14 September 2021

NCC Group plc
Preliminary results for the year ended 31 May 2021

Securing the future

NCC Group plc (LSE: NCC, "NCC Group" or "the Group"), a leading independent global cyber security and resilience adviser, reports its full year results for the 12 months to 31 May 2021 ("the full year", "FY", "FY21", "the year").

Highlights [1]

	2021 [2]	2020 (restated) [2, 3]	Change
Revenue (£m)	**270.5**	263.7	2.6%
Gross profit (£m)	**110.6**	104.4	5.9%
Gross margin (%)	**40.9%**	39.6%	1.3% pts
Operating profit [3] (£m)	**17.3**	12.6	37.3%
Operating profit margin [3] (%)	**6.4%**	4.8%	1.6 pts
Adjusted EBITDA [2] (£m)	**52.5**	45.5	15.4%
Adjusted operating profit [2, 3] (£m)	**39.2**	30.7	27.7%
Adjusted operating profit margin [2, 3] (%)	**14.5%**	11.6%	2.9% pts
Profit before taxation [3] (£m)	**14.8**	9.6	54.2%
Basic EPS [3] (pence)	**3.6p**	2.3p	56.5%
Adjusted basic EPS [2, 3] (pence)	**9.5p**	7.6p	25.0%
Net cash/(debt) excluding lease liabilities [2] (£m)	**83.3**	(4.2)	+£87.5m
Net cash/(debt) [2] (£m)	**48.9**	(42.4)	+£91.3m
Cash conversion [2, 3] (%)	**88.2%**	102.9%	(14.7% pts)
Final dividend (pence)	**3.15**	3.15	-

1: References for the Group's results are for continuing operations.
2: See Note 3 for an explanation of Alternative Performance Measures (APMs) and adjusting items. Further information is also contained within the Financial Review and the Glossary of terms.
3: See Note 13 for an explanation of the prior year restatement recognised in relation to the adoption of the IFRIC agenda decision on cloud configuration and customisation costs in April 2021. The following additional information and reconciliation is noted in relation to Adjusted operating profit due to the adoption of the IFRIC agenda decision:

	2021 £m	2020 £m	Change
Adjusted operating profit (as noted above)	**39.2**	30.7	27.7%
Proforma amortisation charge in respect of certain cloud-based software arrangements (see explanation below)	**(3.0)**	(1.4)	(114.3%)
Adjusted operating profit less a proforma amortisation charge in respect of certain cloud-based software arrangements	**36.2**	29.3	23.5%

The proforma amortisation adjustment noted above represents an estimate of the amortisation that would have been recognised had the Group not changed it's accounting policy in the current year following additional clarification on the accounting in relation to the configuration and customisation costs incurred in implementing Software-as-a-Service (SaaS) arrangements in the IFRIC agenda decision issued in April 2021. The proforma amortisation charge is estimated based on Cloud configuration and customisation costs charged to the income statement in the year of £5.1m (2020: £7.9m).

The directors consider that Adjusted operating profit less a proforma amortisation charge in respect of certain cloud-based software arrangements is comparable to Adjusted operating profit previously reported.

Strong trading performance despite the pandemic

- Revenue grew +2.6%
- Gross profit increased +5.9% with margins up +1.3% pts
- Profit before taxation increased +54.2% after the inclusion of IPM transaction costs of £7.6m, the benefit of a temporary reduction in travel and office usage costs (£3m) and after cloud configuration and customisation costs associated with the Group's SGT transformation programme of £5.1m (2020: restated £7.9m [3])

Another year of excellent cash management

- 88.2% cash conversion resulted in free cashflow of £34.6m
- Year-end net cash after lease liabilities [2] of £48.9m (2020: net debt [2] £42.4m) includes net placing proceeds of £70.2m in relation to the acquisition of IPM
- Post IPM completion, net debt excluding lease liabilities [2] in August 2021 amounts to c.£75m

Successful acquisition of strategic and financial importance

- c.£157m acquisition of Intellectual Property Management ("IPM"), the Software Resilience division of Iron Mountain, completed on 7 June and funded through c.£87m debt and c.£70m equity placing
- Accretive to Adjusted basic EPS and operating profit margin; integration programme on plan
- The acquisition of IPM transforms our global Software Resilience business in the USA

Exciting development and growth of key service lines for the future

- Managed Detection and Response ("MDR") revenues up 14.3% to £45.5m
- Escrow as a Service ("EaaS"), our Cloud Escrow proposition, generated orders of £2.2m, an increase of 83.3% compared to the same period last year
- New MDR service based on Microsoft's Azure Sentinel platform launched at the end of the financial year
- Newly-launched Remediation service to develop clients' resilience generated revenues of £2.1m in first year of launch

Our cyber and software resilience markets continue to offer excellent long-term growth prospects

- Cyber resilience is no longer optional for any organisation and has become a board-level issue
  - The rapid growth of ransomware attacks presents a clear and present danger to all organisations
  - Hybrid and remote working coupled with digital acceleration has increased vulnerability and exposure
  - The global cyber security services market was growing at c.8-9% before the advent of Covid-19
- Pandemic disruption held cyber spend back throughout H1 and for much of H2 as many territories were subjected to continued lockdowns or restrictions
- Customer buying behaviour showed signs of normalising towards the end of the year

Investing for the future

- Our research-driven, people-centric and capex-light business model continues to keep us at the leading edge of this dynamic cyber resilience market
- We continue to invest systematically in new skills, new capabilities and industry sectors
- We have a strong flexible balance sheet which will fund future organic and in-organic growth

Outlook

- For the current financial year (FY22), the Board expects higher revenue growth as compared to FY21 partially offset by increased global costs from inflationary pressures as well as a resumption in travel and office usage. IPM integration costs are expected to be c.£2.5m.
- Our medium-term objectives continue to be: double-digit revenue growth in Assurance and sustainable revenue growth in Software Resilience
- Q1 FY22 revenue growth was stronger than prior year in local currency but we experienced some un-anticipated disruption in customer buying patterns over the summer period. Q1 orders were ahead YoY and our orders pipeline is robust. Consequently, the full year outturn remains in line with management expectations.
- Board recommending an unchanged final dividend of 3.15p (2020: 3.15p) per ordinary share

Adam Palser, Chief Executive Officer, commented:

"Thanks to the hard work, dedication and skill of my NCC Group colleagues, FY21 was a year in which we made demonstrable progress towards our vision to be the leading cyber resilience provider globally. Revenues grew despite the disruption caused by the pandemic, and improved profitability and excellent cash generation flowed from the greater control enabled by our Securing Growth Together programme.

Cyber resilience has never been more of a priority than it is today. The connected environment continues to grow thanks to digital transformation and the rapid adoption of cloud technology – which was already underway but has been greatly accelerated by the pandemic – leaving inadequately-secured organisations ever more vulnerable to disruption, fines and, in extreme cases, failure. This makes our market a very exciting one, and our investment and ever-growing capabilities leave NCC Group well positioned to capture the accelerated market growth we anticipate as business activity normalises."

Analyst presentation briefing and Q & A session

A pre-recorded Analyst presentation briefing will be available from the Group's website at 8am on 14 September 2021 via the following link: https://www.nccgroupplc.com/investor-relations/results-media/full-year-results-presentation-for-the-year-ended-31-may-2021/

A Q & A session will be held remotely at 9am on 14 September 2021.

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About NCC Group plc
NCC Group exists to make the world safer and more secure.

Our vision is to be the leading cyber resilience provider 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.

As global experts in cyber security and risk mitigation, NCC Group is trusted by over 14,000 customers worldwide to protect their most critical assets from the ever-changing threat landscape. With the company's knowledge, experience and global footprint, it is best placed to help organisations assess, develop and manage their cyber resilience posture. To support its mission, NCC Group continually invests in research and innovation, and is passionate about developing the next generation of cyber scientists. With over 2,100 colleagues in 12 countries, NCC Group has a significant market presence in North America, Europe and the UK, and a rapidly growing footprint in Asia Pacific with offices in Australia, Japan and Singapore.

Cautionary note regarding forward-looking statement
This announcement includes statements that are forward-looking in nature. Forward-looking statements involve known and unknown risks, assumptions, uncertainties and other factors which may cause the actual results, performance or achievements of the Group to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Except as required by the Listing Rules, Disclosure and Transparency Rules and applicable law, the Group undertakes no obligation to update, revise or change any forward-looking statements to reflect events or developments occurring on or after the date such statements are published.

Business review

Which pandemic will you still be worrying more about next year?

Pandemics start somewhere else and affect other people – until very suddenly they are on your doorstep and inside your business, forcing you to re-evaluate how you live and how you work.

Our 2021 financial year was a tale of two pandemics, one biological and the other digital. The ensuing tug-of-war between these pandemics defined our markets:

- Covid-19 rippled across our geographic operating territories at different speeds and intensities provoking different responses from governments. We saw demand from customers ebb and flow depending on whether their industry was opening up or being placed under more restrictions.

- Simultaneously, the rapid uptake of remote working drove increased cyber risk, which was exploited by “bad actors” including organised crime and state-sponsored groups. Ransomware, in particular, has now become so prevalent that no organisation can afford to ignore the risk it presents.

Resilience is the key

Covid-19, supply chain shocks and rampant ransomware attacks have reminded us all how difficult it is to predict the future and thus of the importance of resilience against unknown risks. We are proud of our own resilience through the past 12 months, demonstrating our ability to deliver great work, to hire more talent and to grow even through the most extreme of shocks.

Our resilience starts with our people, and I would like to pay tribute to the remarkable skills and commitment of my colleagues. They are at the heart of our success.

Last financial year we hired over 200 front-line technical specialists, increasing our global net headcount by 8.1%. It is remarkable to think that many of them have not been into an office or met their colleagues. Happily, the feedback from surveys we have conducted indicates that the work we have done to onboard colleagues in the remote environment has been valued.

Overall, the global voluntary attrition rate remained constant at c. 15% and our technical attrition increased to 17.0% (2020: 14.4%). We identify two particular influences on this attrition increase. First, the advent of remote working drove significant labour mobility in the United States as it became possible to work for the largest and most exciting technology companies without having to move to the Bay Area. Second, while attrition was much lower in the UK and Europe through the first half, as the world began to open up we saw people leave to change lifestyle or gain variety after being locked down in the same place for an extended period of time.

However, once again demonstrating our own resilience, the global operating and resourcing model that we developed mitigated the impact of this higher attrition, enabling us to deliver revenue in North America using resources spread elsewhere across the globe.

Everyone is welcome

There are not enough cyber skills in the world to meet today’s challenges. We see ourselves as playing a significant role in the attraction and training of new talent, having one of the cyber industry’s most effective training programmes. As we strive to bring more people into the world of cyber and to make the population of cyber specialists representative of the societies in which they live and work, we continue to focus on inclusion and improving the diversity of our teams. In particular:

- We are embracing more flexible ways of working – and intend to continue with that flexibility as we explore new ways of working.

- Our four colleague resource groups – Gender, Race and Ethnicity, LGBTQIA+ and Neurodiversity – have catalysed conversations on topics as diverse as menopause, systemic racism, transvestism and autism, as we strive to raise awareness, create understanding and respect each other to make NCC Group an inclusive place for everyone.

- Our teams have worked hard to provide mutual support with a particular focus on mental health and wellbeing. We have 61 trained Mental Health First Aiders. Over 100 of our people managers have received training in mental health awareness, and a full wellbeing programme for colleagues is supplemented by employee assistance programmes in our local geographies. All of these efforts continue to help our teams through these difficult times and will provide a legacy of ongoing benefit in the future.

Sustainable growth for all of our stakeholders

Every day we work for customers in pursuit of our mission: to make the world a safer and more secure place. This mission and the focus on our people are at the heart of our value proposition and how we do business.

More broadly, our sustainability approach is focused on the recognised elements of environment, social and governance and our progress is outlined below:

- **Environment** – Building on the new and successful ways of working created by the pandemic we are engaging in conversation with our customers to explore how we can work together to reduce the impact on the environment. In addition, as our office environments come back to life, we are investing in education programmes to reduce our physical impact – from flexible working and preventing unnecessary printing, to recycling. We have also developed our new working policies and therefore will continue to review our physical office requirements to ensure we only use what we need.

- **Social** – We continue to foster partnerships that support the development of future diverse cyber talent and encourage colleagues to give back to their local communities through schools, universities and charity partnerships, and the piloting of a giving back day in the UK. In addition, we continue to invest in developing not only our mental health first aid network and resources, but we are now looking to implement our broader wellbeing strategy, partnering again with This Can Happen. Through NCC Conversations we continue to encourage engagement from colleagues and our external stakeholders around our four focus areas of gender, LGBTQIA+, race and ethnicity and neurodiversity, adding accessibility in this coming year. These conversations alongside our performance management programme and career framework development help drive our performance culture, creating an environment where everyone is welcome and can be successful.

- **Governance** – We continue to strengthen our governance structures. We assess and consciously decide to work with customers who align with our own values and Code of Ethics. We are currently strengthening our Supplier Code of Conduct to ensure that we enter any supplier or partner relationship with a mutual understanding of each other's code of ethics and general business policies. In addition, we remain committed to considering the interests of all our stakeholders when making decisions on the Group's future strategy and priorities.

Year-on-year growth led by Assurance

Against this backdrop, Group revenues increased by 2.6% (2020: 5.2%). On a constant currency basis [2], Group revenues increased by 3.6%.

In our Assurance business, the North American and EU Assurance businesses grew by 6.5% and 5.9% respectively on a local currency basis [2]. Our UK and APAC region increased 3.9%, including a notable 9.6% in the second half as industries began to look forward to the easing of restrictions.

In our Software Resilience division, we were delighted by the 83% increase in Escrow-as-a-Service orders which herald great promise for the future, but disappointed by an overall revenue decline of 2.4%. Attracting sufficient sales resource, retaining sales colleagues, delivering on-site work and maintaining sales momentum have all been more difficult in a fully remote working environment and we anticipate improvements in all of these factors in the next 12 months as we work to return Software Resilience to sustainable growth.

Gross profit increased by 5.9% to £110.6m (2020: £104.4m) with gross margin percentage increasing to 40.9% (2020: 39.6%). The margin increase was significantly driven by the flourishing of our global resourcing engine where skilled resources from every part of our Group can now be deployed on high value engagements, smoothing out peaks and troughs of demand or skill shortages. The gross margin was, however, offset by a c.£2m provision taken in relation to existing long-term European contracts as a result of pandemic disruption, cost increases and project management challenges.

2: See Note 3 for an explanation of Alternative Performance Measures (APMs) and adjusting items. Further information is also contained within the Financial Review and the Glossary of terms.

Operating profit increased by 37.3% to £17.3m (2020: restated £12.6m) after the inclusion of transaction costs of £7.6m in relation to the $220m acquisition of Intellectual Property Management (IPM), the Software Resilience division of Iron Mountain and cloud configuration and customisation costs associated with the Group's SGT transformation programme (£5.1m, 2020: restated £7.9m [3]).

The Group manages its performance internally at an Adjusted operating profit [2] level, with Adjusted operating profit [2, 3] increasing by 27.7% to £39.2m albeit with the benefit of a temporary reduction in travel and office usage costs of c.£3m. This information is disclosed below and reconciled to statutory operating profit:

	2021				2020 (restated) [3]			
	Assurance £m	**Software Resilience £m**	**Central and head office £m**	**Group £m**	Assurance £m	Software Resilience £m	Central and head office £m	Group £m
Revenue	**233.9**	**36.6**	**–**	**270.5**	226.2	37.5	–	263.7
Cost of sales	**(149.5)**	**(10.4)**	**–**	**(159.9)**	(149.3)	(10.0)	–	(159.3)
Gross profit	**84.4**	**26.2**	**–**	**110.6**	76.9	27.5	–	104.4
Gross margin %	***36.1%***	***71.6%***	**–**	***40.9%***	*34.0%*	*73.3%*	–	*39.6%*
Administrative expenses	**(45.4)**	**(9.5)**	**(3.2)**	**(58.1)**	(43.9)	(10.0)	(5.0)	(58.9)
Adjusted EBITDA [2]	**39.0**	**16.7**	**(3.2)**	**52.5**	33.0	17.5	(5.0)	45.5
Depreciation and amortisation	**(9.4)**	**(0.7)**	**(3.2)**	**(13.3)**	(10.7)	(0.6)	(3.5)	(14.8)
Adjusted operating profit [2, 3]	**29.6**	**16.0**	**(6.4)**	**39.2**	22.3	16.9	(8.5)	30.7
Individually Significant Items	**–**	**–**	**(12.7)**	**(12.7)**	–	–	(7.9)	(7.9)
Amortisation of acquired intangibles	**–**	**–**	**(6.4)**	**(6.4)**	–	–	(8.8)	(8.8)
Share-based payments	**–**	**–**	**(2.8)**	**(2.8)**	–	–	(1.4)	(1.4)
Operating profit	***29.6***	***16.0***	**(28.3)**	***17.3***	*22.3*	*16.9*	(26.6)	*12.6*

2: See Note 3 for an explanation of Alternative Performance Measures (APMs) and adjusting items. Further information is also contained within the Financial Review and the Glossary of terms.
3: See Note 13 for an explanation of the prior year restatement recognised in relation to the adoption of the IFRIC agenda decision on cloud configuration and customisation costs in April 2021. The following additional information and reconciliation is noted in relation to Adjusted operating profit due to the adoption of the IFRIC agenda decision:

	2021 £m	2020 £m	Change
Adjusted operating profit (as noted above)	**39.2**	30.7	27.7%
Proforma amortisation charge in respect of certain cloud-based software arrangements (see explanation below)	**(3.0)**	(1.4)	(114.3%)
Adjusted operating profit less a proforma amortisation charge in respect of certain cloud-based software arrangements	**36.2**	29.3	23.5%

The proforma amortisation adjustment noted above represents an estimate of the amortisation that would have been recognised had the Group not changed it's accounting policy in the current year following additional clarification on the accounting in relation to the configuration and customisation costs incurred in implementing Software-as-a-Service (SaaS) arrangements in the IFRIC agenda decision issued in April 2021. The proforma amortisation charge is estimated based on Cloud configuration and customisation costs charged to the income statement in the year of £5.1m (2020: £7.9m). The directors consider that Adjusted operating profit less a proforma amortisation charge in respect of certain cloud-based software arrangements is comparable to Adjusted operating profit previously reported.

During the year, the Group has incurred £12.7m of Individually Significant Items (ISIs) (2020: restated £7.9m [3]). These items relate to the acquisition of the IPM business (£7.6m) and cloud configuration and customisation costs associated with the Group's SGT transformation programme (£5.1m, 2020: restated £7.9m [3]). For further detail, please refer to the financial review and Note 13 to the condensed Financial Statements.

Profit before taxation increased 54.2% to £14.8m (2020: restated £9.6m [3]) and profit for the year increased 56.3% to £10.0m (2020: restated £6.4m [3]) giving rise to a basic EPS of 3.6p (2020: restated 2.3p [3]). Adjusted basic EPS [2] amounts to 9.5p (2020: restated 7.6p [3]).

In 2021, our cash conversion [2] was 88.2% (2020: restated 102.9% [3]). Net cash/(debt) (including lease liabilities) [2] amounts to £48.9m (2020: net debt £42.4m).

Long-term market prospects are excellent
The four secular growth drivers of resilience demands (as we refer to them) continue to strengthen:

- **The connected environment is growing.** Every year, more devices are connected to the internet to share data or offer up the possibility of remote access, and the interdependencies between organisations across geographical boundaries increase in complexity too.
- **Society's reliance on the connected environment is greater than ever.** The world is undergoing a digital transformation, accelerated by the pandemic. Our economies and wellbeing have never been more dependent on the safe and secure flow of data, and the continued resilience of essential services they rely on in their daily lives.
- **The threat is growing.** Ransomware has now become endemic.
- **Regulatory and legislative requirements are increasing.** In response to all of the above, organisations have to comply with a growing set of mandated requirements if they wish to enter or continue operating in their respective markets. This includes proposed legislation by the UK government for consumer IoT manufacturers, US President Biden implementing software supply chain security measures by Executive Order, and global financial regulators updating their rules and guidance on technology, third party technology and cloud outsourcing arrangements.

A sustainable business model in a dynamic environment

We are fortunate to work in a sector of growing opportunity. Naturally, this opportunity attracts significant investment from many organisations leading to healthy competition for customers and talent.

In this context, we cherish our research-driven, people-centric and capex-light business model that enables us to stay at the leading edge of the dynamic cyber resilience market and create profitable, cash-generative growth. Every year we enable talented individuals from our global teams to research the latest technologies, discover new system vulnerabilities and develop skills. In turn:

- the subsequent education of our customers and monetisation of our knowledge allow NCC Group to maintain its world-leading position in this ever-evolving market.

- The opportunity to work with some of the best minds in the industry and to conduct research is part of our rounded colleague value proposition for technical specialists.

Although the pandemic has impacted all our colleagues and customers around the world, our business has demonstrated its resilience and remains committed to securing the future for all.

Creating value through the execution of our strategy
Over the past three years – and even through the disruption caused by Covid-19 – our confidence in the direction of our company has grown. Our mission, vision and values have remained the same and we have created value through the relentless execution of our transformation programme, 'Securing Growth Together'.

Our mission: is to make the world safer and more secure.

Our vision is to be the leading cyber resilience provider 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 values are: Work Together; Be Brilliantly Creative; and Embrace Difference

Our medium-term objectives are:

- For our shareholders
  - Medium-term target of double-digit revenue growth and margin improvement for Assurance
  - Return Software Resilience to sustainable growth
  - Disciplined cash generation

- For our customers
  - Use our unique data, capability and insight to help customers to meet their cyber resilience needs

- For our people
  - A global hub for cyber talent
  - An inclusive environment where everyone feels safe to be authentic and which is representative of the diversity of the world in which we live

As noted at our interim results, we are now building on the strong initial foundations of our Securing Growth Together programme and have moved to the next phase of becoming the complete provider of global cyber resilience solutions, particularly by:

- Broadening our portfolio (adding services and solutions across the cyber lifecycle); and
- Improving how we go to market globally (becoming easier to engage with and buy from).

At our interim results, we announced the investment of £3m into propositions that we consider critical for the future and for realising our ambition to become a complete provider of cyber resilience services, acting as a one-stop shop to meet our customers' demand for evidence-based solutions that offer them peace of mind. The table below describes these propositions and highlights our progress in FY21:

Proposition	Progress
Escrow as a Service ("EaaS"), our cloud Escrow proposition	• 83.3% increase in EaaS orders to £2.2m • Weighted year end EaaS pipeline at £1.1m • Notable FY21 wins include Sky, Carrefour, Christie's, Deutsche Bank, Standard Chartered and Barclays
Global Managed Services ("GMS")	• MDR revenue growth of 14.3% • Sales orders growth of 15.8% to £71.8m
New MDR service based on Microsoft's Azure Sentinel platform	• Launched at the end of the financial year
New Remediation service to develop clients' resilience	• Global rollout after successful UK launch (revenues of £2.1m with current pipeline of c.£3m)

We will invest further in FY22 and beyond to build on these successes.

Acquisition of IPM business

The most significant investment of the year was our recent acquisition of the IPM business, which marked an exciting culmination of our financial year. We obtained shareholder approval on 1 June and completed the transaction on 7 June for $220m, subject to a normalised working capital adjustment during FY22. On this basis, the results of the IPM business will be consolidated from 1 June 2021. The acquisition was funded through an equity placing (£70.2m) in May combined with a new three year $70m term loan, existing cash balances and our revolving credit facility.

The acquisition aligns with the Group's existing strategy and will:

- Scale up the Group's core business to create a global business and platform for further growth
- Generate revenue synergies through allowing the enlarged division to offer NCC Group's broader suite of established verification services as well as the newer Escrow-as-a- Service (EaaS) cloud offering to the IPM business' existing customer base
- Present an exciting new opportunity to sell NCC Group's cyber security services from its Assurance division into the IPM business' broad and blue-chip customer base in the medium term
- Be accretive to earnings per share from completion, even without factoring in revenue synergies
- Result in greater strategic strength for the future

Financially and, prior to our ownership, the business generated revenues of c.£23m and operating profit of c.£15m for the 12 months ended 31 December 2020, with cash conversion of c.90%. It is expected that for NCC Group's FY22 financial year, the business will incur c. £2.5m of one-off integration costs.

From an integration perspective, integration is on plan with all workstreams (People, Customers, Operations, Finance and IT) making good progress against objectives. The business is also supported by TSA and MSA arrangements.

From a personal perspective, it has been a pleasure to welcome our new colleagues from the IPM business. I look forward with confidence to the future as we transform our Software Resilience business into a growing, high margin global leader.

Summary

Financial

- Year-on-year growth in Group Revenue, Gross Profit, Adjusted operating profit and Profit before taxation
- Another year of excellent cash management

Operational

- Successful acquisition of IPM with strategic and financial importance
- Exciting development and growth of key service lines for the future
- Market prospects continue to evolve and create opportunities
- We continue to have a strong and flexible balance sheet that will allow us to fund future organic and in-organic growth

Our FY22 operational priorities are:

Assurance

- Broadening our portfolio (adding services and solutions across the cyber lifecycle)
- Growing recurring global MDR services
- Effective use of our global resourcing model

Software Resilience

- Addressing execution challenges and returning Software Resilience to sustainable growth
- Continuing to broaden the portfolio through innovation and growing our EaaS proposition
- Embedding the IPM acquisition and minimising integration costs

Outlook

- For the current financial year (FY22), the Board expects higher revenue growth as compared to FY21 partially offset by increased global costs from inflationary pressures as well as a resumption in travel and office usage. IPM integration costs are expected to be c.£2.5m.
- Our medium-term objectives continue to be: double-digit revenue growth in Assurance and sustainable revenue growth in Software Resilience
- Q1 FY22 revenue growth was stronger than prior year in local currency but we experienced some un-anticipated disruption in customer buying patterns over the summer period. Q1 orders were ahead YoY and our orders pipeline is robust. Consequently, the full year outturn remains in line with management expectations.
- The Board is recommending an unchanged final dividend of 3.15p (2020: 3.15p) per ordinary share

Financial review

Overview [1]

We have delivered another period of good financial results, demonstrating our resilience during a global pandemic. During 2022, the Group will continue to strategically invest for the future with the expectation of higher revenue growth accompanied by increased global costs from inflationary pressures as well as a resumption in travel and office usage.

Group revenues increased by 2.6%. On a constant currency basis [2], Group revenues increased by 3.6% due to the strengthening of Sterling against the US Dollar. In Assurance, the North American and EU Assurance businesses grew by 6.5% and 5.9% respectively, on a local currency basis [2]. Our UK and APAC region increased 3.9%, supported by growth in MDR and the launch of the Remediation service. Disappointingly, Software Resilience declined by 2.4%. This decline was mainly a result of execution challenges in a remote environment together with retaining sales colleagues and attracting sufficient sales resource to enable a return to contract growth.

Gross profit increased by 5.9% to £110.6m (2020: £104.4m) with margin percentage increasing to 40.9% (2020: 39.6%) mainly owing to higher global resourcing and utilisation offset by a c.£2m provision taken in relation to long-term European contracts as a result of pandemic disruption, cost increases and project management challenges. Assurance margin percentage increased to 36.1% (2020: 34.0%) and Software Resilience decreased to 71.6% (2020: 73.3%) due to execution challenges.

Total administrative expenses (including Individually Significant Items) have increased by £1.5m compared to the adjusted prior year figure mainly owing to a tighter control of overheads, a reduction on travel and office costs of c.£3m, a profit arising on disposal of an intangible asset of £0.5m and a reduction in amortisation of intangibles of £2.4m, offset by increased system license costs of £1.3m, a foreign exchange charge of £1.5m, an increase in a share-based payment charge of £1.4m and an increase in Individually Significant Items of £4.8m.

Following the adoption of the IFRIC agenda decision on cloud configuration and customisation costs, capitalised software and development costs during the year amounted to £2.3m (2020: restated £2.3m [3]), with all cloud configuration and customisation costs now being expensed as incurred. Further details on the application of IFRIC agenda decision and prior year restatement are included later in this review.

Operating profit has increased by 37.3% to £17.3m (2020: restated £12.6m [3]) following the inclusion of Individually Significant Items of £12.7m (2020: restated £7.9m [3]) in relation to the IPM US Acquisition (£7.6m) and cloud configuration and customisation costs associated with the Group's SGT transformation programme (£5.1m, 2020: restated £7.9m [3]). Operating profit also includes amortisation of acquired intangible assets of £6.4m (2020: £8.8m) and share-based payments of £2.8m (2020: £1.4m). Adjusted operating profit [2, 3] increased by 27.7% to £39.2m (2020: restated £30.7m [3]). Adjusted EBITDA [2] increased by 15.4% to £52.5m (2020: £45.5m). Profit before taxation increased by 54.2% to £14.8m (2020: restated £9.6m [3]) following the inclusion of Individually Significant Items noted above.

Basis EPS amounted to 3.6p and diluted EPS amounted to 3.5p (2020: restated basic and diluted 2.3p [3]). Adjusted basic EPS [2] amounts to 9.5p (2020: restated 7.6p [3]).

During the year, we secured the acquisition of the IPM business and following shareholder approval on 1 June we completed the transaction for $220m, subject to a normalised working capital adjustment. On this basis, the results of the IPM business will be consolidated from 1 June 2021. The acquisition was funded through an equity placing in May (£70.2m) combined with a new three year $70m term loan, existing cash balances and our revolving credit facility.

Our Balance Sheet remains strong; we have continued to demonstrate effective cash management with cash conversion [2] of 88.2% and are now cash positive. Our Balance Sheet strength can therefore continue to fund organic and inorganic opportunities.

The Board is also declaring an unchanged interim dividend of 3.15p per ordinary share (2020: 3.15p). This represents a dividend equal to that paid in the prior year as the Board is conscious of the need to invest in initiatives to support longer-term growth and service debt profile following the recent acquisition. The dividend policy will therefore continue to remain under review.

1: References for the Group's results are for continuing operations.
2: See Note 3 for an explanation of Alternative Performance Measures (APMs) and adjusting items. Further information is also contained within the Financial Review and the Glossary of terms.
3: See Note 13 for an explanation of the prior year restatement recognised in relation to the adoption of the IFRIC agenda decision on cloud configuration and customisation costs in April 2021.

Financial summary

Summary Income Statement [1]:

£m	2021	2020 (restated) [2, 3]	% change
Revenue	**270.5**	263.7	2.6%
Cost of sales	**(159.9)**	(159.3)	(0.4%)
Gross profit	**110.6**	104.4	5.9%
Depreciation and amortisation	**(13.3)**	(14.8)	10.1%
Other administration expenses	**(58.1)**	(58.9)	1.4%
Adjusted operating profit [2, 3]	**39.2**	30.7	27.7%
Individually significant items	**(12.7)**	(7.9)	(60.8%)
Acquired intangible amortisation	**(6.4)**	(8.8)	27.3%
Share based payments	**(2.8)**	(1.4)	(100.0%)
Operating profit	**17.3**	12.6	37.3%
Finance costs	**(2.5)**	(3.0)	16.7%
Profit before taxation	**14.8**	9.6	54.2%
Taxation	**(4.8)**	(3.2)	(50.0%)
Profit for the year	**10.0**	6.4	56.3%
EPS			
Basic	**3.6p**	2.3p	56.5%
Diluted	**3.5p**	2.3p	52.2%

Revenue summary:

£m **Revenue**	2021	2020	% change
Assurance	**233.9**	226.2	3.4%
Software Resilience	**36.6**	37.5	(2.4%)
Total revenue	**270.5**	263.7	2.6%

Operating profit summary:

£m **Operating profit**	2021	2020 (restated) [2, 3]	% change
Assurance	**29.6**	22.3	32.7%
Software Resilience	**16.0**	16.9	(5.3%)
Central and head office	**(6.4)**	(8.5)	24.7%
Adjusted operating profit [2, 3]	**39.2**	30.7	27.7%
Individually significant items	**(12.7)**	(7.9)	(60.8%)
Acquired intangible amortisation	**(6.4)**	(8.8)	27.3%
Share based payments	**(2.8)**	(1.4)	(100%)
Operating profit	**17.3**	12.6	37.3%
Operating profit margin %	**6.4%**	4.8%	1.6% pts

1: References for the Group's results are for continuing operations.
2: See Note 3 for an explanation of Alternative Performance Measures (APMs) and adjusting items. Further information is also contained within the Financial Review and the Glossary of terms.
3: See Note 13 for an explanation of the prior year restatement recognised in relation to the adoption of the IFRIC agenda decision on cloud configuration and customisation costs in April 2021. The following additional information and reconciliation is noted in relation to Adjusted operating profit due to the adoption of the IFRIC agenda decision:

	2021 £m	2020 £m	Change
Adjusted operating profit (as noted above)	**39.2**	30.7	27.7%
Proforma amortisation charge in respect of certain cloud-based software arrangements (see explanation below)	**(3.0)**	(1.4)	(114.3%)
Adjusted operating profit less a proforma amortisation charge in respect of certain cloud-based software arrangements	**36.2**	29.3	23.5%

The proforma amortisation adjustment noted above represents an estimate of the amortisation that would have been recognised had the Group not changed it's accounting policy in the current year following additional clarification on the accounting in relation to the configuration and customisation costs incurred in implementing Software-as-a-Service (SaaS) arrangements in the IFRIC agenda decision issued in April 2021. The proforma amortisation charge is estimated based on Cloud configuration and customisation costs charged to the income statement in the year of £5.1m (2020: £7.9m). The directors consider that Adjusted operating profit less a proforma amortisation charge in respect of certain cloud-based software arrangements is comparable to Adjusted operating profit previously reported.

Alternative Performance Measures (APMs)
Throughout this Financial Review, certain APMs are presented. As discussed in the FY20 Annual Report and in accordance with FRC guidelines, the Group no longer presents a Consolidated Income Statement showing adjusting items separately. In prior periods, the Group disclosed adjusting items in 2020 of £10.2m relating to amortisation of acquired intangibles (2020: £8.8m) and share-based payments (2020: £1.4m) as a separate column on the face of the Consolidated Income Statement. This is no longer disclosed in this way to simplify the Group's results. However, as the Group manages internally its performance at an Adjusted operating profit level (before Individually Significant Items, amortisation of acquired intangibles and share-based payments), which management believes better represents the underlying trading of the business, this information is still disclosed as an APM. This APM is reconciled to statutory operating profit, together with the consequently Adjusted basic EPS (before Individually Significant Items, amortisation of acquired intangibles, share-based payments and the tax effect thereon) to statutory basic EPS.

This change has removed the following adjusted measures from the Group's narrative reporting and disclosures:

- Adjusted Profit before taxation
- Adjusted Taxation

Following this revision to APMs, the Group has the following APM's/non statutory measures:

- Adjusted EBITDA (reconciled in note 3)
- Adjusted Operating profit (reconciled in note 3)
- Adjusted basic EPS (pence) (reconciled in note 8)
- Net cash/(debt) excluding lease liabilities (reconciled in note 3)
- Net cash/(debt) (reconciled in note 3)
- Cash Conversion (reconciled in note 3)

These measures provide supplementary information that assists the user to understand the financial performance, position and trends of the Group. Further detail is included within the glossary of terms to these Financial Statements that provide supplementary information that assists the user in understanding these APMs/non-statutory measures.

The Group also reports certain geographic regions on a constant currency basis to reflect the underlying performance taking into account constant foreign exchange rates year on year. This involves translating comparative numbers to current year rates for comparability to enable a growth factor to be calculated. In addition, the Group also reports these regions on a local currency basis to demonstrate the revenue performance on a local basis. As these measures are not statutory revenue numbers, management considers these to be APMs, see Note 3 for further details.

Divisional performance

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

	2021				2020 (restated) [2, 3]			
	Assurance £m	**Software Resilience £m**	**Central and head office £m**	**Group £m**	Assurance £m	Software Resilience £m	Central and head office £m	Group £m
Revenue	**233.9**	**36.6**	**–**	**270.5**	226.2	37.5	–	263.7
Cost of sales	**(149.5)**	**(10.4)**	**–**	**(159.9)**	(149.3)	(10.0)	–	(159.3)
Gross profit	**84.4**	**26.2**	**–**	**110.6**	76.9	27.5	–	104.4
Gross margin %	***36.1%***	***71.6%***	**–**	***40.9%***	*34.0%*	*73.3%*	–	*39.6%*
Administrative expenses	**(45.4)**	**(9.5)**	**(3.2)**	**(58.1)**	(43.9)	(10.0)	(5.0)	(58.9)
Adjusted EBITDA [2]	**39.0**	**16.7**	**(3.2)**	**52.5**	33.0	17.5	(5.0)	45.5
Depreciation and amortisation	**(9.4)**	**(0.7)**	**(3.2)**	**(13.3)**	(10.7)	(0.6)	(3.5)	(14.8)
Adjusted operating profit [2, 3]	**29.6**	**16.0**	**(6.4)**	**39.2**	22.3	16.9	(8.5)	30.7
Individually Significant Items	**–**	**–**	**(12.7)**	**(12.7)**	–	–	(7.9)	(7.9)
Acquired intangible amortisation	**–**	**–**	**(6.4)**	**(6.4)**	–	–	(8.8)	(8.8)
Share-based payments	**–**	**–**	**(2.8)**	**(2.8)**	–	–	(1.4)	(1.4)
Operating profit	***29.6***	***16.0***	**(28.3)**	***17.3***	*22.3*	*16.9*	(26.6)	*12.6*

2: See Note 3 for an explanation of Alternative Performance Measures (APMs) and adjusting items. Further information is also contained within the Financial Review and the Glossary of terms.
3: See Note 13 for an explanation of the prior year restatement recognised in relation to the adoption of the IFRIC agenda decision on cloud configuration and customisation costs in April 2021. The following additional information and reconciliation is noted in relation to Adjusted operating profit due to the adoption of the IFRIC agenda decision:

	2021 £m	2020 £m	Change
Adjusted operating profit (as noted above)	**39.2**	30.7	27.7%
Proforma amortisation charge in respect of certain cloud-based software arrangements (see explanation below)	**(3.0)**	(1.4)	(114.3%)
Adjusted operating profit less a proforma amortisation charge in respect of certain cloud-based software arrangements	**36.2**	29.3	23.5%

The proforma amortisation adjustment noted above represents an estimate of the amortisation that would have been recognised had the Group not changed it's accounting policy in the current year following additional clarification on the accounting in relation to the configuration and customisation costs incurred in implementing Software-as-a-Service (SaaS) arrangements in the IFRIC agenda decision issued in April 2021. The proforma amortisation charge is estimated based on Cloud configuration and customisation costs charged to the income statement in the year of £5.1m (2020: £7.9m). The directors consider that Adjusted operating profit less a proforma amortisation charge in respect of certain cloud-based software arrangements is comparable to Adjusted operating profit previously reported.

Acquired intangible amortisation decreased during the year as certain historical acquisitions became fully amortised. It is expected that for FY22, the charge will increase significantly following the US acquisition of the IPM business. Share-based payments increased during the year following the introduction of new share schemes for key management.

Assurance

The Assurance division accounts for 86.5% of Group revenue (2020: 85.8%) and 76.3% of Group gross profit (2020: 73.7%).

Assurance revenue analysis – by originating country:

	2021 £m	2020 £m	% change
UK & APAC *	**102.7**	98.8	*3.9%*
North America	**82.7**	82.4	*0.4%*
Europe *	**48.5**	45.0	*7.8%*
Total Assurance revenue	**233.9**	226.2	*3.4%*

- With the continuing growth and formation of a European division we have changed geographical segments in line with how this information is reported to the Board and managed on an ongoing basis and have restated prior year figures on a like-for-like basis. The APAC division was previously included within the segment Europe and APAC. See note 4 to the condensed Financial Statements for further detail.

Assurance revenue increased by 3.4%, despite lower rechargeable travel expenses, foreign exchange and the ongoing disruption of a global pandemic. UK & APAC increased by 3.9% supported by growth in MDR and the launch of the Remediation service. North America grew by 6.5% on a local currency basis ($), and Europe experienced continued growth after benefit from multi-year product sales in 2020. Our global average order value increased by 2.3% year on year.

Assurance revenue analysed by type of service/product line:

	2021 £m	2020 £m	% change
Global Professional Services (GPS) **	**172.2**	166.2	*3.6%*
Global Managed Services (GMS) **	**56.2**	49.6	*13.3%*
Product Sales (own and third party)	**5.5**	10.4	*(47.1%)*
Total Assurance revenue	**233.9**	226.2	*3.4%*

** With the continuing global growth and focus on recurring revenues we have changed the type of service/product lines in line with how this information is to be reported to the Board and managed on an ongoing basis and have restated prior year figures on a like-for-like basis. Previously Risk Management Consulting was shown separately and is now included within Global Professional Services, and certain other activities are now included in Global Managed Services. Contained within GMS is Managed Detection and Response (MDR) which is considered the high growth service line due to the nature of the cyber resilience market. Product sale categorisation has remained the same.

Global Professional Services grew by 3.6% to £172.2m (2020: £166.2m) supported by global resourcing with Covid-19 still felt across all geographies. During the year, day rates have remained consistent.

Global Managed Services, a service line that provides operational cyber defence and managed security services, grew in total by 13.3% to £56.2m (2020: £49.6m). Within GMS, our MDR offering grew by 14.3% to £45.5m. Sales orders secured during the period amounted to £71.8m compared to £62.0m in 2020, a 15.8% increase, although slower procurement processes were still experienced due to the pandemic.

Assurance gross profit is analysed as follows:

	2021 £m	**2021 % margin**	2020 £m	2020 % margin	% pts change
UK & APAC *	**41.0**	***39.9%***	35.0	*35.4%*	*4.5% pts*
North America	**27.4**	***33.1%***	25.9	*31.4%*	*1.7% pts*
Europe *	**16.0**	***33.0%***	16.0	*35.6%*	*(2.6% pts)*
Assurance gross profit and % margin	**84.4**	***36.1%***	*76.9*	*34.0%*	*2.1% pts*

* With the continuing growth and formation of a European division we have changed geographical segments in line with how this information is reported to the Board and managed on an ongoing basis and have restated prior year figures on a like-for-like basis. The APAC division was previously included within the segment Europe and APAC. See the notes to the Financial Statements for further detail.

Gross margin improved due to higher global resourcing (increased from 5,094 days to 10,602 days), lower client travel and billable utilisation (+7%) through remote delivery, offset by a c.£2m provision taken in relation to long-term European contracts caused by pandemic disruption, cost increases and project management challenges.

Software Resilience

The Software Resilience division accounts for 13.5% of Group revenues (2020: 14.2%) and 23.7% of Group gross profit (2020: 26.3%).

Software Resilience revenue analysis – by originating country:

	2021 £m	2020 £m	% change
UK	**25.2**	25.9	*(2.7%)*
North America	**7.3**	7.8	*(6.4%)*
Europe	**4.1**	3.8	*7.9%*
Total Software Resilience revenue	**36.6**	37.5	*(2.4%)*

In Software Resilience, we experienced a disappointing overall revenue decline of 2.4%. This decline was mainly a result of execution challenges in a remote environment together with recruiting sufficient sales resource to enable a return to contract growth.

The UK experienced a decline of 2.7%, exacerbated by recruitment challenges in a pandemic market. North America declined 6.4%, albeit 2.9% on a constant currency basis due to a decrease in on-premise testing. Europe, as a relatively new market, continued to progress positively during the year mainly due to increased testing revenues. Renewal rates improved to 89.2% (2020: 87.0%) and remain within our expected range.

Software Resilience revenues analysed by service line:

Software Resilience services revenue	**2021 £m**	2020 £m	% change
Software Resilience contracts	**24.0**	25.8	*(7.0%)*
Verification services	**12.6**	11.7	*7.7%*
Total Software Resilience revenue	**36.6**	37.5	*(2.4%)*

Our contract revenue was impacted by the pandemic and sales recruitment challenges. Our future expectation is that our nascent channel sales model will contribute to revenue going forward. Verification services grew 7.7% to £12.6m owing to the success of EaaS (£0.8m).

Gross margin is analysed as follows:

	2021 £m	**2021 % margin**	2020 £m	2020 % margin	% pts change
UK	**18.4**	***73.0%***	19.5	*75.3%*	*(2.3% pts)*
North America	**4.9**	***67.1%***	5.3	*67.9%*	*(0.8% pts)*
Europe	**2.9**	***70.7%***	2.7	*71.1%*	*(0.4% pts)*
Software Resilience gross profit and % margin	**26.2**	***71.6%***	27.5	73.3%	*(1.7% pts)*

Gross profit has declined due to the challenges noted above and as we started to make investments in our channel proposition and cloud infrastructure to underpin sustainable growth.

Individually Significant Items

During the period, the Group has incurred £12.7m of Individually Significant Items (ISIs) (2020: restated £7.9m [3]). These items relate to the acquisition of the IPM business (£7.6m) and cloud configuration and customisation costs associated with the Group's SGT transformation programme (£5.1m). These costs are considered material and are in accordance with the Group's policy on identification of certain costs that distort the underlying performance of the Group. For further detail, please refer to Note 5 to the condensed Financial Statements.

Finance costs

Finance costs for the period were £2.5m compared to £3.0m in 2020 due to the reduction in our drawn facilities and LIBOR during the global pandemic. Net finance costs include lease financing costs from IFRS 16 of £1.2m (2020: £1.2m).

Taxation

The Group's effective statutory tax rate is 32.4% (2020: restated 33.3% [3]). The Group's adjusted tax rate is 27.8% (2020: 23.5%). The effective rate remains above the UK standard rate of corporation tax, reflecting the origin of a reasonable proportion of Group profits in overseas territories with higher tax rates than the UK and due to a review of US R&D tax credits recognition.

Earnings per share (EPS)

	2021 pence	2020 (restated) [3] pence
Statutory		
Basic EPS	**3.6p**	2.3p
Diluted EPS	**3.5p**	2.3p
Adjusted [2]		
Basic EPS	**9.5p**	7.6p

Cash flow and net debt [2]

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

	2021 £m	2020 (restated) [3] £m
Operating cash inflow before movements in working capital	**47.3**	38.8
Decrease/(increase) in trade and other receivables	**4.7**	(11.0)
Increase in inventories	**(0.2)**	(0.2)
(Decrease)/increase in trade and other payables	**(5.5)**	19.2
Cash generated from operating activities before interest and taxation	**46.3**	46.8
Interest element of lease payments	**(1.2)**	(1.2)
Finance interest paid	**(1.1)**	(1.6)
Taxation paid	**(5.1)**	(4.8)
Net cash generated from operating activities	**38.9**	39.2
Purchase of property, plant and equipment	**(2.7)**	(2.8)
Software and development expenditure	**(2.1)**	(2.5)
Proceeds on disposal of intangibles	**0.5**	–
Equity dividends paid	**(13.0)**	(12.9)
Repayment of lease liabilities	**(6.0)**	(5.3)
Proceeds from the issue of ordinary share capital	**72.6**	1.1
Net movement	**88.2**	16.8
Opening net debt	**(4.2)**	(20.2)
Non cash movements (release of deferred issue costs and lease financing costs)	**(0.2)**	(0.2)
Foreign exchange	**(0.5)**	(0.6)
Closing net cash/(debt) excluding lease liabilities [2]	**83.3**	(4.2)
Lease liabilities	**(34.4)**	(38.2)
Closing net cash/(debt) [2]	**48.9**	(42.4)

Free cash flow (net cash generated from operating activities less net capital expenditure)	**34.6**	33.9

Net cash/(debt) [2] can be reconciled as follows:

	2021 £m	2020 £m
Cash and cash equivalents	**116.5**	95.0
Borrowings (net of deferred issue costs)	**(33.2)**	(99.2)
Net cash/(debt) excluding lease liabilities [2]	**83.3**	(4.2)
Lease liabilities	**(34.4)**	(38.2)
Net cash/(debt) [2]	**48.9**	(42.4)

The calculation of the cash conversion ratio [2] is set out below:

	2021 £m	2020 (restated) [3] £m	% change
Net operating cash flow before interest and taxation (A)	**46.3**	46.8	(1.1%)
Adjusted EBITDA [2] (B)	**52.5**	45.5	15.4%
Cash conversion ratio [2] (%) (A)/(B)	**88.2%**	102.9%	(14.7% pts)

2: See Note 3 for an explanation of Alternative Performance Measures (APMs) and adjusting items. Further information is also contained within the Financial Review and the Glossary of terms.
3: See Note 13 for an explanation of the prior year restatement recognised in relation to the adoption of the IFRIC agenda decision on cloud configuration and customisation costs in April 2021.

Cash conversion remains above our medium target of c.85%, as we have maintained strong cash management through the global pandemic.

The increase in tax paid is mainly due to the FY20 deferral of £1.2m under government tax deferral schemes now fully repaid.

Net cash capital expenditure during the year was £4.3m (2020: restated £5.3m [3]) which includes tangible expenditure of £2.7m (2020: £2.8m) and capitalised software and development costs of £2.1m (2020: restated £2.5m [3]), which has been offset by proceeds from the disposal of an intangible asset for £0.5m. Additional cash capital expenditure will be incurred during 2022 as we finish the installation and improve our new systems.

Acquisition costs paid prior to the shareholder approval on 1 June 2021 of the US acquisition of IPM amounted to £1.2m. During early FY22, further costs have been paid of £6.4m.

Dividends

Dividends of £13.0m paid in the year (2020: £12.9m) comprised the final dividend for FY20 of 3.15p and the interim dividend of 1.5p per ordinary share for FY21 (2020: 1.5p). The Board is declaring an unchanged final dividend of 3.15p per ordinary share (2020: 3.15p).

This represents a dividend equal to that paid in the prior year as the Board is conscious of the need to invest in initiatives to support longer-term growth and service debt profile following the recent acquisition. The dividend policy will therefore continue to remain under review.

The final dividend will be paid on 12 November 2021, to shareholders on the register at the close of business on 15 October 2021. The ex-dividend date is 14 October 2021.

IPM acquisition and future statutory reporting

As noted within the Business Review, prior to our ownership of IPM, the business generated revenues of c.£23m and operating profit of c.£15m for the 12 months ended 31 December 2020, with cash conversion of c.90%. It is expected that for NCC Group's FY22 financial year, the business will report proforma numbers on a similar basis and that we will incur c.£2.5m of one-off integration costs.

However, on a statutory basis, the Group will have to recognise acquisition fair value adjustments for the first year only in relation to deferred income, resulting in an expected consequential reduction to IPM numbers in relation to revenue and operating profit for the first year only.

Application of IFRIC agenda decisions and prior year restatement

In April 2021, the IFRS Interpretations Committee (IFRIC) published an agenda decision on the clarification of accounting in relation to the configuration and customisation costs incurred in implementing Software-as-a-Service (SaaS) as follows:

- Amounts paid to the cloud vendor for configuration and customisation that are not distinct from access to the cloud software are expensed over the SaaS contract term.
- In limited circumstances, other configuration and customisation costs incurred in implementing SaaS arrangements may give rise to an identifiable intangible asset, for example, where code is created that is controlled by the entity.
- In all other instances, configuration and customisation costs will be expensed as the customisation and configuration services are received.

Due to the nature of this agenda decision and the level of spend incurred in relation to the Group's Securing Growth Together digital transformation programme, the Group's accounting policy has been reviewed retrospectively to align with the IFRIC guidance recently issued in relation to SaaS costs previously capitalised. This has resulted in a prior year restatement to reflect costs previously capitalised as an expense when incurred and represents a non-cash adjustment. See Notes 1, 5, 9 and 13 to the financial statements for further details.

Financing facilities

The Group is financed through a combination of bank facilities, retained profits and equity. As at 31 May 2021, the Group had committed bank facilities (revolving credit facility) of £100m (2020: £100m), of which £33.8m (2020: £100m) was drawn down. These arrangements were agreed in June 2019 and are due for renewal in June 2024. Under these arrangements, the Group can also request (seeking bank approval) an additional accordion facility to increase the total size of the revolving credit facility by up to £75m.

On 12 May 2021, the Group entered into a new term loan facility agreement of $70m to fund the US acquisition of the IPM Software Resilience business in early June 2021. The Term Facility is repaid in annual instalments of $23.3m on each of 10 June 2022 and 10 June 2023, with a final instalment of $23.4m payable on 10 June 2024. The Term Facility Agreement also contains financial covenants consistent with the revolving credit facility.

On our banking covenants, leverage [2] as at 31 May 2021 amounted to (1.8)x as we have become cash positive (2020: 0.1x) and net interest cover [2] amounted to 35.0x (2020: 22.7x). The Group was in compliance with the terms of all its facilities, including the financial covenants, at 31 May 2021 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 practise) and are materially similar to GAAP with the exceptions being net debt excludes IFRS 16 lease liabilities and Adjusted EBITDA [2] excludes amortisation of acquired intangibles, share-based payments and Individually Significant Items.

Going concern

The Directors have acknowledged guidance published in relation to going concern assessments.

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Business Review and Financial Review. The Group's financial position, cash and borrowing facilities are also described within these sections.

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 12 month period ending September 2022 which indicate that, taking account of severe but plausible downsides and the anticipated impact of Covid-19 on the operations of the Group and its financial resources, the Group and Company will have sufficient funds to meet their liabilities as they fall due for that period.

The Group is financed primarily by a £100m committed revolving credit facility that matures in June 2024. The Group is required to comply with financial covenants for leverage (net debt to Adjusted EBITDA [2]) and interest cover (Adjusted EBITDA [2] to interest charge) that are tested bi-annually at 31 May and 30 November each year. As at 31 May 2021, the Group had drawn down £33.8m for working capital requirements.

Subsequent to the year end and shareholder approval on 1 June, the Group acquired on 7 June the IPM business for $220m; the US acquisition was funded through an equity placing in May of £70.2m (net proceeds) combined with a new three year $70m term loan, existing cash balances and our existing revolving credit facility. The impact of the acquisition on the Group's financial performance, covenants and business model has therefore been considered within this going concern assessment. As at 2 June 2021, following the acquisition of the IPM business, the Group had drawn down £75.5m of its revolving credit facility and was due to incur further transaction costs of £6.4m. As at 31 August 2021, cash, net debt (excluding lease liabilities) [2] and headroom amounted to £43.6m, £74.7m and £80.5m respectively.

Although the Group has demonstrated resilience to the challenging environment resulting from Covid-19, the Directors acknowledge that the financial performance of the Group has been adversely impacted to a certain degree since the commencement of the pandemic, and for this reason, the base case forecast for 2021 reflects this assessment. The continuing macro-economic risks and potential changes in government policies (on the severity of enforced lockdowns worldwide) could have a continued effect on the Group's performance. However, trading throughout the pandemic has demonstrated resilience.

The Directors have prepared a number of severe but plausible scenarios as follows:

1. The performance of FY22 continues to be similar to that of 2021, including the impact on regional and international operations of the Group and a potential reduction in growth.

2. An additional impact of Covid-19 during a two month period from January to February 2022 which coincides with a similar economic pandemic pattern as 2021.

3. Potential impact of customers' inability to pay during a specified period.

4. Failure of execution of the strategy, loss of key customers and a number of acquisition related risks crystallising (for example: increased customer churn, integration and cash collection issues).

5. Software Resilience performance does not return to growth and the Assurance business experiences similar impact of Covid-19 on its performance as 2021.

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 all 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. In the instance that a combination of the above scenarios arise, mitigating actions would be required to ensure that the Group remains liquid and financially viable, which might include a reduction of planned capital expenditure, freezing pay and recruitment and not paying a dividend to shareholders. All of the mitigating actions are within the Directors' control. These forecasts, including the severe but plausible downsides, 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 meet its liabilities as they fall due for that period.

From a Company perspective, the Company places reliance on other Group trading entities for financial support. Having reviewed the current trading performance, forecasts, other Group trading entities' financial support, debt servicing requirements, total facilities and risks, the Directors are confident that the Company and the Group will 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 2021.

Brexit
The Group's operations based in Continental Europe have so far proven structurally resilient to any significant disruption caused by Brexit. The main risks to the Group from Brexit continue to be any reduction in demand from an economic slowdown as well as real or perceived differences in data protection standards which impact our global ways of working.

Directors' responsibility statement

The responsibility statement below has been prepared in connection with the Group's full Annual Report for the year ended 31 May 2021. Certain parts thereof are not included within this announcement.

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 preliminary statement includes a fair review of the development and performance of the business and the position of the Company, and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.
- The Annual Report, taken as a whole, is fair, balanced and understandable, and provides the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

The Annual Report is approved and authorised for issue on behalf of the Board on 14 September 2021 by:

Adam Palser
Chief Executive Officer

Tim Kowalski
Chief Financial Officer

Consolidated income statement [1]
For the year ended 31 May 2021

	Notes	**2021 £m**	2020 (restated) [2,3] £m
Revenue	4	**270.5**	263.7
Cost of sales	4	**(159.9)**	(159.3)
Gross profit	4	**110.6**	104.4
Administrative expenses	4		
Depreciation and amortisation		**(19.7)**	(23.6)
Other administrative expenses		**(60.9)**	*(60.3)*
Individually Significant Items		**(12.7)**	(7.9)
Total administrative expenses		**(93.3)**	(91.8)
Operating profit	4	**17.3**	12.6
Finance costs		**(2.5)**	(3.0)
Profit before taxation		**14.8**	9.6
Taxation		**(4.8)**	(3.2)
Profit for the year attributable to the owners of the Company		**10.0**	6.4

Earnings per ordinary share	8		
Basic EPS		**3.6p**	2.3p
Diluted EPS		**3.5p**	2.3p

Consolidated statement of comprehensive (loss)/income
For the year ended 31 May 2021

	2021 £m	2020 (restated) [2,3] £m
Profit for the year attributable to the owners of the Company	**10.0**	6.4
Other comprehensive (loss)/income		
Items that may be reclassified subsequently to profit or loss (net of tax)		
Cash flow hedges – effective portion of changes in fair value	**(0.8)**	–
Foreign exchange translation differences	**(11.6)**	4.0
Total other comprehensive (loss)/income	**(12.4)**	4.0
Total comprehensive (loss)/ income for the year (net of tax) attributable to the owners of the Company	**(2.4)**	10.4

Footnotes for condensed Consolidated Financial Statements

1: 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 Glossary of terms.
2: See Note 13 for an explanation of the prior year restatement recognised in relation to the adoption of the IFRIC agenda decision on cloud configuration and customisation costs in April 2021.
3: Results for the year ended 31 May 2020 have been re-presented to include adjusting items within statutory results.

Consolidated balance sheet

For the year ended 31 May 2021

	Notes	**31 May 2021 £m**	31 May 2020 (restated) [2] £m	1 June 2019 (restated) [2] £m
Non-current assets				
Goodwill	9	**182.9**	193.1	189.4
Intangible assets	9	**21.0**	29.0	38.3
Property, plant and equipment		**11.5**	13.9	16.9
Right-of-use assets	10	**23.8**	28.7	26.5
Investments		**0.3**	0.3	0.3
Deferred tax asset		**2.0**	2.3	2.2
Total non-current assets		**241.5**	267.3	273.6
Current assets				
Inventories		**1.1**	0.9	0.7
Trade and other receivables		**68.7**	73.4	61.6
Current tax receivable		**4.5**	0.6	0.6
Cash and cash equivalents		**116.5**	95.0	34.9
Total current assets		**190.8**	169.9	97.8
Total assets		**432.3**	437.2	371.4
Current liabilities				
Trade and other payables		**45.2**	46.4	31.6
Borrowings		**–**	–	5.0
Lease liabilities	10	**5.1**	5.3	5.2
Current tax payable		**4.0**	–	–
Derivative financial instruments		**0.8**	–	–
Provisions	12	**2.4**	2.0	0.2
Contract liabilities - deferred revenue		**43.6**	39.5	36.2
Total current liabilities		**101.1**	93.2	78.2
Non-current liabilities				
Borrowings	11	**33.2**	99.2	50.1
Lease liabilities	10	**29.3**	32.9	30.5
Deferred tax liabilities		**1.2**	2.9	5.4
Provisions	12	**0.6**	1.7	1.3
Contract liabilities - deferred revenue		**0.7**	1.4	–
Total non-current liabilities		**65.0**	138.1	87.3
Total liabilities		**166.1**	231.3	165.5
Net assets		**266.2**	205.9	205.9
Equity				
Share capital		**3.1**	2.8	2.8
Share premium		**223.2**	150.9	149.8
Hedging reserve		**(0.8)**	–	–
Merger reserve		**42.3**	42.3	42.3
Currency translation reserve		**20.3**	31.9	27.9
Retained earnings		**(21.9)**	(22.0)	(16.9)
Total equity attributable to equity holders of the parent		**266.2**	205.9	205.9

These financial statements were approved and authorised for issue by the Board of Directors on 14 September 2021 and were signed on its behalf by:

Adam Palser
Chief Executive Officer

Tim Kowalski
Chief Financial Officer

Consolidated cash flow statement

For the year ended 31 May 2021

Cash flow from operating activities	Notes	2021 £m	2020 (restated) [2] £m
Profit for the year		**10.0**	6.4
Adjustments for:			
Depreciation of property, plant and equipment		**4.4**	5.8
Depreciation of right of use assets		**5.9**	6.0
Share-based payments		**2.8**	1.4
Amortisation of customer contracts and relationships		**6.4**	8.8
Amortisation of software and development costs		**3.0**	3.0
Impairment of right-of-use assets		–	1.1
Lease financing costs		**1.2**	1.2
Other financing costs		**1.3**	1.8
Foreign exchange		**1.5**	–
Acquisition of businesses – transaction costs		**(1.2)**	–
Individually significant items (non-cash impact)		**7.6**	–
Profit on disposal of right-of-use assets		**(0.2)**	(0.1)
Profit on disposal of intangibles		**(0.5)**	–
Loss on sale of property, plant and equipment		**0.2**	–
Research and development UK tax credits		**(0.6)**	(0.6)
Research and development US tax credits		**1.9**	0.5
Income tax expense		**2.9**	2.7
Increase in provisions		**0.7**	0.8
Cash inflow for the year before changes in working capital		**47.3**	38.8
Decrease/(increase) in trade and other receivables		**4.7**	(11.0)
Increase in inventories		**(0.2)**	(0.2)
(Decrease)/increase in trade and other payables		**(5.5)**	19.2
Cash generated from operating activities before interest and taxation		**46.3**	46.8
Interest element of lease payments		**(1.2)**	(1.2)
Other interest paid		**(1.1)**	(1.6)
Taxation paid		**(5.1)**	(4.8)
Net cash generated from operating activities		**38.9**	39.2
Cash flows from investing activities			
Purchase of property, plant and equipment		**(2.7)**	(2.8)
Software and development expenditure		**(2.1)**	(2.5)
Net proceeds from sale of intangibles assets		**0.5**	–
Net cash used in investing activities		**(4.3)**	(5.3)
Cash flows from financing activities			
Proceeds from the issue of ordinary share capital		**72.6**	1.1
Principal element of lease payments		**(6.0)**	(5.3)
Drawdown of borrowings (net of deferred issue costs)		**–**	44.3
Issue costs related to borrowings		**–**	(1.0)
Repayment of borrowings		**(60.4)**	–
Equity dividends paid	7	**(13.0)**	(12.9)
Net cash (used in)/generated from financing activities		**(6.8)**	26.2
Net increase in cash and cash equivalents		**27.8**	60.1
Cash and cash equivalents at beginning of year		**95.0**	34.9
Effect of foreign currency exchange rate changes		**(6.3)**	–
Cash and cash equivalents at end of year		**116.5**	95.0

Reconciliation of net change in cash and cash equivalents to movement in net cash/(debt) [1]

	Notes	**2021 £m**	2020 £m
Net increase in cash and cash equivalents		**27.8**	60.1
Change in net debt [1] resulting from cash flows (net of deferred issue costs)		**60.4**	(43.3)
Interest incurred on borrowings		**(1.1)**	(1.6)
Interest paid on borrowings		**1.1**	1.6
Non-cash movement (release of deferred issue costs)		**(0.2)**	(0.2)
Effect of foreign currency on cash flows		**(6.3)**	–
Foreign currency translation differences on borrowings		**5.8**	(0.6)
Change in net cash/(debt) [1] during the year		**87.5**	16.0
Net debt [1] at start of year excluding lease liabilities		**(4.2)**	(20.2)
Net cash/(debt) [1] at end of year excluding lease liabilities		**83.3**	(4.2)
Lease liabilities	10	**(34.4)**	(38.2)
Net cash/(debt) [1] at end of year		**48.9**	(42.4)

Consolidated statement of changes in equity

For the year ended 31 May 2021

	Share Capital £m	Share Premium £m	Hedging reserve £m	Merger Reserve £m	Currency Translation Reserve £m	Retained Earnings £m	Total £m
Balance at 1 June 2019 (as reported)	2.8	149.8	–	42.3	27.9	(14.0)	208.8
Impact of change in accounting policy in respect of cloud configuration and customisation costs (note 13)	–	–	–	–	–	(2.9)	(2.9)
Balance at 1 June 2019 (as restated) [2]	2.8	149.8	–	42.3	27.9	(16.9)	205.9
Profit for the year (restated) [2] (note 13)	–	–	–	–	–	6.4	6.4
Other comprehensive income for the year	–	–	–	–	4.0	–	4.0
Total comprehensive income for the year (restated) [2]	–	–	–	–	4.0	6.4	10.4
Transactions with owners recorded directly in equity							
Dividends to equity Shareholders	–	–	–	–	–	(12.9)	(12.9)
Share-based payments	–	–	–	–	–	1.4	1.4
Shares issued	–	1.1	–	–	–	–	1.1
Total contributions by and distributions to owners	–	1.1	–	–	–	(11.5)	(10.4)
Balance at 31 May 2020 (restated) [2]	**2.8**	**150.9**	–	**42.3**	**31.9**	**(22.0)**	**205.9**
Profit for the year	–	–	–	–	–	**10.0**	**10.0**
Other comprehensive income for the year	–	–	**(0.8)**	–	**(11.6)**	–	**(12.4)**
Total comprehensive income for the year	–	–	**(0.8)**	–	**(11.6)**	**10.0**	**(2.4)**
Transactions with owners recorded directly in equity							
Dividends to equity Shareholders	–	–	–	–	–	**(13.0)**	**(13.0)**
Share-based payments	–	–	–	–	–	**2.8**	**2.8**
Tax on share-based payments	–	–	–	–	–	**0.3**	**0.3**
Shares issued	**0.3**	**72.3**	–	–	–	–	**72.6**
Total contributions by and distributions to owners	**0.3**	**72.3**	–	–	–	**(9.9)**	**62.7**
Balance at 31 May 2021	**3.1**	**223.2**	**(0.8)**	**42.3**	**20.3**	**(21.9)**	**266.2**

Notes to the audited condensed Consolidated Financial Statements

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 Groups' audited condensed financial statements consolidated 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 cyber assurance and software resilience services.

The financial information is derived from the Group's consolidated financial statements for the year ended 31 May 2021, which have been prepared on the going concern basis in accordance with International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements have been prepared on the historical cost basis, except for consideration payable on acquisitions that is measured at fair value. The financial statements are presented in Sterling (£m) because that is the currency of the principal economic environment in which the Group operates. The consolidated financial statements were approved by the Directors on 14 September 2021.

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 May 2021 or 31 May 2020. The financial information for 2020 is derived from the statutory accounts for 2020 which have been delivered to the registrar of companies. The auditor has reported on the 2020 accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The statutory accounts for 2021 will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the registrar of companies in due course.

As required by the Disclosure Guidance and Transparency Rules of the Financial Services Authority, the financial information contained in this report has been prepared using the accounting policies and presentation that were applied in the company's published consolidated financial statements for the year ended 31 May 2020, with the exception of those impacted by the adoption of the IFRIC agenda decision on configuration and customisation costs incurred in implementing Software-as-a-Service (SaaS) (see further detail below and note 13 for recognition of a prior year restatement). They do not contain all the information required for full financial statements and should be read in conjunction with the annual financial statements for the year ended 31 May 2021. The financial statements of the Group for the year ended 31 May 2020 are available from the Company's registered office, or from the website www.nccgroup.com.

Brexit

Management has reviewed the impact of Brexit on the Financial Statements. The Group has so far proven structurally resilient to any significant disruption caused by Brexit. The main risks to the Group from Brexit continue to be any reduction in demand from an economic slowdown as well as 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.

Individually Significant Items
Individually Significant Items are identified as those items that based on their size and nature and/or incidence are assessed to warrant separate disclosure to provide supplementary information to support the understanding of the Group's financial performance. Individually Significant Items typically comprise costs/profits/losses on material acquisitions/disposals/business exits, fundamental reorganisation/ restructuring programmes and other significant one-off events. Individually Significant Items are considered to require separate presentation in the notes to the Financial Statements in order to fairly present the financial performance of the Group.

Segments
During the year, management has amended its segment disclosure to reflect the way the performance of the business is reported to the CODM and managed. The performance of the APAC region was previously included within Europe and APAC. For the year ended 31 May 2021, the APAC region is now included together with the UK segment until it becomes such a size it warrants separate reporting to the CODM. In addition, with the continuing growth and formation of a European division we have changed geographical segments in line with how this information is reported to the Board and managed today and have represented prior year figures on a like-for-like basis.

New and amended accounting standards

Application of significant new or amended EU-endorsed accounting standards
The following amended standards and interpretations were also effective during the year; however, they have not had a material impact on our consolidated Financial Statements.

- Amendments to IFRS 3 'Definition of a Business'
- Amendments to IAS 1 and IAS 8 'Definition of Material'
- Covid-19-Related Rent Concessions – Amendment to IFRS 16

Application of IFRIC agenda decisions
In April 2021, the IFRS Interpretations Committee (IFRIC) published an agenda decision on the clarification of accounting in relation to the configuration and customisation costs incurred in implementing Software-as-a-Service (SaaS) as follows:

- Amounts paid to the cloud vendor for configuration and customisation that are not distinct from access to the cloud software are expensed over the SaaS contract term.
- In limited circumstances, other configuration and customisation costs incurred in implementing SaaS arrangements may give rise to an identifiable intangible asset, for example, where code is created that is controlled by the entity.
- In all other instances, configuration and customisation costs will be expensed as the customisation and configuration services are received.

See notes 9 and 13 for further details.

Going concern
The Directors have acknowledged guidance published in relation to going concern assessments.

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Business Review and Financial Review. The Group's financial position, cash and borrowing facilities are also described within these sections.

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 12 month period ending September 2022 which indicate that, taking account of severe but plausible downsides and the anticipated impact of Covid-19 on the operations of the Group and its financial resources, the Group and Company will have sufficient funds to meet their 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. 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. As at 31 May 2021, the Group had drawn down £33.8m for working capital requirements.

Subsequent to the year end and shareholder approval on 1 June, the Group acquired on 7 June the IPM business for $220m; the US acquisition was funded through an equity placing in May of £70.2m (net proceeds) combined with a new three year $70m term loan, existing cash balances and our existing revolving credit facility. The impact of the acquisition on the Group's financial performance, covenants and business model has therefore been considered within this going concern assessment. As at 2 June 2021, following the acquisition of the IPM business, the Group had drawn down £75.5m of its revolving credit facility and was due to incur further transaction costs of £6.4m. As at 31 August 2021, cash, net debt (excluding lease liabilities) [1] and headroom amounted to £43.6m, £74.7m and £80.5m respectively.

Although the Group has demonstrated resilience to the challenging environment resulting from Covid-19, the Directors acknowledge that the financial performance of the Group has been adversely impacted to certain degree since the commencement of the pandemic, and for this reason the base case forecast for 2021 reflects this assessment. The continuing macro-economic risks and potential changes in government policies (on the severity of enforced lockdowns worldwide), could have a continued effect on the Group's performance. However, trading throughout the pandemic has demonstrated resilience.

The Directors have prepared a number of severe but plausible scenarios as follows:

1. The performance of FY22 continues to be similar to that of 2021, including the impact on regional and international operations of the Group and a potential reduction in growth.

2. An additional impact of Covid-19 during a two month period from January to February 2022 which coincides with a similar economic pandemic pattern as 2021.

3. Potential impact of customers' inability to pay during a specified period.

4. Failure of execution of the strategy, loss of key customers and a number of acquisition related risks crystallising (for example: increased customer churn, integration and cash collection issues).

5. Software Resilience performance does not return to growth and the Assurance business experiences similar impact of Covid-19 on its performance as 2021.

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 all 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. In the instance that a combination of the above scenarios arise, mitigating actions would be required to ensure that the Group remains liquid and financially viable, which might include a reduction of planned capital expenditure, freezing pay and recruitment and not paying a dividend to shareholders. All of the mitigating actions are within the Directors' control. These forecasts, including the severe but plausible downsides, 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.

From a Company perspective, the Company places reliance on other Group trading entities for financial support. Having reviewed the current trading performance, forecasts, other Group trading entities' financial support, debt servicing requirements, total facilities and risks, the Directors are confident that the Company and the Group will 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 2021.

2. Critical accounting judgements, key sources of estimation uncertainty and other estimates

The preparation of Financial Statements requires management to exercise judgement in applying the Group's accounting policies. Different judgements would have the potential to change the reported outcome of an accounting transaction or Statement of Financial Position. It also requires the use of estimates that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis, with changes recognised in the period in which the estimates are revised and in any future periods affected. The table below shows those areas of critical accounting judgements and estimates that the Directors consider material and that could reasonably change significantly in the next year.

Accounting area	Accounting judgement ?	Accounting estimate ?
Carrying value of goodwill	No	Yes
Control of IPM Software Resilience business	Yes	No
Recognition of research and development tax credits	No	Yes
Intangible assets – cloud-based software and development costs	Yes	No

2.1 Critical accounting judgements

Information about critical accounting judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated Financial Statements are as follows.

Control of IPM Software Resilience business

A key judgement in the year ended 31 May 2021 is the acquisition date for the purchase of the IPM Software Resilience business. Management considers shareholder approval of the transaction constitutes a change in control and therefore the date of shareholder approval is considered to be the acquisition date for the transaction.

Shareholder approval was granted on 1 June 2021 and the IPM Software Resilience business will be consolidated into the Group results from that date.

Intangible assets – cloud-based software and development costs

When the Group incurs customisation and configuration costs, as part of a service agreement, judgement is also required in assessing whether the Group has control over the resources defined in the arrangement. Management has considered the IFRS Interpretations Committee (IFRIC) agenda decision in April 2021 on the clarification of accounting in relation to these costs. The costs expensed amount to £5.1m (2020: £7.9m). See further details in Notes 9 and 13 in relation to a prior year restatement.

Development activities involve a plan or design for the production of new or substantially improved products or processes. Judgement is required in determining whether the project is technically and commercially feasible; judgement is required in assessing the future economic benefit and viability of the project.

Such judgements are inherently subjective and can have a material impact on determining whether such 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 is 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 goodwill

The Group has significant balances relating to goodwill at 31 May 2021 as a result of acquisitions of businesses in previous years. The carrying value of goodwill at 31 May 2021 is £182.9m (2020: £193.1m). Goodwill balances are tested annually for impairment. Tests for impairment are primarily based on the calculation of a value in use for each CGU.

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, particularly in relation to the Europe Assurance CGU which 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 9.

Recognition of research and development tax credits

The tax expense reported for the current year and prior year is affected by certain positions taken by management where there may be uncertainty. The most significant source of uncertainty arises from claims for US research and development (R&D) tax credits relating to historical periods. Uncertainty arises as a result of a degree of uncertainty concerning the interpretation of US legislation and because the statute of limitations has not expired. The basis on which the Group has claimed R&D tax credits involves a technical assessment of which party bears the economic risk in any research contracts entered into with third parties. This assessment is a key estimate. It is considered 'probable' that the US taxation authority would accept the uncertain tax treatment in relation to the utilised tax credits recognised.

For the periods ending 31 May 2017 to 31 May 2021, the aggregate net current tax benefit included in the Income Statement relating to the R&D US tax credits is £2.7m (2020: £4.3m). The gross deferred tax asset relating to the R&D US tax credits is £1.0m (2020: £0.8m), although due to the uncertainty we have made a provision of £0.6m (2020: £0.8m) against this asset. The aggregate gross amount of US R&D tax credits recognised amounts to £8.2m (2020: £5.1m) and we have made a provision of £5.1m (2020: £0.8m) against this gross position.

It is considered reasonably possible that the outcome relating to historical claims ranges from a potential increase of tax credits of £5.1m to a potential reduction of £3.1m.

2.3 Other estimates

Long-term loss-making contracts

Some aspects of the Group's revenue are derived from relatively long-term fixed price contracts. On this basis, estimation uncertainty is disclosed in relation to one contract:

- An onerous provision recognised during the year ended 31 May 2020 of £0.2m has increased during the period by a further £1.9m, of which £1.7m has been utilised leaving a closing balance of £0.4m of a total provision for loss-making contracts of £1.1m (see Note 12). This additional provision relates to a European contract and has been caused by Covid-19 disruption and some project management challenges. Management prepares projections, which, due to the complexity of the contract, require estimates and accounting judgement of both revenue and cost recognition (including the number of performance obligations). Revenue is recognised based on the input method of IFRS 15 in relation to total costs and therefore management has to estimate the number of hours still required to complete the long-term projects and associated labour cost to complete. Due to the level of estimation and dependency on hours remaining to complete the performance obligation, sensitivity analysis on what is regarded a reasonably possible scenario for this contract is provided below:
    - A 20% increase in total labour hours to the project would give rise to a further provision of up to £0.2m.

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.

As discussed in the prior year Annual Report and in accordance with FRC guidelines, the Group no longer presents a Consolidated Income Statement showing adjusting items separately. In the prior year, the Group disclosed adjusting items of £10.2m relating to amortisation of acquired intangibles (2020: £8.8m) and share-based payments (2020: £1.4m) as a separate column on the face of the Consolidated Income Statement. This is no longer disclosed in this way to simplify the Group's results. However, as the Group manages internally its performance at an adjusted operating profit level (before amortisation of acquired intangibles, share-based payments and Individually Significant Items), which management believes better represents the underlying trading of the business, this information is still disclosed as an APM within this Annual Report. This APM is reconciled to statutory operating profit, together with the consequently Adjusted basic EPS (before amortisation of acquired intangibles, share-based payments and Individually Significant Items and tax effect thereon) to statutory basic EPS.

This change has removed the following adjusted measures from the Group's narrative reporting and disclosures:

- Adjusted profit before taxation
- Adjusted taxation

Following this revision to APMs, the Group has the following APMs/non-statutory measures:

- Adjusted EBITDA (reconciled below)
- Adjusted operating profit (reconciled below)
- Adjusted basic EPS (pence) (reconciled in Note 8)
- Net cash/(debt) excluding lease liabilities (reconciled below)
- Net debt (reconciled below)
- Cash conversion (reconciled below)
- Constant currency revenue

These measures provide supplementary information that assists the user to understand the financial performance, position and trends of the Group. Further detail is included within the glossary of terms to this Annual Report which provides supplementary information that assists the user in understanding theses APMs/non-statutory measures.

The Group reports certain geographic regions on a constant currency basis to reflect the underlying performance taking into account constant foreign exchange rates year on year. This involves translating comparative numbers to current year rates for comparability to enable a growth factor to be calculated. In addition, the Group also reports these regions on a local currency basis to demonstrate the revenue performance on a local basis. As these measures are not statutory revenue numbers, management consider these to be APMs.

Adjusted EBITDA and Adjusted operating profit

The calculation of Adjusted EBITDA and Adjusted operating profit is set out below:

	2021 £m	2020 (restated) [2] £m
Operating profit	**17.3**	12.6
Depreciation of property, plant and equipment	**4.4**	5.8
Depreciation of right of use assets	**5.9**	6.0
Amortisation of acquired intangibles	**6.4**	8.8
Amortisation of software and development costs	**3.0**	3.0
Individually Significant Items (Note 5)	**12.7**	7.9
Share-based payments charge	**2.8**	1.4
Adjusted EBITDA	**52.5**	45.5
Depreciation and amortisation (excluding amortisation charged on acquired intangibles)	**(13.3)**	(14.8)
Adjusted operating profit	**39.2**	30.7

Net cash/(debt)

The calculation of Net cash/(debt) is set out below:

	2021 £m	2020 £m
Cash and cash equivalents	**116.5**	95.0
Borrowings (net of deferred issue costs)	**(33.2)**	(99.2)
Net cash/(debt) excluding lease liabilities	**83.3**	(4.2)
Lease liabilities	**(34.4)**	(38.2)
Net cash/(debt)	**48.9**	(42.4)

Cash conversion ratio

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

	2021 £m	2020 (restated) [2] £m
Net operating cash flow before interest and taxation (A)	**46.3**	46.8
Adjusted EBITDA (B)	**52.5**	45.5
Cash conversion ratio (%) (A)/(B)	**88.2%**	102.9%

4 Segmental information

The Group is organised into the following two (2020: two) reportable segments: Assurance and Software Resilience. 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] and adjusting items are not allocated to business segments. Interest and tax are also not allocated to business segments and there are no intra-segment sales.

Segmental analysis 2021	Assurance £m	Software resilience £m	Central and head office £m	Group £m
Revenue	**233.9**	**36.6**	**–**	**270.5**
Cost of sales	**(149.5)**	**(10.4)**	**–**	**(159.9)**
Gross profit	**84.4**	**26.2**	**–**	**110.6**
Gross margin %	**36.1%**	**71.6%**	**–**	**40.9%**
General administrative expenses allocated	**(45.4)**	**(9.5)**	**(3.2)**	**(58.1)**
Adjusted EBITDA [1]	**39.0**	**16.7**	**(3.2)**	**52.5**
Depreciation and amortisation	**(9.4)**	**(0.7)**	**(3.2)**	**(13.3)**
Adjusted operating profit [1]	**29.6**	**16.0**	**(6.4)**	**39.2**
Individually Significant Items (Note 5)	**–**	**–**	**(12.7)**	**(12.7)**
Amortisation of acquired intangibles	**–**	**–**	**(6.4)**	**(6.4)**
Share-based payments	**–**	**–**	**(2.8)**	**(2.8)**
Operating profit	**29.6**	**16.0**	**(28.3)**	**17.3**

Segmental analysis 2020 (restated) [2]	Assurance £m	Software resilience £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 administrative expenses allocated	(43.9)	(10.0)	(5.0)	(58.9)
Adjusted EBITDA [1]	33.0	17.5	(5.0)	45.5
Depreciation and amortisation	(10.7)	(0.6)	(3.5)	(14.8)
Adjusted operating profit [1]	22.3	16.9	(8.5)	30.7
Individually Significant Items (Note 5)	–	–	(7.9)	(7.9)
Amortisation of acquired intangibles	–	–	(8.8)	(8.8)
Share-based payments	–	–	(1.4)	(1.4)
Operating profit	22.3	16.9	(26.6)	12.6

During the year, management has amended its segment disclosure to reflect the way the performance of the business is reported to the CODM and managed. The performance of the APAC region was previously included within Europe and APAC. For the year ended 31 May 2021, the APAC region is now included together with the UK segment until it becomes such a size that warrants separate reporting to the CODM. In addition, with the continuing growth and formation of a European division we have changed geographical segments in line with how this information is reported to the Board and managed today and have restated prior year figures on a like-for-like basis.

Revenue is disaggregated by primary geographical market, by category and timing of revenue recognition as follows:

Revenue by originating country	**Assurance £m**	**Software Resilience £m**	**2021 Total £m**	Assurance £m	Software Resilience £m	2020 Total £m
UK & APAC	**102.7**	**25.2**	**127.9**	98.8	25.9	124.7
North America	**82.7**	**7.3**	**90.0**	82.4	7.8	90.2
Europe	**48.5**	**4.1**	**52.6**	45.0	3.8	48.8
Total revenue	**233.9**	**36.6**	**270.5**	226.2	37.5	263.7

Revenue by category	**Assurance £m**	**Software Resilience £m**	**2021 Total £m**	Assurance £m	Software Resilience £m	2020 Total £m
Services	**228.3**	**36.6**	**264.9**	215.7	37.5	253.2
Products	**5.6**	**–**	**5.6**	10.5	–	10.5
Total revenue	**233.9**	**36.6**	**270.5**	226.2	37.5	263.7

Timing of revenue recognition	**Assurance £m**	**Software Resilience £m**	**2021 Total £m**	Assurance £m	Software Resilience £m	2020 Total £m
Services and products transferred over time	**47.9**	**24.0**	**71.9**	41.4	25.7	67.1
Services and products transferred at a point in time	**186.0**	**12.6**	**198.6**	184.8	11.8	196.6
Total revenue	**233.9**	**36.6**	**270.5**	226.2	37.5	263.7

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 1).

	2021 £m	2020 (restated) [2] £m
Cloud configuration and customisation costs	**5.1**	7.9
Costs directly attributable to the acquisition of the IPM Software Resilience business	**7.6**	–
Total ISIs	**12.7**	7.9

Cloud configuration and customisation costs
These costs relate to the material spend previously capitalised in relation to the Group's Securing Growth Together digital transformation programme that have now been expensed following the adoption of the IFRIC agenda decision. The costs meet the Group's policy for ISIs. See Note 13 for further details in relation to the prior year restatement.

Costs directly attributable to the acquisition of the IPM Software Resilience business
These costs are directly attributable to the material acquisition of the IPM Software Resilience business (see Note 14) and are therefore considered to meet the Group's policy for ISIs. The nature of the costs includes legal, accountancy, due diligence and other advisory services.

6. Taxation

Reconciliation of effective tax rate

	2021 £m	2020 (restated) [2] £m
Profit before taxation	**14.8**	9.6
Current tax using the UK corporation tax rate 19% (2020: 19%)	**2.8**	1.8
Effects of:		
- Items not (accessible)/deductible for tax purposes	**(0.5)**	0.9
- Adjustment to tax charge in respect of prior periods	**(0.3)**	(0.3)
- Impact of prior year US R&D tax credits	**1.9**	0.5
- Impact of current year US R&D tax credits	**(0.3)**	–
- Differences between overseas tax rates	**0.7**	0.9
- Movements in temporary differences not recognised	**0.1**	(0.3)
- Movement in tax rate	**0.4**	(0.3)
Total tax expense	**4.8**	3.2

Application of IFRIC agenda decisions
During the year, the Group has reviewed its accounting policy to align with IFRIC guidance issued in April 2021 in relation to Software-as-a-Service (SaaS) costs previously capitalised, following this review certain costs previously capitalised in relation to cloud-based arrangements have been expensed and amortisation charged on those assets has been reversed. This had the impact on the UK tax charge in the prior year of £1.2m. See Note 13 for further details on this prior year restatement.

Tax uncertainties
The tax expense reported for the current year and prior year is 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. For the periods ending 31 May 2017 to 31 May 2021, the aggregate net current tax benefit to the Income Statement relating to the US R&D tax credits is £2.7m (2020: £4.3m). The gross deferred tax asset relating to the US R&D tax credits is £1.0m (2020: £0.8m), although due to the uncertainty we have made a partial provision of £0.6m (2020: £0.8m) against this asset. The aggregate gross amount of US R&D tax credits recognised amounts to £8.2m (2020: £5.1m) and we have made a provision of £5.1m (2020: £0.8m) against this gross position.

7 Dividends

	2021	2020
Dividends paid and recognised in the year (£m)	**13.0**	12.9
Dividends per share paid and recognised in the year (pence)	**4.65p**	4.65p
Dividends per share proposed but not recognised in the year (pence)	**3.15p**	3.15p

The proposed final dividend for the year ended 31 May 2021 of 3.15p per ordinary share on approximately 309.8m ordinary shares (approximately £10m) was approved by the Board on 14 September 2021 and will be recommended to shareholders at the AGM on 4 November 2021. The dividend has not been included as a liability as at 31 May 2021. The payment of this dividend will not have any tax consequences for the Group.

8 Earnings per ordinary share (EPS)

Earnings per ordinary share are shown below:

	2021 £m	2020 (restated) [2] £m
Statutory earnings (A)	**10.0**	6.4

	Number of shares m	Number of shares m
Basic weighted average number of shares in issue (C)	**281.2**	278.0
Dilutive effect of share options	**1.5**	2.5
Diluted weighted average shares in issue (D)	**282.7**	280.5

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.

	2021 pence	2020 (restated) [2] pence
Earnings per ordinary share		
Basic (A/C)	**3.6**	2.3
Diluted (A/D)	**3.5**	2.3

Adjusted basic EPS [1] is reconciled as follows:

	2021 £m	2020 (restated) [2] £m
Statutory earnings (A)	**10.0**	6.4
Amortisation of acquired intangibles	**6.4**	8.8
Share based payments	**2.8**	1.4
Individually Significant items (Note 5)	**12.7**	7.9
Tax effect of above items	**(5.1)**	(3.4)
Adjusted earnings (B)	**26.8**	21.1

	2021 pence	2020 (restated) [2] pence
Adjusted earnings per ordinary share		
Basic (B/C)	**9.5**	7.6
Diluted (B/D)	**9.5**	7.5

9 Goodwill and intangible assets

	Goodwill £m	Software £m	Development costs £m	Customer contracts and relationships £m	Intangibles subtotal £m	2020 (restated) [2] Total £m
Cost:						
At 1 June 2019 – restated [2]	255.6	20.7	12.7	87.1	120.5	376.1
Additions – restated [2]	-	1.0	1.3	-	2.3	2.3
Transfers	-	0.2	(0.2)	-	-	-
Disposals	-	(9.1)	(2.3)	-	(11.4)	(11.4)
Effects of movements in exchange rates	3.7	-	-	1.1	1.1	4.8
At 31 May 2020 – restated [2]	259.3	12.8	11.5	88.2	112.5	371.8
Additions	-	1.7	0.6	-	2.3	2.3
Disposals	(10.2)	-	-	(13.0)	(13.0)	(23.2)
Effects of movements in exchange rates	(10.2)	-	(0.4)	(2.1)	(2.5)	(12.7)
At 31 May 2021	**238.9**	**14.5**	**11.7**	**73.1**	**99.3**	**338.2**
Accumulated amortisation						
At 1 June 2019 – restated [2]	(66.2)	(18.9)	(7.5)	(55.8)	(82.2)	(148.4)
Charge for year – restated [2]	-	(1.0)	(2.0)	(8.8)	(11.8)	(11.8)
Disposals	-	9.1	2.3	-	11.4	11.4
Effects of movement in exchange rates	-	-	(0.1)	(0.8)	(0.9)	(0.9)
At 31 May 2020 – restated [2]	(66.2)	(10.8)	(7.3)	(65.4)	(83.5)	(149.7)
Charge for year	-	(1.0)	(2.0)	(6.4)	(9.4)	(9.4)
Disposals	10.2	-	-	13.0	13.0	23.2
Effects of movements in exchange rates	-	-	0.3	1.3	1.6	1.6
At 31 May 2021	**(56.0)**	**(11.8)**	**(9.0)**	**(57.5)**	**(78.3)**	**(134.3)**
Net book value:						
At 31 May 2021	**182.9**	**2.7**	**2.7**	**15.6**	**21.0**	**203.9**
At 31 May 2020 – restated [2]	193.1	2.0	4.2	22.8	29.0	222.1

Recognition

Development costs are capitalised in accordance with IAS 38 development criteria. For this reason, these are not regarded as realised losses.

Application of IFRIC agenda decisions

During the year, the Group has reviewed its accounting policy to align with IFRIC guidance issued in April 2021 in relation to Software-as-a- Service (SaaS) costs previously capitalised; following this review of costs previously capitalised for the year ended 31 May 2020 of £7.9m relating to cloud-based arrangements have now been expensed and amortisation of £1.4m charged on those assets has been reversed. Consequentially, the net impact on operating profit for the year ended 31 May 2020 is £6.5m. In addition, costs of £0.2m have been reclassified to prepayments. For the year ended 31 May 2019, the Group identified £3.6m of costs previously capitalised under cloud computing arrangements that should be expensed and £0.1m of amortisation was charged, which is to be reversed. See Note 13 for further details on this prior year restatement.

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 judgements 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 judgement as set out in Note 2 of the consolidated Financial Statements.

During the year, the Group revised its CGUs as follows:

- On 1 June 2020, Virtual Security Research LLC (VSR) was merged into NCC Group Security Services Incorporated, which forms part of the North America Assurance CGU, and following this merger VSR no longer exists as a standalone entity. VSR continues to be included within the North America segment. From this date, the VSR business no longer generates independent cash flows since its resources are now pooled with the remainder of the US Assurance technical delivery teams and its support functions are delivered by the shared US Assurance functions. Furthermore, VSR is no longer reported separately from the rest of the US business. On the basis of the above, management has concluded that the VSR business is no longer a standalone CGU and has been subsumed into the North America Assurance CGU.

- During the year, the Group ceased measuring and forecasting the performance of the Payment Software Company Inc. business (PSC), which now forms part of the North America Assurance segment. On the basis of the above, management has concluded that the PSC business is no longer a standalone CGU as it is not capable of generating independent cash flows and has been subsumed into the North America Assurance CGU.

- During FY21, the Group has rearranged its operations so that there is now a European-wide Assurance operation, combining the Fort business unit previously included within the UK Assurance CGU and the Fox-IT business unit under a single management and reporting structure, known as Europe Assurance. As part of the integration measuring and forecasting of performance is done at the Europe Assurance level and operations such as the sales and delivery teams and support functions have been integrated such that independent cash flows are no longer identifiable below the Europe Assurance level. On this basis, management has concluded that the cash flows associated with Fox-IT and Fort should now be combined to form a single CGU.

The CGUs and the allocation of goodwill to those CGUs are shown below:

Cash generating units	Goodwill 2021 £m	Goodwill* 2020 £m
UK Software Resilience	**22.9**	22.9
North America Software Resilience	**7.5**	8.7
Europe Software Resilience	**7.2**	7.5
Total Software Resilience	**37.6**	39.1
UK and APAC Assurance	**44.2**	47.3
North America Assurance	**36.4**	42.4
Europe Assurance	**64.7**	64.3
Total Assurance	**145.3**	154.0
Total Group	**182.9**	193.1

* The prior year comparative figures have been re-presented to reflect the change in CGUs in the year described above.

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 2021, 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 2024. 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 industry growth expectations and the impact of Covid-19.

The Group's revenue forecasts are developed using the most reliable data available, such as the size of the existing contract base and details of confirmed orders, as well as assumptions over key operational inputs to underpin the forecast for each revenue stream. The combined effect of these individual assumptions on the overall growth rate assumed for each area of the business is then compared to management's experience of growth and the industry's expected growth rate.

For cost forecasts, the majority of which are people related, headcount changes are forecast for delivery and sales staff in order that there are sufficient resources to support the forecasted required revenue delivery capacity as well as to deliver against sales targets, whilst also factoring in payroll inflation expectations. Overhead costs are also forecast using a bottom-up process.

Forecasts go through a detailed review process and are subject to challenge at each stage of review, including by the Executive Committee. Ultimately the forecasts are approved by the Board.

Assumptions have then been applied for expected revenue, margin growth, overheads and Adjusted EBITDA [1] for the subsequent two years from the end of 2024. Adjusted 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.

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 Adjusted EBITDA [1] growth which was used in the prior year, due to the Group's relatively stable overhead base and high operating leverage. The table below summarises the cumulative average growth rate (CAGR) assumed for revenue over the five year forecast period to 2026 for each CGU:

	Revenue CAGR (%) 2021	Revenue CAGR (%) 2020
UK Software Resilience	**5.8**	5.5
North America Software Resilience	**12.3**	1.2
Europe Software Resilience	**11.4**	5.1
UK and APAC Assurance	**9.0**	8.3
North America Assurance	**10.4**	8.3
Europe Assurance	**11.7**	13.1

The revenue % growth for Europe Assurance is considered by management to be appropriate for the specific industry to which the CGU operates. Management has considered available external market data in determining the revenue growth rates over the five year forecast period.

Long-term growth rates

To forecast growth beyond the detailed cash flows into perpetuity, a long-term average growth rate ranging between 1.5 and 1.7% (2020: between 1.9 and 2.5%) 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 macro-economic 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.

	Growth rate (%) 2021	Growth rate (%) 2020
UK Software Resilience	**1.7**	1.9
North America Software Resilience	**1.6**	2.5
Europe Software Resilience	**1.5**	1.9
UK and APAC Assurance	**1.7**	1.9
North America Assurance	**1.6**	2.5
Europe Assurance	**1.5**	1.9

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 (%) 2021	Pre-tax discount rate (%) 2020
UK Software Resilience	**12.9**	15.4
North America Software Resilience	**15.3**	13.5
Europe Software Resilience	**13.6**	13.6
UK and APAC Assurance	**13.0**	11.6
North America	**14.2**	13.5
Europe Assurance	**13.7**	12.7

Sensitivity analysis

Sensitivity analysis has been performed in respect of certain scenarios where management considers a reasonably possible change in key assumptions could occur. The following key assumptions are considered to carry the greatest level of sensitivity to forecasts:

- Revenue is the primary cash flow driver (since due to the Group's operating leverage, revenue is the key driver of Adjusted EBITDA [1], considered as a proxy for operating cash flow before changes in working capital and capital expenditure), and a key contributor to VIU.
- The discount rate for each CGU: both factors inside and outside of management's control impact the discount rate and can have a significant impact on the VIU calculation.

With the exception of the Europe Assurance CGU, the outcome of applying sensitivity analysis in respect of the above inputs indicated that there is no reasonably possible scenario in which the carrying value of goodwill would be considered impaired. With respect to the Europe Assurance CGU, management has considered the impact of Covid-19 on the challenging growth targets for this CGU and believes a reasonably possible change in the key assumptions of a 1.7% pts reduction in the revenue CAGR or a 1% pts increase in the discount rate would significantly reduce the headroom or give rise to an impairment. The impact of these changes in assumptions is illustrated in the table below, together with the change in each assumption that would result in the VIU falling below the carrying amount.

It is noted that, whilst a 1.7% pts reduction in the revenue CAGR would give rise to a potential impairment of goodwill, it is expected that any such deterioration in expected growth rates would also lead to a reduction in expected future costs. This expected future cost reduction has not been factored into the calculations illustrated below.

	Europe Assurance	
Sensitivity analysis £m	**31 May 2021**	31 May 2020
Carrying value of assets (goodwill, development and software costs, right-of-use assets)	**76.9**	72.9
Total VIU	**95.1**	92.3
Surplus over carrying values of assets	**18.2**	19.4
Assumptions used in VIU calculation:		
Five year CAGR	**11.7%**	13.1%
Impact of reduction of 1.7% pts to five year revenue CAGR on VIU	**(43.4)**	n/a
Change required in five year revenue CAGR % for VIU to fall below carrying value	**0.7%**	0.7%
Pre-tax discount rate	**13.7%**	12.7%
Impact of 1% pts increase in pre-tax discount rate on VIU	**(7.9)**	(8.1)
Change required in pre-tax discount rate for VIU to fall below carrying value	**2.6%**	2.5%
Impact of both 1.7% pts reduction to revenue CAGR and 1% pts increase in pre-tax discount rate on VIU	**(47.6)**	n/a

10 Right-of-use assets and lease liabilities

The Group's right-of-use assets can be further analysed as follows:

	2021 £m
At 1 June 2020	28.7
Additions	3.1
Reclassification from provisions	(1.4)
Disposals	(0.7)
Depreciation	(5.9)
At 31 May 2021	**23.8**

The Group's outstanding lease liabilities can be further analysed as follows:

	2021 £m
At 1 June 2020	38.2
Additions	3.1
Disposals	(0.9)
Lease payments	(7.2)
Interest expense	1.2
At 31 May 2021	**34.4**

The ageing of the lease liabilities at 31 May 2021 are as follows:

	2021 £m
Less than one year	**5.1**
Two to five years	**15.8**
Greater than five years	**13.5**
Total lease liabilities	**34.4**

11 Borrowings

Borrowings (excluding lease liabilities) are analysed as follows:

	2021 £m	2020 £m
Non-current liabilities		
Revolving credit facility (net of deferred issue costs)	**33.2**	99.2
Total borrowings (excluding lease liabilities)	**33.2**	99.2

The RCF is drawn in short to medium-term tranches of debt that are repayable within 12 months of draw-down. These tranches of debt can be rolled over provided certain conditions are met, including compliance with all loan terms. The Group considers that it is highly unlikely it would not be in compliance and therefore be unable to exercise its right to roll-over the debt. The Directors therefore believe that the Group has the ability and the intent to roll-over the drawn RCF amounts when due and consequently has presented the RCF as a non-current liability.

12 Provisions

Provisions are analysed as follows:

	Loss-making contract £m	Onerous property costs £m	Other provisions £m	Total £m
Balance at 1 June 2020	0.2	2.9	0.6	3.7
Reclassification to Right-of-use-assets	-	(1.4)	-	(1.4)
Reclassification	1.7	-	-	1.7
Provisions arising in the year	1.9	1.0	-	2.9
Utilised in the year	(2.7)	(0.8)	(0.4)	(3.9)
Balance at 31 May 2021	**1.1**	**1.7**	**0.2**	**3.0**

	2021 £m	2020 £m
Current liabilities	**2.4**	2.0
Non-current liabilities	**0.6**	1.7
Total	**3.0**	3.7

The loss-making contracts provision represents the estimated remaining net lifetime loss on long-term development and supply contracts and is expected to be completed in 2022. During the year, revenue has been recognised in relation to this long-term contract of £1.8m.

The onerous property costs provision relates to vacant premises in Reading and unused floors in the Manchester head office building. In the prior year 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 £1.7m (2020: £2.9m) at 31 May 2021 includes £1.2m (2020: £2.5m) of non-rent costs relating to the onerous properties including 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 2021 also includes estimated dilapidations liabilities of £0.5m (2020: £0.4m) relating to the Group's leased premises. Both of these provisions are expected to unwind over the period of the relevant leases (2021–2034).

Other provisions of £0.2m (2020: £0.6m) include reorganisation costs to which the Group was committed at the Balance Sheet date and are expected to be incurred within the next financial year.

13 Prior year restatement

In April 2021, the IFRS Interpretations Committee (IFRIC) published an agenda decision on the clarification of accounting in relation to the configuration and customisation costs incurred in implementing Software-as-a-Service (SaaS) as follows:

- Amounts paid to the cloud vendor for configuration and customisation that are not distinct from access to the cloud software are expensed over the SaaS contract term.
- In limited circumstances, other configuration and customisation costs incurred in implementing SaaS arrangements may give rise to an identifiable intangible asset, for example, where code is created that is controlled by the entity.
- In all other instances, configuration and customisation costs will be expensed as the customisation and configuration services are received.

Due to the nature of this agenda decision and the level of spend incurred in relation to the Groups' Securing Growth Together digital transformation programme, the Group's accounting policy in relation to such customisation and configuration costs has been reviewed and changed to align with the IFRIC guidance issued in relation to Software-as-a-service (SaaS) costs previously capitalised. The restatement represents a non-cash adjustment.

The revision to the accounting policy has been accounted for retrospectively resulting in a prior year restatement.

The Group identified £17.8m additions made in the years ending 31 May 2019 and 31 May 2020 in relation to software and development costs. £7.9m of these costs capitalised for the year ended 31 May 2020 related to cloud computing arrangements that should be expensed after the consideration of the IFRIC guidance and a further £3.6m for the year ended 31 May 2019. In relation to the year ended 31 May 2020 assets, £1.4m of amortisation was charged, which is to be reversed. A further £0.2m of costs capitalised are to be reclassified to prepayments.

These costs give rise to a reduction in the tax charge for the year ended 31 May 2020 of £1.2m and a corresponding increase in the Group's deferred tax asset.

The affected financial statement line items are as follows:

	31 May 2020 (previously reported) £m	Restatement £m	31 May 2020 (restated) £m
Income Statement impact			
Depreciation and amortisation	(25.0)	1.4	(23.6)
Individually Significant Items – expense cloud configuration and customisation costs previously capitalised	-	(7.9)	(7.9)
Operating profit	19.1	(6.5)	12.6
Profit before taxation	16.1	(6.5)	9.6
Taxation	(4.4)	1.2	(3.2)
Profit for the year	11.7	(5.3)	6.4
Basic EPS	4.2p	(1.9p)	2.3p
Diluted EPS	4.2p	(1.9p)	2.3p
Balance Sheet impact			
Expense cloud configuration and customisation costs previously capitalised	-	(11.5)	(11.5)
Amounts reclassified to prepayments in relations to cloud computing arrangements (restated)	-	(0.2)	(0.2)
Reversal of amortisation on cloud configuration and customisation costs previously capitalised	-	1.5	1.5
Other intangible assets	39.2	(10.2)	29.0
Deferred tax assets	0.5	1.8	2.3
Total non-current assets	275.7	(8.4)	267.3
Trade and other receivables	73.2	0.2	73.4
Current assets	169.7	0.2	169.9
Net assets	214.1	(8.2)	205.9
Retained earnings	(13.8)	(8.2)	(22.0)
Total equity	214.1	(8.2)	205.9
Cash Flow Statement impact			
Profit for the year	11.7	(5.3)	6.4
Amortisation of software and development costs	4.4	(1.4)	3.0
Income tax expense	4.4	(1.2)	3.2
Net cash generated from operating activities	47.1	(7.9)	39.2
Software and development expenditure	(10.4)	7.9	(2.5)
Net cash used in investing activities	(13.2)	7.9	(5.3)
Net increase in cash and cash equivalents	60.1	-	60.1

A third Balance Sheet has been presented in accordance with IAS 1 to illustrate the impact in the opening Balance Sheet for the prior financial year. The Group identified that £3.6m of costs previously capitalised under cloud computing arrangements that should be expensed and £0.1m of amortisation was charged, which is to be reversed.

These additional costs give rise to a reduction in the tax charge for the year of £0.6m and a corresponding increase in the deferred tax asset.

The opening Balance Sheet of the prior year has accordingly been restated to correct for these, as shown below. Balances at 1 June 2019 are those disclosed after the application of IFRS16 which was adjusted prospectively on inception. The affected financial statement line items are as follows:

	1 June 2019 (previously reported) £m	Restatement £m	1 June 2019 (restated) £m
Balance Sheet impact			
Other intangible assets	41.8	(3.5)	38.3
Deferred tax assets	1.6	0.6	2.2
Total non-current assets	276.5	(2.9)	273.6
Net assets	208.8	(2.9)	205.9
Retained earnings	(14.0)	(2.9)	(16.9)
Total equity	208.8	(2.9)	205.9

14 Post Balance sheet event

Acquisition of IPM business
On 1 June 2021, shareholder approval was passed for the acquisition of the IPM business of Iron Mountain, comprising substantially all of the assets of Iron Mountain Intellectual Property Management, Inc. together with certain other assets of affiliates of Iron Mountain exclusively related to the IPM business. The primary reasons for the business combination are to:

- Scale-up the Group's core business to create a global business and platform for further growth
- Generate revenue synergies through allowing the enlarged division to offer NCC's broader suite of established verification services as well as the newer Escrow-as-a-Service (EaaS) cloud offering to the IPM business's existing customer base
- Present an exciting new opportunity to sell NCC's cyber security services from its Assurance division into the IPM business's broad and blue-chip customer base in the medium term
- Be accretive to earnings per share from completion, even without factoring in revenue synergies
- Result in greater strategic strength for the future

Management consider shareholder approval of the transaction constitutes a change in control and therefore the date of shareholder approval is considered to be the acquisition date for the transaction. Shareholder approval was granted on 1 June 2021 and the IPM Software Resilience business will be consolidated into the Group results from that date (Note 2).

Details of assets acquired that are subject to provisional fair value adjustments will be reported for the year ended 31 May 2022. The acquisition for a total consideration of $220m was funded through an equity gross placing of £72.6m on 17 May 2021 combined with a new three year $70m Term loan and the remaining $98.2m funded via existing cash balances and our revolving credit facility. The term loan was entered into on 12 May 2021 but not drawn down until 2 June 2021.

Costs directly attributable to the acquisition of the IPM business totalling £7.6m have been expensed during the year (see Note 5). Issue costs of £2.4m were incurred as part of the equity placing and have been credited to the share premium account.

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
Adjusted operating profit	Operating profit or loss	Operating profit or loss before amortisation of acquired intangibles, share based payments and Individually Significant Items	3	Represents operating profit before amortisation of acquired intangibles, share-based payments and Individually Significant Items This measure 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. The Directors consider amortisation of acquired intangibles is a non-cash accounting charge inherently linked to losses associated with historical acquisitions of businesses. 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. 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.
Adjusted earnings before interest, tax, depreciation and amortisation (Adjusted EBITDA)	Operating profit or loss	Operating profit or loss, before adjusting items, depreciation and amortisation, 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.
Adjusted basic EPS	Statutory basic EPS	Statutory basic EPS before amortisation of acquired intangibles, share based payments, Individually Significant Items and the tax effect thereon	8	Represents basic EPS before amortisation of acquired intangibles, share based payments and Individually Significant Items This measure 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. See further details above in relation to amortisation of acquired intangibles and share based payments.

Net cash/(debt) excluding lease liabilities	Total borrowings (excluding lease liabilities) offset by cash and cash equivalents		3	Represents total borrowings (excluding lease liabilities) 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 on a like-for-like basis. Net cash/(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.
Net cash/(debt)	Total borrowings (including lease liabilities) offset by cash and cash equivalents		3	Represents total borrowings (including lease liabilities) 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 including lease liabilities. Net cash/(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 conversion ratio	Ratio % of net cash flow from operating activities before interest and tax divided by operating profit	Ratio % of net cash flow from operating activities before interest and tax divided by EBITDA	3	The cash conversion ratio is a measure of how effectively operating profit 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 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.