



Shearwater Group plc (the "Company" or the "Group")

## Corporate Governance Statement

Approved by the board on 27 September 2018

The board of directors of the Company (the "**Board**") adopted the Quoted Companies Alliance ("**QCA**") Corporate Governance Code (the "**QCA Code**") in line with the London Stock Exchange's recent changes to the AIM Rules. Under AIM Rule 26, all AIM-quoted companies are required to adopt and comply with a recognised corporate governance code. The Board believe that the QCA Code is most appropriate for the size, scale and complexity of the Company. Our report sets out how the Company complies with the QCA Code as at 27 September 2018 and where the Board believe that a departure from the QCA Code is warranted, an explanation is provided. Annual updates will be given on the Company's compliance.

### **Principle 1: Establish a strategy and business model which promote long-term value for shareholders**

The Company's strategy and business model is designed to promote long-term value for the Company's shareholders by providing the Company's shareholders 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. The Company's strategy and business model, as well as the key challenges faced by the business, are explained in detail on page 3 of the annual report and accounts for the year ended 31 March 2018 which can be found here: <https://www.theshearwatergroup.co.uk/results-and-presentations/> (the "**Annual Report**").

### **Principle 2: Seek to understand and meet shareholder needs and expectations**

The Company remains committed to listening and communicating openly with its shareholders to ensure that its strategy, business model and performance are clearly understood and the Company actively engages in dialogue with shareholders. The Directors meets regularly with institutional shareholders, including after the announcement of full-year and half-year results, and are responsible for ensuring that their expectations are understood by the Board.

The AGM also provides an opportunity for dialogue with shareholders. The notice of AGM is sent to the shareholders at least 21 days before the meeting and the directors routinely attend the AGM to be available to answer questions raised by shareholders.

David Williams, Chairman, is primarily responsible for shareholder liaison, and can be contacted c/o Instinctif Partners at [shearwater@instinctif.com](mailto:shearwater@instinctif.com) or on +44 (0) 20 7427 1412.

### **Principle 3: Take into account wider stakeholder and social responsibilities and their implications for long-term success.**

The Board considers the interests of shareholders and all relevant stakeholders in line with section 172 of the Companies Act 2006. Engaging with our stakeholders strengthens our relationships and helps us make better business decisions to deliver on our commitments. The Board is regularly updated on wider stakeholder engagement feedback to stay abreast of stakeholder insights into the issues that matter most to them and our business, and to enable the Board to understand and consider these issues in decision-making. Details of how we seek to understand and meet shareholder needs and expectations are set out at Principle 2, above.

For customers:

- we appropriately engage in formal and informal dialogue to garner feedback from customers to understand the value we bring to our relationships and the wider impact of our activities
- have implemented a Code of Conduct for all our employees across the Group to ensure that they act in the best interests of the Company
- invested in our portfolio company websites and internal customer relationship management system
- continue to develop our digital e-commerce platform to facilitate an improved customer experience and to ensure the digital resilience of their data

We engage actively with our supplier network to ensure that together we support the end Customers' needs and are aligned to the Company aims in delivering high quality products and services.

We could not deliver our digital resilience offering without our employees therefore they are one of our most important stakeholder groups in addition to our shareholders, suppliers and customers. The Board therefore closely monitors and reviews the results of the Company's employee engagement surveys as well as a number of any other feedback it receives to ensure alignment of interests. We regularly hold employee roadshows at portfolio company locations whereby all employees are kept abreast of Group developments and are provided with the platform to raise and discuss any areas of interest or concern they may have. We seek to create a motivational and supportive work environment to promote high performance and low turnover. Certain of the employees share in the creation of long-term shareholder value through participation in the employee share plan.

In the wider community, we actively support a number of charitable organisations directly and indirectly.

#### **Principle 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation**

The Board has established a risk management process for identifying, assessing and mitigating the principal risks and uncertainties facing the Group. Individual portfolio companies consider material strategic, operational and financial risks every three months at their quarterly business reviews. Those risks are considered by the Company's executive leadership team and are assessed at monthly operational board meetings and where it is considered appropriate to do so, included on the Group's risk register and allocated to a member of the Company's executive leadership team who is then responsible for monitoring that risk and developing suitable mitigation actions. The Company's risk register is considered by the Board on a quarterly basis, with ad hoc reviews conducted as required. More detail about the identified principal risks and uncertainties can be found on pages 7-8 of the Annual Report.

The Board is responsible for establishing and maintaining the Company's system of internal financial controls and the Audit Committee assists the Board in discharging its duties relating to internal financial controls. Internal financial control systems are designed to meet the particular needs of the Company 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. During the last financial year, the Directors enhanced the Group's finance function with a number of new hires, including the appointment of a Head of Finance, who is responsible for the day to day management of all finance aspects of the business. As part of this process, the Directors have also implemented a more formal system of internal financial

control, which has developed as the Group has scaled with the acquisitions it has made in the last financial year.

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

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

#### **Principle 5: Maintaining the Board as a well-functioning, balanced team led by the Chair**

The Board consists of the Chairman, the Chief Executive and three Non-Executive Directors. The biographical details of the Board members can be found here: <https://www.theshearwatergroup.co.uk/people/>

The Board has determined that Robin Southwell, Stephen Ball and Giles Willits are independent in character and judgment and satisfy the independence criteria under the QCA Code. Stephen has been appointed as the senior independent Non-Executive Director of the Company. Robin joined the Board on 10 October 2016, Stephen on 24 October 2016 and Giles on 9 December 2016, and prior to this none had any association with the Company.

It is the Company's intention to appoint a permanent Finance Director in due course.

The Board meets formally at least six times throughout the year in order to, amongst other things, approve financial statements, dividends and significant changes in accounting practices and key commercial matters, such as decisions to be taken on whether to take forward or to cancel a material collaboration project or commercial agreement. There is a formal schedule of matters reserved for decision by the Board in place. The Directors commit the requisite amount of time to their respective roles to ensure that they discharge their individual and collective responsibilities in an effective manner.

The Company has effective procedures in place to monitor and deal with conflicts of interest. The Board is aware of the other commitments and interests of its directors, and changes to these commitments and interests are reported to and, where appropriate, agreed with the rest of the Board.

#### **Principle 6: Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities**

The Board considers its overall size and current composition to be suitable and have an appropriate balance of sector, financial and public markets skills and experience as well as an appropriate balance of personal qualities and capabilities. The Nomination Committee is responsible for reviewing the structure, size and composition of the Board based upon the skills, knowledge and experience required to ensure the Board operates effectively. The Nomination Committee is expected to meet when necessary to do so. The Nomination Committee also identifies and nominates suitable candidates to

join the Board when vacancies arise and makes recommendations to the Board for the re-appointment of any Non-Executive Directors. The Nomination Committee will make recommendations to the Board based on a number of factors including the skills necessary for execution of the company strategy and diversity.

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

Biographies for each of the directors, including details on their experience and skills, are set out on the Company's website.

#### **Principle 7: Evaluate Board performance based on clear and relevant objectives, seeking continuous Improvement**

The Board's effectiveness and the individual performance of Directors are considered regularly by the Board on an informal basis, via feedback to the Chairman. Directors are encouraged to provide feedback on all areas of the board efficacy, having due regard to the balance of skills, experience, independence and knowledge contributed by members of the Board, as well as the successful operation of the Board as a unit, its diversity and other factors relevant to its effectiveness.

Over the next 12 months, the Nominations Committee intends to conduct a more formal review of the performance of the Board to ensure that the members of the Board collectively function in an efficient and productive manner.

The results of the Board evaluation process will be used by the Nominations Committee to inform its approach to succession planning, which has to date been undertaken informally.

#### **Principle 8: Promote a culture that is based on ethical values and behaviours**

Our values and culture are the foundation of our strategy and are adopted by all members of our Group. Morality and ethics are central to our values. They are a clear statement of our commitment to excellence and define the approach we take in our interaction with customers, shareholders and each other.

As a team we:

- Do what we say
- Support pioneering development
- Deliver focussed performance
- Encourage entrepreneurial spirit
- Show excellence in all we do
- Value people and team work
- Deliver customer satisfaction
- Behave ethically

This is underpinned by our dedication to safety and security.

Our values are incorporated in all our operating procedures and define our management approach and Group culture. The Board ensures that ethical behaviours are expected and followed by approving a set of internal policies on matters such as anti-bribery and whistleblowing, and by ensuring that appropriate systems and controls are in place to ensure compliance with those policies.

Feedback from all stakeholders, as described in further detail in relation to principle 3, allows the Board to monitor the Company's corporate culture and its consistency with Company objectives, as well as ethical values and behaviours within the business.

**Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board**

Whilst the Board is collectively responsible for defining corporate governance arrangements, the Chairman is ultimately responsible for corporate governance. The governance structures within the company have been assessed by the Board and are considered appropriate for the size, complexity and risk profile of the Company. This will be reviewed by the Board to ensure governance arrangements continue to be appropriate as the Company changes over time.

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

There is a formal schedule of matters reserved for the decision of the Board that covers the key areas of the Company's affairs. The schedule includes:

- approval of the annual operating and capital expenditure budgets and any material changes to them;
- oversight of the Group's operations ensuring competent and prudent management, sound planning, an adequate system of internal control, adequate accounting and other records and compliance with statutory and regulatory obligations;
- review of performance in the light of the Group's strategic aims, objectives, business plans and budgets and ensuring that any necessary corrective action is taken;
- approval of the annual report and accounts, including the corporate governance statement and remuneration report;
- approval of the half-yearly report and interim management statements;
- approval of any significant changes in accounting policies or practices;
- ensuring maintenance of a sound system of internal control and risk management including: (i) approving the Group's risk appetite statements; (ii) receiving reports on, and reviewing the effectiveness of, the Group's risk and control processes to support its strategy and objectives; (iii) approving procedures for the detection of fraud and the prevention of bribery; (iv)

undertaking an annual assessment of these processes; and (v) approving an appropriate statement for inclusion in the annual report;

- approval of major capital projects, contracts entered into by the Group that are material strategically or by size, contracts entered into by the Group not in the ordinary course of business, or major investments by the Group including the acquisition or disposal of interests of more than 3 per cent in voting shares;
- approval of resolutions and corresponding documentation to be put forward to shareholders at a general meeting, and any circulars, or admission documents; and
- other matters including health and safety policy, insurance and legal compliance.

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

The Board is supported by an Audit Committee, Remuneration Committee, Nominations Committee and Advisory Panel, further details of which are set out in the Company's annual report. The terms of reference for these committees are available on the Company's website.

**Principle 10: Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders**

The Company is committed to open communications with all its shareholders. Communication is primarily through the Company's website, the annual report and accounts, announcements, the AGM and one-to-one meetings with large existing or potential new shareholders.

All shareholders will receive a copy of the annual report and an interim report at the half year is available on the Company's website. Copies of historical annual reports (including the Independent Auditors Report, the Directors' report and details of directors' remuneration) and notices of general meetings covering the period since the shares of the Company were admitted to trading on AIM are also available on the Company's website. The Company reports on the responsibilities and activities of each of the Committees in the annual report.

The Company also completes regular employee surveys to maintain an open dialogue with employees.