# NCC Group plc
# Annual Report and Accounts
for the year ended 31 May 2013
Registered number: 4627044

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## Highlights

### Financial

- Group revenue increased 13% to £99 2m (2012 £87 7m)- 8% organic growth
- Group adjusted operating margin* 24% (2012 27%)
- Reported operating profit £19 8m (2012 £11 6m)
- Group adjusted pre-tax profit* £23 0m (2012 £22 6m)
- Adjusted fully diluted earnings per share** 8 4p (2012 7 8p)
- Total dividend** up 16% to 3 1p (2012 2 68p)
- Cash conversion ratio is 116% of operating profit (2012 131%)

### Operational

- Group Escrow revenue growth maintained at 2%
    - Escrow UK saw solid revenue growth of 3%
    - Operating margin at 59% (2012 58%)
- Assurance Division now established as multinational information security business
    - Strong revenue growth of 18% (10% organic)
    - Operating margin maintained at 17% (2012 17%)
- Artemis development of *secure* on track for 2014 launch
    - ICANN initial evaluation completed and approved

### Outlook for 2013/2014

- The Group's global reach and product range provides a platform for sustained long term growth and value
- Group Escrow renewals forecast to increase to £18 0m (2012 £17 7m)
- Group Escrow verification order book £2 3m (2012 £1 7m)
- Assurance Testing order book and renewals up 20% to £30 7m (2012 £25 5m)

*Operating profit is adjusted for amortisation of acquired intangibles of £3 6m (2012 £3 7m), exceptional items of £0 3m profit (2012 £7 1m loss) and share based payment charges of £0 8m (2012 £0 9m) Pre-tax profit is adjusted for these items and the unwinding of the discount on the acquisitions' contingent consideration of £0 2m (2012 £0 2m) The Directors believe the adjusted measures better reflect the on-going performance of the business

**The comparative dividend per share and earnings per share are calculated after the five for one bonus issue on 18 December 2012

## 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 500 companies The Group helps companies to make the most efficient use of information and technology and the management of associated risks

The Group operates three main complementary divisions, NCC Group Escrow, NCC Group Assurance and Artemis

Escrow trades under three brands, NCC Group Escrow UK, NCC Group Escrow Europe and NCC Group Escrow Associates in the US and offers all types of Information, Technology and Software Escrow to its existing and potential client base

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, the Group is best placed to help them manage the risk and limit the threat Other than in North America where the iSEC, Matasano, Intrepidus and Artemis brands are used, the Group's Assurance services are sold under the NCC Group Assurance banner

*secure* is the generic Top Level Domain (gTLD) that Artemis is seeking to acquire from ICANN, who are currently running a programme for organisations to purchase appropriate new gTLD's

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 The Group plans to expand this capability further by guaranteeing users of *secure* or the services behind it, that a web site based on *secure* can only be owned and controlled by the organisations with the highest security protocols Artemis is committed to making the Internet a safer place

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

**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

NCC Group's 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

- The Group is one of the world's leading and most established software escrow provider, with over 30 years' experience
- Protects over 15,000 organisations worldwide with the most comprehensive escrow solutions available
- The Group's expertise, credentials, offerings, global scale and reputation are unparalleled

**Assurance Testing**
**Security Testing, Audit & Compliance.**
Today's cyber landscape presents an ever evolving threat to the security of organisations' information There is an ever 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, the Group helps organisations strengthen their position in the cyber arms race by assisting them in identifying risk and formulating a robust security strategy

- With one of the world's largest security testing teams, the Group delivers over 20,000 testing days per year to 1,750 organisations worldwide
- The Group's global presence offers clients skilled and experienced expert services, complemented by a world-renowned research team

**Website Performance & Software Testing.**
The essential websites, software and infrastructure that support an organisation do not just need protection from malicious attacks, they also need guaranteed performance levels 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, NCC Group provides comprehensive testing, monitoring and business analysis services, ensuring appropriate quality and performance Whether an organisation needs extra resources or tools to help test themselves or if they want to outsource it, the Group provides a level of service to suit the risks they face The Group therefore ensures that its' customers' infrastructure, software and websites deliver optimum performance, maximising business efficiency and return on investment

- NCC Group tests over 17 5 million web pages and 875 million objects per week for over 550 clients worldwide

**Artemis and *.secure*.**
Artemis aims to offer a unique domain to provide a safer, more trustworthy internet for all User uncertainty is completely removed by guaranteeing that by using secure or the services behind it, that the website can only be owned and controlled by the organisation the customer believes it to be This is the underpinning strategy behind secure

As part of the agreement to use a *secure* domain, each Artemis customer will agree to adopt the highest security protocols to ensure that their data and transactions are safe These policies, which are being formulated in conjunction with over 30 of the world's most important Internet founders, pioneers and users are aimed at creating a seamless and safe experience once a user decides to browse or email a secure domain

Artemis is committed to making the Internet a safer place, the safest 'neighbourhood' or gated community on the Internet, via a unique combination of operational, legal and technological innovations for both enterprises and consumers alike

## Chairman's statement

**Financial Overview**
NCC Group has delivered a strong performance, albeit at a slower rate than over the last 10 years The economic climate in which the Group operates remains subdued and difficult to predict, particularly for Escrow Some US operations in both Assurance and Escrow did not perform as strongly as originally expected

The Group continued to grow organically as well as by integrating and consolidating the acquisitions made over the last year or so In the last 12 months the Group acquired two further Assurance businesses in New York

Group revenues maintained their momentum, growing by 13% to £99 2m (2012 £87 7m) Organic revenue grew by 8% with underlying growth of 10%, excluding the positive effects of an unusually large one off operational response contract in Assurance in the first four months of the last financial year

Group margins continued to be strong with adjusted operating profit margins at 24% (2012 27%) This was achieved despite the effects of the costs incurred by Artemis, alongside the 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 to £23 0m (2012 £22 6m) and 8 4p (2012 7 8p) respectively The Group continues to be highly cash generative with operating cash conversion representing 116% of operating profit (2012 131%)

**Operational overview**
Our international Escrow businesses have continued to innovate by offering excellent value and the strongest protection available in the global market today

The UK Escrow market has continued to be tough However, there are early signs that the market is opening up as more organisations look to system upgrades and implementations with some encouraging signs at the level of general IT expenditure Growth continues to come largely from existing customers seeking to protect their existing IT assets

The US based Escrow business has experienced a significant amount of change in the year The Atlanta office performed well unlike San Francisco, which was impacted by management changes The overall US Escrow management structure is now complete and we look forward to a more normal and consistent performance as the team strives to reach their potential in what is a significant market place

It is a similar story for the European Escrow business After a poor first six months, we began to see a more stable and normal performance as the necessary management team changes started to have a positive impact

The Assurance division saw very strong performances throughout the UK and Europe, with all business lines making good progress In the US, the introduction of a new sales team impacted the performance in two offices in the second half of the financial year The negative transition effects were felt for a number of months but now the resulting change has seen a step up in the levels of new business won The North American Assurance business is set to see a return to more acceptable growth levels

The Group's commitment to provide a safer Internet for enterprises and consumers alike continues This is a concept that we have championed, vociferously and passionately for a number of years and one which is badly needed With our investment in Artemis we are seeking to acquire the generic Top Level Domain (gTLD) *secure* in order to provide a more secure mechanism to transact and access data across the Internet To date the project remains on time, having passed the ICANN initial

evaluation, on cost, with an expectation that the service will start to be delivered for major customers during the second half of the new financial year

**Group strategy**
The Group's strategy continues to be to develop its three divisions organically It is also looking to strengthen its position as a foremost provider of IT security by acquisition in order to widen its reach and exploit new opportunities By using its experience and skills NCC Group helps develop and deliver a safer Internet world in which to navigate and transact

**People**
The development, motivation and retention of our key resource, our staff, remains vital for the Group's future We proactively monitor staff retention, managing all aspects of individuals' roles, responsibilities and aspirations

We aim to remain the employer of choice particularly in all matters concerning Internet innovation, information and technology security The Group now employs 725 people across the world, supplemented by a further 185 associates

The Group is only as successful as the people we employ and with many new recruits adding to this talent pool, we are extremely well placed to capitalise on the improving fortunes in the global economy I would like to thank every employee of NCC Group for his or her efforts and dedication in this difficult year

**IT Systems**
In May 2012 the Board reported that the Group had reverted to its former IT solution due to operational issues with a recently installed IT system Since then, the Group has sought recourse from the technology supplier, Ciber UK Limited which is part of Ciber Inc , which the Group holds responsible for the failed implementation Mediation with Ciber UK Limited is to take place by the end of the calendar year and the Group will continue to pursue all expedient methods to seek recourse from Ciber UK Limited

**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 appropriate 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, as far as is practicable, and will continue using FTSE 250 companies as our benchmark

**Dividends**
Reflecting the Board's commitment to the shareholders and following our progressive dividend policy, which at least tracks earnings growth, a final dividend of 2 12p is recommended by the Board making a total for the year of 3 1p, up 16% If approved at the Annual General Meeting, the dividend will be paid on 20 September 2013 to shareholders on the register at the close of business 23 August 2013 The ex-dividend date will be 21 August 2013

Since the Group's flotation in July 2004, the dividend has increased from 0 42p, a compound annual growth rate of 29%

**Outlook**
We remain totally focused on client risk mitigation and delivering peace of mind We provide a complementary range of services to our multinational clients to help them gain freedom from doubt over their Information Technology and Information Security environments

NCC Group is now a truly global organisation, with a tremendous reputation for innovation, quality and world leading delivery The development of our services and our unparalleled reputation for the

highest quality of research has lifted the Group clear of our competitors and positions us well for sustainable growth in the rapidly developing markets in which we operate

We are now beginning to see improving and more certain market conditions The start to the year has seen solid growth in the Group's performance Group Escrow renewals are forecast to be £18 0m (2012 £17 7m renewed in the year) and the verification order book is £2 3m (2012 £1 7m), of which £0 7m (2012 £0 5m) relates to Escrow Europe and Escrow US

The Assurance division's order books have improved strongly to £24 2m (2012 £19 7m) and it forecasts £6 5m (2012 £5 8m) of monitoring renewals for the coming financial year

We have leading positions in a number of fast growth markets, which provide the Board with considerable confidence in the Group's ability to deliver further sustainable growth and enhance shareholder value

**Paul Mitchell**
Non Executive Chairman
NCC Group plc
4 July 2013

## Operational and Financial Review

## Financial review

**Revenue**
The Group increased revenue by 13% to £99 2m (2012 £87 7m) Organic revenue growth was 8%, excluding the contribution from the two US businesses acquired in August 2012, Matasano Security LLC and Intrepidus Group, Inc Excluding the impact of the unusually large one-off operational response contract in Assurance in the first four months of the last financial year, the underlying organic growth was 10%

The Group H1 H2 revenue split was 48% 52% (2012 48% 52%) It is expected in the current year that the split will return closer to the 43% 57% split that the Group normally experiences

In the year 64% (2012 69%) of revenue, £63 1m (2012 £60 4m) was derived from the UK Europe contributed £7 7m (2012 £6 2m) with the Rest of the World revenue increasing strongly to £28 4m (2012 £21 1m), some 29% of Group revenue

Group Escrow now accounts for 29% of the Group's revenue (2012 32%) as the Assurance business saw faster organic growth and benefitted from the recent acquisitions

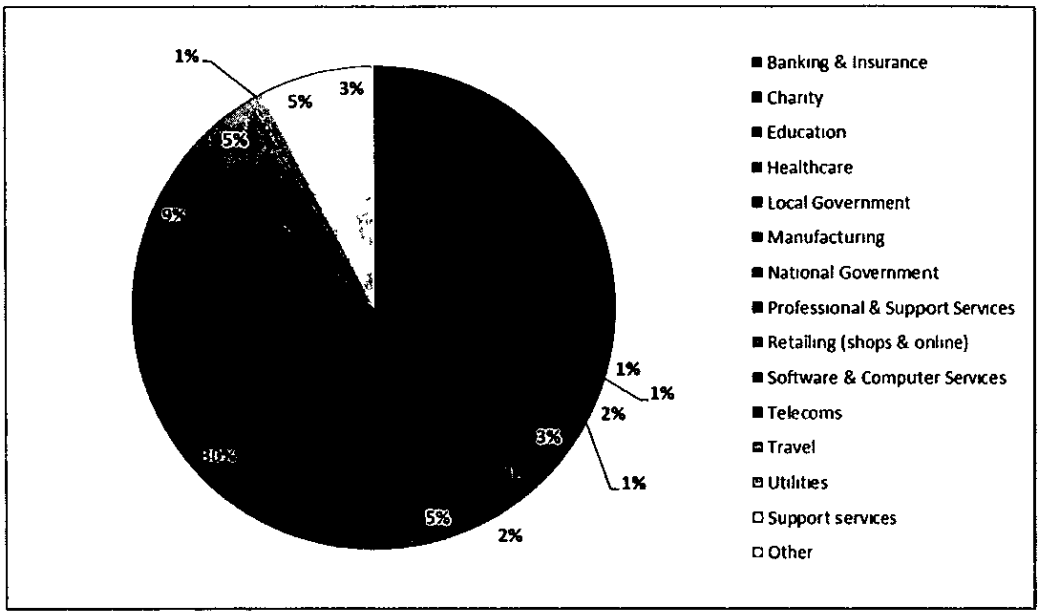
During the year currency movements had little impact on the Group's performance

The Group's recurring income levels continue to grow In Escrow UK over 88% of all contracts renewed (2012 88%) Assurance saw 77% of its revenues renewed (2012 74%), this now represents 63% of all customers (2012 51%) In addition, 91% (2012 91%) of the performance monitoring revenues renewed and are recurring

The increasing number of customers who are renewing in Assurance includes a greater proportion of smaller customers and this has resulted in renewing Assurance customers' expenditure decreasing from £68,821 to £57,724, with total average customer spend marginally decreasing to £38,425 from £39,486

**Group revenue by market sector**
The Group continued to have minimal reliance on any one customer or sector Within Assurance the largest customer represents 5% of Assurance revenue which is 3% of Group revenue The largest customer in Escrow is 2% of total Group Escrow revenue

| Top three sectors by Division | Escrow | Assurance |
|---|---|---|
| Software computer services | 15% | 34% |
| Banks & insurance | 23% | 30% |
| Telecoms | 18% | 7% |




**Profitability and margins**

The Group continues to generate strong margins Adjusted Group operating profit grew by 2% to £23 9m (2012 £23 4m), including spend on Artemis and excluding the amortisation of acquired intangibles, exceptional items and share-based charges as set out in the table below

Despite the increased percentage of revenue from the non-escrow businesses and Artemis spend, overall adjusted operating margins remained strong at 24% (2012 27%)

Escrow's margin has continued to improve, driven by a combination of effective selling and cost control The Group continues to monitor pricing and market sentiment and although price inflation is part of the current prevailing UK economy, so is cost control

In Assurance the margin has remained constant year on year despite the weaker performance seen in some of its units In the UK businesses there has been a general improvement in margins as more work has come from premium rate services but there has been a lower than expected utilisation in North America The Group expects to see a strengthening of the division's margins this coming year

The Group half year split saw 47% of adjusted operating profits delivered in the first half and 53% in the second half, very similar to 2012 The Group expects the profit split in future periods to revert closer to that seen in prior years

In May 2012 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 and this was shown as an exceptional item in that year Contained within exceptional items in 2013 are the one off legal charges of £0 4m

| | Operating profit | |
|---|---|---|
| | **2013** | 2012 |
| | **£000** | £000 |
| **Reported operating profit** | **19,827** | 11,619 |
| Amortisation of acquired intangibles | **3,612** | 3,726 |
| Exceptional items | **(261)** | 7,111 |
| Share based payments | **760** | 946 |
| **Adjusted operating profit** | **23,938** | 23,402 |

| | Profit before tax | |
|---|---|---|
| | **2013** | 2012 |
| | **£000** | £000 |
| **Reported profit before tax** | **18,758** | 10,572 |
| Amortisation of acquired intangibles | **3,612** | 3,726 |
| Exceptional items | **(261)** | 7,111 |
| Unwinding of the discount on contingent consideration | **167** | 208 |
| Share based payments | **760** | 946 |
| **Adjusted profit before tax** | **23,036** | 22,563 |

Adjusted Group pre-tax profit marginally improved to £23 0m (2012 £22 6m) after an interest charge of £0 9m The Group's reported pre-tax profit was £18 8m (2012 £10 6m), after the inclusion of the unwinding of the discount on the acquisitions' contingent consideration, amortisation of acquired intangible assets, share based payment charges and the exceptional items

**Taxation**

The Group's effective tax rate is 23% (2012 28%), which is below the average standard UK rate of 24% (2012 26%) This decrease in the effective rate is due to a combination of a decreasing UK tax rate, the US tax treatment of Artemis costs and acquisition related expenses, and a larger tax charge to equity relating to share based payments

**Taxation recognised in the income statement**

| | **2013** | 2012 |
|---|---|---|
| | **£000** | £000 |
| Current tax expense | | |
| Current year | **4,499** | 2,308 |
| Adjustment to tax expense in respect of prior periods | **(61)** | 86 |
| Foreign tax | **625** | 1,711 |
| Total current tax | **5,063** | 4,105 |
| Deferred tax | **(789)** | (1,148) |
| Tax in income statement | **4,274** | 2,957 |

**Reconciliation of effective tax rate**

| | **2013** | 2012 |
|---|---|---|
| | **£000** | £000 |
| Profit before taxation | **18,758** | 10,572 |
| Current tax using the UK corporation tax rate of 23 8% (2012 25 7%) | **4,470** | 2,714 |
| Effects of | | |
| Items not taxable/deductible for tax purposes | **(57)** | (171) |
| Effect of rate change | **22** | 13 |
| Differences between the overseas tax rates | **122** | 232 |
| Movements in temporary differences not recognised | **71** | 51 |
| Adjustment to tax charge in respect of prior periods | **(354)** | 118 |
| Total tax expense | **4,274** | 2,957 |

Current and deferred tax recognised directly in equity was a charge of £402,000 (2012 charge of £62,000)

**Earnings per share**

The adjusted basic earnings per share from continuing operations increased 8% to 8 6p (2012 8 0p) The table shows the effect on the Group's basic earnings per share of the amortisation of acquired

intangibles, share based payment charges, unwinding of the discount on the contingent consideration for acquisitions and the effect of the exceptional items The comparative information below has been restated to reflect the bonus issue of shares made on 18 December 2012

| | **2013 Pence** | (restated) 2012 Pence |
|---|---|---|
| Basic EPS as per the income statement | **7 0** | 3 7 |
| Amortisation of acquired intangibles | **1.3** | 1 3 |
| Exceptional items | **(0 1)** | 2 5 |
| Unwinding of the discount on the contingent consideration of the acquisitions | **0.1** | 0 1 |
| Share based payments | **0 3** | 0 4 |
| Adjusted basic EPS | **8 6** | 8 0 |

The adjusted fully diluted earnings per share from continuing operations increased 8% to 8 4p (2012 7 8p) whilst reported fully diluted earnings per share was 6 9p (2012 3 6p)

**Dividends**
The Board is recommending a final dividend of 2 12p per ordinary share, making a total for the year of 3 1p This represents cover of 2 8 times (2012 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 0 42p, a compound annual growth rate of 29%

**Cash**
The Group continues to be highly cash generative with operating cash flow before interest and tax of £23 0m (2012 £24 6m), which gives a cash conversion ratio of 116% of operating profit before interest and tax (2012 131%) It is expected as the mix of business continues to change due to the increase in Assurance revenues the percentage will be 100% - 110%

After accounting for net cash outflows of £10 5m for acquisitions and contingent acquisition payments, the Group ended the year with net debt of £25 3m (2012 £22 7m)

Total capital expenditure remained tightly controlled at £4 9m (2012 £7 3m) which includes the Group's continued investment in Artemis

The Group's banking facility with the Royal Bank of Scotland, which provides a £40m revolving credit facility and a £5m overdraft, runs until July 2016 Interest on the facility is charged between 1 5% and 2 25% over LIBOR based on the Group's net debt/EBITDA ratio

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 67% of the facility at the year-end

**Balance sheet**
Following the acquisitions of Matasano Security and Intrepidus, goodwill increased by 16% to £92 2m (2012 £79 3m) and the net book value of intangible assets relating to customer contracts and associated relationships increased to £9 8m (2012 £9 1m)

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 20 years and will be amortised over that period

Shareholders' funds at the end of the year were £70 5m (2012 £60 4m)

**IT systems & IT claim**
The Group is currently completing negotiations for a replacement system to provide an end-to-end solution for all the Group's businesses This lengthy task has been made more difficult as we continue to unpick some of the issues caused by the process changes that were made in advance of the failed implementation of the SAP system

The new system will not only overcome some of the inflexibility that was going to exist in the SAP environment but will still be sufficiently rigid to allow strong control

In terms of the failed SAP implementation, over a year has passed since Ciber UK was informed of our decision to revert to our former system due to the operational issues that had arisen Dates for mediation are being finalised and it will take place by the end of the calendar year All the costs incurred in the claim to date have been expensed

## Operational review

**Group Escrow**
The Escrow businesses have had a challenging year overall, although good performances have been seen in nearly all the key measures of profitability, renewals, terminations and verification testing

The Escrow division increased revenue by 2% to £28 5m (2012 £27 9m) Within this, Escrow UK revenue grew by 3%, Escrow US by 1% but Escrow Europe declined by 1%

Group Escrow profitability increased 3% to £16 7m (2012 £16 3m) with the UK contributing 81% (2012 81%)

Group Escrow recurring revenues, renewals, increased to £17 7m (2012 £17 3m) Group Verification revenues grew by 15% in the year to £6 1m (2012 £5 3m)

The Group's Escrow businesses have always been and 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 consistent contracts renewals rate of over 88%

Overall Group Escrow operating margins improved due to good cost control, strengthening to 59% (2012 58%)

**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, but latterly the Group has started to see an upturn as the IT sector appears to be seeing a slight improvement in market confidence and sentiment

Escrow UK revenue was £20 9m (2012 £20 3m) This 3% growth in revenue (2012 7%) 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 to £12 4m (2012 £12 3m) and terminations remain below 12%

**Escrow Europe and Escrow US**
Escrow US revenues grew by 1% to £4 4m (2012 £4 4m) The management changes in North America affected the business, particularly in San Francisco where there has been significant change In San Francisco the business contracted by 10% due to the loss of key personnel whilst in Atlanta revenues grew by 16%

Escrow Europe revenues grew by an extremely encouraging 6% in the second half of the year, but overall for the full year fell by 1% to £3 2m (2012 £3 2m) The second half performance reflected the efforts of the new, stable management team and structure

Escrow Europe now has 17 employees and the North American Escrow businesses have 38 employees It is expected that both business units will return to double digit revenue growth

**Assurance**
The Assurance division is divided into two areas, security testing, audit and compliance, and web performance, which broadly reflect the focus of the former acquired businesses iSEC which operates in North America is included within security testing, as are newly acquired Matasano and Intrepidus

Overall each product area has seen strong performance with all elements making good progress Assurance now accounts for 71% (2012 68%) of Group revenues with total divisional revenues increasing 18% to £70 7m (2012 £59 8m)

Excluding the acquisitions of Matasano and Intrepidus, organic revenue increased 10% to £66 0m, with a very strong performance coming from security testing in the second half of the year

Operating profits increased 17% to £12 0m (2012 £10 3m) The Assurance Division businesses' margins remained strong at 17% (2012 17%)

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 to help complement the very strong renewal rates seen in the web performance businesses

Security testing includes penetration and application security testing, operational response, forensics and managed monitoring The audit and compliance area includes social engineering, card and information security standards and security auditing This area grew 17% whilst also ensuring that utilisation rates remained suitably low to combat any staff retention issues

The Group continues to benefit from iSEC's technical knowhow and presence and the global join up to provide a better service to customers However, a change in the sales processes was required following the departure of one of the iSEC founders, including the recruitment of a complete sales team to win and renew customer contracts in California The team was mobilised and effective within three months but there was a period of disappointing delivery and very low levels of utilisation This has now been corrected and sales and contract wins are running back at the required levels

Web Performance had a recurring revenue rate of 91% (2012 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 9%

The Assurance testing teams currently comprise over 270 qualified testers in the UK and USA

**Artemis – creating 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 ('Artemis') in San Francisco, to develop the critical infrastructure and know-how to deliver this project To date the ICANN application has gone as expected Our application is one of two for *secure* as a gTLD

On 21 June 2013, it was confirmed by ICANN that the application for secure had completed and passed the initial evaluation process This is a key milestone towards gaining ownership and included background screening, technical and financial capability testing and a review of Artemis' registry services

The Group has invested a total of £2 3m in the project during the year, of which £1 2m has been expensed as the costs were in respect of sales and marketing

The plan remains to invest progressively in Artemis and we will continue to do so even after the solution goes live by the end of this financial year

**Employees, recruitment and retention**
Employee recruitment and retention remain one of the most important objectives of the Group The objective is to offer careers and development opportunities that actively encourage all staff to stay and grow within the Group Retention remains in line with the Group expectations, which is for permanent staff annual turnover not to be more than10%

The Group now employs 725 people across the world, supplemented by 185 associates

## Markets

**Escrow – SaaS and a safe way back**
NCC Group remains as one of the leading global providers of escrow services The Group mandates quality, offering excellent value, quality and strong protection to customers, ahead of price The Group does not intend to change that philosophy

The market dynamics have remained unchanged since the introduction of software escrow in 1982 Both public and private sector corporations and organisations still believe that they have several times more cover than they actually have

The purchase of escrow services is very rarely a centralised or co-ordinated purchase Although it is increasingly more common for a procurement process to be involved, it rarely looks at the cover that should be in place and so most organisations are unaware that they are exposed, or by how much

This will ultimately get worse as organisations are not sure how to get escrow protection in hosted or co-located Software as a Service (SaaS) environments as there are a number of points that need to be considered when outsourcing the applications and hardware to "as a service" environments

The move to cloud computing still has not largely happened for businesses' critical applications, with the pace of change being slower than is generally publicised But with low up front costs, rapid deployment and high scalability SaaS will continue to grow in popularity

Eventually improvements in security, mobile and broadband Internet connectivity, as well as the continued global economic climate, will see some business critical applications outsourced into the cloud Whilst source code Software Escrow will still provide business continuity and protection, the solution needs to take into consideration the environment and infrastructure in which the application is operated

The failure of a traditional application owner is typically not accompanied by the loss of infrastructure, data, Internet communications and application support, all of which can be lost following the failure of a SaaS owner

In order to protect customers from a SaaS owner failure or the breakdown of the relationship as the service levels are not delivered, a mechanism has to be put in place, cost effectively, that addresses the fundamental infrastructure, data, communications and IT support issues Mechanisms to address these issues by duplicating infrastructure and data are not cost effective for most SaaS customers

What is needed is a mechanism to allow time for the customer to transition to an alternative for the infrastructure, data and communications used to run the application uninterrupted if the SaaS supplier fails Many SaaS vendors already use Infrastructure as a Service (IaaS) for either their primary or business continuity platform for the same reasons customers are turning to SaaS for their applications This provides them with low up front costs, rapid deployment and high scalability

NCC Group's solution to this is to deliver a cost effective service for customers that keeps the infrastructure and communications used to run the SaaS solution, provided by a third party infrastructure provider, still operational Not having this capability as part of the solution will cause an interruption of service for the customer, which is an unacceptable risk where business critical SaaS applications are being used

Infrastructures needed by SaaS vendors with large numbers of concurrent users require significant numbers of virtual servers both for the primary platform and consequently for the corresponding business continuity platform IaaS vendors will provide virtual servers inexpensively as long as these servers are dormant

For this reason the products NCC Group are developing provide protection to SaaS customers regardless of whether the IaaS is used for the SaaS vendors' primary or business continuity platform As an IaaS based solution, NCC Group SaaS Escrow has by far the greatest potential to provide SaaS customers with the protection many are seeking at a price they can afford

**Assurance - The need for change in the cyber world**

Improvements in security have failed to keep up with the ever-increasing pace of function led improvements in technology, but with that has been an acceptance that being hacked is now an everyday experience A once traumatic event that would have attracted considerable publicity today hardly warrants a footnote, unless it is of a scale, magnitude or complexity that could shock even a hardened security expert

The sophistication of hackers is now at a level that would not embarrass a government operation but more ominously governments are becoming more open about the level of their operations, as they are clearly becoming more engaged in complex cyber warfare - both within their own country and against other perceived cyber hostile nations

The frequently disclosed security breaches, hacks and data losses are making it difficult to judge whether the ordinary individual now has a resigned reluctant acceptance that the internet has become a largely lawless place and that Nation State internet eavesdropping has become "just one of those things"

Certainly the lack of backlash for revelations such as the recent US Prism scandal seems to suggest that the majority of ordinary individuals do not mind if they are in fact observed by the nation that they live in However in terms of control of personal financial data and individual identity, corporations and governments really need to treat it more seriously

Part of this remains an NCC Group theme, that there is a clear and pressing need to increase standards in cyber defences from large corporations to governments through to consumers 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 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!

The adoption of secure and the policies, processes and protocols that it mandates will help drive this change By subscribing to the secure framework, the hard work of determining and driving change is done within Through a team of the most globally recognised organisations, ranging from Internet pioneers through to retailers and the largest financial institutions, all sectors and user groups are being

considered Allowing the creation of commonly accepted policies that mandate best practice of Internet and information security is the best starting point

Overlaying that in an environment where only the organisation with the actual right to the domain can apply to own it and all of its algorithmic derivatives and lookalikes, will aid the user so that the most common spoof attacks become impossible to create Whilst it will never ensure that a site or an organisation will not be hacked, it significantly blunts the hackers armoury of basic tools

This type of change needs to happen, acceptance of being hacked and compromised should not be an accepted consequence of using the Internet

**Current trading**

The Group's good growth track record was slowed briefly by a number of unrelated issues as it consolidated the various business units to exploit the scale and international reach that has now been attained

All of the issues have been addressed, although Intrepidus has yet to be fully integrated More importantly, a structure is now in place that will allow the Group to benefit from the significant opportunities that exist across Assurance's markets

The whole organisation is totally focused on client risk mitigation and delivering peace of mind, through a complementary range of services offered to multinational clients to address their business issues

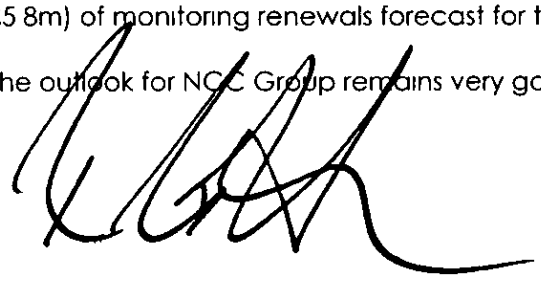
Artemis continues to develop its systems, processes and policies, with a view to being able to offer a service to its customers through *secure* or their own branded gTLD during the second half of the financial year This complex development is on time and budget

Integrity and credibility, alongside technical capability, are the leading cultural values of the Group This ensures the Group remains an independent, unbiased organisation and maintains its place as the trusted provider of choice in a security marketplace

The start to the year sees Group Escrow renewals at £18 0m up from £17 7m in the year to 31 May 2013 and a verification order book of £2 3m of which £0 7m relates to Escrow Europe and Escrow US

The Assurance division order books have improved to £24 2m (2012 £19 7m) and have £6 5m (2012 £5 8m) of monitoring renewals forecast for the current financial year

The outlook for NCC Group remains very good in growing markets



**Rob Cotton**
Chief Executive
NCC Group plc
4 July 2013

## Directors and senior management

The plc and Executive Board comprises the following Directors

**Paul Mitchell – Non Executive Chairman**

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 - Chief Executive**

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

**Thomas Chambers – Non Executive Director**

Thomas joined NCC Group in September 2012 Thomas was CFO of smartphone operating systems developer Symbian Limited from 2001 until its sale to Nokia Oyj in 2009, and prior to that, CFO of DSL provider First Telecom He is a chartered accountant and has held roles with Kleinwort Benson, the European Bank for Reconstruction and Development and Price Waterhouse He is also a Non-Executive Director of Kings Arms Yard VCT plc

**Senior Management**

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

**Assurance**

**Roger Rawlinson – Managing Director - 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

**Group Escrow**

**Pete Stock – Managing Director – 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 - Group Company Secretary and Operational Director - Escrow**

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 2013

**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 2013, its position at that date and the Group's likely future development The contents of the Directors' Report, together with the Group Profile on pages 3 and 4, the Chairman's Statement on pages 5 to 7, the Operational and Financial Review on pages 8 to 16 and the Corporate Social Responsibility report on pages 37 to 39 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 42

**Dividends**
The Directors propose a final dividend of 2 12p per ordinary share which, together with the interim dividend of 0 98p per ordinary share paid on 22 February 2013, makes a total dividend of 3 1p for the year

The final dividend will, if approved by shareholders at the Annual General Meeting (AGM), be paid on 20 September 2013 to shareholders on the register at the close of business on 23 August 2013 The ex-dividend date will be 21 August 2013 This represents cover of 2 8 times (2012 3 0 times) based on basic adjusted earnings per share The final dividend has not been accrued for in these financial statements

**Share capital**
Pursuant to a general meeting of the Company held on the 18 December 2012, the Company's shareholders approved a bonus issue of five ordinary shares for every one share held ('Bonus Issue') On the same date the Company's shareholders approved a resolution authorising the board to capitalise £1,729,287 of the Company's share premium account and to apply such an amount in paying up the new shares

At the Company's Annual General Meeting held on 20 September 2012, the directors were granted authority to allot up to 11,502,935 ordinary shares representing approximately a third of the Company's issued share capital In addition, the directors were granted authority to allot a further 11,502,935 ordinary shares (again representing approximately a third of the Company's issued share capital) solely to be used in connection with a pre-emptive rights issue Following the general meeting in December, new authorities were granted in order to allow the directors to allot up to 242,100,152 ordinary shares (which after accounting for the new ordinary shares issued pursuant to the Bonus Issue, represented approximately a third of the Company's enlarged issued share capital) and also an additional authority to allot a further 69,171,472 ordinary shares (representing a third of the Company's enlarged issued share capital following the Bonus Issue) solely to be used in connection with a pre-emptive rights issue At the 2013 Annual General Meeting, shareholders will be asked to give a similar

authority The directors currently have no intention to issue ordinary shares other than pursuant to the Company's employee share schemes

At the Company's Annual General Meeting held on 20 September 2012, shareholders renewed the Company's authority to make market purchases of up to 3,450,880 ordinary shares representing approximately 10% of the issued share capital Following the general meeting in December, a new authority was granted in order to allow the Company to make market purchases of 20,751,441 ordinary shares, representing approximately 10% of the enlarged issued share capital following the Bonus Issue Neither of the aforementioned authorities were used during the year or up to the date of this report At the 2013 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 22 to the financial statements

**Directors and their interests**
Details of the Company's current Directors are set out on pages 17 to 18 Directors' interests in shares and share options in the Company are detailed in the Directors' remuneration report set out on pages 29 to 35

The Company maintains Directors' and Officers' liability insurance which gives appropriate cover for any legal action brought against its Directors The Directors of the Company have also entered into individual deeds of indemnity with the Company which constitute as qualifying third party indemnity provisions for the purposes of section 234 of the Companies Act 2006 The deeds were in force with effect from September 2012 and remained in place during the course of the financial year ended 31 May 2013 and, at the date of this report, remain in force for the benefit of the Directors in relation to certain losses and liabilities which they may incur (or have incurred) in connection with their duties, powers or office

**Principal shareholders**
On the basis of notifications received under the Disclosure and Transparency Rules (DTR 5) and other notifications received by the Company from shareholders, shareholders being interested in 3% or more of the Company's issued ordinary share capital as at 31 May 2013 were as follows

| Fund Manager | Number | Percent |
|---|---|---|
| Legal and General | 23,522,312 | 11 33 |
| Liontrust Asset Management | 21,727,494 | 10 47 |
| Montanaro Asset Management | 21,137,000 | 10 18 |
| Mawer Investment management | 18,866,023 | 9 09 |
| AXA Framlington | 11,789,181 | 5 68 |
| Rob Cotton | 10,560,156 | 5 09 |
| Hansa Capital Partners | 7,500,000 | 3 61 |

As at 30 June 2013, the Company has been made aware of a number of transactions since 31 May 2013 which have resulted in Henderson Global Investors increasing their holding to 4 34% from 2 47%,

Mawer Investment Management increasing their holding to 11 32%, Liontrust Asset Management increasing their holding to 11 14% and AXA Framlington reducing their holding to 0 93%

**Corporate social responsibility**
The corporate social responsibility section on pages 37 to 39 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 During the year the Company made no political donations (2012 £Nil)

**Principal risks and uncertainties**
The principal financial risks and uncertainties the Group faces are described in note 20 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

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
4 July 2013

## 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 ('Code') published by the Financial Reporting Council in June 2010 and describes the Group's compliance with the provisions of the Code An amended version of the Code was issued in September 2012 which is applicable for companies with a UK premium listing with financial years beginning on or after 1 October 2012, the Company will report on its compliance with the 2012 version of the Code in its 2013/2014 Annual Report and Accounts

**Statement by the Directors on compliance with the Corporate Governance Code**

In respect of the year ended 31 May 2013, NCC Group has been in full compliance, other than as disclosed below, with the provisions set out in the 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 26)

**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, an external recruitment company was retained with a brief to help the Company find an additional non-executive director to complement the Board An offer was made to a further candidate however the offer was not accepted so the search for a suitable additional independent non-executive director with appropriate skills continued A number of candidates have been found that are progressing to the second stage of the selection process

The proportion of women members of the Board currently stands at 20% and women in senior management positions across the Group account for 33% as a whole The Company's policy is to find, develop and keep a diverse workforce at all levels and it is committed to developing a culture where women can retain senior positions

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 |
| Thomas Chambers | Non-Executive Director | Member | Chairman | Member | Member |

Role profiles are in place for the Chairman and Chief Executive Officer, which clearly set out the duties of each role 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 twelve scheduled occasions

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

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 when a candidate with suitable complementary skills is found

Thomas Chambers received a personalised induction upon joining the board and the Chairman reviewed the performance of each Director and discussed their training and development needs during the year The Independent Non-Executive Directors have also met with the Chairman to appraise his performance

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 and on average spent 30 days on Company business during the year

| | | **Board meetings attended** |
|---|---|---|
| Paul Mitchell | Non-Executive Chairman | 12/12 |
| Rob Cotton | Chief Executive | 12/12 |
| Atul Patel | Group Finance Director | 12/12 |
| Debbie Hewitt | Senior Non-Executive Director | 12/12 |
| Thomas Chambers | Non-Executive Director | 9/9 |
| David McKeith | Non-Executive Director | 2/2 |

After careful review, the Board has concluded that Debbie Hewitt and Thomas Chambers 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 salary/fees,

- has close family ties with advisors, other directors or senior management of the Group that could reasonably be expected to cause a conflict,
- holds cross-directorships or has significant links with other Directors through involvement with other companies or bodies,
- represents a significant shareholder, or
- has served on the NCC Group Board for more than nine years from the date of their first election

Terms and conditions of appointment of Non-Executive directors are available for inspection at the Company's registered office during normal business hours

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 Its role is to provide entrepreneurial leadership within a framework of prudent and effective controls It is responsible for determining the nature and extent of risks it is willing to take to achieve the Group's strategic objectives 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,
- maintaining an appropriate relationship with the Group's auditors,
- reviewing the Group's risk management and internal control principles
- 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 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

**Audit Committee**
The Audit Committee, which is chaired by Thomas Chambers, a chartered accountant, comprises the two independent Non Executive Directors and meets at least three times a year The committee, which has recent and relevant experience, will request that the Chairman, Chief Executive, Finance Director and external auditors attend these meetings as required

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 any formal announcements relating to the Group's financial performance, reviewing significant financial reporting judgements contained in them,
- to review the Group'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 |
|---|---|
| **Thomas Chambers** | **2/2** |
| **David McKeith** | **1/1** |
| **Debbie Hewitt** | **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,
- controls for the prevention of bribery and processes for detecting fraud,
- treasury function and policy,
- conflicts of interest,
- 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 the terms of reference of the Audit Committee

The Group again formally considered the need for an Internal Audit function, but was satisfied that for this year the change in the roles of the different members of the finance team had effectively resulted in an internal audit In addition the creation of a finance function in North America run by a

Senior Finance Professional reporting directly to the Group Finance Director provide comfort over the controls and governance in place

Additional comfort is drawn from 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 These current arrangements are deemed sufficient given the structure of the Group's accounting function and the size of the Group, but it 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 committee's aim is to set levels of remuneration sufficient to attract, retain and motivate directors of a quality required to run the Group successfully but to avoid paying more than is necessary for this purpose

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

| | Meetings attended |
|---|---|
| **Debbie Hewitt** | **4/4** |
| **Paul Mitchell** | **4/4** |
| **Thomas Chambers** | **2/2** |
| **David McKeith** | **2/2** |

The Directors' remuneration report is set out on pages 29 to 35

**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 and recognises the benefits of having a balance of skills, experience, independence and knowledge and diversity

The Non-Executive Chairman leads the process for the appointment of a new Non-Executive Director to the Board For Executive Director positions, the Chief Executive leads the process

In relation to an appointment, the Committee draws up a specification and assesses the capabilities required for such a role Candidates are sought by third party advisors and where appropriate through assessment of internal candidates and are then formally considered by the Nomination Committee

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

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

| | Meeting attended |
|---|---|
| **Paul Mitchell** | **2/2** |
| **Rob Cotton** | **2/2** |
| **Debbie Hewitt** | **2/2** |
| **Thomas Chambers** | **1/1** |
| **David McKeith** | **1/1** |

**Internal control and risk management**
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 anti-bribery, security and compliance training,
- 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 year,
- procedures for the approval of capital expenditure and investments and acquisitions,
- monthly operational reviews to monitor and re-forecast 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
- an annual detailed Group wide risk review supplemented by formal consideration of progress made against significant business risks at monthly operational board meetings

The Board monitors the on-going process by which critical risks to the business are identified, evaluated and managed The Company maintains a risk register, which describes the key risks faced by the Group and assesses their likelihood and impact as well as the controls and procedures implemented to mitigate them The Group risks are reviewed by the Audit Committee and then agreed by the Board

**Auditor independence**
The Group's current auditors, Ernst & Young LLP, have been in place for over a year The choice of external auditor will be reviewed every five years or sooner if the Board considers it appropriate

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 Deloitte as the Group's tax advisers and in respect of transaction and international tax services It also approved corporate finance fees payable to Rickitt Mitchell

As reported to the Audit Committee £2,000 of non-audit work was undertaken by the external auditors in 2013 (2012 £Nil) following their appointment, thereby satisfying the committee that there is no effect on the auditors independence

**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 50 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 are 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
4 July 2013

## Directors' remuneration report

**Remuneration Committee**
The Remuneration Committee membership consists solely of Non-Executive Directors and comprises Debbie Hewitt as Chairman, Paul Mitchell and Thomas Chambers from 20 September 2012 David McKeith was a member of the Committee until 20 September 2012 The Chief Executive attends the Remuneration Committee by invitation and assists the Committee with its considerations No Director is involved in setting their personal remuneration plan

The Committee has agreed terms of reference detailing its authority and responsibilities The terms of reference of the Committee are kept under regular review and are in line with best practice They are on the Group's website and include -

- Determining and approving the remuneration policy of the Executive Directors and Operational Directors, taking into account the context of the Company's overall approach to remuneration for all employees
- Within this policy determining the total individual remuneration package of each Executive and Operational Director
- Determining performance targets and the extent of their achievement for both annual and long term incentive awards operated by the Company affecting Executive and Operational Directors

The Committee meets as often as required but at least three times per year The Committee met four times during the course of the financial year ended 31 May 2013

**Remuneration strategy**
The Committee aims to ensure that the Group provides competitive but cost effective remuneration packages which reward, retain and motivate Executives who are expected to meet high levels of performance The Committee recognises the importance of aligning the interests of shareholders and employees to create optimum levels of shareholder value Consistent with this strategy is the aim of balancing the short, medium and long term remuneration components that will remunerate and motivate the Executives towards delivering long term sustainable growth, whilst feeling confident and assured that their decisions need not be inappropriately focused on delivering short term results

As the business has grown in scale and complexity, the Remuneration Strategy has evolved to reflect the needs of a large multi-national organisation, which is growing organically through significant innovation of products and services and seeking out acquisitions in new geographies to widen reach and exploit new opportunities

Given its stage of development, NCC Group does not have an obvious or relevant group of peers to compare itself against The Committee is mindful that inappropriate comparisons could trigger unnecessarily high remuneration, which is not in the interests of shareholders whose value they are trying to enhance They can also be de-motivating to Executives, as they are considered irrelevant

**Remuneration policy**
The Committee has adopted a policy that ensures an appropriate balance between fixed remuneration and performance related incentives The performance related elements have clearly defined stretching targets that link rewards to business performance in the short, medium and long term

The Remuneration policy is replicated throughout the Group and aims to attract and retain the best 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

All variable elements of remuneration are subject to claw back, i e repayment by any Executive, where achievement is deemed by the Committee to have been based upon fraud, deliberate error or gross misrepresentation

The main components of the remuneration package provided to an Executive are

- basic salary,
- pension and retirement benefits,
- other benefits,
- annual performance related bonus, and
- long term share incentive plans

**Basic salary**
Salaries are reviewed annually and any changes are effective from 1 June each year Pay reviews take into account Group and personal performance and externally benchmarked market data for companies operating in IT services, management consulting and relevant high-tech sectors Although not directly comparable, they provide an indicative range

The salaries of Rob Cotton and Atul Patel, for the last two financial years are set out in the table on page 33

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

For the new financial year the average pay increases across the Group will be less than 3% The Executive Directors and Operational Directors chose not to seek any increase in remuneration for the next twelve months

**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 This 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

**Annual performance related bonuses**
The annual 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

In setting targets, the Committee aims to reward steady progressive growth It is the Committee's view that inappropriately high targets can encourage inappropriate risk taking and in a Group where innovation and research is key to Group Strategy, it could result in these areas being dispensed with thereby jeopardising the long terms aims of the Group

The Committee is satisfied that the blend of remuneration has ensured that this is not the case Examples would include the substantial investment in Artemis, which will be unprofitable during its formative periods but which is essential for long term growth, as well as decisions not to continue with business activities that are not in the best long term interests of the Group, despite the short term impact of those decisions

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, which are comprehensively set, scrutinised and agreed by the Main Board overlaid on to the financial forecasts and expectations in the investor community

The Committee has considered but decided not to apply personal objectives to performance measures, as it is felt that given the stage of development of the business they would need to be sufficiently flexible and therefore potentially opaque and too easily achieved

The maximum bonus payable to Rob Cotton under the scheme is £280,000 (2012 £280,000) 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 the financial year end 31 May 2013, although the business performance triggered a bonus payment, Rob Cotton and Atul Patel, as well as all members of the Operational Board chose to forego the bonuses due to them The entitlement was £138,900 for Rob Cotton and £52,088 for Atul Patel

The profit target for the forthcoming year will again be based on delivery of the Group's own internal plans, overlaid on to the financial forecasts and expectations in the investor community These internal plans allow for and expect the delivery of research, product development and new service lines as well as for the execution of the plan to deliver secure through Artemis in to the market The Board believe the targets set are suitably stretching

The detail of the exact profit targets for the forthcoming year are regarded by the Committee as highly market sensitive and as such, are not disclosed here

The calculation of the bonus scheme for the new financial year remains the same as for the previous year and does not start to reward until 90% (2012 90%) of the stringent, internal target set is achieved and are capped at 120% (2012 120%)

The Remuneration Committee believes that this simple and transparent scheme prevents short term decisions being made and ensures that the Senior Management team is entirely focused on the delivery of sustainable business performance, which significantly enhances shareholder value

**Share incentives**
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 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 adjusted earnings per share (EPS) performance of the Group over a performance period of three years The Committee is satisfied that using a single criterion works to motivate and encourage long term growth and enhance shareholder value, as it is setting demanding objectives on the Executives who receive the awards In addition, the three-year period is deemed suitable for the Group at this point, as it is still a young and emerging company that needs to be able to innovate and develop in a short time period to harness the opportunities in the market

The Committee has considered and decided not to use Total Shareholder Returns as a measure, as there are no appropriate, sufficiently similar, comparable organisations to compare the Group against Comparing the share performance against such a diverse sector as the Software and Services sector or the All Share Index, is outside the sphere of influence of the Executives If this

criterion had been included in the past, the rewards for the participating Executives and Senior Managers would have been considerably higher

The Committee also considered, but decided not to include, personal or other non-financial objectives, as they are not outwardly clear to the investor community and are unlikely to directly reflect increased shareholder value

Should a change in control of the Group occur through acquisition by another company or private equity, crystallisation of any LTIP awards is within the discretion of the Remuneration Committee

The Remuneration Committee cannot amend the rules of any of the share schemes without prior shareholder approval

The LTIP relating to the period 2010-2013 will vest at a level of 63% for Rob Cotton 336,855 shares As such 197,835 shares will be forfeited

In the forthcoming year, an allocation of 100% of salary will be made for the period 2013-2016 for each of Rob Cotton and Atul Patel If adjusted 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 Committee considers this a suitably stretching target

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, his first opportunity on joining the Company

The Committee do not currently insist on a share ownership policy They consider that at this point, the individual Directors are entitled to make such personal investment decisions as reflects their portfolio of risk As LTIPs and share option schemes are such a key component of remuneration, it is felt that the potential for a capital return from them is sufficient investment in the Group That said both Executive Directors have holdings in the Company as do a significant majority of the Operational Directors Rob Cotton has a holding of 10,602,156 shares and an interest in share schemes of 1,246,284 shares Atul Patel holds 30,000 shares and has an interest in share schemes of 321,786 shares

The market price at the close of the financial year was 110p

**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** |
| Thomas Chambers | **20 September 2012** | **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 2013 | Ordinary Shares of 1p each 2012 |
|---|---|---|
| **Executive** | | |
| Rob Cotton | 10,602,156 | 10,326,450 |
| Atul Patel | 30,000 | 30,000 |
| **Non Executive** | | |
| Paul Mitchell | 1,179,600 | 1,179,600 |
| Debbie Hewitt | 33,990 | 33,990 |
| Thomas Chambers | 19,000 | - |

The auditors have audited the information in the following tables

**Remuneration**
The remuneration of the Directors for the year ended 31 May 2013 was as follows

| Year ended 31 May 2013 | Salary | Bonus | Pension | Benefits | Fees | Share awards | Total |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Executive** | | | | | | | |
| Rob Cotton | 430 | - | 43 | 30 | - | 615 | 1,118 |
| Atul Patel | 200 | - | 20 | 26 | - | - | 246 |
| **Non Executive** | | | | | | | |
| Paul Mitchell | - | - | - | - | 65 | - | 65 |
| Debbie Hewitt | 7 | - | - | - | 38 | - | 45 |
| Thomas Chambers Note 1 | 6 | - | - | - | 20 | - | 26 |
| David McKeith Note 2 | 9 | - | - | - | - | - | 9 |
| | **652** | **-** | **63** | **56** | **123** | **615** | **1,509** |

**Note 1** Thomas Chambers was appointed as a Non Executive Director to the Board on 20 September 2012 at the Annual General Meeting

**Note 2** David McKeith stepped down as a Non Executive Director from the Board on 20 September 2012 at the Annual General Meeting No compensation or termination payments were due or paid

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 | Share Awards | Total |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Executive** | | | | | | | |
| Rob Cotton | 405 | 240 | 41 | 31 | - | 357 | 1,074 |
| Atul Patel | 175 | 105 | 18 | 22 | - | - | 320 |
| **Non Executive** | | | | | | | |
| Paul Mitchell | - | - | - | - | 65 | - | 65 |
| Debbie Hewitt | - | - | - | - | 45 | - | 45 |
| David McKeith | 38 | - | - | - | - | - | 38 |
| | **618** | **345** | **59** | **53** | **110** | **357** | **1,542** |

**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 2013 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 2012 | Maximum Options held at 31 May 2013 | Exercise price | Performance conditions | Earliest exercise date | Expiry date |
|---|---|---|---|---|---|---|---|---|
| Rob Cotton | 23/07/10 | £0 70 | 534,690 | 534,690 | nil* | 1 | 01/06/13 | 23/07/14 |
| Rob Cotton | 02/08/10 | £0 56 | 15,972 | 15,972 | £0 56 | 2 | 01/10/13 | 31/03/14 |
| Rob Cotton | 11/07/11 | £1 08 | 374,130 | 374,130 | nil* | 1 | 01/06/14 | 11/07/15 |
| Rob Cotton | 09/07/12 | £1 14 | - | 321,492 | nil* | 1 | 01/06/15 | 11/07/16 |
| Atul Patel | 11/07/11 | £1 08 | 161,658 | 161,658 | Nil* | 1 | 01/06/14 | 11/07/15 |
| Atul Patel | 04/08/11 | £1 16 | 10,596 | 10,596 | £1 16 | 3 | 01/10/14 | 31/03/15 |
| Atul Patel | 09/07/12 | £1 14 | - | 149,532 | Nil* | 1 | 01/06/15 | 08/07/16 |

* total exercise price of £1 on each occasion

On 12 July 2012 Rob Cotton exercised options granted to him under the NCC Group LTIP scheme over 455,706 shares, 199,830 shares were forfeited as the Group achieved 69 5% of the performance criteria set The market price of the company's shares on this date was £1 35

**Performance conditions and notes**

1 If adjusted 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

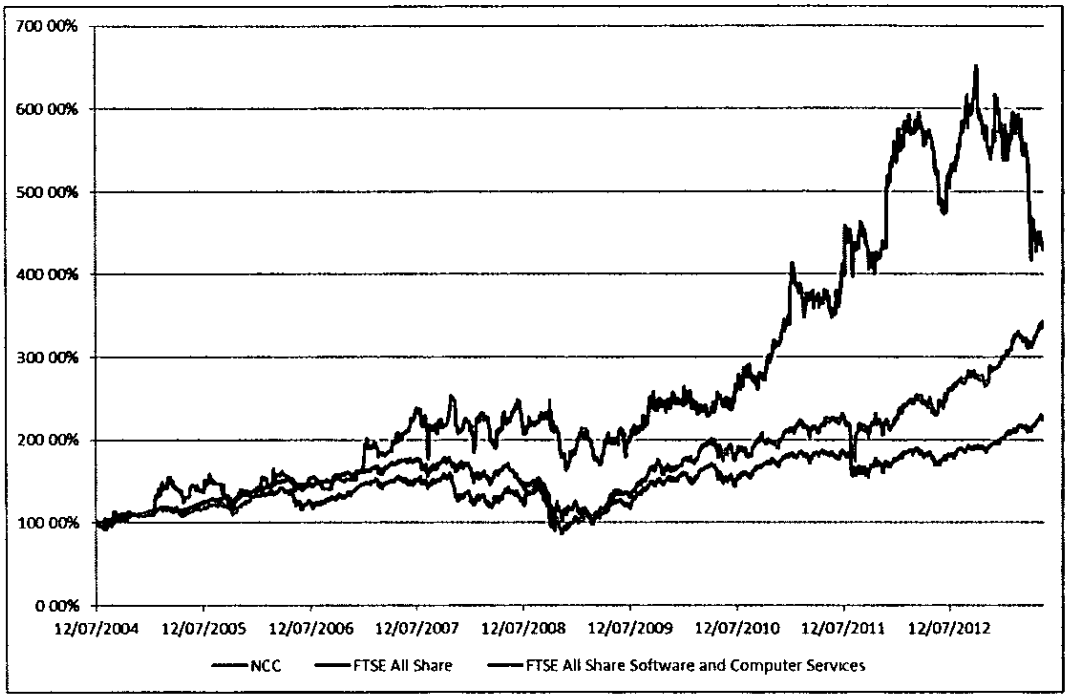
2 SAYE 2010 Scheme The SAYE scheme is subject to a three year savings contract If this is completed a maximum of 15,972 shares will be granted

3 SAYE 2011 Scheme The SAYE scheme is subject to a three year savings contract If this is completed a maximum of 10,596 Shares will be granted

The following information is not subject to audit

**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 following information is not subject to audit




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 £1 05 and £1 66 and ended the year at £1 10

Approved by the Board and signed on its behalf

**Debbie Hewitt**
Chairman, Remuneration Committee
NCC Group plc
4 July 2013

## Statement of directors' responsibilities in relation to the Group and Company financial statements and Annual Report

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

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

- Present fairly the financial position, financial performance and cash flows,
- 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 and Company's financial position and financial performance, and
- state whether the Group and Company 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 and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the Group and Company financial statements comply with the Companies Act 2006 and in the case of the Group, Article 4 of the IAS Regulation They are also responsible for safeguarding the assets of the Group and Company 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 17 to 18, 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
4 July 2013

## 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, as well as the health and safety of employees

**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, Rob Cotton, to ensure high level visibility and control of all employment related issues

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 provides relevant technical, administrative and sales training Most of the training is provided in house although external courses and trainers are used where it is appropriate to do so As much of the training and support is side-by-side, internal workshop, on the job or as part of a research team, it is not possible to directly quantify the total amount spent on training within the Group as this is part of the normal working week

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 Information is cascaded from the boards downward to ensure that relevant Group targets are communicated, as well as ensuring that cultural values are aligned

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

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 that plays weekly and organises two charitable football tournaments every year involving teams from the local business community 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 business community Sports day and supporting 27 entrants into the Manchester 10K charity run

The Group takes Health and Safety in the work place seriously and complies with all relevant legislation and best practice There have been no work place fatalities since the Group was formed

and only a single minor accident in the work place has occurred in the last twelve months, from which the employee made a full recovery

**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 if a Divisional performance fails to meet the 80% threshold No investigations were required in the year reported on

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 Led directly by the CEO, Rob Cotton, the Group continues to support charitable organisations and actively encourages the involvement of its employees in fundraising by covering expenses and awarding additional days' holiday

For the last twelve months the Group very actively supported The Christie, the globally renowned Manchester Cancer hospital and has raised nearly £100,000 for the Road to Recovery Campaign which aims to raise £1m to purchase mobile chemotherapy trucks to allow the provision of life saving chemotherapy directly in the community

The company sponsors five local junior football teams by buying their football kit to encourage children to take an interest in sport and keeping fit

During the year the Group has taken on a number of work experience, sandwich year students and interns to help bring business and education closer together Through all disciplines the group is committed to helping schools and universities provide work experience to their pupils

The Group is apolitical and does not support any political party in any jurisdiction nor has it ever made a political donation

**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 2013, the Group had an average of 50 days purchases outstanding in trade creditors (2012 46 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 We have sought third party advice as to the initiatives that can be followed as well as for education that can be provided for staff to ensure that they are thinking about the environment both in work and at home As the Group becomes larger, thereby increasing the impact that can achieved, external audit will be introduced to verify achievements made

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, and
- 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,
- 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,
- Printer replacements featuring double sided printing as standard,
- 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,
- Teleconferencing facilities available for all staff, and
- Increase staff awareness of environmental issues

**Measurement**
The business has set targets for improvement in three main areas of resource usage with the aim of achieving these by May 2015 The individual measures take into account the headcount within the business and the target improvements are as follows

- Electricity usage – reduce KW used per employee by 5%,
- Paper usage – reduce reams per employee by 10%, and
- Printer cartridge usage – reduce no of cartridges per employee by 10%

**Rob Cotton**
Chief Executive
NCC Group plc
4 July 2013

## Independent auditor's report to the members of NCC Group plc

We have audited the financial statements of NCC Group plc for the year ended 31 May 2013 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, group and company statements of changes of equity and the related notes 1 to 27 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 page 36, 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 and Accounts 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 2013 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,
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- the information given in the Corporate Governance Statement set out on pages 22-28 of the financial statements with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures 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, or
- a Corporate Governance Statement has not been prepared by the company

Under the Listing Rules we are required to review

- the directors' statement, set out on page 28 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

**Stuart Watson (Senior statutory auditor)**
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester
4 July 2013

## Consolidated income statement
**For the year ended 31 May 2013**

| | Notes | 2013 £000 | (restated) 2012 £000 |
|---|---|---|---|
| **Revenue** | 2 | **99,225** | 87,713 |
| Cost of sales | | **(63,376)** | (54,140) |
| **Gross profit** | | **35,849** | 33,573 |
| Administrative expenses before amortisation of acquired intangible assets, share based payments, impairment losses and exceptional items | | **(11,911)** | (10,171) |
| **Operating profit before amortisation of acquired intangibles, share based payments, impairment losses and exceptional items** | | **23,938** | 23,402 |
| Amortisation of acquired intangible assets | | **(3,612)** | (3,726) |
| Share based payments | 21 | **(760)** | (946) |
| Impairment losses | 3 | **-** | (6,104) |
| Exceptional items | 3 | **261** | (1,007) |
| Total administrative expenses | | **(16,022)** | (21,954) |
| **Operating profit** | 2 | **19,827** | 11,619 |
| Financial income | 6 | **18** | 3 |
| Finance expense excluding unwinding of discount | | **(920)** | (842) |
| **Net financing costs excluding unwinding of discount** | | **(902)** | (839) |
| Unwinding of discount relating to contingent consideration on business combinations | | **(167)** | (208) |
| Financial expenses | 6 | **(1,087)** | (1,050) |
| **Net financing costs** | | **(1,069)** | (1,047) |
| **Profit before taxation** | 4 | **18,758** | 10,572 |
| Taxation | 7 | **(4,274)** | (2,957) |
| **Profit for the year** | | **14,484** | 7,615 |
| Attributable to equity holders of the parent company | | **14,484** | 7,615 |
| **Earnings per share from continuing operations** | 9 | | |
| Basic earnings per share | | **7 0p** | 3 7p |
| Diluted earnings per share | | **6 9p** | 3 6p |

## Consolidated Statement of comprehensive income
**for the year ended 31 May 2013**

| | 2013<br>£000 | 2012<br>£000 |
|---|---|---|
| **Profit for the year** | **14,484** | 7,615 |
| **Other comprehensive income** | | |
| Foreign exchange translation differences | **876** | 357 |
| **Total comprehensive income for the period, net of tax** | **15,360** | 7,972 |
| **Attributable to:** | | |
| Equity holders of the parent | **15,360** | 7,972 |

## Group balance sheet
**at 31 May 2013**

| | Notes | 2013 £000 | 2013 £000 | 2012 £000 | 2012 £000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Intangible assets | 11 | **105,680** | | 89,499 | |
| Plant and equipment | 12 | **5,131** | | 5,068 | |
| Deferred tax assets | 15 | **987** | | 1,943 | |
| **Total non-current assets** | | | **111,798** | | 96,510 |
| **Current assets** | | | | | |
| Trade and other receivables | 13 | **24,474** | | 21,347 | |
| Cash and cash equivalents | | **4,589** | | 5,450 | |
| **Total current assets** | | **29,063** | | 26,797 | |
| **Total assets** | | | **140,861** | | 123,307 |
| **Equity** | | | | | |
| Issued capital | 22 | **2,075** | | 343 | |
| Share premium | | **23,086** | | 23,244 | |
| Retained earnings | | **44,392** | | 36,730 | |
| Currency translation reserve | | **917** | | 41 | |
| **Total equity attributable to equity holders of the parent** | | | **70,470** | | 60,358 |
| **Non-current liabilities** | | | | | |
| Other financial liabilities | 18 | **577** | | 579 | |
| Deferred tax liability | 15 | **1,048** | | 1,343 | |
| Contingent consideration on acquisitions | 18 | **4,765** | | 250 | |
| Interest bearing loans | 18,20 | **29,852** | | 28,149 | |
| **Total non-current liabilities** | | | **36,242** | | 30,321 |
| **Current liabilities** | | | | | |
| Trade and other payables | 16 | **12,554** | | 11,593 | |
| Contingent consideration on acquisitions | 16 | **2,177** | | 3,493 | |
| Deferred revenue | 17 | **16,847** | | 15,926 | |
| Current tax payable | | **2,571** | | 712 | |
| Provisions | 19 | **-** | | 904 | |
| **Total current liabilities** | | | **34,149** | | 32,628 |
| **Total liabilities** | | | **70,391** | | 62,949 |
| **Total liabilities and equity** | | | **140,861** | | 123,307 |

These financial statements were approved by the Board of Directors on 4 July 2013 and were signed on its behalf by:

**Rob Cotton**
Chief Executive
NCC Group plc
4627044

## Company balance sheet
**at 31 May 2013**

| | Notes | 2013 | | 2012 | |
|---|---|---|---|---|---|
| | | £000 | £000 | £000 | £000 |
| **Non-current assets** | | | | | |
| Investments | 27 | **32,656** | | 32,041 | |
| Deferred tax assets | 15 | **138** | | 252 | |
| **Total non-current assets** | | | **32,794** | | 32,293 |
| **Current assets** | | | | | |
| Other receivables | 13 | **2,499** | | 80 | |
| Cash and cash equivalents | | **-** | | 196 | |
| **Total current assets** | | | **2,499** | | 276 |
| **Total assets** | | | **35,293** | | 32,569 |
| **Equity** | | | | | |
| Issued capital | 22 | **2,075** | | 343 | |
| Share premium | | **23,086** | | 23,244 | |
| Retained earnings | | **10,102** | | 8,841 | |
| **Total equity** | | | **35,263** | | 32,428 |
| **Current liabilities** | | | | | |
| Bank overdrafts | | **30** | | - | |
| Trade and other payables | 16 | **-** | | 23 | |
| Current tax payable | | **-** | | 118 | |
| **Total current liabilities** | | | **30** | | 141 |
| **Total liabilities** | | | **30** | | 141 |
| **Total liabilities and equity** | | | **35,293** | | 32,569 |

These financial statements were approved by the Board of Directors on 4 July 2013 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 2013**

| | Notes | 2013 | 2012 |
|---|---|---|---|
| | | £000 | £000 |
| **Cash flow from operating activities** | | | |
| profit for the year | | **14,484** | 7,615 |
| Adjustments for | | | |
| Depreciation charge | 12 | **1,964** | 1,574 |
| Share based charges (net of national insurance contributions) | 21 | **690** | 725 |
| Amortisation of intangible assets | 11 | **3,929** | 3,726 |
| Impairment of intangible assets | 11 | **-** | 6,104 |
| Net financing costs | | **1,069** | 1,047 |
| (Profit)/loss on sale of plant and equipment | | **(27)** | 10 |
| Adjustments to contingent consideration | 3 | **(1,239)** | (250) |
| Income tax expense | | **4,274** | 2,957 |
| **Cash inflow for the year before changes in working capital** | | **25,144** | 23,508 |
| Increase in trade and other receivables | | **(2,482)** | (2,899) |
| Increase in trade and other payables | | **289** | 4,031 |
| **Cash generated from operating activities before interest and tax** | | **22,951** | 24,640 |
| Interest paid | | **(791)** | (735) |
| Income taxes paid | | **(2,993)** | (5,452) |
| **Net cash generated from operating activities** | | **19,167** | 18,453 |
| **Cash flows from investing activities** | | | |
| Interest received | | **18** | 3 |
| Acquisition of plant and equipment | | **(1,974)** | (3,620) |
| Development expenditure | 11 | **(2,895)** | (3,660) |
| Acquisition of business net of cash acquired | 14 | **(10,455)** | (7,498) |
| **Net cash used in investing activities** | | **(15,306)** | (14,775) |
| **Cash flows from financing activities** | | | |
| Proceeds from the issue of ordinary share capital | | **294** | 416 |
| Draw down of borrowings | | **1,157** | 2,354 |
| Equity dividends paid | | **(5,830)** | (4,778) |
| **Net cash used in financing activities** | | **(4,379)** | (2,008) |
| **Net (decrease)/increase in cash and cash equivalents** | 23 | **(518)** | 1,670 |
| **Cash and cash equivalents at beginning of year** | | **5,450** | 4,701 |
| Effect of foreign currency | | **(343)** | (921) |
| **Cash and cash equivalents at end of year** | | **4,589** | 5,450 |

## Company cash flow statement
**for the year ended 31 May 2013**

| | 2013 | 2012 |
|---|---|---|
| | £000 | £000 |
| **Cash flow from operating activities** | | |
| (Loss)/Profit for the year | **(319)** | 535 |
| Adjustments for | | |
| Share based charges | **75** | 213 |
| Income tax expense | **112** | 60 |
| **Cash (outflow)/inflow for the year before changes in working capital** | **(132)** | 808 |
| Increase in receivables | **(2,419)** | - |
| Decrease in payables | **(21)** | (6,471) |
| **Cash outflow for the year before interest and tax** | **(2,572)** | (5,663) |
| Interest paid | **-** | - |
| Taxes paid | **(118)** | - |
| **Net cash used in operating activities** | **(2,690)** | (5,663) |
| **Cash flows from investing activities** | | |
| Equity dividends received | **8,000** | 9,125 |
| **Net cash generated from investing activities** | **8,000** | 9,125 |
| **Cash flows from financing activities** | | |
| Proceeds from the issue of ordinary share capital | **294** | 416 |
| Equity dividends paid | **(5,830)** | (4,778) |
| **Net cash used in financing activities** | **(5,536)** | (4,362) |
| **Net decrease in cash and cash equivalents** | **(226)** | (900) |
| **Cash and cash equivalents at beginning of year** | **196** | 1,096 |
| **Cash and cash equivalents at end of year** | **(30)** | 196 |

## Statements of changes of equity
**for the year ended 31 May 2013**

**Group**

| | Issued Share capital £000 | Share premium £000 | Currency Translation reserve £000 | Retained earnings £000 | Total £000 |
|---|---|---|---|---|---|
| **Balance at 1 June 2011** | 341 | 22,830 | (316) | 33,230 | 56,085 |
| Profit for the year | - | - | - | 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) |
| Share based payment transactions | - | - | - | 725 | 725 |
| Current and 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 |

| | Issued Share capital £000 | Share premium £000 | Currency Translation reserve £000 | Retained earnings £000 | **Total £000** |
|---|---|---|---|---|---|
| **Balance at 1 June 2012** | 343 | 23,244 | 41 | 36,730 | 60,358 |
| Profit for the year | - | - | - | 14,484 | 14,484 |
| Foreign currency translation differences | - | - | 876 | - | 876 |
| **Total comprehensive income for the period** | - | - | **876** | **14,484** | **15,360** |
| Transactions with owners recorded directly in equity | | | | | |
| Dividends to equity shareholders | - | - | - | (5,830) | (5,830) |
| Share bonus issue | 1,729 | (1,729) | - | - | - |
| Share based payment transactions | - | - | - | 690 | 690 |
| Current and deferred tax on share based payments | - | - | - | (402) | (402) |
| Shares issued | 3 | 291 | - | - | 294 |
| Purchase of own shares | - | 1,280 | - | (1,280) | - |
| **Total contributions by and distributions to owners** | **1,732** | **(158)** | - | **(6,822)** | **(5,248)** |
| **Balance at 31 May 2013** | **2,075** | **23,086** | **917** | **44,392** | **70,470** |

## Statements of changes of equity
**for the year ended 31 May 2013**

### Company

| | Share capital £000 | Share premium £000 | Retained earnings £000 | **Total £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 |

| | Share capital £000 | Share premium £000 | Retained earnings £000 | **Total £000** |
|---|---|---|---|---|
| **Balance at 1 June 2012** | 343 | 23,244 | 8,841 | 32,428 |
| Loss for the period | - | - | (319) | (319) |
| Dividends received | - | - | 8,000 | 8,000 |
| Foreign currency translation differences | - | - | - | - |
| **Total comprehensive income for the period** | - | - | **7,681** | **7,681** |
| Transactions with owners recorded directly in equity | | | | |
| Dividends to equity shareholders | - | - | (5,830) | (5,830) |
| Share based payment transactions | - | - | 75 | 75 |
| Increase in subsidiary investment for share based charges | - | - | 615 | 615 |
| Share bonus issue | 1,729 | (1,729) | - | - |
| Shares issued | 3 | 291 | - | 294 |
| Purchase of own shares | - | 1,280 | (1,280) | - |
| **Total contributions by and distributions to owners** | **1,732** | **(158)** | **(6,420)** | **(4,846)** |
| **Balance at 31 May 2013** | **2,075** | **23,086** | **10,102** | **35,263** |

## Notes
**(forming part of the financial statements)**

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

**Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis except for the following items in the statement of financial position,

Liabilities for equity settled share based payment agreements are measured at fair value
Assets and Liabilities acquired in a business combination are measured at fair value

**Functional and presentation currency**

The Group and Company financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated

**Going concern**
The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Operational and Financial Review on pages 8 to 16 The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 8 to 12 In addition, note 20 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 funds its strategic acquisitions and meets its day to day working capital requirements via a revolving credit facility of £40m and an overdraft of £5m This facility was agreed in April 2013 and is not due for renewal until July 2016

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 this facility and as a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain external 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

**Notes (continued)**

**1 Accounting policies (continued)**

**Going concern (continued)**

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

**Restatement**

On the 18 December 2012, NCC Group made a bonus issue of five ordinary shares for every one share held The consolidated income statement for the year ended 31 May 2012 has been restated to present the Group's basic earnings per share on a consistent basis 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,

IFRS1 First-Time Adoption of International Financial Reporting Standards (Amendment) — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters,
IFRS7 Financial Instruments Disclosures (Amendment),
IAS12 Income Taxes (Amendment) — Deferred Taxes Recovery of Underlying Assets

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 2013 and have not been applied in preparing these consolidated financial statements The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's or the Company's financial statements in the period of initial application

| International Accounting Standards (IAS / IFRS) | | Effective date |
|---|---|---|
| IAS 1 | Presentation of Items of Other Comprehensive Income — Amendments to IAS 1 | 1 July 2012 |
| IFRS 7 | Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7 | 1 January 2013 |
| IFRS 10 | Consolidated Financial Statements | 1 January 2014 |
| IAS 27 | Separate Financial Statements | 1 January 2014 |
| IFRS 11 | Joint Arrangements | 1 January 2014 |
| IAS 28 | Investments in Associates and Joint Ventures | 1 January 2014 |
| IFRS 12 | Disclosure of Interests in Other Entities | 1 January 2014 |
| IFRS 13 | Fair Value Measurement | 1 January 2013 |
| IFRS 1 | First-time Adoption of International Financial Reporting Standards — Repeated application of IFRS 1 | 1 January 2013 |
| IAS 1 | Presentation of Financial Statements — Clarification of requirements for comparative information | 1 January 2013 |
| IAS 16 | Property, Plant and Equipment — Classification of servicing equipment | 1 January 2013 |
| IAS 32 | Financial Instruments Presentation — Tax effects of distributions to holders of equity instruments | 1 January 2013 |

**Notes (continued)**

**1 Accounting policies (continued)**

**Accounting standards not yet effective (continued)**

| | | |
|---|---|---|
| IAS 34 | Interim Financial Reporting — Interim financial reporting and segment information for total assets and liabilities | 1 January 2013 |
| IAS 32 | Offsetting Financial Assets and Financial Liabilities (Amendments) | 1 January 2014 |
| IFRS 9 | Financial Instruments | 1 January 2015 |

**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

**Notes (continued)**

**1 Accounting policies (continued)**

**Basis of consolidation (continued)**

**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

**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 has the technical ability and sufficient resources to complete development Additionally, future economic benefits are probable and 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

**Notes (continued)**

**1 Accounting policies (continued)**
**Intangible assets and goodwill (continued)**

The expenditure capitalised includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use 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 |
| Capitalised development costs | – between 3 and 10 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

**Notes (continued)**

**1 Accounting policies (continued)**

*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

**Impairment excluding deferred tax assets**

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

**Related party transactions**
Details of related party transactions are set out in note 26 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

**Notes (continued)**

**1 Accounting policies (continued)**

**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 2013, the Group has three reportable segments (2012 two), Group Escrow, Assurance Testing and Artemis Group Escrow, Assurance Testing and the newly formed Artemis 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 (the chief operating decision maker) 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, over the term of the lease

## 1 Accounting policies (continued)

**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

**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

**Notes (continued)**

## 1 Accounting policies (continued)

**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

## Notes (continued)

### 1 Accounting policies (continued)

**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

Note 1 – Revenue recognition
Note 1 - Assessment of intangible assets useful economic lives
Note 14 - The valuation of intangible assets arising on acquisitions

The areas involving the most sensitive estimates and assumptions that are significant to the financial statements or have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes,

Note 11 – key assumptions used in discounted cash flow projections
Note 14 – measurement of contingent consideration

### 2 Segmental information

The Group is organised into three operating segments (2012 two) Group Escrow, Assurance Testing and Artemis each of which is separately reported The Directors have assessed the newly formed Artemis to be a separate operating segment from Assurance Testing as it will be managed separately, will require different technology and offer a different range of services

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

| | **2013** | 2012 |
|---|---|---|
| | **£000** | £000 |
| **Revenue by business segment** | | |
| Escrow UK | **20,888** | 20,296 |
| Escrow Europe | **3,180** | 3,224 |
| Escrow USA | **4,449** | 4,424 |
| **Total Group Escrow** | **28,517** | 27,944 |
| | | |
| Security Testing, Audit and Compliance | **61,947** | 51,760 |
| Web Performance | **8,761** | 8,009 |
| **Total Assurance Testing** | **70,708** | 59,769 |
| **Artemis** | **-** | - |
| **Total revenue** | **99,225** | 87,713 |

All revenue is in relation to services provided

**Notes (continued)**

## 2 Segmental information (continued)

| | 2013 £000 | 2012 £000 |
|---|---|---|
| **Operating profit by business segment** | | |
| Group Escrow | **16,737** | 16,320 |
| Assurance Testing | **12,022** | 10,259 |
| Artemis | **(1,174)** | - |
| Segment operating profit | **27,585** | 26,579 |
| Head office costs | **(3,647)** | (3,177) |
| **Operating profit before amortisation of acquired intangibles, charges for share based payments and exceptional items** | **23,938** | 23,402 |
| Amortisation of acquired intangible assets Group Escrow | **(712)** | (559) |
| Amortisation of acquired intangible assets Assurance Testing | **(2,900)** | (3,167) |
| Share based payments | **(760)** | (946) |
| **Operating profit before exceptional items** | **19,566** | 18,730 |
| Exceptional items | **261** | (7,111) |
| **Operating profit** | **19,827** | 11,619 |

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

| | Assets 2013 £000 | Liabilities 2013 £000 | Assets 2012 £000 | Liabilities 2012 £000 |
|---|---|---|---|---|
| **Assets/(liabilities) by business segment** | | | | |
| Group Escrow | **13,689** | **(14,758)** | 13,846 | (18,736) |
| Assurance Testing | **16,006** | **(7,532)** | 18,872 | (9,919) |
| Artemis | **1,539** | **(2,974)** | - | - |
| Unallocated | **109,627** | **(45,127)** | 90,589 | (34,294) |
| **Total assets/(liabilities)** | **140,861** | **(70,391)** | 123,307 | (62,949) |

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

| 2013 | Depreciation £000 | Capital expenditure £000 | Total costs incurred to acquire segmental assets £000 |
|---|---|---|---|
| Group Escrow | 273 | 521 | - |
| Assurance Testing | 784 | 805 | 7,824 |
| Artemis | 2 | 22 | - |
| Unallocated | 905 | 649 | - |
| **Total** | **1,964** | **1,997** | **7,824** |

## 2 Segmental information (continued)

| 2012 | Depreciation £000 | Capital expenditure £000 | Total costs incurred to acquire segmental assets £000 |
|---|---|---|---|
| Group Escrow | 171 | 522 | - |
| Assurance Testing | 661 | 921 | 1,200 |
| Artemis | - | - | - |
| Unallocated | 742 | 2,177 | - |
| **Total** | **1,574** | **3,620** | **1,200** |

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

| | **2013 £000** | 2012 £000 |
|---|---|---|
| **Revenue by geographical origin and destination** | | |
| UK | **63,090** | 60,383 |
| Rest of Europe | **7,702** | 6,172 |
| Rest of the World | **28,433** | 21,158 |
| **Total revenue** | **99,225** | 87,713 |

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

| | **Assets 2013 £000** | **Liabilities 2013 £000** | Assets 2012 £000 | Liabilities 2012 £000 |
|---|---|---|---|---|
| **Asset/ (liabilities) by geographical segment** | | | | |
| UK | **89,001** | **(33,022)** | 87,989 | (40,470) |
| Rest of Europe | **3,711** | **(2,087)** | 4,893 | (2,358) |
| Rest of the World | **48,149** | **(35,282)** | 30,425 | (20,121) |
| **Total assets/(liabilities)** | **140,861** | **(70,391)** | 123,307 | (62,949) |

**Notes (continued)**

## 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 Subsequent revisions of estimates for items initially recognised as exceptional provisions are recorded as exceptional items in the year that the revision is made

| | **2013** | 2012 |
|---|---|---|
| | **£000** | £000 |
| **Operating exceptional items** | | |
| Impairment losses (see note 11) | **-** | (6,104) |
| Legal fees | **(372)** | - |
| Unused remedial costs | **219** | (904) |
| Acquisition related costs | **(825)** | (353) |
| Revision to estimates of contingent consideration (see note 14) | **1,239** | 250 |
| **Total** | **261** | (7,111) |

Legal fees of £0 4m are primarily in respect of legal advice received in relation to the Groups claim to recover capitalised and other costs incurred as part of the Groups IT system implementation which was terminated in May 2012 These are in part offset by the £0 2m release of the £0 9m previously provided for the completion of the Groups transfer of operations to its previous IT system (see note 19)

Acquisition related costs of £0 8m (2012 £0 4m) principally consist of professional fees incurred in relation to the acquisitions made during the current and previous years (see note 14)

In accordance with IFRS3, the Directors have re-assessed the carrying value of contingent consideration held in respect of business acquisitions and this has resulted in a £1 2m release of provisions held (2012 £250,000)(see note 14)

Impairment losses of £6 1m related to the write off of costs capitalised following the termination of the Groups IT system implementation project in May 2012

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

| | **2013** | 2012 |
|---|---|---|
| | **£000** | £000 |
| **Exceptional items and acquisition related costs** | | |
| Credit in respect of impairment losses and remedial costs | **-** | (1,798) |
| Credit in respect of legal fees | **(85)** | - |
| Credit in respect of acquisition related costs | **(83)** | (101) |
| Revision to estimates of contingent consideration | **-** | - |
| **Total** | **(168)** | (1,899) |

## 4 Expenses and auditors' remuneration

| | 2013 £000 | 2012 £000 |
|---|---|---|
| Profit before taxation is stated after charging/(crediting) | | |
| *Amounts receivable by auditors and their associates in respect of* | | |
| Audit of these financial statements | **27** | 22 |
| Audit of financial statements of subsidiaries pursuant to legislation | **36** | 36 |
| Total audit | **63** | 58 |
| Other assurance services | **8** | 8 |
| Taxation compliance services | **2** | 43 |
| Total fees | **73** | 109 |
| *Depreciation and other amounts written off tangible and intangible fixed assets* | | |
| Owned | **1,964** | 1,574 |
| Amortisation of intangible assets | **3,929** | 3,726 |
| Impairment losses (see note 3) | **-** | 6,104 |
| Exchange gains | **(3)** | (46) |
| *Operating lease rentals charged* | | |
| Hire of property, plant and equipment | **1,687** | 1,759 |
| Other operating leases | **864** | 802 |
| (Profit)/loss on disposal of fixed assets | **(27)** | 7 |

## 5 Staff numbers and costs

Directors' emoluments are disclosed in the directors' remuneration report on pages 29 to 35

**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 2013 | 2012 |
|---|---|---|
| Operational | **278** | 236 |
| Administration, sales and marketing | **443** | 376 |
| | **721** | 612 |

The aggregate payroll costs of these persons were as follows

| | 2013 £000 | 2012 £000 |
|---|---|---|
| Wages and salaries | **42,440** | 34,403 |
| Share based payments (note 21) | **690** | 725 |
| Social security costs | **3,918** | 3,389 |
| Other pension costs (note 25) | **856** | 649 |
| | **47,904** | 39,166 |

**Notes (continued)**

## 6 Net financing costs

| | 2013 £000 | 2012 £000 |
|---|---|---|
| **Financial income** | | |
| Interest on short term deposits | **18** | 3 |
| | **18** | 3 |
| **Financial expenses** | | |
| Interest payable on bank loans and overdrafts | **(791)** | (832) |
| Interest capitalised within the construction of intangible assets | **-** | 103 |
| Amortisation of deal fees on term loans | **(129)** | (113) |
| Contingent consideration finance expense (see below) | **(167)** | (208) |
| | **(1,087)** | (1,050) |

Contingent consideration related to the acquisition of subsidiary undertakings has been discounted to present value

The contingent consideration finance expense of £167,000 (2012 £208,000) relates to the acquisitions of iSEC Partners Inc, Matasano Security LLC and Intrepidus Group, Inc 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** | 2013 £000 | 2012 £000 |
|---|---|---|
| SDLC Limited | **-** | 41 |
| iSEC Partners Inc | **12** | 135 |
| Escrow Associates LLC | **-** | 26 |
| Axzona Limited | **-** | 6 |
| Matasano Security LLC | **88** | - |
| Intrepidus Group, Inc | **67** | - |
| | **167** | 208 |

The discount rate used was 3% (2012 3%)

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

| **Contingent consideration** | 2013 £000 | 2012 £000 |
|---|---|---|
| Matasano Security LLC | **4,184** | - |
| Intrepidus Group, Inc | **2,758** | - |
| iSEC Partners Inc | **-** | 2,582 |
| Escrow Associates LLC | **-** | 911 |
| Axzona Limited | **-** | 250 |
| | **6,942** | 3,743 |

## 6 Net financing costs (continued)

Current liabilities includes £2,177,000 (2012 £3,493,000) in respect of contingent considerations (see note 16)

## 7 Taxation

### Recognised in the income statement

| | 2013 £000 | 2012 £000 |
|---|---|---|
| *Current tax expense* | | |
| Current year | **4,499** | 2,308 |
| Adjustment to tax expense in respect of prior periods | **(61)** | 86 |
| Foreign tax | **625** | 1,711 |
| Total current tax | **5,063** | 4,105 |
| Deferred tax (note 15) | **(789)** | (1,148) |
| Tax in income statement | **4,274** | 2,957 |

### Reconciliation of effective tax rate

| | 2013 £000 | 2012 £000 |
|---|---|---|
| Profit before taxation | **18,758** | 10,572 |
| Current tax using the UK corporation tax rate of 23 83% (2012 25 67%) | **4,470** | 2,714 |
| Effects of | | |
| Items not (taxable)/deductible for tax purposes | **(57)** | (171) |
| Adjustment to tax charge in respect of prior periods | **(354)** | 118 |
| Differences between overseas tax rates | **122** | 232 |
| Movements in temporary differences not recognised | **71** | 51 |
| Effect of rate change | **22** | 13 |
| Total tax expense | **4,274** | 2,957 |

Current and deferred tax recognised directly in equity was a charge of £402,000 (2012 £62,000)

A reduction in the UK corporation tax rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively This will reduce the Company's future current tax charge accordingly The deferred tax liability at 31 May 2013 has been calculated based on the rate of 23% substantively enacted at the balance sheet date

The March 2013 Budget announced that the rate will further reduce to 20% by 2015 in addition to the planned reduction to 21% by 2014 previously announced in the December 2012 Autumn Statement It is not anticipated that the further 3% rate reduction will have a material impact on the Group's deferred tax asset/liability

**Notes (continued)**

## 8 Dividends

On the 18 December 2012, NCC Group made a bonus issue of five ordinary shares for every one share held The comparative information provided in the table below has been restated to present the dividend per share had the bonus issue taken place prior to 31 May 2012

| | **2013 £000** | (restated) 2012 £000 |
|---|---|---|
| Dividends paid and recognised in the year | **5,830** | 4,778 |
| Dividends proposed but not recognised in the year | **4,400** | 3,796 |
| Dividends per share paid and recognised in the year | **2 81p** | 2 33p |
| Dividends per share proposed but not recognised in the year | **2.12p** | 1 83p |

## 9 Earnings per share

The calculation of earnings per share is based on the following

| | **2013 £000** | **2013 £000** | 2012 £000 | 2012 £000 |
|---|---|---|---|---|
| Profit for the year from continuing operations used for earnings per share | | **14,484** | | 7,615 |
| Amortisation of acquired intangible assets | **3,612** | | 3,726 | |
| Exceptional items (note 3) | **(261)** | | 7,111 | |
| Unwinding of discount (note 6) | **167** | | 208 | |
| Share based payments (note 21) | **760** | | 946 | |
| Tax arising on the above items | **(937)** | | (3,207) | |
| | | | | 8,784 |
| Adjusted profit from continuing operations used for adjusted earnings per share | | **17,825** | | 16,399 |

| | **Number of shares 000s** | (restated) Number of shares 000s |
|---|---|---|
| Basic weighted average number of shares in issue | **207,303** | 205,578 |
| Dilutive effect of share options | **4,132** | 4,986 |
| Diluted weighted average shares in issue | **211,435** | 210,564 |

On the 18 December 2012, NCC Group made a bonus issue of five ordinary shares for every one share held The comparative information in the table above has therefore been restated

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding

## 10 Profit attributable to members of the parent company

The loss for the year dealt with in the accounts of the parent company was £319,000 (2012 profit, £535,000)

## 11 Intangible assets – Group

| | Software | Development costs | Customer contracts and relationships | Goodwill | Total |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| **Cost:** | | | | | |
| At 1 June 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** |
| Acquisitions through business combinations | - | - | 3,958 | 11,371 | 15,329 |
| Other acquisitions – internally developed | - | 2,895 | - | - | 2,895 |
| Effects of movements in exchange rates | - | 23 | 481 | 1,489 | 1,993 |
| **At 31 May 2013** | **7,244** | **3,272** | **23,817** | **92,189** | **126,522** |
| **Amortisation** | | | | | |
| 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** |
| Charge for year | 270 | 47 | 3,612 | - | 3,929 |
| Effects of movements in exchange rates | - | - | 107 | - | 107 |
| **At 31 May 2013** | **6,787** | **47** | **14,008** | **-** | **20,842** |
| Net book value | | | | | |
| **At 31 May 2013** | **457** | **3,225** | **9,809** | **92,189** | **105,680** |
| At 31 May 2012 | 727 | 354 | 9,089 | 79,329 | 89,499 |

As detailed in note 6, additions during the year ended 31 May 2013 include £Nil of capitalised borrowing costs (2012 £103,000)

The remaining useful economic life of customer contracts and relationships is between 1 and 8 years

**Notes (continued)**

## 11 Intangible assets – Group (continued)

The Group has made two acquisitions in the year, details of which are included in note 14

The Company has no intangible assets

For the purpose of impairment testing, goodwill has been allocated to the Group's three operating divisions, which are also operating segments, as these represent the lowest level at which goodwill is monitored for internal management purposes

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 | |
|---|---|---|
| | **2013** | 2012 |
| Cash generating units | **£000** | £000 |
| Escrow | **22,871** | 22,871 |
| Escrow Europe | **7,071** | 6,653 |
| Escrow USA | **7,045** | 6,831 |
| **Total Group Escrow** | **36,987** | 36,355 |
| Assurance Testing | **47,312** | 35,084 |
| Web performance | **7,890** | 7,890 |
| **Total Assurance Testing** | **55,202** | 42,974 |
| **Artemis** | **-** | - |
| **Total** | **92,189** | 79,329 |

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% (2012 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 2% – 14 7% have been used in discounting the projected cash flows (2012 10 1% - 14 3% )

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

## 12 Plant and equipment – Group

| | Computer equipment £000 | Plant and equipment £000 | Fixtures and fittings £000 | Motor vehicles £000 | Total £000 |
|---|---|---|---|---|---|
| **Cost.** | | | | | |
| **At 1 June 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** |
| Additions | 1,136 | - | 717 | 154 | 2,007 |
| Disposals | - | - | - | (37) | (37) |
| Movement in foreign exchange rates | 15 | - | 20 | - | 35 |
| **At 31 May 2013** | **10,137** | **410** | **5,387** | **310** | **16,244** |
| **Depreciation:** | | | | | |
| **At 1 June 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** |
| Charge for year | 1,342 | - | 573 | 49 | 1,964 |
| Disposals | - | - | - | (31) | (31) |
| Movement in foreign exchange rates | 6 | - | 3 | - | 9 |
| **At 31 May 2013** | **8,323** | **410** | **2,300** | **80** | **11,113** |
| **Net book value:** | | | | | |
| **At 31 May 2013** | **1,814** | **-** | **3,087** | **230** | **5,131** |
| At 31 May 2012 | 2,011 | - | 2,926 | 131 | 5,068 |

The company has no plant and equipment

## 13 Trade and other receivables

| | **Group 2013 £000** | Group 2012 £000 | **Company 2013 £003** | Company 2012 £000 |
|---|---|---|---|---|
| Trade receivables | **16,598** | 14,280 | **-** | - |
| Prepayments and accrued income | **7,876** | 7,067 | **-** | 80 |
| Amounts owed by group undertakings | **-** | - | **2,499** | - |
| | **24,474** | 21,347 | **2,499** | 80 |

**Notes (continued)**

## 14 Acquisitions

### Matasano Security LLC

On 1 August 2012 the Group acquired 100% of the partnership interests of Matasano Security LLC for a maximum consideration of £8 1m, of which up to a maximum of £4 1m 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 2013 and 31 July 2014 The contingent consideration is expected to be paid in November 2013 and November 2014

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

| | Fair values £000 |
|---|---|
| **Acquiree's identifiable net assets at the acquisition date:** | |
| Plant and equipment | - |
| Trade and other receivables | 460 |
| Cash | 38 |
| Creditors & accruals | (363) |
| Current tax liability | (120) |
| Deferred tax liability | - |
| Intangible assets purchased | 2,163 |
| Net identifiable assets | 2,178 |
| Goodwill on acquisition | 5,694 |
| Expected consideration to be paid | 7,872 |
| Less purchase consideration withheld | (3,922) |
| Net cash outflow | 3,950 |
| Cash acquired | (38) |
| Net cash outflow excluding cash acquired | 3,912 |

The trade receivables comprise gross contractual amounts due of £447,000 None of the receivables have been impaired and the full contractual amounts have been collected

Goodwill of £5 7m 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 goodwill is expected to be deductible for tax purposes

During the period from acquisition, the Company contributed £3,346,000 to Group revenues It is not practical to separately disclose the Company's profits post acquisition due to its integration into the Group's Assurance Division It is not practical to disclose what the contribution to Group revenue and profits would have been had the acquisition of Matasano Security Services LLC been completed on the first day of the current period, as financial information was not prepared on an IFRS basis prior to acquisition

As noted above, as part of the sale and purchase agreement, a contingent consideration was agreed of up to a maximum of £4 1m which is withheld subject to the achievement of performance criteria specified in the purchase agreement and is based on profit growth forecasts and market multiples The fair value of the contingent consideration at the acquisition date was £3 9m using a discount rate of 3%

**Notes (continued)**

## 14 Acquisitions (continued)

**Intrepidus Group, Inc**

On 17 August 2012 the Group acquired 100% of the share capital of Intrepidus Group Inc for a maximum consideration of £7 1m, of which up to a maximum of £3 3m has been withheld subject to the achievement of performance criteria specified in the purchase agreement and £0 4m deferred for one year The performance conditions are required to be satisfied by 31 August 2013 and 31 August 2014 The contingent consideration is expected to be paid in December 2013 and December 2014

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

| | Fair values £000 |
|---|---|
| **Acquiree's identifiable net assets at the acquisition date:** | |
| Plant and equipment | - |
| Trade and other receivables | 186 |
| Cash | 184 |
| Creditors & accruals | (328) |
| Deferred tax liability | (718) |
| Intangible assets purchased | 1,795 |
| Net identifiable assets | 1,119 |
| Goodwill on acquisition | 5,677 |
| Expected consideration to be paid | 6,796 |
| Less purchase consideration withheld | (3,525) |
| Net cash outflow | 3,271 |
| Cash acquired | (184) |
| Net cash outflow excluding cash acquired | 3,087 |

The trade receivables comprise gross contractual amounts due of £185,000 None of the receivables have been impaired and the full contractual amounts have been collected

Goodwill of £5 7m 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 goodwill is not expected to be deductible for tax purposes

During the period from acquisition, the Company contributed £1,337,000 to Group revenue It is not practical to separately disclose the Company's profits post acquisition due to its integration into the Group's Assurance Division It is not practical to disclose what the contribution to Group revenue and profits would have been had the acquisition of Intrepidus Group Inc been completed on the first day of the current period, as financial information was not prepared on an IFRS basis prior to acquisition

As noted above, as part of the sale and purchase agreement, a contingent consideration was agreed of up to a maximum of £3 3m which is withheld subject to the achievement of performance criteria specified in the purchase agreement and is based on profit growth forecasts and market multiples In addition, consideration of £0 4m has been deferred for one year from the date of acquisition The fair value of the contingent consideration at the acquisition date was £3 2m, using a discount rate of 3%

## 14 Acquisitions (continued)

Due to the inherent uncertainties in deriving forecasts the level of contingent consideration is reassessed at each reporting date to reflect revisions to forecasts or differences between forecast and actual performance As a result, as at 31 May 2013 the contingent consideration has been decreased from £3 3m to £2 4m to reflect the current estimate of its fair value The fair value adjustment is recognised within exceptional administration expenses (see note 3)

During the period, as a result of the acquisitions noted above, total acquisition related costs of £825,000 were incurred (see note 3)

During the period, £2 6m was paid in relation to the final settlement of the deferred consideration due on the acquisition of iSEC Partners, Inc During the period, £856,000 was paid in relation to the final settlement of the deferred consideration due on the acquisition of Escrow Associates LLC

During the year, the Directors have reassessed the carrying value of the contingent consideration held in respect of Axzona Limited and as a result of this review the fair value of the contingent consideration has decreased to £Nil (2012 £250,000) as it is now considered unlikely that the final payment due in August 2013 will be paid The fair value adjustment is recognised within exceptional administration expenses (see note 3)

## 15 Deferred tax assets and liabilities

Group

Recognised deferred tax assets and liabilities are attributable to the following

| | **Assets** | | **Liabilities** | | **Net** | |
|---|---|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 | **2013** | 2012 |
| | **£000** | £000 | **£000** | £000 | **£000** | £000 |
| Plant and equipment | **304** | 183 | **-** | - | **304** | 183 |
| Short term temporary differences | **266** | 169 | **-** | - | **266** | 169 |
| Intangible assets | **-** | 796 | **(225)** | (946) | **(225)** | (150) |
| Share based payments | **417** | 765 | **-** | - | **417** | 765 |
| Tax losses | **-** | 30 | **-** | - | **-** | 30 |
| Tax deductible goodwill | **-** | - | **(823)** | (397) | **(823)** | (397) |
| Deferred tax asset/(liability) | **987** | 1,943 | **(1,048)** | (1,343) | **(61)** | 600 |

Movement in deferred tax during the year

| | 1 June 2012 | Recognised in income | Recognised in equity | Acquisitions | **31 May 2013** |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | **£000** |
| Plant and equipment | 183 | 121 | - | - | **304** |
| Short term temporary differences | 169 | 97 | - | - | **266** |
| Intangible assets | (150) | 643 | - | (718) | **(225)** |
| Share based payments | 765 | 384 | (732) | - | **417** |
| Tax losses | 30 | (30) | - | - | **-** |
| Tax deductible goodwill | (397) | (426) | - | - | **(823)** |
| | 600 | 789 | (732) | (718) | **(61)** |

## 15 Deferred tax assets and liabilities (continued)

| | 1 June 2011 £000 | Recognised in income £000 | Recognised in equity £000 | Acquisitions £000 | 31 May 2012 £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 |

The Company has deferred tax assets related to share based payments of £138,000 (2012 £252,000)

The Group has not recognised a deferred tax asset on non UK losses of £375,000 (2012 £101,000) due to the uncertainty over recoverability These tax losses do not expire

The Group has an unrecognised deferred tax liability of £Nil (2012 £800,000) which would only arise in the event of the sale of the shares or assets in NCC Group Inc

As at 31 May 2013, the temporary differences arising from un-remitted earnings of overseas subsidiaries was £477,000 (2012 £2,486,000) No material tax charges are expected to arise if they were to be distributed and therefore a deferred tax liability in respect of unremitted earnings has not been recognised

## 16 Trade and other payables

| | **Group 2013 £000** | Group 2012 £000 | **Company 2013 £000** | Company 2012 £000 |
|---|---|---|---|---|
| Trade payables | **2,944** | 2,630 | - | - |
| Amounts owed to Group undertakings | - | - | - | 23 |
| Contingent consideration on acquisitions | **2,177** | 3,493 | - | - |
| Non trade payables | **4,251** | 2,960 | - | - |
| Accruals | **5,359** | 6,003 | - | - |
| | **14,731** | 15,086 | - | 23 |

## 17 Deferred revenue

| | **Group 2013 £000** | Group 2012 £000 | **Company 2013 £000** | Company 2012 £000 |
|---|---|---|---|---|
| Deferred revenue | **16,847** | 15,926 | - | - |
| | **16,847** | 15,926 | - | - |

Deferred revenue of £12,084,000 (2012 £11,662,000) 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 £3,252,000 (2012 £4,264,000) 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 The remaining deferred revenue of £1,511,000 (2012 £Nil) relates to Assurance revenue

**Notes (continued)**

## 18 Non-current liabilities

| | **Group 2013 £000** | Group 2012 £000 | **Company 2013 £000** | Company 2012 £000 |
|---|---|---|---|---|
| Secured bank loan | **30,080** | 28,257 | - | - |
| Issue costs | **(357)** | (220) | - | - |
| Amortisation of issue costs | **129** | 112 | - | - |
| Interest bearing loans | **29,852** | 28,149 | - | - |
| Deferred tax (note 15) | **1,048** | 1,343 | - | - |
| Contingent consideration on acquisitions (note 6) | **4,765** | 250 | - | - |
| Other financial liabilities | **577** | 579 | - | - |
| Total non current liabilities | **36,242** | 30,321 | - | - |

For more information about the contractual terms of the Groups interesting bearing secured bank loan, which is measured at amortised cost, see note 20

Other financial liabilities of £577,000 relates to the balance of a rent free period (2012 £579,000) which is released to the income statement over the term of the lease

## 19 Provisions

| | **Remedial costs £000** |
|---|---|
| At 1 June 2012 | |
| Current | 904 |
| Non-current | - |
| Utilised during the year | (685) |
| Reversed during the year (see note 3) | (219) |
| **At 31 May 2013** | - |
| Analysed as | |
| Current | - |
| Non-current | - |

Remedial costs related 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

## 20 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

**Notes (continued)**

**20 Financial instruments (continued)**

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 2013 the Group's gearing ratio was 30% (2012 30%)

**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 2013 the Group and Company had no other financial instruments other than those disclosed below The carrying value of all financial liabilities in these financial statements represents their estimated amortised cost

**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 2013 £000** | Group 2012 £000 | **Company 2013 £000** | Company 2012 £000 |
|---|---|---|---|---|
| Trade receivables | **16,598** | 14,280 | - | - |
| Cash and cash equivalents | **4,589** | 5,450 | **(30)** | 196 |
| | **21,187** | 19,730 | **(30)** | 196 |

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

| **Debtors by geographical segment** | **Group 2013 £000** | Group 2012 £000 | **Company 2013 £000** | Company 2012 £000 |
|---|---|---|---|---|
| UK | **12,086** | 11,242 | - | - |
| Rest of Europe | **363** | 387 | - | - |
| Rest of the World | **4,149** | 2,651 | - | - |
| | **16,598** | 14,280 | - | - |

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

| **Debtors by business segment** | **Group 2013 £000** | Group 2012 £000 | **Company 2013 £000** | Company 2012 £000 |
|---|---|---|---|---|
| Group Escrow | **5,130** | 5,693 | - | - |
| Assurance Testing | **11,468** | 8,587 | - | - |
| Artemis | - | - | - | - |
| | **16,598** | 14,280 | - | - |

**20 Financial instruments (continued)**

The trade receivables of the Group typically comprise of smaller amounts due from a large number of 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 1% of total Group receivables (2012 3%) All of the Group's cash is held with financial institutions of high credit rating

**Impairment losses**

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

**Group**

| | **Gross 2013 £000** | **Impairment £000** | Gross 2012 £000 | Impairment £000 |
|---|---|---|---|---|
| Not past due | **10,973** | **-** | 9,485 | - |
| Past due 0-30 days | **3,804** | **-** | 2,963 | - |
| Past due 31-90 days | **1,475** | **-** | 1,282 | - |
| Past due more than 90 days | **623** | **(277)** | 878 | (328) |
| | **16,875** | **(277)** | 14,608 | (328) |

The Company had no trade receivables (2012 £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 2013 £000** | Group 2012 £000 |
|---|---|---|
| Balance at 1 June | **328** | 645 |
| Credit for the year | **(51)** | (317) |
| **Balance at 31 May** | **277** | 328 |

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 (2012 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

**20 Financial instruments (continued)**

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

| At 31 May 2013 | Carrying amount £000 | Contractual Cash flows £000 | 6 months or less £000 | 6-12 Months £000 | 1-2 Years £000 | 2-3 Years £000 |
|---|---|---|---|---|---|---|
| **Secured bank borrowings** | **(29,852)** | **(30,080)** | **-** | **-** | **-** | **(30,080)** |
| **Trade and other payables** | **(12,554)** | **(12,554)** | **(12,554)** | **-** | **-** | **-** |
| **Contingent consideration** | **(6,942)** | **(6,942)** | **(378)** | **(1,800)** | **(4,764)** | **-** |
| At 31 May 2012 | | | | | | |
| Secured bank borrowings | (28,149) | (29,257) | - | - | (29,257) | - |
| Trade and other payables | (11,593) | (11,593) | (11,593) | - | - | - |
| Contingent consideration | (3,743) | (3,743) | - | (3,493) | (250) | - |

The financial liabilities of the Company all have contractual maturities within 6 months (2012 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

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Sterling £000** | **Euros £000** | **USD £000** | **AUD £000** | Sterling £000 | Euros £000 | USD £000 | AUD £000 |
| Loans and receivables | **12,118** | **334** | **3,986** | **160** | 11,242 | 387 | 2,516 | 135 |
| Cash and cash equivalents | **2,399** | **615** | **1,512** | **63** | 2,710 | 1,421 | 1,269 | 50 |
| Bank borrowings | **8,222** | **-** | **21,630** | **-** | 15,000 | - | 13,149 | - |
| Trade and other payables | **10,737** | **159** | **8,535** | **65** | 8,753 | 959 | 5,241 | 383 |

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

**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

| | **2013** | 2012 |
|---|---|---|
| | **£000** | £000 |
| Sterling denominated financial assets | **2,399** | 2,710 |
| Euro denominated financial assets | **615** | 1,421 |
| US dollar denominated financial assets | **1,512** | 1,269 |
| AU dollar denominated financial assets | **63** | 50 |
| Current trade and other receivables | **16,598** | 14,280 |
| | **21,187** | 19,730 |

## 20 Financial instruments (continued)

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

| | 2013 | 2012 |
|---|---|---|
| | £000 | £000 |
| Sterling denominated financial assets | - | 196 |
| Current trade and other receivables | - | 80 |
| Amounts owed by Group undertakings | 2,499 | - |
| | 2,499 | 276 |

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

| | 2013 | 2012 |
|---|---|---|
| Maturity | £000 | £000 |
| Less than 1 year | 2,177 | 3,493 |
| 1 to 2 years | 4,765 | 250 |
| Sterling denominated 2 to 3 years | 8,222 | 15,000 |
| US dollar denominated 2 to 3 years | 21,630 | 13,149 |
| 3 to 4 years | - | - |
| Current trade and other payables | 12,554 | 11,593 |
| | 49,348 | 43,485 |

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

| | 2013 | 2012 |
|---|---|---|
| Maturity | £000 | £000 |
| Less than 1 year | - | - |
| 1 to 2 years | - | - |
| 2 to 3 years | - | - |
| 3 to 4 years | 30 | - |
| Current trade and other payables | - | 23 |
| Sterling denominated financial liabilities | 30 | 23 |

As at 31 May 2013 the Group had a multi-currency revolving credit facility of £40 million (2012 £35 million) The interest payable on drawn down funds ranges from 1 5% to 2 25% above Libor subject to the Group's net debt to EBITDA ratio At the end of May 2013, the effective rate was 1 6% (2012 2%) The revolving credit facility is available until July 2016

## 21 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

On the 18 December 2012, NCC Group plc shareholders approved a bonus issue of ordinary shares of five shares for every one share held The information provided in the following tables has therefore been presented on the revised basis and the comparative information has been restated

## 21 Share based payments (continued)

**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 | 2013 Number Outstanding |
|---|---|---|---|---|
| July 2004 | 6 years | July 2007 - July 2014 | £0 28 | 14,988 |
| August 2007 | 6 years | July 2010 – July 2017 | £0 64 | 82,764 |
| February 2008 | 6 years | Feb 2011 – Feb 2018 | £0 65 | 156,592 |

**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 | 2013 Number Outstanding |
|---|---|---|---|---|
| July 2009 | 6 years | July 2012 – July 2019 | £0 55 | 81,810 |
| July 2010 | 6 years | July 2013 – July 2020 | £0 71 | 28,092 |
| July 2012 | 6 years | July 2015 – July 2021 | £1 36 | 363,900 |

**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 | 2013 Number outstanding |
|---|---|---|---|---|
| Jul 2010 | 3 years | June 2013 – June 2014 | Nil* | 1,173,462 |
| Jul 2011 | 3 years | June 2014 – June 2015 | Nil* | 988,434 |
| Jul 2012 | 3 years | June 2015 – June 2016 | Nil* | 908,400 |

*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 | 2013 Number Outstanding |
|---|---|---|---|---|
| August 2010 | 3 25 years | September 2013 - February 2014 | £0 56 | 637,812 |
| August 2011 | 3 25 years | September 2014 - February 2015 | £0 85 | 443,526 |
| August 2012 | 3 25 years | September 2015 - February 2016 | £1 09 | 577,626 |

**Notes (continued)**

**21 Share based payments (continued)**

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

| Scheme | | Number of instruments as at 1 June 2012 | Instruments granted during the year | Options exercised in the year | Forfeitures in the year | Number of instruments as at 31 May 2013 |
|---|---|---|---|---|---|---|
| Approved | EMI | 14,988 | - | - | - | **14,988** |
| Approved | EMI | 148,530 | - | (65,766) | - | **82,764** |
| Approved | EMI | 162,906 | | (6,314) | - | **156,592** |
| CSOP scheme | | 218,160 | - | (136,350) | - | **81,810** |
| CSOP scheme | | 28,092 | - | - | - | **28,092** |
| CSOP scheme | | - | 378,600 | - | (14,700) | **363,900** |
| Sharesave scheme | | 313,626 | - | (313,626) | - | **-** |
| Sharesave scheme | | 744,108 | - | (5,502) | (100,794) | **637,812** |
| Sharesave scheme | | 514,818 | - | (2,232) | (69,060) | **443,526** |
| Sharesave scheme | | - | 652,638 | (318) | (74,694) | **577,626** |
| LTIP | | 1,416,678 | - | (984,816) | (431,862) | **-** |
| LTIP | | 1,173,462 | - | - | - | **1,173,462** |
| LTIP | | 988,434 | - | - | - | **988,434** |
| LTIP | | - | 908,400 | - | - | **908,400** |

The options outstanding at 31 May 2013 have an exercise price in the range of £Nil to £1 36 (2012 £Nil to £0 85) and a weighted average contractual life of 3 years (2012 3 years)

The weighted average share price at the time the share options were exercised in the year was £1 46 and weighted average share price at the time the share options were forfeited in the year was £1 30

| 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 | 369,630 | - | (354,642) | - | 14,988 |
| Approved | EMI | 415,884 | - | (267,354) | - | 148,530 |
| Approved | EMI | 171,126 | - | (8220) | - | 162,906 |
| CSOP scheme | | 218,160 | - | - | - | 218,160 |
| CSOP scheme | | 28,092 | - | - | - | 28,092 |
| Sharesave scheme | | 333,546 | - | (333,546) | - | - |
| Sharesave scheme | | 339,966 | - | (6,270) | (20,070) | 313,626 |
| Sharesave scheme | | 842,136 | - | (4,434) | (93,594) | 744,108 |
| Sharesave scheme | | - | 596,382 | - | (81,564) | 514,818 |
| LTIP | | 1,247,190 | - | (675,966) | (571,224) | - |
| LTIP | | 1,416,678 | - | - | - | 1,416,678 |
| LTIP | | 1,173,462 | - | - | - | 1,173,462 |
| LTIP | | - | 988,434 | - | - | 988,434 |

The weighted average share price at the time the share options were exercised in the year was £1 16 and weighted average share price at the time the share options were forfeited in the year was £1 31

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

## 21 Share based payments (continued)

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 11 | £0 28 | 44% | 6 Years | 5 09% |
| EMI | Jul-05 | £0 18 | £0 43 | 40% | 6 Years | 5 09% |
| EMI | Jul-06 | £0 13 | £0 45 | 25% | 6 Years | 4 75% |
| EMI | Aug-07 | £0 20 | £0 64 | 25% | 6 Years | 6 00% |
| EMI | Feb-08 | £0 21 | £0 65 | 25% | 6 Years | 6 00% |
| CSOP | Aug-10 | £0 14 | £0 55 | 25% | 6 Years | 4 00% |
| CSOP | Aug-10 | £0 20 | £0 71 | 30% | 6 Years | 4 00% |
| CSOP | Aug-12 | £0 35 | £1 36 | 35% | 6 years | 2 75% |
| SAYE | Aug-10 | £0 22 | £0 56 | 30% | 3 25 Years | 4 00% |
| SAYE | Aug-11 | £0 37 | £0 85 | 30% | 3 25 Years | 3 00% |
| SAYE | Aug-12 | £0 45 | £1 09 | 35% | 3 25 years | 2 75% |
| LTIP | Jul-10 | £0 65 | £nil* | 30% | 3 Years | 4 00% |
| LTIP | Jul -11 | £1 00 | £nil* | 30% | 3 Years | 3 00% |
| LTIP | Jul -12 | £1 25 | £nil* | 35% | 3 Years | 2 75% |

* 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 2013, dividend yield assumed at the time of option grant is 2 4% (2012 2 7%)

A charge of £760,000 (2012 £946,000) has been made to administrative expenses in the Group income statement in respect of share based payment transactions, including £70,000 of provision for National Insurance contributions (2012 £221,000) A charge of £77,000 (2012 £213,000) has been made to cost of sales in the Company income statement in respect of share based payment transactions, including £2,000 of provision for National Insurance contributions (2012 £68,000)

## 22 Called up share capital

| | Number of shares | 2013 £000 | 2012 £000 |
|---|---|---|---|
| **Authorised** | | | |
| Ordinary shares of 1p each | 300,000,000 | **3,000** | 3,000 |
| | | **3,000** | 3,000 |
| **Allotted, called up and fully paid** | | | |
| Ordinary shares of 1p each at the beginning of the year | 34,340,324 | **343** | 341 |
| Ordinary shares of 1p each issued in the year | 291,834 | **3** | 2 |
| Bonus issue of shares | 172,928,680 | **1,729** | - |
| Ordinary shares of 1p each at the end of the year | 207,560,838 | **2,075** | 343 |

During the year shares were issued in relation to the exercise of employee share options for a total consideration of £294,000 settled in cash

## 22 Called up share capital (continued)

On 18 December 2012, the Company's shareholders approved a bonus issue of ordinary shares of five shares for every one share held On the same date the Company's shareholders approved a resolution authorising the board to £1,729,828 of the Company's share premium account and to apply such an amount in paying up the new Company shares

## 23 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 | 5,450 | (518) | (343) | 4,589 |
| **Cash and cash equivalents per cash flow statement** | **5,450** | **(518)** | **(343)** | **4,589** |

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

## 24 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

| | **2013 £000** | 2012 £000 |
|---|---|---|
| Contracted | **-** | - |

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

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Land and Buildings £000** | **Other £000** | Land and Buildings £000 | Other £000 |
| Within 1 year | **2,216** | **464** | 1,759 | 420 |
| In second to fifth year inclusive | **7,442** | **444** | 6,154 | 423 |
| | **9,658** | **908** | 7,913 | 843 |

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

## 25 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 £856,000 (2012 £649,000) The outstanding contributions at the year-end were £115,000 (2012 £59,000)

For the Company, the pension cost charge for the year represents contributions payable by the Company to the fund and amounted to £Nil (2012 £57,000)

## 26 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 Rickitt Mitchell and Partners Limited and the Group conducted business to the value of £295,000 (2012 £90,500) with Rickitt Mitchell and Partners Limited Included within the charge is £230,000 relating to advice received in connection with the acquisitions made during the year ended 31 May 2013 Rickitt 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 £65,000 relates to the services of the Non Executive Chairman Rickitt Mitchell and Partners Limited also held 1,179,600 1 0p ordinary shares (2012 1,179,600)

## 27 Fixed asset investments

| Company | Shares in group undertakings £000 |
|---|---|
| At 1 June 2011 | 31,529 |
| Increase in subsidiary investment for share based charges | 512 |
| **At 31 May 2012** | **32,041** |
| At 1 June 2012 | 32,041 |
| Increase in subsidiary investment for share based charges | 615 |
| **At 31 May 2013** | **32,656** |

## 27 Fixed asset investments (continued)

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 |
| Artemis Internet Limited | England and Wales | Dormant |
| NCC Group Employees' Trustees Limited | England and Wales | Employee Benefit Trust |
| 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 | Assurance services |
| NCC Group Audit Limited | England and Wales | Audit compliance |
| NCC Group SDLC Limited | England and Wales | Software Testing |
| Axzona Limited | England and Wales | Dormant |
| NCC Group Escrow Europe BV | Netherlands | Escrow |
| NCC Group Escrow Europe (Switzerland) AG | Switzerland | Escrow |
| NCC Group GmbH | Germany | Escrow |
| iSEC Partners Inc | USA | Ethical Security Testing |
| NCC Group Escrow Associates LLC | USA | Escrow |
| Matasano Security LLC | USA | Ethical Security Testing |
| Intrepidus Group, Inc | USA | Ethical Security Testing |
| Artemis Internet Inc | USA | Domain security |
| Artemis Domain Names Services, Inc | USA | Domain security |
| NCC Group Inc | USA | Escrow & Assurance services |
| NCC Group Pty Limited | Australia | Assurance services and Website monitoring |

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 |
|---|---|---|---|
| Deposit AB Escrow Europe | 25% | Sweden | Escrow |
| Worldescrow 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
Thomas Chambers – Non Executive Director

**Secretary**
Felicity Brandwood

**Registered office**
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**Registered number**
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