3 September 2020

NCC Group plc
Preliminary results for the year ended 31 May 2020

Resilience through uncertainty

NCC Group plc (LSE: NCC, "NCC Group" or "the Group"), an independent global cyber security and resilience adviser, reports its full year results for the 12 months to 31 May 2020 ("the full year", "FY", "FY20", "the year").

Highlights [1]

	2020 (Pre-IFRS 16) [2, 3]	2019 (Pre-IFRS 16) [2]	Like-for-like % change (Pre-IFRS 16) [2]	**2020 (IFRS 16) [2]**
Revenue (£m)	**263.7**	250.7	5.2%	**263.7**
Gross profit (£m)	**104.4**	101.8	2.6%	**104.4**
Gross margin (%)	**39.6%**	40.6%	(1.0)% pts	**39.6%**
Adjusted [3] EBITDA (£m)	**41.2**	43.7	(5.7)%	**45.4**
Adjusted [3] EBITDA (%)	**15.6%**	17.4%	(1.8)% pts	**17.2%**
Operating profit (£m)	**20.9**	19.5	7.2%	**19.1**
Adjusted [3] operating profit (£m)	**31.1**	33.7	(7.7)%	**29.3**
Adjusted [3] operating profit (%)	**11.8%**	13.4%	(1.6)% pts	**11.1%**
Profit before taxation (£m)	**19.1**	17.8	7.3%	**16.1**
Adjusted [3] profit before taxation (£m)	**29.3**	32.0	(8.4)%	**26.3**
Basic EPS (pence)	**5.1p**	4.9p	4.1%	**4.2p**
Adjusted basic EPS (pence)	**8.1p**	9.2p	(12.0)%	**7.2p**
Net debt [3] (£m)	**(4.2)**	(20.2)	79.2%	**(42.4)**
Cash conversion ratio	**117.0%**	109.6%	7.4% pts	**120.5%**
Dividend (pence)	**3.15**	3.15	-	**3.15**

- **The long-term prospects for the cyber resilience market are excellent**
  - The global cyber security services market was growing at c. 8-9% before the advent of Covid-19
  - The impact of the pandemic has accelerated the adoption of cloud services by many firms and driven a significant increase in home working, all of which introduces further cyber risk into the operations of our customers and target market
  - Global online security breaches continue to rise at more than 20% per annum with reputational losses and financial losses becoming more significant

- **Covid-19 has impacted demand but we foresee a strong growth opportunity as the economy normalises**
  - Our stability is underpinned by recurring high-margin revenues and cash generation from our Software Resilience (Escrow) division and, increasingly, from our Cyber Managed Detection & Response (up 13.7% from £36.4m to £41.4m)
  - Our Cyber Professional Services are further protected by the quality of our customer base (65 of the Fortune 500 (2019: 52) and 89 of FTSE 350 (2019: 82)), although some of our customers are experiencing financial or logistical issues that impacted our FY20 sales order delivery by an estimated £15 million. We believe that the choice to delay cyber work is building up a compliance debt that will need to be addressed in the future and should drive demand as the economy returns to normal

- **Our transformation continues and we are successfully navigating Covid-19 disruption**
  - Our Mission, Vision and Values remain current and our Securing Growth Together programme continues to transform our business in order to fulfil our ambition to be the leading cyber security resilience provider globally
  - We began an active response to Covid-19 in January 2020 when we first saw operations in the Asia-Pacific region being affected. Our two objectives through the pandemic were (a) to maintain a strong balance sheet to position ourselves to capitalise on opportunities in the future and (b) to preserve our technical capability and capacity so that we can meet future growth demands

- **Our full year performance demonstrates our resilience and presents a strong platform for future growth:**
  - Trading
    - Group revenue increased 5.2% to £263.7m (2019: £250.7m)
    - Assurance revenue was up 6.3% to £226.2m (2019: £212.7m), driven by a strong Managed Detection & Response (MDR) performance (+13.7%) and good growth from the largest revenue contributor, Technical Security Consulting (TSC) (+8.0%)
    - Software Resilience (Escrow) revenue decreased 1.3% to £37.5m (2019: £38.0m) although momentum is building as H2 revenues were flat on H2 of the previous year and up compared to H1
    - Our customer base remains robust and we support 65 Fortune 500 (2019: 52) and 89 FTSE 350 (2019: 82) customers; notable business in the period was secured from customers including Zoom, Google and Facebook
    - Gross margin was down slightly at 39.6% (2019: 40.6%) as a consequence of our decision to maintain the sales and technical capacity in which we have invested this year despite the impact of Covid-19
    - Adjusted operating profit [3] was down 7.7% to £31.1m (2019: £33.7m)
  - Covid-19
    - The Group was on course to meet expectations for FY20 until the outbreak of Covid-19
    - We experienced an estimated £15m impact on FY20 sales order delivery; we expect further impact on demand through 2021
    - We have not made any Covid-19 redundancies or furloughed any colleagues
  - Cash
    - Strong cash discipline was maintained with c.117.0% cash conversion [2, 3] (2019: 109.6%), including c. £3.4m benefit of government tax deferral schemes
    - Net debt on a like-for-like basis [3] fell to £4.2m (2019: £20.2m), including cash balances of £95.0m (2019: £34.9m) following the full draw down of our revolving credit facility in April 2020 to provide the Group with maximum cash flexibility
  - Outlook
    - We have successfully weathered the initial impact of Covid-19 and our experience of doing so gives us confidence that we should be resilient, profitable and cash generative through any likely aftershocks this financial year
    - Parts of our customer base have been impacted by uncertainty, financial pressures or logistical issues. Consequently, we have observed procurement cycles lengthen and become less predictable. In some of the more affected sectors, including Leisure and Entertainment, we expect some customers to postpone work for 12 months or more
    - The long-term growth prospects for the cyber resilience market continue to be excellent as the connected environment and society's dependence on that connected environment continue to grow

    Against this backdrop:

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

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

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

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

Analyst presentation briefing and Q & A session

A pre-recorded Analyst presentation briefing will be available from the Group's website at 8am on 3 September 2020 via the following link: https://www.nccgroupplc.com/investor-relations/results-media/full-year-results-presentation-for-the-year-ended-31-may-2020/

A Q & A session for Analysts will be held at 9am on 3 September 2020.

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About NCC Group plc

NCC Group exists to make the world safer and more secure. As the leading independent global cyber security and resilience advisor, NCC Group is trusted by over 15,000 clients 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 businesses identify, assess, mitigate and respond to the evolving cyber risks they face. To support its mission, NCC Group continually invests in research and innovation, and is passionate about developing the next generation of cyber scientists. With around 2,000 colleagues in 12 countries, NCC Group has a significant market presence in North America, continental Europe and the UK, and a rapidly growing footprint in Asia Pacific with offices in Australia, Japan and Singapore.

Footnotes

1: References to the Group's results are to continuing operations.
2: Following the adoption of IFRS 16 'Leases' with effect from 1 June 2019, the Group has adopted the accounting standard using the modified retrospective approach to transition and has accordingly not restated prior years, the results for the year ended 31 May 2020 are not directly comparable with those reported under the previous applicable accounting standard IAS 17 'Leases'. On this basis, to provide meaningful comparatives, the results for the year ended 31 May 2020 have therefore also been presented under IAS 17 with the like-for like numbers shown on an IAS 17 basis ('Pre-IFRS 16'). This alternative performance measure (APM), will be presented for one year until the comparatives also include the adoption of IFRS 16.
3: See note 2 for an explanation of Alternative Performance Measures ("APMs") and adjusting items, including a reconciliation to statutory information.
4: Leverage is defined as the ratio of total Net Debt Pre-IFRS 16 to Adjusted EBITDA and Interest Cover is defined as the ratio of Adjusted EBITDA to net finance charges (Pre-IFRS 16).

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

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

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

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

Securing Growth Together (SGT): fulfilling our potential
Since my arrival in December 2017, my colleagues in NCC Group have worked relentlessly to transform the business and achieve our ambition to become the leading provider of cyber resilience solutions globally.

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

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

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

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

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

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

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

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

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

- Anticipate and measure
- Be resilient
- Stay profitable
- Exploit any down time
- Prepare for the bounce back

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

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

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

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

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

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

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

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

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

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

FY20 performance overview

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

Summary

Financial:

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

Operational:

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

Outlook:

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

Against this backdrop:

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

Financial review

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

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

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

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

Financial summary
Summary Income Statement:

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

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

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

Revenue summary:

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

Adjusted operating profit [3] summary:

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

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

Basis of preparation

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

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

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

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

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

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

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

See Note 1 for a detailed reconciliation of the Pre-IFRS 16 performance and the Glossary of terms for APMs to the equivalent IFRS measures.

During the year, management has reviewed the application of APMs and have considered ongoing FRC and ESMA best practice guidance in this area. Accordingly, management has concluded that for future accounting periods, share based payments and amortisation of acquired intangibles, which are currently presented as adjusting items, should be included within underlying results. The decision to adopt this presentation for future reporting periods rather than in the current reporting period is because the implementation of IFRS 16 in the year (which does not require the restatement of 2019 comparatives) means that the FY20 results are not on a like-for-like basis with 2019, and management considers that it would be very difficult to understand the true, underlying performance of the Group if this presentational change to the Income statement was made in the current reporting period. The impact of this proposal in future reporting periods will be a reduction in adjusted measures. To illustrate this, the income statement for the year ended 31 May 2020 has been shown below under the proposed basis:

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

Divisional performance

Divisional performance includes the allocation of certain central costs incurred on behalf of the divisions.

Segmental information is disclosed below:

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

Assurance

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

Assurance revenue analysis – by originating country:

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

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

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

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

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

Assurance revenue analysed by type service/product line:

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

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

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

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

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

Assurance gross profit is analysed as follows:

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

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

Software Resilience (Escrow)

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

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

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

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

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

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

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

Software Resilience (Escrow) revenues analysed by service line:

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

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

Gross margin is analysed as follows:

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

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

Cash flow and net debt [3]

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

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

Net debt [3] can be reconciled as follows:

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

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

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

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

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

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

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

Cash conversion [3] for FY21 is still expected to normalise and is targeted at c.85% over the medium term.

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

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

Adjusting items [3]

Pre-tax adjusting items are set out below:

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

During the year, the Group has incurred no individually significant items (ISIs) (2019: £3.6m).

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

Net finance costs

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

Taxation

The Group's adjusted [2, 3] effective tax rate is 23.5% (2019: 20.3%). On a statutory basis, the effective tax rate is 27.3% (2019: 24.2%).

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

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

Earnings per share (EPS)

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

On a like-for-like basis, pre-IFRS 16, basic adjusted EPS [3] was 8.3p (2019: 9.2p) and on a statutory basis it was 5.1p (2019: 4.9p).

Dividends

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

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

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

Financing facilities

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

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

On our banking covenants, leverage [4] as at 31 May 2020 amounted to 0.1x (2019: 0.5x) and net interest cover [4] amounted to 22.7x (2019: 24.6x). The Group was in compliance with the terms of all its facilities, including the financial covenants, at 31 May 2020 and expects to remain in compliance with the terms going forward. The terms and ratios are specifically defined in the Group's banking documents (in line with normal commercial practice) and are materially similar to GAAP or the Group's alternative performance measures of the same name; the exception is net debt which excludes IFRS 16 lease liabilities.

Going concern

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

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

The 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 to the period to the end of September 2021 which indicate that, taking account of reasonably possible downsides and the anticipated impact of Covid-19 on the operations and its financial resources, the Group and Company will have sufficient funds to meet its liabilities as they fall due for that period.

The Group is financed primarily by a £100m revolving credit facility, further details of which are disclosed in Note 7 to the Condensed Financial Statements. The Group is required to comply with financial covenants for leverage (net debt to Adjusted EBITDA [3]) and interest cover (Adjusted EBITDA [3] to interest charge) which are tested bi-annually at 31 May and 30 November each year. In April 2020, the Group drew down the entire available funds of £100m under this RCF facility in order to provide maximum cash flexibility during the Covid-19 crisis.

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

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

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

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

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

Principal risks and uncertainties
The Group is subject to risk factors both internal and external to its business, and has a well-established set of risk management procedures. The following risks and uncertainties are those that the Directors believe could have the most significant impact on the Group's business:

- Business strategy
- Management of strategic change
- Global pandemic – Covid-19
- Availability of critical information systems
- Attracting and retaining appropriate staff capacity and capability
- Cyber risk (including data protection)
- Quality of management information systems and internal business processes
- Quality and security management systems
- Brexit (as noted below)

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

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

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

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

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 2020. 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 3 September 2020 by:

Adam Palser	**Tim Kowalski**
Chief Executive Officer	Chief Financial Officer

Consolidated income statement

For the year ended 31 May 2020

	Notes	2020 [2] Adjusted [3] £m	2020 [2] Adjusting items [3] £m	2020 [2] Statutory £m	2019 [2] Adjusted [3] £m	2019 [2] Adjusting items [3] £m	2019 [2] Statutory £m
Revenue	3	**263.7**	**–**	**263.7**	250.7	–	250.7
Cost of sales	3	**(159.3)**	**–**	**(159.3)**	(148.9)	–	(148.9)
Gross profit	3	**104.4**	**–**	**104.4**	101.8	–	101.8
Administrative expenses [3]	3						
Depreciation and amortisation		**(16.1)**	**(8.8)**	**(24.9)**	(10.0)	(9.0)	(19.0)
Other administrative expenses		**(59.0)**	**(1.4)**	**(60.4)**	(58.1)	(5.2)	(63.3)
Total administrative expenses		**(75.1)**	**(10.2)**	**(85.3)**	(68.1)	(14.2)	(82.3)
Operating profit	3	**29.3**	**(10.2)**	**19.1**	33.7	(14.2)	19.5
Net finance costs		**(3.0)**	**–**	**(3.0)**	(1.7)	–	(1.7)
Profit before taxation		**26.3**	**(10.2)**	**16.1**	32.0	(14.2)	17.8
Taxation		**(6.3)**	**1.9**	**(4.4)**	(6.5)	2.2	(4.3)
Profit for the year attributable to the owners of the Company		**20.0**	**(8.3)**	**11.7**	25.5	(12.0)	13.5
Earnings per ordinary share	5						
Basic EPS				**4.2p**			4.9p
Diluted EPS				**4.2p**			4.8p

Consolidated statement of comprehensive income

For the year ended 31 May 2020

	2020 [2] £m	2019 [2] £m
Profit for the year attributable to the owners of the Company	**11.7**	13.5
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss (net of tax)		
Foreign exchange translation differences	**4.0**	1.5
Total comprehensive income for the year (net of tax) attributable to the owners of the Company	**15.7**	15.0

Footnotes

1: References to the Group's results are to continuing operations.
2: See note 1 for further details on the application of IFRS 16 and no restatement of comparative information. The adoption of IFRS 16 in the year ended 31 May 2020 resulted in an increase in depreciation and amortisation of £6.0m and finance costs of £1.2m, with other administration expenses decreasing by £4.2m.
3: See note 2 for an explanation of Alternative Performance Measures ("APMs") and adjusting items, including a reconciliation to statutory information.
4: Leverage is defined as the ratio of total Net Debt to Adjusted EBITDA and Interest Cover is defined as the ratio of Adjusted EBITDA to net finance charges (Pre-IFRS 16).

Consolidated balance sheet
For the year ended 31 May 2020

	Notes	**2020 [2] £m**	2019 [2] £m
Non-current assets			
Goodwill		**193.1**	189.4
Other intangible assets		**39.2**	41.8
Property, plant and equipment		**13.9**	16.9
Right-of-use assets	6	**28.7**	–
Investments		**0.3**	0.3
Deferred tax asset		**0.5**	1.1
Total non-current assets		**275.7**	249.5
Current assets			
Inventories		**0.9**	0.7
Trade and other receivables		**73.2**	61.6
Current tax receivable		**0.6**	0.6
Cash and cash equivalents		**95.0**	34.9
Total current assets		**169.7**	97.8
Total assets		**445.4**	347.3
Current liabilities			
Trade and other payables		**46.4**	31.6
Borrowings	7	–	5.0
Lease liabilities	6	**5.3**	–
Provisions		**2.0**	2.7
Contract liabilities - deferred revenue		**39.5**	36.2
Total current liabilities		**93.2**	75.5
Non-current liabilities			
Borrowings	7	**99.2**	50.1
Lease liabilities	6	**32.9**	–
Deferred tax liability		**2.9**	5.4
Provisions		**1.7**	5.5
Contract liabilities - deferred revenue		**1.4**	–
Total non-current liabilities		**138.1**	61.0
Total liabilities		**231.3**	136.5
Net assets		**214.1**	210.8
Equity			
Issued capital		**2.8**	2.8
Share premium		**150.9**	149.8
Merger reserve		**42.3**	42.3
Currency translation reserve		**31.9**	27.9
Retained earnings		**(13.8)**	(12.0)
Total equity attributable to equity holders of the parent		**214.1**	210.8

These financial statements were approved by the Board of Directors on 3 September 2020 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 2020

Cashflow from operating activities	Notes	2020 [2] £m	2019 [2] £m
Profit for the year		**11.7**	13.5
Adjustments for:			
Depreciation of property, plant and equipment		**5.8**	5.6
Depreciation of right of use assets		**6.0**	–
Share-based payments		**1.4**	1.7
Amortisation of acquired intangible assets		**8.8**	9.0
Amortisation of internally developed intangible assets and software		**4.4**	4.4
Impairment of right of use assets		**1.1**	–
Lease financing costs		**1.2**	–
Net other financing costs		**1.8**	1.7
Foreign exchange		–	0.2
Individually Significant Items (non-cash impact)		–	3.6
Profit on disposal of investments		–	(0.1)
Profit on disposal of right of use assets		**(0.1)**	–
Loss on sale of plant and equipment		–	0.2
Research and development tax credits		**(0.6)**	(0.3)
Income tax expense		**4.4**	4.3
Decrease in provisions		**0.8**	(2.5)
Cash inflow for the year before changes in working capital		**46.7**	41.3
(Increase)/decrease in trade and other receivables		**(11.0)**	6.0
(Increase)/decrease in inventories		**(0.2)**	0.1
Increase in trade and other payables		**19.2**	0.5
Cash generated from operating activities before interest and taxation		**54.7**	47.9
Interest element of lease payments		**(1.2)**	–
Other interest paid		**(1.6)**	(1.7)
Taxation paid		**(4.8)**	(6.4)
Net cash generated from operating activities		**47.1**	39.8
Cash flows from investing activities			
Purchase of property, plant and equipment		**(2.8)**	(3.0)
Software and development expenditure		**(10.4)**	(6.1)
Acquisition of businesses		**–**	(10.9)
Net proceeds from sale of subsidiaries and investments		**–**	1.8
Net cash used in investing activities		**(13.2)**	(18.2)
Cash flows from financing activities			
Proceeds from the issue of ordinary share capital		**1.1**	0.3
Principal element of lease payments		**(5.3)**	–
Drawdown of borrowings		**44.3**	13.0
Issue costs related to borrowings		**(1.0)**	–
Repayment of borrowings		**–**	(8.6)
Equity dividends paid	4	**(12.9)**	(12.9)
Net cash generated/(used) from financing activities		**26.2**	(8.2)
Net increase in cash and cash equivalents		**60.1**	13.4
Cash and cash equivalents at beginning of year		**34.9**	21.2
Effect of foreign currency exchange rate changes		**–**	0.3
Cash and cash equivalents at end of year		**95.0**	34.9

Reconciliation of net change in cash and cash equivalents to movement in net debt [2]

	Notes	**2020 [2] £m**	2019 [2] £m
Net increase in cash and cash equivalents		**60.1**	13.4
Change in net debt resulting from cash flows (net of deferred issue costs)		**(43.3)**	(4.4)
Non-cash movements (release of deferred issue costs)		**(0.2)**	–
Effect of foreign currency on cash flows		**–**	0.3
Foreign currency translation differences on borrowings		**(0.6)**	(1.7)
Change in net debt [2] during the year		**16.0**	7.6
Net debt [2] at start of year (Pre IFRS 16)		**(20.2)**	(27.8)
Net debt [2] at end of year (Pre IFRS 16)		**(4.2)**	(20.2)
Lease liabilities	6	**(38.2)**	
Net debt [2] at end of year (IFRS 16)		**(42.4)**	

Consolidated statement of changes in equity

For the year ended 31 May 2020

	Share Capital £m	Share Premium £m	Merger Reserve £m	Currency Translation Reserve £m	Retained Earnings £m	Total £m
Balance at 1 June 2019	2.8	149.8	42.3	27.9	(12.0)	210.8
Impact of change in accounting policies in respect of IFRS 16 (net of tax) (note 1)	–	–	–	–	(2.0)	(2.0)
Adjusted balance at 1 June 2020	2.8	149.8	42.3	27.9	(14.0)	208.8
Profit for the year	–	–	–	–	11.7	11.7
Foreign currency translation differences	–	–	–	4.0	–	4.0
Total comprehensive income for the year	–	–	–	4.0	11.7	15.7
Transactions with owners recorded directly in equity						
Dividends to equity shareholders	–	–	–	–	(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	**2.8**	**150.9**	**42.3**	**31.9**	**(13.8)**	**214.1**

	Share Capital £m	Share Premium £m	Merger Reserve £m	Currency Translation Reserve £m	Retained Earnings £m	Total £m
Balance at 1 June 2018	2.8	149.5	42.3	26.4	(14.4)	206.6
Profit for the year	-	-	-	-	13.5	13.5
Foreign currency translation differences	-	-	-	1.5	-	1.5
Total comprehensive income for the year	-	-	-	1.5	13.5	15.0
Transactions with owners recorded directly in equity						
Dividends to equity shareholders	-	-	-	-	(12.9)	(12.9)
Share based payments	-	-	-	-	1.7	1.7
Current and deferred tax on share based payments	-	-	-	-	0.1	0.1
Shares issued	-	0.3	-	-	-	0.3
Total contributions by and distributions to owners	-	0.3	-	-	(11.1)	(10.8)
Balance at 31 May 2019	2.8	149.8	42.3	27.9	(12.0)	210.8

Notes to the unaudited condensed interim 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 principal activity of the Group is the provision of independent global cyber security and resilience services.

The financial information is derived from the Group's consolidated financial statements for the year ended 31 May 2020, which have been prepared on the going concern basis in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union, Article 4 of the IAS Regulation and those parts of the Companies Act 2006 (the Act) applicable to companies reporting under IFRS. 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 3 September 2020.

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 May 2020 or 31 May 2019. The financial information for 2019 is derived from the statutory accounts for 2019 which have been delivered to the registrar of companies. The auditor has reported on the 2019 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 2020 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 2019, with the exception of those impacted by the adoption of IFRS 16 which the Group has adopted with effect from 1 June 2019, with comparatives remaining under IAS 17 'Leases'. 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 2019.

Brexit
Management has reviewed the potential impact of Brexit on the financial statements. As the Groups' operations around the world include business entities based in Continental Europe management believe the Group is structurally resilient to any disruption caused by Brexit. The main risks to the Group from Brexit are any reduction in demand from an economic slowdown and real or perceived differences in data protection standards which impact our global ways of working. On this basis, management have 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, the annual impairment review and the Going Concern and viability assessments.

Application of significant new EU endorsed accounting standard - IFRS 16 'Leases'

Background and adoption
During the year, the Group adopted IFRS 16 'Leases'. The date of the initial application of IFRS 16 for the Group is 1 June 2019. The Group has adopted the accounting standard using the modified retrospective approach to transition and has accordingly not restated prior periods. The results for the year ended 31 May 2020 are not directly comparable with those reported under the previous applicable accounting standard IAS 17 'Leases' and IFRIC 4 'Determining Whether an Arrangement Contains a Lease'. On this basis, to provide meaningful comparatives, the results for the year ended 31 May 2020 have therefore also been presented under IAS 17 with the "like-for like" numbers shown on an IAS 17 basis (pre-IFRS 16). This Alternative Performance Measure (APM), will be presented for one year until the comparatives also include the adoption of IFRS 16.

In applying the modified retrospective approach the Group has valued right-of-use assets on a lease by lease basis using the approach that IFRS 16 had always been applied but using the incremental borrowing rate at the date of the application.

Implications of IFRS 16 adoption

The implications of IFRS 16 adoption are noted as follows:

- A number of lease contracts previously disclosed under IAS 17 within the Financial Statements, which gave rise to recurring expenses within operating expenses, have been recognised on the Balance Sheet as a "right-of-use asset" for the year ended 31 May 2020.
- A corresponding lease liability (current and non-current) reflecting the Group's commitment to pay consideration to third parties under these contracts has also been recognised, increasing the Group's net debt although the net cash flow profile remains the same for the Group.
- The Group has depreciated the right-of-use asset through the Income Statement over the shorter of the assets' useful lives and the assessed lease term.
- The Group has recognised interest on the liability using the Group's incremental borrowing rate. Interest has been charged to finance costs.
- The profile of the overall expense in profit and loss has now changed, as the interest expense will be more front-loaded compared to a straight-line operating lease rental expense under IAS 17.

Specifically, management had to conclude on whether a contract is or contains a lease at the date of transition, with the following being considered:

- Whether there is an identified asset that the Group has the right to obtain substantially all the economic benefits from.
- Whether the Group has the right to direct how and for what purpose the asset is used.
- Whether the Group has the right to operate the asset without the supplier having the right to change those operating instructions.
- Whether the Group has designed the asset in a way that predetermines how and for what purpose the asset will be used.

In addition, management has also considered other salient factors in the assessment of the standard such as:

- The length of assessed lease term taking into account the non-cancellable period of the lease including periods covered by an option to extend or an option to terminate if the Group is reasonably certain to exercise either option.
- The applicability of interest rate implicit in the lease or the Group's incremental borrowing rate.

Following the above assessment, management has concluded that the following items that were previously classified as operating leases under IAS 17 have been recognised in the Financial Statements using the new requirements of IFRS 16:

- Certain properties
- Equipment leases
- Motor vehicles

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

Exemptions and practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- Reliance on previous assessments on whether leases are onerous
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 June 2019 as short-term leases
- Right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment) have not been recognised
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

Transition elections
The Group has offset the previously recognised onerous leases immediately before transition as opposed to performing an impairment review under IAS 36.

Impact on covenants and cash flows
The Group renegotiated its banking facilities in June 2019. The debt covenants on the Group's borrowing facilities have been unaffected by the application of IFRS 16 as the covenant calculations are based on the accounting principles in place prior to 1 January 2019. The IFRS 16 changes have not impacted the interest paid by the Group for its banking facilities. The overall net cash flow for the Group is also unaffected by IFRS 16, however the cash flows in the Consolidated Cash Flow Statement are now split between a principal portion and a finance portion, which are both presented under financing activities. Previously under IAS 17 the operating lease payments were presented as operating cash flows.

New accounting policies under IFRS 16
At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- The contract involves use of the identified asset; this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity or a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified.
- The Group has the right to obtain substantially all of the economic benefits from use of the asset and throughout the period of use.
- The Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where all the decisions about how and for what purpose the asset is used are predetermined, the Group has the right to direct the use of the asset if either:
    - the Group has the right to operate the asset.
    - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. The Group has used its incremental borrowing rate of 3.3% as the discount rate for the calculation of the lease liabilities on the transition to IFRS 16.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the Income Statement if the carrying amount of the right-of-use asset has been reduced to zero. As noted above, the Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low value assets, including certain IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

This policy is now applied to contracts entered into, or changed, on or after 1 June 2019.

Other judgements

Lease term

The lease term is a key judgement into calculating the lease liability under IFRS 16. Management considers it appropriate to initially set a lease term equal to the contractual term of the lease. The lease term is reassessed only in specific circumstances, for example where management makes the decision to renew a lease or exercise a break clause. Similarly, the group has a number of leases which contain an option to extend the term of these lease, in these circumstances the extension period is only taken into account in assessing the lease term if management considers it highly likely that the option to extend the lease will be exercised.

Summary of financial impact on consolidated Financial Statements

The application of this standard has had a significant impact on the Group's consolidated Financial Statements for the year ended 31 May 2020 as follows:

Consolidated Income Statement financial impact:

Statutory	Notes	2020 (IFRS 16) £m	Rent and finance costs £m	ROU asset impairment £m	Depreciation £m	Taxation £m	2020 (Pre-IFRS 16) £m
Revenue		263.7	–	–	–	–	263.7
Cost of sales		(159.3)	–	–	–	–	(159.3)
Gross profit		104.4	–	–	–	–	104.4
Administrative expenses:							
- Depreciation and amortisation		(24.9)	–	–	6.0	–	(18.9)
- Other administrative expenses		(60.4)	(5.3)	1.1	–	–	(64.6)
Total administrative expenses		(85.3)	(5.3)	1.1	6.0	–	(83.5)
Operating profit		19.1	(5.3)	1.1	6.0	–	20.9
Net finance costs		(3.0)	1.2	–	–	–	(1.8)
Profit before taxation		16.1	(4.1)	1.1	6.0	–	19.1
Taxation		(4.4)	–	–	–	(0.6)	(5.0)
Profit for the year attributable to the owners of the Company		11.7	(4.1)	1.1	6.0	(0.6)	14.1
Earnings per share	5						
Basic EPS		4.2p					5.1p
Diluted EPS		4.2p					5.0p

Consolidated Statement of Comprehensive Income financial impact:

	2020 (IFRS 16) £m	Adjustment on application of IFRS 16 £m	2020 (Pre-IFRS 16) £m
Total comprehensive income for the year (net of tax) attributable to the owners of the Company	15.7	2.4	18.1

During the year ended 31 May 2020, the following charges arising from lease arrangements were recognised in the Consolidated Income Statement:

	2020 £m
Depreciation of right-of-use assets	6.0
Finance costs – interest on lease liabilities	1.2
Profit on disposal of right-of-use assets	(0.1)
Impairment of right-of-use assets	1.1

Consolidated Balance Sheet on transition

	2019 (Pre-IFRS 16) £m	Right-of-use assets and liabilities on transition £m	Onerous leases and lease incentives offset £m	Taxation £m	2019 (IFRS 16) £m
Non-current assets					
Goodwill	189.4	–	–	–	189.4
Other intangible assets	41.8	–	–	–	41.8
Property, plant and equipment	16.9	–	–	–	16.9
Right-of-use assets	–	33.2	(6.7)	–	26.5
Investments	0.3	–	–	–	0.3
Deferred tax assets	1.1	–	–	0.5	1.6
Total non-current assets	249.5	33.2	(6.7)	0.5	276.5
Current assets					
Inventories	0.7	–	–	–	0.7
Trade and other receivables	61.6	–	–	–	61.6
Current tax receivable	0.6	–	–	–	0.6
Cash and cash equivalents	34.9	–	–	–	34.9
Total current assets	97.8	–	–	–	97.8
Total assets	347.3	33.2	(6.7)	0.5	374.3
Current liabilities					
Trade and other payables	31.6	–	–	–	31.6
Borrowings	5.0	–	–	–	5.0
Lease liabilities	–	5.2	–	–	5.2
Provisions	2.7	–	(2.5)	–	0.2
Contract liabilities - deferred revenue	36.2	–	–	–	36.2
Total current liabilities	75.5	5.2	(2.5)	–	78.2
Non-current liabilities					
Borrowings	50.1	–	–	–	50.1
Lease liabilities	–	30.5	–	–	30.5
Deferred tax liability	5.4	–	–	–	5.4
Provisions	5.5	–	(4.2)	–	1.3
Total non-current liabilities	61.0	30.5	(4.2)	–	87.3
Total liabilities	136.5	35.7	(6.7)	–	165.5
Net assets	210.8	(2.5)	-	0.5	208.8

Equity					
Issued capital	2.8	–	–	–	2.8
Share premium	149.8	–	–	–	149.8
Merger reserve	42.3	–	–	–	42.3
Currency translation reserve	27.9	–	–	–	27.9
Retained earnings	(12.0)	(2.5)	–	0.5	(14.0)
Total equity attributable to equity holders of the parent	210.8	(2.5)	–	0.5	208.8

At 31 May 2019, the Group had £35.6m of non-cancellable operating lease commitments. The difference between the operating lease commitments disclosed in the Group consolidated Financial Statements for the year ended 31 May 2019 and the lease liabilities recognised on the date of transition can be explained as follows:

	2020 £m
Undiscounted future minimum lease payments under operating leases at 31 May 2019	35.6
Short-term leases	(1.4)
Increase in minimum lease commitments	6.1
Impact of discounting	(6.2)
Other	1.6
IFRS 16 lease liability recognised at 1 June 2019	35.7

The increase in minimum lease commitments relates to leases where the minimum lease payments disclosed at 31 May 2019 were calculated by reference to break clauses, but under IFRS 16 have been calculated using the lease termination date.

Of the lease liability of £35.7m recognised at 1 June 2019, £33.6m related to property leases and £2.1m relating to other leases.

2 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 years 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 Consolidated financial statements 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.

See below for a reconciliation of adjusted information to statutory information and refer to the Glossary for comprehensive descriptions of all APMs, including their relevance in providing supplementary information that assists the user to understand better the financial performance, position and trends of the Group. Performance is based on adjusted EBITDA and adjusted operating profit [3].

Adjusting items during the year and prior year are:

- Individually significant items
- Share based payments
- Amortisation of acquisition intangibles
- Profit on disposal of investment

Reconciliation of adjusted information to statutory information

The following table includes details of adjusting items and reconciles adjusted information to statutory information:

Year ended 31 May 2020 (IFRS 16)	Revenue £m	Gross profit £m	EBITDA £m	Depreciation and amortisation £m	Operating profit £m	Profit before taxation £m	Taxation £m	Profit for the year £m
Adjusted	**263.7**	**104.4**	**45.4**	**(16.1)**	**29.3**	**26.3**	**(6.3)**	**20.0**
Share based payments	**–**	**–**	**(1.4)**	**–**	**(1.4)**	**(1.4)**	**(0.2)**	**(1.6)**
Amortisation of acquired intangibles	**–**	**–**	**–**	**(8.8)**	**(8.8)**	**(8.8)**	**2.1**	**(6.7)**
Statutory	**263.7**	**104.4**	**44.0**	**(24.9)**	**19.1**	**16.1**	**(4.4)**	**11.7**

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

Year ended 31 May 2019 (Pre-IFRS 16)	Revenue £m	Gross profit £m	EBITDA £m	Depreciation and amortisation £m	Operating profit £m	Profit before taxation £m	Taxation £m	Profit for the year £m
Adjusted	**250.7**	**101.8**	**43.7**	**(10.0)**	**33.7**	**32.0**	**(6.5)**	**25.5**
Individually Significant Items	–	–	(3.6)	–	(3.6)	(3.6)	0.5	(3.1)
Share based payments	–	–	(1.7)	–	(1.7)	(1.7)	(0.1)	(1.8)
Amortisation of acquired intangibles	–	–	–	(9.0)	(9.0)	(9.0)	1.8	(7.2)
Profit on disposal of investment	–	–	0.1	–	0.1	0.1	–	0.1
Statutory	**250.7**	**101.8**	**38.5**	**(19.0)**	**19.5**	**17.8**	**(4.3)**	**13.5**

During the year, management has reviewed the application of APM's and have considered ongoing FRC and ESMA best practice guidance in this area. Accordingly, management has concluded that for future accounting periods, share based payments and amortisation of acquired intangibles, which are currently presented as adjusting items, should be included within underlying results. The decision to adopt this presentation for future reporting periods rather than in the current reporting period is because the implementation of IFRS 16 in the year (which does not require the restatement of 2019 comparatives) means that the FY20 results are not on a like-for-like basis with 2019, and management considers that it would be very difficult to understand the true, underlying performance of the Group if this presentational change to the income statement was made in the current reporting period. The impact of this proposal in future reporting periods will be a reduction in adjusted measures. To illustrate this, the income statement for the year ended 31 May 2020 has been shown below under the proposed basis:

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

Net debt

Net debt [3] is set out below:

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

Cash conversion ratio

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

	2020 (IFRS 16) £m	2020 (Pre-IFRS 16) £m	2019 (Pre-IFRS 16) £m
Net operating cash flow before interest and taxation (A)	**54.7**	**48.2**	47.9
Adjusted EBITDA [3] (B)	**45.4**	**41.2**	43.7
Cash conversion ratio [3] (%) (A)/(B)	**120.5%**	**117.0%**	109.6%

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

3 Segmental information

The Group is organised into the following two (2019: 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 homogenous commercial and strategic market environments. Performance is measured based on reporting segment profit, which comprises adjusted operating profit [3]. Interest and tax are not allocated to business segments and there are no intra-segment sales.

As disclosed in note 2, due to the adoption of IFRS 16 'Leases' during the year, the results for the year ended 31 May 2020 are not directly comparable with the previous year. On this basis, to provide meaningful comparatives, the segmental results below for the year ended 31 May 2020 have therefore also been presented under IAS 17 with the like-for like numbers shown on an IAS 17 basis (Pre-IFRS 16), as this is the basis on which the CODM allocates resources and assesses performance.

Segmental analysis 2020

	Assurance £m	Software resilience (Escrow) £m	Central and head office £m	Group £m
Revenue	**226.2**	**37.5**	**–**	**263.7**
Cost of sales	(149.3)	(10.0)	–	(159.3)
Gross profit	**76.9**	**27.5**	**–**	**104.4**
Gross margin %	34.0%	73.3%	–	39.6%
General administration expenses allocated [2]	(43.9)	(10.0)	(5.1)	(59.0)
Adjusted EBITDA	**33.0**	**17.5**	**(5.1)**	**45.4**
Depreciation and amortisation	(10.7)	(0.6)	(4.8)	(16.1)
Adjusted operating profit [3]	**22.3**	**16.9**	**(9.9)**	**29.3**
Adjusting items [3]				(10.2)
Operating profit				**19.1**
Impact of IFRS 16				1.8
Operating profit (Pre-IFRS 16)				**20.9**

Segmental analysis 2019

(Pre-IFRS 16)	Assurance £m	Software resilience (Escrow) £m	Central and head office £m	Group £m
Revenue	212.7	38.0	–	250.7
Cost of sales	(139.2)	(9.7)	–	(148.9)
Gross profit	73.5	28.3	–	101.8
Gross margin %	34.6%	74.5%	–	40.6%
General administration expenses allocated [2]	(45.4)	(9.3)	(3.4)	(58.1)
Adjusted EBITDA	28.1	19.0	(3.4)	43.7
Depreciation and amortisation	(5.5)	–	(4.5)	(10.0)
Adjusted operating profit [2]	22.6	19.0	(7.9)	33.7
Adjusting items [2]				(14.2)
Operating profit				19.5

Revenue is disaggregated by primary geographical market as follows:

£m	**Assurance**	**Software Resilience (Escrow)**	**2020 Total**	Assurance	Software Resilience (Escrow)	2019 Total
UK	**91.5**	**25.9**	**117.4**	88.9	26.0	114.9
North America	**82.4**	**7.8**	**90.2**	75.5	8.3	83.8
Europe & APAC	**52.3**	**3.8**	**56.1**	48.3	3.7	52.0
Statutory	**226.2**	**37.5**	**263.7**	212.7	38.0	250.7

4 Dividends

	2020	2019
Dividends paid and recognised in the year (£m)	**12.9**	12.9
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 2020 of 3.15p per ordinary share on approximately 277.8m ordinary shares (approximately £8.8m) was approved by the Board on 3 September 2020 and will be recommended to shareholders at the AGM on 20 October 2020. The dividend has not been included as a liability as at 31 May 2020. The payment of this dividend will not have any tax consequences for the Group.

5 Earnings per ordinary share (EPS)

Earnings per ordinary share are shown on a statutory and an adjusted [2] basis to assist in the understanding of the performance of the Group.

	2020 (IFRS 16) £m	**2020 (Pre-IFRS 16) £m**	2019 (Pre-IFRS 16) £m
Statutory earnings	**11.7**	**14.1**	13.5
Adjusted [2] earnings (note 2)	**20.0**	**22.4**	25.5
	Number of shares m	**Number of shares m**	Number of shares m
Basic weighted average number of shares in issue	**278.0**	**278.0**	277.8
Dilutive effect of share options	**2.5**	**2.5**	1.5
Diluted weighted average shares in issue	**280.5**	**280.5**	279.3

For the purposes of calculating the dilutive effect of share options, the average market value is based on quoted market prices for the year during which the options are outstanding.

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

6 Right-of-use assets and Lease liabilities

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

	2020 (IFRS 16) £m
As at 1 June 2019	–
Initial recognition on adoption of IFRS 16 (note 1)	26.5
Additions	12.1
Disposals	(2.8)
Impairment of right-of-use assets	(1.1)
Depreciation	(6.0)
As at 31 May 2020	**28.7**

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

	2020 (IFRS 16) £m
As at 1 June 2019	–
Initial recognition on adoption of IFRS 16 (note 1)	35.7
Additions	10.7
Disposals	(2.9)
Interest expense	1.2
Repayment of lease liabilities	(6.5)
As at 31 May 2020	**38.2**

The ageing of the lease liabilities as at 31 May 2020 are as follows:

	2020 (IFRS 16) £m
Less than one year	**5.3**
Two to five years	**15.7**
Greater than five years	**17.2**
Total lease liabilities	**38.2**

7 Borrowings

In June 2019, the Group renegotiated its previous term loan and multi-currency revolving credit facilities into a new fully revolving credit facility of £100m with a new five year term up to June 2024, on similar terms (pricing and covenants). The interest payable on drawn down funds ranges from 0.9% to 2.0% above LIBOR subject to the Group's leverage and interest cover ratios [4]. Under the new arrangements, the Group can request an additional accordion facility to increase the total size of the revolving credit facility by up to £75m. The Group is required to comply with financial covenants for leverage (net debt to Adjusted [3] EBITDA) and interest cover (Adjusted [3] EBITDA to interest charge) which are tested bi-annually at 31 May and 30 November each year. Arrangement fees incurred of £1.0m are being amortised over the term. Since the new facility is on broadly similar pricing terms to the previous facility, the refinancing has been accounted for as a non-substantial modification.

Borrowings (excluding lease liabilities) are analysed as follows:

	2020 £m	2019 (Pre-IFRS 16) £m
Current liabilities		
Secured and interest-bearing bank loan	**–**	5.0
Non-current liabilities		
Revolving credit facility (net of deferred issue costs of £0.8m)	**99.2**	23.5
Secured and interest-bearing bank loan	–	26.6
Total borrowings (excluding lease liabilities)	**99.2**	55.1

Glossary of terms - Alternative Performance Measures (APMs)

APMs are the way that financial performance is measured by management and reported to the Board, and the basis of financial measures for senior management's compensation schemes, and provide supplementary information that assists the user in understanding the underlying trading results.

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note reference for reconciliation	Definition, purpose and considerations made by the Directors
Income statement measures:				
Adjusted operating profit (EBIT)	Operating profit or loss	Operating profit or loss before adjusting items Adjusting items represent amortisation of acquired intangibles, profit on the disposal of investments, share based payments and Individually Significant Items	2	Represents operating profit before adjusting items to assist in the understanding of the Group's performance. Adjusting items represent amortisation of acquired intangibles, profit on the disposal of investments, share based payments and Individually Significant Items. The Directors consider amortisation of acquired intangibles is a non-cash accounting charge inherently linked to losses associated with historical acquisitions of businesses in accordance with the Group's adjusting items accounting policy. This APM's purpose is to allow the user to understand the Group's underlying financial performance as measured by management, reported to the Board and used as a financial measure in senior management's compensation schemes. An alternative view could be that the charge should be included in underlying results to reflect the "cost" of an acquisition in the Income Statement. All things considered, including the similar treatment by comparator companies, the Directors have concluded that this item is an adjusting item. The same principles apply to the profit on the disposal of investments. Individually Significant Items are items that are considered unusual by nature or scale, and are of such significance that separate disclosure is relevant to understanding the Group's financial performance and therefore requires separate presentation in the Financial Statements in order to fairly present the financial performance of the Group. The Directors consider share-based payments to be an adjusting item on the basis that fair values are volatile due to movements in share price, which may not be reflective of the underlying performance of the Group. See note 2 for proposed changes to adjusting items in forthcoming reporting periods.

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note reference for reconciliation	Definition, purpose and considerations made by the Directors
Earnings before interest, tax, depreciation and amortization (EBITDA)	Operating profit or loss	Operating profit or loss, before depreciation and amortisation, net finance costs and taxation	2	Represents operating profit before depreciation and amortisation. EBITDA is disclosed as this is a measure widely used by various stakeholders.
Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA)	Operating profit or loss	Operating profit or loss before adjusting items, depreciation and amortisation, net finance costs and taxation	2	Represents operating profit before adjusting items, depreciation and amortisation to assist in the understanding of the Group's performance. Adjusted EBITDA is disclosed as this is a measure widely used by various stakeholders and used by the Group to measure the cash conversion ratio noted below.
Adjusted profit before taxation	Profit before taxation	Profit before taxation before adjusting items	2	Represents profit before taxation before adjusting items and provides supplementary information on the Group's profitability before taxation.
Adjusted basic EPS	Basic EPS	Basic EPS excluding adjusting items	5	Represents basic EPS excluding adjusting items and provides supplementary information that assists the user in understanding the underlying trading results.
Balance Sheet measures:				
Net debt (Pre-IFRS 16) – like-for-like basis	Total borrowings (excluding lease liabilities) offset by cash and cash equivalents		2	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 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 debt	Total borrowings (including lease liabilities) offset by cash and cash equivalents		2	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. Net debt, when compared to available borrowing facilities, also gives an indication of available financial resources to fund potential future business investment decisions and/or potential acquisitions.
Cash flow measure				
Cash conversion ratio (Pre-IFRS 16)	Ratio % of net cash flow from operating activities before interest and tax divided by Operating profit	Ratio % of net cash flow from operating activities before interest and tax divided by adjusted EBITDA	2	The cash conversion ratio is a measure of how effectively adjusted operating profit (as detailed above) is converted into cash and effectively highlights both non-cash accounting items within operating profit and also movements in working capital. It is calculated as net cash flow from operating activities before interest and taxation (as disclosed on the face of the Cash Flow Statement) divided by adjusted EBITDA for continued and discontinued activities. The cash conversion ratio is a measure widely used by various stakeholders and hence is disclosed to show the quality of cash generation and also to allow comparison to other similar companies.

Like-for-like measures	During the year, the Group has adopted IFRS 16 'Leases'. The date of the initial application of IFRS 16 for the Group is 1 June 2019. The Group has adopted the accounting standard using the modified retrospective approach to transition and has accordingly not restated prior years, consequently the results for the year ended 31 May 2019 are not directly comparable with those reported under the previous applicable accounting standard IAS 17 'Leases' and IFRIC 4 'Determining whether an arrangement contains a lease'. On this basis, to provide meaningful comparatives, the results for the year ended 31 May 2020 have therefore also been presented under IAS 17 with the "like-for-like" numbers shown on an IAS 17 basis (Pre-IFRS 16). This alternative performance measure (APM), will be presented for one year until the comparatives also include the adoption of IFRS 16.