4 February 2021

NCC Group plc
Interim results for the six months ended 30 November 2020

Confident in the future

NCC Group plc (LSE: NCC, "NCC Group" or "the Group"), a leading independent global cyber security and resilience adviser, reports its half year results for the six months to 30 November 2020 ("the half year", "H1 2021", "the period").

Highlights [1]

	H1 2021 [2]	H1 2020 [2]	Change
Revenue (£m)	**135.6**	132.7	2.2%
Gross profit (£m)	**54.4**	52.0	4.6%
Gross margin (%)	**40.1%**	39.2%	0.9% ppts
EBITDA [3] (£m)	**24.7**	23.0	7.4%
EBITDA [3] (%)	**18.2%**	17.3%	0.9% ppts
Operating profit (£m)	**12.0**	10.5	14.3%
Operating profit (%)	**8.8%**	7.9%	0.9% ppts
Adjusted operating profit [3]	**17.0**	16.7	1.8%
Adjusted operating profit [3] (%)	**12.5%**	12.6%	(0.1% ppts)
Profit before taxation (£m)	**10.7**	9.0	18.9%
Basic EPS (pence)	**2.7p**	2.4p	12.5%
Adjusted basic EPS (pence) [3]	**4.1p**	4.2p	(2.4%)
Net cash/(debt)(Pre-IFRS 16) [3]	**3.0**	(20.8)	+£23.8m
Net debt [3] (£m)	**(34.2)**	(51.4)	+£17.2m
Cash conversion [3]	**100.8%**	86.5%	14.3 ppts
Interim dividend (pence)	**1.5**	1.5	-

- **NCC Group has grown year-on-year**
  - Year-on-year increase in Group Revenue (2.2%), Gross Profit (4.6%), Operating profit (14.3%) and Adjusted operating profit (1.8%) despite Covid-19 disruption
    - Assurance revenue growth of 2.4%
    - Software Resilience revenue stabilised with growth of 0.5%
  - H1 2021 net cash (Pre-IFRS 16) of £3.0m from a net debt (Pre-IFRS 16) of £20.8m (H1 2020). Post IFRS 16, net debt amounts to £34.2m (H1 2020: £51.4m)
  - Acceleration of key service lines for the future
    - Managed Detection and Response ("MDR") revenues up 24.5% to £23.4m, providing greater recurring income
    - Escrow as a Service ("EaaS"), our Cloud Escrow proposition, had orders up 83.3% to £1.1m, with notable client wins including BT and Barclays
  - Major contract wins
    - Further successes with flagship clients including Bose, Facebook and MARTA
    - €25 million contract won after close of H1 2021 to secure university networks in the Netherlands

- **Cyber and software resilience macro trends are evolving as expected**
  - Continued excellent long-term market growth prospects
    - Market was growing at c.8-9% before Covid-19
    - Recent high-profile sophisticated attacks highlight threat faced by all
    - Software and technology supply-chain resilience (both on-premise and cloud) is vital
  - Covid-19 disruption is temporarily holding cyber resilience spend back from its full potential
  - Spending decisions delayed in some customer segments, has built up a "compliance debt" that must be paid down in the future

- **Confident in the future with strong foundations**
  - Cash conversion [3] amounts to 100.8% (H1 2020: 86.5%)
  - Our Securing Growth Together (SGT) Transformation investments have created the systems and processes to support a scalable global business although we have endured some cost and time overruns latterly caused by the challenges of remote working
  - We are broadening our portfolio of services and improving the way we go to market by strategically investing c. £3.0 million in H2 2021

Adam Palser, Chief Executive Officer, commented:

"I am delighted with our trading performance for the period. The response of my NCC Group colleagues to the challenges caused by the disruption of the pandemic, coupled with robust demand for our services, has led to increased revenues, profitability and cash against a comparator period that pre-dates Covid-19. Once again, I would like to thank all my colleagues for their exceptional contribution during these challenging times.

Cyber risks are greater today than they ever have been. The rapid adoption of cloud technologies, coupled with spending decisions being delayed in some customer segments, has built up a "compliance debt" that must be paid down in the future. Therefore, although ongoing disruption to some customer segments is still holding cyber resilience spend back from its full potential, we expect accelerated market growth in the future.

Full year trading is in line with our expectations, we are also maintaining our interim dividend of 1.5p and our balance sheet strength and trading resilience give us a foundation to invest in organic and in-organic opportunities".

Analyst presentation briefing and Q & A session

A pre-recorded Analyst presentation briefing will be available from the Group's website at 8am on 4 February 2021 via the following link: https://www.nccgroupplc.com/investor-relations/results-media/half-year-results-presentation-FY21

A Q & A session for Analysts will be held at 9am on 4 February 2021.

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About NCC Group plc

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

Footnotes

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

2: Following the adoption of IFRS 16 'Leases' with effect from 1 June 2019, the Group results are now presented under this accounting standard. Comparator information is also on the same basis. The impact of IFRS 16 for H1 2021 on EBITDA [3], Operating profit, Profit before taxation, Profit for the year, Net cash/(debt) [3] amounts to an increase of £2.9m (H1 2020: £3.2m), decrease of £0.1m (H1 2020: increase of £0.2m), decrease of £0.7m (H1 2020: £0.4m), decrease of £0.6m (H1 2020: £0.3m) and an increase in debt of £37.2m (H1 2020: £30.6m) respectively.

3: See note 2 of the interim financial statements for an explanation of Alternative Performance Measures (APMs), historically disclosed adjusting items and revised presentation of the consolidated income statement.

As discussed in the FY20 Annual Report and in accordance with FRC guidelines, the Group no longer presents a consolidated income statement showing adjusting items separately. In prior periods, the Group disclosed adjusting items in H1 2020 of £6.2m relating to Amortisation of acquisition intangibles (H1 2020: £4.4m) and share based payments (H1 2020: £1.8m) as a separate column on the face of the consolidated income statement. This is no longer disclosed in this way to simplify the Group's results. However, as the Group manages internally its performance at an adjusted operating profit level (before Amortisation of acquisition intangibles and share based payments), which management believe better represents the underlying trading of the business, this information is still disclosed as an APM within this interim report. This APM is reconciled to statutory operating profit, together with the consequently Adjusted basic EPS (before Amortisation of acquisition intangibles, share based payments and tax effect thereon) to statutory basic EPS.

The net cash/(debt) (Pre-IFRS 16) APM has been included to allow stakeholders to transition from previous presentation prior to IFRS 16 to Net cash/(debt) post IFRS 16.

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

Business review

Year-on-year growth in the teeth of a pandemic
The determined response of NCC Group teams around the world enabled us to continue delivering high-value resilience solutions to our global customer base despite the challenges of Covid-19 with which we are all familiar. This continuity was supported by the global operating approach that we have developed over the past three years and underpinned by the robust and modern systems and process platform that we have installed through our Securing Growth Together transformation programme.

As a consequence, we delivered a year-on-year increase in H1 2020 Revenue, Gross profit and Operating profit.

Group revenues increased by 2.2% (H1 2020: 5.3%), with overall positive momentum in North America and European Assurance held slightly back by the UK and APAC region decreasing mainly due to Covid-19. Software Resilience returned to slight growth with UK and European revenues growing, offset by a North America decline owing to lower on-premise testing mainly due to Covid-19.

Gross profit increased by 4.6% to £54.4m (H1 2020: £52.0m) with gross margin percentage increasing to 40.1% (H1 2020: 39.2%). The margin increase was largely due to higher utilisation through flexible use of our global resource pool to match supply of skills with demand, offset by a £1m provision taken in relation to an European contract caused by Covid-19 disruption and some project management challenges.

Operating profit increased 14.3% to £12.0m (H1 2020: £10.5m). The Group manages internally its performance at an adjusted operating profit [3] level, with adjusted operating profit [3] increasing by 1.8% to £17.0m, this information is disclosed below and reconciled to statutory operating profit:

	H1 2021				H1 2020			
	Assurance £m	**Software Resilience £m**	**Central and head office £m**	**Group £m**	Assurance £m	Software Resilience £m	Central and head office £m	Group £m
Revenue	**117.1**	**18.5**	**–**	**135.6**	114.3	18.4	–	132.7
Cost of sales	**(76.3)**	**(4.9)**	**–**	**(81.2)**	(75.8)	(4.9)	–	(80.7)
Gross profit	**40.8**	**13.6**	**–**	**54.4**	38.5	13.5	–	52.0
Gross margin %	***34.8%***	***73.5%***	**–**	***40.1%***	*33.7%*	*73.4%*	–	*39.2%*
Administrative expenses	**(27.3)**	**(5.6)**	**(4.5)**	**(37.4)**	(25.4)	(5.4)	(4.5)	(35.3)
Adjusted operating profit [3]	**13.5**	**8.0**	**(4.5)**	**17.0**	13.1	8.1	(4.5)	16.7
Amortisation of acquisition intangibles				**(4.3)**				(4.4)
Share based payments				**(0.7)**				(1.8)
Operating profit				***12.0***				*10.5*

Profit before taxation increased 18.9% to £10.7m (H1 2020: £9.0m) and profit for the period increased 13.6% to £7.5m (H1 2020: £6.6m) giving rise to a basic EPS of 2.7p (H1 2020: 2.4p). Adjusted basic EPS [3] amounts to 4.1p (H1 2020: 4.2p).

The strength of NCC Group comes from the strength of its people
We are a people-centric business and the Covid-19 pandemic has impacted our colleagues around the world: from juggling childcare and home schooling, to understandable worries brought about by the pandemic and, illness or sadly bereavement.

I am proud therefore that throughout these past months our teams have worked hard to provide mutual support with a particular focus on mental health and wellbeing. We have over 40 trained Mental Health First Aiders with more being trained this next half year. Over 100 of our people managers have received training in mental health awareness, and a full wellbeing programme for colleagues is supplemented by employee assistance programmes in our local geographies. All of these efforts continue to help our teams through these difficult times and will provide a legacy of ongoing benefit in the future.

In August we also launched our Inclusion and Diversity engagement programme, to complement our HR-led inclusion and diversity strategy, with a particular ambition to attract more diverse candidates. This programme includes steering committees, an internal platform (NCC Conversations) which creates space each month for conversations around one of the four focus areas (Race & Ethnicity, Gender, LGBTQIA+ and Neurodiversity), various colleague events, and publication of internal/external stories highlighting NCC Group's commitment to creating an environment where all colleagues feel psychologically, emotionally and physically safe to be authentic, and which is representative of the world they live in.

From a resourcing perspective, global voluntary technical attrition has continued to fall across the group to 6.8% from 9.3% in H1 2020 with technical attrition amounting to 9.4% (H1 2020: 10.3%). In North America, we have experienced higher levels of technical attrition where the technology sector has seen many large companies hire security talent directly. In addition, the prevalence of remote working now means that individuals can choose to work for the large technology firms without having to move to, for example, the west coast of the USA. However, the global operating and resourcing model that we have developed has mitigated the impact of this attrition (as evidenced by the 5,055 days of cross-border delivery in H1 compared to 1,950 in the prior year comparator period) and we have resumed recruiting and training new talent at pre-pandemic levels.

In H1 2020 we also saw the investment in leadership, and our talent and succession Workday tools, lead to an increased number of internal promotions. This was complemented with some key external hires including Inge Bryan, as European Managing Director, and our new Director of Crypto, Harmen Dikkers. The value of extending our Next Generation Manager programme to the whole of the UK and North America business in H1 2020 was validated with the result of some of our pilot cohort achieving the highest manager rating via the Best Companies index. With our inaugural Manager Essentials programme being established across the business, work has begun on the next version along with a Leadership Essentials programme. A "future world of working survey" was conducted in H1, seeking to ensure we capture the opportunities that different ways of working might present to attract new and diverse talent pools.

Stronger foundations from a successful ongoing transformation

Our Securing Growth Together programme is the vehicle through which we transform the business to realise our vision of being "the leading cyber security advisor globally." Towards the end of this financial year we will conclude the initial three-year phase in which we have:

- Enhanced our sales approach and commercial skills, to deepen our customer relationships and offer solutions appropriate for their business and risk appetite, including further cross selling of our Assurance and Software resilience services
- Built a global approach to resourcing and operating, so the best person for the job is deployed each and every time, and we deliver the same, high quality work, anywhere in the world
- Created a robust and modern systems and process landscape to support evidence-based decision-making, agility and further growth.

We have encountered some overruns to our original timelines and budget owing to some scope increases, the inevitable complexity of projects of this kind and, in the last nine months, the challenges of having to execute a global transformation programme remotely. As a consequence our overall budget increased to £25 million from our previously noted estimate of £23 million and we have one material system left to install in the second half of this financial year which will further improve our global resourcing and project measurement.

One consequence of our programme has been strong and sustained cash discipline which has yielded the balance sheet that we have today. In H1 2021 our cash conversion [3] was 100.8% (H1 2020: 86.5%) and, prior to the impact of IFRS 16 leases, we saw a year on year cash improvement of £23.8m leading to Net cash of £3m. Net debt after the impact of IFRS 16 amounts to £34.2m (H1 2020: £51.4m).

We are also maintaining our interim dividend of 1.5p per ordinary share (H1 2020: 1.5p).

Positive macro-trends despite limited short-term disruption

The four drivers of cyber market growth that we have consistently highlighted continue to drive the market forward:

- The growth of the connected environment;
- The dependence of individuals, businesses and society on this environment;
- The increasing number and sophistication of threats; and
- An ever-tightening landscape of legislation and regulation with consequent rising costs of compliance failure.

Accelerated by the Covid-induced adoption of digital transformation and cloud technologies, cyber risk is greater than ever – as highlighted by recent high-profile and sophisticated cyber-attacks.

Unsurprisingly, some of our customers are still experiencing uncertainty, financial pressures or logistical challenges attributable to the pandemic. As expected, this is causing some examples of longer sales cycles, tighter scoping of engagements and lower order values for the Group. However, in aggregate we have demonstrated growth and strongly believe that cautious spending by some customers on cyber is building up a "compliance debt" that will have to be paid down in the future.

Confident in the future

The first half of this financial year has demonstrated our ability to grow and develop despite the ongoing disruption from Covid-19. We therefore have confidence to actively pursue the next phase of our transformation during this current time of disruption. We intend to invest further during the course of H2 2021 to ensure NCC Group is in the best possible shape to thrive as normal economic behaviour resumes and growth of the cyber market accelerates.

Our mission, vision and values remain the same – but we are pursuing them with renewed vigour, confidence and excitement:

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

Our medium term objectives remain the same:

- For our shareholders
    - Medium term target of double-digit revenue growth and margin improvement for Assurance
    - Return Software Resilience to sustainable growth
    - Disciplined cash generation
- For our customers
    - Use our unique data, capability and insight to help customers to meet their cyber resilience needs
- For our people
    - A global hub for cyber talent
    - An inclusive environment where everyone feels safe to be authentic and is representative of the diversity of the world in which we live

To make our vision a reality and deliver long term sustainable growth, the next phase of Securing Growth Together is all about taking the next step towards becoming the complete provider of cyber resilience solutions, particularly by:

- Broadening our portfolio; and
- Improving the way we go to market

so that we are best placed to respond to our customers' demand for evidence based cyber resilience, as a one-stop-shop for a complete set of cyber and software resilience solutions around the world.

Building on the strong foundations of a highly engaged and diverse talent base and a global platform, we are evolving and developing additional services and solutions across the cyber lifecycle, and will promote and sell these to a global market.

H1 2021 has seen early successes for this programme as we have:

- secured c.£2m in UK remediation deals, helping our clients to prioritise their cyber investments and improve their resilience, by fixing the vulnerabilities and challenge we identify
- generated c.25% growth in Managed Detection and Response Services responding to evolving and complicated cyber threats
- gained momentum in Escrow as a Service (EaaS) with orders 83% ahead of prior year and a further pipeline of £1.2m

Over the next six months, we intend to invest c.£3 million to continue strengthening our offering and expanding our customer base, taking advantage of the opportunities in the market. Specifically, we shall:

- Grow Remediation into North America, Europe and APAC, and scale our technical leadership and delivery to help even more customers fix their issues and improve their cyber resilience
- Upgrade and upscale our Managed Services offering, deploying automation and advanced analytics and expanding our technology suite
- Drive our cloud resilience proposition to improve business continuity in an ever more digitalised world

We believe these investments will further unlock future growth as normal spending patterns return.

Summary and outlook

We are pleased with our progress through the first half of this financial year: delivering year-on-year growth across all key financial metrics and having created a robust foundation for further growth. Although the pandemic is certainly not yet over and there is still significant uncertainty in our customer base and the wider world, we are confident in the future and intent on using this time of market disruption to accelerate the transformation of NCC Group. We will invest strategically in the forthcoming months in those things that will make us the complete provider of cyber resilience in order to support future growth.

Full year trading, after including our c.£3 million of growth investments, is in line with our expectations. We are maintaining our interim dividend of 1.5p and our balance sheet strength and trading resilience give us a foundation to invest in organic and in-organic opportunities.

Financial review

Overview
We have continued to deliver strong financial results despite the impact of Covid-19, demonstrating resilience of our market, business model and operations. During H2 2021, the Group will strategically invest for the future.

Group revenues increased by 2.2% (H1 2020: 5.3%). In Assurance, North America grew by 3.1% supported by its strong base of technology clients and Europe grew by 11.0%, underpinned by its strong government and managed services revenues. The UK and APAC region decreased by 1.5% owing mainly to its exposure to a broader set of customer sectors, some of which experienced more severe Covid-19 impact. Software Resilience returned to slight growth with revenues 0.5% ahead of H1 2020. The UK and European revenues grew by 1.6% and 5.3% respectively, offset by North America which declined by 5.1% owing to lower on-premise testing mainly due to Covid-19.

Gross profit increased by 4.6% to £54.4m (H1 2020: £52.0m) with margin percentage increasing to 40.1% (H1 2020: 39.2%) owing to higher utilisation. Assurance margin percentage increased to 34.8% (H1 2020: 33.7%) and Software Resilience increased to 73.5% (H1 2020: 73.4%). During the period, the group has recognised an onerous contract provision of c.£1m in relation to an underperforming European contract caused by Covid-19 disruption and some project management challenges.

Administrative expenses have increased by £0.9m compared to the prior period mainly owing to system license costs of £0.9m, onerous property costs of £0.4m, and a foreign exchange charge of £0.9m offset by the profit on disposal of an intangible asset of £0.5m and a decrease in share based payment charges of £1.1m.

Capitalised development costs during the period amounts to £3.4m (H1 2020: £4.7m), such costs mainly represent work completed on our SGT system programme.

Operating profit has increased by 14.3% to £12.0m (H1 2020: £10.5m) and includes amortisation of intangible assets of £4.3m (H1 2020: £4.4m) and share based payments of £0.7m (H1 2020: £1.8m). Adjusted operating profit [3] increased by 1.8% to £17.0m (H1 2020: £16.7m). EBITDA [3] increased by 7.4% to £24.7m (H1 2020: £23.0m). Profit before taxation increased by 18.9% to £10.7m (H1 2020: £9.0m).

Basic and diluted EPS both amounted to 2.7p (H1 2020: basic 2.4p, diluted 2.3p). Adjusted basic EPS [3] amounts to 4.1p (H1 2020: 4.2p).

Our balance sheet remains strong; we have continued to demonstrate effective cash management and are now cash positive prior to the impact of IFRS 16 leases. Our balance sheet strength can therefore fund organic and in-organic opportunities.

Net cash (Pre-IFRS 16) [3] amounts to £3m from a net debt (Pre-IFRS 16) as at 31 May 2020 of £4.2m. Net debt after the impact of IFRS 16 amounts to £34.2m (H1 2020: £51.4m). Net cash includes cash balances of £101.1m (H1 2020: £33.8m) following the full draw down of our revolving credit facility in April 2020 to provide the Group with maximum cash flexibility. As at 31 May 2020 and 30 November 2020, the Group had timing benefits of c.£4.6m and c.£1.3m respectively from certain government taxation payment deferral schemes that had been fully repaid by January 2021.

As the Group demonstrated its resilience through H1, in January 2021, the Group has repaid £28m of the revolving credit facility to reduce servicing costs with nil impact to Net cash. The Group has a committed revolving credit facility of £100m which is due for renewal in June 2024 following our refinancing in June 2019.

The Board is also declaring an unchanged interim dividend of 1.5p per ordinary share (H1 2020: 1.5p).

Financial summary

Summary Income Statement:

£m	H1 2021	H1 2020	% change
Revenue	**135.6**	132.7	2.2%
Cost of sales	**(81.2)**	(80.7)	0.6%
Gross profit	**54.4**	52.0	4.6%
Depreciation and amortisation	**(12.7)**	(12.5)	1.6%
Other administration expenses	**(29.7)**	(29.0)	2.4%
Operating profit	**12.0**	10.5	14.3%
Net finance costs	**(1.3)**	(1.5)	(13.3%)
Profit before taxation	**10.7**	9.0	18.9%
Taxation	**(3.2)**	(2.4)	33.3%
Profit for the period	**7.5**	6.6	13.6%
EPS			
Basic	**2.7p**	2.4p	12.5%
Diluted	**2.7p**	2.3p	17.4%

Revenue summary:

£m **Revenue**	H1 2021	H1 2020	% change
Assurance	**117.1**	114.3	2.4%
Software Resilience	**18.5**	18.4	0.5%
Total revenue	**135.6**	132.7	2.2%

Operating profit summary:

£m **Operating profit**	H1 2021	H1 2020	% change
Assurance	**13.5**	13.1	3.1%
Software Resilience	**8.0**	8.1	(1.2%)
Central and head office	**(4.5)**	(4.5)	-
Adjusted operating profit [3]	**17.0**	16.7	1.8%
Amortisation of acquisition intangibles	**(4.3)**	(4.4)	(2.3%)
Share based payments	**(0.7)**	(1.8)	(61.1%)
Operating profit	**12.0**	10.5	14.3%
Operating profit margin %	**8.8%**	7.9%	0.9% ppts

3: See note 2 of the interim financial statements for an explanation of Alternative Performance Measures (APMs), historically disclosed adjusting items and revised presentation of the consolidated income statement.

Basis of preparation

During the prior year, the Group adopted IFRS 16 'Leases'. The date of the initial application of IFRS 16 for the Group was 1 June 2019. Therefore, all figures provided throughout this financial review have been produced on a post-IFRS 16 basis. Comparator information is also on the same basis. The impact of IFRS 16 on EBITDA [3], Operating profit, Profit before taxation, Profit for the year, Net cash/(debt) amounts to an increase of £2.9m (H1 2020: £3.2m), decrease of £0.1m (H1 2020: increase of £0.2m), decrease of £0.7m (H1 2020: £0.4m), decrease of £0.6m (H1 2020: £0.3m) and an increase in net debt of £37.2m (H1 2020: £30.6m) respectively.

Alternative Performance Measures (APMs)
Throughout this financial review, certain APMs are presented. As discussed in the FY20 Annual Report and in accordance with FRC guidelines, the Group no longer presents a consolidated income statement showing adjusting items separately. In prior periods, the Group disclosed adjusting items in H1 2020 of £6.2m relating to Amortisation of acquisition intangibles (H1 2020: £4.4m) and share based payments (H1 2020: £1.8m) as a separate column on the face of the consolidated income statement. This is no longer disclosed in this way to simplify the Group's results. However, as the Group manages internally its performance at an adjusted operating profit level (before Amortisation of acquisition intangibles and share based payments), which management believe better represents the underlying trading of the business, this information is still disclosed as an APM within this interim report. This APM is reconciled to statutory operating profit, together with the consequently Adjusted basic EPS (before Amortisation of acquisition intangibles, share based payments and tax effect thereon) to statutory basic EPS.

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

- Adjusted EBITDA
- Adjusted Profit before taxation
- Adjusted Taxation

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

- EBITDA (reconciled in note 2)
- Adjusted Operating profit (reconciled on pages 4, 9 and 10)
- Adjusted basic EPS (pence) (reconciled in note 5)
- Net cash/(debt) (Pre-IFRS 16) (reconciled in note 2)
- Net debt (reconciled in note 2)
- Cash Conversion (reconciled in note 2)

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

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

	H1 2021				H1 2020			
	Assurance £m	**Software Resilience £m**	**Central and head office £m**	**Group £m**	Assurance £m	Software Resilience £m	Central and head office £m	Group £m
Revenue	**117.1**	**18.5**	**–**	**135.6**	114.3	18.4	–	132.7
Cost of sales	**(76.3)**	**(4.9)**	**–**	**(81.2)**	(75.8)	(4.9)	–	(80.7)
Gross profit	**40.8**	**13.6**	**–**	**54.4**	38.5	13.5	–	52.0
Gross margin %	***34.8%***	***73.5%***	**–**	***40.1%***	*33.7%*	*73.4%*	–	*39.2%*
Administrative expenses	**(27.3)**	**(5.6)**	**(4.5)**	**(37.4)**	(25.4)	(5.4)	(4.5)	(35.3)
Adjusted operating profit [3]	**13.5**	**8.0**	**(4.5)**	**17.0**	13.1	8.1	(4.5)	16.7
Amortisation of acquisition intangibles				**(4.3)**				(4.4)
Share based payments				**(0.7)**				(1.8)
Operating profit				***12.0***				*10.5*

3: See note 2 of the interim financial statements for an explanation of Alternative Performance Measures (APMs), historically disclosed adjusting items and revised presentation of the consolidated income statement.

Share based payments decreased during the period, as it was concluded that a number of historic schemes would not meet the scheme performance criteria due to Covid-19 resulting in a lower charge for the period.

Assurance
The Assurance division accounts for 86.4% of Group revenue (H1 2020: 86.1%) and 75.0% of Group gross profit (H1 2020: 74.0%).

Assurance revenue analysis – by originating country:

	H1 2021 £m	H1 2020 £m	Reported % change
UK & APAC [4]	**50.9**	51.7	(1.5%)
North America	**43.0**	41.7	3.1%
Europe [4]	**23.2**	20.9	11.0%
Total Assurance revenue	**117.1**	114.3	2.4%

4: With the continuing growth and formation of a European division we have changed geographical segments in line with how this information is reported to the Board and managed today and have restated prior year figures on a like for like basis. The APAC division was previously included within the Segment Europe and APAC. See notes to the interim financial statements for further detail.

Assurance revenue increased by 2.4% despite lower rechargeable travel expenses and the ongoing disruption of Covid-19. UK & APAC decreased compared to other regions due to a broader exposure to Covid-19, whilst North America improved by 3.1% due to the increased spending from the technology sector and Europe increased due to various contract wins. Our global average order value decreased by 4.6% compared to H1 2020 demonstrating the short term disruption of Covid-19.

Assurance revenue analysed by type of service/product line:

	H1 2021 £m	H1 2020 £m	Reported % change
Technical Security Consulting (TSC)	**78.1**	77.5	0.8%
Risk Management Consulting (RMC)	**12.9**	15.4	(16.2%)
Managed Detection and Response (MDR)	**23.4**	18.8	24.5%
Product Sales (own and third party)	**2.7**	2.6	3.8%
Total Assurance revenue	**117.1**	114.3	2.4%

Technical Security Consulting, our "diamond core" professional service, grew by 0.8% to £78.1m (H1 2020: £77.5m) supported by global resourcing with Covid-19 felt across all geographies. During the period, the Group has secured £2m in UK remediation deals, helping our clients to increase their cyber resilience.

Risk Management Consulting, a service that addresses the business risks of cyber, declined by 16.2% to £12.9m (H1 2020: £15.4m). Our onsite work continues to be affected by Covid-19. Management have decided to combine TSC and RMC going forward as a single professional service to provide a comprehensive service offering addressing the business risks of cyber through to remediation.

Managed Detection and Response, a service line that provides operational cyber defence and managed security services, again grew by 24.5% to £23.4m (H1 2020: £18.8m) providing recurring revenue. Sales orders secured during the period amounted to £27.0m compared to £30.1m in H1 2020 as a result of slower procurement processes due to Covid-19.

Assurance gross profit is analysed as follows:

	H1 2021 £m	**H1 2021 % margin**	H1 2020 £m	H1 2020 % margin	Reported ppts change
UK & APAC [4]	**19.8**	***38.9%***	17.7	*34.2%*	*4.7% ppts*
North America	**14.1**	***32.8%***	13.1	*31.4%*	*1.4% ppts*
Europe [4]	**6.9**	***29.7%***	7.7	*36.8%*	*(7.1% ppts)*
Assurance gross profit and % margin	**40.8**	***34.8%***	38.5	*33.7%*	*1.1% ppts*

Gross margin improved due to higher global resourcing and utilisation through remote delivery offset in Europe by the recognition of onerous contract provision of c.£1m in relation to a contract caused by Covid-19 disruption and some project management challenges.

Software Resilience
The Software Resilience division accounts for 13.6% of Group revenues (H1 2020: 13.9%) and 25.0% of Group gross profit (H1 2020: 26.0%).

Software Resilience revenue analysis – by originating country:

	H1 2021 £m	H1 2020 £m	Reported % change
UK	**12.8**	12.6	1.6%
North America	**3.7**	3.9	(5.1%)
Europe	**2.0**	1.9	5.3%
Total Software Resilience revenue	**18.5**	18.4	0.5%

The UK has experienced growth of 1.6% building on the growth of H2 2020, whilst North America decreased due to lower on-premise testing (Covid-19). Europe, as a relatively new market continues to progress positively. Renewal rates improved to 89.1% (H1 2020: 87.0%) and remain within our expected range.

Software Resilience revenues analysed by service line:

Software Resilience services revenue	**H1 2021 £m**	H1 2020 £m	Reported % change
Software Resilience contracts	**12.5**	12.8	(2.3)%
Verification services	**6.0**	5.6	7.1%
Total Software Resilience revenue	**18.5**	18.4	0.5%

Our contract revenue had some impact from Covid-19. Verification services grew 7.1% to £6.0m despite lower volume in North America. Cloud proposition (EaaS) is gaining momentum.

Gross margin is analysed as follows:

	H1 2021 £m	**H1 2021 % margin**	H1 2020 £m	H1 2020 % margin	Reported % ppts change
UK	**9.5**	***74.2%***	9.5	*75.4%*	*(1.2% ppts)*
North America	**2.6**	***70.3%***	2.7	*69.2%*	*1.1% ppts*
Europe	**1.5**	***75.0%***	1.3	*68.4%*	*6.6% ppts*
Software Resilience gross profit and % margin	**13.6**	***73.5%***	13.5	73.4%	*0.1% ppts*

Gross profit was maintained and margin remained in line within H1 2020 (0.1% ppts increase). However, during H2 2021 we expect to start making investments in our channel proposition and cloud infrastructure to underpin sustainable growth.

Individually significant items
During the period, the Group has incurred no individually significant items ("ISIs") (H1 2020: Nil).

Net finance costs
Net finance costs for the period were £1.3m compared to £1.5m in H1 2020. Net finance costs include lease financing costs from IFRS 16 of £0.6m (H1 2020: £0.6m).

Taxation
The Group's effective tax rate is 29.9% (H1 2020: 26.7%).

The effective rate remains above the UK standard rate of corporation tax, reflecting the origin of a reasonable proportion of Group profits in overseas territories with higher tax rates than the UK.

Earnings per share (EPS)

	H1 2021 pence	H1 2020 pence
Statutory		
Basic EPS	**2.7**	2.4
Diluted EPS	**2.7**	2.3
Adjusted [3]		
Basic EPS	**4.1**	4.2

Cash flow and net debt [3]

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

	H1 2021 £m	H1 2020 [5] £m
Operating cash inflow before movements in working capital	**26.4**	24.4
Increase in trade and other receivables	**(0.3)**	(9.8)
Increase in inventories	**(0.1)**	(0.3)
(Decrease)/increase in trade and other payables	**(1.1)**	5.6
Cash generated from operating activities before interest and taxation	**24.9**	19.9
Interest element of lease payments	**(0.6)**	(0.6)
Finance interest paid	**(0.6)**	(0.8)
Taxation paid	**(4.7)**	(1.5)
Net cash generated from operating activities	**19.0**	17.0
Purchase of property, plant and equipment	**(1.1)**	(0.7)
Software and development expenditure	**(3.3)**	(4.3)
Proceeds on disposal of intangibles	**0.5**	–
Equity dividends paid	**(8.8)**	(8.8)
Repayment of lease liabilities	**(2.9)**	(3.2)
Transaction costs related to borrowings	–	(1.0)
Proceeds from the issue of ordinary share capital	**1.4**	–
Net movement	**4.8**	(1.0)
Opening net debt	**(4.2)**	(20.2)
Non cash movements (release of deferred issue costs and lease financing costs)	**(0.1)**	–
Foreign exchange	**2.5**	0.4
Closing net cash/(debt) (Pre-IFRS 16) [3]	**3.0**	(20.8)
Lease liabilities	**(37.2)**	(30.6)
Closing net debt [3]	**(34.2)**	(51.4)

Net debt [3] can be reconciled as follows:

	H1 2021 £m	H1 2020 £m
Cash and cash equivalents	**101.1**	33.8
Borrowings (net of deferred issue costs)	**(98.1)**	(54.6)
Net debt (Pre-IFRS 16) [3]	**3.0**	(20.8)
Lease liabilities	**(37.2)**	(30.6)
Net debt [3]	**(34.2)**	(51.4)

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

	H1 2021 £m	H1 2020 £m	Change
Net operating cash flow before interest and taxation (A)	**24.9**	19.9	25.1%
EBITDA [3] (B)	**24.7**	23.0	7.4%
Cash conversion ratio [3] (%) (A)/(B)	**100.8%**	86.5%	14.3% ppts

The half year figure shows an improved picture on cash performance compared to the prior half year, reflecting the effort put into improving our processes in previous periods. Cash conversion [3] for H1 2021 is still expected to normalise and is targeted at c.85% over the medium term.

The increase in tax paid is due to the deferral of £1.2m under government tax deferral schemes and timing of payments made on account for FY21. Net capital cash expenditure during the period was £3.9m (H1 2020: £5.0m) which includes tangible expenditure of £1.1m (H1 2020: £0.7m) and capitalised software and development costs of £3.3m (H1 2020: £4.3m), which has been offset by proceeds from the disposal of an intangible asset for £0.5m. Additional cash capital expenditure will be incurred during H2 2021 as we finish the installation of our new systems.

Dividends

Dividends of £8.8m paid in the period (H1 2020: £8.8m) comprised the final dividend for 2020 of 3.15p. The Board is declaring an unchanged interim dividend of 1.5p per ordinary share (H1 2020: 1.5p).

This represents a dividend equal to that paid in the prior year as the Board is conscious of the need to invest in certain initiatives to support longer term growth. The dividend policy will therefore continue to remain under review.

The interim dividend will be paid on 5 March 2021, to shareholders on the register at the close of business on 19 February 2021. The ex-dividend date is 18 February 2021.

Financing facilities

The Group is financed through a combination of bank facilities, retained profits and equity. As at 30 November 2020, the Group had committed bank facilities (revolving credit facility) of £100m (H1 2020: £100m), of which £98.8m (H1 2020: £55.1m) had been drawn under these facilities following the drawdown of our facility in April 2020 to provide the Group with maximum cash flexibility. These arrangements were agreed in June 2019 and are due for renewal in June 2024. Under these arrangements the Group can also request (seeking bank approval) an additional accordion facility to increase the total size of the revolving credit facility by up to £75m.

On our banking covenants, leverage [3] as at 30 November 2020 amounted to (0.1)x as we have become cash positive (FY 2020: 0.1x) and net interest cover [3] amounted to 27.1x (FY 2020: 22.7x). The Group was in compliance with the terms of all its facilities, including the financial covenants, at 30 November 2020 and expects to remain in compliance with the terms going forward. The terms and ratios are specifically defined in the Group's banking documents (in line with normal commercial practice) and are materially similar to GAAP with the exceptions being net debt excludes IFRS 16 lease liabilities and EBITDA [3] excludes amortisation of acquisition intangibles and share based payments.

As the Group has now demonstrated its resilience, during January 2021, we have now repaid £28m of this revolving credit facility to reduce servicing costs with nil impact to net cash.

Going concern

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

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 4 to 7 and Financial Review on pages 8 to 17. The Group's financial position, cash and borrowing facilities are also described within these sections.

The condensed interim financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

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

The Group is financed primarily by a £100m committed revolving credit facility which matures in June 2024. The Group is required to comply with financial covenants for leverage (net debt to EBITDA [2]) and interest cover (EBITDA [2] to interest charge) which are tested bi-annually at 31 May and 30 November each year. In April 2020, the Group drew down the entire available funds of £100m under this RCF facility in order to provide maximum cash flexibility during the Covid-19 crisis. During January 2021, the Group has now repaid £28m of this revolving credit facility to reduce servicing costs with nil impact to net cash.

Although the Group has demonstrated resilience to the challenging environment resulting from Covid-19, the Directors acknowledge that the financial performance of the Group has been adversely impacted since the commencement of the pandemic, and for this reason the base case forecast for FY21 reflects the assumption of a continued impact from Covid-19. The continuing macro-economic risks and potential changes in government policies (on the severity of enforced lockdowns worldwide), could have a continued effect on the Group's performance. However, trading since the period end has continued to demonstrate trading resilience, with full year trading in line with our expectations.

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

1. Reduction in trading performance due to a further UK government enforced national lockdown until end of March 2021 with a gradual easing of restrictions through to the end of July 2021
2. Reduction in cash collection due to the impact of Covid-19
3. Further reduction in trading performance in a specific European region due to the impact of Covid-19 until August 2022
4. Reduction in trading performance derived from Brexit cross border service delivery administrative restrictions
5. Combined scenario of scenarios 2, 3 and 4
6. Reduction in growth globally until the end of the calendar year (2021)
7. Loss of key customers/execution of strategy
8. Potential data breach and consequential effect (including potential fine)

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

Having reviewed the current performance, forecasts, debt servicing requirements, total facilities and risks, the Directors are confident that the Company and the Group have sufficient funds to continue to meet their liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements. Accordingly, they continue to adopt the going concern basis of accounting in preparing the Group's interim financial statements for the period ended 30 November 2020.

Principal risks and uncertainties

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

- Business strategy;
- Management of strategic change;
- Availability of critical systems;
- Attracting and retaining appropriate staff capacity and capability;
- Cyber risk (including GDPR);
- Quality of management information systems and internal business processes;
- Quality and security management systems; and
- Brexit (as noted below).

Brexit

On 31 December 2020, the United Kingdom departed the European Union. The United Kingdom entered into a UK-EU Trade and Cooperation Agreement from 1 January 2021.

NCC Group and its subsidiaries have continually planned for and have now assessed the outcome of the new trade agreement through its Brexit Steering Group. This assessment highlighted a number of areas of potential risk for which management have implemented mitigation actions. The areas of potential risk and mitigating actions are noted as follows:

- Access to market for goods and services – pre-emptive ordering and purchasing strategies
- Access to talent and cross border service delivery – limited travel in current environment supported by external advice to ensure boarder requirements are met
- Free flow of data – standard contractual clauses and processor to processor agreements in place together with strategic data storage
- Commercial Law – appropriate review of legal contract clauses
- Cybersecurity regulation/other regulatory requirements – continuous monitoring and procedures in place to adapt to any change

Additional macro-economic risks are also evident as follows:

- Any reduction in demand from an economic slowdown; and
- Real or perceived issues with customer engagement between countries and the Group

As the Group's operations around the world include business entities based in continental Europe management believe NCC Group is structurally resilient to any future disruptions caused by the adoption of the UK-EU Trade and Cooperation Agreement.

Climate change

While the move to remote working has the potential to reduce our office environment footprint, the global pandemic is enabling us to discuss with our customers and colleagues on how we operate in the future and the positive impact this can have on climate action.

Owing to the size and nature of the Group, an external environmental audit is not required and the current impact on our profitability and Balance sheet is not considered material. This area will be assessed as the Group grows in conjunction with any new legislative developments.

Footnotes

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

2: Following the adoption of IFRS 16 'Leases' with effect from 1 June 2019, the Group results are now presented under this accounting standard. Comparator information is also on the same basis. The impact of IFRS 16 on EBITDA [3], Operating profit, Profit before taxation, Profit for the year, Net cash/(debt) amounts to an increase of £2.9m (H1 2020: £3.2m), decrease of £0.1m (H1 2020: increase £0.2m), decrease of £0.7m (H1 2020: £0.4m), decrease of £0.6m (H1 2020: £0.3m) and an increase in debt of £37.2m (H1 2020: £30.6m) respectively.

3: See note 2 of the interim financial statements for an explanation of Alternative Performance Measures (APMs), historically disclosed adjusting items and revised presentation of the consolidated income statement.

As discussed in the FY20 Annual Report and in accordance with FRC guidelines, the Group no longer presents a consolidated income statement showing adjusting items separately. In prior periods, the Group disclosed adjusting items in H1 2020 of £6.2m related to Amortisation of acquisition intangibles (H1 2020: £4.4m) and share based payments (H1 2020: £1.8m) as a separate column on the face of the consolidated income statement. This is no longer disclosed in this way to simplify the Group's results. However, as the Group manages internally its performance at an adjusted operating profit level (before Amortisation of acquisition intangibles and share based payments), which management believe better represents the underlying trading of the business, this information is still disclosed as an APM within this interim report. This APM is reconciled to statutory operating profit, together with the consequently Adjusted basic EPS (before Amortisation of acquisition intangibles, share based payments and tax effect thereon) to statutory basic EPS.

The net cash/(debt) (Pre-IFRS 16) APM has been included to allow stakeholders to transition from previous presentation prior to IFRS 16 to Net cash/(debt) post IFRS 16.

The terms and ratios relating to covenants are specifically defined in the Group's banking documents (in line with normal commercial practice) and are materially similar to GAAP with the exceptions being net debt excludes IFRS 16 lease liabilities and EBITDA [3] excludes amortisation of acquisition intangibles and share based payments.

4: With the continuing growth and formation of a European division we have changed geographical segments in line with how this information is reported to the Board and managed today and have restated prior year figures on a like for like basis. The APAC division was previously included within the Segment Europe and APAC. See notes to the interim financial statements for further detail.

5: The cash flow has been represented in H1 2020 to disclose interest element of lease payments of £0.6m separately from the repayment of lease liabilities.

Directors' responsibility statement

The responsibility statement below has been prepared in connection with the Group's condensed interim financial statements for the period ended 30 November 2020.

We confirm that to the best of our knowledge:

- The condensed set of consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;
- The interim management report includes a fair review of the information required by:
    - DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
    - DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

The Half Year Report is approved and authorised for issue on behalf of the Board on 4 February 2021 by:

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

Independent Review Report to NCC Group plc

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the interim results statement for the six months ended 30 November 2020 which comprises consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 November 2020 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the interim results statement and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1, the latest annual financial statements of the group were prepared in accordance with International Financial Reporting Standards as adopted by the EU and the next annual financial statements will be prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Frances Simpson
for and on behalf of KPMG LLP
Chartered Accountants
1 Sovereign Square,
Sovereign Street
Leeds
LS1 4DA

4 February 2021

Consolidated income statement [1]

For the six months ended 30 November 2020

	Notes	**H1 2021 £m**	H1 2020 £m
Revenue	3	**135.6**	132.7
Cost of sales	3	**(81.2)**	(80.7)
Gross profit	3	**54.4**	52.0
Administrative expenses	3		
Depreciation and amortisation		**(12.7)**	(12.5)
Other administrative expenses		**(29.7)**	(29.0)
Total administrative expenses		**(42.4)**	(41.5)
Operating profit	3	**12.0**	10.5
Net finance costs		**(1.3)**	(1.5)
Profit before taxation		**10.7**	9.0
Taxation		**(3.2)**	(2.4)
Profit for the period attributable to the owners of the Company		**7.5**	6.6

Earnings per ordinary share	5		
Basic EPS		**2.7p**	2.4p
Diluted EPS		**2.7p**	2.3p

Consolidated statement of comprehensive income

For the six months ended 30 November 2020

	H1 2021 £m	H1 2020 £m
Profit for the period attributable to the owners of the Company	**7.5**	6.6
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss (net of tax)		
Foreign exchange translation differences	**(4.4)**	(2.9)
Total comprehensive income for the period (net of tax) attributable to the owners of the Company	**3.1**	3.7

Footnotes

1: References to the Group's results are to continuing operations.
2: See note 2 of the interim financial statements for an explanation of Alternative Performance Measures (APMs), historically disclosed adjusting items and revised presentation of the consolidated income statement.
3: The cash flow has been represented in H1 2020 to disclose interest element of lease payments of £0.6m separately from the repayment of lease liabilities.

Consolidated balance sheet
For the six months ended 30 November 2020

	Notes	**H1 2021 £m**	H1 2020 £m	FY 2020 £m
Non-current assets				
Goodwill		**188.7**	187.0	193.1
Other intangible assets		**34.9**	39.8	39.2
Property, plant and equipment		**12.3**	14.7	13.9
Right-of-use assets	6	**26.2**	21.7	28.7
Investments		**0.3**	0.3	0.3
Deferred tax asset		**0.4**	7.2	0.5
Total non-current assets		**262.8**	270.7	275.7
Current assets				
Inventories		**1.0**	1.0	0.9
Trade and other receivables		**73.5**	71.4	73.2
Current tax receivable		**2.1**	1.1	0.6
Cash and cash equivalents		**101.1**	33.8	95.0
Total current assets		**177.7**	107.3	169.7
Total assets		**440.5**	378.0	445.4
Current liabilities				
Trade and other payables		**45.6**	37.6	46.4
Lease liabilities	6	**5.3**	4.6	5.3
Current tax payable		**1.0**	2.4	–
Provisions	8	**2.6**	0.2	2.0
Deferred revenue		**38.0**	36.4	39.5
Total current liabilities		**92.5**	81.2	93.2
Non-current liabilities				
Borrowings	7	**98.1**	54.6	99.2
Lease liabilities	6	**31.9**	26.0	32.9
Deferred tax liability		**2.2**	9.8	2.9
Provisions	8	**0.3**	0.9	1.7
Deferred revenue		**5.0**	–	1.4
Total non-current liabilities		**137.5**	91.3	138.1
Total liabilities		**230.0**	172.5	231.3
Net assets		**210.5**	205.5	214.1
Equity				
Issued capital		**2.8**	2.8	2.8
Share premium		**152.3**	149.8	150.9
Merger reserve		**42.3**	42.3	42.3
Currency translation reserve		**27.5**	25.0	31.9
Retained earnings		**(14.4)**	(14.4)	(13.8)
Total equity attributable to equity holders of the parent		**210.5**	205.5	214.1

These financial statements were approved by the Board of Directors on 4 February 2021 and were signed on its behalf by:

Adam Palser
Chief Executive Officer

Tim Kowalski
Chief Financial Officer

Consolidated cash flow statement
For the six months ended 30 November 2020

Cash flow from operating activities	Notes	H1 2021 £m	H1 2020 [3] £m
Profit for the period		**7.5**	6.6
Adjustments for:			
Depreciation of property, plant and equipment		**2.4**	3.3
Depreciation of right of use assets		**3.0**	3.0
Share-based payments		**0.7**	1.8
Amortisation of acquired intangible assets		**4.3**	4.4
Amortisation of internally developed intangible assets and software		**3.0**	1.8
Net other financing costs		**0.7**	0.9
Lease financing costs		**0.6**	0.6
Foreign exchange		**1.1**	0.2
Research and development tax credits		**(0.2)**	(0.2)
Profit on disposal of intangibles		**(0.5)**	–
Income tax expense		**3.2**	2.4
Increase/(decrease) in provisions		**0.6**	(0.4)
Cash inflow for the period before changes in working capital		**26.4**	24.4
Increase in trade and other receivables		**(0.3)**	(9.8)
Increase in inventories		**(0.1)**	(0.3)
(Decrease)/increase in trade and other payables		**(1.1)**	5.6
Cash generated from operating activities before interest and taxation		**24.9**	19.9
Interest element of lease payments		**(0.6)**	(0.6)
Interest paid		**(0.6)**	(0.8)
Taxation paid		**(4.7)**	(1.5)
Net cash generated from operating activities		**19.0**	17.0
Cash flows from investing activities			
Purchase of property, plant and equipment		**(1.1)**	(0.7)
Software and development expenditure		**(3.3)**	(4.3)
Profit on disposal of intangibles		**0.5**	–
Net cash used in investing activities		**(3.9)**	(5.0)
Cash flows from financing activities			
Proceeds from the issue of ordinary share capital		**1.4**	–
Drawdown of borrowings		**3.0**	–
Repayment of lease liabilities		**(2.9)**	(3.2)
Transaction costs related to borrowings		–	(1.0)
Equity dividends paid	4	**(8.8)**	(8.8)
Net cash used from financing activities		**(7.3)**	(13.0)
Net increase/(decrease) in cash and cash equivalents		**7.8**	(1.0)
Cash and cash equivalents at beginning of period		**95.0**	34.9
Effect of foreign currency exchange rate changes		**(1.7)**	(0.1)
Cash and cash equivalents at end of period		**101.1**	33.8

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

	Notes	**H1 2021 £m**	H1 2020 £m
Net increase/(decrease) in cash and cash equivalents		**7.8**	(1.0)
Change in net debt resulting from cash flows		**(3.0)**	–
Effect of foreign currency on cash flows		**(1.7)**	(0.1)
Non-cash movement (release of deferred issue costs)		**(0.1)**	–
Foreign currency translation differences on borrowings		**4.2**	0.5
Change in net debt [2] during the period		**7.2**	(0.6)
Net debt [2] at start of period (Pre-IFRS16)		**(4.2)**	(20.2)
Net cash/(debt) [2] at end of period (Pre-IFRS16)		**3.0**	(20.8)
Lease liabilities	6	**(37.2)**	(30.6)
Net debt [2] at end of period		**(34.2)**	(51.4)

Consolidated statement of changes in equity

For the six months ended 30 November 2020

	Share Capital £m	Share Premium £m	Merger Reserve £m	Currency Translation Reserve £m	Retained Earnings £m	Total £m
Balance at 1 June 2020	**2.8**	**150.9**	**42.3**	**31.9**	**(13.8)**	**214.1**
Profit for the period	–	–	–	–	7.5	7.5
Foreign currency translation differences	–	–	–	(4.4)	–	(4.4)
Total comprehensive income for the period	–	–	–	(4.4)	7.5	3.1
Transactions with owners recorded directly in equity						
Dividends to equity shareholders	–	–	–	–	(8.8)	(8.8)
Share based payments	–	–	–	–	0.7	0.7
Shares issued	–	1.4	–	–	–	1.4
Total contributions by and distributions to owners	**–**	**1.4**	**–**	**–**	(8.1)	(6.7)
Balance at 30 November 2020 (unaudited)	**2.8**	**152.3**	**42.3**	**27.5**	**(14.4)**	**210.5**

	Share Capital £m	Share Premium £m	Merger Reserve £m	Currency Translation Reserve £m	Retained Earnings £m	Total £m
Balance at 1 June 2019 previously reported	2.8	149.8	42.3	27.9	(12.0)	210.8
Impact of change in accounting policies in respect of IFRS 16 (net of tax)					(2.0)	(2.0)
Adjusted balance at 1 June 2019	2.8	149.8	42.3	27.9	(14.0)	208.8
Profit for the period	–	–	–	–	6.6	6.6
Foreign currency translation differences	–	–	–	(2.9)	–	(2.9)
Total comprehensive income for the period	–	–	–	(2.9)	6.6	3.7
Transactions with owners recorded directly in equity						
Dividends to equity Shareholders	–	–	–	–	(8.8)	(8.8)
Share based payments Transactions	–	–	–	–	1.8	1.8
Total contributions by and distributions to owners	**–**	**–**	**–**	**–**	(7.0)	(7.0)
Balance at 30 November 2019 (unaudited)	**2.8**	**149.8**	**42.3**	**25.0**	**(14.4)**	**205.5**

	Share Capital £m	Share Premium £m	Merger Reserve £m	Currency Translation Reserve £m	Retained Earnings £m	Total £m
Adjusted balance at 1 June 2019	**2.8**	**149.8**	**42.3**	**27.9**	**(14.0)**	**208.8**
Profit for the period	–	–	–	–	11.7	11.7
Foreign currency translation differences	–	–	–	4.0	–	4.0
Total comprehensive income for the period	–	–	–	4.0	11.7	15.7
Transactions with owners recorded directly in equity						
Dividends to equity Shareholders	–	–	–	–	(12.9)	(12.9)
Share based payments	–	–	–	–	1.4	1.4
Shares issued	–	1.1	–	–	–	1.1
Total contributions by and distributions to owners	–	1.1	–	–	(11.5)	(10.4)
Balance at 31 May 2020	**2.8**	**150.9**	**42.3**	**31.9**	**(13.8)**	**214.1**

Notes to the unaudited condensed interim Financial Statements

1 Accounting policies

Basis of preparation

NCC Group plc (the Company) is a company incorporated in the UK, with its registered office at XYZ Building, 2 Hardman Boulevard, Manchester, M3 3AQ. The Groups' unaudited condensed interim financial statements consolidated those of the Company and its subsidiaries (together referred to as the Group). The principal activity of the Group is the provision of independent advice and services to customers through the supply of cyber assurance and software resilience services.

The Groups' unaudited condensed interim financial statements for the six months ended 30 November 2020, have been prepared on the going concern basis in accordance with IAS 34 'Interim Financial Reporting' adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The condensed interim financial statements have been prepared on the historical cost basis. The condensed interim financial statements are presented in Sterling (£m) because that is the currency of the principal economic environment in which the Company operates. The unaudited condensed interim financial statements were approved by the Directors on 4 February 2021.

The annual financial statements of the group for the year ended 31 May 2021 will be prepared in accordance with International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

As required by the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the company's published consolidated financial statements for the year ended 31 May 2020, which were prepared in accordance with IFRSs as adopted by the EU. They do not contain all the information required for full financial statements and should be read in conjunction with the annual financial statements for the year ended 31 May 2020.

The financial statements of the Group for the year ended 31 May 2020 are available from the Company's registered office, or from the website www.nccgroup.com.

The comparative figures for the financial year ended 31 May 2020 have been delivered to the Registrar of Companies. The Company's auditors, KPMG LLP, have given an unqualified report on the consolidated financial statements for the year ended 31 May 2020, which did not include reference to any matters to which the auditors drew attention without qualifying their report and did not contain any statement under section 498 of the Companies Act 2006.

Brexit

On 31 December 2020, the United Kingdom departed the European Union. The United Kingdom entered into a UK-EU Trade and Cooperation Agreement from 1 January 2021.

NCC Group and its subsidiaries have continually planned for and have now assessed the outcome of the new trade agreement through its Brexit Steering Group. This assessment highlighted a number of areas of potential risk, which management have implemented mitigation actions to reduce any potential impact of Brexit.

In addition, as the Group’s operations around the world include business entities based in continental Europe management believe NCC Group is structurally resilient to any future disruptions caused by the adoption of the UK-EU Trade and Cooperation Agreement.

Management has reviewed the potential impact of Brexit on the financial statements and have concluded that the impact should be limited, however have applied sensitivity modelling to its Going Concern assessment in relation to cross border service delivery and assessment of its IFRS 9 Expected Credit Loss model.

Covid-19

Management has reviewed the potential impact of Covid-19 on the financial statements. Accordingly, consideration has been given to the impact on the IFRS 9 Expected Credit Loss model, IFRS 15 collectability assessments on contract inception, IFRS 16 lease term assessments (no material impact on lease term assessment), the impairment review and the Going Concern and viability assessments.

Impairment review
Since the impact of Covid-19 on the economic environment in which the Group operates is deemed to be an external indicator of potential impairment, under IAS 36 the Group is required to undertake impairment testing. Therefore, each of the Group's CGUs have been tested on a consistent basis as described in the Group's annual report and accounts for the year ended 31 May 2020 (except for a change in certain defined CGUs noted below), by comparing the pre-tax cash flows from internal forecasts from the Group's three year strategic plan, which have been extrapolated by a further two years using average annual growth rates ranging between 2.0%-14.5%, followed by longer term growth rates into perpetuity ranging between 1.9%-2.5%. This exercise has suggested that there has been no impairment in any CGU as at 30 November 2020.

Sensitivity analysis
Sensitivity analysis has been performed in respect of certain scenarios where management considers a reasonably possible change in key assumptions could occur. The outcome of this analysis indicated that there is headroom in most CGUs except, as in the prior year, for Fox-IT. Management has considered the short and long-term impact of Covid-19 on the challenging growth targets for this CGU and believes a reasonably possible change in the key assumptions of a 0.9% ppts (31 May 2020: 0.7% ppts) reduction in the revenue CAGR or a 2.3% ppts (31 May 2020: 2.5% ppts) increase in the discount rate would lead to a break-even position.

Changes in CGUs
During the period the group revised two of its CGUs as follows:

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

PSC
During the period, the Group ceased measuring and forecasting the performance of the business which now forms part of the North America Assurance Segment. On the basis of the above, management has concluded that the PSC business is no longer a standalone CGU as its not capable of generating independent cash flows and has been subsumed into the North America Assurance CGU.

Segments
During the period, management have amended its segment disclosure to reflect the way the performance of the business is reported to the Board and managed. The performance of the APAC region was previously included within Europe and APAC. For the period ended 30 November 2020, the APAC region is now included together with the UK segment until it becomes such a size to be managed separately. In addition, with the continuing growth and formation of a European division we have changed geographical segments line with how this information is reported to the Board and managed today and have restated prior year figures on a like for like basis.

Individually significant items
During the period, the Group has incurred no individually significant items ("ISIs") (H1 2020: Nil). However in previous years the Group has categorised certain items as ISIs on the basis of accounting judgment. These historic judgments have regard to the Group's approach to materiality. Some items are deemed material because of scale, some because of their nature or frequency of occurrence, and others through a combination of both. These judgments can be significant not only in changing the Group's results but can also have a significant impact on senior management and executive reward which in some cases are linked to results as opposed to GAAP results.

Estimation uncertainties

As noted within the FY20 Annual Report, some aspects of the Group's revenue is derived from relatively long-term contracts. On this basis, estimation uncertainty has been disclosed in relation to one contract:

- An onerous provision recognised during the year ended 31 May 2020 of £0.2m has been increased during the period to £1.2m (see Note 8). Management prepares projections, which require significant estimates of both revenue and cost recognition. Revenue is recognised based on the input method of IFRS 15 in relation to labour hours and therefore management has to estimate the number of hours still required to complete the long-term projects and labour cost to complete.

Due to the level of estimation, sensitivity analysis on what is regarded a severe but plausible scenario for this contract is provided below:

- A 25% increase in total labour hours to the project would give rise to a further provision of up to £0.7m.

Tax uncertainties

The tax expense reported for the current period and prior period are affected by certain positions taken by management where there may be uncertainty. The most significant source of uncertainty arises from claims for US R&D tax credits relating to historical periods. Uncertainty arises as a result of a degree of uncertainty concerning interpretation of US legislation and because the statute of limitations has not expired. The aggregate net tax benefit to the income statement in prior periods relating to the US R&D tax credits is £4.3m. The deferred tax asset relating to the US R&D tax credits is £0.8m, although due to the uncertainty we have made a full provision of £0.8m against this asset in H2 FY20. This provision remains for the period ended 30 November 2020.

New and amended accounting standards

No new accounting standards have been applied during the period that have had a material impact on the condensed interim financial statements.

Going concern

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

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 4 to 7 and Financial Review on pages 8 to 17. The Group's financial position, cash and borrowing facilities are also described within these sections.

The condensed interim financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

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

The Group is financed primarily by a £100m committed revolving credit facility which matures in June 2024. The Group is required to comply with financial covenants for leverage (net debt to EBITDA 2) and interest cover (EBITDA 2 to interest charge) which are tested bi-annually at 31 May and 30 November each year. In April 2020, the Group drew down the entire available funds of £100m under this RCF facility in order to provide maximum cash flexibility during the Covid-19 crisis. During January 2021, the Group has now repaid £28m of this revolving credit facility to reduce servicing costs with nil impact to net cash.

Although the Group has demonstrated resilience to the challenging environment resulting from Covid-19, the Directors acknowledge that the financial performance of the Group has been adversely impacted since the commencement of the pandemic, and for this reason the base case forecast for FY21 reflects the assumption of a continued impact from Covid-19. The continuing macro-economic risks and potential changes in government policies (on the severity of enforced lockdowns worldwide), could have a continued effect on the Group's performance. However, trading since the period end has continued to demonstrate trading resilience, with full year trading in line with our expectations.

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

1. Reduction in trading performance due to a further UK government enforced national lockdown until end of March 2021 with a gradual easing of restrictions through to the end of July 2021
2. Reduction in cash collection due to the impact of Covid-19
3. Further reduction in trading performance in a specific European region due to the impact of Covid-19 until August 2022
4. Reduction in trading performance derived from Brexit cross border service delivery administrative restrictions
5. Combined scenario of scenarios 2, 3 and 4
6. Reduction in growth globally until the end of the calendar year (2021)
7. Loss of key customers/execution of strategy
8. Potential data breach and consequential effect (including potential fine)

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

Having reviewed the current performance, forecasts, debt servicing requirements, total facilities and risks, the Directors are confident that the Company and the Group have sufficient funds to continue to meet their liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements. Accordingly, they continue to adopt the going concern basis of accounting in preparing the Group's interim financial statements for the period ended 30 November 2020.

2 Alternative Performance Measures (APMs), historically disclosed adjusting items and revised presentation of the consolidated income statement.

Throughout these interim financial statements, certain APMs are presented. As discussed in the FY20 Annual Report and in accordance with FRC guidelines, the Group no longer presents a consolidated income statement showing adjusting items separately. In prior periods, the Group disclosed adjusting items in H1 2020 of £6.2m relating to Amortisation of acquisition intangibles (H1 2020: £4.4m) and share based payments (H1 2020: £1.8m) as a separate column on the face of the consolidated income statement. This is no longer disclosed in this way to simplify the Group's results. However, as the Group manages internally its performance at an adjusted operating profit level (before Amortisation of acquisition intangibles and share based payments), which management believe better represents the underlying trading of the business, this information is still disclosed as an APM within this interim report. This APM is reconciled to statutory operating profit, together with the consequently Adjusted basic EPS (before Amortisation of acquisition intangibles, share based payments and tax effect thereon) to statutory basic EPS.

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

- Adjusted EBITDA
- Adjusted Profit before taxation
- Adjusted Taxation

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

- EBITDA (reconciled below)
- Adjusted Operating profit (reconciled on pages 4, 9 and 10)
- Adjusted basic EPS (pence) (reconciled in note 5)
- Net cash/(debt) (Pre-IFRS 16) (reconciled below)
- Net debt (reconciled below)
- Cash Conversion (reconciled below)

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

Net debt

Net debt [2] is set out below:

	H1 2021 **£m**	H1 2020 £m
Cash and cash equivalents	**101.1**	33.8
Borrowings (net of deferred issue costs)	**(98.1)**	(54.6)
Net cash/(debt) [2] (Pre-IFRS 16)	**3.0**	(20.8)
Lease liabilities	**(37.2)**	(30.6)
Net debt [2]	**(34.2)**	(51.4)

Cash conversion ratio

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

	H1 2021 **£m**	H1 2020 £m	% change
Net operating cash flow before interest and taxation (A)	**24.9**	19.9	25.1%
EBITDA [2] (B)	**24.7**	23.0	7.4%
Cash conversion ratio [2] (%) (A)/(B)	**100.8%**	86.5%	14.3% ppts

EBITDA

The calculation of EBITDA is set out below:

	H1 2021 **£m**	H1 2020 £m
Operating profit	**12.0**	10.5
Depreciation of property, plant and equipment	**2.4**	3.3
Depreciation of right of use assets	**3.0**	3.0
Amortisation of acquired intangible assets	**4.3**	4.4
Amortisation of internally developed intangible assets and software	**3.0**	1.8
EBITDA	**24.7**	23.0

3 Segmental information

Segmental analysis H1 2021

	Assurance £m	Software resilience £m	Central and head office £m	Group £m
Revenue	**117.1**	**18.5**	**–**	**135.6**
Cost of sales	**(76.3)**	**(4.9)**	**–**	**(81.2)**
Gross profit	**40.8**	**13.6**	**–**	**54.4**
Gross margin %	**34.8%**	**73.5%**	**–**	**40.1%**
General administration expenses allocated	**(27.3)**	**(5.6)**	**(4.5)**	**(37.4)**
Adjusted operating profit [2]	**13.5**	**8.0**	**(4.5)**	**17.0**
Amortisation of acquisition intangibles				**(4.3)**
Share based payments				**(0.7)**
Operating profit				**12.0**

Segmental analysis H1 2020

	Assurance £m	Software resilience £m	Central and head office £m	Group £m
Revenue	114.3	18.4	–	132.7
Cost of sales	(75.8)	(4.9)	–	(80.7)
Gross profit	38.5	13.5	–	52.0
Gross margin %	33.7%	73.4%	–	39.2%
General administration expenses allocated	(25.4)	(5.4)	(4.5)	(35.3)
Adjusted operating profit [2]	13.1	8.1	(4.5)	16.7
Amortisation of acquisition intangibles				(4.4)
Share based payments				(1.8)
Operating profit				10.5

Revenue by originating country	**H1 2021 £m**	H1 2020 £m
UK & APAC [3]	**63.7**	64.3
North America	**46.7**	45.6
Europe [3]	**25.2**	22.8
Total revenue	**135.6**	132.7

Revenue by category	**H1 2021 £m**	H1 2020 £m
Services	**132.9**	130.1
Products	**2.7**	2.6
Total revenue	**135.6**	132.7

Timing of revenue recognition	**H1 2021 £m**	H1 2020 £m
Services and products transferred over time	**35.7**	31.5
Services and products transferred at a point in time	**99.9**	101.2
Total revenue	**135.6**	132.7

Revenue is disaggregated by primary geographical market as follows:

£m	**Assurance**	**Software Resilience**	**H1 2021 Total**	Assurance	Software Resilience	H1 2020 Total
UK & APAC [3]	**50.9**	**12.8**	**63.7**	51.7	12.6	64.3
North America	**43.0**	**3.7**	**46.7**	41.7	3.9	45.6
Europe [3]	**23.2**	**2.0**	**25.2**	20.9	1.9	22.8
Statutory	**117.1**	**18.5**	**135.6**	114.3	18.4	132.7

Footnote

3: During the period, management have amended its segment disclosure to reflect the way the performance of the business is reported to the Board and managed. The performance of the APAC region was previously included within Europe and APAC. For the period ended 30 November 2020, the APAC region is now included together with the UK segment until it becomes such a size to be managed separately. In addition, with the continuing growth and formation of a European division we have changed geographical segments line with how this information is reported to the Board and managed today and have restated prior year figures on a like for like basis.

4 Dividends

	H1 2021	H1 2020
Dividends paid and recognised in the period (£m)	**8.8**	8.8
Dividends per share proposed but not recognised in the period (pence)	**1.5p**	1.5p

5 Earnings per ordinary share (EPS)

Earnings per ordinary share are shown below:

	H1 2021 £m	H1 2020 £m
Statutory earnings	**7.5**	6.6

	Number of shares m	Number of shares m
Basic weighted average number of shares in issue	**279.5**	277.8
Dilutive effect of share options	**1.6**	4.5
Diluted weighted average shares in issue	**281.1**	282.3

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.

	H1 2021 pence	H1 2020 pence
Earnings per ordinary share		
Basic	**2.7**	2.4
Diluted	**2.7**	2.3

Adjusted basic EPS [3] is reconciled as follows:

	H1 2021 £m	H1 2020 £m
Statutory earnings (A)	**7.5**	6.6
Amortisation of acquisition intangibles	**4.3**	4.4
Share based payments	**0.7**	1.8
Tax effect of above items	**(1.1)**	(1.2)
Adjusted earnings (B)	**11.4**	11.6

	Number of shares m	Number of shares m
Basic weighted average number of shares in issue (C)	**279.5**	277.8

	H1 2021 pence	H1 2020 pence
Basic earnings per ordinary share		
Statutory (A/C)	**2.7**	2.4
Adjusted [2] (B/C)	**4.1**	4.2

6 Right-of-use assets and lease liabilities
The Group's right-of-use assets can be further analysed as follows:

	H1 2021 £m
As at 1 June 2020	28.7
Additions	1.9
Reclassification from provisions	(1.4)
Depreciation	(3.0)
As at 30 November 2020	**26.2**

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

	H1 2021 £m
As at 1 June 2020	38.2
Additions	1.9
Interest expense	0.6
Repayment of lease liabilities	(3.5)
As at 30 November 2020	**37.2**

The ageing of the lease liabilities as at 30 November 2020 are as follows:

	H1 2021 £m
Less than one year	**5.3**
One to two years	**4.9**
Two to five years	**11.6**
Greater than five years	**15.4**
Total lease liabilities	**37.2**

7 Borrowings
Borrowings (excluding lease liabilities) are analysed as follows:

	H1 2021 £m	H1 2020 £m
Non-current liabilities		
Revolving credit facility (net of deferred issue costs)	**98.1**	54.6
Total borrowings (excluding lease liabilities)	**98.1**	54.6

8 Provisions
Provisions are analysed as follows:

	Loss-making contract £m	Onerous property costs £m	Other provisions £m	Total £m
Balance at 1 June 2020	0.2	2.9	0.6	3.7
Reclassification to Right-of-use-assets	-	(1.4)	-	(1.4)
Provisions arising in the period	1.0	0.4	-	1.4
Utilised in the period	-	(0.4)	(0.4)	(0.8)
Balance at 30 November 2020	**1.2**	**1.5**	**0.2**	**2.9**

	H1 2021 £m	H1 2020 £m	FY 2020 £m
Current liabilities	**2.6**	0.2	2.0
Non-current liabilities	**0.3**	0.9	1.7
Total	**2.9**	1.1	3.7

The reclassification to Right-of-use-assets relates to lease incentives and onerous lease provisions arising on the implementation of IFRS16.

The loss-making contract represents the estimated remaining net lifetime loss on a long-term development and supply contract. During the period, the provision has been increased due to the impact of Covid-19 and some project management challenges. The contract is now not expected to be completed until FY22 (previously FY21).

The onerous property provision of £2.9m at 30 November 2020 includes £2.5m of non-rental costs relating to the onerous properties including rates, service charges and insurance, and also the estimated costs of disposing or terminating these leases which includes rent incentives, renovation costs and letting fees.

The provision at 30 November 2020 also includes estimated dilapidations liabilities of £0.4m relating to the Group's leased premises. Both of these provisions are expected to be unwound over the period of the relevant leases (2021–2034) and accordingly have been split between current and non-current liabilities.

Other provisions include the utilisation during the period of £0.4m, leaving £0.2m relating to other reorganisation costs to which the Group was committed at the balance sheet date that are expected to unwind over the next twelve months.

Glossary of terms - Alternative Performance Measures (APMs)

APMs provide supplementary information that assists the user in understanding the underlying trading results. See note 2 for further detail of changes to APM's during the period.

APM	**Closest equivalent IFRS measure**	**Adjustments to reconcile to IFRS measure**	**Reference for reconciliation**	**Definition, purpose and considerations made by the Directors**
Income statement measures:				
Adjusted operating profit (EBIT)	Operating profit or loss	Operating profit or loss before amortisation of acquired intangibles, share based payments and Individually Significant Items	Pages 4, 9 and 10	Represents operating profit before amortisation of acquired intangibles, share based payments and Individually Significant Items. This measure is to allow the user to understand the Group's underlying financial performance as measured by management, reported to the Board and used as a financial measure in senior management's compensation schemes. The Directors consider amortisation of acquired intangibles is a non-cash accounting charge inherently linked to losses associated with historical acquisitions of businesses. The Directors consider share-based payments to be an adjusting item on the basis that fair values are volatile due to movements in share price, which may not be reflective of the underlying performance of the Group. Individually Significant Items are items that are considered unusual by nature or scale, and are of such significance that separate disclosure is relevant to understanding the Group's financial performance and therefore requires separate presentation in the Financial Statements in order to fairly present the financial performance of the Group.
Adjusted basic EPS	Statutory basic EPS	Statutory basic EPS before amortisation of acquired intangibles, share based payments, Individually Significant Items and the tax effect thereon	Note 5	Represents basic EPS before amortisation of acquired intangibles, share based payments, Individually Significant Items and the tax effect thereon. This measure is to allow the user to understand the Group's underlying financial performance as measured by management, reported to the Board and used as a financial measure in senior management's compensation schemes. See further details above in relation to amortisation of acquired intangibles and share based payments.
Earnings before interest, tax, depreciation and amortization (EBITDA)	Operating profit or loss	Operating profit or loss, before depreciation and amortisation, net finance costs and taxation	Note 2	Represents operating profit before depreciation and amortisation. EBITDA is disclosed as this is a measure widely used by various stakeholders.

<table>
<tr><th>APM</th><th colspan="2">Closest equivalent IFRS measure</th><th>Reference for reconciliation</th><th>Definition, purpose and considerations made by the Directors</th></tr>
<tr><td colspan="5">Balance Sheet measures:</td></tr>
<tr><td>Net cash/(debt) (Pre-IFRS 16)</td><td colspan="2">Total borrowings (excluding lease liabilities) offset by cash and cash equivalents</td><td>Note 2</td><td>Represents total borrowings (excluding lease liabilities) offset by cash and cash equivalents. It is a useful measure of the progress in generating cash, strengthening of the Group balance sheet position, overall net indebtedness and gearing on a like-for-like basis.

Net cash/(debt), when compared to available borrowing facilities, also gives an indication of available financial resources to fund potential future business investment decisions and/or potential acquisitions.</td></tr>
<tr><td>Net debt</td><td colspan="2">Total borrowings (including lease liabilities) offset by cash and cash equivalents</td><td>Note 2</td><td>Represents total borrowings (including lease liabilities) offset by cash and cash equivalents. It is a useful measure of the progress in generating cash, strengthening of the Group Balance Sheet position, overall net indebtedness and gearing.

Net debt, when compared to available borrowing facilities, also gives an indication of available financial resources to fund potential future business investment decisions and/or potential acquisitions.</td></tr>
<tr><td colspan="5">Cash flow measure</td></tr>
<tr><td>Cash conversion ratio</td><td>Ratio % of net cash flow from operating activities before interest and tax divided by Operating profit</td><td>Ratio % of net cash flow from operating activities before interest and tax divided by EBITDA</td><td>Note 2</td><td>The cash conversion ratio is a measure of how effectively operating profit is converted into cash and effectively highlights both non-cash accounting items within operating profit and also movements in working capital. It is calculated as net cash flow from operating activities before interest and taxation (as disclosed on the face of the Cash Flow Statement) divided by EBITDA for continued and discontinued activities.

The cash conversion ratio is a measure widely used by various stakeholders and hence is disclosed to show the quality of cash generation and also to allow comparison to other similar companies.</td></tr>
</table>