11 December 2018

# SHEARWATER GROUP PLC

## Interim Results for the six months ended 30 September 2018

Shearwater Group plc (AIM: SWG, “Shearwater", the "Group"), the digital resilience group, announces its unaudited results for the six months ended 30 September 2018.

**Financial highlights**

- Group revenue up 118% at £4.5 million (2017: £2.1 million), reflecting six months of trading from SecurEnvoy, Xcina, and GeoLang.
- Group underlying EBITDA loss[1] £1.6 million (2017: loss £0.1 million) reflecting continued investment across the portfolio.
- Loss per share of 0.32p (2017: Loss per share 0.18p).

**Events**

- Post period end: transformational £30.3 million acquisition of Brookcourt - moving Group to cashflow positive position and establishing fourth platform company.
- Expanded SecurEnvoy’s US channel partnerships network.
- Acquired GeoLang and Crystal IT - rebranded Xcina Information Services.
- Inaugural contract wins for GeoLang - transitioned business to revenue generating position.

**Outlook**

- Solid organic growth coupled with strong performance in Brookcourt anticipated to deliver Group performance in line with full year expectations.

**Board appointments**

- Phil Higgins, co-founder and Brookcourt CEO appointed Executive Director on 11 December 2018 – see separate announcement.
- Paul McFadden appointed Finance Director on 17 October 2018.

[1] Underlying EBITDA is defined as profit before tax, before one off exceptional items, share based payment charges, finance charges, depreciation and amortisation

**David Williams,** Chairman of Shearwater, said**:**

*“We have continued to make good progress against our strategic aim of building a leading UK based digital resilience group.*

*“Our portfolio companies have shown good organic revenue growth, which we expect to continue into the second half and beyond.*

*“Brookcourt’s acquisition has significantly increased our presence in our sector - this should lead to a number of benefits for the whole Group including scaling and cross selling opportunities.”*

**Enquiries:**


| | |
|---|---|
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This announcement includes inside information as defined in Article 7 of the Market Abuse Regulation No. 596/2014 and is disclosed in accordance with the Company's obligations under Article 17 of those Regulations.

A copy of this announcement has been posted on the Company's website at www.theshearwatergroup.co.uk.

## Strategic overview

During the first half of the year, the Group continued to make good progress against its strategic aim of building a leading UK-based group, providing digital resilience solutions and services.

Through the application of its "buy, focus, grow" strategy, the Group continues to identify investment and acquisition opportunities where the target company has a leading product, solution, service or consulting capability, whose potential can be unlocked through active management and capital investment.

The Group is building a broad portfolio of information security, governance, risk and compliance, cyber and cyber security platforms, which aim to meet the ever-increasing digital resilience demands from its customers. This will provide Shearwater with exposure to a large and rapidly growing sector through a portfolio approach, which aims to balance risk and return in a highly dynamic and often unpredictable operating environment.

### Acquisitions

In April 2018, the Group completed the acquisition of GeoLang, an award-winning provider of Data Loss Protection ("DLP") enterprise software. The acquisition has established the Group's position within a US$1 billion market which is growing at over 22% per annum.

Also in April 2018, the Group acquired the business and assets of Crystal IT, the Cardiff-based provider of cyber security and business information technology solutions. Crystal IT was rebranded Xcina Information Services on acquisition.

Post period end, the Group completed its most substantial transaction to date with the transformational acquisition of Brookcourt Solutions for £30.3 million.

This acquisition has transitioned the Group to a cash flow positive position, substantially broadened the Group's cyber security solutions and services capability, providing access to a complementary client base aligned to larger enterprises, and has created a strong platform of scale to effect consolidation at the portfolio company level.

Brookcourt has established the Group's fourth platform alongside SecurEnvoy, GeoLang, and Xcina.

## Operational review

Product, service and solution development remain core priorities for the Group. The Group invested in R&D across its software businesses, helping to develop GeoLang's new Data Discovery product, whilst also continuing to invest in the establishment of SecurEnvoy's cloud service offering. On the services and solutions side, Xcina's proposition has grown to include the business' new Xcina Academy. Xcina's online cyber resilience, awareness and GDPR training solution.

As part of its thought leadership strategy the Group published a Digital Resilience white paper in association with University College London's Institute for Strategy, Resilience & Security.

In the Group's software business segment, SecurEnvoy benefited from the US infrastructure established during the financial year ended 2018. It expanded its network of US distribution and value-added reseller partners, bringing the total in region to 14. The business was also appointed by Citrix (NASDAQ: CTXS) as one of its first Premier Citrix Ready Partners for the fast-growing Identity and Access Management sector. SecurEnvoy also developed and launched a cloud service proposition.

Since joining the Group, GeoLang has won a number of customer contracts and is now revenue generating. The business has also launched a new Data Discovery solution which enables customers to address data topics such as GDPR Subject Access Requests.

In the Group's services and solution business segment, Xcina Consulting continued to deliver substantial double-digit organic growth. This has been driven by 17 new customer wins since the start of the new financial year as the demand for its technology risk assurance and advisory services continues to grow strongly.

The Xcina Academy, Xcina's online cyber resilience, awareness and GDPR training solution, was also established.

For the Group's full year results, the recently acquired Brookcourt will be reported within the services and solutions segment with Xcina, with SecurEnvoy and GeoLang constituting the Software segment.

**Current trading and outlook**

Shearwater continues to review its substantial pipeline of acquisition opportunities in line with its stated strategy, which could lead to the creation of a new platform within the Group or provide incremental scale to existing platforms already established.

In line with the historical trading seasonality within Brookcourt and substantial second half weighting in sales activity, Brookcourt's trading performance since it joined the Group has continued strongly including a solid pipeline of contracted work for the remaining months of the financial year.

The integration of Brookcourt into the Group continues to progress well, with a number of collaborative revenue and technical synergy opportunities identified as part of the transaction process already in process.

Since 30 September 2018, trading across all the other portfolio companies has stepped up and focus remains on driving through operational performance. While the Group still has much to do for the remaining months of the financial year given the second half weighting in performance, the Board remains confident of achieving full year expectations.

## Finance review

Reported revenue in the six months ended 30 September 2018 of £4.5 million (2017: £2.1 million) increased 118% reflecting a full six months trading from SecurEnvoy and Xcina Consulting (Newable Consulting) plus 5.9 months trading from GeoLang and 5.1 months trading from Xcina IS (Crystal IT).

SecurEnvoy and Xcina Consulting (Newable) were acquired in the first half of the prior year and therefore prior year revenues only include 4.7 months trading from SecurEnvoy and 2.2 months trading from Xcina Consulting (Newable).

On a like for like basis revenue is 52% ahead year on year with both software and services revenue segments delivering good double-digit revenue growth.

Portfolio companies generated a segment underlying EBITDA loss of £0.7 million (2017: profit £0.9 million) owing to significant investment in the new regions and product development within SecurEnvoy and GeoLang, coupled with further investment within the Xcina portfolio. These position the Group appropriately for future growth.

At the Group level, the underlying EBITDA loss was £1.6 million (2017: underlying EBITDA loss £0.1 million).

Loss before tax of £3.2 million (2017: loss £1.5 million) reflects a £1.5 million movement in year on year underlying EBITDA loss plus an additional £0.1 million of amortisation reflecting a full six months charge for SecurEnvoy plus the addition of Geolang and £0.1 million of additional exceptional items.

The Group recorded a loss per share of 0.32p (2017: 0.18p). On this basis a dividend for this financial year will not be declared.

A summary of Brookcourt's revenue, underlying EBITDA[1] and operating profit for the six months ended 30 September 2018 prior to the acquisition in October 2018 is shown below. Interim comparatives are not available.

| | Six months ended 30 September 2018 £'000 |
|---|---:|
| **Revenue** | **9,473** |
| Gross profit | 1,769 |
| **Underlying EBITDA** | **647** |
| Depreciation | 27 |
| **Operating profit** | **620** |

At the period end, excluding Brookcourt, Group cash was £0.5 million (2017: £3.7 million) reflecting continued investment in portfolio companies being partially offset by the cash generation of SecurEnvoy.

Cash management continues to be a priority for the Group and actual expenditure compared to budget is monitored closely to ensure that the Shearwater maintains adequate liquidity to meet financial commitments as they arise.

Post the period end the Group received £1.6m cash on 19 October 2018 following the placing and open offer to fund the Brookcourt acquisition.

## Consolidated statement of comprehensive income

| | Note | Six- month period ended 30 September 2018 (unaudited) £ (000) | 2017 (unaudited) £ (000) | Year ended 31 March 2018 (audited) £ (000) |
|---|---|---|---|---|
| **Revenue** | | 4,506 | 2,068 | 6,240 |
| Cost of sales | | (2,905) | (620) | (2,604) |
| **Gross profit** | | **1,601** | **1,448** | **3,636** |
| Administrative expenses | | (4,763) | (2,957) | (6,520) |
| **Operating loss** | | **(3,162)** | **(1,509)** | **(2,884)** |
| Finance income | | - | 53 | 2 |
| Finance costs | | - | (1) | - |
| **Loss before tax** | | **(3,162)** | **(1,457)** | **(2,882)** |
| Income tax charge | | - | (106) | (3) |
| **Loss for the period** | | **(3,162)** | **(1,563)** | **(2,885)** |
| **Attributable to equity holders of the Company** | | **(3,162)** | **(1,563)** | **(2,885)** |
| **Operating loss analysed as:** | | | | |
| Adjusted underlying EBITDA | | (1,586) | (112) | (837) |
| Amortisation of acquired intangibles | | (422) | (322) | (647) |
| Depreciation | | (15) | (4) | (14) |
| Share-based payments | | (141) | (180) | (366) |
| Exceptional items | | (998) | (891) | (1,020) |
| Finance income | | - | 53 | 2 |
| Finance costs | | - | (1) | - |
| **Loss before tax** | | **(3,162)** | **(1,457)** | **(2,882)** |
| **Other comprehensive income** | | | | |
| Items that may be reclassified to profit and loss: | | | | |
| Change in fair value of available-for-sale assets | | (25) | (38) | (67) |
| Currency translation difference | | (11) | - | - |
| **Total comprehensive loss for the period** | | **(3,198)** | **(1,601)** | **(2,952)** |
| **Loss per share** | | | | |
| Basic and diluted (pence per share) | **5** | **(0.32)** | **(0.18)** | **(0.31)** |

Shearwater Group

# Consolidated statement of financial position

| | Note | Six-month period ended 30 September 2018 (unaudited) £ (000) | 2017 (unaudited) £ (000) | Year ended 31 March 2018 (audited) £ (000) |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Goodwill | | 13,474 | 11,285 | 12,956 |
| Other intangible assets | | 9,089 | 10,334 | 8,220 |
| Available for sale assets | | 26 | 80 | 51 |
| Property, plant and equipment | | 96 | 52 | 76 |
| **Total non-current assets** | | **22,685** | **21,751** | **21,303** |
| **Current Assets** | | | | |
| Trade and other receivables | | 1,970 | 1,175 | 1,949 |
| Cash and cash equivalents | | 507 | 3,708 | 2,493 |
| **Total current assets** | | **2,477** | **4,883** | **4,442** |
| **Total assets** | | **25,162** | **26,634** | **25,745** |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Trade and other payables | | 2,870 | 1,476 | 1,755 |
| **Total current liabilities** | | **2,870** | **1,476** | **1,755** |
| **Non-current liabilities** | | | | |
| Deferred tax | | 2,054 | 1,846 | 1,847 |
| Contingent consideration | | 343 | - | - |
| **Total non-current liabilities** | | **2,397** | **1,846** | **1,847** |
| **Total liabilities** | | **5,267** | **3,322** | **3,602** |
| **Net assets** | | **19,895** | **23,312** | **22,143** |
| **Capital and reserves** | | | | |
| Share capital | 7 | 9,954 | 9,649 | 9,644 |
| Share premium | 7 | 29,422 | 28,918 | 28,923 |
| Available for sale reserve | | 11 | 65 | 36 |
| Other reserves | | 531 | 219 | 401 |
| Retained deficit | | (20,023) | (15,539) | (16,861) |
| **Equity attributable to owners of the Company** | | **19,895** | **23,312** | **22,143** |
| **Total equity and liabilities** | | **25,162** | **26,634** | **25,745** |

Shearwater Group

# Consolidated statement of changes in equity

| | Share capital £ (000) | Share premium £ (000) | Available for sale reserve £ (000) | Other reserve £ (000) | Retained deficit £ (000) | Total Equity £ (000) |
|---|---|---|---|---|---|---|
| **At 31 March 2017 (audited)** | 5,353 | 15,957 | 103 | 39 | (13,976) | 7,476 |
| Loss for the period | - | - | - | - | (1,563) | (1,563) |
| Other comprehensive loss for the period | - | - | (38) | - | - | (38) |
| **Total comprehensive loss for the period** | **-** | **-** | **(38)** | **-** | **(1,563)** | **(1,601)** |
| **Contributions by and distributions to owners** | | | | | | |
| Issue of share capital | 4,296 | 13,491 | - | - | - | 17,787 |
| Share issue costs | - | (530) | - | - | - | (530) |
| Share based payments | - | - | - | 180 | - | 180 |
| **At 30 September 2017 (unaudited)** | **9,649** | **28,918** | **65** | **219** | **(15,539)** | **23,312** |
| Loss for the period | - | - | - | - | (1,322) | (1,322) |
| Other comprehensive loss for the period | - | - | (29) | - | - | (29) |
| **Total comprehensive loss for the period** | **-** | **-** | **(29)** | **-** | **(1,322)** | **(1,351)** |
| **Contributions by and distributions to owners** | | | | | | |
| Issue of share capital | (5) | 5 | - | - | - | - |
| Share based payments | - | - | - | 182 | - | 182 |
| **At 31 March 2018 (audited)** | **9,644** | **28,923** | **36** | **401** | **(16,861)** | **22,143** |
| Loss for the period | - | - | - | - | (3,162) | (3,162) |
| Other comprehensive loss for the period | - | - | (25) | (11) | - | (36) |
| **Total comprehensive loss for the period** | **-** | **-** | **(25)** | **(11)** | **(3,162)** | **(3,198)** |
| **Contributions by and distributions to owners** | | | | | | |
| Issue of share capital | 302 | 499 | - | - | - | 801 |
| Exercise of share options | 8 | - | - | - | - | 8 |
| Share based payments | - | - | - | 141 | - | 141 |
| **At 30 September 2018 (unaudited)** | **9,954** | **29,422** | **11** | **531** | **(20,023)** | **19,895** |

Shearwater Group

# Consolidated Cash Flow Statement

| | Note | Six-month period ended 30 September 2018 (unaudited) £ (000) | Six-month period ended 30 September 2017 (unaudited) £ (000) | Year ended 31 March 2018 (audited) £ (000) |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Loss for the period | | (3,162) | (1,563) | (2,885) |
| Adjustments for: | | | | |
| Depreciation of property, plant and machinery | | 15 | 4 | 14 |
| Amortisation of acquired intangible assets | | 422 | 322 | 647 |
| Finance income | | - | - | (2) |
| Finance expense | | - | 1 | - |
| Share-based payment charge | | 141 | 180 | 366 |
| Income tax | | - | 106 | 3 |
| **Cash flow from operating activities before changes in working capital** | | **(2,584)** | **(950)** | **(1,857)** |
| Decrease/(increase) in trade and other receivables | | 81 | (638) | (1,412) |
| Increase/(decrease) in trade and other payables | | 1,101 | (370) | 457 |
| **Cash used in operations** | | **(1,402)** | **(1,958)** | **(2,812)** |
| Net foreign exchange movements | | (7) | (7) | (19) |
| Tax paid | | - | - | (280) |
| **Net cash used in operating activities** | | **(1,409)** | **(1,965)** | **(3,111)** |
| **Investing activities** | | | | |
| Acquisition of subsidiaries, net of cash acquired | | (477) | (9,839) | (9,839) |
| Purchase of property, plant and machinery | | (36) | (39) | (72) |
| Purchase of software | | (76) | - | (19) |
| Interest received | | - | - | 2 |
| Gold exploration payments | | - | (17) | (50) |
| **Net cash used in investing activities** | | **(589)** | **(9,895)** | **(9,978)** |
| **Financing activities** | | | | |
| Proceeds from issue of share capital | | 8 | 9,020 | 9,020 |
| Expenses paid in connection with share issues | | - | (530) | (530) |
| **Net cash generated by financing activities** | | **8** | **8,490** | **8,490** |
| **Net (decrease)/increase in cash and cash equivalents** | | **(1,990)** | **(3,370)** | **(4,599)** |
| Cash and cash equivalents at the beginning of the period | | 2,493 | 7,073 | 7,073 |
| Foreign exchange movement on cash and cash equivalents | | 4 | 5 | 19 |
| **Cash and cash equivalents at the end of the period** | | **507** | **3,708** | **2,493** |

# Notes

## 1. General information

The interim consolidated financial information was authorised by the board of directors for issue on 11 December 2018. The information for the six-month period ended 30 September 2018 has not been audited and does not constitute statutory accounts as defined in section 434 of the Companies Act 2006, and should therefore be read in conjunction with the audited financial statements of the Company and its subsidiaries for the year ended 31 March 2018, which have been prepared in accordance with EU Adopted International Financial Reporting Standards. The interim consolidated financial information does not comply with IAS 34 *Interim Financial Reporting*, as permissible under the rules of AIM.

## 2. Statement of accounting policies

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

### a) Basis of preparation

These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted in the EU.
The Consolidated financial statements have been prepared under the historic cost convention, except for certain financial instruments that have been measured at fair value. The Consolidated financial statements are presented in Sterling, the functional currency of Shearwater Group plc, the Parent Company. All values are rounded to the nearest thousand pounds (£'000s) except where otherwise indicated.
The accounting policies are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2018.

### b) Going concern

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these consolidated financial statements. The Group is forecast to become profitable in fiscal year March 2020.

### c) Critical accounting judgements estimates and assumptions

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

**Business Combinations**

Management make judgments, estimates and assumptions in assessing the fair value of the net assets acquired on a business combination, in identifying and measuring intangible assets arising on a business combination, and in determining the fair value of the consideration. If the consideration includes an element of contingent consideration, the final amount of which is dependent on the future performance of the business, management assess the fair value of that contingent consideration based on their reasonable expectations of future performance. Further information can be found in note 6.

**Share based payments**

Management make judgements, estimates and assumptions in determining the fair value of share-based payments costs. The judgement applied relates to the consideration of the incentive scheme and how it is settled. There is judgement in the inputs to the fair value model which is calculated using Black Scholes methodology.

**Exploration assets**

Management make judgements, estimates and assumptions in assessing the fair value of exploration assets. The Group holds some legacy exploration assets that are no longer required following the Groups change in strategy away from exploration. The company assesses at each reporting date whether there is any indication that there may be facts or circumstances relating to these assets which may be impaired. If such indication exists, the Group estimates recoverable amount of the asset. The recoverable amount is assessed by reference to the fair value less cost to sell based on the assumption that the exploration rights will be renewed enabling a sale. No impairment has been booked in either this period or the prior period.

## 2. Statement of accounting policies continued

### d) Basis of consolidation

The group's interim consolidated financial statements incorporate the results and net assets of Shearwater Group plc and all its subsidiary undertakings made up to 30 September each year. Subsidiaries are all entities over which the group has control. 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.

### e) 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.

### f) Revenue

Revenue comprises the fair value of the consideration received or receivable from the licensing of software and for the provision of services to customers in the ordinary course of the Group's activities. Revenue is shown net of sales tax, discounts and after eliminating intra-group sales.

*Revenue from software licences*

The Group recognises revenue from the licencing of software when all the following conditions are satisfied:

- all licencing obligations have been performed;
- the rights to use the software has been assigned in exchange for a fixed fee;
- the Group retains no continuing managerial rights to use the software; and
- the contract is non-cancellable.

*Revenue for the provision of services*

The Group recognises revenue from the provision of services when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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.

### g) Use of additional performance measures

The Group presents underlying EBITDA information which is used by the directors for internal performance analysis and may not be comparable with similarly titled measures reported by other companies. The term "underlying EBITDA" refers to operating profit or loss excluding amortisation of intangibles, depreciation and impairment, share-based payments charge, exceptional items, income tax expense, finance income and finance expenses.

### h) Segmental reporting

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

## 2. Statement of accounting policies continued

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

### j) 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 arises from contractual or other legal rights and their fair value can be measured reliably. Expenditure on internally developed intangible assets is taken to the consolidated statement of comprehensive income in the period in which it is incurred.

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

| | |
|---|---|
| Computer software | 3-5 years straight line basis |
| Customer relationships | 1-15 years straight line basis |
| Software | 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.

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

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

| | |
|---|---|
| Plant and machinery | 20-33 per cent per annum |
| Office equipment | 25 per cent 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.

### l) 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.

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 instrument 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.

## 2. Statement of accounting policies continued

### m) Impact of IFRS 15 "Revenue from contracts with customers"

IFRS 15 Revenue from contracts with customers replaces IAS 18 Revenue and related interpretations, introducing a new single, principles-based approach to recognition and measurement of revenue from all contracts with customers. The new approach requires identification of performance obligations in a contract and revenue to be recognised when or as those performance obligations are satisfied, as well as additional disclosure. The Group has adopted IFRS 15 from 1 April 2018. In advance of this date the Group had reviewed the potential impact of the new standard and the directors believe that this will not have a material impact on reported revenues and therefore no adjustment on prior year revenues has been processed.

With respect to IFRS 15 implementation Shearwater Group plc generates income from its customers from the following income streams:

- Software licences ("SaaS"); whereby the customer pays an annual fee for a secure key to access two factor authentication software. Revenue is recognised in full when the secure key is provided which is unchanged under IFRS 15.
- Provision of other services; which constitutes consultancy services on a range of topics including data protection. project management, governance and compliance. Customer contracts stipulate a number of consultancy days that make up the contracted consideration. Consultancy days generally comprise of field work and (where required) report writing and delivery which we consider to be of equal value to the client. Revenue is then recognised over the number of consultancy days provided within the period. This remains unchanged under IFRS 15.
- Provision of online e-learning training on a range of subjects around cyber awareness is recognised when joining instructions are issued to the customer. The Group have no obligation to maintain the e-learning platform as this is the responsibility of a third party therefore revenue recognition remains unchanged under IFRS15.

## 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 reports its results in two segments as this accurately reflects the way the Group is managed.

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

Segment information for the 6 months ended 30 September 2018 is presented below and excludes intersegment revenue as they are not material, and assets as the Directors do not review assets and liabilities on a segmental basis.

| | Six-month period ended 30 September | | Year ended 31 March |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| | (unaudited) | (unaudited) | (audited) |
| | £ (000) | £ (000) | £ (000) |
| **Revenue** | | | |
| Software | 1,928 | 1,546 | 3,372 |
| Services | 2,578 | 522 | 2,868 |
| **Total revenue** | **4,506** | **2,068** | **6,240** |
| **Underlying EBITDA** | | | |
| Software | (22) | 976 | 1,668 |
| Services | (655) | (114) | (575) |
| **Total segment underlying EBITDA** | **(677)** | **862** | **1,093** |
| Group costs | (909) | (974) | (1,930) |
| **Underlying EBITDA** | **(1,586)** | **(112)** | **(837)** |
| Amortisation of acquired intangibles | (422) | (322) | (647) |
| Depreciation | (15) | (4) | (14) |
| Share-based payments | (141) | (180) | (366) |
| Exceptional items | (998) | (891) | (1,020) |
| Finance income | - | 53 | 2 |
| Finance costs | - | (1) | - |
| **Loss before tax** | **(3,162)** | **(1,457)** | **(2,882)** |

## 4. Exceptional items

Exceptional items are those that in the judgment of the directors need to be disclosed by virtue of their size, nature or incidence, in order to draw the attention of the reader and to show the underlying business performance of the Group more accurately. Such items are included within the income statement caption to which they relate and are separately disclosed on the face of the consolidated income statement within administration expenses.

During the six months to 30 September 2018, £183,013 relating to the acquisition of GeoLang Holdings Limited and £814,524 relating to the acquisition of Brookcourt Solutions Limited (which completed after the reporting date) were charged to the interim consolidated income statement. This resulted in total exceptional items of £997,537.

## 5. Loss 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.

For diluted loss per share, the weighted average number of shares in issue is adjusted to assume conversion of all the potential dilutive ordinary shares. The potential dilutive shares are anti-dilutive for the six months ended 30 September 2018 and the six months ended 30 September 2017 as the Group is loss making.

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

| | **Six month period ended 30 September** | | **Year ended 31 March** |
|---|---|---|---|
| | **2018** | **2017** | **2018** |
| | **£ (000)** | | **£ (000)** |
| **Net loss from total operations** | | | |
| Earnings for the purposes of basic and diluted earnings per share being net loss attributable to shareholders | (3,162) | (1,563) | (2,885) |
| **Number of shares** | **No** | **No** | **No** |
| Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share | 995,319,548 | 871,346,679 | 917,725,525 |
| **Earnings per share** | **Pence** | **Pence** | **Pence** |
| Basic and diluted | **(0.32)** | (0.18) | (0.31) |

## 6. Business combinations

### GeoLang Holdings Limited

On 4 April 2018, the Group acquired 100% of the issued share capital of GeoLang Holdings Limited, an award-winning pre-revenue DLP enterprise software company for a total consideration of £1.6 million (after customary adjustments), comprising £1.1 million share consideration and £0.5 million to repay indebtedness in the company. For accounting purposes, the fair value of the ordinary shares issued in the Company was based on 43,165,750 ordinary shares at the closing share price on the date of completion. This purchase was accounted for as an acquisition.

## 6. Business combinations continued

The following table summarises the fair values of the assets acquired, the liabilities assumed and the total consideration transferred as part of this acquisition:

| (unaudited) | Fair value £ (000) |
|---|---|
| Goodwill | 483 |
| Other intangible assets | 1,220 |
| Trade and other receivables | 115 |
| Cash and cash equivalents | 325 |
| Trade and other payables | (335) |
| Deferred tax liabilities | (207) |
| **Net assets acquired** | **1,601** |
| Satisfied by: | |
| Repayment of indebtedness | 457 |
| Shares in Shearwater Group plc | 1,144 |
| **Total consideration transferred** | **1,601** |

The net cash outflow arising from the acquisition was £0.2 million in the six months ended 30 September 2018, comprising cash consideration to repay indebtedness of £0.5 million less cash and cash equivalents acquired of £0.3 million which includes £0.3m of cash paid into the business to repay indebtedness.

### Crystal IT

On 26 April 2018, the Group acquired the business and assets of Crystal IT Services Limited, a Cardiff based provider of cyber security and business information technology solutions. On joining the Group, Crystal IT was rebranded Xcina IS. The total consideration for the acquisition was £35,000, which has been settled in cash.

The following table summarises the fair values of the assets acquired, the liabilities assumed and the total consideration transferred as part of this acquisition:

| (unaudited) | Fair value £ (000) |
|---|---|
| Goodwill | 35 |
| Trade and other receivables | 10 |
| Cash and cash equivalents | 2 |
| Trade and other payables | (12) |
| **Net assets acquired** | **35** |
| Satisfied by: | |
| Cash consideration | 35 |
| **Total consideration transferred** | **35** |

## 7. Share capital

| | Number of ordinary shares of 1p each | Ordinary shares £ (000) | Share Premium £ (000) | Total £ (000) |
|---|---|---|---|---|
| **Issued and fully paid ordinary shares** | | | | |
| At 31 March 2017 | 535,250,286 | 5,353 | 15,962 | 21,315 |
| Shares issued | 429,108,914 | 4,291 | 12,961 | 17,252 |
| **At 30 September 2017 and 31 March 2018** | **964,359,200** | **9,644** | **28,923** | **38,567** |
| Shares issued | 31,013,024 | 310 | 499 | 809 |
| **At 30 September 2018** | **995,372,224** | **9,954** | **29,422** | **39,376** |

The following issues of shares were undertaken in the six-month period ended 30 September 2018:

On 4 April 2018, 30,205,571 new ordinary shares of 1p were issued as part of the consideration for the acquisition of GeoLang Holdings Limited.

On 10 April 2018 285,714 options were exercised by an advisor to the Group following which the Company issues an allotted 285,714 new ordinary shares of 1p.

On 18 June 2018 Giles Willits exercised 521,739 options following which the Company issued an allotted 521,739 new ordinary shares of 1p to him.

## 8. Events after the reporting date

On 17 October 2018, the Company acquired the entire issued share capital of Brookcourt Solutions Limited, a leading independent UK-based cyber security company. The total consideration for the acquisition was £30.3 million, which was settled through the payment of £15.15 million in cash and the issuance of 420,833,333 ordinary shares of the Group at an issue price of 3.6 pence per ordinary share to the Brookcourt shareholders.

In order to fund the cash consideration component of the acquisition, the Group at the same time completed a placing of new shares to new and existing investors which raised gross proceeds of £16.7 million through the issuance of 463,000,000 ordinary shares at an issue price of 3.6 pence per ordinary share. Included within this amount are the subscriptions for David Williams, Michael (Mo) Stevens and Stephen Ball, Directors of the Company, who subscribed for in aggregate ordinary shares at a value of £0.35 million. At the same time, the Group also completed an open offer, under which existing non-institutional shareholders of the Company subscribed for an additional 23,861,564 new shares at an issue price of 3.6 pence per ordinary shares, raising gross cash proceeds of £0.9 million.

The process of fair valuing the assets and liabilities of Brookcourt has not been completed at the date of these financial statements.

As the acquisition constitute a reverse takeover under rule 14 of the AIM Rules for Companies, the acquisition required the approval of the Company's shareholders and the readmission of the enlarged share capital to trading on AIM. This approval was received at a General Meeting of the Company's shareholders held on 16 October 2018. The admission to AIM and completion of the acquisition took place on 17 October 2018.

On the 13 of December 2018, the Group settled the final earn out payment owing to Newable Consulting Limited ("Newable") following the Company's acquisition of the business and assets of Newable (rebranded Xcina Consulting), which completed on 26 July 2017. As a result of the performance hurdles met during the earn out period, a total of 612,017 ordinary shares of the Company were issued and allotted to Newable on 13 of December 2018 in accordance with the terms of the asset purchase agreement.

## 9. Cautionary statement

This Interim Report has been prepared solely to provide additional information to shareholders to assess the Company's strategies and the potential for these strategies to succeed. The Interim Report should not be relied on by any other party or for any purpose. The Interim Report contains certain forward-looking statements with respect to the financial condition, results of operations and businesses of the Company. These statements are made in good faith based on the information available to them up to the time of their approval of this report. However, such statements should be treated with caution as they involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. The continuing uncertainty in global economic outlook inevitably increases the economic and business risks to which the Company is exposed. Nothing in this announcement should be construed as a profit forecast.