



## **Statement of Compliance with the QCA Corporate Governance Code**

The Board has adopted the Quoted Companies Alliance (QCA) Corporate Governance Code in line with the London Stock Exchange's (LSE) requirement for all AIM-listed companies to adopt and comply with a recognised corporate governance code. Our report sets out in broad terms how we comply with the code at this point in time. We will provide annual updates on our compliance with the code.

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

The Company's objective is to be the European leader in commercialising cyber security research originating from universities.

Crossword Cybersecurity plc focuses on the development and commercialisation of university research-based cyber security and risk management related software and cyber security consulting. The Group's specialist cyber security product development and software engineering teams work with its university partners to develop the research concept into a fully-fledged commercial product that it will then take to market. The Group's aim is to build up a portfolio of revenue generating, intellectual property based, cyber security products. Rizikon Assurance, Crossword's leading product, is a SaaS platform that enables medium to large companies to assess and manage all risks from their suppliers. Nixer CyberML, Crossword's most recently launched product, is a new tool for businesses that want to solve advanced security and cybercrime problems, such as detecting and dealing with compromised accounts, fraud, and in-application denial of service attacks. Crossword's team of expert cyber security consultants leverages years of experience in national security, defence and commercial cyber intelligence and operations to provide bespoke advice tailored to its clients' business needs.

Where appropriate, Crossword will transfer the IP to separate companies in which it will retain a commercial interest. So far, Crossword has been instrumental in the development of two such companies, ByzGen Limited and CyberOwl Limited.

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

Crossword is committed to engaging with its shareholders to ensure that its strategy, business model and performance is clearly understood. The Company communicates with shareholders and potential investors through a variety of channels, including regular financial reporting, direct contact with its major shareholders and release of regulatory announcements, which are available on its website.

Regulatory announcements include details of the Company's website and the relevant contact at the Company, as well as its professional advisors.

The Annual General Meeting (AGM) provides another opportunity for dialogue between shareholders and the Board. The Chair of the Board and of the Committees, together with other Directors, routinely attend the AGM and are available to answer questions raised by the shareholders. At the meeting, each vote, the number of proxy votes received for, against and withheld is announced.

The results of the AGM are subsequently published on the Company's website and released via a regulatory information service provider.

A range of corporate information, including all Company announcements, is also available to shareholders, investors and the public on the Company's corporate website, [www.crosswordcybersecurity.com](http://www.crosswordcybersecurity.com).

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

Apart from our shareholders, our most important stakeholder groups are our employees, our partners and the universities we work with. The Board is regularly updated on stakeholder feedback and their potential impact on our business to enable them to understand and consider the feedback in decision-making. The Board understands that maintaining the support of all its stakeholders is paramount for the long-term success of the Company.

#### **Employees**

Crossword aims to provide an environment which will attract, retain and motivate its team. The Company has a small number of permanent staff employed across the UK and Poland and therefore employee engagement with the senior management, who pride themselves on their availability and flexibility, is frequent through daily discussions and meetings. Staff are encouraged to give regular feedback in relation to their needs, interests and expectations on away days, general discussions or one-to-one meetings with their line managers. These can then be addressed at the fortnightly management meeting to all senior members of the team where further actions will be discussed. Furthermore, the team engages in a weekly call where staff are able to communicate with all levels of the team across both countries.

Crossword reviews its processes and policies, which are guided by the principles of fairness and integrity, to make continuous improvements for its staff. The Company has developed its induction programme for new staff, is engaging with employees to define its culture and values and expected behaviours, performs exit interviews in the event people decide to leave the business, and follow up interviews with new employees.

Crossword is supportive of career development of its employees and provides training programmes and masters opportunities where appropriate.

#### **Crossword's Partners**

Crossword develops mutually beneficial commercial relationships with companies to support sourcing and commercialising cyber security intellectual property originating from university research projects, and evaluating and exploiting routes to distributing and reselling its products. Crossword recognises that the establishment of a close working relationship with its partners is essential for its long-term success.

Crossword maintains its relationship with its partners through regular meetings, mutual understanding and aligned objectives. Feedback from partners is communicated to the relevant teams and the Board as appropriate.

### **Universities**

Crossword has excellent connections with universities in the UK and elsewhere through members of the Board and Management, who include some of the most highly regarded experts in IP commercialisation and the cyber security sector. Crossword maintains regular interaction with the universities with which it engages. This is predominantly achieved by digital means (e.g. frequent email exchanges and video calls), in which both parties can feedback to one another to ensure their needs are being met. The team also has face-to-face meetings with academics and works alongside universities at various events, such as talks and conferences. This continuous engagement with universities is paramount to the long-term success of the Company, due to its principal objective.

### **Social Responsibility**

Crossword partners with a charity based in the same location as its UK office, helping the charity in their efforts to support the homeless and lead them to independence. In Poland, Crossword is supporting one of the largest, most recognisable and effective social schemes in Poland which implements and develops a system of smart, personalised aid that is unique in the world.

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

### **Audit, risk and internal control**

#### **Financial controls**

The Group has an established framework of internal financial controls, the effectiveness of which is regularly reviewed by the Executive Management, the Audit Committee and the Board, in light of an ongoing assessment of significant risks facing the Group.

- The Board is ultimately responsible for the effectiveness of the Group's system of internal controls. Its key strategy has been to establish financial reporting procedures that provide the Board of Directors with a reasonable basis upon which to make judgements as to the financial position and prospects of the Group. Executive Directors and Non-Executive Directors have been appointed by the Board to assist with the implementation of this strategy and report progress to the Board.
- The Audit Committee has the primary responsibility for monitoring the quality of internal controls to ensure that the financial performance of the Group is properly measured and reported on. It receives and reviews reports from the Group's management and external auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Group. The Audit Committee meets not less than three times in each financial year and has unrestricted access to the Group's external auditors.

- Regular budgeting and forecasting is conducted to monitor the Group's ongoing cash requirements and cash flow forecasts are circulated to the Board.
- The Group has a Risk Register which identifies the potential possibility and impact of risks associated with the Group and allocates an owner to mitigate each risk. The Risk Register is updated by the Finance Director and reviewed by the Executive, the Audit Committee and the Board.

#### Non-financial controls

The Board has ultimate responsibility for the Group's system of internal control and for reviewing its effectiveness. However, any such system of internal control can provide only reasonable, but not absolute, assurance against material misstatement or loss. The Board considers that the internal controls in place are appropriate for the size, complexity and risk profile of the Group. The principal elements of the Group's internal control system include:

- Close management of the day-to-day activities of the Group by the Executive Directors;
- An organisational structure with defined levels of responsibility, which promotes entrepreneurial decision-making and rapid implementation whilst minimising risks;
- Central control over key areas such as capital expenditure authorisation and banking facilities;
- A comprehensive annual budgeting process producing a detailed integrated profit and loss, balance sheet and cash flow, which is approved by the Board; and
- Detailed monthly reporting of performance against budget.

The Group continues to review its system of internal control to ensure compliance with best practice, whilst also having regard to its size and the resources available.

#### STANDARDS AND POLICIES

The Board is committed to maintaining appropriate standards for all the Group's business activities and ensuring that these standards are set out in written policies. Key examples of such standards and policies include:

- Anti-bribery and Corruption Policy
- Information Security Policy
- Data Protection Policy
- Share Dealing Code.

All policies are documented and senior managers and directors are responsible for monitoring the compliance of these policies.

#### APPROVAL PROCESS

All contracts are required to be reviewed and signed by a Director of the Company.

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

#### COMPOSITION, QUALIFICATION AND INDEPENDENCE OF THE BOARD

The Board comprises six Non-Executive and two Executive Directors.

The Board considers each of the Non-Executive Directors to be independent in character and judgement. Two of the Non-Executive Directors do not meet the strict criteria for independence set out in the QCA Code, due to their ownership of ordinary shares and their participation in the

Company's share option arrangements, as part of their remuneration arrangements.

The Board considers that the ownership of shares and participation in the Company's share options to certain of the Non-Executive Directors encourages the alignment of their interests with those of the Company's shareholders and are not material enough to compromise their independence, character and judgement.

Therefore, the Company considers all Non-Executive Directors to be independent for the purposes of the QCA Code.

The Non-Executive Directors provide independent, robust and constructive challenge to the Executive Management and monitor the performance of the management team in delivering the agreed objectives.

All Directors have disclosed their other significant commitments and confirmed that they have sufficient time to discharge their duties effectively.

#### APPOINTMENT AND TENURE

The Board makes decisions regarding the appointment and removal of Directors and there is a formal, rigorous and transparent procedure for appointments, some of which has been delegated to the Nomination Committee. Appointments are made on merit, taking account of the balance of skills, experience and knowledge required.

The Company's Articles of Association require that all Directors retire by rotation at regular intervals and that any new Directors appointed during the year must stand for election at the AGM immediately following their appointment.

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

The Board believes that its composition brings a desirable range of skills and experience in light of the Group's challenges and opportunities following Admission, while at the same time ensuring that no individuals or a small group of individuals can dominate the Board's decision making.

The current Board, although considered to have a sufficient level of skills in all areas of the business, is always looking to improve and further its knowledge of the industry. All Directors receive regular and timely information on the Group's operational and financial performance and on technical issues.

#### INDUCTION

Upon appointment, all Directors are provided with training in respect of their legal, regulatory and governance responsibilities and obligations, in accordance with the UK regulatory regime.

The induction includes face-to-face meetings with Executive Management and site visits to orientate and familiarise the new Directors with Company's industry, organisation, business, strategy, commercial objectives and key risks.

The Board is kept up to date on legal, regulatory and governance matters at Board meetings. Additional training is available on request, where appropriate, so that Directors can update their skills and knowledge as applicable.

#### INDEPENDENT ADVICE

All Directors are able to take independent professional advice in the furtherance of their duties, if

necessary, at the Company's expense. In addition, the Directors have direct access to the advice and services of the Company Secretary and Finance Director.

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

**BOARD EFFECTIVENESS REVIEW**

In compliance with the QCA Code, the Board undertook an evaluation of its performance before the financial year end. The evaluation was conducted by way of a questionnaire designed to assess the effectiveness of the Board, the Directors and the Chairman, as well as the Board's Committees and identify any areas for improvement. The Board has a formal process for the annual performance evaluation of the Board, its committees and individual Directors going forward. Such evaluation of the Board and its committees will primarily be undertaken by the Nominations Committee.

The Committee will regularly review the structure, size and composition (including the skills, knowledge, independence, experience and diversity) of the Board and make recommendations concerning plans for succession for both Executive and Non-Executive Directors and in particular for the key roles of Chairman and Chief Executive Officer.

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

The Board is committed to promoting a strong ethical and values driven culture throughout the Company and has a people- oriented ethos where hard-work and commitment is recognised. During 2019, a project to formally define the Company's culture was started. At the end of this project, the Company will be in a position to articulate and develop its values and expected behaviours.

Crossword also recognises that employees will have interests outside work and consequently supports flexibility around these interests.

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

**THE ROLE OF THE BOARD**

The Board is responsible for the long-term success and strategic leadership of the Group It is responsible for reviewing, formulating and approving the strategy of the Group and its subsidiaries, corporate actions and overseeing the Group's progress towards its goals. In addition, it also approves the annual and interim results and monitors the exposure to key business risks. The Board's full responsibilities are set out in a schedule of matters reserved for the Board.

The matters reserved for the attention of the Board include:

- The approval of interim and annual financial statements, dividends and significant changes in accounting practices;
- Review of bi-monthly financial statements;
- Board membership, reviewed by NOMAD, and powers including the appointment and removal of Board members, determining the terms of reference of the Board and establishing the overall control framework;

- AIM related issues including the approval of communications to the London Stock Exchange and communications with shareholders will be dealt with by the Market Disclosure Committee and reviewed by the NOMAD, or delegated by the Board to the Executive Directors;
- Senior management, remuneration, contracts, and the grant of share options will be addressed by the Remuneration Committee;
- Key commercial matters where the financial commitment is in excess of £50,000 per annum;
- Taking of loans or other credit;
- Financial matters including the approval of the budget and financial plans and performance against such plans and budgets;
- Approval of the appointment of the current period auditor, year-end audited statutory accounts and audit related queries addressed by the Audit Committee;
- Risk management review;
- Changes to the Company's capital structure, its business strategy, acquisitions and disposals of businesses, and capital expenditures outside of budget approval; and
- Other matters including, but not limited to, health and safety policy, insurance and legal compliance.

#### ROLE OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

There is a clear division of responsibility at the head of the Company. The Chairman is responsible for running the business of the Board and for ensuring appropriate strategic focus and direction, whilst the Chief Executive Officer is responsible for proposing the strategic focus to the Board, implementing it once approved, and overseeing the management of the Company through the Executive. The Chief Executive Officer is also responsible for communicating with shareholders, assisted by the Finance Director. This separation of responsibilities is clearly defined and agreed by the Board.

#### BOARD AND COMMITTEE MEETINGS

The Board meets at least six times each year, in accordance with its scheduled meeting calendar (these may be supplemented by additional meetings as and when required) to review, formulate and approve the Group's strategy, budgets, corporate actions and oversee the Group's progress towards its goals. At each meeting, the Board considers a number of matters, which include technical, operational, financial, risk and corporate governance reports, in addition to an update from its Committees, where applicable.

Any Director can challenge 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. Specific actions arising from such meetings are agreed by the Board or relevant committee and then followed up by Management.

The Group has established an Audit Committee, a Remuneration Committee, a Nomination Committee and a Market Disclosure Committee, each with formally delegated duties and responsibilities outlined within terms of reference reviewed and approved by the Board on an annual basis.

From time to time, separate committees may be set up by the Board to consider specific issues when the need arises.

The Board and its Committees are supported by the Company Secretary, who ensures that the

Board receives regular and timely information ahead of each meeting. A formal agenda is produced for each meeting and the Company Secretary distributes papers several days before meetings take place to provide the Board with sufficient time to consider the matters to be discussed. Each Committee has access to such resources, information and advice as it deems necessary, at the cost of the Company, to enable it to discharge its duties

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

The Board attaches considerable importance to the maintenance of constructive relationships with shareholders and its other stakeholders.

As mentioned above, the Company communicates with shareholders through the Annual Report and accounts, full-year and half- year results announcements, the AGM and one-to-one meetings with large existing or potential new shareholders. The Company regularly releases regulatory and other announcements covering operational and corporate matters.

A range of corporate information (including all Company announcements) is also available to shareholders, investors and the public on the Company's corporate website, [www.crosswordcybersecurity.com](http://www.crosswordcybersecurity.com) including:

- Our Articles of Association and admission document;
- A detailed account of how we have applied the principles of the QCA Code;
- Latest Crossword Cybersecurity news and press releases;
- Annual and Interim Reports.

The Board receives regular updates on the views of shareholders through briefings from the Chief Executive Officer, Finance Director and the Company's brokers.

The Company is currently exploring further methods of obtaining feedback from its staff, including exit interviews in the event people decide to leave the business, and follow up interviews with new employees.

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