Shearwater Group plc

Accelerated growth

Annual report and financial statements

31 March 2021

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 growth strategy is focused on building a scalable group that caters to the entire spectrum of cyber security, advisory and managed security needs, through a focused buy-and-build approach.

Our vision...

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

Our purpose...

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

Visit us online at
www.shearwatergroup.com

Highlights

A good year of financial and operational progress.
Now very well positioned for further growth.

£3.7m
Underlying EBITDA

12%
Underlying EBITDA margin

>40%
Robust recurring revenues

£5.3m
Adjusted operating cash flows

£0.7m
Revenue generated through cross-selling

100%
Offset carbon footprint

Contents

At a glance

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

What we do

Provide cyber security, managed security and professional advisory solutions:

- Managed services & warranties
- Security solutions
- Software licences from our own IP
- Advisory & engineering

Core services:

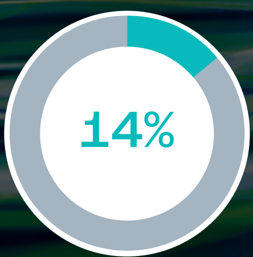
- Cyber security & monitoring
- Data loss & prevention
- Penetration testing & red teaming
- Identity & access management
- Risk assurance & advisory
- IT security solutions

Our offerings are delivered from our two divisions

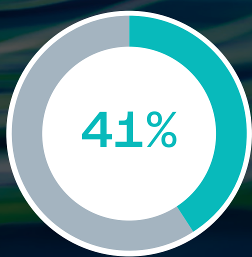
Software

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

Revenue



Operating profit[1]



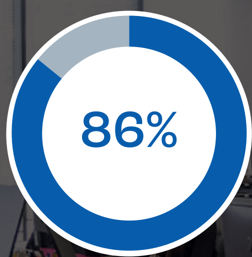
SecurEnvoy

GeoLang

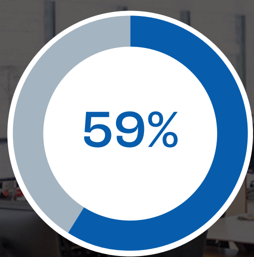
Services

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

Revenue



Operating profit[1]



Brookcourt

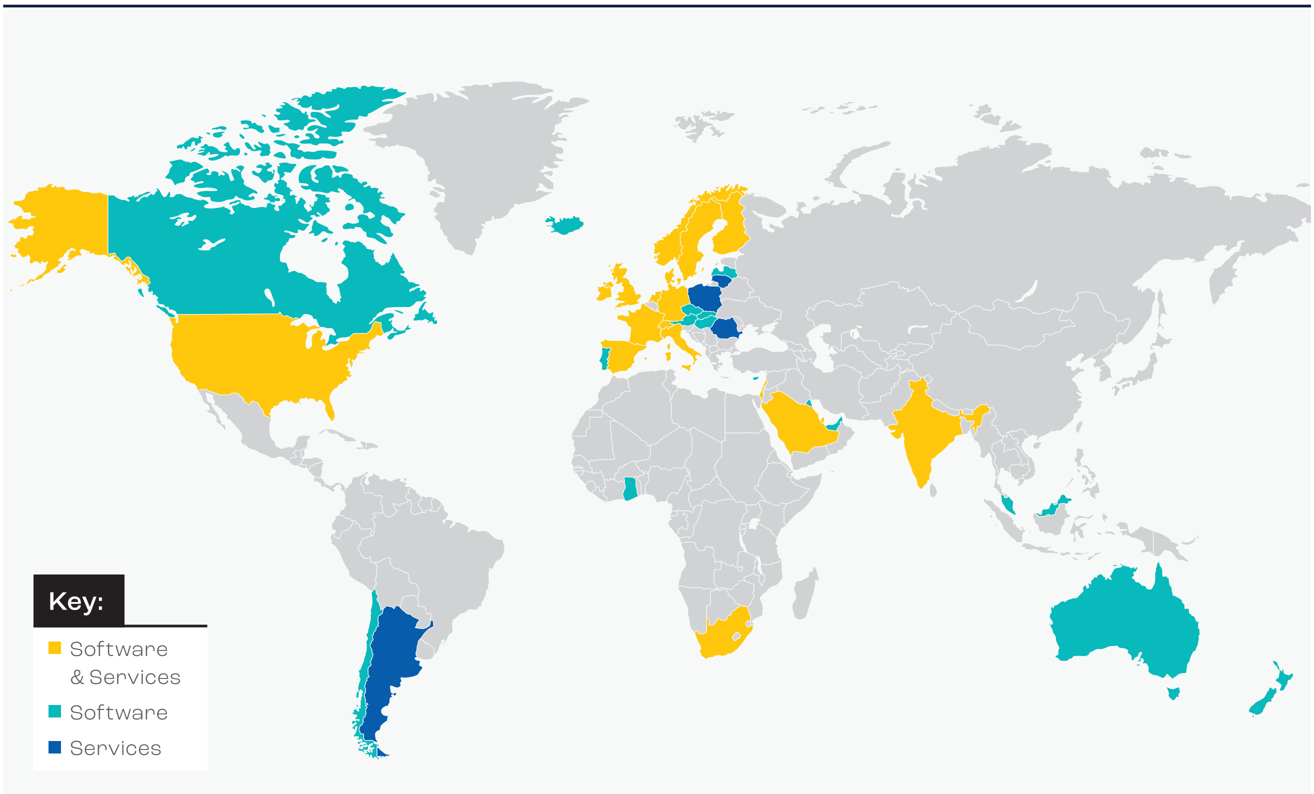
Xcina

Pentest

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

The Group is headquartered in the UK, serving customers around the globe across a broad spectrum of industries.

Where we operate



5	46	c.90
offices	countries	employees

Who we sell to

Software:
We sell via a two-tier distribution model comprising in excess of **350** global resellers

Services:
We sell to global clients based across the **FTSE 350, Fortune 500**, Governments and SMEs

Reasons to invest

An award-winning organisational resilience Group, delivering cyber security, advisory and managed security services to assure and secure businesses in a connected global economy.

1

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

2

Experienced management team

3

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

4

High growth market

5

Highly fragmented market

6

Blue chip customer base

7

Award-winning, highly qualified experts in our industry

8

Resilient to market shocks

Chairman's statement

> Significant progress has been made this year and I am excited for the year ahead.

David Williams
Chairman

It is pleasing to report a record set of results for the Group, ahead of underlying EBITDA expectations, for the year ended 31 March 2021. Following the reorganisation and streamlining of our Group in FY20, the benefits have shone through in the performance we achieved against the backdrop of the pandemic. Not only is there now a more cohesive culture within the Group, with all divisions contributing to the cross-fertilisation of opportunities, we have strengthened our financial position and our margins, whilst continuing to invest to ensure we are providing the very best services and solutions for our clients as we continue to expand.

I would like to take this opportunity to thank all our staff and clients for their understanding and efforts during what has been a difficult period of uncertainty for everyone. Furthermore, I would like to extend my thanks to our Non-executive Directors and the members of our Advisory Panel for their wise counsel and continued assistance, which has proven invaluable.

Growth opportunities

Moving forward, the Group is in a good position to expand through attracting additional talented individuals, winning new business, extending contracts with existing clients, or through acquisitions. The ability to capitalise on these opportunities is underpinned by our strong balance sheet.

The Group continue to assess a pipeline of potential acquisitions, with the ambition to take the Group to the next stage of its development. As always, we are looking for deals that fit within our strategy of enhancing our existing Software division or where they add clients to our Services division, in doing so, the Group is an attractive acquirer given the ability for vendors to develop their businesses more effectively as part of the Group than they would be able to independently.

It does take time to find such opportunities, and the Group will remain disciplined in respect of its acquisition criteria, but we are now in better shape than ever before. Our pipeline is healthy, and we are confident we will find success in securing businesses that will be of benefit to our shareholders.

Our commitment to responsible business

I am also delighted to report on the continued commitment of the Group to responsible business practices. We are particularly proud of the progress made with our sustainability initiatives over the period. As an early adopter, the Group launched its zero carbon programme in March 2019 and I am pleased to report that we have now fully offset all the Group's carbon emissions for two years. We also evolved our efforts further in partnership with DODO.eco, a specialist carbon reduction consultancy. The Group continues to carry out its charitable initiatives, with Group companies undertaking fundraisers for The Brain Tumour Charity, Action for Children, and Xploro among others. At the Group level we made a significant donation to Save the Children during the period and we will continue to commit the business towards responsible business initiatives moving forward.

Outlook

We entered FY22 upbeat, despite the ongoing macroeconomic uncertainty associated with COVID19 and have seen positive signs of returning business confidence with trading in Q1 FY22 strong. We are well positioned in a high growth sector, have a healthy net cash balance, a robust liquidity position and a strong team in place to continue to move our Group forward. Significant progress was made in FY21 and I am excited for the year ahead.

David Williams
Chairman
27 July 2021

Our story so far

Shearwater Group plc comprises a suite of forward-thinking companies to address the complexities and challenges that enterprises need to meet if they are to survive, evolve and succeed in a global and digital business environment.

2003 | 2005 | 2006

Brookcourt

Brookcourt Solutions delivers cyber security, network monitoring technologies and managed security services to help secure and protect your organisation's critical infrastructure.

February 2005
Company incorporated

GeoLang

GeoLang delivers data discovery, data extraction and data loss prevention solutions, services and technologies to discover, classify and protect sensitive data and information in the cloud and on-premise.

February 2006
Company incorporated

Shearwater Group plc

Pentest

Pentest provides research-led penetration testing, red teaming, and offensive security consultancy services designed to uncover IT security vulnerabilities and support ongoing information security efforts.

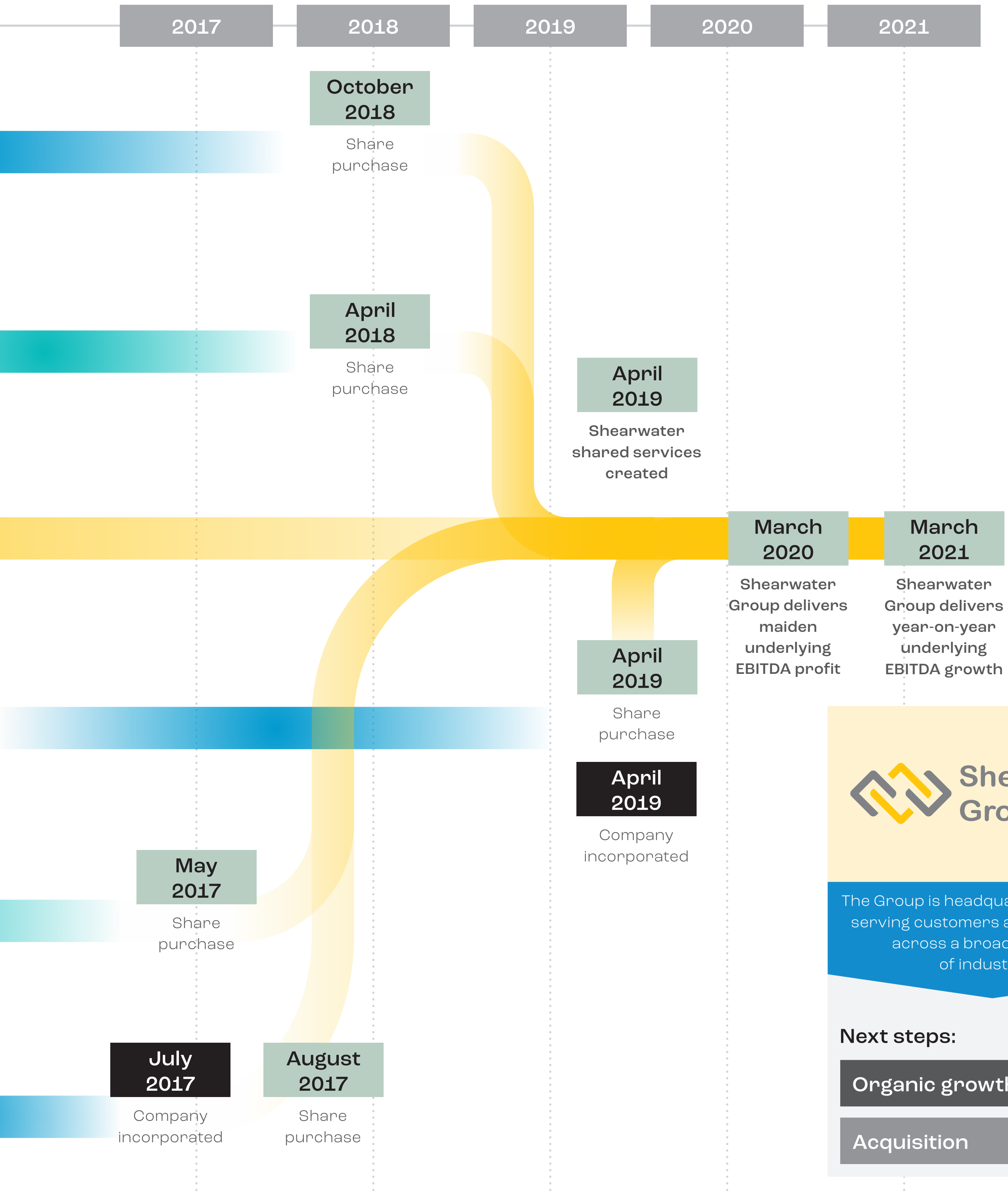
SecurEnvoy

SecurEnvoy provide trusted identity and access management solutions to millions of users in real-time. Across five continents, our customers benefit from rapid deployments that scale through instant provision.

August 2003
Company incorporated

Xcina

Xcina Consulting provides business and technology risk assurance and advisory services in support of organisational resilience.



Shearwater Group plc

The Group is headquartered in the UK, serving customers across the globe across a broad spectrum of industries.

Next steps:

- Organic growth
- Acquisition

Chief Executive's review

"

The Group has a great opportunity for growth ahead, with Shearwater Group having established a strong market position in a rapidly expanding sector.

Philip Higgins
Chief Executive Officer

Overview

I am pleased to report on what has been a good year for Shearwater; a year in which we have clearly delivered against what we set out to achieve despite the challenging external circumstances.

I am proud to say that this year we have continued to provide an excellent service and quality products to our clients, won new business, made progress against our growth strategy and last, but not least, to have achieved good growth in underlying EBITDA, profit before tax and our net cash[1] balance, all against the backdrop of a truly unprecedented environment. Pleasingly, this is the second year in a row our teams have delivered numbers either meeting or exceeding analyst expectations.

Having delivered a substantial turn-around in FY20, over the past year our focus has been largely to navigate the headwinds posed by COVID19, whilst continuing to pursue new business and drive forward strategic initiatives. It was a year of two halves. We were impacted by COVID19 related decision-making delays, and the inability to provide on-site advisory services, in H1. However, we still delivered a resilient performance in the first half with underlying EBITDA ahead of the prior year, due to our diverse range of offerings and the benefits of margin expansion flowing through. This was built on further in the second half, when improvements in business confidence drove a substantial increase in sales when compared to the same period one year prior. Our sales are typically weighted towards the final quarter of the year as organisations finalise their annual budgets and we saw this trend play out once again in FY21.

Group revenue for the period was £31.8 million (FY20: £33.0 million), reflecting the impact of the pandemic; however, thanks to margin growth and strong cost control we achieved an underlying EBITDA of £3.7 million, up 9% on the prior year (FY20: £3.4 million).

Additionally, we strengthened our balance sheet substantially, with strong cash collection, cash management and the payment of legacy debts resulting in a year-end net cash[1] balance of £7.3 million as at 31 March 2021 (31 March 2020: £1.4 million net debt). £1.3 million of year-end net cash[1] is allocated to be applied towards the settlement of deferred VAT payments relating to FY21 revenues but this still amounts to the strongest financial position in the Group's history, positioning us well for growth in FY22 and beyond.

During the period the business introduced 155 new clients across both divisions, which was slightly ahead of the prior year (2020: 150) and demonstrates the relevance of our products and services during what has been a challenging time for many businesses. Our Software division generated £1.3 million of new and uplift sales which included the first sales of some of our new product offerings, which we now expect to make meaningful contributions in the coming years. Finally, it is pleasing to report that the Group has maintained renewal rates in excess of 40%.

A key strategic achievement has been the notable growth in the level of cross-selling seen between Group businesses, following the introduction of several initiatives designed to encourage collaboration in FY20 and early FY21 in order to create incremental opportunities. Revenue generated via new business introductions taking place between Group subsidiaries for the period was £0.7 million, demonstrating the early success of this part of our growth strategy, and there remain great opportunities to further expand cross-selling across the Group in future periods.

With business confidence returning, cyber threats and customer awareness of the threats that they pose to their organisations continuing to increase and a strong platform for growth established, we are in an exciting position. We are set to build upon our successes and to drive the expansion of the business in the coming period.

I would like to thank sincerely the entire Shearwater team for robustly responding to the challenges faced this year with determination and a drive to succeed. They have worked incredibly hard to deliver the results we are reporting, continuing to collaborate and innovate, and we hugely appreciate all they have achieved.

Growth strategy

Our vision is for the Group to become the provider of choice delivering Next Generation Technology, Professional Advisory and Cyber Security Services and Solutions. Our offerings help our clients identify and manage risk, maintain compliance and defend against the constant barrage of cyber security threats. Within our Software division we aim to build the next generation converged access management and data discovery solutions, which we expect to become the 'must-have' product when connecting securely and with confidence to the connected world. For our award-winning Services division, we aim to be the partner of choice delivering managed security solutions, test and advisory consulting; again providing an end-to-end offering. Our opportunity will grow as we increase in scale, expand overseas and further consolidate the market.

The way in which we aim to achieve this is through building a group of cyber security, managed security and professional advisory companies with leading products, solutions or service capabilities whose full potential can be unlocked through active management and capital investment.

Our strategy has evolved across the last year but continues to be based around a focused acquisition strategy and the acceleration of the Group's growth. Whilst we have not made an acquisition in the period, as we held fast to our strict acquisition criteria, we have made good strides against strategic initiatives designed to accelerate growth. This includes the aforementioned progress with cross selling, R&D investment, new client wins and the renewal of existing client contracts, as well as the continued amalgamation of central functions to unlock synergy savings.

Moving forwards, we have an active pipeline of acquisition opportunities. Any future acquisition will be earnings enhancing as well as increasing our ability to provide an end-to-end offering to our clients.

Operational review

Our Group is split into two segments, Software (14% of revenue, 41% of operating profit[2]) and Services (86% of revenue, 59% of operating profit[2]).

Our Software division designs and builds leading-edge software to help clients secure their corporate environments and helps make them compliant with applicable regulations. The Services division is focused on delivering the Group's managed security and cyber solutions, test, advisory and consultancy offerings, as well as our strategic third-party partners' technical solutions.

Shearwater remains largely UK-focused, however we service clients across 46 countries globally. The Group's international footprint has grown during the year by adding new additional reseller partners representing our software to their clients in new territories. This is being enhanced by our recruitment programme into the US, forming a key part of the Group's growth strategy.

We pride ourselves on the quality of our staff and the strong relationships we have with both our vendors and clients, with 67% of clients having a long-term relationship with the Group.

Further detail on the progress of our two divisions is outlined below.

Software

Our Software division has performed well. Whilst revenue declined year-on-year, reflecting a one-off large bespoke contract secured in the prior period which did not repeat in FY21, we have made good progress in the development of our offering and expect to see the benefits of the improved range flow through in FY22.

	2021 £m	2020 £m	%
Revenue	**4.3**	5.5	-21%
Gross profit	**3.5**	4.1	
Gross margin %	**80%**	75%	
Overheads	**1.3**	1.4	
Underlying EBITDA	**2.2**	2.7	-19%
Underlying EBITDA margin %	**50%**	49%	

We have invested significantly in R&D this year, in line with our aim of becoming a leading Security-as-a-Service converged platform provider – a 'one stop shop' for all an organisation's access management needs. The access management software market is forecast by Gartner to grow to a value of $9.2 billion globally in 2025 (2020: $3.7 billion). We have added several new cloud-based applications and capabilities (for example, a new location matrix) to enhance this offering and its development roadmap has generated strong interest from both clients and industry analysts.

We have been pleased with the rate at which both SecurEnvoy and GeoLang have secured new business during the pandemic. SecurEnvoy now serves roughly 1,100 clients in 36 countries, with key notable contract wins coming from a major UK high street retailer and a large Nordic healthcare systems provider with 20,000 users. Over the period, SecurEnvoy experienced strong growth in the DACH territory, securing over 50% more new client logos versus the previous year. Notable contract wins for GeoLang came via a top global management consulting firm, for the provision of its data discovery product.

Chief Executive's review continued

Operational review continued

Services

In the Services division, we were able to maintain revenue at prior year levels despite the challenging environment and were pleased to deliver improved underlying EBITDA driven by improved margins and lower overheads.

	2021 £m	2020 £m	%
Revenue	**27.4**	27.5	0%
Gross profit	**6.4**	6.1	
Gross margin %	**23%**	22%	
Overheads	**3.3**	3.8	
Underlying EBITDA	**3.1**	2.3	36%
Underlying EBITDA margin %	**11%**	8%	

Our Services companies secured a number of significant contract wins in FY21. As announced at the end of December 2020, Brookcourt signed two significant new contract wins to be delivered over a three-year period for a British multinational investment bank and financial services company. This was shortly followed by signing a five-year supply agreement with a global fashion retailer headquartered in New York, testament to the Group's growing international presence. Pentest secured a long-term partnership with a leading UK IT service provider, to provide penetration testing and adversary simulation to the Company's existing customer base as well as new prospects while Xcina Consulting signed a three-year contract with a UK bank headquartered in Africa to deliver business risk services.

We launched a number of new service lines across the Group embracing new and innovative ways of working. The use of drone laptops, for example, has enabled us to carry out remote infrastructure testing despite social distancing measures. Across the Group we are seeing a significant shift from appliance-based deployments to virtual stack infrastructure via subscription and/or software-based computing.

As previously alluded to, cross-selling has been integral to the creation of opportunities across our Services division. I am delighted with the manner in which our portfolio companies have been creating opportunities for one another. Pentest, for example, supplied 15 leads into other Shearwater companies, and received 28 sales leads from the staff incentive scheme, winning ten of these as new clients to date. Brookcourt also introduced significant business for Pentest, Xcina and GeoLang. Beyond this, Group companies are increasingly working together to provide a multi-disciplinary response to clients' demands.

The strong relationships between our businesses will remain integral to our future growth and remain pertinent to our growth strategy. Despite the pressure the pandemic placed on organisations globally, we managed to maintain a healthy day rate across the year and the fact that we have been able to win new business in such a challenging market provides real reason for optimism moving forwards.

Market opportunity

Our confidence moving forwards is underpinned by the opportunities which lie within the market. The frequency of cyber-crime activity has increased significantly, and it is now considered one of the biggest threats faced by an organisation. As of February 2021, the UK Government reported that the UK cyber security industry is now valued at over £8.9 billion[3] following record investment last year. Similarly, Lindy Cameron, CEO of the National Cyber Security Centre (NCSC), warned in June 2021 that ransomware was the key threat facing the UK[4], urging the public and businesses to take it seriously.

With such a large number of people set to continue working from home moving forward, COVID19 has accentuated the need for businesses to create a safer and more secure online environment for staff, clients and end users, with a greater number of people at risk to cyber-crime whilst working from home. The growing need for our services highlights the market opportunity within the sector.

Current trading and outlook

Following on from the strong trading and positive signs of returning business confidence noted in H2 FY21, trading in Q1 FY22 was strong. We are hiring across all Group businesses, with a budgeted plan to increase headcount in both sales and technical roles in FY22 to support long-term growth. We have a healthy pipeline of new projects to convert requiring this investment.

Moving forward, the Group has a great opportunity for growth ahead, with Shearwater having established a strong market position in a rapidly expanding sector. Our differentiated offering sets us apart from competitors, in addition to a quality team, and a strong financial position. We look forward to the future with confidence.

Philip Higgins
Chief Executive Officer
27 July 2021

1. Net cash includes cash and cash equivalents less loan balances.
2. Operating profit represents divisional split of profitability before central head office administrative expenses.
3. https://www.gov.uk/government/news/record-year-for-uks-89bn-cyber-security-sector
4. https://www.ncsc.gov.uk/news/rusi-lecture

Market opportunity

The cyber security market continues to grow with the increasing use of e-commerce platforms and the emergence of disruptive technologies such as Artificial Intelligence (AI) and increasing regulation with which companies need to comply.

Cyber threats increasing

Businesses must protect themselves from financial and reputational damage	• The average cost of a data breach is $3.86 million as of 2020 (https://www.ibm.com/uk-en/security/data-breach) • 46% of organisations have suffered damage to their reputation and brand value as a result of a data breach.
Businesses must comply with regulation	• Over 22,000 GDPR data breaches recorded in the UK since GDPR came into force in 2018.
Clients need:	
- Secure authorisation	• Proved identity which is the entry point for all secure computing and communication.
- Penetration testing	• Sophisticated cyber-attacks are the norm and with the accelerating adoption and reliance on technology, cloud and the internet of things, the attack surface is expanding. • Our penetration testing provides organisations with an in-depth investigation into the information security posture of their infrastructure, applications, cloud services and IoT devices, identifying exploitable vulnerabilities and testing those defensive controls are effective.
- Managed cyber security and professional advisory services	• Augmenting customers' cyber security offerings with in-house skills, next generation technology and specialisations to provide more effective services to our customers. With increasing legislation and financial penalties for poor cyber security practices, the global opportunity for our Services division's elite capability and highly consultative service is increasingly in demand.
Skills shortage	• Half of all private sector businesses identify a basic technical cyber security skills gap, i.e. a lack of confidence in performing a range of basic cyber security skills tasks or functions. https://www.gov.uk/government/publications/cyber-security-skills-in-the-uk-labour-market-2021
Increased remote working	• COVID19 has accelerated digitisation and remote working, both of which contribute to a company's increased threat footprint as their workers enjoy a new hybrid way of working from home.

Business model

Our purpose is to help create a safer online environment for our staff, our clients and their end users.

Key strengths/ competitive advantage

- Able to provide broad offering to clients – fulfilling end-to-end organisational resilience needs
- Owned IP
- Strong client relationships
- Advanced tech
- Agile business differentiated from larger players

Read 'Reasons to invest' on page 4

Our operating model

- Two divisions, operating independently, supported by shared services
- Supports cross-Group collaboration to create incremental opportunities

Read more on our strategy on page 14

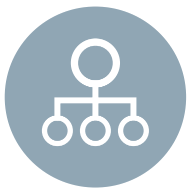
Software

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

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

ESG
Read more on pages 20 to 26

Risks
Read more on pages 31 to 34



Governance
Read more on pages 35 to 55

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

Links to:
Responsible operations
Principal risks
Corporate governance

Delivering value

27%
Adjusted EPS increased from £0.08 to £0.10

12%
Underlying EBITDA margin improvement from 10% to 12%

67%
Client base with over three-year relationship[1]

£0.7m
Revenue generated through cross-selling[1]

1. Measures introduced for the first time in FY21.

Strategy and KPIs

Unlocking the Group's full potential through active management and capital investment.

Growth strategy

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

Focused acquisition

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

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

Accelerated growth

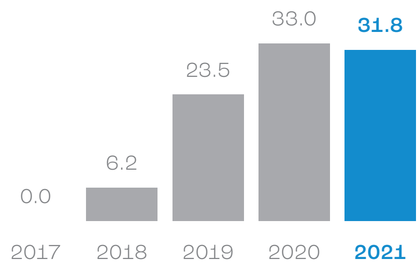
Driving Group companies' organic growth

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

Wider strategic aims

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

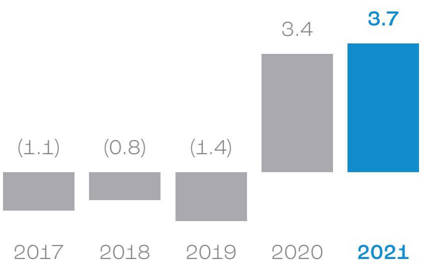
Revenue for the year
(£m)



£31.8m -4% ▼

Organic revenue down	-4%

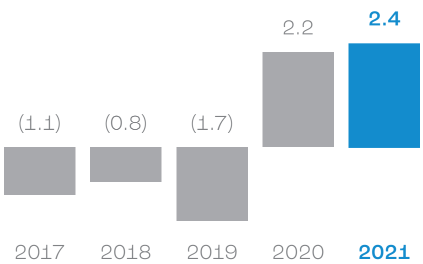
Underlying EBITDA[1]
(£m)



£3.7m +9% ▲

Underlying EBITDA margins	12%
2020:	10%

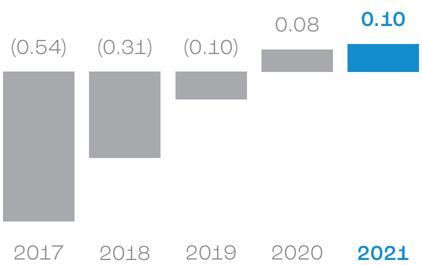
Underlying profit/(loss) before tax[2] (£m)



£2.4m +9% ▲

Reported profit before tax	£0.0m
2020:	£1.3m loss

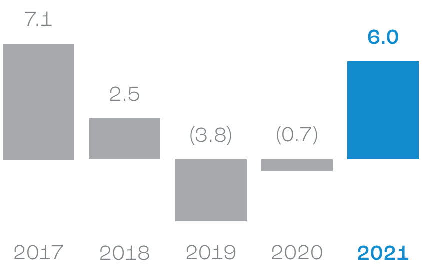
Adjusted EPS
(£)



£0.10 +27% ▲

Reported EPS	£0.01
2020:	£(0.07)

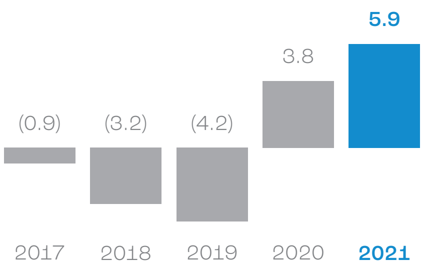
Adjusted (net debt)/cash
(£m)



£6.0m ▲

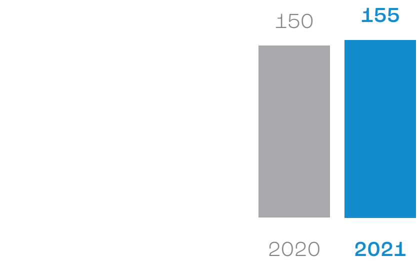
Adjusted cash conversion	144%
2020:	163%

Free cash flows
(£m)



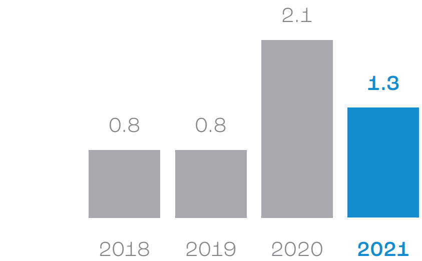
£5.9m ▲

New customer wins



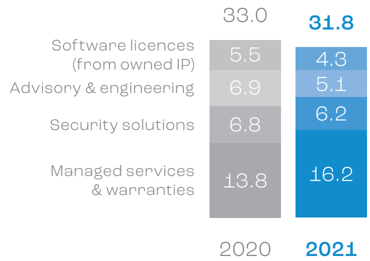
155 ▲

New software revenues
(£m)



£1.3m ▼

Revenue by type
(£m)



>40% recurring revenues

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

Case study

Consulting win secured despite external circumstances

X

Xcina Consulting

Xcina Consulting conducted a multiple workstream engagement for this new entrant to the UK banking sector to assist them in meeting their regulatory as well as business requirements, as part of the process of building a resilient organisation and scaling up their activities.

Xcina Consulting designed, planned and executed a programme of work to enable the start-up bank to meet the regulators' latest operational resilience requirements.

In the first quarter of 2021, the Bank of England, Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) issued their policy statements on Operational Resilience. These require banks and other relevant institutions to identify their 'Important Business Services' and ensure they build their capability for these to remain within their Impact Tolerances in the event of a significant disruption such as the COVID19 pandemic.

Xcina Consulting designed, planned and executed a programme of work to enable the start-up bank to meet the regulators' latest operational resilience requirements as well as establish an effective Business Continuity Management System aligned to the ISO 22301 international standard.

The workstreams cover:

- conducting a full Business Impact Analysis across all business functions;
- documenting the Business Continuity Policy and Strategy;
- documenting relevant Business Continuity Plans; and
- identifying and mapping the Important Business Services to be managed within their established impact tolerances.

Xcina Consulting also helped to set up:

- the firm's Information Security Management System (aligned to the ISO 27001 standard);
- its IT Service Management System aligned to the ITIL and ISO 20000 standards; and
- its Outsourcing and Third-Party Management framework in line with PRA, European Banking Association (EBA) and business requirements.

All of the above workstreams were completed within the agreed timescales as well as budget and fully met the client's expectations.

Stakeholders

Supporting our team and key stakeholders.

Communities and the environment

Issues they faced:

People want to see tangible benefits of Shearwater Group's presence in their community. This may be in the form of employment opportunities as well as the Group's impact on the local environment.

How we engaged:

We continually assess how we impact the local communities that each of our businesses operate in and continue to work with them to implement a number of initiatives that will support local communities and protect the environment.

Impact of Board decisions:

Following the launch of the Group's sustainability programme during the previous financial year, the Group has recently partnered with DODO.eco, enhancing its commitment to being an environmentally responsible, carbon neutral company. In addition to this, the Group has recently partnered with Do IT to expand its employee volunteering and charitable giving scheme.

Customers

Issues they faced:

Customer demands evolve due to the ever-increasing threat landscape within the market the Group operates in. Our customers require a partner that can deliver in line with their needs and expectations.

How we engaged:

We look to foster long-term relationships with our customers. In order to achieve this, we take time to work with them to understand the challenges they face. This allows us to develop effective solutions to fit our customers' needs.

Impact of Board decisions:

The Board understands and supports the Group's approach to investing time in the development of long-term partnerships with its customers. Over the past year, against a backdrop of COVID19, we have continued to work closely with our customers to understand their individual challenges, responding with effective and flexible solutions.

Employees

Issues they faced:

Employees look for a happy and fulfilling working environment where there are opportunities to gain experience that will support future career development. It is important that employees feel that their contribution is valued and that they are rewarded appropriately.

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. We continue to actively review our benefits package in order to retain and attract the brightest talent.

Impact of Board decisions:

Our employees are key and the Board plays an active role in ensuring that key positions are recruited correctly and that the correct organisational structure is put in place. The Board actively promotes back-filling of vacancies where existing employees step up into roles as appropriate.

Stakeholder diagram:

Employees | Shareholders | Communities

Shearwater Group

Customers | Suppliers

Shareholders

Issues they faced:

Shareholders want to see the Group growing and enhancing its financial position.

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 Group's strategy looks to drive organic growth from existing businesses as well as identifying suitable acquisitions that can add incremental value for our shareholders.

Impact of Board decisions:

The Board has worked closely with our NOMAD, Cenkos and joint broker, Berenberg to ensure the views of shareholders are represented in key decisions taken by the Board.

Suppliers

Issues they faced:

Margin pressures from the end customer require us to work with suppliers to ensure that we are able to source at competitive prices whilst maintaining the Group's position on ethical sourcing.

How we engaged:

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

Impact of Board decisions:

The Board is supportive of management's current approach of developing long-term collaborative partnerships with suppliers.

Section 172 statement

As an organisation, Shearwater Group recognises its collective obligations under the Companies Act. These duties are also reflected in the individual actions taken by Directors on our Board.

Each Director is fully aware of their duty 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.

Key to the Group's continued growth and success is the ability to maintain and develop relationships with its key stakeholders.

Responsible operations

We are fully committed to being a responsible business.

As a Group we understand that we have a responsibility in ensuring that our business is conducted in a way that is sustainable and not detrimental to the wider communities in which we have a presence.

Central to this is our impact on the environment, which has become an ever-increasing focal point to communities and governments across the world alike.

In addition to the impact we have on the environment and wider community, we have a responsibility to our people who are at the forefront of the Group's success. Despite the challenges the past year has brought, our people have adapted to the challenges faced, performing resiliently, displaying high standards of professionalism.

Over the past year we have built upon the environmental and social initiatives launched in the previous year and are pleased to provide an update of our values statement and ESG strategy, which is a key component of the Group's growth strategy.

Values

Our values are incorporated in all our operating procedures and define our management approach and Group culture. We are also very aware of the changing social environment and are fully supportive of having a better, fairer, greener, more tolerant and kinder society. We will play our part in supporting new initiatives and look for improvement in the way we manage our business and maintain the respect for our work and colleagues. We will stay professional inside and outside the Group, and drive to achieve both excellence and integrity that are essential to our continued success delivering increased value to customers, portfolio businesses and shareholders alike.

UN SDGs

Our ESG strategy

Protecting our environment

WE ARE COMMITTED TO PREVENTING POLLUTION, MINIMISING WASTE FROM OUR OFFICES, AND ADOPTING GOOD ENVIRONMENTAL PRACTICES.

- We are improving our resource efficiency by conducting activities and operations in line with current legislation and best environmental management systems are integrated into all business processes.

Read more on pages 22 and 23

Supporting our team

THE COMPANY HAS IDENTIFIED KEY SOCIAL ISSUES, WHICH INCLUDE THE HEALTH AND SAFETY OF ITS PEOPLE, EFFECTIVE STAFF ENGAGEMENT, EMPLOYEE WELLBEING AND MINDFULNESS, TRAINING OPPORTUNITIES, AND DIVERSITY AND EQUAL OPPORTUNITY.

- Given the particular challenges presented by COVID19, workplace culture and engagement was an area of focus in 2020/21 and this will continue in 2021/22.

Read more on pages 24 and 25

Robust governance

A STRONG FOCUS ON GOVERNANCE IS A VITAL PART OF THE COMPANY'S ABILITY TO IMPLEMENT SUSTAINABLE PRACTICES ACROSS ITS OPERATIONS.

- The Group has appointed its first sustainability officer which has a reporting line to the executive team.
- We partner with experts to ensure that we are always following best practices.

Read more on page 26

100% Carbon offset

Responsible operations continued

Protecting our environment

Shearwater Group plc is pleased to present our 2021 Carbon Footprint Report, which is the first carbon footprint report completed by the Group.

Shearwater Group plc is committed to a sustainable future and to improving the social, economic and environmental wellbeing of the community. We encourage all parts of the business to look to reduce our impact on the environment and look to continually improve each year through the development of new environmentally friendly products and better processes that reduce our carbon footprint. We are pleased to announce that the Group has been carbon neutral for a second consecutive year.

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

The emitting activities covered in this carbon footprint report for the financial year 2021 include direct emissions resulting from Group owned or controlled equipment and emissions from purchased electricity (referred to as Scope 1 and 2 emissions respectively); and selected indirect emissions resulting from Shearwater Group (covering travel, commuting, software, hardware, working from home and additional service cost) (referred to as Scope 3 emissions). It is important to highlight that under the GHG Protocol, the reporting of both direct emissions and indirect emissions, resulting from purchased electricity, are compulsory. All other indirect emissions, Scope 3 emissions, are reported on a voluntary basis. As many voluntary emissions as possible, dependent on reliable data, have been reported on.

Shearwater Group has gone to all reasonable lengths to ensure the accuracy of this report.

Shearwater Group plc recognises its corporate and social responsibilities towards clients, employees, shareholders, suppliers, regulators and other stakeholders. We recognise that our social, economic and environmental responsibilities to these stakeholders are integral to our business. Of course, sustainability has many facets. For us, the most important one to tackle right now is the environment.

The Group is minimising the environmental impact of its activities. We are committed to preventing pollution, minimising waste from our offices and workplaces, and adopting good environmental management practices. We are improving our resource efficiency by conducting activities and operations in line with current environmental legislation and best environmental practices. Shearwater's robust environmental management systems are integrated into all business processes.

In February 2021 we announced our new partnership with 'DODO.eco'. Each month Shearwater will offset 100% of its carbon footprint so that the Group is capturing every bit of CO_2 it is releasing into the planet. Our carbon footprint is largely made up of business travel, office operations, general services, and employee commuting. Since this has changed so much due to COVID19, we have also included the emissions of all our employees who are working from home.

Shearwater Group is committed to capturing these emissions, and through DODO.eco, we will invest in carbon capturing projects across the world. We have chosen these projects not just for their impact on climate change, but also because each project has multiple benefits for the wider community as well as supporting the wider UN Sustainable Development Goals. The Sustainable Development Goals are the blueprint to achieve a better and more sustainable future for all. They address the global challenges we face, including poverty, inequality, climate change, environmental degradation, peace and justice.

Fiscal year (April 2020 – March 2021)

CO_2 emissions by category	Tonnes CO_2e
Office	206.7
Employee	152.7
Technology	25.9
Marketing	14.6
Business travel	7.7
Food and accommodation	4.2
Total	**411.8**

The Group calculated a total of 411 tonnes of CO_2 since 1 April 2020, which was invested in five carbon capturing projects that support all 17 UN Sustainable Development Goals. Please visit our website for more information on each project.

At Shearwater Group plc we are committed to doing as much as we can to help protect our environment. We are undertaking several activities to ensure that the whole business we operate is as 'green' as possible and actively promote several green policies in line with ISO 14001 as detailed below. Together, the team at Shearwater regularly review, initiate and facilitate environmentally friendly policies throughout the business.

Environmental objectives and policies

Switch it off!

Shearwater ensures that desktop PCs, monitors, printers, any other electronic equipment and lights are turned off at night. We also regularly review equipment that may be powered down.

Cut down on travel

At Shearwater we use telephone conferencing and web-based collaboration wherever possible to avoid travel. We find that many of our client and manufacturer meetings can successfully be managed in this way, cutting down on travel and also on time wasted. At times when travel is unavoidable, we encourage our staff and visitors to travel car-free. We are also encouraged by our clients selecting more cloud and subscription-based computing solutions that allow our engineering teams to provide our services remotely, reducing the need for on-site attendance.

All green at Shearwater

We recycle as much paper, card, plastic, aluminium, glass and computer consumables as we can. We have suspended the use of paper-based direct mail campaigns for marketing purposes. We also encourage staff and clients not to print emails and documentation so as to minimise the use of paper.

Waste

We also recognise that our activities produce waste and we strive to reduce, recycle or re-use this where we can. For the waste that we are unable to eliminate, we make sure that this is disposed of in a safe and responsible manner.

Web meetings and website

We encourage the use of web-based meetings to present information on the Group and products we promote. Through the use of new technologies, we are broadening the capabilities of web-based meetings which now include live video conferencing and online presentation with both user and presenter control. The majority of our product brochures, whitepapers and corporate information is available online, which minimises our use of paper.

Company car policy

Shearwater does not offer company cars to employees. We have reviewed our options and indeed considered emissions from both diesel and dual fuel alternatives. We are actively encouraging the use of public transport where possible to attend meetings. As an organisation we are not anti-car, but we do understand our responsibility to the environment and our surroundings. We would like to thank our employees for their continued support and ideas in this area.

Desktop purchase

Where appropriate we will utilise equipment with few moving parts and therefore low power requirements and heat output and to centralise data requirements in order to reduce power input and heat output. This is to ensure that the power requirement at the desktop is appropriate for the tasks undertaken and have appropriate or zero standby/non-operational running costs. All the above is without affecting service standards, performance or growth.

Green IT box

Shearwater offers a secure and fully compliant recycling service for redundant IT equipment. The Green IT box service is cost effective, convenient and easy to use and ensures that companies meet their legal IT disposal requirements at a much lower cost-per-item than the nearest comparable service.

Responsible operations continued

Supporting our team

Our people are key to our success and it is vital that we are able to create a working environment that supports our people and facilitates their development so that they are able to achieve their own personal goals as well as contributing to wide social and environmental causes which are close to their heart.

The Group focuses on four areas which it believes supports this:

1. Staff engagement

The Group maintains regular contact with its staff via company WebEx, team conference calls, regular management meetings, internal presentations, team announcements and our news articles found on our websites. During the pandemic we established an entertainments team who introduced online staff activities such as team quizzes that drew in participants from across the Group where they could win prizes for their team. Cross-Group communication between management and their teams is encouraged and tends to happen freely. This cross-Group engagement has helped secure a better understanding of each local portfolio company, allowing growth in internal business development and a lower cost of sale.

2. Employee wellbeing and mindfulness

The Group's employees are our greatest asset; therefore, we continue our journey to work towards enhancing the working environment for our people, whether it be remotely or from one of our offices and help support them when needed. The Group understands that people are healthier, happier and more engaged at work when they are supported by their employer to live well.

In the previous year we introduced our Employee Assistance Programme (EAP) which aimed at minimising workplace risks and improving our employees' health and wellbeing. The EAP provides a support system designed to help our organisation deal with issues that could be affecting our employees' home or work life, health and general wellbeing.

The Shearwater Group EAP provides a complete support network that offers expert advice and guidance 24/7. Confidential and compassionate support is available to employees and their immediate family. We feel that in today's fast-paced digital society and the pressure it brings, we need to be able to help our greatest asset as best we can.

In addition to this, the Group has an active social committee which has been busy during the past year organising events from inter-Group quizzes to a monthly appreciation board where any member of staff can nominate a colleague that in his/her opinion has provided excellent service and support.

In the year the Group introduced an employee volunteering and charitable giving scheme in partnership with Do IT, a new type of network which places a focus on wellbeing. It helps people build meaningful connections, do good things in their communities and feel healthier and happier as a result.

As the UK's most established volunteering platform, it has 20 years' experience, millions of volunteering and other opportunities, and over 200,000 monthly users. The platform combines this database of opportunities with a suite of apps to enable organisations and their people to support their communities in all sorts of ways. In doing so it helps people to do things with purpose, and to discover their purpose, enabling a kinder world where social wellbeing is a priority for all.

Offering employees time off to volunteer is one of the best ways we can do this. UK employers pledge over 11 million employee volunteering days per year, but less than 14% of these days are used. This is due to a lack of choice for employees and difficulty connecting with the right opportunities.

This is why we chose Do IT. It is an employee engagement platform that connects our people to over 40,000 charities and groups in their communities across the UK.

In addition to our partnership with Do IT, over the past year we have supported a number of charities, providing our services free of charge and/or through our people participating in fundraising programmes.

3. Training and development

Training and development is a key component in developing our people and is an area where the Group has invested over the past year.

During the year the Group rolled out a Group-wide employee training programme which was completed by all staff across the business. This training initially comprised of ten separate courses which staff were able to complete online. As part of broader efforts to ensure a continuous defensible position against the requirements of data protection law, Shearwater Group has recently implemented Company-wide data protection training delivered online and completely virtually. This is provided to all new joiners of the business as part of induction and to all staff at regular intervals to ensure knowledge and awareness is continually refreshed. Topics that are covered include Risk Management, GDPR and ISO 27001 as well as other important areas such as Anti-Bribery and Anti-Money Laundering. Feedback and uptake since rolling out the training package has been very positive and the business will look to expand its approach for raising awareness through a combination of phishing campaigns and new modules delivered on a monthly basis focusing on different areas.

In addition to Group-wide training initiatives, the Group continued to invest in specific training for our staff, ranging from sales and marketing, legal and compliance training to third-party vendor training for engineers where required.

The Group invests in recruiting industry experience, new talent as well as investing in the government apprentice programme. Following on from the success of our first apprentices within our Software businesses, we are looking to recruit additional apprentices in the coming year.

This year we have introduced a staff mentoring programme within our SecurEnvoy business aimed at aligning senior experienced staff with more junior colleagues who can benefit from advice and guidance to help develop in their career. We will closely monitor this programme's successes with the aim of expanding Group wide.

4. Equality and diversity

Promoting and supporting diversity within the Group is an important aspect of good people management. We believe it's about valuing everyone within the organisation as an individual, and in order to reap the benefits of a diverse workforce it's imperative to have an inclusive environment where everyone feels able to participate and achieve their full potential. The Shearwater Group strives to build an enriched multi-cultural working community where everyone is encouraged to succeed in the information technology industry no matter their age, race, sex or background.
The Group aligns its policies with UK legislation covering age, disability, race, religion, gender and sexual orientation among others, going beyond just legal compliance but also seeking to add value to the Group as a whole. Shearwater has a modern and progressive diversity and equal opportunities policy and will continue to develop this policy as the Group grows in line with the employment landscape of the 21st century.

Responsible operations continued

Robust governance

We are committed to the highest levels of corporate governance.

As a Group we are committed to ensuring that the environmental and social initiatives that we have put in place are able to evolve and grow to ensure that they are always relevant and that the output of these initiatives continues to have a positive impact on our people, the environment and wider society. The Group has recently appointed a sustainability officer whose remit will be to ensure that initiatives remain consistent with our ESG strategy. This position will have a dotted reporting line to the Group CEO, providing a direct route to the Board.

Financial review

Robust financial performance. Improved profitability, continued strong cash conversion and significantly strengthened balance sheet.

Paul McFadden
Chief Financial Officer

12%
Underlying EBITDA margin improvement from 10% to 12%

>40%
Robust recurring revenues

£5.3m
Adjusted operating cash flows

Overview

The Group has demonstrated its resilience against the backdrop of the ongoing COVID19 pandemic, delivering improved year-on-year profitability with underlying profit before tax 9% ahead of FY20. While revenue decreased slightly in the period owing to the impact of COVID19 on some of our advisory businesses and delayed client decision-making, the Group has maintained a high level of cash conversion which has significantly strengthened our financial position.

Despite the challenges faced by some of our businesses, we chose not to furlough any staff as we believed the long-term demand for our services remained strong and the contract delays we experienced were only temporary. This has borne out as we began to see delayed engagements being realised in the second half of the fiscal year. We did utilise an option to defer tax payments to HMRC which will be repaid in the next fiscal year.

As we now focus our attentions to the future, we do so with a much-improved financial position. We are optimistic of what lies ahead of us in the coming year and beyond.

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 on page 28 details reported and alternative performance measures:

Financial review continued

Revenue

In the year ended 31 March 2021 revenue decreased 4% (£1.2 million) to £31.8 million (2020: £33.0 million). COVID19 lockdown restrictions impacted some of our businesses, with advisory revenues 27% behind the prior year as a result of clients choosing to delay consultancy engagements until they can be undertaken in person. In H2, our Services division saw strong sales of managed services, warranties and monitoring solutions which grew 17% year-on-year, helping to offset the deficit in advisory revenues. Our Software division saw a year-on-year decrease in revenues as a result of a one-off revenue spike in the previous year that was not repeated in the current year, however it is pleasing to note that we secured the first sales of some of our new product offerings which we believe will drive incremental revenues moving forward.

Underlying EBITDA

The Group delivered strong underlying EBITDA of £3.7 million in the year (2020: £3.4 million), 9% ahead of the prior year and ahead of market expectations. Margin improvement has driven the increase in profitability, with our EBITDA margin of 12% ahead of the prior year (2020: 10%). Both Software and Services divisions reported improved underlying EBITDA margins, with the Software division seeing improved gross margins as a result of a small reorganisation to its sales and marketing function in the prior year which has resulted in a blended EBITDA margin of 50% for the current year (2020: 49%). Our Services division has seen EBITDA margins increase to 11% (2020: 8%) with improved gross margins reflecting the continued change in revenue mix which has seen managed services and warranties revenue replacing one-off security solutions revenues. The division has utilised the Group's shared services function which has created efficiencies which has led to some administrative savings.

Finance charges

Finance charges of £0.2 million have reduced by £0.4 million (2020: £0.6 million) following the settlement of legacy loans. The Group has replaced a previously utilised invoice discounting facility with a more cost-effective three-year £4.0 million revolving credit facility with Barclays Bank plc. As at 31 March 2021 this facility remained unutilised.

Depreciation

Depreciation of £0.3 million (2020: £0.3 million) is in line with the prior fiscal period and incorporates £0.3 million of depreciation of right of use assets.

Amortisation of intangible assets – computer software

Amortisation of computer software has increased by £0.5 million to £0.8 million (2020: £0.3 million), following the go-live of a number of internally developed software projects.

Underlying profit before tax

The Group delivered underlying profit before tax for the year of £2.4 million (2020: £2.2 million), a 9% increase on the prior year, which is driven by the improvement in underlying EBITDA of £0.3 million and a £0.4 million reduction in finance charges which has been offset by a £0.5 million increase in internally developed software amortisation.

Amortisation of intangible assets – acquired intangibles

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

	2021 £m	2020 £m	% change
Revenue	**31.8**	33.0	-4%
Gross profit	**9.9**	10.2	
Overheads (underlying)	**6.2**	6.8	
Underlying EBITDA	**3.7**	3.4	+9%
Underlying EBITDA margin	**12%**	10%	
Finance charge	**0.2**	0.6	
Depreciation	**0.3**	0.3	
Amortisation of intangible assets – computer software	**0.8**	0.3	
Underlying profit before tax	**2.4**	2.2	+9%
Amortisation of acquired intangible assets	**2.1**	2.1	
Exceptional items	—	0.7	
Share-based payments	**0.3**	0.3	
Fair value adjustment for deferred consideration	—	0.1	
Contingent consideration	—	0.3	
Profit/(loss) before tax	—	(1.3)	
Taxation (credit)/charge	**(0.1)**	0.2	
Profit/(loss) after tax	**0.1**	(1.5)	

Exceptional items

There have been no exceptional items in the year. Exceptional items in the prior year of £0.7 million included £0.3 million of one-off costs incurred as part of the reorganisation of the Group implemented by the incoming CEO in April 2019 which included the costs associated with discontinuation of a few smaller business areas which had not achieved the required return on investment. £0.3 million costs relate to the acquisition of Pentest and the remaining £0.1 million is for legacy one-off legal costs.

Fair value adjustment for deferred consideration

The fair value adjustment for deferred consideration relates to the remaining share consideration owed to the previous owners of GeoLang Holdings Limited. Shares were issued in the year settling the remaining £0.2 million deferred consideration.

Contingent consideration

There has been no contingent consideration paid in the year. Contingent consideration in the prior year of £0.3 million represented the issue of 14,388,567 ordinary shares (pre-share consolidation) of the Group to the GeoLang sellers. These additional consideration shares were issued pursuant to the acquisition of GeoLang Holdings Limited announced on 4 April 2018.

Taxation

Taxation credit in the period of £0.1 million includes a £0.2 million charge for the current year less £0.3 million movements in deferred taxation from the unwinding of deferred tax liabilities created for acquired intangible assets.

Earnings/(loss) per share

Adjusted basic and diluted earnings per share of £0.10 (2020: Adjusted earnings per share £0.08) and reported basic and diluted earnings per share of £0.01 (2020: loss £0.07) represents the continued improvement the business has made in the last twelve months.

Statement of financial position

Intangible assets

Intangible assets decreased in the year by £2.2 million to £54.6 million at 31 March 2021 (2020: £56.8 million). This movement comprises £0.7 million of internally developed software additions which includes the continued development of our cloud IAM platform (UD), less £2.9 million amortisation in the year, of which £2.1 million relates to amortisation of acquired intangibles.

Property, plant and equipment

Property, plant and equipment decreased in the year by £0.3 million to £0.4 million at 31 March 2021 (2020: £0.7 million). Minimal additions of £0.1 million include £0.06 million for a new office lease which has been recognised as a right of use asset from January 2021. Other movements in the period include depreciation in the year of £0.3 million and a small disposal which is less than £0.1 million.

Trade and other receivables

Trade and other receivables have decreased by £0.9 million in the year from £10.5 million to £9.6 million at 31 March 2021. Material movements include a £0.4 million increase in trade receivables which was driven by strong year-end sales, less a £1.2 million reduction of prepayments which included a prior year prepaid third-party expense relating to sales which were recognised post year end.

Trade and other payables

Trade and other payables have decreased by £2.4 million in the year from £14.6 million to £12.2 million at 31 March 2021. Material movements include a £4.1 million decrease in loan balances which were repaid in the year, a £1.6 million increase in other taxation and social security which includes £1.3 million of VAT deferment the Group chose to utilise following the announcement of the government's range of COVID19 support schemes, £0.4 million increase in trade, other payables and accruals which have increased as a result of additional third-party costs which relate to year-end revenues, and £0.3 million decrease in deferred consideration relating to holdback share consideration for the GeoLang acquisition which was issued in the year.

Creditors: amounts falling due after more than one year

Creditor amounts falling due after more than one year have decreased by £0.4 million to £4.0 million at 31 March 2021. Reductions include a £0.3 million reduction in deferred tax relating to acquired intangible assets and £0.1 million decrease in lease liabilities relating to office leases held by the Group.

Share capital

During the year 1,562,500 new ordinary shares of £0.10 each were issued to new and existing institutional shareholders as part of a fundraise which raised £3.75 million. A further 129,602 new ordinary shares of £0.10 were issued to the previous owners of GeoLang Holdings for the remaining acquisition consideration and a further 8,320 new ordinary shares were issued to a professional adviser of the Group which exercised options during the year.

Financial review continued

Statement of cash flows

The Group delivered strong operating cash flows in the year which, with the addition of a small fundraise completed in April 2020, has led to a significantly higher cash balance at 31 March 2021 of £8.0 million (2020: £3.3 million). Adjusted cash generated from operations of £5.3 million was slightly below the prior year (2020: £5.6 million) with cash conversion well in excess of 100% in the year.

Adjusting items in the year include £1.3 million VAT deferral offered to companies by the government during the year which will be repaid in full in the coming year (2020: included £0.7 million exceptional costs incurred by the Group).

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

	2021 £m	2020 £m
Underlying EBITDA	**3.7**	3.4
Movements in working capital	**2.9**	1.5
Cash generated from operations	**6.6**	4.9
Adjusted cash generated from operations	**5.3**	5.6
Adjusting items	**1.3**	(0.7)
Cash generated from operations	**6.6**	4.9
Capital expenditure (net of disposal proceeds)	**(0.7)**	(1.4)
Tax paid	**–**	0.4
Interest paid	**–**	(0.1)
Payments of lease liabilities	**(0.3)**	(0.2)
Proceeds from issue of share capital	**3.8**	–
Proceeds from issue of loans	**–**	0.5
Loan repayments	**(4.2)**	(1.3)
FX and other	**(0.5)**	(0.1)
Movement in cash	**4.7**	2.7
Opening cash and cash equivalents	**3.3**	0.6
Closing cash and cash equivalents	**8.0**	3.3
Loans	**(0.7)**	(4.7)
Net cash/(debt)	**7.3**	(1.4)

Capital expenditure

Capital expenditure of £0.7 million (2020: £1.4 million) in the year represents capitalised software costs for developing our software businesses' product sets. Expenditure of property, plant and machinery remains minimal with expenditure of less than £0.05 million in the period (2020: £0.02 million).

Financing activities

In April 2020 the Group completed a fundraise of c.£3.8 million which the Group plans to use to part-finance its next acquisition. During the year the Group settled £4.2 million of legacy loan and deferred completion cash, which with the addition of the fundraise has significantly improved the Group's financial position at 31 March 2021.

Key performance indicators

The Board believes that revenue and underlying 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. In addition to this, as we now start to see a more consistent run rate of amortisation from internally developed software projects, underlying profit before tax is another measure that we are using to track the underlying performance of the Group. These metrics are presented within the financial highlights on page 15.

A reconciliation of both underlying EBITDA and underlying profit before tax to reported measures is detailed below:

	2021 £m	2020 £m
Underlying EBITDA	**3.7**	3.4
Exceptional items	**–**	(0.7)
Share-based payments	**(0.3)**	(0.3)
Fair value adjustment for deferred consideration	**–**	(0.1)
Contingent consideration	**–**	(0.3)
Finance charge	**(0.2)**	(0.6)
Depreciation	**(0.3)**	(0.3)
Amortisation of intangible assets – computer software	**(0.8)**	(0.3)
Amortisation of acquired intangible assets	**(2.1)**	(2.1)
Reported profit before tax	**–**	(1.3)

	2021 £m	2020 £m
Underlying profit before tax	**2.4**	2.2
Amortisation of acquired intangible assets	**(2.1)**	(2.1)
Exceptional items	**–**	(0.7)
Share-based payments	**(0.3)**	(0.3)
Fair value adjustment for deferred consideration	**–**	(0.1)
Contingent consideration	**–**	(0.3)
Reported profit before tax	**–**	(1.3)

Paul McFadden
Chief Financial Officer

27 July 2021

Principal risks and uncertainties

Getting the right balance: Maximising opportunities for growth against an acceptable 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 and its appetite to risk.

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

Responsibility 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 minimise its exposure to operational, financial and other risks, however in pursuit of achieving its strategic priorities there will always be an element of risk that needs to be considered.

Our risk register 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.

Principal risks and uncertainties continued

The Group's activities are carried out in the UK, Europe and the US. Accordingly, the principal risks and uncertainties are considered as follows:

Risk	Description	Mitigation	Change in year
Intellectual property	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.	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 its know-how. Whilst the Group seeks to protect its intellectual property through the filing of patent applications where permissible, as well as entering into confidentiality obligations within employment contracts to protect the Group from the release of information relating to its know-how and other measures to protect the confidentiality of its know-how and trade secrets, 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.	No Change
Technology	The markets in which the Company operates (and plans to operate) are characterised by rapid technological development, changes in customer requirements and preferences, frequent new product and service launches incorporating new technologies, and the emergence of new industry standards and practices that could render the Company's existing technology and products obsolete. If the Company is unable to anticipate and respond to technological changes and customer preferences in a timely and cost-effective manner, it is possible that existing customers and prospective customers may turn to competitor offerings.	In addressing this risk, the Group has a number of industry experts across its Group companies, who are able to work together to continue to improve the Group's products and to develop and market new products that keep pace with technological change and the threats that the Group's customers face. The Group recently engaged with Gartner who provide senior leaders across the enterprise with the indispensable business insights, advice and tools they need to achieve their mission-critical priorities and build the organisations of tomorrow.	No Change

Risk	Description	Mitigation	Change in year
Recruitment and retention of key personnel	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. Over the past year there has been an increased risk of disengagement and demotivation of staff owing to COVID19 restrictions which have forced staff to work remotely.	The Board recognises this risk and as a result has a Group-wide people strategy which encompasses, among other things, culture, training and development, capability and competence assessments, succession planning and reward and recognition structures, to help attract and appropriately incentivise key personnel. In light of the additional challenges associated with COVID19 lockdowns the Group introduced a number of initiatives to facilitate and encourage regular remote communication.	▲ Increased
Key contracts	In line with other industry participants, the Group relies on certain key customers for a material proportion of its revenue. Whilst the Group benefits from high customer retention levels, there can be no guarantees that all or any customers will continue their relationship with the Group beyond the existing contractual period currently in place. Certain customers have the right to terminate their contractual arrangements with the Group or discontinue using the Group's services without notice or on short notice. If the Group was to lose one or more of its major customer contracts, the resultant loss of sales could adversely affect the enlarged Group's business, financial condition, results or future operations.	The Group looks to build strong, long-term relations with its customers by taking the time to understand our customers' needs fully. Key to achieving long-term relationships with customers is ensuring that as a minimum we always deliver in line with customer expectations. Over the past year these relationships have grown closer as we have worked together through unique trading conditions. The Group is actively looking to grow and diversify its customer base and has added some notable new customers in the past year.	— No Change
Economic uncertainty and COVID19	Economic uncertainty can create challenges which could impact some of the Group's key stakeholders. This could result in the loss of customers and additional pressures on the Group's supply chain. COVID19 has brought with it additional challenges to the trading environment and businesses, which includes restrictions on movement, and our stakeholders are having to adapt to this accordingly.	Owing to the non-discretionary nature of many of the Group's products, the Group is in a robust position; however, over the past year the Group has retained close contact with its key stakeholders, addressing challenges as they arise, providing support and flexibility where needed which we believe will strengthen relationships in the long term.	▲ Increased

Principal risks and uncertainties continued

Risk	Description	Mitigation	Change in year
Cyber security attacks	The Group is a high-profile target for third parties wishing to gain unauthorised access to the Group's networks, or to bypass or breach its products. Any breach of the Group's networks or products, whether through a deliberate hack or unintentional event, may cause significant business disruption to the Group or its customers and result in the Group incurring the costs of remedying any breach. Furthermore, the Group's reputation may be damaged, leading to a loss of customer, industry and investor confidence.	The Group 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. With regard to the Group's owned software products, each is subjected to third-party testing as part of the ongoing development process both prior to launch and also whilst 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.	▲ Increased
Regulation	In response to the increased frequency and severity of data breaches, new industry regulation and government legislation has been introduced in order to compel companies to enhance their information and cyber security measures. As a result of the continued and evolving cyber threats faced by companies, industry regulation, and in turn legislation, may be amended, adapted and enhanced at relatively short notice, which will create a new set of data protection requirements for companies, which information and cyber security product and service vendors will need to address with their products. If the Group is unable to provide products or services to its customers which enable them to meet the changing regulatory or legislative requirements laid down by industry or government, then its current or prospective customers may turn to competitor offerings.	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. Furthermore, based upon the collective experience of the Board and the Group's Advisory Panel, the Group is well placed to monitor and process industry or legislative developments which can impact its portfolio companies.	— No Change
Acquisition	Failure to identify suitable potential acquisitions, or failing to properly integrate an acquisition, will impact our strategy for growth.	The Board actively monitors the market for opportunities and maintains a very active M&A pipeline. Once a potentially suitable target is identified it is vital that a thorough due diligence assessment is undertaken.	— No Change

Governance

Board of Directors

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

David Williams
Chairman

Appointed to the Board:
April 2015

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

A N R

Philip Higgins
Chief Executive Officer

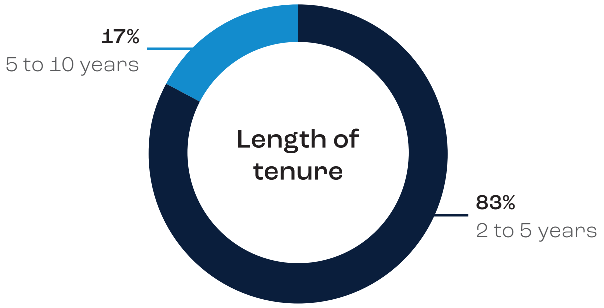
Appointed to the Board:
December 2018

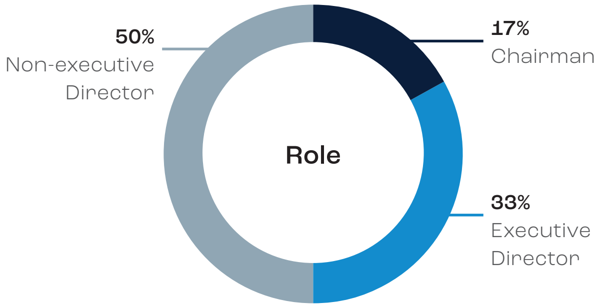
Key areas of prior experience:
Phil has over 30 years' industry experience, during which time he has been instrumental in the delivery of next generation technology solutions to many leading global FTSE 100 and FTSE 250 companies. In April 2019 Phil was appointed as Chief Executive Officer of Shearwater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

Paul McFadden
Chief Financial Officer

Appointed to the Board:
October 2018

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





N Nomination Committee member

A Audit Committee member

R Remuneration Committee member

■ Committee Chair

Robin Southwell OBE
Non-executive Director

Appointed to the Board:
October 2016

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

R

Stephen Ball
Non-executive Director

Appointed to the Board:
October 2016

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

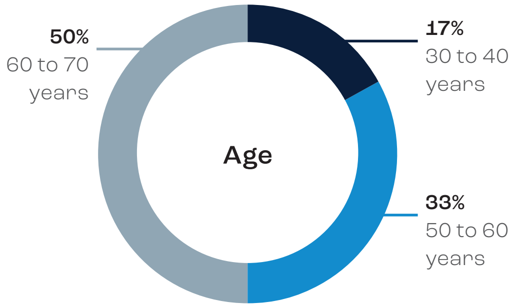
A N

Giles Willits
Non-executive Director

Appointed to the Board:
December 2016

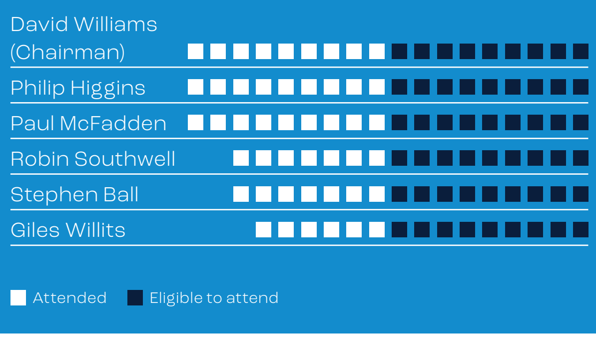
Key areas of prior experience:
Giles has over 20 years' experience in senior leadership and financial roles and is currently the chief financial officer of IG Design Group plc (AIM: IGR). Prior to this, Giles was also chief financial officer of FTSE 250 listed Entertainment One Ltd (LSE: ETO), having 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.

A



Meetings and attendance

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



Advisory Panel

Continued support from our Advisory Panel during COVID19.

The Group's Advisory Panel is chaired by Rt Hon Lord Reid of Cardowan. The purpose of the Advisory Panel is to track developments in the digital resilience sector as well as supporting the Group in accessing growth opportunities via the network of contacts of each member of the Advisory Panel. Due to COVID19 it has not been possible to meet with our Advisory Panel face to face however the Advisory Panel members have engaged independently with the executives from our portfolio companies as and when requested, providing help and assistance when required. We hope to be able to re-engage with our Advisory Panel face to face when it is safe to do so.

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.

Chairman's introduction to governance

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Committed to maintaining a high level of corporate governance across the Group.

David Williams
Chairman

Dear Shareholder

I am pleased to introduce Shearwater Group plc's governance report for fiscal year 2021 on behalf of the Board. The Board is committed to maintaining a high level of corporate governance across the Group, which I believe is essential in facilitating effective communication and providing clear direction on the execution of the Group's strategy which will drive the future success of the Group.

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

This report sets out how we have maintained a high level of corporate governance during a time that has brought increased challenges. I would like to thank our people for their continued hard work and dedication in providing excellent service to our customers.

David Williams
Chairman

27 July 2021

Corporate governance report

Introduction

The Directors recognise the importance of sound corporate governance and have adopted the Quoted Companies Alliance (QCA) Corporate Governance Code (the 'QCA Code'), effective from 27 September 2018.

The Board believes that the QCA Code is 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 the QCA Code is provided later in this report.

The Board of Directors

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

Internal financial control

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

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

The QCA's ten principles of corporate governance are set out under three headings – Deliver Growth, Maintain a Dynamic Management Framework, and Build Trust – and are applied by the Group as set out on page 41 to 46.

Governance framework

The Board

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

Remuneration Committee

Responsible for determining and agreeing with the Board the framework for the remuneration packages for Directors. The Remuneration Committee considers all aspects of the Executive Directors' remuneration and the policy for, and scope of, any termination payments.

Read the Committee report on page 50.

Audit Committee

Responsible for ensuring that appropriate financial controls are in place, monitoring the integrity of the financial statements of the Group, reviewing the effectiveness of the Group's accounting and internal control systems, reviewing reports from the Group's auditor relating to the Group's accounting and internal controls, and reviewing the interim and annual results and reports to shareholders.

Read the Committee report on pages 48 and 49.

Nomination Committee

Responsible for reviewing the structure, size and composition of the Board based upon the skills, knowledge and experience required to ensure the Board operates effectively. The Committee also identifies and nominates suitable candidates to join the Board when vacancies arise and makes recommendations to the Board for the re-appointment of any Non-executive Directors.

Read the Committee report on page 47.

Executive leadership team

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

Details of all members of the Board are set out on pages 36 and 37.

Deliver Growth

Principle 1

Establish a strategy and business model which promote long-term value for shareholders

Read more on pages 12 to 14

The Group's strategy and business model is designed to promote long-term value for shareholders by providing exposure to a large and rapidly growing sector through a portfolio approach, which aims to balance risk and return in a highly dynamic and often unpredictable operating environment.

Key components of our strategy include:

- investment into owned software products;
- development of our people; and
- maintaining and developing excellent relationships with our clients, suppliers and market experts so that we can quickly respond with product and service offerings that support the evolving needs of the market in which we operate.

The Company's strategy and business model, as well as the key challenges faced by the business, are explained in detail in the strategic report on pages 1 to 34.

Principle 2

Seek to understand and meet shareholder needs and expectations

Read more on page 19

The Group is committed to listening and communicating openly with its shareholders to ensure that its strategy, business model and performance are clearly understood by investors.

The Directors meets regularly with institutional shareholders, providing them with an update of business performance and allowing them an opportunity to share their views which are fed back to the Board.

In addition to this, the Group periodically participates in online investor engagement events which provide platforms for all shareholders to engage with, and ask questions of, the directors.

We actively engage with our NOMAD, Cenkos and Brokers, Berenberg and Cenkos and believe these partners are well placed to support our plans for accelerating the future growth of the Group.

The AGM also provides an opportunity for dialogue with shareholders. It is important that all investors have a platform to raise questions or make comments whilst enabling us to give visibility of, and interact with the Board.

David Williams, Chairman, and the Executive Directors are primarily responsible for shareholder liaison, and can be contacted c/o Alma PR at **shearwater@almapr.co.uk**

Corporate governance report continued

Deliver Growth continued

Principle 3

Take into account wider stakeholder and social responsibilities and their implications for long-term success

» Read more on pages 18 and 19

We remain committed as a Board to the highest levels of Corporate Governance and stakeholder engagement in line with section 172 of the Companies Act 2006.

Engaging with our stakeholders strengthens our relationships and helps us make better business decisions to deliver on our commitments. The Board is regularly updated on wider stakeholder engagement feedback to stay abreast of stakeholder insights into the issues that matter most to them and our business, and to enable the Board to understand and consider these issues in decision-making.

Shareholders

Details of how we seek to understand and meet shareholder needs and expectations are set out in principle 2 on page 41.

Customers

We engage appropriately in formal and informal dialogue to garner feedback from customers to understand the challenges they face, which allows us to develop effective solutions to fit our customers' needs.

Suppliers

We engage actively with our supplier chain network, fostering long term collaborative relationships to ensure that together we support the end Customers' needs and are aligned to the Company's aims in delivering high quality products and services.

Employees

We could not deliver our digital resilience offering without our employees, who are therefore one of our most important stakeholder groups in addition to our shareholders, suppliers and customers. The Board therefore closely monitors and reviews the results of the Company's engagement with employees as well as any other feedback it receives to ensure alignment of interests. We hold employee meetings whereby all employees are kept abreast of Group developments and are provided a route to raise and discuss any areas of interest or concern they may have. We seek to create a motivational and supportive work environment to promote high performance and low turnover. All UK employees have the option to share in the creation of long term shareholder value through participation in the Group's share save (Save as you earn) plan.

Community and the environment

In the wider community, we actively support a number of charitable organisations directly and indirectly. We are also conscious of our impact on the environment and have an active carbon offset programme in place. We are proud to report that the Group has been carbon neutral for the second year in a row.

Further details of how the Board considers the interests of all relevant stakeholders can be found on pages 18 and 19.

Principle 4

Embed effective risk management, considering both opportunities and threats, throughout the organisation

Read more on pages 31 to 34

The Board has established a risk management process for identifying, assessing and mitigating the principal risks and uncertainties facing the Group. Individual companies consider material strategic, operational and financial risks at their monthly business review meeting.

Those risks are considered by the Group's executive leadership team and where it is considered appropriate to do so, included on the Group's risk register and allocated to a member of the Group's senior leadership team who is then responsible for monitoring that risk and developing suitable mitigation actions.

The Group's risk register is considered by the Board on a quarterly basis, with ad hoc reviews conducted as required. More detail about the identified principal risks and uncertainties can be found on pages 31 to 34 of the strategic report.

The Board is responsible for establishing and maintaining the Group's system of internal financial controls and the Audit Committee assists the Board in discharging its duties relating to 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.

Such internal financial controls include strategic planning, approval of annual budgets, regular monitoring of performance against budget (including full investigation of significant variances), control of capital expenditure and ensuring proper accounting records are maintained. The Directors have reviewed the effectiveness of the procedures presently in place and consider that they are appropriate to the nature and scale of the operations of the Group. The Directors will continue to reassess internal financial controls as the Group expands further.

The Board also engages independent professional advice on risk assessment matters where appropriate. It is the Board's policy to ensure that the management structure and the quality and integrity of the personnel are compatible with the requirements of the Group.

Corporate governance report continued

Maintain a Dynamic Management Framework

Principle 5

Maintaining the Board as a well-functioning, balanced team led by the Chair

Read more on pages 36 and 37

The Board consists of the Chairman, the Chief Executive Officer, the Chief Financial Officer and three Non-executive Directors. The biographical details of the Board members can be found on pages 36 and 37.

The Board has determined that Robin Southwell, Stephen Ball and Giles Willits are independent in character and judgement and satisfy the independence criteria under the QCA Code. Stephen Ball is the Senior Independent Director.

The Board meets formally at least six times throughout the year in order to, amongst other things, approve financial statements, dividends and significant changes in accounting practices and key commercial matters, such as decisions to be taken on whether to take forward or to cancel a material collaboration project or commercial agreement. There is a formal schedule of matters reserved for decision by the Board in place. The Directors commit the requisite amount of time to their respective roles to ensure that they discharge their individual and collective responsibilities in an effective manner. The Group has effective procedures in place to monitor and deal with conflicts of interest. The Board is aware of the other commitments and interests of its directors, and changes to these commitments and interests are reported to and, where appropriate, agreed with the rest of the Board.

Principle 6

Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

Read more on pages 36 and 37

The Board considers its overall size and current composition to be suitable and have an appropriate balance of sector, financial and public markets skills and experience as well as an appropriate balance of personal qualities and capabilities.

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board based upon the skills, knowledge and experience required to ensure the Board operates effectively. The Nomination Committee is expected to meet when necessary to do so. The Nomination Committee also identifies and nominates suitable candidates to join the Board when vacancies arise and makes recommendations to the Board for the re-appointment of any Non-executive Directors. The Nomination Committee will make recommendations to the Board based on a number of factors including the skills necessary for execution of the Groups' strategy and diversity.

In order to develop their skills and keep up to date with market developments and corporate governance matters, the Board receives training from the Group's Nominated Adviser. All directors are also able to take independent professional advice in the furtherance of their duties, if necessary, at the Group's expense.

Principle 7

Evaluate Board performance based on clear and relevant objectives, seeking continuous Improvement

Read more on page 47

The Board's effectiveness and the individual performance of Directors are considered regularly by the Board on an informal basis, via feedback to the Chairman.

Directors are encouraged to provide feedback on all areas of the Board efficacy, having due regard to the balance of skills, experience, independence and knowledge contributed by members of the Board, as well as the successful operation of the Board as a unit, its diversity and other factors relevant to its effectiveness.

Principle 8

Promote a culture that is based on ethical values and behaviours

Read more on pages 18 and 19, and pages 24 and 25

Our values and culture are the foundation of our strategy and are adopted by all members of our Group.

Morality and ethics are central to our values. They are a clear statement of our commitment to excellence and define the approach we take in our interaction with customers, shareholders and each other.

As a team we:

- do what we say;
- support pioneering development;
- deliver focused performance;
- encourage entrepreneurial spirit;
- show excellence in all we do;
- value people and teamwork;
- deliver customer satisfaction; and
- behave ethically.

This is underpinned by our dedication to safety and security.

Our values are incorporated in all our operating procedures and define our management approach and Group culture. The Board ensures that ethical behaviours are expected and followed by approving a set of internal policies on matters such as anti-bribery and whistleblowing, and by ensuring that appropriate systems and controls are in place to ensure compliance with those policies. Feedback from all stakeholders, as described in further detail in relation to principle 3, allows the Board to monitor the Group's corporate culture and its consistency with Groups' objectives, as well as ethical values and behaviours within the business.

Corporate governance report continued

Maintain a Dynamic Management Framework continued

Principle 9

Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

Read more on page 40

Whilst the Board is collectively responsible for defining corporate governance arrangements, the Chairman is ultimately responsible for corporate governance.

The governance structures within the Group have been assessed by the Board and are considered appropriate for the size, complexity and risk profile of the Group. This will be reviewed by the Board to ensure governance arrangements continue to be appropriate as the Group changes over time.

The Board has also established a schedule of delegated authorities, which are reviewed to ensure they are commensurate with the level of the Group's development. The governance structure in place is considered to be appropriate for the foreseeable future, but will be evolved in line with the Group's plans for growth.

The Board and its Committees receive appropriate and timely information prior to each meeting: a formal agenda is produced for each meeting, and Board and committee papers are distributed in advance of the meeting. Any director may challenge Group proposals and decisions are taken democratically after discussion. Any director who feels that any concern remains unresolved after discussion may ask for that concern to be noted in the minutes of the meeting, which are then circulated to all directors. Any specific actions arising from such meetings are agreed by the Board or relevant Committee and then followed up by the Group's management.

Roles and responsibilities

The Chairman, Chief Executive and Senior Independent Director have clearly defined roles and responsibilities. The role of the Chairman is to lead the Board and ensure it is operating effectively in approving and monitoring the strategic direction of the Group. The role of the Chief Executive is to propose strategic direction to the Board and to execute the approved strategy by leading the executive team in managing the Group's business. The role of the Senior Independent Director is to act as a sounding board for the Chairman and a source of reciprocal feedback for other members of the Board and shareholders, where required.

Board Committees

The Board is supported by an Audit Committee, Remuneration Committee, Nominations Committee and Advisory Panel, further details of which are set out in the individual committee reports on pages 47 to 50.

Build Trust

Principle 10

Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

Read more on pages 18 and 19

The Group is committed to open communications with all its shareholders.

Communication is primarily through the Group's website, the annual report and financial statements, announcements, the AGM and one-to-one meetings with large existing or potential new shareholders and a 'meet the Company' presentation platform for smaller retail investors. All shareholders receive a copy of the annual report (where shares are registered in the name of a nominee, the nominee receives a copy of the annual report) and an interim report at the half year is available on the Group's website. Copies of historical annual reports (including the independent auditor's report, the Directors' report and details of directors' remuneration) and notices of general meetings covering the period since the shares of the Company were admitted to trading on AIM are also available on the Company's website. The Group reports on the responsibilities and activities of each of the Committees in the annual report.

The Group's Board promote transparent communication with all stakeholders. The Board adopts an open door policy to all employees. In addition the executive team receive feedback from the local company MD's, leadership teams, HR and other subject matter experts which include external professional advisers.

Nomination Committee report

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Reviewed and ensured that the make-up of the Board comprises a diverse and knowledgeable skillset.

David Williams
Chairman of the Nomination Committee

Committee attendance

	Attended	Eligible to attend
David Williams (Chairman)	2	2
Stephen Ball	2	2

Attended / Eligible to attend

Dear Shareholder

On behalf of the Board I am pleased to present the Nomination Committee report for the year ending 31 March 2021.

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 skillset 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

Succession planning

During the year the Committee reviewed and approved a proposed succession plan which it believes mitigates the risks associated with unexpected changes of existing personnel.

During the coming year

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

Approved on behalf of the Nomination Committee by:

David Williams
Chairman of the Nomination Committee
27 July 2021

Audit Committee report

> Over the past year the Group have continually reviewed its processes and practices to respond to the various financial and operation challenges presented by COVID19.

Giles Willits
Chairman of the Audit Committee

Committee attendance

	Attended	Eligible to attend
Giles Willits (Chairman)	3	3
David Williams	2	3
Stephen Ball	3	3

Dear Shareholder

On behalf of the Board I am pleased to present the Audit Committee report for the year ending 31 March 2021.

Over the past year the Group has continually reviewed its processes and practices to respond to the various financial and operational challenges presented by COVID19.

A key consideration for the Committee has been in ensuring the Group is able to maintain its financial operations, working within a robust and effective internal control environment with the majority of the finance function working remotely. In addition to this, the Committee has reviewed the impact of preparing statutory results, factoring the challenges faced with delivering a remote audit. I am pleased to say that thanks to the efforts of our auditor and our finance team this process has been a success.

Roles and responsibilities

The role of the Audit Committee is to assist the Board in fulfilling its corporate governance responsibilities with regard to the Group's financial reporting, internal controls and risk management systems. The Committee monitors the integrity of the interim and annual financial statements and advises the Board as to whether as a whole they are fair, balanced and understandable and provide the shareholder with the necessary information to assess the Group's strategy, 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 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 executive roles in financial positions in other companies. I am currently Chief Financial Officer of Design Group plc (AIM: IGR).

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 Head of Finance are invited to attend.

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

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 2020 and the full-year audited financial statements for the period ending 31 March 2021 and reported to the Board that in its view the statements were fair, balanced and understandable.

A key consideration for the Group and Committee for the year ended 31 March 2021 financial statements has been assessing the ongoing impact of COVID19 on the Group, with particular focus on asset valuation, impact to key stakeholders and the going concern basis for preparation of the financial statements.

Significant areas

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

1. Going concern

The Audit Committee has and continues to assess the ongoing challenges brought by the COVID19 global pandemic and has considered the potential impact on the Group's financial position, cash flows and liquidity.

The Audit Committee has reviewed management's forward-looking forecasts, which include a reverse stress test which models an extreme scenario which negatively impacts future trading as a result of potential future uncertainties around COVID19.

The Committee has challenged what it believes is an extreme scenario reverse stress test and is satisfied that the financial statements should be prepared on a going concern basis. Please see pages 54 and 66 for additional details on the Group's going concern assessment. The Committee has also reviewed and challenged the COVID19 related risks included within the principal risks and uncertainties section on page 33.

2. Impairment of intangible assets

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

The Committee has concluded that the assumptions and judgements applied by management are sensible and the carrying values are appropriate, therefore no impairment is required.

3. Use of alternative performance measures

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

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 31 to 34.

The internal control environment continues to evolve and develop as the Group grows with a particular focus on consolidation of process and introduction of new technology through its shared services function to enhance control across the Group.

External audit

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

BDO has provided audit services to the Group since incorporation in 2005. It has, however, only served the Group in its current state as a digital and operational resilience business since March 2017. Performance has been reviewed annually and audit partner rotation requirements have been observed.

The Committee has recommended to the Board that BDO LLP are re-appointed as external auditor for the forthcoming financial year. This will be put to shareholders at the AGM in September.

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
27 July 2021

Remuneration Committee report

> The Group has delivered a second year of underlying EBITDA profitability, ahead of both the prior year and the markets' expectations.

David Williams
Chairman of the Remuneration Committee

Committee attendance

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

□ Attended ■ Eligible to attend

Dear Shareholder

On behalf of the Board I am pleased to present the Remuneration Committee report for the year ending 31 March 2021.

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 Executive Directors' remuneration, including pensions, bonus arrangements, benefits, incentive payments and share option awards.

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

Committee members

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

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

Review of the financial year ended 31 March 2021

Group performance

As detailed within the strategic report section, the Group has delivered a second year of underlying EBITDA profitability, ahead of both the prior year and the markets' expectations. COVID19 related restrictions brought additional challenges, most notably to our advisory businesses whose revenues were impacted; however, despite these challenges the Group produced strong operating cash flows which has significantly enhanced its' financial position at March 2021.

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

Key activities and actions over the past year

Executive Directors' salary reviews

In light of the continued uncertainties at the start of the fiscal year regarding the impact of COVID19, executives waived their annual salary reviews. Non-executive Directors' salaries were also frozen during the year.

Annual bonus

The bonus opportunity for Executive Directors during the year was based on the achievement of an underlying EBITDA target.

The Remuneration Committee approves annual bonuses for Executive Directors and retains a level of discretion over the level of pay-out based upon the quality of financial performance in achieving the results. In the year ended 31 March 2021 bonuses were paid to the Chief Executive Officer and Chief Financial Officer in line with the previous year. Details of awards can be found on page 51.

Share options

No additional share options were granted in the period.

Approved on behalf of the Remuneration Committee by:

David Williams
Chairman of the Remuneration Committee

27 July 2021

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	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Wages and salaries	**457**	540	**170**	170
Social security costs	**56**	67	**23**	23
Pension costs	**12**	12	**—**	—
Share-based payments	**186**	179	**98**	92
Total remuneration	**711**	798	**291**	285

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

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

Annual report on remuneration continued

Year ended 31 March 2020	Total salary and fees £'000	Bonus £'000	Benefits £'000	Sub-total £'000	Pension £'000	Total £'000
Executive Directors						
P Higgins	110	60	—	170	—	170
P McFadden	119	38	1	158	12	170
M Stevens (resigned 12 April 2019)[1]	83	—	—	83	—	83
Non-executive Directors						
D Williams	51	—	—	51	—	51
S Ball	26	—	—	26	—	26
R Southwell	26	—	—	26	—	26
G Willits	26	—	—	26	—	26
Total	**441**	**98**	**1**	**540**	**12**	**552**

1. Figures include £76k for payment in lieu of notice.

The Directors' interests in the share options of the Group as at 31 March 2021 were as follows:

	Number of options at 31 March 2021	Exercise price	Date of grant	First date of exercise	Final date of exercise
P McFadden	**7,875[1]**	£4.00	07/05/18	07/05/19	30/09/23

1. Values are presented post share consolidation.

As a result of the share consolidation in September 2019, the number of share options have been divided by 100 and the exercise price multiplied by 100.

Directors' report

The Directors present their annual report together with the audited financial statements for the year ended 31 March 2021.

Principal activities

The Group's principal activity is to provide cyber solutions and operational resilience solutions to a range of end user markets.

Strategic report

A review of the business, future developments and the principal risks and uncertainties facing the Group are included within the strategic and business review of activities on pages 1 to 34.

Results and dividends

Results of the year and financial position are detailed on pages 62 to 95. The Directors do not recommend the payment of a dividend for the year (2019/20: £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 2021	Number of shares held at 31 March 2020
P Higgins	**2,236,350**	2,251,667
D Williams	**1,433,757**	1,381,674
R Southwell	**155,000**	155,000
S Ball	**119,444**	119,444
G Willits	**67,717**	67,717
P McFadden	**1,715**	1,715

Share capital and substantial shareholders

Details of the issued share capital, together with details of the movements during the year are detailed in note 18 of the consolidated financial statements.

On 25 September 2019, at the Group's AGM, shareholders approved the capital reorganisation to consolidate the Company's ordinary shares by a factor of 100.

Immediately following the consolidation, each consolidated share was sub-divided into one ordinary share of £0.10 (a 'new ordinary share') and one deferred share of £0.90 (a '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.

Details of share-based payments are contained in note 19 of the consolidated financial statements and the Directors' remuneration report. No person has control over the Company's share capital and issued shares are fully paid.

At 31 March 2021, 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
Secarma	12.28%
Schroders plc	12.03%
Mr P Higgins	9.39%
Mr D Stacey	8.84%
Mr D Williams	6.02%
Killik & Co LLP	4.93%
Mr S Watts	3.75%
Columbia Threadneedle	3.32%

Directors' indemnities

The Group currently has in place, and had for the year ended 31 March 2021, Directors' and Officers' liability insurance for the benefit of all Directors of the Group.

Directors' report continued

Going concern

The Directors' have reviewed detailed forecasts for the period to at least 31 March 2023 and have challenged the assumptions used to create these. As part of this review the Directors have considered the principal risks the Group is exposed to and how this could impact future trading and the subsequent future cash flows.

The Directors have reviewed what it considers to be an extreme (stress test scenario) and believes the Group have adequate financial resources to service its liabilities should trading be adversely impacted.

In the year ended 31 March 2021, against the backdrop of COVID19 trading conditions, the Group has demonstrated it's ability to perform during challenging trading conditions and has strengthened its financial position having delivered a consecutive year of strong operational cash flows which has allowed the business to pay down legacy debts which in addition to the fundraise completed in April 2020 has resulted in an enhanced year-on-year net cash position.

The addition of a Group revolving credit facility, which to date remains untouched as well as the utilisation of Government backed VAT deferral scheme has provided the business with additional flexibility.

The Directors continue to adopt the going concern basis in preparing the annual report and financial statements following the Directors' review of the Group's operations, current financial position, cash flow forecasts and future financing requirements 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 Groups' employees, ensuring that they are updated on various factors including updates on the performance of the Group. The executive team hold employee briefings at least twice a year with local management briefing their teams more regularly.

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

Stakeholder engagement

Details of the Group's engagement with its key stakeholders is included within the strategic report on pages 18 and 19.

Environment

In February 2021 we announced our new partnership with 'DODO.eco'. Each month Shearwater will offset 100% of its carbon footprint so that the Group is capturing every bit of CO2 it is releasing into the planet. Our carbon footprint is largely made up of business travel, office operations, general services, and employee commuting. Since this has changed so much due to COVID19, we have also included the emissions of all our employees who are working from home.

Details of the Group's emissions are detailed below:

Fiscal year (April 2020 – March 2021) **CO_2 emissions by category**	Tonnes CO_2e
Office	206.7
Employee	152.7
Technology	25.9
Marketing	14.6
Business travel	7.7
Food and accommodation	4.2
Total	**411.8**

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 20 of the consolidated financial statements. The financial risk management policies and objectives are also set out in detail in note 20.

Political donations

No political donations were made during the financial year (2019/20: nil).

Events after the reporting date

See note 23 of the consolidated financial statements for details.

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 22 September 2021. Notice of the Annual General Meeting will be circulated shortly to shareholders.

On behalf of the Board

David Williams
Chairman

27 July 2021

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Accounting Standards (IAS) in conformity with the requirements of the Companies Act 2006. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for the year ended 31 March 2021. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS, 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 will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the 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 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/

Financial statements

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 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- 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 2021 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 statement of cash flows 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 international accounting standards in conformity with the requirements of the Companies Act 2006. 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:

- Obtained an understanding of the management process for producing cash forecasting models, including the inputs and assumptions used in those models.
- Obtained management's board approved budget and forecast cash flows and management's reverse stress test.
- Understanding and challenging the forecasts for the Group including underlining assumptions in the forecasts by performing an analysis of changes in key assumptions including a reasonable (but not unrealistic) reduction in forecast revenue to understand the sensitivity in the cash flow forecasts.
- A review of the appropriateness of the Directors' statements in note 1 of the financial statements as to whether it discloses all the relevant events and assumptions made to adopt the going concern basis of accounting in preparation of the financial statements.

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 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	93% (2020: 85%) of Group profit/(loss) before tax 97% (2020: 95%) of Group revenue 92% (2020: 94%) of Group total assets

Key audit matters

	2021	2020
Revenue Recognition	✓	✓
Business Combinations		✓

Business combinations is no longer considered to be a key audit matter because there have not been any acquisitions in the current financial year.

Materiality	Group financial statements as a whole: £556k (2020: £495k) based on 1.75% (2020: 1.5%) of 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.

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 three significant components, including the Parent Company that were subject to full scope audit by the BDO Group engagement team. Review procedures were performed by the BDO Group engagement team on the remaining ten components.

Cover:

- Full scope audits on Shearwater Group plc (the entity), SecurEnvoy Limited and Brookcourt Solutions Limited.
- The remaining components not subject to full scope audit were reviewed for the Group audit opinion, by the BDO Group engagement team, using analytical procedures to support the conclusions reached that there were no significant risks of material misstatement of 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
Revenue recognition The Group derives revenue from the rendering of services to customers. For the Directors' disclosures of related accounting policies, judgements and estimates refer to note 1 and note 3. The Group sells services and products which are sold individually and in software and service bundles. Revenue is recognised at either a point in time or over time depending on whether the performance obligation is distinct and when the performance obligation is satisfied. This gives rise to scope for error in the timing and amount of revenue recognised. Furthermore, as these amounts are material and revenue is a key performance indicator, we consider this to be a key audit matter.	We inspected a sample of contracts to determine the nature of performance obligations and to identify which of these should be recognised at a point in time or over time. We also inspected that the performance obligation had been satisfied by agreeing to emails of delivery of licence keys and inspected time cards for the performance of hours to customer codes. We recalculated a sample of deferred revenue balances as at the year end to confirm accuracy of the revenue recognition. A further sample of items were tested around the year end in order to identify potential cut-off issues and the completeness of the deferred revenue balance. **Key observations:** Based on the procedures undertaken we have not identified evidence of material error in revenue recognition in the year.

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	
	2021 **£k**	2020 £k	**2021** **£k**	2020 £k
Materiality	**556**	495	**319**	370
Basis for determining materiality	Group materiality is calculated at 1.75% of Group revenue	Group materiality is calculated at 1.5% of Group revenue	Parent company materiality is set at 1.5% of Group assets, limited to 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.		The Company does not generate any revenues and the majority of the Group expenses are incurred by the shared service centre. The parent entity is predominantly the holder of the investments in the subsidiaries. As a result, total assets is considered to be the most appropriate benchmark.	
Performance materiality	**417**	371	**239**	277
Basis for determining performance materiality	Performance materiality was set at 75% (2020: 75%) of the above materiality figures. 75% is based on our assessment of the overall control environment.			

Independent auditor's report continued

to the members of Shearwater Group plc

Our application of materiality continued

Component materiality

We set materiality for each component of the Group based on a percentage of between 75% 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 £319k to £383k. In the audit of each component, we further applied performance materiality levels of 75% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £21,300 (2020: £24,700). 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 other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

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

Strategic report and Directors' report

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

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

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

Matters on which we are required to report by exception

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

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

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

We focused on laws and regulations that could give rise to a material misstatement in the Company financial statements and the susceptibility of the entity's financial statements to material misstatement including fraud. As part of planning procedures undertaken and discussions with management, we obtained an understanding of the legal and regulatory framework applicable to the entity. Our tests included, but were not limited to:

- 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, capitalised development costs and the going concern assumption;
- agreement of the financial statement disclosures to underlying supporting documentation;
- 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; and
- review of tax compliance and involvement of our tax specialists in the audit.

Our procedures included journal entry testing, with a focus on large or unusual transactions based on our knowledge of the business, and enquiries with company 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.

Nicole Martin (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor

55 Baker Street
London
W1U 7EU

27 July 2021

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 2021

	Note	2021 £'000	2020 £'000
Revenue	3	**31,766**	33,004
Cost of sales		**(21,871)**	(22,817)
Gross profit		**9,895**	10,187
Administrative expenses	4	**(6,501)**	(7,785)
Depreciation and amortisation		**(3,200)**	(2,734)
Other operating expenses		**37**	(378)
Total operating costs		**(9,664)**	(10,897)
Operating profit/(loss)		**231**	(710)
Underlying EBITDA		**3,705**	3,409
Depreciation and amortisation		**(3,200)**	(2,734)
Exceptional items		**–**	(678)
Share-based payments		**(311)**	(329)
Other operating expenses		**37**	(378)
Operating profit/(loss)		**231**	(710)
Finance income		**2**	8
Finance cost	6	**(200)**	(560)
Profit/(loss) before taxation		**33**	(1,262)
Income tax credit/(charge)	7	**112**	(242)
Profit/(loss) for the year and attributable to equity holders of the Company		**145**	(1,504)
Other comprehensive income			
Items that may be reclassified to profit and loss:			
Change in financial assets at fair value through OCI		**–**	(4)
Exchange differences on translation of foreign operations		**(3)**	7
Total comprehensive profit/(loss) for the year		**142**	(1,501)
Earnings/(loss) per ordinary share attributable to the owners of the parent			
Basic and diluted (£ per share)	8	**0.01**	(0.07)
Adjusted basic and diluted (£ per share)	8	**0.10**	0.08

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

The results above are derived from continuing operations.

The notes on pages 66 to 88 are an integral part of these consolidated financial statements.

Consolidated statement of financial position
as at 31 March 2021

	Note	2021 £'000	2020 £'000
Assets			
Non-current assets			
Intangible assets	9	**54,616**	56,767
Property, plant and equipment	11	**405**	692
Deferred tax asset		**—**	186
Total non-current assets		**55,021**	57,645
Current assets			
Trade and other receivables	12	**9,611**	10,505
Cash and cash equivalents		**8,049**	3,343
Total current assets		**17,660**	13,848
Total assets		**72,681**	71,493
Liabilities			
Current liabilities			
Trade and other payables	13	**12,237**	14,586
Total current liabilities		**12,237**	14,586
Non-current liabilities			
Creditors: amounts falling due after more than one year	14	**3,956**	4,393
Total non-current liabilities		**3,956**	4,393
Total liabilities		**16,193**	18,979
Net assets		**56,488**	52,514
Capital and reserves			
Share capital	18	**22,277**	22,107
Share premium		**34,581**	34,581
FVTOCI reserve		**14**	14
Other reserves		**24,376**	20,714
Translation reserve		**24**	27
Accumulated losses		**(24,784)**	(24,929)
Equity attributable to owners of the Company		**56,488**	52,514
Total equity and liabilities		**72,681**	71,493

The notes on pages 66 to 88 are an integral part of these consolidated financial statements.

The financial statements on pages 62 to 88 were approved and authorised for issue by the Board and signed on their behalf on 27 July 2021.

Philip Higgins
Chief Executive Officer

27 July 2021

Registered number: 05059457

Consolidated statement of changes in equity

for the year ended 31 March 2021

Group	Share capital (note 18) £'000	Share premium £'000	FVTOCI reserve £'000	Other reserve £'000	Translation reserve £'000	Accumulated losses £'000	Total equity £'000
At 1 April 2019	19,040	34,578	18	19,123	20	(23,425)	49,354
Loss for the year	—	—	—	—	—	(1,504)	(1,504)
Other comprehensive loss for the year	—	—	(4)	—	7	—	3
Total comprehensive loss for the year	—	—	(4)	—	7	(1,504)	(1,501)
Contributions by and distributions to owners							
Issue of share capital	3,067	3	—	—	—	—	3,070
Merger relief reserve	—	—	—	1,262	—	—	1,262
Share-based payments	—	—	—	329	—	—	329
At 31 March 2020	22,107	34,581	14	20,714	27	(24,929)	52,514
Profit for the year	**—**	**—**	**—**	**—**	**—**	**145**	**145**
Other comprehensive loss for the year	**—**	**—**	**—**	**—**	**(3)**	**—**	**(3)**
Total comprehensive profit for the year	**—**	**—**	**—**	**—**	**(3)**	**145**	**142**
Contributions by and distributions to owners							
Issue of share capital	**170**	**—**	**—**	**3,351**	**—**	**—**	**3,521**
Share-based payments	**—**	**—**	**—**	**311**	**—**	**—**	**311**
At 31 March 2021	**22,277**	**34,581**	**14**	**24,376**	**24**	**(24,784)**	**56,488**

The notes on pages 66 to 88 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

for the year ended 31 March 2021

	Note	2021 £'000	2020 £'000
Cash flows from operating activities			
Profit/(loss) for the year		**145**	(1,504)
Adjustments for:			
Amortisation of intangible assets	4	**2,860**	2,418
Depreciation of property, plant and equipment	4	**340**	316
Share-based payment charge	4	**311**	329
Fair value adjustment of deferred consideration	4	**(37)**	69
Contingent consideration	4	**—**	309
Finance income		**(2)**	(8)
Finance cost		**200**	560
Gain/(loss) on sale of asset		**—**	(1)
Income tax		**(112)**	242
Cash flow from operating activities before changes in working capital		**3,705**	2,730
Decrease/(increase) in trade and other receivables		**894**	4,384
(Decrease)/increase in trade and other payables		**2,029**	(2,239)
Cash generated from operations		**6,628**	4,875
Net foreign exchange movements		**3**	8
Finance cost paid		**(38)**	(62)
Tax paid		**—**	399
Net cash generated from operating activities		**6,593**	5,220
Investing activities			
Purchase of property, plant and machinery	11	**(45)**	(20)
Purchase of software	9	**(709)**	(1,409)
Proceeds from disposal of held-for-sale assets	10	**—**	27
Proceeds from disposal of tangible assets		**17**	1
Net cash used in investing activities		**(737)**	(1,401)
Financing activities			
Proceeds from issue of share capital		**3,750**	2
Proceeds from issue of loans	22	**—**	500
Repayment of loan liabilities	22	**(4,151)**	(1,341)
Expenses paid in connection with share issues		**(466)**	—
Repayment of lease liabilities	22	**(281)**	(236)
Net cash used in financing activities		**(1,148)**	(1,075)
Net increase/(decrease) in cash and cash equivalents		**4,708**	2,744
Foreign exchange movement on cash and cash equivalents		**(2)**	2
Cash and cash equivalents at the beginning of the period		**3,343**	597
Cash and cash equivalents at the end of the period		**8,049**	3,343

The notes on pages 66 to 88 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

for the year ended 31 March 2021

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 solutions and operational resilience solutions to a range of end user markets.

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 International Financial Reporting Standards (IFRS), including International Accounting Standards (IAS) and interpretations (IFRS ICs) issued by the International Accounting Standards Board (IASB) and its committees, and as adopted in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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

Going concern

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

In light of the continued evolution of the COVID19 crisis the Directors have maintained a close eye on the Group's going concern position and have taken steps to ensure that the Group is in a robust position to manage potential trading downturns should they occur. Over the past year the Group demonstrated its ability to trade through challenging conditions which saw its advisory businesses impacted by COVID19 driven restrictions on movement that prevented face-to-face engagements for much of the year.

Despite these challenges, the Group has built on the prior year when it achieved its maiden EBITDA profit, delivering a £3.7 million underlying EBITDA in the current year (2020: £3.4 million) 9% ahead of the prior year. Cash conversion has remained in excess of 100% in the year with £6.6 million generated from its ongoing operations.

At 31 March 2021 the Group has been able to report a much improved financial position and is well capitalised with a net cash position of £7.3 million (2020: net debt £1.4 million) and an untouched three-year £4.0 million Group revolving credit facility with Barclays Bank plc.

The Directors have reviewed detailed budget cash flow forecasts for the period to at least 31 March 2023 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 Group has adapted to respond to the challenges arising from COVID19 and the unique trading conditions that this has created and the Directors believe the Group has a stable footing to develop its business over the immediate future.

The Board has reviewed current trading to 30 June 2021 and is pleased to report that trading is tracking in line with budget for the first quarter, with a number of businesses reporting material year-on-year improvement in trading which provides for increased optimism moving forward.

In response to the additional challenges created by COVID19, the Board has reviewed and challenged what it believes to be an extreme scenario reverse stress test on the Group up to March 2023. The purpose of the reverse stress test for the Group is to test at what point the cash facilities would be fully utilised if the assumptions in the budget are altered.

The reverse stress test assumes significant adjustments to the Group's budget which include the removal of all new business revenue across both Software and Services divisions, reduction of renewal rates in our Software division to 50% (currently c.80%), scaling back of revenues in our Services division leaving just critical managed services revenues and already contracted revenues. Costs have been scaled back sensitively in line with the reduction in revenues.

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

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

Critical accounting judgements, estimates and assumptions

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

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. At present, management are assessing all existing leases, which all relate to office space, as we look to reduce the number of offices across the Group. 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.

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.

Notes to the consolidated financial statements continued

for the year ended 31 March 2021

1. Statement of accounting policies continued

Revenue continued

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

Software

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

Services

- Sale of third-party hardware, software and warranties:
  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.

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.

Exceptional items

The Group's statement of comprehensive income separately identifies exceptional items. Such items are those that in the Directors' judgement are one-off in nature and need to be disclosed separately by virtue of their size and incidence. In determining whether an item or transaction should be classified as an exceptional item, the Directors consider quantitative as well as qualitative factors such as the frequency, predictability of occurrence and significance. This is consistent with the way that financial performance is measured by management and reported to the Board. Exceptional items may not be comparable to similarly titled measures used by other companies. Disclosing adjusted items separately provides additional understanding of the performance of the Group. Please see note 4 for further details.

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	2-5 years straight-line basis
Customer relationships	1-15 years straight-line basis
Software	10 years straight-line basis
Tradenames	10 years straight-line basis

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

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

Property, plant and equipment

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

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

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

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

Financial instruments

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

Financial assets

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

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

Impairment of financial assets

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

The new 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 0.3% (2020: 0.3%). This percentage rate is then applied to current receivable balances using a probability risk spread as follows:

- 80% of debt not yet due (i.e. the Group's average combined loss rate of 0.3% is discounted by 20%, meaning a 0.24% 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 £27,191 (2020: £26,377). 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.

The Group utilised an invoice discounting facility in the prior year. Advances under this facility were initially recognised at fair value, which was the amount advanced. Subsequently, accrued interest was recognised as per the terms of the facility. The invoice discounting facility was closed on 20 March 2020 following the settlement of all outstanding advances.

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

Notes to the consolidated financial statements continued

for the year ended 31 March 2021

1. Statement of accounting policies continued

Financial liabilities continued

Trade and other payables continued

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

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

Leases

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

Right of use assets

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

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

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

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

Details of the Group's right of use assets are contained in note 11 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 to use asset.

Lease liabilities are detailed in notes 13, 14 and 16 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 of 3.5% which it uses to discount all identified leases across the Group.

Share-based payments

In order to calculate the charge for share-based payments as required by IFRS 2, the Group makes estimates principally relating to assumptions used in its option-pricing model as set out in note 19.

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

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

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

Pensions

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

Uncertainty over income tax treatments

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

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

The Group elected to apply IFRIC 23 retrospectively with the cumulative effect recorded in retained earnings as at the date of initial application, 1 April 2019. The adoption of IFRIC 23 has had no impact on retained earnings or on corporate tax liabilities.

New standards and interpretations applied

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

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

New standards and interpretations not applied

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

International Financial Reporting Standard (IFRS/IAS)	Effective date	To be adopted by the Group
Onerous contracts – Cost of fulfilling a contract (Amendment to IAS 37)	1 January 2022	1 April 2022
Property, plant and equipment: Proceeds before intended use (Amendment to IAS 16)	1 January 2022	1 April 2022
Annual improvements to IFRS standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41)	1 January 2022	1 April 2022
References to Conceptual Framework (Amendment to IFRS 3)	1 January 2022	1 April 2022

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

Notes to the consolidated financial statements continued

for the year ended 31 March 2021

2. Measure of profit

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

Underlying profit/(loss) before tax

- Amortisation of acquired intangibles
- Share-based payments
- Impairment of intangible assets
- Exceptional items (please see note 4 for further details)
- Fair value adjustment to deferred consideration
- Contingent consideration

Underlying EBITDA

In addition to the adjusting items highlighted above in the underlying profit/(loss) before tax:

- Finance costs
- Finance income
- Depreciation
- Amortisation of intangible assets – computer software

Underlying EBITDA and underlying profit/(loss) before tax reconciles to profit/(loss) before tax as follows:

	2021 £'000	2020 £'000
Profit/(loss) before tax	**33**	(1,262)
Amortisation of acquired intangibles	**2,099**	2,095
Share-based payments	**311**	329
Exceptional items	**–**	678
Fair value adjustment to deferred consideration	**(37)**	69
Contingent consideration	**–**	309
Underlying profit before tax	**2,406**	2,218
Finance costs	**200**	560
Finance income	**(2)**	(8)
Depreciation	**340**	316
Amortisation of intangible assets – computer software	**761**	323
Underlying EBITDA	**3,705**	3,409

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 2021 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 2021 £'000	Profit Year ended 31 March 2021 £'000	Revenue Year ended 31 March 2020 £'000	Profit Year ended 31 March 2020 £'000
Services	27,448	3,076	27,544	2,262
Software	4,318	2,169	5,460	2,678
Group total	31,766	5,245	33,004	4,940
Group costs		(1,540)		(1,531)
Underlying EBITDA		3,705		3,409
Amortisation of intangibles		(2,860)		(2,418)
Depreciation		(340)		(316)
Share-based payments		(311)		(329)
Exceptional items		–		(678)
Fair value adjustment to deferred consideration		37		(69)
Contingent consideration		–		(309)
Finance income		2		8
Finance cost		(200)		(560)
Profit/(loss) before tax		33		(1,262)

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).

	2021 £'000	2020 £'000
United Kingdom	23,424	21,443
Europe (excluding the UK)	6,863	8,841
North America	1,163	1,359
Rest of the world	316	1,361
	31,766	33,004

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

Two customers within the Group each make up more than 10% of the Group's revenue. These two customers contribute £13.3 million and £4.3 million respectively to the Group's Services division. In the prior year, three customers made up more than 10% of the Group's revenue, contributing £9.2 million, £4.3 million and £4.0 million respectively to the Group's Services division.

Notes to the consolidated financial statements continued

for the year ended 31 March 2021

4. Expenses and auditor's remuneration

Operating profit/(loss) is stated after charging:

	2021 £'000	2020 £'000
Depreciation of fixed assets	340	316
Amortisation of intangibles	2,860	2,418
External auditor's remuneration:		
– Audit fee for annual audit of the Group and Company financial statements	46	53
– Audit fee for annual audit of the subsidiary financial statements	149	109
Share-based payments	311	329
Exceptional items	–	678
Fair value adjustment of deferred consideration	(37)	69
Contingent consideration	–	309

Prior year exceptional items relate to an internal reorganisation that took place during the year (£0.3 million), acquisition costs for Pentest Limited (£0.3 million) and additional one-off legal costs (£0.1 million). Reorganisation costs include £0.2 million of exit costs relating to discontinued operations. No further disclosure has been provided in either year for discontinued operations as due to the quantum this falls outside the scope of IFRS 5.

5. Staff costs

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

	2021 £'000	2020 £'000
Wages and salaries	6,114	6,952
Social security costs	715	834
Pension costs	247	341
Share-based payments	311	329
	7,387	8,456

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

	2021	2020
Administration	20	20
Production	45	50
Sales and marketing	27	35
	92	105

6. Interest costs

	2021 £'000	2020 £'000
Interest payable on loan balances	143	470
Interest payable on invoice finance facility	–	70
Interest payable on revolving credit facility	36	–
Interest payable on lease liabilities	18	20
Other interest payments	3	–
	200	560

7. Taxation

	2021 £'000	2020 £'000
Current tax:		
UK corporation tax at current rates on UK profit/(loss) for the year	**185**	351
Adjustments for previous periods	**16**	(74)
	201	277
Foreign tax	**3**	7
Total current tax charge	**204**	284
Deferred tax movement in the period	**(316)**	(42)
Income tax (credit)/charge	**(112)**	242
Reconciliation of taxation:		
Profit/(loss) before tax	**33**	(1,262)
Profit/(loss) multiplied by the average rate of corporation tax in the year of 19% (2020: 19%)	**6**	(240)
Tax effects of:		
Deferred tax not recognised	**–**	4
Expenses not deductible for tax purposes	**453**	666
Adjustments for previous periods	**16**	(74)
Foreign tax rate differences	**3**	2
Fair value adjustment to deferred consideration	**(7)**	13
Enhanced R&D relief	**(36)**	(129)
Other items	**(140)**	–
Brought forward losses	**(407)**	–
Income tax (credit)/charge	**(112)**	242

In the prior year the Group had gross tax losses and temporary timing differences of £1.3 million of which £0.2 million was recognised as a deferred tax asset This has been utilised in full in the current year.

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
- Contingent consideration

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

For diluted earnings/(loss) per share, the weighted average number of shares in issue is adjusted to assume conversion of all the potential dilutive ordinary shares. The potential dilutive shares are dilutive for the twelve months ended 31 March 2021 and anti-dilutive for the twelve months ended 31 March 2020 as the Group was loss making in the prior year. Adjusted earnings per share is potentially dilutive in the year to 31 March 2021 and 2020. Please see notes 18 and 19 of the consolidated financial statements for more details.

Notes to the consolidated financial statements continued
for the year ended 31 March 2021

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

	2021 £'000	2020 £'000
Net profit/(loss) from total operations		
Profit/(loss) for the purposes of basic and diluted earnings/(loss) per share being net profit/(loss) attributable to shareholders	145	(1,504)
Add/(remove):		
Amortisation of acquired intangibles	1,877	1,873
Share-based payments	311	329
Exceptional items	—	609
Fair value adjustment to deferred consideration	(37)	69
Contingent consideration	—	309
Underlying earnings for the purposes of adjusted earnings per share	2,296	1,685

	Number	Number
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and adjusted earnings/(loss) per share	23,612,892	22,005,719
Weighted average number of ordinary shares for the purpose of basic and adjusted diluted earnings per share	23,780,441	22,158,427

	£	£
Basic and diluted earnings/(loss) per share	0.01	(0.07)
Adjusted basic and diluted earnings per share	0.10	0.08

9. Intangible assets

	Goodwill £'000	Customer relationships £'000	Software £'000	Tradenames £'000	Gold exploration £'000	Total £'000
Cost						
At 1 April 2019	33,566	8,544	5,425	6,826	1,005	55,366
Recognised on acquisition	2,792	2,294	—	—	—	5,086
Additions	302	—	1,409	—	—	1,711
At 31 March 2020	36,660	10,838	6,834	6,826	1,005	62,163
Additions	—	—	709	—	—	709
At 31 March 2021	**36,660**	**10,838**	**7,543**	**6,826**	**1,005**	**62,872**
Accumulated amortisation						
At 1 April 2019	—	817	836	319	1,005	2,977
Amortisation for the year	—	930	806	683	—	2,419
At 31 March 2020	—	1,747	1,642	1,002	1,005	5,396
Amortisation for the year	—	**942**	**1,243**	**675**	—	**2,860**
At 31 March 2021	—	**2,689**	**2,885**	**1,677**	**1,005**	**8,256**
Net book amount						
At 31 March 2021	**36,660**	**8,149**	**4,658**	**5,149**	—	**54,616**
At 31 March 2020	36,660	9,091	5,192	5,824	—	56,767
At 31 March 2019	33,566	7,727	4,589	6,507	—	52,389

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 15% and a terminal value, based on a long-term growth rate of 2% to 2.5% calculated on year five cash flow has been used when testing goodwill.

Goodwill arising in the prior year is from the acquisition of Pentest which consisted largely of the future revenue opportunities of the service offerings not yet realised, expertise within the acquired workforces as well as intra-group synergies and economies of scale as a result of utilisation of the Group's shared services function. None of the goodwill is expected to be deductible for income tax purposes.

Goodwill additions in the prior year included £0.3 million for the net current asset true up for Brookcourt.

10. Financial assets at fair value through OCI

	Total £'000
Cost	
At 1 April 2019	33
Revaluation	(2)
Fair value loss	(4)
Disposal proceeds	(27)
At 31 March 2020 and 31 March 2021	—

On 4 October 2019 the Group sold all of its 715,000 ordinary shares in Plymouth Minerals Limited (ASX: INF previously PLH) listed on the Australian Securities Exchange.

Notes to the consolidated financial statements continued

for the year ended 31 March 2021

11. Property, plant and equipment

	Right of use assets £'000	Office equipment £'000	Total £'000
Cost			
At 1 April 2019	—	331	331
Additions following adoption of IFRS 16	740	—	740
Additions	—	20	20
At 31 March 2020	740	351	1,091
Additions	**60**	**45**	**105**
Disposals	**(259)**	**(31)**	**(290)**
At 31 March 2021	**541**	**365**	**906**
Accumulated depreciation			
At 1 April 2019	—	83	83
Change for the period	222	94	316
At 31 March 2020	222	177	399
Change for the period	**263**	**77**	**340**
Disposals	**(227)**	**(11)**	**(238)**
At 31 March 2021	**258**	**243**	**501**
Net book amount			
At 31 March 2021	**283**	**122**	**405**
At 31 March 2020	518	174	692
At 31 March 2019	—	248	248

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

12. Trade and other receivables

	2021 £'000	2020 £'000
Trade receivables	**8,965**	8,575
Prepayments and other receivables	**305**	1,458
Accrued income	**341**	472
	9,611	10,505

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

	2021 £'000	2020 £'000
At 1 April	**26**	—
Movement in expected credit loss provision	**1**	26
At 31 March	**27**	26

13. Trade and other payables

	2021 £'000	2020 £'000
Trade payables	7,724	6,093
Loans	20	4,054
Accruals and other payables	1,345	2,603
Deferred income	441	425
Other taxation and social security	2,484	844
Lease liabilities	193	280
Deferred consideration	–	275
Corporation tax	30	12
	12,237	14,586

Prior year loan balances included £3.0 million (excluding interest) of delayed completion cash which was repaid to the previous shareholders of Brookcourt Solutions Limited during the year. In addition to this, £0.2 million owed to the previous owners of Pentest (part of the Pentest acquisition consideration) and £0.3 million repayment of a working capital loan were settled during the year. Please see note 21 for further details.

Deferred consideration of £0.3 million represents deferred share consideration owed to the previous owners of GeoLang Holdings Limited. On 18 September 2020, shares were issued to settle this liability in full. Please see note 18 for further details.

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

	2021 £'000	2020 £'000
Deferred tax	3,105	3,422
Loans	755	728
Lease liabilities	96	243
	3,956	4,393

Loan balances include £0.5 million loan to Secarma for the acquisition of Pentest Limited which is repayable on 9 April 2022. The remaining £0.2 million represents a working capital loan which was provided to support the initial working capital requirements of Pentest Limited which is repayable on 9 April 2022.

15. Deferred tax

	2021 £'000	2020 £'000
Non-current liabilities		
Liability at 1 April	3,422	3,203
Deferred tax charge in the statement of comprehensive income	(316)	(171)
Acquisition of subsidiaries	–	390
Total deferred tax	3,105	3,422

Deferred tax arising on acquisition in the prior year includes £0.4 million for Pentest Limited which has arisen as part of the PPA exercise to identify intangible assets.

Deferred tax balance at 31 March 2021 includes a £2.8 million (2020: £3.1 million) deferred tax liability for acquired intangible assets.

	2021 £'000	2020 £'000
Non-current assets		
At 1 April	186	665
Utilisation of deferred tax asset	(186)	(479)
Total deferred tax asset	–	186

Notes to the consolidated financial statements continued
for the year ended 31 March 2021

16. Lease liabilities
Lease liabilities at 31 March 2021, which includes the addition of a new office lease, are detailed below:

Lease liabilities	Property £'000
At 1 April 2019	507
Additions	232
Interest expense	20
Payments to lease creditors	(236)
At 31 March 2020	523
Additions	**60**
Disposals	**(31)**
Interest expense	**18**
Payments to lease creditors	**(281)**
At 31 March 2021	**289**

The maturity analysis of lease liabilities is detailed below:

Lease liabilities – (contractual undiscounted cash flows)	2021 £'000	2020 £'000
Less than one year	**213**	304
One to five years	**112**	278
More than five years	**–**	–
Total undiscounted lease liabilities at 31 March	**325**	582

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

Lease liabilities included in the statement of financial position at 31 March	2021 £'000	2020 £'000
Current	**193**	280
Non-current	**96**	243

Amounts recognised in the statement of comprehensive income	2021 £'000	2020 £'000
Interest on lease liabilities	**18**	20
Expenses related to short-term leases	**20**	164
Expenses related to low-value assets	**–**	–
Depreciation of right of use assets (note 11)	**263**	222

Amounts recognised in the statement of cash flows	2021 £'000	2020 £'000
Payment of principal	**281**	236
Payment of interest	**18**	20
Total cash outflows	**299**	256

17. Deferred consideration

	2021 £'000	2020 £'000
Liability at 1 April	**275**	206
Holdback consideration shares issued	**(238)**	–
Fair value adjustment to deferred consideration	**(37)**	69
	–	275

The above balance represents deferred share consideration owed to the previous owners of GeoLang Holdings Limited. On 18 September 2020 an additional 129,601 ordinary shares were issued to the ex-vendors of GeoLang Holdings Limited.

18. Share capital

On 25 September 2019, at the Group's AGM, shareholders approved the capital reorganisation to consolidate the Company's ordinary shares by a factor of 100.

The consolidation comprised of two elements:

- consolidation, whereby every 100 shares were consolidated into one ordinary share of £1 (a 'consolidated share'); and
- sub-division – immediately following the consolidation, each consolidated share was sub-divided into one ordinary share of 10 pence (a 'new ordinary share') and one deferred share of 90 pence (a '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.

Following the capital reorganisation 22,106,460 new ordinary shares of 10 pence each were admitted to trading on AIM at 8.00am on 26 September 2019.

Details of the share consolidation are provided in the table below:

	Number of ordinary issued shares	Number of issued deferred shares	Aggregate nominal value of shares in the Company (£)
Immediately prior to AGM	2,210,646,000	–	22,106,460
Following close of business on the date of AGM	22,106,460	22,106,460	22,106,460

The table below details movements within the year:

	Ordinary shares	
In thousands of shares	**2021**	2020
In issue at 1 April	**22,109**	19,040
Share placing	**1,563**	–
Share issue for deferred consideration	**130**	143
Options exercised during the year	**8**	3
Share issue as part of acquisition consideration	**–**	2,923
Number of shares	**23,810**	22,109

	2021 £'000	2020 £'000
Allotted, called up and fully paid		
Ordinary shares of £0.10 each (2020: £0.10 each)	**2,381**	2,211
Deferred shares of £0.90 each (2020: £0.90 each)	**19,896**	19,896
Total	**22,277**	22,107

The following issues of shares were undertaken in the twelve-month period ended 31 March 2021:

On 30 April 2020, 1,562,500 new ordinary shares of £0.10 were issued as part of an equity placing which raised £3.75 million.

On 18 September 2020, the Group issued 129,602 ordinary shares of the Group to the previous owners of GeoLang Holdings Limited. These new ordinary shares, originally held back at the time of the acquisition, were issued following the expiry of the two-year warranty period, in accordance with the sale and purchase agreement for the acquisition.

On 4 March 2021, a further 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.

Notes to the consolidated financial statements continued
for the year ended 31 March 2021

18. Share capital continued

FVTOCI reserves
This comprises of gains/losses arising on financial assets classified as available for sale. A fair value loss was recognised in the year relating to Plymouth Minerals (see note 10).

Other reserves
These comprise of amounts expensed in relation to the share options, share incentive scheme (see note 19) and merger relief from shares issued as consideration to acquisitions and equity placings (net of costs).

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

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

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

19. Share-based payments

	2021 £'000	2020 £'000
Subsidiary incentive scheme	**210**	200
Share options	**98**	129
Save as you earn (SAYE)	**3**	–
	311	329

Following the share consolidation completed in the prior year, existing share options were consolidated whereby the number of share options initially issued was divided by 100 with the exercise price being multiplied by 100. There was no net impact to options holders. The values in the tables below are all restated on a post-consolidation basis.

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

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

The following options over ordinary shares remained outstanding at 31 March 2020:

	Options at 1 April 2019	Options issued during the year	Options lapsed during the year	Options exercised during the year	Options at 31 March 2020	Exercise price	Date of grant	First date of exercise	Final date of exercise
Directors:									
P McFadden	8,750	—	875	—	7,875	£4.0	07/05/2018	07/05/2019	30/09/2023
Employees:									
Employees	55,033	—	2,100	—	52,933	£4.0	09/05/2017	09/05/2018	08/05/2022
Employees	44,519	—	11,213	—	33,306	£4.0	13/11/2017	13/11/2018	12/11/2022
Employees	1,063	—	—	—	1,063	£4.0	08/01/2018	08/01/2019	07/01/2023
Employees	15,536	—	10,656	—	4,880	£4.0	01/03/2018	01/03/2019	28/02/2023
Employees	27,500	—	1,500	—	26,000	£4.0	04/04/2018	04/04/2019	03/04/2023
Employees	82,778	—	12,778	—	70,000	£3.6	17/10/2018	31/03/2019	30/09/2021
Employees	44,444	—	9,722	—	34,722	£3.6	17/10/2018	31/03/2019	30/04/2024
Employees	12,500	—	9,846	—	2,654	£1.6	01/03/2019	01/03/2020	01/07/2024
Employees	—	25,000	—	—	25,000	£2.0	09/04/2019	09/04/2020	30/09/2021
Employees	—	12,500	—	—	12,500	£2.0	24/04/2019	24/04/2020	30/09/2021
Employees	—	9,000	—	—	9,000	£4.0	01/06/2019	01/06/2020	30/09/2023
Employees	—	12,500	—	—	12,500	£2.0	01/10/2019	01/10/2020	30/09/2023
Non-employees:									
Other	20,000	—	—	—	20,000	£1.0	03/10/2016	03/10/2016	03/10/2021
Other	2,857	—	—	2,857	—	£1.0	27/02/2017	27/02/2018	31/03/2020
Total	314,980	59,000	58,690	2,857	312,433				

The values in both tables above have been restated to provide a like-for-like comparison following the share consolidation which is detailed in note 18.

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

	2021		2020	
	Number	**WAEP £**	Number	WAEP £
Outstanding at the beginning of the year	**312,433**	**3.3**	314,980	3.5
Issued	**24,960**	**0.1**	59,000	2.3
Lapsed during the year	**60,074**	**3.1**	58,690	3.4
Exercised during the year ended 31 March	**8,320**	**0.1**	2,857	1.0
Outstanding at 31 March	**268,999**	**3.2**	312,433	3.3
Exercisable at 31 March	**167,549**	**3.3**	152,708	3.2

The weighted average share price of options exercised during the year was £1.42 (2020: £2.33).

Notes to the consolidated financial statements continued
for the year ended 31 March 2021

19. Share-based payments continued

Share options continued

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

	2021	2020
Share price at grant date	**£1.29 to £4.30**	£1.38 to £4.30
Exercise price	**£0.10 to £4.00**	£1.00 to £4.00
Expected option life (year)	**1 year to 6 years**	1 year to 6 years
Expected volatility (%)	**40%**	10.6% to 40.0%
Expected dividends	**0%**	0%
Risk-free interest rate (%)	**0.70% to 1.53%**	0.60% to 1.53%
Option fair value	**£0.00 to £2.90**	£0.00 to £2.90

The expected volatility of the original share plan utilised a volatility rate of 80% to reflect the lack of established assets on the Group's balance sheet. As the Group has grown, new scheme option shares issued prior to April 2018 (bar those issued to the SecurEnvoy participants) have been issued utilising the five-year volatility rate for the AIM all-share index. All new scheme option shares issued from April 2018 onwards have been issued utilising a 40% volatility rate, which is in line with other market participants operating in the software and IT sectors.

Options held by Directors are disclosed on page 52.

The market price of shares as at 31 March 2021 was £1.35 (31 March 2020: £2.12). The range during the financial year was £1.290 to £2.925. At the date of signing the financial statements the share price was £1.748.

The weighted average remaining contractual life of options outstanding at the end of the year was two years and eight months (2019/20: three years and five months).

Subsidiary incentive scheme

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

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

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

Growth conditions

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

Vesting conditions

The incentive shares are subject to a vesting period which ends on 29 September 2019 and can be extended to 29 September 2022 if the growth condition has not been met. The participants can exercise their right to require the Group to purchase its incentive shares at any time up to 29 September 2022. In line with the rules of the scheme, the Directors have subsequently extended the vesting period to 29 September 2022.

Value

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

Directors' incentive shares

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

	Participation in increase in shareholder value	Issue price	Nominal value of incentive shares	Number of incentive shares 1 April 2020	**Number of incentive shares 31 March 2021**	Number of Shearwater Group plc shares issued	Share-based payment charge
D Williams	6.5%	£0.032	£0.000001	65,000	**65,000**	–	£85,268
P Higgins	7.5%	£0.032	£0.000001	75,000	**75,000**	–	£98,386

A further 20,000 incentive shares were subscribed for by non-employees.

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 was exercised to extend this expiry date to 29 September 2022 which has increased the fair value by £21,179. Following this extension £958,802 has been recognised over the life of the scheme which expires on 29 September 2022. In the current year £209,889 (2020: £200,099) 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.

20. 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 2021, 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)	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Financial assets				
Cash and cash equivalents	**8,049**	3,343	**–**	–
Trade and other receivables	**9,333**	9,074	**–**	–
Total financial assets	**17,382**	12,417	**–**	–

	Amortised cost		Fair value through other comprehensive income (available for sales)	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Financial liabilities				
Trade and other payables	**9,069**	8,928	**–**	–
Loans and borrowings	**775**	4,782	**–**	–
Lease liabilities	**289**	524	**–**	–
Deferred consideration	**–**	–	**–**	275
Total financial liabilities	**10,133**	14,234	**–**	275

Notes to the consolidated financial statements continued
for the year ended 31 March 2021

20. Financial instruments continued

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

Market risk

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

Foreign currency risk

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

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

	USD		EUR	
Net foreign currency financial assets/(liabilities)	**2021 $'000**	2020 $'000	**2021 €'000**	2020 €'000
Trade receivables	**540**	1,327	**2,718**	3,488
Trade payables	**(6,095)**	(5,163)	**(785)**	(19)
Cash and cash equivalents	**510**	588	**186**	41
Total net exposure	**(5,045)**	(3,248)	**2,118**	3,510

The effect of a 10% strengthening of the US dollar against sterling at the reporting date on the US dollar denominated trade receivables, payables and cash and cash equivalents carried at that date would, all other variables held constant, have resulted in a decrease of the pre-tax profit in the year and a decrease in net assets of £0.4 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 £0.3 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 £0.4 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 £0.3 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. The addition of a £4.0 million revolving credit facility (RCF) provides further contingency against short-term working capital movements but to date this has not been utilised. There has been no change to the Group's exposure to liquidity risks or the manner in which these risks are managed and measured during the year. Further details are provided in the strategic report.

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

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

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

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

	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 2020					
Trade and other payables	8,192	736	–	–	–
Loans and borrowings	2,587	1,571	20	809	–
Lease liabilities	32	248	244	–	–
Total	10,811	2,555	264	809	–

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 12. 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 the impact of the COVID19 global pandemic 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 debt to its clients.

21. Related party transactions

The Directors of the Group and their immediate relatives have an interest of 17% (2020: 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 53. See the Directors' remuneration report on pages 51 and 52 for more details.

Notes to the consolidated financial statements continued

for the year ended 31 March 2021

21. Related party transactions continued

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

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

On 9 April 2020, £239,442 was paid to Secarma Limited, the previous owners of Pentest Limited representing the first instalment of a loan that was taken out as part of the acquisition consideration.

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

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

22. Notes to support cash flow

Cash and cash equivalents comprise:

	2021 £'000	2020 £'000
Cash available on demand	**8,049**	3,343
Net cash increase/(decrease) in cash and cash equivalents	**4,706**	2,744
Cash and cash equivalents at the beginning of the year	**3,343**	597
Cash and cash equivalents at the end of the year	**8,049**	3,343

Cash and cash equivalents are held in the following currencies:

	2021 £'000	2020 £'000
Sterling	**7,444**	2,820
US dollar	**435**	486
Euro	**170**	37
	8,049	3,343

Reconciliation of liabilities from financing activities:

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

				Non-cash changes			
	2019 £'000	Cash outflows £'000	Cash inflows £'000	Pentest loan[1] £'000	Loan interest £'000	Right of use asset additions £'000	2020 £'000
Other loans	3,136	—	500	677	470	—	4,783
Advance drawn on invoice discounting	1,271	(1,341)	—	—	70	—	—
Payment of principal on lease liabilities	—	(236)	—	—	20	740	524
Total	4,407	(1,577)	500	677	560	740	5,307

1. As part of the acquisition consideration of Pentest, a loan of £0.7 million was provided by the previous owners.

23. Events after the reporting period

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

Company statement of financial position

as at 31 March 2021

	Note	2021 £'000	2020 £'000
Assets			
Non-current assets			
Investments in subsidiaries	2	**63,668**	63,668
Property, plant and equipment	4	**3**	10
Total non-current assets		**63,671**	63,678
Current assets			
Trade and other receivables	5	**8,402**	7,150
Cash and cash equivalents		**10**	7
Total current assets		**8,412**	7,157
Total assets		**72,083**	70,835
Liabilities			
Current liabilities			
Trade and other payables	6	**16,603**	17,936
Total current liabilities		**16,603**	17,936
Non-current liabilities			
Creditors: amounts falling due after more than one year	7	**755**	729
Total non-current liabilities		**755**	729
Total liabilities		**17,358**	18,665
Net assets		**54,725**	52,170
Capital and reserves			
Share capital	8	**22,277**	22,107
Share premium		**34,581**	34,581
FVTOCI reserve		**14**	14
Other reserves		**24,378**	20,714
Accumulated losses		**(26,525)**	(25,246)
Equity attributable to owners of the Company		**54,725**	52,170
Total equity and liabilities		**72,083**	70,835

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 £1.3 million (2020: £1.8 million).

The notes on pages 91 to 95 are an integral part of these Company financial statements.

The financial statements on pages 89 to 95 were approved and authorised for issue by the Board and signed on their behalf by:

Philip Higgins
Chief Executive Officer

27 July 2021

Registered number: 05059457

Company statement of changes in equity

for the year ended 31 March 2021

Company	Share capital £'000	Share premium £'000	FVTOCI £'000	Other reserve £'000	Accumulated losses £'000	Total equity £'000
At 1 April 2019	19,040	34,578	18	19,123	(23,408)	49,351
Loss for the year	—	—	—	—	(1,838)	(1,838)
Other comprehensive loss for the year	—	—	(4)	—	—	(4)
Total comprehensive loss for the year	—	—	(4)	—	(1,838)	(1,842)
Contributions by and distributions to owners						
Issue of share capital	3,067	—	—	—	—	3,067
Merger relief reserve	—	—	—	1,262	—	1,262
Share issue costs	—	3	—	—	—	3
Share-based payments	—	—	—	329	—	329
At 31 March 2020	22,107	34,581	14	20,714	(25,246)	52,170
Loss for the year	**—**	**—**	**—**	**—**	**(1,279)**	**(1,279)**
Other comprehensive loss for the year	**—**	**—**	**—**	**—**	**—**	**—**
Total comprehensive loss for the year	**—**	**—**	**—**	**—**	**(1,279)**	**(1,279)**
Contributions by and distributions to owners						
Issue of share capital	**170**	**—**	**—**	**3,819**	**—**	**3,989**
Share issue costs	**—**	**—**	**—**	**(466)**	**—**	**(466)**
Share-based payments	**—**	**—**	**—**	**311**	**—**	**311**
At 31 March 2021	**22,277**	**34,581**	**14**	**24,378**	**(26,525)**	**54,725**

Notes to the Company financial statements

For the year ended 31 March 2021

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, except for certain financial instruments that have been measured at fair value. The Company financial statements are presented in sterling. All values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

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

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

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

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

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these consolidated financial statements. See note 1 to the Group accounting policies on page 66 for further details of the Group's going concern position.

Investments in subsidiaries

Fixed asset investments, which all relate to investments in subsidiaries, are stated at cost less provision for any impairment in value.

Property, plant and equipment

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

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

Office equipment	25% per annum

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

Financial instruments

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

Financial assets

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

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

Financial liabilities

Trade and other payables

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

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

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

Notes to the Company financial statements continued

For the year ended 31 March 2021

1. Statement of accounting policies – Company continued

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 19 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.

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 2019	58,667
Additions	5,001
Investments in subsidiaries at 31 March 2020	63,668
Additions	–
Investments in subsidiaries at 31 March 2021	**63,668**

The following table gives brief details of the entities controlled and included in the consolidated financial statements of the Group at 31 March 2021. 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, Munchen	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

The Group has conducted impairment reviews for each of the above entities and has satisfied itself that no impairment is necessary.

3. Financial assets at fair value through OCI

	Total £'000
Cost	
At 1 April 2019	33
Fair value loss	(6)
Disposal proceeds	(27)
At 31 March 2020 and 31 March 2021	–

On 4 October 2019, the Group sold all of its 715,000 ordinary shares in Plymouth Minerals Limited (ASX: INF previously PLH) listed on the Australian Securities Exchange.

Notes to the Company financial statements continued

For the year ended 31 March 2021

4. Property, plant and equipment

	Total £'000
Cost	
At 1 April 2019	28
Additions	–
At 31 March 2020	28
Additions	–
At 31 March 2021	**28**
Accumulated depreciation	
At 1 April 2019	11
Charge for the period	7
At 31 March 2020	18
Charge for the period	**7**
At 31 March 2021	**25**
Net book amount	
At 31 March 2021	**3**
At 31 March 2020	10
At 31 March 2019	17

5. Trade and other receivables

	2021 £'000	2020 £'000
Amounts owed by Group companies	**8,298**	7,032
VAT recoverable	**65**	69
Prepayments and other receivables	**39**	44
Trade receivables	–	5
	8,402	7,150

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

6. Trade and other payables falling due within one year

	2021 £'000	2020 £'000
Amounts owed to Group companies	**16,221**	12,201
Accruals and other payables	**362**	853
Loans	**20**	4,054
Trade payables	–	553
Deferred consideration	–	275
	16,603	17,936

Amounts owed to Group companies are interest free.

Deferred consideration of £0.3 million represents deferred share consideration owed to the previous owners of GeoLang Holdings Limited. On 18 September 2020 129,601 ordinary shares were issued to the ex-vendors of GeoLang Holdings Limited. Please see note 18 of the consolidated financial statements for further details of this transaction.

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

	2021 £'000	2020 £'000
Loans	755	728
Deferred tax	–	1
	755	729

8. Share capital

	2021 £'000	2020 £'000
Allotted, called up and fully paid		
23,809,739 ordinary shares of £0.10 each (2020: 22,109,317 ordinary shares of £0.10 each)	2,381	2,211
22,106,460 Deferred shares of £0.90 each (2020: 22,106,460 deferred shares of £0.90 each)	19,896	19,896
Total	22,277	22,107

Please see note 18 of the Group financial statements for details of movements during the above financial periods.

9. Share-based payments

Please refer to note 19 of the Group financial statements for details of share-based payments.

10. Financial instruments

Please refer to note 20 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 joint stockbroker
Cenkos Securities plc
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Corporate calendar
Announcement of final results
28 July 2021

Annual General Meeting
September 2021

Announcement of interim results
November 2021

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Shearwater Group plc

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