

NCC Group plc
interim statement
for the six months ended
30 November 2004

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Company information

Directors

Paul Mitchell – Non Executive Chairman
Rob Cotton – Chief Executive
Paul Edwards – Finance Director
James Wallace – Non Executive Director
Eurfyl ap Gwilym – Non Executive Director

Secretary

Felicity Brandwood

Registered office

Manchester Technology Centre
Oxford Road
Manchester
M1 7EF

Registered number

4627044

Nominated advisers, brokers and joint corporate finance advisers

Dresdner Kleinwort Wasserstein Limited
20 Fenchurch Street
London
EC3P 3DB

Joint corporate finance advisers

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

Auditors

KPMG Audit plc
St James' Square
Manchester
M2 6DS

Solicitors

Brabners Chaffe Street
77 Fountain Street
Manchester
M2 2EE

DLA Piper Rudnick Gray Cary UK LLP
101 Barbiralli Square
Manchester
M2 3DL

Bankers

Barclays Bank plc
51 Mosley Street
Manchester
M60 3DQ

Registrars

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA

Highlights

- **Group turnover up by 23% to £8.5m (£6.9m in 2003)**
 - Escrow Solutions turnover up by 21% to £3.9m
 - Testing Solutions turnover up by 25% to £2.0m
 - Consultancy turnover up by 24% to £2.6m
- **Group operating profits* up by 21% to £2.8m (£2.3m in 2003)**
 - Escrow Solutions operating profits up by 27% to £2.3m
 - Testing Solutions operating profits up by 14% to £0.43m
 - Consultancy operating profits down by 6% to £0.44m
- **Group operating margins* at 32.4% (32.9% in 2003)**
- **Underlying group pre tax profits** up by 100% to £2.7m**
- **Group pre tax profits up by 41% to £0.84m (£0.59m in 2003)**
- **Adjusted earnings per share*** up by 16% to 5.58p (4.80p in 2003)**
- **Initial interim dividend declared at 0.75p**
- **Cash inflows from operating activities up by 11% to £3.0m (£2.7m in 2003)**
- **Net debt at 30 November down to £3.1m from £5.2m at listing**

* Before goodwill amortisation

** Before goodwill amortisation, exceptional items and non recurring interest charges

*** Before goodwill amortisation, exceptional items and fully diluted

Interim statement

Introduction

We are delighted to present our first set of results since the admission of the company to AIM on 12 July 2004 and are pleased to report that the Group has continued to make good progress.

NCC Group is a well-established provider of Escrow Solutions, Testing Solutions and Consultancy, operating predominately in the UK and Europe, although our Escrow Solutions are provided globally.

Trading results

During the first six months of the financial year to 30 November 2004, NCC Group has seen strong growth in revenue across all its divisions. Group turnover after deferred income increased by 23% to £8.5m (£6.9m in 2003) and operating profits, before goodwill amortisation grew by 21% to £2.8m (£2.3m in 2003). Operating profits increased by 31% to £2.0m (£1.5m in 2003).

Group operating margins, before goodwill amortisation, were broadly consistent in the first six months at 32.4% (32.9% in 2003) although we expect them to strengthen slightly in the second half of the year as is normal. This is due to the impact of Escrow Solutions price increases in the second half of the year. However, our continued investments in new staff at a senior level to manage and grow the business and additional staff to deliver our products and services, will, as anticipated, hold back the growth in margins.

Underlying Group pre tax profits, before goodwill amortisation, were £2.7m for the six months, up 100%. Exceptional finance costs of £0.86m were written off to the profit and loss account when the debt financing was repaid and a non recurring interest charge of £0.24m is included within interest payable. Group pre tax profits increased by 41% to £0.84m (£0.59m in 2003).

Adjusted diluted earnings per share, before amortisation of goodwill and exceptional items, grew by 16% to 5.58p (4.80p in 2003), the increase was suppressed by the lower number of shares in issue prior to admission.

We will pay a progressive dividend after consideration of other calls on cash, such as acquisitions, earnings increasing investments and operational requirements.

Accordingly, the Board is pleased to announce the Group's first interim dividend of 0.75p per share, which will be paid on 4 March 2005 to shareholders on the register at the close of business on 4 February 2005.

Following admission, the Group repaid its bank loans and loan notes in full and revised the capital structure leaving £5.2m of net debt in the new structure. Our business is very cash generative with cash inflows from our operating activities up by 11% to £3.0m (£2.7m in 2003) in the period. The Group's net debt reduced from £5.2m to £3.1m at 30 November 2004 and we expect that we will be almost debt free at the year end.

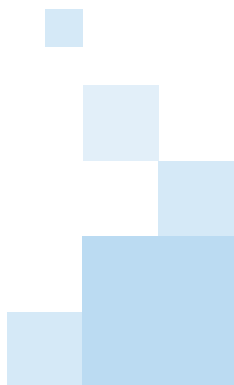
Review of business divisional performance

Along with delivering the strong results, attention has also been focused on developing new products, services and marketing initiatives and strengthening the management team in each division. This will allow them ultimately to operate as autonomous businesses within the Group.

Escrow Solutions has seen a strong overall performance with a 21% growth in turnover to £3.9m (£3.2m in 2003) and a 27% increase in operating profits to £2.3m (£1.8m in 2003). The overall price increase, effective from November 2004, was 8%, with our customers benefiting from even better service levels and a doubling of the limit of our liability to Escrow contracts to £1m.

Escrow Solutions is currently experiencing an agreement termination rate of 11%, which is better than we anticipated by 1%. There are now over 10,300 beneficiaries to our Escrow agreements.

Nonetheless, recruiting high quality account managers to market, manage and sell our Escrow Solutions is our biggest challenge and is therefore critical to our ambitious growth plans. This has been the most difficult part of our business in the first half of the year and recruitment to add to our existing 47 sales staff remains a priority. It is not the Group's philosophy to compromise the standard of employees recruited. Our rigorous HR policies and procedures will continue to maintain that stance, so that we will aim to employ only the highest calibre account managers.



Later this year, we plan to launch our new and unique Escrow Copyright Protection Service. It will offer for the first time a proposition that will both protect and ensure the security of intellectual property for both the public and private sectors.

Testing Solutions has seen a 25% increase in turnover to £2.0m (£1.6m in 2003) and a 14% increase in operating profits to £0.43m (£0.37m in 2003). Verification Testing and Penetration Testing have grown substantially and it continues to be our objective to become the market leading provider in both areas. We have carried out a record 114 verifications in the first half of the year, an increase of 30%, and 133 penetration tests, an increase of 43%. There has been a small decline in levels of Specialist Testing services provided, but it remains the standard bearer for our technical excellence in the testing arena.

Consultancy continues to deliver the highest levels of service to our clients and has seen a strengthening in our relationships with them, resulting in a 24% increase in turnover to £2.6m (£2.1m in 2003.) The 6% decline in operating profits to £0.44m (£0.47m in 2003) reflects the fact that the Information Security consultancy is still in its start-up phase. Accordingly we are investing in it to establish a significant independent Information Security consultancy business.

In the next six months, we anticipate that the take up of Information Security consultancy will accelerate, as formal risk assessment processes become more important to both the public and private sectors.

The provision of fully independent IT consultancy services, the other unit of our Consultancy division, is even more highly valued by our customers who benefit from having advice provided to them by individuals who are both expert in knowledge and experience and fully independent of any provision of hardware, software or implementation service offerings.

Current trading and outlook

These half year results represent a satisfactory start to life as a public company following the transition from a venture capital environment. We will continue to focus our efforts on profits and cash generation whilst making the right investments in the infrastructure and the management team to help ensure future growth.

The Consultancy and Testing Solutions order books have increased and now stand at £1.6m and £1.7m respectively (up from £1.4m and £1.2m in October). The improvement in agreement termination rates means that we now expect annual renewals to be £5.7m in this financial year. The Board remains confident of a strong second half to the year.

Rob Cotton
Chief Executive
NCC Group plc
24 January 2005

Paul Mitchell
Non Executive Chairman
NCC Group plc
24 January 2005



Introduction

We have been engaged by the company to review the financial information set out on pages 5 to 14 and we have read the other information contained in the interim statement and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

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

Directors' responsibilities

The interim statement, including the financial information contained therein, is the responsibility of, and has been approved by, the directors.

Review work performed

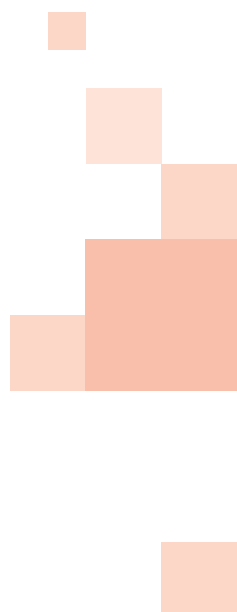
We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It consists principally of making enquiries of NCC Group management and applying

analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 November 2004.

KPMG Audit plc
Chartered Accountants
24 January 2005



	Notes	2004 six months ended 30 November (unaudited) £000	2003 six months ended 30 November (unaudited) £000	2004 year ended 31 May (audited) £000
Turnover before movement in deferred income		8,925	7,336	15,316
Deferred income		(412)	(400)	(797)
Turnover	2	8,513	6,936	14,519
Cost of sales		(4,455)	(3,779)	(7,634)
Gross profit		4,058	3,157	6,885
Administrative expenses		(2,051)	(1,624)	(3,584)
Operating profit before amortisation of goodwill		2,759	2,285	4,806
Amortisation of goodwill		(752)	(752)	(1,505)
Operating profit	2	2,007	1,533	3,301
Interest payable and similar charges		(365)	(990)	(2,002)
Interest receivable		55	50	104
Other charges – exceptional finance costs	3	(861)	-	-
Net interest payable and similar charges		(1,171)	(940)	(1,898)
Profit on ordinary activities before taxation		836	593	1,403
Tax on profit on ordinary activities		(500)	(413)	(893)
Profit on ordinary activities after taxation		336	180	510
Dividends	4	(245)	-	(4)
Retained profit for the financial period		91	180	506
Earnings per share	5			
Basic		1.12p	0.93p	2.61p
Diluted		1.11p	0.93p	2.61p
Adjusted earnings per share before goodwill amortisation and exceptional items				
Basic		5.61p	4.80p	10.31p
Diluted		5.58p	4.80p	10.31p

There are no recognised gains or losses in the period other than the profit for each period.



KPMG Audit plc
St James' Square,
Manchester M2 6DS,
United Kingdom



Group balance sheet

	Notes	2004		2003		2004	
		30 November (unaudited)		30 November (unaudited)		31 May (audited)	
		£000	£000	£000	£000	£000	£000
Fixed assets							
Intangible assets		26,650		28,153		27,401	
Tangible assets		761		571		546	
		27,411		28,724		27,947	
Current assets							
Debtors	6	3,886		3,275		3,524	
Cash at bank and in hand		2,581		3,504		4,278	
		6,467		6,779		7,802	
Creditors: amounts falling due within one year	7	(4,227)		(4,442)		(4,328)	
Net current assets		2,240		2,337		3,474	
Total assets less current liabilities		29,651		31,061		31,421	
Deferred income		(4,428)		(3,597)		(4,033)	
Creditors: amounts falling due after more than one year		(4,478)		(27,191)		(26,566)	
Net assets		20,745		273		822	
Capital and reserves							
Called up share capital		326		98		100	
Share premium account		19,824		-		219	
Profit and loss account		618		199		526	
Shareholders' funds		20,768		297		845	
Minority interest		(23)		(24)		(23)	
		20,745		273		822	
Shareholders' funds analysed as							
Equity		20,768		228		776	
Non-equity		-		69		69	
	10	20,768		297		845	

Group cash flow statement

	Notes	2004		2003		2004	
		six months ended 30 November (unaudited)		six months ended 30 November (unaudited)		year ended 31 May (audited)	
		£000	£000	£000	£000	£000	£000
Cash inflow from operating activities	8	3,034		2,736		5,218	
Returns on investments and servicing of finance							
Interest received		55		50		104	
Interest paid		(855)		(622)		(1,297)	
Exceptional finance costs	3	(35)		-		-	
Preference dividend paid		(4)		-		-	
Net cash outflow from returns on investment and servicing of finance		(839)		(572)		(1,193)	
Taxation							
UK Corporation tax paid		(284)		(418)		(924)	
Capital expenditure and financial investment							
Purchase of tangible fixed assets		(367)		(96)		(203)	
Sale of tangible fixed assets		7		50		55	
Net cash outflow from capital expenditure and financial investment		(360)		(46)		(148)	
Net cash inflow before financing		1,551		1,700		2,953	
Financing							
Issue of share capital		19,831		2		223	
Repayment of loan notes		(16,779)		(1,363)		(1,363)	
Repayment of bank loan		(12,275)		(700)		(1,400)	
Receipt of bank loan		5,975		-		-	
Net cash outflow from financing		(3,248)		(2,061)		(2,540)	
(Decrease) / increase in cash for the period / year	9	(1,697)		(361)		413	

Notes to the interim statement

1. Basis of preparation

The interim statement comprises the unaudited consolidated accounts of NCC Group plc for the six months ended 30 November 2004. The interim statement has been reviewed by the auditors. The report of the auditors to the directors is set out on page 4.

The basis of preparation and the prior year comparatives are derived from audited financial information for The NCC Group (Holdings) Limited (renamed NCC Group plc) and are as set out in the annual report for the year ended 31 May 2004.

The comparative figures for the financial year ended 31 May 2004 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 unqualified.

2. Segmental information

	2004	2003	2004
	30 November	30 November	31 May
	£000	£000	£000
Turnover by geographical segment			
UK	7,504	5,792	12,452
Rest of Europe	522	582	1,011
Rest of the World	487	562	1,056
Total turnover	8,513	6,936	14,519
Turnover by business segment			
Escrow Solutions	3,902	3,217	6,721
Consultancy	2,583	2,091	4,357
Testing Solutions	2,028	1,628	3,441
Total turnover	8,513	6,936	14,519

Notes to the interim statement (continued)

2. Segmental information (continued)

	2004	2003	2004
	30 November	30 November	31 May
	£000	£000	£000
Operating profit by business segment			
Escrow Solutions	2,318	1,832	3,760
Consultancy	440	470	900
Testing Solutions	427	373	884
Segment operating profit	3,185	2,675	5,544
Head office costs	(426)	(390)	(738)
Goodwill amortisation and exceptional items	(752)	(752)	(1,505)
Operating profit	2,007	1,533	3,301
Net assets / (liabilities) by business segment			
Escrow Solutions	(3,437)	(2,868)	(3,003)
Consultancy	816	462	453
Testing Solutions	123	2	150
Unallocated net assets	23,243	2,677	3,222
Total net assets	20,745	273	822

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

Notes to the interim statement (continued)

3. Exceptional items

During the six months ended 30 November 2004, exceptional finance costs of £861,000 (2003: nil) were written off to the profit and loss account when the debt financing was repaid on 17 July 2004 following the Group's listing on AIM. Only £35,000 had a cash impact in the six month period as the rest were paid in prior periods.

4. Dividends

	2004	2003	2004
	30 November	30 November	31 May
	£000	£000	£000
Interim dividend (0.75p (2003: 0p) per share)	245	-	-
Preferred ordinary dividend (£Nil (2003: £Nil))	-	-	4
Dividends	245	-	4

5. Earnings per share

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

	2004	2003	2004
	30 November	30 November	31 May
	£000	£000	£000
Profit for the period	91	180	506
Dividends	245	-	4
Earnings used in basic and diluted earnings per share	336	180	510
Amortisation and exceptional item net of tax	1,346	752	1,505
Adjusted earnings used in basic and diluted earnings per share	1,682	932	2,015

Notes to the interim statement (continued)

5. Earnings per share (continued)

	Number of Shares 000's	Number of Shares 000's	Number of Shares 000's
Basic weighted average number of shares in issue	29,987	19,415	19,545
Dilutive effect of share options	170	-	-
Diluted weighted average shares in issue	30,157	19,415	19,545

6. Debtors

	2004	2003	2004
	30 November	30 November	31 May
	£000	£000	£000
Trade debtors	2,666	2,265	2,407
Deferred tax	71	71	71
Prepayments and accrued income	1,149	939	1,046
	3,886	3,275	3,524

Notes to the interim statement (continued)

7. Creditors: amounts falling due within one year

	2004	2003	2004
	30 November	30 November	31 May
	£000	£000	£000
Trade creditors	308	160	365
Corporation tax	507	316	290
Other taxation and social security	759	1,317	701
Other creditors	56	60	56
Accruals	1,152	1,231	1,550
Dividends payable	245	-	4
Bank loan	1,200	1,358	1,362
	4,227	4,442	4,328

8. Reconciliation of operating profit to operating cash flows

	2004	2003	2004
	30 November	30 November	31 May
	£000	£000	£000
Operating profit	2,007	1,533	3,301
Depreciation charge	150	132	262
Amortisation of goodwill	752	752	1,505
Profit on sale of fixed assets	(5)	(9)	(12)
Increase in debtors	(362)	(275)	(524)
Increase in creditors	492	603	686
Cash inflow from operating activities	3,034	2,736	5,218

Notes to the interim statement (continued)

9. Reconciliation of net cash flow to movement in net debt

	2004	2003	2004
	30 November	30 November	31 May
	£000	£000	£000
(Decrease) / increase in cash in the period	(1,697)	(361)	413
Cash outflow from movement in loans and loan notes	23,079	2,063	2,763
Non cash items	(829)	(103)	(182)
Movement in net debt in the period	20,553	1,599	2,994
Net debt at beginning of period	(23,650)	(26,644)	(26,644)
Net debt at end of period	(3,097)	(25,045)	(23,650)

Analysis of net debt	At beginning of year £000	Cash flow £000	Non cash items £000	At end of period £000
Cash in hand and at bank	4,278	(1,697)	-	2,581
Loan and loan notes	(27,928)	23,079	(829)	(5,678)
Total	(23,650)	21,382	(829)	(3,097)

10. Reconciliation of movements in shareholders' funds

	2004 30 November £000	2003 30 November £000	2004 31 May £000
Profit for the financial period	336	180	510
Dividends	(245)	-	(4)
	91	180	506
Issue of share capital	226	2	2
Share premium	19,605	-	221
Currency translation gain / (loss)	1	(2)	(1)
Net addition to shareholders' funds	19,923	180	728
Opening shareholders' funds	845	117	117
Closing shareholders' funds	20,768	297	845

ESCROW SOLUTIONS:

Ensuring business-critical material or code is protected and accessible should anything happen to your key supplier or developer.

VERIFICATION SERVICES:

Confirming the material held under an Escrow Solution is properly protected by verifying that it can be reconstituted from its components.

SPECIALIST TESTING:

Testing relevant aspects of your system's performance, including testing of new technologies, to ensure your system is effective, robust and can deliver optimum performance.

PENETRATION TESTING:

Expert testing on networks and applications to ensure organisations are safe from the ever increasing threat of unauthorised internal and external network penetration.

INFORMATION SECURITY:

Creating a secure environment for your organisation by considering every aspect of your business from a security perspective including business continuity plans, disaster recovery and regulatory compliance.

IT CONSULTANCY:

Providing advice at all levels to help organisations improve their performance through the effective use of information and technology.

How to contact us

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