Shearwater Group plc

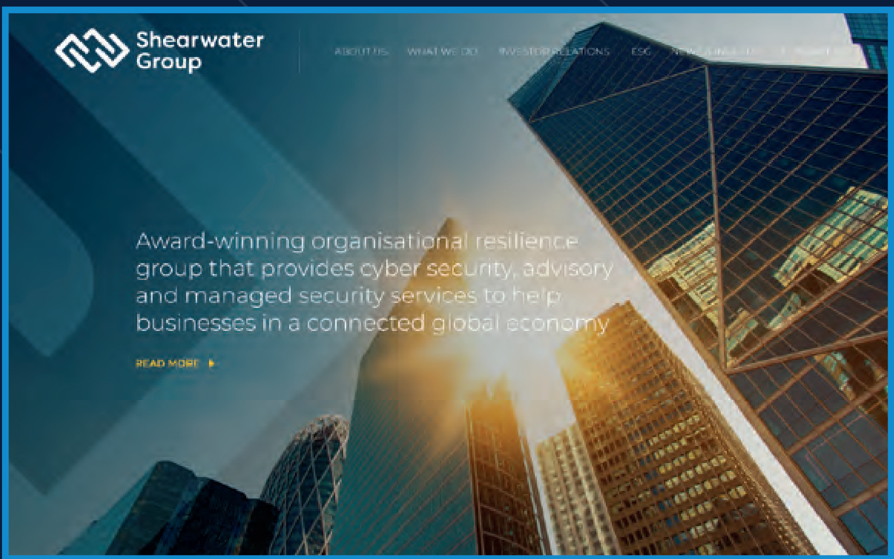
Annual report and financial statements

31 March 2022

Delivering Growth

Shearwater Group plc is an award-winning group providing cyber security, managed security and professional advisory solutions to help create a safer online environment for organisations and their end users.

The Group's differentiated full service offering spans identity and access management, data discovery and security, cyber security solutions and managed security services, and security governance, risk and compliance. Its growth strategy is focused on building a scalable group that caters to the entire spectrum of cyber security and managed security needs, through a focused buy-and-build strategy. The Group is headquartered in the UK, serving customers across the globe across a broad spectrum of industries.



Visit us online at
www.shearwatergroup.com

Highlights

£35.9m
+13%
Revenue

£4.4m
+19%
Adjusted EBITDA

£3.0m
+24%
Adjusted profit before tax

£0.11
+10%
Adjusted EPS

>40%
Repeatable revenues

100%
Offset carbon footprint

£0.9m
(2021: £0.0m)
Reported Profit before tax

Contents

Introduction from our Advisory Panel

We spoke with Rt Hon the Lord Reid of Cardowan and Marcus Willett CB OBE from our Advisory Panel about how they see the market backdrop and the opportunity for Shearwater Group.

Rt Hon the Lord Reid of Cardowan
Advisory Panel Chairman

Marcus Willett CB OBE
Advisory Panel Member

'The Growing Threat'

2021 and 2022 have seen many headline-grabbing cyber incidents. Victims have included national and local governments, health services, universities, schools, a host of companies large and small, national infrastructure, the digital economy, and, of course, private citizens. Some of the attacks were perpetrated by states, like the hack of the US IT supplier SolarWinds which enabled the Russians to breach the networks of the supplier's many government and company clients; and the Chinese use of weaknesses in Microsoft Exchange servers to breach a similarly extensive and varied set of networks. The war in Ukraine has exacerbated the situation considerably, with Russian cyber operations directed against Ukraine spilling over to hit victims across Europe and elsewhere, while there have been strong intelligence-based warnings from Western governments that the Russians intend and are well-positioned to conduct cyber operations directly against the private sectors and infrastructure of states supporting Ukraine with military aid and economic sanctions.

Even more pervasive has been the criminal use of ransomware in attempts to extort victims, as a cyber-criminal group did against US Colonial Pipeline in 2021, causing it to shut down its operations for five days and leading to temporary fuel shortages on the US East Coast. Also prominent were the criminal ransomware attacks that temporarily halted the operations of the world's biggest meat producer, disrupted the Irish Health Service, and caused a national crisis in Costa Rica. But behind the headlines are a host of other institutions and businesses, large and small, that have been victims of criminal ransomware attacks.

Between 2016 and 2020 the average ransom payment in the US rose from $400 to $315,000, with overall payments in 2021 estimated to be $600 million, four times higher than in 2019, while the UK reported twice as many ransomware attacks in 2021 as in 2020, with 2020 seeing a threefold increase on 2019. And, of course, the ransom itself is only a fraction of the overall financial damage to any victim, with operational recovery costs, lost revenue, regulatory fines, litigation, and losses accruing from reputational damage all adding to the bottom line. This means that the UK's 2021 official estimate that the annual cost of ransomware had reached £120 billion globally was probably conservative. In another worrying trend, North Korea has for a number of years also used ransomware techniques for extortion, while Iran has used similar techniques for purely disruptive purposes rather than financial gain.

And all of this has occurred against the backdrop of a global health pandemic, during which sustaining the fabric of society has increasingly come to depend on working, shopping, and interacting with friends and family online. Further, without the internet, the speed and breadth of the global scientific and medical response to the pandemic would have been impossible. But states used cyber operations to spy on and even disrupt the research into and development of vaccines by other states while the criminal fraternity, presented with myriad new online opportunities while also being forced to work from home during the periods of national lockdown, became increasingly dependent on online rather than physical crime. This is just one reason why the criminal use of ransomware has mushroomed so alarmingly. And it will continue to do so, especially given the world's accelerating adoption of and reliance upon digital technology, cloud architectures and the 'Internet of Things' present even more opportunities to the hacker.

Dealing with the 'New Normal'

All the above means that, as the US administration put it recently, more frequent cyber attacks are going to be the 'new normal' for companies and individuals. But the good news to set against this doom and gloom is that the vast majority of the sorts of attacks highlighted above can be prevented by basic cyber security – like being up to date with network patching, having a robust password policy, using multi-factor authentication, engaging with staff to deal with the phishing threat, ensuring the security approach is subject to external audit, and demanding the same of suppliers.

While some of this has a technical dimension, it is largely about people and processes and especially how boards understand and manage risk and how they build a data protection culture within their company. And for the attacks that cannot be stopped by getting the basic defences right it is about building resilience into networks and data storage, focusing primarily on what matters most to the company, and ensuring a robust recovery plan is in place and tested regularly. And the companies that get all of this right will have a competitive advantage in a market that will increasingly demand high levels of security and resilience.

Shearwater Group plc

Yet the cyber security market itself is fragmented and hard to navigate, with currently approximately 800 cyber security companies in the UK alone, most of whom offer only parts of the range of solutions that any business would require. This means that businesses often find it hard to knit together the combinations of vendors they need to cover their security requirements. Which is where Shearwater Group plc (SWG) comes in.

SWG is a market consolidator that has so far taken five companies (SecurEnvoy, GeoLang, Xcina, Brookcourt Solutions and Pentest) who had previously specialised in selling standalone products and services and turned them into a suite of integrated solutions backed by a single growth strategy and supported by a unified operating platform, allowing SWG to address multiple aspects of a client's enterprise risk management, data compliance and cyber security demand. This means that SWG can span technical solutions for identity and access management, for data security and for the other aspects of cyber security, while also offering managed technical services and providing consultancy on training, governance, risk, resilience and compliance. In doing this, SWG companies work alongside their clients to take care of the entire project lifecycle, from scoping and designing solutions to supplying, integrating and supporting them. As just one example, SWG has moved beyond just delivering multi-factor authentication software to providing a fully fledged and multi-award-winning identity and access management platform allowing for 'passwordless' authentication supported by biometrics and a better experience for users when logging on.

Common to all five companies is a wealth of industry knowledge and experience, the maintenance of internationally recognised quality standards and a host of industry awards. SWG companies have delivered solutions to Government, to FTSE 350 and Fortune 500 companies, and to smaller sized companies, across all industry sectors and multi-nationally. SWG companies have been selected as the preferred suppliers on significant projects of strategic importance, including in the telecommunications and financial services sectors. A key part of its success has been SWG's proven track record of providing bespoke services tailored to meet the individual requirements of its multi-national clients, with SWG becoming a trusted adviser to its clients rather than just a supplier.

Conclusion

Ultimately, and noting the major contracts that are already in place, our advice to SWG is that it is well positioned within a rapidly expanding but overly complex cyber security market to play a leading role in making life easier for the many organisations that want to rationalise how they approach the demands of protecting their networks, data, reputations and financial bottom line in the face of an inevitably growing threat.

Rt Hon the Lord Reid of Cardowan
Advisory Panel Chairman

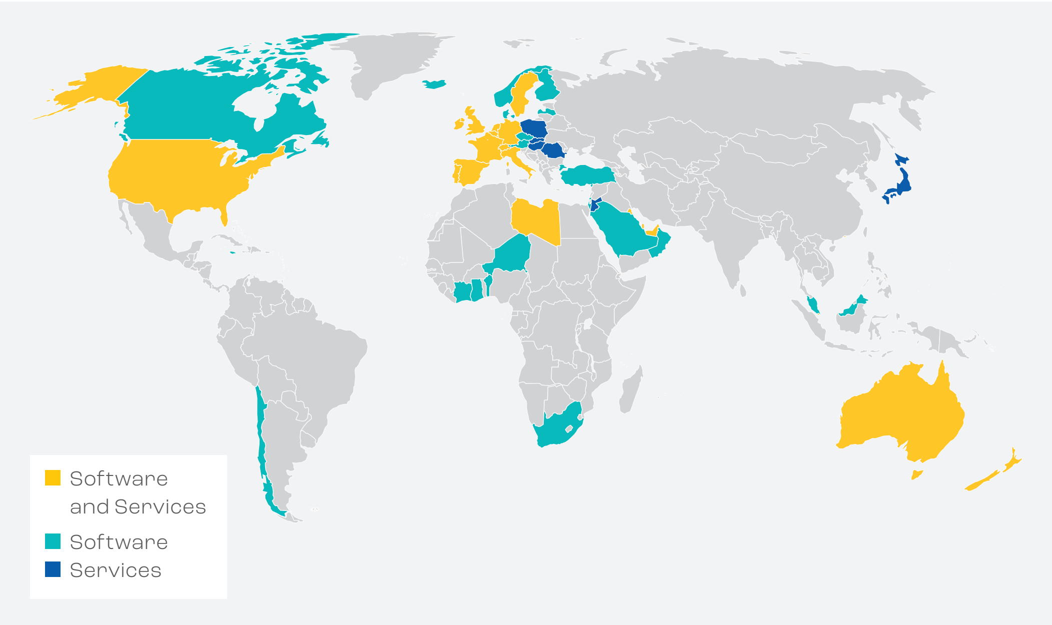
Marcus Willett CB OBE
Advisory Panel Member

28 July 2022

At a glance

Collectively, the Group provides technology solutions and professional advisory services focused around the cyber, security and regulatory requirements of corporate clients.

Where we operate



5 offices

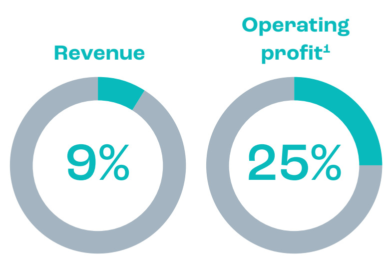
50 countries

c.90 employees

Our offerings are delivered from our two divisions

Software

Designs and builds leading-edge software to help clients secure and make their corporate environments compliant.

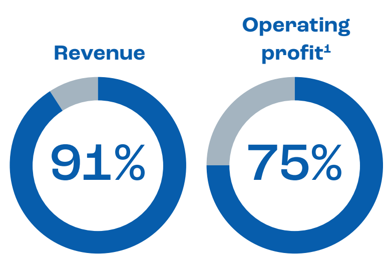


SecurEnvoy

GeoLang

Services

Focused on delivering the Group's managed security and cyber solutions, test, advisory and consultancy as well as our strategic third-party partners' technical solutions.



Brookcourt

Xcina

Pentest

1. Operating profit represents divisional split of profitability before central head office administrative expenses.

Our vision

is to become the provider of choice delivering Next Generation Technology, Professional Advisory and Cyber Security Services and Solutions.

Our purpose

is to provide high quality, dependable products and services that help create a safer online environment when doing business for our customers and key stakeholders.

Strategic priorities

Focused acquisition

Building a scalable group that caters to the entire spectrum of cyber security and managed security needs. Consolidating the market to take market share.

Targets:

We have identified three types of acquisition target which are:

- Product set enhancing software companies that integrate into our existing identity and access cloud platform.
- Software companies to stand alongside existing software businesses.
- Businesses that will add clients and scale to our existing Services division businesses.

Accelerated growth

Delivering accelerated organic growth across our existing group of companies.

Targets:

We will continue to invest in our existing businesses, driving organic growth through:

- Sales of newly developed software(s).
- Greater cross-fertilisation and joint bids.
- New in-house developed services creating numerous upsell opportunities to our existing client base.
- Introduction of new clients through active marketing investment.
- Expansion of international business development.

Our commitment to our stakeholders

See more on pages 26 and 27

We are committed to:

- Delivering continued growth of shareholder value.
- The continued investment in innovation of our products and services for the benefit of our clients.
- Supporting and developing our people, helping them to realise their potential.
- The promotion of an environmentally responsible supply chain.

Reasons to invest

We deliver Cyber Services and Solutions into a 'High Growth' market sector that is driven by consistently evolving threats from adversaries, business compliance requirements and the general need to protect our personal data.

Differentiated full service cyber security, managed security and professional advisory offering

- Delivering products and services driven by regulation and security demands in an increasing threat environment for corporate clients.

High growth markets

- Gartner predicts the worldwide market revenue for information security and risk spending will increase to in excess of $220 billion by 2025[1].
- The UK Government recently reported record levels of investment for the UK's £10.1 billion cyber security sector which represents a 14% year-on-year increase[3].

Clear strategy for growth with Security-as-a-Service converged software platform development plans

- Gartner predicts that the worldwide information security and risk spend from 2019-2025 (Identity and Access management) will grow at a CAGR of 22.8%[2].
- SecurEnvoy's newly released platform gives the business access to the aforementioned high growth market.

Company strength

- The Group has a diverse product and service offering, many of which generate repeatable revenues. This provides good visibility of future opportunities.
- Strong financial position provides resistance to market shocks.

Highly fragmented market

Identified opportunities:

- For convergence of software solutions combining many products' functionalities onto one universal platform.
- For consolidation of bespoke service companies to provide scale.

Blue chip customer base

- Established long-term relationships with many FTSE 350 and Fortune 500 clients, providing solutions that support our customers' critical infrastructure.

Award-winning, highly qualified experts in our industry

- The Group boasts a variety of awards across each of its portfolio companies in recognition of its innovative solutions and customer services.

Experienced Board and leadership team

- Active engagement from the Board and Advisory Panel.
- We employ thought leaders with extensive industry knowledge within their specific field.
- Results-driven team that has a track record of delivering numbers.

1. & 2. Gartner®, Forecast Analysis: Information Security and Risk Management, Worldwide, August 2021, https://www.gartner.com/document/4004647?ref=solrResearch&refval=331977943. GARTNER is a registered trademark and service mark of Gartner, Inc. and/or its affiliates in the U.S. and internationally and is used herein with permission. All rights reserved. The Gartner content described herein, (the "Gartner Content") represent(s) research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc. ("Gartner"), and are not representations of fact. Gartner Content speaks as of its original publication date (and not as of the date of this report) and the opinions expressed in the Gartner Content are subject to change without notice.

3. Record levels of investment for the UK's £10.1 billion cyber security sector – GOV.UK (www.gov.uk).

Chairman's statement

> Our strong performance is a reflection of the quality and diligence shown by our people.
>
> **David Williams**
> Chairman

Producing record results against a background plagued with uncertainties caused by COVID has been no mean feat and our executive team, together with subsidiary Directors and their teams, should be congratulated for an outstanding achievement.

In addition, our non-executive team and Advisory Panel, have been active in using their extensive network of contacts to promote our Group, leading to some useful opportunities and introductions.

We are fortunate to be in a sector of the market with good growth potential and we are now starting to see the results reflect all the hard work put in over the past few years.

The companies within our Group are well established and run by experienced teams who have built up a deep understanding of their clients' needs. With a constantly evolving marketplace this understanding of what is required for effective cyber management, has led to both contract renewals from existing customers and winning new customers, hence the growth revenues reflected in our results.

With all this concerted effort we are now operating from a position of strength, as can be demonstrated by the increased revenues, record profits and debt-free, cash rich Balance Sheet. This means that we are a much more attractive company to join, both from the point of good quality staff to further strengthen our teams and from the point of view of vendors of businesses thinking of joining forces with us. We are certainly a very different proposition to where we were a few years ago.

Operating responsibly

Operating responsibly is very important to us and in FY22 we were pleased to reduce our carbon emissions by 13% year on year, as well as retaining a carbon neutral status for the third consecutive year. We also introduced a Company Share Option Plan during the year, in addition to the existing 2021 Save As You Earn scheme, to allow our employees to benefit in our Group's future success.

I would like to take this opportunity to thank the entire Shearwater team for their continued hard work. This year's strong performance reflects the quality and diligence of all our people on behalf of our Board, I wish to offer them my sincere thanks. I also wish to thank our loyal shareholders for their continues support.

David Williams
Chairman

28 July 2022

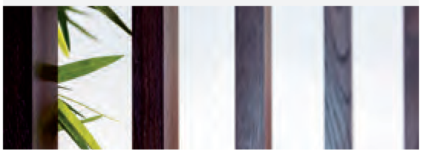
What we've achieved this year

1. Delivered revenue and profit growth ahead of market expectations

- The Directors understand the importance of delivering improved financial performance on an annual basis and are pleased to have grown revenue by 13% and adjusted EBITDA by 19% year-on-year.

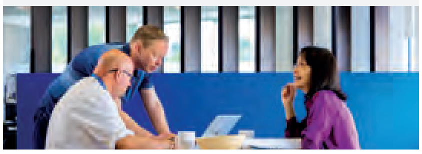
2. Enhanced the strength of our balance sheet

- Our net cash position of £5.6 million is after paying off legacy loan amounts during the year.



3. Enhanced our employee benefits offering to our staff

- Including improved private healthcare, the implementation of a new Company Share Option Plan rolled out to a broad range of the Group's employees, which along with the existing Save As You Earn scheme is designed to align reward to performance of the Group and improved shareholder value.



4. Technology advances

SecurEnvoy continues to develop its cloud IAM platform

Providing simplicity across multiple user touch points, SecurEnvoy IAM can now provide:

- Seamless onboarding and password management of Microsoft Active Directory and Microsoft Azure AD, meaning users can then be deployed and operational within minutes.
- Location awareness that allows corporations to understand the true location of users and provide zero trust, location 'safe zones' and 'logon deviation' providing additional security metrics to control user access with strict policies.
- Full biometric protection for our soft token application; users responding to a PUSH request or to generate a 'one-time passcode' (OTP) must prove a biometric.
- Ease of use for managing multiple digital identities; SecurEnvoy has a seamless method to stitch together multiple user identities. This is especially key for companies who migrate from one cloud platform to another, or to handle company mergers and acquisitions.

GeoLang has extended its capability and reach with its Data Discovery software

- Recent developments have enhanced GeoLang's Data Discovery tool, helping to detect, alert and manage sensitive data within enterprise businesses environments'.
- Enterprise Software and Development businesses can be assured that data security is addressed across all aspects of their enterprise estate, by fully Supporting Atlassian Suite of products for Software Development and Project Management. Geolang works with Confluence, Jira and Bitbucket for both Cloud and On-Premise versions.
- Simple integration options to cater for multiple data and business workflows that provide a full end to end Data Security solution.

5. Winner of five industry awards

- Including Computing Security's Security Company of the Year (Shearwater Group plc).

Companies

Shearwater Group plc | Brookcourt | GeoLang | Pentest | SecurEnvoy | Xcina

7. Inception of Mergers & Acquisitions Committee to provide additional support and focus to drive inorganic growth

- Chaired by our Chairman, supported by our Non-executive and Executive Directors.

9. Proactive marketing to support sales growth

- New corporate websites.
- Investment into additional marketing resource.

Brookcourt | Pentest

6. Increased our international infrastructure to support future growth into new territories

- Incorporation of Brookcourt Solutions B.V. in the Netherlands to support existing clients and drive new opportunities across mainland Europe.
- Welcomed employees based in Poland, the Republic of Ireland and North America.

8. Continued development of the Group's sustainability programme focused on our impact on the environment

- Reduced carbon creation.
- Carbon neutral for three years.
- Enhanced carbon reporting including the identification of carbon neutral suppliers.

Chief Executive's review

> Our strategy across the year has focused on the strengthening of our business through organic growth.
>
> **Philip Higgins**
> **Chief Executive Officer**

Overview

I am very pleased to be reporting on another year of great progress for Shearwater Group, during which we have delivered financial results ahead of market expectations alongside significant operational advances.

We have won an encouraging amount of new business this year, whilst continuing to provide an excellent service to existing customers. Group revenue for the period was £35.9 million (FY21: £31.8 million), representing an increase of 13%. Organic growth was our focus this year and delivering on this with a return to year-on-year revenue growth demonstrates the health of our business and strong demand for our offering. Revenue growth was driven by a mix of high-value renewals from long-term customers in addition to a number of significant new contract wins for our Services division.

In addition, the Group delivered adjusted EBITDA of £4.4 million (FY21: £3.7 million), our third consecutive year of adjusted EBITDA growth, which has contributed to a reported profit before tax of £0.9 million (FY21: £0.0 million). Our balance sheet is strong, with a net cash[1] balance of £5.6 million as at 31 March 2022 (31 March 2021: £7.3 million) following the repayment of a legacy loan and a deferred VAT payment of £1.3 million, alongside continued investment in our Software division.

Our Group is used to headwinds; firstly Brexit, COVID19, the Ukraine invasion and then the global semi-conductor chip shortage all help drive our corporates to acquire software and service-based solutions that we will look to capitalise on. Our Group is experiencing an increased shift towards software, subscription and service-based sales avoiding potential supply chain issues.

As a growing, profitable business, with a solid financial position, we are very well placed for the future. We operate in a high growth sector and have an established reputation as a top-tier provider of cyber security, professional advisory and managed security services. We move into FY23 with a strong sense of optimism.

Growth strategy

Our vision remains unchanged in becoming the provider of choice, delivering next generation cyber technology, professional advisory and cyber security services and solutions. Within our Software division we aim to build a 'must have' next generation converged access management and data discovery platform. Within our Services division, we aim to be the partner of choice delivering managed security solutions, test and advisory consulting; again, providing an end-to-end offering.

Both our Services and Software divisions are award-winning, validating our Group companies' abilities to deliver meaningful products and services that meet the increasing necessities of the corporate client base.

Our strategy across the year has focused on the strengthening of our business through organic growth. Long-term contract renewals, alongside new customer and contract wins, have allowed us to achieve this.

Having recently established a Mergers & Acquisitions Committee we continue to search and review potential opportunities with a clear strategic fit. We have an active pipeline of acquisition opportunities in the pursuit of a business that would add to our Software portfolio, add scale in Services, or drive synergies across the Group.

Group operational review

During the year we introduced 186 new customers across both divisions with an increased average order value. This included a number of blue-chip organisations. In addition, we again retained a very high proportion of existing customers, with 64% now categorised as having a long-term relationship with the Group[2].

We pride ourselves on the quality of our staff and have had success with recruitment during the period, adding several new employees across the Group, including international placements. In order to offset wage inflation, we are leveraging talent supplies across the geographic breadth of the Group. We were also pleased to enhance our reward packages in the year, reflecting the hard work of our teams, and believe this makes us an attractive place to work.

Our expanded employee base now sees workers placed across mainland Europe as well as the US. Pursuing our ambition of an increasing international presence, during the period we were delighted to open up a Brookcourt entity in the Netherlands, giving the Company easier access to its suite of customers based across mainland Europe. Moreover, we are currently in the process of setting up Pentest Ireland and SecurEnvoy has also recently added a Middle Eastern distributor.

We have continued to progress with our cross-selling initiative as we aim to tap accretive value from within the Group. Cross-selling in the period resulted in 20 new clients being introduced to Group companies, up 54% versus the prior year. There remain great opportunities to further expand cross-selling across the Group in future periods.

Segmental review

Software

We have been encouraged by the doubling of our 'Identity and Access' sales, with this representing the part of the division in which we have focused our investment over the last year, and which represents a key opportunity for the Group in the future. Overall, however, divisional sales have softened year-on-year, due to the development of some new product functionality taking slightly longer than originally expected to develop and therefore not all new modules and features have been taken to market yet. Great strides have been made in R&D over the year, and we continue to believe that the upsell of our enhanced product sets to new and existing customers will drive sales growth, albeit we now expect to see this happen in the medium term.

	2022 £m	2021 £m	%
Revenue	**3.3**	4.3	(23%)
Gross profit	**2.2**	3.5	(36%)
Gross margin %	**67%**	80%	
Overheads	**0.7**	1.3	
Adjusted EBITDA	**1.5**	2.2	(29%)
Adjusted EBITDA margin %	**46%**	50%	

1. Net cash includes cash and cash equivalents less loan balances.
2. Represents clients where we have a relationship in excess of three years.

Chief Executive's review continued

The cybersecurity market continues to offer considerable opportunities and underpins Group-wide confidence in growth moving forwards.

Segmental review continued

Software continued

As previously communicated, our ambition in Software is to build the 'must have' next generation converged access management and data discovery platform, which we envisage to become first choice for organisations needing to connect securely and with confidence to the digital world. We have moved towards this goal with numerous developments of both SecurEnvoy and GeoLang's products.

SecurEnvoy's 'SecurIdentity' platform has been significantly invested in, with key features added such as the 'Migration Wizard', which gives c.1,000 on-premise customers the ability to seamlessly migrate to the new cloud platform. Other enhancements have been made in both security and user experience, with the release of 'Passwordless' authentication being well received, and the unique 'True User Location Technology', which allows organisations to create explicit geographic safe zones for accessing corporate information.

Gartner predicts that the worldwide information security and risk spend from 2019-2025 (Identity and Access management) will grow at a CAGR of 22.8%[3].

Post period end, our R&D teams continue to work on enhancing our products, whilst the Board seeks potential software acquisitions in order to build out the capabilities of our converged access management and data discovery platform.

Services

In the Services division, we were delighted to secure a number of significant wins and renewals which drove a strong increase in sales, flowing through into improved adjusted EBITDA.

	2022 £m	2021 £m	%
Revenue	**32.5**	27.4	19%
Gross profit	**8.6**	6.4	34%
Gross margin %	**26%**	23%	
Overheads	**3.9**	3.4	
Adjusted EBITDA	**4.7**	3.1	52%
Adjusted EBITDA margin %	**14%**	11%	

As announced in January 2022, Pentest secured a significant new contract win with a global technology business, supplying vulnerability assessment and penetration testing services in relation to a major new project. In March 2022, Brookcourt Solutions won two significant contracts; the first of which, a three-year advanced endpoint cyber defence solution contract with a global financial organisation, totalled US$4.1 million. This was shortly followed by the win of a contract with a leading telecommunications and media company, for the monitoring of the organisation's new 5G network totalling an initial £12.9 million. These new business wins, compounded by a strong rate of contract renewals during the period have contributed to the strong performance of the Services side of our business.

3. Gartner®, Forecast Analysis: Information Security and Risk Management, Worldwide, August 2021, https://www.gartner.com/document/4004647?ref=solrResearch&refval=331977943. GARTNER is a registered trademark and service mark of Gartner, Inc. and/or its affiliates in the U.S. and internationally and is used herein with permission. All rights reserved. The Gartner content described herein (the 'Gartner Content') represent(s) research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc. ('Gartner'), and are not representations of fact. Gartner Content speaks as of its original publication date (and not as of the date of this report) and the opinions expressed in the Gartner Content are subject to change without notice.

Market opportunity

The cyber security market continues to offer considerable opportunities and underpins Group-wide confidence in growth moving forward. The increasing number of cyber security attacks taking place globally is contributing to the growth of the global market, with the importance of businesses deploying cyber security solutions to detect and mitigate the risk of attacks becoming paramount.

In line with the wider market trend, we have seen an increasing number of enquiries across the Group for cyber security engagements year-on-year, as well as increased interest for consulting engagements across the Company. We have also seen a slight resurgence in appliance-based cyber solutions post-COVID19. With the number of businesses being compromised steadily increasing, trends such as ransomware and DDOS attacks are only set to become more prevalent moving forward. The growing need for our services, coupled with Shearwater's global presence and established reputation in dealing with such issues, underlines the market opportunity for the Group.

Current trading and outlook

We have been encouraged by Q1 FY23 trading. With Shearwater achieving a revenue growth trajectory, strengthened by a robust financial position, we look to the future with optimism. Whilst continuing to pursue organic growth and drive cross-selling initiatives across the Group, we remain focused on fulfilling our acquisition ambitions. We are well positioned in a market only set to expand further and the potential of our business is evident. We look forward to reporting on our continued progress moving forward.

Philip Higgins
Chief Executive Officer
28 July 2022

Business model

Our business model form our software division consist of supplying innovative software products through a vast network of global resellers whilst our Services division delivers award winning solutions directly to FT350 clients.

Key strengths

- Able to provide broad offering to clients – fulfilling end-to-end organisational resilience needs.
- Owned IP.
- Strong client relationships.
- Advanced tech.
- Agile business differentiated from larger players.
- Two divisions, operating independently, supported by shared services.
- Supports cross-Group collaboration to help create incremental opportunities.

Read 'Reasons to invest' on page 6

Our operating model

Provide cyber security, managed security and professional advisory solutions:

Managed services & warranties

Security solutions

Software licences from our own IP

Advisory & engineering

Software

- Sold via a two-tier distribution model comprising of in excess of 350 global resellers across 36 countries.
- Our software is sold in the cloud, on-premise and a hybrid of the two.
- c.80% recurring revenues.

Future plans and aspirations:

Introduce internally developed products/functionalities creating upsell opportunities to existing client base.

Opportunity to acquire solution enhancing code that could sit on our newly developed converged Access management as a service platform 'AM Software'.

Read more on our strategy on page 16

Underpinned by our responsible operations, robust risk management and strong governance.

ESG
Read more on pages 28 to 33

Risks
Read more on pages 39 to 43

Governance
Read more on pages 44 to 59

Services

- Provide enhanced wrap-around services that enable our clients to receive greater value from their investment.
- Provide leading expertise on technology and business risk management at a competitive price.
- Global client base across FTSE 350, Fortune 500, Government and SMEs.

Future plans and aspirations:

Sell deeper and wider to existing client base and attract new customers through our multi-award-winning service and solution offerings.

Cyber Security Operations Centre (CSOC) servicing volumed small and medium businesses.

Links to:
Responsible operations
Principal risks
Corporate governance

Delivering value

10%

Adjusted EPS increased from £0.10 to £0.11

c.64%

(2021: 67%)
Client base with over three-year relationship

Cross sales revenue recognised from 20 net new clients

(2021: 13 net new clients)
Revenue generated through cross-selling

Strategy

Unlocking the Groups full potential, driving robust organic performance and delivering incremental growth via acquisition.

Growth strategy

Building a group of cyber security, managed security and professional advisory companies with a leading product, solution or service capability whose full potential can be unlocked through active management and capital investment.

Wider strategic aims

- Building the Group's international footprint across both divisions.
- Amalgamating central functions to unlock synergy savings.

Focused acquisition

Building a scalable group that caters to the entire spectrum of cyber security and managed security needs. Consolidating the market to take market share.

- Targets must be accretive, cash generative, profitable or near-term profitable companies.
- Opportunities for market consolidation, building size and client base.
- Specialist feature-rich software or services to either add to our existing software companies or to stand alongside.
- Only executing transactions that fit strict criteria and are high quality, ensuring good integration.

Our future goal:

Acquire companies that complement our Group, building shareholder value.

Accelerated growth

Deliver accelerated organic growth across our existing group of companies.

- Helping acquired companies solve core scaling issues – providing capital and infrastructure.
- Cross-selling.
- Securing new customers.
- Supporting product innovation.
- Integrating newly acquired businesses into our Group, allowing for the realisation of synergies.

Our future goal:

As a trusted partner, continue to deliver quality service, understanding our clients' requirements, responding with economical, sustainable solutions.

» Please see case studies on pages 20 to 25

KPIs

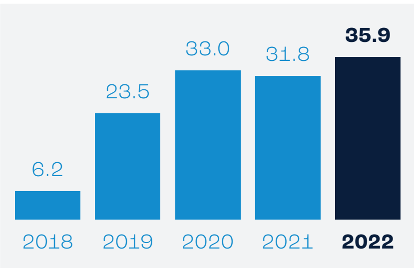
Strong performance with many of the Group's key measures performing ahead of market expectations.

Financial:

Revenue for the year
(£m)

£35.9m +13% ▲

Organic constant currency revenue growth **+14%**



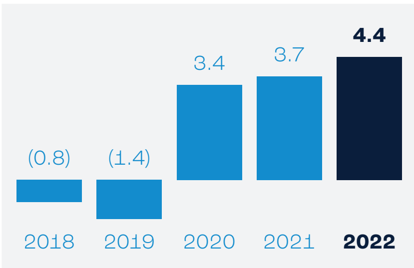
Description:
This measure details the annual underlying performance of the Group's businesses, adjusting out for items such as timing impact of acquisitions/disposals made during the current or previous year which would impact the reported figure. The organic revenue growth rate adjusts out the impact of currency movement to provide a constant currency year-on-year view.

Strategic link:
The Group is committed to investment into sales and marketing as well as innovation into new products and services that will drive future top line revenue growth.

Adjusted EBITDA[1]
(£m)

£4.4m +19% ▲

Adjusted EBITDA margin **12%**
(2021: 12%)



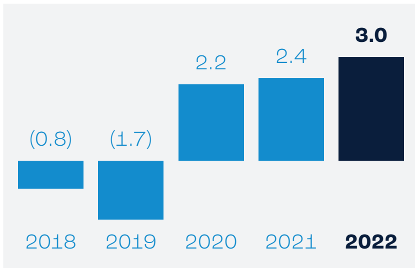
Description:
This measure details the underlying performance of the Group before adjusting for one-off income and charges, depreciation and amortisation. This measure is used as a basis for incentivising business leaders and is one that is recognised by our shareholders.

Strategic link:
The Board monitors this metric to ensure that operating expenditure is under control and that the revenues we produce deliver an acceptable level of profitability, which ultimately contributes to the Group's earnings.

Adjusted profit/loss before tax[2]
(£m)

£3.0m +24% ▲

Reported profit before tax **£0.9m**
(2021: £0.1m)



Description:
This measure details the Group's underlying trading profit excluding one-off income or charges and amortisation of acquired intangibles, which is a non-cash technical accounting adjustment.
This measure does include depreciation and amortisation of capital expenditure as well as finance costs incurred by the Group which provides access to additional working capital which is in place to support the Group's growth.

Strategic link:
The Group looks to deliver improved value to its shareholders and the Directors feel that this measure provides a good underlying like-for-like metric of how the business is trading on a year-on-year basis.

1. Adjusted EBITDA excludes exceptional items which are in their nature one-off, share-based payment costs, depreciation, amortisation, fair value adjustments for deferred consideration to be settled in shares, other operating income, contingent consideration and impairment which is not reflective of the underlying performance of the Group.
2. Adjusted profit/(loss) before tax excludes acquisition amortisation in addition to the adjusting items detailed above to calculate adjusted EBITDA.

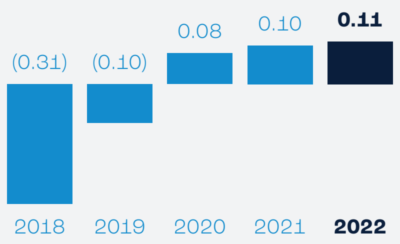
KPIs continued

Adjusted EPS
(£)

£0.11 +10% ▲

Reported EPS: **£(0.01)**

(2021: £0.01)



Description:
This measure presents the adjusted profit after tax attributable to shareholders for each ordinary share (basic). This provides a measure of trading performance in addition to the impact of how we finance our business, whether it be interest charged on debt or changes in the amount of equity issued.

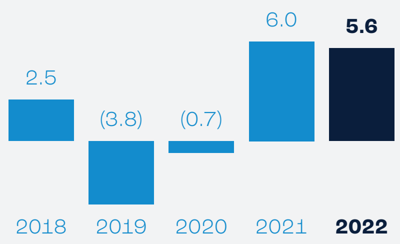
Strategic link:
The Group looks to deliver consistent annual growth in adjusted earnings per share. In the current year we have implemented a Company Share Option Plan, in addition to the existing Save As You Earn scheme, to incentivise our staff to drive Group performance.

Adjusted net (debt)/cash
(£m)

£5.6m ▼

Reported net cash **£5.6m**

(2021: 6.0m)



Description:
Made up of cash and cash equivalents less loan liabilities (excluding lease liabilities), this metric provides a measure of the Group's liquidity.

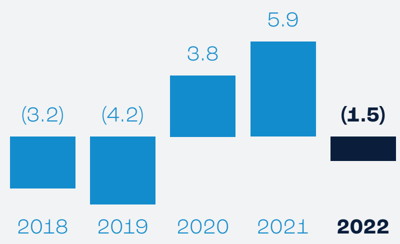
Strategic link:
Ensuring that the Group has the means to service debts when they become due in addition to providing a source of funding to support organic and inorganic growth.

Free cash flows
(£m)

£(1.5m) ▼

Unwinding of working capital in the current year in addition to £1.1m Investment into software development

(2021: £5.9m)



Description:
This measure includes operating cash flow for the period less capital expenditure, which shows how much actual cash has been generated/used from its operations and capital expenditure for a period.
This measure can be distorted by unwinding of working capital between reporting periods which can result in both positive and negative movements, therefore it is useful to look at this measure over a number of years.

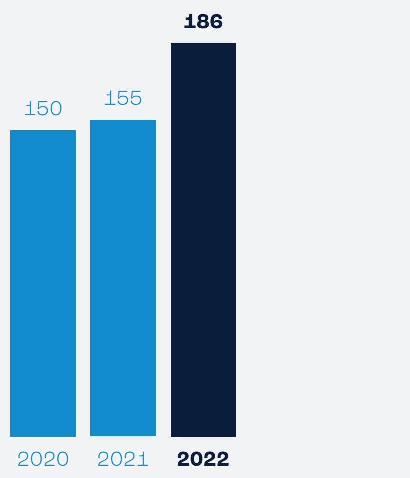
Strategic link:
The Group looks to maintain healthy free cash flows from its existing business as this provides a source of finance to support future organic and inorganic growth.

Non-financial:

New customer wins

186
New customers

Average new customer spend up +19%

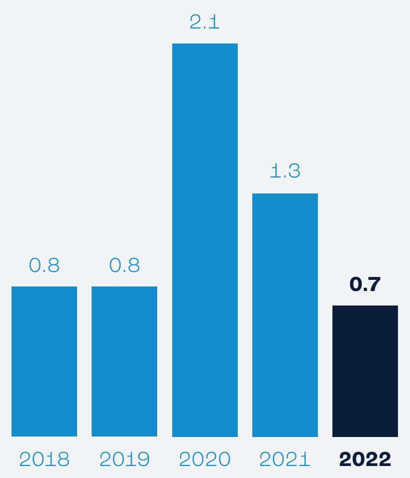


The net number of new clients buying software or services from the Group.

Strategic link:
The addition of new client logos is a key contributor to the Group's organic growth strategy.

New software revenues (£m)

£0.7m
New software



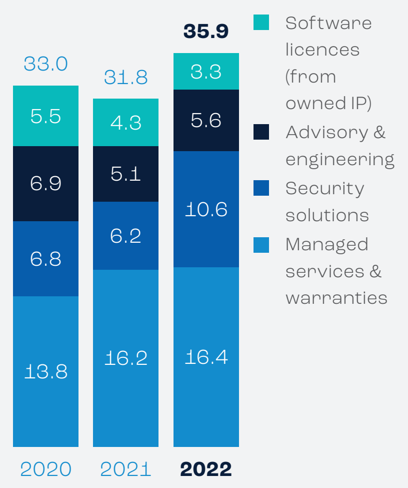
Revenue connected to the Group's own software products, being software licences.

Strategic link:
Sales of internally developed software products generates strong gross profitability. As part of its strategy, the Group invests in its software products to drive these highly profitable revenues.

Revenue by type

>40%
Revenue by type

>40% repeatable revenues



Group revenues are generated via four revenue streams.

Strategic link:
Maintaining multiple revenue streams provides a number of streams to drive top line growth. Each revenue stream has unique characteristics that drive revenues and each stream can be impacted by different factors.

Strategy in action

Pentest secure contract from US-based global software vendor

Services

In April 2021 Pentest Limited was awarded a three-year contract from a US-based global software vendor worth in excess of $1 million over the lifetime of the contract.

The contract was awarded following a robust six-month RFP process which included supplying technical documentation, presentations and interviews, a proof-of-concept test simulation to assess Pentest's capability, methodologies and approach, as well as a commercial evaluation of Pentest's operations performed by an independent third party.

Out of 15 companies, Pentest Limited were chosen based on their performance throughout the RFP process, their technical expertise during the test simulation, approach to account management were identified by the client as providing the desired combination of high capability and high commercial value. The vendor was also suitably impressed with the history of Pentest, the tenure of their staff and the references provided to them from similar sized software organisations that Pentest currently work with. Ultimately, seeing Pentest as a safe pair of hands.

What services will Pentest provide under this contract?

Under the terms of the contract, Pentest will provide vulnerability assessment and penetration testing services, utilising their world-class capabilities to deliver in-depth security investigations, with the aim of uncovering vulnerabilities and supporting the organisation's information security improvement.

Specific areas of testing to be performed under the contract

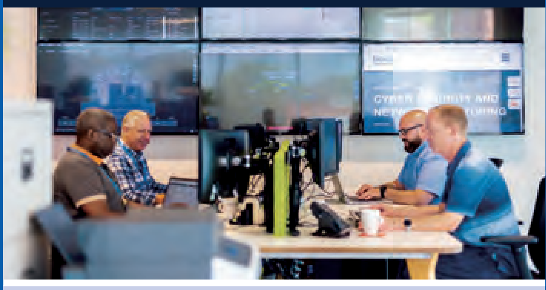
- Infrastructure (external and internal)
- Web applications
- Mobile applications
- APIs
- Cloud services
- Software as a Service (SaaS)
- Thick client

The contract performance so far

During FY22, Pentest Limited successfully completed 24 separate test engagements as part of this contract, ranging from small, one-off assignments through to larger, more complex projects. The feedback from the vendor has been extremely positive, both in terms of the quality of the work undertaken and the management of the account, with the client stating they look forward to working with Pentest over the rest of the contract.

Pentest

Information security experts since 2001



At Pentest, we believe that information security assurance requires more than a one-size-fits-all approach. That's why our information security testing services have been designed to go further.

Founded in 2001, we work in partnership with our clients, providing them with bespoke and adaptable testing services to ensure they can be as confident as possible in their information security, whether it be their internal systems or applications developed for third parties.

It's this approach, as well as our technical capability, that has led us to develop long-term working relationships with organisations across the world, from global tech companies, with large, complex test requirements, through to small companies requiring a single annual test.

So, whether you're a multinational looking to protect yourself against an advanced cyber-attack, a medium-sized organisation looking for assurances around an application, or a start-up looking for initial security advice, we're here to give you confidence in your information security.

Strategy in action continued

An international bank reduces data management resource workload by using automated sensitive information discovery tools from GeoLang

Software

To slash resource costs, an international bank headquartered in the UK chose to automate the discovery of sensitive data in the Atlassian suite of solutions (Jira, Confluence, Bitbucket), both on-premise and in the cloud, with GeoLang Data Discovery.

The challenge – Managing massive amounts of growing sensitive data across the business

The bank is responsible for managing large amounts of sensitive personal information in accordance with FCA, PRA and GDPR regulations. They need to protect customer data, provide proof that data is being managed correctly for audits, ensure that data is kept in accordance with regulations to avoid fines and understand where their data resides so that they can reduce risk from human error and cyber-attack.

Managing all their sensitive data was a mammoth task – they used a large team of people to manually scan their digital estate to discover the sensitive data that was stored across the whole UK business. While this process was a massive drain on resources and budgets, it was very necessary.

Our customer realised that as the number of business applications grew, automating the data discovery process was becoming crucial to ensure compliance and reduce security risks as well as costs.

The bank selected GeoLang Data Discovery to scan over 2 terabytes of data, an amount that is continually increasing, and report on all the sensitive data that is being stored in their on-premise and cloud solutions.

Without adopting this change to automated data discovery, they would have needed to add more resources and increased budgets, while always being at risk of human error and key sensitive data being missed.

GeoLang Data Discovery

- Not heavyweight DLP
- Quick to deploy
- Easy to use
- No business disruption
- Little admin time needed
- Scan Atlassian products on-premise and in the cloud

Cyber-attack is the top business risk faced in Financial Services in 2022.

Allianz Risk

Barometer 2022.

Automating the data discovery process for sensitive data in Atlassian Confluence, Jira, Bitbucket and more

Like many other financial services businesses, the bank are using the Atlassian suite of solutions.

Our customer searched for a solution to automate the data discovery process but struggled to identify a data discovery solution that was able to scan Atlassian products that were deployed on-premise and in the cloud. After a comprehensive review of the data discovery market, testing many solutions, they identified GeoLang Data Discovery as the right tool to move forward with.

GeoLang Data Discovery automates the data discovery process and quickly scans endpoints (PC, MAC, Linux), servers, and day-to-day business management solutions such as Office 365, Google Workspace, Alfresco, and Atlassian Jira, Confluence and Bitbucket. The GeoLang solution reports on the type of sensitive data being stored and where it is held, alerting on any data that is out of line with compliance regulations.

The result

Realised significant efficiencies as a result of using automated data discovery versus manual data scanning

Resource reduction

By automating the process, the cost of running the team was massively reduced and resources were reallocated to different tasks, strengthening the bank's digital security posture.

Quickly respond to audits

The bank is now able to easily and quickly answer any questions raised during internal and external audits and show, thorough reports, that data is being managed correctly.

Improved compliance

Automation of the process of sensitive data discovery means the bank is no longer at risk of breaching regulations due to human error or through a member of staff missing a key piece of sensitive data.

Continual employee training

GeoLang Data Discovery sends real-time alerts to users when they are about to create or save a file containing sensitive data in a way that breaks company policy. This process educates employees about how to handle data, constantly improving the way that data is managed internally.

90% of current IT budgets are spent simply trying to manage internal complexities, with precious little money actually spent on data innovation that improves either productivity or the customer experience.

Strategy in action continued

Insurance MFA – On-premise and multiple integrations

Software

Harvard Business Review

About the company

UNIQA Czech Republic is part of one of the leading insurance groups, UNIQA, located in Austria, Central and Eastern Europe and was set up in 1993 in the Czech Republic. UNIQA Czech Republic offers personal, property, commercial and industrial insurance and has a nationwide sales network comprising of its own sales representatives, customer offices, brokers, agents and vehicle dealers.

Challenge – security of user identities

Looking to standardise and increase the security of user identities, the insurance company decided to use additional security tools, including multi-factor authentication.

UNIQA started to consider using multi-factor authentication as part of a security compliance and standards initiative led by the head office based in Austria. The aim of the project was to ensure secure sign-on to their systems by remote workers, not only employees but also distributors and other partners.

To meet their requirements UNIQA was looking for a solution that would provide a single platform for integration with all their different systems.

The main requirement was independence from external systems, but with the ability to be able to integrate external systems in the future. Ease of use, different types of authentication (push notification, use of smart phones etc.), high availability and integration with directory structures such as Microsoft Active Directory and especially OpenLDAP were all key for UNIQA.

Insurance MFA solution – evaluated and selected

During the selection process, UNIQA looked at different multi-factor authentication solutions and after detailed analysis they chose the MFA solution from SecurEnvoy which met their strenuous requirements.

It was very important from a security perspective for UNIQA to have an on-premise-only solution, and they found that some solutions were not entirely on-premise and that many vendor solutions save data to the cloud. SecurEnvoy meets this requirement.

In addition, SecurEnvoy MFA was selected by UNIQA for its user-friendly environment with push notifications, Android app integration and its wide range of authentication methods, including SMS, hardware tokens and use of modern technology, such as smart watches, which although not required immediately, could be used in the future.

UNIQA very much appreciated SecurEnvoy's flexibility and support in meeting their specific integration requirements.

The deployed solution also needed to meet their vision of 'protected access for all customer partners', requiring protection for several thousand identities.

MFA implementation – across a partner network

UNIQA chose Czech partner M-COM s.r.o. to implement the project. M-COM is a key business partner of Comguard (SecurEnvoy's distributor for the Czech Republic and Slovakia). M-COM were tasked with handling some specific requirements for integration, including HCL Domino, HCL Verse and Zimbra, which are not typically integrated into SecurEnvoy MFA.

Another challenge was the wide range of different users and systems. Two-factor authentication not only needed to be connected to the customer's internal system and used by employees and partners, but also by the suppliers that the insurance company works with.

The project implementation confirmed that the solution can be deployed relatively quickly and easily and can be connected to a wide range of supported technologies. Knowledge of third-party technologies was also important for integration.

Result – user-friendly MFA solution that delivered

Following successful implementation, UNIQA updated its users about the importance of multi-factor authentication, and they saw a real advantage in having a user-friendly solution like SecurEnvoy MFA that is easy to use and not a frustrating barrier for adoption.

Even though there is a wide supply of market choice, due to the requirements that were placed on the solution, the final choice of supplier was relatively clear. The SecurEnvoy solution proved to be a very good choice with regard to price, technology and performance.

The customer appreciated the high quality and level of support from the vendor and partners.

Key points

- Single platform supporting a large number of different systems and integrations (including: OpenLDAP, Microsoft Active Directory, Forcepoint VPN, Microsoft Office 365 and HCL Domino).
- Wide range of authentication options, including push notification and Android App.
- Fulfils requirement for an on-premise-only solution that does not save data in the cloud.
- Improved security with MFA solution supporting remote workers (employees, distributors and partners).

Stakeholders

Promoting the success of our Company for the benefit of our key stakeholders.

Section 172 statement

Shearwater Group's Directors recognise their obligation to promote the success of the Company for the benefit of all of its members. In doing so, each Director has (amongst other matters) to consider:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with customers, suppliers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company to maintain a reputation for high standards of business conduct; and
- the need to act fairly between members of the Company.

The Board promotes a rigorous decision-making process, with the objective of ensuring that decisions align to the Group's culture of transparency and fairness to its members, which the Directors believe is key to support the long-term delivery of the Group's strategy. In addition to this, a robust decision-making process looks to mitigate the impact of the businesses' principal risks and uncertainties that exist.

Communities and the environment

How we engaged:

We have continued to review our impact on the communities where we operate, ensuring that our people are aware of the Group's environmental objectives and policies, raising awareness of our businesses carbon footprint. Working with our partner DODO we have continued to invest in projects in order to offset the carbon created by our businesses.

The Group looks to support its employees who wish to participate in local charitable activities within their communities.

Impact of engagement:

We have invested in three carbon capturing projects during the year, offsetting the carbon created by the business, which has resulted in the business achieving carbon neutral status for a third year in a row.

During the year, the Group looked to support its employees' charity participation by providing time off and a matched funding programme to support individual fundraising efforts.

Please see responsible operations on pages 28 to 33

Customers

How we engaged:

As a business, we pride ourselves on our relationships with customers. We understand the importance of taking time to foster long-term relationships in order to understand the challenges they face. This allows us to develop effective strategies and solutions to fit our customers' needs. We seek feedback from our customers so that we can always look to improve our service.

Impact of engagement:

Following on from the COVID19-related challenges of the previous year, during the year we have worked closely with long-term customers to understand their changing requirements. In the current year 64% of revenues were generated from long-standing customers with a relationship in excess of three years, demonstrating the commitment the Group has enjoyed from its customers during the year.

Please see responsible operations on pages 28 to 33

Key stakeholders include:

Communities

We aim to make a positive contribution to the communities in which our businesses are part of.

Customers

As demands evolve, we strive to maintain strong relationships, ensuring regular communication so that we are able to deliver in line with their needs, expectations and the changing environment.

Employees

We look to provide a safe, fulfilling and happy working environment to our people, balancing work/life pressures, providing personal development and equal opportunities for individuals to advance their careers.

Shareholders

Both institutional and retail investors are vital to our business. We aim to provide regular updates on how the Group is performing with regard to the execution of its strategy with the aim of driving shareholder value.

Suppliers

Maintaining strong relationships with our supply chain means that we are able to source at competitive prices whilst maintaining the Group's position on ethical sourcing.

Employees

How we engaged:

We strive to maintain a happy working environment where our employees are able to fulfil their potential. We look to invest in our people, providing training opportunities to support development and enhance individuals' opportunities for career progression within the Group.

Impact of engagement:

During the year we have looked to support our employees by adding additional employee benefits, which include an improved healthcare offering and a new EAP platform to provide a broad range of support to staff. A new Company Share Option Plan was set up with options issued to a broad range of the Group's employees to ensure that employees are well motivated and identify closely with the success of the Group.

» Please see responsible operations on pages 28 to 33

Shareholders

How we engaged:

Our Chairman, CEO and CFO maintain regular contact with our institutional investors and our AGM provides an opportunity to meet individual investors. In addition to this, we present to retail investors twice a year through the IMC platform. The Board works closely with its brokers and other advisors to ensure that the views of shareholders are represented in key decisions taken by the Board.

Impact of engagement:

We have aimed to ensure that our shareholders are regularly updated, through trading updates, online retail investor presentations and interim and full-year investor roadshows.

» Please see strategy on page 16 and responsible operations on pages 28 to 33

Suppliers

How we engaged:

We actively look to create long-term collaborative relationships with key suppliers to ensure that we are part of an effective supply chain.

Impact of engagement:

The current economic climate has presented some challenges to supply chains, with delays potentially impacting businesses. Whilst we are not immune from potential delays within the supply chain, management's current approach of developing long-term collaborative partnerships with suppliers has allowed us to plan so that we can best mitigate challenges that may arise.

» Please see strategy on page 6 and responsible operations on pages 28 to 33

Responsible operations

We continue to look to improve the way we conduct our business and interact with our key stakeholders.

We know we have a responsibility to ensure we conduct our business in a way that's sustainable. We recognise our responsibilities towards our stakeholders – including clients, employees, shareholders, suppliers and the wider communities where we operate – are integral to our business.

Central to this is managing our impact on the environment, and taking care of our people, who are at the forefront of our success, and continue to perform resiliently and professionally.

A year ago, we updated our ESG strategy, a key component of the Group's growth strategy. This remains unchanged and, throughout the year, we have continued to extend our initiatives in this area.

We also maintain a set of values that define our Group culture, and incorporate them in all our operating procedures. We support today's changing social environment and therefore will do what we can to strive for a better, fairer, greener, more tolerant and kinder society.

UN SDGs

100% carbon offset

Our ESG strategy

Protecting our environment

We will prevent pollution, minimise waste from our offices, and adopt good environmental practices.

- We aim to establish best-practice environmental management systems throughout our business to improve our efficiency with resources.

» Read more on pages 30 and 31

Supporting our team

We have identified our key social issues, including the health and safety of our people, effective staff engagement, employee wellbeing and mindfulness, training opportunities, and diversity and equal opportunity.

- With the challenges COVID19 presented, workplace culture and engagement continued to be an area of focus in FY22.

» Read more on pages 32 and 33

Maintaining strong governance

A strong focus on governance is a vital part of our ability to implement sustainable practices across our operations.

- We work with experts to ensure we always follow the most appropriate governance practices.

» Read more on page 33

Responsible operations continued

Protecting our environment

In FY22, we reduced our carbon emissions by 13%, and for a third consecutive year the Group was carbon neutral.

We recognise the importance of sustainable trading, and continually improve our practices to ensure we operate in an environmentally responsible manner. Therefore, we encourage all parts of our business to look to develop new environmentally friendly products and better processes, to reduce their carbon footprint.

As we look to minimise the environmental impact of our activities, we aim to prevent pollution, minimise waste from our workplaces, and adopt good environmental management practices, integrating environmental management systems into all our business processes.

Progress during the year includes:

- Enhancing the accuracy of our emissions calculation, focusing on Scope 1 and 2 emissions by tracking the carbon generated using the kWh of fuel and electricity used across our offices.
- Building on the sustainable work policies launched last year for travel, waste and working from home.
- Identifying and working with carbon-neutral suppliers.

Our carbon footprint report is in line with the Greenhouse Gas Protocol, the most widely used international carbon calculation methodology, compatible with other greenhouse gas (GHG) standards such as ISO 14064. This also allows for direct integration with national and international GHG registries.

The emitting activities covered in the report for the financial year 2022 include direct emissions resulting from equipment we own or control and emissions from purchased electricity (referred to as Scope 1 and 2 emissions respectively). They also include selected indirect emissions – those resulting from travel, commuting, software, hardware, working from home and additional service costs (referred to as Scope 3 emissions). Under the GHG Protocol, reporting direct and indirect emissions resulting from purchased electricity is compulsory. All other Scope 3 emissions are reported voluntarily. Depending on the reliability of data, we have reported as many voluntary emissions as possible. To adapt to a post-COVID19 workplace, we have also incorporated the emissions generated both from the commuting habits of our employees, and the emissions generated by working from home. Our carbon footprint is largely made up of business travel, office operations, general services and employee commuting.

This year, we have continued to work with DODO, an automated carbon accounting platform, to help ensure the third-party certification of our emissions calculation. Each month, we also offset our entire carbon footprint, so we capture every bit of CO_2 we release. DODO also helps with the offsetting, helping us invest in carbon-capturing projects across the world.

We have chosen these projects not just for their impact on climate change, but also because each has multiple benefits for the community, as well as supporting the wider UN Sustainable Development Goals (SDGs). The SDGs are the blueprint to achieving a better and more sustainable future for all. They address the global challenges we face, including poverty, inequality, climate change, environmental degradation, peace and justice.

As well as offsetting our footprint, we aim to continue reducing our emissions, and will be exploring how we can drive further reductions in operations and the supply chain to support our sustainability strategy.

Fiscal year (1 April-31 March) CO_2 emissions by category	Tonnes CO_2e 2022	2021
Office	**172.6**	206.7
Employee	**100.8**	152.7
Technology	**21.4**	25.9
Marketing	**32.1**	14.6
Business travel	**13.2**	7.7
Food and accommodation	**16.7**	4.2
Total	**356.8**	411.8

We calculated our emissions at 357 tonnes of CO_2 since 1 April 2021. Accordingly, we have offset this by investing in three carbon-capturing projects that support all 17 UN Sustainable Development Goals. Please visit our website for more information on each project.

Environmental objectives and policies

In addition to offsetting, we are doing many things to ensure our whole business is as 'green' as possible, and to promote the policies below.

Switch it off!

We ensure desktop PCs, monitors, printers, any other electronic equipment and lights are turned off at night. We also regularly review which equipment can be powered down.

Cut down on travel

We find we can manage many of our client and manufacturer meetings using phone conferencing and web-based collaboration. This avoids unnecessary travel and also saves time. When travel is unavoidable, we promote car-free travel. We are also encouraged by our clients selecting more cloud and subscription-based services, which our engineering teams can provide remotely, reducing the need for on-site attendance.

All green at Shearwater

We recycle as many paper, card, plastic, aluminium, glass and computer consumables as we can. We have continued to move our marketing campaigns away from paper-based direct mail to online where possible. We also encourage our people and clients not to print documentation where possible.

Waste

We strive to reduce, recycle or reuse where we can, but any waste we can't eliminate, we dispose of in a safe and responsible manner.

Web meetings and website

We are broadening the capabilities of our web-based meetings, which now include live video conferencing and online presentations. Most of our corporate, promotional and product literature is available online, to minimise the use of paper.

Company car policy

We encourage the use of public transport for attending meetings and do not currently offer company cars to employees. We would like to thank our employees for their continued support and understanding of this responsibility to the environment.

Desktop use

Without affecting service standards, performance or growth, where appropriate, we use equipment with few moving parts. This means low power requirements and heat output. We also centralise data requirements for the same reasons. This ensures the power needed at the desktop is appropriate for the tasks undertaken, with no stand-by or non-operational running costs.

Green IT box

With our Green IT box service, we offer a secure, compliant, cost-effective and easy recycling service for redundant IT equipment. This helps companies meet their legal IT-disposal requirements at a much lower cost per item than comparable services.

Carbon offsets: A case study

This year, we have invested in several carbon-reduction projects in order to capture our Company emissions.

Project: Running tide kelp sequestration

Technology: Kelp farming

Location: US

Oceans represent two-thirds of the Earth's surface and have an understated role to play in the future of our life on Earth.

By growing kelp forests that sink in the deep ocean, the kelp can store up to 20 times more carbon per acre than land forests. In this way, the project uses the power of the ocean to build a climate-positive future.

Coastlines that were once abundant ecosystems are now closer to empty wastelands facing ecological and economic collapse. Kelp removes CO_2 from the ocean as it grows, using photosynthesis, ocean currents and gravity to remove and store carbon. This ensures the project offers permanent, scalable carbon removal at low cost and without high land use.

Responsible operations continued

Supporting our team

Our people are key to our success, so it's vital we help create a working environment that supports them and their development. This way, they can aim to achieve their own personal goals as well as contribute to the social and environmental causes close to their heart.

We focus on four areas we believe support this approach:

1. Employee engagement

We keep in regular contact through our Company WebEx, team conference calls, regular management meetings, internal presentations, team announcements and news articles on our websites. We encourage interaction between people, many of whom are currently working within a hybrid-working framework. We also encourage cross-Group communication between management and teams, which tends to happen freely. This has helped secure a better understanding of each local portfolio company within the business, encouraging growth in internal business development and a lower cost of sale. We continued to look to enhance employee benefits, introducing incentives such as company share option plans and a Save As You Earn scheme where employees can share in the Group's success.

2. Employee wellbeing and mindfulness

We continue to enhance the working environment for our people, whether they work remotely or at our offices, believing people are healthier, happier and more engaged at work when we offer our support. During the year we upgraded our Employee Assistance Programme, to provide a more complete support system. It aims to improve our employees' health and wellbeing, minimise risks in the workplace, and help deal with issues that could be affecting their home or work life. In addition, we also run events for our people to enjoy socialising with each other.

3. Training and development

We continue to invest in training and development. All employees have undertaken our initial training programme of ten separate online courses. All staff at regular intervals, and all new joiners, also take our Company-wide online data protection training to ensure knowledge and awareness of this important matter is continually refreshed. Topics covered include risk management, GDPR and ISO 27001, anti-bribery and anti-money laundering.

In addition to Group-wide training, we continue to invest in role-specific training, including sales and marketing, legal and compliance, and third-party vendor training for engineers. We have also invested in the Government's apprentice programme.

4. Equality and diversity

Promoting and supporting diversity is an important aspect of good people management, valuing everyone within the organisation as an individual. To reap the benefits of a diverse workforce, it's important to maintain an inclusive environment where everyone feels able to participate and achieve their full potential. We strive to build an enriched multicultural working community where we encourage everyone to succeed in the information technology industry, no matter their age, race, sex or background. We align with UK legislation covering age, disability, race, religion, gender and sexual orientation, among others, but also go beyond just legal compliance. We have a modern and progressive diversity and equal opportunities policy and will continue to develop this as we grow, in line with today's employment landscape.

Helping in the community

During the year, our employees contributed to their communities by joining our employee volunteering and charitable giving scheme, taking part in events, and raising money for local charities.

In July 2021, three of our Pentest team took part in Boycott your Bed, spending the night in the most unusual place they could think of to raise funds for Action for Children/Byte Night Scotland, helping children and families go to bed dreaming of a safe and happy future.

Maintaining strong governance

We aim to ensure our environmental and social initiatives can evolve and grow so they are always relevant, and continue to have a positive impact on our people, the environment and wider society.

Financial review

“ ”

A positive performance in the current year has seen the Group deliver a third consecutive year of increased profitability.

Paul McFadden
Chief Financial Officer

Overview

A positive performance in the current year has seen the Group deliver a third consecutive year of increased profitability with **adjusted EBITDA** up 19% and **adjusted profit before tax** up 24% following strong revenue performance from the Group's Services division. This has resulted in a **reported profit before tax** of £0.9 million for the year (2021: £0.0 million).

The improvement in profitability is driven by **revenue** growth of 13% which includes much-improved advisory revenues, which were impacted by the COVID19 crisis during the previous year, in addition to robust security solution and managed services & warranties revenues which has offset some softness in the Software division's revenues which were impacted by delays in deployment of new software. Encouragingly, we have started to see growth in new product revenues in the current year and are optimistic that these revenues can be accelerated in the coming year(s).

During the year the Group introduced 186 new customers, a 20% increase on the number of new customers introduced during the previous year (2021: 155), which contributed £2.46 million of business from new customers, which is a 43% increase on the previous year.

The Group has continued to enjoy strong customer retention with 64% of revenues coming from long-term clients with in excess of three years' trading history with the business, which demonstrates the strength of our businesses' offerings.

Over 40% of the Group's revenue is of a repeatable nature and as we look towards the coming year we have improved visibility with £14.5 million of repeatable revenue opportunities already identified for 2023.

As part of its strategy, the Group has continued to invest in the development of new technologies within its Software division, with investment for the current year equating to 33% of the Group's software revenues. Investment into software development was increased during the current year in order to ensure that we are positioned to maximise the opportunity to grow software revenues in the coming years.

During the year the Group paid down the remaining loan liabilities of £0.7 million, which related to the Pentest acquisition early, leaving the business with a healthy balance sheet as it now looks to further develop its organic business in addition to inorganic opportunities.

£4.4m

+ 19%
Adjusted EBITDA

>40%

Robust recurring revenues

Details of the Group's summarised financial performance for the year are detailed below:

	2022 £m	2021 £m	% change
Revenue	**35.9**	31.8	13%
Gross profit	**10.8**	9.9	
Overheads (underlying)	**(6.4)**	(6.2)	
Adjusted EBITDA	**4.4**	3.7	19%
Adjusted EBITDA margin	**12%**	12%	
Finance charge	**(0.1)**	(0.2)	
Depreciation	**(0.3)**	(0.3)	
Amortisation of intangible assets – computer software	**(1.0)**	(0.8)	
Adjusted profit before tax	**3.0**	2.4	24%
Amortisation of acquired intangible assets	**(2.1)**	(2.1)	
Share-based payments	**(0.1)**	(0.3)	
Other operating income	**0.1**	–	
Profit before tax	**0.9**	–	
Taxation (charge)/credit	**(1.2)**	0.1	
(Loss)/profit after tax	**(0.3)**	0.1	

Revenue

Revenue for the year ended 31 March 2022 grew by 13% (£4.1 million) to £35.9 million (2021: £31.8 million).

The table below provides a breakdown of revenues for the current year:

	2022 £m	2021 £m	% change
Managed services and warranties	**16.4**	16.2	1%
Security solutions	**10.6**	6.2	70%
Advisory and engineering	**5.6**	5.1	10%
Software licences	**3.3**	4.3	(23%)
Total revenue	**35.9**	31.8	13%

Managed services & warranties included the addition of a number of new material contracts from existing clients in the period which offsets the gap left by some multi-year deals sold in previous years which were not renewable in the current year.

Security solutions revenues in the period were positively impacted by increased activity, which is in part driven by clients returning to the office and resuming projects that may have slowed or been put on hold. The increase in revenue has been generated by new business from both new and existing clients.

Following a challenging prior period which saw many businesses temporarily suspend advisory engagements due to COVID19-related lockdown measures, it is pleasing to report that our professional advisory businesses saw increased demand for their services during the year, with solid day rates and increased utilisation rates contributing to a 10% year-on-year increase in the Group's 'Advisory and engineering' revenues.

Renewals of 'On Premise' multi-factor authentication software of c.80% remained in line with the previous period, demonstrating commitment from our existing long-term clients, however, the impact of additional development work which delayed the go to live date of some new products/functionalities has resulted in lower than expected software licence revenues in the current year. As we look forward, the introduction of new cloud-based product/functionalities provides an exciting opportunity to introduce new product/functionalities to both new and existing customers.

Financial review continued

The Group delivered adjusted EBITDA of £4.4 million in the year (2021: £3.7 million), 19% ahead of the prior year.

Adjusted EBITDA

The Group delivered adjusted EBITDA of £4.4 million in the year (2021: £3.7 million), 19% ahead of the prior year, which has delivered a blended EBITDA margin of 12% which in line with the prior year (2021: 12%).

The table below provides a breakdown of the Group's adjusted EBITDA:

	2022 £m	2021 £m	% change
Services and Software	**6.2**	5.2	18%
Central administrative expenses	**(1.8)**	(1.5)	(17%)
Adjusted EBITDA	**4.4**	3.7	19%
Adjusted EBITDA margin %	**12%**	12%	

Adjusted EBITDA profitability from our trading entities has increased by 18% (£1.0 million) in the year to £6.2 million, which reflects a blended trading adjusted EBITDA margin of 17% (2021: 17%). The Group's Services division delivered an improved gross profit margin of 26% (2021: 23%) with materially improved performance from the Group's advisory businesses contributing to this improvement. The Software division saw a softening of its gross profitability in the year owing to the timing of the release of new product functionalities that has delayed revenues, in addition to a large multi-year enterprise sale sold in GeoLang that benefited the prior year that has not being replicated in the current year.

Central administrative expenses have increased by £0.3 million in the year to £1.8 million, which reflects increased salary costs, details of which can be found in the remuneration report, plus additional marketing expenditure to support promotion of the Group.

Finance charges

Net finance charges of £0.1 million incorporate a £0.1 million year-on-year saving (2021: £0.2 million) on interest payable on loan balances following the early repayment of the Group's remaining loan liabilities, which related to the acquisition of Pentest, during the year.

Depreciation

Depreciation of £0.3 million (2021: £0.3 million) is in line with the prior year and incorporates £0.3 million of depreciation of right of use assets (2021: £0.2 million).

Amortisation of intangible assets – computer software

Amortisation of computer software has increased by £0.2 million to £1.0 million (2021: £0.8 million) and includes a full year's amortisation of GeoLang development expenditure in addition to increased amortisation in SecurEnvoy, reflecting the incremental increase in software investment.

Adjusted profit before tax

The Group delivered adjusted profit before tax for the year of £3.0 million (2021: £2.4 million), a 24% increase on the prior year, which is driven by the improvement in adjusted EBITDA of £0.7 million and a £0.1 million reduction in finance charges which has been offset by a £0.2 million increase in internally developed software amortisation.

Amortisation of intangible assets – acquired intangibles

Amortisation of acquired intangible assets of £2.1 million (2020: £2.1 million) is in line with the previous year.

Other operating income

Other operating income includes early repayment discounts recognised on the repayment of loan liabilities of £0.1 million which were settled in the year.

Reported profit before tax

Reported profit before tax for the year of £0.9 million (2021: £0.0 million) reflects the improved profitability from trading detailed within adjusted profit before tax, in addition to reduced share-based payment charges and other operating income.

Taxation

The taxation charge in the period of £1.2 million includes a £0.5 million charge for the current year plus £0.7 million movements in deferred taxation which includes a £1.1 million charge reflecting the amending of deferred tax rates to 25% following the recent enactment by the UK Government.

Earnings/(loss) per share

Adjusted basic earnings per share of £0.11 (diluted £0.10) (2021: adjusted earnings per share £0.10 basic and diluted) represents a 10% year-on-year increase, with the additional trading profitably driving the improvement. Whilst the average number of shares has remained broadly the same on a year-on-year basis the taxation rate relating to differed taxation has increased significantly which has resulted in a reduction in reported earnings per share for the period. Reported basic and diluted loss per share of £0.01 compares against a positive basic and diluted earnings per share of £0.01 delivered in the prior period.

Statement of financial position

Intangible assets

Intangible assets decreased in the year by £2.0 million to £52.6 million at 31 March 2022 (2021: £54.6 million). This movement incorporates £1.1 million of investment into continued development of the Group's software assets (2021: £0.7 million), less £3.1 million amortisation, of which £2.1 million relates to amortisation of acquired intangibles.

Property, plant and equipment

Property, plant and equipment decreased in the year by £0.1 million to £0.3 million at 31 March 2022 (2021: £0.4 million). Additions of £0.2 million include £0.1 million for a new office lease which has been recognised as a right of use asset from January 2022. Other movements in the period include depreciation in the year of £0.3 million.

Trade and other receivables

Trade and other receivables have increased by £10.6 million in the year from £9.6 million to £20.2 million at 31 March 2022. Material movements include a £14.5 million increase in accrued income, primarily driven by £12.3 million relating to revenue billed after the year-end. Trade receivables have reduced by £4.4 million, which incorporates some timing of year-end billing which moved to April 2022.

Trade and other payables

Trade and other payables have increased by £2.3 million in the year from £12.2 million to £14.5 million at 31 March 2022. Material movements include a £6.9 million increase in accruals and other payables which includes the costs associated with transactions in the final month of the year, a £3.2 million decrease in trade payables, reflecting a change in timing of the receipt of supplier invoicing, a £1.9 million decrease in other taxation and social security which included £1.3 million of deferred VAT from the prior year which was repaid in full during the year and a £0.4 million increase in corporation tax liabilities.

Creditors: amounts falling due after more than one year

Creditor amounts falling due after more than one year have increased in the year by £2.8 million from £4.0 million to £6.8 million at 31 March 2022. Accruals and other payables represent costs relating to transactions in the final month of the year. Reductions include £0.8 million of loan balances relating to the Pentest acquisition which were repaid in the year, £0.3 million reduction in deferred tax relating to acquired intangible assets and £0.1 million decrease in lease liabilities relating to office leases held by the Group.

Financial review continued

Statement of cash flows

Following two years of strong reported operating cash flows, the Group has experienced some unwinding of working capital in the year, which along with additional investment into software development and the early repayment of loan liabilities, has resulted in a year-on-year reduction in the year-end adjusted net cash of £0.4 million. The working capital movement reported in the year relates to the timing of contract renewals which has led to expected client receipts moving into following the quarter. The Group continues to collect cash effectively, with minimal bad debt to date.

The table below provides a summary of cash flows in the year:

	2022 £m	2021 £m
Adjusted EBITDA	**4.4**	3.7
Movements in working capital	**(4.7)**	2.9
Cash (used)/generated from operations	**(0.3)**	6.6
Adjusted cash (used)/generated from operations	**(0.3)**	5.3
Adjusting items[1]	**–**	1.3
Cash (used)/generated from operations	**(0.3)**	6.6
Capital expenditure (net of disposal proceeds)	**(1.1)**	(0.7)
Tax paid	**(0.1)**	–
Interest paid	**(0.1)**	–
Payments of lease liabilities	**(0.2)**	(0.3)
Proceeds from issue of share capital	**–**	3.8
Loan repayments	**(0.7)**	(4.2)
FX and other	**0.1**	(0.5)
Movement in cash	**(2.4)**	4.7
Opening cash and cash equivalents	**8.0**	3.3
Closing cash and cash equivalents	**5.6**	8.0
Loans	**–**	(0.7)
Net cash	**5.6**	7.3
Adjusting items[1]	**–**	(1.3)
Adjusted net cash	**5.6**	6.0

1. Adjusting items comprise a previously agreed deferred VAT payment plan with HMRC which was paid in full in the current year.

Capital expenditure

Capital expenditure of £1.1 million (2021: £0.7 million) in the year represents external and internal capitalisation of software costs for developing our software businesses' product sets. Expenditure of property, plant and machinery remains minimal.

Financing activities

Financing activities of £1.0 million (2021: £1.1 million) include £0.7 million relating to repayments of loan balances and £0.2 million repayment of lease liabilities.

Key performance indicators

The Board believes that revenue and adjusted EBITDA are key metrics to monitor the performance of the Group, as they provide a good basis to judge underlying performance and are recognised by the Group's shareholders. Adjusted profit before tax is another measure we are using to track the underlying performance of the Group. These metrics are presented within the financial KPIs section on pages 17 and 18.

Alternative performance measures

The Group uses alternative performance measures alongside statutory measures to manage the performance of the business. In the opinion of the Directors, alternative performance measures can provide additional relevant information on past and future performance to the reader in assessing the underlying performance of the business.

The table within note 2 on page 79 details reported and alternative performance measures.

Paul McFadden
Chief Financial Officer
28 July 2022

Principal risks and uncertainties

Getting the right balance: Maximising opportunities for growth against an appropriate level of risk.

Risk management framework

The Board is responsible for ensuring that the Group has systems in place to ensure that the Group's principal risks and uncertainties are identified, assessed and mitigating actions implemented in an effective and timely manner.

The table below details the roles and responsibilities for managing the Group's principal risks and uncertainties:

Board
Responsible for setting the Group's policy on risk management, establishing appropriate systems to monitor risk management and internal control. The Board is also responsible for determining the Group's appetite to risk in achieving its strategic objectives.

Audit Committee
Responsible for advising the Board on risk exposure and review of internal controls that are in place to mitigate risk.

Executive
Responsible for maintaining an effective system to identify and manage key risks to the Group, understanding the materiality of each risk and potential mitigations that can be put in place to reduce exposure.

Local businesses
Responsible for maintaining an effective system to identify and manage risk at a local level, implementing mitigating measures where possible.

Risk appetite

The Group works to balance its exposure to operational, financial and other risks, against opportunities for growth, in pursuit of achieving its strategic priorities and objectives. The Board accepts that risk is a factor that is present in the business's everyday trading and, whilst many opportunities carry a level of risk, it is vital that the potential impact of each type of risk is understood, and, where possible, mitigation planning is carried out to ensure that the identified risk is of an acceptable level for the business.

Our risk appetite is reviewed at least annually and takes into account both changes that we have seen and what we expect to see within the external market the Group operates in. This review may influence our strategy as we look to maintain a balanced risk profile whilst maximising opportunities to deliver against the Group's strategy.

The Group has a zero tolerance to risks that relate to non-adherence to laws and regulations, which it considers to be an unacceptable risk.

Emerging risks

The Directors monitor the continuously evolving macro and micro economic environment and assess any potential impact to the Group's businesses. This will occasionally identify additional risks that need to be considered by the business and planned for where it is possible. Whilst not a new factor, the impact of climate change is a risk that needs to be monitored as the impact of natural disasters could have potential knock-on impacts for our stakeholders. We will continue to monitor this risk and are committed to sustainable trading which includes ethical procurement. Please see the Group's sustainability report on pages 28 to 33 for further details of how the Group promotes sustainable trading.

The Directors have identified eight principal risks to the Group that would threaten the business's ability to execute its strategy, its future financial performance and reputation. These are detailed below, with mitigating actions listed:

Principal risks and uncertainties continued

Risk	Description	Mitigating actions	Link to strategic priorities
Intellectual property No change	The Group owns a number of software assets that it has created and continuously developed over a number of years. These form the products that are sold within the Software division of our business. The Group continues to invest in the development of new product sets to complement existing products. Whilst the Group seeks to protect its intellectual property through a range of mitigating actions, this does not provide any assurances that a third party will not infringe upon the Group's intellectual property, release confidential information about it or claim technology which is registered to the Group.	• The Group maintains robust security around its internally developed technology and patents are filed where possible. • Employment contracts provide some protection around the release of information relating to product know-how. • The Group takes a zero-tolerance approach to intellectual property infringement and will take necessary steps to enforce its rights to protect its intellectual property assets.	Opportunity to sell our unique software into a new, fast-expanding marketplace. Please see Reasons to invest on page 6.
Technology No change	The markets in which the Company operates (and plans to operate) are characterised by rapid technological development, changes in customer requirements and preferences, frequent new product and service launches incorporating new technologies, and the emergence of new industry standards and practices that could render the Company's existing technology and products obsolete. If the Company is unable to anticipate and respond to technological changes and customer preferences in a timely and cost-effective manner, it is possible that existing customers and prospective customers may turn to competitor offerings.	• The Group continues to invest in the development of its own internally developed software/technologies. Investment into software development increased in the current year as we look to ensure that our product offerings remain relevant. • We have a number of industry experts working across our Group companies, who work together with the objective to improve the Group's product offering, ensuring that we keep pace with technological change and the threats that the Group's customers face. • The Group works with Gartner, who provide third-party insight on how they are seeing the market we service evolve. This provides management with additional insight on what customers are looking for to protect their networks.	Ensuring that the software products we sell are innovative will position us in a fast-growing market space. Please see Reasons to invest on page 6.

Risk	Description	Mitigating actions	Link to strategic priorities
Recruitment and retention of key personnel ▲ Increased	The Group's success depends upon its ability to attract and recruit, retain and incentivise highly skilled employees across all areas of the business. If the Group is unable to retain or successfully attract and recruit key employees across all and any areas of the business, it could delay or prevent the implementation of its strategy. The Board recognises this risk and supports the Group's people strategy which encompasses, among other things, culture, training and development, capability and competence assessments, succession planning, reward and recognition structures, to help attract and appropriately incentivise key personnel.	• We continue to create training and development opportunities for employees so that they are able to grow within their role. • We promote a culture of openness where all employees are able to express their views and suggestions, actively contributing to decision making. • The Board has taken an active role in succession planning to ensure that we build strong teams and processes around key individuals to reduce dependence on any one individual. • Review and enhancement of employee benefits including improved healthcare for all UK employees. Please see the Group's sustainability report on page pages 28 to 33 for more details.	Attracting and retaining the best candidates will help drive innovation of products and solutions, ensuring that we are able to deliver growth. Please see Stakeholders on pages 26 and 27 and Supporting our team on pages 32 and 33.
Key contracts ▬ No change	In line with other industry participants, the Group relies on certain key customers for a material proportion of its revenue. Whilst the Group benefits from high customer retention levels, there can be no guarantees that all or any customers will continue their relationship with the Group beyond the existing contractual period currently in place. Certain customers have the right to terminate their contractual arrangements with the Group or discontinue using the Group's services without notice or on short notice. If the Group was to lose one or more of its major customer contracts, the resultant loss of sales could adversely affect the enlarged Group's business, financial condition, results or future operations.	• We look to foster long-term relations with our customers by taking the time to understand our customers' needs fully. Key to achieving long-term relationships with customers is ensuring that as a minimum we always deliver in line with customer expectations. • We have looked to invest in sales and marketing roles with the objective of adding new clients to our Group. During the year 186 new clients were introduced to the Group, many of these buying products and/or services that are repeatable in nature.	Investment into developing long-term relationships, taking time to understand our clients' needs and delivering excellent service presents upsell opportunities. Please see Stakeholders on pages 26 and 27.

Principal risks and uncertainties continued

Risk	Description	Mitigation	Link to strategic priorities
Economic uncertainty including major incidents ▲ Increased	The Directors have chosen to relabel this risk to include 'major incidents', which would cover a COVID19-like global incident that creates disruption across all markets across the globe. Whilst economic uncertainty creates both challenge and opportunity, the negative impact to the Group's key stakeholders could result in the loss of customers and additional pressures on the Group's supply chain.	• Owing to the non-discretionary nature of many of the Group's products, the Group is in a robust position; however, over the past year, the Group has retained close contact with its key stakeholders, addressing challenges as they arise, providing support and flexibility where needed which we believe will strengthen relationships in the long term.	This can lead to increased levels of cyber-attack, which result in increased client investment into its IT security. Please see Introduction from our Advisory Panel on pages 2 and 3.
Cyber security attacks ▲ Increased	The Group is a high-profile target for third parties wishing to gain unauthorised access to the Group's networks, or to bypass or breach its products. Any breach of the Group's networks or products, whether through a deliberate hack or unintentional event, may cause significant business disruption to the Group or its customers and result in the Group incurring the costs of remedying any breach. Furthermore, the Group's reputation may be damaged, leading to a loss of customer, industry and investor confidence.	• The Group's employees participate in training and testing to promote awareness of cyber threats. • The Group has established a secure network infrastructure, supported by its own in-house team of information security and cyber security specialists, who are able to monitor, identify and respond to any incident, and if required, recover any data or information. We invest to continually enhance the robustness of our IT security. • Our internally developed software products are subject to regular third-party testing as part of the ongoing development process both prior to launch and once the product is being used by the Group's customers. Where new threats emerge, product updates are made available and communicated to the Group's customers so that they are able to maintain continuity of protection.	Our products and solutions help protect companies from security threats. Increased cyber-attacks present an opportunity for us, as companies look to invest in effective defensive solutions. Please see Introduction from our Advisory Panel on pages 2 and 3.

Risk	Description	Mitigation	Link to strategic priorities
Regulation — No change	In response to the increased frequency and severity of data breaches, new industry regulation and government legislation has been introduced in order to compel companies to enhance their information and cyber security measures. As a result of the continued and evolving cyber threats faced by companies, industry regulation, and in turn legislation, may be amended, adapted and enhanced at relatively short notice, which will create a new set of data protection requirements for companies, which information and cyber security product and service vendors will need to address with their products. If the Group is unable to provide products or services to its customers which enable them to meet the changing regulatory or legislative requirements laid down by industry or government, then its current or prospective customers may turn to competitor offerings.	• We constantly monitor a variety of Government bodies to ensure that we can plan for future developments within the legislative landscape, allowing us to ensure that our services are up to date and relevant. • The Group's Advisory Panel takes an active role in monitoring legislative developments which could create both opportunities and challenges for our companies. • The Group's Data Protection Officer is responsible for ensuring the Group's continued compliance with the new data protection requirements which have most recently come into force.	Changes in compliance and regulation from industry bodies and law creates an obligation that companies need to respond against. Our companies' services and solutions are able to help companies fulfil their compliance requirements. Please see Reasons to invest on page 6.
Acquisition — No change	Failure to identify suitable potential acquisitions, or failing to properly integrate an acquisition, will impact our strategy for growth.	• The Board actively monitors the market for opportunities in line with the Group's acquisition criteria. • An active M&A pipeline is regularly reviewed by the Mergers & Acquisitions Committee. • Once a potentially suitable target is identified, it is vital that a thorough due diligence assessment is undertaken. • Post-acquisition it is vital to follow a detailed implementation plan to ensure that identified investment in employees and technology is made available in order to realise identified synergies within an agreed timeframe.	The opportunity to add targeted acquisitions which add additional software capability and/or scale to our existing business provides an opportunity to realise incremental growth and enhance shareholder value. Please see Strategy on page 16.

Board of Directors

The following is a list of the names and positions of the current members of the Board.

David Williams
Chairman

A N R

Appointed to the Board:
April 2015

Key areas of prior experience:
David has over 35 years of experience building companies in the public and private sectors, having chaired a large number of these, both in an executive and non-executive capacity.
In developing these companies he has raised in excess of £1 billion of capital to support organic and acquisition growth strategies.
He was formerly chairman of Entertainment One Ltd. (LSE: ETO), Breedon Group plc (AIM: BREE) and Oxford Biodynamics Plc (AIM: OBD).

Philip Higgins
Chief Executive Officer

Appointed to the Board:
December 2018

Key areas of prior experience:
Phil has over 30 years' industry experience, during which time he has been instrumental in the delivery of next generation technology solutions to many leading global FTSE 100 and FTSE 250 companies. In April 2019 Phil was appointed as Chief Executive Officer of Shearwater Group. Following a six-year secondment to the US as International Business Director for Info Products Europe (now SCC), Phil returned to the UK market in 2001. After a brief spell at NSC Global and three years at Repton (now CDW), he co-founded Brookcourt Solutions in 2005.

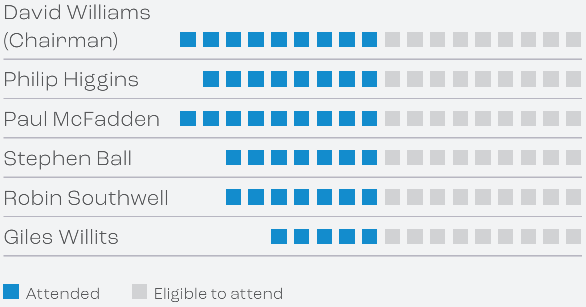
Paul McFadden
Chief Financial Officer

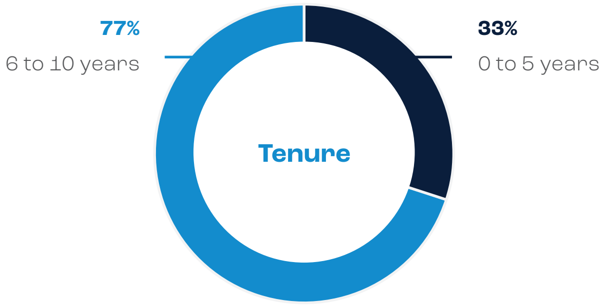
Appointed to the Board:
October 2018

Key areas of prior experience:
Paul has over ten years' experience in senior finance positions within market-leading digital information services, training and events businesses, creating and leading scalable finance functions within both a private and listed environment. Most recently, Paul was responsible for creating and leading a scalable shared service centre at Wilmington plc as the business grew substantially, organically and via acquisitions, in a five-year period.

Meetings and attendance

The table below details Directors' attendance at Board meetings during the current year:





Key:

- N Nomination Committee member
- R Remuneration Committee member
- A Audit Committee member
- ■ Committee Chair

Robin Southwell OBE
Non-executive Director

R

Appointed to the Board:
October 2016

Key areas of prior experience:
Robin has over 35 years' experience of working in the aerospace and defence industry, including roles as chief executive officer of Airbus UK and Airtanker Ltd, as well as senior positions at BAE Systems, which included running their operations in Australasia and establishing the company's asset management organisation. Robin is Chairman of Linley Furniture, a Fellow of the Royal Aeronautical Society, an Ambassador of the RAF Museums, has been appointed as a DTI Business Ambassador by the UK Government and received his OBE in 1997 for services to exports.

Stephen Ball
Non-executive Director

A N

Appointed to the Board:
October 2016

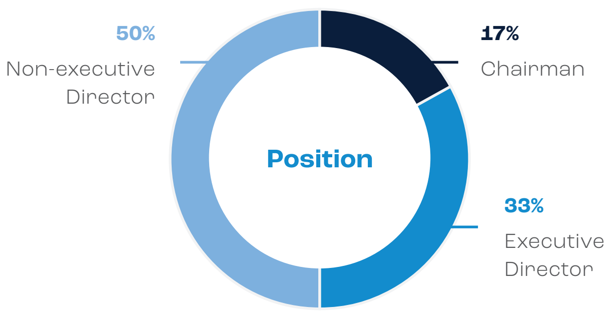
Key areas of prior experience:
Stephen has over 35 years' experience of working in senior roles in the technology, defence, information security and communications industries. Stephen was formerly chief executive officer of Lockheed Martin UK until his retirement in 2016. Prior to this, he was managing director of the company's operations in Ampthill, Bedfordshire. Before joining Lockheed Martin, Stephen spent 21 years with HM Government Communications Centre (HMGCC), latterly as chief executive officer, working on specialist development and the manufacture of security and communications equipment.

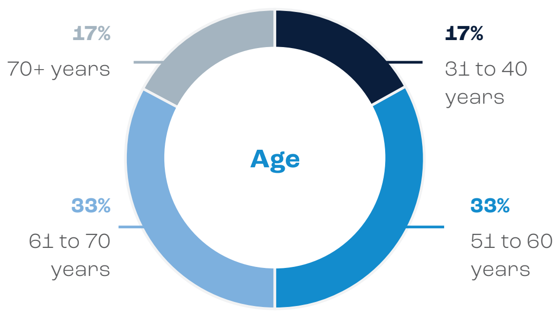
Giles Willits
Non-executive Director

A

Appointed to the Board:
December 2016

Key areas of prior experience:
Giles has over 25 years' experience in senior leadership and financial roles. Until June 2022 he was the chief financial officer of IG Design Group plc (AIM: IGR). Prior to this, Giles was also chief financial officer of FTSE 250 listed Entertainment One Ltd (LSE: ETO), having worked with Entertainment One Ltd initially as a non-executive director, before assuming the chief financial officer role in 2007. During his time at Entertainment One Ltd the market capitalisation grew to in excess of £1 billion. Giles was formerly director of group finance of J Sainsbury plc and Woolworths Group plc.





Advisory Panel

Continued support from our Advisory Panel during COVID19.

Rt Hon Lord Reid of Cardowan
Advisory Panel Chairman

Lord Reid joined the Group as Chairman of its Advisory Panel in January 2017. Lord Reid has had an illustrious career in UK Government, serving in numerous UK cabinet positions, including Home Secretary and Secretary of State for Defence. He now sits in the House of Lords and is Executive Chairman of the Institute for Strategy, Resilience and Security at University College London.

Marcus Willett CB OBE
Advisory Panel

In April 2019, Marcus Willett CB OBE joined the Advisory Panel. Marcus was formerly the Deputy Head of GCHQ having served 33 years with the organisation. He was also GCHQ's first Cyber Director and has established and led major UK cyber programmes. Marcus has held posts across the wider UK intelligence and security community and is currently the Senior Adviser for Cyber at the International Institute for Strategic Studies, a world-leading authority on global security, political risk and military conflict.

The Group's Advisory Panel is chaired by Rt Hon Lord Reid of Cardowan. The purpose of the Advisory Panel is to track developments in the digital resilience sector as well as supporting the Group in accessing growth opportunities via the network of contacts of each member of the Advisory Panel. Due to COVID19 it has not been possible to meet with our Advisory Panel face to face, however the Advisory Panel members have engaged independently with the executives from our portfolio companies as and when requested, providing help and assistance when required. We are now looking forward to re-establishing our Advisory Panel face to face meetings during this fiscal year.

Chairman's introduction to governance

> We continue to focus on delivering quality governance across the Group.
>
> **David Williams**
> Chairman

Dear Shareholder

I am pleased to introduce Shearwater Group plc's governance report for fiscal year 2022 on behalf of the Board.

Over the past year the Group has continued to evolve, against the backdrop of a changing trading environment, with the objective of ensuring it is best positioned to service its stakeholders' needs. A robust governance programme has ensured that the business has been able to navigate its way through the changing economic conditions.

The Board is responsible for maintaining a high level of corporate governance across the Group, which I believe is an essential foundation in allowing our business to deliver on its strategy of building a Group of cyber security, managed security and professional advisory companies with a leading product, solution or service capability whose full potential can be unlocked through active management and capital investment. I believe that good governance facilitates effective communication, provides clear direction on the execution of the Group's strategy which will drive sustainable growth and achieve value for stakeholders.

The Board is responsible for setting the Group's governance policy, which looks to support the creation of opportunities for growth, driving value for the shareholder whilst balancing an acceptable risk profile.

I would like to thank our people for their continued commitment to the Group, in addition to extending my thanks to our customers, suppliers, shareholders and all stakeholders for their support.

David Williams
Chairman

28 July 2022

Corporate governance report

Introduction

In September 2018 the Group adopted the QCA Corporate Governance Code (the 'QCA Code') and has worked to follow the guidance and principles set out within the code.

The Board believes that the QCA Code is the most appropriate for the size, scale and complexity of the Group and is focused on developing the Group for the long-term benefit of all its shareholders and other key stakeholders. Reference of how the Group complies with each of the ten QCA Code principles, which are set out under three headings – Deliver growth, maintain a dynamic management framework, and Build trust – is provided later in this report.

The Board of Directors

Below is a brief description of the Board and its committees, including details of each member's responsibility and a statement regarding the Group's system of internal financial control.

Internal financial control

The Board is responsible for establishing and maintaining the Group's system of internal financial controls. Internal financial control systems are designed to meet the particular needs of the Group and the risk to which it is exposed, and by its very nature can provide reasonable, but not absolute, assurance against material misstatement or loss.

The Directors continue to review the Group's systems of internal financial control as it grows to ensure that they are appropriate to the size of the business. The Directors have reviewed the effectiveness of the procedures presently in place and consider that they are appropriate to the nature and scale of the operations of the Group. The Directors will continue to reassess internal financial controls as the Group expands further.

Independence

The Board considers Stephen Ball, Robin Southwell and Giles Willits to be independent.

Governance framework

The Board

Responsible for the strategic direction, investment decisions and proper management of the affairs of the Group.

Remuneration Committee	Audit Committee	Nomination Committee
Responsible for determining and agreeing with the Board the framework for the remuneration packages for Directors. The Remuneration Committee considers all aspects of the Executive Directors' remuneration and the policy for, and scope of, any termination payments.	Responsible for ensuring that appropriate financial controls are in place, monitoring the integrity of the financial statements of the Group, reviewing the effectiveness of the Group's accounting and internal control systems, reviewing reports from the Group's auditor relating to the Group's accounting and internal controls, and reviewing the interim and annual results and reports to shareholders.	Responsible for reviewing the structure, size and composition of the Board based upon the skills, knowledge and experience required to ensure the Board operates effectively. The Committee also identifies and nominates suitable candidates to join the Board when vacancies arise and makes recommendations to the Board for the re-appointment of any Non-executive Directors.
» Read the Committee report on pages 54 and 55.	» Read the Committee report on pages 52 and 53.	» Read the Committee report on page 51.

Executive leadership team

Responsible for execution of the strategy, governance and the business's performance.

» Details of all members of the Board are set out on pages 45 and 46.

Focus areas this year

The Board

Strategy

- Assessing the organic opportunities for the Group, including geographic expansion.
- Creation of a Mergers & Acquisitions Committee focused on delivering in-organic growth opportunities.

Governance

- Communication with our employees.
- Promotion of policy awareness to our employees.

Financial

- Reviewed the robustness of the Groups financial position.
- Reviewed the potential impact to the Group with regards to factors brought about by the changing economic client, such as supply chain disruption, customer budget constraints and staff turnover.

Remuneration

- Introduction of additional staff benefits including a new LTIP (CSOP) scheme to selected employees.
- Introduction of additional incentives linked to the delivery of targets.

Role	Responsibility
Chairman	Responsible for the effective working of the Board, ensuring that all Directors are able to contribute effectively, providing robust challenge and comment to the business.
Chief Executive Officer	Responsible for the day-to-day leadership, management and control of the Group's, ensuring the execution of the Group's strategy.
Chief Financial Officer	Responsible for the day-to-day financial management and control across the Group, and for providing general support and guidance to the Chief Executive Officer on the Groups' financial performance.
Senior Independent Director	Responsible for providing a sounding board to the Chairman, acting as an intermediary for other Directors if necessary.
Independent Non-executive Directors	Responsible for providing robust challenge to the Executive Directors, ensuring that the business is delivering on its strategy within an accepted risk and control environment.
Company Secretary	Responsible for supporting the Board in its operation, ensuring that Board processes are followed. All Directors have access to the advice and services of the Company Secretary.

Corporate governance report continued

Governance structure and strategy

Strategy		Reference
Deliver growth		
01.	Establish a strategy and business model which promote long-term value for shareholders.	» See more on pages 14 to 16
02.	Seek to understand and meet shareholder needs and expectations.	» See more on pages 26 and 27
03.	Take into account wider stakeholder and social responsibilities and their implications for long-term success.	» See more on pages 26 and 27
04.	Embed effective risk management, considering both opportunities and threats, throughout the organisation.	» See more on pages 39 to 43
Maintain a dynamic management framework		
05.	Maintaining the Board as a well-functioning, balanced team led by the Chair.	» See more on pages 44 and 45
06.	Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities.	» See more on pages 44 and 45
07.	Evaluate Board performance based on clear and relevant objectives, seeking continuous Improvement.	» See more on page 51
08.	Promote a culture that is based on ethical values and behaviours.	» See more on pages 26 and 27 and 32
09.	Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board.	» See more on pages 48 to 50
Build trust		
10.	Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.	» See more on pages 26 and 27

Nomination Committee report

> Looking to increase and drive diversity where opportunities allow.
>
> **David Williams**
> **Chairman of the Nomination Committee**

Committee attendance

David Williams (Chairman)	
Stephen Ball	

Attended Eligible to attend

Dear Shareholder

On behalf of the Board, I am pleased to present the Nomination Committee report for the year ending 31 March 2022.

Roles and responsibilities

The role of the Nomination Committee is to review and ensure that the make-up of the Board comprises a diverse and knowledgeable skill set from its members which as a whole creates a balanced and appropriate Board function.

The Nomination Committee is also responsible for:

- considering succession planning for Directors and other key senior management positions across the Group;
- assisting when required with the recruitment process for other senior management vacancies;
- reviewing the time commitment required for Non-executive Directors;
- when required, identifying and nominating candidates to fill Board vacancies; and
- making recommendations for the Board to consider regarding membership of the Audit and Remuneration Committees.

Committee members

The Committee consists of myself as Chair and my fellow Non-executive Director Stephen Ball.

The Committee met three times during the year. The meetings are attended by Committee members and, by invitation, other Directors.

The table above details Committee members' attendance over the past twelve months.

Key activities and actions over the past year

Formation of a Mergers & Acquisitions Committee

During the year it was resolved that the formation of a Mergers and Acquisitions Committee would help provide additional support and focus to develop organic growth opportunities, which remains a key component of the Group's strategy. The Committee is made up of the two Executive Directors plus David Williams and Robin Southwell, who both have significant M&A experience. The Committee regularly meets to review opportunities and updates of developments and reports to back to the Board on a regular basis.

Succession planning

During the year the Committee continued to monitor the progress of the succession plan it approved in the previous financial year, which it believes will mitigate the risks associated with unexpected changes of personnel.

During the coming year

We will continue to monitor that the Board is comprised of members who have the appropriate skill sets required to function effectively in our ever-changing environment.

Approved on behalf of the Nomination Committee by:

David Williams
Chairman of the Nomination Committee

28 July 2022

Audit Committee report

> The Group has continued to develop its processes and practices in order to best support its stakeholders.
>
> **Giles Willits**
> **Chairman of the Audit Committee**

Committee attendance

The table below details Committee members' attendance over the past twelve months.

Giles Willits (Chairman)

Stephen Ball

David Williams

Attended   Eligible to attend

Dear Shareholder

On behalf of the Board, I am pleased to present the Audit Committee report for the year ending 31 March 2022.

Over the past year the Group has continued to develop its processes and practices in order to best support its stakeholders alongside delivering an improved financial performance and a stronger year-end balance sheet at 31 March 2022.

During the year the Committee has taken steps to ensure that the Group develops its financial operations, working within a robust and effective internal control environment. In addition, the Committee has continued to work with the external auditor to improve the efficiency of the year-end process and audit.

A key consideration for the Committee is ensuring that the Group is well positioned to mitigate the challenges of the current economic environment while also being able to benefit from both organic and acquisitive growth opportunities.

Roles and responsibilities

The role of the Audit Committee is to oversee on behalf of the Board the Group's corporate governance responsibilities with regard to financial reporting, internal controls and risk management systems. The Committee monitors the integrity of the interim and annual financial statements and concludes, on behalf of the Board, that the annual accounts are fair, balanced and understandable and provide the shareholder with the necessary information to assess the Group's strategy, financial position and performance.

The Audit Committee is also responsible for:

- providing oversight and challenge to the financial reporting;
- providing the Board with its opinion as to the Group's assessment of any new accounting standards;
- ensuring the Group adopts a suitable risk management system based on its size and complexity;
- agreeing the remuneration for the audit and reporting to the Board on the performance of the external auditor;
- making recommendations to the Board regarding the appointment and removal of the external auditor;
- assessing the requirement of an internal audit function within the Group; and
- ensuring that the Group has suitable policies and controls in place to prevent fraud, bribery and other compliance concerns.

Committee members

The Committee consists of myself as Chair, my fellow Non-executive Director Stephen Ball and the Group's Chairman David Williams.

The Board is satisfied that I, as Chair of the Committee, have appropriate and relevant financial expertise. I qualified as a chartered accountant with PricewaterhouseCoopers and have held senior executive roles in financial positions in other listed companies.

The Committee meets at least twice during the year and as and when required. In addition to Committee members, representatives from our external auditor, BDO LLP, the Chief Financial Officer and other members of the finance team are invited to attend.

Key activities and actions over the past year

Financial statements

The Audit Committee reviewed and approved the unaudited interim financial statements for the period ending 30 September 2021 and the full year audited financial statements for the period ending 31 March 2022 and reported to the Board that in its view the statements were fair, balanced and understandable.

A key consideration for the Group and Committee during the year has been monitoring how the Group's key stakeholders are responding to the more challenging trading conditions post the COVID19 pandemic and how any changes might impact the Group moving forward.

Significant accounting matters

The significant reporting matters and judgements considered by the Committee during the year included:

1. Revenue recognition

The Committee reviewed a report prepared by a third-party which commented upon revenue recognition of a number of material contracts in the year, including a large multi-year contract sold in the final quarter. The report also reviewed how the business determines if it is agent versus principal. The Committee considered the inherent risk of error in revenue recognition as defined by auditing standards and was satisfied that no issues were arising.

2. Going concern

The Audit Committee continues to assess the Group's financial position, cash flows and liquidity in light of what are rapidly changing economic conditions and has reviewed management's forward looking forecasts, including a reverse stress test which models a plausible worst-case scenario which negatively impacts future trading as a result of potential future COVID19 and economic challenges.

The Committee has concluded that it is appropriate for the financial statements to be prepared on a going concern basis. Please see pages 58 and 72 for additional details on the Group's going concern assessment. The Committee has also reviewed and challenged the Group's key risks, which are included within the principal risks and uncertainties section on pages 39 to 43.

3. Impairment of intangible assets

The Audit Committee has reviewed reports concerning the carrying value of specific goodwill and intangible assets which include assumptions and judgements of future cash flows, discount rates used and long term growth rates.

The Committee has concluded that the assumptions and judgements applied by management are sensible and the carrying values are appropriate.

4. Use of alternative performance measures

The Audit Committee has considered the use of alternative performance measures included in the annual report to present adjusted EBITDA and adjusted profit alongside the statutory disclosures and believes that these additional measures provide the reader with a more informed and balanced view of the underlying performance of the Group. Please see note 2 of the consolidated financial statements which provides a reconciliation of the adjusted and statutory measures.

Risk management and internal control

The Committee is responsible for advising the Board on risk exposure and review of internal controls that are in place to mitigate risk. Principal risks and uncertainties facing the business are presented on pages 40 to 43.

The internal control environment continues to develop as the business grows, with a particular focus on the introduction of new technology through the Group's shared services function to further enhance controls across the Group.

External audit

The Audit Committee monitors the Group's relationship with the external auditor, BDO LLP, to ensure that external independence and objectivity has been maintained. As part of its review, the Committee reviews the provision of any non-audit services by the external auditor. During the year no non-audit work was completed by BDO.

BDO has provided audit services to the Group since incorporation in 2005. It has, however, only served the Group in its current state as a digital and operational resilience business since March 2017. Performance has been reviewed annually and audit partner rotation requirements have been observed. Mark Ayres has replaced Nicole Martin as audit partner for the current year following Nicole's completion of five years as audit partner.

The Committee is pleased to recommend to the Board that BDO LLP are re-appointed as external auditor for the forthcoming financial year. At the AGM in September, shareholders will be asked to approve this recommendation.

Internal audit

No formal internal audit function is currently in place, which the Audit Committee deems appropriate given the size and complexity of the business and the mitigating controls in place. The Committee will continue to review the need for the Group to introduce this function on an annual basis.

Approved on behalf of the Audit Committee by:

Giles Willits
Chairman of the Audit Committee
28 July 2022

Remuneration Committee report

> Fostering a programme that recognises delivering key financial metrics.
>
> **David Williams**
> **Chairman of the Remuneration Committee**

Committee attendance

David Williams (Chairman)	■■
Robin Southwell	■■

■ Attended ■ Eligible to attend

Dear Shareholder

On behalf of the Board, I am pleased to present the Remuneration Committee report for the year ending 31 March 2022.

Roles and responsibilities

The role of the Remuneration Committee is to review and agree with the Board the framework for remuneration packages for Directors. The Committee considers all aspects of the Chief Executive officers' remuneration, including pensions, bonus arrangements, benefits, incentive payments and share option awards.

The Remuneration Committee is also responsible for agreeing the policy and scope of any termination payments.

Committee members

The Committee consists of myself as Chair and my fellow Non-executive Director Robin Southwell.

The Committee met twice during the year. The meetings are attended by Committee members and, by invitation, other Directors. The table above details Committee members' attendance over the past twelve months.

Review of the financial year ended 31 March 2022

Group performance

The Group has delivered year-on-year revenue and adjusted EBITDA growth, ahead of market expectations. As detailed in the strategic report, we saw strong performance within the Services division which offset the impact of some development delays within the Software division which has impacted the current year's financial performance.

The Group uses adjusted measures to review the underlying performance of the Group and the Remuneration Committee also uses adjusted measures to determine the Chief Executive officers' annual bonus along with long-term share options.

Key activities and actions over the past year

Remuneration of Executive Directors

Base salaries

The Committee reviewed the Executive Directors' base salaries, and having completed a benchmark review of similar sized listed companies, the Chief Executive Officer's base salary was increased from £110,000 per annum to £220,000 per annum from 1 April 2021 and the Chief Financial Officer's base salary was increased from £125,000 per annum to £150,000 from 1 April 2021.

Following his appointment to the role, Philip Higgins, the Group's Chief Executive Officer had previously agreed to take a lower salary than his predecessor until the business was on a firmer footing.

Base salaries of Executive Directors had been frozen since October 2018, as the executive team have worked to re-organise the business, which has resulted in the delivery of consecutive years of adjusted EBITDA profit growth.

Bonus

The bonus opportunity for Executive Directors during the year was based on the achievement of a revenue and adjusted EBITDA target.

The Remuneration Committee approves annual bonuses for the Chief Executive Officer and retains a level of discretion over the level of payout based upon the quality of financial performance in achieving the results. In the year ended 31 March 2022, bonuses were paid reflecting the improved performance for the year. Details of the awards can be found on page 56.

Share options

As part of the Group's new Company Share Option Plan, an option over 25,000 shares has been granted to Paul McFadden, the Group's Chief Financial Officer, with vesting conditions based on achievement of revenue and adjusted EBITDA profit targets over the next three years. Further details of the Group's new Company Share Option Plan are included later in this report.

Remuneration of Non-executive Directors

Non-executive Directors salaries have remained unchanged during the year. Our non-executives recognise the poor share price performance and felt that their salaries should not be increased until this improves.

Implementation of a new Company Share Option Plan

The Group issues share options to Executive Directors and employees to reward performance, aligning the reward to creation of shareholder value.

On 11 February 2022, the Group announced the implementation of a new long-term incentive share option plan which saw 668,110 ordinary share options of 10 pence each issued to a broad range of the Group's employees, to ensure that the Group's employees are well motivated and identify closely with the success of the Group. 640,714 of the options granted were issued under the newly adopted Company Share Option Plan (CSOP), with the remaining 27,396 options granted under the Company's existing Employee Share Option Plan (ESOP).

The options will be exercisable from vesting until the fifth anniversary of grant at a price of £0.95 per new ordinary share, a price equal to the closing mid-market price per share on 9 February 2022.

Subject to the satisfaction of performance conditions and continued employment, where applicable, the options will vest as to 89,998 shares on the first anniversary of grant, 11,112 shares on 10 September 2023 and 567,000 shares on the third anniversary of grant.

Approved on behalf of the Remuneration Committee by:

David Williams
Chairman of the Remuneration Committee
28 July 2022

Governance

Annual report on remuneration

Introduction

The Remuneration Committee has established a remuneration policy for both Executive and Non-executive Directors which aims to:

- align remuneration with performance of the Group and the interests of shareholders. The policy looks to reward, retain and incentivise Directors to perform to the high levels; and
- apportion an element of Executive Directors' remuneration to annual and longer-term performance targets.

Directors' remuneration

A summary of Directors' remuneration is as follows:

	Aggregate of all Directors		Highest paid Director	
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000
Wages and salaries	**538**	457	**220**	170
Social security costs	**67**	56	**29**	23
Pension costs	**16**	12	**—**	—
Share-based payments	**64**	186	**34**	98
Total remuneration	**685**	711	**283**	291

The remuneration of key management personnel during the year is as follows:

Year ended 31 March 2022	**Total salary and fees £'000**	**Bonus £'000**	**Benefits £'000**	**Sub-total £'000**	**Pension £'000**	**Total £'000**
Executive Directors						
P Higgins	**220**	**—**	**—**	**220**	**—**	**220**
P McFadden	**143**	**45**	**1**	**189**	**16**	**205**
Non-executive Directors						
D Williams	**51**	**—**	**—**	**51**	**—**	**51**
S Ball	**26**	**—**	**—**	**26**	**—**	**26**
R Southwell	**26**	**—**	**—**	**26**	**—**	**26**
G Willits	**26**	**—**	**—**	**26**	**—**	**26**
Total	**492**	**45**	**1**	**538**	**16**	**554**

Year ended 31 March 2021	Total salary and fees £'000	Bonus £'000	Benefits £'000	Sub-total £'000	Pension £'000	Total £'000
Executive Directors						
P Higgins	110	60	—	170	—	170
P McFadden	119	38	1	158	12	170
Non-executive Directors						
D Williams	51	—	—	51	—	51
S Ball	26	—	—	26	—	26
R Southwell	26	—	—	26	—	26
G Willits	26	—	—	26	—	26
Total	**358**	**98**	**1**	**457**	**12**	**469**

The Directors' interests in the share options of the Group as at 31 March 2022 were as follows:

	Date of grant	Exercise price	Number of options at 31 March 2021	New options issued	**Number of options at 31 March 2022**
P McFadden	07/05/2018	£4.00	7,875	—	**7,875**
P McFadden	10/02/2022	£0.95	—	25,000	**25,000**

Directors' report

The Directors present their annual report together with the audited financial statements for the year ended 31 March 2022. The corporate governance statement set out on pages 48 to 50 form part of this report.

Shearwater Group plc is domiciled in England and Wales and is incorporated in England and Wales under Company number 05059457. Shearwater Group plc is a public listed company listed on the AIM market of the London Stock Exchange (AIM). A copy of the Company's articles of association is available on the Group's website at **www.shearwatergroup.com**.

Principal activities

The Group's principal activity is to provide cyber security, managed security and professional advisory solutions to help create a safer online environment for organisations and their end users.

Business review and future developments

A detailed review of the business, future developments along with the principal risks and uncertainties facing the Group are included within the strategic and business review of activities on pages 1 to 43.

Results and dividends

Results for the year and financial position are detailed on pages 68 to 104. The Directors do not recommend the payment of a dividend for the year (FY21: £nil).

Directors

The Directors of the Group who held office during the year and subsequently are as follows:

Name of Director	
D Williams	Chairman
P Higgins	Executive Director
P McFadden	Executive Director
R Southwell	Non-executive Director
S Ball	Non-executive Director
G Willits	Non-executive Director

Directors' interests in shares and share options

The Directors who held office during the year had the following interests, including family interests, in the ordinary shares of the Group:

	Number of shares held at 31 March 2022	Number of shares held at 31 March 2021
P Higgins	**2,216,850**	2,236,350
D Williams	**1,618,757**	1,433,757
R Southwell	**155,000**	155,000
S Ball	**119,444**	119,444
G Willits	**67,717**	67,717
P McFadden	**1,715**	1,715

Share capital and substantial shareholders

Details of the issued share capital, together with details of the movements during the year are contained in note 17 of the consolidated financial statements.

Details of share-based payments are contained in note 18 of the consolidated financial statements and the annual report on remuneration. No person has control over the Company's share capital and issued shares are fully paid.

At 31 March 2022, the Company had been notified of the following substantial shareholders comprising 3% or more of the issued share capital of the Company:

	% of issued share capital
Schroders plc	13.2%
Mr L Jones	12.3%
Mr P Higgins	9.3%
Mr D Stacey	8.8%
Mr D Williams	6.8%
Mr S Watts	3.7%

Directors' indemnities

The Group currently has in place, and had for the year ended 31 March 2022, Directors' and Officers' liability insurance for the benefit of all Directors of the Group.

Directors' report continued

Going concern

The Directors have considered the Group's going concern position, having reviewed detailed forecasts for the period to at least 31 March 2024, and have considered the principal risks the Group is exposed to and how this could impact future trading and the subsequent future cash flows, which has been detailed in a reverse stress test scenario.

The Directors continue to adopt the going concern basis in preparing the annual report and financial statements and are satisfied that sufficient cash resources are available to meet financial commitments as they arise and for at least twelve months from the date of signing the financial statements. Further disclosure is provided in note 1 of the consolidated financial statements.

Our people

The Directors recognise the importance of ensuring effective communication to the Group's employees, ensuring that they are updated on various factors including updates on the performance of the Group. The executive team hold employee briefings at least twice a year with local management briefing their teams more regularly.

The Group conforms to current employment laws on the employment of disabled persons and, where we are informed of any employee disability, management make all reasonable efforts to accommodate that employee's requirements.

Stakeholder engagement

Details of the Group's engagement with its key stakeholders is included within the strategic report on pages 26 and 27.

Environment

The Directors remain committed to ensuring that the Group's business is conducted in a way that is not detrimental to the wider environment. During the year the Group has extended its carbon offset programme; working with our partner DODO, we have increased the variety of carbon offset projects we have invested in, increased the accuracy of our carbon calculation and continued to improve our awareness of the Group's ongoing impact on the environment. Please see responsible operations section on pages 28 to 33 for more details.

Research and development activities

Key to the Group's strategy is the development of its owned software products; as such, the Group is committed to actively investing in the continued research and development of our software (SaaS) services to ensure that the Group remains at the forefront of the markets we serve. Where specific internal development cost meets the required criteria under IAS 38, these amounts have been capitalised at the cost incurred.

Financial instruments

Details of the use of financial instruments by the Group are contained in note 19 of the consolidated financial statements. The financial risk management policies and objectives are also set out in detail in note 19.

Political donations

No political donations were made during the financial year (FY21: £nil).

Events after the reporting date

There are no events after the reporting date to report.

Statement as to disclosure of information to auditors

Each of the Directors who held office at the date of approval of these financial statements has confirmed, as far as they are aware:

- the Director knows of no information, which would be relevant to the auditor for the purpose of their audit report, of which the auditor is not aware; and
- the Director has taken all steps that he ought to have taken as a Director to make himself aware of any such information and to establish that the auditor is aware of it.

A resolution to re-appoint BDO LLP as auditor of the Group will be put to the annual general meeting (AGM).

Annual General Meeting

The Company proposes to convene the Annual General Meeting for 11:00am on 20 September 2022. Notice of the Annual General Meeting will be circulated shortly to shareholders.

On behalf of the Board

David Williams
Chairman
28 July 2022

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with UK adopted international accounting standards (IAS). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for the year ended 31 March 2022. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with UK adopted International Accounting Standards, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

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

Website publication

The Directors are responsible for ensuring the annual report and financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

The Group's financial statements can be accessed using the following link: **www.shearwatergroup.com/results-and-presentations/**.

Independent auditor's report

to the members of Shearwater Group Plc

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2022 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Shearwater Group Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2022 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the Company statement of financial position, the consolidated statement of changes in equity, the Company statement of changes in equity, the consolidated cash flow statement and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining an understanding of the Directors' process for producing cash forecasting models, including the inputs and assumptions used in those models;
- Checking the mathematical accuracy of the models;
- Understanding and challenging the underlying assumptions included in the forecasts. This included comparing forecast revenue and costs with historical revenue and cost trends and historic forecasts with actual results to consider the accuracy and reliability of the directors' forecasting ability. We also assessed the forecast revenue against the Group's revenue pipeline;
- Performing sensitivity analysis of changes in key assumptions including a reasonably possible (but not unrealistic) reduction in forecast revenue to understand the headroom in the cash flow forecasts;
- Reviewed the facility agreement for key terms and conditions and confirmed the availability of the unutilised facility; and
- A review of the consistency of the going concern disclosures in the financial statements with the Directors' going concern assessment.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Coverage	80% (2021: 93%) of Group profit before tax 96% (2021: 97%) of Group revenue 93% (2021: 92%) of Group total assets

Key audit matters

	2022	2021
Revenue recognition	✓	✓
Impairment of intangible assets and goodwill (Group) and investments in subsidiaries (Parent Company)	✓	

Impairment of intangible assets and goodwill (Group) and investments in subsidiaries (Parent Company) have been determined to be key audit matters in the current year as a result of the significant judgements and estimates required by management in their assessment of indicators of impairment.

Materiality	Group financial statements as a whole. £627k (2021: £556k) based on 1.75% (2021: 1.75%) of total revenue.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

In determining the scope of our audit we considered the level of work to be performed at each component in order to ensure sufficient assurance was gained to allow us to express an opinion on the financial statements of the Group as a whole. We tailored the extent of the work to be performed by us at each component based on our assessment of the risk of material misstatement at each component.

We identified four significant components Shearwater Group Plc (the Parent Company), SecurEnvoy Limited , Pentest Limited and Brookcourt Solutions Limited, which were subject to full scope audits, by the Group engagement team. The financial information of the remaining non-significant components were subject to analytical review procedures performed by the Group engagement team to support the conclusions reached that there were no significant risks of material misstatement in the aggregated financial information of these components.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report continued

to the members of Shearwater Group Plc

An overview of the scope of our audit continued

Key audit matter	How the scope of our audit addressed the key audit matter
Revenue recognition **The Group's accounting policy is described in note 1.** **Details of the disaggregation of revenue is included in note 3.** The Group generates revenue from services and products which are sold either individually or in software and service bundles. Revenue is recognised at either a point in time or over time depending on whether the performance obligation is distinct and when the performance obligation is satisfied. We considered there to be a significant audit risk arising from the allocation of the value of the transaction price to the individual performance obligations included in the sale, where applicable, as well as the timing of revenue recognition with regard to appropriate deferral/accrual of revenue. The Group also earns revenue from the resale of third party licences, software and services which requires judgement as to whether the Group is acting as a principal or agent. Furthermore, as revenue is a significant balance and a key performance indicator for the Group, we considered revenue recognition to be a key audit matter.	Our procedures included the following: We assessed whether the Groups' revenue recognition policy is in accordance with applicable accounting standards. We inspected a sample of contracts to assess the nature of performance obligations and to determine which of these should be recognised at a point in time or over time and evaluated the recognition of revenue in accordance with the accounting policy. For licences, software and services sold as a bundle, on a sample basis we tested the allocation of the transaction price of individual performance obligations to underlying support, including the reseller arrangements for the standalone selling price. We performed analytical procedures by developing an expectation of revenue based on movements in revenue related balances and cash receipts from the customers and comparing to that recorded. We tested the completeness of revenue by agreeing a sample of cash receipts from customers to the supporting documentation and related revenue or accrued/deferred revenue recognised. For a sample of revenue transactions throughout the period, around the year end and post year end, we agreed to supporting documentation including proof of delivery of licence keys, customer acceptances and time cards as evidence of satisfaction of the performance obligation. We assessed the appropriateness of agent versus principal revenue recognition for third party licences, software and services sold with reference to contracts with customers and suppliers and the requirements of applicable accounting standards. We tested completeness of deferred revenue and existence of accrued revenue by agreeing to sales invoices, cash receipts and proof of satisfaction of the performance obligations, recalculating the amount of revenue to be accrued or deferred, as applicable. **Key observations:** Based on the procedures undertaken we did not identify any matters to suggest that the recognition of revenue was inappropriate.

Key audit matter	How the scope of our audit addressed the key audit matter
Impairment of intangible assets and goodwill (Group) and investments in subsidiaries (Parent Company) **The group's accounting policies are described in note 1.** **Disclosure around inputs and assumptions are included in note 9.** Intangible assets and goodwill, represent a significant part of the assets of the Group and investment in subsidiaries of the assets of the Parent Company. There are significant judgements required to be made by management in performing the impairment assessment for these assets. These judgements involve assessment of the cash generating units ("CGU") and assumptions impacting the future results and cash flows of the CGU's which include revenue growth rates, gross profit margins, operating profit margins, terminal value and the discount factor applied. As a result of the significant estimates and judgements involved, we considered this area to be a key audit matter.	Our audit procedures included the following: We challenged management's impairment assessment, through discussion with the Directors and management, based on our knowledge of the Group's business and performance to date and assessed whether it was performed in accordance with the requirements of the applicable accounting standards. We assessed the appropriateness of using different CGU's for the impairment analysis, based our understanding of the business and the Group strategy. We checked the mechanical accuracy of the models used for each CGU and recalculated the discount rate. We considered whether the discounted cash flow model applied to value the recoverable amount of these assets appropriately supports the asset value. This included a review and challenge of the assumptions underpinning the forecasts and the other inputs into the value in use model, such as the future revenue growth rate, the budgeted cost base, working capital and the WACC used against supporting documentation and industry benchmarks. We also compared forecast revenue and costs with historical trends and the Group's revenue pipeline, historic forecasts with actual results to assess the accuracy and reliability of management's forecasting and the discount rate in line with market rates. We checked that the forecast figures included within the model had been approved by the Board and these were consistent with information obtained in other audit areas and the forecasts used in the going concern assessment. We performed sensitivity analysis to test whether reasonably possible changes to inputs and assumptions could result in an impairment. Specifically, with regards to the investment in subsidiaries we considered the scale of the market opportunities – with reference to third party sources and publicly available information in respect of the structure and quantum of transactions involving similar assets i.e. common industry multiples paid for businesses which operate in similar sectors. We also assessed the adequacy of disclosures, including sensitivities, in the financial statements relating to management's assessment against the requirements of the applicable accounting standards. **Key observations:** Based on the outcome of the above procedures, we consider that the judgements and estimates made in the impairment assessments of the intangible assets and goodwill in the Group and investment in subsidiaries in the Parent Company were appropriate.

Independent auditor's report continued

to the members of Shearwater Group Plc

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		Parent company financial statements	
	2022 £k	2021 £k	**2022 £k**	2021 £k
Materiality	**627**	556	**470**	319
Basis for determining materiality	1.75% of Total revenue		75% (2021:57%) of Group materiality	
Rationale for the benchmark applied	Revenue has been determined to be the most relevant performance measure to the stakeholders of the Group given the Directors' current focus on revenue growth.		Capped at 75% (2021:57%) of Group materiality given the assessment of the components' aggregation risk.	
Performance materiality	**470**	417	**353**	239
Basis for determining performance materiality	75% of materiality is based on our assessment of the overall control environment and after having considered a number of factors including the expected total value of known and likely misstatements based on past experience.			

Component materiality

- We set materiality for each component of the Group based on a percentage of between 7% and 90% of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £45k to £546k. In the audit of each component, we further applied performance materiality levels of 75% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

- We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £31,350 (2021: £21,300). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report and financial statements other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Independent auditor's report continued

to the members of Shearwater Group Plc

Responsibilities of Directors

As explained more fully in the Statement of Directors Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and its components and the industry in which it operates and determined that the most significant laws and regulations which are directly relevant to specific assertions in the financial statements are those that relate to the reporting frameworks, Companies Act 2006 and rules of the London Stock Exchange for companies trading securities on AIM, data privacy and the relevant tax compliance regulations.

We assessed the susceptibility of the financial statement to material misstatement, including fraud and considered the fraud risk areas to be the management override of controls and revenue recognition.

Our procedures included:

- agreement of the financial statement disclosures to underlying supporting documentation;
- the review of tax compliance of the Group and testing the completeness and accuracy of current and deferred tax balances against the requirements of the applicable legislation;
- review of minutes of Board meetings throughout the year for any instances of non-compliance with laws and regulations, including fraud;
- enquiries of management and those charged with governance regarding any instances of known or suspected non-compliance with laws and regulations or fraud in the year;
- in addressing the risk of fraud in revenue recognition, the procedures set out in the key audit matters section above;
- testing journal entries with a focus on large or unusual transactions based on our knowledge of the business by agreeing to supporting documentation; and
- evaluating and, where appropriate, challenging assumptions and judgements made by management in determining significant accounting estimates, in particular in relation to the impairment of investments and intangible assets (refer to the key audit matters section above), capitalised development costs and the going concern assumption.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Ayres (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor

28 July 2022

London
United Kingdom

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated statement of comprehensive income

for the year ended 31 March 2022

	Note	2022 £'000	2021 £'000
Revenue	3	**35,876**	31,766
Cost of sales		**(25,053)**	(21,871)
Gross profit		**10,823**	9,895
Administrative expenses	4	**(6,435)**	(6,501)
Depreciation and amortisation		**(3,412)**	(3,200)
Other operating income		**70**	37
Total operating costs		**(9,777)**	(9,664)
Operating profit		**1,046**	231
Adjusted EBITDA		**4,398**	3,705
Depreciation and amortisation		**(3,412)**	(3,200)
Share-based payments		**(10)**	(311)
Other operating income		**70**	37
Operating profit		**1,046**	231
Finance income		**–**	2
Finance cost	6	**(110)**	(200)
Profit before taxation		**936**	33
Income tax (charge)/credit	7	**(1,228)**	112
(Loss)/profit for the year and attributable to equity holders of the Company		**(292)**	145
Other comprehensive income			
Items that may be reclassified to profit and loss:			
Write off of FVTOCI reserve		**14**	–
Exchange differences on translation of foreign operations		**(1)**	(3)
Total comprehensive (loss)/income for the year		**(279)**	142
Earnings per ordinary share attributable to the owners of the parent			
Basic and diluted (£ per share)	8	**(0.01)**	0.01
Adjusted basic (£ per share)	8	**0.11**	0.10
Adjusted diluted (£ per share)	8	**0.10**	0.10

Adjusted EBITDA is a non-GAAP company-specific measure which is considered to be a key performance indicator of the Group's financial performance.

The results above are derived from continuing operations.

The notes on pages 72 to 97 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

for the year ended 31 March 2022

	Note	2022 £'000	2021 £'000
Assets			
Non-current assets			
Intangible assets	9	**52,564**	54,616
Property, plant and equipment	10	**315**	405
Total non-current assets		**52,879**	55,021
Current assets			
Trade and other receivables	11	**20,155**	9,611
Cash and cash equivalents		**5,575**	8,049
Total current assets		**25,730**	17,660
Total assets		**78,609**	72,681
Liabilities			
Current liabilities			
Trade and other payables	12	**14,519**	12,237
Total current liabilities		**14,519**	12,237
Non-current liabilities			
Creditors: amounts falling due after more than one year	13	**7,884**	3,956
Total non-current liabilities		**7,884**	3,956
Total liabilities		**22,403**	16,193
Net assets		**56,206**	56,488
Capital and reserves			
Share capital	17	**22,278**	22,277
Share premium		**34,581**	34,581
FVTOCI reserve		**—**	14
Other reserves		**24,386**	24,376
Translation reserve		**23**	24
Accumulated losses		**(25,062)**	(24,784)
Equity attributable to owners of the Company		**56,206**	56,488
Total equity and liabilities		**78,609**	72,681

The notes on pages 72 to 97 are an integral part of these consolidated financial statements.

The financial statements on pages 68 to 97 were approved and authorised for issue by the Board and signed on their behalf on 28 July 2022.

Philip Higgins
Chief Executive Officer
Registered number: 05059457

Consolidated statement of changes in equity

for the year ended 31 March 2022

Group	Share capital (note 17) £'000	Share premium £'000	FVTOCI reserve £'000	Other reserve £'000	Translation reserve £'000	Accumulated losses £'000	Total equity £'000
At 1 April 2020	22,107	34,581	14	20,714	27	(24,929)	52,514
Profit for the year	—	—	—	—	—	145	145
Other comprehensive loss for the year	—	—	—	—	(3)	—	(3)
Total comprehensive income for the year	—	—	—	—	(3)	145	142
Contributions by and distributions to owners							
Issue of share capital	170	—	—	3,351	—	—	3,521
Share-based payments	—	—	—	311	—	—	311
At 31 March 2021	22,277	34,581	14	24,376	24	(24,784)	56,488
Loss for the year	**—**	**—**	**—**	**—**	**—**	**(292)**	**(292)**
Other comprehensive loss for the year	**—**	**—**	**(14)**	**—**	**(1)**	**14**	**(1)**
Total comprehensive loss for the year	**—**	**—**	**(14)**	**—**	**(1)**	**(278)**	**(293)**
Contributions by and distributions to owners							
Issue of share capital	**1**	**—**	**—**	**—**	**—**	**—**	**1**
Share-based payments	**—**	**—**	**—**	**10**	**—**	**—**	**10**
At 31 March 2022	**22,278**	**34,581**	**—**	**24,386**	**23**	**(25,062)**	**56,206**

The notes on pages 72 to 97 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

for the year ended 31 March 2022

	Note	2022 £'000	2021 £'000
Cash flows from operating activities			
Loss/profit for the year		**292**	145
Adjustments for:			
Amortisation of intangible assets	4	**3,149**	2,860
Depreciation of right of use assets	4	**207**	263
Depreciation of property, plant and equipment	4	**56**	77
Share-based payment charge	4	**10**	311
Other income	4	**(70)**	–
Fair value adjustment of deferred consideration	4	**–**	(37)
Finance income		**–**	(2)
Finance cost		**110**	200
Income tax		**1,228**	(112)
Cash flow from operating activities before changes in working capital		**4,398**	3,705
Decrease/(increase) in trade and other receivables		**(10,040)**	894
(Decrease)/increase in trade and other payables		**5,384**	2,029
Cash (used)/generated from operations		**(258)**	6,628
Net foreign exchange movements		**5**	3
Finance cost paid		**(50)**	(38)
Tax paid		**(62)**	–
Net cash (used)/generated from operating activities		**(365)**	6,593
Investing activities			
Purchase of property, plant and machinery	10	**(49)**	(45)
Purchase of intangibles	9	**(1,097)**	(709)
Proceeds from disposal of tangible assets		**–**	17
Net cash used in investing activities		**(1,146)**	(737)
Financing activities			
Proceeds from issue of share capital		**–**	3,750
Interest paid	22	**(91)**	–
Repayment of loan liabilities – principal amount	22	**(652)**	(4,151)
Expenses paid in connection with share issues		**–**	(466)
Repayment of lease liabilities	22	**(220)**	(281)
Net cash used in financing activities		**(963)**	(1,148)
Net (decrease)/increase in cash and cash equivalents		**(2,474)**	4,708
Foreign exchange movement on cash and cash equivalents		**–**	(2)
Cash and cash equivalents at the beginning of the period		**8,049**	3,343
Cash and cash equivalents at the end of the period		**5,575**	8,049

The notes on pages 72 to 97 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

for the year ended 31 March 2022

General information

The Group is a public limited company incorporated and domiciled in the UK. The address of its registered office is 22 Great James Street, London, WC1N 3ES.

The Group is listed on the Alternative Investment Market (AIM) on the London Stock Exchange. The Group provides cyber security, managed security and professional advisory solutions to help create a safer online environment for organisations and their end users.

1. Statement of accounting policies

The significant accounting policies applied in preparing the financial statements are outlined below. These policies have been consistently applied for all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements have been prepared in accordance with UK adopted International Accounting Standards ('IFRS') and with those parts of the Companies Act 2006 applicable to companies reported under IFRS.

The consolidated financial statements have been prepared under the historic cost convention. The consolidated financial statements are presented in sterling, the functional currency of Shearwater Group plc, the Parent Company. All values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least twelve months from the date of signing these financial statements. Accordingly, they continue to adopt the going concern basis in preparing these consolidated financial statements.

Having successfully navigated the initial COVID19 crisis, where the Directors took steps to ensure that the Group was in a robust position, the Group is in good financial health having completed the agreed deferred VAT payment plan in the current year. In addition to this, the Group settled in full its remaining loan liabilities of c.£0.7 million ahead of the contracted repayment dates.

The Directors continue to regularly review the Group's going concern position, considering the impact of potential future trading downturns should there be another COVID19- related crisis or economic downturn. Over the past year the Group has seen improving trading conditions which has resulted in strong recovery from its advisory businesses which were impacted by the initial COVID19 crisis in the prior year.

The Group has continued to grow in the current year, delivering improved revenue and profitability. Revenue of £35.9 million (2021: £31.8 million), adjusted EBITDA of £4.4 million (2021: £3.7 million) and profit before tax of £0.9 million (2021: £0.03 million) all demonstrating improved year-on-year performance.

At 31 March 2022, the Group has been able to report a robust financial position and is well capitalised with a net cash position of £5.6 million (2021: £7.3 million) and an untouched three-year £4.0 million Group revolving credit facility with Barclays Bank plc in place until 23 March 2024.

The Directors have reviewed detailed budget cash flow forecasts for the period to 31 March 2024 and have challenged the assumptions used to create these budgets. The budget figures are carefully monitored against actual outcomes each month and variances are highlighted and discussed at Board level on a quarterly basis as a minimum.

The Board has reviewed current trading to 30 June 2022 and is pleased to report that trading is tracking in line with budget for the first quarter.

The Directors have reviewed and challenged a reverse stress test scenario on the Group up to March 2024. The purpose of the reverse stress test for the Group is to test the impact on the Group's cash if the assumptions in the budget are altered.

The reverse stress test assumes significant adjustments to the Group's budget which include the removal of all new business revenue across both Software and Services divisions, reduction of renewal rates in our Software division to 60% at October 2022 and then 40% from October 2023 (currently c.80%), scaling back of revenues in our Services division leaving just critical managed services revenues and already contracted revenues. Costs have been scaled back sensitively in line with the reduction in revenues. The resulting outcome of the stress-test forecasts that the Group would have sufficient cash resources to service its liabilities during the periods reviewed. This assumes that the revolving credit facility would not be utilised.

In the event that the performance of the Group is not in line with the projections, action will be taken by management to address any potential cash shortfall for the foreseeable future. The actions that could be taken by the Directors include both a review and restructuring of employment-related costs. Additionally, the Directors could also negotiate access to other sources of finance from our lenders.

Overall, the sensitised cash flow forecast demonstrates that the Group will be able to pay its debts as they fall due for the period to at least 31 August 2023 and therefore the Directors are satisfied there are no material uncertainties to disclose regarding going concern. The Directors are therefore satisfied that the financial statements should be prepared on the going concern basis.

Critical accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for income and expenses during the year and that affect the amounts reported for assets and liabilities at the reporting date.

Revenue recognition of material contract

Management make judgements, estimates and assumptions in determining the revenue recognition of material contracts sold by the Groups Services division. The Group work with large enterprise clients, providing services and solutions to support the clients' needs. In many cases a third-parties products or services will be provided as part of a solution. Management will consider the implications around timing of recognition, with factors such as determining the point control passes to the client and the subsequent fulfilment of the Groups' performance obligations. In addition to this management will consider if it is acting as agent or principal. Further details of how the Group determine revenue recognition and if it is acting as agent or principal can be found within the relevant notes within this section.

Business combinations

Management make judgements, estimates and assumptions in assessing the fair value of the net assets acquired on a business combination, in identifying and measuring intangible assets arising on a business combination, and in determining the fair value of the consideration. If the consideration includes an element of contingent consideration, the final amount of which is dependent on the future performance of the business, management assess the fair value of that contingent consideration based on their reasonable expectations of future performance. In determining the fair value of intangible assets acquired, key assumptions used include expected future cash flows, growth rates, and the weighted average cost of capital.

Impairment of goodwill, intangible assets and investment in subsidiaries

Management make judgements, estimates and assumptions in supporting the fair value of goodwill, intangible assets and investments in subsidiaries. The Group carries out annual impairment reviews to support the fair value of these assets. In doing so, management will estimate future growth rates, weighted average cost of capital and terminal values. Further information can be found on note 9.

Leases

Management make judgements, estimates and assumptions regarding the life of leases. Management continue to review all existing leases, which all relate to office space, and will look to reduce the number of offices across the Group if they are not sufficiently utilised. For this reason, management have assumed that the life of leases does not extend past the current contracted expiry date. A judgement has been taken with regard to the incremental borrowing rate based upon the rate at which the Group can borrow money.

Basis of consolidation

The Group's consolidated financial statements incorporate the results and net assets of Shearwater Group plc and all its subsidiary undertakings made up to 31 March each year. Subsidiaries are all entities over which the Group has control (see note 3 of the Company financial statements). The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All inter-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations and goodwill

Business combinations are accounted for using the acquisition accounting method. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities of the acquired business at fair value. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets and liabilities is recognised in the consolidated statement of financial position as goodwill and is not amortised. To the extent that the net fair value of the acquired entity's identifiable assets and liabilities is greater than the cost of the investment, a gain is recognised immediately in the consolidated statement of comprehensive income.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired. Goodwill assets considered significant in comparison to the Group's total carrying amount of such assets have been allocated to cash-generating units or groups of cash-generating units. Where the recoverable amount of the cash-generating unit is less than its carrying amount including goodwill, an impairment loss is recognised in the consolidated statement of comprehensive income.

Acquisition costs are recognised in the consolidated statement of comprehensive income as incurred.

Notes to the consolidated financial statements continued

for the year ended 31 March 2022

1. Statement of accounting policies continued

Revenue

The Group recognises revenue in accordance with IFRS 15: Revenue from Contracts with Customers. Revenue with customers is evaluated based on the five-step model under IFRS 15: Revenue from Contracts with Customers: (1) identify the contract with the customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to separate performance obligations; and (5) recognise revenues when (or as) each performance obligation is satisfied.

Revenue recognised in the statement of comprehensive income but not yet invoiced is held on the statement of financial position within accrued income. Revenue invoiced but not yet recognised in the statement of comprehensive income is held on the statement of financial position within deferred revenue.

The Group's revenues are comprised of a number of different products and services across our two divisions, details of which are provided below:

Software

- Software licences whereby the customer buys software that it sets up and maintains on its premises is recognised fully at the point the licence key/access has been granted to the client. The Group sells the majority of its services through channels and distributors who are responsible for providing first and second line support to the client.
- Software licences for the new 'Authentication as a Services' product whereby the customer accesses the product via a cloud environment maintained by the Company is recognised in two parts, whereby 80% of the subscription is recognised at the point that the licence key is provided to the customer, with the remaining 20% recognised evenly over the length of the contract. This deferred proportion represents the obligation to maintain and support the platform that the software runs on.

Services

- Sale of third-party hardware, software, warranties and internal support:
  a) where the contract entails only one performance obligation to provide software or hardware, revenue is recognised in full at a point in time upon delivery of the product to the end client. This delivery will either be in the form of the physical delivery of a product or the emailing of access codes to the client for them to access third-party software or warranties; and
  b) where a contract to supply external hardware, software and/or warranties also includes an element of ongoing internal support, multiple performance obligations are identified, and an allocation of the total contract value is allocated to each performance obligation based on the standalone costs of each performance obligation. The respective costs of each performance obligation are traceable to supplier invoice and applying the fixed margins, standalone selling prices are determined. Internal support is recognised equally over the period of time detailed in the contract.
- Sales of consultancy services are usually based on a number of consultancy days that make up the contracted consideration. Consultancy days generally comprise of field work and (where required) report writing and delivery which are considered to be of equal value to the client. Revenue is recognised over time based on the number of consultancy days provided within the period compared to the total in the contract.

Principal versus agent considerations

In instances where the Group is involving another party in providing goods or services to a customer the Group considers whether the nature of its promise is a performance obligation to provide the specified goods or services itself or to arrange for those goods or services to be provided by the other party to determine whether it is a principal or an agent. The business will firstly identify the specific goods and/or services to be supplied to the customer.

In determining whether the business is acting as agent or principal the business assesses whether it controls each specified good or service before that good is transferred to the customer. It will consider:

- Who is responsible for fulfilling the promise to provide the specific product or service.
- If the business is carrying a liability risk for the specific good or service prior to it being supplied to the customer.
- If the business has discretion over pricing.

In addition to the points noted above, the business also considers the following unique selling points:

- Pre-sales process;

  In some cases, the business invests heavily in working with the customer to understand their requirements, before designing/recommending a solution that integrates various third-party product or service to meet the customers' requirements.
- Levels of ongoing services;

  In some cases, whilst, not always contracted the business will continue to support the customer as needed to ensure that their solution is working. This may include co-ordination of the maintenance and support with third parties, provision of engineers to remove and send back faulty product.

Where the Group is a principal, revenues are recognised on a gross basis in the statement of comprehensive income while when an agent revenues are recognised on a net basis in the statement of comprehensive income.

Segmental reporting

For internal reporting and management purposes, the Group is organised into two reportable segments based on the types of products and services from which each segment derives its revenue – Software and Services. The Group's operating segments are identified on the basis of internal reports that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

Current and deferred income tax

The charge for taxation is based on the profit or loss for the year and takes into account deferred tax. Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax based in the computation of taxable profit or loss and is accounted for using the balance sheet method.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group's subsidiaries operate and generate taxable income. Management periodically evaluate positions taken in tax returns with respect to situations where applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax assets are only recognised to the extent that it is probable that future taxable profit will be available in the foreseeable future against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are measured at the rates that are expected to apply when the related asset is realised, or liability settled, based on tax rates and laws enacted or substantively enacted at the reporting date.

Notes to the consolidated financial statements continued

for the year ended 31 March 2022

1. Statement of accounting policies continued

Intangible assets

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets acquired as part of a business combination are recognised outside goodwill if the assets are separable or arise from contractual or other legal rights and their fair value can be measured reliably. Material expenditure on internally developed intangible assets is taken to the consolidated statement of financial position if it satisfies the six-step criteria required under IAS 38.

Intangible assets with a finite life have no residual value and are amortised over their expected useful lives as follows:

Computer software (including in-house developed software)	2-5 years straight-line basis
Customer relationships	1-15 years straight-line basis
Software	10 years straight-line basis
Tradenames	10 years straight-line basis

The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income within administrative expenses. The amortisation period and the amortisation method for intangible assets with finite useful lives are reviewed at least annually.

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation. Cost includes the original purchase price of the asset plus any costs of bringing the asset to its working condition for its intended use. Depreciation is provided at the following annual rates, on a straight-line basis, in order to write down each asset to its residual value over its estimated useful life.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Plant and machinery	20-33% per annum
Office equipment	25% per annum
Right of use assets	Shorter of useful life of the asset or lease term

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised, as adjusted items if significant, within the statement of comprehensive income.

Financial instruments

Shearwater's financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

Trade and other receivables are measured at amortised cost less a provision for doubtful debts, determined as set out below in 'impairment of financial assets'. Any write-down of these assets is expensed to the statement of comprehensive income.

Equity investments not qualifying as subsidiaries, associates or jointly controlled entities are measured at fair value through other comprehensive income (FVTOCI), with fair value changes recognised in other comprehensive income (OCI) and dividends recognised in profit or loss.

Impairment of financial assets

The impairment model under IFRS 9 reflects expected credit losses, as opposed to only incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is not necessary for a credit event to have occurred before credit losses are recognised. Instead, the Group always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses are updated at each reporting date.

The impairment model only applies to the Group's financial assets that are debt instruments measured at amortised costs or FVTOCI as well as the Group's contract assets and issued financial guarantee contracts. The Group has applied the simplified approach to recognise lifetime expected credit losses for its trade receivables and contracts assets as required or permitted by IFRS 9.

Expected credit losses are calculated with reference to average loss rates incurred in the three most recent reporting periods then adjusted taking into account forward-looking information that may either increase or decrease the current rate. The Group's average combined loss rate is 0.9% (2021: 0.3%). This percentage rate is then applied to current receivable balances using a probability risk spread as follows:

- 80% of debt not yet due (i.e. the Group's average combined loss rate of 0.9% is discounted by 20%, meaning a 0.72% provision would be made to debt not yet due);
- 85% of debt that is <30 days overdue;
- 90% of debt that is 30-60 days overdue;
- 95% of debt that is 60-90 days overdue; and
- 100% of debt that is >90 days overdue.

Management have performed the calculation to ascertain the expected credit loss, which works out to £41,069 (2021: £27,191). This movement has been recognised in the statement of comprehensive income. To date, the Group has a record of minimal bad debts, with less than £0.05 million being written off in the past three years.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the statement of comprehensive income.

Financial liabilities

Trade and other payables

Financial liabilities within trade and other payables are initially recognised at fair value, which is usually the invoiced amount. They are subsequently carried at amortised cost using the effective interest method (if the time value of money is significant).

Loans are initially recognised at fair value, which is the amount stated in the loan agreement. Subsequently, loan balances are restated to include any interest that has become payable.

Lease liabilities have been recognised at fair value in line with the requirements of IFRS 16. Details of lease disclosures are included in note 15.

Deferred consideration which relates to the future issue of ordinary shares has been initially recognised at fair value based on the closing share price at the reporting date. Deferred consideration is revalued and recognised at fair value based on the closing share price for all future reporting dates. Movements in fair value between periods are reported in the statement of comprehensive income.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in the statement of comprehensive income.

Leases

IFRS 16: Leases which supersedes IAS 17: Leases and IFRIC 4: Determining whether an arrangement contains a lease sets out the principles for recognition, measurement, presentation and disclosures of leases and requires lessees to account for most leases under a single on-balance sheet model.

Right of use assets

In determining if a lease exists, management considers if a contract conveys the right to control the use of an identified asset for a period of time in return for a consideration. When assessing whether a contract states a right to control the use of an identified asset, management considers:

- if a contract involves the use of an identified asset, this could be specified explicitly or implicitly and should be physically distinct;
- if the Group has obtained the right to gain substantially all of the economic benefit from the use of the asset throughout the period of use; and
- if the Group has the right to direct the use of the asset.

Identified 'right of use assets' since 1 April 2019 are valued at the commencement date of the lease (this is usually the date the underlying asset is available for use). For leases that began prior to 1 April 2019, a right of use asset has been created at 1 April 2019 when the Group adopted IFRS 16.

Right of use assets are depreciated on a straight-line basis from the commencement date (this is usually the date the underlying asset is available for use, or 1 April 2019 if the lease commenced before this date) to the earlier of the end of useful life of the right of use asset or the end of the lease term. The right of use asset may be subject to impairment following certain remeasurement of lease liabilities.

Details of the Group's right of use assets are contained in note 10 of the consolidated financial statements.

Lease liability

At the commencement date of a lease (or 1 April 2019 for leases which commenced before this date) the Group recognises lease liabilities, measuring them at the present value of lease payments at commencement of the lease (or 1 April 2019 for leases which commenced before this date) discounted at the determined incremental borrowing rate.

The lease liability is measured at the amortised cost using the effective interest method. Should there be a change in expected future lease payments arising from a lease modification or if the Group changes its assessment of whether it will exercise an extension or termination option, the lease liability would be remeasured.

Remeasurement of a lease liability will give rise to a corresponding adjustment being made to the carrying value of the right of use asset.

Lease liabilities are detailed in notes 12, 13 and 15 of the consolidated financial statements.

Practical expedients

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Group applies the following practical expedients when applying IFRS 16 to leases previously classified as operating leasing under IAS 17:

- applied a single discount rate to all leases with similar characteristics;
- applied the exemption not to recognise right of use assets and liabilities for leases with less than twelve months of the lease term remaining as at the date of initial application; and
- applied the exemption for low-value assets whereby leases with a value under £5,000 (usually IT equipment) have been classed as short-term leases and not recognised on the statement of financial position even if the initial term of the lease from the lease commencement date may be more than twelve months.

Notes to the consolidated financial statements continued

for the year ended 31 March 2022

1. Statement of accounting policies continued

Financial liabilities continued

Incremental borrowing rate

IFRS 16 states that all components of a lease liability are required to be discounted to reflect the present value of the payments. Where a lease (or group of leases) does not state an implicit rate, an incremental borrowing rate should be used.

The incremental borrowing rate should represent what the lessee would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the right of use asset in a similar economic environment.

The Group has applied an incremental borrowing rate of 3.5% which it uses to discount all identified leases across the Group.

Share-based payments

In order to calculate the charge for share-based payments as required by IFRS 2, the Group makes estimates principally relating to assumptions used in its option-pricing model as set out in note 18.

The cost of equity-settled transactions with employees, and transactions with suppliers where fair value cannot be estimated reliably, is measured with reference to the fair value of the equity instrument. The fair value of equity-settled instruments is determined at the date of grant, taking into account market-based vesting conditions. The fair value is determined using an option pricing model.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each reporting date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will likely vest, or in the case of an instrument subject to market condition, be treated as vesting as described above. The movement in cumulative expense since the previous reporting date is recognised in the statement of comprehensive income, with the corresponding entry in equity.

Pensions

The Group operates a defined contribution personal pension scheme. The assets of this scheme are held separately from those of the Company in an independently administered fund. The pension charge represents contributions payable by the Company to the fund.

Uncertainty over income tax treatments

IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The interpretation requires:

- the Group to determine whether uncertain tax treatments should be considered separately, or together as a Group, based on which approach provides better predictions of the resolution;
- the Group to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and
- if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. This measurement is required to be based on the assumption that each of the tax authorities will examine amounts they have a right to examine and have full knowledge of all related information when making those examinations.

New standards and interpretations applied

There were no new standards or amendments or interpretations to existing standards that became effective during the year that were material to the Group.

No new standards, amendments or interpretations to existing standards having an impact on the financial statements that have been published and that are mandatory for the Group's accounting periods beginning on or before 1 April 2021, or later periods, have been adopted early.

New standards and interpretations not applied

The following new standards, amendments and interpretations have not been adopted in the current year.

International Financial Reporting Standard (IFRS/IAS)	Effective date	To be adopted by the Group
Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022	1 April 2022
Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022	1 April 2022
Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022	1 April 2022
Annual Improvements to IFRS Standards 2018-2020	1 January 2022	1 April 2022

The Group has reviewed the impact of these new accounting standards and amendments and believes the impact is not material to the Group's financial statements.

2. Measure of profit

To provide shareholders with a better understanding of the trading performance of the Group, adjusted EBITDA and adjusted profit before tax have been calculated as profit before tax after adding back the following items, which can distort the underlying performance of the Group:

Adjusted profit/(loss) before tax

- Amortisation of acquired intangibles.
- Share-based payments.
- Impairment of intangible assets.
- Fair value adjustment to deferred consideration.
- Other operating income.

Adjusted EBITDA

In addition to the adjusting items highlighted above in the adjusted profit before tax:

- Finance costs.
- Finance income.
- Depreciation (including amortisation of right of use assets).
- Amortisation of intangible assets – computer software (including in-house software development).

Adjusted EBITDA and adjusted profit before tax reconciles to profit before tax as follows:

	2022 £'000	2021 £'000
Profit before tax	**936**	33
Amortisation of acquired intangibles	**2,099**	2,099
Share-based payments	**10**	311
Fair value adjustment to deferred consideration	**–**	(37)
Other income	**(70)**	–
Adjusted profit before tax	**2,975**	2,406
Finance costs	**110**	200
Finance income	**–**	(2)
Depreciation	**263**	340
Amortisation of intangible assets – computer software (including in-house software development)	**1,050**	761
Adjusted EBITDA	**4,398**	3,705

Notes to the consolidated financial statements continued

for the year ended 31 March 2022

3. Segmental information

In accordance with IFRS 8, the Group's operating segments are based on the operating results reviewed by the Board, which represents the chief operating decision maker.

The Group is organised into two reportable segments based on the types of products and services from which each segment derives its revenue – Software and Services.

Segment information for the twelve months ended 31 March 2022 is presented below. The Group's assets and liabilities are not presented by segment as the Directors do not review assets and liabilities on a segmental basis.

	Revenue Year ended 31 March 2022 £'000	**Profit Year ended 31 March 2022 £'000**	Revenue Year ended 31 March 2021 £'000	Profit Year ended 31 March 2021 £'000
Services	**32,540**	**4,663**	27,448	3,076
Software	**3,336**	**1,535**	4,318	2,169
Group total	**35,876**	**6,198**	31,766	5,245
Group costs		**(1,800)**		(1,540)
Adjusted EBITDA		**4,398**		3,705
Amortisation of intangibles		**(3,149)**		(2,860)
Depreciation	**(263)**	**(340)**		
Share-based payments	**(10)**	**(311)**		
Fair value adjustment to deferred consideration		**–**		37
Other income		**70**		–
Finance income		**–**		2
Finance cost		**(110)**		(200)
Profit before tax		**936**		33

Segmental information by geography

The Group is domiciled in the United Kingdom and currently the majority of its revenues come from external customers that are transacted in the United Kingdom. A number of transactions which are transacted from the United Kingdom represent global framework agreements, meaning our services, whilst transacted in the United Kingdom, are delivered globally.
The geographical analysis of revenue detailed below is on the basis of country of origin in which the master agreement is held with the customer (where the sale is transacted).

	2022 £'000	2021 £'000
United Kingdom	**29,531**	23,424
Europe (excluding the UK)	**4,508**	6,863
North America	**1,470**	1,163
Rest of the world	**367**	316
	35,876	31,766

All of the Group's non-current assets are held within the United Kingdom.

Two customers within the Group each make up more than 10% of the Group's revenue. These two customers contribute £16.2 million and £5.2 million respectively to the Group's Services division. In the prior year, two customers made up more than 10% of the Group's revenue, contributing £13.3 million and £4.3 million respectively to the Group's Services division.

4. Expenses and auditor's remuneration

Operating profit is stated after charging:

	2022 £'000	2021 £'000
Depreciation of fixed assets	**263**	340
Amortisation of intangibles	**3,149**	2,860
External auditor's remuneration:		
– Audit fee for annual audit of the Group and Company financial statements	**45**	46
– Audit fee for annual audit of the subsidiary financial statements	**165**	149
Share-based payments	**10**	311
Other operating income	**(70)**	(37)

5. Staff costs

Total staff costs within the Group comprise of all Directors' and employee costs for the financial year.

	2022 £'000	2021 £'000
Wages and salaries	**6,428**	6,114
Social security costs	**743**	715
Pension costs	**202**	247
Share-based payments	**10**	311
	7,383	7,387

The weighted average monthly number of employees, including Directors, employed by the Group and Company during the year was:

	2022	2021
Administration	**19**	20
Production	**43**	45
Sales and marketing	**26**	27
	88	92

6. Interest costs

	2022 £'000	2021 £'000
Interest payable on revolving credit facility	**66**	36
Interest payable on loan balances	**19**	143
Other interest payments	**13**	3
Interest payable on lease liabilities	**12**	18
	110	200

Financial statements

Notes to the consolidated financial statements continued

for the year ended 31 March 2022

7. Taxation

	2022 £'000	2021 £'000
Current tax:		
UK corporation tax at current rates on UK profit for the year	**442**	185
Adjustments for previous periods	**–**	16
	442	201
Foreign tax	**13**	3
Total current tax charge	**455**	204
Deferred tax movement in the period	**773**	(316)
Income tax charge/(credit)	**1,228**	(112)
Reconciliation of taxation:		
Profit before tax	**936**	33
Profit multiplied by the average rate of corporation tax in the year of 19% (2021: 19%)	**178**	6
Tax effects of:		
Expenses not deductible for tax purposes	**411**	453
Adjustments for previous periods	**–**	16
Foreign tax rate differences	**(1)**	3
Fair value adjustment to deferred consideration	**–**	(7)
Enhanced R&D relief	**(94)**	(36)
Other items	**786**	(140)
Brought forward losses	**(52)**	(407)
Income tax charge/(credit)	**1,228**	(112)

In the March 2021 Budget it was announced that legislation will be introduced in Finance Bill 2021 to increase the main rate of UK corporation tax from 19% to 25%, effective 1 April 2023. As substantive enactment was prior to the balance sheet date, the deferred tax balances at 31 March 2022 are now measured at 25%.

8. Earnings per share

Adjusted earnings per share has been calculated using adjusted earnings calculated as profit after taxation but before:

- Amortisation of acquired intangibles after tax.
- Share-based payments.
- Impairment of intangible assets.
- Exceptional items after tax.
- Fair value adjustment to deferred consideration.
- Other operating income.

Basic profit per share is calculated by dividing the profit attributable to the ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

For diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of all the potential dilutive ordinary shares. The potential dilutive shares are dilutive for the twelve months ended 31 March 2022 and 2021. Adjusted earnings per share is potentially dilutive in the year to 31 March 2022 and 2021. Please see notes 17 and 18 of the consolidated financial statements for more details.

The calculation of the basic and diluted profit per ordinary share from total operations attributable to shareholders is based on the following data:

	2022 £'000	2021 £'000
Net profit from total operations		
(Loss)/profit for the purposes of basic and diluted earnings per share being net profit attributable to shareholders	**(292)**	145
Add/(remove):		
Amortisation of acquired intangibles	**1,878**	1,877
Share-based payments	**10**	311
Adjustment to deferred tax liability relating to acquired intangibles[1]	**1,014**	–
Fair value adjustment to deferred consideration	**–**	(37)
Other income	**(70)**	–
Adjusted earnings for the purposes of adjusted earnings per share	**2,540**	2,296

	Number	Number
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and adjusted earnings per share	**23,809,807**	23,612,892
Weighted average number of ordinary shares for the purpose of diluted and adjusted diluted earnings per share	**24,723,962**	23,780,441

	£	£
Basic and diluted earnings per share	**(0.01)**	0.01
Adjusted basic earnings per share	**0.11**	0.10
Adjusted diluted earnings per share	**0.01**	0.10

1. Adjustment to deferred tax liability relating to acquired intangibles represents the impact of the rate change to 25% which was announced in the March 2021 Budget which has increased the deferred tax liability for acquired intangibles.

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for the year ended 31 March 2022

9. Intangible assets

	Goodwill £'000	Customer relationships £'000	Software £'000	Tradenames £'000	Gold exploration £'000	Total £'000
Cost						
At 1 April 2020	36,660	10,838	6,834	6,826	1,005	62,163
Additions	—	—	709	—	—	709
At 31 March 2021	36,660	10,838	7,543	6,826	1,005	62,872
Additions	**—**	**—**	**1,097**	**—**	**—**	**1,097**
At 31 March 2022	**36,660**	**10,838**	**8,640**	**6,826**	**1,005**	**63,969**
Accumulated amortisation						
At 1 April 2020	—	1,747	1,642	1,002	1,005	5,396
Amortisation for the year	—	942	1,243	675	—	2,860
At 31 March 2021	—	2,689	2,885	1,677	1,005	8,256
Amortisation for the year	**—**	**934**	**1,532**	**683**	**—**	**3,149**
At 31 March 2022	**—**	**3,623**	**4,417**	**2,360**	**1,005**	**11,405**
Net book amount						
At 31 March 2022	**36,660**	**7,215**	**4,223**	**4,466**	**—**	**52,564**
At 31 March 2021	36,660	8,149	4,658	5,149	—	54,616
At 31 March 2020	36,660	9,091	5,192	5,824	—	56,767

Software intangible assets comprise acquired software assets plus software assets developed both in-house and externally.

The Group tests goodwill annually for impairment. The recoverable amount of goodwill is determined as the higher of the value-in-use calculation or fair value less cost of disposal for each cash-generating unit (CGU). The value-in-use calculations use pre-tax cash flow projections based on financial budgets and forecasts approved by the Board covering a three-year period. These pre-tax cash flows beyond the three-year period are extrapolated using estimated long-term growth rates. The Group has five separate cash-generating units. For all five cash-generating units a weighted average cost of capital of 13.24% and a terminal value, based on a long-term growth rate of 2% calculated on year five cash flow has been used when testing goodwill.

The following key assumptions around revenue growth are summarised in the table below.

	Cash generating units				
	SecurEnvoy	GeoLang	Brookcourt Solutions	Xcina Consulting	Pentest
Year 1	14%	305%	9%	36%	25%
Year 2	25%	25%	6%	20%	20%
Year 3	20%	25%	6%	20%	15%
Year 4	20%	20%	6%	8%	14%
Year 5	20%	20%	6%	7%	13%
4 year CAGR[1]	**21%**	**23%**	**6%**	**14%**	**15%**

1. 4 year CAGR represents the average growth rate per year between FY23 to FY27.

Sensitivity analysis has been performed on each of the Groups' cash generating units ('CGU') which incorporates changes in assumed revenue growth rates and profit margin growth in addition to terminal value revenue growth rate and weighted cost of capital (WACC). Outcomes of the following sensitivities are detailed below:

- Reducing the terminal value by 2% from 2% to 0% demonstrates valuation headroom above the carrying value of goodwill and identified intangible assets across all CGUs.
- Increasing the weighted average cost of capital by 4% from 13.24% to 17.24% demonstrates valuation headroom above the carrying value of goodwill and identified intangible assets across all CGUs. An increase in the weighted average cost of capital of 5% to 18.24% would flag insufficient headroom in two of the Groups' five CGUs (SecurEnvoy and Pentest) resulting in an impairment of £1.1 million.
- A number of sensitivities around revenue growth have been assumed which include:
  - assuming no revenue growth from FY24 onwards for Brookcourt Solutions Limited;
  - assuming reduced utilisation rates for our professional advisory businesses of between 3% and 8%; and
  - reducing revenue growth assumptions by 10%, assuming a terminal value more in line with the current rate of inflation for SecurEnvoy Limited.

A 5% reduction in the assumed annual revenue growth rates for each CGU from FY24 would flag insufficient headroom in one of the Group's five CGUs (Pentest) resulting in an impairment of £0.1 million.

Each of the scenarios tested demonstrates valuation headroom above the carrying value. The Directors do not currently feel that there is a reasonably possible change in assumptions that would drive an impairment in the remaining three CGUs.

Gold exploration assets date back to before 2017 when the Group was known as Aurum Mining plc whose principal activity was mining and exploration.

10. Property, plant and equipment

	Right of use assets £'000	Office equipment £'000	Total £'000
Cost			
At 1 April 2020	740	351	1,091
Additions	60	45	105
Disposals	(259)	(31)	(290)
At 31 March 2021	541	365	906
Additions	**125**	**49**	**174**
Disposals	**(90)**	**—**	**(90)**
At 31 March 2022	**576**	**414**	**990**
Accumulated depreciation			
At 1 April 2020	222	177	399
Charge for the period	263	77	340
Disposals	(227)	(11)	(238)
At 31 March 2021	258	243	501
Charge for the period	**207**	**57**	**263**
Disposals	**(90)**	**—**	**(90)**
At 31 March 2022	**375**	**300**	**674**
Net book amount			
At 31 March 2022	**201**	**114**	**315**
At 31 March 2021	283	122	405
At 31 March 2020	518	174	692

Depreciation of property, plant and equipment is charged to depreciation and amortisation expenses within the statement of comprehensive income.

Notes to the consolidated financial statements continued

for the year ended 31 March 2022

11. Trade and other receivables

	2022 £'000	2021 £'000
Trade receivables	**4,538**	8,965
Accrued income	**14,847**	341
Prepayments and other receivables	**770**	305
	20,155	9,611

The movement for the provision in expected credit losses is stated below:

	2022 £'000	2021 £'000
At 1 April	**27**	26
Movement in expected credit loss provision	**14**	1
At 31 March	**41**	27

12. Trade and other payables

	2022 £'000	2021 £'000
Trade payables	**4,573**	7,724
Accruals and other payables	**8,289**	1,345
Other taxation and social security	**599**	2,484
Deferred income	**456**	441
Corporation tax	**444**	30
Lease liabilities	**158**	193
Loans	**–**	20
	14,519	12,237

Prior year other taxation and social security included £1.3 million deferred VAT which was paid during the current year.

13. Creditors: amounts falling due after more than one year

	2022 £'000	2021 £'000
Accruals and other payables	**3,958**	–
Deferred tax	**3,878**	3,105
Lease liabilities	**48**	96
Loans	**–**	755
	7,884	3,956

Prior year loan balances include a £0.5 million loan to Secarma for the acquisition of Pentest Limited, repayable on 9 April 2022, which was repaid early on 15 October 2021. The remaining £0.2 million represents a working capital loan which was provided to support the initial working capital requirements of Pentest Limited, repayable on 9 April 2022, which was repaid early on 12 April 2021.

14. Deferred tax

	2022 £'000	2021 £'000
Non-current liabilities		
Liability at 1 April	**3,105**	3,422
Deferred tax charge/(credit) in the statement of comprehensive income	**773**	(316)
Total deferred tax	**3,878**	3,105

Deferred tax balance at 31 March 2022 includes a £3.4 million (2021: £2.8 million) deferred tax liability for acquired intangible assets including software and trademarks.

	2022 £'000	2021 £'000
Non-current assets		
At 1 April	**–**	186
Utilisation of deferred tax asset	**–**	(186)
Total deferred tax asset	**–**	–

The Group has tax losses of £2.4m within its Parent Company Shearwater Group plc that are available for offset against future taxable profits of the entity. A deferred tax asset has not currently been recognised in respect of these losses as they may not be used to offset profits elsewhere in the Group and they have arisen in Company whose future taxable profits are uncertain.

15. Lease liabilities

Lease liabilities at 31 March 2022, which include the addition of a new office lease, are detailed below:

Lease liabilities	**Property £'000**
At 1 April 2020	523
Additions	60
Disposals	(31)
Interest expense	18
Payments to lease creditors	(281)
At 31 March 2021	289
Additions	**125**
Disposals	**–**
Interest expense	**12**
Payments to lease creditors	**(220)**
At 31 March 2022	**206**

The maturity analysis of lease liabilities is detailed below:

Lease liabilities – (contractual undiscounted cash flows)	2022 £'000	2021 £'000
Less than one year	**177**	213
One to five years	**51**	112
More than five years	**–**	–
Total undiscounted lease liabilities at 31 March	**228**	325

There are no leases with a term of more than five years.

Notes to the consolidated financial statements continued

for the year ended 31 March 2022

15. Lease liabilities continued

Lease liabilities included in the statement of financial position at 31 March	2022 £'000	2021 £'000
Current	158	193
Non-current	48	96

Amounts recognised in the statement of comprehensive income	2022 £'000	2021 £'000
Interest on lease liabilities	12	18
Expenses related to short-term leases	–	20
Expenses related to low-value assets	–	–
Depreciation of right of use assets (note 10)	207	263

Amounts recognised in the statement of cash flows	2022 £'000	2021 £'000
Payment of principal	220	281
Payment of interest	12	18
Total cash outflows	232	299

16. Deferred consideration

	2022 £'000	2021 £'000
Liability at 1 April	–	275
Holdback consideration shares issued	–	(238)
Fair value adjustment to deferred consideration	–	(37)
	–	–

In the prior year the Group settled the final deferred consideration owed to the previous owners of GeoLang Holdings Limited, which resulted in an additional 129,601 ordinary shares being issued to the vendors of GeoLang Holdings Limited.

17. Share capital

The table below details movements within the year:

	Ordinary shares	
In thousands of shares	2022	2021
In issue at 1 April	23,810	22,109
Share placing	–	1,563
Share issue for deferred consideration	–	130
Options exercised during the year	8	8
Number of shares	23,818	23,810

	2022 £'000	2021 £'000
Allotted, called up and fully paid		
Ordinary shares of £0.10 each (2021: £0.10 each)	2,382	2,381
Deferred shares of £0.90 each (2021: £0.90 each)	19,896	19,896
Total	22,278	22,277

In September 2019 a reorganisation of the Company's capital which resulted in the consolidation of shares where every 100 shares were consolidated into one ordinary share of £1. In addition to this, immediately following consolidation, each consolidated share was sub-divided into one ordinary share of £0.10 ('ordinary share') and one deferred share of £0.90 ('Deferred share').

Deferred shares for all practical purposes are valueless and it is the Board's intention to repurchase, cancel or seek to surrender these deferred shares using lawful means as the Board may at such time in the future decide.

The following issues of shares were undertaken in the twelve-month period ended 31 March 2022:

On 22 March 2022, 8,320 options were exercised by a professional adviser to the Group.

Other reserves included:

Share premium

This comprises of the amount subscribed for share capital in excess of the nominal value less any transaction costs incurred in raising equity.

FVTOCI reserves

This comprises of gains/losses arising on financial assets classified as available for sale. A fair value loss was recognised in the year relating to Plymouth Minerals. This reserve has been written off in the current year.

Other reserves

These comprise of amounts expensed in relation to the share options, share incentive scheme (see note 18) and merger relief from shares issued as consideration to acquisitions and equity placings (net of costs).

Movements in the year ended 31 March 2021 include the following transactions which have been recognised in the other reserve:

£3.1 million relating to the equity placing of 1,562,500 new ordinary shares (net of costs).

£0.2 million relating to deferred consideration of 129,602 shares, issued to the previous owners of GeoLang Holdings Limited.

18. Share-based payments

	2022 £'000	2021 £'000
Subsidiary incentive scheme	**72**	210
Save As You Earn (SAYE)	**13**	3
Share options – (CSOP)	**13**	–
Share options – (ESOP)	**(88)**	98
	10	311

Share options – (CSOP)

The following options over ordinary shares remained outstanding at 31 March 2022:

	Options at 1 April 2021	Options issued during the year	Options lapsed during the year	Options exercised during the year	Options at 31 March 2022	Exercise price	Date of grant	First date of exercise	Final date of exercise
Directors:									
P McFadden	–	25,000	–	–	**25,000**	£0.95	10/02/2022	10/02/2025	10/02/2027
Employees:									
Employees	–	89,998	–	–	**89,998**	£0.95	10/02/2022	10/02/2023	10/02/2027
Employees	–	11,112	–	–	**11,112**	£0.95	10/02/2022	30/09/2023	10/02/2027
Employees	–	542,000	–	–	**542,000**	£0.95	10/02/2022	10/02/2025	10/02/2027
Total	–	668,110	–	–	**668,110**				

The following illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options during the year.

	2022 Number	**2022 WAEP £**
Outstanding at the beginning of the year	**–**	**–**
Issued	**668,110**	**0.95**
Lapsed during the year	**–**	**–**
Exercised during the year ended 31 March	**–**	**–**
Outstanding at 31 March	**668,110**	**0.95**
Exercisable at 31 March	**–**	**–**

The share-based payment charge for options granted to employees and Directors has been calculated using the Black-Scholes model and using the following parameters:

Notes to the consolidated financial statements continued

for the year ended 31 March 2022

18. Share-based payments continued

Share options – (CSOP) continued

	2022
Share price at grant date	£0.95
Exercise price	£0.95
Expected option life (year)	5 years
Expected volatility (%)	43.4%
Expected dividends	0%
Risk-free interest rate (%)	1.54%
Option fair value	£0.38

The calculation includes an estimated leaver provision of 29%.

The weighted average remaining contractual life of options outstanding at the end of the year was four years and ten months.

Share options – (ESOP)

The following options over ordinary shares remained outstanding at 31 March 2022:

	Options at 1 April 2021	Options issued during the year	Options lapsed during the year	Options exercised during the year	Options at 31 March 2022	Exercise price	Date of grant	First date of exercise	Final date of exercise
Directors:									
P McFadden	7,875	–	–	–	7,875	£4.0	07/05/2018	07/05/2019	30/09/2023
Employees:									
Employees	41,581	–	2,081	–	39,500	£4.0	09/05/2017	09/05/2018	08/05/2022
Employees	26,076	–	16,686	–	9,390	£4.0	13/11/2017	13/11/2018	12/11/2022
Employees	364	–	364	–	–	£4.0	08/01/2018	08/01/2019	07/01/2023
Employees	1,780	–	757	–	1,023	£4.0	01/03/2018	01/03/2019	28/02/2023
Employees	21,559	–	15,934	–	5,625	£4.0	04/04/2018	04/04/2019	03/04/2023
Employees	67,222	–	67,222	–	–	£3.6	17/10/2018	31/03/2019	30/09/2021
Employees	33,409	–	33,409	–	–	£3.6	17/10/2018	31/03/2019	30/04/2024
Employees	1,493	–	582	–	911	£1.6	01/03/2019	01/03/2020	01/07/2024
Employees	12,500	–	12,500	–	–	£2.0	24/04/2019	24/04/2020	30/09/2021
Employees	6,000	–	3,000	–	3,000	£4.0	01/06/2019	01/06/2020	30/09/2023
Employees	12,500	–	2,500	–	10,000	£2.0	01/10/2019	01/10/2020	30/09/2023
Employees	–	27,936	–	–	27,936	£0.95	10/02/2022	10/02/2025	10/02/2027
Non-employees:									
Other	20,000	–	20,000	–	–	£1.0	03/10/2016	03/10/2016	03/10/2021
Other	16,640	–	–	8,320	8,320	£0.1	27/02/2020	27/02/2021	31/03/2023
Total	268,999	27,936	175,035	8,320	113,580				

The following options over ordinary shares remained outstanding at 31 March 2021:

	Options at 1 April 2020	Options issued during the year	Options lapsed during the year	Options exercised during the year	Options at 31 March 2021	Exercise price	Date of grant	First date of exercise	Final date of exercise
Directors:									
P McFadden	7,875	–	–	–	7,875	£4.0	07/05/2018	07/05/2019	30/09/2023
Employees:									
Employees	52,933	–	11,352	–	41,581	£4.0	09/05/2017	09/05/2018	08/05/2022
Employees	33,306	–	7,230	–	26,076	£4.0	13/11/2017	13/11/2018	12/11/2022
Employees	1,063	–	699	–	364	£4.0	08/01/2018	08/01/2019	07/01/2023
Employees	4,880	–	3,100	–	1,780	£4.0	01/03/2018	01/03/2019	28/02/2023
Employees	26,000	–	4,441	–	21,559	£4.0	04/04/2018	04/04/2019	03/04/2023
Employees	70,000	–	2,778	–	67,222	£3.6	17/10/2018	31/03/2019	30/09/2021
Employees	34,722	–	1,313	–	33,409	£3.6	17/10/2018	31/03/2019	30/04/2024
Employees	2,654	–	1,161	–	1,493	£1.6	01/03/2019	01/03/2020	01/07/2024
Employees	25,000	–	25,000	–	–	£2.0	09/04/2019	09/04/2020	30/09/2021
Employees	12,500	–	–	–	12,500	£2.0	24/04/2019	24/04/2020	30/09/2021
Employees	9,000	–	3,000	–	6,000	£4.0	01/06/2019	01/06/2020	30/09/2023
Employees	12,500	–	–	–	12,500	£2.0	01/10/2019	01/10/2020	30/09/2023
Non-employees:									
Other	20,000	–	–	–	20,000	£1.0	03/10/2016	03/10/2016	03/10/2021
Other	–	24,960	–	8,320	16,640	£0.1	27/02/2020	27/02/2021	31/03/2023
Total	312,433	24,960	60,074	8,320	268,999				

The following illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options during the year.

	2022 Number	**2022** WAEP £	2021 Number	2021 WAEP £
Outstanding at the beginning of the year	**268,999**	**3.3**	312,433	3.3
Issued	**27,936**	**0.95**	24,960	0.1
Lapsed during the year	**175,036**	**3.2**	60,074	3.1
Exercised during the year ended 31 March	**8,320**	**0.1**	8,320	0.1
Outstanding at 31 March	**113,580**	**2.8**	268,999	3.2
Exercisable at 31 March	**50,276**	**3.9**	167,549	3.3

The weighted average share price of options exercised during the year was £1.18 (2021: £1.42).

The share-based payment charge for options granted to employees and Directors has been calculated using the Black-Scholes model and using the following parameters:

	2022	2021
Share price at grant date	**£0.95 to £4.30**	£1.29 to £4.30
Exercise price	**£0.10 to £4.00**	£0.10 to £4.00
Expected option life (year)	**1 year to 6 years**	1 year to 6 years
Expected volatility (%)	**10.6% to 80.0%**	40.0%
Expected dividends	**0%**	0%
Risk-free interest rate (%)	**0.60% to 1.54%**	0.70% to 1.53%
Option fair value	**£0.04 to £2.87**	£0.00 to £2.90

The calculation includes an estimated leaver provision of 29% (2021: 3%).

The weighted average remaining contractual life of options outstanding at the end of the year was one year and ten months (2020/21: two years and eight months).

Notes to the consolidated financial statements continued

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18. Share-based payments continued

Share options – (SAYE)

The following options over ordinary shares remained outstanding at 31 March 2022:

	Options at 1 April 2021	Options issued during the year	Options lapsed during the year	Options exercised during the year	Options at 31 March 2022	Exercise price	Date of grant	First date of exercise	Final date of exercise
Employees:									
Employees	**150,285**	**—**	**17,820**	**—**	**132,465**	**£1.515**	**25/01/2021**	**01/03/2024**	**30/09/2024**
Total	**150,285**	**—**	**17,820**	**—**	**132,465**				

The following options over ordinary shares remained outstanding at 31 March 2021:

	Options at 1 April 2020	Options issued during the year	Options lapsed during the year	Options exercised during the year	Options at 31 March 2021	Exercise price	Date of grant	First date of exercise	Final date of exercise
Employees:									
Employees	—	150,285	—	—	150,285	£1.515	25/01/2021	01/03/2024	30/09/2024
Total	—	150,285	—	—	150,285				

The following illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options during the year.

	2022		2021	
	Number	**WAEP £**	Number	WAEP £
Outstanding at the beginning of the year	**150,285**	**1.515**	—	—
Issued	**—**	**—**	150,285	1.515
Lapsed during the year	**17,820**	**1.515**	—	—
Exercised during the year ended 31 March	**—**	**—**	—	—
Outstanding at 31 March	**132,465**	**1.515**	150,285	1.515
Exercisable at 31 March	**—**	**—**	—	—

The share-based payment charge for options granted to employees and Directors has been calculated using the Black-Scholes model and using the following parameters:

	2021
Share price at grant date	£1.420
Exercise price	£1.515
Expected option life (year)	3 years 8 months
Expected volatility (%)	40.0%
Expected dividends	0%
Risk-free interest rate (%)	0.13%
Option fair value	£0.394

The calculation includes an estimated leaver provision of 29%.

Options held by Directors are disclosed on page 56.

The market price of shares as at 31 March 2022 was £1.05 (31 March 2021: £1.35). The range during the financial year was £0.74 to £2.15. At the date of signing the financial statements the share price was £1.39.

The weighted average remaining contractual life of options outstanding at the end of the year was two years and six months (2020/21: three years and six months).

Subsidiary incentive scheme

On 29 September 2016, the Group established a share incentive scheme for certain Directors and consultants to the Group, via the Group's subsidiary, Shearwater Subco Limited (the 'subsidiary'), in order to align the interests of the scheme participants directly with those of shareholders.

Pursuant to the subsidiary incentive scheme, the subsidiary issued 160,000 'B' ordinary shares of £0.000001 in the capital of the subsidiary ('incentive shares') on 18 January 2017 at a price of £0.032 per share. Subject to the growth and vesting conditions both being satisfied, participants may elect to sell their respective B shares to the Group and the Group shall acquire those B shares in consideration for cash or by the issue of new ordinary shares at the Group's discretion. The Group's intention is to settle these through the issue of new ordinary shares in the Group.

The value of the incentive shares is discussed below. Neither of the growth or vesting conditions were satisfied during the year. The subsidiary incentive scheme is now closed and the Directors do not anticipate making any further grants under the scheme.

Growth conditions

The growth condition is that the compound annual growth of the Group's equity value must be at least 12.5% per annum. The growth condition takes into account the new shares issued, dividends and capital returned to shareholders.

Vesting conditions

The incentive shares are subject to a vesting period which ends on 29 September 2022. The participants can exercise their right to require the Group to purchase its incentive shares at any time up to 29 September 2022.

Value

Subject to the provisions detailed above, the incentive shares can be sold to the Group for an aggregate value equivalent to 16% of the increase in market capitalisation of all ordinary shares of the Group issued up to the date of sale, allowing for any dividends and other capital movements.

Directors' incentive shares

The incentive shares issued to Directors are shown in the table below:

	Participation in increase in shareholder value	Issue price	Nominal value of incentive shares	Number of incentive shares 1 April 2021	**Number of incentive shares 31 March 2022**	Number of Shearwater Group plc shares issued	Share-based payment charge
D Williams	6.5%	£0.032	£0.000001	65,000	**65,000**	—	£29,145
P Higgins	7.5%	£0.032	£0.000001	75,000	**75,000**	—	£33,629

Valuation of incentive shares

The share-based payment charge for the incentive shares has been calculated using a binomial valuation model at the grant date. The fair value amounted to £937,623 based on an initial expiry date of 29 September 2019. An option to amend the expiry date was exercised on 17 April 2020 to extend this expiry date to 29 September 2022, which has increased the fair value by £18,349. Following this extension, £955,972 will be recognised over the life of the scheme which expires on 29 September 2022. In the current year £71,742 (2021: £209,889) has been recognised as an expense in the statement of comprehensive income in respect of incentive shares. All 160,000 incentive scheme shares were subscribed for by participants at unrestricted market value.

Notes to the consolidated financial statements continued

for the year ended 31 March 2022

19. Financial instruments

The Group uses financial instruments, other than derivatives, comprising cash at bank and various items such as trade and other receivables and trade and other payables that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The Group's financial assets and liabilities at 31 March 2022, as defined under IFRS 9, are as follows. The fair values of financial assets and liabilities recorded at amortised cost are considered to approximate their book value.

	Amortised cost (loans and receivables)		Fair value through other comprehensive income (available for sales)	
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000
Financial assets				
Cash and cash equivalents	**5,575**	8,049	**–**	–
Trade and other receivables	**19,426**	9,333	**–**	–
Total financial assets	**25,001**	17,382	**–**	–

	Amortised cost (loans and receivables)		Fair value through other comprehensive income (available for sales)	
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000
Financial liabilities				
Trade and other payables	**16,821**	9,069	**–**	–
Loans and borrowings	**–**	775	**–**	–
Lease liabilities	**205**	289	**–**	–
Total financial liabilities	**17,026**	10,133	**–**	–

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's Finance function.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

The Group is exposed to financial risks in respect of:

- capital risk;
- foreign currency;
- interest rates;
- credit risk; and
- liquidity risk.

A description of each risk, together with the policy for managing risk, is given below.

Capital risk

The Group manages its capital to ensure that the Group and its subsidiaries will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of equity and debt balances.

The capital structure of the Group consists of cash and cash equivalents, borrowings, equity, comprising issued capital, reserves and accumulated losses as disclosed in the consolidated statement of changes in equity on page 99.

The Board of Directors reviews the capital structure on a regular basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital, against the purpose for which it is intended.

The Group has a three-year £4.0 million revolving credit facility which is in place to fund further growth and short-term working capital requirements. This facility was not utilised during the current year.

Market risk

Market risk arises from the Group's use of interest-bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates (currency risk), interest rates (interest rate risk), or other market factors (other price risk).

Foreign currency risk

The Group is exposed to foreign currency risk on sales and purchases which are denominated in a currency other than sterling. Exposures to exchange rates are predominantly denominated in US dollars and euros. The Group seeks to reduce foreign exchange exposures arising from transactions in various currencies through a policy of matching, as far as possible, receipts and payments across the Group in each individual currency. The Group does not currently use derivatives to hedge translation exposures arising on the consolidation of its overseas operations.

As of 31 March the Group's net exposure to foreign exchange risk was as follows:

	USD		EUR	
Net foreign currency financial assets/(liabilities)	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000
Trade receivables	**202**	392	**735**	2315
Trade payables	**(3,389)**	(4,423)	**(18)**	(669)
Other payables	**(9,364)**	–	**–**	–
Cash and cash equivalents	**1,431**	370	**651**	158
Total net exposure	**(11,120)**	(3,661)	**1,368**	1,804

The effect of a 10% strengthening of the US dollar against sterling at the reporting date on the US dollar-denominated trade receivables, payables and cash and cash equivalents carried at that date would, all other variables held constant, have resulted in a decrease of the pre-tax profit in the year and a decrease in net assets of £1.2 million. A 10% weakening in the exchange rate would, on the same basis, have increased the pre-tax profit in the year and increased net assets by £1.0 million.

The effect of a 10% strengthening of the euro against sterling at the reporting date on the euro-denominated trade receivables, payables and cash and cash equivalents carried at that date would, all other variables held constant, have resulted in an increase of the pre-tax profit in the year and an increase in net assets of £0.2 million. A 10% weakening in the exchange rate would, on the same basis, have decreased the pre-tax profit in the year and decreased net assets by £0.1 million.

Interest rate risk

The Group has minimal cash flow interest rate risk as it has no external borrowings at variable interest rates.

Liquidity risk

The Group manages liquidity risk by maintaining adequate cash reserves and credit facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities wherever possible. In addition to this, the Group has a £4.0 million revolving credit facility (RCF) which provides further contingency against short-term working capital movements. At 31 March 2022 this facility had not been utilised. There has been no change to the Group's exposure to liquidity risks or the manner in which these risks are managed and measured during the year. Further details are provided in the strategic report.

The liquidity risk of each Group entity is managed centrally by the Group's Finance function. Each entity has a predefined facility based on the budget which is set and approved by the Board in advance, which provides detail of each entity's cash requirements. Any additional expenditure over budget requires sign off by the Board. A quarterly reforecast which includes a cash flow forecast is reviewed by management and approved by the Board.

The Group has a three-year £4.0 million revolving credit facility (RCF) with its bank and £0.2 million of credit on corporate credit cards which are settled in full on a monthly basis.

Notes to the consolidated financial statements continued

for the year ended 31 March 2022

19. Financial instruments continued

Liquidity risk continued

The maturity profile of the financial liabilities is summarised below. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Up to 3 months £'000	Between 3 and 12 months £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
As at 31 March 2022					
Trade and other payables	**8,609**	**4,253**	**3,959**	**–**	**–**
Loans and borrowings	**–**	**–**	**–**	**–**	**–**
Lease liabilities	**51**	**107**	**48**	**–**	**–**
Total	**8,660**	**4,360**	**4,007**	**–**	**–**

	Up to 3 months £'000	Between 3 and 12 months £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
As at 31 March 2021					
Trade and other payables	8,822	247	–	–	–
Loans and borrowings	20	–	755	–	–
Lease liabilities	53	140	96	–	–
Total	8,895	387	851	–	–

Credit risk

The Group's principal financial assets are trade receivables and bank balances. The Group is consequently exposed to the risk that its customers cannot meet their obligations as they fall due. The Group's policy is that the lines of business assess the creditworthiness and financial strength of customers at inception and on an ongoing basis. The Group also reviews the credit rating of its banks and financial institutions.

Ongoing review of the financial condition of trade and other receivables is performed. Further details are in note 11. The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk. Whilst the Group's exposure to credit risk has increased as the Group has grown, to date this has not materially increased the Group's actual bad debt, which is partially due to the type of clients it contracts with as well as effective due diligence when issuing credit to its clients.

20. Related party transactions

The Directors of the Group and their immediate relatives have an interest of 18% (2021: 17%) of the voting shares of the Group. The shareholdings of Directors and changes during the year are shown in the Directors' report on page 67.

On 15 October 2021, £473,892 was paid to Secarma Limited, the previous owners of Pentest Limited, representing the final payment of a loan that was taken out as part of the acquisition consideration.

During the prior year, £1,838,065 representing deferred completion cash (including interest) and £215,216 representing the working capital true up relating to the acquisition of Brookcourt Solutions Limited was paid to P Higgins, who serves as a Director of Shearwater Group plc, Shearwater Subco Limited and Brookcourt Solutions Limited.

During the prior year, £1,783,334 representing deferred completion cash (including interest) and £215,216 representing the working capital true up relating to the acquisition of Brookcourt Solutions Limited was paid to D Stacey, who serves as a Director of Brookcourt Solutions Limited.

During the prior year, £239,442 was paid to Secarma Limited, the previous owners of Pentest Limited, representing the first instalment of a loan that was taken out as part of the acquisition consideration.

No dividends were made to the Company in either years by subsidiary undertakings.

There were no other related party transactions for the Group during the period.

21. Bank Loans

At 31 March 2022 the Group had not utilised the £4.0 million credit facility it has in place with Barclays Bank plc. The facility was extended on 24 March 2021 for a further 3 years to 23 March 2024. A charge has been registered on Shearwater Group plc and a number of its subsidiaries as security for the facility.

22. Notes to support cash flow

Cash and cash equivalents comprise:

	2022 £'000	2021 £'000
Cash available on demand	**5,575**	8,049
Net cash (decrease)/increase in cash and cash equivalents	**(2,474)**	4,706
Cash and cash equivalents at the beginning of the year	**8,049**	3,343
Cash and cash equivalents at the end of the year	**5,575**	8,049

Cash and cash equivalents are held in the following currencies:

	2022 £'000	2021 £'000
Sterling	**3,494**	7,444
US dollar	**1,431**	435
Euro	**650**	170
	5,575	8,049

Reconciliation of liabilities from financing activities:

	2021 £'000	Cash outflows £'000	Non-cash changes: Interest savings on early repayment of loans £'000	Non-cash changes: Loan interest £'000	Non-cash changes: Right of use asset additions £'000	Non-cash changes: Early repayment discount on loan liabilities £'000	2022 £'000
Other loans	775	(724)	–	19	–	(70)	**–**
Revolving credit facility interest payable	–	(46)	–	66	–	–	**20**
Other interest – paid	–	(23)	10	13	–	–	**–**
Other interest – not paid	1	(1)	–	–	–	–	**–**
Payment of principal on lease liabilities	289	(220)	–	12	125	–	**206**
Total	1,065	(1,014)	10	110	125	(70)	**226**

	2020 £'000	Cash outflows £'000	Cash inflows £'000	Non-cash changes: Loan interest £'000	Non-cash changes: Right of use asset additions £'000	Non-cash changes: Right of use asset disposal £'000	2021 £'000
Other loans	4,783	(4,151)	–	143	–	–	775
Revolving credit facility interest payable	–	(35)	–	35	–	–	–
Other interest – paid	–	(3)	–	3	–	–	–
Other interest – not paid	–	–	–	1	–	–	1
Payment of principal on lease liabilities	524	(281)	–	18	60	(32)	289
Total	5,307	(4,470)	–	200	60	(32)	1,065

23. Events after the reporting period

There are no material events after the reporting period to report.

Company statement of financial position

for the year ended 31 March 2022

	Note	2022 £'000	2021 (restated) £'000
Assets			
Non-current assets			
Investments in subsidiaries	3	**64,010**	64,073
Property, plant and equipment	4	**2**	3
Trade and other receivables	5	**5,385**	–
Total non-current assets		**69,397**	64,076
Current assets			
Trade and other receivables	5	**54**	8,402
Cash and cash equivalents		**11**	10
Total current assets		**65**	8,412
Total assets		**69,462**	72,488
Liabilities			
Current liabilities			
Trade and other payables	6	**19,087**	16,603
Total current liabilities		**19,087**	16,603
Non-current liabilities			
Creditors: amounts falling due after more than one year	7	**–**	755
Total non-current liabilities		**–**	755
Total liabilities		**19,087**	17,358
Net assets		**50,375**	55,130
Capital and reserves			
Share capital	8	**22,278**	22,277
Share premium		**34,581**	34,581
FVTOCI reserve		**–**	14
Other reserves		**24,388**	24,378
Accumulated losses		**(30,872)**	(26,120)
Equity attributable to owners of the Company		**50,375**	55,130
Total equity and liabilities		**69,462**	72,488

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements. The loss for the financial year for the Parent Company was £4.8 million (2021 restated: £1.2 million).

The notes on pages 100 to 104 are an integral part of these Company financial statements.

The financial statements on pages 98 to 104 were approved and authorised for issue by the Board and signed on their behalf by:

Philip Higgins
Chief Executive Officer

28 July 2022

Registered number: 05059457

Company statement of changes in equity

for the year ended 31 March 2022

Company	Share capital £'000	Share premium £'000	FVTOCI £'000	Other reserve £'000	Accumulated losses £'000	Total equity £'000
At 1 April 2020	22,107	34,581	14	20,714	(25,246)	52,170
Restatement[1]	—	—	—	—	340	340
At 1 April 2020 (restated)	22,107	34,581	14	20,714	(24,906)	52,510
Loss for the year (restated)	—	—	—	—	(1,214)	(1,214)
Other comprehensive loss for the year	—	—	—	—	—	—
Total comprehensive loss for the year	—	—	—	—	(1,214)	(1,214)
Contributions by and distributions to owners						
Issue of share capital	170	—	—	3,819	—	3,989
Share issue costs	—	—	—	(466)	—	(466)
Share-based payments	—	—	—	311	—	311
At 1 April 2021	22,277	34,581	14	24,378	26,120	55,130
Loss for the year	**—**	**—**	**—**	**—**	**(4,766)**	**(4.766)**
Other comprehensive loss for the year	**—**	**—**	**(14)**	**—**	**14**	**—**
Total comprehensive loss for the year	**—**	**—**	**(14)**	**—**	**(4,752)**	**(4,766)**
Contributions by and distributions to owners						
Issue of share capital	**1**	**—**	**—**	**—**	**—**	**1**
Transfer of share-based payment charges to subsidiaries	**—**	**—**	**—**	**—**	**—**	**(63)**
Share-based payments	**—**	**—**	**—**	**10**	**—**	**10**
At 31 March 2022	**22,278**	**34,581**	**—**	**24,388**	**(30,872)**	**50,375**

1. Restatement relates to prior year share-based payment charges relating to share options held by employees of subsidiary companies which were previously charged to the Company. Please see note 2

Notes to the Company financial statements

For the year ended 31 March 2022

General information

Shearwater Group plc (the 'Company') is a company limited by shares and incorporated and domiciled in the UK.

1. Statement of accounting policies – Company

The significant accounting policies applied in preparing the financial statements are outlined below. These policies have been consistently applied for all the years presented, unless otherwise stated.

The Company financial statements present information about the Company as a separate entity and not about the Group.

Basis of preparation

The Company financial statements have been prepared in accordance with Financial Reporting Standard 101, and in accordance with the Companies Act 2006 as applicable to companies using Financial Reporting Standard 101.

The Company financial statements have been prepared under the historic cost convention. The Company financial statements are presented in sterling. All values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

The Company has taken advantage of the exemptions allowed under FRS 101 which allow the exclusion of:

- a statement of cash flows;
- the effect of future accounting standards not yet adopted;
- the disclosure of key management personnel; and
- disclosure of related party transactions with other wholly owned members of the Group.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for income and expenses during the year and that affect the amounts reported for assets and liabilities at the reporting date. Please see note 1 of the consolidated financial statements for more details.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these consolidated financial statements. See note 1 to the Group accounting policies on page 72 for further details of the Group's going concern position.

Critical accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for income and expenses during the year and that affect the amounts reported for assets and liabilities at the reporting date.

Investments in subsidiaries

Management make judgements, estimates and assumptions in supporting the fair value of investments in subsidiaries. The Company holds a significant investment in its subsidiaries totalling £63.7 million. In assessing the carrying value of these assets for impairment, the Directors have exercised judgement in estimating the recoverable amount of the assets held. The Directors have assessed a range of valuation techniques which include a future discounted cash flow model which incorporates a number of key assumptions and a valuation based upon commonly seen multiples on EBITDA in order to support their judgement that the carrying value of investments in subsidiaries is appropriate at the reporting date.

Investments in subsidiaries

Fixed asset investments relate to investments in subsidiaries and share-based payment reserves for subsidiaries; these are stated at cost less provision for any impairment in value.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation. Cost includes the original purchase price of the asset plus any costs of bringing the asset to its working condition for its intended use. Depreciation is provided at the following annual rates, on a straight-line basis, in order to write down each asset to its residual value over its estimated useful life.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Office equipment	25% per annum

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised, as adjusted items if significant, within the statement of comprehensive income.

Financial instruments

Shearwater's financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

Trade and other receivables are measured at amortised cost less a provision for doubtful debts, determined as set out below in 'impairment of financial assets'. Any write-down of these assets is expensed to the statement of comprehensive income.

Equity investments not qualifying as subsidiaries, associates or jointly controlled entities are measured at fair value through other comprehensive income (FVTOCI), with fair value changes recognised in other comprehensive income (OCI) and dividends recognised in profit or loss.

Financial liabilities

Trade and other payables

Financial liabilities within trade and other payables are initially recognised at fair value, which is usually the invoiced amount. They are subsequently carried at amortised cost using the effective interest method (if the time value of money is significant).

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in the statement of comprehensive income.

Share-based payments

In order to calculate the charge for share-based payments as required by IFRS 2, the Group makes estimates principally relating to assumptions used in its option pricing model as set out in note 18 of the consolidated financial statements.

The cost of equity-settled transactions with employees, and transactions with suppliers where fair value cannot be estimated reliably, is measured with reference to the fair value of the equity instrument. The fair value of equity-settled instruments is determined at the date of grant, taking into account market-based vesting conditions. The fair value is determined using an option pricing model.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each reporting date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will likely vest, or in the case of an instrument subject to market condition, be treated as vesting as described above. The movement in cumulative expense since the previous reporting date is recognised in the statement of comprehensive income, with the corresponding entry in equity.

Shearwater Group plc's share option schemes, which award share options in the parent entity, includes recipients who are employees of the Group's subsidiary companies. In the subsidiaries financial statements, the awards, in proportion to the recipients who are employees in said subsidiary, are treated as an equity-settled share-based payment, as the subsidiaries do not have an obligation to settle the award. An expense for the grant date fair value of the award is recognised over the vesting period, with a credit recognised in equity. The credit is treated as a capital contribution, as the parent is compensating the subsidiaries employees with no cost to the subsidiaries as there is no expectation to recharge the cost. In the Parent Company's financial statements, there is no share-based payment charge where the recipients are employed by a subsidiary, with the Parent Company recognising an increase in investment in the subsidiaries as a capital contribution from the parent and a credit to equity.

Current and deferred taxation

The charge for taxation is based on the profit or loss for the year and takes into account deferred tax. Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax based in the computation of taxable profit or loss and is accounted for using the balance sheet method.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group's subsidiaries operate and generate taxable income. Management periodically evaluate positions taken in tax returns with respect to situations where applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax assets are only recognised to the extent that it is probable that future taxable profit will be available in the foreseeable future against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are measured at the rates that are expected to apply when the related asset is realised, or liability settled, based on tax rates and laws enacted or substantively enacted at the reporting date.

Pensions

The Company operates a defined contribution personal pension scheme. The assets of this scheme are held separately from those of the Company in an independently administered fund. The pension charge represents contributions payable by the Company to the fund.

Notes to the Company financial statements continued

For the year ended 31 March 2022

2. Prior period restatement (company only)

The Directors have concluded that share-based payment charges for share options granted in the parent to employees of its subsidiaries have incorrectly been recognised in the parent entity's statement of comprehensive income as an employee cost. As a valid expense of the subsidiary companies, the employee cost should have been recognised in their respective statement of comprehensive income and therefore, the correction has resulted in an increase in investment in subsidiaries and a corresponding increase in retained earnings.

	2021 as previously stated £ (000)	Increase/ (decrease) £ (000)	2021 restated £ (000)
Impact on statement of financial position			
Assets			
Investment in subsidiaries	63,668	405	64,073
Net assets	54,725	405	55,130
Equity			
Retained earnings	(26,525)	405	(26,120)
Total equity	54,725	405	55,130

3. Investments in subsidiaries

Company	**Total £'000**
Investments in subsidiaries at 31 March 2020	63,668
Restatement (note 2)	340
Investment in subsidiaries at 1 April 2020 (restated)	64,008
Restatement (note 2)	65
Investments in subsidiaries at 1 April 2021 (restated)	64,073
Additions	**(63)**
Investments in subsidiaries at 31 March 2022	**64,010**

Additions in 2022 represent share capital contributions made to the Company's subsidiaries in respect of share option expense recognised on share options issued by the Company to employees of a number of the Group's subsidiaries. The capital contribution is a non-cash transaction.

The following table gives brief details of the entities controlled and included in the consolidated financial statements of the Group at 31 March 2022. Subsidiaries marked (*) are directly owned by Shearwater Group plc; all other subsidiaries are indirectly owned.

Name of company	Country of incorporation or residence	Registered address	Percentage owned
Shearwater Subco Limited*	England and Wales	22 Great James Street, London, WC1N 3ES	100
SecurEnvoy Limited*	England and Wales	22 Great James Street, London, WC1N 3ES	100
Xcina Limited	England and Wales	22 Great James Street, London, WC1N 3ES	100
Xcina Consulting Limited	England and Wales	22 Great James Street, London, WC1N 3ES	100
SecurEnvoy, Inc.	USA	1209 Orange Street, Wilmington, Delaware	100
SecurEnvoy GmbH	Germany	Freibadstr. 30, 81543, München	100
GeoLang Holdings Limited*	England and Wales	22 Great James Street, London, WC1N 3ES	100
GeoLang Limited	England and Wales	22 Great James Street, London, WC1N 3ES	100
Shearwater Shared Services Limited	England and Wales	22 Great James Street, London, WC1N 3ES	100
Brookcourt Solutions Limited*	England and Wales	22 Great James Street, London, WC1N 3ES	100
Pentest Limited*	England and Wales	22 Great James Street, London, WC1N 3ES	100
Primavera (Jersey) Limited*	Jersey	3rd Floor, 44 Esplanade, St Helier, Jersey, JE4 9W	100
Brookcourt Solutions B.V.	Netherlands	Herengracht 449A, 1017BR Amsterdam	100

The Group has conducted impairment reviews for each of its cash generating units ('CGU') estimating future discounted cash flows to be generated from each CGUs these assets and conclude that no impairment is required as the combined cash flows are expected to exceed the value of the investment.

Further information on impairment can be found in note 9 of the consolidated financial statements.

4. Property, plant and equipment

	Total £'000
Cost	
At 1 April 2020	28
Additions	–
At 31 March 2021	28
Additions	**2**
At 31 March 2022	**30**
Accumulated depreciation	
At 1 April 2020	18
Charge for the period	7
At 31 March 2021	25
Charge for the period	**3**
At 31 March 2022	**28**
Net book amount	
At 31 March 2022	**2**
At 31 March 2021	3
At 31 March 2020	10

5. Trade and other receivables

Non-current	2022 £'000	2021 £'000
Amounts owed by Group companies	**5,385**	–
	5,385	–

Amounts owed by Group companies are interest free and repayable on demand.

Current	2022 £'000	2021 £'000
Amounts owed by Group companies	**–**	8,298
Prepayments and other receivables	**54**	39
VAT recoverable	**–**	65
	54	8,402

6. Trade and other payables falling due within one year

	2022 £'000	2021 £'000
Amounts owed to Group companies	**18,602**	16,221
Accruals and other payables	**474**	362
Other taxation and social security	**11**	–
Loans	**–**	20
	19,087	16,603

Amounts owed to Group companies are interest free and repayable on demand.

7. Trade and other payables falling due after more than one year

	2022 £'000	2021 £'000
Loans	**–**	755
	–	755

8. Share capital

	2022 £'000	2021 £'000
Allotted, called up and fully paid		
23,818,059 ordinary shares of £0.10 each (2021: 23,809,739 ordinary shares of £0.10 each)	**2,382**	2,381
22,106,460 deferred shares of £0.90 each (2021: 22,106,460 deferred shares of £0.90 each)	**19,896**	19,896
Total	**22,278**	22,277

Please see note 17 of the Group financial statements for details of movements during the above financial periods.

9. Share-based payments

Please refer to note 18 of the Group financial statements for details of share-based payments. A charge of £71,590 has been recognised in relation to options held by employees for services to the Company.

10. Financial instruments

Please refer to note 19 of the Group financial statements for details of financial instruments.

For the Company, the credit risk mainly relates to the risk that amounts owed by the Group companies are not recoverable. An expected credit loss provision has been created which the Directors believe to be sufficient.

11. Accounting estimates and judgements

Management does not consider that there are any significant accounting estimates or judgements other than those detailed in note 1 of the consolidated financial statements.

Advisers and corporate calendar

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Corporate calendar
Announcement of final results
28 July 2022

Annual General Meeting
September 2022

Announcement of interim results
November 2022

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