

Annual Report and Accounts

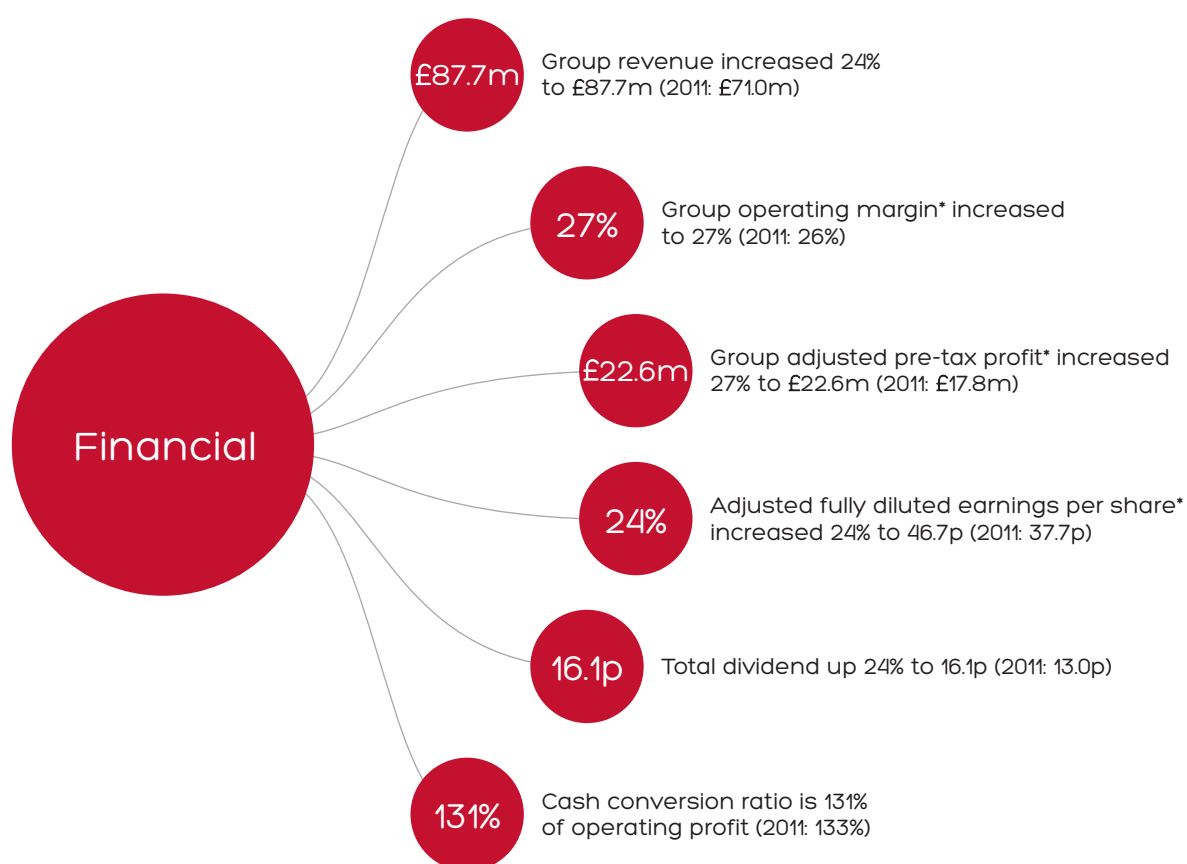
for the year ended 31 May 2012



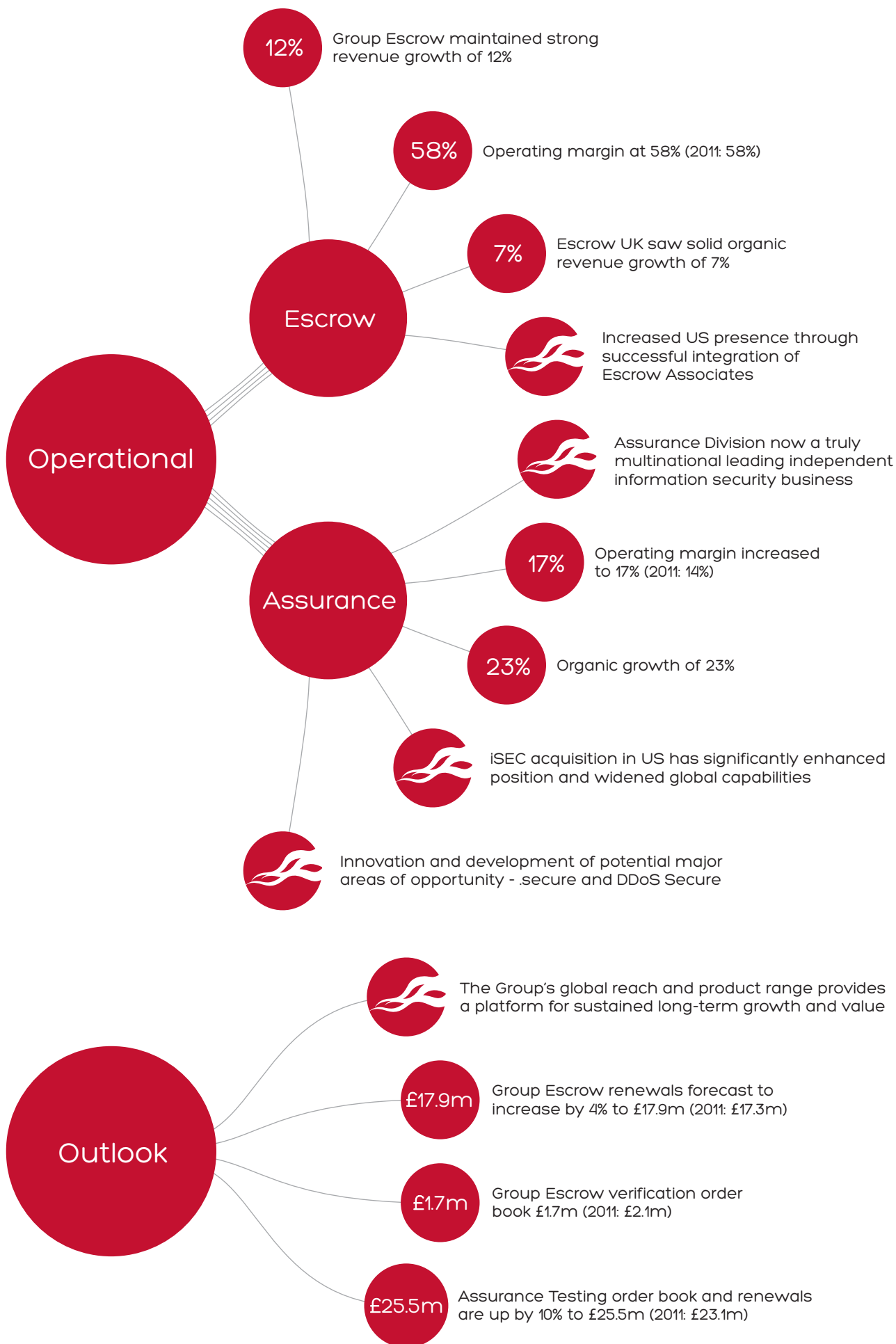
Contents

Highlights	3
Group Profile	5
Chairman's Statement	11
Operational and Financial Review	15
Directors and Senior Management	31
Corporate Governance	39
Directors' Remuneration Report	47
Statement of Directors' Responsibilities	55
Corporate Social Responsibility Report	57
Independent Auditors' Report to the Members of NCC Group plc	61
Consolidated Income Statement	64
Consolidated Statement of Comprehensive Income	65
Group Balance Sheet	66
Company Balance Sheet	67
Group Cash Flow Statement	68
Company Cash Flow Statement	69
Statements of Changes of Equity	70
Notes	72
Company Information	115
Contact Us	117

Highlights



* Operating profit is adjusted for amortisation of acquired intangibles of £3.7m (2011: £3.3m) exceptional items of £7.1m (2011: £1.1m) and share based payment charges of £0.9m (2011: £0.5m). Pre-tax profit is adjusted for these items and the unwinding of the discount on the acquisitions' contingent consideration of £0.2m (2011: £0.07m). The Directors believe the adjusted measures better reflect the on-going performance of the business.



Group Profile

NCC Group is a leading global provider of independent escrow and IT assurance services. As a trusted advisor, we provide comprehensive end-to-end information assurance for over 15,000 organisations worldwide in numerous countries, including 94 of the FTSE 100 and many Fortune 100 companies, to make the most efficient use of information and technology and to manage the associated risks.

The Group operates two main complementary divisions, NCC Group Escrow and NCC Group Assurance. Escrow trades under three brands, NCC Group Escrow UK, NCC Group Escrow Europe and NCC Group Escrow Associates in the US. Other than in North America where the iSEC brand is used, the Group's assurance services are sold as NCC Group Assurance.

NCC Group has offices throughout the UK, continental Europe, the US and Australia. We are listed on the London Stock Exchange.

As the cyber arms race and technology revolution continue to outpace the ability of organisations to cope with the plethora of security, performance and availability issues, we are best placed to help them manage the risk and limit the threat.

NCC Group provides freedom from doubt that business critical information, data, websites, applications and infrastructure are available, protected, and operating as they should be at all times.

Escrow & Verification

Organisations rely on third party supplied applications and software packages every day to carry out key business functions and processes. These applications allow them to operate more effectively and efficiently and produce high quality, innovative products and services but if a software supplier goes out of business or changes hands, the availability of these applications is in doubt, and business continuity is at risk.

Our escrow and verification services assure the long-term availability of these applications, protecting both end users and software suppliers. We work with all parties involved in the development, supply and use of business critical software applications, assuring that source code, data and other information is constantly accessible and can be properly rebuilt from its components if required.

- **We are the world's largest and most established software escrow provider, with over 30 years' experience.**
- **We protect 15,000 organisations worldwide with the most comprehensive escrow solutions available.**
- **Our expertise, credentials, offerings, global scale and reputation are unparalleled.**

We protect over 15,000 clients worldwide
with the most comprehensive escrow
and verification solutions available



Group Profile

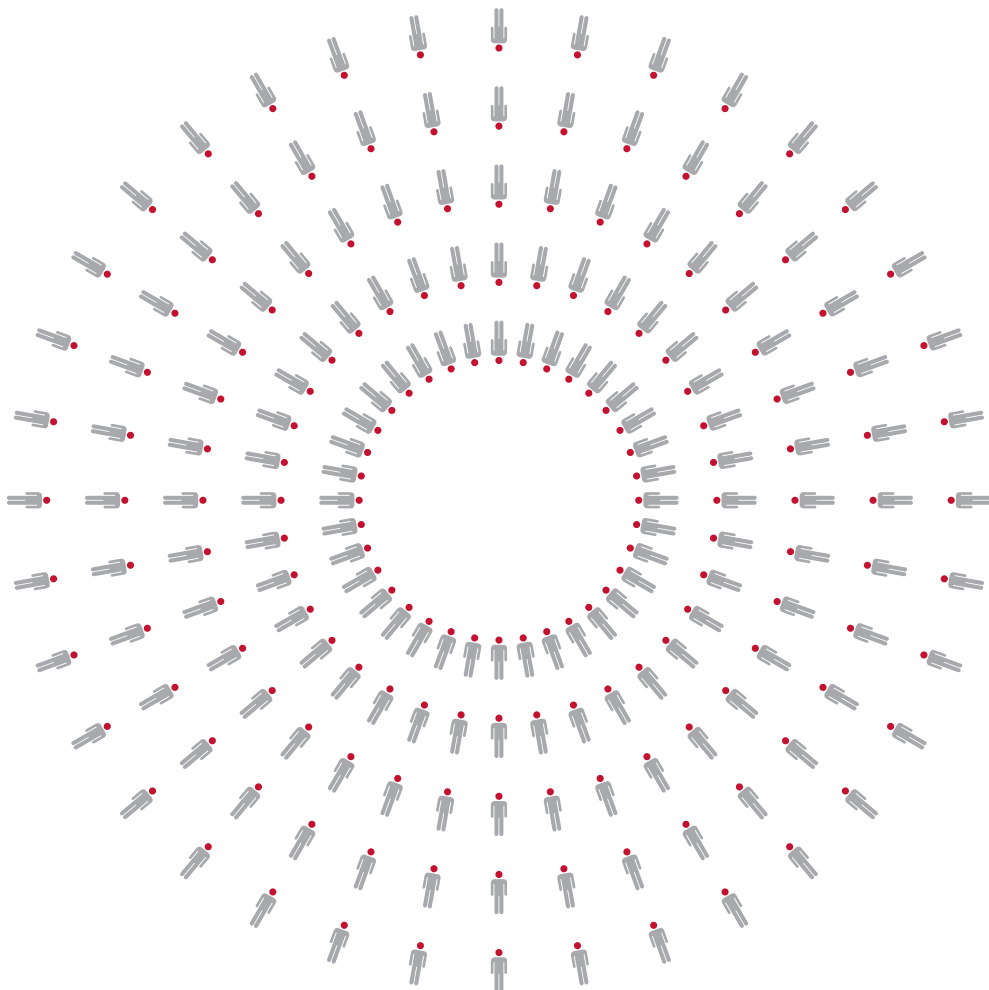
Security Testing, Audit & Compliance

Today's cyber landscape presents an ever-evolving threat to the security of organisations' information and an increasing demand to meet complex legislative and compliance requirements. Cyber intruders are developing increasingly sophisticated ways to attack corporate networks and gain access to sensitive and valuable data.

Through expert security and penetration testing, forensic services, incident response, compliance advice, vulnerability research and logical and physical audits we can help organisations to strengthen their position in the cyber arms race. We can assist them in identifying risk and formulating a robust security strategy.

- **With the world's largest security testing team, we deliver over 20,000 testing days per year to 1,750 organisations worldwide.**
- **We have a global presence offering the most skilled and experienced expert services, complemented by a world-renowned research team.**

We have the largest penetration
testing team in the world



Group Profile

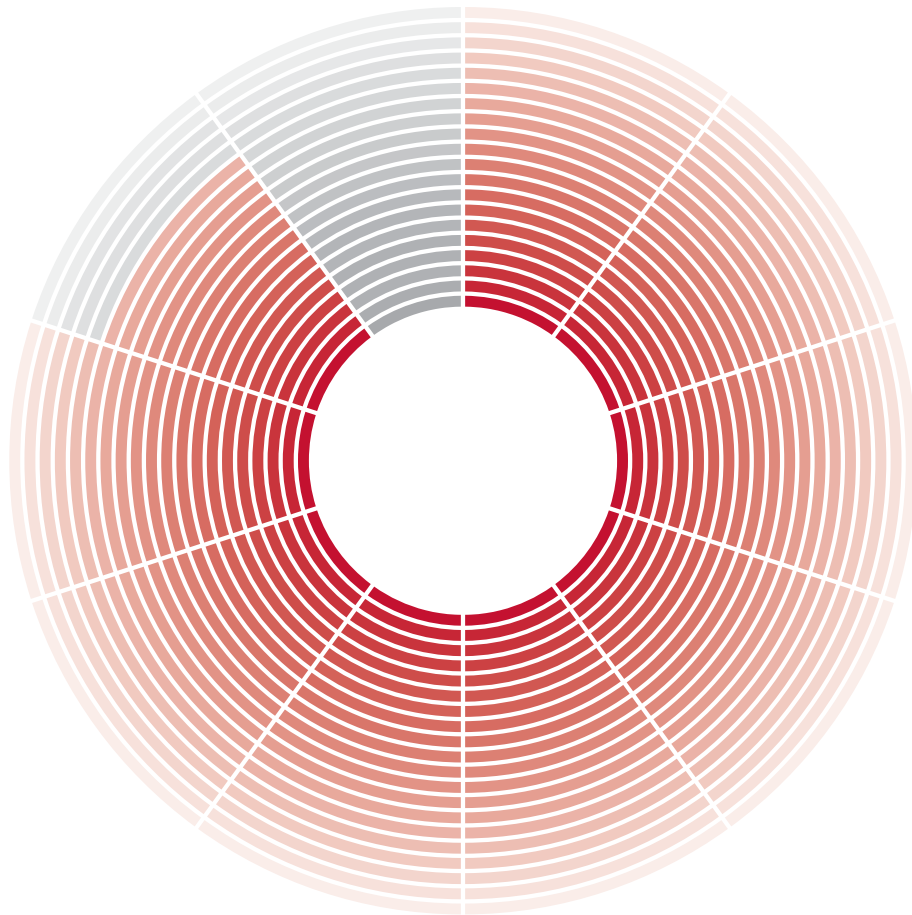
Website Performance & Software Testing

The essential websites, software and infrastructure that support an organisation don't just need protection from malicious attacks; they also need performance guaranteed. Flaws in code can prevent software from operating at optimum level and spikes in online traffic can throw websites offline.

From customer-facing websites to internal software applications, we provide comprehensive testing, monitoring and business analysis services, ensuring optimum quality and performance. Whether an organisation wants extra resources or tools to help test themselves, or whether they want to outsource to us, we provide a level of service to suit the organisation and the risks they face. We will help ensure that their infrastructure, software and websites deliver optimum performance, maximising business efficiency and return on investment.

- **We test over 17.5 million web pages per week and we test 875 million objects per week for over 550 clients worldwide.**

We test 875 million objects per week



Chairman's Statement

Financial overview

The Group has delivered yet another very strong performance in a subdued economic climate in the markets in which it operates, and which continue to be difficult to predict. Overall the Group performed well, growing organically as well as integrating and consolidating the acquisitions made over the last year or so.

Group revenues maintained their momentum, growing by 24% to £87.7m (2011: £71.0m). Excluding the acquisitions of iSEC and Escrow Associates in the previous financial year, this showed good underlying organic growth of 17%.

Group margins continued to be strong and adjusted operating profit margins were 27%. This was achieved despite the effects of the excellent growth seen in the Assurance businesses, which have lower margins than the Escrow operations.

Adjusted pre-tax profits and adjusted fully diluted earnings per share were up 27% to £22.6m (2011: £17.8m) and 24% to 46.7p (2011: 37.7p) respectively. The Group continues to be highly cash generative with operating cash conversion representing 131% of operating profit (2011: 133%).

This is the eighth successive year of delivering double digit improvements in revenue and profit by a combination of organic growth and integrated acquisitions. This year compound annual growth rates, over the eight years since flotation, were 32% for revenues and 21% and 31% for adjusted operating profits and dividends respectively, based on the proposed final dividend.

Reflecting the Board's commitment to the shareholders and following our progressive dividend policy, which tracks earnings growth, a final dividend of 11.0p is proposed making a total for the year of 16.1p, up 24%.

Operational overview

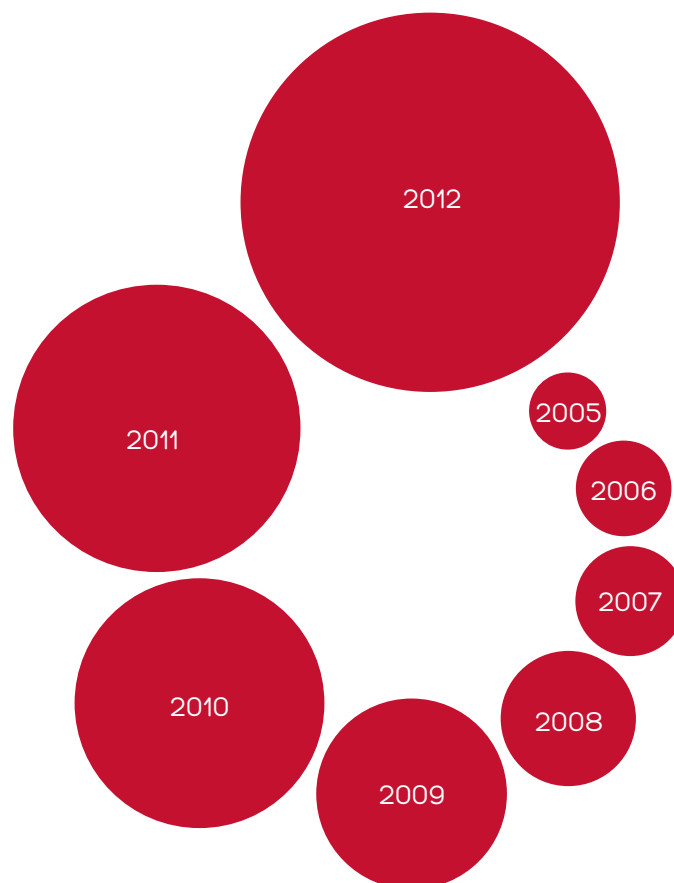
Our international escrow businesses have continued to lead the market by offering the best value and strongest protection available.

The UK escrow market has continued to be satisfactory, but remains cautious due to the significant downturn in new system upgrades and implementations and a still depressed level of general IT expenditure. Growth has continued to come largely from existing customers seeking to protect their existing IT assets.

The completed integration of US-based Escrow Associates has been very successful. We are now able to offer a much stronger client proposition to our US and international customer base. In the USA we now operate nationwide as Escrow Associates and we are increasingly positive about the growth potential of this business. The European Escrow business had a mixed year, with growth lower than expected.

The Assurance division saw very strong performances throughout, with all business lines making good progress. The Group undertook a major step by rebranding all its European businesses within a single framework, NCC Group Assurance.

This is the eighth successive year of delivering double digit improvements in revenue and profit by a combination of organic growth and integrated acquisitions



Chairman's Statement

Group strategy

The Group's strategy continues to be to develop its two divisions organically, by creating new ideas, products and services, as well as looking for acquisitions in markets and geographies to widen NCC Group's reach and exploit new opportunities.

Whilst there has been only one small acquisition completed this year, there have been a number of on-going discussions with complementary and competitor businesses. Any transactions will only be contemplated if they are suitably priced, earnings enhancing and provided that there is the management capacity to manage and integrate them.

More importantly, the Group is looking to strengthen further its position as a foremost provider of IT security by using its experience and skills to help develop and deliver a safer internet. During the year the Board decided to apply for a generic top level domain (gTLD), .secure, within the ICANN (Internet Corporation for Assigned Names and Numbers) programme, full details of which are in the operating review. In brief, the Group is looking to provide a safer internet world in which to navigate and transact. This is a concept that we have championed strongly for a number of years and one which is badly needed. So far our passage through the rigorous ICANN application process has gone to plan.

People

The management of our key resource, our staff, remains vital for the Group's future. We have ensured that our staff retention has continued to be good, by remaining very proactive in developing and managing all aspects of individuals' roles, responsibilities and aspirations. Our goal is to ensure that we remain the employer of choice particularly in the assurance industry and in all matters concerning information and technology security.

NCC Group can only be as successful as the people we employ and the managers and Directors who help to lead and develop them. Currently we have our best team ever with many new recruits adding to this.

The Group now employs 664 people across the world and is supplemented by 150 associates and retention is running at close to 90% overall and 98% for members of our technical teams.

I am delighted that we have enhanced our core capabilities in so many parts of the business and on behalf of the Board, I would like to congratulate and thank each and every employee of NCC Group, all of whom have made this year such a successful one.

IT systems

In May the Board reported the complete suspension of the implementation of the Group's new fully integrated IT system and the reversion back to the previous Group-wide IT system. The Group has written off £7m in respect of the assets capitalised on the balance sheet and the costs to revert back to the old system. There is more information in the Operational and Financial Review.

Corporate governance

NCC Group has always maintained that, for a business such as ours, which acts as an independent trusted advisor to its clients, the highest standards of corporate governance and application of the most prudent accounting standards are essential.

NCC Group will continue to take every practical step to adhere to the UK Corporate Governance Code, with which we fully comply, wherever practicable, and will continue using FTSE 250 companies as our benchmark.

Dividends

The Board is recommending a final dividend of 11.0p per share which makes a total for the year of 16.1p (2011: 13.0p). If approved at the Annual General Meeting, the dividend will be paid on 28 September 2012 to shareholders on the register at the close of business 31 August 2012. The ex-dividend date will be 29 August 2012.

Outlook

The Group continues to grow carefully and sustainably. It will continue to transfer its international appeal further afield in the dynamic world of information technology and information security. The goal remains to deliver a safe internet and this will continue to provide a rich vein of opportunity to the Group, ably supported by the strong growth and reliability of Escrow.

NCC Group has a very strong market leading position in all of the markets in which it operates and is well positioned for sustainable growth in quickly developing markets. The development of our services and our unparalleled reputation for the highest quality of service delivery has lifted the Group clear of our competitors.

NCC Group will remain totally focused on risk mitigation and delivering client peace of mind, by offering our complementary range of services to all of our multinational clients. As our recent rebranding demonstrates, we are one company offering a complete set of services to help clients gain freedom from doubt.

The start to the year sees Group Escrow renewals forecast to be £17.9m (2011: £17.3m renewed in the year) and a verification order book of £1.7m (2011: £2.1m), of which £0.5m (2011: £0.4m) relates to Escrow Europe and Escrow US.

The Assurance division's order books have improved to £19.7m (2011: £17.8m) and it has £5.8m of monitoring renewals forecast for the coming financial year (2011: £5.3m).

The outlook for NCC Group remains very good and the Board remains confident in the Group's ability to deliver further sustainable growth and enhance shareholder value.



Paul Mitchell
Non Executive Chairman
NCC Group plc
5 July 2012

Operational and Financial Review

Financial Review

Revenue

The Group increased revenue by 24% to £87.7m (2011: £71.0m). Excluding the full year effects of the acquisitions of iSEC and Escrow Associates in October 2010 and March 2011 respectively, organic Group revenue grew by 17% to £78.3m.

The Group half year split saw 48% of revenue delivered in the first half (2011: 46%) and 52% in the second half (2011: 54%). Moving forward it is expected that the split will return closer to the H1 40%: H2 60% split that the Group normally experiences.

69% (2011: 74%) of revenue £60.4m (2011: £52.6m) was derived from the UK. Europe contributed £6.2m (2011: £6.0m) with the rest of the world revenue increasing strongly by 71% to £21.1m (2011: £12.4m).

Despite the growth of the international businesses the marginally adverse movements of the Dollar and the Euro against Sterling had little impact on the Group's performance.

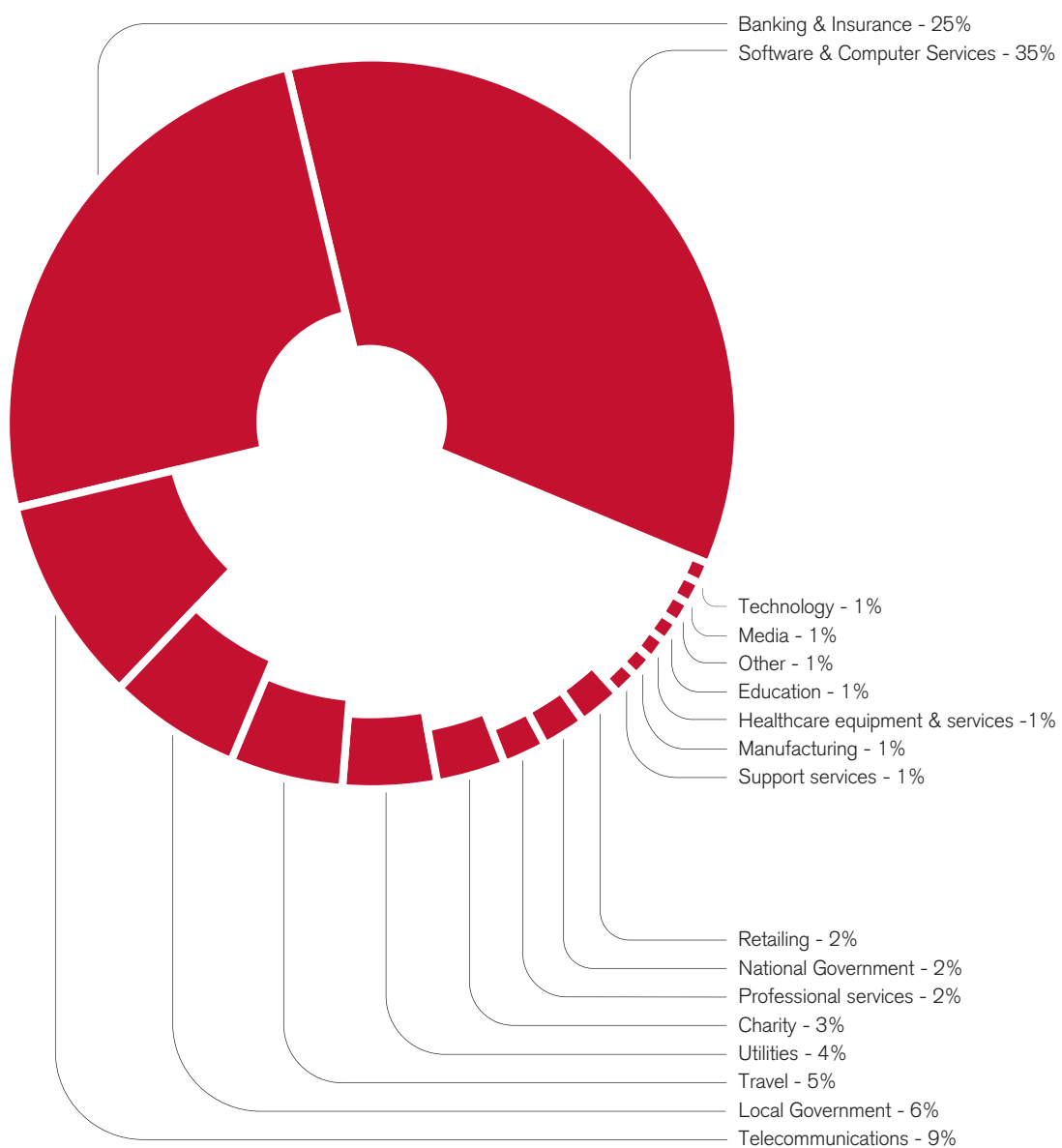
The Group's recurring income levels continue to grow across the business. In Escrow UK over 88% of all contracts renewed (2011: 88%). Assurance saw 74% of its revenues renewed (2011: 77%), this represents 51% of all customers (2011: 49%).

We have also seen renewing Assurance customers' expenditure increase from £29,767 to £68,821; with total average customer spend increasing to £39,486 from £21,066. In addition, 91% (2011: 91%) of the performance monitoring revenues were renewed and are recurring.

Group revenue by sector

The Group continued to have minimal reliance on any one customer or sector. Within Assurance the largest customer represents 9% of Assurance revenue which is 6% of Group revenue. The largest customer in Escrow is 2% of total Group Escrow revenue.

Group revenue by sector



Top three sectors by division	Escrow	Assurance
Software & Computer Services	12%	41%
Banking & Insurance	22%	24%
Telecoms	27%	5%

Operational and Financial Review

Profitability and margins

The Group continues to generate strong margins. Adjusted Group operating profit grew by 27% to £23.4m (2011: £18.4m), excluding the amortisation of acquired intangibles, the exceptional items and share-based charges of £0.9m (2011: £0.5m), as set out in the table on the page opposite.

Despite the increased percentage of revenue from the non-escrow businesses overall adjusted operating margins increased, as expected, to 27% (2011: 26%).

Escrow's margin has continued to improve, driven by a combination of effective selling and price increases. Prices are expected to be increased in November 2012 as they were in 2011. The Group continues to monitor pricing and market sentiment and although price inflation is part of the UK economy, so is cost control.

In Assurance the business is seeing a general improvement in margins as more work comes from premium rate services such as operational response, managed services and forensics. This trend will continue going forward.

The Group half year split saw 46% of adjusted operating profits delivered in the first half and 54% in the second half, compared to 43% and 57% in 2011. The Group expects the profit split in future periods to revert to that seen in prior years.

In May the Board reported the complete suspension of the implementation of the Group's new fully integrated IT system and the reversion back to the previous Group-wide IT system.

The Group has written off the costs capitalised on the balance sheet in respect of software licences, non-usable hardware, 3rd party consultancy costs and capitalised staff costs of £6.1m, whilst costs of £0.9m have been provided in respect of the reversion back to the old system.

Operating profit

	2012	2011
	£000	£000
Reported operating profit	11,619	13,472
Amortisation of acquired intangibles	3,726	3,275
Exceptional items	7,111	1,144
Share based payments	946	516
Adjusted operating profit	23,402	18,407

Profit before tax

	2012	2011
	£000	£000
Reported profit before tax	10,572	12,768
Amortisation of acquired intangibles	3,726	3,275
Exceptional items	7,111	1,144
Unwinding of the discount on contingent consideration	208	68
Share based payments	946	516
Adjusted profit before tax	22,563	17,771

Adjusted Group pre-tax profit increased 27% to £22.6m (2011: £17.8m). The Group's reported pre-tax profit was £10.6m (2011: £12.8m), after the inclusion of the unwinding of the discount on the acquisitions' contingent consideration, amortisation of intangible assets, share option charges and the exceptional items.

Operational and Financial Review

Taxation

The Group's effective tax rate is 28% (2011: 27%) which is above the average standard UK rate of 25.7%. This is due to the increasing proportion of Group profits which are derived from the USA, the full impact of which is reduced by the continued decrease in UK corporation tax rates.

Taxation recognised in the income statement	2012	2011
	£000	£000
Current tax expense		
Current year	2,308	3,724
Adjustment to tax expense in respect of prior periods	86	(188)
Foreign tax	1,711	648
Total current tax	4,105	4,184
Deferred tax	(1,148)	(743)
Tax in income statement	2,957	3,441

Reconciliation of effective tax rate	2012	2011
	£000	£000
Profit before taxation	10,572	12,768
Current tax using the UK corporation tax rate of 25.7% (2011: 27.7%)	2,714	3,546
Effects of:		
Items not taxable/deductible for tax purposes	(171)	371
Effect of rate change	13	(56)
Differences between the overseas tax rates	232	12
Movements in temporary differences not recognised	51	-
Adjustment to tax charge in respect of prior periods	118	(432)
Total tax expense	2,957	3,441

Deferred tax recognised directly in equity was a charge of £62,000 (2011: credit of £341,000).

Earnings per share

The adjusted basic earnings per share from continuing operations increased 23% to 47.9p (2011: 38.9p). The table below analyses the effect on the Group's basic earnings per share of the amortisation of acquired intangibles, unwinding of the discount on the contingent consideration for acquisitions and the effect of the exceptional items.

	2012	2011
	Pence	Pence
Basic EPS as per the income statement	22.2	27.5
Amortisation of acquired intangibles	7.8	6.7
Exceptional items	15.2	3.4
Unwinding of the discount on the contingent consideration of the acquisitions	0.6	0.2
Share based payments	2.1	1.1
Adjusted basic EPS	47.9	38.9

The adjusted fully diluted earnings per share from continuing operations increased 24% to 46.7p (2011: 37.7p) whilst reported fully diluted earnings per share was 21.7p (2011: 26.7p).

Dividends

The Board is recommending a final dividend of 11.0p per ordinary share, making a total for the year of 16.1p. This represents cover of 3.0 times (2011: 3.0 times) based on basic adjusted earnings per share from continuing operations. Since the Group's flotation in July 2004, the dividend has increased from 2.5p, a compound annual growth rate of 31%.

Cash

The Group continues to be highly cash generative with operating cash flow before interest and tax of £24.6m (2011: £17.9m) which is 131% of operating profit before interest and tax (2011: 133%).

After accounting for net cash outflows of £7.5m for acquisitions and contingent acquisition payments made during this year, the Group ended the year with net debt of £22.7m (2011: £20.5m).

Total capital expenditure for the year remained tightly controlled at £7.3m (2011: £4.5m) which predominantly related to the refurbishment of the Group's Manchester headquarters, the Group's core IT systems and the investment in Artemis, the subsidiary formed to promote, develop and implement a safer internet through the Group's application for the generic top level domain (gTLD) .secure.

The Group's banking facility with RBS which provides a £35m revolving credit facility and a £2m overdraft, runs until July 2013. Interest on the facility is charged at 2% over LIBOR and 2% over base rate on the overdraft.

The facility provides the Group with the necessary capacity to meet its current acquisition objectives, although this is regularly reviewed to ensure that unnecessary fees are not incurred due to non-utilisation. The Group was utilising 76% of the facility at the year end.

Operational and Financial Review

Balance sheet

Following the acquisition of Axzona, goodwill increased by 2% to £79.3m (2011: £77.9m). Due to the amortisation charge of £3.7m the cost of intangible assets relating to customer contracts and associated relationships decreased by 22% to £9.1m (2011: £11.7m). The value of goodwill has been assessed and no impairment reported. The contracts and customer relationships have been assigned a useful economic life of between three and twenty years and are to be amortised over that period.

Shareholders' funds at the end of the year were £60.4m (2011: £56.1m).

IT systems

In 2009 an extensive procurement process was run to select a technology supplier to specify, install and implement a new IT solution for the whole Group.

The new system was expected to provide a complete, integrated solution for all the Group's business processes as well as providing a systems backbone for NCC Group as it grew organically and by acquisition in the UK, Europe and North America. The solution selected was also intended to fix and standardise the business processes to allow commonality of workflows throughout the expanding Group.

Following a thorough period of extensive testing, which along with the design process had already seen an 18 month slippage, the system was piloted in the web monitoring part of the Assurance division in October 2011. In March 2012 it was then implemented in the UK Escrow business and the finance function.

Upon going live the new system caused immediate and significant disruption to the Group. It became clear that the solution would, if it remained in use as it was, significantly impair rather than improve business efficiency.

It was also confirmed in May, after extensive evaluations, that the provider had no product, or prospect of being able to deliver an integrated solution across the whole business, for the Assurance division to meet its essential resource scheduling requirements.

At this point and to curtail the substantial operational support costs and further development costs that were going to be required, the Board decisively suspended the implementation and agreed to revert back to the previous Group-wide IT system.

Given the substantial investment in time and resources, the Board has written off the £7.0m cost of the new system in the financial year to 31 May 2012. This figure includes the expected £0.9m cash cost of the reversion back to the old system, over the next three months.

The Board is extremely disappointed by the suspension of the implementation. After the roll back is completed, a new project team will be commissioned to look at all suitable options and alternatives.

In the interim, the solutions we are using, whilst not fully integrated, remain fit for purpose and scalable. The Group has a planning, scheduling and resourcing tool that integrates directly into the other system areas that will continue to support the Group's development in Assurance for the foreseeable future.

The reason to upgrade systems however remains the same. We need to install a Group-wide solution that has a low degree of bespoke development to allow easier upgrades and essentially more flexibility. The Group currently runs a totally bespoke version of its software with the associated limitations.

Group Escrow

The Escrow businesses have had a solid year overall with strong performance in nearly all the key performance measures of profitability, renewals, terminations and verification testing.

From our global experiences the move to cloud computing has largely not happened for businesses' critical applications, with the pace of change being slower than is generally publicised. Our Escrow as a Service (EaaS) model has been extremely successful in supporting customers who have made the move to the cloud, as it delivers scalable cover that can protect all components in the outsource model, thus providing clients with the appropriate protection where something happens to either the relationship or the suppliers' ability to provide the service.

The Escrow division increased revenue by 12% to £27.9m (2011: £24.9m). Within this, Escrow UK revenue grew by 7% and Escrow US by 63%, although Escrow Europe only grew by 1% due to the ill health and subsequent departure of the General Manager responsible for the European businesses.

Excluding the full year effect of the acquisition of Escrow Associates in March 2011, Escrow US increased its revenue by 7%, although this is not absolutely representative as it is in part masked by the integration of the two operations.

Group Escrow profitability increased 12% to £16.3m (2011: £14.5m) with the UK contributing 81% (2011: 81%). Escrow US and Escrow Europe continued to increase profitability and contributed 12% and 7% of total Escrow operating profits respectively.

Group recurring revenues through the renewals process increased by 12% to £17.3m (2011: £15.4m). Group Verification revenues grew by 23% in the year to £5.3m (2011: £4.3m).

The Group's Escrow businesses have been, and always will continue to be, the cornerstone of NCC Group's profitability. They produce a substantial margin and very strong cash conversion as well as a high degree of recurring revenue, due to the contracts renewals rate of over 88%.

Escrow now accounts for 32% of the overall Group's revenue (2011: 35%) as the scale of the Assurance business grew due to faster organic growth and the full year effects of the recent acquisitions.

Overall Group Escrow operating margins stayed strong due to good cost consciousness at 58% (2011: 58%).

A process of harmonisation has begun throughout all of the Escrow locations that aims to adjust and standardise all price anomalies, where possible. Price increases were introduced in November 2011, effective from January 2012 for renewals, of between 3% and 4%. Verification pricing remained the same in the year.

Escrow UK

This year saw a consistent and robust performance from the Escrow UK team. Growth levels were sufficient considering there were no real signs of any fundamental improvement in the economy.

In the second half of the Group's financial year, the software market felt the most vulnerable that it has for a while, with little sign of the initiation or implementation of any new large scale client projects. Most new sales came from increasing the level of protection required around existing environments. Most notable was the slowdown from the financial services sector despite the increased regulation being sought from the FSA.

Escrow UK revenue was £20.3m (2011: £19.0m). This 7% growth in revenue (2011: 6%) was delivered through contract growth and verifications, with only a limited amount coming from the effects of the price increase.

Escrow UK recurring revenues increased over 5% to £12.3m (2011: £11.7m) and terminations remain below 12%.

Operational and Financial Review

Escrow Europe and Escrow US

Escrow US increased its revenues by 63% to £4.42m (2011: £2.71m) and by just over 7% when adjusting for the annualised impact of the acquisition of Escrow Associates. Escrow Europe revenues only rose by 1% to £3.22m (2011: £3.18m) due to the leadership issues outlined earlier. The unit now has a new management team and structure and it is expected that double digit growth will quickly return.

Escrow Europe now has 17 employees and the North American Escrow businesses have 38 employees. The restructuring of Escrow Europe and the combining of the two USA Escrow operations has positioned them well to deliver strong growth plans through aggressive headcount increases.

Assurance

The Assurance division is divided into three areas: security testing, audit and compliance; software testing and web performance, which broadly reflects the focus of our former acquired businesses. iSEC which operates in North America is included within security testing.

Each product area has seen strong performances with all elements making good progress. Assurance now accounts for 68% (2011: 65%) of Group revenues with total divisional revenues increasing 30% to £59.8m (2011: £46.1m). Excluding the acquisition of iSEC, organic revenue increased 23% to £52.2m, with very strong performances coming from security testing in the second half of the year. Operating profits jumped 58% to £10.3m (2011: £6.5m). The Assurance division businesses' margins increased to 17% (2011: 14%).

As with Escrow, the major challenge for the Assurance division is to increase renewal rates and renewal spend levels. This is most imperative in security testing and the web performance businesses.

Security Testing includes penetration and application testing, operational response, forensics, and managed monitoring with the audit and compliance part covering social engineering, card and information security standards and security auditing. This area grew 51% including the full year effects of iSEC, but the underlying organic growth was an impressive 39%. This was achieved whilst ensuring that utilisation rates remained suitably low.

iSEC has continued to see encouraging growth and has delivered on its plans. The Group continues to benefit from iSEC's technical knowhow and presence and the global join up to provide a better service to customers. The first half of the performance based earn-out has been paid in full and it is expected that the second half will also be paid fully.

Web Performance had a recurring revenue rate of 91% (2011: 91%) which continues its strong track record of client retention. Through the coming year improvements to the service, additional product lines and potential new technologies will see this area continue to perform strongly. During the year the business area grew by 14%.

Software Testing has seen a 4% growth in revenue and continues to provide a number of major client opportunities for cross divisional and cross Group working.

The Assurance testing teams currently comprise over 200 qualified testers in the UK and USA.

Artemis - a safer internet - gTLD .secure

In May 2012, the Group applied to register the .secure generic top level domain (gTLD) as part of the ICANN programme to create a new set of gTLDs. The .secure domain aims to create a universal environment for end users to operate and navigate the internet with complete safety and security.

The Group established a new wholly-owned subsidiary, Artemis Internet Inc. in San Francisco, to develop the critical infrastructure and know-how to deliver this project. It is headed by Alex Stamos, one of the founding partners of iSEC.

In addition NCC Group has set up the Domain Policy Working Group and it is expected that a number of influential organisations drawn from major financial, software and social media companies will be joining soon. The unit is focused on web security and the development of a set of innovative new security standards for websites, which support the Group's vision in building a more trustworthy internet.

To date the ICANN application has gone as expected. Our application is one of two for .secure.

The plan remains to invest progressively in Artemis over the next 15 months, subject to reaching key milestones. The total investment is likely to be c. £6m, but over the next 12 months it is expected that subject to being in the first wave of approvals, we will be investing £3m - £4m in the foundations of the project.

Employees, recruitment and retention

Employee recruitment and retention remains one of the most important objectives of the Group. The Group now employs 664 people across the world, supplemented by 150 associates.

Our objective is to offer careers and development opportunities that actively encourage all staff to stay and grow within the Group. The current employee retention rate is now close to 90% for the Group as a whole, with the technical teams running at over 98%.

Markets

Escrow

NCC Group remains the largest provider of escrow services in the world, further strengthened by the acquisition and subsequent integration of Escrow Associates in North America. NCC Group remains the only provider mandating quality; offering the best value and strongest protection available, ahead of price. The Group does not intend to change that philosophy.

The dynamics of the escrow market have not materially changed since the Group floated in 2004 and the same market assumptions, as detailed by Gartner at the time, remain. The UK escrow market without verification testing is still niche and the Group estimates that the market size is approximately £100m, which still provides NCC Group with considerable headroom for growth.

Both in the public and private sector, corporations and organisations still typically believe that they have several times more cover than they actually have. They remain unaware that they are exposed to the degree that they are. The estimates of the European marketplace vary wildly, but the Gartner research suggests the market, in total, may be worth two or three times that of the UK.

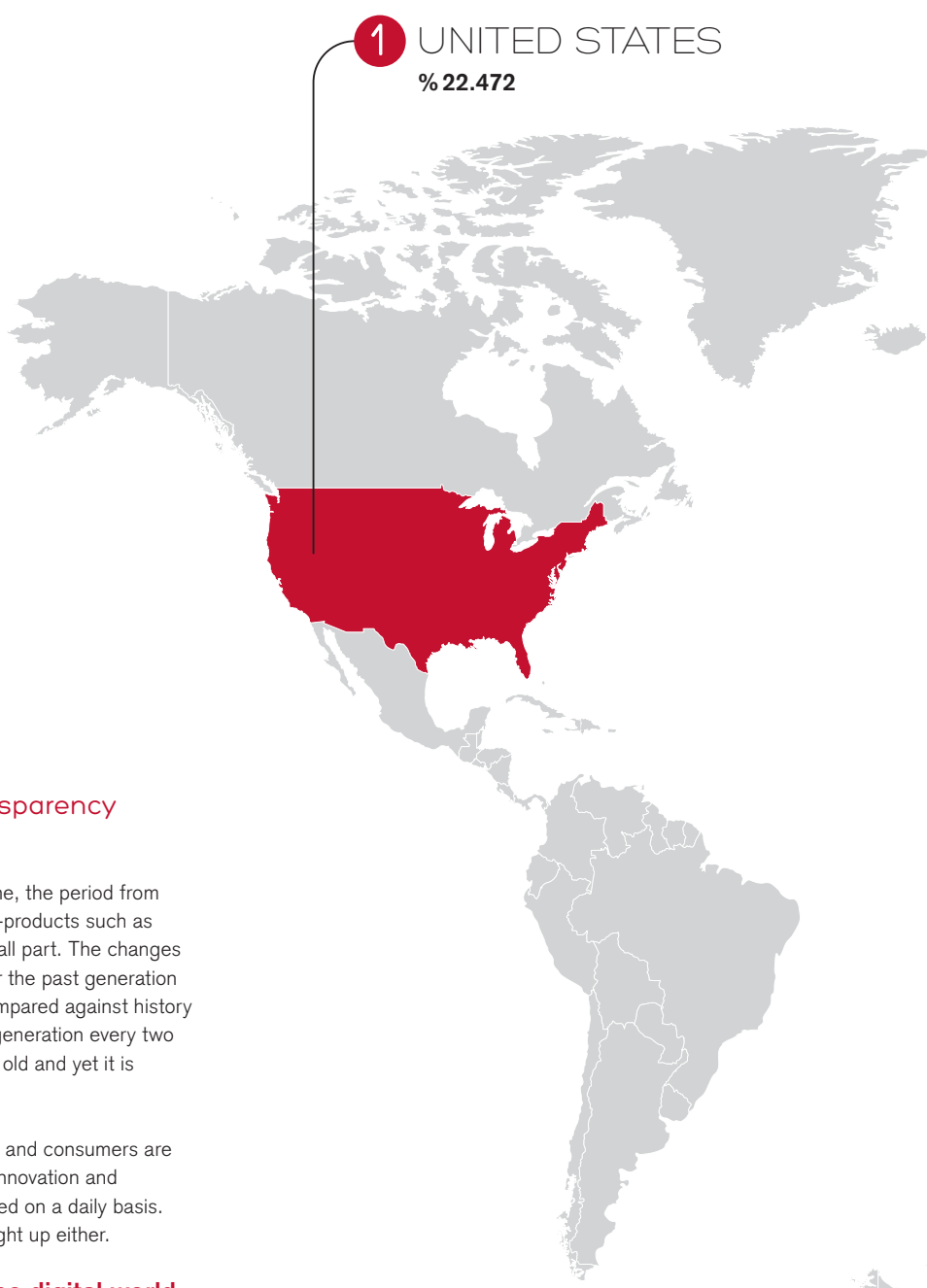
To date we have not seen a marked move to cloud applications other than for non-business critical applications. The Group is extremely well equipped to harness this opportunity, if it comes, through its EaaS services which provide customers with peace of mind reflecting the importance of the application and sensitivity of the application to them. The service covers all aspects of SaaS and can, from a menu, provide all or separate aspects of the SaaS model to provide a suitable cost effective solution to our clients. EaaS can provide data, source code, data dictionary, architecture, back-up and quick start propositions extremely effectively to our customers.

Operational and Financial Review

Origin of hacks

% by country of origin

(Illustration of our 2012 Q2 Global Origin of Hacks report, tracking the source countries of hacks from April-June 2012.)



Assurance - The need for transparency in the cyber world

If the last millennium was viewed on a timeline, the period from the invention of the computer and related by-products such as mobile devices until now would be a very small part. The changes and advances that have been witnessed over the past generation have been nothing short of phenomenal. Compared against history we now expect technology to advance by a generation every two years as the computer is less than a century old and yet it is globally relied upon as much as the wheel.

As a consequence governments, businesses and consumers are left struggling to keep up with the constant innovation and technological developments that are presented on a daily basis. But more importantly legislation has not caught up either.

The rapidly changing nature of the digital world has made it difficult to control and regulate cyber practices within the laws of any country, which in turn make it easier for cyber criminals to operate with impunity.



Operational and Financial Review

The development of the online ecosystem has been coupled with an increase in its misuse. The explosion in the use of the internet was unexpected, hence the need for IPv6 to create more IP addresses, but more importantly it was never designed with cyber criminals or warriors in mind, so security has been on the back foot since day one.

As a consequence, as the threats to the cyber landscape increase and develop in complexity, the need for solid defence on local, corporate and national levels increases in urgency. Today, data on the web proliferates at such a rate that as much is published on the internet daily, as was published from the start of the printed word up to 2002.

National security threats used to typically be of a physical nature, now the start of global cyber warfare is being more and more publically seen. In 2010 the Stuxnet worm targeted Iran's nuclear infrastructure and more recently Flame malware infiltrated the computers of high-level officials across the Middle East. Stuxnet has been attributed by the media to American and Israeli government authorities, as has the Duqu and Flame malware, and it is claimed it may even have been written by the same developers.

As the frequency and intensity of these government operations increase, there is a knock on effect to the commercial security industry. Ordinary cyber criminals and hackers are now using the techniques pioneered by nation state developers over the last decade. Despite all of the warnings and cash spent since the very public Aurora incident, where the Chinese directly attacked Google, the ease and likelihood of launching a successful APT attack (Advanced Persistent Threat) has not reduced.

It is clear that there is a pressing need to increase standards in cyber defences from large corporations to governments through to consumers. It is essential this is a proactive drive for change rather than as a consequence of a devastating cyber attack or war.

Standards need to be driven up across the board and one way to prompt this is by increasing transparency around security. This transparency must cover the way businesses view, act and respond to cyber security issues. They must also set out the reporting of corporate breaches and the consequences for those affected, as well as mapping out how incidents should be dealt with. Until organisations are publicly held to account for security breaches, there will be a lack of incentive for them to implement stringent digital policies and infrastructures.

The bedrock of most internet security is anti-virus detection software, but this is no longer effective. Whilst many see it as the security antidote, it is losing its potency because commercial anti-virus suppliers are struggling to respond to modern threats presented by nation-states and criminal enterprises.

Publicity over the failure of anti-virus has reached a crescendo with claims that consumer-grade antivirus products cannot provide protection against targeted malware created by well-resourced nation-states or criminals. This was exemplified by the failure of all commercial anti-virus vendors to detect recent state sponsored malware attacks despite samples of it already existing within their collective detection catalogues.

Anti-virus vendors will continue to struggle as the volume of malware increases and the methodologies of malware authors diversify. Whilst criminals have yet to reach the levels of nation state malware creators, governments and businesses need to develop much more sophisticated malware detection techniques than are being employed today.

The actual answer lies within enterprises themselves to strengthen significantly their corporate networks, test their protections vigorously and prepare a clear and comprehensive operational response plan. This will happen if there is better transparency, as admitting that a corporate security system failed can only serve to damage reputation and weaken customer trust, which should be motivation enough!

This drive for standards and transparent reporting is further supported by a cursory glance at three hot topics that are in the market today, all of which show some fundamental concerns that also are not being addressed. Individuals and corporations alike are all being affected with alarming results.

At a consumer level the cyber breach of the social networking website LinkedIn resulted in six million passwords being leaked in June 2012. In the following days, 60% of these hacked passwords were used, giving the criminals not only access to their LinkedIn accounts, but also to other accounts that shared the same passwords.

Operational and Financial Review

The breach, it has been widely alleged in the media, occurred because LinkedIn did not take strict enough security measures. If that was the case, it is a problem that could have been avoided and certainly one to avoid if there were bigger incentives to implement tighter security measures. But to be balanced, users of the social networks often make it easier for cyber criminals by only using one, often weak password, for all of their applications including banking and email.

The current trend towards Bring Your Own Device (BYOD) is a continuing theme as cost conscious enterprises push towards employee supplied devices and this has created a new conundrum for IT departments. How can an IT department support and enforce corporate data retention and protection policies on a variety of devices outside their physical control?

The easy, procurement-driven answer has been secure container technologies. While some of these proprietary products are certainly better protected than those developed through open standards, research conducted in our iSEC business has demonstrated that they do not protect against many of the threats claimed. Enterprise customers need help understanding how to accommodate BYOD in their corporate security strategy and to be realistic about the protection they provide against advanced attackers.

The proliferation of mobile and tablet devices has seen the uptake of Android based devices grow substantially. Unfortunately this has resulted in an exponential growth in malware with thousands of examples appearing. Android has become the perfect target for malware authors due to a combination of reasons; market share, that it is an open source development platform, the effects of collaboration of dozens of competing companies and lack of accountability for Android application distributors.

In the EU, unlike the US, there is no legal requirement for businesses to inform the authorities or their customers if they have been hacked. If it is customer data that has been compromised, there is no legal obligation to inform those affected. In the defence of hacked businesses, if they do not have to divulge the breach, why would they risk their reputation?

The lead set in the USA should be followed and this should not be limited to publicly traded companies. The current proposals from a European directive pressure companies into full disclosure, informing national information commissioners of the breaches that affect consumers and citizens within 24 hours. This is a start, but it is limited.

Non-compliance will result in heavy fines of up to 2% of annual turnover, so it should force a major increase in risk awareness. But as with all government initiatives take up will probably be lax. The recent EU cookie legislation demonstrates this, with Government websites still not complying despite the May deadline being passed and likewise one in five of all other sites failing to comply. In order to drive up standards across the board, it is imperative that businesses, governments and consumers are held to account when it comes to digital security.

Additionally there needs to be greater effort and collaboration on a national, continental and global scale. Transparency and openness should be the foundations from which to shore up defences and prepare our infrastructures in the fight against cybercrime.

Whilst this type of openness is a start in driving standards of cyber security upwards and may well foster sharing of threats and attacks, the EU directive is still more than two years away and that in the world of IT security is still a generation away.

Current trading

The Group has transformed and consolidated its scale and international reach during the last 18 months. Totally focused on risk mitigation and delivering client peace of mind, the complementary range of services has the breadth and depth to provide multinational clients with total solutions to their business issues. As the recent rebranding demonstrates, NCC Group is one company offering a complete set of services to help clients gain freedom from doubt.

The Group will remain an independent, unbiased and trusted provider in a security marketplace that needs to put the client first. This can only be done where integrity and credibility as well as technical capability are the leading cultural values so as to ensure all clients' freedom from doubt.

The start to the year sees Group Escrow renewals at £17.9m up from £17.3m in the year to 31 May 2012 and a verification order book of £1.7m of which £0.5m relates to Escrow Europe and Escrow US.

The Assurance division order books have improved to £19.7m (2011: £17.8m) and have £5.8m of monitoring renewals forecast for the current financial year (2011: £5.3m).

The outlook for NCC Group remains very good in growing markets. The Board remains confident in its ability to deliver further sustainable growth.

A handwritten signature in black ink, appearing to read 'R Cotton'.

Rob Cotton

Chief Executive
NCC Group plc
5 July 2012

Directors and Senior Management



Paul Mitchell
Non Executive Chairman



Rob Cotton
Chief Executive

The plc and Executive Board comprises the following Directors.

Paul Mitchell was appointed Non Executive Chairman of NCC Group in 1999. He is Managing Director of Rickitt Mitchell & Partners Limited, a corporate financial advisory firm based in Manchester. He is also a Non Executive Director of Styles & Wood Group plc and Little Green Paint Company Limited.

He is a qualified chartered accountant.

Rob Cotton has been Chief Executive since 2003, having joined the Group as Finance Director and Managing Director of Escrow in 2000.

He steered the Group through its move to the London Stock Exchange's main market in July 2007 following admission to AIM in July 2004, and through a management buy-out in April 2003. As well as delivering consistent organic growth in revenue and profits, he has instigated and overseen a series of strategic expansion plans including the acquisition of complementary businesses worldwide.

A qualified Chartered Accountant, he previously held a number of Director and senior management positions in industry.



Atul Patel

Group Finance Director

Atul Patel joined the Group initially on an interim basis on 18 February 2011 before being appointed to the Board on a full time basis on 19 April 2011. He was formerly a Divisional Finance Director within Tribal Group plc being responsible for the Government and Health division, operating the finance and support functions as well as advising on business transformation and business integration.

A qualified Chartered Accountant, Atul joined the management consultancy division of PricewaterhouseCoopers after qualifying, where he focused on performance improvement and business transformation within global organisations.



Debbie Hewitt MBE

Senior Independent
Non Executive Director

Debbie Hewitt joined NCC Group in September 2008 as a Non Executive Director. She has an MBA and is a Fellow of the Chartered Institute of Personnel Development. She is Non Executive Chairman of Moss Bros plc, Evander and White Stuff and Non Executive Director of HR Owen plc, Redrow plc, Domestic and General Group and BGL Group.



David McKeith

Non Executive Director

David McKeith joined NCC Group as a Non Executive Director in July 2009. He is a qualified chartered accountant. He is Non Executive Director of Sportech plc and Chairman of the Halle Orchestra and of Greater Manchester Chamber of Commerce.

Directors and Senior Management



Roger Rawlinson

Managing Director - Assurance

The senior management team detailed below is responsible for the operation of the Group's two divisions. The members of the senior management team include:

Assurance

Roger Rawlinson is responsible for the operational management of the Group's Assurance division. He has worked for NCC Group for over ten years in a variety of testing and consultancy roles and was appointed a Director in 2004.



Pete Stock

Managing Director - Escrow



Felicity Brandwood

Group Company Secretary and
Operational Director - Escrow

Group Escrow

Pete Stock joined the Group upon the acquisition of SDLC in 2010 and is now responsible for the management, development and continued growth of the Escrow division. Pete was the Managing Director of SDLC from its formation in 2001 through to its successful integration of the company into the Group. Prior to this Pete's extensive career in IT has included roles of developer, solutions architect and programme manager.

Felicity Brandwood, a qualified solicitor, was appointed a Director of Escrow in 2006 alongside her role as Group Company Secretary, having joined the Group in 1984. Felicity is responsible for operational controls and processes for Group Escrow.

Directors' Report

The Directors present their annual report and financial statements for the year ended 31 May 2012.

.

Principal activity and review of the business

The principal activity of the Group is the independent provision of IT assurance through escrow and assurance testing to both the public and private sectors worldwide. The performance in the year and the year end financial position were satisfactory and the Directors expect the Group to continue its growth for the foreseeable future.

The Company is required by the Companies Act 2006 to include a business review in the report which sets out a fair review of the business of the Group during the year ended 31 May 2012, its position at that date and the Group's likely future development. The contents of the Directors' Report, together with the Group Profile on page 5, the Chairman's Statement on pages 11 to 14 and the Operational and Financial Review on pages 15 to 30 and the Corporate Social Responsibility report on pages 57 to 60 constitute the business review and are therefore incorporated by reference into this Directors' Report.

Any forward looking statements made in this document represent management's best judgement as to what may occur in the future. However, the Group's actual results for the current and future fiscal periods and corporate developments will depend on a number of economic, competitive and other factors, some of which will be outside the control of the Group. Such factors could cause the Group's actual results for future periods to differ materially from those expressed in any forward looking statements made in this document.

The financial results of the Group are shown in the Consolidated Income Statement on page 64.

Dividends

The Directors propose a final dividend of 11.0p per ordinary share which, together with the interim dividend of 5.1p per ordinary share paid on 24 February 2012, makes a total dividend of 16.1p for the year.

The final dividend will, if approved by shareholders at the Annual General Meeting (AGM), be paid on 28 September 2012 to shareholders on the register at the close of business on 31 August 2012. The ex-dividend date will be 29 August 2012. This represents cover of 3.0 times (2011: 3.0 times) based on basic adjusted earnings per share. The final dividend has not been accrued for in these financial statements.

Share capital

At the Company's Annual General Meeting held on 21 September 2011, shareholders renewed the Company's authorities to make market purchases of up to 3,414,303 ordinary shares representing approximately 10% of the issued share capital. This authority was not used during the year or up to the date of this report. At the 2012 Annual General Meeting, shareholders will be asked to give a similar authority. The Company held no treasury shares during the year or up to the date of this report.

The holders of ordinary shares are entitled, amongst other rights, to receive the Company's annual reports and accounts, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights.

All rights and obligations attaching the Company's ordinary shares are set out in the Company's Articles of Association (Articles), copies of which can be obtained from the Companies House website or by writing to the Company Secretary. Unless otherwise provided in the Articles or the terms of issue of any shares, any shareholder may transfer any or all of his shares. The Directors may refuse to register a transfer of shares in certificated form that are not fully paid-up or otherwise in accordance with the Articles.

Details of the movements of the authorised and called up share capital of the Company are set out in note 23 to the financial statements.

Directors' Report

Directors and their interests

Details of the Company's current Directors are set out on pages 31 to 32. Directors' interests in shares and share options in the Company are detailed in the Directors' Remuneration Report set out on pages 47 to 54.

The Company maintains Directors' and Officers' liability insurance which gives appropriate cover for any legal action brought against its Directors. The Directors' also have the benefit of the indemnity provisions contained in the Company's Articles.

Principal shareholders

On the basis of notifications received under the Disclosure and Transparency Rules (DTR5) and other notifications received by NCC Group plc from shareholders, shareholders being interested in 3% or more of the Company's issued ordinary share capital as at 31 May 2012 were as follows:

Fund Manager	Number	Percent
Standard Life Investments	3,315,373	9.65
AXA Investment Managers	3,157,859	9.20
Montanaro Investment Managers	3,124,239	9.10
Legal & General Investment Management	2,497,781	7.27
Rob Cotton	1,721,075	5.01
Liontrust Asset Management	1,491,170	4.34
Hansa Capital Partners	1,250,000	3.64
Mawer Investment Management	1,165,650	3.39
Herald Investment Management	1,070,000	3.12
Capital Research & Management	1,031,000	3.00

The shareholding percentages have been adjusted from those notified to reflect the current issued share capital. There were no other notifications received under DTR 5 between 31 May 2012 and 5 July 2012.

Corporate social responsibility

The corporate social responsibility section on pages 57 to 60 provides an update on the Group's policies and activities in respect of its wider stakeholders, employees, clients, suppliers, charities and the community, environmental, ethical and health and safety issues.

Principal risks and uncertainties

The principal financial risks and uncertainties the Group faces are described in note 21 to the annual report and accounts.

The Group faces operational risks and uncertainties which the Directors take all reasonable steps possible to mitigate, however the Directors recognise that they can never be eliminated completely.

The principal operational risks and uncertainties the Group faces include those in relation to the recruitment of additional staff to meet the Group's ambitious growth plans, the entry of a significant competitor to threaten the Group's leading position in its domestic escrow market, the occurrence of unforeseen difficulties in the integration of future acquisitions the Group may enter into and the dependence on key executives and senior managers.

There are no persons with whom the Company has contractual or other arrangements that are deemed to be essential to the Group.

Change of control

Within the Group's revolving credit facility, the lender has the right to demand immediate payment of any outstanding balances upon a change of control of the Group following a takeover bid.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

KPMG Audit Plc resigned as auditors on 2 December 2011 and Ernst & Young LLP was appointed in their place.

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

Annual General Meeting

The notice of the Company's Annual General Meeting to be held at the Manchester Technology Centre is sent to shareholders with this annual report along with details of the business to be proposed and explanatory notes.

By order of the Board.



Rob Cotton

Chief Executive
NCC Group plc
5 July 2012

Corporate Governance

NCC Group is committed and accountable to shareholders for high standards of corporate governance. This statement describes how the Group has applied the main principles of the UK Corporate Governance Code published by the Financial Reporting Council in June 2010 and describes the Group's compliance with the provisions of the code.

Statement by the Directors on compliance with the Corporate Governance Code

In respect of the year ended 31 May 2012, NCC Group has been in full compliance, other than as disclosed below, with the provisions set out in the UK Corporate Governance Code.

Provision A.3.1

The Company did not comply with the requirement that the Chairman meets the independence criteria set out below (see note 27).

Provision B.2.1

During the period the Company did not comply with the requirement that the board should establish a Nomination Committee of which the majority of members should be independent Non Executive Directors. The senior independent Non Executive Director does however have the casting vote.

The Board

The Board currently comprises two Executive Directors and three Non Executive Directors. During the year a suitably qualified recruitment company, was retained with a brief to help the Company to find two Non Executive Directors to refresh and complement the Board. After a series of interviews conducted with the Chairman, Senior Non Executive Director and other members of the Board, one suitable candidate with the relevant technical skills is under consideration and a further candidate is currently in the final interview process stage. The Nomination Committee will be recommending appointments to the Board in due course.

The Board and Committee responsibilities are set out in the table below:

		Board	Audit Committee	Remuneration Committee	Nomination Committee
Paul Mitchell	Non Executive Chairman	Chairman	-	Member	Chairman
Rob Cotton	Chief Executive	Member	-	-	Member
Atul Patel	Group Finance Director	Member	-	-	-
Debbie Hewitt	Non Executive Director	Member	Member	Chairman	Member
David McKeith	Non Executive Director	Member	Chairman	Member	Member

The Non Executive Chairman, Paul Mitchell, is responsible for the running of the Board and promoting a culture of openness and debate. Executive responsibility for the running of the Group's business rests with the Chief Executive Officer who is supported in this by the Group Finance Director and the Operational Board of NCC Group.

Debbie Hewitt is the Senior Independent Non Executive Director. The role of the Senior Independent Director is to provide a sounding board for the Chairman and to serve as an intermediary for other Directors when necessary. Her main responsibility is to be available to the shareholders should they have concerns that they have been unable to resolve through normal channels or when such channels would be inappropriate.

The Board normally meets on a monthly basis. During the year, the Board met on eleven scheduled occasions.

Corporate Governance

The performance of the Board is a fundamental component of the Company's success. During the year, each of the Board, Audit Committee, Remuneration Committee and Nomination Committee carried out an internal self-evaluation on their effectiveness and concluded that they continue to be effective and that no significant amendments are required to their operating procedures.

The Non Executive Directors met independently from the Executive Directors to discuss with the Chairman the overall functioning of the Board and his contribution in making it effective.

Each Director received an induction upon joining the board and the Chairman reviewed the performance of each Director and discussed their training and development needs. The Non Executive Directors have also met with the Chairman to appraise his performance.

The Non Executive Directors provide a strong independent element on the Board and are well placed to constructively challenge and help develop proposals on strategy and succession planning. Between them they bring an extensive and broad range experience to the Group and this will be extended by the appointment of an additional Non Executive Director.

The attendance of individual Directors at the scheduled Board meetings is shown in the table below. The Non Executive Directors are contracted to spend a minimum of 24 days per annum on NCC Group affairs.

Board meetings attended		
Paul Mitchell	Non Executive Chairman	11/11
Rob Cotton	Chief Executive	11/11
Atul Patel	Group Finance Director	11/11
Debbie Hewitt	Senior Non Executive Director	11/11
David McKeith	Non Executive Director	11/11

After careful review, the Board has again concluded that Debbie Hewitt and David McKeith are independent. In coming to this assessment the Board considered the character of the individuals concerned and the fact that neither of them:

- has ever been an employee of the Group;
- has ever had a material business relationship with the Group;
- receives any remuneration other than their fees;
- has close family ties with advisors, other Directors or senior management of the Group that could reasonably be expected to cause a conflict;
- has significant links with other Directors through involvement with other companies;
- represents a significant shareholder; or
- has served on the NCC Group Board for more than nine years.

The Board is responsible to shareholders for the proper management of the Group, for its system of corporate governance and for the long term success of the Company. It receives information on (at least) a monthly basis to enable it to review trading performance, forecasts and strategy and it has a schedule of matters specifically reserved for its decision. The most significant of these are:

- changes to the structure, size and composition of the Board;
- consideration of the independence of Non Executive Directors;
- consideration of the balance of interests between shareholders, employees, customers, the community and the environment;
- review of the management structure and senior management responsibilities taking into consideration prudent succession planning;
- with the assistance of the Remuneration Committee, approval of remuneration policies across the Group;
- approval of strategic plans, annual operating plans and budgets and any material changes to them;
- oversight of the Group's operations ensuring competent and prudent management, sound planning, an adequate system of internal control and adequate accounting and other records;
- reviewing the Group's risk review and control process;
- health and safety matters;
- approval of corporate policies such as the Code of Ethics and Open Door Policy;
- approval of the Group's professional advisors;
- final approval of annual accounts and accounting policies;
- approval of treasury and banking policies;
- approval of the dividend policy;
- changes to the Group's capital structure;
- major changes to the Group's corporate structure or any change to its status as a public company;
- approval of the acquisition or disposal of subsidiaries and major investments and capital projects;
- delegation of the Board's powers and authorities, including the division of responsibilities between the Chairman, the Chief Executive and other Executive Directors; and
- receiving reports on the views of the Company's shareholders and approval of all documents put to shareholders at a general meeting or circulated to shareholders.

Operational management of the Group is delegated to the Operational Board of NCC Group.

Procedures exist to allow Directors to seek independent legal and professional advice in respect of their duties at the Company's expense where the circumstances are appropriate. In April 2012 a partner in Eversheds and a representative from "Business in the Community" gave a presentation to the Board on Corporate Social Responsibility (CSR) and current "best practice" in the area of CSR.

All Directors will submit themselves for re-election at the AGM every year.

The following formally constituted committees deal with specific aspects of the Group's affairs in accordance with their written terms of reference, which are reviewed regularly and are available on the Group's website www.nccgroup.com.

Corporate Governance

Audit Committee

The Audit Committee, which is chaired by David McKeith the former North West Senior Partner of PricewaterhouseCoopers, comprises the two independent Non Executive Directors and meets at least three times a year. The Chairman, Chief Executive, Finance Director and external auditors attend these meetings as required by the Committee.

The purpose of the Committee is to assist the Board in the discharge of its responsibilities for financial reporting and corporate control, including risk and to provide a forum for reporting by the external auditors. The responsibilities of the Committee include:

- to consider liquidity risk and the going concern of the Group;
- to monitor the integrity of the financial statements and review significant financial reporting judgements contained in them;
- to review the Company's internal financial control system and risk management systems;
- to make recommendations to the Board in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditors;
- to oversee the relationship with the external auditors including, but not limited to, independence, objectivity and effectiveness;
- to develop and implement policy on the engagement of the external auditors to supply non-audit services;
- to monitor the Company's whistle-blowing procedures;
- to review the Company's procedures for detecting fraud and the systems of control for the prevention and detection of bribery; and
- to review regularly the need for an internal audit function.

The attendance of individual Committee members at Audit Committee meetings is shown in the table below:

Meetings attended	
Debbie Hewitt	3/3
David McKeith	3/3

During the year, the Audit Committee considered the following issues:

- tax compliance issues;
- the areas of judgement in the financial statements including the valuation of intangible assets and goodwill impairment;
- the requirement for a formal internal audit function;
- review of the Financial Procedures Manual and the Open Door Policy;
- the independence and level of fees to Rickitt Mitchell as corporate finance advisors;
- controls for the prevention of bribery and processes for detecting fraud;
- treasury function and policy;
- conflicts of interest;
- review of accounting policies;
- the separation of the audit, non audit and tax work and appointment of the appropriate advisors; and
- corporate governance issues including a review of terms of reference.

The Group again formally considered the need for an Internal Audit function, but was satisfied that the acquisition integration team could conduct this role on an ad-hoc basis if the need arose. Further, the internal controls and the Quality and Security procedures that are in place to support the regular internal and external audits that are conducted under the Group's ISO 9001 accredited quality assurance process provide a good degree of comfort. These current arrangements are deemed sufficient given the structure of the Group's accounting function and the size of the Group, but they will continue to be reviewed each year.

Remuneration Committee

The Remuneration Committee, which is chaired by Debbie Hewitt and comprises the Non Executive Directors, meets at least three times a year and additionally as required. It is responsible for reviewing remuneration arrangements for members of the Board and other senior employees of the Group and for providing general guidance on aspects of remuneration policy throughout the Group.

The attendance of individual Committee members at Remuneration Committee meetings is shown in the table below:

	Meetings attended
Paul Mitchell	5/5
Debbie Hewitt	5/5
David McKeith	5/5

The Directors' remuneration report is set out on pages 47 to 54.

Nomination Committee

The Nomination Committee is chaired by Paul Mitchell and comprises the Chairman, the Chief Executive and the Non Executive Directors. The Committee is responsible for proposing candidates to the Board, having regard to the balance and structure of the Board.

The Committee met twice to update the Board on progress with the recruitment of a new Non Executive Director. It also reviewed its performance and updated its terms of reference.

The new terms of reference expressly state that in the event of equal votes being cast on any matter the Senior Independent Non Executive Director will have the casting vote. This is necessary as the Group recognises that the Non Executive Chairman is not independent.

The Board's process for the appointment of a new Non Executive Director is led by the Non Executive Chairman and for Executive Director positions by the Chief Executive. Candidates are recommended by third party advisors and where appropriate through assessment of internal candidates. The Committee recognises the benefits of having a balance of skills, experience, independence and knowledge and recognises the benefits of diversity.

Recommendations are then formally considered by the Nomination Committee.

	Meetings attended
Paul Mitchell	2/2
Rob Cotton	2/2
Debbie Hewitt	2/2
David McKeith	2/2

Corporate Governance

Internal control

The Board is responsible for establishing and maintaining the Group's system of internal control. Internal control systems are designed to meet the particular needs of the Group and the risks to which it is exposed. By their nature however, internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

Key elements of the internal control system are described below. These have all been in place throughout the year and up to the date of this report and are reviewed regularly by the Board:

- clearly defined management structure and delegation of authority to Committees of the Board, subsidiary boards and associated business units;
- clearly documented internal procedures set out in the Group's ISO 9001:2008 accredited quality manual;
- high recruitment standards and formal career development and training to ensure the integrity and competence of staff;
- regular and comprehensive information provided to management, covering financial performance and key performance indicators, including non-financial measures;
- a detailed budgeting process where business units prepare plans for the coming years and rolling three-year strategic plans, which are approved by the Board;
- procedures for the approval of capital expenditure and investments and acquisitions;
- monthly monitoring and re-forecasting of results against the annual operating plan, with major variances followed up and management action taken where appropriate;
- regular internal audits of key processes and procedures under the Group's ISO 9001 accredited quality assurance process;
- on-going procedures to identify, evaluate and manage significant risks faced by the business and procedures to monitor the control systems in place to reduce these risks to an acceptable level; and
- formal consideration of progress made against significant business risks at monthly operational board meetings.

Auditor independence

The choice of external auditor will be reviewed every five years or sooner if the Board considers it appropriate. During the year an independent tender process for the appointment of new auditors was carried out as KPMG Audit plc had been in place as auditors of the company for over 9 years. Proposals were received from Deloitte, Ernst & Young and KPMG. On 2 December 2011 Ernst & Young were appointed as auditors to the Group.

The Company operates a rigorous policy designed to ensure that the auditors' independence is not compromised by their undertaking inappropriate non-audit work.

The Audit Committee's approval is needed for (i) any fees for non-audit work paid to the auditors in excess of 50% of the audit fee paid to them for that financial year for any one assignment and (ii) for any assignment that would result in the total non-audit fees in that year exceeding the audit fee paid for that year.

All significant pieces of non-audit work are put to informal tender to suitable parties, this includes if appropriate the auditors. Upon review as to suitability and price the work will then be placed to the provider recommended after approval by the Audit Committee if such approval is necessary in accordance with the rules set out above.

During the year the Audit Committee approved fees payable to Ernst & Young as the Group's tax advisors, fees payable to Deloitte in respect of transaction and international tax services and corporate finance fees to Rickitt Mitchell. Since the appointment of Ernst & Young as auditors to the Company they have resigned as tax advisors and been replaced by Deloitte.

As reported to the audit committee £Nil non-audit work was undertaken by the external auditors in 2012 (2011: £Nil) following their appointment, thereby satisfying the committee that there is no effect on the auditors' independence. Ernst & Young were paid £81,639 in relation to their role as tax advisors, all associated work was commissioned before their appointment as auditors.

Going concern

The Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this report. For this reason, they continue to adopt the going concern basis in preparing the financial statements. See page 73 for the note on the Basis of Preparation.

Communication with shareholders

The Company values the views of shareholders and recognises their interests in the Group's strategy and performance. It holds briefings with institutional fund managers, analysts and other investors, including staff shareholders, primarily following the announcement of interim and preliminary results, as well as at other times during the year as may be appropriate.

The Company's programme of investor relations activities is designed to ensure that the investing community receives a balanced and consistent view of the Group's performance. All shareholders are welcomed to the Annual General Meeting, at which the Board of Directors are available to answer questions from shareholders.

Communication is also provided through the Annual Report, the Interim Report and the investor relations area on the Company's website, www.nccgroup.com on which financial and other information is available and regularly updated.

The Board receives reports from the Group's broker twice a year that communicate feedback from institutional shareholders, reviews analyst coverage of the Group every month and receives reports twice a year from its financial public relations advisors regarding the views of analysts.

By order of the Board.



Rob Cotton

Chief Executive
NCC Group plc
5 July 2012

Directors' Remuneration Report

Remuneration Committee

The Remuneration Committee advises the Board and makes recommendations to it about all elements of the remuneration packages of the Executive Directors. The members of the Remuneration Committee during the year were Debbie Hewitt who chairs the committee, Paul Mitchell and David McKeith. The Chief Executive attends the Remuneration Committee by invitation and assists the Committee with its considerations. No Director is involved in setting their own remuneration plan.

Remuneration policy

The Committee and the Board believe that in order to attract and maintain a senior management team of the right calibre it is necessary to provide competitive market-based packages which reward Group and individual performance and motivate senior executives to achieve stated business objectives and deliver outstanding shareholder returns. In addition, the Committee also considers the changes in size and complexity of the Group.

Remuneration packages comprise:

- Basic salary
- Annual performance related bonus
- Other benefits
- Participation in the share incentive plans

The Group introduced a number of share incentive schemes on flotation, of which all members of staff, including the Executive Directors are potential beneficiaries. These include a Long Term Incentive Plan (LTIP), a Save As You Earn (SAYE) scheme and a Company Share Option Plan (CSOP).

The remuneration policy is replicated throughout the Group and aims to attract and retain the best relevant staff and to focus their remuneration on the delivery of long term sustainable growth by using a mix of salary, benefits, bonus and longer term incentives.

Basic salary

Salaries are normally reviewed annually and any changes are effective from 1 June in each year. Pay reviews take into account Group and personal performance and externally benchmarked market data for comparable companies operating in IT services, management consulting and relevant high-tech sectors.

The salaries of Rob Cotton and Atul Patel, for the last two financial years are set out in the table on page 51.

The Remuneration Committee did not consider it necessary to use external remuneration consultants but the members had taken note of and reviewed the freely available market information on executive pay and also the proposals published by the Government on executive pay.

The Committee also considered the excellent performance of the Group over the last eight years, its increasing size and complexity and viewed this in light of the economic backdrop and remuneration levels being set in the rest of the business.

With effect from 1 June 2012, Rob Cotton's salary increases by 6% to £430,000 and Atul Patel's salary increases by 14% to £200,000, however Rob Cotton's overall package will increase by 4.1% and Atul Patel's by 10%. This year, the average employee remuneration increase for staff in the Group is above that of the Chief Executive. The increase in the remuneration of Atul Patel was above the average increase in the Group, as the Committee felt it appropriate in light of his performance in the year and against the market rate of remuneration of Finance Directors in similar businesses.

Performance related bonuses

The performance related pay scheme for Executive Directors is largely the same as that of the Operational Directors and Senior Managers within the business and all are aligned with business objectives.

Payments under the scheme are based upon the achievement of profit targets set by the Remuneration Committee. The profit target is based on delivery of the Group's own internal plans overlaid on to the financial forecasts and expectations in the investor community. The internal plans are detailed and focus on the delivery of long term sustainable profit growth and are compared to the market expectations of the Group.

The Group does not include personal or other financial objectives in the remuneration plan as this could result in payments being made where the Group's performance is unacceptable and measures such as cash targets or personal performance are not regarded as sufficiently tangible to directly enhance the value of the Group. The Remuneration Committee however can, if exceptional circumstances occur that are beyond the Executive's control, use its discretion to pay Executives an appropriate bonus.

The bonus scheme does not start to reward until 90% (2011: 90%) of the stringent, internal target set is achieved and are capped at 120% (2011: 110%). The maximum bonus payable to Rob Cotton under the scheme is £280,000 (2011: £240,000) and for 100% achievement of the performance criteria, £200,000. For Atul Patel the same criteria apply, with £75,000 being paid for 100% achievement of performance. At 90% £26,250 is payable and the scheme is capped at £135,000 for achieving 120%.

For 2011/2012 the maximum bonuses of £240,000 and £105,000 were paid to Rob Cotton and Atul Patel respectively as the Group achieved 110.3% of the performance targets set. The increase in the bonus performance cap from 110% to 120% is to provide the Executive team with the incentive to maximise the Group's performance further.

The Remuneration Committee believe that this simple and transparent scheme prevents short term decisions being made and ensures that the Senior Management team is purely focused on the delivery of business performance to significantly enhance shareholder value.

Directors' Remuneration Report

Pensions

Executive Directors are entitled to a company pension contribution of 10% of basic salary, providing they make a contribution of not less than 5%, which is paid into the Group defined contribution personal pension scheme, which is also open to all permanent employees.

Benefits

Benefits in kind include the provision of a car or car allowance, payment of private fuel, car insurances, private medical insurance, life assurance and permanent health insurance.

Share incentives

The Group's policy is to award share incentives to Executive Directors in order to align their interests with those of the Company's shareholders. Rob Cotton and Atul Patel are precluded from joining the CSOP, but have participated in the LTIP scheme during the financial year.

The Remuneration Committee agreed, in 2005, to extend participation in the LTIP to other senior executives within the Group. The maximum award is equal to the Director's or Senior Executive's annual basic salary in the year of award.

The Group's LTIP schemes are based on the earnings per share (EPS) performance of the Group over a performance period of three years. The Committee is satisfied that using a single criteria works to motivate and encourage long term growth and enhancing shareholder value as it is setting demanding objectives on the Executives who receive the awards.

The Committee has rejected the use of Total Shareholder Returns as a measure as there are no similar comparable organisations to compare the Group against and comparing the share performance against such a diverse sector as the Software and Services sector is far outside the sphere of influence of the Executives. If this criterion had been included the rewards for the participating Executives and Senior Managers would be considerably higher. The Committee also dismissed the option of making part of any award against personal or internal objectives as they are not outwardly clear to the investor community and are unlikely to directly deliver increased shareholder value.

Should a change in control of the Group occur, crystallisation of any LTIP awards are within the discretion of the Remuneration Committee. The Remuneration Committee cannot amend the rules of any of the share schemes without prior shareholder approval.

Rob Cotton joined the SAYE Scheme at the time of flotation and has continued to subscribe to the scheme. Atul Patel joined the SAYE scheme on 4 August 2011.

Service contracts

The service contracts and letters of appointment of the Directors include the following terms:

	Date of contract	Notice period
Executive		
Rob Cotton	8 July 2004	1 year
Atul Patel	19 April 2011	6 months
Non Executive		
Paul Mitchell	26 June 2007	3 months
Debbie Hewitt	18 September 2008	3 months
David McKeith	29 July 2009	3 months

The Executive Directors offer themselves, like the Non Executive Directors, for re-election every year.

Payments on termination for Executive Directors are restricted to the value of salary and contractual benefits for the notice period. There are no predetermined special provisions for Executive Directors with regard to compensation in the event of loss of office.

Directors' interest in shares

Directors had the following beneficial interest in the issued share capital of the Company.

	Ordinary Shares of 1p each 2012	Ordinary Shares of 1p each 2011
Executive		
Rob Cotton	1,721,075	1,674,289
Atul Patel	5,000	-
Non Executive		
Paul Mitchell	196,600	196,600
Debbie Hewitt	5,665	5,665
David McKeith	5,000	5,000

Directors' Remuneration Report

The auditors have audited the information in the following tables:

Remuneration

The remuneration of the Directors for the year ended 31 May 2012 was as follows:

Year ended 31 May 2012	Salary	Bonus	Pension	Benefits	Fees	Total
	£000	£000	£000	£000	£000	£000
Executive						
Rob Cotton	405	240	41	31	-	717
Atul Patel	175	105	18	22	-	320
Non Executive						
Paul Mitchell	-	-	-	-	70	70
Debbie Hewitt	-	-	-	-	45	45
David McKeith	38	-	-	-	-	38
	618	345	59	53	115	1,190

The remuneration of the Directors for the year ended 31 May 2011 was as follows:

Year ended 31 May 2011	Salary	Bonus	Pension	Benefits	Fees	Total
	£000	£000	£000	£000	£000	£000
Executive						
Rob Cotton	375	160	38	32	-	605
Atul Patel	33	20	-	5	-	58
John Gittins - Note 1	216	-	20	20	-	256
Non Executive						
Paul Mitchell	-	-	-	-	65	65
James Wallace - Note 2	19	-	-	-	-	19
Debbie Hewitt - Note 3	-	-	-	-	47	47
David McKeith	38	-	-	-	-	38
	681	180	58	57	112	1,088

Note 1 John Gittins left the Group on 25 February 2011 with immediate effect. Under the terms of his Service Agreement he was entitled to six months' notice but the company chose to waive the requirement for him to work this period.

No compensation or termination payments were due under his agreement, but his notice period and payments in lieu of all contractual obligations were paid in full and are included in the table as salary. Under the terms of his Service Agreement he was excluded from the bonus scheme and no bonus was paid in respect of that bonus year. He was also excluded from any invitations to the LTIP.

Note 2 James Wallace stepped down as a Non Executive Director from the Board on 21 September 2010 at the Annual General Meeting. No compensation or termination payments were due or paid.

Note 3 Debbie Hewitt was paid £3,750 for Chairing the Remuneration Committee for the period from September 2009 to 31 May 2010.

Directors' share options

The Group has a number of share option schemes whereby Directors and staff are able to subscribe for ordinary shares in the Company.

As at 31 May 2012 Rob Cotton and Atul Patel held options over ordinary shares as follows. There have been no changes between the end of the financial year and the date of this report.

Director	Date of grant	Market value at date of grant	Maximum Options held at 1 June 2011	Maximum Options held at 31 May 2012	Exercise price	Performance conditions	Earliest exercise date	Expiry date
Rob Cotton	18/07/08	£3.56	98,315	-	nil*	1	01/06/11	18/06/12
Rob Cotton	07/07/09	£3.30	109,256	109,256	nil*	1	01/06/12	07/07/13
Rob Cotton	23/07/10	£4.20	89,115	89,115	nil*	1	01/06/13	23/07/14
Rob Cotton	02/08/10	£3.38	2,662	2,662	£3.38	2	01/10/13	31/03/14
Rob Cotton	11/07/11	£6.49	-	62,355	nil*	1	01/06/14	11/07/15
Atul Patel	11/07/11	£6.49	-	26,943	nil*	1	01/06/14	11/07/15
Atul Patel	04/08/11	£6.95	-	1,766	£5.11	3	01/10/14	31/03/15

*exercise price of £1 on each occasion

On 30 September 2011 Rob Cotton exercised options granted to him under the NCC Group LTIP scheme over 53,286 shares, 45,029 shares were forfeited as the Group achieved 54.2% of the performance criteria set. The market price of the company's shares on this date was £6.70.

Directors' Remuneration Report

Performance conditions and notes

1. If EPS growth is equal to 25% or more per annum then 100% of the award will vest. If, however, growth is less than 10% per annum, none of the award governed by the EPS condition will vest. Performance between the two points of measure will be determined on a straight line basis.

The Remuneration Committee recommends the granting of additional share options to the value of Executive Director's annual salary under the same performance criteria as under the current LTIP.

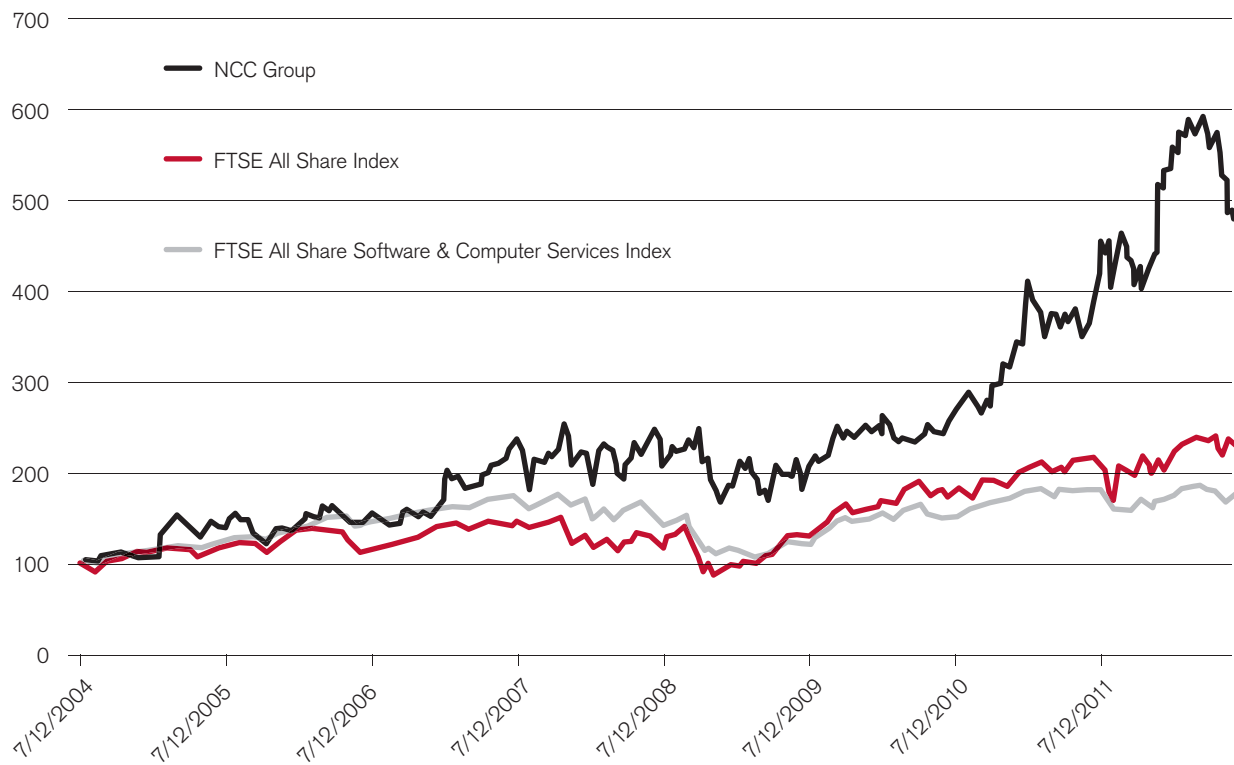
2. SAYE 2010 Scheme. The SAYE scheme is subject to a three year savings contract. If this is completed a maximum of 2,662 shares will be granted.
3. SAYE 2011 Scheme. The SAYE scheme is subject to a three year savings contract. If this is completed a maximum of 1,766 shares will be granted.

Performance graph

The following graph shows the total shareholder return, with dividends reinvested, from 12 July 2004, the date the Company's flotation on the London Stock Exchange (AIM) against the corresponding changes in hypothetical holding in shares in both the FTSE All Share Index and the FTSE Software and Computer Services Index.

The FTSE All Share and FTSE Software and Computer Services indices both represent broad equity indices' in which the company is a constituent member. Inclusion of the FTSE All Share Index gives a market capitalisation-based perspective, whilst the FTSE Software and Computer Services Index provides an industry sector perspective.

During the year the Company's share price varied between £5.55 and £9.21 and ended the year at £7.65.



Approved by the Board and
signed on its behalf:

Debbie Hewitt

Chairman, Remuneration
Committee
NCC Group plc
5 July 2012

Statement of Directors' responsibilities in relation to the Group financial statements and Annual Report

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and regulations. Company law requires the Directors to prepare Group financial statements for each financial year. Under that law, the Directors are required to prepare Group financial statements under IFRSs as adopted by the European Union.

Under Company Law the Directors must not approve the Group financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing the Group financial statements the Directors are required to:

- present fairly the financial position, financial performance and cash flows of the Group;
- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements that are reasonable;
- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state whether the Group financial statements have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for preparing the Directors' Report, the Directors' Remuneration Report and the Corporate Governance Statement in accordance with the Companies Act 2006 and applicable regulations, including the requirements of the Listing Rules and the Disclosure and Transparency Rules.

Statement of Directors' responsibilities pursuant to Disclosure and Transparency Rules 4.1.12

Each of the Directors whose names and functions are set out on pages 39 to 46, confirm that, to the best of their knowledge:

- the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.
- the business review includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board.



Rob Cotton

Chief Executive
NCC Group plc
5 July 2012

Corporate Social Responsibility Report

NCC Group takes its corporate social responsibilities very seriously and recognises the important contributions to the business made by the wider community of stakeholders, in particular employees, clients, suppliers and the local communities in which it operates. The Board takes into account social, environmental and ethical issues in its discussions and decision making and makes the health and safety of employees a priority.

During the year a representative from Business in the Community has given a presentation to the Board on current good practice in the area of CSR. Atul Patel the Finance Director has been given CSR responsibility for the Group and has taken sustainability and environmental advice from Enworks, who specialise in this area, on what further measures the Group can take to reduce its carbon footprint.

Stakeholders

Employees

People are at the heart of the Group's business and the support and involvement of the talented individuals who form its team is vital to the continued success of the Group overall. The Head of HR reports directly to the CEO of the business to ensure high level visibility and control of all employment related issues.

The Group is committed to its employees and actively attempts to improve their health and wellbeing and morale by encouraging fitness based activities and taking part in charitable events.

The Group has its own football team which plays weekly and organises two charitable football tournaments every year involving teams from the local business community. The team also competed in tournaments at Old Trafford to raise money for charity. NCC Group also has a very active netball team, cricket team and running club and for the more cerebral a book club.

Additionally, support is always given to relevant local charitable initiatives, for example, supporting a number of local sporting challenges such as an Olympic themed sports day, supporting over 20 entrants into the Manchester 10K charity run and several employees completing sponsored skydives and parachute jumps for charity.

The Group is committed to providing a productive working environment and recognises the importance of training and development. Each employee has a training record and is positively encouraged to up-skill. The Group employs a training manager who ensures all relevant staff have the necessary sales and management training.

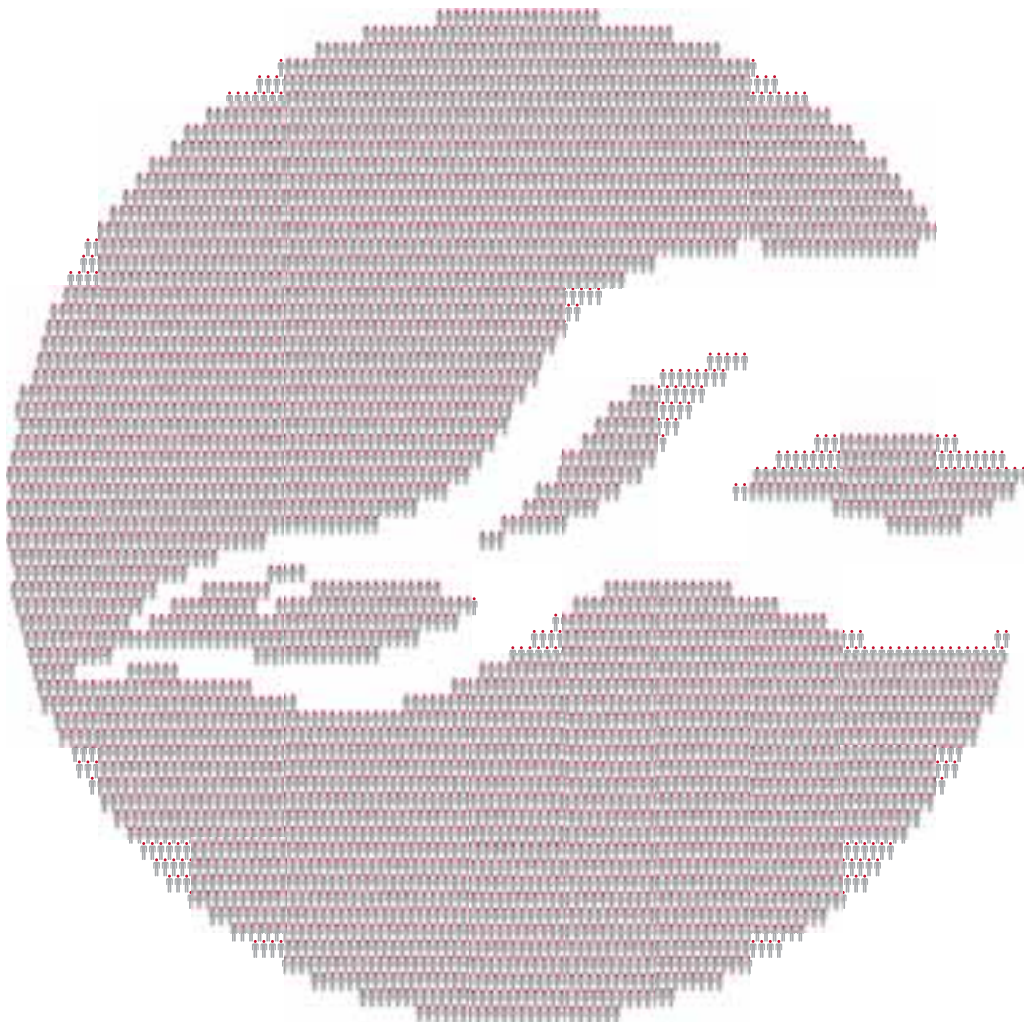
The Group has a policy of keeping employees informed of, and engaged in, its business strategy through the Intranet, regular employee briefings and divisional meetings.

Comments and suggestions from employees on the Group's performance and management are actively encouraged and a free flow of information between the Directors, managers and employees ensures that everyone has an opportunity to contribute.

The Group is committed to diversity and offers equal opportunities to all; no employee or potential employee receives more or less favourable treatment due to their gender, age, race, national or ethnic origin, religion or belief, disability, sexual orientation, or marital status.

Should an existing employee's circumstances change, it is the Group's policy, wherever practicable, to provide continuing employment under normal terms and conditions and to provide training and career development and promotion wherever possible.

People are at the heart of the Group's business and the support and involvement of the talented individuals who form its team is vital to the continued success of the Group overall



Corporate Social Responsibility Report

Clients

NCC Group values each and every client and is proud of the long standing nature of its client relationships. Continuing client satisfaction is central to its on going success and is regularly measured and monitored through the ISO 9001 certified quality programme. This includes written and telephone satisfaction surveys each month.

Rare instances of negative feedback are treated with the utmost seriousness and dealt with swiftly by management through to resolution. Each Operational Director takes direct responsibility for customer satisfaction, with the CEO investigating directly where Divisional performances fail to meet the 80% threshold.

The Group recognises and understands that its relationships with those with whom it deals are the key to its success and, as such, takes its obligations and commitments to those people and organisations very seriously. The Group's independence, reputation as a supplier of quality services and the trust of its clients are all key assets that it aims to protect at all times. It aims to engender in its employees principles of honesty and integrity and the desire to work to the best of their ability. To ensure best service for the Group's clients all employees are required both to comply with the Company's Code of Ethics and to undergo training on the Bribery Act 2010.

The Community

The Group is committed to ensuring that as well as delivering consistently strong results as a business, it gives something back to the local community. It continues to support charitable organisations and actively encourages the involvement of its employees in fundraising by covering expenses and awarding additional days' holiday. A plan has been put in place to sponsor five local junior football teams by buying their football kit to encourage children to take an interest in sport and keeping fit.

For the last twelve months the Group very actively supported The Christie, the globally renowned Manchester cancer hospital.

During the year the Group has participated in the Microsoft Apprenticeship scheme and provided work experience as part of an undergraduate degree course. In addition the Group is setting up an in-house functional testing team and will recruit locally for apprentices to develop and train as part of that team.

Suppliers

The Group's policy is to pay suppliers in accordance with terms and conditions agreed when orders are placed. Although the Group does not follow any code or standard on payment policy, where terms have not been specifically agreed, invoices dated in one calendar month are paid close to the end of the following month.

At 31 May 2012, the Group had an average of 46 days purchases outstanding in trade creditors (2011: 40 days).

An Ethical Supplier's Policy has been adopted and is in the course of being implemented across the Group to ensure (inter alia) that all suppliers to the Group comply with Health and Safety law, have an environmental policy and behave ethically towards their employees.

The Environment

As a service provider with no manufacturing facilities the impact of the Group's operations on the environment is limited compared with other industries, however it recognises its responsibility to respect and limit damage to the environment in every way it can. Accordingly the Group's Environmental Policy aims to:

- conserve energy and other natural resources and improve efficient use of those resources;
- improve the efficiency of materials used;
- reduce waste and increase reuse and recycling;
- encourage the use of alternative means of transport, for example, via the Cycle to Work scheme and car sharing;
- provide all staff with relevant environmental training and guidance.

Initiatives that have been put in place:

- energy efficient lighting in the newly refurbished areas and lighting which switches off automatically;
- expanding the use of recycling in all offices - there are paper recycling bins throughout the offices and bottles, cans and plastics recycling bins in the kitchens;
- on demand boiling water and cold water taps have been introduced into the kitchens to reduce wastage of water and power. New dual flush cisterns have been installed in the WCs as part of the refurbishment to reduce excess water usage;
- cycle to work scheme;
- re-cycling of printer cartridges in all offices;
- re-cycling of redundant IT equipment;
- addition of low emission car options into the company car scheme;
- video conferencing facilities available in main offices. This reduces the need for travelling so helping the environment and improving productivity.

Initiatives that are being worked on:

- printer review to enable more double sided printing;
- increase staff awareness of environmental issues.

Measurement

An initial set of KPIs have been identified and baselined to provide a marker against which to measure improvements. The KPIs have been collected using information in relation to the UK offices only. The base line key environmental measures are as follows:

Measure	Baseline
Electricity usage	3312KW per day
Paper usage	3.5 reams per worked day
Printer cartridge usage	0.6 cartridges per worked day
Average CO2 value of company car fleet	148

Health and safety policy

The Group is committed to the good health and wellbeing of its employees and strives to provide and maintain a safe and pleasant environment for all employees, clients and visitors to its premises and to comply with the relevant health and safety legislation. The refurbishment of the Manchester Head office has been completed this year and provides a safe pleasant and modern working environment for staff. Continued investment is planned in the coming financial year to enhance the working environments of employees in all our offices. One Health and Safety claim from a former employee arose in the year (2011: nil).

By order of the Board.



Rob Cotton

Chief Executive
NCC Group plc
5 July 2012

Independent Auditors' Report to the Members of NCC Group plc

We have audited the financial statements of NCC Group plc for the year ended 31 May 2012 which comprise the consolidated income statement, consolidated statement of comprehensive income, group balance sheet, company balance sheet, group cash flow statement, company cash flow statement, statement of changes of equity and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on pages 55 - 56, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 May 2012 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 55 in relation to going concern;
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.



Gary Harding

(Senior statutory auditor)
for and on behalf of
Ernst & Young LLP,
Statutory Auditor
Manchester
5 July 2012

Financials



Consolidated income statement

For the year ended 31 May 2012

		2012	2011
		£000	£000
Revenue	2	87,713	70,995
Cost of sales		(54,140)	(44,873)
Gross profit		33,573	26,122
Administrative expenses before amortisation of intangible assets, share based payments, impairment losses and exceptional items		(10,171)	(7,715)
Operating profit before amortisation, share based payments, impairment losses and exceptional items		23,402	18,407
Amortisation of intangible assets		(3,726)	(3,275)
Share based payments	22	(946)	(516)
Impairment loss	3	(6,104)	-
Exceptional items	3	(1,007)	(1,144)
Total administrative expenses		(21,954)	(12,650)
Operating profit	2	11,619	13,472
Financial income	6	3	8
Finance expense excluding unwinding of discount		(842)	(644)
Net financing costs excluding unwinding of discount		(839)	(636)
Unwinding of discount relating to contingent consideration on business combinations		(208)	(68)
Financial expenses	6	(1,050)	(712)
Net financing costs		(1,047)	(704)
Profit before taxation	4	10,572	12,768
Taxation	7	(2,957)	(3,441)
Profit for the year		7,615	9,327
Discontinued operations			
Loss for the period from discontinued operations	9	-	(1,098)
Profit for the year		7,615	8,229
Attributable to equity holders of the parent company		7,615	8,229
Earnings per share from continuing operations	10		
Basic earnings per share		22.2p	27.5p
Diluted earnings per share		21.7p	26.7p
Earnings per share from continuing and discontinued operations			
Basic earnings per share		22.2p	24.3p
Diluted earnings per share		21.7p	23.5p

Consolidated statement of comprehensive income

For the year ended 31 May 2012

	2012	2011
	£000	£000
Profit for the year	7,615	8,229
Other comprehensive income		
Foreign exchange translation differences	357	418
Total comprehensive income for the period	7,972	8,647
Attributable to:		
Equity holders of the parent	7,972	8,647

Group balance sheet

At 31 May 2012

	Notes	2012	2011
		£000	£000
Non-current assets			
Intangible assets	12	89,499	93,759
Plant and equipment	13	5,068	2,755
Deferred tax assets	16	1,943	1,150
Total non-current assets		96,510	97,664
Current assets			
Trade and other receivables	14	21,347	18,389
Cash and cash equivalents		5,450	4,701
Total current assets		26,797	23,090
Total assets		123,307	120,754
Equity			
Issued capital	23	343	341
Share premium		23,244	22,830
Retained earnings		36,730	33,230
Currency translation reserve		41	(316)
Total equity attributable to equity holders of the parent		60,358	56,085
Non-current liabilities			
Other financial liabilities	19	579	206
Deferred tax liability	16	1,343	1,518
Contingent consideration on acquisitions	19	250	4,536
Interest bearing loans	19,21	28,149	25,182
Total non-current liabilities		30,321	31,442
Current liabilities			
Trade and other payables	17	11,593	10,326
Contingent consideration on acquisitions	17	3,493	5,840
Deferred revenue	18	15,926	15,023
Current tax payable		712	2,038
Provisions	20	904	-
Total current liabilities		32,628	33,227
Total liabilities		62,949	64,669
Total liabilities and equity		123,307	120,754

These financial statements were approved by the Board of Directors on 5 July 2012 and were signed on its behalf by:



Rob Cotton
Chief Executive
NCC Group plc
4627044

Company balance sheet

At 31 May 2012

	Notes	2012	2011
		£000	£000
Non-current assets			
Investments	28	32,041	31,529
Deferred tax assets	16	252	168
Total non-current assets		32,293	31,697
Current assets			
Other receivables	14	80	-
Cash and cash equivalents		196	1,096
Total current assets		276	1,096
Total assets		32,569	32,793
Equity			
Issued capital	23	343	341
Share premium		23,244	22,830
Retained earnings		8,841	3,235
Total equity		32,428	26,406
Current liabilities			
Trade and other payables	17	23	6,387
Current tax payable		118	-
Total current liabilities		141	6,387
Total liabilities		141	6,387
Total liabilities and equity		32,569	32,793

These financial statements were approved by the Board of Directors on 5 July 2012 and were signed on its behalf by:



Rob Cotton

Chief Executive
NCC Group plc
4627044

Group cash flow statement

For the year ended 31 May 2012

	Notes	2012	2011
		£000	£000
Cash flow from operating activities			
Profit for the year		7,615	8,229
Adjustments for:			
Depreciation charge	13	1,574	1,190
Share based charges	22	725	408
Amortisation of intangible assets	12	3,726	3,275
Impairment of intangible assets	12	6,104	-
Net financing costs		1,047	704
Loss/(profit) on sale of plant and equipment		10	(18)
Income tax expense		2,957	3,014
Cash inflow for the year before changes in working capital		23,758	16,802
Increase in trade and other receivables		(2,899)	(373)
Increase in trade and other payables		3,781	1,463
Cash generated from operating activities before interest and tax		24,640	17,892
Interest paid		(735)	(663)
Income taxes paid		(5,452)	(4,178)
Net cash generated from operating activities		18,453	13,051
Cash flows from investing activities			
Interest received		3	8
Acquisition of plant and equipment		(3,620)	(1,815)
Development expenditure	12	(354)	-
Acquisition of intangible assets	12	(3,306)	(2,675)
Acquisition of business net of cash acquired	15	(7,498)	(14,432)
Net cash used in investing activities		(14,775)	(18,914)
Cash flows from financing activities			
Proceeds from the issue of ordinary share capital		416	1,127
Draw down of borrowings		2,354	9,099
Purchase of own shares		-	(856)
Payment of bank loans		-	-
Equity dividends paid		(4,778)	(3,855)
Net cash from financing activities		(2,008)	5,515
Net increase/(decrease) in cash and cash equivalents	24	1,670	(348)
Cash and cash equivalents at beginning of year		4,701	4,631
Effect of foreign currency		(921)	418
Cash and cash equivalents at end of year		5,450	4,701

Company cash flow statement

For the year ended 31 May 2012

	2012	2011
	£000	£000
Cash flow from operating activities		
Profit for the year	535	363
Adjustments for:		
Share based charges	213	197
Income tax expense	60	91
Cash inflow for the year before changes in working capital	808	651
(Decrease)/increase in payables	(6,471)	1,517
Cash (outflow)/inflow for the year before interest and tax	(5,663)	2,168
Interest paid	-	-
Net cash from operating activities	(5,663)	2,168
Cash flows from financing activities		
Proceeds from the issue of ordinary share capital	416	1,127
Purchase of own shares	-	(856)
Equity dividends paid	(4,778)	(3,855)
Equity dividends received	9,125	2,500
Net cash from financing activities	4,763	(1,084)
Net (decrease)/increase in cash and cash equivalents	(900)	1,084
Cash and cash equivalents at beginning of year	1,096	12
Cash and cash equivalents at end of year	196	1,096

Statements of changes of equity

For the year ended 31 May 2012

Group	Issued Share capital	Share premium	Currency Translation reserve	Retained earnings	Total
	£000	£000	£000	£000	£000
Balance at 1 June 2010	337	21,707	(734)	28,963	50,273
Profit for the period	-	-	-	8,229	8,229
Foreign currency translation differences	-	-	418	-	418
Total comprehensive income for the period	-	-	418	8,229	8,647
Transactions with owners recorded directly in equity	-	-	-	-	-
Dividends to equity shareholders	-	-	-	(3,855)	(3,855)
Re-purchase of own shares	-	-	-	(856)	(856)
Share based payment transactions	-	-	-	408	408
Deferred tax on share based payments	-	-	-	341	341
Shares issued	4	1,123	-	-	1,127
Total contributions by and distributions to owners	4	1,123	-	(3,962)	(2,835)
Balance at 31 May 2011	341	22,830	(316)	33,230	56,085

	Issued Share capital	Share premium	Currency Translation reserve	Retained earnings	Total
	£000	£000	£000	£000	£000
Balance at 1 June 2011	341	22,830	(316)	33,230	56,085
Profit for the period	-	-	-	7,615	7,615
Foreign currency translation differences	-	-	357	-	357
Total comprehensive income for the period	-	-	357	7,615	7,972
Transactions with owners recorded directly in equity	-	-	-	-	-
Dividends to equity shareholders	-	-	-	(4,778)	(4,778)
Re-purchase of own shares	-	-	-	-	-
Share based payment transactions	-	-	-	725	725
Deferred tax on share based payments	-	-	-	(62)	(62)
Shares issued	2	414	-	-	416
Total contributions by and distributions to owners	2	414	-	(4,115)	(3,699)
Balance at 31 May 2012	343	23,244	41	36,730	60,358

Statements of changes of equity

For the year ended 31 May 2012

Company	Share capital	Share premium	Retained earnings	Total
	£000	£000	£000	£000
Balance at 1 June 2010	337	21,707	4,608	26,652
Profit for the period	-	-	2,862	2,862
Foreign currency translation differences	-	-	-	-
Total comprehensive income for the period	-	-	2,862	2,862
Transactions with owners recorded directly in equity				
Dividends to equity shareholders	-	-	(3,855)	(3,855)
Share based payment transactions	-	-	197	197
Increase in subsidiary investment for share based charges	-	-	210	210
Deferred tax on share based payments	-	-	69	69
Shares issued	4	1,123	-	1,127
Re-purchase of own shares	-	-	(856)	(856)
Total contributions by and distributions to owners	4	1,123	(4,235)	(3,108)
Balance at 31 May 2011	341	22,830	3,235	26,406
	Share capital	Share premium	Retained earnings	Total
	£000	£000	£000	£000
Balance at 1 June 2011	341	22,830	3,235	26,406
Profit for the period	-	-	535	535
Dividends received	-	-	9,125	9,125
Foreign currency translation differences	-	-	-	-
Total comprehensive income for the period	-	-	9,660	9,660
Transactions with owners recorded directly in equity				
Dividends to equity shareholders	-	-	(4,778)	(4,778)
Share based payment transactions	-	-	213	213
Increase in subsidiary investment for share based charges	-	-	511	511
Shares issued	2	414	-	416
Total contributions by and distributions to owners	2	414	(4,054)	(3,638)
Balance at 31 May 2012	343	23,244	8,841	32,428

Notes

(forming part of the
financial statements)



Notes

1 Accounting policies

Basis of preparation

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

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The parent company financial statements present information about the Company as a separate entity and not about its Group.

Both the parent and the Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRS"). On publishing the parent company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Operational and Financial Review on pages 15 to 30. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 15 to 30. In addition, note 21 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

The Group's forecast and projections taking into account reasonably possible changes in trading performance show that the Group is able to operate within the level of its current facility.

As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future.

Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

Restatement

The consolidated income statement for the year ended 31 May 2011 has been restated to present charges in respect of share based payments within administrative expenses rather than within cost of sales. The purpose of this restatement is to report the share based payments charges with other indirect salary expenses within administrative expenses. The impact of this restatement is an increase in administrative expenses of £0.5 million for the year ended 31 May 2011. Cost of sales has decreased by the same amount. The restatement has no impact on the Group's reported profit.

New standards

During the year, the following standards have been adopted for the first time;

IAS24 Related Party Disclosures (revised)

IFRIC14 Prepayments of a minimum funding requirement (amendment)

Improvements to IFRSs (issued May 2010) and

IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments

The adoption of these standards has not had a material effect on the financial statements of the Group.

Accounting standards not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 May 2012 and have not been applied in preparing these consolidated financial statements. None of these will have an effect on the consolidated financial statements of the Group. The key changes are as follows:

IFRS 9 - Financial Instruments. Effective for annual periods commencing on or after 1 January 2015.

IFRS 10 - Consolidated financial instruments. Effective for annual periods commencing on or after 1 January 2013.

IFRS 11 - Joint arrangements. Effective for annual periods commencing on or after 1 January 2013.

IFRS12 - Income Taxes (Amendment) — Deferred Taxes: Recovery of Underlying Assets. Effective for annual periods commencing on or after 1 January 2012.

IFRS13 - Fair Value Measurement. Effective for annual periods commencing on or after 1 January 2013.

Amendments to IFRS 7 - Financial Instruments: Disclosures. Effective for annual periods commencing on or after 1 July 2011.

Basis of consolidation

Business combinations

Business combinations are accounted for by applying the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

Acquisitions on or after 1 June 2010

For acquisitions on or after 1 June 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in the income statement.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

On a transaction-by-transaction basis, the Group elects to measure non-controlling interests either at its fair value or at its proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date.

Acquisitions before 1 June 2010

For acquisitions before 1 June 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

Contingent consideration on business combinations was recognised only to the extent that it could be reliably estimated and it was probable that the consideration would be paid. Any subsequent changes to the carrying value of the contingent consideration were recognised as adjustments to goodwill.

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Notes

1 Accounting policies (continued)

Intangible assets and goodwill

Goodwill

Goodwill represents amounts arising on acquisition of subsidiaries. In respect of business acquisitions that have occurred since 1 June 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired including identifiable intangible assets. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

In respect of acquisitions prior to 1 June 2004, goodwill is included at its deemed cost, which represents the amount recorded under UK GAAP at 31 May 2004 which was broadly comparable, save that only separable intangibles were recognised and goodwill was amortised.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the investee.

Research and development

Expenditure on research activities is recognised in the income statement as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group intends, has the technical ability and has sufficient resources to complete development, future economic benefits are probable and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes.

The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Other intangible assets

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and less accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangibles are amortised from the date they are available for use. The estimated useful lives are as follows:

Acquired customer contracts and relationships	between 3 and 20 years
Software	3 years

Impairment excluding deferred tax assets

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes

1 Accounting policies (continued)

Related party transactions

Details of related party transactions are set out in note 27 to these financial statements.

Plant and equipment

Plant and equipment assets are carried at cost less accumulated depreciation and any recognised impairment in value. To the extent that borrowing costs relate to the acquisition, construction or production of a qualifying asset, borrowing costs are capitalised as part of the cost of that asset. Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of each part of an item of plant and equipment. The rates applied are as follows:

Computer equipment	- 20% to 33%
Plant and equipment	- 20%
Fixtures and fittings	- 10% to 20%
Motor vehicles	- 25%

Plant and equipment is also tested for impairment whenever there is an indication of potential impairment.

Investments in subsidiaries

Investments in subsidiaries are carried at cost less impairment.

Revenue recognition

Revenue represents the value of services provided during the period, excluding VAT and similar taxes.

Assurance Testing

The results of partially completed contracts whether fixed price or on a time and materials basis are dealt with on a percentage completion basis according to the number of days worked by including the profit or loss earned on work completed to the balance sheet date.

Provisions are made for any losses on uncompleted contracts expected to be incurred after the balance sheet date.

Escrow and Website Monitoring

Other than fees attributable to initial setup on the signing of a new contract, which is recognised when the contract is signed, maintenance and escrow agreement revenue is deferred and released to the income statement on a straight-line basis over the life of the related agreement, on the basis that the performance is deemed to fall evenly over the contract period.

Determination and presentation of operating segments

The Group determines and presents operating segments based on the information that is provided to the CEO, who is the Group's chief operating decision maker in order to assess performance and to allocate resources.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and to assess its performance.

For the year ended 31 May 2012, the Group has two reportable segments, Group Escrow and Assurance Testing. Group Escrow and Assurance Testing are the Group's strategic business units offering different services and they are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the CEO reviews internal management reports on at least a quarterly basis.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the income statement.

The assets and liabilities of overseas subsidiaries denominated in foreign currencies are translated at the closing rate and income statements of overseas subsidiary undertakings are translated at the average exchange rates. Gains and losses arising are taken to the currency translation reserve. They are released to the income statement upon disposal of the subsidiary to which they relate.

Operating leases payments

Operating lease rentals are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Employee benefits - defined contribution plans

The Group operates a defined contribution pension scheme. The assets of the scheme are kept separately from those of the Group in an independently administered fund. The amount charged as expense in the income statement represents the contributions payable to the scheme in respect of the accounting period.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payment transactions

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment transactions in which the Group receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Group's equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

Where the Company grants options over its own shares to the employees of a subsidiary it recognises, in its individual financial statements, an increase in the cost of investment in that subsidiary equivalent to the equity-settled share-based payment charge recognised in respect of that subsidiary in its consolidated financial statements with the corresponding credit being recognised directly in equity.

Notes

1 Accounting policies (continued)

Interest bearing borrowings

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Net financing costs

Net financing costs comprise interest payable and interest receivable on funds invested.

Interest income and interest payable is recognised in the income statement as they accrue and capitalised when interest charges are incurred in relation to the purchase of capitalised assets. To the extent that borrowing costs relate to the acquisition, construction or production of a qualifying asset, borrowing costs are capitalised as part of the cost of that asset.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Intra-group financial instruments

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Trade and other receivables

Trade and other receivables are stated at their nominal amount less impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand and deposits repayable on demand. Bank overdrafts that are repayable on demand form part of the Group's cash management and are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale or distribution, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is restated as if the operation had been discontinued from the start of the comparative period.

Basis of measurement

The financial statements are prepared on the historical cost basis except for share based payment transactions and assets and liabilities acquired in a business combination which are measured at fair value.

Use of estimates and judgements

The preparation of financial statements requires management to exercise judgement in applying the Group's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis, with revisions recognised in the period in which the estimates are revised and in any future periods affected. The areas involving a higher degree of judgement or complexity are set out below and in more detail in the related notes:

Assessment of intangible assets useful economic lives (note 1)
The measurement of contingent consideration (note 15)

The areas involving the most sensitive estimates and assumptions that are significant to the financial statements are set out below and in more detail in the related notes:

Intangible assets (note 12)
Impairment of assets (note 12)

Notes

2 Segmental information

The Group is organised into two operating segments Group Escrow and Assurance Testing 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 intangible assets, share based payment charges and exceptional items. Interest and tax are not allocated to business segments and there are no intra segment sales.

	2012	2011
	£000	£000
Revenue by business segment		
Escrow UK	20,296	18,968
Escrow Europe	3,224	3,180
Escrow USA	4,424	2,707
Total Group Escrow	27,944	24,855
Assurance Delivery	51,760	39,111
Monitoring Performance	8,009	7,029
Total Assurance Testing	59,769	46,140
Total revenue	87,713	70,995
Operating profit by business segment		
Group Escrow	16,320	14,488
Assurance Testing	10,259	6,507
Segment operating profit	26,579	20,995
Head office costs	(3,177)	(2,588)
Operating profit before amortisation, charges for share based payments and exceptional items	23,402	18,407
Amortisation of intangible assets Group Escrow	(559)	(423)
Amortisation of intangible assets Assurance Testing	(3,167)	(2,852)
Share based payments	(946)	(516)
Operating profit before exceptional items	18,730	14,616
Exceptional items	(7,111)	(1,144)
Operating profit	11,619	13,472

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

Assets/(liabilities) by business segment	Assets 2012 £000	Liabilities 2012 £000	Assets 2011 £000	Liabilities 2011 £000
Group Escrow	13,846	(18,736)	13,242	(14,587)
Assurance Testing	18,872	(9,919)	16,338	(10,091)
Unallocated net assets	90,589	(34,294)	91,174	(39,991)
Total assets/(liabilities)	123,307	(62,949)	120,754	(64,669)

Unallocated net assets consist of goodwill arising on consolidation, cash, tax payable and other centrally held assets and liabilities.

	Depreciation £000	Capital expenditure £000	Total costs incurred to acquire segmental assets £000
2012			
Group Escrow	171	522	-
Assurance Testing	661	921	1,200
Unallocated	742	2,177	-
Total	1,574	3,620	1,200
2011			
Group Escrow	132	103	4,825
Assurance Testing	560	546	9,758
Unallocated	498	1,317	-
Total	1,190	1,966	14,583

Notes

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 origin and destination	2012	2011
	£000	£000
UK	60,383	52,565
Rest of Europe	6,172	6,018
Rest of the World	21,158	12,412
Total revenue	87,713	70,995

The table below provides an analysis of the Group's assets/(liabilities) by geographical market where the assets/(liabilities) are based.

Asset/ (liabilities) by geographical segment	Assets 2012	Liabilities 2012	Assets 2011	Liabilities 2011
	£000	£000	£000	£000
UK	87,989	(40,470)	86,508	(40,306)
Rest of Europe	4,893	(2,358)	5,615	(2,722)
Rest of the World	30,425	(20,121)	28,631	(21,641)
Total assets/(liabilities)	123,307	(62,949)	120,754	(64,669)

3 Exceptional Items

The Group identifies separately items as "exceptional". These are items which in the management's judgement, need to be disclosed by virtue of their size or incidence in order for the user to obtain a proper understanding of the financial information.

Exceptional items and acquisition related costs	2012	2011
	£000	£000
Impairment losses (see note 12)	(6,104)	-
Remedial costs	(904)	-
Acquisition related costs	(103)	(1,144)
Total	(7,111)	(1,144)

Following the termination of the Group's IT system implementation project, the Group has written off the costs capitalised on the balance sheet in respect of software licences, non-usable hardware, 3rd party consultancy costs and capitalised staff costs of £6.1m.

As a result of the termination, remedial costs of £0.9m have been provided in respect of the Group's transfer of operations to its previous IT system, see note 20 for further information.

Acquisition related costs of £103,000 principally consist of professional fees incurred in relation to acquisitions and adjustments to deferred consideration balances (see note 6).

Exceptional costs in the year ended 31 May 2011 were £1,144,000 principally consisting of professional fees incurred in relation to the acquisitions of iSEC Partners Inc in October 2010 and Escrow Associates LLC in March 2011.

The tax effect in the income statement relating to the exceptional items recognised is:

Exceptional items and acquisition related costs	2012	2011
	£000	£000
Credit in respect of impairment losses and remedial costs	(1,798)	-
Credit in respect of acquisition related costs	(101)	(458)
Total	(1,899)	(458)

Notes

4 Expenses and auditors' remuneration

	2012	2011
	£000	£000
Profit before taxation is stated after charging/(crediting):		
Amounts receivable by auditors and their associates in respect of:		
Audit of these financial statements	30	36
Audit of financial statements of subsidiaries pursuant to legislation	36	46
Total audit	66	82
Taxation compliance services	43	-
Total fees	109	82
Depreciation and other amounts written off tangible and intangible fixed assets:		
Owned	1,574	1,190
Amortisation of intangible assets	3,726	3,275
Impairment losses (see note 3)	6,104	-
Exchange (gains)/losses	(46)	17
Operating lease rentals charged:		
Hire of property, plant and equipment	1,479	1,304
Other operating leases	802	665
Loss/(profit) on disposal of fixed assets	7	(18)

5 Staff numbers and costs

Directors' emoluments are disclosed in the Directors' remuneration report on pages 47 to 54.

Group

The average monthly number of persons employed by the Group during the year, including Directors is analysed by category as follows:

Number of employees	2012	2011
	£000	£000
Operational	162	140
Administration, sales and marketing	450	389
	612	529

The aggregate payroll costs of these persons were as follows:

	2012	2011
	£000	£000
Wages and salaries	34,403	27,676
Share based payments (note 22)	725	408
Social security costs	3,389	2,900
Other pension costs (note 26)	649	568
	39,166	31,552

Notes

6 Net financing costs

	2012	2011
	£000	£000
Financial income		
Interest on short term deposits	3	8
	3	8
Financial expenses		
Interest payable on bank loans and overdrafts	(832)	(629)
Interest capitalised within the construction of intangible assets	103	64
Amortisation of deal fees on term loans	(113)	(79)
Contingent consideration finance expense (see below)	(208)	(68)
	(1,050)	(712)

Interest has been capitalised at the rate applying to the specific funds borrowed in respect of capital projects. Where specific funds are not borrowed to finance capital projects, a capitalisation rate, based on a weighted average of borrowings outstanding during the period, is applied to the expenditure on the asset. The rate applied during the current financial year is 2.2% (2011: 2.2%).

The contingent consideration finance expense of £208,000 (2011: £68,000) relates to the acquisition of SDLC Solutions Limited, NGS Meridian Limited, iSEC Partners Inc, Escrow Associates LLC and Axzona Limited.

Contingent consideration related to the acquisition of subsidiary undertakings has been discounted to present value. The unwinding of the discount on contingent consideration has been treated as a finance expense and is analysed in the table below:

Contingent consideration finance expense	2012	2011
	£000	£000
SDLC	41	(9)
Meridian	-	(24)
iSEC Partners Inc	135	97
Escrow Associates LLC	26	4
Axzone	6	-
	208	68

The discount rate used was 3% (2011: 3%).

The total net present value of the contingent consideration as at 31 May is shown in the following table:

Contingent consideration	2012	2011
	£000	£000
SDLC Solutions Limited	-	3,625
iSEC Partners Inc	2,582	5,893
Escrow Associates	911	858
Axzone Limited	250	-
	3,743	10,376

Current liabilities includes £3,493,000 (2011 £5,840,000) contingent consideration payable in relation to the acquisition of iSEC Partners Inc, Escrow Associates LLC and Axzone Limited (see note 17).

Notes

7 Taxation

Recognised in the income statement	2012	2011
	£000	£000
Current tax expense		
Current year	2,308	3,724
Adjustment to tax expense in respect of prior periods	86	(188)
Foreign tax	1,711	648
Total current tax	4,105	4,184
Deferred tax (note 16)	(1,148)	(743)
Tax in income statement	2,957	3,441
Reconciliation of effective tax rate	2012	2011
	£000	£000
Profit before taxation	10,572	12,768
Current tax using the UK corporation tax rate of 25.67% (2011: 27%)	2,714	3,546
Effects of:		
Items not (taxable)/deductible for tax purposes	(171)	371
Adjustment to tax charge in respect of prior periods	118	(432)
Differences between overseas tax rates	232	12
Movements in temporary differences not recognised	51	-
Effect of rate change	13	(56)
Total tax expense	2,957	3,441

Deferred tax recognised directly in equity was a charge of £62,000 (2011: credit, £341,000).

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and a further reduction to 24% (effective from 1 April 2012) was substantively enacted on 26 March 2012. Further reductions to 23% (effective from 1 April 2013) and 22% (effective from 1 April 2014) were not substantively enacted at the balance sheet date.

These reductions will reduce the company's future current tax charge accordingly and further reduce the deferred tax asset/liability at 31 May 2012 (which has been calculated based on the rate of 24% substantively enacted at the balance sheet date).

It is anticipated that each further 1% rate reduction will further reduce the company's future current tax charge and reduce the company's deferred tax asset/liability by £6,000.

8 Dividends

	2012	2011
	£000	£000
Dividends paid and recognised in the year	4,778	3,855
Dividends proposed but not recognised in the year	3,769	3,015
Dividends per share paid and recognised in the year	13.95p	11.40p
Dividends per share proposed but not recognised in the year	11.00p	8.85p

9 Discontinued operations

In October 2010 the Group withdrew from the General IT Consultancy market in order to focus on growing the Group Escrow and Assurance testing divisions, organically and by acquisition. Relevant information security services have been retained and operated from other appropriate parts of the Assurance testing division.

Expenses in the year ended 31 May 2011 included a charge of £950,000 in respect of the withdrawal from the advisory business.

	2012	2011
	£000	£000
Results of discontinued operation		
Revenue	-	1,719
Expenses	-	(3,244)
Results from operating activities	-	(1,525)
Income Tax	-	427
Loss for the period	-	(1,098)
Earnings per share from discontinued activities (pence)		
Basic earnings per share	-	(3.2)
Diluted earnings per share	-	(3.2)

Notes

10 Earnings per share

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

	2012	2012	2011	2011
	£000	£000	£000	£000
Profit for the year from continuing operations used for earnings per share		7,615		9,327
Amortisation of intangible assets	3,726		3,275	
Exceptional items (note 3)	7,111		1,144	
Unwinding of discount (note 6)	208		68	
Share based payments (note 22)	946		516	
Tax arising on the above items	(3,207)		(1,149)	
		8,784		3,854
Adjusted profit from continuing operations used for adjusted earnings per share		16,399	12,804	13,181

	Number of shares	Number of shares
	000s	000s
Basic weighted average number of shares in issue	34,263	33,922
Dilutive effect of share options	831	1,048
Diluted weighted average shares in issue	35,094	34,970

11 Profit attributable to members of the parent company

The profit for the year dealt with in the accounts of the parent company was £535,000 (2011: £2,862,000).

12 Intangible assets - Group

	Software	Development costs	Customer contracts and relationships	Goodwill	Total
	£000	£000	£000	£000	£000
Cost:					
At 1 June 2010	1,563	-	13,629	63,873	79,065
Additions	2,675	-	5,031	14,074	21,780
At 31 May 2011	4,238	-	18,660	77,947	100,845
Acquisitions through business combinations	-	-	422	1,494	1,916
Other acquisitions - internally developed	3,306	354	-	-	3,660
Reclassification to plant and equipment	(300)	-	-	-	(300)
Effects of movements in exchange rates	-	-	296	888	1,184
Contingent consideration adjustment	-	-	-	(1,000)	(1,000)
At 31 May 2012	7,244	354	19,378	79,329	106,305
Amortisation:					
At 1 June 2010	9	-	3,802	-	3,811
Charge for year	145	-	3,130	-	3,275
At 31 May 2011	154	-	6,932	-	7,086
Charge for year	259	-	3,467	-	3,726
Impairment loss	6,104	-	-	-	6,104
Effects of movements in exchange rates	-	-	(110)	-	(110)
At 31 May 2012	6,517	-	10,289	-	16,806
Net book value:					
At 31 May 2012	727	354	9,089	79,329	89,499
At 31 May 2011	4,084	-	11,728	77,947	93,759

Following the board's decision to terminate the implementation of a new IT system and revert back to the previous Group-wide IT system, the Group has written off the costs capitalised on the balance sheet in respect of software licences, non-usable hardware, 3rd party consultancy costs and capitalised staff costs of £6.1m.

As detailed in note 6, additions during the year ended 31 May 2012 include £103,000 of capitalised borrowing costs (2011: £64,000).

The Group has made one acquisition in the year, details of which is included in note 15.

Other adjustments are in respect of a revision to the deferred consideration balance held in respect of SDLC which was acquired in March 2010. During the year, the Directors have reassessed the amount that is expected to be paid in final settlement of the deferred consideration and as a result of this have reduced the value of goodwill by £1m as it is considered unlikely that the final amount will be payable.

The Company has no intangible assets.

Notes

12 Intangible assets - Group (continued)

Goodwill considered significant in comparison to the Group's total carrying amount of such assets have been allocated to cash generating units for the purposes of impairment testing as follows:

Goodwill	2012	2011
	£000	£000
Cash generating units		
Escrow	22,871	22,871
Escrow Europe	6,653	6,487
NCC Group Inc.	6,831	6,315
Escrow	36,355	35,673
Assurance Testing	4,530	4,530
NCC Group Performance Testing Limited	7,890	6,396
NCC Group Security Services Limited	11,074	11,074
SDLC Solutions Limited	7,953	8,953
iSEC Partners Inc.	11,527	11,321
Assurance	42,974	42,274
Total	79,329	77,947

When assessing impairment, the recoverable amount of each CGU is based on value in use calculations. These calculations require the use of estimates, specifically: pre-tax cash flow projections; long-term growth rates; and a pre-tax market discount rate.

Cash flow projections are based on the Group's current two-year plan. Beyond the two-year plan these projections are extrapolated using an estimated long-term growth rate of 1%-2.5% (2011: 1%-2.5%) depending on the CGU. The growth rates used have been determined as the lower of the nominal GDP rates for the country in which the CGU is based and the long term compound annual growth rate in EBITDA estimated by management.

The discount rates used have been based on management's calculation of the weighted average cost of capital using the capital asset pricing model to calculate the cost of equity. A range of alpha factors were used to reflect the risk of the cash generating units.

The discount rate has been revised for each CGU to reflect the latest market assumptions for the risk-free rate, the Equity Risk Premium and the net cost of debt. Pre-tax market discount rates of 10.1% - 14.3% have been used in discounting the projected cash flows.

The Directors do not believe that a reasonably possible change of assumptions would cause the recoverable amounts to fall below book value for any of the cash generating units.

13 Plant and equipment - Group

	Computer equipment	Plant and equipment	Fixtures and fittings	Motor vehicles	Total
	£000	£000	£000	£000	£000
Cost:					
At 1 June 2010	6,231	410	1,705	267	8,613
Additions	685	-	1,117	164	1,966
Acquisition of Group Companies	61	-	1	-	62
Disposals	-	-	-	(201)	(201)
Movement in foreign exchange rates	-	-	-	-	-
At 31 May 2011	6,977	410	2,823	230	10,440
Additions	1,720	-	1,837	63	3,620
Acquisition of Group Companies	5	-	-	-	5
Transfer from intangible assets	300	-	-	-	300
Disposals	(21)	-	(21)	(100)	(142)
Movement in foreign exchange rates	5	-	11	-	16
At 31 May 2012	8,986	410	4,650	193	14,239
Depreciation:					
At 1 June 2010	5,044	395	1,059	65	6,563
Charge for year	896	7	234	53	1,190
Disposals	-	-	-	(68)	(68)
At 31 May 2011	5,940	402	1,293	50	7,685
Charge for year	1,054	8	460	52	1,574
Disposals	(15)	-	(24)	(40)	(79)
Movement in foreign exchange rates	(4)	-	(5)	-	(9)
At 31 May 2012	6,975	410	1,724	62	9,171
Net book value:					
At 31 May 2012	2,011	-	2,926	131	5,068
At 31 May 2011	1,037	8	1,530	180	2,755

The company has no plant and equipment.

Notes

14 Trade and other receivables

	Group	Group	Company	Company
	2012	2011	2012	2011
	£000	£000	£000	£000
Trade receivables	14,280	12,753	-	-
Prepayments and accrued income	7,067	5,636	80	-
	21,347	18,389	80	-

15 Acquisitions

On 4 August 2011 the Group acquired 100% of the share capital of Axzona Limited for a maximum consideration of £1.7m, of which up to a maximum of £0.5m has been withheld subject to the achievement of performance criteria specified in the purchase agreement. The performance conditions are required to be satisfied by 31 July 2012 and 31 July 2013. The contingent consideration is expected to be paid in August 2012 and August 2013.

The acquisition had the following effect on the Group's assets and liabilities:

	Acquisition amounts
	£000
Acquiree's identifiable net assets at the acquisition date:	
Plant and equipment	5
Trade and other receivables	59
Cash	80
Creditors & accruals	(242)
Deferred tax liability	(118)
Intangible assets purchased	422
Net identifiable assets	206
Goodwill on acquisition	1,494
Expected consideration to be paid	1,700
Less purchase consideration withheld	(500)
Net cash outflow	1,200
Cash acquired	(80)
Net cash outflow excluding cash acquired	1,120

Goodwill has arisen on the acquisition because the purchase price exceeds the fair value of the separately identifiable net assets, liabilities and contingent liabilities acquired. Goodwill represents synergies, business processes and the assembled value of the work force including industry specific knowledge and technical skills. The amount recognised as contingent consideration reflects the amount which is considered probable to be paid and is based on profit forecasts. There are inherent uncertainties in deriving forecasts and the level of contingent consideration will be reassessed at each reporting date to reflect revisions to forecasts or differences between forecast and actual performance.

During the period from acquisition, the Company contributed £234,000 to Group income and (£12,000) to Group cash flows. It is not practical to disclose what the contribution to Group revenue and profits would have been had the acquisition of Axzona been completed on the first day of the current period, as financial information was not prepared on an IFRS basis prior to acquisition.

During the year, the Directors have reassessed the carrying value of the deferred consideration held in respect of the acquisition and consider it unlikely that the first instalment of £250,000 will be paid in August 2012 and have therefore recognised this in the income statement (see note 3).

During the year, £3,753,000 was paid in relation to the part settlement of the deferred consideration due on the acquisition of iSEC.

During the year, £2,625,000 was paid in relation to the part settlement of deferred consideration on the acquisition of SDLC Solutions Limited (see note 6).

Notes

16 Deferred tax assets and liabilities

Group

Recognised deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2012	2011	2012	2011	2012	2011
	£000	£000	£000	£000	£000	£000
Plant and equipment	183	335	-	-	183	335
Short term temporary differences	169	35	-	-	169	35
Intangible assets	796	231	(946)	(1,414)	(150)	(1,183)
Share based payments	765	549	-	-	765	549
Tax losses	30	-	-	-	30	-
Tax deductible goodwill	-	-	(397)	(104)	(397)	(104)
Deferred tax asset/(liability)	1,943	1,150	(1,343)	(1,518)	600	(368)

Movement in deferred tax during the year:

	1 June 2011	Recognised in income	Recognised in equity	Acquisitions	31 May 2012
	£000	£000	£000	£000	£000
Plant and equipment	335	(152)	-	-	183
Short term temporary differences	35	134	-	-	169
Intangible assets	(1,183)	1,151	-	(118)	(150)
Share based payments	549	278	(62)	-	765
Tax losses	-	30	-	-	30
Tax deductible goodwill	(104)	(293)	-	-	(397)
	(368)	1,148	(62)	(118)	600

Movement in deferred tax during the prior year:

	1 June 2010	Recognised in income	Recognised in equity	31 May 2011
	£000	£000	£000	£000
Plant and equipment	275	60	-	335
Short term temporary differences	20	15	-	35
Intangible assets	(2,314)	1,131	-	(1,183)
Share based payments	567	(359)	341	549
Tax deductible goodwill	-	(104)	-	(104)
	(1,452)	743	341	(368)

The Company has deferred tax assets related to share based payments of £252,000 (2011: £168,000).

The Group has not recognised a deferred tax asset of £101,000 (2011: £Nil) in respect of non UK tax losses due to the uncertainty over recoverability. These tax losses do not expire.

The Group has an unrecognised deferred tax liability of £800,000 (2011: £Nil) which would only arise in the event of the sale of the shares or assets in NCC Group Inc. Due to the remoteness of this event no provision has been made.

As at 31 May 2012, the temporary differences arising from un-remitted earnings of overseas subsidiaries was £2,486,000 (2011: £1,791,000). No material tax charges are expected to arise if they were to be distributed.

Notes

17 Trade and other payables

	Group	Group	Company	Company
	2012	2011	2012	2011
	£000	£000	£000	£000
Trade payables	2,630	2,305	-	-
Amounts owed to Group undertakings	-	-	23	6,188
Contingent consideration on acquisitions	3,493	5,840	-	-
Non trade payables	2,960	2,949	-	1
Accruals	6,003	5,072	-	198
	15,086	16,166	23	6,387

18 Deferred revenue

	Group	Group	Company	Company
	2012	2011	2012	2011
	£000	£000	£000	£000
Deferred revenue	15,926	15,023	-	-
	15,926	15,023	-	-

Deferred revenue of £11,662,000 (2011: £11,358,000) mainly consists of Escrow agreement revenue that has been deferred to be released to the income statement over the contract term in accordance with the Group's accounting policy.

Deferred revenue of £4,264,000 (2011: £3,665,000) consists of website monitoring and load testing agreement revenue that has been deferred to be released to the income statement over the contract term in accordance with the Group's accounting policy.

19 Non-current liabilities

	Group	Group	Company	Company
	2012	2011	2012	2011
	£000	£000	£000	£000
Secured bank loan	28,257	25,367	-	-
Issue costs	(220)	(265)	-	-
Amortisation of issue costs	112	80	-	-
Interest bearing loans	28,149	25,182	-	-
Deferred tax (note 16)	1,343	1,518	-	-
Contingent consideration on acquisitions (note 6)	250	4,536	-	-
Other financial liabilities	579	206	-	-
Total non current liabilities	30,321	31,442	-	-

Other financial liabilities of £579,000 relates to the balance of a rent free period (2011: £206,000) which is released to the income statement over the term of the lease.

20 Provisions

	Remedial costs
	£000
At 1 June 2011	
Current	-
Non-current	-
Arising during the year	904
At 31 May 2012	904
Analysed as:	
Current	904
Non-current	-

Remedial costs relate to the costs expected to be incurred as a result of the termination of the Group's planned IT system implementation and transfer of operations to its previous IT system. This transfer is expected to be completed by October 2012.

Notes

21 Financial instruments

Financial risk management

The Group has exposure to the followings risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Currency risk
- Interest rate risk

The Board has overall responsibility for establishing appropriate management of exposure to risk. The Audit Committee oversees how management identify and address risks to the Group.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total interest bearing loans as shown in the consolidated balance sheet, less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

As at 31 May 2012 the Group's gearing ratio was 30% (2011: 27%).

Financial instruments policy

All instruments utilised by the Company and Group are for financing purposes. The day-to-day financial management and treasury are controlled centrally for all operations.

Fair value of financial instruments

As at 31 May 2012 the Group and Company had no other financial instruments other than those disclosed below. The carrying value of all financial instruments in these financial statements represents their estimated fair value.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Exposure to credit risk

The carrying value of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Group	Group	Company	Company
	2012	2011	2012	2011
	£000	£000	£000	£000
Trade receivables	14,280	12,753	-	-
Cash and cash equivalents	5,450	4,701	196	1,096
	19,730	17,454	196	1,096

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

Debtors by geographical segment	Group	Group	Company	Company
	2012	2011	2012	2011
	£000	£000	£000	£000
UK	11,242	10,999	-	-
Rest of Europe	387	435	-	-
Rest of the World	2,651	1,319	-	-
	14,280	12,753	-	-

The maximum exposure to credit risk at the reporting date by business segment was:

Debtors by business segment	Group	Group	Company	Company
	2012	2011	2012	2011
	£000	£000	£000	£000
Group Escrow	5,693	5,108	-	-
Assurance Testing	8,587	7,645	-	-
	14,280	12,753	-	-

The trade receivables of the Group typically comprise of amounts due from a large number of small customers. The Group's customer base, whilst concentrated largely in the UK, represents a spread of industry sectors. The largest amount due from a single customer at the reporting date represented 3% of total Group receivables (2011: 5%). All of the Group's cash is held with financial institutions of high credit rating.

Notes

21 Financial instruments (continued)

Impairment losses

The ageing of trade receivables at the reporting date was:

Group	2012		2011	
	Gross	Impairment	Gross	Impairment
	£000	£000	£000	£000
Not past due	9,485	-	8,013	-
Past due 0-30 days	2,963	-	3,020	-
Past due 31-90 days	1,282	-	1,370	-
Past due more than 90 days	878	(328)	995	(645)
	14,608	(328)	13,398	(645)

The Company had no trade receivables (2011: £Nil).

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of specific trade receivables. The movement in the allowance for impairment was:

	Group	Group
	2012	2011
	£000	£000
Balance at 1 June	645	324
(Credit)/Charge for the year	(317)	321
Balance at 31 May	328	645

The allowance accounts in respect of trade receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amounts owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly. The Group reviews all debt more than 90 days past due and provides for impairment losses, net of any revenue which has been deferred, based on trading experience with that customer. The allowance is all for debts older than 90 days (2011: older than 90 days). The ageing of Group debt and associated impairment loss is reported to the Board on a monthly basis.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risks by regular reviews of forecast cash flows in line with contractual maturities of financial liabilities and the Revolving Credit Facility available. Forecast cash flows are reported to the Board on a monthly basis.

The following are the contractual maturities of financial liabilities, including interest payments of the Group:

	Carrying amount £000	Contractual Cash flows £000	6 months or less £000	6-12 Months £000	1-2 Years £000	2-3 Years £000
At 31 May 2012						
Secured bank borrowings	(28,257)	(29,237)	(420)	(420)	(28,397)	-
Trade and other payables	(15,336)	(15,336)	(11,593)	(3,493)	(250)	-
At 31 May 2011						
Secured bank borrowings	(25,367)	(27,125)	(372)	(372)	(744)	(25,367)
Trade and other payables	(15,081)	(15,081)	(8,597)	-	(3,406)	(3,078)

The financial liabilities of the Company all have contractual maturities within 6 months (2011: within 6 months).

Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group entities. The Group's management review the size and probable timing of settlement of all financial assets and liabilities denominated in foreign currencies. The Group's exposure to currency risk is as follows:

	2012				2011			
	Sterling £000	Euros £000	USD £000	AUD £000	Sterling £000	Euros £000	USD £000	AUD £000
Loans and receivables	11,242	387	2,516	135	10,999	435	1,280	39
Cash and cash equivalents	2,710	1,421	1,269	50	412	2,180	2,058	51
Bank borrowings	15,000	-	13,149	-	14,500	-	10,682	-
Trade and other payables	8,753	959	5,241	383	12,637	307	7,723	35

A change of 100 basis points in exchange rates would not have a significant impact on these financial statements.

Notes

21 Financial instruments (continued)

Interest rate risk

The Group and Company finances its operations through a mixture of retained profits and bank borrowings. The Group borrows and invests surplus cash at floating rates of interest based upon bank base rate.

The financial assets of the Group at the end of the financial year were as follows:

	2012	2011
	£000	£000
Sterling denominated financial assets	2,710	412
Euro denominated financial assets	1,421	2,180
US dollar denominated financial assets	1,269	2,058
AU dollar denominated financial assets	50	51
Current trade and other receivables	21,347	18,389
	26,797	23,090

The financial assets of the Company at the end of the financial year were as follows:

	2012	2011
	£000	£000
Sterling denominated financial assets	196	1,096
	196	1,096

A change of 100 basis points in interest rates would not have a significant impact on these financial statements.

The financial liabilities of the Group and their maturity profile are as follows:

	2012	2011
	£000	£000
Maturity		
Less than 1 year	-	-
1 to 2 years	-	-
Sterling denominated 2 to 3 years	15,000	14,500
US dollar denominated 2 to 3 years	13,149	10,682
3 to 4 years	-	-
Current trade and other payables	15,086	16,166
	43,235	41,348

The financial liabilities of the Company and their maturity profile are as follows:

	2012	2011
	£000	£000
Maturity		
Less than 1 year	-	-
1 to 2 years	-	-
2 to 3 years	-	-
3 to 4 years	-	-
Current trade and other payables	23	6,387
Sterling denominated financial liabilities	23	6,387

As at 31 May 2012 the Group had a multi-currency revolving credit facility of £35 million (2011: £35 million). The interest payable on drawn down funds is 2% above Libor (2011: 2%). The revolving credit facility is available until July 2013.

Notes

22 Share based payments

The Company has a number of share option schemes under which options to subscribe for the Company's shares have been granted to Directors and staff, details of which are illustrated in the tables below. Expected term of options represents the period over which the fair value calculations are based.

Approved EMI scheme

Under the Approved EMI Scheme, options granted will be subject to performance criteria. Options will vest if the average EPS growth for the 3 years following their grant is greater than 3% above RPI per annum. The options are to be settled in equity.

Date of grant	Expected term of options	Exercisable between	Exercise Price	2012 Number Outstanding
July 2004	6 years	July 2007 - July 2014	£1.70	2,498
August 2007	6 years	July 2010 - July 2017	£3.85	24,755
February 2008	6 years	Feb 2011 - Feb 2018	£3.89	27,151

CSOP scheme

Under the CSOP Scheme, options granted will be subject to performance criteria. Options will vest if the average EPS growth for the 3 years following their grant is greater than 10% per annum. The options are to be settled in equity.

Date of grant	Expected term of options	Exercisable between	Exercise Price	2012 Number Outstanding
July 2009	6 years	July 2012 - July 2019	£3.30	36,360
July 2010	6 years	July 2013 - July 2020	£4.27	4,682

LTIP schemes

The vesting condition for the award of the LTIP schemes relates to growth in the Group's EPS over the performance period. If growth is equal to 25% or more per annum then 100% of the award will vest. If, however, growth is less than 10% per annum, none of the award will vest. Between these two points, vesting is determined on a straight line basis. The options are to be settled in equity.

Date of grant	Expected term of options	Exercisable between	Exercise Price	2012 Number Outstanding
Jul 2009	3 years	June 2012 - June 2013	Nil*	236,113
Jul 2010	3 years	June 2013 - June 2014	Nil*	195,577
Jul 2011	3 years	June 2014 - June 2015	Nil*	164,739

*The option exercise price is nil however £1 is payable on each occasion of exercise.

Sharesave scheme

The Company operates a Sharesave scheme, which is available to all UK based employees and full time Executive Directors of the Company and its subsidiaries who have worked for a qualifying period. All options are to be settled by equity.

Under the scheme the following options have been granted and are outstanding at year end.

Date of grant	Expected term of options	Exercisable between	Exercise Price	2012 Number Outstanding
August 2009	3.25 years	September 2012 - February 2013	£2.69	52,271
August 2010	3.25 years	September 2013 - February 2014	£3.38	124,018
August 2011	3.25 years	September 2014 - February 2015	£5.11	85,803

The following tables illustrate the number of share options for the schemes.

Scheme	Number of instruments as at 1 June 2010	Instruments granted during the year	Options exercised in the year	Forfeitures in the year	Number of instruments as at 31 May 2011
Approved EMI scheme	153,326	-	(91,721)	-	61,605
Approved EMI scheme	3,898	-	(3,898)	-	-
Approved EMI scheme	227,816	-	(133,363)	(25,139)	69,314
Approved EMI scheme	43,521	-	(545)	(14,455)	28,521
CSOP scheme	45,450	-	-	(9,090)	36,360
CSOP scheme	-	4,682	-	-	4,682
Sharesave scheme	131,110	-	(130,162)	(948)	-
Sharesave scheme	78,198	-	(5,535)	(17,072)	55,591
Sharesave scheme	81,814	-	(1,992)	(23,161)	56,661
Sharesave scheme	-	189,071	(709)	(48,006)	140,356
LTIP	274,996	-	(199,091)	(75,905)	-
LTIP	275,983	-	-	(68,118)	207,865
LTIP	316,537	-	-	(80,424)	236,113
LTIP	-	321,600	-	(126,023)	195,577

The weighted average share price at the time the share options were exercised in the year was £4.30.

The weighted average share price at the time the share options were forfeited in the year was £4.30.

Notes

22 Share based payments (continued)

Scheme	Number of instruments as at 1 June 2011	Instruments granted during the year	Options exercised in the year	Forfeitures in the year	Number of instruments as at 31 May 2012
Approved EMI scheme	61,605	-	(59,107)	-	2,498
Approved EMI scheme	69,314	-	(44,559)	-	24,755
Approved EMI scheme	28,521	-	(1,370)	-	27,151
CSOP scheme	36,360	-	-	-	36,360
CSOP scheme	4,682	-	-	-	4,682
Sharesave scheme	55,591	-	(55,591)	-	-
Sharesave scheme	56,661	-	(1,045)	(3,345)	52,271
Sharesave scheme	140,356	-	(739)	(15,599)	124,018
Sharesave scheme	-	99,397	-	(13,594)	85,803
LTIP	207,865	-	(112,661)	(95,204)	-
LTIP	236,113	-	-	-	236,113
LTIP	195,577	-	-	-	195,577
LTIP	-	164,739	-	-	164,739

The weighted average share price at the time the share options were exercised in the year was £7.20.

The weighted average share price at the time the share options were forfeited in the year was £7.86.

The fair value of services received in return for share options is calculated with reference to the fair value of the award on the date of grant.

The fair value is spread over the period during which the employee becomes unconditionally entitled to the award, adjusted to reflect actual and expected levels of vesting. Black-Scholes and Binomial models have been used to calculate the fair values of options on their grant date for all options issued after 7 November 2002 which had not vested by 1 January 2005.

The assumptions used in the model are illustrated in the table below:

	Grant Date	Fair value at measurement date	Exercise price	Expected volatility	Option expected term	Risk-free interest rate
EMI	Jul-04	£0.66	£1.70	44%	6 Years	5.09%
EMI	Jul-05	£1.07	£2.57	40%	6 Years	5.09%
EMI	Jul-06	£0.78	£2.70	25%	6 Years	4.75%
EMI	Aug-07	£1.19	£3.85	25%	6 Years	6.00%
EMI	Feb-08	£1.27	£3.89	25%	6 Years	6.00%
CSOP	Aug-10	£0.82	£3.30	25%	6 Years	4.00%
CSOP	Aug-10	£1.17	£4.27	30%	6 Years	4.00%
SAYE	Sept-07	£1.13	£3.24	25%	3.25 Years	6.00%
SAYE	Sept-08	£1.20	£2.86	25%	3.25 Years	6.00%
SAYE	Aug-09	£1.10	£2.69	25%	3.25 Years	4.00%
SAYE	Aug-10	£1.29	£3.38	30%	3.25 Years	4.00%
SAYE	Aug-11	£2.24	£5.11	30%	3.25 Years	3.00%
LTIP	Oct-07	£3.58	£nil*	25%	3 Years	6.00%
LTIP	Oct-08	£3.41	£nil*	25%	3 Years	6.00%
LTIP	Jul-09	£3.08	£nil*	25%	3 Years	4.00%
LTIP	Jul-10	£3.92	£nil*	30%	3 Years	4.00%
LTIP	Jul -11	£6.02	£nil*	30%	3 Years	3.00%

* The option exercise price is nil however £1 is payable on each occasion of exercise.

The expected volatility is based on the historical volatility, adjusted for any expected changes to future volatility due to publicly available information. For the options granted in the year ending 31 May 2012, dividend yield assumed at the time of option grant is 2.7% (2011: 2.5%).

A charge of £946,000 (2011: £516,000) has been made to administrative expenses in the Group income statement in respect of share based payment transactions, including £221,000 of provision for National Insurance contributions (2011: £108,000). A charge of £213,000 (2011: £197,000) has been made to cost of sales in the Company income statement in respect of share based payment transactions, including £68,000 of provision for National Insurance contributions (2011: £71,000)

Notes

23 Called up share capital

	Number of shares	2012 £000	2011 £000
Authorised			
Ordinary shares of 1p each	50,000,000	500	500
		500	500
Allotted, called up and fully paid			
Ordinary shares of 1p each at the beginning of the year	34,065,252	341	337
Ordinary shares of 1p each issued in the year	275,072	2	4
Ordinary shares of 1p each at the end of the year	34,340,324	343	341

During the year 275,000 shares were issued in relation to the exercise of employee share options for a total consideration of £416,000 settled in cash.

24 Cash and cash equivalents

	At beginning of year £000	Cash flow £000	Non cash items £000	At end of year £000
Cash and cash equivalents per balance sheet	4,701	1,670	(921)	5,450
Cash and cash equivalents per cash flow statement	4,701	1,670	(921)	5,450

Non-cash items principally relate to the effects of foreign currency.

25 Other financial commitments and contingent liabilities

a) Capital commitments at the end of the financial year, for which no provision has been made, are as follows:

	2012	2011
	£000	£000
Contracted	-	197

b) Non-cancellable operating lease rentals are payable as follows:

	2012		2011	
	Land and Buildings	Other	Land and Buildings	Other
	£000	£000	£000	£000
Within 1 year	178	83	201	125
In second to fifth year inclusive	1,379	203	1,322	215
	1,557	286	1,523	340

There are no contingent liabilities not provided for at the end of the financial year.

Notes

26 Pension scheme

The Group operates a defined contribution pension scheme that is open to all eligible employees. The pension cost charge for the year represents contributions payable by the Group to the fund and amounted to £649,000 (2011: £568,000). The outstanding contributions at the year end were £59,442 (2011: £77,572).

For the Company, the pension cost charge for the year represents contributions payable by the Company to the fund and amounted to £57,000 (2011: £59,000).

27 Related party transactions

The Group's key management personnel comprises the Directors of the Group. The Group and Company's transactions with those Directors are disclosed in the Directors' Remuneration Report.

NCC Group's Non Executive Chairman Paul Mitchell is a director of Rickett Mitchell and Partners Limited and the Group conducted business to the value of £90,500 (2011: £399,500) with Rickett Mitchell and Partners Limited. Included within the charge is £25,500 relating to advice service received in connection with the acquisition made during the year ended 31 May 2012. Rickett Mitchell and Partners Limited provide an outsourced acquisition service which facilitates the delivery of acquisition targets which have been identified and approved by the Board.

The remaining £70,000 relates to the services of the Non Executive Chairman. Rickett Mitchell and Partners Limited also held 7,000 1.0p ordinary shares (2011: 7,000).

28 Fixed asset investments

Company	Shares in group undertakings
	£000
At 1 June 2010	31,319
Increase in subsidiary investment for share based charges	210
At 31 May 2011	31,529
At 1 June 2011	31,529
Increase in subsidiary investment for share based charges	512
At 31 May 2012	32,041

The cost represents the cost of acquiring the whole of the issued share capital of NCC Group (Solutions) Limited and its subsidiary undertakings. Fixed asset investments are recognised at cost. The principal undertakings in which the Company's interest at the year end is 100% are as follows:

Subsidiary undertakings	Country of incorporation	Principal Activity
NCC Group (Solutions) Limited	England and Wales	Escrow & Assurance services
NCC Services Limited	England and Wales	Escrow & Assurance services
NCC Group Escrow Limited	England and Wales	Dormant
NCC Group, Inc.	USA	Escrow
NCC Group Employee's Trustees Limited	England and Wales	Employee Benefit Trust
NCC Group GmbH	Germany	Escrow
Escrow 4 Software Limited	England and Wales	Dormant
NCC Group Performance Testing Limited	England and Wales	Web site monitoring & load testing
NCC Group Security Services Limited	England and Wales	Ethical Security Testing
NCC Group Escrow Europe BV	Netherlands	Escrow
NCC Group Escrow Europe (Switzerland) AG	Switzerland	Escrow
Artemis Internet Limited	England and Wales	Dormant
Artemis Internet, Inc.	USA	Internet Security
NCC Group Pty Limited	Australia	Ethical Security Testing
NCC Group Audit Limited	England and Wales	Credit Card compliance auditor
NCC Group SDLC Limited	England and Wales	Software Testing
iSEC Partners Inc	USA	Ethical Security Testing
NCC Group Escrow Associates LLC	USA	Escrow
Axzona Limited	England and Wales	Software Testing

The principal undertakings in which the Company's interest at the year end is less than 100% are as follows:

	Interest	Country of incorporation	Principal Activity
NCC Group Escrow Europe (Israel) Limited	25%	Israel	Escrow
Deposit AB	25%	Sweden	Escrow
NCC Group Escrow Europe NV	25%	Belgium	Escrow

Company Information

Directors

Paul Mitchell

Non Executive Chairman

Rob Cotton

Chief Executive

Atul Patel

Group Finance Director

Debbie Hewitt MBE

Senior Independent Non Executive Director

David McKeith

Non Executive Director

Registered office

Manchester Technology Centre

Oxford Road

Manchester

M1 7EF

Registered number

4627044

Secretary

Felicity Brandwood

**Joint brokers and
corporate finance advisers**

Cannacord Genuity Limited
88 Wood Street
London EC2V 7QR

Peel Hunt LLP
111 Old Broad Street
London EC2N 1PH

Corporate finance advisers

Rickitt Mitchell & Partners Limited
Clarence House
Clarence Street
Manchester M2 4DW

Auditors

Ernst & Young LLP
100 Barbirolli Square
Manchester M2 3EY

Solicitors

Eversheds LLP
70 Great Bridgewater Street
Manchester M1 5ES

Bankers

The Royal Bank of Scotland plc
6th Floor 1 Spinningfields Square
Manchester M3 3AP

Registrars

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA



Contact Us

UK offices

Manchester - Head Office

Manchester Technology Centre
Oxford Road
Manchester M1 7EF
United Kingdom
Phone: +44 (0) 161 209 5200
Fax: +44 (0) 161 209 5400
Email: response@nccgroup.com

Cheltenham

Eagle Tower
Montpellier Drive
Cheltenham GL50 1TA
United Kingdom
Phone: +44 (0) 161 209 5111
Fax: +44 (0) 161 209 5400
Email: response@nccgroup.com

Leatherhead

Kings Court
Kingston Road
Leatherhead KT22 7SL
United Kingdom
Phone: +44 (0) 1372 383 800
Fax: +44 (0) 1372 383 801
Email: response@nccgroup.com

London

Floor 4
Tavistock House North
London WC1H 9HR
United Kingdom
Phone: +44 (0) 207 060 5200
Fax: +44 (0) 207 060 5400
Email: response@nccgroup.com

Thame

Eastern Bypass
Thame
Oxfordshire OX9 3FF
United Kingdom
Phone: +44 (0) 161 209 5111
Fax: +44(0) 161 209 5400
Email: response@nccgroup.com

Edinburgh

37 York Place
Edinburgh EH1 3HP
United Kingdom
Phone: +44 (0) 131 557 7600
Fax: +44 (0) 131 557 7601
Email: response@nccgroup.com

European offices

Netherlands

Veemkade 396
NL-1019 HE
Amsterdam
Netherlands
Phone: +31 (0)20 435 0850
Fax: +31 (0)20 420 1733
Email: info@escroweurope.com

Germany

Heimeranstrasse 37
D-80339
Munich
Germany
Phone: +49 (0) 89 599 7620
Fax: +49 (0) 89 599 762 599
Email: europe@nccgroup.com

Switzerland

lbelweg 18A
CH-6300
Zug (Zurich)
Switzerland
Phone: +41 (0) 41 763 2800
Fax: +41 (0) 41 763 2801
Email: info@escroweurope.ch



North American offices

Atlanta

8302 Dunwoody Place
Suite 150
Atlanta GA 30350
USA
Phone: +1 (800) 813 3523
Fax: +1 (770) 518 2452
Email: info@escrowassociates.com

San Francisco

Suite 1020
123 Mission Street
San Francisco CA 94105
USA
Phone: +1 (415) 268 9300
Fax: +1 (415) 268 9299
Email: info@isecpartners.com
Email: usa@nccgroup.com

New York

Suite 301
225 Varick Street
New York NY 10014
USA
Phone: +1 (212) 462 1054
Email: info@isecpartners.com

Seattle

Suite 2101
Pacific Building
720 3rd Avenue
Seattle WA 98104
USA
Phone: +1 (206) 676 5113
Fax: +1 (206) 676 5114
Email: info@isecpartners.com

Australian office

Sydney

Suite 4.14
55 Miller Street
Pyrmont
Sydney
NSW 2009
Australia
Phone: +61 (0) 2 9552 4551
Fax: +61 (0) 2 9552 4491
Email: response@nccgroup.com



