17 July 2018

NCC Group plc

NCC Group plc (LSE: NCC, "NCC" or "the Group"), the independent global cyber security and risk mitigation expert, has reported its full year results for the 12 months to 31 May 2018.

Year end results[1]

- Group revenue from continuing operations grew by 8.3% to £233.2m (2017: £215.3m), Adjusted organic growth*[2] was 11.8%
- Group Gross Margin (GM%) gains of 4.9% pts with 5.3% pts in Assurance driven by improved utilisation of professional consultancy staff
- Adjusted*[3] EBITDA from continuing operations up 29% to £42.5m (2017: £33.0m)
- Adjusted* EBIT from continuing operations grew 22% to £31.0m (2017: £25.5m)
- Profit before tax recovered to £11.9m (2017: loss £44.8m)
- Adjusted* basic earnings per share 8.3p (2017: 6.2p), adjusted effective tax rate of 22.4%
- Net debt*[4] reduced to £27.8m (2017: £43.7m)
- Total dividend maintained at 4.65p per share with final dividend proposed of 3.15p per share

Strategic and Operational highlights

- Good progress made on the implementation of the strategic review, new initiatives in place to broaden and deepen the strategic plan
- Transformation programme launched under the brand 'Securing Growth Together' to invest £3.0m – £4.0m p.a. for the next two years. EBIT margin gains of c.1% p.a. targeted in the same period
- Organisational restructure completed around geographical units and customer segments
- Completed portfolio rationalisation with sales of Web Performance and Software Testing
- Significant changes to the Board and Executive management team
- Initiatives now underway to develop skills and capabilities as well as deepening industry specialisms and alignment

Chris Stone, Chairman, comments:

"We have made good progress against the strategic goals that we set for ourselves at the start of the year. The business has been successfully stabilised following a period of volatility. We have reorganised our senior management teams to improve our go-to market strategy. We have also maintained double digit organic* growth in our Assurance division, improved our Gross Margin ratio and completed the divestment of the two business units identified as non-core in the Strategic Review.

While much remains to be done, I am confident that the building blocks for long term sustainable improvement in business performance and shareholder returns are starting to be put in place.

The combination of continuing growth and improving margins in the two operating divisions will deliver year on year improvements in adjusted EBIT in 2019 while also allowing us to make considered and targeted investments to support the business transformation programme. Overall the Board's expectations for Adjusted EBIT in 2019 remain unchanged."

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[1] The footnotes below refer to the use of Alternative Performance Measures (APMs). These terms and their calculations are explained in note 3. Throughout this document, we indicate APMs with a *.

[2] Organic growth excludes the impact of FX, acquisitions and the planned cut in third party product re-sales in the UK.

[3] Adjusted figures exclude the impact of Individually Significant Items, amortisation of acquired intangibles, share based payments, profit or loss on disposal of subsidiaries, the unwind of discount on acquisition consideration and any associated tax on these items.

[4] Net debt is calculated as total borrowings less cash and cash equivalents.

Adam Palser, Chief Executive Officer, comments:

"The Group has excellent foundations on which to build a world leading cyber security and risk mitigation business. We are working to broaden and deepen the strategic plan developed in the early part of the year, its core findings remain robust and relevant and it is now being expanded with our 'Securing Growth Together' transformation programme.

Our markets remain buoyant, our high quality customer base continues to see us providing value added technical expertise and our staff remain committed to building a genuinely differentiated global cyber security and business continuity group of companies."

A briefing for analysts will be held at 9:00am at the offices of Maitland, 3 HKX Building, Pancras Square, London N1C 4AG. The briefing will also be webcast live and can be accessed via this link:

https://www.investis-live.com/nccgroup/5b23ba5f770844160050c3aa/1876

or on the NCC Group website www.nccgroup.trust

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Chairman's statement

Introduction

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

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

Business Performance

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

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

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

Strategy update

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

Dividend

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

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

Board Composition

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

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

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

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

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

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

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

Board effectiveness

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

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

Employees

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

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

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

Current trading and outlook

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

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

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

Chris Stone
Chairman

Chief Executive's Market Review

Introduction

In the sections below, I set out my view of the market dynamics that we face as NCC Group, our competitive position, and the opportunities and challenges both of those things bring. I also give a short overview of our transformation programme, "Securing Growth Together", which is designed to build on the strong foundations the Group already possess to create long term sustainable growth in value for all of our stakeholders.

The Markets

The landscape

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

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

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

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

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

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

Privacy and security

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

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

The UK government and its regulators have indicated that there will be reasonable expectations of compliance. The stated ambition for the first year of the NIS Directive is to develop a clear picture of the UK's critical national infrastructure's network and information system security. Organisations are

expected to invest up to £17.5 million additional security spending in the first year as they review and assess their cyber security readiness.

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

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

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

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

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

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

An evolving security market

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

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

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

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

- Cyber will increasingly become a science.
- Trend of using cyber insurance and other risk transfer mechanisms increasingly in overall risk management strategies is set to continue.
- Much as GDPR and NIS have driven national legislation, we expect governments and their regulators around the globe to legislate further.
- Further regulation to control cyber security proliferation and national capabilities.

- Growing demand for advice on secure implementation of machine learning/artificial intelligence.
- IoT and general growth of embedded devices will drive the hardware security market.
- Companies will demand their cyber security partners to have deep sector expertise relevant to them.
- Security of start-ups becomes a requirement.
- An increase in companies using cryptocurrency, block chains and smart contract to create sustainable valuable companies.

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

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

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

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

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

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

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

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

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

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

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

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

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

Our strategic goals

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

Strategic priorities	Rationale and current status	KPIs and our performance in 2018	Focus and goals for 2019
1 Grow At a managed pace and in areas of core strength	In attractive and growing markets where NCC enjoy strong competitive differentiators, we aim to deliver medium term growth in excess of market rates. By focusing on higher value added services we will avoid growth for its own sake while simultaneously protecting our margins. Having implemented the structure of a new operating model, we need to overlay new go-to market strategies that match our capabilities to customer needs, markets and buying power. This will enrich the quality of growth that the business delivers.	**Adjusted Organic* revenue growth (metric unchanged)** **2018: 11.8% (2017: 7.6%)** • Medium-term goal of above market growth rates while controlling costs • Adjusted Organic* growth in retained Assurance (13.8%) and Escrow (2.7%)	Continue roll-out of value-based sales skills Align sales specialisms to market sectors where appropriate Support internal development of an integrated "Manage, Detect & Respond" (MDR) service offer
2 Execute our new operating model	The Strategic Review identified that we do not organise ourselves in a way that brings simplicity and efficiency to our service delivery. We will execute a new and clear operating model that delivers better customer service at an improving gross margin.	**GM% to improve (metric unchanged)** **2018: 41.2% (2017: 36.3%)** • Significant benefit from revenue growth effectively delivered by an unchanged number of delivery staff • Just under 1% benefit from mix improved by planned cut in resale of third party products • Medium-term goal to drive up margin, building foundations for sustainable growth	Our transformation programme, "Securing Growth Together" aims to LEAN the organisation and improve the GM% ratio in the medium-term Potential for major benefits for customer service, efficiency and working capital
3 Improve Business processes and systems	Our existing business processes are inefficient, and in many cases difficult to scale. They often rely on manual activity and disparate information systems that can lead to a lack of clarity in decision making. We will design and implement improved business processes with reduced manual	**G&A* ratio to improve (metric unchanged)** **2018: 27.9% (2017: 24.5%)** • Overhead increases this year were largely committed in 2017 (new premises and full year impact of new support staff) • Many improvement projects underway in delivery and back office functions	"Securing Growth Together" will require investment of approximately £3.0m-£4.0m in additional costs in 2019 and 2020

	interventions to lower in our costs to serve.	**Cash conversion ratio* (metric unchanged)** **2018: 90% (2017: 87%)** • Improving as earnings quality rises in parallel with better working capital management	Expect benefits to flow in the following years
4 Lead Technical thinking and product development in a rapidly evolving and dynamic market sector	The market is evolving so quickly that we need to be at the forefront of developing new services and responses to address emerging threats. Our customers' needs are also changing: not just in response to new threats but also in respect of how and where they carry out their businesses. We need to respond to those changes in how we position ourselves and our services.	Launch of CENTA service (Centre for Evolved Next Generation Threat Assurance) Unique high value offering in regulated financial services and governments Continued release of leading-edge research on cloud and container technologies	Continued demonstration that NCC GROUP has a holistic view of cyber security Understanding of opportunities and risk associated with emerging technologies Brand growth with non-traditional audiences
5 Develop our people to allow them to reach their full potential and contribute fully to NCC Group	All of our key strategic goals will rely fundamentally on our people and their skills. So we need to ensure that we attract and retain high quality staff. We need to ensure they are properly trained, gain the right experiences and are also properly incentivised – by recognition and the working environment as much as by reward.	**Employee turnover 23.5% (2017: 21.8%)** Strategic Review feedback told us our staff feel valued and enjoy working at NCC Group Values and leadership training being developed Staff retention rates at Group level are unchanged year on year	We will develop and implement employee performance appraisal and development systems Creation of the NCC Group Academy focusing on helping our staff achieve their full potential

Chief Executive's Performance review

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

Group revenue[5]

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

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

	FY 2017 £m	FX £m	Acq'ns £m	Disposals £m	Third party products £m	Escrow PY correction £m	Adjusted Organic* Growth £m	FY2018 £m	Organic Growth Ratio %
Escrow	37.2	(0.4)	-	-		1.0	1.0	38.8	+2.7%
Assurance	178.1	(2.2)	4.0	-	(8.6)	-	23.1	194.4	+13.8%
Continuing total	**215.3**	**(2.6)**	**4.0**	**-**	**(8.6)**	**1.0**	**24.1**	**233.2**	**+11.8%**
Domain Services	2.6	-	-	(2.6)	-	-	-	-	(100%)
Web Performance	9.3	-	-	(1.5)	-	-	(0.9)	6.9	(11.5%)
Software Testing	17.3	-	-	-	-	-	(2.7)	14.6	(15.6%)
Discontinued total	**29.2**	**-**	**-**	**(4.1)**	**-**	-	**(3.6)**	**21.5**	
Group total	**244.5**	**(2.6)**	**4.0**	**(4.1)**	**(8.6)**	**1.0**	**20.5**	**254.7**	**+8.8%**

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

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

Last year, as a result of the Strategic Review, we reported that we would seek to rebalance the business away from single transaction reselling of third party products, unless they complemented our professional services or our monitoring activities. The £8.6m reduction above represents the completion of this strategic objective. In addition, we have moved to new lower risk terms and conditions for the Group so that if we do facilitate the procurement of a third party product for a customer, we act as an agent only and record a commission on the transaction as opposed to the gross revenue and cost values. This change was made midway through the financial year with an estimated additional full year impact next year to reduce revenue by £2.6m (all else being equal). We expect no further material reductions in this revenue line.

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

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

[5] Unless stated to the contrary, the narrative that follows refers to continuing operations for the financial year ended 31 May 2018.

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

Group revenue – impact of IFRS 15, Revenue Recognition

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

Group profitability – alternative performance measures (APMs)

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

Group profitability

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

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

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

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

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

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

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

also went live internally in NCC Group in preparation for the UK commercial launch of services which occurred on 1 June 2018.

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

Central costs and allocations

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

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

Assurance Division – Business Performance Review

Assurance revenue

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

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

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

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

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

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

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

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

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

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

Professional Services in the Netherlands, which were historically a smaller part of the overall business, are being supported in their growth efforts by other parts of the Group and in the year delivered growth of

11.4%. In managed services (sometimes known as CTMp or MSS), our Dutch business continued to show good growth of £2.8m (22.0%). In addition, our High Assurance service line grew by £2.1m (29.9%). This demonstrates the recovering profile of some key customer relationships in the Netherlands.

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

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

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

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

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

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

	2018 £m	2017 £m
Revenue	194.4	178.1
Cost of sales	(127.9)	(126.6)
Gross profit	66.5	51.5
GM%	***34.2%***	***28.9%***
G&A before adjusting items	(34.6)	(30.8)
Central cost allocation	(14.9)	(10.3)
Adjusted operating profit*	17.0	10.4
*Adjusted operating profit margin**	*8.7%*	*5.8%*
Adjusting items (note 4)	(12.5)	(63.9)
Operating profit*/(loss)	4.5	(53.5)

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

Escrow Division Business Performance Review

Revenue performance

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

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

Escrow UK

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

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

Escrow USA

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

Escrow Europe

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

Escrow Rest of the World

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

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

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

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

Escrow profitability analysis

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

	2018 £m	2017 £m
Revenue	38.8	37.2
Cost of sales	(9.2)	(10.5)
Gross profit	29.6	26.7
GM%	***76.3%***	***71.8%***
G&A before adjusting items	(3.9)	(3.7)
Central cost allocation	(4.1)	(2.8)
Adjusted operating profit*	21.6	20.2
Adjusted operating profit margin*	***55.7%***	***54.3%***
Adjusting items (note 4)	***0.2***	***(1.0)***
Operating profit*	***21.8***	***19.2***

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

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

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

Escrow strategic goals

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

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

Chief Financial Officers review

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

Adjusting items

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

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

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

Current period

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

The change in value of deferred and contingent consideration (in the current and prior period) is driven by changes in FX rates on outstanding payments denominated in foreign currencies. As explained in note 14, the final tranche of deferred consideration on Fox-IT was paid in full after the year end.

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

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

Onerous leases and property-related costs were in respect of a number of items. During the year, the Group carried out a review of its UK property portfolio and capacity requirements. This led to the identification of two onerous property leases where the facilities in question were either empty or significantly under-utilised. As a result, a provision has been established for the forecast discounted net

cash flows that will result on both properties after allowing for estimated income from potential subletting. Both properties were empty and unused as at 31 May 2018. Other property costs included here related to pre-occupancy double running costs of the Manchester head office that started in the prior year and were completed in the first half of the year when the building was occupied.

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

Details of the other ISIs in the prior year are disclosed more fully in the prior year Annual Report and Accounts.

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

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

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

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

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

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

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

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

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

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

Dividend

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

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

Cash

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

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

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

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

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

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

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

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

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

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

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

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

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

Acquisition expenditure relates to the payment of contingent consideration in respect of the acquisition of PSC and VSR in the USA in the prior year and the part payment of 10% of the second tranche of Fox-IT deferred consideration in November 2017. Both US businesses performed well in the first year of their earn-outs and achieved 100% of the maximum potential pay-out based on profit targets set at the time of acquisition. The remaining portion of the Fox-IT deferred consideration was paid in full after the year end as set out in note 14. Disposal proceeds were in respect of the sale of Web Performance and Software Testing which are detailed further in note 5.

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

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

Financing facilities

The Group's facilities and covenants are summarised below:

- Maximum facility £100.0m (£20.0m amortising term loan and £80m revolving credit facility) with an addition accordion facility of £50.0m on top – current net debt* is £27.8m (2017: £43.7m)
- Liability for deferred acquisition consideration is included in net debt* for covenant purposes giving banking net debt* as at 31 May 2018 of £37.7m. The fact that this was paid in respect of Fox-IT after rather than before the year end therefore had no impact on the Group's covenant or interest margin calculations (see note 14 Post Balance Sheet Events).
- Leverage limit of 2.5 times Adjusted* EBITDA – current leverage 0.89 times.
- Net interest (Adjusted* EBITDA/Net interest) cover minimum 3.5 times – current ratio 28.3 times.

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

Principal risks and uncertainties

Risks are evaluated at a number of levels of the organisation, commencing with those which link to the Group achieving its strategic objectives. These risks are summarised below under our principal risks and uncertainties. A more detailed explanation of our approach to risk management in general is included in our Annual Report and Accounts.

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

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

On behalf of the Board

Adam Palser
Chief Executive Officer

Brian Tenner
Chief Financial Officer

17 July 2018

Consolidated income statement

For the Year ended 31 May 2018

	Notes	2018 Total £m	2018 Adjustments (note 3) £m	2018 Adjusted* £m	2017 Total £m	2017 Adjustments (note 3) £m	2017 Adjusted* £m
Revenue	4	**233.2**	–	**233.2**	215.3	–	215.3
Cost of sales		**(137.1)**	–	**(137.1)**	(137.1)	–	(137.1)
Gross profit		**96.1**	–	**96.1**	78.2	–	78.2
Administration expenses comprising:		**(82.4)**	**17.3**	**(65.1)**	(121.1)	68.4	(52.7)
General and administrative expenses		**(65.1)**	–	**(65.1)**	(52.7)	–	(52.7)
Amortisation of acquired intangibles	3	**(9.4)**	**9.4**	–	(10.3)	10.3	–
Individually Significant Items	3, 6	**(7.6)**	**7.6**	–	(57.6)	57.6	–
Share-based payments	3	**(0.3)**	**0.3**	–	(0.5)	0.5	–
Operating profit*/(loss)	3	**13.7**	**17.3**	**31.0**	(42.9)	68.4	25.5
Interest expense		**(1.5)**	–	**(1.5)**	(1.4)	–	(1.4)
Discount on acquisition consideration		**(0.3)**	**0.3**	–	(0.5)	0.5	–
Net financing costs		**(1.8)**	**0.3**	**(1.5)**	(1.9)	0.5	(1.4)
Profit/(loss) before taxation		**11.9**	**17.6**	**29.5**	(44.8)	68.9	24.1
Taxation	7	**0.5**	**(7.1)**	**(6.6)**	(2.1)	(4.8)	(6.9)
Profit/(loss) - continuing operations		**12.4**	**10.5**	**22.9**	(46.9)	64.1	17.2
(Loss) - discontinued operations, net of tax	5	**(5.5)**	**5.5**	–	(9.7)	9.7	–
Profit/(loss) for the year		**6.9**	**16.0**	**22.9**	(56.6)	73.8	17.2
Earnings per share	9						
Basic EPS – continuing		**4.5p**			(17.0)p		
Diluted EPS – continuing		**4.4p**			(17.0)p		
Basic EPS – discontinuing		**(2.0)p**			(3.5)p		
Diluted EPS – discontinuing		**(1.9)p**			(3.5)p		
Basic EPS – all operations		**2.5p**			(20.4)p		
Diluted EPS - all operations		**2.5p**			(20.4)p		

The Company has elected to take the exemption under section 408 of the Companies Act 2006 from presenting the parent company profit and loss account.

Consolidated statement of comprehensive income

For the Year ended 31 May 2018

	2018 £m	2017 £m
Profit/(loss) for the year	**6.9**	(56.6)
Items that may be reclassified subsequently to profit or loss (net of tax)		
Foreign exchange translation differences	**0.3**	17.9
Total comprehensive income/(loss) for the year, net of tax	**7.2**	(38.7)
Attributable to:		
Equity holders of the parent	**7.2**	(38.7)

Consolidated statement of financial position

at 31 May 2018

	Notes	2018 £m	2018 £m	2017 £m	2017 £m
Non-current assets					
Plant and equipment		**19.4**		18.3	
Intangible assets	10	**240.0**		267.6	
Investments		**0.4**		0.4	
Deferred tax assets	7	**4.5**		4.2	
Total non-current assets			264.3		290.5
Current assets					
Trade and other receivables	11	**67.5**		66.7	
Inventories		**0.8**		1.1	
Cash and cash equivalents		**21.2**		12.3	
Total current assets			**89.5**		80.1
Total assets			**353.8**		370.6
Current liabilities					
Trade and other payables		**35.7**		29.7	
Provisions	12	**2.6**		1.5	
Consideration on acquisitions		**11.9**		12.9	
Deferred revenue		**29.0**		35.6	
Current tax payable		**1.3**		3.0	
Total current liabilities			**80.5**		82.7
Non-current liabilities					
Deferred tax liability	7	**9.8**		14.2	
Provisions	12	**6.3**		3.5	
Consideration on acquisitions		**–**		2.1	
Interest-bearing loans		**49.0**		56.0	
Total non-current liabilities			**65.1**		75.8
Net assets			**208.2**		212.1
Equity					
Issued capital		**2.8**		2.8	
Share premium		**149.5**		148.0	
Merger reserve		**42.3**		42.3	
Retained earnings		**(12.8)**		(7.1)	
Currency translation reserve		**26.4**		26.1	
Total equity attributable to equity holders of the parent			**208.2**		212.1

These financial statements were approved by the Board of Directors on 17 July 2018 and were signed on its behalf by:

Adam Palser
Chief Executive Officer
17 July 2018

Brian Tenner
Chief Financial Officer

NCC Group plc
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Consolidated statement of cash flows

for the year ended 31 May 2018

Cash flow from operating activities (includes continuing and discontinued operations)

	Notes	2018 £m	2017 £m
Profit/(loss) for the year		**6.9**	(56.6)
Adjustments for:			
Depreciation		**6.5**	5.2
Depreciation – Individually Significant Items		–	0.9
Share-based charges		**0.2**	0.6
Amortisation of acquired intangible assets	10	**9.4**	10.3
Amortisation of internally developed intangible assets and software		**5.9**	3.5
Net financing costs		**1.8**	1.9
Profit on sale of plant and equipment		**–**	(0.1)
Individually Significant Items (non-cash impact)		**3.5**	68.0
Loss/(profit) on disposal of subsidiaries	5	**6.4**	(1.2)
Income tax expense	7	**(0.6)**	1.3
Cash inflow for the year before changes in working capital		**40.0**	33.8
Increase in trade and other receivables		**(5.0)**	(2.3)
Increase in trade and other payables		**4.5**	0.2
Cash generated from operating activities before interest and tax		**39.5**	31.7
Interest paid		**(1.8)**	(1.9)
Income taxes paid		**(4.7)**	(1.8)
Net cash generated from operating activities		**33.0**	28.0
Cash flows from investing activities			
Purchase of plant and equipment		**(7.7)**	(11.0)
Capital contribution for property, plant and equipment		–	3.7
Proceeds from disposal of property		–	0.4
Software and development expenditure	10	**(5.0)**	(7.4)
Acquisition of businesses		**(3.1)**	(28.4)
Cash acquired with subsidiaries		–	1.9
Net proceeds from sale of subsidiaries	5	**9.9**	1.7
Cash disposed of from sale of subsidiaries	5	**(0.7)**	(1.7)
Net cash used in investing activities		**(6.6)**	(40.8)
Cash flows from financing activities			
Proceeds from the issue of ordinary share capital		**1.5**	0.7
Drawdown of borrowings		**7.5**	45.5
Repayment of borrowings		**(12.9)**	(26.6)
Equity dividends paid		**(12.8)**	(12.8)
Net cash used in financing activities		**(16.7)**	6.8
Net increase/(decrease) in cash and cash equivalents		**9.7**	(6.0)
Cash and cash equivalents at beginning of year		**12.3**	20.7
Effect of foreign currency exchange rate changes		**(0.8)**	(2.4)
Cash and cash equivalents at end of year		**21.2**	12.3

Reconciliation of net change in cash and cash equivalents to movement in net debt*

	2018 £m	2017 £m
Net increase/(decrease) in cash and cash equivalents	**9.7**	(6.0)
Change in net debt* resulting from cash flows	**5.4**	(18.9)
Effect of foreign currency on cash flows	**(0.8)**	(2.4)
Foreign currency translation differences on borrowings	**1.6**	(3.7)
Change in net debt* during the year	**15.9**	(31.0)
Net debt* at start of year	**(43.7)**	(12.7)
Net debt* at end of year	**(27.8)**	(43.7)

Net debt* comprises

	2018 £m	2017 £m
Cash and cash equivalents	**21.2**	12.3
Total borrowings	**(49.0)**	(56.0)
Net debt* at end of year	**(27.8)**	(43.7)

Statements of changes in equity

for the year ended 31 May 2018

Group

	Issued share capital £m	Share premium £m	Merger reserve £m	Currency translation reserve £m	Reserve for own shares £m	Retained earnings £m	Total £m
Balance at 1 June 2017	**2.8**	**148.0**	**42.3**	**26.1**	–	**(7.1)**	**212.1**
Profit for the year	–	–	–	–	–	6.9	6.9
Foreign currency translation differences	–	–	–	0.3	–	–	0.1
Total comprehensive income for the year	–	–	–	0.3	–	6.9	7.2
Transactions with owners recorded directly in equity							
Dividends to equity shareholders	–	–	–	–	–	(12.8)	(12.8)
Share-based payment transactions	–	–	–	–	–	–	–
Current and deferred tax on share-based payments	–	–	–	–	–	0.2	0.2
Shares issued	–	1.5	–	–	–	–	1.5
Total contributions by and distributions to owners	–	1.5	–	–	–	(12.6)	(11.1)
Balance at 31 May 2018	**2.8**	**149.5**	**42.3**	**26.4**	–	**(12.8)**	**208.2**

	Issued share capital £m	Share premium £m	Merger reserve £m	Currency translation reserve £m	Reserve for own shares £m	Retained earnings £m	Total £m
Balance at 1 June 2016	2.8	147.3	42.3	8.2	(0.2)	62.5	262.9
Loss for the year	–	–	–	–	–	(56.6)	(56.6)
Foreign currency translation differences	–	–	–	17.9	–	–	17.9
Total comprehensive income for the year	–	–	–	17.9	–	(56.6)	(38.7)
Transactions with owners recorded directly in equity							
Dividends to equity shareholders	–	–	–	–	–	(12.8)	(12.8)
Share-based payment transactions	–	–	–	–	–	0.2	0.2
Current and deferred tax on share-based payments	–	–	–	–	–	(0.4)	(0.4)
Shares issued	–	0.7	–	–	–	–	0.7
Purchase of own shares	–	–	–	–	0.2	–	0.2
Total contributions by and distributions to owners	–	0.7	–	–	0.2	(13.0)	(12.1)
Balance at 31 May 2017	**2.8**	**148.0**	**42.3**	**26.1**	**–**	**(7.1)**	**212.1**

Notes
(forming part of the preliminary Financial Statements)

1 Accounting policies
Basis of preparation
The financial information set out herein does not constitute the Company's statutory financial statements for the years ended 31 May 2018 or 31 May 2017, but is derived from those financial statements. Statutory financial statements for 2017 have been delivered to the Registrar of Companies, and those for 2018 will be delivered in due course. The financial statements were approved by the Board of directors on 17 July 2018. The auditor has reported on those financial statements; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors 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.

Copies of the Company's statutory financial statements will be available on the Group's corporate website. Additional copies will be available upon request from the Company Secretary.

The Group financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use within the European Union and in accordance with the accounting policies included in the Annual Report for the year ended 31 May 2017.

Changes in accounting policies and disclosures
The Group has adopted all applicable amendments to standards with an effective date from 1 June 2017. Adoption of these standards did not have any material impact on financial performance or position of the Group.

Going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report which can be found in the Annual Report and Accounts. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Business and Financial Review in the Annual Report and Accounts as are the Group's policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to credit risk and liquidity risk.

The Group funds its strategic acquisitions and meets its day-to-day working capital requirements via a multi-currency revolving credit facility of £80.0m, a £20.0m multi-currency term loan that amortises by £2.5m every six months and an overdraft of £5m. At 31 May 2018, the amount drawn down under the facilities was £49.0m. This facility was agreed in November 2015 and is due for renewal in November 2020.

The Directors have reviewed the trading and cash flow forecasts of the Group as part of their going concern assessment and have taken into account reasonable downside sensitivities which reflect uncertainties in the current operating environment. The possible changes in trading performance show that the Group is able to operate within the level of the banking facilities and, as a consequence, the Directors believe that the Group is well placed to manage its business risks successfully. After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for a period of at least 12 months. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

New IFRS and amendments to IAS and interpretations
At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU). The Group does not intend to early adopt these standards:

IFRS 15 Revenue from Contracts with Customers: Summary financial impact of transition to IFRS15
The summary impacts of the transition to IFRS 15 on the Group's revenue, Operating Profit*, Adjusted Operating Profit*, Profit after Tax for the year ended 31 May are set out below:

	Revenue £m	Operating profit* £m	Adjusted operating profit* £m	PAT £m
Existing GAAP (IAS 18 basis)	233.2	13.7	31.0	7.0
Spreading of set-up/initial/up-front Escrow fees	0.4	0.4	0.4	0.3
Spreading set-up/initial/up-front fees for Assurance MSS	(0.6)	(0.6)	(0.6)	(0.5)
IFRS 15 basis	233.0	13.5	30.8	6.8

The impact on the Group's balance sheet would be similarly negligible.

IFRS 9 Financial Instruments – Recognition and Measurement
Measurement will be effective from the year ending 31 May 2019 onwards. Management is still considering the impact of the new standard which is not expected to have a significant impact and an update will be provided in the interim financials which are due to be published in January 2019.

IFRS 16 Leases
IFRS 16 *Leases* will be effective from the year ending 31 May 2020 onwards and the impact on the financial statements will be significant to NCC Group plc. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for all lease contracts. Therefore, the substantial majority of the Group's operating lease commitments (approximately £30m on an undiscounted basis) would be brought on to the balance sheet and amortised and depreciated separately. There will be no impact on cash flows although the presentation of the cash flow statement will change significantly. Management is still considering the impact of this new standard and is as yet unable to quantify its likely impact.

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

Accounting area	Accounting Judgement?	Accounting Estimate?
Carrying value of intangible assets	Yes	Yes
Capitalising development costs	Yes	Yes
Individually Significant Items	Yes	No
Loss-making contract	No	Yes

2.1 Estimation uncertainties
Information about estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying values of assets and liabilities within the next financial year are addressed below.

Carrying values of intangible assets (including goodwill, acquired intangibles and capitalised software and development costs)
The Group has significant balances relating to goodwill at 31 May 2018 as a result of acquisitions of businesses. The carrying value of goodwill at 31 May 2018 is £187.1m (2017: £198.7m). Goodwill balances are tested annually for impairment. Tests for impairment are primarily based on the calculation of a value in use for each CGU. Acquired intangibles and capitalised development and software costs are also allocated to CGUs. This involves the preparation of discounted cash flow projections, which require significant estimates of both future operating cash flows and an appropriate risk-adjusted discount rate. The commercial viability of individually capitalised development project costs is also part of the overall assessment of carrying values.

Future cash flow estimates are made up of two critical estimates: the rate of revenue growth, the associated rate of cost growth (or, in other words, margin improvement or contraction if costs grow at a different rate from revenue). Given the importance of Terminal Values (TV) in assessing the recoverability of carrying amounts, relatively modest annual but compounding changes in assumptions for revenue growth or margin gains can have a significant impact on the annual net cash flow used in calculating the TV. Such estimates are inherently subjective and, while reference is made where possible to external sources of evidence to validate estimates, the inherent uncertainty remains. This uncertainty can have a material impact on the result of the impairment test.

The calculation of an appropriate discount rate to apply to the future cash flow estimate is itself an estimate. While some aspects of discount rate calculations can be more mechanical in nature (such as using the 30-year gilt yield as a proxy for the risk free rate) others such as entity or sector specific risk adjustments rely more on management estimates. The discount rate is also a key component in assessing the Terminal Value which is often an important part of any valuation. Sensitivity analysis on what are regarded as reasonably possible changes is provided in note 10.

Loss-making contract
Some aspects of the Group's revenue derive from relatively long-term contracts, whilst this is in respect of a very limited number of contracts, the risk of loss on such long term contracts could have a significant impact. In such situations project managers use established methodologies to estimate the percentage complete of a project and hence the amount of revenue that should have been recognised to date. One such example occurred in the current year where we carried out a detailed bottom-up project assessment and identified that a contract in our business in the Netherlands was not as complete as previously estimated. This in turn led to a full life contract review and the recognition of a provision for the remaining loss on the contract as a whole. In some cases, long-term contract revenue is signed off by reference to meeting customer agreed milestones in which case the degree of estimation can be lower. Furthermore, identifying whether or not an as yet incomplete contract will be loss-making over its life includes estimates of future costs to complete. This inevitably includes estimates and allowances for unknown contingencies and assumptions about labour rates and future prices.

2.2 Judgements
Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements are addressed below.

Carrying value of intangible assets– assessment of CGUs
A CGU is the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Identification of a CGU does involve judgement. The Directors have reviewed the continuing applicability of the judgements made in the prior year in determining the CGUs within the Group and in allocating goodwill to these CGUs. The Directors have concluded that the same CGUs continue to be applicable in the current year.

Individually Significant Items
The Group categorises certain items as ISIs on the basis of management judgement. These judgements have regard to the Group's approach to materiality as set out within the Audit Committee report in the Annual Report and Accounts. Some items are deemed material because of scale, some because of their nature or frequency of occurrence, and others through a combination of both. These judgements can be significant not only in changing the Group's Adjusted* results, refer note 3, but can also have a significant impact on senior management and executive reward which in some cases are linked to Adjusted* results as opposed to GAAP results (as set out in note 3).

Capitalisation of development costs
Development activities involve a plan or design for the production of new or substantially improved products or processes. Judgement is required in determining whether the project is technically and commercially feasible; estimation is required in assessing the future economic benefit. Such judgements are inherently subjective and can have a material impact on determining the viability of the project and ultimately whether the costs should be capitalised.

3 Alternative performance measures
The Board and Executive management use a number of alternative performance measures (APMs) in their day-to-day management of the business and in setting employee targets. The Group's primary financial profitability measure used in guiding external stakeholders and in internal management reviews is Adjusted operating profit*. It is management's view that Adjusted operating profit* is more closely aligned to the underlying performance of the business. Adjusted* EBITDA is also disclosed as this is used by some stakeholders and in some other KPIs used in the business (such as the Cash conversion ratio*).

These APMs are not defined measures in IFRS and therefore these measures may not be comparable with similar APMs in other businesses. These APMs are not intended to be a replacement for, or be superior to, IFRS measures.

The "Adjusted" alternative performance measures are arrived at by excluding the impact of a number of Adjusting Items that the Directors consider are not part of underlying business performance for the reasons referred to below. The various adjusting items are set out in the table below:

Adjustments	2018 £m	2017 £m
Amortisation of acquired intangible assets (note 10)	**9.4**	10.3
Individually Significant Items (see note 6)	**7.6**	57.6
Share-based payments	**0.3**	0.5
Discount unwind on acquisition consideration	**0.3**	0.5
Adjustments to profit/(loss) before taxation	**17.6**	68.9

Rationale for adjusting items
At all times the Group aims to ensure that the Annual Report and Accounts are fully compliant with International Financial Reporting Standards and that they give a Fair Balanced and Understandable view

of the Group's performance, cash flows and financial position. IAS 1, Presentation of Financial Statements, requires the separate presentation of items that are material in nature or scale in order to allow the user of the accounts to understand underlying business performance. In management's opinion, the adjusting items below are material items that require separate disclosure and adjustment to allow the user of the accounts to understand the underlying business performance. Adjusting items are reviewed by both the Audit and the Remuneration Committee's, each time they arise, to ensure that they are appropriately categorised and disclosed and to understand their impact on executive and senior management incentive schemes which use Alternative Performance Measures when setting and evaluating targets.

The amortisation of acquired intangibles is a non-cash accounting charge driven by acquisition-based growth as opposed to Adjusted organic* growth (organic growth is considered below). An alternative view could be that the charge should be included in underlying results to reflect the "cost" of an acquisition in the Income Statement. All things considered, including the similar treatment by comparator companies, the Directors have concluded that this item is validly disclosed as an adjusting item. The same logic applies to the non-cash unwinding of discounts on deferred and contingent acquisition consideration.

Individually Significant Items are considered separately in note 6. The Directors consider share-based payments to be a valid adjusting item on the basis that fair values are volatile due to movements in share price which may not be reflective of the underlying performance of the Group.

Adjusted EBITDA and Adjusted operating profit

The reconciliation of Adjusted operating profit* and Adjusted* EBITDA to reported profit or loss before tax is shown below:

	2018 £m	2017 £m
Adjusted EBITDA from continuing operations	**42.5**	33.0
Depreciation	**(6.2)**	(4.9)
Amortisation of software and capitalised development costs	**(5.3)**	(2.6)
Adjusted operating profit from continuing operations	**31.0**	25.5
Amortisation of acquired intangible assets (note 10)	**(9.4)**	(10.3)
Individually Significant Items (note 6)	**(7.6)**	(57.6)
Share-based payments	**(0.3)**	(0.5)
Interest expense	**(1.5)**	(1.4)
Discount on acquisition consideration	**(0.3)**	(0.5)
Profit before tax from continuing operations	**11.9**	(44.8)

The calculation of Adjusted* EPS follows the same logic shown above in respect of Adjusted* EBITDA and Adjusted operating profit* but also includes the impact of taxation and any one-off taxation items. The calculation of Adjusted* EPS is shown in note 9.

Adjusted organic growth

Adjusted organic* growth is used to convey the amount of revenue growth that has been delivered by management through their controllable actions in the day to day running of the business. It therefore excludes growth delivered through the impact of acquisitions or disposals and also the strategic decision to exit the sale of third party products as each of these are considered to be the result of corporate activity rather than day to day operating activities. Finally, it also excludes the translational impact of changes in weighted average foreign exchange rates as these are outside of management control. The foreign exchange impact is calculated by applying the current year weighted average foreign exchange rates to the prior year revenues denominated in foreign currencies and is the difference between that calculation and the sterling equivalent reported with in the FY2017 Annual Report and Accounts. The prior year is adjusted for a correction in the application of revenue recognition in Escrow which were included in the Annual Report and Accounts in the prior year.

The calculation of Adjusted organic* growth is set out on page 11 for the Group and the two divisions.

Cash conversion ratio

The cash conversion ratio* is a measure of how effectively Adjusted operating profit* (refer above) is converted into cash and effectively highlights both non-cash accounting items within operating profit* and also movements in working capital. It is calculated as Net cash flow from operating activities before interest and tax (which is disclosed on the face of the cash flow statement) divided by Adjusted* EBITDA (which is one of the Group's APM described above). The cash conversion ratio* is used by many comparable companies in our sector and hence is disclosed to show the quality of cash generation and also to allow comparison to other similar companies.

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

Continuing and discontinued	**2018 £m**	**2017 £m**

Net operating cash flow before interest and tax (A) (Consolidated statement of cash flows)	39.5	31.7
Adjusted* EBITDA (B) (see below)	44.0	36.2
Cash conversion ratio* (%) (A) / (B)	90%	87%

Adjusted EBITDA for continuing operations is £42.5m, see above, and from discontinued operations is £1.5m, total £44.0m (2017: £33.0m, £3.2m, and £36.2m respectively

Net debt

Net debt* is defined as total cash and cash equivalents less interest bearing loans. Both of these amounts are shown in the Statement of financial position. This APM is used to convey the overall net indebtedness of the Group and to assess the Group's overall gearing.

	2018 £m	2017 £m
Cash and cash equivalents (Consolidated statement of financial position)	21.2	12.3
Interest-bearing loans	(49.0)	(56.0)
Net Debt	(27.8)	(43.7)

Net debt, when compared to available borrowing facilities, also gives an indication of available financial resources to fund potential future investments.

4 Segmental information

The Group is organised into the following two (2017: two) reportable segments, Escrow and Assurance. The two reporting segments provide distinct types of service while within each of the reporting segments, the operating segments provide a homogeneous group of services. The operating segments are grouped into the reporting segments on the basis of how they are reported to the Chief Operating Decision Maker (CODM) for the purposes of IFRS 8: "Operating Segments", who is considered to be the Board of Directors of NCC Group. Operating segments are aggregated into the two reportable segments based on the types and delivery methods of services they provide, common management structures, and their relatively homogenous commercial and strategic market environments. Performance is measured based on reporting segment profit, which comprises reporting segment operating profit* excluding amortisation of acquired intangible assets, share-based payment charges and Individually Significant Items. Interest and tax are not allocated to business segments and there are no intra-segment sales.

Segmental analysis 2018

	Escrow **£m**	**Assurance** **£m**	**Central & Head Office** **£m**	**Group** **£m**
Revenue	38.8	194.4	–	233.2
Cost of sales	(9.2)	(127.9)	–	(137.1)
Gross profit	29.6	66.5	–	96.1
Gross profit %	*76.3%*	*34.2%*	*0.0%*	*41.2%*
G&A* before adjusting items	(3.9)	(34.6)	(26.6)	(65.1)
Central cost reallocation	(4.1)	(14.9)	19.0	–
Adjusted operating profit*	**21.6**	**17.0**	**(7.6)**	**31.0**
Adjusting items (note 3)	0.2	(12.5)	(5.0)	(17.3)
Operating profit*	**21.8**	**4.5**	**(12.6)**	**13.7**

Segmental analysis 2017

Restated (see note below)	Escrow £m	Assurance £m	Central & Head Office £m	Group £m
Revenue	37.2	178.1	–	215.3
Cost of sales	(10.5)	(126.6)	–	(137.1)
Gross profit	26.7	51.5	–	78.2
Gross profit %	*71.8%*	*28.9%*	*0.0%*	*36.3%*
G&A before adjusting items	(3.7)	(30.8)	(18.2)	(52.7)
Central cost reallocation	**(2.8)**	**(10.3)**	**13.1**	–
Adjusted operating profit*	**20.2**	**10.4**	**(5.1)**	**25.5**
Adjusting items (note 3)	(1.0)	(63.9)	(3.5)	(68.4)
Operating profit*	**19.2**	**(53.5)**	**(8.6)**	**(42.9)**

* The segmental figures above for central cost allocations have been restated to be on the same basis as the current year allocation to give a more accurate picture of the underlying result and movement between years. The reallocation rationale is explained on page 13. Management consider that the revised reallocation rationale is appropriate to the prior year given that the overall Group result is unchanged by this. However, the Escrow operating profit* in last year's accounts was reported as £18.1m, Assurance was a loss of £55.6m, Domain Services a loss of £4.2m and Central and head office recorded a loss of £11.7m, totalling a loss of £53.4m. This included a loss on Discontinued operations (including Domain Services) of £10.5m.

There are no customer contracts which account for more than 10% of segment revenue.

	2018 £m	2017 £m
Revenue by geographical destination		
UK	**100.3**	102.0
US	**68.4**	60.4
Europe and RoW	**64.5**	52.9
Total revenue from continuing operations	**233.2**	215.3
Revenue from discontinued operations	**21.5**	29.2
Total revenue	**254.7**	244.5

	2018 £m	2017 £m
Revenue by category		
Sale of goods	**9.8**	23.8
Revenue from services	**223.4**	191.5
Total revenue	**233.2**	215.3

Operating profit and adjusted operating profit is considered further in note 3.

5 Discontinued operations

In July 2017, the Group also announced its intention to sell Web Performance and Software Testing, both part of the Assurance division but not aligned to the core cyber security activities of the division. The Web Performance business was sold on 28 March 2018. The Software Testing business was sold on 24 May 2018. The results of these businesses have been classified as discontinued operations. The comparative consolidated statement of profit or loss and OCI have been re-presented to show the discontinued operations separately from continuing operations. In January 2017, in the prior financial year, the Group sold Open Registry, part of the Domain Services division and it too has been shown as a discontinued operation. The tables below provide an analysis of discontinued operations for revenue, EBITDA and profit before tax as these are considered to be the most relevant to understanding underlying business performance.

(Loss)/profit of discontinued operations	2018 £m	2017 £m
Revenue	**21.5**	29.2
Cost of sales	**(17.2)**	(22.9)
Gross profit	**4.3**	6.3
General administrative expenses	**(3.6)**	(4.3)
Individually Significant Items*	**–**	(13.4)
Share-based payments	**0.1**	(0.3)
Operating profit*/(loss)	**0.8**	(11.7)
(Loss)/gain on sale of discontinued operations before tax	**(6.4)**	1.2
Loss on discontinued operations before tax	**(5.6)**	(10.5)
Taxation	**0.1**	0.8
Loss on discontinued operations after tax	**(5.5)**	(9.7)

* Individually Significant Items are shown in note 6.

Effect of discontinued operations on assets and liabilities*	2018 £m	2017 £m
Intangible assets	6.2	4.7
Plant and equipment	**0.5**	0.6
Trade and other receivables	**4.5**	8.6
Cash and cash equivalents	**0.7**	1.9
Trade and other payables	**(5.8)**	(11.5)
Net assets/(liabilities)	**6.1**	4.3

* Comprising Web Performance and Software Testing for FY17 and FY18 and Open Registry in FY17.

Cash flows from (used in) discontinued operations*	2018 £m	2017 £m
Net cash from/(used) in operating activities	**1.1**	(1.3)
Net cash from/(used) in investing activities	**(1.4)**	1.2
Consideration received, satisfied in cash	**11.3**	1.7
Cash and cash equivalents, disposed of	**(0.7)**	(1.9)
Net cash used in operating activities	**-**	(1.5)
Net cash flows for the year	**10.3**	(1.8)

* Comprising Open Registry, Web Performance and Software Testing for FY17 and FY18.

Summary of gain/(loss) on disposal of subsidiary	2018 £m	2017 £m
Consideration received or receivable:		
Cash consideration	**11.3**	1.7
Fair value of contingent consideration	**-**	1.5
Total disposal consideration	**11.3**	3.2
Carrying amount of net assets disposed of	**(6.1)**	0.2
Elimination of goodwill	**(10.2)**	(2.1)
Professional fees and other costs	**(1.4)**	(0.1)
(Loss)/gain on disposal before tax	**(6.4)**	1.2
Taxation	**-**	-
(Loss)/gain on disposal after tax	**(6.4)**	1.2

6 Individually Significant Items

The Group separately identifies items as Individually Significant Items. Each of these is considered by the Directors to be sufficiently unusual in terms of nature or scale so as not to form part of the underlying performance of the business. They are therefore separately identified and excluded from adjusted results (as explained in note 3).

Individually Significant Items (ISIs)	**2018** **£m**	**FY 2017** **£m**
Loss-making contract	(2.5)	-
Revisions to deferred and contingent consideration	(0.6)	(2.9)
Restructuring costs	(1.6)	(1.3)
Onerous leases and other property-related costs	(2.7)	(2.2)
Market-related costs	(0.2)	-
Impairment of goodwill	-	(48.6)
Impairment of other intangible assets	-	(4.5)
Acquisition costs	-	0.8
Vacation pay catch-up provision	-	(1.8)
Total ISIs – continuing operations	**(7.6)**	**(57.6)**
Impairment of goodwill	-	(5.7)
Impairment of other intangible assets	-	(7.7)
Total ISIs – discontinued operations	-	(13.4)
Total all ISIs	**(7.6)**	**(71.0)**

Current period

The onerous contract represents a loss-making contract which was identified through a review conducted by management in the year, whereby it was considered that significant additional effort would be required to satisfy the contractual commitments that led to the contract being estimated to be loss making over its lifetime. The Group has a very small number of long-term contracts and hence this is a very unusual occurrence for the Group. It was therefore deemed, both in terms of its unusual nature and size that it should be treated as an ISI.

Adjustments to deferred and contingent consideration were in respect of FX movements as no adjustments to expected payments were made in the period. The Group treats any change in deferred or contingent consideration that is driven by changes in foreign exchange rates as an ISI because this is unconnected to business performance. Other changes in deferred and contingent consideration are treated as an ISI as they relate to acquisition activity which is not part of the underlying performance of the business.

Restructuring costs are significant and are driven primarily by the Strategic Review and hence are treated as an ISI given the one off nature of the Strategic Review and the level of the costs.

Following a review of the UK property portfolio and capacity requirements, management identified two onerous property leases which were either unutilised or significantly under-utilised. The amount provided for represents the forecasted discounted net cash flows, after allowing for estimated income from subletting. Both properties were vacant and not in use as at 31 May 2018. In addition, double running costs of the Manchester head office, prior to occupancy, are also included here. These costs are treated as an ISI because they arise in connection with unoccupied properties and this is not considered to be part of the underlying performance of the business.

Market-related costs in the period were in respect of the shareholder circular and exercise to remediate a number of invalid dividends. This exercise completed successfully at the September EGM. The correction of invalid dividends being paid in the prior year by means of a shareholder circular is a highly unusual (one-off) occurrence and hence while small in scale was deemed not to form part of the underlying business performance.

Prior period

A goodwill impairment of £48.6m was recognised in respect of the CGUs for Fox-IT Holdings BV and Accumuli plc. The Fox and former Accumuli businesses (the latter now known as MSS) had underperformed compared to our original acquisition forecasts and also encountered integration challenges that have slowed the pace of commercial leverage of the different new service and product lines across the rest of the Group. The other Individually Significant Items are disclosed more fully in the prior year Annual Report and Accounts.

7 Taxation

Recognised in the income statement

	2018 £m	2017 £m
Current tax expense		
Current year	**2.4**	3.1
Adjustment to tax expense in respect of prior periods	**(0.6)**	–
Impact of prior year US R&D tax credits	**(0.2)**	–
Foreign tax	**1.8**	0.9
Total current tax	**3.4**	4.0
Deferred tax expense		
Origination and reversal of temporary differences	**(2.3)**	(1.9)
Reduction in tax rate	**(0.6)**	(0.4)
Recognition of previously unrecognised tax losses	**-**	-
Recognition of previously unrecognised/(de-recognition of previously recognised) deductible timing differences	**1.3**	0.4
Impact of prior year US R&D tax credits	**(2.3)**	–
Total deferred tax	**(3.9)**	(1.9)
Tax expense/(benefit) on continuing operations	**(0.5)**	2.1

Reconciliation of effective tax rate

	2018 £m	2017 £m
Profit/(loss) before taxation	**11.9**	(44.8)
Current tax using the UK corporation tax rate of 19.00% (2017: 19.83%)	**2.3**	(8.9)
Effects of:		
Items not taxable for tax purposes	**(0.5)**	10.6
Adjustment to tax charge in respect of prior periods	**0.9**	(0.2)
Impact of prior year US R&D tax credits	**(2.5)**	-
Differences between overseas tax rates	**1.4**	0.4
Movements in temporary differences not recognised	**(1.5)**	0.6
Effect of rate change	**(0.6)**	(0.4)
Total tax expense/(benefit) on continuing operations	**(0.5)**	2.1

Current and deferred tax recognised directly in equity was a credit of £0.2m (2017: charge of £0.2m). The UK Government enacted Finance Act 2016 in September 2016 including provisions to reduce the main rate of corporation tax to 17% with effect from 1 April 2020. Accordingly, the UK deferred tax balances have been revalued in these accounts where relevant.

The United States Tax Cuts and Jobs Act was enacted on 22 December 2017 and included several provisions that impact NCC Group. Notably a reduction in the US federal rate of corporate income tax from 35% to 21% (effective 1 January 2018), which has impacted the FY18 tax charge primarily due to a re-valuation of deferred tax assets and liabilities relating to US operations. The Group FY18 tax charge has also been affected by a significant R&D tax credit claim in the US, which is discussed further in the Group Performance Review and Audit Committee report.

The net deferred tax liability in the year fell from £10.0m to £5.3m, primarily as a result of the cut in the US Federal tax rate from 35% to 21% in the year.

8 Dividends

	2018 £m	2017 £m
Dividends paid and recognised in the year	**12.8**	12.8
Dividends proposed but not recognised in the year	**8.7**	8.7
Dividends per share paid and recognised in the year	4.65p	4.65p
Dividends per share proposed but not recognised in the year	3.15p	3.15p

9 Earnings per share (EPS)

The calculation of Adjusted* EPS for continuing operations only is based on the following:

	2018 £m	2018 £m	2017 £m	2017 £m

		2018		2017
Profit/(loss) for year for total operations		6.9		(56.6)
Loss for the year for discontinued operations		5.5		9.7
Profit/(loss) for the year for continuing operations		12.4		(46.9)
Amortisation of acquired intangible assets (note 10)	9.4		10.3	
Individually Significant Items (note 6)	7.6		57.6	
Unwinding of discount	0.3		0.5	
Share-based payments	0.3		0.5	
Tax arising on the above items	(5.6)		(4.8)	
Deferred tax recognised on US R&D tax credits	(2.3)		-	
Impact of US rate changes not accounted for in ISIs	0.8			
		10.5		64.1
Adjusted* profit from continuing operations used for Adjusted* EPS		22.9		17.2
Loss from discontinued operations		(5.5)		(9.7)
Adjusted* profit from all operations		17.4		7.5

	Number of shares m	Number of shares m
Basic weighted average number of shares in issue	277.0	276.3
Dilutive effect of share options	2.3	–
Diluted weighted average shares in issue	279.3	276.3

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

10 Intangible assets

	Software £m	Development costs £m	Customer contracts and relationships £m	Goodwill £m	Total £m
Cost:					
At 1 June 2016	27.0	4.2	76.2	236.2	343.6
Acquisitions through business combinations	–	–	7.7	12.1	19.8
Reclassification	(11.1)	11.1	–	–	–
Additions – internally developed	3.7	3.7	–	–	7.4
Disposals of subsidiaries/disposals	–	(0.1)	(3.4)	–	(3.5)
Effects of movements in exchange rates	0.6	0.4	6.5	16.6	24.1
At 31 May 2017	**20.2**	**19.3**	**87.0**	**264.9**	**391.4**
Additions – internally developed	2.5	2.5	–	–	5.0
Disposal of subsidiaries/disposals	(3.0)	(10.9)	0.1	(9.8)	(23.6)
Effects of movements in exchange rates	–	–	(0.5)	(1.7)	(2.2)
At 31 May 2018	**19.7**	**10.9**	**86.6**	**253.4**	**370.6**
Accumulated amortisation and impairment losses:					
At 1 June 2016	9.3	–	25.1	11.9	46.3
Reclassification	(2.1)	2.1	–	–	–
Charge for year	2.0	1.5	10.3	–	13.8
Impairment charge	2.0	5.7	–	54.3	62.0
Effects of movements in exchange rates	–	(0.2)	1.9	–	1.7
At 31 May 2017	**11.2**	**9.1**	**37.3**	**66.2**	**123.8**
Reclassification	–	–	–	–	–
Charge for year	2.9	2.7	9.4	–	15.0
Impairment charge	–	–	–	–	–
Disposals of subsidiaries/disposals	(2.1)	(6.0)	0.1	–	(8.0)
Effects of movements in exchange rates	–	–	(0.2)	–	(0.1)
At 31 May 2018	**12.0**	**5.8**	**46.6**	**66.2**	**130.6**
Net book value:					
At 31 May 2018	**7.7**	**5.1**	**40.0**	**187.2**	**240.0**
At 31 May 2017	9.0	10.2	49.7	198.7	267.6

Cash-generating units (CGUs): Goodwill and intangible assets are allocated to CGUs in order to be assessed for potential impairment. CGUs are defined by accounting standards as the lowest level of asset groupings that generate separately identifiable cash inflows that are not dependent on other CGUs. Following the Strategic Review, the Directors have reconsidered the CGUs within the Group. The CGUs and the allocation of goodwill to those CGUs is shown in the table below. The table also includes the discount rate used to assess the NPV of the future cash flows of each CGU:

Cash-generating units	**Goodwill 2018 £m**	Goodwill 2017 £m
Escrow UK	**22.9**	22.9
Escrow Europe	**7.4**	8.3
Escrow USA	**8.0**	7.3
Total Escrow	**38.3**	38.5
Assurance UK: Professional Services	**33.0**	18.5
Assurance US: Professional Services	**27.0**	28.1
PSC	**9.5**	9.8
VSR	**2.2**	2.3
Assurance Netherlands	**63.0**	62.7
Assurance UK: MSS	**14.1**	28.6
Web Performance (disposed of in 2018)	**-**	2.2
Software Testing (disposed of in 2018)	**-**	8.0
Total Assurance	**148.8**	160.2
Total Group	**187.1**	198.7

The CGUs are unchanged on the prior year save for the disposal of Web Performance and Software Testing CGUs during the year. The assessment of CGUs is a key accounting judgement as set out in note 2.

Discount rates can change relatively quickly for reasons both inside and outside management control. Those outside management direct control or influence include changes in the Group's Beta, changes in risk free rates of return and changes in Equity Risk Premia. In context, the estimated changes in risk free rates and the Group's Beta from last year to this have reduced all of the CGU discount rates by around 0.5%. Matters inside management control are the delivery of performance in line with plans or budgets and the production of high or low risk plans. In the current year, performance has on average been closer to planned performance and forward plans are considered to have a lower risk profile than prior years as forecast growth rates in revenue and margins have been moderated to reflect the need to improve internal systems and processes before higher growth could again be sustained. These factors also combine to lower the estimated discount rate for all CGUs.

When assessing impairment, the recoverable amount of each CGU is based on value-in-use calculations (VIU). VIU calculations are an area of material management estimate as set out in note 2. These calculations require the use of estimates, specifically: pre-tax cash flow projections; long-term growth rates; and a pre-tax discount rate. Cash flow projections are based on the Group's detailed annual operating plan for the forthcoming financial year which has been approved by the Board.

Assumptions have then been applied for expected revenue and margin growth forecasts for subsequent four years from the end of 2019 to 2023 (forecasts which have also been approved by the Board). These assumptions are based on management's experience of growth and knowledge of the industry sectors, markets and our own internal opportunities for growth and margin enhancement. The projections beyond five years use an estimated long-term growth rate of 2.5% (2017: 2.5%) for EBITDA. This represents management's best estimate of a long-term annual growth rate aligned to an assessment of long-term GDP growth rates. A higher sector-specific growth rate would be a valid alternative estimate. A different set of assumptions may be more appropriate in future years dependent on changes in the macroeconomic environment.

The discount rates used are based on management's calculation of the WACC using the capital asset pricing model to calculate the cost of equity. Specific rates are used for each CGU in the VIU calculation and the rates reflect management's assessment on the level of relative risk in each respective CGU. The pre-tax discount rates used in the VIU calculations are shown above.

The key assumptions for each CGU are shown in the table below:

Cash-generating units	5 year Revenue CAGR% 2018	5 year Revenue CAGR% 2017	EBITDA Margin% Growth 2018	EBITDA Margin% Growth 2017	Pre-tax discount rate 2018	Pre-tax discount rate 2017
Escrow UK	3.1%	3.5%	(0.2%)	1.8%	12.1%	11.4%
Escrow Europe	2.7%	3.5%	(5.9%)	1.7%	12.3%	11.8%
Escrow USA	4.6%	3.5%	3.5%	1.7%	13.4%	14.9%
Assurance UK: Professional Services	3.4%	8.6%	6.3%	5.9%	11.9%	12.6%
Assurance US: Professional Services	9.7%	8.9%	3.3%	7.6%	13.4%	14.6%
PSC	8.6%	19.9%	2.6%	3.1%	13.4%	14.5%
VSR	10.2%	22.7%	(6.6%)	(6.8%)	13.4%	14.5%
Assurance Netherlands (Fox-IT)	12.2%	19.1%	12.8%	17.8%	14.3%	17.0%
Assurance UK: MSS	9.5%	11.6%	11.1%	20.8%	14.9%	15.4%

The Directors have considered a range of sensitivities where they consider a reasonably possible change in key assumption could occur as follows:

- Revenue growth rates: in the type of high growth sector in which the Group's Assurance division operates, a significant proportion of the VIU is generated by the assumption that high growth will continue. If the revenue growth is achieved at unchanged profit margins each year then it is a very significant contributor to the terminal value, a key part of the VIU. A decrease of 10% is considered a reasonably possible change in revenue growth rates. A more significant decrease is not considered reasonably possible on the basis of the accuracy of the Group's previous revenue forecasts as in the great majority of cases, actual sales were within 10% of the forecasts.
- EBITDA margin growth: EBITDA (as a proxy for operating cash flow before changes in working capital) is also a key contributor to VIU. If revenue itself is unchanged over a period, margins can still be improved through efficiency gains or losses, which also has a significant impact on VIU. Revenue growth itself can also enhance EBITDA margins due to operational leverage achieved when costs grow at a slower rate than revenue. A change in the EBITDA growth assumption in excess of that which would be caused by a 10% fall in revenue growth is not considered by the Directors to be a reasonably possible change as they consider that cost control actions can be used to mitigate against changes in revenue.
- The discount rate for each CGU - as described above, both factors inside and outside management control impact the discount rate and 1% is considered a reasonably possible change in assumption due to changing market conditions.

EBITDA as an absolute measure is the primary cash flow driver and is directly impacted by the key assumptions relating to revenue growth and EBITDA margin. The sensitivities and their potential impacts on those CGU's where a reasonably possible change in a key assumption would lead to an impairment are shown below:

	Fox-IT	UK MSS
Surplus over carrying value of assets	£1.4m	£1.8m
Total VIU	£87.1m	£26.7m
Assumptions used in the VIU calculation		
Revenue growth CAGR	12.2%	9.5%
Change required to eliminate surplus	(0.5%)	(0.4%)
Pre-tax discount rate	14.3%	14.9%
Change required to eliminate surplus	(0.1%)	(0.9%)

The headroom in the other CGU's is significant such that reasonably possible changes in the key assumptions above would not lead to an impairment.

Development and software costs are included in the CGU asset bases and the associated discounted cash flow models. Capitalised development projects and software intangible assets are considered, on an asset by asset basis, for impairment where there are indicators of impairment. During the year, the Directors carried out a detailed strategic review of the capitalised product portfolio. This led to some specific projects being fully impaired as further development activity is not expected to continue, leading to a total impairment charge of £1.5m. For the remaining development and software assets, the Directors considered that based on forecast cashflow projections for the respective projects, the level of headroom is significant and therefore no sensitivity analysis is presented.

11 Trade and other receivables

	Group 2018 £m	Group 2017 £m	**Company 2018 £m**	Company 2017 £m
Trade receivables	**41.7**	40.9	**–**	–
Prepayments	**7.2**	6.6	**–**	–
Other receivables	**1.5**	1.5	**–**	–
Accrued income	**17.1**	17.7	**–**	
Amounts owed by Group undertakings	–	–	**153.8**	149.6
	67.5	66.7	**153.8**	149.6

The ageing of trade receivables at the end of the reporting period was:

Group

	Gross 2018 £m	**Impairment 2018 £m**	Gross 2017 £m	Impairment 2017 £m
Not past due	**25.9**	**–**	19.8	–
Past due 0–30 days	**6.8**	**–**	12.1	–
Past due 31–90 days	**8.0**	**–**	7.7	–
Past due more than 90 days	**2.3**	**(1.3)**	2.0	(0.7)
	43.0	**(1.3)**	41.6	(0.7)

The Company had no trade receivables (2017: £nil).

12 Provisions

	Lease incentives £m	Loss-making contracts £m	Onerous leases £m	Total £m
Balance as at 1 June 2017	5.0	–	–	5.0
Provisions arising in the year	1.7	2.6	2.4	6.7
Provisions utilised during the year	(0.8)	(1.6)	(0.4)	(2.8)
Balance as at 31 May 2018	**5.9**	**1.0**	**2.0**	**8.9**
Non-current	5.5	(1.0)	(1.8)	6.3
Current	0.4	2.0	0.2	2.6

Property provisions of £5.9m represent capital contributions of £3.5m towards fit-out costs on the new Manchester Head Office building and a rent-free allowance of £2.8m which are being amortised over the period of the lease.

The loss-making contract represents the estimated remaining net lifetime loss on a long-term development and supply contract. This is explained in more detail in note 6. The provision will be utilised over the remaining period of the contract which is expected to be completed in 2020. The provision includes an estimation of hours to complete, which if increased by 10% would increase the provision by £0.3m.

The onerous lease provisions arose due to vacant premises in Reading (£0.4m) and an unused floor in the Manchester head office building (£1.6m). The Reading provision will be utilised over the next three years and the Manchester provision will be utilised over the next ten years. In the discounted cash flow model, cash outflows are discounted at 2.6% and cash inflows at 6.1%. A 1% change in the discount rate on the cash outflows increases the provision by £0.2m. At present the Directors do not consider that void or rent free periods could be significantly longer than those already assumed in calculating the provisions. Hence a material change in the provision is not considered reasonably likely to happen.

13 Related party transactions

The Group's key management personnel comprise the Directors of the Group. The Group and Company's transactions with those Directors are disclosed in the Directors' Remuneration Report. There were no related party transactions during the year.

In the prior year, corporate finance fees of £0.3m were paid to Rickitt Mitchell and Partners Ltd. Paul Mitchell held the positions of Non-Executive Chairman of NCC Group until 31 May 2017 and was also the Non-Executive Chairman of Rickitt Mitchell and Partners Ltd.

14 Post balance sheet events

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

There were no other post balance sheet events.