

NCC Group

Growing international revenues drive profits up 33%

Highlights

- Group revenue up 28% to £42.4m (£33.0m in 2010)
 - Organic revenue up 20%
 - International revenue now contributes 31% (21% in 2010)
- Group adjusted operating profits from continuing operations* increased by 33% to £10.2m (£7.7m in 2010)
 - Group Escrow operating profits up by 13% to £7.6m
 - Assurance operating profits up by 87% to £4.6m
- Group adjusted pre-tax profits from continuing operations** up by 32% to £9.8m (£7.4m in 2010)
- Adjusted diluted earnings per share from continuing operations*** up by 33% to 20.2p (15.2p in 2010)
- Interim dividend up by 23% to 5.1p (4.15p in 2010)
- Ratio of cash inflow from operating activities before interest and tax to operating profit increased to 144% (141% in 2010)
- Orders and renewals up 7% totalling £43.7m (£41.0m in November 2010) for the current financial year
- Price increases for UK Escrow implemented in November

* Operating profits from continuing operations before amortisation of intangible assets and exceptional items and acquisition costs.

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

*** See reconciliation below

Rob Cotton, Group Chief Executive, commented:

***“A clear focus on our international growth strategy, which includes exploiting a number of growing market opportunities, has enabled us to deliver a very strong set of results with profits up 33%. We have increased the interim dividend by 23%, to reflect both our confidence for the future as well as our recent performance.*”**

“The cyber arms race continues to speed up, and with the technology revolution outpacing the ability of IT departments to cope with the plethora of security issues, we are well placed to maintain our growth momentum.”

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Interim management report

Overview

NCC Group increased revenue in the first six months to 30 November 2011 by 28% to £42.4m (£33.0m in 2010) with good growth coming in both the Escrow and Assurance divisions, despite the uncertainty in the global economy. Organic Group revenue grew by 20%.

Group adjusted operating profit increased by 33% to £10.2m (£7.7m in 2010). Escrow adjusted operating profits grew by 13% to £7.6m (£6.7m in 2010) and Assurance by 87% to £4.6m (£2.4m in 2010.)

Group adjusted diluted earnings per share improved 33% to 20.2p (15.2p in 2010). The Board has continued its progressive dividend policy, increasing the interim dividend by 23% to 5.1p (4.15p in 2010).

The Group continues to be highly cash generative with the ratio of operating cash flow before interest and tax being 144% of operating profits (141% in 2010) and net debt at the end of the period was £23.4m.

Financial review

Revenue

Group revenues increased by 28% to £42.4m (£33.0m in 2010). Organic revenue growth was 20% excluding revenue from the two USA businesses, iSEC acquired in October 2010, and Escrow Associates acquired in March 2011, which contributed £3.7m and £0.8m of revenue respectively.

Group Escrow revenue accounted for 32% of NCC Group's total revenue (36% in 2010) with Assurance representing the other 68% (64% in 2010). The change is due to the full effects of Assurance acquisitions as well as the good levels of organic growth.

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

£'000's	2011 Six months ended 30 November (unaudited)	2010 Six months ended 30 November (unaudited)	% Change
Revenue by business segment			
Escrow UK	9,776	9,222	6.0
Escrow Europe	1,682	1,542	9.1
Escrow USA	2,021	1,163	73.8
Total Group Escrow	13,479	11,927	13.0
Assurance	25,070	17,661	42.0
Web Performance Testing	3,853	3,418	12.7
Total Assurance	28,923	21,079	37.2
Total revenue	42,402	33,006	28.5

The table below provides an analysis of the Group's revenue by geographical market where the customer is based and highlights the significant increase in the scale of the US operations.

International revenue now makes up 31% (21% in 2010) of total Group revenue:

£'000's	2011 Six months ended 30 November (unaudited)	2010 Six months ended 30 November (unaudited)	% Change
Revenue by geographical origin and destination			
UK	29,258	26,063	12.3
Rest of Europe	2,902	2,295	26.4
Rest of the World	10,242	4,648	120.4
Total revenue	42,402	33,006	28.5

Profitability

Group adjusted operating profit, which is operating profit excluding amortisation of intangible assets and exceptional items but not share based payments, increased by 33% to £10.2m (£7.7m in 2010).

The Group adjusted operating profit margin increased to 24.2% (23.4% in 2010) due to operational efficiencies and the benefit of the acquisitions becoming integrated into the Group. Escrow margins increased to 56.1% (55.9% in 2010) whilst in Assurance they increased by 35% to 15.7% (11.6% in 2010).

£'000's	2011 Six months ended 30 November (unaudited)	2010 Six months ended 30 November (unaudited)	% Change
Operating profit by business segment			
Group Escrow	7,566	6,671	13.4
Assurance	4,550	2,435	86.9
Segment operating profit	12,116	9,106	33.1
Head office costs	(1,874)	(1,386)	35.2
Operating profit before amortisation and exceptional items	10,242	7,720	32.7
Amortisation of intangible assets Group Escrow	(368)	(444)	(17.1)
Amortisation of intangible assets Assurance	(1,489)	(928)	60.5
Operating profit before exceptional items	8,385	6,348	32.1
Exceptional items	(68)	(748)	(90.9)
Operating profit	8,317	5,600	48.5

The Group incurred exceptional costs of £68,000 (£748,000 in 2010) relating to the acquisition of Axzona, the web monitoring technology company, in August 2011.

Group adjusted pre-tax profits increased by 32% to £9.8m (£7.4m in 2010). Adjusted pre-tax profits exclude amortisation of intangible assets, exceptional items and unwinding of the discount on acquisitions. The Group's reported pre-tax profit was up 46% to £7.8m (£5.3m in 2010).

Taxation

The tax charge for the six months ended 30 November 2011 is 29% (33% in 2010) of profit before tax and is based upon the expected tax charge for the year. The reduced rate reflects the reduction in the UK corporate tax rates and the lower amounts of exceptional acquisition fees which are not allowable for tax.

Earnings per share

The adjusted diluted earnings per share from continuing operations increased by 33% to 20.2p (15.2p in 2010). Reported basic earnings per share from continuing operations were 16.1p (10.6p in 2010).

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

	2011	2010
	Six months	Six months
	ended	ended
	30 November	30 November
	(unaudited)	(unaudited)
Diluted earnings per share		
Group diluted earnings per share – unadjusted	15.7p	10.2p
Amortisation of intangible assets	4.0p	2.9p
Exceptional items	0.2p	2.1p
Unwinding of discount	0.3p	0.0p
Adjusted Group diluted earnings per share	20.2p	15.2p

Dividends

In line with a continuing progressive dividend policy, the Board is paying an interim dividend of 5.1p (4.15p in 2010), an increase of 23%. This will be paid on 24 February 2012 to shareholders on the register at the close of business on 27 January 2012, with an ex-dividend date of 25 January 2012.

This represents cover of 3.2 times (2.6 times in 2010) based on basic earnings from continuing operations and cover of 4.0 times on an adjusted basic earnings on continuing operations basis (3.8 times in 2010).

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 £8.3m, remained very strong at 144% (141% in 2010).

After acquisition consideration payments made of £3.8m, the Group had net debt of £23.4m (£20.3m in 2010) at the period end against facilities of £37.0m. A deferred consideration payment of £3.8m for iSEC is due to be paid in the second half of the financial year.

In October 2011 the Group updated its revolving credit facility agreement maintaining the full £35m facility until July 2013. The revised agreement terms remain the same as before, with interest on the facility being charged at 2% over LIBOR and on the £2.0m overdraft facility at 2% over bank base rate.

Capital expenditure increased to £3.6m (£1.9m in 2010). This is mainly due to the continuing development and roll-out of the Group-wide IT system and the refurbishment of new and existing offices. New offices have been taken on in Cheltenham, Greater London, Manchester and San Francisco. Both the refurbishment schedule and IT system implementation will be completed by May and September 2012 respectively.

Operational review

Group Escrow

The Escrow businesses remain the cornerstone of the Group's profitability and cash generation. The performance has been very encouraging, particularly in the USA where Escrow Associates was quickly integrated, increasing the Group's capability in the territory.

All of the Escrow businesses offer substantial margins, a high degree of recurring revenue due to the contract renewal rates as well as very strong cash conversion characteristics. In the first half of the financial year for all Escrow businesses, the key performance measures of profitability, renewals and verification testing have improved.

The Division increased revenue by 13% (10% in 2010) to £13.5m (£11.9m in 2010). Group Escrow operating profitability grew by 13% (12% in 2010) to £7.6m (£6.7m in 2010) with the UK contributing 83% (86% in 2010).

Global verification revenues continued the trend seen in the second half of the last financial year and grew by 5% to £2.5m (£2.3m in 2010). Group recurring revenues through the renewals process will grow to £17.2m this year (£15.2m in 2010).

Escrow UK. The first half of the financial year saw a very consistent and robust performance from the UK team as the account management function was rebuilt and reinvigorated, which resulted in good revenue growth.

The new management team has redeveloped the recruitment, training and sales processes and has created a firm platform for growth, in what are likely to become even more cost sensitive times. Staff retention is greatly improved and the headcount has been progressively increased, reversing the trend seen in the last financial year. Great care is being taken to ensure that the foundations and structures are secure enough to deliver sustained, controlled growth.

Overall Escrow revenue in the UK grew 6% to £9.8m (£9.2m in 2010) with solid contract and verifications performances. Tight cost control ensured operating profit increased by 11% (10% in 2010) to £6.3m (£5.7m in 2010).

In November 2011 Escrow UK prices increased by an average of 3.6%. The price increase was due to the substantial increase in the limit of liability being offered to customers, which saw the cover provided for negligence in the agreement increased by 67% to £2.5m.

The underlying termination rate remains at on or about 12%. The rate has been static for the last four years, with no discernible change in the reasons for termination.

Escrow Europe & Escrow USA. Escrow Europe increased revenue by 9% (11% in 2010) to £1.7m (£1.5m in 2010) as it continued to deliver good growth predominately in the Netherlands.

Escrow USA increased revenue by 74% to £2.0m, including a first contribution from Escrow Associates. The addition of Escrow Associates has provided the Group with an important expansion in the reach and scale of its US escrow business.

The west coast based operation grew organically by over 4% despite the business being relocated from San Jose to San Francisco in July and the resulting loss of account managers. The majority of the team has been replaced. San Francisco is a much better recruitment area for the type of individual required. The standardisation of pricing has begun in earnest.

Assurance Division

Assurance Division revenues increased by 37% to £28.9m (£21.1m in 2010). Excluding the acquisition of iSEC, the Division's revenue increased 28% to £25.6m (6% in 2010), whilst adjusted operating profits increased 87% to £4.6m (£2.4m in 2010) or by 58% excluding the acquisitions.

The Division has benefited from its unique ability to offer a complete end to end solution covering all aspects of information security on a global basis. The Group has a peerless reputation through iSEC and NGS for web, application and vulnerability assessments and is a leading provider of managed security services and forensics.

Within all parts of Assurance staff retention and recruitment is the most important issue. The Group has been striving to ensure that the balance for testers between paid-for utilisation, the quality of deliverable work and research is correctly managed. This is a difficult balance to achieve as it has a number of implications, not least the loss of key staff if the balance is wrong.

The Group took a conscious decision, especially in NGS to lower utilisation, increase research and product development at the expense of margin, but also to reject some work not suitable to be delivered by its skilled and qualified team. The results were excellent with a very strong performance being seen from the business unit as the benefits substantially outweighed the costs as staff turnover fell to below 2%.

This is significantly better than the industry planning assumption of 10% separation that is regarded as normal in skilled IT environments. Further, the Group has in both the UK and US attracted a lot of industry plaudits and recommendations for its research work, much of which is now paid for by clients.

In the USA, iSEC has successfully delivered its first year of earn out. A full payment is anticipated as the organisation's reputation and standing continue to grow. The joint offerings with the UK have provided clients with a truly global response team as well as a technical know-how that covers most of the major blue chip application developers, banks and retailers.

The US team has successfully delivered UK client work and vice versa. The benefits are both to the client in terms of reduced costs and to the Group in having access to a wider skills network in order to use exactly the right member of the team on assignments.

Site Confidence, the web performance and load testing business, continued to perform strongly. It achieved a recurring revenue rate above 90% (90% in 2010) as businesses continue to recognise the importance of their website to their business prospects.

SDLC continues to flourish within the Group and has seen a significant improvement in its operating margins as well as facilitating a number of cross selling opportunities which reduce client's risk over functionality, security and compliance, which make their lower margin acceptable.

The opportunity to offer all of the Group's services to its top 100 clients is fast becoming a major area of opportunity. The Group is seeing a join-up from SDLC through to the most senior Operational Response services, covering all aspects of information security and testing.

Assurance & Security Markets. The market place for security is not expected to be impacted by the global downturn. More needs to be spent just to ensure that organisations and developers alike stay up-to-date. It was reported by FireEye Inc. that \$20 billion is spent on enterprise IT security annually globally. The Group does not believe that this figure will be enough to prevent the increase in attacks, fuelled further by the proliferation of threats from nation state hacking.

The new breed of hackers are developing novel and sophisticated techniques that are evading existing defences, aided by the dynamic nature of the IT revolution.

In completing an attack, the hacker has to go through three phases: getting in, locating and obtaining the target information, and getting out. Experience shows that the most common attacks are via existing remote access applications. Most commonly targeted is payment card data and the most common method is to harvest that data using malware.

The most damaging attacks are the least common due to their sophistication, but are targeted at the most valuable information - trade secrets and IP along with sensitive company and customer information. The loss to the UK economy was over £27 billion last year alone according to research conducted by Detica for the Government's UK Cyber Security Strategy Report.

The underlying principal of security needs to start at the application development stage. No code written can be error free, but the speed of development and the cost constraints of project delivery often mean that the implication of any errors is not properly considered. Errors in coding can result in vulnerabilities which need to be addressed before they are detected by hackers. Independent code reviews throughout every stage of the development process and on to deployment are essential.

There has been a proliferation of application development in the mobile markets to meet customer demand. But it is the exponential growth of the tablet and the use of mobile devices that is the major concern to IT security. The innate flexibility and freedom of this technology brings real risks. The lack of conventional control, along with cost cutting measures such as "bring your own tech to work" schemes, open enterprises up to even more threat. As the world moves towards mobile wallet payment systems the vulnerabilities to the individual and enterprises further increase.

The reality of being hacked is both more likely than ever before and more commonly reported. However, organisations are still unwilling to publicly acknowledge it as they perceive they will suffer reputational damage.

The US Government is taking the threat of cyber-attack seriously, with disclosure being mandated both through legislation and through the SEC (Securities Exchange Commission.) In the UK, where, by the Government's own admission, hacking costs the UK economy £21 billion a year, as well as £2.2 billion to defend the UK Government from direct attacks, no similar mandate is being suggested.

Being attacked is now such a commonplace event that full disclosure should be the norm rather than the exception. More importantly, by full and transparent disclosure the UK would learn where and how the vulnerabilities are arising. This would give corporate enterprises, as well as government bodies, an increased ability to defend themselves. This would also reduce the stigma of being hacked.

Defending ourselves from cyber-attack is an arms race and building security walls higher and higher will not work. A change in the perception and understanding of what is actually happening is essential.

To help limit the threat to organisations, the Assurance Division is committed to ensuring that its customers have access to a total solution. This starts at the software development stage, with the developer and vendor communities as the Group helps pinpoint and eradicate security flaws in applications using penetration testing, reverse engineering and code reviews.

For enterprises, ranging from the largest financial institutions to the SME, the Group endeavours to provide assurance over security and vulnerabilities for all information held, software and applications used, as well as the web environments, be that the external customer facing or for internal applications.

Additionally, advanced planning to manage the impact of a potential hack as well as providing a rapid response forensic team are all part of the Group's services.

Current trading & outlook

The Group's approach remains to develop the business by a combination of the acquisition of earnings enhancing, high quality businesses, with strong organic growth, focused away from areas of discretionary expenditure. The Group is always in discussions with a number of businesses that fit strategically.

The Group is benefiting from its early substantial investments in time and resources, both financial and managerial, to build the range of capabilities to address the cyber security market place and is committed to investing further in this growth area.

As an international market leader, 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 the international organisation of choice in the information security space.

The Escrow businesses expect annual renewals to be £17.2m (£15.2m in November 2010) in this financial year, based on termination rates at 12%. Escrow Verification Testing worldwide order book has been rebased and has a fully committed forward order book of £1.9m (£2.4m in November 2010).

The Assurance Division's testing order books have increased and now stand at £19.4m (£18.8m in November 2010). The renewal rate for Site Confidence web performance testing increased to over 90% (90% at November 2010), giving renewal revenue of £5.2m (£4.6m in November 2010) for this financial year.

In total the Group's orders and renewals for the current financial year have increased by 7% to £43.7m (£41.0m in November 2010).

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 very good second half to the financial year in line with current market expectations.

Principal risks & 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 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.

Rob Cotton
Chief Executive
19 January 2012

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INDEPENDENT REVIEW REPORT TO NCC Group plc

Introduction

We have been engaged by the Company to review the condensed set of consolidated financial statements in the half-yearly financial report for the six months ended 30 November 2011 which comprises the Group Condensed Income Statement, the Group Condensed Statement of Comprehensive Income, the Group Condensed Balance Sheet, the Group Condensed Cash Flow Statement, the Group Condensed Statement of Changes of Equity and the related explanatory notes 1 to 12. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of consolidated financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of consolidated financial statements in the half-yearly financial report for the six months ended 30 November 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Ernst & Young LLP
Manchester
19 January 2012

Group condensed income statement

	Notes	2011 six months ended 30 November (unaudited) £000	2010 six months ended 30 November (unaudited) £000	2011 year ended 31 May (audited) £000
Continuing operations				
Revenue	2	42,402	33,006	70,995
Cost of sales		(27,159)	(21,471)	(45,389)
Gross profit		15,243	11,535	25,606
Administrative expenses before amortisation of intangible assets and exceptional items		(5,001)	(3,815)	(7,715)
Earnings before interest, tax and amortisation and exceptional items		10,242	7,720	17,891
Amortisation of intangible assets		(1,857)	(1,372)	(3,275)
Exceptional items and acquisition related costs	3	(68)	(748)	(1,144)
Total administrative expenses		(6,926)	(5,935)	(12,134)
Operating profit	2	8,317	5,600	13,472
Financial income		1	7	8
Finance expense excluding unwinding of discount		(431)	(281)	(644)
Net finance expense excluding unwinding of discount		(430)	(274)	(636)
Unwinding of discount effect relating to deferred consideration on business combinations		(111)	7	(68)
Financial expenses		(542)	(274)	(712)
Net financing costs		(541)	(267)	(704)
Profit before taxation		7,776	5,333	12,768
Income tax expense	4	(2,257)	(1,753)	(3,441)
Profit for the period from continuing operations		5,519	3,580	9,327
Discontinued operations				
(Loss) Profit for the period from discontinued operations	5	-	(1,098)	(1,098)
Profit for the period		5,519	2,482	8,229
Earnings per share from continuing operations				
Basic earnings per share	6	16.1p	10.6p	27.5p
Diluted earnings per share		15.7p	10.2p	26.7p
Earnings per share from continuing and discontinued operations				
Basic earnings per share	6	16.1p	7.3p	24.3p
Diluted earnings per share		15.7p	7.1p	23.5p

Group condensed statement of comprehensive income

	Notes	2011 six months ended 30 November (unaudited) £000	2010 six months ended 30 November (unaudited) £000	2011 year ended 31 May (audited) £000
Profit for the period		5,519	2,482	8,229
Other comprehensive income				
Foreign exchange translation differences		618	(265)	418
Total comprehensive income for the period		6,137	2,217	8,647
Attributable to:				
Equity holders of the parent		6,137	2,217	8,647

Group condensed balance sheet

	Notes	2011 30 November (unaudited) £000	2010 30 November (unaudited) £000	2011 31 May (audited) £000
Non current assets				
Plant and equipment		4,540	2,030	2,755
Intangible assets		96,454	85,556	93,759
Deferred tax assets		1,152	867	1,150
Total non-current assets		102,146	88,453	97,664
Current assets				
Trade and other receivables	9	20,101	17,288	18,389
Cash and cash equivalents		7,775	4,341	4,701
Total current assets		27,876	21,629	23,090
Total assets		130,022	110,082	120,754
Equity				
Issued capital		342	340	341
Share premium		23,163	22,475	22,830
Retained earnings		36,033	28,277	33,230
Currency translation reserve		302	(999)	(316)
Total equity attributable to equity holders of the parent		59,840	50,093	56,085
Non current liabilities				
Interest bearing loans		31,196	24,607	25,182
Other financial liabilities		416	52	206
Deferred tax liabilities		994	1,825	1,518
Contingent consideration on acquisitions		3,822	7,860	4,536
Total non current liabilities		36,428	34,344	31,442
Current liabilities				
Trade and other payables	10	15,990	10,264	16,166
Deferred revenue		15,831	13,051	15,023
Current tax payable		1,933	2,330	2,038
Total current liabilities		33,754	25,645	33,227
Total liabilities		70,182	59,989	64,669
Total liabilities and equity		130,022	110,082	120,754

Group condensed cash flow statement

	2011 six months ended 30 November (unaudited) £000	2010 six months ended 30 November (unaudited) £000	2011 year ended 31 May (audited) £000
Cash inflow from operating activities			
Profit for the period	5,519	2,482	8,229
Adjustments for:			
Depreciation charge	705	595	1,190
Share based charges	316	136	408
Amortisation of intangible assets	1,857	1,372	3,275
Finance expense	541	267	704
Loss/(profit) on sale of plant and equipment	7	(13)	(18)
Income tax expense	2,257	1,325	3,014
Operating cash flow before changes in working capital	11,202	6,164	16,802
(Increase)/decrease in receivables	(1,656)	563	(373)
Increase in payables	2,407	1,187	1,463
Cash generated from operating activities before interest and tax	11,953	7,914	17,892
Interest paid	(378)	(252)	(663)
Income taxes paid	(2,908)	(1,949)	(4,178)
Net cash generated from operating activities	8,667	5,713	13,051
Cash flows from investing activities			
Interest received	1	7	8
Acquisition of plant and equipment	(2,492)	(498)	(1,815)
Acquisition of business net of cash acquired	(3,745)	(9,386)	(2,675)
Acquisition of intangible fixed assets	(1,106)	(1,429)	(14,432)
Net cash used in investing activities	(7,342)	(11,306)	(18,914)
Cash flows from financing activities			
Proceeds from the issue of ordinary share capital	334	771	1,127
Purchase of own shares	-	(858)	(856)
Proceeds from borrowings	5,461	8,101	9,099
Equity dividends paid	(3,032)	(2,446)	(3,855)
Net cash from financing activities	2,763	5,568	5,515
Net Increase/(decrease) in cash and cash equivalents	4,088	(25)	(348)
Cash and cash equivalents at beginning of period	4,701	4,631	4,631
Effect of exchange rate fluctuations	(1,014)	(265)	418
Cash and cash equivalents at end of period	7,775	4,341	4,701

Group condensed statement of changes of equity

	Share capital £000	Share premium £000	Translation reserve £000	Retained earnings £000	Total £000
Balance at 1 June 2010	337	21,707	(734)	28,963	50,273
Profit for the period	-	-	-	2,482	2,482
Foreign currency translation differences	-	-	(265)	-	(265)
Total comprehensive income for the period	-	-	(265)	2,482	2,217
Transactions with owners recorded directly in equity					
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)
Total contributions by and distributions to owners	3	768	-	(3,168)	(2,397)
Balance at 30 November 2010	340	22,475	(999)	28,277	50,093
	Share capital £000	Share premium £000	Translation reserve £000	Retained earnings £000	Total £000
Balance at 1 June 2010	337	21,707	(734)	28,963	50,273
Profit for the period	-	-	-	8,229	8,229
Foreign currency translation differences	-	-	418	-	418
Total comprehensive income for the period	-	-	418	8,229	8,647
Transactions with owners recorded directly in equity					
Dividends to equity shareholders	-	-	-	(3,855)	(3,855)
Share based payment transactions	-	-	-	408	408
Deferred tax on share based payments	-	-	-	341	341
Shares issued	4	1,123	-	-	1,127
Purchase of own shares	-	-	-	(856)	(856)
Total contributions by and distributions to owners	4	1,123	-	(3,962)	(2,835)
Balance at 31 May 2011	341	22,830	(316)	33,230	56,085
	Share capital £000	Share premium £000	Translation reserve £000	Retained earnings £000	Total £000
Balance at 1 June 2011	341	22,830	(316)	33,230	56,085
Profit for the period	-	-	-	5,519	5,519
Foreign currency translation differences	-	-	618	-	618
Total comprehensive income for the period	-	-	618	5,519	6,137
Transactions with owners recorded directly in equity					
Dividends to equity shareholders	-	-	-	(3,032)	(3,032)
Share based payment transactions	-	-	-	316	316
Deferred tax on share based payments	-	-	-	-	-
Shares issued	1	333	-	-	334
Purchase of own shares	-	-	-	-	-
Total contributions by and distributions to owners	1	333	-	(2,716)	(2,382)
Balance at 30 November 2011	342	23,163	302	36,033	59,840

Notes to the interim report

1 Accounting policies

Basis of preparation

This interim report for the six months ended 30 November 2011 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 2011.

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 2011 and is unaudited but has been reviewed by Ernst & Young LLP.

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 interim report.

The comparative figures for the financial year ended 31 May 2011 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.

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	2011 Six months ended 30 November (unaudited)	2010 Six months ended 30 November (unaudited)	2011 Year ended 31 May (audited)
Revenue by business segment			
Escrow UK	9,776	9,222	18,968
Escrow Europe	1,682	1,542	3,180
Escrow USA	1,213	1,163	2,707
Total Group Escrow	13,479	11,927	24,855
Assurance	25,070	17,661	39,111
Web Performance Testing	3,853	3,418	7,029
Total Assurance	28,923	21,079	46,140
Total revenue	42,402	33,006	70,995

£'000	2011 Six months ended 30 November (unaudited)	2010 Six months ended 30 November (unaudited)	2011 Year ended 31 May (audited)
Operating profit by business segment			
Group Escrow	7,566	6,671	14,488
Assurance	4,550	2,435	6,507
Segment operating profit	12,116	9,106	20,995
Central costs	(1,874)	(1,386)	(3,104)
Operating profit before amortisation and exceptional items	10,242	7,720	17,891
Amortisation of intangible assets Group Escrow	(368)	(444)	(423)
Amortisation of intangible assets Assurance	(1,489)	(928)	(2,852)
Operating profit before exceptional items	8,385	6,348	14,616
Exceptional items	(68)	(748)	(1,144)
Operating profit	8,317	5,600	13,472
Net financing costs	(541)	(267)	(704)
Profit before taxation	7,776	5,333	12,768

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

£'000	2011 Six months ended 30 November (unaudited)	2010 Six months ended 30 November (unaudited)	2011 Year ended 31 May (audited)
Revenue by geographical origin and destination			
UK	29,258	26,063	52,565
Rest of Europe	2,902	2,295	6,018
Rest of the World	10,242	4,648	12,412
Total revenue	42,402	33,006	70,995

3 Exceptional items and acquisition related costs

£'000	2011 Six months ended 30 November (unaudited)	2010 Six months ended 30 November (unaudited)	2011 Year ended 31 May (audited)
Exceptional items and acquisition related costs			
Acquisition related costs	(68)	(748)	(1,144)
Exceptional items	-	-	-
Total	(68)	(748)	(1,144)

Exceptional items and acquisition costs in the period ended 30 November 2011 were £68,000 principally consisting of professional fees incurred in relation to the acquisition of Axzona Limited in August 2011.

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

4 Taxation

The Group tax charge represents the estimated annual effective rate of 29% (33% in 2010) 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. No further costs are anticipated.

£'000	2011 Six months ended 30 November (unaudited)	2010 Six months ended 30 November (unaudited)	2011 Year ended 31 May (audited)
Results of discontinued operation			
Revenue	-	1,719	1,719
Expenses	-	(3,244)	(3,244)
Results from operating activities	-	(1,525)	(1,525)
Income tax	-	427	427
Loss for the period	-	(1,098)	(1,098)
Earnings per share from discontinued activities (pence)			
Basic earnings per share	-	(3.2)	(3.2)
Diluted earnings per share	-	(3.1)	(3.2)

6 Earnings per share

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

£'000	2011 Six months ended 30 November (unaudited)	2010 Six months ended 30 November (unaudited)	2011 Year ended 31 May (audited)
Profit for the period from continuing operations used for earnings per share	5,519	3,580	9,327
Amortisation of intangible assets	1,374	988	2,265
Exceptional items	68	748	1,144
Unwinding of discount	111	(7)	68
Adjusted profit from continuing operations used for adjusted earnings per share	7,072	5,309	12,804
	Number of shares 000's	Number of shares 000's	Number of shares 000's
Basic weighted average number of shares in issue	34,197	33,805	33,922
Dilutive effect of share options	856	1,140	1,048
Diluted weighted average shares in issue	35,053	34,945	34,970

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:-

	2011 Six months ended 30 November (unaudited)	2010 Six months ended 30 November (unaudited)	2011 Year ended 31 May (audited)
Adjusted basic earnings per share from continuing operations	20.7p	15.7p	37.8p
Adjusted diluted earnings per share from continuing operations	20.2p	15.2p	36.7p

7 Dividends

£'000	2011 Six months ended 30 November (unaudited)	2010 Six months ended 30 November (unaudited)	2011 Year ended 31 May (audited)
Dividends paid and recognised in the period	3,032	2,446	3,855
Dividends proposed but not recognised in the period	1,744	1,403	3,015
Dividends per share paid and recognised in the period	8.85p	7.25p	11.4p
Dividends per share proposed but not recognised in the period	5.1p	4.15p	8.85p

8 Capital expenditure

Additions to plant and equipment during the period ended 30 November 2011 amounted to £2,492,000 (£498,000 in 2010) and additions to intangibles amounted to £1,106,000 (£1,429,000 in 2010).

9 Trade and other receivables

£'000	2011 Six months ended 30 November (unaudited)	2010 Six months ended 30 November (unaudited)	2011 Year ended 31 May (audited)
Trade debtors	13,233	12,112	12,753
Prepayments and accrued income	6,868	5,176	5,636
	20,101	17,288	18,389

10 Trade and other payables

£'000	2011 Six months ended 30 November (unaudited)	2010 Six months ended 30 November (unaudited)	2011 Year ended 31 May (audited)
Trade creditors	2,414	2,069	2,305
Non trade payables	2,733	2,305	2,949
Contingent consideration on acquisitions	4,939	-	5,840
Accruals	5,904	5,890	5,072
	15,990	10,264	16,166

11 Acquisitions

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

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

	Acquiree's book values £000	Fair value adjustments £000	Acquisition amounts £000
Acquiree's identifiable net assets at the acquisition date:			
Plant and equipment	5	-	5
Trade and other receivables	59	-	59
Cash	80	-	80
Creditors & accruals	(242)	-	(242)
Intangible assets purchased	-	422	422
Net identifiable assets	(98)	422	324
Goodwill on acquisition			1,376
Expected consideration to be paid			1,700
Less purchase consideration withheld			(500)
Net cash outflow			1,200
Cash acquired			(80)
Net cash outflow excluding cash acquired			1,120

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

B. During the period, £2,625,000 was paid in relation to the part settlement of deferred consideration 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 £60,500 with Rickitt Mitchell & Partners Limited during the period ending 30 November 2011. Included within the charge is £25,500 in relation to corporate finance advice and the remaining £35,000 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.

Rob Cotton
Chief Executive
On behalf of the Board
19 January 2012