

# NCC Group plc

## Continued strong organic and acquisitive growth drive profits up 25%

20 January 2011. NCC Group plc (LSE: NCC, "NCC Group" or "the Group"), the international, independent provider of Escrow and Assurance, has reported its results for the six months to 30 November 2010.

### Highlights

- Group revenue from continuing operations up 49% to £33.0m (£22.2m in 2009)
- Group adjusted operating profits from continuing operations\* increased by 27% to £7.7m (£6.1m in 2009)
  - Group Escrow operating profits up by 12% to £6.7m
  - Assurance operating profits\* up by 83% to £2.4m
- Group adjusted pre-tax profits from continuing operations\*\* up by 26% to £7.4m (£5.9m in 2009)
- Adjusted diluted earnings per share from continuing operations\*\*\* up by 25% to 15.2p (12.2p in 2009)
- Interim dividend up by 19% to 4.15p (3.50p in 2009)
- Ratio of cash inflow from operating activities before interest and tax to operating profit increased to 141% (133% in 2009)
- Acquisition of iSEC, the Californian based ethical security testing company, for up to \$24.4m on 14 October 2010
- Strong growth in the contract and verification revenues across Group Escrow
- Assurance Division has seen strong growth as information security issues continue to become increasingly critical to all businesses
- Orders and renewals up 33% totalling £41.0m (£30.9m in November 2009) for the current financial year

\* Operating profits from continuing operations plus amortisation of intangible assets and exceptional items.

\*\* Profit before tax from continuing operations plus amortisation of intangible assets, exceptional items and unwinding of the discount on acquisitions.

\*\*\* See reconciliation in Financial review below.

**Rob Cotton**, Group Chief Executive, commented:

*"The first half of the year has seen strong growth and development within both divisions, with a notable performance by the Escrow business - growing revenue by 10% and operating profitability faster than in 2009, up 12%.*

*"Our Assurance business is benefitting both from rapid market growth in the information security sector and the addition of a number of complementary businesses, which have materially increased our international reach and operational capabilities.*

*"Information security and the cyber crime 'arms race' have now become the issue for the IT industry, as clearly demonstrated by recent high profile events and highlighted by the OECD in its report earlier*

*this week. With 135 testers, forensic and security experts and researchers worldwide, we are confident of maintaining our leading position in this very dynamic market.*

*"The year is progressing strongly, and with our focus on non discretionary spend, we are well positioned to maintain our rate for growth; already this financial year we have secured orders and renewals totalling £41.0m, up 33%."*

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## Interim management report

### Overview

NCC Group's Escrow businesses have seen good organic growth in operating profits in the first six months of 2010, up 12%, whilst the Assurance Division has strongly benefited from its leading market position and the recently completed acquisitions. Overall the Group delivered another strong set of results, despite the uncertainty that surrounds certain parts of the economy.

For the six months to 30 November 2010, Group revenue from continuing operations grew by 49% to £33.0m (£22.2m in 2009). Excluding the acquisition of iSEC, the Californian-based ethical security testing company on 14 October 2010, the Group's revenue grew by 44%.

Group adjusted operating profit from continuing operations increased by 27% to £7.7m (£6.1m in 2009) with adjusted diluted earnings per share from continuing operations improving 25% to 15.2p (12.2p in 2009). The Board has increased the interim dividend by 19% to 4.15p (3.50p in 2009).

The Group continues to be highly cash generative with the ratio of operating cash flow before interest and tax being 141% of operating profits (133% in 2009).

Over the last five years, the security and testing activities within the Group's Assurance division have seen rapid market development, leading to strong organic growth. The Board's strategy has been to build on NCC Group's capabilities and international reach, particularly in the USA, with a series of complementary acquisitions. This will ensure the Group remains a market leader in terms of expertise and capabilities in information security assurance.

The Assurance Division, which now contributes 64% of Group revenues from continuing operations, consists of NGS Secure, Site Confidence, SDLC, and iSEC. iSEC was acquired on 14 October 2010. The Group announced that it had discontinued its general IT consultancy business in October 2010.

## Financial review

### Revenue

Group revenues from continuing operations increased by 49% to £33.0m (£22.2m in 2009). Organic revenue growth was 44% excluding iSEC and 9% excluding the largely integrated SDLC. iSEC and SDLC contributed £1.0m and £7.8m of revenue respectively. Following the announcement about the general IT Consultancy business, the prior year comparatives have been restated to reflect this and no further charges or costs are expected to be incurred.

The table below summarises the revenue by Division, including their key business areas.

| £'000's                            | 2010<br>Six months<br>ended<br>30 November<br>(unaudited) | 2009<br>Six months<br>ended<br>30 November<br>(restated and<br>unaudited) | %<br>Change |
|------------------------------------|---|---|-------------|
| <b>Revenue by business segment</b> |   |   |             |
| Escrow UK                          | 9,222   | 8,467   | 8.9         |
| Escrow Europe                      | 1,542   | 1,394   | 10.6        |
| Escrow US                          | 1,163   | 974   | 19.4        |
| <b>Total Group Escrow</b>          | <b>11,927</b>   | <b>10,835</b>   | <b>10.1</b> |
| Assurance                          | 17,661  | 8,240   | 114.3       |
| Web Performance Testing            | 3,418   | 3,081   | 10.9        |
| <b>Total Assurance</b>             | <b>21,079</b>   | <b>11,321</b>   | <b>86.2</b> |
| <b>Total revenue</b>               | <b>33,006</b>   | <b>22,156</b>   | <b>49.0</b> |

Group Escrow accounted for 36% of NCC Group revenue from continuing operations (49% in 2009) and Assurance Division 64% (51% in 2009).

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

| £'000's   | 2010<br>Six months<br>ended<br>30 November<br>(unaudited) | 2009<br>Six months<br>ended<br>30 November<br>(restated and<br>unaudited) | %<br>Change |
|---|---|---|-------------|
| <b>Revenue by geographical origin and destination</b> |   |   |             |
| UK  | 26,063  | 15,993  | 63.0        |
| Rest of Europe  | 2,295   | 2,578   | (11.0)      |
| Rest of the World                                     | 4,648   | 3,585   | 29.7        |
| <b>Total revenue</b>                                  | <b>33,006</b>   | <b>22,156</b>   | <b>49.0</b> |

### Profitability

Adjusted operating profit from continuing operations, which is operating profit excluding amortisation of intangible assets and exceptional items but not share based payments, increased by 27% to £7.7m (£6.1m in 2009).

| £'000's   | 2010<br>Six months<br>ended<br>30 November<br>(unaudited) | 2009<br>Six months<br>ended<br>30 November<br>(restated and<br>unaudited) | %<br>Change |
|---|---|---|-------------|
| <b>Operating profit by business segment</b>                       |   |   |             |
| Group Escrow  | 6,671   | 5,981   | 11.5        |
| Assurance   | 2,435   | 1,330   | 83.1        |
| Segment operating profit  | 9,106   | 7,311   | 24.6        |
| Head office costs   | (1,386)   | (1,245)   | 11.3        |
| <b>Operating profit before amortisation and exceptional items</b> | <b>7,720</b>  | <b>6,066</b>  | <b>27.3</b> |
| Amortisation of intangible assets Group Escrow                    | (444)   | (284)   | 56.3        |
| Amortisation of intangible assets Assurance                       | (928)   | (445)   | 108.5       |

|  |              |       |      |
|--|--------------|-------|------|
| <b>Operating profit before exceptional items</b> | <b>6,348</b> | 5,337 | 18.9 |
| Exceptional items                                | <b>(748)</b> | -     | -    |
| <b>Operating profit</b>                          | <b>5,600</b> | 5,337 | 4.9  |

Group Escrow margins increased to 55.9% (55.2% in 2009) whilst in Assurance they were slightly reduced to 11.6% (11.7% in 2009), reflecting the increase in lower margin revenue from SDLC. Overall, margins achieved in the first six months of this financial year are lower than the prior period due to the growth of the Assurance Division during 2010.

The Group incurred exceptional costs of £748,000 relating to the acquisition of ISEC as a result of the change in accounting treatment. In previous years these costs were capitalised as part of the cost of acquiring businesses.

Group adjusted pre-tax profits from continuing operations increased by 26% to £7.4m (£5.9m in 2009). Adjusted pre-tax profits exclude amortisation of intangible assets, exceptional item and unwinding of the discount on acquisitions. The Group's reported pre-tax profit was up 3% to £5.3m (£5.2m in 2009).

### Taxation

The tax charge for the six months ended 30 November 2010 is 33% of profit before tax and is based upon the expected tax charge for the year (28% in 2009). The rate of tax is higher than historically seen due to the exceptional acquisition costs not being tax allowable.

### Earnings per share

Adjusted diluted earnings per share from continuing operations increased by 25% to 15.2p (12.2p in 2009). Reported basic earnings per share from continuing operations was 10.6p (11.0p in 2009).

The table below separates out the adjustments made to obtain the adjusted diluted earnings per share from continuing operations.

| <b>Pence</b>                                     | <b>2010<br/>Six months<br/>ended<br/>30 November<br/>(unaudited)</b> | 2009<br>Six months<br>ended<br>30 November<br>(restated and<br>unaudited) |
|--|--|---|
| <b>Diluted earnings per share</b>                |  |   |
| Group diluted earnings per share – unadjusted    | <b>10.2</b>  | 10.6  |
| Amortisation of intangible assets                | <b>2.9</b>   | 1.5   |
| Exceptional items                                | <b>2.1</b>   | -   |
| Unwinding of discount                            | -  | 0.1   |
| <b>Adjusted Group diluted earnings per share</b> | <b>15.2</b>  | 12.2  |

### Dividends

In line with a continuing progressive dividend policy, the Board is paying an interim dividend of 4.15p (3.50p in 2009), up 19%. This will be paid on 25 February 2011 to shareholders on the register at the close of business on 28 January 2011 with an ex-dividend date of 26 January 2011.

This represents cover of 2.6 times (3.1 in 2009) based on basic earnings from continuing operations and cover of 3.8 times on an adjusted basic earnings on continuing operations basis (3.6 in 2009).

### Discontinued activities

The Group's withdrawal from the general IT Consultancy market resulted in a one off exceptional charge of £950,000, of which £450,000 is non cash related. Total post tax losses from discontinued operations were £1.1m in the period compared to a profit of £182,000 in 2009.

## Cash & funding

The Group remains committed to strong balance sheet management and borrowing only for affordable value enhancing acquisitions. Operating cash flow before interest and tax, as a ratio to operating profits of £5.6m, remained very strong at 141% (133% in 2009).

After acquisition consideration payments of £9.4m, the Group had net debt of £20.3m (£8.6m in 2009) at the period end against facilities of £37m. No deferred consideration payments will be paid in the second half of the financial year.

The Group entered into new banking facilities with RBS in July 2010. These facilities now comprise a three year revolving credit facility of £35m together with an additional £2m overdraft. Interest on the facility is charged at 2% over LIBOR and on the overdraft at 2% over bank base rate.

Capital expenditure increased to £1.9m (£1.5m in 2009). This is mainly due to the continuing deployment of the Group-wide IT system which is expected to be completed by the close of 2011.

## Operational review

### Group Escrow

The Escrow businesses remain the cornerstone of the Group's profitability and cash generation. They all operate at a substantial margin, have very strong cash conversion and have a high degree of recurring revenue due to the contract renewal rates. In the first half of the financial year, all key performance measures of profitability, renewal and verification testing have improved.

The Division increased revenue by 10% to £11.9m (£10.8m in 2009). Within this, Escrow UK revenue grew by 9% (8% in 2009), Escrow Europe by 11% (17% in 2009) and Escrow US by 19% (17% in 2009.)

Group Escrow operating profitability grew by 12% (9% in 2009) to £6.7m (£6.0m in 2009) with the UK contributing 86% (87% in 2009). All the territories in which the Group operated saw double digit growth in profitability. Group recurring revenues through the renewals process grew by 6% to £15.2m (£14.4m in 2009).

**Escrow UK:** The first half of the financial year saw a very consistent and robust performance from the Escrow UK team which was rewarded with good growth. The strengthening of the management team has helped to develop the sales processes and further improve the platform for growth, in what are likely to become even more cost sensitive times.

Escrow UK revenue grew 9% to £9.2m (£8.5m in 2009) with solid contract and verifications growth, with only minimal impact from price increases. Verification revenues continued on the trend seen in the second half of the last financial year and grew by over 50% to £1.7m (£1.1m in 2009). Operating profit increased by 10% (5% in 2009) to £5.7m (£5.2m in 2009).

At the start of November 2010 Escrow UK prices were increased by an average of 5%. This is the first price rise in this business for 27 months and has been almost universally accepted.

The underlying termination rate remains at just below 12%. The rate has been static for the last three years, with no discernable change in the reasons for termination.

**Escrow Europe and Escrow USA:** Escrow Europe increased revenues by 11% to £1.5m (£1.4m in 2009) of which £0.3m (2009: £0.3m) was derived from Escrow Germany. Escrow USA increased 19% to £1.2m (£1.0m in 2009).

### Assurance Division

Assurance Division revenues increased by 86% to £21.1m (£11.3m in 2009). Excluding the acquisition of SDLC, acquired on 23 April 2010 and iSEC, the Division's revenue increased 9% to £12.3m, whilst adjusted operating profits increased 83% to £2.4m (£1.3m in 2009) or by 6% excluding the acquisitions.

**Background:** Without doubt, information security has now become the most important IT concern worldwide for organisations ranging from small companies to governments. Furthermore, the privacy and security of personal data is not just a personal issue, it is an imperative for the integrity of organisations trusted to look after it. But many organisations have taken this responsibility far too lightly and are ill prepared for the increasing technological threats they face.

More importantly, they have failed to recognise the serious reputational risks associated with the disclosure of confidential information with which they have been trusted. Recent, high-profile events have clearly demonstrated the folly of such a complacent approach to information security, whether it is compromised by hackers from without or the disgruntled from within.

The information security 'arms race' has now moved onto the public stage with perpetrators beginning to reveal their capabilities and signal their intents. As WikiLeaks and a diverse collection of 'hacktivists' step up their assaults on information security, the scale and impact of the threat is becoming a grave concern.

The UK government considers the threat so serious that cyber-attacks are now classified as a Tier-1 threat to national security, whilst crime, cyber activism and state-sponsored theft of IP represent significant threats to national and commercial interests.

Currently the most common attacks are extortion attempts using denial of service (DoS) attacks, most of which are co-ordinated outside of prosecutable jurisdictions. Typically they involve unwitting organisations and individuals whose unprotected systems are hijacked and co-opted into a global criminal network of computers that are used to perpetrate the attack. At a national security level, the emergence of viruses such as Stuxnet has raised the threat to a disturbing level. That the virus was able to cause the shutdown of a nuclear reactor in Iran is worrying evidence that cyberspace is the likely theatre of future conflicts.

The government's response to the threat of both cyber-crime and national security is very encouraging. But it is important that companies, other organisations and governments do not view the solution as one of just building higher and higher walls. Cyber-crime is a flood; its flow cannot be staunched by sandbags alone. They need to be deployed alongside more sophisticated technological defences supported by common-sense processes, better training and a more improved awareness of not just the threats, but also the responsibilities.

The worldwide rollout of tablets, smartphones and other wireless devices is rapidly gaining pace and the rationale for their use within organisations is compelling. But with their increasing popularity come new and widespread threats that demand new disciplines which must be developed and enforced. For the ill-disciplined, they provide an easy access to corporate networks and personal information.

As NCC Group has stated before, the debate needs to move on. The possibility of being hacked is a natural consequence of the information age and one that can be prevented with the right approach. Treating it as a stigma to be concealed is counterproductive, both in the short and long term.

The Group believes that the government should take steps to provide better disclosure in the public and private sector alike. Better awareness of the threats will provide users everywhere with a better understanding of what the real problems are and what is required to prevent them.

**Operational units:** Within NGS Secure, the Group's largest security testing unit, staff retention and recruitment is the most important issue for the business. Over the last 18 months or so, it has become clear that a key element of this issue has been to ensure that the balance for testers between paid for utilisation and research-based working is correctly managed.

The Group has therefore adjusted this balance to lower utilisation and increased research and product development at the expense of margin. This has resulted in a sharp reduction in staff turnover to less than 7%, which is more normal. It had been at times over 30% in the previous 12 months.

The Group now employs over 135 testers, forensic and security experts and researchers worldwide. The opening of the Cheltenham office provides another recruitment centre as the Group continues to grow the team and their expertise.

Site Confidence, the web performance and load testing business, continued to perform strongly. It achieved a recurring revenue rate of over 90% (81% in 2009) as businesses further recognised the importance of their website to their business prospects.

SDLC, acquired in April 2010, has successfully met its revenue targets, but the margins expected and required by the Group, are yet to be achieved. SDLC operates in a more competitive space than other parts of the Group. However, the cross selling opportunities within the Assurance Division make this margin diminution acceptable, although a better return should be achieved during the current calendar year. The Group expects to have completed the integration during the next few months.

iSEC has been part of the Group for only six weeks of the reported period but the early indications are that the business and the management team fit extremely well. The culture and people are of the highest quality and the blue chip customer base complements the Group's existing North American security presence. Over the coming months the opportunities for cross continent cooperation on both client work and ground breaking research are very exciting.

In October the general IT consultancy business was closed. Over the years, the importance of this part of the business had reduced and as competition in the general IT consultancy market heated up, the margin pressure placed on assignments rendered the business unprofitable and as such it required too much management attention relative to its long term value.

## **Current trading & outlook**

The Group's approach remains to grow by the acquisition of earnings enhancing, high quality businesses, combined with strong organic growth. The Board sees no change to that strategy, whilst the Group's focus away from areas of discretionary expenditure will ensure that the business continues to grow strongly.

The considerable investment in time and resources, both financial and managerial, to build the range of capabilities in the Assurance Division is starting to pay dividends. As one of the international market leaders, the Group is very well placed to benefit from the increase in awareness about cyber-crime and cyber-terrorism. The objective remains to develop further the Group's knowledge, experience, international reach and capability to ensure that NCC Group is an international organisation of choice in the information security space.

The Escrow businesses expect annual renewals to be £15.2m (£14.4m in November 2009) in this financial year, based on termination rates at 12%. Escrow Verification Testing worldwide has a forward order book of £2.4m (£2.3m in November 2009).

The Assurance Division's testing order books have increased and now stand at £18.8m (£10.5m in November 2009). The renewal rate for Site Confidence web performance testing increased to 90% (82% at November 2009), giving renewal revenue of £4.6m (£3.7m in November 2009) for this financial year.

In total the Group has orders and renewals up 33% totalling £41.0m (£30.9m in November 2009) for the current financial year.

The Group's revenue has always been biased towards the second half of the financial year and this is expected to continue this year. The Board remains confident of a good second half to the financial year in line with current market expectations.

## Principal risks and uncertainties

The Group faces operational risks and uncertainties which the Directors take reasonable steps to mitigate, however the directors recognise that such risks 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 position in its domestic Escrow Solutions market, the occurrence of unforeseen difficulties in the integration of future acquisitions, the implementation of the Group IT system and the dependence on key executives and senior managers.

Risk and uncertainties outside the Group's control include those relating to the general economy and alterations to the legislative and taxation framework in which the Group operates.

## Group condensed income statement

|  | Notes | 2010<br>six months<br>ended<br>30 November<br>(unaudited)<br>£000 | 2009<br>six months<br>ended<br>30 November<br>(restated and<br>unaudited)<br>£000 | 2010<br>year<br>ended<br>31 May<br>(restated and<br>audited)<br>£000 |
|--|-------|---|---|--|
| <b>Continuing operations</b>   |       |   |   |  |
| Revenue  | 2     | 33,006  | 22,156  | 47,575   |
| Cost of sales  |       | (21,471)  | (12,359)  | (26,015)   |
| <b>Gross profit</b>  |       | <b>11,535</b>   | <b>9,797</b>  | <b>21,560</b>  |
| Administrative expenses before amortisation of intangible assets and exceptional items   |       | (3,815)   | (3,731)   | (7,000)  |
| <b>Earnings before interest, tax and amortisation and exceptional items</b>              |       | <b>7,720</b>  | <b>6,066</b>  | <b>14,560</b>  |
| Amortisation of intangible assets  |       | (1,372)   | (729)   | (1,557)  |
| Exceptional items  | 3     | (748)   | -   | 319  |
| Total administrative expenses  |       | (5,935)   | (4,460)   | (8,238)  |
| <b>Operating profit</b>  | 2     | <b>5,600</b>  | <b>5,337</b>  | <b>13,322</b>  |
| Financial income   |       | 7   | 1   | 6  |
| Finance expense excluding unwinding of discount  |       | (281)   | (139)   | (288)  |
| <b>Net finance expense excluding unwinding of discount</b>                               |       | <b>(274)</b>  | <b>(138)</b>  | <b>(282)</b>   |
| Unwinding of discount effect relating to deferred consideration on business combinations |       | 7   | (27)  | (75)   |
| Financial expenses   |       | (274)   | (166)   | (363)  |
| <b>Net financing costs</b>   |       | <b>(267)</b>  | <b>(165)</b>  | <b>(357)</b>   |
| <b>Profit before taxation</b>  |       | <b>5,333</b>  | <b>5,172</b>  | <b>12,965</b>  |
| Income tax expense   | 4     | (1,753)   | (1,460)   | (3,692)  |
| <b>Profit for the period from continuing operations</b>                                  |       | <b>3,580</b>  | <b>3,712</b>  | <b>9,273</b>   |

| <b>Discontinued operations</b>  |   |              |              |              |
|---|---|--------------|--------------|--------------|
| (Loss)Profit for the period from discontinued operations              | 5 | (1,098)      | 182          | 142          |
| <b>Profit for the period</b>  |   | <b>2,482</b> | <b>3,894</b> | <b>9,415</b> |
| <b>Earnings per share from continuing operations</b>                  | 6 |              |              |              |
| Basic earnings per share  |   | <b>10.6p</b> | 11.0p        | 27.5p        |
| Diluted earnings per share  |   | <b>10.2p</b> | 10.6p        | 26.6p        |
| <b>Earnings per share from continuing and discontinued operations</b> | 6 |              |              |              |
| Basic earnings per share  |   | <b>7.3p</b>  | 11.6p        | 27.9p        |
| Diluted earnings per share  |   | <b>7.1p</b>  | 11.2p        | 27.0p        |

## Group condensed statement of comprehensive income

|  | Notes | 2010<br>six months<br>ended<br>30 November<br>(unaudited)<br>£000 | 2009<br>six months<br>ended<br>30 November<br>(unaudited)<br>£000 | 2010<br>year<br>ended<br>31 May<br>(audited)<br>£000 |
|--|-------|---|---|--|
| <b>Profit for the period</b>                     |       | <b>2,482</b>  | <b>3,894</b>  | <b>9,415</b>   |
| <b>Other comprehensive income</b>                |       |   |   |  |
| Foreign exchange translation differences         |       | (265)   | (13)  | (630)  |
| <b>Total comprehensive income for the period</b> |       | <b>2,217</b>  | <b>3,881</b>  | <b>8,785</b>   |
| Attributable to:                                 |       |   |   |  |
| Equity holders of the parent                     |       | <b>2,217</b>  | <b>3,881</b>  | <b>8,785</b>   |

## Group condensed balance sheet

|                                 | Notes | 2010<br>30 November<br>(unaudited)<br>£000 | 2009<br>30 November<br>(unaudited)<br>£000 | 2010<br>31 May<br>(audited)<br>£000 |
|---------------------------------|-------|--|--|-------------------------------------|
| <b>Non current assets</b>       |       |  |  |                                     |
| Plant and equipment             |       | 2,030                                      | 3,038                                      | 2,050                               |
| Intangible assets               |       | 85,556                                     | 58,941                                     | 75,254                              |
| Deferred tax assets             |       | 867  | 742  | 867                                 |
| <b>Total non-current assets</b> |       | <b>88,453</b>                              | <b>62,721</b>                              | <b>78,171</b>                       |
| <b>Current assets</b>           |       |  |  |                                     |
| Trade and other receivables     | 9     | 17,288                                     | 13,499                                     | 16,967                              |
| Cash and cash equivalents       |       | 4,341                                      | 3,543                                      | 4,631                               |
| <b>Total current assets</b>     |       | <b>21,629</b>                              | <b>17,042</b>                              | <b>21,598</b>                       |

|  |                |               |               |
|--|----------------|---------------|---------------|
| <b>Total assets</b>  | <b>110,082</b> | <b>79,763</b> | <b>99,769</b> |
| <b>Equity</b>  |                |               |               |
| Issued capital   | 340            | 337           | 337           |
| Share premium  | 22,475         | 21,700        | 21,707        |
| Retained earnings  | 28,277         | 23,921        | 28,963        |
| Currency translation reserve                                     | (999)          | (117)         | (734)         |
| <b>Total equity attributable to equity holders of the parent</b> | <b>50,093</b>  | <b>45,841</b> | <b>50,273</b> |
| <b>Non current liabilities</b>                                   |                |               |               |
| Interest bearing loans   | 24,607         | -             | -             |
| Other financial liabilities                                      | 52             | -             | 61            |
| Deferred tax liabilities   | 1,825          | 1,432         | 2,319         |
| Contingent consideration on acquisitions                         | 7,860          | -             | 6,484         |
| <b>Total non current liabilities</b>                             | <b>34,344</b>  | <b>1,432</b>  | <b>8,864</b>  |
| <b>Current liabilities</b>                                       |                |               |               |
| Interest bearing loans   | -              | 9,937         | 16,505        |
| Bank overdrafts  | -              | 2,227         | -             |
| Trade and other payables   | 10             | 10,264        | 5,326         |
| Deferred revenue   | 13,051         | 12,306        | 12,886        |
| Current tax payable  | 2,330          | 2,024         | 2,644         |
| Contingent consideration on acquisitions                         | -              | 670           | -             |
| <b>Total current liabilities</b>                                 | <b>25,645</b>  | <b>32,490</b> | <b>40,632</b> |
| <b>Total liabilities</b>   | <b>59,989</b>  | <b>33,922</b> | <b>49,496</b> |
| <b>Total liabilities and equity</b>                              | <b>110,082</b> | <b>79,763</b> | <b>99,769</b> |

## Group condensed cash flow statement

|   | 2010<br>six months<br>ended<br>30 November<br>(unaudited)<br>£000 | 2009<br>six months<br>ended<br>30 November<br>(unaudited)<br>£000 | 2010<br>year<br>ended<br>31 May<br>(audited)<br>£000 |
|---|---|---|--|
| <b>Cash inflow from operating activities</b>                            |   |   |  |
| Profit for the period   | 2,482   | 3,894   | 9,415  |
| Adjustments for:  |   |   |  |
| Depreciation charge   | 595   | 591   | 1,182  |
| Share based charges   | 136   | 411   | 796  |
| Amortisation of intangible assets                                       | 1,372   | 729   | 1,557  |
| Finance expense   | 267   | 166   | 357  |
| Profit on sale of plant and equipment                                   | (13)  | (16)  | (32)   |
| Income tax expense  | 1,325   | 1,535   | 3,750  |
| <b>Operating cash flow before changes in working capital</b>            | <b>6,164</b>  | <b>7,310</b>  | <b>17,025</b>  |
| Decrease in receivables   | 563   | 1,293   | 2,188  |
| (Decrease) increase in payables   | 1,187   | (1,510)   | (401)  |
| <b>Cash generated from operating activities before interest and tax</b> | <b>7,914</b>  | <b>7,093</b>  | <b>18,812</b>  |
| Interest paid   | (252)   | (139)   | (297)  |
| Income taxes paid   | (1,949)   | (1,708)   | (3,882)  |
| <b>Net cash generated from operating activities</b>                     | <b>5,713</b>  | <b>5,246</b>  | <b>14,633</b>  |
| <b>Cash flows from investing activities</b>                             |   |   |  |
| Interest received   | 7   | 1   | 6  |
| Acquisition of plant and equipment                                      | (498)   | (766)   | (1,021)  |
| Acquisition of business net of cash acquired                            | (9,386)   | (3,648)   | (13,387)   |
| Acquisition of intangible fixed assets                                  | (1,429)   | (718)   | (1,563)  |

|   |                 |         |          |
|---|-----------------|---------|----------|
| <b>Net cash used in investing activities</b>                | <b>(11,306)</b> | (5,131) | (15,965) |
| <b>Cash flows from financing activities</b>                 |                 |         |          |
| Proceeds from the issue of ordinary share capital           | 771             | 70      | 78       |
| Purchase of own shares                                      | (858)           | (1,108) | (1,108)  |
| Proceeds from borrowings                                    | 8,101           | 1,000   | 7,551    |
| Equity dividends paid                                       | (2,446)         | (2,104) | (3,284)  |
| <b>Net cash from financing activities</b>                   | <b>5,568</b>    | (2,142) | 3,237    |
| <b>Net Increase (decrease) in cash and cash equivalents</b> | <b>(25)</b>     | (2,027) | 1,905    |
| <b>Cash and cash equivalents at beginning of period</b>     | <b>4,631</b>    | 3,356   | 3,356    |
| Effect of exchange rate fluctuations                        | (265)           | (13)    | (630)    |
| <b>Cash and cash equivalents at end of period</b>           | <b>4,341</b>    | 1,316   | 4,631    |

## Group condensed statement of changes of equity

|   | Share capital<br>£000 | Share premium<br>£000 | Translation reserve<br>£000 | Retained earnings<br>£000 | Total<br>£000  |
|---|-----------------------|-----------------------|-----------------------------|---------------------------|----------------|
| <b>Balance at 1 June 2009</b>                               | <b>337</b>            | <b>21,630</b>         | <b>(104)</b>                | <b>22,891</b>             | <b>44,754</b>  |
| Profit for the period                                       | -                     | -                     | -                           | 3,894                     | 3,894          |
| Foreign exchange translation differences                    | -                     | -                     | (13)                        | -                         | (13)           |
| <b>Total comprehensive income for the period</b>            | <b>-</b>              | <b>-</b>              | <b>(13)</b>                 | <b>3,894</b>              | <b>3,881</b>   |
| <b>Transactions with owners recorded directly in equity</b> |                       |                       |                             |                           |                |
| Dividends to equity shareholders                            | -                     | -                     | -                           | (2,104)                   | (2,104)        |
| Share based payment transactions                            | -                     | -                     | -                           | 411                       | 411            |
| Deferred tax on share based payments                        | -                     | -                     | -                           | (63)                      | (63)           |
| Shares issued   | -                     | 70                    | -                           | -                         | 70             |
| Purchase of own shares                                      | -                     | -                     | -                           | (1,108)                   | (1,108)        |
| <b>Total contributions by and distributions to owners</b>   | <b>-</b>              | <b>70</b>             | <b>-</b>                    | <b>(2,864)</b>            | <b>(2,794)</b> |
| <b>Balance at 30 November 2009</b>                          | <b>337</b>            | <b>21,700</b>         | <b>(117)</b>                | <b>23,921</b>             | <b>45,841</b>  |
|   | Share capital<br>£000 | Share premium<br>£000 | Translation reserve<br>£000 | Retained earnings<br>£000 | Total<br>£000  |
| <b>Balance at 1 June 2009</b>                               | <b>337</b>            | <b>21,630</b>         | <b>(104)</b>                | <b>22,891</b>             | <b>44,754</b>  |
| Profit for the period                                       | -                     | -                     | -                           | 9,415                     | 9,415          |
| Foreign currency translation differences                    | -                     | -                     | (630)                       | -                         | (630)          |
| <b>Total comprehensive income for the period</b>            | <b>-</b>              | <b>-</b>              | <b>(630)</b>                | <b>9,415</b>              | <b>8,785</b>   |
| <b>Transactions with owners recorded directly in equity</b> |                       |                       |                             |                           |                |
| Dividends to equity shareholders                            | -                     | -                     | -                           | (3,284)                   | (3,284)        |
| Share based payment transactions                            | -                     | -                     | -                           | 796                       | 796            |
| Deferred tax on share based payments                        | -                     | -                     | -                           | 253                       | 253            |
| Shares issued   | -                     | 77                    | -                           | -                         | 77             |
| Purchase of own shares                                      | -                     | -                     | -                           | (1,108)                   | (1,108)        |
| <b>Total contributions by and distributions to owners</b>   | <b>-</b>              | <b>77</b>             | <b>-</b>                    | <b>(3,343)</b>            | <b>(3,266)</b> |
| <b>Balance at 31 May 2010</b>                               | <b>337</b>            | <b>21,707</b>         | <b>(734)</b>                | <b>28,963</b>             | <b>50,273</b>  |
|   | Share capital         | Share premium         | Translation reserve         | Retained earnings         | Total          |

|   | £000       | £000          | £000         | £000           | £000           |
|---|------------|---------------|--------------|----------------|----------------|
| <b>Balance at 1 June 2010</b>                               | <b>337</b> | <b>21,707</b> | <b>(734)</b> | <b>28,963</b>  | <b>50,273</b>  |
| Profit for the period                                       | -          | -             | -            | 2,482          | 2,482          |
| Foreign currency translation differences                    | -          | -             | (265)        | -              | (265)          |
| <b>Total comprehensive income for the period</b>            | <b>-</b>   | <b>-</b>      | <b>(265)</b> | <b>2,482</b>   | <b>2,217</b>   |
| <b>Transactions with owners recorded directly in equity</b> |            |               |              |                |                |
| Dividends to equity shareholders                            | -          | -             | -            | (2,446)        | (2,446)        |
| Share based payment transactions                            | -          | -             | -            | 136            | 136            |
| Deferred tax on share based payments                        | -          | -             | -            | -              | -              |
| Shares issued   | 3          | 768           | -            | -              | 771            |
| Purchase of own shares                                      | -          | -             | -            | (858)          | (858)          |
| <b>Total contributions by and distributions to owners</b>   | <b>3</b>   | <b>768</b>    | <b>-</b>     | <b>(3,168)</b> | <b>(2,397)</b> |
| <b>Balance at 30 November 2010</b>                          | <b>340</b> | <b>22,475</b> | <b>(999)</b> | <b>28,277</b>  | <b>50,093</b>  |

## Notes to the interim report

### 1 Accounting policies

#### Basis of preparation

This interim report for the six months ended 30 November 2010 has been prepared in accordance with IAS 34, "Interim Financial Reporting" as adopted by the EU.

They do not contain all the information required for full annual financial statements and should be read in conjunction with the annual financial statements for the year ended 31 May 2010.

As required by the Disclosure and Transparency Rules of the Financial Services Authority the financial information contained in this report has been prepared using the accounting policies applied for the year ended 31 May 2010 with the exceptions described below under 'Changes in accounting policy'. The interim report is unaudited but has been reviewed by KPMG Audit Plc.

The comparative figures for the financial year ended 31 May 2010 are not the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

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

#### Changes in accounting policies

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

IFRS 3 'Business Combinations' (revised 2008) and IAS 27 'Consolidated and Separate Financial Statements' (revised 2008). The adoption of these standards has not had a material effect on the financial statements of the Group except for on the treatment of business combinations.

The most significant changes to the Group's previous accounting policies for business combinations are as follows:

- Acquisition transaction costs which would previously have been included in the cost of a business combination are expensed to the income statement as they are incurred; and

- Any changes to the cost of an acquisition, including contingent consideration, resulting from events after the date of acquisition are recognised in the income statement. Previously such changes resulted in an adjustment to goodwill.

The revised standards have been applied prospectively to the 2010 acquisition in note 11.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Operational Review section of the Interim management report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review section of the Interim management report.

### **Determination and presentation of operating segments**

As of 1 June 2010 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 2010, the Group had two reportable segments, Group Escrow and Assurance. Group Escrow and Assurance are the Group's strategic business units, which offer differing services and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the CEO reviews internal management reports on at least a quarterly basis.

Note 2 to the interim report shows the segmental analysis of the Group's two business units of Group Escrow and Assurance. Additionally, an analysis of the geographic origin of Group Escrow and Assurance segments revenue is reported to provide further information. This is consistent with both the basis of internal reporting and the allocation of responsibilities within the senior management team.

Whilst performance is managed and monitored on a geographic basis for Group Escrow and on a business level for Assurance, each Division has its own Managing Director and all decisions over the allocation of resources are made at the Divisional level.

### **Use of estimates and judgements**

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

### **Discontinued operations**

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

## **2 Segmental information**

The Group is organised into two reportable segments: Group Escrow and Assurance. These two segments are the Group's primary reporting format for segment information.

£'000

2010

2009

2010

|                                    | Six months ended<br>30 November<br>(unaudited) | Six months ended<br>30 November<br>(restated and<br>unaudited) | Year ended<br>31 May<br>(restated and<br>audited) |
|------------------------------------|--|--|---|
| <b>Revenue by business segment</b> |  |  |   |
| Escrow UK                          | 9,222  | 8,467  | 17,918  |
| Escrow Europe                      | 1,542  | 1,394  | 2,862   |
| Escrow US                          | 1,163  | 974  | 2,180   |
| <b>Total Group Escrow</b>          | <b>11,927</b>                                  | <b>10,835</b>  | <b>22,960</b>                                     |
| Assurance                          | 17,661   | 8,240  | 18,282  |
| Web Performance Testing            | 3,418  | 3,081  | 6,333   |
| <b>Total Assurance</b>             | <b>21,079</b>                                  | <b>11,321</b>  | <b>24,615</b>                                     |
| <b>Total revenue</b>               | <b>33,006</b>                                  | <b>22,156</b>  | <b>47,575</b>                                     |

| £'000   | 2010<br>Six months<br>ended<br>30 November<br>(unaudited) | 2009<br>Six months<br>ended<br>30 November<br>(restated and<br>unaudited) | 2010<br>Year ended<br>31 May<br>(restated and<br>audited) |
|---|---|---|---|
| <b>Operating profit by business segment</b>                           |   |   |   |
| Group Escrow  | 6,671   | 5,981   | 13,313  |
| Assurance   | 2,435   | 1,330   | 3,818   |
| Segment operating profit  | 9,106   | 7,311   | 17,131  |
| Central costs   | (1,386)   | (1,245)   | (2,571)   |
| <b>Operating profit before amortisation and<br/>exceptional items</b> | <b>7,720</b>  | <b>6,066</b>  | <b>14,560</b>   |
| Amortisation of intangible assets Group Escrow                        | (444)   | (284)   | (567)   |
| Amortisation of intangible assets Assurance                           | (928)   | (445)   | (990)   |
| <b>Operating profit before exceptional items</b>                      | <b>6,348</b>  | <b>5,337</b>  | <b>13,003</b>   |
| Exceptional items   | (748)   | -   | 319   |
| <b>Operating profit</b>   | <b>5,600</b>  | <b>5,337</b>  | <b>13,322</b>   |

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

| £'000   | 2010<br>Six months<br>ended<br>30 November<br>(unaudited) | 2009<br>Six months<br>ended<br>30 November<br>(restated and<br>unaudited) | 2010<br>Year ended<br>31 May<br>(restated and<br>audited) |
|---|---|---|---|
| <b>Revenue by geographical origin and destination</b> |   |   |   |
| UK  | 26,063  | 15,993  | 34,683  |
| Rest of Europe  | 2,295   | 2,578   | 5,909   |
| Rest of the World                                     | 4,648   | 3,585   | 6,983   |
| <b>Total revenue</b>                                  | <b>33,006</b>   | <b>22,156</b>   | <b>47,575</b>   |

### 3 Exceptional items and acquisition related costs

| £'000  | 2010<br>Six months<br>ended<br>30 November<br>(unaudited) | 2009<br>Six months<br>ended<br>30 November<br>(restated and<br>unaudited) | 2010<br>Year ended<br>31 May<br>(restated and<br>audited) |
|--|---|---|---|
| <b>Exceptional items and acquisition related costs</b> |   |   |   |
| Acquisition related costs                              | (748)   | -   | -   |
| Exceptional items                                      | -   | -   | 319   |
| <b>Total</b>   | <b>(748)</b>  | <b>-</b>  | <b>319</b>  |

Exceptional items in the year ended 31 May 2010 were £319,000, consisting of a foreign currency gain on revaluation of a loan which was repaid of £571,000 and a charge of £252,000 in relation to the exit costs associated with property leases.

#### 4 Taxation

The Group tax charge represents the estimated annual effective rate of 33% (28% in 2009) applied to the profit before tax for the period. The interim period is regarded as an integral part of the annual period and all tax liabilities are disclosed as such.

#### 5 Discontinued operations

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

The division was not classified as held for sale or a discontinued operation at 30 November 2009 and the comparative consolidated income statement has been re-presented to show the discontinued operation separately from continuing operations.

Expenses in the six months ended 30 November 2010 include a charge of £950,000 in respect of the withdrawal from the advisory business.

| £'000  | <b>2010<br/>Six months<br/>ended<br/>30 November<br/>(unaudited)</b> | 2009<br>Six months<br>ended<br>30 November<br>(restated and<br>unaudited) | 2010<br>Year ended<br>31 May<br>(restated and<br>audited) |
|--|--|---|---|
| <b>Results of discontinued operation</b>                       |  |   |   |
| Revenue  | 1,719  | 3,266   | 6,141   |
| Expenses   | (3,244)  | (3,009)   | (5,941)   |
| <b>Results from operating activities</b>                       | <b>(1,525)</b>   | 257   | 200   |
| Income tax   | 427  | (75)  | (58)  |
| <b>Profit (loss) for the period</b>                            | <b>(1,098)</b>   | 182   | 142   |
| <b>Earnings per share from discontinued activities (pence)</b> |  |   |   |
| Basic earnings per share                                       | (3.2)  | 0.5   | 0.4   |
| Diluted earnings per share                                     | (3.1)  | 0.5   | 0.4   |

#### 6 Earnings per share

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

| £'000  | <b>2010<br/>Six months<br/>ended<br/>30 November<br/>(unaudited)</b> | 2009<br>Six months<br>ended<br>30 November<br>(restated and<br>unaudited) | 2010<br>Year ended<br>31 May<br>(restated and<br>audited) |
|--|--|---|---|
| Profit for the period from continuing operations used for earnings per share | 3,580  | 3,712   | 9,273   |
| Amortisation of intangible assets  | 988  | 525   | 1,120   |
| Exceptional items  | 748  | -   | (230)   |
| Unwinding of discount  | 7  | 27  | 75  |

|   |                               |                        |                        |
|---|-------------------------------|------------------------|------------------------|
| Adjusted profit from continuing operations used for adjusted earnings per share | <b>5,323</b>                  | 4,264                  | 10,238                 |
|   | <b>Number of shares 000's</b> | Number of shares 000's | Number of shares 000's |
| Basic weighted average number of shares in issue                                | <b>33,805</b>                 | 33,682                 | 33,686                 |
| Dilutive effect of share options  | <b>1,140</b>                  | 1,228                  | 1,181                  |
| Diluted weighted average shares in issue  | <b>34,945</b>                 | 34,910                 | 34,867                 |

The following additional earnings per share figures are presented as the directors believe they provide a better understanding of the trading position of the Group:-

|  | <b>2010<br/>Six months ended<br/>30 November<br/>(unaudited)</b> | 2009<br>Six months ended<br>30 November<br>(restated and<br>unaudited) | 2010<br>Year ended<br>31 May<br>(restated and<br>audited) |
|--|--|--|---|
| Adjusted basic earnings per share from continuing operations   | <b>15.7p</b>   | 12.7p  | 30.4p   |
| Adjusted diluted earnings per share from continuing operations | <b>15.2p</b>   | 12.2p  | 29.4p   |

## 7 Dividends

| <b>£'000</b>  | <b>2010<br/>Six months ended<br/>30 November<br/>(unaudited)</b> | 2009<br>Six months ended<br>30 November<br>(unaudited) | 2010<br>Year ended<br>31 May<br>(audited) |
|---|--|--|---|
| Dividends paid and recognised in the period                   | <b>2,446</b>   | 2,104  | 3,284                                     |
| Dividends proposed but not recognised in the period           | <b>1,403</b>   | 1,179  | 2,443                                     |
| Dividends per share paid and recognised in the period         | <b>7.25p</b>   | 6.25p  | 9.75p                                     |
| Dividends per share proposed but not recognised in the period | <b>4.15p</b>   | 3.50p  | 7.25p                                     |

## 8 Capital expenditure

Additions to plant and equipment during the period ended 30 November 2010 amounted to £498,000 (£766,000 in 2009) and additions to intangibles amounted to £1,429,000 (£718,000 in 2009).

## 9 Trade and other receivables

| <b>£'000</b>                   | <b>2010<br/>Six months ended<br/>30 November<br/>(unaudited)</b> | 2009<br>Six months ended<br>30 November<br>(unaudited) | 2010<br>Year ended<br>31 May<br>(audited) |
|--------------------------------|--|--|---|
| Trade debtors                  | <b>12,112</b>  | 9,225  | 12,297                                    |
| Prepayments and accrued income | <b>5,176</b>   | 4,274  | 4,670                                     |
|                                | <b>17,288</b>  | 13,499   | 16,967                                    |

## 10 Trade and other payables

| £'000              | 2010<br>Six months<br>ended<br>30 November<br>(unaudited) | 2009<br>Six months<br>ended<br>30 November<br>(unaudited) | 2010<br>Year ended<br>31 May<br>(audited) |
|--------------------|---|---|---|
| Trade creditors    | 2,069   | 630   | 2,221                                     |
| Non trade payables | 2,305   | 1,430   | 2,520                                     |
| Accruals           | 5,890   | 3,266   | 3,856                                     |
|                    | 10,264  | 5,326   | 8,597                                     |

## 11 Acquisitions

A. On 14 October 2010 the Group acquired 100% of the share capital of iSEC Partners Inc for a maximum consideration of £15.3m, of which up to £6.3m has been withheld subject to the achievement of performance criteria specified in the purchase agreement. The present value of the contingent consideration expected to be paid on 14 October 2010 was £6,025,000. The performance conditions are required to be satisfied by December 2012.

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

|  | Acquiree's<br>book values<br>£000 | Fair value<br>adjustments<br>£000 | Acquisition<br>amounts<br>£000 |
|--|-----------------------------------|-----------------------------------|--------------------------------|
| <b>Acquiree's identifiable net assets at the acquisition date:</b> |                                   |                                   |                                |
| Plant and equipment  | 60                                | -                                 | 60                             |
| Trade and other receivables  | 892                               | -                                 | 892                            |
| Cash   | 44                                | -                                 | 44                             |
| Creditors & accruals   | (684)                             | -                                 | (684)                          |
| Intangible assets purchased  | -                                 | 3,456                             | 3,456                          |
| Net identifiable assets  | 312                               | 3,456                             | 3,768                          |
| Goodwill on acquisition  |                                   |                                   | 11,321                         |
| Expected consideration to be paid                                  |                                   |                                   | 15,089                         |
| Less purchase consideration withheld                               |                                   |                                   | (6,025)                        |
| Net cash outflow   |                                   |                                   | 9,064                          |
| Cash acquired  |                                   |                                   | (44)                           |
| Net cash outflow excluding cash acquired                           |                                   |                                   | 9,020                          |

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

B. During the period, £366,000 was paid in relation to a net asset adjustment arising on the acquisition of SDLC Solutions Limited.

## 12 Related party transactions

NCC Group's Non Executive Chairman, Paul Mitchell, is a director of Rickitt Mitchell & Partners Limited and the Group conducted business to the value of £276,000 with Rickitt Mitchell & Partners Limited during the period ending 30 November 2010. Included within the charge is £246,000 in relation to corporate finance advice and the remaining £30,000 relates to the services of the Non Executive Chairman.

## Responsibility statement of the Directors in respect of the interim report

We confirm that to the best of our knowledge:

- The condensed set of financial statements has been prepared in accordance with IAS 34, “Interim Financial Reporting” as adopted by the EU;
- The interim management report includes a fair review of the information required by:
  - (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of the important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements and a description of the principal risks and uncertainties for the remaining six months of the year; and
  - (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period and any changes in the related party transactions described in the last annual report that could do so.