	Guidance, issued by the Financial Reporting Council in 2016 and updated in 2018, on how companies should be governed, applicable to UK-listed companies including NCC Group plc.
Adjusted	Any result described as adjusted excludes the impact of Individually Significant Items, profit on disposal of investments and any tax on any of these items.
Adjusted operating profit margin	Calculated as adjusted operating profit divided by revenue from continuing activities.
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 a footnote) 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. See Note 3 for further information.
Board	The Board of Directors of the Company (for more information see pages 52 and 53).
Cash conversion ratio	Calculated as cash generated from operating activities before interest and taxation divided by adjusted EBITDA, expressed as a percentage.
CDO	Cyber Defence Operations.
CEO	Chief Executive Officer.
CFO	Chief Financial 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.
CPO	Chief People Officer.
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 and 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 Individually Significant Items and adding back depreciation and amortisation charged.
EBITDA margin %	EBITDA divided by revenue.
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).

Glossary of terms – other terms continued

Other terms	Definition and usage
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.
Gross margin %/GM %	Calculated as gross profit divided by revenue from continuing activities.
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 accordance 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 business performance. See Note 6 for further information.
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.
MDR	Managed Detection and Response.
Net debt	Total borrowings offset by cash and cash equivalents.
Ordinary shares	Voting shares entitling the holder to part ownership of a company.
SAYE/Sharesave	Save As You Earn, being a tax efficient scheme to encourage employee share ownership.
Software Resilience (Escrow)	Software Resilience represents our Escrow resilience services.
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.

Other information

Directors

Chris Stone	–	Non-Executive Chair
Adam Palser	–	Chief Executive Officer
Tim Kowalski	–	Chief Financial Officer and Company Secretary
Chris Batterham	–	Senior Independent Non-Executive Director
Jonathan Brooks	–	Independent Non-Executive Director
Mike Ettling	–	Independent Non-Executive Director
Jennifer Duvalier	–	Independent Non-Executive Director

Company Secretary
Tim Kowalski

Registered and head office
XYZ Building
2 Hardman Boulevard
Spinningfields
Manchester
M3 3AQ

Registered number
4627044

Registered in England and Wales

Joint brokers and corporate finance advisers
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Spinningfields
Manchester
M3 3EB

National Westminster Bank plc
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M3 3AQ

Lloyds Bank plc (until 10 June 2019)
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Manchester
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ING Bank N.V. London Branch (from 10 June 2019)
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Financial calendar

Ex-dividend date	8 October 2020
Record date	9 October 2020
AGM	20 October 2020
Dividend payment date	6 November 2020
2021 half year end	30 November 2020
2021 interim statement	January 2021
2021 year end	31 May 2021
2021 year end trading pre-close statement	June 2021
2021 preliminary year end statement	July 2021

These dates are provisional and may be subject to change.

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