NCC Group plc

First half results reflect significant improvements to revenue and gross margins since H2 in the prior year and deliver financial performance in line with the Board's expectations.

NCC Group plc (LSE: NCC, "NCC Group" or "the Group"), the independent global cyber security and risk mitigation expert, has reported its half year results for the six months to 30 November 2017 ('the Half', 'H1', 'the Period').

Operational and financial highlights

Continuing operations (1)	H1 – 18 £m	H1 – 17 £m	*Change %*	H2 – 17 £m	*Change %*
Revenue (£m)	118.2	110.3	*+7.2%*	107.5	*+10.0%*
Gross profit (£m)	46.6	40.6	*+14.8%*	38.1	*+22.3%*
GM% (2)	39.4%	36.8%	*+2.6% pts*	35.4%	*+4.0% pts*
Adjusted (3) operating profit	14.1	16.2	*(13.0%)*	9.2	*+53.3%*
Operating profit	6.6	7.4	*(10.8%)*	(54.6)	*+112.1%*
Net cash flow from operations	14.7	12.2	*+20.5%*	15.8	*(7.0%)*
Net debt	(44.4)	(48.8)	*+9.0%*	(43.7)	*(1.6%)*
Cash conversion ratio (5)	71.0%	57.5%	*+13.5% pts*	106.0%	*(35.0% pts)*

- Group revenue from continuing operations grew by 7.2%:
  - Organic(4) retained Assurance growth 14.3% - all four territories double-digit growth
  - Escrow organic growth 1.8% (2.1% before FX)
- GM% improved by 2.6% points from 36.8% to 39.4%:
  - Assurance GM% from continuing operations grew by 2.7% points to 32.3% through utilisation gains
  - Escrow GM% recovered by 4.9% points through better cost control and improved verification testing delivery processes
- Adjusted operating profit from continuing operations fell to £14.1m (2017: £16.2m) due largely to planned overhead increases committed in the prior year and adverse FX charges of £1.3m which more than offset GM gains
- Operating profit fell from £7.4m to £6.6m for the same reasons noted above
- Adjusted basic earnings per share 3.7p (2017: 4.7p), Basic earnings per share 1.4p (2017: earnings 2.0p)
- Improved net cash flow from operations of £14.7m (2017: 12.2m) driven by improving working capital management;
- Relocation to new Manchester HQ completed incurring £3.7m capital expenditure in the Period
- Interim dividend maintained at 1.5p per share

Strategy progress update

- Assurance division now reorganised along geographic lines.
- Changes to sales structures and go-to-market strategies in the new Target Operating Model will complete by Q4.
- Focus on realisation in professional services starting to yield some margin benefit.
- Benefit also delivered by selling more value-added specialist services for specific sectors such as our hardware and automotive practices.
- Initiatives underway in a group wide change programme designed to improve the effectiveness and efficiency of internal business processes such as resource scheduling and working capital management.
- Business disposals of Web Performance and Software Testing underway – expect completion in the second half of the current financial year.
- New CEO, Adam Palser, in post December 2017.

Outlook

- Demand in our core markets around cyber security and business continuity risk remains healthy with NCC Group first half growth rates continuing into the traditionally quiet third quarter.
- Cost headwinds are reducing as increases committed to in the prior year are now complete. Overheads will stabilise in H2 at the current run rate, adjusted for an extra quarter of Manchester HQ costs.
- In the second half, the combination of further gross margin gains and continuing organic revenue growth will offset remaining committed cost increases to deliver full year Adjusted operating profit in line with the Board's current expectations.

Chris Stone, Chairman, comments:

"Strong organic revenue growth in our core assurance businesses continues to drive positive momentum in the business. The combination with gross margin gains flowing from improved realisation has delivered a significant recovery from the low point of the second half of the prior year.

"Many of the projects and recruitment plans that were committed in the prior year to support growth are largely complete. Our opportunity now is to deliver operational leverage gains driven by further organic growth and gross margin improvements while controlling any further increase in overheads.

"Our customers continue to see significant value in our service offerings. We are starting to promote attractive business lines across the wider NCC Group network. The business remains well placed to take advantage of the continued growth and importance of independent cyber security and business risk mitigation markets."

The Group expects to report its full year results, for the year ended 31 May 2018 on Tuesday, 17 July 2018.

A briefing for analysts will be held at 9am at the offices of Maitland, 13 King's Boulevard, King's Cross, London N1C 4BU. The briefing will also be webcast live and can be accessed via the Group's website.

16 January 2018

(1) References to the Group's results, unless stated to the contrary, are to continuing operations only and exclude the performance of businesses being actively marketed for sale (Web Performance and Software Testing) as well as the Domain Services business that was sold in December 2016.

(2) GM% is the gross margin ratio and is defined as revenue less costs of sale (gross margin) divided by revenue

(3) Adjusted operating profit excludes individually significant items, share based payments, unwinding of discounts on deferred consideration and amortisation of acquired intangible assets.

(4) Organic results exclude the impact of acquisitions and re-translation effects of foreign exchange movements. Organic results also exclude the planned reduction in the re-sale of low margin third party product and services (an MSS business line acquired with Accumuli plc) following the Strategic Review.

(5) Cash conversion ratio is defined as net cash flow from operating activities divided by adjusted EBITDA.

NCC Group

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Chairman's statement

Overview

The Strategic Review undertaken in the second half of 2017 confirmed that NCC Group has a great opportunity: we hold leading positions in growing markets, our customers value us, and our workforce is exceptionally skilled. It also confirmed the need to improve how we organise ourselves, our go-to-market strategies and the ways we manage and deploy our highly skilled delivery teams across multiple geographies. A wide range of business improvement projects have therefore been initiated during the period to ensure that we have the foundations to continue to take advantage of strong market growth while improving our margins.

Business Performance and Progress on Strategic Goals

The financial performance of the Group was in line with the Board's expectations and represents a firm recovery from the weak second half of the prior year. We delivered continuing adjusted operating profit of £14.1m (H1 – 2017: £16.2m and H2 – 2017: £9.2m). Continuing revenues grew by £7.9m (7.2%) to £118.2m. Our retained organic Assurance businesses delivered double-digit growth across the combined four geographies (UK, North America, Netherlands and Denmark). The Escrow division also returned to growth with revenue 1.8% higher than the prior year period (2.1% excluding the impact of FX rates).

We improved GM% in both divisions and at 39.4% for the Group as a whole, GM margins were up on both the first half (36.8%) and second half (35.4%) of the prior year. The benefits of growth and improved gross margins were offset by the impact of increases in overheads, depreciation and amortisation that were largely committed in the first half of the prior year. So while adjusted EBIT margin rose by 3.3% to 11.9% compared to the second half of the prior year (8.6%), this represented a year-on-year fall of 2.8% (H1 – 2017: 14.7%).

We have made good progress in implementing the findings of the Strategic Review and also the associated work on a new Target Operating Model (TOM). During the Period our efforts have focused on our sales teams and go-to-market strategies. We expect the changes to be fully deployed by the end of the current financial year to support growth and margin initiatives in the next financial year.

We have also initiated a number of new improvement projects to improve our internal business processes. These projects are both short and long term in nature and we expect benefits from them to gather pace in the second half of the year to support margin expansion and operational leverage in the next financial year. We are already seeing benefits in terms of the timeliness and quality of reporting of management information with the deployment of a new consolidation and reporting tool and working capital is showing the early benefits of increased focus and active management.

We continue to develop our technical and specialised service offering. One such example in the period was the launch of our unique and highly sought after CENTA service (Centre for Evolved Next Generation Threat Assurance) as part of our UK Assurance business. This was made possible with an investment in a new team of highly capable individuals with experience operating at the highest level with regulators and regulated industries, as well as with central governments around the world. The offering generates revenue in its own right and the halo effect also helps open a number of boardroom doors.

We have also been reviewing how we manage and develop our people. This has included Group-wide workshops aimed at developing a set of shared values and evaluating the need for additional management training and support as we transition to the new TOM. While the strength of the market continues to create talent retention issues in a number of our locations such as California, on a global basis employee engagement remains strong and employee turnover remains at a similar level to prior years.

Finally, the processes to sell the Web Performance and Software Testing businesses are well advanced. We still expect to announce the disposal of each in the second half of the financial year.

The operating and financial performance for the period is set out in more detail in the performance review on pages 7 to 15.

Dividends

The Board has reviewed business performance in the first half of the current financial year and the fall in earnings compared to the first half of the prior financial year. While mindful of the need for investment over the next few years, the Board is confident in our prospects and hence recommends that the dividend is maintained at the current level.

An interim dividend of 1.50p is therefore being recommended by the Board. This is in line with the Interim Dividend in the prior year although adjusted EPS is still significantly below the level achieved in 2016, when the current level of dividend was first paid. The dividend policy will remain under review.

Board composition

On 1 December 2017 we announced Adam Palser as the Group's new Chief Executive Officer. At that time, Brian Tenner stood down from his role as interim Chief Executive Officer and has returned full time to his duties as Chief Financial Officer. I would like to express the Board's appreciation for the efforts and dedication Brian demonstrated to the Group in performing both of those roles in parallel during an important period in the Group's evolution.

During the period, Mike Ettling joined the Board as a non-Executive Director and brings with him a wealth of experience of both the digital and cloud sectors.

In line with best practice, after nine years' tenure, Debbie Hewitt MBE, Senior Independent Director, will resign and step down from the Board on 28 March 2018. Chris Batterham, Non-Executive Director, will become Senior Independent Director and Jonathan Brooks, Non-Executive Director will become Chairman of the Remuneration Committee.

In addition, as part of the broader Board succession planning, after six years' tenure, Thomas Chambers, Non-Executive Director, will relinquish the Chair of Audit role with effect from April 2018 and will resign and step down from the Board, following the Company's AGM on 19th September 2018. Chris Batterham, Non-Executive Director, will become Chairman of the Audit Committee from 1st April 2018. The Board is in the process of recruiting an additional Non–Executive Director and an announcement will be made in due course.

We would like to thank Debbie for her valuable contribution to the business over the last nine years, for her commitment and for her contribution to the appointment of four new Directors to the Board over the last 12 months. Similarly, we thank Thomas for his valuable contribution over the last six years, for his diligent approach and for his leadership of the Audit Committee. The Board is appreciative of the role that they have both played and wish them well for the future.

With Adam and Brian now in their permanent roles, I have relinquished my executive responsibilities and will now continue on the Board as Non-Executive Chairman with additional responsibilities as Chairman of the Nominations Committee and of the Cyber Security Committee.

Employees

Throughout the last six months our employees have demonstrated once again their commitment to our business and to delivering excellent service to our customers. We have seen active engagement in our internal projects and many great ideas for improving our systems and processes and how we deliver services to our customers. We are working to develop new training support and career paths for our staff and expect that this investment will not only increase our capabilities but also add to the attractiveness of NCC Group as a place to forge a worthwhile and rewarding career.

Current trading and outlook

Our core markets remain buoyant, though some month-to-month volatility in performance remains a feature of the business. We expect double-digit year-on-year growth to continue in Assurance. Fox High Assurance is delivering improving prospects and changes to the management structure in UK Managed Security Services will initially deliver more stable revenues before then returning to growth. The roll-out of TOM sales structures in the Assurance division in the second half will support our growth rates in the new financial year.

Escrow growth in the UK is expected to remain at low single-digit levels and the changes to the US Escrow management team and sales structure are expected to return that business to growth in the second half.

Continuing work on charge rates and realisation improvements will feed into underlying GM% gains in the second half, though this is likely to be somewhat muted in the traditionally quiet third quarter. General and administrative costs are now targeted to remain broadly flat with the only material increase being the full impact of the Manchester HQ move (H1 only saw one quarter's occupancy charge of approximately £0.6m).

The expected continuation of year-on-year growth and margin gains in the second half of the financial year combined with control of overhead costs, gives added confidence to delivering full year Adjusted operating profit in line with current Board expectations.

Chris Stone, Chairman
16 January 2018

Performance Review

Group Revenue

Unless stated to the contrary, the narrative which follows refers to continuing operations. Continuing revenue increased by 7.2% to £118.2m (H1 2017: £110.3m). We announced in July 2017 that as a result of the Strategic Review, the Web Performance and Software Testing businesses were to be sold. Since both disposal processes are now actively underway, both businesses are now classified as held for sale and their contribution to the Period's results (and prior year income statement comparatives) have been re-stated to exclude them from continuing operations. The table below shows the components of growth for each continuing division as well as the two businesses held for sale. The Domain Services business that was sold in the prior year is also shown on a similar basis:

Revenue analysis	**H1 2017 £m**	**FX £m**	**Acq'ns £m**	**Disposals £m**	**Organic £m**	**H1 2018 £m**	**Total Growth £m / %**
Escrow	18.7	(0.1)	-	-	0.4	19.0	0.3 / *+1.6%*
Assurance	91.6	(0.1)	4.2	-	3.5	99.2	7.6 / *+8.3%*
Continuing revenue	**110.3**	**(0.2)**	**4.2**	**-**	**3.9**	**118.2**	**7.9 / *+7.2%***
Businesses held for sale [(4)]	15.5	-	-	(2.3)	(1.2)	12.0	n/a / na
Group total	**125.8**	**(0.2)**	**4.2**	**(2.3)**	**2.7**	**130.2**	**4.4 / *+3.5%***

The small net FX impact above is driven by the GBP strengthening by around 3.0% against the US$ (c.£0.9m sales reduction), partly offset by GBP weakening by 3.5% against the €uro (c.£0.7m sales growth). With the higher growth rates being achieved in the Assurance division, its share of Group revenue has now risen to 83.9% (2017: 83.0%). The Group continued to have minimal reliance on any one customer or sector. Within Assurance the largest customer represents approximately 4% of total Assurance revenue. The largest customer in Escrow is just over 1% of total Escrow revenue.

Revenue performance is discussed further in each Operating Segments performance report below.

Group profitability and margins

The Board and Executive management use a number of non-GAAP measures (also known as Alternative Performance Measures or 'APM's') in the day-to-day management of the business. The table below sets out the reconciliation between the APM's and reported statutory measures.

	H1 2018	**H1 2017**	**H2 2017**
	£m	**£m**	**£m**
Continuing operations adjusted EBITDA	19.9	19.8	13.4
Depreciation of property plant and equipment	(3.0)	(2.4)	(2.7)
Amortisation internally developed intangible assets	(2.8)	(1.2)	(1.5)
Continuing operations adjusted operating profit (EBIT)	**14.1**	**16.2**	**9.2**
Individually significant items	(2.6)	(3.2)	(59.8)
Amortisation acquired intangible assets	(4.9)	(5.1)	(5.2)
Share based payments	-	(0.5)	-
Profit on sale of subsidiaries	-	-	1.2
Continuing operations operating profit (EBIT)	**6.6**	**7.4**	**(54.6)**

The Group's primary financial profitability measure is Adjusted operating profit (sometimes referred to as 'Adjusted EBIT'). It is management's view that Adjusted EBIT is more closely aligned to the underlying

performance of the business. Adjusted EBITDA is also disclosed as this is used by some stakeholders and in some other KPI's used in the business (such as the Cash Conversion ratio). The Group delivered a GM% of 39.4% in the period, an improvement of 2.6% on the 36.8% achieved in H1 of the prior year. The improvement has been driven by a combination of four factors:

- improved utilisation rates in the Assurance division with revenue growth being delivered by staff numbers that have been kept relatively flat since the start of Q4 in the prior year;
- in Escrow, the prior year saw a significant increase in headcount and associated costs in the first half of the prior year which were then reduced again to close to the original starting level by the end of the year. The current year has not repeated that trajectory;
- an improved mix being delivered by the two acquisitions in the US in the prior year; and
- the planned reduction in lower margin third party product re-selling noted earlier.

The GM% improvement combined with good revenue growth delivered a £6.0m increase in gross profit to £46.6m compared to £40.6m in H1 of the prior year and £8.5m compared to £38.1 in the second half of the prior year for the reasons noted above.

Group adjusted operating profit from continuing operations of £14.1m was a reduction of £2.1m year-on-year (H1 2017: £16.2m). This was mainly the result of overhead ('G&A') increases committed in the first and second half of the prior year.

The main causes of G&A increases from H1 2017(excluding the impact of acquisitions) were as follows:

- support salaries across both operating divisions and the corporate centre increased £1.7m due to additional headcount added in the first three quarters of the prior year and additional bonus provisions in the current year. The headcount increases included new capabilities such as in-house tax, treasury and expanded legal skills to match our scale and complexity;
- occupancy costs which include rent, rates and other office related expenditure across the Group, increased by £1.4m year-on-year, reflecting a significant expansion of the size and fit out of a number of the Group's offices in various territories;
- an increase in professional fees of £0.6m as we work to design and implement new processes and systems while also remediating some historical shortcomings and weaknesses; and
- an adverse £1.3m swing in the impact of transactional FX (H1 2017 saw a gain of £0.1m, the current period a loss of £1.2m).

The Group's profit after tax for the year includes £0.5m of from discontinued operations (H1 2017: profit after tax £0.7m). See Note 3 for more details.

Assurance Division – Business Performance Review

In Assurance, the four core geographies (UK, North America, Netherlands and Denmark), delivered good double-digit organic growth (on a constant currency basis). The Assurance result includes reduced sales from the UK Managed Security Services business ('MSS' – formerly known as Accumuli) of £7.9m of which approximately £7.6m relates to a fall in sales of third party products and services. This is a continuation of a reduction in the relative small share of the Group's business that involved the single transaction re-selling of third party products. This reduction was flagged in the Preliminary Results for the year ended 31 May 2017 and those sales are now at a level where little or no further contraction is expected. Furthermore, no material allocation of Group resources is being made in this area to deliver growth. References to 'retained' assurance exclude the impact of changes in this third party re-sale offering.

The underlying performance of the Assurance business lines is easier to understand using constant currency and also by splitting performance between organic and acquisition based growth as shown in the table below:

Assurance revenue bridge	**Growth £m**	**Growth %**
Revenue for 6 months ended 30 November 2016	91.6	
Impact of FX movements	(0.1)	*n/a*
Prior year acquisitions	4.2	*n/a*
Net revenue growth from FX and acquisitions	4.1	
Net 'retained' organic growth	**11.1**	**+14.3%**
MSS – product sales	(7.6)	*(62.0%)*
Net organic growth	**3.5**	**+3.9%**
Total Assurance revenue growth	**7.6**	*+8.3%*
Revenue for 6 months ended 30 November 2017	**99.2**	

Assurance benefitted from the full year effect of the acquisitions of PSC and VSR in the USA during the second half of the prior year (£4.1m benefit in the Period). Changes in FX rates had a minimal £0.1m adverse impact in the current period.

Net retained organic growth was £11.1m, which represented year-on-year growth of 14.3%. Year-on-year organic growth in consulting revenues in all four core territories was at healthy double-digit levels. This was driven primarily by a combination of market growth coupled with our ability to capture share due to our scale. In addition, we have begun to see differential pricing having an impact on areas of deep specialism such as our hardware and automotive practices. The early signs are that our efforts to expand our offering beyond transactional activity are starting to bear fruit: our Risk Management and Governance service line which focuses on Board or Strategic level cyber risk has shown good growth and we are starting leverage this capability overseas.

In Fox we saw encouraging progress in all service lines. There was a welcome start to the recovery of orders and revenue in the High Assurance product line which had seen a slow-down throughout the prior year. Managed services in Fox, an attractive and scalable business line, also delivered 20.0% growth year-on-year. The CTMp project to migrate existing MSS customers in the Netherlands to the new platform and then to roll it out in the UK will complete in the second half. The scalability of the CTMp platform will also support margin recovery across the Group as a whole.

Somewhat disappointingly, core UK MSS which is an area of focus for the business going forward, actually fell slightly year-on-year (£0.3m or 5.5%). This was in part the result of the number and scale of change initiatives impacting the MSS business unit, particularly amongst the sales force, and work is already underway to remedy this.

Assurance profitability analysis

Our GM% increased across the division by 2.7% points to 32.3% (H1 2017 29.6%) and by an even more impressive 4.3% compared to the 28.0% seen in the second half of the prior year. This was the result of improved utilisation rates, attractive GM% delivered by the businesses acquired in the prior year and an improved mix with the move away from reselling 3rd party products.

G&A costs were £1.0m greater than H1 2017 (excluding VSR / PSC and FX), but are in line with H2 2017. Amortisation charges increased in the period as a result of prior year spend on projects and a greater number of projects are now 'live' and hence being amortised. Finally, during the Period and following the outcome of the Strategic Review, we reviewed our product portfolio and any software assets linked to each product. In a small number of cases, delays in commercialisation led to the decision to write off £0.7m of assets in total across a range of projects.

The net result of these factors was that the absolute level of adjusted operating profit grew year-on-year by £0.8m (8.9%) to £9.8m. Adjusted EBIT margins increased slightly to 9.9% (H1 2017: 9.8%).

Escrow Division Business Performance Review

Revenue performance

The Escrow division accounts for 16.0% of continuing Group revenues (2017: 17.0%). Escrow revenue for the year grew by £0.3m (1.6%) to £19.0m (H1 2017: £18.7m). Excluding the impact of FX, at constant currency rates underlying growth was £0.4m (2.1%).

Escrow revenue analysis	**H1 2018 £m**	H1 2017 £m	*Change %*	H2 2017 £m	*Change %*
UK and RoW	13.3	12.8	*3.9%*	12.1	*9.9%*
USA	3.8	4.0	*(5.0%)*	4.4	*(13.6%)*
Europe	1.9	1.9	-	2.0	*(5.0%)*
Total Escrow revenue	**19.0**	**18.7**	***+1.6%***	**18.5**	***2.7%***

Escrow revenues and growth can be further analysed as follows:

Escrow services revenue	**H1 2018 £m**	H1 2017 £m	*Change %*	H2 2017 £m	*Change %*
Escrow contracts	13.2	13.1	*0.8%*	*13.2*	-
Verification testing	5.2	5.0	*4.0%*	*4.6*	*13.0%*
Other services	0.6	0.6	-	*0.7*	*(14.3%)*
Total Escrow revenue	**19.0**	**18.7**	***+1.6%***	***18.5***	***2.7%***

The Escrow revenue comparison benefitted in the first quarter from a one-off change in revenue recognition as noted at end of last year. However, the same factor meant that the second quarter was more challenging than the prior year and therefore the overall impact in the first half was broadly neutral. The division also started to reorganise the process to deliver verification testing and this led to an increase in the volume of work actually delivered in the current period that underpins the small overall increase in revenue noted above.

Escrow UK recurring revenues increased to £9.6m (2017: £9.5m) and the terminations rate at 11% remains at around the same level as the prior year.

Revenues in US Escrow fell year-on-year to £3.8m (H1 2017: £4.0m) with recurring revenues of £2.7m. Approximately £0.1m of the total revenue fall related to the impact of changes in FX rates. The US senior management team was changed at the back end of the prior year and this undoubtedly had an impact on performance. While the new team is now in place, it will take some time for them to be fully effective in this market where we do still see significant opportunity for growth.

Revenues in Escrow Europe were maintained at £1.9m (H1 2017: £1.9m) with recurring revenues of £1.1m. While relatively small in scale, the European business continues to give the division useful footholds in various European geographies.

Escrow profitability analysis
The table below shows the split of Operating Profit by Escrow region. For reporting purposes, RoW EBIT is included within the UK.

Adjusted EBIT	H1 2018	H1 2017	Change	H2 2017	*Change*
	£m	£m	%	£m	*%*
UK and RoW	9.2	8.6	*7.0%*	*8.8*	*4.5%*
USA	2.2	2.0	*10.0%*	*1.7*	*29.4%*
Europe	1.1	0.9	*22.2%*	*1.0*	*10.0%*
Allocated shared central costs	(2.5)	(1.2)	n/a	(2.7)	n/a
Escrow adjusted EBIT	**10.0**	**10.3**	**(2.9%)**	**8.8**	**13.6%**

In the first half of the prior year there was a marked increase in headcount and salary costs which had largely been reversed by the end of that financial year. The current year did not repeat that cost increase and hence underlying profit margins improved as a result, with adjusted operating profit (before shared cost allocations) of £12.5m being up £1.0m on the prior year (H1 2017 £11.5m).

The significant increase in gross and net margins in the division is a welcome return to a more normalised Escrow margin basis. However, we still believe that there remains scope for smaller incremental gains in the next few years, particularly in the smaller US and European markets where we have an established cost base that could support higher revenues, without a proportionate increase in costs.

Central costs

The overall operating profit performance of both operating divisions is impacted by the allocation of shared central costs. At the prior year end the allocation methodology was updated to reflect the current shape and size of the two divisions. The methodology adopted in the Period is wholly consistent with that approach. However, it had not been adopted in the first half of the prior year and the results for that period have not been re-stated. If they had been, the £1.0m increase in Escrow operating profit before the allocation of shared central costs would likely have been reflected in a slightly smaller increase in operating profit after the allocation due to increases in shared overheads such as the new Manchester HQ.

Discontinuing operations

Revenue in the three businesses classified as discontinuing fell in the period from £15.5m to £12.0m. The largest contributing factor to the fall in was the Domain Services business which was exited in the prior year (£2.3m of revenue in the prior period, Nil in the current year). Between them, Web Performance and Software Testing saw a fall in combined revenue of £1.2m which largely relates to a one-off non-recurring project in Software Testing in the first half of the prior year which was cancelled in the wake of the Brexit vote.

The net profit after tax associated with the three discontinuing businesses fell in the period to £0.5m (H1 2017: £0.7m). This was largely the result of lower capitalisation of development costs (£0.6m) in Web Performance following the impairment of certain assets at the prior year end.

Discontinued operations are set out in more detail in Note 3.

Individually significant items

Individually significant costs incurred during the Period and in the prior year are set out in the table below:

Individually significant items	**H1 2018 £m**	H1 2017 £m	FY 2017 £m
Impairment of goodwill	**-**	-	(54.3)
Revisions to deferred and contingent consideration	**(0.6)**	(2.6)	(2.7)
Restructuring costs	**(1.1)**	-	(1.3)
Acquisition / market related costs	**(0.2)**	(0.6)	(0.8)
Property related costs	**(0.7)**	-	(2.2)
Vacation pay catch up provision	**-**	-	(1.7)
Total individually significant items	**(2.6)**	(3.2)	(63.0)

The change in value of deferred and contingent consideration (in the current and prior period all relates to Fox-IT and reflects changes in FX rates (it is denominated in Euro's). 90% of the second tranche of deferred payment for Fox-IT (equating to €11.25m / £9.9m at period end exchange rates) remains outstanding as at 30 November 2017. The Group had been due to make this final payment on 27 November 2017 but in light of ongoing discussion with the Vendors of Fox-IT in respect of some matters relating to the SPA, the Group withheld the payment due to the primary shareholders. Further details are set out in Note 14.

Restructuring costs in the current year relate to the costs of completing the Strategic Review and subsequent work to develop and implement the new Target Operating Model as well as some redundancy costs amongst the senior management team that are a direct result of those reviews.

Acquisition and market related costs in the current year were in respect of the shareholder circular issued to remedy invalid dividend payments over the previous years which had arisen following an administrative oversight. In the prior year the costs of £0.6m consisted of fees incurred in relation to the acquisitions of PSC and VSR in the USA.

Property related costs in the current year were in respect of ongoing pre-occupancy double running costs of the Manchester HQ that started in the prior year and are now largely complete.

The individually significant items recorded in the last financial year ending 31 May 2017 are set out in detail in the Annual Report and Accounts for that year.

The Group's reported post-tax profit was £3.8m (November 2016: £5.5m) after including the unwinding of the discount on contingent consideration, amortisation of acquired intangible assets, share based payments and individually significant items.

Taxation

The Group's adjusted effective tax rate for the period to 30 November 2017 was 27.6% (H1 2017: 23.7%). The effective rate is higher than the UK basic rate due to profitability in overseas territories with higher rates of tax, notably the US, where relatively higher full year forecast profitability was expected as of H1 2018 compared to H1 2017.

The tax charge and effective tax rate for the 6 months to 30 November 2017 is based on the application of tax rates enacted as of 30 November 2017 to full year forecast profits. The Group is in the process of evaluating the impact of the recent legislative changes to the US tax code that were enacted on 22 December 2017, including a reduction in the US federal tax rate effective 1 January 2018. At this stage we estimate that the impact on the Group's effective tax rate for the year to 31 May 2018 will be positive by approximately 3.0% or more. The impact on the overall tax charge in the full year accounts will be limited due to the US rate change becoming effective mid-year and a proportion of the change will be

attributable to the revaluation of relevant deferred tax assets and liabilities.

Earnings per share

Adjusted fully diluted earnings per share from continuing operations was 3.7p (H1 2017: 4.7p) while reported fully diluted earnings per share was 1.3p (H1 2017: 2.0p). The calculation of adjusted EPS is set out in Note 7.

Dividends

As noted in the Chairman's statement, the Board is recommending an unchanged interim dividend of 1.5p per ordinary share (H1 2017: 1.5p).

Cash

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

	H1 2018 £m	H1 2017 £m
Cash flow before changes in working capital	18.5	20.5
Changes in working capital	(0.7)	(7.1)
Interest paid	(0.7)	(0.9)
Income taxes paid	(2.4)	(0.3)
Net cash from operating activities	**14.7**	**12.2**
Net capital expenditure	(7.1)	(5.7)
Capitalised development costs	(1.4)	(2.2)
Free cash flow	**6.2**	**4.3**
Acquisitions	(1.0)	(29.9)
Disposals	-	1.8
Dividends	(8.7)	(8.7)
Share issues	1.1	1.0
Net cash flow before financing	**(2.4)**	**(31.5)**
Opening net debt	(43.7)	(12.7)
Foreign exchange impacts	1.7	(4.6)
Closing net debt	**(44.4)**	**(48.8)**

The Group generated a net £14.7m of cash from operating activities (H1 2017 - £12.2m). This is before deducting £1.4m of internally capitalised development costs (H1 2017 - £2.2m).

Working capital benefitted from improved collections and a reduction in overdues in the period. despite the growth in revenue. The sales working capital ratio (defined as accrued income plus trade debtors divided by annualised trailing quarter sales) improved from 26.2% to 21.4% as a result of the collections benefits noted above as well as a £4.6m reduction in accrued income – approximately half of which related to the sale of Open Registry and half to improved billing processes.

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

	H1 2018	**H1 2017**	**H2 2017**
Net cash generated from operating activities (A)	14.7	12.2	15.8
Adjusted EBITDA (B)	20.7	21.2	14.9
Cash conversion ratio (A) / (B)	**71.0%**	**57.5%**	**106.0%**

The main driver for the improvement in the cash conversion ratio has been early, relatively straight-forward gains, in debt collection activity noted above. There remains much to be achieved here.

Interest cash costs remained modest. The difference in cash tax paid from H1 2017 to H1 2018 is a

result of an overpayment on account for UK corporation tax refunded in H1 2017, while H1 2018 cash tax paid is reflective of the underlying UK tax payment profile.

Net capital expenditure was £7.1m (H1 2017: £5.7m), the increase being predominantly due to the move to the Group's head offices to the Manchester XYZ building which incurred £3.9m of costs in the period and is now largely complete.

Financing facilities

The Group's facilities and covenants are summarised below:

- Maximum facility £105.3m (£25.3m amortising term loan and £80m revolving credit facility) – current net debt is £44.4m
- Liability for deferred consideration on Fox-IT acquisition is included in net debt for covenant purposes - £54.3m
- Leverage limit of 2.5 times Adjusted EBITDA – current leverage 1.5 times
- Net Interest cover minimum 3.5 times – current ratio 24.1 times.

The Group remains comfortably within its banking facilities and covenants.

Principal risks and uncertainties

The Group operates in a dynamic and evolving market place. As new events occur or the business transitions into new activities or phases of its development, the risk register is updated accordingly.

For example, the number and scale of business improvement projects, alongside implementation of the Strategic Review and the TOM, create new risks. These include challenges to management bandwidth as well as some organisational capabilities. These new risks are being closely managed with the assistance of outside contractors with experience of major change management programs.

As explained in the full year results, the scale and complexity of the Group increased and enhanced controls and processes need to be put in place. In order to address this, the Board approved the appointment of a Director of Risk and Assurance who joins the Group in January 2018.and The Group Tax and Treasury Manager was a similar such requirement and they joined the Group during the first quarter of the current financial year.

A summary extract (from the Annual Report and Accounts for the year ended 31 May 2017) of the principal risks and uncertainties faced by the Group, their potential impact and mitigating processes and controls are set out below. No significant changes have been identified in the current period.

Risk Areas	**Potential Impact**	**Mitigation**
1. Strategy	Poor strategy or ineffective execution would have a material negative impact on the Group's financial performance and value.	Significant Board member experience in evolving business strategies. Complemented with external advisers.
2. Management of change	Could lead to ineffective projects that cost more to complete and deliver fewer benefits.	The Board have extensive experience of change management. Regular staff engagement.
3. Information Technology	Could affect our ability to deliver revenue generating services, result in the loss of sensitive data and compromise the Group's reputation.	Significant IT infrastructure investment to ensure continuity. Controls to reduce and mitigate the impact of risks.
4. Recruitment & Retention of key personnel.	Could result in a lack of necessary expertise to execute the Group's strategy.	Rewarding career structures and attractive salary packages. Succession plans being finalised for key staff where not already in place.
5. Conduct and	Damage to reputation, loss of repeat	Group Quality systems and policies.

Risk Areas	Potential Impact	Mitigation
reputational risk	business and potential litigation.	Oversight, risk management, project reviews and customer feedback. Employee vetting processes.
6. Cyber risk	Disruption to the Group's business and harm the Group's reputation.	Board Cyber Security Committee. Regular internal security testing Extensive measures to identify and dealing with security incidents. Dedicated Information Security Management Forum.
7. Acquisitions and disposals	Poorly executed acquisitions and disposals or those with excessive purchase prices can destroy shareholder value.	Establishing a robust and scalable 'Target Operating Model'. Board review of acquisition processes to identify areas for improvement.
8. Competition or failure to respond to market trends	A major technology change could lead to a decline in an individual service line's revenue stream.	Group employs industry experts. Group wide technology and technical forums share market intelligence.
9. Ethical and legal breaches	Could potentially damage NCC Group's reputation and commercial standing, could lead to fines, litigation and claims for compensation.	Policies and operational controls.. Continued investment in people, processes and training.
10. Failure to protect intellectual property	Could potentially no longer be able to offer a particular service in some or all countries.	Patents applied for where appropriate. Intellectual property is only disclosed under a licence agreement or confidentiality agreement.
11.Banking facilities	Could call into doubt the Group's longer-term viability or inhibit delivery of the Group's strategy.	The Group's current banking facilities cover all of its medium term needs. Dedicated Tax and Treasury Manager.

The full detail of these risks, associated mitigating controls and their potential impact is set out in full in the Annual Report and Accounts for the year ended 31 May 2017.

On behalf of the Board

Chris Stone
Chairman
16 January 2018

Brian Tenner
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 half-yearly financial report for the six months ended 30 November 2017 which comprises consolidated income statement, consolidated statement of comprehensive income, consolidated condensed statement of financial position, consolidated condensed statement of cash flows, consolidated condensed 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 2017 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU 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 half-yearly financial report 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 annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

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.

Stuart Burdass
for and on behalf of KPMG LLP
Chartered Accountants
1 St Peter's Square, Manchester, M2 3AE
16 January 2018

Consolidated Income Statement - for the six months ended 30 November 2017

	Note	**H1 2018 Total £m**	**H1 2018 Adjustments £m**	**H1 2018 Continuing Adjusted £m**	H1 2017 Total £m	H1 2017 Adjustments £m	H1 2017 Continuing Adjusted £m	FY 2017 Total £m	FY 2017 Adjustments £m	FY 2017 Continuing Adjusted £m
Revenue	2	118.2	-	118.2	110.3	-	110.3	217.8	-	217.8
Cost of Sales		(71.6)	-	(71.6)	(69.7)	-	(69.7)	(139.1)	-	(139.1)
Gross profit		**46.6**	**-**	**46.6**	**40.6**	**-**	**40.6**	**78.7**	**-**	**78.7**
Administration expenses		(40.0)	7.5	(32.5)	(33.2)	8.8	(24.4)	(125.9)	72.6	(53.3)
Analysed as:										
General & admin costs		(32.5)	-	(32.5)	(24.4)	-	(24.4)	(53.3)	-	(53.3)
Profit on sale of subsidiaries		-	-	-	-	-	-	1.2	(1.2)	-
Amortisation acq'd intangibles	9	(4.9)	4.9	-	(5.1)	5.1	-	(10.3)	10.3	-
Individually significant items	5	(2.6)	2.6	-	(3.2)	3.2	-	(63.0)	63.0	-
Share based payments		-	-	-	(0.5)	0.5	-	(0.5)	0.5	-
Operating profit	**2**	**6.6**	**7.5**	**14.1**	**7.4**	**8.8**	**16.2**	**(47.2)**	**72.6**	**25.4**
Net Interest expense		(0.7)	-	(0.7)	(0.6)	-	(0.6)	(1.4)	-	(1.4)
Unwinding acquisition discount		(0.2)	0.2	-	(0.3)	0.3	-	(0.5)	0.5	-
Net financing costs		**(0.9)**	**0.2**	**(0.7)**	**(0.9)**	**0.3**	**(0.6)**	**(1.9)**	**0.5**	**(1.4)**
Profit before taxation		**5.7**	**7.7**	**13.4**	**6.5**	**9.1**	**15.6**	**(49.1)**	**73.1**	**24.0**
Taxation	6	(2.4)	(1.3)	(3.7)	(1.7)	(2.0)	(3.7)	(1.4)	(4.8)	(6.2)
Profit from continuing operations		**3.3**	**6.4**	**9.7**	**4.8**	**7.1**	**11.9**	**(50.5)**	**68.3**	**17.8**
Profit from discontinued operation, net of tax	3	0.5	(0.5)	-	0.7	(0.7)	-	(6.1)	6.1	-
Profit for the period		**3.8**	**5.9**	**9.7**	**5.5**	**6.4**	**11.9**	**(56.6)**	**74.4**	**17.8**
Attributable to equity holders of the parent company		**3.8**	5.9	**9.7**	5.5	6.4	11.9	(56.6)	74.4	17.8
Continuing operations EPS	7									
Basic EPS		1.4p	-	-	2.0p	-	-	(20.4)p	-	-

Consolidated Statement of comprehensive income
for the six months ended 30 November 2017

	H1 2018	H1 2017	FY 2017
	£m	£m	£m
Profit / (Loss) for the period	3.8	5.5	(56.6)
Items that may be reclassified subsequently to profit or loss (net of tax)			
Foreign exchange translation differences	(0.1)	17.4	17.9
Total comprehensive income / (loss) for the period, net of tax	3.7	22.9	(38.7)
Attributable to:			
Equity holders of the parent	3.7	22.9	(38.7)

Consolidated condensed statement of financial position
at 30 November 2017

	Notes	**H1 2018 £m**	H1 2017 £m	FY 2017 £m
Non-current assets				
Intangible assets	9	**247.8**	334.7	267.6
Plant and equipment	10	**20.3**	14.6	18.3
Investments		**0.4**	0.3	0.4
Deferred tax assets		**4.1**	1.7	4.2
Total non-current assets		**272.6**	351.3	290.5
Current assets				
Trade and other receivables		**63.0**	77.3	66.7
Inventories		**0.7**	0.5	1.1
Cash and cash equivalents		**13.4**	22.1	12.3
Assets held for sale		**17.8**	-	-
Total current assets		**94.9**	99.9	80.1
Total assets		**367.5**	451.2	370.6
Current Liabilities				
Trade and other payables		**28.2**	31.9	29.7
Provisions		**0.8**	0.3	1.5
Consideration on acquisitions	13	**12.0**	10.4	12.9
Deferred revenue		**29.5**	35.0	35.6
Interest bearing loans	11	**5.0**	5.0	5.0
Current tax payable		**3.6**	1.8	3.0
Liabilities held for sale		**7.2**	-	-
Total current liabilities		**86.3**	84.4	87.7
Non-current liabilities				
Deferred tax liability		**13.2**	15.1	14.2
Provisions		**5.4**	4.0	3.5
Consideration on acquisitions	13	**1.9**	4.2	2.1
Interest bearing loans		**52.8**	65.9	51.0
Total non-current liabilities		**73.3**	89.2	70.8
Net Assets		**207.9**	277.6	212.1
Equity				
Issued capital		**2.8**	2.8	2.8
Share premium		**148.9**	149.0	148.0
Merger reserve		**42.3**	42.3	42.3
Retained earnings		**(12.1)**	57.9	(7.1)
Currency translation reserve		**26.0**	25.6	26.1
Total equity attributable to equity holders of the parent		**207.9**	277.6	212.1

These financial statements were approved by the Board of Directors on 16 January 2018 and were signed on its behalf by:

Chris Stone
Chairman

Brian Tenner
Chief Financial Officer

Consolidated condensed statement of cash flows
for the six months ended 30 November 2018

	H1 2018	H1 2017	FY 2017
	£m	£m	£m
Profit/(loss) for the year	**3.8**	5.5	(56.6)
Adjustments for:			
Depreciation	**3.2**	2.5	5.2
Depreciation – individually significant item	**-**	-	0.9
Share based charges	**(0.1)**	0.5	0.6
Amortisation of intangible assets	**8.0**	6.6	13.8
Net financing costs	**0.9**	0.9	1.9
Profit on sale of plant and equipment	**-**	-	(0.1)
Exchange rate loss	**0.2**	2.6	-
Impairment of intangible assets	**-**	-	7.7
Impairment of goodwill	**-**	-	54.3
Individually significant items	**-**	-	6.0
Profit on disposal of subsidiaries	**-**	-	(1.2)
Income tax expense	**2.5**	1.9	1.3
Cash inflow for the year before changes in working capital	**18.5**	20.5	33.8
Increase in trade and other receivables	**(1.1)**	(7.1)	(2.3)
Decrease in trade and other payables	**0.4**	-	0.2
Cash generated from operating activities before interest and tax	**17.8**	13.4	31.7
Interest paid	**(0.7)**	(0.9)	(1.9)
Income taxes paid	**(2.4)**	(0.3)	(1.8)
Net cash generated from operating activities	**14.7**	12.2	28.0
Cash flows from investing activities			
Purchase of plant and equipment	(6.0)	(4.0)	(11.0)
Capital contribution for property, plant and equipment	-	-	3.7
Proceeds from disposal of property	-	0.4	0.4
Capitalised development costs	(1.4)	(2.2)	(3.7)
Software expenditure	(1.1)	(2.1)	(3.7)
Acquisition of businesses	(1.0)	(29.9)	(28.4)
Cash acquired with subsidiaries	-	1.8	1.9
Cash disposed of from sale of subsidiaries	-	-	(1.7)
Proceeds from sale of subsidiaries	-	-	1.7
Net cash used in investing activities	**(9.5)**	(36.0)	(40.8)
Cash flows from financing activities			
Sale of own shares	**-**	0.3	-
Proceeds from the issue of ordinary share capital	**1.1**	0.7	0.7
Draw down / (repayment) of borrowings	**3.9**	37.5	18.9
Equity dividends paid	**(8.7)**	(8.7)	(12.8)
Net cash (used) / generated in financing activities	**(3.7)**	29.8	6.8
Net increase / (decrease) in cash and cash equivalents	**1.5**	6.0	(6.0)
Cash and cash equivalents at beginning of period	**12.3**	20.7	20.7
Effect of foreign currency exchange rate changes	**(0.4)**	(4.6)	(2.4)
Cash and cash equivalents at end of period	**13.4**	22.1	12.3

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

	H1 2018 £m	H1 2017 £m	FY 2017 £m
Increase/(decrease) in cash and cash equivalents	**1.5**	6.0	(6.0)
Change in net debt resulting from cashflows	**(3.9)**	(37.5)	(18.9)
Foreign currency translation differences on cash and cash equivalents	**(0.4)**	(4.6)	(2.4)
Foreign currency translation differences on borrowings	**2.1**	-	(3.7)
Change in net debt during the year	**(0.7)**	(36.1)	(31.0)
Net debt at start of period	**(43.7)**	(12.7)	(12.7)
Net debt at end of period	**(44.4)**	(48.8)	(43.7)

Net debt comprises	H1 2018 £m	H1 2017 £m	FY 2017 £m
Cash and cash equivalents	**13.4**	22.1	12.3
Total borrowings (Note 11)	**(57.8)**	(70.9)	(56.0)
Net debt	**(44.4)**	(48.8)	(43.7)

Consolidated condensed statement of changes of equity
for the six months ended 30 November 2017

	Share Capital	Share Premium	Merger Reserve	Currency Translation Reserve	Reserve for own shares	Retained Earnings	Total
	£m	£m	£m	£m	£m	£m	£m
Balance at 1 June 2016	2.8	147.3	42.3	8.2	(0.2)	62.5	262.9
Profit for the year	-	-	-	-	-	5.5	5.5
Foreign currency translation differences	-	-	-	17.4	-	-	17.4
Total comprehensive income for the year	**-**	**-**	**-**	**17.4**	**-**	**5.5**	**22.9**
Transactions with owners recorded directly in equity							
Dividends to equity shareholders	-	-	-	-	-	(8.7)	(8.7)
Share based payment transactions	-	-	-	-	-	(1.2)	(1.2)
Current and deferred tax on share based payments	-	-	-	-	-	(0.2)	(0.2)
Shares issued	-	1.7	-	-	-	-	1.7
Purchase of own shares	-	-	-	-	0.2	-	0.2
Total contributions by and distributions to owners	**-**	**1.7**	**-**	**-**	**0.2**	**(10.1)**	**(8.2)**
Balance at 30 November 2016	**2.8**	**149.0**	**42.3**	**25.6**	**-**	**57.9**	**277.6**

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

	Share Capital	Share Premium	Merger Reserve	Currency Translation Reserve	Reserve for own shares	Retained Earnings	**Total**
	£m	£m	£m	£m	£m	£m	£m
Balance at 1 June 2017	2.8	148.0	42.3	26.1	-	(7.1)	212.1
Profit for the year	-	-	-	-	-	3.8	3.8
Foreign currency translation differences	-	-	-	(0.1)	-	-	(0.1)
Total comprehensive income for the year	-	-	-	(0.1)	-	3.8	3.7
Transactions with owners recorded directly in equity							
Dividends to equity shareholders	-	-	-	-	-	(8.7)	(8.7)
Share based payment transactions	-	-	-	-	-	(0.1)	(0.1)
Current and deferred tax on share based payments						-	-
Shares issued	-	0.9	-	-	-	-	0.9
Purchase of own shares	-	-	-	-	-	-	-
Total contributions by and distributions to owners	**-**	0.9	-	-	-	(8.8)	(7.9)
Balance at 30 November 2017	**2.8**	**148.9**	**42.3**	**26.0**	**-**	**(12.1)**	**207.9**

Notes

1 Accounting policies Basis of preparation

The Group condensed half-year financial statements for the six months ended 30 November 2017 have been prepared in accordance with IAS 34, "Interim Financial Reporting" as adopted by the EU.

As required by the Disclosure Guidance and Transparency Rules of the Financial Services Authority the financial information contained in this report has been prepared using the accounting policies and presentation that were applied in the company's published consolidated financial statements for the year ended 31 May 2017. They do not contain all the information required for full annual financial statements and should be read in conjunction with the annual financial statements for the year ended 31 May 2017.

The financial statements of the Group for the year ended 31 May 2017 are available from the Company's registered office, or from the website www.nccgroup.trust.

The comparative figures for the financial year ended 31 May 2017 are not the Company's statutory accounts for that financial year. Those accounts, which were prepared under IFRS as adopted by the EU ("adopted IFRS"), have been reported on by the company's auditors and delivered to the registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

NCC Group plc ("the Company") is a company incorporated in the UK.

Significant accounting policies

There are no IFRS or IFRIC interpretations effective for the first time in this financial period which are relevant that have had a material impact on the Group.

Going concern

The Group's activities, together with the factors likely to affect its future development, performance and position are set out in the financial and operational reviews.

The directors have reviewed the trading and cash flow forecasts as part of their going concern assessment, together with the available facilities at 30 November 2017, (see note 11), including reasonable downside sensitivities which take into account the uncertainties in the current operating environment.

Taking into account the above uncertainties and circumstances, the directors formed a judgement that there is a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the group's condensed half-year financial statements for the period ended 30 November 2017. The principal risks and uncertainties facing the Group are set out on pages 14 to 15.

Use of estimates and judgements

The preparation of the consolidated half-year financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing the consolidated half-year financial statements, the significant judgements made by management in applying the Group's accounting policies and key sources of estimated uncertainty

were the same as those applied to the consolidated financial statements for year ended 31 May 2017.

Held for Sale

For each reporting period, the Group identifies any assets and liabilities that meet the definition of held for sale, these being:

- management is committed to a plan to sell;
- the asset is available for immediate sale;
- an active programme to locate a buyer has been initiated;
- the sale is highly probable, within 12 months of classification as held for sale;
- asset is being actively marketed for sale at a sales price reasonable in relation to its fair value; and
- actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn

Where such assets and liabilities are identified, these are presented separately and held at the lower of carrying amount and fair value less costs to sell. Details of net assets held for sale are disclosed in note 4.

2 Segmental information

The Group is organised into two operating segments Escrow and Assurance (30 November 2016: three - Escrow, Assurance and Domain Services) each of which is separately reported.

Whilst revenue and profitability are monitored by individual business units within these operational segments it is only at the operating level that resource allocation decisions are made.

Performance is measured based on segment profit, which comprises segment operating profit excluding amortisation of acquired intangible assets, share based payment charges and individually significant items. Interest and tax are not allocated to business segments and there are no intra-segment sales.

The Group's half-yearly revenue profile has fluctuated over the last few years with differing proportions of revenue arising in the first or second half from year to year.

	H1 2018	H1 2017	FY 2017
	£m	£m	£m
Analysis of revenue			
Escrow UK	**13.3**	12.8	24.9
Escrow Europe	**1.9**	1.9	3.9
Escrow USA	**3.8**	4.0	8.4
Total Escrow	**19.0**	18.7	37.2
Security Consulting	**99.2**	91.6	180.6
Total Assurance	**99.2**	91.6	180.6
Revenue from continuing operations	**118.2**	110.3	217.8
Revenue from discontinuing operations	**12.0**	**15.5**	**26.7**
Total Revenue	**130.2**	**125.8**	**244.5**

During the Strategic Review it was identified that the Software Testing business (as well as Web performance) was distinct from the Group's other cyber security businesses in the Assurance division and the decision was taken to sell that business. However, it was also identified that one service line within Software Testing was closely aligned to the Group's retained Risk Management and Governance (RM&G) service line which forms part of Security Consulting, than Software Testing. That part of Software Testing was therefore transferred to Security Consulting at the start of the current financial year. As a

result, £1.1m of revenue has been reclassified in H1 2017 from Software Testing to Security Consulting.

2 Segmental information (*continued*)

CONTINUING OPERATIONS	**H1 2018**	H1 2017	FY 2017
	£m	£m	£m
Analysis of EBITDA by division			
Escrow	**10.4**	10.6	19.3
Assurance	**13.5**	11.6	18.2
Head office costs	**(4.0)**	(2.4)	(4.3)
Adjusted EBITDA of continuing operations	**19.9**	19.8	33.2
Analysis of Depreciation & Amortisation			
Escrow	**(0.5)**	(0.3)	(0.2)
Assurance	**(3.6)**	(2.5)	(3.7)
Head office costs	**(1.7)**	(0.8)	(3.9)
Depreciation & Amortisation of continuing operations	**(5.8)**	(3.6)	(7.8)
Adjusted operating profit	**14.1**	16.2	25.4
Amortisation of acquired intangible assets			
- Escrow	**(0.3)**	(0.4)	(0.8)
- Assurance	**(4.6)**	(4.4)	(9.1)
- Domain Services	**-**	(0.3)	(0.4)
Share based payments	**-**	(0.5)	(0.5)
Profit on disposal of subsidiary	**-**	-	1.2
Operating profit before individually significant items	**9.2**	10.6	15.8
Individually significant items	**(2.6)**	(3.2)	(63.0)
Operating profit	**6.6**	7.4	(47.2)
Net financing costs	**(0.9)**	(0.9)	(1.9)
Profit before tax continuing operations	**5.7**	6.5	(49.1)

DISCONTINUING OPERATIONS			
Adjusted EBITDA of discontinuing operations	**0.9**	1.4	2.9
Depreciation & Amortisation of discontinuing operations	(0.4)	(0.5)	(1.0)
Operating profit before amortisation, share based payments and exceptional items (discontinuing)	**0.5**	0.9	1.9
Individually significant items	**-**	-	(8.0)
Share based payments	**0.1**	-	(0.1)
Profit before tax discontinuing operations	**0.6**	0.9	(6.2)

*Note: in the previous year, the Domain Services result was included within individually significant items and therefore excluded from this analysis. This year it has been included as discontinuing operations.

2 Segmental information (*continued*)

The table below provides an analysis of the Group's revenue by geographical market where the customer is based.

Revenue by geographical destination	**H1 2018 £m**	H1 2017 £m	FY 2017 £m
UK	**51.7**	59.1	104.4
Rest of Europe	**25.6**	20.0	44.6
Rest of the World	**40.9**	31.2	68.8
Revenue from continuing operations	**118.2**	110.3	217.8
UK	**11.6**	12.9	23.3
Rest of Europe	**0.2**	2.4	3.0
Rest of the World	**0.2**	0.2	0.4
Revenue from discontinuing operations	**12.0**	15.5	26.7
Total Revenue	**130.2**	125.8	244.5

As a result of a new reporting system implemented in the first half of the current year, we now have a more accurate analysis of the geographical source of revenue. As a result, £8.8m of revenue previously identified as Rest of the World and £1.6m for the Rest of Europe, has been re-allocated to the UK.

3 Discontinued operations

In January 2017, the Group sold Open Registry, part of the Domain Services division. In July 2017, the Group also announced its intention to sell Web Performance and Software Testing, both part of the Assurance division. These segments were not previously classified as a discontinued operation. The comparative consolidated statement of profit or loss and OCI has been re-presented to show the discontinued operation separately from continuing operations.

Results of Discontinued operations	**H1 2018 £m**	H1 2017 £m	FY 2017 £m
Revenue	12.0	15.5	26.7
Cost of sales	(9.6)	(12.1)	(20.9)
Gross profit	**2.4**	**3.4**	**5.8**
General & administrative expenses	(1.9)	(2.5)	(3.9)
Individually significant items	-	-	(8.0)
Share based payments	0.1	-	(0.1)
Operating profit	**0.6**	**0.9**	**(6.2)**
Income tax	(0.1)	(0.2)	0.1
Results from operating activities, net of tax	**0.5**	**0.7**	(6.1)

4 Held For Sale

The table below provides analysis of the net assets and liabilities of the businesses held for sale:

Financial position of discontinued operations	**H1 2018 £m**
Goodwill	8.1
Other intangibles	4.8
Plant and equipment	0.2
Trade and other receivables	4.5
Deferred tax asset / (liability)	(0.4)
Trade and other payables	(3.9)
Deferred Revenue	(2.7)
Current tax receivable / (payable)	-
Net assets and liabilities	**10.6**

5 Individually significant items

The Group separately identifies those items which in management's judgement, need to be disclosed by virtue of their nature, size or incidence in order for the user to obtain a proper understanding of the underlying performance of the business.

	H1 2018	H1 2017	FY 2017
	£m	£m	£m
Individually significant items			
Goodwill impairment	**-**	-	(54.3)
Vacation pay catch up provision	**-**	-	(1.7)
Acquisition / market related related costs	**(0.2)**	(0.6)	(0.8)
Adjustments to deferred and contingent consideration	**(0.6)**	(2.6)	(2.7)
Property relocation costs	**(0.7)**	-	(2.2)
Restructuring costs	**(1.1)**	-	(1.3)
Total	**(2.6)**	(3.2)	(63.0)

Current period
Market related costs in the period were in respect of the shareholder circular and exercise to remediate a number of invalid dividends. This exercise completed successfully at the September EGM.

Adjustments to deferred and contingent consideration was in respect of FX movements as no adjustments to expected payments were made in the period. Property relocation costs were a continuation of double running costs that started in the prior year and are now complete.

Restructuring costs include a number of items related to the Strategic Review itself and some subsequent implementation steps: completion of the Strategic Review itself; designing the new Target Operating Model (TOM); Implementing the associated change program; and senior management re-organisation costs resulting from the TOM. Individually significant items are expected to be lower in the second half given that a number of items are now complete.

Prior period
Acquisition related costs in the period of £0.6m consisted of fees in relation to the acquisitions of Payment Software Company Inc on 28 September 2016 and Virtual Security Research LLC on 11 November 2016 (note 13). The adjustments to deferred and contingent consideration of £2.6m relate to foreign exchange revaluation differences.

Full year to 31 May 2017
A full analysis of individually significant items incurred in the year ending 31 May 2017 is set out in the Annual Report and Accounts.

6 Taxation

The Group tax charge is based on the estimated annual effective rate and for the half year is calculated at 27.6% (attributable to adjusted profits and continuing operations); 30 November 2016: 23.7%) and applied to the profit before tax for the period. The decrease in the estimated effective tax rate on adjustments to profit (£1.3m (16.9%); H1 2018 £2.0m (22.0%)) is a result of a) the impact of acquisition-related costs for the US business in H1 2018, where a higher tax rate applied and similar costs are not expected to arise in FY 2018, and b) other non-deductible costs in the UK that do not have an impact on the adjustments in H2 2018.

7 Earnings per share

The calculation of continuing earnings per share is based on the following:

Profit used in the EPS calculation	**H1 2018**	H1 2017	FY 2017
	£m	£m	£m
Profit after tax for the period used for earnings per share	**3.8**	5.5	(56.6)
Amortisation of acquired intangible assets	**4.9**	5.1	10.3
Individually significant items (Note 5)	**2.6**	3.2	63.0
Unwinding of discount	**0.2**	0.3	0.5
Share based payments	**-**	0.5	0.5
Profit on sale of subsidiary	**-**	-	(1.2)
Tax arising on the above items	**(1.3)**	(2.0)	(4.8)
Adjusted profit used for adjusted earnings per share	**10.2**	12.6	11.7
Results of discontinuing operations	**(0.5)**	(0.7)	6.1
Adjusted profit used for adjusted earnings per share for continuing operations	**9.7**	11.9	17.8

Number of shares used in the EPS calculation	**Number of shares m**	Number of shares m	Number of shares m
Basic weighted average number of shares in issue	**277.2**	276.1	276.3
Dilutive effect of share options	**2.8**	2.5	2.3
Diluted weighted average shares in issue	**280.0**	278.6	278.6

Earnings per share (EPS)	**H1 2018 pence**	H1 2017 pence	FY 2017 pence
Basic EPS from continuing operations	**1.2**	1.7	(18.3)
Basic EPS	**1.4**	2.0	(20.4)
Adjusted Basic EPS	**3.7**	4.7	4.2
Diluted Basic	**1.3**	2.0	(20.3)
Diluted Adjusted EPS	**3.7**	4.5	4.2

8 Dividends

	H1 2018	H1 2017	FY 2017
	£m	£m	£m
Dividends paid and recognised in the period	**8.7**	8.7	12.8
Dividends proposed but not recognised in the period	**4.1**	4.1	8.7
Dividends per share paid and recognised in the period	**3.15p**	3.15p	4.65p
Dividends per share proposed but not recognised in the period	**1.50p**	1.50p	3.15p

9 Intangible assets

Additions to internally developed intangible assets during the Period amounted to £2.1m (H1 2017 £4.4m, FY 2017 £7.4m). The associated amortisation charge for the period was £2.8m (H1 2017 £1.6m, FY 2017 £3.5m) for the Group's continuing operations.
Additions and amortisation in respect of discontinued operations were £0.4m and £0.3m respectively.

Additions to acquired customer contracts and relationships and goodwill during the Period amounted to £nil (H1 2017 £18.7m, FY 2017 £19.8m). The associated amortisation charge for the period was £4.9m (H1 2017 £5.1m, FY 2017 £10.3m) for the Group's continuing operations.
Additions and amortisation in respect of discontinued operations were £nil and £nil respectively.

10 Plant and equipment

Additions to plant and equipment during the Period amounted to £6.0m (H1 2017: £4.0m, FY 2017: £11.0m) and the depreciation charged in the period amounted to £3.1m for the Group's continuing operations. Additions and depreciation in respect of discontinued operations were £nil and £0.1m respectively.

11 Interest bearing loans

	H1 2018	H1 2017	FY 2017
	£m	£m	£m
Secured bank loan	**57.8**	70.9	56.0
Analysed as:			
Current	**5.0**	5.0	5.0
Non-current	**52.8**	65.9	51.0
Total	**57.8**	70.9	56.0

As of 30 November 2017, the Group has a multi-currency revolving credit facility of £80m (H1 2017: £80m, FY 2017: £80m) and a £25.3m multi-currency term loan (H1 2017: £27.5m, FY 2017: £29.1m). The effective interest payable on drawn down funds as at 30 November 2017 was 1.1% above LIBOR (H1 2017: 0.9%, FY 2017: 1.1%).

12 Acquisitions

In the prior year, the group acquired Payment Software Company Inc and Virtual Security Network Research LLC. Details of the acquisitions are included in the Annual Report and Accounts for the year ended 31 May 2017. No acquisitions have been made in the current financial period.

13 Deferred and contingent consideration

	H1 2018	H1 2017	FY 2017
	£m	£m	£m
Deferred consideration – Fox-IT	**9.9**	10.4	10.8
Contingent consideration – PSC	**2.7**	2.9	2.9
Contingent consideration - VSR	**1.3**	1.3	1.3
Total	**13.9**	14.6	15.0

Refer to Note 14 Post Balance Sheet Events for an update on the deferred consideration for Fox-IT.

14 Post balance sheet events

On 27 November 2017, the Group was due to pay the second and final tranche of deferred consideration in respect of the acquisition of Fox-IT in November 2015, being €12.5m (£11.0m at period end exchange rates). The Group decided to withhold 90% of the payment due while it was in discussion with the former principal shareholders of Fox-IT with regards to certain matters under the sale and purchase agreement entered into to effect that acquisition ("SPA").

In accordance with the terms of the SPA, the other 10% of the payment was paid in full to a trust previously established for the benefit of employees. The trust was not a party to the matters under discussion and hence there was no reason to withhold that portion of the payment.

Subsequent to the period end, the former principal shareholders issued a formal claim on 22 December 2017 for payment and the matter is now subject to the dispute resolution procedures specified in the SPA which will involve an arbitration process. At this early stage, it is not possible to say when or if any of the withheld sum will become due for payment. The withheld 90% noted above (€11.25m / £9.9m), remains provided for in the Group's accounts. Any costs associated with the dispute resolution process and, if applicable, interest due on any final payment at non-penal rates of interest, will be charged to the profit and loss account as incurred but are not currently likely to be material.

Responsibility statement of the Directors in respect of the half year report

We confirm that to the best of our knowledge:

– The condensed set of consolidated financial statements has been prepared in accordance with IAS 34, "Interim Financial Reporting" as adopted by the EU;

– The half-year management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of the 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

(b) 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.

Chris Stone
Chairman
On behalf of the Board 16 January 2018

Brian Tenner
Chief Financial Officer