Shearwater Group plc

Annual report and financial statements

31 March 2024

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

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

Visit us online at
www.shearwatergroup.com

Highlights

£22.6m
(2023: £26.7m)
Revenue

£0.9m
(2023: £(0.2)m)
Adjusted EBITDA

£(0.6)m
(2023: £(1.3)m)
Adjusted loss before tax

£(3.3)m
(2023: £(9.6)m)
Reported loss before tax

(9.1)p
(2023: (34.3)p)
Reported EPS

0.3p
(2023: (0.4)p)
Adjusted EPS

>40%
Repeatable revenues

100%
Offset carbon footprint

Contents

Strategic report

Governance

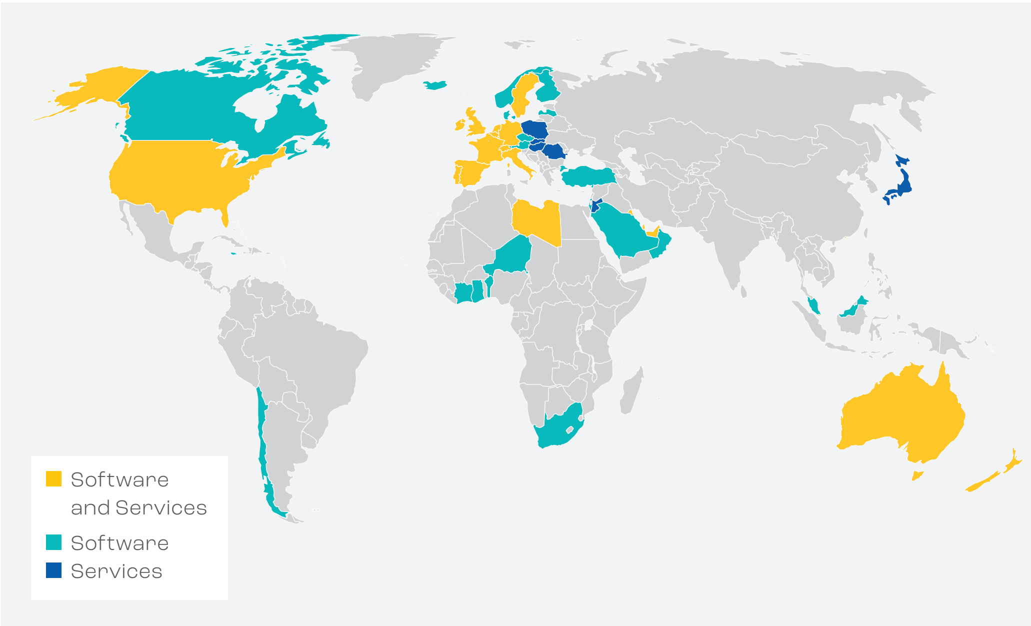
Financial statements

Definitions of alternative performance measures Adjusted EBITDA and Adjusted loss before tax can be found in note 2 of the Group financial statements. Definition of Adjusted EPS and the adjusting items between this measure and the statutory measure can be found in the table in note 8 of the Group financial statements.

At a glance

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

Where we operate



4
offices

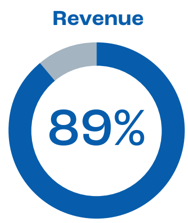
c.50
countries

c.90
employees

Our offerings are delivered from our two divisions

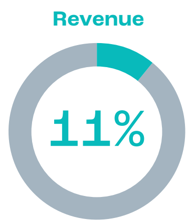
Services

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



Software

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



Our vision

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

Our purpose

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

Strategic priorities

Our core strategy is to return to organic growth across our existing group of companies. We will do this through investing in our businesses through:

- Expansion of existing accounts by up-selling next generation market-leading technology and introducing in-house services with those technologies.
- Growth of customer base through active marketing investment.
- Creation of awareness and demand for newly developed software.
- Greater cross-fertilisation of services to support procurement of new business through joint bids across the Group.
- Expansion of international business development.

When market conditions allow we will also seek to build a scaled group through targeted acquisitions that cater to the entire spectrum of cyber security and managed security needs, consolidating the market to increase market share.

Our commitment to our stakeholders

See more on pages 16 and 17

We are committed to:

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

Chairman's statement

> We are a fundamentally sound business, delivering robust and award winning solutions for our clients.
>
> **David Williams**
> Chairman

Phil's CEO report sets out the Group's performance for the year ended 31 March 2024, together with details of the work being undertaken by our management team in laying the groundwork for better results in the new financial year. Our Board has been encouraged to note the improved pipeline as it shows greater levels of activity than in previous years which gives us all confidence in the potential moving forward.

We are a fundamentally sound business, delivering robust and award-winning solutions for our clients, but we are at the mercy of timing in winning large contracts and, after three years of profit growth and strong revenue performance, the last two years have been impacted by delays. Despite this we have maintained a healthy cash balance such that, as can be seen in the accounts, this represents roughly half our market capitalisation.

In common with many small companies our shares are languishing. This is in part due to those contract delays in the last two years impacting profits but also reflects the malaise in the market for micro cap companies where poor liquidity deters investors and exacerbates share price movements.

Your Board is very mindful of this and, together with our Advisory Panel members, has been supportive of management's drive to win new business and improve the results. We can see a distinct improvement in the market for our products and services, which gives us optimism for the current year, but we also review other avenues to improve shareholder returns.

Our Non-executive Directors and Advisory Panel members have done a great job in supporting and assisting management and I want to thank them for their contribution as well as thank our customers and shareholders for their support. We are all working hard to return your company to much improved profitability in the current year and beyond.

David Williams
Chairman

23 July 2024

Chief Executive's review

> "The year ending 31 March 2024 was one of consolidation which demonstrated Shearwater Group's resilience and potential."
>
> **Philip Higgins**
> **Chief Executive Officer**

While headline revenue performance remained impacted by some customers continuing to defer budget allocations for larger contracts to future periods, we remain upbeat due to the promising pipeline of opportunities across both our Services and Software divisions and confident in the strong foundation we've built to enable us to capitalise on these opportunities moving forward.

While Group revenue for the year was £22.6m (FY23: £26.7m), Adjusted EBITDA[1] returned to profit at £0.9m compared to a £0.2m loss in FY23 and the Group delivered improved margins from a combination of an improved profile of business and cost control following the restructuring early in the year.

The Group continues to be strengthened by a robust balance sheet, with year-end cash of £5.0m (FY23: £4.0m), in line with market expectations, £1m ahead of the prior year and £3m higher than the cash position at the half year. The improved cash position reflects strong cash generation in the second half, bolstering our financial position and positioning us well for future growth.

We move into FY25 with key wins already secured and are encouraged by the increasing levels of customer engagement, which provides more confidence in our return to growth. Whilst some larger contracts are still under negotiation, they continue to progress and remain in our pipeline. Consequently, we are well-positioned to deliver solid and sustainable revenue and profit growth in the years ahead.

Group operational review

The Group comprises two divisions: Services, which accounts for 89% of our revenue, and Software, contributing the remaining 11%.

Despite encountering a period of cautious customer spending in FY24, resulting in a slight softening in the number of new client acquisitions, our commitment to excellence has led to notable contract wins, in particular in the banking, telecommunications and retail sectors, alongside our new focus of central government departments. These achievements underscore the value of our established relationships with prestigious blue-chip organisations spanning a breadth of sectors.

In FY24 we completed a strategic initiative to integrate our Group businesses, resulting in streamlined operations and enhanced synergy. The successful integration of Xcina into Brookcourt Solutions and GeoLang into SecurEnvoy yielded tangible benefits in the year. These include the realisation of internal efficiencies, empowering us to channel resources into further product development initiatives across both divisions. We have emerged as a more unified business, ensuring we are poised to capitalise on Shearwater's long-term growth opportunities.

At Shearwater we take immense pride in delivering our top-tier cyber security, managed security and professional advisory solutions and services. We were delighted to have received further accolades, which serve as a testament to the exceptional value we provide. In total, five prestigious awards were secured across both divisions. Noteworthy mentions include SecurEnvoy's recognition as the Identity & Access Management Solution of the Year at the Computing Security Magazine Awards 2023, along with commendation in the Security Software Solution of the Year category for Data Discovery. Additionally, Brookcourt received the Customer Service Award at the same event and earlier in the year Brookcourt won the Logo Acquisition Award 2023 at the Proofpoint channel event for the most successful acquisition of an Enterprise bank over a three-year sales cycle. Furthermore, Pentest emerged as a triumphant winner at Pwn2Own Toronto for successfully compromising the Samsung Galaxy S23, underscoring our commitment to innovation and excellence in the field.

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

Services

Despite continued challenging market conditions in FY24 the Services division secured £20m in revenue, primarily through contract wins and renewals, notably in the banking, telecommunications and government sectors. Noteworthy wins included: a managed cyber security service, utilising AI-driven endpoint protection, for a leading finance investment house; tailored technical consulting projects for a new customer, an international financial technology company; and retention of our services for existing telecommunication customers. These examples illustrate our ability to navigate the current climate and capitalise on emerging opportunities.

The first half of FY24 saw pivotal wins, including partnerships with a prominent European Cyber Managed Security Services Provider (MSSP), an international retail chemist and cosmetics company, and a crucial security services contract with a UK government department. While financial performance was, as expected, weighted to the second half of the year, the pace of renewals and wins, particularly in Brookcourt Solutions, was affected by customer hesitancy surrounding budget allocations and not secured at the pace we had anticipated.

Securing the £1.3m government agency contract in October 2023 was an important milestone, as our first major government contract, with a second three-year agreement worth c.£0.8m secured with another government department following a successful one-year trial. This not only diversifies our client portfolio but also positions us for growth within the central government sector. Deepening our engagement with government entities remains a strategic focus where we see an exciting opportunity for business expansion. Alongside this, Brookcourt secured a lucrative three-year contract with a leading global bank, valued at US$3.2m, further solidifying our position as a trusted provider of comprehensive security and cyber security services and solutions.

Our penetration testing business, Pentest, completed a record number of tests (3,174 days in total), adding 34 new clients and expanding the list of territories in which it operates to 22 countries.

Revenues in the year were enhanced by a significant engagement from an existing US-based client and a number of key account wins with global enterprises. Due to our focus on delivering world-class service, Pentest maintained a strong pipeline throughout the year with repeat revenues from a high percentage of returning clients and a year-on-year increase in their day rate.

	2024 £m	2023 £m	%
Revenue	**20.2**	23.8	(15.1)
Gross profit	**5.4**	4.3	25.5
Gross margin %	**27%**	18%	+9%
Overheads	**3.9**	4.2	16.7
Adjusted EBITDA[1]	**1.5**	0.1	n/a
Adjusted EBITDA margin %	**7%**	1%	+6%

1. Note that to provide useful analysis the above table is adjusted to net off FX movements on forward contracts (FY24: £0.2m credit; FY23: £0.4m cost) against the FX movement on the underlying balance which are accounted for within Gross profit. FX movements on forward contracts are included in Administrative costs in the financial statements. Adjusted EBITDA above is prior to Group costs as set out in note 3.

Amidst an ever-changing cybersecurity landscape, we continue to tailor our offering to cater to the needs of our customers. Throughout the year, we expanded our AI-based solutions by collaborating with partners who are integrating advanced machine learning algorithms enhancing threat detection capabilities and delivering automated response systems. These efforts provide us with an additional competitive advantage over the general IT marketplace and ensure that our clients receive cutting-edge protection against evolving threats.

Chief Executive's review continued

Software

While Software performance in the year experienced some challenges compared to the prior period, we have made significant strides in other key areas. The integration of GeoLang into SecurEnvoy has generated efficiencies that allowed for increased investment in product development in FY24. As a result, we successfully introduced a comprehensive product set across the Group's global distribution network. Our development team is now fully integrated and operating as a unified resource, leading to increased opportunities for GeoLang, now renamed as SecurEnvoy Data Discovery, through SecurEnvoy's global network of resellers. These advances position us well for future growth and success.

Our ongoing R&D focus has significantly expanded our Software product portfolio, strengthening our market positioning and setting us apart from our peers. Key achievements during the year include:

- **Enhanced Security:** The V3.R3 update meets heightened government and critical network security requirements.
- **Deployment Flexibility:** We now offer On-Premise (Windows & Linux) and Private Cloud (Azure & AWS) options, catering to diverse customer needs.
- **Managed Service Integration (MSP):** A new MSP edition addresses the growing demand for managed security services and simplifies billing.
- **Enhancing SecurEnvoy with AI:** SecurEnvoy will leverage AI to reduce training needs, enhance security response and proactive threat prevention. SecurEnvoy's AI strategy aims to streamline user support, strengthen security posture through advanced threat detection, and empower proactive response to cyberattacks.

With an expanded product portfolio across the Software vision, we are well-placed to serve a broader customer base and cater to evolving market demands across both On-Premise and Private Cloud solutions.

Software's financial performance in FY24 was behind the prior year but has seen stable revenues for the last three half years and we are confident that traction and engagement will increase. We have a renewed confidence in the division, with marketing and activities increased as the year progressed, which will be key in positioning the division for growth in FY25. The second half of the year saw an encouraging increase in new customer acquisitions.

Further progress was made in the year with the expansion of channel partnerships through new agreements. In North America, we refocused our efforts and signed our first Managed Service Provider (MSP), BlueZone Cyber Inc., based in Texas. Additionally, we are advancing plans to offer our solution on the AWS Marketplace in North America by the second half of FY25, making SecurEnvoy available to over 180,000 active customers on the platform.

We have also made progress in the Middle East. This region continues to thrive, benefiting from in-person channel and customer meetings, resulting in a 20% year-on-year increase in deal registrations. In FY25, we will maintain a strong focus on this territory, with plans to deliver a Cloud Hosted Stack in the UAE to address regional data sovereignty and residency requirements.

	2024 £m	2023 £m	%
Revenue	**2.4**	2.9	(17.2)
Gross profit	**1.7**	1.8	(5.6)
Gross margin %	**71%**	63%	+8%
Overheads	**0.8**	0.8	–
Adjusted EBITDA[1]	**0.9**	1.0	–
Adjusted EBITDA margin %	**38%**	34%	+4%

1. Adjusted EBITDA above is prior to Group costs as set out in note 3.

Growth Strategy

Becoming a Cybersecurity Leader

Our vision is clear: to become a leader in next-generation cybersecurity solutions. We deliver a comprehensive suite of services, from cutting-edge technology to expert consulting, empowering businesses to navigate the evolving threat landscape.

Strengthening Organic Growth: Fuelling Our Momentum

While current market conditions have necessitated a focus on strengthening organic growth, M&A remains a strategic pillar. In the near term, we're capitalising on the increasing number of opportunities within our chosen sectors, driving robust organic revenue expansion.

A differentiated offering

Our Services division carries preferred partner status for a client base comprising blue chip organisations, for all things security, offering comprehensive managed solutions, penetration testing, and insightful advisory services. We provide a seamless, end-to-end experience that empowers our clients.

Our Software division is developing a revolutionary next-generation platform that converges access management and data discovery. Leveraging our zero-trust access solution, our platform safeguards users, devices, and data – anywhere, anytime.

Delivering Sustainable Growth

Our medium-term strategy prioritises achieving consistent, sustainable revenue and profit growth. With a deep commitment to innovation and an unwavering focus on customer success, we are confident in delivering value for our stakeholders in the years to come.

Adding Shareholder Value Through AI Integration

Artificial intelligence (AI) is rapidly transforming industries, and our company is poised to leverage this powerful technology to create additional value for our shareholders. We are already providing AI based cyber security solutions to our customer base and also recognise the opportunity to drive AI within our business to enhance efficiencies through automating and streamlining processes and utilise the powerful analytical capabilities to enhance data-driven decisions to optimise our resource allocation and maximise return on investment. We believe that we can achieve competitive advantage through utilising AI-powered solutions to personalise customer experiences, improve product development and strengthen our overall market position, driving long-term growth and shareholder value.

We are committed to implementing AI responsibly and ethically keeping within our established AI code of conduct and we look forward to updating you on our developments.

Market Opportunity

Businesses globally are facing a growing number of cybersecurity challenges, requiring the implementation of controls to build and embed resilience, meet regulatory mandates and reduce overall risk. 50% of businesses report having experienced some form of cyber security breach or attack in the past 12 months, with a 72% increase in the number of data compromises in 2023 over the 2022 previous high[1].

The rise of cloud-based technology has driven a rise in cyber attacks, with cloud environment intrusions increasing by 75% from 2022 to 2023[2]. The more recent exponential increase in the adoption of AI is proving to revolutionise not only the way in which businesses work, but also lower the barriers of entry for low-skilled adversaries, making it easier to launch sophisticated attacks.

There is a growing need for the services which Shearwater Group offers, driving significant opportunities for the business. Shearwater's offering is well-placed to cater to the need for businesses' proactive approach to cybersecurity measures, offering access to a differentiated full-service cyber security in a rapidly expanding market. Further to supportive market trends, our growth strategy, stronger financial position, prestigious customer base, industry recognition and talented team, we are poised to capitalise on opportunities and deliver substantial returns on investment.

Board Update

Adam Hurst, Interim Chief Financial Officer, will shortly be completing his contract with the Company and a process has commenced to find a permanent replacement. Adam has agreed to remain with the business until his successor has been appointed and assist with handover.

Current Trading and Outlook

We are encouraged that FY25 has started well with the increasing momentum reported in April building in Q1, with notable contracts secured, including a £1.4m contract renewal and a $4.8m new deal with a British media and telecommunications company as well as one of the delayed projects from a leading international bank. There are clear signs that customer budget allocations, which had been squeezed in recent years due to the challenging external environment, are starting to be released at a modest pace. We are benefiting from increased customer engagement, with a stronger pipeline of opportunities across both divisions.

We remain focused on converting the significant pipeline of opportunities across the Group, with deepened expansion into government departments remaining a key strategic priority and a major growth avenue for the business. We are confident in returning to growth in FY25 and in delivering solid, sustainable revenue and profit growth in the years ahead.

Philip Higgins
Chief Executive Officer

23 July 2024

1. Cyber security breaches survey 2024 – GOV.UK (www.gov.uk)
2. The rise of AI threats and cybersecurity: predictions for 2024 | World Economic Forum (weforum.org)

Business model

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

Key strengths

- Ability to provide broad offer for our clients – fulfilling end-to-end organisational resilience needs.
- Owned IP (SaaS based and on-premise offerings).
- Strong client relationships.
- Advanced technology.
- Agile business differentiated from larger players.
- Two divisions, operating independently, supported by shared services.
- Cross-Group collaboration to help create incremental opportunities.

Our operating model

Provide cyber security, managed security and professional advisory solutions:

Services

- Provide enhanced wrap-around services that enable our clients to receive greater value from their investment.
- Provide leading professional expertise on technology and business risk management at a competitive price
- Provision of a round-the-clock managed security centre. The Cyber Security Operations Centre uses Extended Detection & Response and works to detect, analyse, investigate and respond to mitigate and contain potential threats.
- Global client base across FTSE 350, Fortune 500, Government and SMEs.

Future plans and aspirations:

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

As market conditions allow, select acquisition targets that add clients and scale to our core business.

Managed services & warranties

Security solutions

Advisory & engineering

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

ESG
Read more on pages 16 to 23

Risks
Read more on pages 27 to 31

Governance
Read more on pages 34 to 45

Software

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

Future plans and aspirations:

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

Seek to acquire complementary software companies to integrate with our existing Access management platform.

Software licences from our own IP

Links to:

Responsible operations

Principal risks

Corporate governance

Strategy

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

Focused organic growth

Deliver organic growth across our existing group of companies.

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

Our future goal

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

When the market allows we will also seek to build a scaled group through targeted acquisitions that cater to the entire spectrum of cyber security and managed security needs, consolidating the market to take market share.

Wider strategic aims

- Continue to extend the Group's international footprint.
- To continuously grow and export our products and services internationally.

Strategy in action

The Group's customer base comprises a broad range of FTSE 100, Fortune 500 and SMEs. Our focus remains on providing operational resilience to ensure information, assets, applications and infrastructure are protected.

Highlighted below is a selection of case studies from Group portfolio companies which demonstrate how we've helped several organisations to achieve cyber security peace of mind. Further case studies are featured on the Shearwater Group website.

Services Division

Cost-Efficient Cyber Defence: A Leading International Bank's Strategic Approach to Mitigating Risk
Brookcourt Solutions
www.shearwatergroup.com/case-studies/bank-adopts-strategic-approach-to-mitigate-cyber-risk/

Global Regulatory Excellence: A Financial Organisation's Path to Enhanced Compliance
Xcina Consulting
www.shearwatergroup.com/case-studies/path-to-enhanced-compliance/

A new partnership with a Financial Service Provider for Pentest Limited
Pentest
www.shearwatergroup.com/case-studies/new-partnership-for-pentest/

Software Division

Enhancing Security and User Experience with Multi Factor Authentication
SecurEnvoy
www.shearwatergroup.com/case-studies/enhancing-security-and-user-experience/

Enhancing Data Security at CuraMare with SecurEnvoy Data Discovery
SecurEnvoy
www.shearwatergroup.com/case-studies/enhancing-data-security-at-curamare/

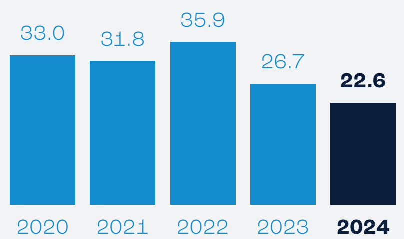
KPIs

Financial:

Revenue for the year
(£m)

£22.6m (15%) ▼

Our major customers continue to readjust to the macroeconomic challenges with extended timelines for closing larger contracts



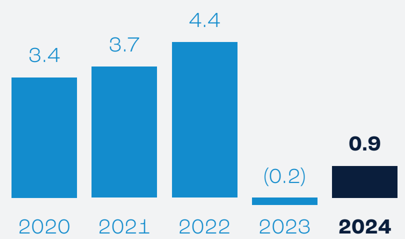
Description:
This measure details the annual underlying performance of the Group's businesses.

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

Adjusted EBITDA[1]
(£m)

£0.9m ▲

A return to positive EBITDA and increased margin percentages, including absence of one-time charges



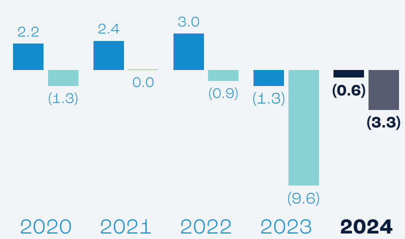
Description:
This measure details the underlying performance of the Group before adjusting for one-off income and charges, depreciation and amortisation. This measure is used as a basis for incentivising business leaders and is one that is recognised by our shareholders.

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

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

£(0.6)m ▲

Improvement in adjusted loss before tax which remains negative due to the impact of lower revenues and amortising investment in new software



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

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

Adjusted   Reported

1. Adjusted EBITDA excludes exceptional items which are in their nature one-off, share-based payment costs, depreciation, amortisation, fair value adjustments for deferred consideration to be settled in shares, other operating income, contingent consideration and impairment.
2. Adjusted profit/(loss) before tax excludes acquisition amortisation in addition to the adjusting items detailed above to calculate adjusted EBITDA.

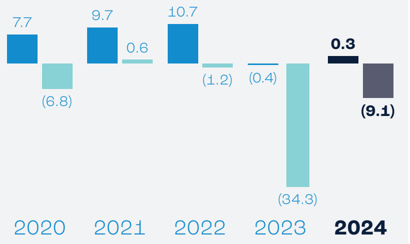
KPIs continued

Financial: continued

Adjusted EPS
(p)

0.3p ▲

Adjusted earnings per share was 0.3 pence reflecting a small adjusted profit after tax.



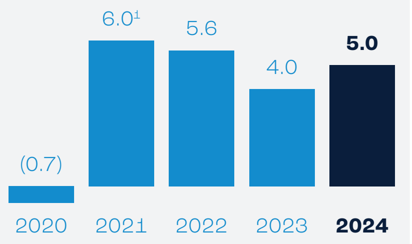
Description:
This measure presents the adjusted profit/(loss) after tax attributable to shareholders for each ordinary share (basic). This provides a measure of trading performance in addition to the impact of how we finance our business, whether it be interest charged on debt or changes in the amount of equity issued. Further details can be found in note 8 of the Group financial statements.

Strategic link:
The Group looks to return to delivering consistent annual growth in adjusted earnings per share.

Net (debt)/cash
(£m)

£5.0m ▲

Increase in cash balance from working capital inflows.



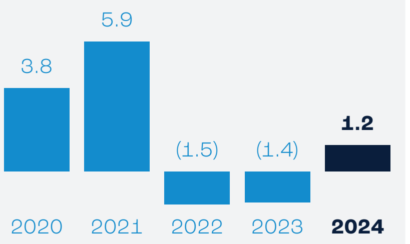
Description:
Made up of cash and cash equivalents less any loan liabilities (excluding lease liabilities), this metric provides a measure of the Group's liquidity.

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

Free cash flows
(£m)

£1.2m ▲

Trading inflows in the year supported continued investment into the development of internally developed software to provide access to highly valuable recurring revenue streams that generate high gross margins. (2023: £(1.4)m)



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

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

Adjusted   Reported

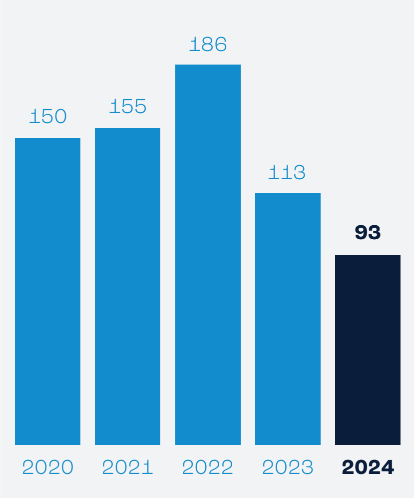
1. Adjusted net cash figure includes a £1.3 million adjustment for deferred VAT (reported net cash figure was £7.3 million).

Non-financial:

New customer wins

93

New customers



Description:

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

Strategic link:

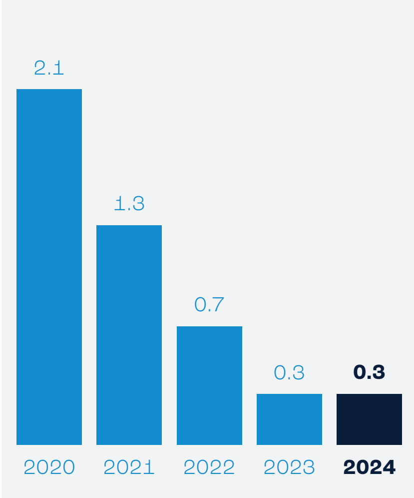
The addition of new client logos is a key contributor to the Group's organic growth strategy.

New software revenues (£m)

£0.3m

New software

The latest release of SecurEnvoy's Identity Access Management software in May 2024 now provides opportunities to drive incremental new and uplift business to new and existing customers.



Description:

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

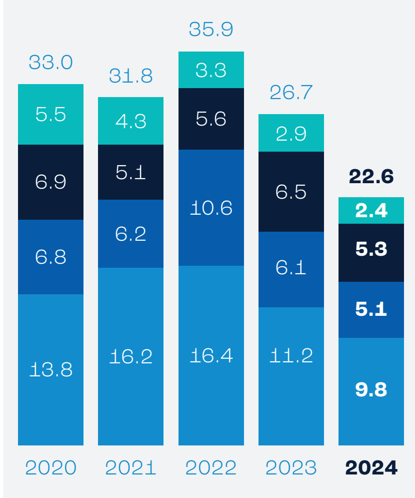
Strategic link:

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

Revenue by type (£m)

>40%

Repeatable revenues



Description:

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

Strategic link:

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

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

Stakeholders

Key stakeholders include:

Communities

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

Customers

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

Employees

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

Shareholders

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

Suppliers

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

Communities and the environment

How we engaged:

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

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

Impact of engagement:

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

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

Please see responsible operations on pages 18 to 23

Customers

How we engaged:

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

Impact of engagement:

We continue to work closely with long-term customers to understand their changing requirements.
In the current year over 70% of revenues were again generated from long-standing customers with a relationship in excess of three years, demonstrating the commitment the Group has enjoyed from its customers during the year.

Please see responsible operations on pages 18 to 23

Employees

How we engaged:

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

Impact of engagement:

We are deeply committed to supporting our employees and we demonstrate this by offering an extensive array of benefits. Additionally, we provide a comprehensive suite of training opportunities through our Company-wide training platform, ensuring our staff have access to continuous professional development.
At the beginning of the year, we underwent a reorganisation to streamline and consolidate certain administrative and non-profitable segments of the Group. This restructuring led to a minor reduction in headcount, allowing us to enhance our operational efficiency and focus more on our core, profitable activities.

Please see responsible operations on pages 18 to 23

Shareholders

How we engaged:

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

Impact of engagement:

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

» Please see strategy on page 12 and responsible operations on pages 18 to 23

Suppliers

How we engaged:

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

Impact of engagement:

Challenging macroeconomic conditions continue to present some challenges to supply chains. Whilst we are not immune from potential delays within the supply chain, management's current approach of developing long-term collaborative partnerships with suppliers has allowed us to plan so that we can best mitigate challenges that may arise.

» Please see strategy on page 12 and responsible operations on pages 18 to 23

Section 172 statement

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

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

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

Responsible operations

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

Central to this is managing our impact on the environment, and taking care of our people, who are at the forefront of our success, and continue to perform resiliently and professionally. We remain committed to delivering our ESG strategy and throughout the year have continued to extend our initiatives in this area.

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

UN SDGs

100% carbon offset

Our ESG strategy

Protecting our environment	Supporting our team	Maintaining strong governance
We will prevent pollution, minimise waste from our offices, and adopt good environmental practices. • We aim to establish best-practice environmental management systems throughout our business to improve our efficiency with resources.	**We have identified our key social issues, including the health and safety of our people, effective staff engagement, employee wellbeing and mindfulness, training opportunities, and diversity and equal opportunity.** • Workplace culture and employee engagement in an ever-evolving hybrid working environment has continued to be an area of focus.	**A strong focus on governance is a vital part of our ability to implement sustainable practices across our operations.** • We work with experts to ensure we always follow the most appropriate governance practices.
Read more on pages 20 to 22	Read more on page 23	Read more on pages 23 and 32 to 45

Responsible operations continued

Protecting our environment

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

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

We commit to review our greenhouse gas (GHG) emissions annually. This commitment includes a yearly quantification of Scope 1, 2 and a subset of Scope 3 emissions.

Our carbon footprint report is in line with the Greenhouse Gas Protocol, the most widely used international carbon calculation methodology, compatible with other GHG standards such as ISO 14064-1:2019. This also allows for direct integration with national and international GHG registries.

The emitting activities covered in the report for the financial year 2024 include direct emissions resulting from equipment we own or control and emissions from purchased electricity (referred to as Scope 1 and 2 emissions respectively). They also include selected indirect emissions – those resulting from travel, commuting, software, hardware, working from home and additional service costs (referred to as Scope 3 emissions). Under the GHG Protocol, reporting direct and indirect emissions resulting from purchased electricity is compulsory. All other Scope 3 emissions are reported voluntarily. Depending on the reliability of data, we have reported as many voluntary emissions as possible. We incorporated the emissions generated both from the commuting habits of our employees and the emissions generated by working from home. Our carbon footprint is largely made up of office operations, general services and employee commuting.

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

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

Fiscal year (1 April-31 March)	Tonnes CO_2e	
CO_2 emissions by category	**2024**	2023
Office	**237.3**	208.3
Employee	**54.3**	56.1
Marketing	**35.1**	51.2
Technology	**22.6**	34.2
Business travel	**29.4**	34.2
Food and accommodation	**13.7**	30.1
Total	**392.4**	414.1

We calculated our emissions at 392.4 tonnes of CO_2 since 1 April 2023. Accordingly, we have offset this by investing in a number of carbon-capturing projects that in the current year are focused on supporting 7 UN Sustainable Development Goals. Please visit our website for more information on each project.

Overall emissions have reduced by 21.7 tonnes or 5% year-on-year through taking every endeavour to keep the Group's carbon footprint as low as possible including structuring working patterns to minimise impact on emissions and strengthening the supply chain with some carbon-neutral/negative suppliers.

Environmental objectives and policies

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

Switch it off!

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

Cut down on travel

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

All green at Shearwater

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

Waste

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

Web meetings and website

We look to utilise our capabilities for web-based meetings where appropriate, including live video conferencing and online presentations. Most of our corporate, promotional and product literature is available online, to minimise the use of paper.

Company car policy

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

Desktop use

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

Green IT box

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

Responsible operations continued

Carbon offsets: A case study

This year we have invested in several carbon-reduction projects to capture our Company's emissions:

China Hebei Province Wind Farm

Technology: Wind

Location: Hebei, China

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

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

Mai Ndombe REDD+ Forest Protection

Technology: REDD+

Location: Mai-Ndombe, Democratic Republic of the Congo

Protecting forest from industrial logging, unsustainable fuel wood extraction, and slash/burn farming in western DRC.

The Mai Ndombe REDD+ Project, located in western Democratic Republic of the Congo (DRC), protects 248,956 hectares of forest from industrial logging, unsustainable fuel wood extraction, and slash and burn agriculture. Carbon validation is undertaken by the Verified Carbon Standard (VCS) and major socio-economic co-benefits ensured by the Climate, Community and Biodiversity (CCB) standard.

This project is both additional (it would not have happened without the carbon credit revenues that make the project financially attractive for investors) and permanent (carbon already captured, as well as carbon captured in the future, will remain sequestered thanks to the protection of this ecosystem).

India Kinnaur Hydroelectric Power

Technology: Hydroelectric

Location: Himachal Pradesh, India

Generating clean electricity through renewable hydropower and exporting the net electricity to the regional grid.

This project generates clean electricity by utilising renewable hydropower, then exports the generated net electricity to the regional grid for sale. Doing so results in the reduction of greenhouse gas emissions (GHGs) into the atmosphere, which would have otherwise occurred due to the production of electricity from other carbon-intensive, predominantly coal-based power sources.

The project converts the potential energy of water flows into mechanical energy through a 12 MW run-of-river Small Hydroelectric Project (SHP) being developed in the Kinnaur district of Himachal Pradesh. Following the project's auxiliary consumption, the generated electricity will be exported to the grid for sale, via the Himachal Pradesh State Electricity Board (HPSEB).

Supporting our team

We look to create a working environment that supports our people and their development. The Group is committed to fostering an environment where our people can achieve their own personal goals as well as contribute to the social and environmental causes close to their heart.

We focus on four areas we believe support this approach:

1. Employee engagement

We keep in regular contact through our Company WebEx, team conference calls, regular management meetings, internal presentations, team announcements and news articles on our websites. We encourage interaction between people, many of whom are currently working within a hybrid-working framework. We also encourage cross-Group communication between management and teams, which tends to happen freely.

2. Employee wellbeing and mindfulness

We continue to enhance the working environment for our people, whether they work remotely or at our offices, believing people are healthier, happier and more engaged at work when we offer our support. All employees have access to the Group's Employee Assistance Programme which offers a broad range of support services to individuals. This programme aims to improve our employees' health and wellbeing, minimise risks in the workplace, and help deal with issues that could be affecting their home or work life.

3. Training and development

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

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

4. Equality and diversity

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

Maintaining strong governance

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

Financial review

Overview

While the Group's financial performance in the year to 31 March 2024 was again impacted by market factors and delayed contracts in the Group's Services division, resulting in revenue down 15% to £22.6 million, gross margins improved from 24% of revenue to 31% and administrative expenses for the Group were lower by 9%.

The Group continues to retain a healthy balance sheet with a cash position of £5.0 million at 31 March 2024 (2023: £4.0 million) and no debt. During the year the Group again generated positive operating cash flows and continued to invest in the development of new software offerings which it expects to successfully monetise in future years.

A summary of the Group's financial performance for the year is set out below:

	2024 £m	2023 £m
Revenue	**22.6**	26.7
Gross profit	**6.9**	6.4
Administrative expenses (underlying)[1]	**(6.0)**	(6.6)
Adjusted EBITDA	**0.9**	(0.2)
Adjusted EBITDA margin	**4%**	–%
Net finance charges	**(0.1)**	(0.1)
Depreciation	**(0.2)**	(0.2)
Amortisation of intangible assets – computer software	**(1.2)**	(0.8)
Adjusted loss before tax	**(0.6)**	(1.3)
Amortisation of acquired intangible assets	**(2.1)**	(2.1)
Impairment of intangible assets	**–**	(6.0)
Exceptional items and share-based payments	**(0.6)**	(0.2)
Loss before tax	**(3.3)**	(9.6)
Taxation credit	**1.1**	1.5
Loss after tax	**(2.2)**	(8.2)

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

Revenue

Revenue for the year ended 31 March 2024 of £22.6 million was 15% down on the prior year (2023: £26.7 million).

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

	2024 £m	2023 £m
Services		
Managed services and warranties	**9.8**	11.2
Security solutions	**5.1**	6.1
Advisory and engineering	**5.3**	6.5
Software		
Software licences	**2.4**	2.9
Total revenue	**22.6**	26.7

The Services division was impacted by the continued effect of market conditions on its customer base. While some contracts that had been delayed from the previous financial year were completed, there continued to be delays in some customers releasing budgets, resulting in lower revenue year on year. Advisory revenues included particularly strong demand for Pentest's consulting services in the year.

Software licences revenue fell in the year as falling sales of the legacy 'On Premise' multi-factor authentication software have not yet been replaced by sales of the new platform and cloud-based products which were released during the year and continue to be developed. Renewal rates with existing customers increased to over 80% demonstrating the value many long-standing clients place on this product and its future roadmap and resulting in stable revenue in the Software business for the third half year in a row. Continued investment into developing this software both as a cloud-based platform as well as a next generation on prem solution provides opportunities to drive additional incremental revenues in the future.

Adjusted EBITDA

The Group delivered a return to positive adjusted EBITDA of £0.9 million in the year (2023: loss of £0.2 million). The prior year was impacted by a £0.8m loss on foreign exchange which did not recur following implementation of a hedging policy. The increase in adjusted EBITDA, excluding the impact of foreign exchange in the prior year, was £0.3m and achieved despite the lower revenue due to higher gross margin percentages in both the Services and Software divisions, from improved profile of revenues and lower costs following the restructuring activity earlier in the year.

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

	2024 £m	2023 £m
Services and Software	**2.3**	1.1
Central administrative expenses	**(1.4)**	(1.3)
Adjusted EBITDA	**0.9**	(0.2)
Adjusted EBITDA margin %	**4%**	–

Central administrative expenses increased by £0.1 million in the year to £1.4 million.

Finance charges

Net finance charges of £0.1 million were in line with prior year (2023: £0.1 million). In the second half of the year the Group began to utilise short-term deposits to earn interest on excess cash balances.

Depreciation

Depreciation of £0.2 million (2023: £0.2 million) was similar to the prior year and mainly comprises depreciation of right of use assets.

Amortisation of intangible assets – computer software

Amortisation of computer software increased by £0.4 million to £1.2 million (2023: £0.8 million), reflecting the profile of expenditure in recent years.

Adjusted loss before tax

The Group's adjusted loss before tax for the year was £0.6 million (2023: £1.3 million loss). The improvement compared to the prior year was largely due to the increased EBITDA, which was partly offset by the increase in amortisation of computer software.

Amortisation of acquired intangible assets

Amortisation of acquired intangible assets of £2.1 million (2023: £2.1 million) was in line with the previous year.

Share-based payments

Share-based payment charges were less than £0.1 million in the year (2023: £0.1 million) mainly reflecting lapsed options and expiry of the SAYE plan.

Exceptional items

Exceptional items of £0.5 million (2023: £0.1 million) included one-off expenses relating to completion of the restructuring which followed a review of the Group in early 2023 and the cost of a one-off strategic project in the second half of the current year.

Reported loss before tax

Reported loss before tax for the year of £3.3 million (2023: £9.6 million loss) reflected the absence of the £6.0 million impairment charge incurred in the prior year.

Taxation

A taxation credit in the period of £1.1 million primarily comprises movements in deferred taxation.

Earnings/(loss) per share

Adjusted basic and diluted earnings per share of 0.3 pence (2023: loss of 0.4 pence) was similar to the prior year. Reported basic and diluted loss per share of 9.1 pence (2023: loss 34.3 pence) improved due to the absence of the impairment charge incurred in the prior year.

Statement of financial position

Intangible assets

Intangible assets decreased in the year by £2.2 million to £42.7 million at 31 March 2024 (2023: £44.9 million). This movement incorporates £1.0 million of investment into continued development of the Group's software assets (2023: £1.3 million), less £3.3 million amortisation, of which £2.1 million relates to acquired intangibles and £1.2 million to internally developed computer software. The prior year included a £6.0 million impairment charge relating to the write down of goodwill.

Financial review continued

Statement of financial position continued

Property, plant and equipment

Property, plant and equipment increased slightly in the year by £0.1 million to £0.5 million at 31 March 2024 (2023: £0.4 million). Additions of £0.3 million include £0.2 million for the extension of an existing office lease which has been recognised as a right of use asset. Other movements in the period include depreciation in the year of £0.2 million.

Trade and other receivables

Trade and other receivables, including both non-current and current balances, decreased by £6.5 million in the year from £19.6 million to £13.1 million at 31 March 2024. The reduction was mainly due to receipts relating to large long-term customer contracts that were delivered and recognised in the income statement in previous financial years. By March 2024 none of the remaining balances were due after more than one year. .

Trade and other payables (falling due within one year)

Trade and other payables increased by £0.3 million in the year from £12.3 million to £12.6 million at 31 March 2024. The balance includes a £4.1 million increase in trade payables and £4.5 million reduction in accruals and other payables as invoices were received in the year relating to long-term supplier contracts where the costs were recognised in previous financial years in line with the long-term customer contracts noted above.

Creditors: amounts falling due after more than one year

Creditor amounts falling due after more than one year reduced by £5.6 million from £9.2 million to £3.6 million at 31 March 2024, due mainly to a reduction in accruals and other payables relating to long-term contracts. At 31 March 2024 none of the remaining balances were due after more than one year. Deferred tax was £3.0 million (2023: £3.6 million) and mainly comprised amounts held for acquired intangible assets.

Statement of cash flows

The Group generated cash inflows in the year of £1.0 million (2023: outflow of £1.6 million), driven largely by the return to positive adjusted EBITDA and positive working capital generation, particularly in the second half of the year. Working capital benefited in the year from the profile of long-term deals concluded in previous years. The Group continued to invest in the Software division, with £1.0 million invested into internally developed software, the latest of which, SecurEnvoy's Access Management v.4.0 R2, went live in May 2024. The Group continued to collect cash effectively, with minimal bad debt.

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

	2024 £m	2023 £m
Adjusted EBITDA	**0.9**	(0.2)
Movements in working capital	**1.1**	0.5
Cash generated from operations	**2.0**	0.3
Adjusted cash generated from operations	**2.4**	0.4
Exceptional items	**(0.4)**	(0.1)
Net cash generated from operating activities	**2.0**	0.3
Capital expenditure (net of disposal proceeds)	**(1.1)**	(1.3)
Tax received/(paid)	**0.3**	(0.3)
Finance costs paid	**(0.1)**	(0.1)
Payments of lease liabilities	**(0.2)**	(0.2)
Movement in cash	**1.0**	(1.6)
Opening cash and cash equivalents	**4.0**	5.6
Closing cash and cash equivalents	**5.0**	4.0

The above cash flow is extracted from the statutory presentation and adjusted to show exceptional items on a like-for-like basis as this is the basis reviewed by the Directors.

Capital expenditure

Capital expenditure of £1.1 million (2023: £1.3 million) in the year primarily includes capitalisation of external and internal software costs for developing our Software business's product sets. Expenditure of property, plant and machinery remains minimal.

Financing activities

Expenditure on financing activities of £0.3 million (2023: £0.3 million) including repayment of lease liabilities, was in line with the prior year.

Key performance indicators

The Board believes that revenue, adjusted EBITDA and adjusted profit before tax 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.

Alternative performance measures

The Group uses alternative performance measures alongside statutory measures to manage the performance of the business. In the opinion of the Directors, alternative performance measures can provide additional relevant information on past and future performance to the reader in assessing the underlying performance of the business. The table within note 2 of the consolidated financial statements details definitions of adjusted EBITDA and adjusted (loss)/profit before tax measures. Note 8 details the definition of adjusted EPS.

Principal risks and uncertainties

Risk management framework

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

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

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

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

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

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

Risk appetite

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

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

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

Emerging risks

The Directors monitor the continuously evolving macro and micro economic environment and assess any potential impact to the Group's businesses. This will occasionally identify additional risks that need to be considered by the business and planned for where it is possible.

Whilst not a new factor, the impact of climate change continues to be a risk that needs to be monitored as the impact of natural disasters could have potential knock-on impacts for our stakeholders. We will continue to monitor this risk and remain committed to sustainable trading which includes ethical procurement. More details can be found in the Group's sustainability report on pages 20 to 22 of how the Group promotes sustainable trading.

In the current year we have continued to enhance data protection through a framework aligned with the ICO's Accountability Tracker to manage and monitor all data protection risks including those relating to third-party products and services. This is set out in the Regulatory section below. In the prior year we updated the key contracts risk to include delays in customer spending, which can impact financial performance in a period. Given the Group's current focus on organic growth, acquisitions risk has been deprioritised this year.

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

Principal risks and uncertainties continued

Risk	Description	Mitigating actions	Link to strategic priorities
Technology **Risk level** Pre-mitigation – High Post-mitigation – High **No change** (2023: Increased)	The markets in which the Company operates are characterised by rapid technological development, changes in customer requirements and preferences, frequent new product and service launches incorporating new technologies, and the emergence of new industry standards and practices that could render the Company's existing technology and products obsolete. If the Company is unable to anticipate and respond to technological changes and customer preferences in a timely and cost effective manner, it is possible that existing customers and prospective customers may turn to competitor offerings. The advancement of AI-based automation technologies provides companies with the opportunity to accelerate the advancement of their existing technologies.	• The Group remains dedicated to continuously advancing its internally developed software and technologies while also identifying and integrating leading third-party solutions. This year we have continued to invest in software development to ensure that our product offerings remain current and relevant. • We have a number of industry experts working across our Group companies, who work together with the objective to improve the Group's product offering, ensuring that we keep pace with technological change and the threats that the Group's customers face.	Ensuring that the software products we sell are innovative will position us in a fast-growing marketplace.
Intellectual property **Risk level** Pre-mitigation – High Post-mitigation – Moderate **No change** (2023: No change)	The Group owns a number of software assets that it has created and continuously developed over a number of years. These form the products that are sold within the Software division of our business. The Group continues to invest in the development of new product sets to complement existing products. Whilst the Group seeks to protect its intellectual property through a range of mitigating actions, this does not provide any assurances that a third party will not infringe upon the Group's intellectual property, release confidential information about it or claim technology which is registered to the Group.	• The Group maintains robust security around its internally developed technology and patents are filed where possible. • Employment contracts provide some protection around the release of information relating to product know-how. • The Group takes a zero tolerance approach to intellectual property infringement and will take necessary steps to enforce its rights to protect its intellectual property assets.	Continued development of internally developed software provides the Group access to highly valuable recurring revenue streams that generate high gross margins.

Risk	Description	Mitigating actions	Link to strategic priorities
Recruitment and retention of key personnel **Risk level** Pre-mitigation – High Post-mitigation – High **No change** (2023: Increased)	The Group's success depends upon its ability to attract and recruit, retain and incentivise highly skilled employees across all areas of the business. If the Group is unable to retain or successfully attract and recruit key employees across all and any areas of the business, it could delay or prevent the implementation of its strategy. The Board recognises this risk and supports the Group's people strategy which encompasses, among other things, culture, training and development, capability and competence assessments, succession planning, reward and recognition structures, to help attract and appropriately incentivise key personnel. The rewards for businesses to develop the best in class technologies continue to fuel demand for the best employees.	• We have enhanced training and development opportunties for all employees so that they are able to advance within their role. • We promote a culture of openness where all employees are able to express their views and suggestions, actively contributing to decision making. • The Board takes an active role in succession planning to ensure that we build strong teams and processes around key individuals to reduce dependence on any one individual. • Continued review and enhancement of employee benefits, including life insurance added for all UK employees.	Attracting and retaining the best candidates will help drive innovation of products and solutions, ensuring that we are able to deliver growth. Please see Stakeholders on pages 16 and 17 and Supporting our team on page 23.
Key contracts **Risk level** Pre-mitigation – High Post-mitigation – High **No change** (2023: Increased)	The Group relies on certain key customers for a material proportion of its revenue. Whilst the Group benefits from high customer retention levels, there can be no guarantees that all or any customers will continue their relationship with the Group beyond the existing contractual period currently in place. Certain customers have the right to terminate their contractual arrangements with the Group or discontinue using the Group's services without notice or on short notice. In addition to this, changes in client spending patterns brought about by the clients' operational priorities and/or budgetary restraints can result in delays to expected projects, which along with losses of major customer contracts could adversely affect the Group's business, financial position, results or future operations. The current macroeconomic conditions add pressure for some customers which can result in delays or pauses to investment decision making.	• We continue to create and maintain long-term relations with our customers, taking the time to understand their needs fully. Key to achieving long-term relationships with customers is ensuring that as a minimum we always deliver in line with customer expectations. • We have continued to invest in sales and marketing roles as well as invest in marketing to achieve new customer growth for the Group to reduce the reliance on existing customers. During the year 93 new clients were introduced to the Group, many of these buying products and/or services that are repeatable in nature.	Investment into developing long-term relationships, taking time to listen and understand our clients' needs and delivering excellent service presents upsell opportunities. Please see Stakeholders on page 16.

Principal risks and uncertainties continued

Risk	Description	Mitigating actions	Link to strategic priorities
Economic uncertainty including major incidents **Risk level** Pre-mitigation – High Post-mitigation – High **No change** (2023: Increased)	Whilst economic uncertainty creates both challenge and opportunity, the negative impact to the Group's key stakeholders could result in the loss of customers and additional pressures on the Group's supply chain. With recent high levels of inflation and other world events impacting the global economy, many companies are reviewing their budgetary spends. This can create vulnerabilities if companies do not have appropriate cyber & IT security in place.	• Owing to the non-discretionary nature of many of the Group's products and services, the Group is in a robust position; over the past year, the Group has retained close contact with its key stakeholders, addressing challenges as they arise, providing support and flexibility where needed which we believe will strengthen relationships in the long term.	This can lead to increased levels of cyber-attack, which result in increased client investment into its IT security. Please see Market Opportunity section of the Chief Executive Officer's report on page 9.
Cyber security attacks **Risk level** Pre-mitigation – High Post-mitigation – High **No change** (2023: Increased)	The Group is a high-profile target for third parties wishing to gain unauthorised access to the Group's networks, or to bypass or breach its products. Any breach of the Group's networks or products, whether through a deliberate hack or unintentional event, may cause significant business disruption to the Group or its customers and result in the Group incurring the costs of remedying any breach. Furthermore, the Group's reputation may be damaged, leading to a loss of customer, industry and investor confidence. The advancement of AI-based technologies can provide cyber-criminals with tools that can automate and accelerate deployment of cyber-attacks.	• The Group's employees participate in training and testing to promote awareness of cyber threats. • The Group has established a secure network infrastructure, supported by its own in-house team of information security and cyber security specialists, who are able to monitor, identify and respond to any incident, and if required, recover any data or information. We invest to continually enhance the robustness of our IT security. • Our internally developed software products are subject to regular third-party testing as part of the ongoing development process both prior to launch and once the product is being used by the Group's customers. Where new threats emerge, product updates are made available and communicated to the Group's customers so that they are able to maintain continuity of protection.	Our products and solutions help protect companies from security threats. Increased cyber-attacks present an opportunity for us, as companies look to invest in effective defensive solutions. Please see Market Opportunity section of the Chief Executive Officer's report on page 9.

Risk	Description	Mitigating actions	Link to strategic priorities
Regulation **Risk level** Pre-mitigation – High Post-mitigation – Moderate **No change** (2023: Increased)	New industry regulation and government legislation continues to be introduced in order to compel companies to enhance their information and cyber security measures. As a result of the continued and evolving cyber threats faced by companies, industry regulation, and in turn legislation, may be amended, adapted and enhanced at relatively short notice, which will create a new set of data protection requirements for companies, which information and cyber security product and service vendors will need to address with their products. If the Group is unable to provide products or services to its customers which enable them to meet the changing regulatory or legislative requirements laid down by industry or government, then its current or prospective customers may turn to competitor offerings. Continued change/enhancement of regulation and best practice increases the pre-requisite for companies to have appropriate, up-to-date cyber and IT security in place in order to trade. As an example, insurers are asking for details of companies' cyber and IT security systems and process as part of their customer due diligence when assessing premiums.	• We constantly monitor a variety of Government bodies to ensure that we can plan for future developments within the legislative landscape, allowing us to ensure that our services are up to date and relevant. • The Group's Advisory Panel takes an active role in monitoring legislative developments which could create both opportunities and challenges for our companies. • The Group's Data Protection Officer is responsible for ensuring the Group's continued compliance with new data protection requirements which have most recently come into force. • We have implemented a framework aligned with the ICO's Accountability Tracker to manage and monitor all data protection risks including those relating to third-party products and services, processor due diligence checks and controller-processor contract requirements. In addition, we use a dedicated third-party risk management platform to monitor risks relating to critical third parties.	Changes in compliance and regulation from industry bodies and law creates an obligation that companies need to respond against. Our companies' services and solutions are able to help companies fulfil their compliance requirements. Please see Strategy on page 12.

Board of Directors

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

David Williams
Chairman

A N R

Appointed to the Board:
April 2015

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

Philip Higgins
Chief Executive Officer

Appointed to the Board:
December 2018

Key areas of prior experience:
Phil has over 30 years' industry experience, during which time he has been instrumental in the delivery of next generation technology solutions to many leading global FTSE 100 and FTSE 250 companies. Phil joined the Board in December 2018 and was appointed Chief Executive Officer of Shearwater Group in April 2019. Following a six-year secondment to the US as International Business Director for Info Products Europe (now SCC), Phil returned to the UK market in 2001. After a brief spell at NSC Global and three years at Repton (now CDW), he co-founded Brookcourt Solutions in 2005.

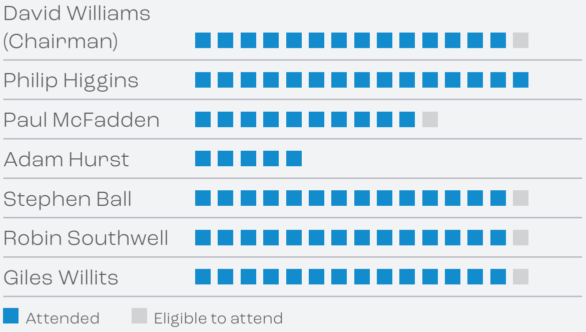
Adam Hurst
Interim Chief Financial Officer

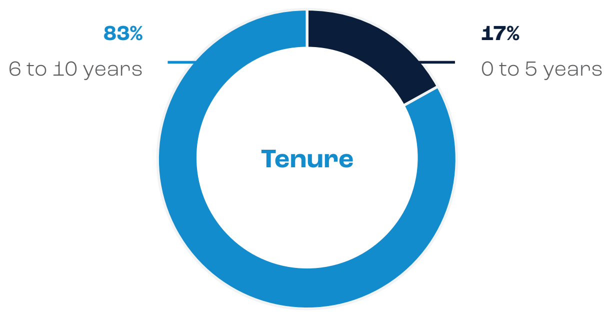
Appointed to the Board:
November 2023

Key areas of prior experience:
Adam brings over 20 years of experience in senior finance roles across rapidly evolving and high growth businesses. A Chartered Accountant, Adam started his career with PwC, subsequently spending nine years with Unigate plc before moving to Tate & Lyle plc where he held the position of Group Financial Controller. From there he joined AIM-listed Entertainment One as Deputy Group Chief Financial Officer and then Divisional Chief Financial Officer supporting the rapid growth of the business. Most recently he was Chief Financial Officer of TISE listed Yell Ltd.

Meetings and attendance

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





Key:

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

Robin Southwell OBE
Non-executive Director

R

Appointed to the Board:
October 2016

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

Stephen Ball
Senior Independent Non-executive Director

A N

Appointed to the Board:
October 2016

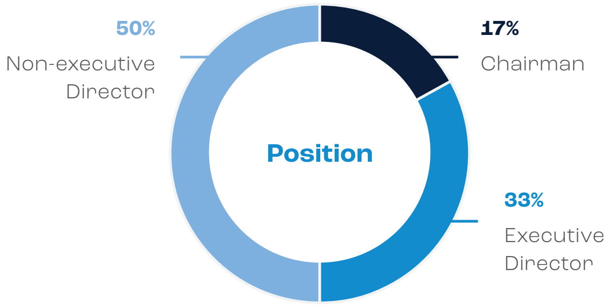
Key areas of prior experience:
Stephen has over 35 years' experience of working in senior roles in the technology, defence, information security and communications industries. Stephen was formerly chief executive officer of Lockheed Martin UK until his retirement in 2016. Prior to this, he was managing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

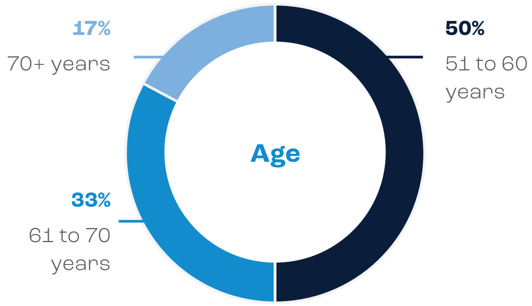
Giles Willits
Non-executive Director

A

Appointed to the Board:
December 2016

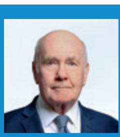
Key areas of prior experience:
Giles has over 25 years' experience in senior leadership and financial roles. Until June 2022 he was the chief financial officer of IG Design Group plc (AIM: IGR). Prior to this Giles was chief financial officer of FTSE 250 listed Entertainment One Ltd (LSE: ETO), having initially served as a non-executive director 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. He is currently a non-executive director at Acceler8 Ventures plc, Chief Investment Officer at Intuitive Investments plc and Treasurer/Council member at the University of Nottingham.





Advisory panel

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



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

Dear Shareholder

I am pleased to introduce Shearwater Group plc's governance report for fiscal year 2024 on behalf of the Board.

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

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

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

David Williams
Chairman
23 July 2024

Corporate governance report

Introduction

The Group has adopted the QCA Corporate Governance Code (the 'QCA Code') and has worked to follow the guidance and principles set out within the code. Further details can be found on the Group's website under the following link: **Corporate Governance – Shearwater Group plc**

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

Governance structure and strategy

	Strategy	Reference
	Deliver growth	
01.	Establish a strategy and business model which promote long-term value for shareholders.	See more on pages 10 to 12
02.	Seek to understand and meet shareholder needs and expectations.	See more on pages 16 and 17
03.	Take into account wider stakeholder and social responsibilities and their implications for long-term success.	See more on pages 16 and 17
04.	Embed effective risk management, considering both opportunities and threats, throughout the organisation.	See more on pages 27 to 31
	Maintain a dynamic management framework	
05.	Maintaining the Board as a well-functioning, balanced team led by the Chair.	See more on pages 32 and 33
06.	Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities.	See more on pages 32 and 33
07.	Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.	See more on page 37
08.	Promote a culture that is based on ethical values and behaviours.	See more on pages 16, 17 and 23
09.	Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board.	See more on pages 35 to 37
	Build trust	
10.	Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.	See more on pages 16 and 17

Corporate governance report continued

Governance framework

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

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 41.**

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 39 and 40.**

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 38.**

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 32 and 33.**

Internal financial control

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

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

Independence

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

Board governance

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

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

Board evaluation

The Group's Nomination Committee carries out regular internal evaluation of the performance of the Board. The Committee recognises and is committed to addressing the need to increase diversity amongst the Board and its members.

Focus areas this year

The Board

Strategy	Financial	Governance
• Assessing the organic and strategic opportunities for the Group, including geographic expansion and enhancement of product and service offering.	• Reviewed the robustness of the Group's financial position. • Reviewed the potential impact to the Group with regard to factors brought about by the changing economic conditions which has continued to see customer budget constraints and delayed customer decision making.	• Communication with our employees. • Promotion of policy awareness to our employees including enhanced training.

Nomination Committee report

David Williams
Chairman of the Nomination Committee

Committee attendance

David Williams (Chairman)	■■
Stephen Ball	■■

Dear Shareholder

On behalf of the Board, I am pleased to present the Nomination Committee report for the year ending 31 March 2024.

Roles and responsibilities

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

The Nomination Committee is also responsible for:

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

Committee members

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

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

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

Key activities and actions over the past year

Strategic review

During the year the Committee monitored the strategic review that it had recommended the Board carry out and which concluded early in FY24.

Composition of the Board

The Committee met to review the composition of the Board and confirm the appointment of an Interim Chief Financial Officer following the resignation of the Chief Financial Officer.

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

23 July 2024

Audit Committee report

Giles Willits
Chairman of the Audit Committee

Committee attendance

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

Giles Willits (Chairman)	■■■
Stephen Ball	■■■
David Williams	■■■

Dear Shareholder

On behalf of the Board, I am pleased to present the Audit Committee report for the year ending 31 March 2024.

The Group has continued to develop its processes and practices in order to best support its stakeholders alongside delivering a robust year-end balance sheet at 31 March 2024.

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

A key consideration for the Committee is ensuring that the Group is well positioned to mitigate the challenges of the current economic environment.

Roles and responsibilities

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

The Audit Committee is also responsible for:

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

Committee members

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

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

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

Key activities and actions over the past year

Financial statements

The Audit Committee reviewed and approved the unaudited interim financial statements for the period ending 30 September 2023 and the full year audited financial statements for the year ending 31 March 2024 and reported to the Board that in its view the statements were fair, balanced and understandable.

Significant accounting matters

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

1. Revenue recognition

The Committee considered the inherent risk of error in revenue recognition as defined by auditing standards. The Committee reviewed the current accounting policy detailed within note 1 of the financial statements and was satisfied that revenue recognition was consistent with the prior year and that no issues were arising.

Audit Committee report continued

Significant accounting matters continued

2. Going concern

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

The Committee has concluded that it is appropriate for the financial statements to be prepared on a going concern basis. Please see note 1 of the consolidated financial statements for additional details on the Group's going concern assessment. The Committee has also reviewed and challenged the Group's key risks, which are included within the principal risks and uncertainties section on pages 27 to 31.

3. Impairment of intangible assets and investment in Parent Company

The Audit Committee has reviewed reports concerning the carrying value of specific goodwill and intangible assets which include assumptions and judgements of future cash flows, discount rates used and long-term growth rates. In addition to this, the Committee has reviewed the carrying value of the investment in subsidiaries held by Shearwater Group plc.

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

4. Foreign exchange risk

The Committee has monitored the implementation of a forward currency contract policy that was established in the prior year to mitigate foreign exchange volatility and has concluded that this continues to reduce the Group's exposure to foreign exchange risk.

5. Cyber security risk

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

6. Use of alternative performance measures

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

Risk management and internal control

The Committee is responsible for advising the Board on risk exposure and review of internal controls that are in place to mitigate risk. Principal risks and uncertainties facing the business are presented on pages 27 to 31.

The internal control environment continues to develop as the business evolves, with a particular focus in the year on enhancing the quality and timeliness of management reporting.

External audit

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

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

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

Internal audit

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

Approved on behalf of the Audit Committee by:

Giles Willits
Chairman of the Audit Committee
23 July 2024

Remuneration Committee report

David Williams
Chairman of the Remuneration Committee

Committee attendance

David Williams (Chairman)	■■
Robin Southwell	■■

Dear Shareholder

On behalf of the Board, I am pleased to present the Remuneration Committee report for the year ending 31 March 2024.

Roles and responsibilities

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

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

Committee members

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

The Committee met 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

Remuneration of Executive Directors

Base salaries

The Committee reviewed the Executive Directors' base salaries, and based on the performance of the Group, no changes to basic salaries were made in the current year.

Bonus

The bonus opportunity for the CEO during the year was based on the achievement of a revenue and adjusted EBITDA target. The opportunity for the Interim CFO was based on achievement of key strategic milestones.

The Remuneration Committee approves annual bonuses for the Chief Executive Officer and retains a level of discretion over the level of payout. Based upon the quality of financial performance in achieving the results. In the year ended 31 March 2024, no bonuses were paid.

Share options

The Committee kept the share option plans under review. Further details of the Group's share option plans are included later in this report.

Remuneration of Non-executive Directors

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

Approved on behalf of the Remuneration Committee by:

David Williams
Chairman of the Remuneration Committee

23 July 2024

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	
	2024 £000	2023 £000	**2024 £000**	2023 £000
Wages and salaries	**514**	493	**220**	220
Social security costs	**61**	63	**29**	31
Pension costs	**10**	15	**—**	—
Share-based payments	**1**	33	**—**	17
Total remuneration	**586**	604	**249**	268

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

Year ended 31 March 2024	**Total salary and fees £000**	**Bonus £000**	**Benefits £000**	**Sub-total £000**	**Pension £000**	**Total £000**
Executive Directors						
P Higgins	**220**	**—**	**—**	**220**	**—**	**220**
A Hurst	**69**	**—**	**—**	**69**	**—**	**69**
P McFadden[1]	**95**	**—**	**1**	**96**	**10**	**106**
Non-executive Directors						
D Williams	**51**	**—**	**—**	**51**	**—**	**51**
S Ball	**26**	**—**	**—**	**26**	**—**	**26**
R Southwell	**26**	**—**	**—**	**26**	**—**	**26**
G Willits	**26**	**—**	**—**	**26**	**—**	**26**
Total	**513**	**—**	**1**	**514**	**10**	**524**

1. P McFadden resigned on 20 November 2023

Year ended 31 March 2023	Total salary and fees £000	Bonus £000	Benefits £000	Sub-total £000	Pension £000	Total £000
Executive Directors						
P Higgins	220	—	—	220	—	220
P McFadden	143	—	1	144	15	159
Non-executive Directors						
D Williams	51	—	—	51	—	51
S Ball	26	—	—	26	—	26
R Southwell	26	—	—	26	—	26
G Willits	26	—	—	26	—	26
Total	**492**	**—**	**1**	**493**	**15**	**508**

No Directors held interests in the share options of the Group as at 31 March 2024. Options held in the prior year were as follows:

	Date of grant	Exercise price	Number of options at 31 March 2023
P McFadden	07/05/2018	£4.00	7,875
P McFadden	10/02/2022	£0.95	25,000

Directors' report

The Directors present their annual report together with the audited financial statements for the year ended 31 March 2024. The corporate governance statement set out on pages 35 to 37 forms part of this report.

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

Principal activities

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

Business review and future developments

A detailed review of the business, future developments along with the principal risks and uncertainties facing the Group are included within the strategic and business review of activities on pages 2 to 31.

Results and dividends

Results for the year and financial position are detailed on pages 54 to 91. The Directors do not recommend the payment of a dividend for the year (FY23: £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 (resigned 20 November 2023)	Executive Director
A Hurst (appointed 3 November 2023)	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 2024	Number of shares held at 31 March 2023
P Higgins	**2,649,349**	2,439,349
D Williams	**1,618,757**	1,618,757
R Southwell	**155,000**	155,000
S Ball	**119,444**	119,444
G Willits	**67,717**	67,717
P McFadden (resigned 20 November 2023)	**n/a**	6,715

Share capital and substantial shareholders

Details of the issued share capital, together with details of the movements during the year, are contained in note 16 of the consolidated financial statements.

Details of share-based payments are contained in note 17 of the consolidated financial statements and the annual report on remuneration. No person has control over the Company's share capital and issued shares are fully paid.

At 31 March 2024, the Company had been notified of the following substantial shareholders comprising 3% or more of the issued share capital of the Company:

	% of issued share capital
Schroders plc	11.8%
Mr L Jones	12.3%
Mr P Higgins	11.1%
Mr D Stacey	8.8%
Mr D Williams	6.8%

Directors' indemnities

The Group currently has in place, and had for the year ended 31 March 2024, Directors' and Officers' liability insurance for the benefit of all Directors of the Group.

Directors' report continued

Going concern
The Directors have considered the Group's going concern position, having reviewed detailed forecasts for the period to at least 30 September 2025, and have considered the principal risks the Group is exposed to and how this could impact future trading and the subsequent future cash flows, which has been detailed in a reverse stress test scenario.

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

Our people
The Directors recognise the importance of ensuring effective communication to the Group's employees, ensuring that they are updated on various factors including updates on the performance of the Group.

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

Stakeholder engagement
Details of the Group's engagement with its key stakeholders are included within the strategic report on pages 16 and 17.

Environment
The Directors remain committed to ensuring that the Group's business is conducted in a way that is not detrimental to the wider environment. The Group continues to work with its partner DODO to maintain its carbon offset programme; we have invested in several carbon offset projects in the current year to offset emissions created by the business and continue to promote awareness of the Group's ongoing impact on the environment. Please see responsible operations section on pages 18 to 23 for more details.

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

Financial instruments
Details of the use of financial instruments by the Group are contained in note 18 of the consolidated financial statements. The financial risk management policies and objectives are also set out in detail in note 18.

Political donations
No political donations were made during the financial year (FY23: £nil).

Events after the reporting date
There are no events after the reporting date to report.

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

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

Annual General Meeting
The Company proposes to convene the Annual General Meeting for 11:00am on 24 September 2024. Notice of the Annual General Meeting will be circulated shortly to shareholders.

On behalf of the Board

David Williams
Chairman

23 July 2024

Statement of Directors' responsibilities

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

Governance

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with UK adopted international accounting standards and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period.

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

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

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

Website publication

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

The Group's financial statements can be accessed using the following link:
https://www.shearwatergroup.com/investors/results-centre/.

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 2024 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Shearwater Group Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2024 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated cash flow statement, the Company statement of financial position, the Company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Independence

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting is set out in the Key audit matters section of our report.

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

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

Overview

Coverage	99% (2023: 87%) of Group loss before tax 97% (2023: 92%) of Group revenue 99% (2023: 92%) of Group total assets

Key audit matters

	2024	2023
Revenue recognition	✓	✓
Impairment of intangible assets and goodwill (Group) and investments in subsidiaries (Parent Company)	✓	✓
Going concern	✓	

Materiality	Group financial statements as a whole £394k (2023: £467k) based on 1.75% (2023: 1.75%) of total revenue

An overview of the scope of our audit

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

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

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

Key audit matters

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

Independent auditor's report continued

to the members of Shearwater Group plc

An overview of the scope of our audit continued

Key audit matter	How the scope of our audit addressed the key audit matter
Revenue recognition **The Group's accounting policy is described in note 1.** **Details of disaggregation of revenue is included in note 3.** The group generates revenue from 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. We considered there to be a significant audit risk arising from the timing of revenue recognition with regard to appropriate deferral/accrual of revenue. The Group also earns revenue from the resale of third party licenses, software and services which requires judgement as to whether the Group is acting as a principal or agent. Furthermore, as revenue is a significant balance and a key performance indicator for the Group, we considered revenue recognition to be a key audit matter.	Our procedures included the following: We assessed whether the Group's revenue recognition policy is in accordance with applicable accounting standards. We inspected a sample of key contracts to assess the nature of performance obligations and to determine which of these should be recognised at a point in time or over time and evaluated the recognition of revenue in accordance with the accounting policy. We tested the completeness of revenue by agreeing a sample of cash receipts from customers including proof of delivery of license keys and customer acceptances as evidence of satisfaction of the performance obligation. We assessed the appropriateness of agent versus principal revenue recognition for third party licenses, software and services sold with reference to large contracts with customers and suppliers and the requirements of applicable accounting standards. We obtained samples of revenue contracts, including contracts with multiple performance obligations, and checked that applicable performance obligations were correctly identified and formed the appropriate basis of revenue recognised, checking to delivery of services to customers by reviewing third-party delivery confirmations. We tested completeness of deferred revenue and existence of accrued revenue by agreeing sales invoices, cash receipts and proof of satisfaction of the performance obligations, recalculating the amount of revenue to be accrued or deferred, as applicable. **Key observations:** Based on the procedures undertaken we did not identify any matters to suggest that the recognition of revenue was inappropriate.

Key audit matter	How the scope of our audit addressed the key audit matter
Impairment of Intangible assets and goodwill (Group) and investments in subsidiaries (Parent Company) **The group's accounting policy is described in note 1.** **Disclosure around inputs and assumptions for Intangible assets and goodwill are included in note 9.** **The parent company's accounting policy is described in note 1 (Company financial statements).** **Disclosure of investment in subsidiaries is included in note 2 (Company financial statements).** Intangible assets and goodwill, represent a significant part of the assets of the Group and investment in subsidiaries of the assets of the Parent Company. There are significant judgements required to be made by management in performing the impairment assessment for these assets. These judgements involve assessment of the cash generating units ("CGU") and assumptions impacting the future results and cash flows of the CGUs which include revenue growth rates, gross profit margins, operating profit margins, terminal value and the discount factor applied. As a result of the significant estimates and judgements involved, we considered this area to be a key audit matter.	Our audit procedures included the following: We challenged management's impairment assessment, through discussion with the Directors and management, based on our knowledge of the Group's business and performance to date and assessed whether it was performed in accordance with the requirements of the applicable accounting standards. We assessed the appropriateness of using different CGU's for the impairment analysis, based on our understanding of the business and the Group strategy. We checked the mechanical accuracy of the models used for each CGU and consulted with our valuation specialists on appropriateness of key assumptions applied such as discount rate and terminal value. We considered whether the discounted cash flow model applied to value the recoverable amount of these assets appropriately supports the asset value. This included a review and challenge of the assumptions underpinning the forecasts and the other inputs into the value in use model, such as the future revenue growth rate, the budgeted cost base, working capital and the WACC used against supporting documentation and industry benchmarks. We also compared forecast revenue and costs with historical trends and the Group's revenue pipeline, historical forecasts with actual results to assess the accuracy and reliability of management's forecasting and the discount rate in line with market rates. We checked that the forecast figures included within the model had been approved by the Board and these were consistent with information obtained in other audit areas and the forecasts used in the going concern assessment. We performed sensitivity analysis to test whether reasonably possible changes to inputs and assumptions could result in an impairment. We also assessed the adequacy of disclosures, including sensitivities, in the financial statements relating to management's assessment against the requirements of the applicable accounting standards. We compared the value in use of each CGU with the Parent company investment in subsidiaries and the carrying value of the CGU in the group financial statements to evaluate impairments. **Key observations:** Based on the outcome of the above procedures, we consider that the judgements and estimates made in considering the impairment of intangible assets and goodwill in the Group and investment in subsidiaries in the Parent Company were appropriate.

Independent auditor's report continued

to the members of Shearwater Group plc

An overview of the scope of our audit continued

Key audit matter	How the scope of our audit addressed the key audit matter
Going concern **The financial statements explain in note 1 how the Directors have formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group financial statements.** Due to the high level of judgement involved in the going concern assessment and reduced revenue performance against 2024 budget, there exists a risk that inappropriate assumptions might be used in the assessment of the Group's ability to continue as a going concern. As a result of the reduced 2024 revenue performance and significant estimates and judgements involved, we considered this area to be a key audit matter.	Our audit procedures included the following: We obtained and understood managements going concern forecasts and downside scenarios applied, checking the mathematical accuracy of the models. We challenged the underlying assumptions included in the forecasts. This included; comparing forecast revenue and costs with historical revenue and cost trends, and; historic forecasts with actual results to consider the accuracy and reliability of the directors' forecasting ability. We also assessed the forecast revenue against the Group's revenue pipeline. We assessed the validity of the revenue pipeline, verifying expected cash flows to a sample of agreed purchase orders. We performed sensitivity analysis of changes in key assumptions, including a reasonably possible (but not unrealistic) reduction in forecast revenue to understand the headroom in the cash flow forecasts. We reviewed post year end performance for the period ended 30 June 2024, comparing to forecast. We reviewed the consistency of the going concern disclosures in the financial statements with the Directors' going concern assessment. **Key observations:** See the conclusions relating to going concern in the section above.

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	
	2024 £k	2023 £k	**2024 £k**	2023 £k
Materiality	**394**	467	**295**	350
Basis for determining materiality	1.75% of Total revenue		75% (2023: 75%) of Group materiality	
Rationale for the benchmark applied	Revenue has been determined to be the most relevant performance measure to the stakeholders of the Group given the Directors' current focus on revenue growth.		Set at 75% (2023: 75%) of Group materiality given the assessment of the component's aggregation risk.	
Performance materiality	**296**	350	**222**	263
Basis for determining performance materiality	75% of materiality based on our assessment of the overall control environment and after having considered a number of factors including the expected total value of known and likely misstatements based on our prior knowledge of the business.			

Component materiality

For the purposes of our Group audit opinion, we set materiality for each significant component of the Group, based on a percentage of between 4% and 75% (2023: 8% and 75%) of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £17k to £296k (2023: £39k to £350k). In the audit of each component, we further applied performance materiality levels of 75% (2023: 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 £19,700 (2023: £23,350). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

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

We have nothing to report in this regard.

Independent auditor's report continued

to the members of Shearwater Group plc

Other Companies Act 2006 reporting

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

Strategic report and Directors' report	In our opinion, based on the work undertaken in the course of the audit: • the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: • adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or • the Parent Company financial statements are not in agreement with the accounting records and returns; or • certain disclosures of Directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Non-compliance with laws and regulations

Based on:

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

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

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

Our procedures in respect of the above included:

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

Fraud

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

- Enquiry with management and the Audit Committee, regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Group's policies and procedures relating to:
  - Detecting and responding to the risks of fraud; and
  - Internal controls established to mitigate risks related to fraud.
- Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud;
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- Our procedure on journal testing includes a review and verification of specific journal entries made in the year, based on risk criteria, agreeing the journals to supporting documentation and considering whether they are appropriate. We determined key characteristics, such as unusual pairings, with a particular emphasis on revenue; and
- Assessing significant accounting estimates made by management specifically for impairments of intangible assets and goodwill and revenue recognition, refer to key audit matters.

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

- Evaluating and, where appropriate, challenging assumptions and judgements made by management in determining significant accounting estimates, in particular in relation to impairment of investments and intangible assets (refer to key audit matters section), capitalised development costs and the going concern assumption (refer to key audit matters section);
- Procedures to address the risk of fraud in revenue recognition (refer to the key audit matters section); and
- Review of minutes of Board meetings throughout the year for any instances of non-compliance with laws and regulations or fraud in the year.

We tested user access abilities for posting journals, checked for unusual journals and unbalanced journals, testing the appropriateness of these journal entries by agreeing to supporting documentation, with a focus on unusual transactions based on our knowledge of the business, our fraud risk assessment, and enquiries with group management. We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

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

Use of our report

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

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

London,
UK

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

Consolidated statement of comprehensive income

for the year ended 31 March 2024

	Note	2024 £000	2023 £000
Revenue	3	**22,643**	26,686
Cost of sales		**(15,790)**	(20,236)
Gross profit		**6,853**	6,450
Administrative expenses		**(6,548)**	(12,875)
Depreciation and amortisation		**(3,531)**	(3,131)
Total operating costs		**(10,079)**	(16,006)
Operating loss		**(3,226)**	(9,556)
Adjusted EBITDA		**864**	(201)
Depreciation and amortisation		**(3,531)**	(3,131)
Impairment of intangible assets		**–**	(6,014)
Exceptional items	4	**(533)**	(125)
Share-based payments		**(26)**	(85)
Operating loss		**(3,226)**	(9,556)
Net finance cost	6	**(67)**	(77)
Loss before taxation		**(3,293)**	(9,633)
Income tax credit	7	**1,123**	1,458
Loss for the year and attributable to equity holders of the Company		**(2,170)**	(8,175)

Other comprehensive (loss)/income

Exchange differences on translation of foreign operations		**(3)**	7
Total comprehensive loss for the year		**(2,173)**	(8,168)

Earnings/(loss) per ordinary share attributable to the owners of the parent

Basic and diluted (Pence per share)	8	**(9.1)**	(34.3)
Adjusted basic and diluted (Pence per share)	8	**0.3**	(0.4)

Adjusted EBITDA and Adjusted basic and diluted earnings/(loss) per share are non-GAAP Group-specific measures which are considered to be key performance indicators of the Group's financial performance. See note 2 for definition of Adjusted EBITDA and note 8 for definition of Adjusted basic and diluted earnings/(loss) per share.

The results above are derived from continuing operations.

The notes on pages 58 to 83 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

as at 31 March 2024

	Note	2024 £000	2023 £000
Assets			
Non-current assets			
Intangible assets	9	**42,684**	44,939
Property, plant and equipment	10	**481**	433
Deferred tax asset	14	**1,016**	742
Trade and other receivables	11	**679**	7,280
Total non-current assets		**44,860**	53,394
Current assets			
Trade and other receivables	11	**12,392**	12,346
Cash and cash equivalents		**4,974**	3,964
Total current assets		**17,366**	16,310
Total assets		**62,226**	69,704
Liabilities			
Current liabilities			
Trade and other payables	12	**12,604**	12,348
Total current liabilities		**12,604**	12,348
Non-current liabilities			
Creditors: amounts falling due after more than one year	13	**3,646**	9,233
Total non-current liabilities		**3,646**	9,233
Total liabilities		**16,250**	21,581
Net assets		**45,976**	48,123
Capital and reserves			
Share capital	16	**22,278**	22,278
Share premium		**34,581**	34,581
Other reserves		**23,086**	23,442
Translation reserve		**27**	30
Accumulated losses		**(33,996)**	(32,208)
Equity attributable to owners of the Company		**45,976**	48,123
Total equity and liabilities		**62,226**	69,704

The notes on pages 58 to 83 are an integral part of these consolidated financial statements.

The financial statements on pages 54 to 83 were approved and authorised for issue by the Board and signed on their behalf on 23 July 2024.

Philip Higgins
Chief Executive Officer

Registered number: 05059457

Consolidated statement of changes in equity

for the year ended 31 March 2024

Group	Share capital £000	Share premium £000	Other reserves £000	Translation reserve £000	Accumulated losses £000	Total equity £000
At 1 April 2022	22,278	34,581	24,386	23	(25,062)	56,206
Loss for the year	—	—	—	—	(8,175)	(8,175)
Other comprehensive income for the year	—	—	—	7	—	7
Total comprehensive loss for the year	—	—	—	7	(8,175)	(8,168)
Contributions by and distributions to owners						
Expiry of share options	—	—	(1,029)	—	1,029	—
Share-based payments	—	—	85	—	—	85
At 31 March 2023	22,278	34,581	23,442	30	(32,208)	48,123
Loss for the year	**—**	**—**	**—**	**—**	**(2,170)**	**(2,170)**
Other comprehensive loss for the year	**—**	**—**	**—**	**(3)**	**—**	**(3)**
Expiry of share options	**—**	**—**	**—**	**—**	**—**	**—**
Total comprehensive loss for the year	**—**	**—**	**—**	**(3)**	**(2,170)**	**(2,173)**
Contributions by and distributions to owners						
Expiry of share options	**—**	**—**	**(382)**	**—**	**382**	**—**
Share-based payments	**—**	**—**	**26**	**—**	**—**	**26**
At 31 March 2024	**22,278**	**34,581**	**23,086**	**27**	**(33,996)**	**45,976**

The notes on pages 58 to 83 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

for the year ended 31 March 2024

	Note	2024 £000	2023 £000
Cash flows from operating activities			
Loss for the year		**(2,170)**	(8,175)
Adjustments for:			
Amortisation of intangible assets	4	**3,287**	2,891
Depreciation of right of use assets	4	**197**	184
Depreciation of property, plant and equipment	4	**47**	56
Share-based payment charge	4	**26**	85
Impairment of intangible assets	4	**–**	6,014
Exceptional items		**–**	125
Net finance cost		**67**	77
Income tax		**(1,123)**	(1,458)
Cash flow from operating activities before changes in working capital		**331**	(201)
Decrease in trade and other receivables		**6,509**	813
Decrease in trade and other payables		**(4,796)**	(248)
Cash generated from operations		**2,044**	364
Net foreign exchange movements		**3**	10
Net finance cost paid		**(47)**	(83)
Tax received/(paid)		**301**	(285)
Net cash generated from/(used in) operating activities before exceptional items		**2,301**	6
Net cash flows on exceptional items		**–**	(80)
Net cash generated from/(used in) operating activities		**2,301**	(74)
Investing activities			
Purchase of property, plant and machinery	10	**(42)**	(57)
Purchase of intangibles	9	**(1,032)**	(1,280)
Net cash used in investing activities		**(1,074)**	(1,337)
Financing activities			
Repayment of lease liabilities	15	**(216)**	(200)
Net cash used in financing activities		**(216)**	(200)
Net increase/(decrease) in cash and cash equivalents		**1,011**	(1,611)
Foreign exchange movement on cash and cash equivalents		**(1)**	–
Cash and cash equivalents at the beginning of the period		**3,964**	5,575
Cash and cash equivalents at the end of the period		**4,974**	3,964

The notes on pages 58 to 83 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

for the year ended 31 March 2024

General information

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

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

1. Statement of accounting policies

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

Basis of preparation

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

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

Going concern

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

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

At 31 March 2024 the Group has been able to report a robust financial position and is well capitalised with a net cash position of £5.0 million (2023: £4.0 million).

The Directors have reviewed detailed budget cash flow forecasts for the period to 30 September 2025 and have challenged the assumptions used to create these budgets. The budget figures are carefully monitored against actual outcomes each month and variances are highlighted and discussed at Board level on a quarterly basis as a minimum.

The Board is pleased to report that trading in the current year has started solidly and for the first quarter ended 30 June 2024 is broadly in line with management's expectations.

The Directors have reviewed and challenged a reverse stress test scenario on the Group up to September 2025. The purpose of the reverse stress test for the Group is to test the impact on the Group's cash if the assumptions in the budget are altered.

The reverse stress test assumes significant adjustments to the Group's budget which include the scaling back of revenues across all business lines, for the year ended 31 March 2025 and onwards, by around 50%. Services revenues have been reduced to exclude significant opportunities in discussion with existing customers, delay some material renewals and exclude 50% of identified new business deals. Software revenues have been reduced with renewal rates lowered and all new business lines removed with the exception of the Access Management product new business revenues which have been reduced by 75%. Costs have been scaled back in line with the reduction in revenues. The resulting outcome of the stress-test forecasts that the Group would have sufficient cash resources to service its liabilities during the periods reviewed.

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 would seek to negotiate access to other sources of finance from the Company's relationship banks.

Overall, the sensitised cash flow forecast demonstrates that the Group will be able to pay its debts as they fall due for the period to at least 30 September 2025 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.

Material accounting judgements, estimates and assumptions

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

Revenue recognition of material contracts

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

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 estimate future growth rates, weighted average cost of capital and terminal values. Further information can be found in note 9.

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.

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

Services

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

Notes to the consolidated financial statements continued

for the year ended 31 March 2024

1. Statement of accounting policies continued

Revenue continued

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 Service' product whereby the customer accesses the product via a cloud environment maintained by the Company is recognised in two parts, whereby part of the subscription is recognised at the point that the licence key is provided to the customer, with the remaining part recognised evenly over the length of the contract. This deferred proportion represents the obligation to maintain and support the platform that the software runs on.

Principal versus agent considerations

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

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

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

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

- Pre-sales process:

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

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

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

Segmental reporting

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

Current and deferred income tax

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

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

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

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

Intangible assets

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

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

Computer software (including in-house developed software)	2-5 years straight-line basis
Customer relationships	1-15 years straight-line basis
Software	10 years straight-line basis
Trade names	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 annual rates set out below, on a straight-line basis, in order to write down each asset to its residual value over its estimated useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

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

Financial instruments

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

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.

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

Impairment of financial assets

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

The impairment model only applies to the Group's financial assets that are debt instruments measured at amortised cost 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 0.27% (2023: 0.24%). 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 0.27% is discounted by 20%, meaning a 0.22% 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 provision, which works out to £18,935 (2023: £29,864). The movement has been recognised in the statement of comprehensive income. To date, the Group has a record of minimal bad debts, with less than £25,000 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.

Notes to the consolidated financial statements continued
for the year ended 31 March 2024

1. Statement of accounting policies continued

Financial liabilities

Trade and other payables

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

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

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

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

Forward contracts

Foreign exchange risk arises when individual group operations enter into transactions denominated in a currency other than their functional currency. Where the risk to the Group is considered to be significant, the Group has a policy to enter into forward foreign exchange contracts. Further details can be found in note 18.

Leases

Leases are accounted for under IFRS 16 which 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 was created at 1 April 2019 when the Group adopted IFRS 16.

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

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

Lease liability

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

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

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

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

Practical expedients

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

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

Incremental borrowing rate

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

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

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

Share-based payments

In order to calculate the charge for share-based payments as required by IFRS 2, the Group makes estimates principally relating to assumptions used in its option-pricing model as set out in note 17.

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

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

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

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

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

New standards and interpretations applied

There were no new standards or amendments or interpretations to existing standards that became effective during the year that were material to the Group. These include an amendment to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction.

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 2023, 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	Adopted by the Group
Liability in a Sale and Leaseback (Amendments to IFRS 16 Leases)	1 January 2024	1 April 2024
Classification of Liabilities as Current or Non-Current (Amendments to IAS 1 Presentation of Financial Statements)	1 January 2024	1 April 2024
Non-current Liabilities with Covenants (Amendments to IAS 1 Presentation of Financial Statements)	1 January 2024	1 April 2024
Supplier Finance Arrangements (Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures)	1 January 2024	1 April 2024
Lack of Exchangeability (Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates)	1 January 2025	1 April 2025

Notes to the consolidated financial statements continued

for the year ended 31 March 2024

2. Measure of profit/loss

To provide shareholders with a better understanding of the trading performance of the Group, additional alternative performance measures (APMs) are included; Adjusted EBITDA and Adjusted loss 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:

Adjusted loss before tax

- Amortisation of acquired intangibles.
- Share-based payments.
- Impairment of intangible assets.
- Exceptional items.

Adjusted EBITDA

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

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

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

	2024 £000	2023 £000
Loss before tax	**(3,293)**	(9,633)
Amortisation of acquired intangibles	**2,099**	2,099
Impairment of intangible assets	**—**	6,014
Exceptional items	**533**	125
Share-based payments	**26**	85
Adjusted loss before tax	**(635)**	(1,310)
Net finance costs	**67**	77
Depreciation	**244**	240
Amortisation of intangible assets – computer software (including in-house software development)	**1,188**	792
Adjusted EBITDA	**864**	(201)

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 – Services and Software.

Segment information for the twelve months ended 31 March 2024 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 2024 £000	**Profit/(Loss) Year ended 31 March 2024 £000**	Revenue Year ended 31 March 2023 £000	Profit/(Loss) Year ended 31 March 2023 £000
Services[1]	**20,270**	**1,467**	23,830	149
Software[1]	**2,373**	**869**	2,856	977
Group revenue/Group trading EBITDA[1]	**22,643**	**2,336**	26,686	1,126
Group costs[1]		**(1,472)**		(1,327)
Adjusted EBITDA		**864**		(201)
Amortisation of intangibles		**(3,287)**		(2,891)
Impairment of intangible assets		**–**		(6,014)
Depreciation		**(244)**		(240)
Exceptional items		**(533)**		(125)
Share-based payments		**(26)**		(85)
Net finance costs		**(67)**		(77)
Loss before tax		**(3,293)**		(9,633)

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

Segmental information by geography

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

	2024 £000	2023 £000
United Kingdom	**17,867**	18,585
Europe (excluding the UK)	**3,428**	6,043
North America	**1,050**	1,620
Rest of the world	**298**	438
	22,643	26,686

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

In the year to 31 March 2024 one customer within the Group made up more than 10% of the Group's revenue. This customer contributed £4.3 million to the Group's Services division. In the prior year, one customer made up more than 10% of the Group's revenue, contributing £8.0 million to the Group's Services division.

Notes to the consolidated financial statements continued

for the year ended 31 March 2024

4. Expenses and auditor's remuneration

Operating loss is stated after charging/(crediting):

	2024 £000	2023 £000
Depreciation of fixed assets	**244**	240
Amortisation of intangibles	**3,287**	2,891
External auditor's remuneration:		
– Audit fee for annual audit of the Group and Company financial statements	**132**	103
– Audit fee for annual audit of the subsidiary financial statements	**231**	179
Share-based payments	**26**	85
Impairment of intangible assets	**—**	6,014
Exceptional items	**533**	125
Unrealised (profit)/loss on forward contracts	**(194)**	407

Exceptional items include one-off expenses relating to completion of the restructuring which commenced at the end of the previous financial year and the cost of a one-off strategic project in the second half of the year to 31 March 2024.

5. Staff costs

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

	2024 £000	2023 £000
Wages and salaries	**6,769**	6,864
Social security costs	**802**	835
Pension costs	**200**	207
Share-based payments	**26**	85
	7,797	7,991

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

	2024 No.	2023 No.
Administration	**21**	20
Production	**45**	53
Sales and marketing	**28**	26
	94	99

Details of Directors' remuneration can be found within the annual report on remuneration on page 42.

6. Interest costs

	2024 £000	2023 £000
Interest payable on revolving credit facility	**61**	56
Interest payable on lease liabilities	**20**	15
Other interest payments	**1**	6
	82	77
Interest receivable	**(15)**	–
	67	77

7. Taxation

	2024 £000	2023 £000
Current tax:		
UK corporation tax at current rates on UK loss for the year	—	—
Under/(over) provision in respect of prior year	**109**	(442)
	109	(442)
Foreign tax	**(20)**	2
Total current tax charge/(credit)	**89**	(440)
Deferred tax movement in the period	**(1,212)**	(1,018)
Income tax credit	**(1,123)**	(1,458)

Reconciliation of taxation:

	2024 £000	2023 £000
Loss before tax	**(3,293)**	(9,633)
Loss multiplied by the average rate of corporation tax in the year of 25% (2023: 19%)	**(823)**	(1,830)
Tax effects of:		
Expenses not deductible for tax purposes	**333**	1,532
Adjustments for previous periods	**109**	(442)
Foreign tax rate differences	**(12)**	(1)
Increase to deferred tax asset owing to changing tax rate from 1 April 2023	—	(136)
R&D relief	**(423)**	(130)
Other items	**(307)**	(277)
Brought forward losses	—	(174)
Income tax credit	**(1,123)**	(1,458)

Notes to the consolidated financial statements continued

for the year ended 31 March 2024

8. Earnings per share

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

Diluted loss per share is the same as Basic loss per share as the potential dilutive shares are anti-dilutive for the twelve months ended 31 March 2024 and for the twelve months ended 31 March 2023. Please see notes 16 and 17 of the consolidated financial statements for more details.

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

- Amortisation of acquired intangibles after tax.
- Impairment of intangible assets.
- Exceptional items after tax.
- Share-based payments.

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

	2024 £000	2023 £000
Net loss from total operations		
Loss for the purposes of basic and diluted earnings/(loss) per share being net profit attributable to shareholders	**(2,170)**	(8,175)
Add/(remove):		
Amortisation of acquired intangibles, net of tax	**1,808**	1,878
Impairment of intangible assets	**—**	6,014
Exceptional items, net of tax	**400**	101
Share-based payments	**26**	85
Adjusted profit/(loss) for the purposes of adjusted earnings per share	**64**	(97)

	Number	Number
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and adjusted loss per share	**23,826,379**	23,818,674

	Pence	Pence
Basic and diluted loss per share	**(9.1)**	(34.3)
Adjusted basic and Adjusted diluted profit/(loss) per share	**0.3**	(0.4)

9. Intangible assets

	Goodwill £000	Customer relationships £000	Software £000	Tradenames £000	Gold exploration £000	Total £000
Cost						
At 1 April 2022	36,660	10,838	8,640	6,826	1,005	63,969
Additions	—	—	1,280	—	—	1,280
At 31 March 2023	36,660	10,838	9,920	6,826	1,005	65,249
Additions	**—**	**—**	**1,032**	**—**	**—**	**1,032**
At 31 March 2024	**36,660**	**10,838**	**10,952**	**6,826**	**1,005**	**66,281**
Accumulated amortisation						
At 1 April 2022	—	3,623	4,417	2,360	1,005	11,405
Amortisation for the year	—	934	1,274	683	—	2,891
Impairment	6,014	—	—	—	—	6,014
At 31 March 2023	6,014	4,557	5,691	3,043	1,005	20,310
Amortisation for the year	**—**	**934**	**1,670**	**683**	**—**	**3,287**
At 31 March 2024	**6,014**	**5,491**	**7,361**	**3,726**	**1,005**	**23,597**
Net book amount						
At 31 March 2024	**30,646**	**5,347**	**3,591**	**3,100**	**—**	**42,684**
At 31 March 2023	30,646	6,281	4,229	3,783	—	44,939
At 31 March 2022	36,660	7,215	4,223	4,466	—	52,564

Software intangible assets comprise acquired software assets plus software assets developed both in-house and externally. The amortisation charge for the year includes £2.1 million amortisation on acquired intangible assets and £1.2 million amortisation of internally developed software assets.

The Group tests goodwill annually for impairment. The recoverable amount of goodwill is determined as the higher of the value-in-use calculation or fair value less cost of disposal for each cash generating unit (CGU). The value-in-use calculations use pre-tax cash flow projections based on financial budgets and forecasts approved by the Board covering a five-year period. These pre-tax cash flows beyond the five -year period are extrapolated using estimated long-term growth rates. Following a restructuring of the Group during FY24, including the commercial integration of Xcina Consulting into Brookcourt Solutions and GeoLang into SecurEnvoy, the Group now has three separate CGUs (FY23: five CGUs). For all three CGUs a weighted average cost of capital of 13.0% (FY23: 12.6%) and a terminal value, based on a long-term growth rate of 2% (FY23: 2%) calculated on year five cash flow has been used when testing goodwill.

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

	Software	Brookcourt Solutions	Pentest
Year 1	28%	47%	0%
Year 2	20%	15%	10%
Year 3	20%	10%	8%
Year 4	15%	8%	6%
Year 5	15%	6%	6%
4 year CAGR[1]	**17.5%**	**9.7%**	**7.5%**

1. 4 year CAGR represents the average growth rate per year between FY25 and FY29.

No impairment charge has been recorded in the year (in the prior year an impairment charge of £6.0 million was recorded, writing down the goodwill balance held for the Group's SecurEnvoy and Xcina businesses).

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for the year ended 31 March 2024

9. Intangible assets continued

Sensitivity analysis has been performed on each of the Group's CGUs which incorporates changes in assumed revenue growth rates and profit margin growth in addition to terminal value revenue growth rate and weighted cost of capital (WACC). Outcomes of the following sensitivities, before tax, are detailed below:

- Reducing the terminal value by 1% from 2% to 1% would flag insufficient headroom in one of the Group's CGUs (Software) resulting in an impairment of £0.3 million.
- Increasing the weighted average cost of capital by 1.0% from 13.0% to 14.0% would flag insufficient headroom in one of the Group's CGUs (Software) resulting in an impairment of £0.7 million.
- A 10% reduction in the assumed annual revenue growth rates for each CGU from FY25 (maintaining forecast gross profit margin % and adjusting administrative expenses in line with the % revenue reduction) would, subject to no other changes, flag insufficient headroom in each of the Group's CGUs resulting in a potential impairment of £14.0 million.
- A 15% reduction in the assumed annual revenue growth rates for each CGU from FY25 (maintaining forecast gross profit margin % and adjusting administrative expenses in line with the % revenue reduction) would, subject to no other changes, flag insufficient headroom in each of the Group's CGUs resulting in a total potential impairment of £21.7 million.

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

10. Property, plant and equipment

	Right of use assets £000	Office equipment £000	Total £000
Cost			
At 1 April 2022	576	414	990
Additions	301	57	358
Disposals	—	(43)	(43)
At 31 March 2023	877	428	1,305
Additions	**250**	**42**	**292**
Disposals	**(436)**	**—**	**(436)**
At 31 March 2024	**691**	**470**	**1,161**
Accumulated depreciation			
At 1 April 2022	375	300	675
Charge for the year	185	55	240
Disposals	—	(43)	(43)
At 31 March 2023	560	312	872
Charge for the year	**197**	**47**	**244**
Disposals	**(436)**	**—**	**(436)**
At 31 March 2024	**321**	**359**	**680**
Net book amount			
At 31 March 2024	**370**	**111**	**481**
At 31 March 2023	317	116	433
At 31 March 2022	201	114	315

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

11. Trade and other receivables

Non-current	2024 £000	2023 £000
Trade receivables	–	5,226
Accrued income	679	2,054
	679	7,280

Current	2024 £000	2023 £000
Trade receivables	8,948	7,475
Accrued income	2,889	4,081
Prepayments and other receivables	310	499
Corporation tax asset	245	291
	12,392	12,346

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

	2024 £000	2023 £000
At 1 April	30	41
Movement in expected credit loss provision	(10)	(11)
At 31 March	20	30

12. Trade and other payables

	2024 £000	2023 £000
Trade payables	7,320	3,265
Accruals and other payables	3,529	8,031
Other taxation and social security	1,275	518
Forward contract	213	275
Deferred income	137	147
Corporation tax	3	7
Lease liabilities	127	105
	12,604	12,348

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

	2024 £000	2023 £000
Accruals and other payables	385	5,284
Deferred tax	3,010	3,602
Lease liabilities	251	216
Forward contract	–	131
	3,646	9,233

Notes to the consolidated financial statements continued
for the year ended 31 March 2024

14. Deferred tax

	2024 £000	2023 £000
Non-current liabilities		
Liability at 1 April	**3,602**	3,878
Deferred tax credit in the statement of comprehensive income	**(592)**	(276)
Total deferred tax	**3,010**	3,602

Deferred tax balance at 31 March 2024 includes a £2.5 million (2023: £3.0 million) deferred tax liability for acquired intangible assets including software and trademarks. The remainder represents timing differences arising on the difference between the net book value and tax written down value of internally generated software and office equipment.

	2024 £000	2023 £000
Non-current assets		
At 1 April	**742**	–
Credit to statement of comprehensive income	**274**	742
Total deferred tax asset	**1,016**	742

The Group has tax losses of £4.1 million (2023: £3.0 million) across its Parent Company Shearwater Group plc and four subsidiaries that are available for offset against future taxable profits of the entity. A deferred tax asset has been recognised in respect of tax losses brought forward and in the current year which will be used to offset future taxable profits.

15. Lease liabilities

Lease liabilities at 31 March 2024, which include the extension of some existing office leases, are detailed below:

Lease liabilities	**Property £000**
At 1 April 2022	206
Additions	301
Interest expense	15
Payments to lease creditors	(200)
At 31 March 2023	321
Additions	**253**
Interest expense	**20**
Payments to lease creditors	**(216)**
At 31 March 2024	**378**

The maturity analysis of lease liabilities is detailed below:

Lease liabilities – (contractual undiscounted cash flows)	2024 £000	2023 £000
Less than one year	**140**	118
One to five years	**265**	233
Total undiscounted lease liabilities at 31 March	**405**	351

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

Lease liabilities included in the statement of financial position at 31 March	2024 £000	2023 £000
Current	**127**	105
Non-current	**251**	216

Amounts recognised in the statement of comprehensive income	2024 £000	2023 £000
Interest on lease liabilities	**20**	15
Expenses related to short-term leases	**6**	—
Depreciation of right of use assets (note 10)	**197**	185

Amounts recognised in the statement of cash flows	2024 £000	2023 £000
Payment of principal	**216**	200
Payment of interest	**20**	15
Total cash outflows	**236**	215

16. Share capital

The table below details movements within the year:

	Ordinary shares	
In thousands of shares	2024	2023
In issue at 1 April	**23,826**	23,818
Options exercised during the year	—	8
Number of shares	**23,826**	23,826

Allotted, called up and fully paid	2024 £000	2023 £000
Ordinary shares of £0.10 each (2023: £0.10 each)	**2,382**	2,382
Deferred shares of £0.90 each (2023: £0.90 each)	**19,896**	19,896
Total	**22,278**	22,278

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.

No shares were issued or options granted in the twelve-month period ended 31 March 2024. In the prior year 8,320 options were exercised by a professional adviser to the Group.

Other reserves included:

Share premium

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

Other reserves

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

Movements in the year ended 31 March 2024 include the following transactions which have been recognised in the other reserve:

A reallocation to retained earnings from capital and share-based payments reserves of £382,000 relating to the share incentive scheme and other of lapsed share options was made in the year.

Accumulated loss reserve

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

Notes to the consolidated financial statements continued

for the year ended 31 March 2024

17. Share-based payments

	2024 £000	2023 £000
Subsidiary incentive scheme	–	36
Share options – (CSOP)	22	38
Share options – (ESOP)	4	(1)
Save As You Earn – (SAYE)	–	12
	26	85

Share options – (CSOP)

The following options over ordinary shares remained outstanding at 31 March 2024:

	Options at 1 April 2023	Options issued during the year	Options lapsed during the year	Options exercised during the year	Options at 31 March 2024	Exercise price	Date of grant	First date of exercise	Final date of exercise
Directors[1]:									
P McFadden	25,000	–	25,000	–	–	£0.95	10/02/2022	10/02/2025	10/02/2027
Employees:									
Employees	87,220	–	6,944	–	80,276	£0.95	10/02/2022	10/02/2023	10/02/2027
Employees	11,112	–	4,863	–	6,249	£0.95	10/02/2022	30/09/2023	10/02/2027
Employees	432,064	–	191,000	–	241,064	£0.95	10/02/2022	10/02/2025	10/02/2027
Total	555,396	–	227,807	–	327,589				

1. P McFadden resigned on 20 November 2023.

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

	Options at 1 April 2022	Options issued during the year	Options lapsed during the year	Options exercised during the year	Options at 31 March 2023	Exercise price	Date of grant	First date of exercise	Final date of exercise
Directors:									
P McFadden	25,000	–	–	–	25,000	£0.95	10/02/2022	10/02/2025	10/02/2027
Employees:									
Employees	89,998	–	2,778	–	87,220	£0.95	10/02/2022	10/02/2023	10/02/2027
Employees	11,112	–	–	–	11,112	£0.95	10/02/2022	30/09/2023	10/02/2027
Employees	514,064	–	82,000	–	432,064	£0.95	10/02/2022	10/02/2025	10/02/2027
Total	640,174	–	84,778	–	555,396				

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

	2024 Number	2024 WAEP £	2023 Number	2023 WAEP £
Outstanding at the beginning of the year	**555,396**	**0.95**	640,174	0.95
Issued	**—**	**—**	—	—
Lapsed during the year	**227,807**	**0.95**	84,778	0.95
Exercised during the year ended 31 March	**—**	**—**	—	—
Outstanding at 31 March	**327,589**	**0.95**	555,396	0.95
Exercisable at 31 March	**86,525**	**0.95**	87,220	0.95

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

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

The calculation includes an estimated leaver provision of 55% (2023: 55%).

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

Share options – (ESOP)

The following options over ordinary shares remained outstanding at 31 March 2024:

	Options at 1 April 2023	Options issued during the year	Options lapsed during the year	Options exercised during the year	Options at 31 March 2024	Exercise price	Date of grant	First date of exercise	Final date of exercise
Directors[1]:									
P McFadden	7,875	—	7,875	—	**—**	£4.00	07/05/2018	07/05/2019	30/09/2023
Employees:									
Employees	5,250	—	5,250	—	**—**	£4.00	13/11/2017	13/11/2018	30/09/2023
Employees	454	—	454	—	**—**	£4.00	01/03/2018	01/03/2019	28/02/2023
Employees	5,313	—	5,313	—	**—**	£4.00	04/04/2018	04/04/2019	03/04/2023
Employees	524	—	291	—	**233**	£1.60	01/03/2019	01/03/2020	01/07/2024
Employees	3,000	—	3,000	—	**—**	£4.00	01/06/2019	01/06/2020	30/09/2023
Employees	7,500	—	2,500	—	**5,000**	£2.00	01/10/2019	01/10/2020	30/09/2023
Employees	27,936	—	—	—	**27,936**	£0.95	10/02/2022	10/02/2025	10/02/2027
Total	57,852	—	24,683	—	**33,169**				

1. P McFadden resigned on 20 November 2023.

Notes to the consolidated financial statements continued

for the year ended 31 March 2024

17. Share-based payments continued

Share options – (ESOP) continued

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

	Options at 1 April 2022	Options issued during the year	Options lapsed during the year	Options exercised during the year	Options at 31 March 2023	Exercise price	Date of grant	First date of exercise	Final date of exercise
Directors:									
P McFadden	7,875	–	–	–	7,875	£4.00	07/05/2018	07/05/2019	30/09/2023
Employees:									
Employees	39,500	–	39,500	–	–	£4.00	09/05/2017	09/05/2018	08/05/2022
Employees	9,390	–	4,140	–	5,250	£4.00	13/11/2017	13/11/2018	30/09/2023
Employees	1,023	–	569	–	454	£4.00	01/03/2018	01/03/2019	28/02/2023
Employees	5,625	–	312	–	5,313	£4.00	04/04/2018	04/04/2019	03/04/2023
Employees	911	–	387	–	524	£1.60	01/03/2019	01/03/2020	01/07/2024
Employees	3,000	–	–	–	3,000	£4.00	01/06/2019	01/06/2020	30/09/2023
Employees	10,000	–	2,500	–	7,500	£2.00	01/10/2019	01/10/2020	30/09/2023
Employees	27,936	–	–	–	27,936	£0.95	10/02/2022	10/02/2025	10/02/2027
Non-employees:									
Other	8,320	–	–	8,320	–	£0.10	27/02/2020	27/02/2021	31/03/2023
Total	113,580	–	47,408	8,320	57,852				

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

	2024 Number	**2024** WAEP £	2023 Number	2023 WAEP £
Outstanding at the beginning of the year	**57,852**	**3.7**	113,580	2.8
Issued	**–**	**–**	–	–
Lapsed during the year	**24,683**	**3.8**	47,408	3.9
Exercised during the year ended 31 March	**–**	**–**	8,320	0.1
Outstanding at 31 March	**33,169**	**1.1**	57,852	2.2
Exercisable at 31 March	**2,500**	**2.0**	21,229	3.7

No options were exercised in the year. The weighted average share price of options exercised in the prior year was £0.89.

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

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

The calculation includes an estimated leaver provision of 31% (2023: 31%).

The weighted average remaining contractual life of options outstanding at the end of the year was 11 months (2023: two years and two months).

The following options over ordinary shares remained outstanding at 31 March 2024:

	Options at 1 April 2023	Options issued during the year	Options lapsed during the year	Options exercised during the year	Options at 31 March 2024	Exercise price	Date of grant	First date of exercise	Final date of exercise
Employees:									
Employees	**117,614**	**—**	**(84,350)**	**—**	**33,264**	**£1.515**	**25/01/2021**	**01/03/2024**	**30/09/2024**
Total	**117,614**	**—**	**(84,350)**	**—**	**33,264**				

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

	Options at 1 April 2022	Options issued during the year	Options lapsed during the year	Options exercised during the year	Options at 31 March 2023	Exercise price	Date of grant	First date of exercise	Final date of exercise
Employees:									
Employees	132,465	—	14,581	—	117,614	£1.515	25/01/2021	01/03/2024	30/09/2024
Total	132,465	—	14,581	—	117,614				

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

	2024		2023	
	Number	**WAEP £**	Number	WAEP £
Outstanding at the beginning of the year	**117,614**	**1.515**	132,465	1.515
Issued	**—**	**—**	—	—
Lapsed during the year	**84,350**	**1.515**	14,851	1.515
Exercised during the year ended 31 March	**—**	**—**	—	—
Outstanding at 31 March	**33,264**	**1.515**	117,614	1.515
Exercisable at 31 March	**33,264**	**1.515**	—	—

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

Share price at grant date	**1.420**
Exercise price	**1.515**
Expected option life (year)	**3 years 7 months**
Expected volatility (%)	**40.0%**
Expected dividends	**0%**
Risk-free interest rate (%)	**0.13%**
Option fair value	**£0.394**

The calculation includes an estimated leaver provision of 33% (2023: 33%).

At the 31 March 2024 there were no options held by Directors.

The market price of shares as at 31 March 2024 was £0.49 (31 March 2023: £0.50). The range during the financial year was £0.35 to £0.625. At the date of signing the financial statements the share price was £0.41.

The weighted average remaining contractual life of options outstanding at the end of the year was six months (2023: one year and six months).

Notes to the consolidated financial statements continued

for the year ended 31 March 2024

17. Share-based payments continued

Subsidiary incentive scheme

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

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

The subsidiary incentive scheme vesting period expired on 29 September 2022. Whilst the vesting condition of being employed was satisfied, the growth conditions were not met and subsequently no exercises were made. In the year ended 31 March 2024 the Company exercised a call option to reclaim the B shares from the current holders.

Directors' incentive shares

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

	Participation in increase in shareholder value	Issue price	Nominal value of incentive shares	Number of incentive shares 1 April 2023	**Number of incentive shares 31 March 2024**	Number of Shearwater Group plc shares issued	Share-based payment charge
D Williams	6.5%	£0.032	£0.000001	65,000	**—**	—	—
P Higgins	7.5%	£0.032	£0.000001	75,000	**—**	—	—

Valuation of incentive shares

The share-based payment charge for the incentive shares in the prior year was calculated using a binomial valuation model at the grant date. The fair value amounted to £937,623 based on an initial expiry date of 29 September 2019. An option to amend the expiry date was exercised on 17 April 2020 to extend this expiry date to 29 September 2022, which increased the fair value by £18,349. Following this extension, £955,972 was to be recognised over the life of the scheme which expired on 29 September 2022. In the current year £nil (2023: £35,773) has been recognised as an expense in the statement of comprehensive income in respect of incentive shares. All 160,000 incentive scheme shares were subscribed for by participants at unrestricted market value.

18. Financial instruments

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

The Group's financial assets and liabilities at 31 March 2024, 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)	
	2024 £000	2023 £000
Financial assets		
Cash and cash equivalents	**4,974**	3,964
Trade and other receivables	**12,516**	18,836
Total financial assets	**17,490**	22,800
Trade and other receivables		
Trade receivables	**8,948**	12,701
Accrued income	**3,568**	6,135
	12,516	18,836

	Amortised cost (payables)		Fair value through profit or loss (FVPL)	
	2024 £000	2023 £000	**2024 £000**	2023 £000
Financial liabilities				
Trade and other payables	**11,234**	16,580	**—**	—
Lease liabilities	**378**	320	**—**	—
Forward contracts	**—**	—	**213**	407
Total financial liabilities	**11,612**	16,900	**213**	407
Trade and other payables				
Trade payables	**7,320**	3,265		
Accruals	**3,914**	13,302		
Other creditors	**—**	13		
	11,234	16,580		

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 and equity. Equity comprises issued capital, reserves and accumulated losses as disclosed in the Consolidated Statement of Changes in Equity on page 56.

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's three-year £4.0 million revolving credit facility, to fund further growth and short-term working capital requirements, was not utilised during the current year and expired on 23 March 2024. The Group is currently considering whether to renew the facility and is in ongoing discussions with Barclays Bank plc.

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).

Notes to the consolidated financial statements continued

for the year ended 31 March 2024

18. Financial instruments continued

Foreign currency risk

The Group is exposed to foreign currency risk on sales and purchases which are denominated in a currency other than sterling. Exposures to exchange rates are predominantly denominated in US dollars and euros. The Group seeks to reduce foreign exchange exposures arising from transactions in various currencies through a policy of matching, as far as possible, receipts and payments across the Group in each individual currency. The Group has introduced a policy to use derivatives where there is a material surplus or deficit of non-sterling receipts and payments.

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

Currency	Amount (000)	Maturity date	Foreign exchange rate
US dollar	4,100	10 November 2023	1.138
US dollar	2,000	10 May 2024	1.140
US dollar	2,000	2 October 2024	1.216

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

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

	USD		EUR	
Net foreign currency financial assets/(liabilities)	**2024 £000**	2023 £000	**2024 £000**	2023 £000
Trade receivables	**369**	228	**160**	148
Other receivables	**85**	1,390	**—**	4
Trade payables	**(7,747)**	(2,537)	**(27)**	(43)
Other payables	**(67)**	(9,605)	**—**	(192)
Cash and cash equivalents	**2,572**	1,929	**176**	551
Total net exposure before excluding forward contracts	**(4,788)**	(8,595)	**309**	468
Forward contracts	**4,000**	6,100	**—**	—
Total net exposure	**(788)**	(2,495)	**309**	468

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

The effect of a 10% strengthening of the euro against sterling at the reporting date on the euro-denominated trade receivables, payables and cash and cash equivalents carried at that date would, all other variables held constant, have resulted in a decrease of the pre-tax loss in the year and an increase in net assets of £0.05 million. A 10% weakening in the exchange rate would, on the same basis, have increased the pre-tax loss in the year and decreased net assets by £0.04 million.

Interest rate risk

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

Liquidity risk

The Group manages liquidity risk by maintaining adequate cash reserves and credit facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities wherever possible. In addition to this, the Group had a £4.0 million revolving credit facility (RCF) to provide further contingency against short-term working capital movements. The facility expired on 23 March 2024 and up to that point had not been utilised. The Group is currently considering whether to renew the facility and is in ongoing discussions with Barclays Bank plc. 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 material 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 just over £0.1 million of credit available on corporate credit cards which are settled in full on a monthly basis.

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

Financial assets	Up to 3 months £000	Between 3 and 12 months £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
As at 31 March 2024					
Trade and other receivables	**4,367**	**8,086**	**635**	**43**	**—**
As at 31 March 2023					
Trade and other receivables	6,515	5,041	7,280	—	—

Financial liabilities	Up to 3 months £000	Between 3 and 12 months £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
As at 31 March 2024					
Trade and other payables	**8,541**	**3,728**	**3,462**	**—**	**—**
Forward contracts	**161**	**52**	**—**	**—**	**—**
Lease liabilities	**32**	**95**	**131**	**120**	**—**
Total	**8,734**	**3,875**	**3,593**	**120**	**—**
As at 31 March 2023					
Trade and other payables	4,953	6,342	5,284	—	—
Forward contracts	—	275	131	—	—
Lease liabilities	30	75	59	157	—
Total	4,983	6,692	5,474	157	—

Notes to the consolidated financial statements continued

for the year ended 31 March 2024

18. Financial instruments continued

Credit risk

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

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

19. Related party transactions

The Directors of the Group and their immediate relatives have an interest of 19% (2023: 19%) of the voting shares of the Group. The shareholdings of Directors and changes during the year are shown in the Directors' report on page 43.

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

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

20. Bank loans

The Group's £4.0 million credit facility with Barclays Bank plc expired on 23 March 2024 and no facility was in place on 31 March 2024. The Group is currently considering whether to renew the facility and is in ongoing discussions with Barclays. A change remains registered on Shearwater Group plc and a number of its subsidiaries as security for the facility.

21. Notes to support cash flow

Cash and cash equivalents, which are available on demand, comprise:

	2024 £000	2023 £000
Net increase/(decrease) in cash and cash equivalents	1,010	(1,611)
Cash and cash equivalents at the beginning of the year	3,964	5,575
Cash and cash equivalents at the end of the year	4,974	3,964

Cash and cash equivalents are held in the following currencies:

	2024 £000	2023 £000
Sterling	2,774	1,914
US dollar	2,049	1,566
Euro	151	484
	4,974	3,964

Reconciliation of liabilities from financing activities:

	2023 £000	Cash outflows £000	Non-cash changes: Loan interest £000	Non-cash changes: Right of use asset additions £000	2024 £000
Revolving credit facility interest payable	—	**(47)**	**47**	**—**	**—**
Payment of principal on lease liabilities	321	**(216)**	**20**	**253**	**378**
Total	321	**(263)**	**67**	**253**	**378**

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

22. Events after the reporting period

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

Company statement of financial position

as at 31 March 2024

	Note	2024 £000	2023 £000
Assets			
Non-current assets			
Investments in subsidiaries	2	**47,187**	54,461
Intangible assets	3	**10**	7
Property, plant and equipment	4	**2**	1
Trade and other receivables	5	**4**	4,366
Total non-current assets		**47,203**	58,835
Current assets			
Trade and other receivables	5	**28**	44
Cash and cash equivalents		**1**	2
Total current assets		**29**	46
Total assets		**47,232**	58,881
Liabilities			
Current liabilities			
Trade and other payables	6	**22,405**	18,881
Total current liabilities		**22,405**	18,881
Non-current liabilities			
Creditors: amounts falling due after more than one year	7	**2**	2
Total non-current liabilities		**2**	2
Total liabilities		**22,407**	18,883
Net assets		**24,825**	39,998
Capital and reserves			
Share capital	8	**22,278**	22,278
Share premium		**34,581**	34,581
Other reserves		**23,088**	23,444
Accumulated losses		**(55,122)**	(40,305)
Equity attributable to owners of the Company		**24,825**	39,998
Total equity and liabilities		**47,232**	58,881

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 £15.2 million (2023: £10.5 million).

The notes on pages 86 to 91 are an integral part of these Company financial statements.

The financial statements on pages 84 to 91 were approved and authorised for issue by the Board and signed on their behalf by:

Philip Higgins
Chief Executive Officer

23 July 2024

Registered number: 05059457

Company statement of changes in equity

for the year ended 31 March 2024

Company	Share capital £000	Share premium £000	Other reserve £000	Accumulated losses £000	Total equity £000
At 1 April 2022	22,278	34,581	24,388	(30,872)	50,375
Total loss and comprehensive loss for the year	—	—	—	(10,462)	(10,462)
Contributions by and distributions to owners					
Issue of share capital	—	—	—	—	—
Expiry of share options	—	—	(1,029)	1,029	—
Share-based payments	—	—	85	—	85
At 1 April 2023	22,278	34,581	23,444	(40,305)	39,998
Total loss and comprehensive loss for the year	**—**	**—**	**—**	**(15,199)**	**(15,199)**
Contributions by and distributions to owners					
Expiry of share options	**—**	**—**	**(382)**	**382**	**—**
Share-based payments	**—**	**—**	**26**	**—**	**26**
At 31 March 2024	**22,278**	**34,581**	**23,088**	**(55,122)**	**24,825**

The notes on pages 86 to 91 are an integral part of these Company financial statements.

Notes to the Company financial statements

for the year ended 31 March 2024

General information

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

1. Statement of accounting policies – Company

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

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

Basis of preparation

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

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

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

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

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

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

Going concern

Having made enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these financial statements. See note 1 to the Group accounting policies on page 58 for further details of the Group's going concern position.

Critical accounting judgements, estimates and assumptions

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

Investments in subsidiaries

Management make judgements, estimates and assumptions in supporting the fair value of investments in subsidiaries. The Company holds a significant investment in its subsidiaries totalling £47.2 million. In assessing the carrying value of these assets for impairment, the Directors have exercised judgement in estimating the recoverable amount of the assets held. The Directors have assessed a range of valuation techniques which include a future discounted cash flow model which incorporates a number of key assumptions and a valuation based upon commonly seen multiples on EBITDA in order to support their judgement that the carrying value of investments in subsidiaries is appropriate at the reporting date.

Recoverability of intercompany amounts

Management make judgements, estimates and assumptions in determining the recoverability of intercompany amounts. The Company has intercompany receivable balances of £4,000 which it calculates an expected credit loss provision on. This provision is calculated based upon a forecast schedule of estimated repayment plan for each intercompany balance.

Investments in subsidiaries

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

Intangible assets

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

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

Computer software (including in-house developed software)	2-5 years straight-line basis

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

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

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 in 'impairment of financial assets'. Any write-down of these assets is expensed to the statement of comprehensive income.

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

Financial liabilities

Trade and other payables

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

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

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

Share-based payments

In order to calculate the charge for share-based payments as required by IFRS 2, the Group makes estimates principally relating to assumptions used in its option pricing model as set out in note 17 of the consolidated financial statements.

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

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

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

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

Notes to the Company financial statements continued

for the year ended 31 March 2024

1. Statement of accounting policies – Company continued

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 2022	64,010
Additions	45
Impairment	(9,594)
Investments in subsidiaries at 31 March 2023	54,461
Additions	**6,507**
Impairment	**(13,781)**
Investments in subsidiaries at 31 March 2024	**47,187**

Additions in 2024 results from the impact of an internal corporate restructuring during the year. Additions also include share capital contributions made to the Company's subsidiaries in respect of share option expense recognised on share options issued by the Company to employees of a number of the Group's subsidiaries. The capital contributions are non-cash transactions.

The Company has reviewed the carrying value of its investments as part of the Group's impairment reviews for each of its cash-generating units (CGUs) estimating future discounted cash flows to be generated from each CGU as set out in note 9 of the consolidated accounts. Impairments of £13.8 million have been made in the period to reflect partial write-downs of the carrying value of a number of the Company's investments (Brookcourt Solutions Ltd £8.1m; Shearwater Subco Ltd £4.0m; SecurEnvoy £1.3m; Share-based payments £0.4m). Impairments of £9.0 million and £0.6 million were made in the prior year to partially write-down the carrying values of investments in SecurEnvoy and Xcina Consulting.

The following table gives brief details of the entities controlled and included in the consolidated financial statements of the Group at 31 March 2024. Subsidiaries marked (*) are directly owned by Shearwater Group plc; all other subsidiaries are indirectly owned.

Name of company	Country of incorporation or residence	Registered address	Percentage owned
Shearwater Subco Limited*	England and Wales	22 Great James Street, London, WC1N 3ES	100
SecurEnvoy Limited*	England and Wales	22 Great James Street, London, WC1N 3ES	100
Xcina Limited	England and Wales	22 Great James Street, London, WC1N 3ES	100
Xcina Consulting Limited	England and Wales	22 Great James Street, London, WC1N 3ES	100
SecurEnvoy, Inc.	USA	1209 Orange Street, Wilmington, Delaware	100
SecurEnvoy GmbH	Germany	Freibadstr. 30, 81543, München	100
GeoLang Holdings Limited*	England and Wales	22 Great James Street, London, WC1N 3ES	100
GeoLang Limited	England and Wales	22 Great James Street, London, WC1N 3ES	100
Shearwater Shared Services Limited	England and Wales	22 Great James Street, London, WC1N 3ES	100
Brookcourt Solutions Limited*	England and Wales	22 Great James Street, London, WC1N 3ES	100
Pentest Limited*	England and Wales	22 Great James Street, London, WC1N 3ES	100
Brookcourt Solutions B.V.	Netherlands	Herengracht 449A, 1017BR Amsterdam	100
Pentest (Ireland) Limited	Ireland	Block A George's Quay Plaza, George's Quay, Dublin 2	100

3. Intangible assets

	Total £000
Cost	
At 1 April 2023	8
Additions	**8**
At 31 March 2024	**16**
Accumulated amortisation	
At 1 April 2023	1
Charge for the period	**5**
At 31 March 2024	**6**
Net book amount	
At 31 March 2024	**10**
At 31 March 2023	7
At 31 March 2022	–

Notes to the Company financial statements continued

for the year ended 31 March 2024

4. Property, plant and equipment

	Total £000
Cost	
At 1 April 2022	30
Additions	–
At 31 March 2023	30
Additions	**1**
At 31 March 2024	**31**
Accumulated depreciation	
At 1 April 2022	28
Charge for the period	1
At 31 March 2023	29
Charge for the period	**1**
At 31 March 2024	**30**
Net book amount	
At 31 March 2024	**2**
At 31 March 2023	1
At 31 March 2022	2

5. Trade and other receivables

Non-current	2024 £000	2023 £000
Amounts owed by Group companies	**4**	4,366
	4	4,366

Current	2024 £000	2023 £000
Prepayments and other receivables	**28**	44
	28	44

6. Trade and other payables falling due within one year

	2024 £000	2023 £000
Amounts owed to Group companies	**22,221**	18,735
Accruals and other payables	**184**	146
	22,405	18,881

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

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

	2024 £000	2023 £000
Deferred taxation	**2**	2
	2	2

8. Share capital

	2024 £000	2023 £000
Allotted, called up and fully paid		
23,826,379 ordinary shares of £0.10 each (2022: 23,818,059 ordinary shares of £0.10 each)	**2,382**	2,382
22,106,460 deferred shares of £0.90 each (2022: 22,106,460 deferred shares of £0.90 each)	**19,896**	19,896
Total	**22,278**	22,278

9. Employees

The Company has one employee (FY23: one) who is the Chief Financial Officer of the Shearwater Group. Remuneration details are included in the Report of the Remuneration Committee.

10. Share-based payments

Please refer to note 17 of the Group financial statements for details of share-based payments. A charge of £1,106 has been recognised in relation to options held by employees for services to the Company.

11. Financial instruments

Please refer to note 18 of the Group financial statements for details of financial instruments. As disclosed in that note, during the year the Group had a £4.0 million revolving credit facility (RCF) to provide further contingency against short-term working capital movements. The facility expired on 23 March 2024 and up to that point had not been utilised. The Group is currently considering whether to renew the facility and is in ongoing discussions with Barclays Bank plc. The Company remains party to a cross-guarantee arrangement with fellow Group entities, pending the outcome of these discussions.

12. 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 financial statements.

Advisers and corporate calendar

Nominated adviser and stockbroker

Cavendish Securities plc
6.7.8 Tokenhouse Yard
London
EC2R 7AS

Independent auditor

BDO LLP
55 Baker Street
London
W1U 7EU

Solicitors

Mayer Brown International LLP
201 Bishopsgate
London
EC2M 3AF

Public relations

Alma Strategic Communications
71-73 Carter Lane
London
EC4V 5EQ

Registrars

Neville Registrars Limited
Neville House
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Halesowen
West Midlands
B62 8HD

Registered address

22 Great James Street
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Company number

05059457

Corporate contact details

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Tel: +44 (0)208 106 7785
www.shearwatergroup.com

Corporate calendar

Annual General Meeting
24 September 2024

Announcement of interim results
November 2024

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Shearwater
Group plc

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