



Shearwater
Group plc

**Annual report and
financial statements**
31 March 2023

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

£26.7m

(2022: £35.9m)
Revenue

£(0.2)m

(2022: £4.4m)
Adjusted EBITDA

£(1.3)m

(2022: £3.0m)
Adjusted (loss)/profit
before tax

£(9.6)m

(2022: £0.9m)
Reported (loss)/profit
before tax

£(0.00)

(2022: 0.11)
Adjusted EPS

>40%

Repeatable revenues

100%

Offset carbon footprint

Contents

Strategic report

Highlights	1
Introduction from our Advisory Panel	2
At a glance	4
Chairman's statement	6
Chief Executive's review	8
Business model	12
Strategy	14
KPIs	15
Strategy in action – Brookcourt case study	18
Strategy in action – SecurEnvoy case study	20
Stakeholders	22
Responsible operations	24
Financial review	30
Principal risks and uncertainties	35

Governance

Board of Directors	40
Advisory Panel	42
Chairman's introduction to governance	43
Corporate governance report	44
Nomination Committee report	47
Audit Committee report	48
Remuneration Committee report	50
Annual report on remuneration	51
Directors' report	52
Statement of Directors' responsibilities	54

Financial statements

Independent auditor's report	55
Consolidated statement of comprehensive income	62
Consolidated statement of financial position	63
Consolidated statement of changes in equity	64
Consolidated cash flow statement	65
Notes to the consolidated financial statements	66
Company statement of financial position	93
Company statement of changes in equity	94
Notes to the Company financial statements	95
Advisers and corporate calendar	IBC

Definitions of alternative performance measures Adjusted EBITDA and Adjusted (Loss)/profit before tax can be found within note 2 of the Group financial statements on page 73. Definition of Adjusted EPS and the adjusting items between this measure and the statutory measure can be found within the table in note 8 of the Group financial statements on page 77.

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 Threat Landscape

The most obvious and immediate cyber threat to organisations, particularly companies, remains attempted extortion by cyber criminals using ransomware to lock data and systems or by their stealing and threatening exposure of sensitive data. The criminal strategies vary but are based on risk versus reward. This means that a company can deter such attacks by being visibly well-defended and resilient, thereby raising the perceived cost to the criminal and lessening the perceived likelihood of success.

Many public and private sector organisations also continue to be the victims of cyber espionage by nation states, particularly China and Russia. They are targeted for intelligence; their intellectual property; their personal data; or as a gateway to other organisations (if, for example, they are an IT supplier).

The last year has seen an especially massive increase in Russian cyber espionage conducted against NATO member states because of their support to Ukraine during the current war.

The likelihood that organisations might be the intended or unintended victims of nation state disruptive cyber operations has also increased as a result of the war, with copious warnings from Western governments to that effect. The threat ranges from deliberate cyber-bullying by pro-Russian hacktivist groups, accidental spillover from Russian operations in Ukraine, to deliberate attempts by the Russian state to interfere in the critical systems of Ukraine's international supporters.

Set against these threats, Ukraine's approach to cyber security during the war offers some important pointers for organisations seeking to better defend themselves.

Looking to the Future

It is safe to assume that the threat will continue to grow both in volume and complexity, exacerbated by technological advances. For example, the 'Internet of Things' – whereby our day-to-day lives will become increasingly dependent on internet-connected devices – means the attack surface, and thereby the opportunity to cause harm and disruption, will become exponentially larger. In addition, the sophistication of cyber-attacks will be increased by the use of Artificial Intelligence (including large language models) – but the same is true of the defence against cyber-attacks.

Governments will continue down the path they are on currently of seeking greater assurance on the cyber security of critical companies, with regulation and its enforcement playing an increasing role. Similarly, insurance companies will exercise ever greater scrutiny before providing cyber security cover. Finally, given the currently poor economic climate, company boards will demand increasing assurance on the quality and value of the cyber security solutions in which they invest, set against an increasingly saturated cyber security market (there are approximately 2000 cyber security companies in the UK alone).

Lessons from the cyber defence of Ukraine

The war has seen a massive Russian cyber offensive against Ukrainian networks. The Russians have had some successes, but overall Ukraine has been able to withstand the most extensive array of disruptive cyber operations yet attempted by one state on another, and by one as cyber-capable as Russia. In doing so, there are important cyber security lessons for all of us, which include:

Cyber security must be treated at the level of a board-level risk. Ukraine treated it as a national risk, with plenty of top-level attention.

Cyber security must be treated as a team sport. Ukraine collaborated on its cyber defence with Western governments (particularly Estonia, Germany, the UK and US) and companies (like Microsoft, Mandiant, and ESET) in the run-up to the invasion and throughout the subsequent war.

The human-behavioural and technical basics of cyber security – sometimes called cyber hygiene – must be implemented. That is what Ukraine has done, with the help of particularly the Western private sector.

Mechanisms must be built in to recover quickly from breaches. Ukraine has been able to recover from serious breaches in hours.

Planning for resilience is crucial. Ukraine built in resilience and redundancy into its key networks and data. For example, it worked out which data was vital to the functioning of the state and moved to store it securely in out-of-country cloud services.

Companies should not wait until a major incident to end-to-end test how they would respond to and recover from major cyber breaches. Ukraine has learned the hard way, by having to deal with a decade's worth of Russian activity on its networks, which meant its approach was well-honed when it came to the current war.



**Shearwater
Group plc**

It is against the backdrop of all the above that we believe Shearwater Group's offer to be so strong. We offer five reasons:

1. The Group's companies combine to cover the full range of cyber security requirements, including consultancy and advice, auditing, pentesting and red teaming, managed services, and advanced technical solutions. The Group also continues to broaden its offer with, for example, a new third-party risk management service and new secure coding package for software developers. The Group is particularly strong on high priority issues, such as: securing mobile applications; providing security for 'on-premises' and private cloud solutions as well as for those using public clouds; improving access controls and authentication; testing 'Internet of Things' devices and connections; and the provision of threat intelligence. The Group's offer is relevant to clients in the UK and internationally, and across all sectors.
2. The Group makes use of cutting-edge technology. For example, it employs AI and deep learning in its provision of next generation anti-virus endpoint protection and to help clients understand the extent of their data vulnerability. Its increased investment in R&D over the last two years has particularly benefited its provision of software solutions.
3. The Group's companies are highly respected for quality. They win prestigious industry awards; have gained the loyalty of existing clients with strong repeat orders; and are attracting a wide range of new clients.

4. The Group is adapting to economic pressures. It is taking increased sales cycles within its stride; is achieving efficiency and enhanced operational performance through merging some of its lines of business; and has transitioned to a new currency management model to lessen the risk to it from economic shock.
5. The Group helps its clients adapt to economic pressures. For example, its provision of new enterprise-wide software, including for access and authentication, has allowed clients to streamline their operations, optimise resource allocation and achieve significant cost savings. The Group's provision of managed services such as the 'virtual CISO' has likewise given clients greater choice on resource allocation and investment.

In conclusion, having addressed key business issues, reinforced its strategic approach as a client-centric market consolidator, invested in its in-house people talent and technical R&D, and through its provision of proven cutting-edge solutions, our advice to the Shearwater Group is that it is well placed to help its clients meet the demands and challenges of the growing cyber threat and to take the many opportunities apparent in a complex and evolving cyber security market.

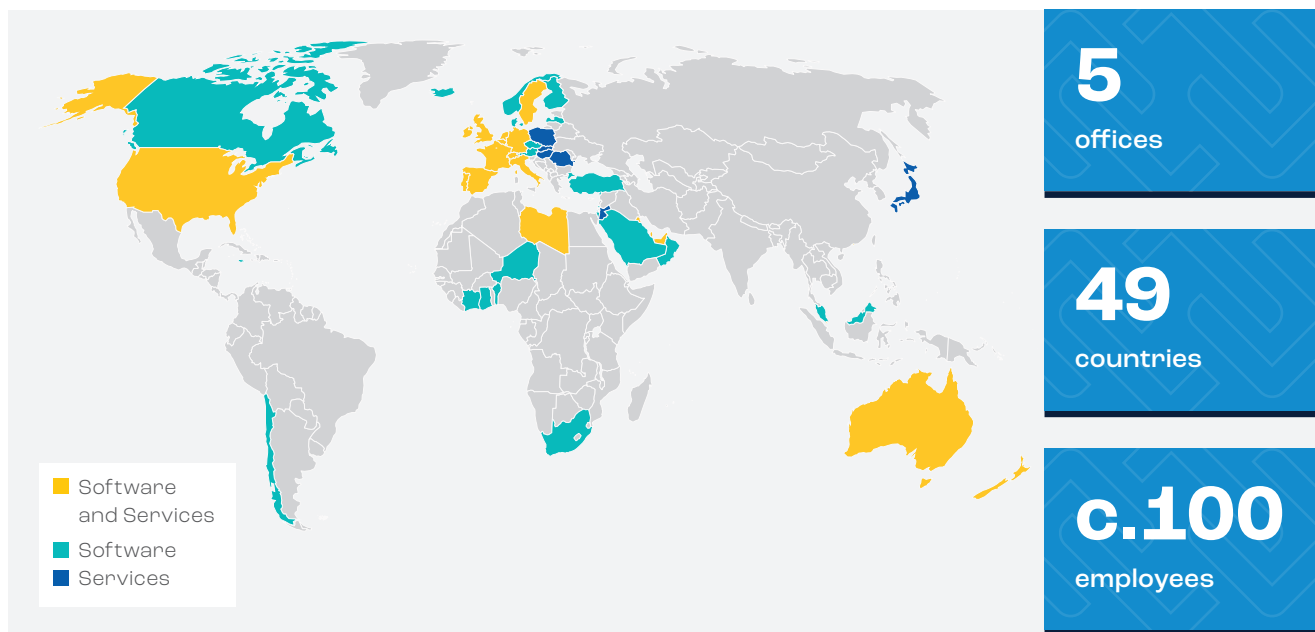
Rt Hon the Lord Reid of Cardowan
Advisory Panel Chairman

Marcus Willett CB OBE
Advisory Panel Member

At a glance

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

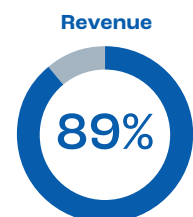
Where we operate



Our offerings are delivered from our two divisions

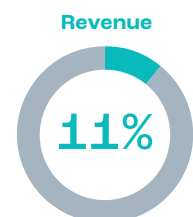
Services

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.



Software

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



Our vision

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



Our purpose

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



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.



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.



Our commitment to our stakeholders

» See more on pages 22 and 23

We are committed to:

- Re-establishing growth, enhancing 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.

Chairman's statement



Our Company remains robust, with hard-working staff, loyal customers and a reputation for delivering excellent service.

David Williams
Chairman

Following several years of consistent growth, it is disappointing to have to report poor results for FY23. These were impacted by the delay in a number of contracts in Q4 where, traditionally, large contracts are awarded as a result of the procurement cycle of several of our large customers. It is worth noting that two of the four delayed contracts have now been secured and we anticipate being successful with the remaining contracts in the coming months.

Crucially, our Group remains robust, with hard-working staff, loyal customers and a reputation for delivering excellent service. This is backed up by a strong balance sheet with significant net cash. Our Group companies have been operating in this market for upwards of two decades and thus draw on a wealth of experience in providing ever-evolving solutions for our customers.

Further investment in both technology and people means that we continue to benefit from the ongoing streamlining of our businesses. Phil, in his Chief Executive's review, sets this out in more detail as well as outlining the potential we have going forward. We are fortunate to be in a sector which has plenty of opportunities to grow and our staff have been working hard on a number of initiatives that are starting to show good potential.

I want to thank our staff, our Non-executive Directors and our Advisory Panel for their efforts and sincerely believe that all the hard work and investment is reflected in much improved trading in the current year.

Finally, after five years with our company, Paul McFadden, our CFO, has decided to leave us but he will remain in place until a successor is appointed and settled into the role. We thank Paul for his efforts during his time with us and wish him well with his new career opportunity.

David Williams
Chairman

4 September 2023



Chief Executive's review



The current outlook is positive, and we are confident in our ability to leverage emerging trends and sustain our growth trajectory in the cyber security market.

Philip Higgins
Chief Executive Officer



The year to 31 March 2023 was challenging across the cyber security industry and Shearwater was not immune to this. Whilst we entered the second half of the year with stronger momentum, macroeconomic challenges impacted customers' investment decisions heavily in the fourth quarter, resulting in customers deferring contract start dates and, in some cases, needing to implement spending freezes.

As announced at the end of March 2023, our financial performance for the year ended 31 March 2023 was impacted by these well-documented market headwinds in addition to a number of exceptional, one-off trading expenses. It is important to note that whilst it is disappointing these impacts have affected the Group's performance in the period under review, we consistently won new business from existing clients, as well as securing new clients.

In respect to FY23, Group revenue for the period was £26.7 million (FY22: £35.9 million). Adjusted EBITDA¹ was (£0.2 million) (FY22: £4.4 million) which was also impacted by the weaker sterling/US dollar in H1 FY23, primarily relating to a £0.8 million unrealised FX charge related to future US dollar liabilities. This was a one-off and the appropriate hedging is now in place to mitigate future FX exposure. Loss before tax of £9.6 million (2022: profit £0.9 million) includes a £6.0 million impairment charge relating to the write down of goodwill. Further details on this can be found in the finance review.

Our balance sheet remains strong with a net cash position as at 31 March 2023 of £4.0 million (2022: £5.5 million). While our FY23 results reflect the more cautious approach to decisions taken by our customers, engagement levels remained reassuringly high during the period and post period end we are starting to see budgets reopen once again and present opportunities for the Group which would have otherwise fallen in FY23.

Group operational review

In the period, we successfully onboarded 113 additional net new clients and have continued to pursue cross-selling opportunities. Over the past three years we have recognised c.£1.3 million in cross-sell, with 39 additional clients having gained advantages across multiple companies within our Group. We now look forward with more confidence, bolstered by a robust balance sheet, improved visibility with a growing pipeline of opportunities. We continue to work with a number of blue-chip organisations, with a breadth of clients across a range of sectors. We are witnessing a growing preference among clients for Software as a Service (SaaS) and managed service offerings, as this helps drive enhanced efficiencies and significant cost savings. The transition to this model will aid in smoothing our revenues and achieving greater revenue visibility for the future.

Notwithstanding the market challenges, Shearwater achieved recognition and success during the year, earning five prestigious awards, including the title of 'Security Company of the Year 2022' from the Computing Security Awards for the second consecutive year. These awards serve as a testament to the value we continue to deliver to our clients and the high regard we hold within the industry.

In response to the challenges faced in FY23, Shearwater took decisive action to streamline and optimise its operations. It was important to review certain aspects of the Group, and the decisions taken during the year ensure that we will emerge a leaner, more unified business. Whilst we remain committed to our primary objective of long-term, profitable growth, in response to the challenges faced we have focused on reconfiguring the Group, maximising internal efficiencies to ensure we are rightsized to deal with opportunities moving forwards.

1. See notes 2 and 3 within the Group financial statements that present a reconciliation of adjusted EBITDA to statutory measures including profit/(loss) before tax.



We aim to further enhance our internal efficiencies by merging GeoLang with SecurEnvoy to form a unified software company, which will be referred to as SecurEnvoy Data Discovery. Furthermore, we are merging the client-facing activities of Xcina IS and Xcina Consulting into Brookcourt Solutions. This integration will result in improved efficiencies, reduced complexity, and a simplified message for the Group.

Services

The majority of the Group's revenues come from its Services division, which contributed 89% of total revenues in the period. Revenue is generated through contract wins and renewals amongst a large and growing customer base of blue-chip organisations.

Despite the backdrop, we were pleased to successfully secure significant contract wins during the period, including securing a £6.3 million contract to deliver a solution to secure a leading global bank's email platform, swiftly followed by an additional £1 million to secure their applications database. Additionally, we successfully secured a £1.3 million Penetration Testing contract for a leading global software company, won a £1.0 million project to deliver a data security solution for a prominent global media company, and expanded a previously reported multi-million pound forensic monitoring solution for a leading Telco by an additional £0.7 million. Furthermore, we secured renewals to continue providing secure printing solutions to a world-leading retail group and a cloud-based security solution to help prevent distributed denial of service (DDoS) attacks for a renowned pharmaceutical and chemist. These are just a few examples of the diverse range of deals we won during this period.

We are seeing an emerging preference for one-year contracts compared to the more typical three-year contracts. While our well-established clients continue to strengthen their defences through multi-year contracts, our newer and smaller customers find greater flexibility in annual contracts, enabling them to explore diverse security options.

We have strengthened the Group's Services offering: Xcina Consulting now offers a new third-party risk management service which has already started to attract new clients since its launch, and Pentest now provides 'secure coding workshop training' for developers, to protect their applications, and their organisations, through secure coding. Brookcourt has introduced various AI and Deep Learning managed services to address the needs of the medium-size client marketplace. To meet the increasing demand, we expanded our team of revenue-generating and service-deployment personnel while also utilising contractors to address short-term workload peaks. Moreover, we bolstered our sales team at Brookcourt with additional talent in sales and sales management, fuelling our expectations for future growth.

	2023 £m	2022 £m	%
Revenue	23.8	32.5	(27%)
Gross profit	4.7	8.6	(44%)
Gross margin %	20%	26%	
Overheads	4.6	3.9	
Adjusted EBITDA¹	0.1	4.7	(94%)
Adjusted EBITDA margin %	1%	14%	

The steps taken to integrate our businesses have strengthened the team's position to seize future opportunities. As the year unfolds, we will explore further strategies to continue maximising efficiencies.

1. See notes 2 and 3 within the Group financial statements that present a reconciliation of adjusted EBITDA to statutory measures including profit/(loss) before tax.

Chief Executive's review continued

Software

The Group has made more tangible operational progress in Software in FY23. Whilst the proportion of revenue generated from our Software division during the period was 11%, notably, the increased spend on R&D over the past two years has now strengthened our position in the market. This is typified by our latest products, including the introduction of a fully functional enterprise-ready software developed by GeoLang, which is being used by a leading UK bank and attracting interest from our existing client base and prospects; and SecurEnvoy's newly released Access management as a Service platform ('Release 3') of our updated SecurEnvoy software, which helps organisations manage and control access to their systems and software. With SecurEnvoy's solution, organisations can enhance their security measures, ensure regulatory compliance, reduce supply chain risk and simplify the management of users accessing corporate systems via a single sign-on.

	2023 £m	2022 £m	%
Revenue	2.9	3.3	(12%)
Gross profit	1.8	2.2	(18%)
Gross margin %	63%	67%	
Overheads	0.8	0.7	
Adjusted EBITDA¹	1.0	1.5	33%
Adjusted EBITDA margin %	34%	46%	

We are excited by the impacts the integration of GeoLang and SecurEnvoy will have, creating a more cohesive software company going forward. This union aims to enhance operational performance and achieve cost-effectiveness. Leveraging SecurEnvoy's extensive network of global resellers, we can now offer an expanded software portfolio worldwide, integrating the newly developed GeoLang Sensitive Data Discovery solution under the esteemed SecurEnvoy brand.

Growth strategy

Our vision remains steadfast in becoming the preferred provider of choice, delivering next generation cyber technology, professional advisory and advanced cyber security services and solutions. Whilst the market conditions led to a focus on strengthening organic growth, M&A remains part of our future strategy, however, the focus in the shorter term needs to be on building organic revenue as we see a significant opportunity in the medium term in the sectors we serve.

Within our Services division, we aim to be the preferred partner of choice delivering managed security solutions, penetration testing and advisory consulting services; providing an end-to-end offering. Within our Software division, we aim to build a 'must have' next-generation converged access management and data discovery platform utilising our zero trust access solution protecting users, devices and data, wherever the location.

Our strategic focus over the medium term is a return to delivering solid, sustainable revenues and profit growth in the years ahead, which we are confident of achieving.

Market opportunity

Shearwater Group's solutions cater to the increasing security demands in today's environment and align with evolving regulations for corporate clients. We operate in high-growth markets and, as projected by Gartner, the global market revenue for information security and risk spending is estimated to exceed \$267 billion by 2026.

The well-publicised corporate cyber-attacks have drawn significant attention to the alarming trend of AI being weaponised, and it is of utmost importance to proactively mitigate risk and fortify their cyber security measures. Organisations are under growing pressure to ensure adherence to stringent regulatory frameworks and protect sensitive data from breaches and we have a clear strategy in place to exploit the considerable market opportunity ahead across both our Services and Software divisions.

Shearwater Group offers access to a differentiated full-service cyber security offering in a rapidly expanding market. Further to supportive market trends, our robust growth strategy, strong financial position, prestigious customer base, industry recognition, and talented team, we are poised to capitalise on opportunities and deliver substantial returns on investment.

1. See notes 2 and 3 within the Group financial statements that present a reconciliation of adjusted EBITDA to statutory measures including profit/(loss) before tax.

Current trading and outlook

We are starting to see more green shoots and opportunities following a challenging year with the wider macroeconomic backdrop starting to improve, the Board is encouraged about the forward-looking prospects for the business. Cyber security remains integral to organisations, and we believe we are well placed to capture the strong market opportunity ahead. While Shearwater is not alone in dealing with industry-wide challenges, the underlying growth drivers across the cyber security sector undoubtedly remain and we are well configured as a business following the decisive action taken in FY23. Although we are disappointed not to be updating shareholders with the FY23 financial performance we had been hoping for, we now have a more solid foundation on which to return to a growth trajectory. As we enter FY24, we do so with cautious optimism despite potential wider economic headwinds and their impact on our clients' budgets.

Q1 trading results are meeting our management's expectations, and our customer engagement efforts are proving successful in bolstering our growing pipeline, showing year-on-year growth. We have experienced a positive development as some delayed orders from the previous year have been fulfilled, and we've acquired new clients, with the remaining delayed orders expected to be fulfilled later this year. Our cross-selling initiatives have seen a promising start, with numerous new engagements underway.

Furthermore, we are delighted to observe that our professional advisory and penetration testing consultancy utilisation rates have improved significantly, with robust projects extending into Q3 and beyond. This progress is particularly encouraging as it enhances visibility and confidence in this segment of our business.

In the market, our position remains strong, which has been further reinforced after the successful launch of our latest software developments. These advancements have led to an increase in renewals, and our newly introduced managed cyber-service offerings have already gained interest from customers, especially among untapped SME clients, with several proof of concepts (POC) already initiated. Moreover, our new Secure Code Training programme has attracted new students, with additional project opportunities on the horizon.

An exciting highlight has been witnessing numerous substantial international cyber solution wins originating from our existing corporate client base. Our relationships with leading global corporate clients continue to present promising opportunities.

On the financial front, we are pleased to report that our balance sheet remains robust, and we are experiencing good cash flow.

Looking ahead, the evolving landscape of AI and machine learning technologies presents us with even greater opportunities. We are well positioned to provide technology refresh and consulting services to our larger, well-established clients, helping them stay ahead of their adversaries.

Overall, the current outlook is positive, and we are confident in our ability to leverage emerging trends and sustain our growth trajectory in the cyber security market.

Philip Higgins
Chief Executive Officer

4 September 2023



Business model

Our business model from our Software division consists of supplying innovative software products (SaaS based and on-premise) through a vast network of global resellers, whilst our Services division delivers award-winning solutions and business advisory services directly to FTSE 350 clients.

Key strengths

- Able to provide broad offering to clients – fulfilling end-to-end organisational resilience needs.
- Owned IP (SaaS based and on-premise offerings).
- 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.



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 globally across 39 countries via a two-tier distribution reseller network.
- Our software works in the cloud, on-premise and a hybrid of the two.
- c.80% recurring revenues.

Future plans and aspirations:

Introduce additional internally developed products/functionalities creating upsell opportunities to existing client base. Utilise global sales platform to introduce our software to new clients.

Opportunity to acquire solution enhancing code that could sit on our Access management as a Service platform.

» Read more on our strategy on pages 24 to 29

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



ESG

Read more on pages 24 to 29



Risks

Read more on pages 35 to 39



Governance

Read more on pages 40 to 54

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



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 offerings with a leading product, solution or service capability whose full potential can be unlocked through active management and capital investment.



Focused organic growth

Deliver organic growth across our existing group of companies.

- Helping our companies solve core scaling issues – providing capital and infrastructure.
- Cross-selling.
- Securing new customers.
- Supporting product innovation.

Our future goal:

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

Wider strategic aims

- Continue to extend the Group's international footprint.
- To continuously grow and export our products and services internationally.
- Amalgamating central functions to unlock synergy savings.



Focused acquisition

Building a scalable group, that focuses on the entire spectrum of cyber security and managed security services and products.

- 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.

» Please see case studies on pages 18 to 21

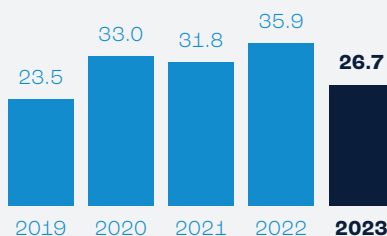
KPIs

Financial:

Revenue for the year (£m)

£26.7m (26%) ▼

Macroeconomic challenges impacted customer investment decisions in H2 which resulted in deferred start dates and, in some cases, spending freezes which impacted revenues in the current period.



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.

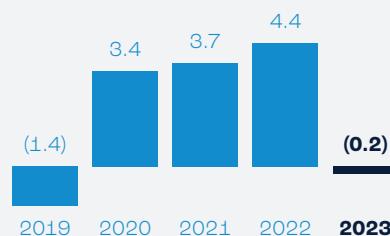
Strategic link:

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 EBITDA¹ (£m)

£(0.2)m ▼

Customer-led delays and one-time expenditure has impacted revenue in the current year.



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.

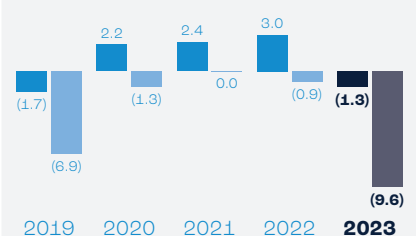
Strategic link:

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)

£(1.3)m ▼

Adjusted profit before tax in the current period has been impacted by underlying trading which was impacted by customer-led delays which affected expected sales in addition to a number of one-off expenses.



Description:

This measure details the Group's underlying trading profit excluding one-off income or charges and amortisation and impairment of acquired intangibles, which is a non-cash 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.

■ Adjusted ■ Reported

- 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.
- Adjusted profit/(loss) before tax excludes acquisition amortisation in addition to the adjusting items detailed above to calculate adjusted EBITDA.

KPIs continued

Financial: continued

Adjusted EPS (£)	Net (debt)/cash (£m)	Free cash flows (£m)																																				
<div>£(0.0)m ▼ Adjusted earnings per share decreased in the year from £0.11 to £(0.00) reflecting a decrease in adjusted profit as discussed above.</div> <div><table><tr><th>Year</th><th>Adjusted EPS (£)</th></tr><tr><td>2019</td><td>(0.10)</td></tr><tr><td>2020</td><td>(0.42)</td></tr><tr><td>2021</td><td>0.08</td></tr><tr><td>2022</td><td>0.10</td></tr><tr><td>2023</td><td>0.01</td></tr></table></div> <div>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. Further details can be found in note 8.</div> <div>Strategic link: The Group looks to return to delivering consistent annual growth in adjusted earnings per share.</div>	Year	Adjusted EPS (£)	2019	(0.10)	2020	(0.42)	2021	0.08	2022	0.10	2023	0.01	<div>£4.0m ▼ Reported net cash (2022: £5.6m)</div> <div><table><tr><th>Year</th><th>Net (debt)/cash (£m)</th></tr><tr><td>2019</td><td>(3.8)</td></tr><tr><td>2020</td><td>(0.7)</td></tr><tr><td>2021</td><td>6.0¹</td></tr><tr><td>2022</td><td>5.6</td></tr><tr><td>2023</td><td>4.0</td></tr></table></div> <div>Description: Made up of cash and cash equivalents less loan liabilities (excluding lease liabilities), this metric provides a measure of the Group's liquidity.</div> <div>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.</div>	Year	Net (debt)/cash (£m)	2019	(3.8)	2020	(0.7)	2021	6.0 ¹	2022	5.6	2023	4.0	<div>£(1.4)m ▼ Continued investment into the development of internally developed software provides access to highly valuable recurring revenue streams that generate high gross margins. (2022: £(1.5m))</div> <div><table><tr><th>Year</th><th>Free cash flows (£m)</th></tr><tr><td>2019</td><td>(4.2)</td></tr><tr><td>2020</td><td>3.8</td></tr><tr><td>2021</td><td>5.9</td></tr><tr><td>2022</td><td>(1.5)</td></tr><tr><td>2023</td><td>(1.4)</td></tr></table></div> <div>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.</div> <div>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.</div>	Year	Free cash flows (£m)	2019	(4.2)	2020	3.8	2021	5.9	2022	(1.5)	2023	(1.4)
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2023	(1.4)																																					

■ Adjusted ■ Reported

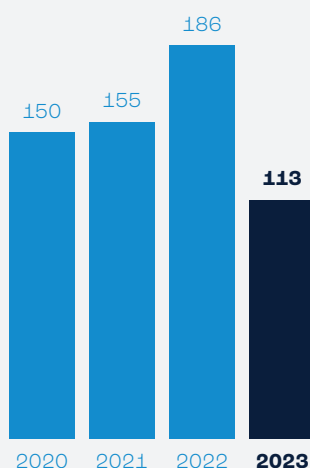
1. Adjusted net cash figure includes a £1.3 million adjustment for deferred VAT (reported net cash figure was £7.3 million).

Non-financial:

New customer wins

113
New customers

Average new customer spend up +15%



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

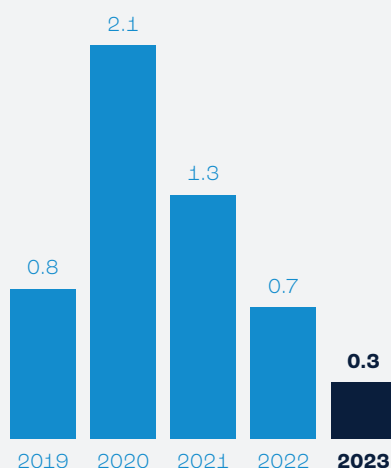
Strategic link:

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

New software revenues (£m)

£0.3m
New software

The release of SecurEnvoy's new Identity Access Management v.3. software in May 2023 now provides opportunities to drive incremental new and uplift business to new and existing customers.



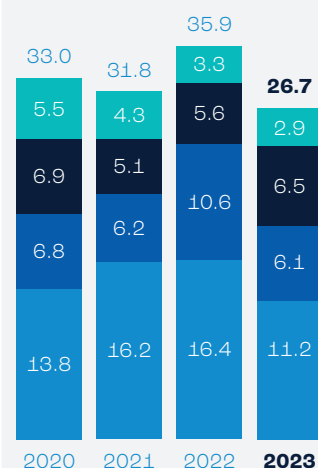
Revenue connected to the Group's own software products, being software licences.

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%
Repeatable revenues



Group revenues are generated via four revenue streams across two operating divisions.

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.

- Software licences (from owned IP)
- Advisory & engineering
- Security solutions
- Managed services & warranties

Strategy in action

An international bank's journey towards a safer future

Software

An international bank commits to a critical infrastructure project to combat vulnerabilities in existing outdated, and incumbent email security solutions.

In an increasingly digitalised world, financial institutions face relentless cyber threats that endanger their operational function, sensitive data, and customer trust. As a financial institution, banks face the heaviest burden to ensure systems are agile and robust to protect customers' savings.

With investment in new technology to support a cutting-edge email security solution, the business committed to overcome existing business challenges to bolster its overall cyber security posture.

This case study explores key challenges faced by the bank, the story behind the service, security solutions, and the positive outcomes achieved by the bank.

Some key challenges faced by the business included:

Phishing attacks:

A rising tide of sophisticated phishing attacks targeting employees and customers. These attacks exploited vulnerabilities in email communication channels, leading to potential data breaches, financial fraud, and reputational damage.

Outdated incumbent technology:

Existing cyber security solutions were outdated and fragmented. This resulted in a lack of centralised visibility, inefficient threat detection, and a high volume of false positives, causing undue strain on the security team, and increasing the risk of undetected threats slipping through the net.

To address these challenges head-on, the bank was supported by Brookcourt Solutions, a Shearwater Group company within its Services division.

The team consists of highly skilled professionals who possess a wealth of expertise around cyber security products and strategies. They are not only technically proficient but also possess a strong team spirit, fostering a collaborative and supportive environment. This team spirit translates into the commitment and professionalism exhibited in every project, helping customers such as the bank to navigate the complexities of managing technology, process, and people.

Brookcourt has developed strategic partnerships with cutting-edge technology solution providers, meaning the customer benefits from a personal relationship with a team of independent account directors who have comprehensive knowledge of the best-in-class product solutions and services to support the customer with tailored end-to-end support. In the case of the bank, the business implemented a suite of IT security solutions and technologies, namely:

Email gateway routing and protection:

The bank deployed an advanced email gateway routing and protection solution that analysed inbound and outbound emails in real-time. This solution employed sophisticated threat intelligence algorithms, anomaly detection, and encryption protocols to identify and mitigate potential email-borne threats, such as malware, ransomware, and phishing attempts.

Cloud-based sandboxing:

To analyse URLs and attachments in a secure environment, the bank adopted a cloud-based sandboxing solution. This technology isolated suspicious files, URLs, and attachments and subjected them to comprehensive analysis, effectively preventing the activation of malicious payloads.

Threat response platform:

The bank integrated a threat response platform into its cyber security infrastructure. This platform enabled the identification and removal of malicious emails post-delivery, reducing the risk of employees inadvertently falling victim to phishing attacks.

Phishing awareness training:

Recognising the importance of human vigilance, the bank invested in comprehensive phishing awareness training programmes. These initiatives educated employees about the latest phishing techniques, common indicators, and best practices to ensure a heightened level of cyber hygiene across the organisation.



Excellent services
and response time



We are highly impressed by the timely support provided on the multiple changes to the work order at the final stage. This has greatly helped us to complete our projects on time and ultimately achieved the business objective.

Domain discovery tool:

The bank employed a domain discovery tool to identify potential fraudulent domains impersonating the bank's brand. This proactive measure helped to detect and neutralise phishing campaigns before they could ensnare unsuspecting customers or employees.

Authenticated mail relay service:

To ensure the integrity and security of transactional and application emails, the bank implemented an authenticated mail relay service. This technology verified the authenticity of emails originating from the bank, protecting customers from spoofing attempts and ensuring the delivery of legitimate communications.

The implementation of these advanced email security solutions and technologies yielded significant positive outcomes for the financial institution:

Improved threat detection and response:

The bank achieved enhanced threat detection capabilities, enabling the proactive identification and mitigation of potential cyber threats. The centralised visibility offered by the new solutions allowed the security team to respond swiftly to emerging threats, significantly reducing the risk of data breaches and financial losses.

Reduced false positives and improved efficiency:

By replacing outdated incumbent solutions, the bank witnessed a substantial reduction in false positives and unnecessary alerts. This streamlined the security team's workflow, allowing them to focus on genuine threats and allocate resources more efficiently.

Enhanced employee awareness and vigilance:

The phishing awareness training programmes cultivated a heightened sense of cyber awareness among employees. As a result, employees have become more adept at recognising and reporting potential phishing attempts, contributing to the bank's overall resilience.

Cyber security is a critical aspect of every modern business, and in this case study, the bank has benefited from working with the team at Brookcourt Solutions – the business stays abreast of the latest industry trends and best practices and provides expertise, efficiency and collaboration, leveraging best-in-class innovative technology and expertise to safeguard their operations, data, and reputation in an ever-evolving digital landscape providing a level of customer satisfaction which goes above and beyond all expectations.

Strategy in action continued

Media: MFA Case Study – securing the network and vital data

Services

A gaming company in the Netherlands implements multi-factor authentication from SecurEnvoy to protect their network and data

About the company

MSI is a global gaming, content creation, business and productivity and AIoT solutions provider, founded in 1986 and present in over 120 countries. As a leader in the global gaming industry, MSI Netherlands handles vast amounts of data. As a result, MSI needs to ensure their sensitive and vital data remains protected.

Challenge – secure network and data against external cyber threats

Compromised log-in credentials are one of the main forms of cyber-attacks used to breach organisations. Data breaches can have a significant impact on organisations and result in financial and reputational damage. With increasing compliance regulations and a rise in fines for organisations without cyber security measures in place, the need for solutions such as Multi-Factor Authentication (MFA) is greater than ever.

Securing their network and data across EMEA was critical for MSI. In order to achieve this effectively MSI required an on-premise MFA solution. In their research stage, MSI considered various competitive solutions including FortiAuthenticator. However, the FortiAuthenticator solution was more complex to configure and challenging to deploy, ruling it out.

Result – on-premise, reliable and easy to use MFA solution

SecurEnvoy MFA was referred to MSI by their trusted distributor, Exclusive Networks. SecurEnvoy MFA was a preferred option as it can be deployed on-premise, which was key for MSI. An on-premise solution offers MSI further control over their sensitive data and ensures their data stays within the organisation. Additionally, the SecurEnvoy MFA solution was also chosen as it is a reliable, quick and easy to use solution.

The MFA solution from SecurEnvoy was implemented in 15 locations across EMEA for 500 users. MSI have further secured their SSL VPN access using SecurEnvoy MFA. The solution was considered user friendly by both their ICT department and their end users.

Following the successful MFA implementation to secure their SSL VPN, SecurEnvoy MFA will be used to secure more services that are accessible to MSI's users.

The SecurEnvoy sales and support teams were able to quickly support and assist with queries, making it a seamless experience for MSI. "We had some calls together about setting up SecurEnvoy in our environment and we liked the assistance from SecurEnvoy. Coming to the office even after the sale was made scores bonus points", said Marco Bankers – ICT manager.



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. Through our continued partnership with DODO eco, our external carbon offset partner, we have invested in projects in order to offset the carbon created by our businesses.

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

Impact of engagement:

We have invested in several carbon capturing projects during the year, offsetting the carbon created by the business to maintain our carbon neutral status.

The Group has looked to support its employees' charity participation by providing time off and has maintained a matched funding programme to support individual fundraising efforts.

» Please see responsible operations on pages 24 to 29

Customers

How we engaged:

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

Impact of engagement:

We continue to work closely with long-term customers to understand their changing requirements. In the current year 70% 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 24 to 29

Key stakeholders include:

Communities

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

Customers

As requirements change, 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 responsible 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 life insurance for all employees and enhanced training opportunities following the introduction of our Company-wide training platform. Following a review of the Group in early 2023, a re-organisation commenced at the end of the year with the aim to consolidate some administrative and non-profitable parts of the Group which is expected to result in a small reduction to headcount. Moving forward, we would expect to see an improvement in financial performance with the view to improve return to shareholders.

» Please see responsible operations on pages 24 to 29

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 broker and other advisers 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 14 and responsible operations on pages 24 to 29

Suppliers

How we engaged:

We diligently select suppliers that we look to create long-term collaborative relationships with, working to ensure that we are part of an effective supply chain.

Impact of engagement:

Challenging macroeconomic conditions continue to present some challenges to supply chains. 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 14 and responsible operations on pages 24 to 29

Responsible operations

We remain committed to delivering our ESG strategy and throughout the year we have continued to extend our initiatives in this area.

We continue to conduct our business in a way that's sustainable, recognising 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.

We remain committed to delivering our ESG strategy and throughout the year and have continued to extend our initiatives in this area.

We 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	Supporting our team	Maintaining strong governance
<p>We will prevent pollution, minimise waste from our offices, and adopt good environmental practices.</p> <ul style="list-style-type: none"> We aim to establish best-practice environmental management systems throughout our business to improve our efficiency with resources. 	<p>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.</p> <ul style="list-style-type: none"> Workplace culture and employee engagement in an ever-evolving hybrid working environment has continued to be an area of focus. 	<p>A strong focus on governance is a vital part of our ability to implement sustainable practices across our operations.</p> <ul style="list-style-type: none"> We work with experts to ensure we always follow the most appropriate governance practices.
» Read more on pages 26 to 28	» Read more on page 29	» Read more on page 29

Responsible operations continued

Protecting our environment

We are committed to sustainable trading, and continually look to improve our practices, ensuring we operate in an environmentally responsible manner.

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.

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 2023 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 align ourselves to a hybrid 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 office operations, general services and employee commuting.

We continue to work with DODO eco, our external carbon offset partner, using their 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 CO₂ we release. DODO eco also helps with the offsetting, helping us invest in carbon-capturing projects across the world.

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 ₂ e 2023	2022
Office	208.3	172.6
Employee	56.1	100.8
Marketing	51.2	32.1
Technology	34.2	21.4
Business travel	34.2	13.2
Food and accommodation	30.1	16.7
Total	414.1	356.8

We calculated our emissions at 414 tonnes of CO₂ since 1 April 2022. Accordingly, we have offset this by investing in a number of carbon-capturing projects that in the current year are focused on supporting 7 UN Sustainable Development Goals. Please visit our website for more information on each project.

Overall emissions have increased by 57 tonnes year-on-year which is partly due to the Group gradually returning to its normal activities following relaxation of COVID restrictions in the UK and increased supplier costs due to soaring energy prices. The Group has taken every endeavour to keep its carbon footprint as low as possible by introducing working patterns which will have minimum impact on emissions, strengthening its supply chain with some carbon-neutral/negative suppliers.

Environmental objectives and policies

In addition to offsetting, we continue to promote a number of initiatives to ensure our whole business is as 'green' as possible, this includes:

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 look to utilise our capabilities for web-based meetings where appropriate, including 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.



Responsible operations continued

Carbon offsets: A case study

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

BAESA Hydroelectricity

Technology: Hydroelectric

Location: Rio Grande do Sul, Brazil

Generating electricity through clean and renewable energy sources to help meet Brazil's growing demand.

The BAESA project covers the construction and operation of the Barra Grande Hydroelectric Power Plant (HPP), a greenfield hydropower plant implemented on a single reservoir. The plant generates electricity through clean and renewable energy sources to help meet Brazil's growing demand – spurred on by the country's substantial growth in both population and economy. This, in turn, contributes to environmental, social, and economic sustainability by increasing the share of renewable energy in the country's total electricity consumption.



China Hebei Province Wind Farm

Technology: Wind

Location: Hebei, China

Generating wind energy in Hebei Province and displacing fossil-fuel generated energy, improving local air quality.

Hebei Kangbao Sanxiatian Wind Farm Project is located in Zhangjiakou City, Hebei Province, P.R.China. The wind farm contains 33 sets of turbines with a total installed capacity of 49.5 MW. Electricity generated by the project is delivered to the North China Power Grid (NCPG) and displaces power that would have been supplied by fossil-fuel fired power plants, thereby avoiding greenhouse gas emissions and other air pollutants, including SO₂, NO_x, and PM. The project is well-regarded by the local community and received strong stakeholder support during the construction phase in 2008. Operation of the wind farm commenced in 2009, and the project continues to improve air quality and boost tax revenues for the regional government.



Salto Pilão Hydroelectric Plant

Technology: Hydroelectric

Location: Santa Catarina, Brazil

Generating hydroelectric power in Brazil using a low-impact plant with a small reservoir that has a smaller environmental footprint than large hydroelectric plants.

The Salto Pilão Hydropower Plant Project consists of a run-of-river hydropower plant with a small reservoir of 0.15 square kilometres and an installed capacity of 191.88 MW. The plant is located between the cities of Lontras, Ibirama, and Apiúna in the state of Santa Catarina, South Region of Brazil. Salto Pilão hydropower plant (Portuguese: Usina Hidrelétrica Salto Pilão, UHESP) is owned by an association of several companies called Consórcio Empresarial Salto Pilão. The primary objective of the UHESP is to help meet Brazil's rising demand for energy due to rapid economic growth and to improve the supply of electricity while contributing to environmental, social, and economic sustainability.



Supporting our team

We look to create a working environment that supports our people and their development. The Group is committed to fostering an environment where our people can 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.

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. All employees have access to the Group's Employee Assistance Programme which offers a broad range of support services to individuals. This programme 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.

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.

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



During the year the Group generated positive operating cash flows and increased its investment in the development of new software offerings within its Software division.

Paul McFadden
Chief Financial Officer



Overview

The Group's financial performance in the year to 31 March 2023 was significantly impacted by strong market headwinds and delays in entering into a number of material contracts in the period in the Group's Services division. As a result, revenue was down 26% to £26.7 million. The Group's Software division continued to retain a large proportion of its long-standing customer base, however slower than expected new business sales also impacted revenue in the year. The lower revenues resulted in reduced EBITDA year on year at £(0.2) million which also includes the impact of additional costs relating to an unrealised foreign exchange charge for revaluing US dollar liabilities in the period as well as one-off fees relating to establishment of overseas operations.

A non-cash impairment of £6.0 million has been recorded in the current year reflecting a write down of goodwill held for the Group's SecurEnvoy and Xcina assets.

However, the Group retains a healthy balance sheet with no debt and a net cash position of £4.0 million (2022: £5.6 million) at 31 March 2023. During the year the Group generated positive operating cash flows and increased its investment in the development of new software offerings within its Software division which it expects to successfully monetise in future years.

Following a review of the Group in early 2023, a re-organisation commenced which is expected to deliver a £1.0 million reduction in the Group's fixed cost base.



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

	2023 £m	2022 £m
Revenue	26.7	35.9
Gross profit	6.4	10.8
Administrative expenses (underlying) ¹	(6.6)	(6.4)
Adjusted EBITDA	(0.2)	4.4
Adjusted EBITDA margin	—%	12%
Finance charge	(0.1)	(0.1)
Depreciation	(0.2)	(0.3)
Amortisation of intangible assets – computer software	(0.8)	(1.0)
Adjusted (loss)/profit before tax	(1.3)	3.0
Amortisation of acquired intangible assets	(2.1)	(2.1)
Impairment of intangible assets	(6.0)	—
Share-based payments	(0.1)	(0.1)
Exceptional items	(0.1)	(0.1)
Other operating income	—	0.1
(Loss)/profit before tax	(9.6)	0.9
Taxation credit/(change)	1.5	(1.2)
(Loss) after tax	(8.2)	(0.3)

1. Administrative expenses (underlying) excludes items that are not included within Adjusted EBITDA such as finance charges, depreciation, amortisation, impairment, share-based payment charges, exceptional items and other operating income.

Revenue

Revenue for the year ended 31 March 2023 of £26.7 million was 26% down on the prior year (2022: £35.9 million).

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

	2023 £m	2022 £m
Services		
Managed services and warranties	11.2	16.4
Security solutions	6.1	10.6
Advisory and engineering	6.5	5.6
Software		
Software licences	2.9	3.3
Total revenue	26.7	35.9

Within Services, whilst the number of customers receiving managed services & warranties remained broadly the same, revenues in the period were impacted by the timing of a number of projects, with a few larger clients that were expected to complete in the period but were delayed. It is expected that the majority of these delayed projects will fall into FY24.

Advisory revenues grew by 18% on a year-on-year basis with increased demand for Brookcourt's engineering and Pentest's consulting services fuelling this growth. Additional investment in revenue-generating consultants was made in the period to service demand for these services in FY24.

Software licences revenue was impacted by lower than expected new business sales of the legacy 'On Premise' multi-factor authentication software. Renewal rates with existing customers have remained at c.80%, demonstrating the reliance and value many long-standing clients place on this product. Investment into developing the next generation software as a cloud-based platform provides an opportunity to drive additional incremental revenues in the future.

Financial review continued

Adjusted EBITDA

The Group delivered adjusted EBITDA of £(0.2) million in the year (2022: £4.4 million), which was primarily impacted by the revenue shortfalls in the period, despite lower central costs. Delayed sales and reduced new business sales from our Software division impacted gross margins by 6% to 24% for the year (2022: 30%).

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

	2023 £m	2022 £m
Services and Software	1.1	6.2
Central administrative expenses	(1.3)	(1.8)
Adjusted EBITDA	(0.2)	4.4
Adjusted EBITDA margin %	—	12%

We expect to re-establish higher gross profitability in the coming year by:

- Increasing utilisation of advisory resource, we have good forward visibility of confirmed sales for H1 which will enhance utilisation.
- Driving new business sales from newly released software products.
- Completing delayed contracts from the FY23 year.

Central administrative expenses decreased by £0.5 million in the year to £1.3 million reflecting a reduction in corporate and professional costs.

Finance charges

Net finance charges of £0.1 million are in line with prior year (2022: £0.1 million). The Group settled its remaining loan liabilities in the previous year.

Depreciation

Depreciation of £0.2 million (2022: £0.3 million) is slightly reduced from the prior year and incorporates £0.2 million of depreciation of right of use assets which is reduced from the prior year.

Amortisation of intangible assets – computer software

Amortisation of computer software has reduced by £0.2 million to £0.8 million (2022: £1.0 million) and includes increased amortisation of GeoLang data discoveries product development expenditure in addition to increased amortisation in SecurEnvoy. This is offset by savings for projects that were fully amortised in the prior year.

Adjusted (loss)/profit before tax

The Group delivered adjusted loss before tax for the year of £1.3 million (2022: £3.0 million profit), the reduction in profitability is impacted by the reduced EBITDA in the current year (detailed above) less a small year-on-year reduction in internally developed software amortisation.

Amortisation of acquired intangible assets

Amortisation of acquired intangible assets of £2.1 million (2022: £2.1 million) is in line with the previous year.

Impairment of intangible assets

A non-cash impairment charge of £6.0 million has been made in the current year against goodwill values held for the Group's SecurEnvoy, Xcina Consulting and Xcina IS assets. Further details can be found in note 9 of the consolidated Group financial statements.

Share-based payments

Share-based payment charges of £0.1 million (2022: £0.1 million) incorporate a full year's charge for the Group's Company Share Options Plan (CSOP), in addition to charges for the Group's Save As You Earn scheme (SAYE), Employee Share Options Plan (ESOP) and a reduced year-on-year charge for the Group's share incentive scheme which lapsed in the current year.

Exceptional items

Exceptional items of £0.1 million include one-off expenses relating to a review of the operations and the subsequent re-organisation costs incurred in the 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 previous year.

Reported (loss)/profit before tax

Reported loss before tax for the year of £9.6 million (2022: £0.9 million profit) reflects the reduced trading detailed within adjusted profit before tax, in addition to one-off impairment charges and exceptional items detailed above.

Taxation

A taxation credit in the period of £1.5 million includes a £0.7 million credit for the current year, £0.4 million adjustments in respect of previous years' tax provision plus £0.3 million movements in deferred taxation.

Earnings/(loss) per share

Adjusted basic loss per share of £0.00 (2022: adjusted earnings per share £0.11 basic and £0.10 diluted) represents a year-on-year reduction reflecting the weaker trading results in the year. The average number of shares remained broadly the same year-on-year. Reported basic loss per share of £0.34 (diluted £0.33) compares against a basic and diluted loss per share of £0.01 in the prior year.

Statement of financial position

Intangible assets

Intangible assets decreased in the year by £7.7 million to £44.9 million at 31 March 2023 (2022: £52.6 million). This movement incorporates £1.3 million of investment into continued development of the Group's software assets (2022: £1.1 million), less £2.9 million amortisation, of which £2.1 million relates to amortisation of acquired intangibles and £0.8 million amortisation of developed computer software. In addition to this there is a £6.0 million impairment charge relating to the write down of goodwill for the Group's SecurEnvoy and Xcina businesses.

Property, plant and equipment

Property, plant and equipment increased in the year by £0.1 million to £0.4 million at 31 March 2023 (2022: £0.3 million). Additions of £0.4 million include £0.3 million for the extension of an existing office lease which has been recognised as a right of use asset. Other movements in the period include depreciation in the year of £0.3 million.

Trade and other receivables

Trade and other receivables have decreased by £0.5 million in the year from £20.2 million to £19.6 million at 31 March 2023. Significant movements include an £8.7 million decrease in accrued income following the invoicing of a large contract billed in early April 2022, some of which has contributed to an increase in trade receivables, which increased £8.2 million year-on-year.

Trade and other payables

Trade and other payables have decreased by £2.2 million in the year from £14.5 million to £12.3 million at 31 March 2023. Material movements include a £1.3 million decrease in trade payables, £0.4 million reduction in corporation tax liabilities and £0.3 million reduction in deferred income.

Creditors: amounts falling due after more than one year

Creditor amounts falling due after more than one year have increased in the year by £1.3 million from £7.9 million to £9.2 million at 31 March 2023. A £1.5 million increase in accruals and other payables relates to a number of long-term contracts with long-standing clients and a £0.2 million increase in lease liabilities relates to an existing office lease that was extended during the year for a further five years. A £0.3 million reduction to deferred tax balances includes a reduction of £0.4 million relating to deferred tax held for acquired intangible assets less deferred tax balances created on new software projects.

Financial review continued

Statement of cash flows

Continued investment has been made in the Group's Software division, with over £1.0 million invested into internally developed software, the latest of which, SecurEnvoy's Access Management v.3 went live in May 2023. Despite challenging trading, as detailed later in this report, the Group generated £0.4 million of adjusted operational cash flow in the period with H2 delivering strong operating cash inflows. The Group continued to collect cash effectively, with minimal bad debt.

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

	2023 £m	2022 £m
Adjusted EBITDA	(0.2)	4.4
Movements in working capital	0.5	(4.7)
Cash generated/(used) from operations	0.3	(0.3)
Adjusted cash generated/(used) from operations	0.4	(0.3)
Exceptional items	(0.1)	—
Cash generated/(used) from operations	0.3	(0.3)
Capital expenditure (net of disposal proceeds)	(1.3)	(1.1)
Tax paid	(0.3)	(0.1)
Finance costs paid	(0.1)	(0.1)
Payments of lease liabilities	(0.2)	(0.2)
Loan repayments	—	(0.7)
FX and other	—	0.1
Movement in cash	(1.6)	(2.4)
Opening cash and cash equivalents	5.6	8.0
Closing cash and cash equivalents	4.0	5.6
Loans	—	—
Net cash	4.0	5.6

In addition to the statutory presentation of cash flow, the Directors also review a summarised presentation of cash flow which highlights the key components of the Group's cash flow.

Capital expenditure

Capital expenditure of £1.3 million (2022: £1.1 million) in the year includes primarily 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 £0.2 million (2022: £1.0 million) for repayment of lease liabilities is in line with the previous year. In the prior year the Group repaid £0.7 million of remaining loan balances.

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 15 to 17.

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 73 details definitions of adjusted EBITDA and adjusted (loss)/profit before tax measures. Note 8 on page 76 details definition of adjusted EPS.

Paul McFadden

Chief Financial Officer

4 September 2023

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 continues to be 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 remain committed to sustainable trading which includes ethical procurement. More details can be found in Group's sustainability report on pages 26 to 28 of how the Group promotes sustainable trading.

In the current year we have updated the existing key contracts risk to include delays in customer spending, which can impact financial performance in a period.

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 on the following pages, with mitigating actions listed:



Principal risks and uncertainties continued

Risk	Description	Mitigating actions	Link to strategic priorities
Intellectual property Risk level Pre-mitigation – High Post-mitigation – Moderate  No change (2022: No change)	<p>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.</p>	<ul style="list-style-type: none"> 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. 	Continued development of internally developed software provides the Group access to highly valuable recurring revenue streams that generate high gross margins.
Technology Risk level Pre-mitigation – High Post-mitigation – High  Increased (2022: No change)	<p>The markets in which the Company operates 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.</p> <p>The advancement of AI-based automation technologies provides companies with the opportunity to accelerate the advancement of their existing technologies.</p>	<ul style="list-style-type: none"> The Group has maintained its commitment to continuously develop its own internally developed software/technologies. Investment into software development increased in the current year as we looked to accelerate the go to market timeline 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. 	Ensuring that the software products we sell are innovative will position us in a fast-growing marketplace.

Risk	Description	Mitigating actions	Link to strategic priorities
Recruitment and retention of key personnel Risk level Pre-mitigation – High Post-mitigation – High  Increased (2022: Increased)	<p>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.</p> <p>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.</p> <p>The rewards for businesses to develop the best in class technologies continues to fuel demand for the best employees.</p>	<ul style="list-style-type: none"> • We have enhanced training and development opportunities for all employees so that they are able to advance 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 takes 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. • Continued review and enhancement of employee benefits, including life insurance added for all UK employees. 	<p>Attracting and retaining the best candidates will help drive innovation of products and solutions, ensuring that we are able to deliver growth.</p> <p>Please see Stakeholders on pages 22 and 23 and Supporting our team on page 29.</p>
Key contracts Risk level Pre-mitigation – High Post-mitigation – High  Increased (2022: No change)	<p>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. In addition to this, changes in client spending patterns brought about by the clients' operational priorities and/or budgetary restraints can result in delays to expected projects, which along with losses of major customer contracts could adversely affect the Group's business, financial position, results or future operations.</p> <p>The current macroeconomic conditions add pressure for some customers which can result in delays or pauses to investment decision making.</p>	<ul style="list-style-type: none"> • We continue to look to create and maintain long-term relations with our customers, taking the time to understand their 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, to reduce the reliance on key customers. During the year 113 new clients were introduced to the Group, many of these buying products and/or services that are repeatable in nature. 	<p>Investment into developing long-term relationships, taking time to understand our clients' needs and delivering excellent service presents upsell opportunities.</p> <p>Please see Stakeholders on pages 22 and 23.</p>

Principal risks and uncertainties continued

Risk	Description	Mitigating actions	Link to strategic priorities
Economic uncertainty including major incidents Risk level Pre-mitigation – High Post-mitigation – High  Increased (2022: Increased)	<p>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.</p> <p>With global inflation increasing and other world events impacting the global economy, many companies are reviewing their budgetary spends. This can create vulnerabilities if companies do not have appropriate cyber & IT security in place.</p>	<ul style="list-style-type: none"> Owing to the non-discretionary nature of many of the Group's products and services, the Group is in a robust position; 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. 	<p>This can lead to increased levels of cyber-attack, which result in increased client investment into its IT security.</p> <p>Please see Introduction from our Advisory Panel on page 2.</p>
Cyber security attacks Risk level Pre-mitigation – High Post-mitigation – High  Increased (2022: Increased)	<p>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.</p> <p>The advancement of AI-based technologies can provide cyber-criminals with tools that can automate and accelerate deployment of cyber-attacks.</p>	<ul style="list-style-type: none"> 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. 	<p>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.</p> <p>Please see Introduction from our Advisory Panel on page 2.</p>

Risk	Description	Mitigating actions	Link to strategic priorities
Regulation Risk level Pre-mitigation – High Post-mitigation – Moderate  Increased (2022: No change)	<p>New industry regulation and government legislation continues to be 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.</p> <p>Continued change/enhancement of regulation and best practice increases the pre-requisite for companies to having appropriate, up-to-date cyber and IT security in place in order to trade. As an example, insurers are asking for details of companies' cyber and IT security systems and process as part of their customer due diligence when assessing premiums.</p>	<ul style="list-style-type: none"> • 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. 	<p>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 Strategy on page 14.</p>
Acquisition Risk level Pre-mitigation – Moderate Post-mitigation – Moderate  No change (2022: No change)	<p>Failure to identify suitable potential acquisitions, or failing to properly integrate an acquisition, will impact our strategy for growth.</p>	<ul style="list-style-type: none"> • 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. 	<p>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 14.</p>

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 significant experience building companies in the public and private sectors, having chaired a large number of these, both in an executive and non-executive capacity.

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. Phil joined the Board in December 2018 and was appointed Chief Executive Officer of Shearwater Group in April 2019. 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:

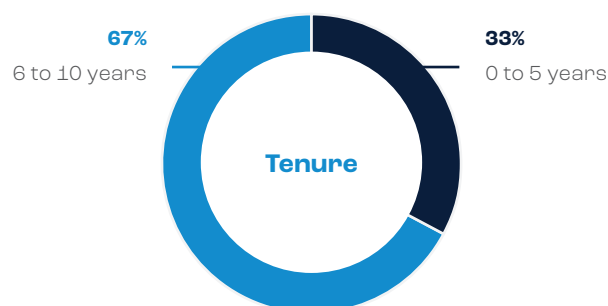
Paul has over ten years' experience in senior finance positions within market-leading digital information services, training and events businesses, creating and leading scalable finance functions within both a private and listed environment. Most recently, Paul was responsible for creating and leading 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:

David Williams (Chairman)	<div></div>
Philip Higgins	<div></div>
Paul McFadden	<div></div>
Stephen Ball	<div></div>
Robin Southwell	<div></div>
Giles Willits	<div></div>

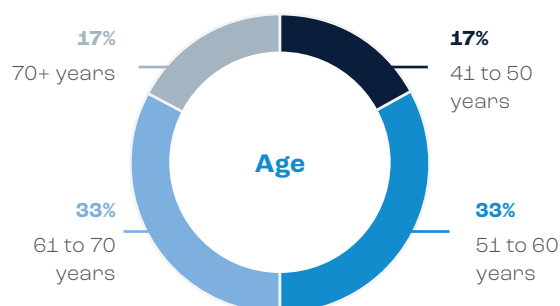
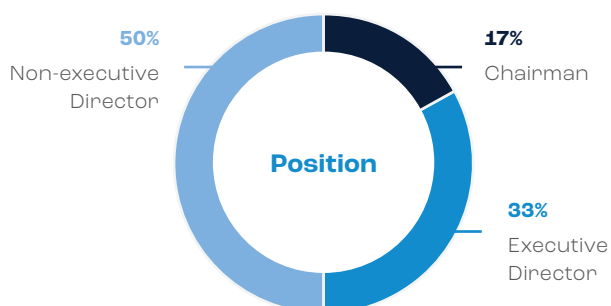
■ Attended ■ Eligible to attend



Key:

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

Robin Southwell OBE Non-executive Director	Stephen Ball Non-executive Director	Giles Willits Non-executive Director
<p>R</p> <p>Appointed to the Board: October 2016</p> <p>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.</p>	<p>A N</p> <p>Appointed to the Board: October 2016</p> <p>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.</p>	<p>A</p> <p>Appointed to the Board: December 2016</p> <p>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.</p>



Advisory Panel

The Group's Advisory Panel is led by Rt Hon Lord Reid of Cardowan.



**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 Advisory Panel's main objective is to monitor advancements in the digital resilience sector and assist the Group in accessing growth opportunities through the extensive network of contacts each panel member possesses. Panel members have been actively involved in independent engagements with the executives from our portfolio companies, providing support and guidance as needed.

Chairman's introduction to governance



An essential foundation in allowing our business to deliver.

David Williams
Chairman

Dear Shareholder

I am pleased to introduce Shearwater Group plc's governance report for fiscal year 2023 on behalf of the Board.

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 shareholders 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

4 September 2023

Corporate governance report

Introduction

The Group has adopted the QCA Corporate Governance Code (the 'QCA Code') and has worked to follow the guidance and principles set out within the code. Further details can be found on the Group's website under the following link: Corporate Governance - Shearwater Group PLC <https://www.shearwatergroup.com/investors/corporate-governance/>

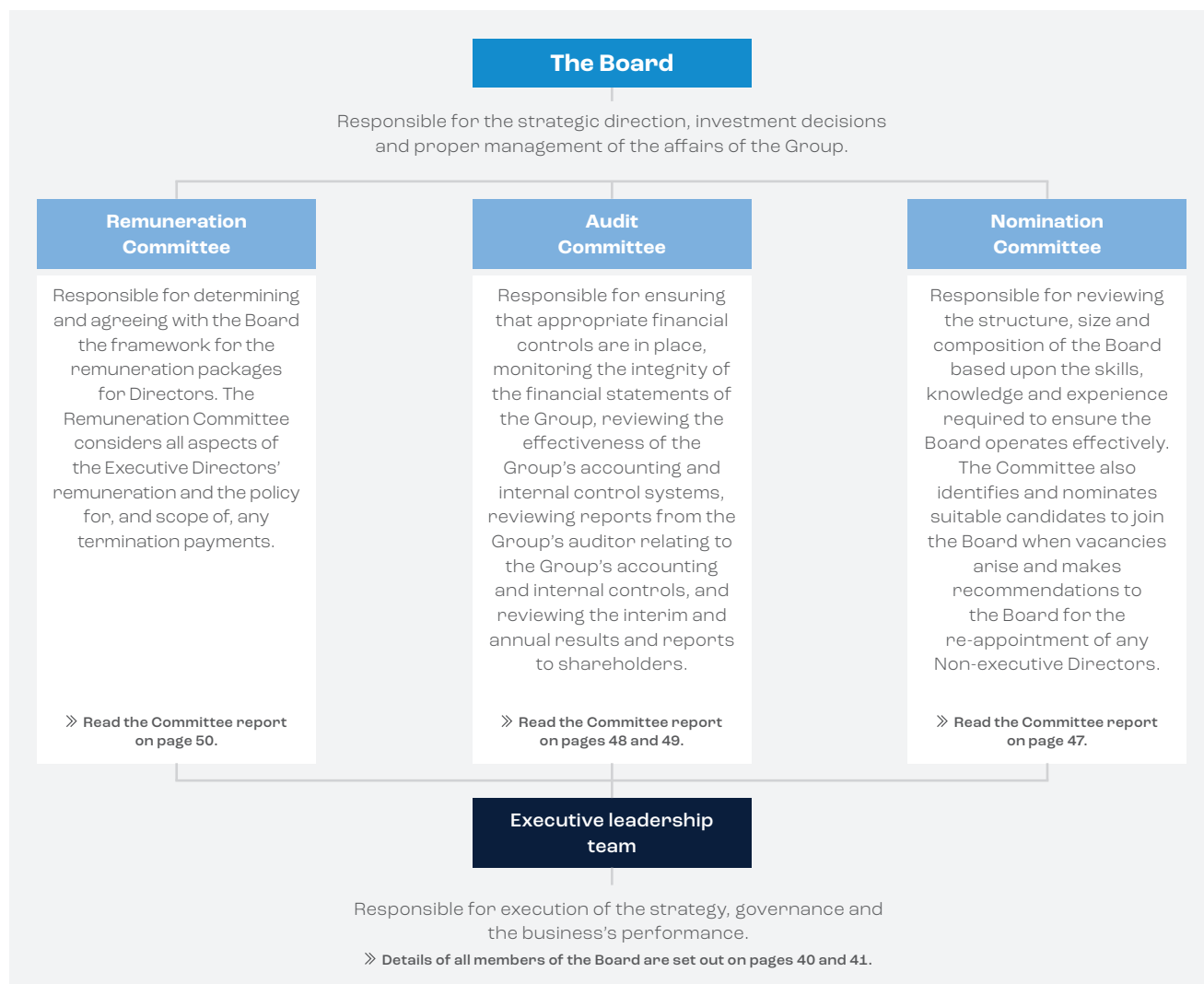
The Board believes that the QCA Code is the most appropriate for the size, scale and complexity of the Group and is focused on developing the Group for the long-term benefit of all its shareholders and other key stakeholders. Details of how the Group complies with each of the ten QCA Code principles are incorporated into the business model, strategy and stakeholders sections of this report. These are referenced in the table below.

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 12 to 14
02. Seek to understand and meet shareholder needs and expectations.	» See more on pages 22 and 23
03. Take into account wider stakeholder and social responsibilities and their implications for long-term success.	» See more on pages 22 and 23
04. Embed effective risk management, considering both opportunities and threats, throughout the organisation.	» See more on pages 35 to 39
Maintain a dynamic management framework	
05. Maintaining the Board as a well-functioning, balanced team led by the Chair.	» See more on pages 40 and 41
06. Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities.	» See more on pages 40 and 41
07. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.	» See more on page 46
08. Promote a culture that is based on ethical values and behaviours.	» See more on pages 22, 23 and 29
09. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board.	» See more on pages 44 to 46
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 22 and 23

Governance framework

A brief description of the Board and its committees and a statement regarding the Group's system of internal financial control is included in the Governance framework below.



Corporate governance report continued

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 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.

Independence

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

Board governance

The Board is responsible for defining the vision, purpose and strategy for the Group, working closely with the executive team to deliver a business model for our stakeholders.

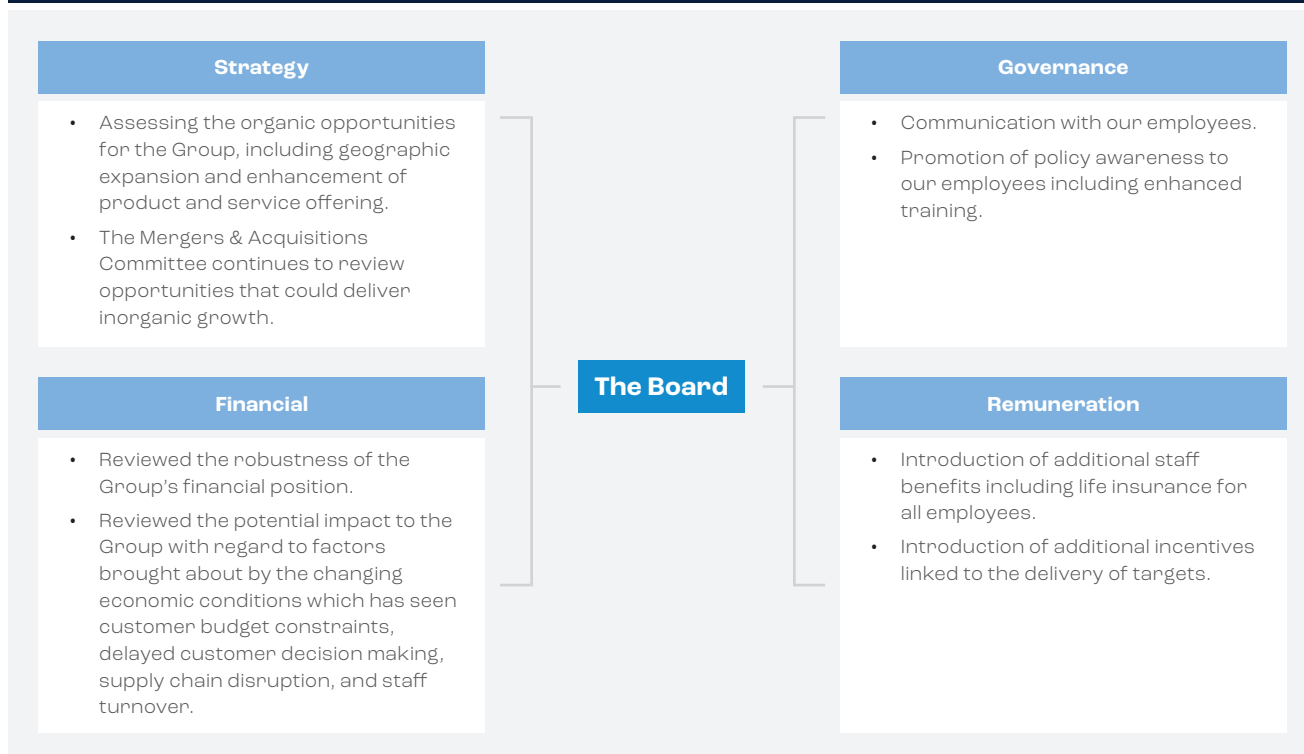
There is a distinct and defined definition between the Chairman and Chief Executive Officer. The Chairman is responsible for the effective working of the Board. The Chief Executive Officer is responsible for the operational management of the business and for the execution of the strategy agreed by the Board.

Board evaluation

The Group's Nomination Committee carries out regular internal evaluation of the performance of the Board.

The Committee recognises and is committed to addressing the need to increase diversity amongst the Board and its members.

Focus areas this year



Nomination Committee report



The Board comprises a diverse and knowledgeable skill set from its members.

David Williams
Chairman of the Nomination Committee

Committee attendance

David Williams (Chairman)	■ ■
Stephen Ball	■ ■

Dear Shareholder

On behalf of the Board, I am pleased to present the Nomination Committee report for the year ending 31 March 2023.

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 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.

Key activities and actions over the past year

Strategic review

During the year the Committee recommended to the Board that a strategic review of the Group be carried out to review the Group's strengths, weaknesses, opportunities and challenges and redefine a strategy that will deliver sustainable shareholder value. This project was commenced during Q4 FY23 and concluded early in FY24.

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

4 September 2023

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	■ ■

Dear Shareholder

On behalf of the Board, I am pleased to present the Audit Committee report for the year ending 31 March 2023.

The Group has continued to develop its processes and practices in order to best support its stakeholders alongside delivering a robust year-end balance sheet at 31 March 2023.

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.

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 2022 and the full year audited financial statements for the year ending 31 March 2023 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 current trading conditions, with increased inflation placing additional scrutiny to clients' spending decisions which has resulted in delays to client spending.

Significant accounting matters

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

1. Revenue recognition

The Committee considered the inherent risk of error in revenue recognition as defined by auditing standards. The Committee reviewed the current accounting policy detailed within note 1 of the financial statements and was satisfied that revenue recognition was consistent with the prior year and 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 global events 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 page 66 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 35 to 39.

3. Impairment of intangible assets and investment in Parent Company

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. In addition to this, the Committee has reviewed the carrying value of the investment in subsidiaries held by Shearwater Group plc.

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

4. Foreign exchange risk

The Committee has worked with management and reviewed a revised forward currency contract policy that is designed to mitigate foreign exchange volatility that has recently been seen across the global markets and has concluded that this reduces the Group's exposure to foreign exchange risk.

5. Cyber security risk

The Committee has reviewed the Group's Data Protection Committee's monthly update reports which provide details of what the Group has done to reduce the risk of data security breach. The Committee notes that whilst the risk of a data breach cannot be completely removed, the continuously evolving work of the Data Protection Committee to mitigate this risk is appropriate.

6. 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 35 to 39.

The internal control environment continues to develop as the business evolves, 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 reviews the Group's relationship with the external auditor, BDO LLP, to ensure that external independence and objectivity has been maintained. As part of this review, the Committee monitors 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.

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

4 September 2023

Remuneration Committee report

David Williams
Chairman of the Remuneration Committee

Committee attendance

David Williams (Chairman)	■ ■ ■
Robin Southwell	■ ■ ■

Dear Shareholder

On behalf of the Board, I am pleased to present the Remuneration Committee report for the year ending 31 March 2023.

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 Officer's 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 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

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, no changes to basic salaries were made in the current year.

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 2023, no bonuses were paid.

Share options

In the previous financial year the Group introduced a new Company Share Option Plan, with options being granted to a broad range of the Group's employees. Further details of the Group's share option plans 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.

Approved on behalf of the Remuneration Committee by:

David Williams
Chairman of the Remuneration Committee

4 September 2023

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	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Wages and salaries	493	538	220	220
Social security costs	63	67	31	29
Pension costs	15	16	—	—
Share-based payments	33	64	17	34
Total remuneration	604	685	268	283

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

Year ended 31 March 2023	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	—	1	144	15	159
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	—	1	493	15	508

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

The Directors' interests in the share options of the Group as at 31 March 2023 were as follows:

	Date of grant	Exercise price	Number of options at 31 March 2022	New options issued	Number of options at 31 March 2023
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 2023. The corporate governance statement set out on pages 44 to 46 forms 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 2 to 39.

Results and dividends

Results for the year and financial position are detailed on pages 62 to 100. The Directors do not recommend the payment of a dividend for the year (FY22: £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 2023	Number of shares held at 31 March 2022
P Higgins	2,439,349	2,216,850
D Williams	1,618,757	1,618,757
R Southwell	155,000	155,000
S Ball	119,444	119,444
G Willits	67,717	67,717
P McFadden	6,715	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 16 of the consolidated financial statements.

Details of share-based payments are contained in note 17 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 2023, 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	13.0%
Mr L Jones	12.3%
Mr P Higgins	10.2%
Mr D Stacey	8.8%
Mr D Williams	6.8%

Directors' indemnities

The Group currently has in place, and had for the year ended 31 March 2023, Directors' and Officers' liability insurance for the benefit of all Directors of the Group.

Going concern

The Directors have considered the Group's going concern position, having reviewed detailed forecasts for the period to at least 30 September 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 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 22 and 23.

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. The Group continues to work with its partner DODO to maintain its carbon offset programme, we have invested in several carbon offset projects in the current year to offset emissions created by the business and continue to promote awareness of the Group's ongoing impact on the environment. Please see responsible operations section on pages 24 to 29 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 18 of the consolidated financial statements. The financial risk management policies and objectives are also set out in detail in note 18.

Political donations

No political donations were made during the financial year (FY22: £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 29 September 2023. Notice of the Annual General Meeting will be circulated shortly to shareholders.

On behalf of the Board

David Williams

Chairman

4 September 2023

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 are required to prepare the Group financial statements in accordance with UK adopted international accounting standards and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 for that period.

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 2023 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 2023 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 the 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.

Independent auditor's report continued

to the members of Shearwater Group plc

Overview

Coverage

87% (2022: 80%) of Group loss before tax
92% (2022: 96%) of Group revenue
92% (2022: 93%) of Group total assets

Key audit matters

	2023	2022
Revenue recognition	✓	✓
Impairment of intangible assets and goodwill (Group) and investments in subsidiaries (Parent Company)	✓	✓

Materiality

Group financial statements as a whole.
£467k (2022: £627k) based on 1.75% (2022: 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 being 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.

Key audit matter	How the scope of our audit addressed the key audit matter
<p>Revenue recognition</p> <p>The Group's accounting policy is described in note 1.</p> <p>Details of disaggregation of revenue is included in note 3.</p> <p>The group generates revenue from services and products which are sold individually and in software and service bundles.</p> <p>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.</p> <p>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.</p> <p>The Group also earns revenue from the resale of third party licenses, software and services which requires judgement as to whether the Group is acting as a principal or agent.</p> <p>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.</p>	<p>Our procedures included the following:</p> <p>We assessed whether the Group's revenue recognition policy is in accordance with applicable accounting standards.</p> <p>We inspected a sample of key 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.</p> <p>For licenses, 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.</p> <p>We tested the completeness of revenue by agreeing a sample of cash receipts from customers including proof of delivery of license keys and customers acceptances as evidence of satisfaction of the performance obligation.</p> <p>We assessed the appropriateness of agent versus principal revenue recognition for third party licenses, software and services sold with reference to large contracts with customers and suppliers and the requirements of applicable accounting standards.</p> <p>We obtained samples of revenue contracts, including contracts with multiple performance obligations, and checked that applicable performance obligations were correctly identified and formed the appropriate basis of revenue recognised, checking to delivery of services to customers by reviewing third-party delivery confirmations.</p> <p>We tested completeness of deferred revenue and existence of accrued revenue by agreeing sales invoices, cash receipts and proof of satisfaction of the performance obligations, recalculating the amount of revenue to be accrued or deferred, as applicable.</p> <p>Key observations:</p> <p>Based on the procedures undertaken we did not identify any matters to suggest that the recognition of revenue was inappropriate.</p>

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
<p>Impairment of Intangible assets and goodwill (Group) and investments in subsidiaries (Parent Company)</p> <p>The group's accounting policy is described in note 1.</p> <p>Disclosure around inputs and assumptions for Intangible assets and goodwill are included in note 9.</p> <p>The parent company's accounting policy is described in note 1 (Company financial statements).</p> <p>Disclosure of investment in subsidiaries is included in note 2 (Company financial statements).</p> <p>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.</p> <p>These judgements involve assessment of the cash generating units ("CGU") and assumptions impacting the future results and cash flows of the CGUs which include revenue growth rates, gross profit margins, operating profit margins, terminal value and the discount factor applied.</p> <p>As a result of the significant estimates and judgements involved, we considered this area to be a key audit matter.</p>	<p>Our audit procedures included the following:</p> <p>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.</p> <p>We assessed the appropriateness of using different CGU's for the impairment analysis, based on our understanding of the business and the Group strategy.</p> <p>We checked the mechanical accuracy of the models used for each CGU and consulted with our valuation specialists on appropriateness of key assumptions applied such as discount rate and terminal value.</p> <p>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, historical forecasts with actual results to assess the accuracy and reliability of management's forecasting and the discount rate in line with market rates.</p> <p>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.</p> <p>We performed sensitivity analysis to test whether reasonably possible changes to inputs and assumptions could result in an impairment.</p> <p>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.</p> <p>We compared the value in use of each CGU with the Parent company investment in subsidiaries and the carrying value of the CGU in the group financial statements to evaluate impairments.</p> <p>Key observations:</p> <p>Based on the outcome of the above procedures, we consider that the judgements and estimates made in considering the impairment of intangible assets and goodwill in the Group and investment in subsidiaries in the Parent Company were appropriate.</p>

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	
	2023 £k	2022 £k	2023 £k	2022 £k
Materiality	467	627	350	470
Basis for determining materiality	1.75% of Total revenue		75% (2022: 75%) 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.		Set at 75% (2022: 75%) of Group materiality given the assessment of the component's aggregation risk.	
Performance materiality	350	470	263	353
Basis for determining performance materiality	75% of materiality 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 our prior knowledge of the business.			

Component materiality

For the purposes of our Group audit opinion, we set materiality for each significant component of the Group, based on a percentage of between 8% and 75% (2022: 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 £39k to £350k (2022: £45k to £564k). In the audit of each component, we further applied performance materiality levels of 75% (2022: 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 £23,350 (2022: £31,350). 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.

Independent auditor's report continued

to the members of Shearwater Group plc

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.

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:

Non-compliance with laws and regulations

Based on:

- Our understanding of the Group and the industry in which it operates;
- Discussion with management and Audit Committee; and
- Obtaining and understanding of the Group's policies and procedures regarding compliance with laws and regulations.

We considered the significant laws and regulations to be the applicable accounting framework, Companies Act 2006, UK tax legislation and rules of the London Stock Exchange for companies trading securities on AIM.

The Group is also subject to laws and regulations where the consequence of non-compliance could have a material effect on the amount or disclosures in the financial statements, for example through the imposition of fines or litigations. We identified such laws and regulations to be health and safety legislation and data privacy.

Our procedures in respect of the above included:

- Review of minutes of meeting of those charged with governance for any instances of non-compliance with laws and regulations;
- Review of correspondence with regulatory and tax authorities for any instances of non-compliance with laws and regulations;
- Review of financial statement disclosures and agreeing to supporting documentation;
- Involvement of tax specialists in the audit; and
- Review of legal expenditure accounts to understand the nature of expenditure incurred.

Fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- Enquiry with management and the Audit Committee, regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Group's policies and procedures relating to:
 - Detecting and responding to the risks of fraud; and
 - Internal controls established to mitigate risks related to fraud.
- Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud;
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- Our procedure on manual journal test includes assessing whether there are large and unusual postings outside the normal course of the business; and
- Assessing significant accounting estimates made by management specifically for impairments of intangible assets and goodwill and revenue recognition, refer to key audit matters.

Based on our risk assessment, we considered the areas most susceptible to fraud to be management override of controls and risk of fraud in revenue recognition.

Our procedures in respect of the above included:

- Evaluating and, where appropriate, challenging assumptions and judgements made by management in determining significant accounting estimates, in particular in relation to impairment of investments and intangible assets (refer to key audit matters section), capitalised development costs and the going concern assumption;
- Procedures to address the risk of fraud in revenue recognition (refer to the key audit matters section);

- Review of minutes of Board meetings throughout the year for any instances of non-compliance with laws and regulations or fraud in the year; and
- Review of tax compliance of the Group including the involvement of our tax specialists in the audit.

We tested user access abilities for posting journals, checked for unusual journals, high value journals, unbalanced journals and journals entries by key management and tested the appropriateness of these journal entries by agreeing to supporting documentation, with a focus unusual transactions based on our knowledge of the business, our fraud risk assessment, and enquiries with group management. 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

London,
UK

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 2023

	Note	2023 £'000	2022 £'000
Revenue	3	26,686	35,876
Cost of sales		(20,236)	(25,053)
Gross profit		6,450	10,823
Administrative expenses		(12,875)	(6,435)
Depreciation and amortisation		(3,131)	(3,412)
Other operating income		—	70
Total operating costs		(16,006)	(9,777)
Operating (loss)/profit		(9,556)	1,046
Adjusted EBITDA		(201)	4,398
Depreciation and amortisation		(3,131)	(3,412)
Impairment of intangible assets		(6,014)	—
Exceptional items	4	(125)	—
Share-based payments		(85)	(10)
Other operating income		—	70
Operating (loss)/profit		(9,556)	1,046
Finance cost	6	(77)	(110)
(Loss)/profit before taxation		(9,633)	936
Income tax credit/(charge)	7	1,458	(1,228)
Loss for the year and attributable to equity holders of the Company		(8,175)	(292)
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		7	(1)
Total comprehensive (loss)/income for the year		(8,168)	(279)
Earnings per ordinary share attributable to the owners of the parent			
Basic (£ per share)	8	(0.34)	(0.01)
Diluted (£ per share)	8	(0.33)	(0.01)
Adjusted basic (£ per share)	8	(0.00)	0.11
Adjusted diluted (£ per share)	8	(0.00)	0.10

Adjusted EBITDA is a non-GAAP Group-specific measure which is considered to be a key performance indicator of the Group's financial performance. Please see note 2 for a definition of Adjusted EBITDA.

The results above are derived from continuing operations.

The notes on pages 66 to 92 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

as at 31 March 2023

	Note	2023 £'000	2022 (restated) £'000
Assets			
Non-current assets			
Intangible assets	9	44,939	52,564
Property, plant and equipment	10	433	315
Deferred tax asset	14	742	—
Trade and other receivables	11	7,280	9,777
Total non-current assets		53,394	62,656
Current assets			
Trade and other receivables	11	12,346	10,378
Cash and cash equivalents		3,964	5,575
Total current assets		16,310	15,953
Total assets		69,704	78,609
Liabilities			
Current liabilities			
Trade and other payables	12	12,348	14,519
Total current liabilities		12,348	14,519
Non-current liabilities			
Creditors: amounts falling due after more than one year	13	9,233	7,884
Total non-current liabilities		9,233	7,884
Total liabilities		21,581	22,403
Net assets		48,123	56,206
Capital and reserves			
Share capital	16	22,278	22,278
Share premium		34,581	34,581
FVTOCI reserve		—	—
Other reserves		23,442	24,386
Translation reserve		30	23
Accumulated losses		(32,208)	(25,062)
Equity attributable to owners of the Company		48,123	56,206
Total equity and liabilities		69,704	78,609

The notes on pages 66 to 92 are an integral part of these consolidated financial statements.

The financial statements on pages 62 to 92 were approved and authorised for issue by the Board and signed on their behalf on 4 September 2023.

Philip Higgins

Chief Executive Officer

Registered number: 05059457

Consolidated statement of changes in equity

for the year ended 31 March 2023

Group	Share capital £'000	Share premium £'000	FVTOCI reserve £'000	Other reserve £'000	Translation reserve £'000	Accumulated losses £'000	Total equity £'000
At 1 April 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
Loss for the year	—	—	—	—	—	(8,175)	(8,175)
Other comprehensive income for the year	—	—	—	—	7	—	7
Expiry of share options	—	—	—	(1,029)	—	1,029	—
Total comprehensive loss for the year	—	—	—	(1,029)	7	(7,146)	(8,168)
Contributions by and distributions to owners							
Issue of share capital	—	—	—	—	—	—	—
Share-based payments	—	—	—	85	—	—	85
At 31 March 2023	22,278	34,581	—	23,442	30	(32,208)	48,123

The notes on pages 66 to 92 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

for the year ended 31 March 2023

	Note	2023 £'000	2022 £'000
Cash flows from operating activities			
Loss for the year		(8,175)	(292)
Adjustments for:			
Amortisation of intangible assets	4	2,891	3,149
Depreciation of right of use assets	4	184	207
Depreciation of property, plant and equipment	4	56	56
Share-based payment charge	4	85	10
Other income	4	—	(70)
Impairment of intangible assets	4	6,014	—
Exceptional items	4	125	—
Finance cost		77	110
Income tax		(1,458)	1,228
Cash flow from operating activities before changes in working capital		(201)	4,398
Decrease/(increase) in trade and other receivables		813	(10,040)
(Decrease)/increase in trade and other payables		(248)	5,384
Cash generated by/(used in) operations		364	(258)
Net foreign exchange movements		10	5
Finance cost paid		(83)	(50)
Tax paid		(285)	(62)
Net cash generated/(used) from operating activities before exceptional items		6	(365)
Net cash flows on exceptional items		(80)	—
Net cash used in operating activities		(74)	(365)
Investing activities			
Purchase of property, plant and machinery	10	(57)	(49)
Purchase of intangibles	9	(1,280)	(1,097)
Net cash used in investing activities		(1,337)	(1,146)
Financing activities			
Interest paid		—	(91)
Repayment of loan liabilities – principal amount		—	(652)
Repayment of lease liabilities	21	(200)	(220)
Net cash used in financing activities		(200)	(963)
Net decrease in cash and cash equivalents		(1,611)	(2,474)
Foreign exchange movement on cash and cash equivalents		—	—
Cash and cash equivalents at the beginning of the period		5,575	8,049
Cash and cash equivalents at the end of the period		3,964	5,575

The notes on pages 66 to 92 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

for the year ended 31 March 2023

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

Having made 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.

The Directors continue to regularly review the Group's going concern position, considering the impact of potential future trading downturns should there be another global event or further economic challenges. Over the past year the Group has experienced challenging trading conditions which has resulted in delays to projects, which impacted the business's performance in the current year.

At 31 March 2023, the Group has been able to report a robust financial position and is well capitalised with a net cash position of £4.0 million (2022: £5.6 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 30 September 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 is pleased to report that current trading is tracking ahead of the prior year, with trading for the first quarter ended 30 June 2023 in line with management's expectations. Furthermore, a reorganisation of some of the Group's companies has resulted in c.£1.0 million of annualised cost savings made to date.

The Directors have reviewed and challenged a reverse stress test scenario on the Group up to September 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 scaling back of services revenues to include just contracted and firm revenues, upcoming support renewals and existing managed services revenues plus a materially reduced assumption from September 2023 onwards for professional advisory budgeted revenues which have been adjusted by between 30%-50%. Software revenues have been reduced with all new business lines removed with the exception of the Access Management product new business revenues which have been reduced by 60%.

Costs have been scaled back prudently 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 30 September 2024 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 Group's Services division. The Group works with large enterprise clients, providing services and solutions to support the clients' needs. In many cases a third-party 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 Group's performance obligations. In addition to this, management will consider if it is acting as agent or principal. Further details of how the Group determines 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 continues 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 2 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 2023

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 part of the subscription is recognised at the point that the licence key is provided to the customer, with the remaining part 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 products or services 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, and 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.

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.

Office equipment	25%-33% 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.

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

1. Statement of accounting policies continued

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.

The Group has introduced a policy to use derivatives where there is a material surplus or deficit of non-sterling receipts and payments. Forward contracts are measured at each balance sheet based on the prevailing closing exchange rates with exchange gains/(losses) recognised in the statement of comprehensive income.

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 0.24% (2022: 0.9%). 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 0.24% is discounted by 20%, meaning a 0.19% 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 £29,864 (2022: £41,069). 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 £0.04 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.

Forward contracts

Foreign exchange risk arises when individual group operations enter into transactions denominated in a currency other than their functional currency. During the year the Group introduced the use of forward contracts within its foreign exchange policy. Where the risk to the Group is considered to be significant, the Group will enter into a forward foreign exchange contract. Further details can be found in note 18.

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.

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 which it uses to discount all identified leases across the Group. The Group has one type of right of use assets, all of which are located in the United Kingdom.

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 17.

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.

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

1. Statement of accounting policies continued

Share-based payments continued

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 2022, 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
IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 (Amendment – Disclosure of Accounting Policies)	1 January 2023	1 April 2023
IAS 8 Accounting policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Accounting Estimates)	1 January 2023	1 April 2023
IAS 12 Incomes Taxes (Amendment – Deferred Tax related to Assets and Liabilities arising from a Single Transaction)	1 January 2023	1 April 2023

2. Measure of profit

To provide shareholders with a better understanding of the trading performance of the Group, additional alternative performance measures (APMs) are included; Adjusted EBITDA and Adjusted (loss)/profit before tax have been calculated as (loss)/profit before tax after adding back the following items, which can distort the underlying performance of the Group:

Adjusted (loss)/profit before tax

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

Adjusted EBITDA

In addition to the adjusting items highlighted above in the adjusted (loss)/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 (loss)/profit before tax reconciles to (loss)/profit before tax as follows:

	2023 £'000	2022 £'000
(Loss)/profit before tax	(9,633)	936
Amortisation of acquired intangibles	2,099	2,099
Impairment of intangible assets	6,014	—
Exceptional items	125	—
Share-based payments	85	10
Other income	—	(70)
Adjusted (loss)/profit before tax	(1,310)	2,975
Finance costs	77	110
Depreciation	240	263
Amortisation of intangible assets – computer software (including in-house software development)	792	1,050
Adjusted EBITDA	(201)	4,398

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

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 2023 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 2023 £'000	Profit Year ended 31 March 2023 £'000	Revenue Year ended 31 March 2022 £'000	Profit Year ended 31 March 2022 £'000
Services ¹	23,830	149	32,540	4,663
Software ¹	2,856	977	3,336	1,535
Group trading EBITDA¹	26,686	1,126	35,876	6,198
Group costs ¹		(1,327)		(1,800)
Adjusted EBITDA¹		(201)		4,398
Amortisation of intangibles		(2,891)		(3,149)
Impairment of intangible assets		(6,014)		—
Depreciation		(240)		(263)
Exceptional items		(125)		—
Share-based payments		(85)		(10)
Other income		—		70
Finance cost		(77)		(110)
(Loss)/profit before tax		(9,633)		936

1. Figures disclosed in the profit column for Services and Software profitability is adjusted EBITDA.

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).

	2023 £'000	2022 £'000
United Kingdom	18,585	29,531
Europe (excluding the UK) ¹	6,043	4,508
North America	1,620	1,470
Rest of the world	438	367
	26,686	35,876

1. Includes sales of £3,935,680 (2022: £2,444,899) and £682,853 (2022: £775,835) to Netherlands and Germany respectively.

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

One customer within the Group makes up more than 10% of the Group's revenue. This customer contributed £8.0 million to the Group's Services division. In the prior year, two customers made up more than 10% of the Group's revenue, contributing £16.2 million and £5.2 million respectively to the Group's Services division.

4. Expenses and auditor's remuneration

Operating (loss)/profit is stated after charging:

	2023 £'000	2022 £'000
Depreciation of fixed assets	240	263
Amortisation of intangibles	2,891	3,149
External auditor's remuneration:		
– Audit fee for annual audit of the Group and Company financial statements	103	45
– Audit fee for annual audit of the subsidiary financial statements	179	165
Share-based payments	85	10
Impairment of intangible assets	6,014	–
Exceptional items	125	–
Unrealised loss on forward contract	407	–
Other operating income	–	(70)

Exceptional items include costs incurred for strategic review of the business and subsequent reorganisation which commenced at the end of the financial year.

5. Staff costs

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

	2023 £'000	2022 £'000
Wages and salaries	6,864	6,428
Social security costs	835	743
Pension costs	207	202
Share-based payments	85	10
	7,991	7,383

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

	2023	2022
Administration	20	19
Production	53	43
Sales and marketing	26	26
	99	88

Details of Directors' remuneration can be found within the annual report on remuneration on page 51.

6. Interest costs

	2023 £'000	2022 £'000
Interest payable on revolving credit facility	56	66
Interest payable on lease liabilities	15	12
Other interest payments	6	13
Interest payable on loan balances	–	19
	77	110

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

7. Taxation

	2023 £'000	2022 £'000
Current tax:		
UK corporation tax at current rates on UK (loss)/profit for the year	—	442
Over provision in respect of prior year	(442)	—
	(442)	442
Foreign tax	2	13
Total current tax charge	(440)	455
Deferred tax movement in the period	(1,018)	773
Income tax (credit)/charge	(1,458)	1,228
Reconciliation of taxation:		
(Loss)/profit before tax	(9,633)	936
Profit multiplied by the average rate of corporation tax in the year of 19% (2022: 19%)	(1,830)	178
Tax effects of:		
Expenses not deductible for tax purposes	1,532	411
Adjustments for previous periods	(442)	—
Foreign tax rate differences	(1)	(1)
Increase to deferred tax asset owing to changing tax rate from 1 April 2023	(136)	—
Enhanced R&D relief	(130)	(94)
Other items	(277)	786
Brought forward losses	(174)	(52)
Income tax (credit)/charge	(1,458)	1,228

Other items include movements in deferred tax which includes an adjustment made in the prior year to revalue deferred tax liabilities from 19% to 25%.

In the March 2021 Budget it was announced that legislation will be introduced in the 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 post balance sheet date, the deferred tax balances at 31 March 2023 and 31 March 2022 are 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 anti-dilutive for the twelve months ended 31 March 2023 and for the twelve months ended 31 March 2022. Adjusted earnings per share is potentially dilutive in the year to 31 March 2022. Please see notes 16 and 17 of the consolidated financial statements for more details.

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

	2023 £'000	2022 £'000
Net profit from total operations		
Loss for the purposes of basic and diluted earnings per share being net profit attributable to shareholders	(8,175)	(292)
Add/(remove):		
Amortisation of acquired intangibles	1,878	1,878
Impairment of intangible assets	6,014	—
Exceptional items	101	—
Share-based payments	85	10
Adjustment to deferred tax liability relating to acquired intangibles ¹	—	1,014
Other income	—	(70)
Adjusted (loss)/earnings for the purposes of adjusted earnings per share	(97)	2,540
	Number	Number
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and adjusted earnings per share	23,818,674	23,809,807
Weighted average number of ordinary shares for the purpose of diluted and adjusted diluted earnings per share	24,549,536	24,723,962
	£	£
Basic earnings per share	(0.34)	(0.01)
Diluted earnings per share	(0.33)	(0.01)
Adjusted basic earnings per share	(0.00)	0.11
Adjusted diluted earnings per share	(0.00)	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.

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

9. Intangible assets

	Goodwill £'000	Customer relationships £'000	Software £'000	Tradenames £'000	Gold exploration £'000	Total £'000
Cost						
At 1 April 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
Additions	—	—	1,280	—	—	1,280
At 31 March 2023	36,660	10,838	9,920	6,826	1,005	65,249
Accumulated amortisation						
At 1 April 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
Amortisation for the year	—	934	1,274	683	—	2,891
Impairment	6,014	—	—	—	—	6,014
At 31 March 2023	6,014	4,557	5,691	3,043	1,005	20,310
Net book amount						
At 31 March 2023	30,646	6,281	4,229	3,783	—	44,939
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

Software intangible assets comprise acquired software assets plus software assets developed both in-house and externally. The amortisation charge for the year includes £2.1 million amortisation on acquired intangible assets and £0.8 million amortisation of internally developed software assets.

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 12.6% 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	(10)%	1,869%	47%	22%	34%
Year 2	16%	(24)%	7%	(6)%	6%
Year 3	12%	41%	13%	5%	6%
Year 4	23%	10%	6%	5%	6%
Year 5	23%	10%	6%	5%	6%
4 year CAGR¹	18%	7%	8%	2%	6%

1. 4 year CAGR represents the average growth rate per year between FY24 and FY28.

An impairment charge of £6.0 million has been recorded in the current year, writing down the goodwill balance held for the Group's SecurEnvoy, Xcina Consulting and Xcina IS businesses.

Sensitivity analysis has been performed on each of the Group's cash-generating units (CGUs) 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 1% from 2% to 1% would flag insufficient headroom in one of the Group's five CGUs (SecurEnvoy) resulting in a further impairment of £0.8 million.
- Increasing the weighted average cost of capital by 1% from 12.6% to 13.6% would flag insufficient headroom in one of the Group's five CGUs (SecurEnvoy) resulting in a further impairment of £1.1 million.
- A 10% reduction in the assumed annual revenue growth rates for each CGU from FY25 (maintaining forecast gross profit margin % and adjusting administrative expenses in line with the % revenue reduction) would, subject to no other changes, flag insufficient headroom in two of the Group's five CGUs (SecurEnvoy and Pentest) resulting in a further potential impairment of £6.8 million.
- A 15% reduction in the assumed annual revenue growth rates for each CGU from FY25 (maintaining forecast gross profit margin % and adjusting administrative expenses in line with the % revenue reduction) would, subject to no other changes, flag insufficient headroom in four of the Group's five CGUs (SecurEnvoy, GeoLang, Brookcourt and Pentest) resulting in a further potential impairment of £10.9 million.

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 2021	541	365	906
Additions	125	49	174
Disposals	(90)	—	(90)
At 31 March 2022	576	414	990
Additions	301	57	358
Disposals	—	(43)	(43)
At 31 March 2023	877	428	1,305
Accumulated depreciation			
At 1 April 2021	258	243	501
Charge for the period	207	57	264
Disposals	(90)	—	(90)
At 31 March 2022	375	300	675
Charge for the period	185	55	240
Disposals	—	(43)	(43)
At 31 March 2023	560	312	872
Net book amount			
At 31 March 2023	317	116	433
At 31 March 2022	201	114	315
At 31 March 2021	283	122	405

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 2023

11. Trade and other receivables

	2023 £'000	2022 (restated) £'000
Non-current		
Trade receivables	5,226	—
Accrued income	2,054	9,777
	7,280	9,777
Current		
Trade receivables	7,475	4,538
Accrued income	4,081	5,070
Prepayments and other receivables	499	770
Corporation tax asset	291	—
	12,346	10,378
The movement for the provision in expected credit losses is stated below:		
	2023 £'000	2022 £'000
At 1 April	41	27
Movement in expected credit loss provision	(11)	14
At 31 March	30	41

12. Trade and other payables

	2023 £'000	2022 £'000
Trade payables	3,265	4,573
Accruals and other payables	8,031	8,289
Other taxation and social security	518	599
Forward contract	275	—
Deferred income	147	456
Corporation tax	7	444
Lease liabilities	105	158
	12,348	14,519

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

	2023 £'000	2022 £'000
Accruals and other payables	5,284	3,958
Deferred tax	3,602	3,878
Lease liabilities	216	48
Forward contract	131	—
	9,233	7,884

14. Deferred tax

	2023 £'000	2022 £'000
Non-current liabilities		
Liability at 1 April	3,878	3,105
Deferred tax charge/(credit) in the statement of comprehensive income	(276)	773
Total deferred tax	3,602	3,878

Deferred tax balance at 31 March 2023 includes a £3.0 million (2022: £3.4 million) deferred tax liability for acquired intangible assets including software and trademarks.

	2023 £'000	2022 £'000
Non-current assets		
At 1 April	—	—
Credit to statement of comprehensive income	742	—
Total deferred tax asset	742	—

The Group has tax losses of £3.0 million (2022: £0.7 million) across its Parent Company Shearwater Group plc and four subsidiaries that are available for offset against future taxable profits of the entity. A deferred tax asset has been recognised in respect of tax losses brought forward and in the current year which will be used to offset future taxable profits.

15. Lease liabilities

Lease liabilities at 31 March 2023, which include the extension of some existing office leases, are detailed below:

	Property £'000
Lease liabilities	
At 1 April 2021	289
Additions	125
Interest expense	12
Payments to lease creditors	(220)
At 31 March 2022	206
Additions	301
Interest expense	15
Payments to lease creditors	(200)
At 31 March 2023	321

The maturity analysis of lease liabilities is detailed below:

	2023 £'000	2022 £'000
Lease liabilities – (contractual undiscounted cash flows)		
Less than one year	118	177
One to five years	233	51
Total undiscounted lease liabilities at 31 March	351	228

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 2023

15. Lease liabilities continued

	2023 £'000	2022 £'000
Lease liabilities included in the statement of financial position at 31 March		
Current	105	158
Non-current	216	48
Amounts recognised in the statement of comprehensive income		
Interest on lease liabilities	15	12
Expenses related to short-term leases	—	—
Expenses related to low-value assets	—	—
Depreciation of right of use assets (note 10)	185	207
Amounts recognised in the statement of cash flows		
Payment of principal	200	220
Payment of interest	15	12
Total cash outflows	215	232

16. Share capital

The table below details movements within the year:

	Ordinary shares	
In thousands of shares	2023	2022
In issue at 1 April	23,818	23,810
Options exercised during the year	8	8
Number of shares	23,826	23,818
	2023 £'000	2022 £'000
Allotted, called up and fully paid		
Ordinary shares of £0.10 each (2022: £0.10 each)	2,382	2,382
Deferred shares of £0.90 each (2022: £0.90 each)	19,896	19,896
Total	22,278	22,278

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 2023:

On 28 February 2023, 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.

Other reserves

These comprise of amounts expensed in relation to the share options, share incentive scheme (see note 17) and merger relief from shares issued as consideration to acquisitions and equity placings (net of costs).

Movements in the year ended 31 March 2023 include the following transactions which have been recognised in the other reserve:

A reallocation to retained earnings from capital and share-based payments reserves of £1,029,953 relating to the share incentive scheme and other of lapsed share options was made in the year.

Accumulated loss reserve

Accumulated loss reserves for the Group are made up of cumulative profits and losses net of dividends and other adjustments.

17. Share-based payments

	2023 £'000	2022 £'000
Subsidiary incentive scheme	36	72
Save As You Earn (SAYE)	12	13
Share options – (CSOP)	38	13
Share options – (ESOP)	(1)	(88)
	85	10

Share options – (CSOP)

The following options over ordinary shares remained outstanding at 31 March 2023:

	Options at 1 April 2022	Options issued during the year	Options lapsed during the year	Options exercised during the year	Options at 31 March 2023	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	—	2,778	—	87,220	£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	514,064	—	82,000	—	432,064	£0.95	10/02/2022	10/02/2025	10/02/2027
Total	640,174	—	84,778	—	555,396				

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 ¹	—	514,064	—	—	514,064	£0.95	10/02/2022	10/02/2025	10/02/2027
Total	—	640,174	—	—	640,174				

1. An adjustment to the number of share options issued in the prior year has been made. The number originally reported was 542,000 and included 27,936 share options issued and presented under the Company's ESOP.

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

17. Share-based payments continued

Share options – (CSOP) continued

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

	2023		2022	
	Number	WAEP £	Number	WAEP £
Outstanding at the beginning of the year	640,174	0.95	—	—
Issued	—	—	640,174	0.95
Lapsed during the year	84,778	0.95	—	—
Exercised during the year ended 31 March	—	—	—	—
Outstanding at 31 March	555,396	0.95	640,174	0.95
Exercisable at 31 March	87,220	0.95	—	—

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:

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 55% (2022: 29%).

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

Share options – (ESOP)

The following options over ordinary shares remained outstanding at 31 March 2023:

	Options at 1 April 2022	Options issued during the year	Options lapsed during the year	Options exercised during the year	Options at 31 March 2023	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	39,500	—	39,500	—	—	£4.0	09/05/2017	09/05/2018	08/05/2022
Employees	9,390	—	4,140	—	5,250	£4.0	13/11/2017	13/11/2018	30/09/2023
Employees	1,023	—	569	—	454	£4.0	01/03/2018	01/03/2019	28/02/2023
Employees	5,625	—	312	—	5,313	£4.0	04/04/2018	04/04/2019	03/04/2023
Employees	911	—	387	—	524	£1.6	01/03/2019	01/03/2020	01/07/2024
Employees	3,000	—	—	—	3,000	£4.0	01/06/2019	01/06/2020	30/09/2023
Employees	10,000	—	2,500	—	7,500	£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	8,320	—	—	8,320	—	£0.1	27/02/2020	27/02/2021	31/03/2023
Total	113,580	—	47,408	8,320	57,852				

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	30/09/2023
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 illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options during the year.

	2023		2022	
	Number	WAEP £	Number	WAEP £
Outstanding at the beginning of the year	113,580	2.8	268,999	3.3
Issued	—	—	27,936	0.95
Lapsed during the year	47,408	3.9	175,036	3.2
Exercised during the year ended 31 March	8,320	0.1	8,320	0.1
Outstanding at 31 March	57,852	2.2	113,580	2.8
Exercisable at 31 March	21,229	3.7	50,276	3.9

The weighted average share price of options exercised during the year was £0.89 (2022: £1.18).

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:

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

The calculation includes an estimated leaver provision of 31% (2022: 29%).

The weighted average remaining contractual life of options outstanding at the end of the year was two years and two months (2022: one year and ten months).

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

17. Share-based payments continued

Share options – (SAYE)

The following options over ordinary shares remained outstanding at 31 March 2023:

	Options at 1 April 2022	Options issued during the year	Options lapsed during the year	Options exercised during the year	Options at 31 March 2023	Exercise price	Date of grant	First date of exercise	Final date of exercise
Employees:									
Employees	132,465	—	14,851	—	117,614	£1.515	25/01/2021	01/03/2024	30/09/2024
Total	132,465	—	14,851	—	117,614				

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

	2023		2022	
	Number	WAEP £	Number	WAEP £
Outstanding at the beginning of the year	132,465	1.515	150,285	1.515
Issued	—	—	—	—
Lapsed during the year	14,851	1.515	17,820	1.515
Exercised during the year ended 31 March	—	—	—	—
Outstanding at 31 March	117,614	1.515	132,465	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:

	2023
Share price at grant date	1.420
Exercise price	1.515
Expected option life (year)	3 years 7 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 33% (2022: 29%).

Options held by Directors are disclosed on page 51.

The market price of shares as at 31 March 2023 was £0.50 (31 March 2022: £1.05). The range during the financial year was £0.50 to £1.39. At the date of signing the financial statements the share price was £0.485.

The weighted average remaining contractual life of options outstanding at the end of the year was one year and six months (2022: two 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 Parent Company and the Parent Company 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. The subsidiary incentive scheme vesting period expired on 29 September 2022. Whilst the vesting condition of being employed were satisfied, the growth conditions were not met and subsequently no exercises were made. The Company will look to exercise a call option to reclaim those B shares from the current holders.

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 2022	Number of incentive shares 31 March 2023	Number of Shearwater Group plc shares issued	Share-based payment change
D Williams	6.5%	£0.032	£0.000001	65,000	65,000	—	£14,533
P Higgins	7.5%	£0.032	£0.000001	75,000	75,000	—	£16,768

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 expired on 29 September 2022. In the current year £35,773 (2022: £71,742) 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.

18. 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 2023, 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)	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Financial assets				
Cash and cash equivalents	3,964	5,575	—	—
Trade and other receivables	18,836	19,426	—	—
Total financial assets	22,800	25,001	—	—
	2023 £'000	2022 £'000		
Trade and other receivables				
Trade receivables	12,701	4,579		
Accrued income	6,135	14,847		
	18,836	19,426		

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

18. Financial instruments continued

	Amortised cost (payables)		Fair value through profit or loss (FVPL)	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Financial liabilities				
Trade and other payables	16,580	16,821	—	—
Lease liabilities	320	205	—	—
Forward contracts	—	—	407	—
Total financial assets	16,900	17,026	407	—
	2023 £'000	2022 £'000		
Trade and other payables				
Trade payables	3,265	4,573		
Accruals	13,302	12,120		
Other creditors	13	128		
	16,580	16,821		

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 64.

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. The current facility is in place until 23 March 2024.

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 has introduced a policy to use derivatives where there is a material surplus or deficit of non-sterling receipts and payments.

The following forward contracts were entered into in order to mitigate the risk of further weakening of sterling against US dollar.

Currency	Amount (000)	Maturity date	Foreign exchange rate
US dollar	4,100	10 November 2023	1.138
US dollar	2,000	10 May 2024	1.140

The above derivatives are remeasured at fair value at each reporting date. This gives rise to a gain or loss, the entire amount of which is recognised in the statement of comprehensive income within administrative expenses.

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

	USD		EUR	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Net foreign currency financial assets/(liabilities)				
Trade receivables	228	202	148	735
Other receivables	1,390	—	4	—
Trade payables	(2,537)	(3,389)	(43)	(18)
Other payables	(9,605)	(9,364)	(192)	—
Cash and cash equivalents	1,929	1,431	551	651
Total net exposure before excluding forward contracts	(8,595)	(11,120)	468	1,368
Forward contracts	6,100	—	—	—
Total net exposure	(2,495)	(11,120)	468	1,368

The effect of a 10% strengthening of the US dollar against sterling at the reporting date on the US dollar-denominated trade and other receivables, trade and other payables, forward contracts 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 £0.2 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 £0.2 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 £0.05 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 £0.04 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 2023 this facility had not been utilised. The current revolving credit facility (RCF) is in place until 23 March 2024. 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 2023

18. Financial instruments continued

Liquidity risk continued

The maturity profile of the financial assets and 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.

Financial assets	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 2023					
Trade and other receivables	6,515	5,041	7,280	—	—
Total	6,515	5,041	7,280	—	—
Financial assets	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 receivables	7,064	2,584	5,143	4,634	—
Total	7,064	2,584	5,143	4,634	—
Financial liabilities	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 2023					
Trade and other payables	4,953	6,342	5,284	—	—
Forward contracts	—	275	131	—	—
Lease liabilities	30	75	59	157	—
Total	4,983	6,692	5,474	157	—
Financial liabilities	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	—	—
Lease liabilities	51	107	48	—	—
Total	8,660	4,360	4,007	—	—

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.

19. Related party transactions

The Directors of the Group and their immediate relatives have an interest of 19% (2022: 18%) of the voting shares of the Group. The shareholdings of Directors and changes during the year are shown in the Directors' report on page 52.

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.

20. Bank loans

At 31 March 2023 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 three 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.

21. Notes to support cash flow

Cash and cash equivalents comprise:

	2023 £'000	2022 £'000
Cash available on demand	3,964	5,575
Net cash (decrease)/increase in cash and cash equivalents	(1,611)	(2,474)
Cash and cash equivalents at the beginning of the year	5,575	8,049
Cash and cash equivalents at the end of the year	3,964	5,575

Cash and cash equivalents are held in the following currencies:

	2023 £'000	2022 £'000
Sterling	1,914	3,494
US dollar	1,566	1,431
Euro	484	650
	3,964	5,575

Reconciliation of liabilities from financing activities:

	2022 £'000	Cash outflows £'000	Non-cash changes Loan interest £'000	Right of use asset additions £'000	2023 £'000
Other loans	—	—	—	—	—
Revolving credit facility interest payable	20	(76)	56	—	—
Other interest	—	(7)	6	—	—
Payment of principal on lease liabilities	206	(200)	15	301	321
Total	226	(283)	77	301	321

	2021 £'000	Cash outflows £'000	Non-cash changes Interest savings on early repayment of loans £'000	Loan interest £'000	Right of use asset additions £'000	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

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

22. Prior year restatement

In the prior year, the trade and other receivables included amounts that were not due for payment until after twelve months so should have been classified as non-current assets.

The prior year consolidated statement of financial position has been restated to correctly reclassify previously reported trade and other receivables of £9,777,398 from current assets to non-current as at 31 March 2022.

The restatement has no impact on the opening consolidated statement of financial position at 1 April 2021 or the consolidated statement of comprehensive income for the year ended 31 March 2022.

23. Events after the reporting period

After the year end, Brookcount Solutions Limited, one of the Group's subsidiaries, entered into two forward contracts totalling \$1.3 million at an average rate of \$1.2412/£ to offset foreign exchange supplier exposure on a recently completed contract. The two contracts dated 5 April 2023 and 6 April 2023 have a maturity date for both contracts of 14 July 2023. Both contracts were settled on 3 July 2023.

Company statement of financial position

as at 31 March 2023

	Note	2023 £'000	2022 £'000
Assets			
Non-current assets			
Investments in subsidiaries	2	54,461	64,010
Intangible assets	3	7	—
Property, plant and equipment	4	1	2
Trade and other receivables	5	4,366	5,385
Total non-current assets		58,835	69,397
Current assets			
Trade and other receivables	5	44	54
Cash and cash equivalents		2	11
Total current assets		46	65
Total assets		58,881	69,462
Liabilities			
Current liabilities			
Trade and other payables	6	18,881	19,087
Total current liabilities		18,881	19,087
Non-current liabilities			
Creditors: amounts falling due after more than one year	7	2	—
Total non-current liabilities		2	—
Total liabilities		18,883	19,087
Net assets		39,998	50,375
Capital and reserves			
Share capital	8	22,278	22,278
Share premium		34,581	34,581
Other reserves		23,444	24,388
Accumulated losses		(40,305)	(30,872)
Equity attributable to owners of the Company		39,998	50,375
Total equity and liabilities		58,881	69,462

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 £10.5 million (2022: £4.8 million).

The notes on pages 95 to 100 are an integral part of these Company financial statements.

The financial statements on pages 93 to 100 were approved and authorised for issue by the Board and signed on their behalf by:

Philip Higgins

Chief Executive Officer

4 September 2023

Registered number: 05059457

Company statement of changes in equity

for the year ended 31 March 2023

Company	Share capital £'000	Share premium £'000	FVTOCI £'000	Other reserve £'000	Accumulated losses £'000	Total equity £'000
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
Share-based payments	—	—	—	10	—	10
At 1 April 2022	22,278	34,581	—	24,388	(30,872)	50,375
Loss for the year	—	—	—	—	(10,462)	(10,462)
Other comprehensive loss for the year	—	—	—	—	—	—
Expiry of share options	—	—	—	(1,029)	1,029	—
Total comprehensive loss for the year	—	—	—	(1,029)	(9,433)	(10,462)
Contributions by and distributions to owners						
Issue of share capital	—	—	—	—	—	—
Share-based payments	—	—	—	85	—	85
At 31 March 2023	22,278	34,581	—	23,444	(40,305)	39,998

Notes to the Company financial statements

for the year ended 31 March 2023

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 in addition to the disclosures below for more details.

Going concern

Having made 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 66 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 £54.5 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.

Recoverability of intercompany amounts

Management make judgements, estimates and assumptions in determining the recoverability of intercompany amounts. The Company has intercompany receivable balances of £4.4 million which it calculates an expected credit loss provision on. This provision is calculated based upon a forecast schedule of estimated repayment plan for each intercompany balance.

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.

Intangible assets

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

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
---	-------------------------------

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.

Notes to the Company financial statements continued

for the year ended 31 March 2023

1. Statement of accounting policies – Company continued

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
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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 17 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.

2. Investments in subsidiaries

Company	Total £'000
Investments in subsidiaries at 1 April 2021	64,073
Additions	(63)
Investments in subsidiaries at 31 March 2022	64,010
Additions	45
Impairment	(9,594)
Investments in subsidiaries at 31 March 2023	54,461

Additions in 2022 and 2023 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 2023. 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
Pentest (Ireland) Limited	Ireland	32 Merrion Street Upper, Dublin2, Dublin, D02KW80	100

The Group has conducted impairment reviews for each of its cash-generating units (CGUs) estimating future discounted cash flows to be generated from each CGU. Impairments of £9.0 million and £0.6 million have been made in the period to reflect a write-down of the SecurEnvoy and Xcina Consulting assets.

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

Notes to the Company financial statements continued

for the year ended 31 March 2023

3. Intangible assets

	Total £'000
Cost	
At 1 April 2022	—
Additions	8
At 31 March 2023	8
Accumulated amortisation	
At 1 April 2022	—
Change for the period	1
At 31 March 2023	1
Net book amount	
At 31 March 2023	7
At 31 March 2022	—

4. Property, plant and equipment

	Total £'000
Cost	
At 1 April 2021	28
Additions	2
At 31 March 2022	30
Additions	—
At 31 March 2023	30
Accumulated depreciation	
At 1 April 2021	25
Change for the period	3
At 31 March 2022	28
Change for the period	1
At 31 March 2023	29
Net book amount	
At 31 March 2023	1
At 31 March 2022	2
At 31 March 2021	3

5. Trade and other receivables

	2023 £'000	2022 £'000
Non-current		
Amounts owed by Group companies	4,366	5,385
	4,366	5,385
Current		
Prepayments and other receivables	44	54
	44	54

6. Trade and other payables falling due within one year

	2023 £'000	2022 £'000
Amounts owed to Group companies	18,735	18,602
Accruals and other payables	146	474
Other taxation and social security	—	11
	18,881	19,087

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

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

	2023 £'000	2022 £'000
Deferred taxation	2	—
	2	—

8. Share capital

	2023 £'000	2022 £'000
Allotted, called up and fully paid		
23,826,379 ordinary shares of £0.10 each (2022: 23,818,059 ordinary shares of £0.10 each)	2,382	2,382
22,106,460 deferred shares of £0.90 each (2022: 22,106,460 deferred shares of £0.90 each)	19,896	19,896
Total	22,278	22,278

Please see note 16 of the Group financial statements for details of movements during the above financial periods.

Notes to the Company financial statements continued

for the year ended 31 March 2023

9. Share-based payments

Please refer to note 17 of the Group financial statements for details of share-based payments. A charge of £39,842 has been recognised in relation to options held by employees for services to the Company.

10. Financial instruments

Please refer to note 18 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

Nominated adviser and stockbroker

Cenkos Securities plc

6.7.8 Tokenhouse Yard
London
EC2R 7AS

Independent auditor

BDO LLP

55 Baker Street
London
W1U 7EU

Solicitors

Mayer Brown International LLP

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London
EC2M 3AF

Public relations

Alma PR

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London
EC4V 5EQ

Registrars

Neville Registrars Limited

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West Midlands
B62 8HD

Registered address

22 Great James Street
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WC1N 3ES

Company number

05059457

Corporate contact details

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Corporate calendar

Announcement of final results

5 September 2023

Annual General Meeting

29 September 2023

Announcement of interim results

November 2023



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