System1 Group

System1 Group PLC

Annual Report and Accounts
for the 12 month period ended 31 March 2020

Registered Number 05940040

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Highlights

£m	Consulting	AdRatings	Total
REVENUE	25.4	0.1	25.5
Gross Profit	21.5	0.1	21.6
Underlying Overheads*	(18.5)	(2.8)	(21.3)
UNDERLYING OPERATING PROFIT*	3.1	(2.7)	0.3
Share Based Payments	0.1	-	0.1
Finance Charges	(0.1)	-	(0.1)
PROFIT (LOSS) BEFORE TAX	3.0	(2.7)	0.3

* Underlying Overheads and Underlying Profit Before Tax are defined in the Business and Finance Review.

- Revenue declined 5% to £25.5m (2018/19: Revenue flat at £26.9m)
- 2% decline in Gross Profit to £21.6m (2018/19: £22.1m)
- Comms Gross Profit up 8% helped by Test Your Ad
- Innovation and Brand Gross Profit down 11% and 7% respectively
- 20% decline in Underlying Profit Before Tax (excluding AdRatings) to £3.1m (2018/19: 80% growth to £3.8m)
- Profit Before Tax (including AdRatings) declined to £0.3m (2018/19: £1.9m), after recognising an impairment charge of £0.9m for capitalised development costs
- Decline in diluted Earnings Per Share to a loss per share of 1.8p (2018/19: diluted EPS of 9.8p)
- £2.0m cash investment in AdRatings, with a post impairment profit and loss expense of £2.8m
- £6.7m cash at 31 March 2020 and debt of £2.5m (2018/19: £4.3m cash and no debt)
- No final dividend proposed (2018/19: 6.4p per share); proposed share buy-back suspended
- The Company has been making a significant investment in new AdRatings technology and has for the last two years split its results into the existing business (Consulting) and AdRatings. For consistency, these results maintain the split. For financial reporting in 2020/21 and beyond the figures will be combined, reflecting the important contribution of AdRatings IP to developing the Consulting business

TRADING UPDATE AND OUTLOOK

In the Trading Update issued on 27th April we said that given the impact of the Covid-19 pandemic it was difficult to provide financial guidance for the 2020/21 year, and this remains the case. In the two months to end May, Revenue and Gross Profit were 36% and 38% respectively below the same period of last year. Over these months the business as a whole incurred a Pre-Tax loss of some £0.7m as we pursued our short-term objectives of continuing to develop our new automated product set, while conserving cash by shrinking the cost base to offset lower sales. Cash net of debt facilities ended May at £3.9m compared with £4.1m at 31 March. In June, the sales pipeline has shown early signs of recovering towards pre-pandemic levels, and our cost base was in line with our targets.

Commenting on the Company’s performance, John Kearon, Chief Executive Officer of System1, said:

“Over the last two years we have reshaped much of the business, automated many of our products, raised our industry profile and created a management team capable of achieving our goal of becoming the world leader in predicting advertising effectiveness. Despite Covid-19, the coming year will see more innovation and more investment as we continue to automate, attract new clients and drive revenues.”

JOHN KEARON
Chief Executive Officer

Chairman's Statement

This has been another eventful year for System1, with continued investment to transform the Company into a more automated digital business, and mixed fortunes for Sales and Profits. The year began well, building on the strength of the strong profits recovery in 2018/19 with an encouraging H1 out-turn. Progress was not maintained however, with a weaker H2 and in particular a marked slowdown in our Q4 from January 2020 onwards. The full year saw Sales Revenue and Gross Profit down by a modest 5% and 2% respectively, and Underlying Profit Before Tax by a more substantial 20% as investment to drive future growth continued. As in 2018/19, these results exclude our investment in AdRatings, as we focused on developing and refining the product offering.

During the year our Chief Innovation Officer, Orlando Wood, authored a seminal work on the nature of advertising, "Lemon", which was published by The Institute of Practitioners in Advertising, (IPA), and System1 to widespread critical acclaim. This has led to an increased level of interest in our advertising testing, Test Your Ad, utilising the Star and Spike scores of our AdRatings methodology. We were encouraged by a partnership with ITV, Britain's largest commercial broadcaster, promoting System1's measurement of advertising effectiveness which was planned to be used in conjunction with the UEFA Euro 2020 football competition, although this has unfortunately been postponed until 2021 due to the Covid-19 pandemic.

Whilst interest in the potential benefits of AdRatings continued to increase, short term subscription revenue to the AdRatings database remains modest, and we have decided to take an impairment charge against some of the development cost. From the current 2020/21 financial year we will consolidate AdRatings results into those of the core business.

Our business benefits from a broad geographical spread and a range of testing services. Around half of our revenues come from the Americas, and the other half from the UK, continental Europe, and Asia. We saw growth in both North and South America this year, offset by some softness in the European and Asian regions. Within testing services, our communications testing, mainly of advertising, grew during the year, again offset by modest declines in innovation testing and brand tracking.

System1 ended the financial year in a healthy financial position. In March 2020 the company arranged and drew down a £2.5m revolving credit facility, and the year ended with a gross cash balance of £6.7m and debt of £2.5m.

The new financial year commencing 1st April 2020 has seen some changes to the composition of Executive Directors. James Geddes, our Chief Financial Officer for the past 17 years left the Company to be succeeded by Chris Willford, who we welcome to the Board. We send our heartfelt thanks to James for all he did during his time with System1, in assisting its international growth and development, and wish him every success in the future. Stefan Barden, who has worked with us for over two years in a senior consultancy capacity has also joined the Board as Chief Operating Officer, to complete many of the significant systems and process improvements that the business is engaged with as it transforms its product offering.

The beginning of the current financial year has coincided with the impact of the Covid-19 pandemic, affecting our major markets and our clients' forward planning. Whilst there was no material impact on our 2019/20 results, our current trading and profits outlook has inevitably been impacted. Given the importance of retaining cash in the business, the Board has decided to suspend the proposed share buy-back as well as payment of the final dividend for 2019/20. Future returns of capital to shareholders will be kept under review.

Management priorities have been to counter the effect of the pandemic on short-term financial results, whilst positioning the business to take future advantage as situations begin to normalise. Cost saving measures have been implemented, and government employment schemes utilised where appropriate, including in the UK and the USA.

The business and our staff have adapted and responded extremely well to an environment in which both we and our clients' teams are largely working from home. Weekly client webinars, which have been widely attended, have been just one example of maintaining regular contact and stimulating sales. At this stage it is not possible to provide future guidance, but our short-term business objectives are being met, and my thanks are due to all the System1 staff worldwide for their efforts during 2019/20 but especially at the current time, in rising to the extraordinary challenges the Covid-19 pandemic is presenting.

GRAHAM BLASHILL
Chairman

Chief Executive Officer's Statement

SIGNIFICANCE PRECEDES MOMENTUM

Graham has done a great job summarising our 2019/20 financial performance, so I'll focus on the year's significant changes, investments and progress towards our goal of becoming the world leader in predicting advertising effectiveness.

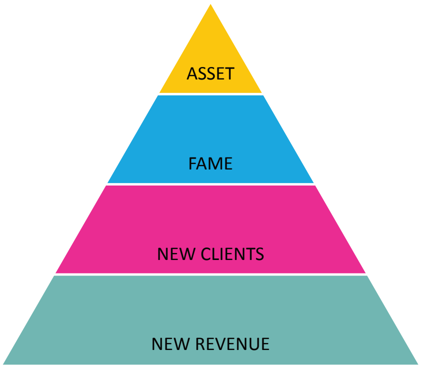
THE EFFECTIVENESS AGENCY

Every year, over $900bn is spent on Advertising across the globe, by far the biggest annual investment most Companies make in future growth. However, only 0.1% of that is spent testing whether it's going to work, despite the fact that we know from our own validated testing that over half of all advertising makes no contribution to profitable growth.

Over 20 years, we pioneered the application of Behavioural Science to predicting consumer behaviour and have dramatically improved the predictive accuracy of ad testing – as validated by the IPA, the leading authority on ad effectiveness. Having perfected our approach through tens of thousands of ad tests, our goal is to help Companies significantly improve their return on advertising investment.

To improve the utility and access to System1 predictions, we standardised, digitised and automated our approach and created AdRatings. This provides online, annual subscription access to ad effectiveness data for every US and UK ad, brand and company, in all major advertised categories. Subscribers can see their performance at a Company, Brand and individual ad level, compare themselves with competitors and learn how to improve their future ad effectiveness.

The year saw significant progress in the four progressive goals I set out for AdRatings last year:



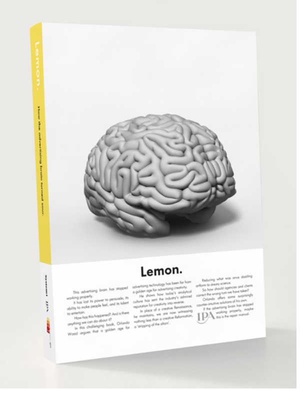
1) BUILD AN ASSET. We have now tested 41,085 ads and have the largest database of validated ad effectiveness data and spend in the world, that we are aware of. We use this asset to continuously enhance our understanding of ad effectiveness and help prove the value of creativity to advertisers. Last year, the database proved invaluable to an effectiveness evaluation project with the IPA, which culminated in the publication of ***Lemon*** – authored by our Chief Innovation Officer, Orlando Wood. The publication has been critically acclaimed by such industry luminaries as Rory Sutherland, Vice Chairman of Ogilvy and Peter Field, co-author of the seminal Long and The Short of It, who said of Lemon, *"Just when you are starting to think that books on advertising effectiveness are all rather similar, along comes Orlando's book. The book itself is itself a perfect illustration of the virtues it extols: entertaining, unpredictable, deep, broad-ranging and beautifully crafted. A book you will want to read."*

2) GENERATE FAME FOR SYSTEM1. Testing every new ad the day after it first airs has given us the ability to provide predictive data to industry publications on ads generating interest or controversy. As a result, we've been able to generate significantly more System1 coverage than in any previous year.

In the weeks since the Covid-19 crisis began, we have tested almost 550 Covid related ads worldwide and shared our learnings in a widely-attended weekly webinar. Our research has shown how consumers have been feeling during the crisis and the need for brands to empathise with their audience and make creative choices that strike the right emotional notes. The evidence from the IPA's long-term studies and our own research has shown that emotionally appealing advertising is far more effective than advertising based on rational brand claims – and even more so in challenging times.

But it’s Orlando’s ***Lemon*** publication that has created the greatest client interest and critical industry acclaim. The project started from the IPA’s previous publication, *The Crisis In Creative Effectiveness* which showed how ad effectiveness had dropped dramatically since 2008 and asked what’s responsible. Was it shifts in spend towards digital channels, greater emphasis on the short-term or structural changes in the ad industry?

Based on System1’s knowledge of advertising, we thought the answer might lie in the psychology of how we perceive and relate to the world. We combined the data from our AdRatings database with the seminal brain *lateralisation* work of Iain McGilchrist, author of *The Master And His Emissary*, to uncover the roots of the decline in Advertising effectiveness. The resulting publication, ***Lemon***, shows the single biggest determinant of advertising effectiveness is Creativity. Ads that use humour, generosity, humanity, story-telling, metaphor, recurring characters, a sense of between-ness generate the emotions that enable a brand to successfully and memorably connect with consumers.



Lemon. This advertising brain has stopped working properly.It has lost its power to persuade, its ability to make people feel, and its talent to entertain.How has this happened? And is there anything we can do about it?

In this challenging book, Orlando Wood argues that a golden age for advertising technology has been far from a golden age for advertising creativity.He shows how today’s analytical culture has sent the industry’s admired reputation for creativity into reverse.In place of a creative Renaissance, he maintains, we are now witnessing nothing less than a creative Reformation, a ‘stripping of the altars’. Reducing what was once dazzling artform to dreary science.

So how should agencies and clients correct the wrong turn we have taken? Orlando offers some surprisingly counter-intuitive solutions of his own. If the advertising brain has stopped working properly, maybe this is the repair manual.

Lemon is now the IPA’s fastest and biggest selling publication and Orlando has been invited to present the findings by the leading advertising bodies (WFA, ISBA, ARF, IPA), ad agencies,clients and companies such as: Microsoft, LinkedIn, ITV, Sky, Vodafone and Aldi.

3) WIN NEW CLIENTS. Our increased industry advertising effectiveness profile has led to the majority of new ad testing clients coming from industries beyond our historic CPG core, like Tech, Media and Online Retail. The AdRatings daily testing has also enabled us to create *Ad of The Week*, to honour brands making the most creative ads, with a number of the winners becoming clients.

A significant new partnership has been ITV, Britain’s largest commercial broadcaster. ITV want to help advertisers improve the creativity, entertainment and profitability of their ads and are promoting System1’s approach to help achieve it. As a recent Covid-19 lock-down challenge, ITV challenged viewers to create their versions of 5 famous adverts and then aired the best of them during peak Saturday viewing, in the break of *Britain’s Got Talent*. The best of the ads recreated the famous ‘*Honda Cog*’ and delightfully managed to out-perform the original. Our 30 days free access to the Global Covid-19 category ads has already generated over 100 new company trialists.

4) GENERATE NEW REVENUES. Although the number of annual subscribers to AdRatings is still low, it's proving a very effective way to sell System1's ad testing consultancy and a high proportion of our new ad testing clients are also choosing to subscribe.

In the last quarter of the year we launched Test Your Ad, to increase access to our testing and generate additional revenues from AdRatings. Users can upload and pre-test any ad and get next-day or even same-day predictions for a fraction of current costs. They see the likely performance of their ad and can compare it with all other ads in their category. It's early days, but the initial reaction has been extremely positive and ITV are promoting the service to all their advertisers. Test Your Ad is our online offering and AdRatings remains the name for our advert database.

The combination of the year's initiatives meant we grew ad testing Gross Profit by 8%, in a year in which System1's overall Gross Profit declined 2%. Over the last two years, ad testing has grown to the same size as innovation testing, which for many years has been the largest part of the business. Growth in ad testing has significant commercial advantage in being generally a sole-supplier, long-term partnership with clients, whereas innovation testing tends to be bought project by project from a roster of suppliers.

To create a far bigger business we have made a number of important senior appointments; Orlando Wood as Chief Innovation Officer, Mark Beard as Chief Technology Officer, Karen Wolfe as Chief Commercial Officer, Jon Evans as Chief Marketing Officer, Emma Cooper as Chief People Officer and Robyn Di Cesare as Global Director of Research & Guidance. There are two recent appointments to complete our Management Team for the future. Chris Willford joins as CFO and Stefan Barden currently an Advisor, is temporarily taking the vacant COO position. Chris brings huge commercial and financial experience having been UK Finance Director at Barclays PLC and Group Finance Director at Bradford & Bingley PLC, (FTSE 100 businesses), as well as working as a consultant with scale up media and tech business similar to System1. Stefan brings Tech, Data and Online experience, having been a FTSE 250 CEO and the CEO who, in three years grew Wiggle from £140m turnover to £360m, to become Europe's #1 online sports retailer.

Over the last two years, we have reshaped much of the business, automated many of our products, generated increasing industry profile and created a management team capable of achieving our goal to become the world leader in predicting advertising effectiveness. There remains much to do, but we believe that we are further ahead than our competitors. There will be many more innovations in the coming year, as we continue to automate our predictions, increase System1's fame, attract new customers and drive revenues.

In summary, over the last year System1 has taken its leading research IP and created data products and assets to complement our historic consultancy services. We have been recognised by industry leaders in what we do and are firmly becoming the research industry's champion for creativity, backed by data. In the UK, our pilot market, we have developed partnerships with ITV, the largest retailer of advertising space and globally with LinkedIn, the B-2-B platform. It bodes well for the future, but we know there is much still to do.

Finally a heartfelt thank you to our patient and incredibly supportive shareholders. And a huge thank you to our wonderfully creative, hardworking staff (past and present, with a special thanks to James Geddes, our outgoing CFO for 17 years of remarkable, dedicated service to the business).

I'll give the final words to the IPA's recent Financial Times ad, based on System1's joint work with them.

> *"Emotion. The Most Rational Thing a Brand Can Use."*

JOHN KEARON
Chief Executive Officer

OVERVIEW

	2019/20			% Change YoY		
£m	Consulting	Ad Ratings	Total	Consulting	Ad Ratings	Total
Revenue	25.4	0.1	25.5	-5%		-5%
Gross Profit	21.5	0.1	21.6	-2%		-2%
Gross Profit %	85%	100%	85%	3%		3%
Underlying Overheads	18.5	2.8	21.3	1%	25%	4%
Underlying Profit before Tax / (Loss)	3.1	-2.7	0.3	-20%		-86%
Statutory Overheads			21.2			6%
Statutory Profit Before Tax / (Loss)			0.3			-85%

* All figures in the business and finance review are presented in millions rounded to one decimal place unless specified otherwise. Percentage movements are calculated based on the numbers reported in the financial statements and accompanying notes.

This turned out to be a year of mixed fortunes. At the interim results we reported 7% growth in Gross Profit on the back of growing momentum in Comms and a 33% increase in Profit Before Tax. In the final quarter sales declined due to deteriorating trading conditions and some early teething issues with our new organisational model, now resolved. As a consequence, 2019/20 Gross Profit was 2% lower than last year and underlying Profit Before Tax in Consulting fell 20% from £3.8m to £3.1m. The final quarter was minimally impacted by the Covid-19 economic slowdown, primarily Innovation, although the pandemic has of course affected the first quarter of our new fiscal year.

Our AdRatings database has spawned Test Your Ad, an online product. AdRatings generates significant interest and enquiries from clients but it has proved difficult to attribute subsequent consulting revenue streams from those clients to the database.The Board has decided that capitalising the database is no longer appropriate and will expense future costs as they are incurred. We have therefore impaired the carrying value of the remaining asset (£0.9m) in full, which contributes to a 25% increase in the reported costs for AdRatings in the year. Including Ad Ratings, Profit Before Tax fell from £1.9m in 2018/19 to £0.3m.

The Group defines Underlying Profit and Underlying Overheads as Profit Before Tax and Administrative Expenses excluding AdRatings and share-based payments, including associated social security costs. Share-based payments are a non-cash expense that varies with the Company’s share price, and so are disclosed separately.

PRODUCT AREAS

The Research business has three main product lines, Comms (testing adverts prior to broadcast), Brand (tracking brand health), and Innovation (testing new product and packaging concepts and ideas). We offer them from our offices in the UK, US, and seven other offices across Continental Europe and the rest of the world.

Gross Profit by Product £m	2019/20 FY	2018/19 FY	Change %
Innovation	8.6	9.6	-11%
Comms	8.0	7.4	8%
Brand	3.4	3.7	-7%
Other (includes Agency)	1.6	1.4	19%
TOTAL	21.6	22.1	-2%

Comms comprised 37% of the Company’s Gross Profit in the year (2018/19: 33%), growing 8% year on year and improving in all regions.

Our Brand product area is closely related to Comms and it comprised 16% of 2019/20 Gross Profit (2018/19: 17%). Our brand tracking monitors the health of a brand over time, using a model which measures the "Fame", "Feeling" and "Fluency" of the brand. It provides a leading indicator of the direction of future sales (all other factors unrelated to the brand being equal). Gross Profit from Brand declined by 7%, as a result of reduced spending by two large clients in Europe. Growth in other regions was satisfactory.

Our Innovation business is more ad hoc in nature than Comms and Brand. It comprised most of Company's business in its early years and is still the largest product area, representing 40% of 2019/20 Gross Profit (2018-19: 44%). Gross Profit declined by 11% in the year despite strong growth in the Americas and fell away in the final quarter as larger clients began to defer new launches.

Other business comprised mainly bespoke projects for large clients in the UK and USA that did not fall neatly into the main product categories, together with the legacy Agency business.

REGIONAL PERFORMANCE

Gross Profit by Region £m	2019/20 FY	2018/19 FY	Change %
Americas	10.9	9.5	15%
UK (includes Agency)	4.7	5.5	-14%
Europe	4.6	5.5	-15%
APAC	1.4	1.6	-17%
TOTAL	21.6	22.1	-2%

We have only a small market share in each of our regions and the addressable market in each one allows room for significant growth. Americas (Gross Profit +15% (2018/19: -6%)) enjoyed strong growth in all product areas after a disappointing prior year. Conversely Europe was down 15% (2018/19: +19%) due to lower client spend on Brand and Innovation. In the UK, despite growth in Brand and Comms, the decline in Innovation and the Agency led to a reduction of 15% in Gross Profit. In APAC Gross Profit fell for the second successive year due mainly to reduced Innovation sales.

ADRATINGS

AdRatings is a large database showing 'ratings' or 'scores', of adverts in the market as a whole. It allows clients to assess the effectiveness of their historical advertising and benchmark it against peer companies, competitor categories and the industry as a whole.

AdRatings Expenditure £m	2019/20 FY	2018/19 FY	Change %
Investment Spend	2.0	3.0	-34%
Capitalisation	(0.4)	(0.9)	-52%
Amortisation	0.3	0.1	200%
Impairment	0.9	0.0	NM
Reported Expenditure	2.8	2.2	25%
Net Book Value at 31 March	0.0	0.8	-100%

AdRatings has also been a catalyst for upgrading our technology across the business, as we endeavour to digitise the Company. Client interest in our automated data products has risen markedly since year-end on the back of a series of "Coronavirus Webinars" and we have offered a trial-usage promotion to stimulate demand for paid-for packages of data.

PRODUCTIVITY

£m (unless otherwise specified)	2019/20	2018/19	Growth
Average headcount	146	145	1%
Gross profit per head	148	152	-3%
Direct costs	3.9	4.9	-20%
Overhead costs	21.3	20.1	6%
TOTAL COSTS	25.2	25.0	1%

During the year we continued to focus on productivity by redesigning our business from first principles.

Our Product Portfolio was simplified to comprise only products where we have real distinctive competitive advantage.

We implemented a 'Continuous Improvement Performance Culture', accessing data and making it widely available in the business for local decision making in a series of weekly reviews which present improvement from the bottom up.

New specific roles were defined, as opposed to the historic generalist roles. Sales, now 25 specialists rather than 100 part-time generalists, continue to be managed at a client/office level, but now all other parts of the business are global and, for example projects can now be managed anywhere within the global network.

We continue to challenge overhead costs creatively - for example hiring on lower basic salaries and having more variable performance-related upside.

We invested heavily in professionalising the personal productivity of our teams through the Microsoft suite and were already working remotely as a test when the Covid-19 lockdown hit us around the world.

Average headcount in 2019/20 was 1% above last year, and Underlying Overheads in Consulting rose in line with headcount. Gross Profit per head declined by 3% due to the fall in revenues in the final quarter but was 10% higher than in 2017/18. Overhead spend in AdRatings, including the £0.9m impairment charge, contributed to the 6% overall increase at Company level. Excluding the impairment of the AdRatings asset, overheads rose by 1% and total costs fell by 3%.

TAX

The Company's effective tax rate (excluding AdRatings) increased to 35% from 26% due in part to the derecognition of certain carried-forward tax losses as well as profits that were generated in relatively higher tax jurisdictions. We intend to submit a R&D tax credit claim worth approximately £0.5m in respect of the 2018/19 financial year. The potential beneficial impact of this claim is not included in the reported figures, and will be recognised upon receipt.

DIVIDENDS, FUNDING AND LIQUIDITY

Historically, the Company's policy has been to maintain a level of ordinary dividends which over the long-term grow broadly in line with earnings, and to return surplus cash (after payment of ordinary dividends) by way of special dividends or share buy-backs, dependent on the price of the Company's shares at the time.

Given the emphasis on retaining cash during the global Covid-19 pandemic, the Board decided to suspend both the proposed buy-back of up to £1.5m of System1 shares announced in February this year, as well as the payment of a final dividend for the 2019/20 financial year. Future returns of capital will be kept under review as the economic situation develops.

In order to provide greater financial flexibility in the current environment, the Company arranged and drew down a £2.5m revolving credit facility in March 2020. The business generated operational cash flow of £0.8m in the period (2018/19: -£0.4m) after investing £2.0m in AdRatings. Dividend payments of £0.9m and loan funding of £2.5m resulted in year-end cash of £6.7m (2018/19: £4.3m).

OUTLOOK

Since the end of the 2019/20 financial year, System1's trading has inevitably been adversely affected by the global economic downturn caused by the Covid-19 pandemic. Although weekly sales bookings have improved since the 27 April Trading Statement, the Board has concluded that it is difficult at this stage to provide guidance on the financial performance for the current year until a clearer outlook emerges. The Board will keep investors updated as the impact on the Group's performance becomes clearer.

System1's priority, as we deal with the impact of the economic downturn, is to maintain a strong financial position while safeguarding the human and intellectual capital needed to take advantage of the what the Board believes will be substantial growth opportunities when the global economy recovers. In accordance with this priority, we have taken mitigating actions including deferring employment costs, reducing the number of hours paid for where the volume of work has fallen, reducing discretionary expenditure, laying off a small number of colleagues, and taking advantage of government-backed business support and furloughing schemes. As part of this initiative, the Board and other senior executives in System1 agreed in April 2020 to defer 20% of their salaries until further notice. Important strategic investments in people, products and systems have been protected throughout – a policy that we believe positions System1 well to implement our growth plans when global economic conditions improve.

CHRIS WILLFORD
Chief Financial Officer

Business Risk Review

The Board endeavours to identify and protect the business from the big, remote, risks – those that do not occur very often, but which, when they do, have major ramifications. The types of such event that we are concerned about and seek to manage are:

- loss of a significant client;
- loss of key personnel;
- loss of a critical supplier;
- material adverse event leading to significant loss of property, software, or data, or an adverse legal claim;
- systemic tax or legal compliance error;
- major outage in our survey platform;
- cyber-attack causing a material breach in our IT infrastructure.

LOSS OF A SIGNIFICANT CLIENT

This is a significant risk, with the percentage of business from our largest client in the 12 months to 31 March 2020 at 10% of revenue (2018/19: 6%). We therefore go to considerable lengths to monitor service quality and seek client feedback.

LOSS OF KEY PERSONNEL

The loss of a senior member of the team would have a negative impact on the business. However, we have a relatively large senior team and do not view the business as being overly dependent on any one individual.

LOSS OF A CRITICAL SUPPLIER

We have several mission-critical functions carried out by third-party suppliers (such as panel suppliers). For these functions, we seek to ensure we are not too reliant on any one organisation.

MATERIAL ADVERSE EVENT LEADING TO A SIGNIFICANT LOSS OF PROPERTY, SOFTWARE, OR DATA, OR AN ADVERSE LEGAL CLAIM

We endeavour to protect the business from significant risks, through a combination of: comprehensive professional indemnity insurance; information security, particularly with regard to client confidentiality and personal data (see below); and sufficient focus on legal protections, for example through our terms and conditions.

SYSTEMIC TAX OR LEGAL COMPLIANCE ERROR

We are a small business with small finance and legal teams based in the UK and Brazil. We operate in a number of different jurisdictions and in some cases, have to deal in relatively complex tax and regulatory environments. Were we to make a small systemic error which did not surface for a number of years, the cumulative impact to correct the error could be significant. However, we endeavour to keep our tax and legal affairs simple and straightforward, and within our budgetary constraints, carefully select the best professional advisors that we can find.

MAJOR OUTAGE IN OUR SURVEY PLATFORM

Were there to be a major outage in our survey platform due, for example, to capacity constraints or a security breach, we could be prevented from building surveys, collecting data and downloading results. This might result in significant delay in delivering client projects with a consequential loss of revenue, reputational damage, and the costs of remedying the situation. We have suffered relatively minor outages from time to time, but none has led to significant financial loss.

CYBER-ATTACK CAUSING A MATERIAL BREACH IN OUR IT INFRASTRUCTURE

Were a cyber-attack to succeed in infiltrating our IT infrastructure, unauthorised persons could access confidential information (particularly personal data) held within our systems, putting us in breach of our confidentiality obligations, and potentially losing access to key information or files. This is a critical risk, particularly in the current environment. Nevertheless, there are a number of mitigating factors. Our business does not ordinarily hold a great deal of personal data. For example, we do not have a panel of respondents (but instead use third party suppliers to reach consumers). Due to the nature of a marketing services business, the confidential information we hold is not as commercially sensitive as that for businesses in other industries (financial services or healthcare, for example). We invested in our controls, processes and IT infrastructure and hold ISO 27001 accreditation covering our information security.

BREXIT

The Group believes that any impact is likely to be small due to relatively minor trading between the Group's UK companies and overseas clients and suppliers. The Group has well established operations in France, Germany, The Netherlands and Switzerland, which serve its Continental European clients.

FINANCIAL RISK

The Company is also exposed to the usual financial risks (such as credit, foreign exchange and liquidity risks), as set out in the Director's Report. However, due to the straightforward nature of the business, its international cost base, the Company's strong balance sheet, and the fact that most of the Company's clients are large, credit-worthy organisations, these risks have historically proved to be modest.

COVID-19

The coronavirus outbreak has affected economies across the globe and continues to cause disruption to businesses. As noted in the Business and Finance review, there was minimal impact on FY2019/20 as a result of Covid-19, however the first few months of FY2020/21 have been affected by the reduction in economic activity across multiple geographies and industries. At present, the medium to long term impact of the pandemic are relatively unknown, however the Group acknowledges that it presents financial and operational risks in the short term. The Group has taken the following mitigating actions to manage this risk:

- facilitating home working and eliminating non-essential travel;
- reviewing discretionary spend and utilising our credit facility to ensure that the Group has sufficient cash reserves to withstand a potential drop in revenues in the short to medium term;
- controlling salary costs through a combination of reduced working hours and pay deferrals.

5 Year Summary

(£000s unless specified otherwise)

	12 months to 31 Mar					12 months to 31 Dec	
	2019/20		2018/19 ***Restated for IFRS 16		2017/18	2016	2015
	Ex AR*	Inc AR*	Ex AR*	Inc AR*			
	Audited	Audited	Audited	Audited	Audited	Unaudited	Audited
FINANCIAL KPIs							
Revenue	25,422	25,475	26,896	26,899	26,939	31,236	25,184
growth	*-5%*	*-5%*	*-%*	*-%*	*-18%*	*24%*	*2%*
Gross profit	21,548	21,601	22,047	22,050	22,231	25,643	20,250
growth	*-2%*	*-2%*	*-1%*	*-1%*	*-18%*	*27%*	*4%*
Administrative costs	18,412	21,183	17,777	19,994	20,246	19,414	15,704
growth	*4%*	*6%*	*-12%*	*1%*	*-2%*	*24%*	*4%*
Profit Before Tax	3,014	296	4,135	1,921	1,992	6,200	4,501
growth	*-27%*	*-85%*	*108%*	*-6%*	*-68%*	*38%*	*5%*
(Loss)/Profit after tax		(231)		1,267	1,213	3,968	3,032
growth		*-118%*		*-%*	*-70%*	*31%*	*5%*
EPS – diluted		(1.84)p		9.8p	9.5p	30.3p	22.7p
growth		*NM*		*-1%*	*-69%*	*33%*	*7%*
Operating Cash Flow**		787		(421)	1,838	6,337	2,696
Cash balance		6,650		4,315	5,784	7,754	6,365
Dividend (interim & final)		1.1p		7.5p	7.5p	7.5p	4.5p
growth		*-85%*		*-%*	*-%*	*67%*	*5%*
Special dividend		-		-	26.1 p	12.0p	-
Share buy-backs		(30)		(3)	1	3,195	948
NON-FINANCIAL KPIs							
Number of clients		232		251	204	223	243
growth		*-8%*		*23%*	*-9%*	*-8%*	*3%*
Gross profit per project		16.2		16.5	20.0	22.6	19.6
growth		*-2%*		*-18%*	*-13%*	*15%*	*-2%*
Average headcount		146		145	165	157	158
growth		*1%*		*-12%*	*2%*	*-1%*	*4%*
Gross profit per head		148		152	135	163	128
growth		*-3%*		*13%*	*-20%*	*27%*	*-%*

* Ex AR means: excluding AdRatings. Inc AR means: including AdRatings.

** Operating Cash Flow means: before dividends and share buy-backs but inclusive of property lease payments

*** Years prior to 2018/19 have not been restated for the transition to IFRS 16

The Chairman and CEO statements, the Business and Finance Review, the Business Risk Review, the Corporate Governance Report and the 5 year summary (which include the Company's key performance indicators) set out:

- the issues, factors and stakeholders considered in determining that the Directors have complied with their responsibilities under section 172 of the Companies Act 2006 (Corporate Governance Review);
- the methods used to engage with stakeholders and understand the issues to which the Directors must have regard under section 172 of the Companies Act 2006 and the effect on the Company's decisions and strategies during the year (Corporate Governance Review);
- the way that management view the business (Chairman and CEO statements, Business and Finance Review);
- its strategy, positioning, and objectives (Chairman and CEO statements, Business and Finance Review);
- its historic financial performance (Chairman and CEO statements, Business and Finance Review);
- an assessment of its future potential (Chairman and CEO statements, Business and Finance Review);
- its key performance indicators (5 year summary and Business and Finance Review); and
- its key business risks (Business Risk Review).

These form part of this Strategic Report.

ON BEHALF OF THE BOARD

CHRIS WILLFORD
Chief Financial Officer
30 June 2020

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENT

The Chairman's and CEO statements, the Business and Financial Review, and the Business Risk Review set out a review of the business's performance and an assessment of its future development.

DIVIDENDS

The Company has paid the following dividends:

	31 Mar 2020 £'000	31 Mar 2019 £'000
Ordinary Shares		
2019 interim dividend paid, 1.1p per share		138
2020 interim dividend paid, 1.1p per share	138	
2018 final dividend paid, 6.4p per share		805
2019 final dividend paid, 6.4p per share	805	
TOTAL DIVIDENDS ON ORDINARY SHARES	943	943

On 13 December 2019, the Company paid an interim dividend of 1.1 pence per share, amounting to £138,000, in respect of the year ended 31 March 2020.

The Company does not propose the payment of a final dividend.

DIRECTORS

The following individuals served as directors of the parent Company, System1 Group PLC, during the period:
John Kearon (Executive)
James Geddes (Executive) – resigned 20 April 2020
Robert Brand (Non-Executive)
Graham Blashill (Non-Executive)
Sophie Tomkins (Non-Executive)
Jane Wakely (Non-Executive)

Subsequent to the year-end on 26 June 2020, the following individuals were appointed to the Board of directors:
Chris Willford (Executive)
Stefan Barden (Executive)

The Remuneration Report sets out directors' interests in the shares of the Company.

SHARE CAPITAL

Changes in the share capital of the Company during the year are given in Note 10 to the financial statements. As at 29 May 2020, the Company was aware of the following significant interests in the ordinary issued share capital of the Company.

At 29 May 2020	Number	% of voting shares
John Kearon	2,961,235	23.6%
University of Notre Dame	1,200,000	9.5%
Lazard Frères Gestion	847,578	6.7%
Stefan Barden	716,062	5.7%
Ruffer Investment Management	720,792	5.7%
Inv. AG f. langfr. Invest. TGV	670,000	5.3%
Motley Fool Funds Trust	645,000	5.1%
Ennismore Fund Management	606,140	4.8%
Heritage Capital Management	377,774	3.0%

FINANCIAL RISK MANAGEMENT

The Group's activities expose it to the following financial risks to a small degree.

CREDIT RISK

We manage credit risk on a Group basis, arising from credit exposures to outstanding receivables and cash and cash equivalents. Since the majority of the Group's clients are large blue-chip organisations, the Group rarely suffers a bad debt. The Group's cash balances are held, in the main, at HSBC Bank.

MARKET RISK – FOREIGN EXCHANGE RISK

In addition to the United Kingdom, the Group operated in the United States, Continental Europe, Brazil, Singapore and Australia during the period and was exposed to currency movements impacting commercial transactions and net investments in those countries. Management endeavours to match the currencies in which revenues are earned with the currencies in which costs are incurred. So for example, its US operation generates most of its revenue in US dollars and incurs most of its costs in US dollars also. Management does not believe that there would be any long-term benefit in endeavouring to manage currency risk further, and in order to avoid the cost and complexity does not deal in hedging instruments.

LIQUIDITY RISK

The Company monitors its cash balances regularly and holds its cash in immediately available current accounts to minimise liquidity risk. The Company has a revolving credit facility with HSBC.

OTHER RISKS

Management do not consider price risk or interest rate risk to be material to the Group.

CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that it is able to continue as a going concern while maximising its return to shareholders. The Company's capital structure consists of cash and cash equivalents, bank borrowings and share capital. Towards the end of the financial year, the Company arranged and drew down a £2.5m revolving credit facility to provide greater financial flexibility in a period of uncertainty due to the global pandemic. The Group has not entered into any derivative contracts.

GOING CONCERN

As noted in the Business Risk Review, and in note 3 of the financial statements, the coronavirus outbreak has affected economies across the globe and continues to cause disruption to markets and businesses. The Company acknowledges that this presents financial and operational risks in the short term, and the Directors have considered this in their going concern assessment. In addition to the mitigating actions taken by the Company to address these risks, as set in the Business Risk Review, the Directors have closely monitored the post year-end performance of the Group, noting that net cash has been maintained at a comparable level to that as at 31 March 2020 and trading continues to be above the levels anticipated in the Group's Covid-19 scenario planning.

Accordingly, after making appropriate enquiries, at the time of approving the financial statements the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for at least 12 months from the approval of these financial statements. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

RESEARCH AND DEVELOPMENT
The Company's Labs team is involved in the development and validation of new market research methods and products.

PURCHASE OF OWN SHARES
During the year the Company transferred 23,167 Ordinary Shares ("**Shares**") (with an aggregate nominal value of £232, representing 0.2% of the called-up share capital of the Company) out of treasury to satisfy the exercise of employee share options over 23,167 shares, for cash consideration of £30,000.

At 31 March 2020, the Company had 13,226,773 Shares in issue (31 March 2019: 13,226,773) of which 626,989 were held in treasury (31 March 2019: 650,156). The treasury shares will be used to help satisfy the requirements of the Group's share incentive schemes.

EMPLOYEES
The Group maintains fair employment practices, attempts to eliminate all forms of discrimination and to give equal access, and to promote diversity. Wherever possible we provide the same opportunities for disabled people as for others. If an employee were to become disabled we would make every effort to keep him or her in our employment, with appropriate training where necessary.

HEALTH AND SAFETY POLICIES
The Group does not have significant health and safety risks and is committed to maintaining high standards of health and safety for its employees, visitors and the general public.

DIRECTORS' INDEMNITIES
Directors' and officers' insurance cover has been established for each of the Directors to provide cover against their reasonable actions on behalf of the Company. The indemnities, which constitute a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006, remain in force for all current Directors.

AUDITOR
The Company will be seeking shareholder approval to appoint RSM UK Audit LLP as its auditor, at its Annual General Meeting.

ON BEHALF OF THE BOARD

CHRIS WILLFORD
Chief Financial Officer
30 June 2020

CHAIRMAN'S INTRODUCTION

I am pleased to present the System1 Group PLC Corporate Governance Report for the financial year ended 31st March 2020. As Chairman of the System1 Group PLC Board, it is my responsibility to ensure that the Board is performing its role effectively and has the capacity, ability, structure and support to enable it to continue to do so.

Your Board remains committed to delivering and maintaining high standards of Corporate Governance throughout the Group and applies the Corporate Governance Code of the QCA, which is appropriate for small and medium sized companies. This report, along with those of the Audit and Remuneration Committees, describes how the Company has applied the main principles and complied with the relevant provisions of the Code.

At System1 we remain committed to complying with both the letter and spirit of the QCA Code. We believe that good governance is an essential basis on which to build our business and sustain us over the long term. The scope of the Company's governance covers the interests of all its stakeholders, including shareholders, lenders, employees, clients and suppliers, and to the extent possible given our size, to the communities in which we operate. We endeavour to be fair and transparent in all our dealings and communications with our stakeholders.

Board composition has remained stable throughout 2019/20 with a good balance of skills and experience following the appointments made previously. As mentioned in my Chairman's Report, there have been changes to the Executive Directors after the year end, with James Geddes, our former Chief Financial Officer being succeeded by Chris Willford and Stefan Barden formally joining the Board as Chief Operating Officer after a period of senior consultancy with the business.

The Board is also mindful that Robert Brand, our Senior Independent Director, was first appointed to the Board as a Non-Executive Director in January 2012, and I was appointed as a Non-Executive Director in July 2012, becoming Chairman in July 2018. Whilst the QCA Governance Code does not require independent Directors to limit their term of office, we are conscious that we should strike a balance between both continuity and refreshment. We plan to consider the future needs of the Board and make a further announcement in due course.

GRAHAM BLASHILL
Chairman
30 June 2020

BOARD OF DIRECTORS

GRAHAM BLASHILL

INDEPENDENT NON-EXECUTIVE CHAIRMAN,
APPOINTED ON 18 JULY 2012
(BECAME CHAIRMAN ON 25 JULY 2018);

Graham Blashill joined System1 Group in 2012 as a Non-Executive Director. He was previously a main board director of Imperial Tobacco Group plc (a FTSE 100 company) where he spent the majority of his career. He joined W.D. & H.O. Wills (a division of Imperial Tobacco) in 1968, and became Managing Director of Imperial Tobacco UK in 1995. In 2003, he became Regional Director for Western Europe, and in 2005 was appointed Group Sales and Marketing Director responsible for Imperial Tobacco's global trading operations.

ROBERT BRAND

INDEPENDENT NON-EXECUTIVE DIRECTOR,
APPOINTED ON 5 JANUARY 2012
(BECAME SENIOR INDEPENDENT DIRECTOR ON 25 JULY 2018);

Robert Brand joined System1 Group in 2012 as a Non-Executive Director. He began his career in 1977, initially as a research analyst and subsequently as Managing Director of UK Equity research at BZW, then the investment banking division of Barclays Bank. In 1990 he joined Makinson Cowell, a capital markets advisory firm, as a director and partner. Over a period of 18 years he advised a range of FTSE 100 and FTSE 250 companies, focusing on their link with institutional investors. He retired in 2008.

SOPHIE TOMKINS

INDEPENDENT NON-EXECUTIVE DIRECTOR,
APPOINTED ON 11 JUNE 2018

Sophie joined the Board as Non-Executive Director in June 2018. Her career has included nearly two decades as a London-based stockbroker, focusing mainly on high growth small to mid-cap companies. She started at established firm Cazenove & Co, and became more entrepreneurial, at both Collins Stewart, and then Fairfax. As City Analyst, and latterly Head of Equities, she has analysed and advised numerous companies and Boards, and been involved with a huge range of transactions, notably several high profile IPOs and M&A deals. She became a portfolio Non-Executive Director in 2012, and is currently Non-Executive Director and Audit Committee Chair of both Hotel Chocolat Group PLC (retail and manufacturing) and Cloudcall Group PLC (software), and Senior Independent Director and Remuneration Committee Chair at Proactis Holdings PLC (software). She is also a qualified Chartered Accountant and a fellow of the Chartered Institute for Securities and Investment.

JANE WAKELY

INDEPENDENT NON-EXECUTIVE DIRECTOR,
APPOINTED ON 23 JULY 2018

Jane joined System1 Group in July 2018 as a Non-Executive Director. Passionate about creativity, innovation and driving profitable growth that transforms categories and brands, she has had the privilege of working for world leading CPG companies such as Mars Incorporated, Procter & Gamble and Unilever in her career, across categories as diverse as cosmetics, beauty care, healthcare, food, confectionery and pet care. She is currently Global Chief Marketing Officer for the Pet Nutrition business at Mars Incorporated and Lead Chief Marketing Officer for Mars Inc. Previously, Jane was the Global Chief Marketing Officer of the Chocolate business at Mars and has been part of the Mars drive to innovate digitally and creatively, leading to Mars being recognised creatively as one of the most awarded companies in the world. She is also a Chartered Management Accountant and holds a BSc (Hons) in Business Administration from Bath Spa University.

JOHN KEARON

CHIEF EXECUTIVE OFFICER

John founded the Company in 1999 and remains its largest shareholder. Previously he founded innovation agency Brand Genetics, which invented new products and services for large consumer companies. Before this, he was a planning director at Publicis (the leading advertising agency), having started his career at Unilever where he rose to become a senior marketer at Elida Gibbs. His role in establishing and developing the Company made him Ernst & Young's "Emerging Entrepreneur of the Year" in 2006.

CHRIS WILLFORD

CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY,
APPOINTED 26 JUNE 2020

Chris, a Chartered Management Accountant, built his career with blue chip consumer businesses including Unilever, British Airways (Group Treasurer), Barclays (Finance director of Corporate Bank and UK Retail Bank) and Bradford & Bingley (Group Finance Director). In the past decade, Chris has worked as a consultant with a portfolio of scale up media and tech businesses similar to System1.

STEFAN BARDEN

CHIEF OPERATING OFFICER,
APPOINTED 26 JUNE 2020

Stefan has over 20 years of General Manager, Managing Director and CEO experience after graduating from McKinsey Management Consultancy and Unilever's fast track management development programme. His previous positions include CEO of Northern Foods, CEO of Heinz UK and Ireland, as well as more latterly CEO of the internet business Wiggle which he took from £140m to £360m in sales in 3 years. Now semi-retired, he also supports several CEOs, often founders, in developing high growth businesses.

STRATEGY

All directors are familiar with the market in which the Company is operating, the Company's value proposition, and its strategic intent.

The Board actively participates in setting, and regularly reviewing, the strategy of the business, and is responsible for ensuring that the Company's business model is, and remains, aligned to the achievement of its strategic objectives. The Company sets out its strategy within the Chairman's Statement, the Chief Executive's Statement, and the Business and Finance Review of its Annual Report and Accounts.

RISK MANAGEMENT

The Board reviews the risks facing the business on a regular basis. The identified principal risks and uncertainties are those outlined in the Business Risk Review on pages 10 and 11.

The Board is responsible for the Group's system of internal controls and risk management, and for reviewing the effectiveness of these systems. These systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and to provide reasonable, but not absolute assurance against material misstatement or loss.

The key features of the Group's internal controls are described below:

- clearly defined organisational structure with appropriate delegation of authority;
- comprehensive budgeting programme with an annual budget approved by the Board;
- regular review by the Board of actual results compared with budget and forecasts;
- regular reviews by the Board of full year expectations;
- detailed budgeting and monitoring of costs incurred on the development of new products;
- a limited number of Directors and Executives authorised to make payments and commit the company to legal agreements;
- regular reviews of client and employee feedback;
- information security controls (for which the Company has obtained ISO 27001 accreditation).

The Board take measures to review internal controls and embed risk management procedures on an ongoing basis and implement metrics and objectives to monitor the business as part of a continual improvement programme.

CORPORATE CULTURE

The Company endeavours to maintain a culture built on integrity. In order to surface unethical or deceitful behaviours, it promotes openness amongst its employees, provides channels for employees to feed back concerns to the Executive Directors and the Board (such as anonymous employee feedback surveys, and confidential whistleblowing channels), and conducts exit interviews.

THE BOARD OF DIRECTORS

The Board comprised two Executive Directors and four independent Non-Executive Directors, including the Non-Executive Chairman during the year ended 31 March 2020. The membership of the Board is set out in the Directors' Report. We believe that the directors have the mix of leadership, marketing and financial skills and experience necessary to oversee the Company and deliver its strategy for the benefit of the shareholders over the medium to long-term. The composition of the Board is intended to achieve a balanced range of personal qualities and capabilities, and to support the Company's commitment to promoting gender equality and diversity. The biographical details of the directors are presented on page 18.

The Board operates an induction programme for new Non-Executive Directors. The Board reviews its AIM obligations with its Nominated Advisor annually, and endeavours to keep up with best practice governance via QCA seminars and training material. All directors can access the Company's advisors and obtain independent professional advice at the Company's expense in performance of their duties as directors.

During the year, the Board has utilised the services of a Board Advisor, Stefan Barden, on strategy and technology, and sought advice from LGF Partners Ltd when sourcing new debt facilities. The Remuneration Committee has sought advice from PriceWaterhouseCoopers on the Company's LTIP, advice which concluded early in the financial year. Neither the Board nor the respective committees have sought other external advice on any significant matter during the year. The Audit Committee works with the Company's auditor, who were RSM Audit LLP for the year ended 31 March 2020. The Board liaises regularly with the Company's Nominated Advisor, Canaccord Genuity to ensure compliance with AIM Rules.

The Board considers each of the Non-Executive Directors to be independent, for the following principal reasons:

- they all have served on the Board for less than nine years;
- their remuneration is not material in the context of their financial circumstances;
- they have no executive role;
- they each own an immaterial number of shares in the Company in the context of their financial circumstances (or in some cases, no shares);
- they are not related to either of the Executive Directors; and
- they have no conflict of interest given their other roles and business activities.

For financial year ended 31 March 2020, the Company Secretary was also the Chief Financial Officer, as is the case with other companies of a similar size and complexity. The Group plans to continue with this combined role, has made interim arrangements during the recent Board transition, and will split the roles when it reaches a size which warrants it.

The Board schedules regular monthly meetings during the year, with the exception of July or August, and additional ad hoc meetings as required. All Directors are able to allocate sufficient time to the Company to discharge their responsibilities fully.

The number of regular meetings that each director attended during the financial year is set out below:

	Board (11 meetings)	Audit Committee (2 meetings)	Remuneration Committee (2 meetings)
Graham Blashill	11	2	2
Robert Brand	11	2	2
Sophie Tomkins	11	2	2
Jane Wakely	11	n/a	2
John Kearon	11	n/a	1*
James Geddes	11	2*	2*

* Attendance by invitation.

On rare occasions a board member may attend by phone to accommodate overseas travel arrangements. Management provides the Board with information on the Company's performance and appropriate information relating to the agenda prior to Board and Committee meetings.

MATTERS RESERVED FOR THE BOARD

The Board discusses and reviews all matters and issues which are important to the business. Certain decisions are reserved for the Board; which include:

- approval of the Group's long-term objectives and strategy;
- approval of the annual operating and capital budget, and any material changes thereto;
- extension of the Group's activities into new business or geographic areas;
- changes to the Group's capital structure and/or major changes to corporate structure, including acquisitions, disposals and investments;
- approval of interim and annual reports, and regulatory or non-routine shareholder communications;
- approval of significant changes in accounting policies or practices;
- approval of dividends and dividend policy;
- assessment of the effectiveness of risk and control processes.

Matters referred to the Board are considered by the Board as a whole and no one individual has unrestricted powers of decision. Where directors have concerns which cannot be resolved in connection with the running of the Group or a proposed action, their concerns would be recorded in the Board Minutes. This course of action has not been required to date.

APPOINTMENT OF DIRECTORS

The Board formally approves the appointment of all new Directors. Each year at the Annual General Meeting, all Directors retire by rotation and are subject to re-election.

REMUNERATION COMMITTEE

The Remuneration Committee is responsible for determining the specific remuneration and incentive packages for each of the Company's Executive Directors and keeping under review the remuneration and benefits of all senior executives and managers and overall pay levels of all employees. Its members are:

- Graham Blashill – Chairman of the Remuneration Committee
- Robert Brand
- Sophie Tomkins
- Jane Wakely

The Remuneration Committee's role and responsibilities are to:

- review and approve the remuneration and incentive schemes of Executive Directors, including pension rights, other benefits and any compensation payments, ensuring that no Director is involved in any decisions as to their own remuneration;
- review and approve the level and structure of remuneration and incentive schemes for senior management;
- select, appoint and set the terms of reference for any remuneration consultants who advise the Committee;
- approve the payments to Directors under any performance-related pay or share schemes operated by the Company;
- ensure that contractual terms on termination of any Director are fair to the individual and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- approve any major changes in employee benefits structures throughout the Group;
- approve the policy for authorising claims for expenses from the Directors.

The Remuneration Committee schedules two formal meetings per year and meets at other times as necessary.

The Remuneration Committee may invite the Chief Executive Officer or Chief Financial Officer to attend meetings of the Remuneration Committee. The Chief Executive Officer is consulted on proposals relating to the remuneration of the Chief Financial Officer and of other senior executives. The Chief Executive Officer is not involved in setting his own remuneration. The Remuneration Committee may use consultants to advise it in setting remuneration structures and policies. It is exclusively responsible for appointing such consultants and setting their terms of reference.

The Annual Statement from the Remuneration Committee Chair is set out on pages 26 to 30.

AUDIT COMMITTEE

The Audit Committee is responsible for ensuring the financial performance of the Company is properly monitored and reported on to shareholders, reviewing the Company's financial systems and controls, and overseeing the Company's risk management. Its members are:

- Sophie Tomkins – Chair of the Audit Committee
- Graham Blashill
- Robert Brand

The Audit Committee's role and responsibilities are to:

- monitor the integrity of the financial statements of the Group;
- review the Group's internal financial controls and risk management systems;
- make recommendations to the Board, for it to put to the shareholders for their approval in relation to the appointment of the external auditor and to approve appropriate remuneration and terms of reference for the external auditor;
- discuss the nature, extent and timing of the external auditor's procedures and discussion of external auditor's findings;
- monitor and ensure the external auditor's independence and objectivity and the effectiveness of the audit process;
- develop and implement policy on the engagement of the external auditor to supply non-audit services;
- report to the Board, identifying any matters in respect of which it considers that action or improvement is required; and
- ensure a formal channel is available for employees and other stakeholders to express any complaints in respect of financial accounting and reporting.

The Annual Report from the Audit Committee Chair is set out on pages 24 to 25.

BOARD EVALUATION

The Board undertook a second annual review of its effectiveness, in the Company's 2019/20 financial year. The Board will carry out further reviews of its effectiveness on an annual basis and may use an external adviser. The objective of this evaluation process is to bring to light possible changes which could make the Board's activities and administration more effective and efficient. The Board Evaluation covered the following areas:

- the manner in which the Board is run, and operates as a team;
- the skills, experience and independence of the Board;
- the strategy of the business;
- the strategy of the business;
- the risks of the business;
- the Company's ethical values and behaviours; and
- engagement with shareholders and other stakeholders.

The exercise identified a number of positive areas particularly relating to the manner in which the Board is run, and the skills and experience and independence of the Board, and nearly all of the categories saw improved scores year on year. The main area for improvement identified in the previous evaluation was formal succession planning, and a process to address this in more detail started during the 2019/20 financial year. The main areas identified for improvement in this second evaluation were minor administrative matters, which will be monitored and improved, particularly in the light of changes to Board composition after the period end.

SUCCESSION PLANNING

The Board, led by the Chairman, carries out ongoing assessments as to the succession needs and planning of the Board. Senior management appointments are made by the Executive Directors, who carry out ongoing assessments of succession needs and skills gaps across the business. Key appointments are overseen by the Remuneration Committee.

SHAREHOLDER COMMUNICATIONS

The Board endeavours to keep all interested shareholders informed by regular announcements and update statements. The Executive Directors meet regularly with institutional shareholders to understand their needs and expectations. They invite, and regularly receive, shareholder feedback and report it back to the Board. Other methods of communication are:

- Annual General Meetings;
- Broker briefings;
- Corporate website; and
- Letters to shareholders when appropriate.

The Chairman and Senior Independent Director are available to meet with institutional shareholders on any concerns or issues in relation to governance, board composition, or Executive Director remuneration.

OTHER STAKEHOLDERS

The prime stakeholders of the business, in addition to shareholders, are clients, employees, and suppliers.

The Company undertakes regular client feedback surveys (conducted by a third party) and employee feedback surveys (conducted anonymously). The results of both are shared with the Board, and actions are taken to address the issues raised. Employee feedback survey results are shared transparently with all employees.

Actions taken following client and employment feedback have included:

- tailoring product development;
- adjusting the Company's articulation of its value proposition to clients and employees; and
- changing the way the Company communicates with its employees.

In addition, the Company maintains a senior level dialogue with its key strategic suppliers.

S.172 COMPANIES ACT 2006 STATEMENT

Throughout this annual report and on our website, we provide examples of how the Company:

- takes into account the likely consequences of decisions in the long term;
- have regard to the interests of the Company's shareholders, employees and other stakeholders;
- promotes openness amongst employees and endeavours to maintain a culture built on integrity;
- take into account the desirability of the Company maintaining a reputation for high standards of business conduct, and;
- have regard to the need to act fairly.

The Directors assess and take into account what is most likely to promote the success of the Company for its members in the long term as part of their decision-making process, and make this assessment in good faith and fairly. The Directors continue to promote the success of the Company in accordance with section 172 of the Companies Act 2006.

Audit Committee Report

The Audit Committee is responsible for ensuring that the financial performance of the Group is properly reported and reviewed. Its role includes monitoring the integrity of the financial statements (including annual and interim accounts and results announcements), reviewing internal control and risk management systems, reviewing any changes to accounting policies, reviewing and monitoring the extent of the non-audit services undertaken by external auditors and advising on the appointment of external auditors.

MEMBERS OF THE AUDIT COMMITTEE

The membership of the Committee is set out on page 22 of the Corporate Governance Report. Sophie Tomkins took over from Robert Brand as Chair in January 2019. All members of the Committee are independent Non-Executive Directors. The Chief Financial Officer routinely attends the Audit Committee meetings by invitation, but other Executive Directors or members of the management team may also be invited to attend meetings as required. The Non-Executive Directors are provided an opportunity at the Audit Committee meetings to discuss matters with the Auditors without the presence of the Executive Directors.

The Board is satisfied that the Chair of the Committee has recent and relevant financial experience. Sophie is a Chartered Accountant and is also Chair of the Audit Committee at both Hotel Chocolat plc and Cloudcall Group plc. The Committee meets at least twice a year and more frequently if required, and has unrestricted access to the Group's auditor. Attendance at Board and Committee meetings is set out in the Corporate Governance Report on page 20. During FY20 there was additional Audit Committee contact with the Auditor due to the change of Auditor, described below.

DUTIES

The main duties of the Audit Committee are set out in its terms of reference, which are summarised on page 22 and available on the Group's website (https://system1group.com/investors).

The work carried out by the Audit Committee during FY20 comprised the following:

- ensuring the financial performance of the Company is being properly measured and reported on;
- review of the FY20 audit plan;
- consideration of key audit matters and how they are addressed;
- review of suitability of the external auditor;
- review of the financial statements and Annual Report;
- review of the appropriateness of the Group's accounting policies and judgements made in the preparation of the financial statements, and adequacy of the disclosures made therein;
- consideration of the external audit report and management representation letter;
- review of the risk management and internal control systems;
- meeting with the external auditor without management present;
- review of anti-bribery policy and whistleblowing arrangements.

ROLE OF THE EXTERNAL AUDITOR

The Audit Committee monitors the relationship with the external auditor to ensure that auditor independence and objectivity are maintained. As part of this role, the Committee reviews the non-audit fees of the auditor. RSM's fees for the financial year to 31st March 2020 relate solely to the Audit and Interim review.

The Audit Committee also assesses the auditor's performance.

AUDIT PROCESS

The auditor prepared an audit plan for the review of the full period financial statements. The audit plan set out the scope of the audit, areas to be targeted and audit timetable. This plan was reviewed and agreed in advance by the Audit Committee. Following the audit, the auditor presented its findings to the Audit Committee for discussion. No major areas of concern were highlighted by the auditor during the period, however areas of significant risk (such as Covid-19) and other matters of audit relevance are regularly communicated.

TENDER AND CHANGE OF AUDITOR

Having engaged Grant Thornton UK LLP as the Company's auditor since 2003, the Board, on the recommendation of the Audit Committee, decided that it was appropriate to put the group statutory audit out to competitive tender, a process completed in March 2019. Longevity of tenure and consideration of the balance between audit and non-audit fees were key drivers for this tender process. The Board appointed RSM UK Audit LLP as the Company's auditor for the financial year ending 31 March 2020 and the Audit Committee has overseen the transition with nothing to report.

INTERNAL AUDIT

At present the Group does not have an internal audit function and the Committee believes that management is able to derive assurance as to the adequacy and effectiveness of internal controls and risk management procedures without one.

RISK MANAGEMENT AND INTERNAL CONTROLS

As described throughout the Annual Report and the Corporate Governance section of the Group's website (https://system1group.com/investors), the Group has established a framework of risk management and internal control systems, policies and procedures. The Audit Committee is responsible for reviewing the risk management and internal control framework and ensuring that it operates effectively. During the period, the Committee has reviewed the framework and the Committee is satisfied that the internal control systems in place are currently operating effectively.

WHISTLEBLOWING

The Group has in place a process whereby employees can discuss concerns confidentially. The Committee is comfortable that the current policy is operating effectively.

ANTI-BRIBERY

The Group has in place an anti-bribery and anti-corruption policy which sets out its zero-tolerance position and provides information and guidance to those working for the Group on how to recognise and deal with bribery and corruption issues. The Committee is comfortable that the current policy is operating effectively.

SOPHIE TOMKINS
Chair, Audit Committee

ANNUAL STATEMENT FROM THE REMUNERATION COMMITTEE CHAIR, GRAHAM BLASHILL

Dear shareholder,

The Remuneration Committee sets the strategy, structure and levels of remuneration for the Executive Directors and reviews the remuneration of senior management, to ensure alignment of objectives and incentives throughout the business in pursuit of the Group's stated objectives. The membership and terms of reference of the Remuneration Committee are set out in the Corporate Governance Report.

This Remuneration Report is split into two parts:

- The *directors' remuneration policy* sets out the Company's policy on directors' remuneration, in particular the four-year long-term incentive plan ("**LTIP**"), and the key factors that were taken into account in setting the policy. The directors' remuneration policy is not subject to a shareholder vote at the 2020 AGM, since the main variable element (the LTIP) was approved by shareholders at the Annual General Meeting on 31 July 2019.
- The *annual report on remuneration* sets out payments and awards made to the directors for the year to 31 March 2020.

There are three elements in director remuneration:

- Base salary
- LTIP
- Benefits

Historically, the Company's LTIPs have been established in three to four year cycles. The current LTIP was established in September 2019 and will vest on 12 August 2024 (the "**2019 LTIP**"). Of the total 1,058,135 options granted under the 2019 LTIP, 462,934 of these were granted as replacements to equity awards made under the 2017 LTIP scheme, which was established in February 2017. The primary performance targets of the 2019 LTIP are based on gross profit, with profit after tax and share price underpins.

We endeavour to keep our director remuneration arrangements simple and correlated to increases in long term business growth. As a small Company we are also acutely aware of the dilutive impacts of equity awards, and when designing our LTIPs, we ensure that vesting only occurs when there is a substantial increase in shareholder value (after accounting for the dilution).

The Company consulted with shareholders in designing the 2019 LTIP, and prior to implementing it, obtained shareholder approval at the Annual General Meeting on 31 July 2019.

For levels below the participants in the 2019 LTIP, the remuneration ordinarily comprises:

- Base salary
- Bonus and profit share
- Benefits

The Executive Directors and other senior executives who participate in an LTIP forego annual bonus and profit share.

The committee regularly reviews the appropriateness of remuneration across the Group and is satisfied that an appropriate reward structure exists below Board level to recognise and retain our top talent.

There were no changes to the board of directors during 2019/20. Subsequent to the year end, on 20 April 2020, James Geddes resigned from the board. On 26 June 2020, Chris Willford and Stefan Barden were appointed to the board of directors.

GRAHAM BLASHILL
Chair, Remuneration Committee

DIRECTORS' REMUNERATION POLICY

INTRODUCTION

The policy described in this part of the Remuneration Report is intended to apply for four years beginning in the 2019/20 financial year to 31st March 2024, and covers Executive Directors and a small number of other senior managers ("**Executives**").

The Committee considers the remuneration policy annually to ensure that it remains aligned with business needs and is appropriately positioned relative to the market. However, there is no intention to revise the policy more frequently than every four years.

The Committee has based the Executive reward structure on the long term organic growth strategy of the business. If successful, this will deliver significant shareholder value, and Executive rewards are designed to correlate with the key driver of that value (top line growth).

Fixed annual elements – including salary, pension and benefits – are to recognise the responsibilities and leadership roles of our Executives and to ensure current and future market competitiveness. Long-term incentives are to motivate and reward them for making the Company successful on a sustainable basis.

BASE SALARY AND BENEFITS

Base salary is paid in 12 equal monthly instalments during the year. Salaries are reviewed annually and any changes are effective from the beginning of the Company's financial year (which is 1st April). Benefits comprise money purchase pension contributions of up to 6% of salary, private medical and dental insurance, life insurance and long term disability insurance.

LONG TERM INCENTIVE PLAN

The Company introduced the current LTIP in September 2019 (the "**2019 LTIP**"). It was approved by shareholders at the Annual General Meeting on 31 July 2019 and covers the period ending 31 March 2024.

The 2019 LTIP was implemented as a replacement for the 2017 LTIP. The company introduced the 2017 LTIP in March 2017 and this scheme covered the four-year period ending 31 March 2021. Of the total 1,058,135 options granted under the 2019 LTIP, 462,934 of these were granted as replacements for awards made under the 2017 scheme. Of the additional 595,201 options, 198,400 were granted to John Kearon, in lieu of his previous bonus arrangement. The remainder were granted to members of senior management who have joined the company subsequent to the 2017 LTIP grant.

The Company has underperformed since the introduction of the 2017 LTIP and identified during 2018/19 that even the minimum targets were unlikely to be achieved. The Committee does not wish to reward underperformance and so has not reset the performance targets when designing the replacement 2019 LTIP. However, to continue to provide appropriate incentives, the 2019 LTIP extends the date by when those targets can be met by 3 years. The final performance period of the 2019 LTIP is therefore the Company's 2023/24 financial year, and the lapse date is 12 August 2024. Under the 2017 LTIP, the final performance period was the Company's 2020/21 financial year, and the lapse date 12 August 2021.

The 2019 LTIP also allows that vesting may occur as and when the performance targets are met. Therefore, from 12 August 2020 onwards, some partial vesting may occur earlier than the lapse date, and then further vesting later (provided that no vesting could occur in relation to financial periods after the Company's 2023/24 financial year).

The awards have taken the form of zero-cost stock options. The performance targets are unchanged from the 2017 LTIP and are based on gross profit growth (the Company's main top line performance indicator), with profit after tax and share price underpins.

The performance targets and vesting levels for the 2017 LTIP were set with growth levels of between 10% and 30% pa in mind. At the 10% pa growth level, the gross profit would be £39.5m, and at the 30% pa growth level, £77.1m. The specific vesting levels are set out in the following table.

	Equity level	Gross profit target
Executive Directors	138,880 shares (1.05% of issued shares) 138,880 shares (1.05% of issued shares) 119,040 shares (0.90% of issued shares)	£39.5m £56.0m £77.1m
Total awards	396,800 shares (3.00% of issued shares)	
Senior Managers	231,467 shares (1.75% of issued shares) 231,467 shares (1.75% of issued shares) 198,401 shares (1.50% of issued shares)	£39.5m £56.0m £77.1m
Total awards	661,335 shares (5.00% of issued shares)	

The vesting levels allow that at the lower gross profit target, 35% of awards vest. At the central gross profit target, a further 35% of awards vest, to a cumulative vesting total of 70%, and at £77.1m; the awards vest in full.

There will be proportionate vesting if gross profit is between £39.5m and £56.0m pa or between £56.0m and £77.1m pa.

No awards will vest unless profit after tax ("**PAT**") is at least £7.0m and the average share price of the Company during the month of July in the year in which the awards vest is at least £9.945 (30% higher than the share price on 22 March 2017, the date of the 2017 LTIP grant). For the higher levels of vesting triggered by gross profit above £56.0m, the PAT underpin increases to £9.9m.

For the purpose of these performance targets PAT is calculated before deducting share-based payments (to avoid any circular argument problem when performing the calculations).

The gross profit and PAT targets are designed to relate to organic growth, and the Committee has the right to adjust the targets if a material acquisition or other corporate event occurs (and will ordinarily exercise such right).

During the year, there were two Executive Director participants in the 2019 LTIP (James Geddes and John Kearon) and five senior manager participants. John Kearon did not participate in the 2017 LTIP, but instead, had an annual bonus potential for each of the 4 years to 31 March 2021 of between 25-75% of annual salary based on the growth targets and underpins above. John Kearon's award under the 2019 LTIP replaces his previous bonus scheme.

Participants in the 2019 LTIP do not participate in the Company's annual bonus or profit share scheme, and have no other short-term incentive plan. This is to ensure decision-making focus is primarily on achieving long-term growth. Therefore, over the period to March 2021, the only remuneration that they will receive will be base salary and benefits, unless the Remuneration Committee determine awards in exceptional circumstances (at their sole discretion).

The Committee have granted an advisor to the Board Stefan Barden, a separate equity award, comprising 300,000 zero cost stock options. The options were granted on 17 April 2019 and were approved by shareholders at the Company's AGM. They comprise three tranches of 100,000 options each, with the following performance conditions:

- 100,000 zero-priced stock options
  - Vest: when audited Gross Profit in any financial year exceeds £45m, subject to the Company's share price exceeding £5.00 per share for a 30 day consecutive period prior to the lapse date;
  - Lapse: on 30 July 2024.
- 100,000 zero-priced stock options
  - Vest: when audited Gross Profit in any financial year exceeds £68m, subject to the Company's share price exceeding £7.50 per share for a 30 day consecutive period prior to the lapse date;
  - Lapse: on 30 July 2029.
- 100,000 zero-priced stock options
  - Vest: when audited Gross Profit in any financial year exceeds £90m subject to share price exceeding £10.00 per share for a 30 day consecutive period prior to the lapse date;
  - Lapses: on 30 July 2032.

Subsequent to the year-end, Stefan Barden has joined the Board of Directors as Chief Operating Officer.

The Committee have taken advice from PriceWaterhouseCoopers in relation to these equity incentives and consulted with major shareholders.

DILUTION

Vested stock options are set out below.

	Number	%
Voting shares as at 31 March 2020	12,599,784	100%
2006 employee share option scheme (now closed)	7,000	0.1%
2010-2014 LTIP – vested on 28 May 2014	75,520	0.6%
2014-2016 LTIP – vested on 30 April 2017 (previous LTIP)	233,136	1.9%
	315,656	2.5%

Unvested options comprise options granted under the 2019 LTIP and the equity awards to Stefan Barden, described above. The maximum aggregate dilution under both of these schemes is 10.9% of the Company's voting shares.

NON-EXECUTIVE DIRECTORS

Non-Executive Directors do not participate in any of the Company's incentive arrangements nor do they receive any benefits. Their fees are reviewed periodically and set by the Board as a whole.

REMUNERATION OF ALL EMPLOYEES

All employees, excepting those participating in the 2019 LTIP, are entitled to base salary, benefits, and a discretionary annual bonus. Since January 2012 equity awards have not been granted to employees who are not also members of executive management.

DIRECTOR SERVICE CONTRACTS AND POLICY ON PAYMENT FOR LOSS OF OFFICE

Each of the Executive Directors have service contracts. The agreements include restrictive covenants which apply during employment and for a period of 12 months after termination. John Kearon's agreement can be terminated on six months' notice in writing by either the Company or by John. James Geddes' agreement could be terminated on 12 months' notice in writing by the Company and six months' notice by James. Following an agreement reached in the year-ended 31 March 2020, James Geddes subsequently left the company and ceased to be a Director.

ANNUAL REPORT ON REMUNERATION

REMUNERATION FOR EXECUTIVE DIRECTORS

Year ended 31 March 2020 (audited)	Salary £	Benefits £	Pension £	Options Exercised £	Compensation for loss of office £	Total £
John Kearon	200,000	20,051	-	-	-	220,051
James Geddes	190,000	6,187	11,400	-	220,000	427,587
Total	390,000	26,238	11,400	-	220,000	647,638

Compensation for loss of office for James Geddes was paid in April 2020.

Year ended 31 March 2019 (audited)	Salary £	Benefits £	Pension £	Options Exercised £	Compensation for loss of office £	Total £
John Kearon	200,000	14,781	6,000	-	-	220,781
James Geddes	190,000	6,338	11,400	169,704	-	377,442
Alex Hunt	99,615	13,050	2,517	-	-	115,182
Total	489,615	34,169	19,917	169,704	-	713,405

The Executive Directors received no bonus for the year ended 31 March 2020 or for the year ended 31 March 2019. The Executive Directors have not received any stock options or other equity awards other than under the Company's LTIP arrangements as set out in the directors' remuneration policy.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

Directors' interests in the shares of the Company are shown below.

	31 Mar 2020 Number	31 Mar 2019 Number
John Kearon	2,961,235	2,961,235
James Geddes	263,178	263,178
Robert Brand	30,000	30,000
Graham Blashill	10,000	10,000
Total	3,264,413	3,264,413

Directors' interests in options over shares and conditional shares of the Company are shown below.

	Date of grant	Earliest exercise date	Exercise price	Number at 1 Apr 2019	Granted in year	Replaced in year	Number at 31 Mar 2020
JOHN KEARON	16/01/2015	01/05/2018	0.0p	56,568	-	-	56,568
	22/07/2015	01/05/2018	0.0p	*60,000	-	-	*60,000
	04/09/2019	12/08/2020	0.0p	-	**198,400	-	198,400
				116,568	198,400	-	314,968
JAMES GEDDES	22/07/2015	01/05/2018	0.0p	*60,000	-	-	*60,000
	22/03/2017	12/08/2021	0.0p	198,400	-	(198,400)	-
	04/09/2019	12/08/2020	0.0p	-	**198,400	-	198,400
				258,400	198,400	(198,400)	258,400

* The options denoted by a single asterisk were granted under the previous LTIP. They were granted in two tranches of 137,040 and 60,000 option shares (totalling 197,040) to each director. They were subject to performance conditions, under which 116,568 of each director's options vested on 30 April 2017. The remaining 80,472 of each director's options lapsed.

** The options and conditional shares denoted by a double asterisk were granted under the current LTIP, as described in the directors' remuneration policy. These options can vest at any time between 12 August 2020 and 12 August 2024, provided performance and market targets are met. Of these 198,400 options, 118,011 were cancelled in April 2020 upon James Geddes' resignation from the Board.

There were no equity awards or vesting of options other than under the LTIP as set out in the directors' remuneration policy.

FEES FOR NON-EXECUTIVE DIRECTORS (AUDITED)

The Non-Executive Directors received fees, but no other benefits, as follows.

	Year to 31 Mar 2020 £	Year to 31 Mar 2019 £
Graham Blashill	40,000	38,217
Ken Ford (resigned 24 July 2018)	-	12,950
Robert Brand	38,000	36,883
Sophie Tomkins	36,000	30,000
Jane Wakely	36,000	27,000
Total	150,000	145,050

Directors’ Responsibility Statement

The directors are responsible for preparing the Group Strategic Report, Group Directors’ Report, the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The directors are required by the AIM Rules of the London Stock Exchange to prepare Group financial statements in in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (“EU”) and have elected under company law to prepare the parent company financial statements in accordance with FRS 101 Reduced Disclosure Framework. 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 and profit or loss of the Company and 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;
- for the group financial statements, state whether they have been prepared in accordance with IFRS adopted by the EU and for the company financial statements state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the company financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

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

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the Company’s auditor is unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company’s website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CHRIS WILLFORD
Company Secretary and Chief Financial Officer
30 June 2020

Independent Auditor’s Report
to the members of System1 Group PLC

OPINION

We have audited the financial statements of System1 Group Plc (the ‘parent company’) and its subsidiaries (the ‘group) for the year ended 31 March 2020 which comprise of the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated and Company Balance Sheets, Consolidated and Company Statement of Changes in Equity, Consolidated Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 2020 and of the group’s loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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 are 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors’ use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group’s or the parent company’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group and parent company financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) 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 group and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

GROUP KEY AUDIT MATTERS

GOING CONCERN

RISK

The Group has set out its analysis of the potential impact on its operations and financial position of the COVID-19 pandemic in business risk review on pages 10 to 11 and the going concern statement on page 41. The potential risks to the Group include loss of a significant client, a decline in the advertising market resulting in a reduced demand, and market conditions resulting in a reduced ability to borrow and comply with bank covenants. In the event of a material loss of, or delay to, incoming cash resources, the Group could suffer cash pressure or default against borrowing covenants. The assessment of these risks in an uncertain economic environment requires judgement, and a risk of material misstatement arises in respect of an incorrect application of the going concern basis of preparation or the failure to disclose a material uncertainty. As a result, the potential impact of the COVID-19 outbreak on going concern was considered to be one of most significance in the audit and was therefore determined to be a key audit matter.

RESPONSE

We audited the Group's assessment of the application of the going concern basis of preparation. Our work included:

- Checking the integrity and accuracy of the cash flow forecasts and covenant calculation's provided by management;
- Corroborating the reasonableness of assumptions and explanations provided by management to supporting information where available;
- Stress-testing the cash flow forecasts to assess the impact of assumptions worse than those provided by management;
- Reviewed the Group's expected future win rate on contracts;
- Reviewed the Group's actual results subsequent to the period end and compared this to managements forecasts;
- Considering mitigating actions available to the Group and the level of headroom in the forecasts under various scenarios;
- Discussing our findings with the Audit Committee;
- Auditing the accuracy and completeness of disclosures made in the finance statements in respect of risks, going concern and post balance sheet events.

IMPACT OF COVID-19, SABBATICAL LEAVE SCHEME, INTANGIBLE ASSETS AND DEFERRED TAX

RISK

The impact of Covid-19 (Coronavirus) is having an adverse effect on the trading performance and profitability of companies as well as the wider economy. This is expected to impact accounting estimates and judgements in the financial statements. It is also expected to affect the associated disclosures in the financial statements and accompanying documents, in particular, principal risks and uncertainties in the strategic report, liquidity and credit risk disclosures in the directors' report, critical accounting estimates and judgements in the notes to the accounts and the subsequent event disclosures.

RESPONSE

The group has a sabbatical leave scheme, open to all employees, which provides 20 days paid leave for every six years of service. The carrying amount of the provision at 31 March 2020 was £724,000. The provision for liabilities under the scheme is measured using the projected unit credit method. This model requires several estimates and assumptions of which the most significant inputs are the rate of salary growth and average staff turnover. We have challenged managements best estimate for average staff turnover given the sensitivity surrounding it. We have noted that further disclosure was required to better document the sensitivity of the average staff turnover (Note 11) and its impact upon the value of the provision.

We have reviewed the schedule of capitalised costs and have noted that, in line with previous years, a portion of AdRatings costs were eligible to be capitalised. This remains the case in the current year. A sample of additions were tested against the IAS38 criteria. It was noted that these additions were correctly capitalised. From our review of costs in the income statement, no additional costs were identified which should have been capitalised as development costs, under the group's accounting policy. Capitalisation is in line with IAS 38. The AdRatings product subscriptions or other sales (as part of revenue earned on the group's other services) in the year have not been sufficient to support the carrying value. Management therefore provided us with an impairment paper reflecting the current subscription income from the AdRatings software, including their assessment that the future income streams do not support the carrying value of the asset. We have concluded that management's decision to include an impairment of £921,000 (Note 7) on the AdRatings intangible at the year-end to be materially correct.

Management have recognised a deferred tax asset of £377,000 on carry forward trading losses (Note 20). We challenged and critiqued managements assumptions on forecasts based on historical results, expected future growth and uncertainty in the economy moving forward. We have concluded that management's decision to recognise a deferred tax asset on carry forward losses to be materially correct.

The above were considered to be key audit matters due to the level of judgement and estimation involved alongside the material nature of the balances financially.

OUR APPLICATION OF MATERIALITY

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. During planning overall materiality for the group financial statements as a whole was calculated as £149,000, which subsequently decreased to £145,000 during the course of our audit. Overall materiality for the parent company financial statements as a whole was calculated as £72,500, which was not significantly changed during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £7,280 as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our audit was scoped by obtaining an understanding of the group and its control environment, including group-wide controls, and assessing the risks of material misstatement. The group financial statements were audited on a consolidated basis using group materiality. The parent entity and subsidiary financial statements were audited to component materiality. The scope of our audit covered 100% of both consolidated loss before tax and consolidated net assets.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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 directors' responsibilities statement set out on page 31, 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: http://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 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 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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RICHARD BARTLETT-RAWLINGS (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
The Pinnacle,
170 Midsummer Boulevard,
Milton Keynes,
Buckinghamshire,
MK9 1BP
30 June 2020

Consolidated Income Statement

for the year ended 31 March 2020

		31 Mar 2020			31 Mar 2019 Restated*		
	Note	Consultancy £'000	AdRatings £'000	Total £'000	Consultancy £'000	AdRatings £'000	Total £'000
REVENUE	5	25,422	53	25,475	26,896	3	26,899
Cost of sales	15	(3,874)	-	(3,874)	(4,849)	-	(4,849)
GROSS PROFIT	5	21,548	53	21,601	22,047	3	22,050
Administrative expenses	15	(18,412)	(2,771)	(21,183)	(17,777)	(2,217)	(19,994)
OPERATING PROFIT/(LOSS)	5	3,136	(2,718)	418	4,270	(2,214)	2,056
Finance expense	18	(122)	-	(122)	(135)	-	(135)
PROFIT/(LOSS) BEFORE TAXATION	16	3,014	(2,718)	296	4,135	(2,214)	1,921
Income tax (expense)/credit	19	(1,043)	516	(527)	(1,075)	421	(654)
PROFIT/(LOSS) FOR THE FINANCIAL PERIOD		1,971	(2,202)	(231)	3,060	(1,793)	1,267
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY		1,971	(2,202)	(231)	3,060	(1,793)	1,267

* Restatement on change of accounting policy upon the adoption of IFRS16 (Refer to Note 26).

EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY							
Basic (losses)/earnings per share	21			(1.8)p			10.1p*
Diluted (losses)/earnings per share	21			(1.8)p			9.8p*

The notes on page 41 to 67 are an integral part of these consolidated financial statements.

All of the activities of the Group are classed as continuing.

Consolidated Statement of Comprehensive Income

for the year ended 31 March 2020

	31 Mar 2020 £'000	31 Mar 2019 Restated* £'000
(LOSS)/PROFIT FOR THE FINANCIAL PERIOD	(231)	1,267
OTHER COMPREHENSIVE INCOME:		
ITEMS THAT MAY BE SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS		
Currency translation differences on translating foreign operations	(91)	2
Other comprehensive (loss)/income for the period, net of tax	(91)	2
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	(322)	1,269

* Restatement on change of accounting policy upon the adoption of IFRS16 (Refer to Note 26).

The notes on pages 41 to 67 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

REGISTERED COMPANY NO. 05940040

as at 31 March 2020

	Note	31 Mar 2020 £'000	31 Mar 2019 Restated* £'000	1 Apr 2018 Restated* £'000
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	6	3,971	2,847	3,423
Intangible assets	7	368	814	26
Deferred tax asset	20	627	299	372
		4,966	3,960	3,821
CURRENT ASSETS				
Contract costs		217	208	131
Trade and other receivables	9	5,423	6,907	5,704
Current income tax		21	431	423
Cash and cash equivalents	8	6,650	4,315	5,784
		12,311	11,861	12,042
TOTAL ASSETS		17,277	15,821	15,863
EQUITY				
ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY				
Share capital	10	132	132	132
Share premium account		1,601	1,601	1,601
Merger reserve		477	477	477
Foreign currency translation reserve		132	223	221
Retained earnings		3,416	4,635	4,482
TOTAL EQUITY		5,758	7,068	6,913
LIABILITIES				
NON-CURRENT LIABILITIES				
Provisions	11	565	610	420
Lease liabilities	8	3,273	1,977	2,559
Borrowings	8	2,500	-	-
		6,338	2,587	2,979
CURRENT LIABILITIES				
Provisions	11	300	225	368
Lease liabilities	8	1,001	899	877
Trade and other payables	12	3,209	4,508	4,146
Contract liabilities	13	671	534	580
		5,181	6,166	5,971
TOTAL LIABILITIES		11,519	8,753	8,950
TOTAL EQUITY AND LIABILITIES		17,277	15,821	15,863

* Restatement on change of accounting policy upon the adoption of IFRS16 (Refer to Note 26).

The notes on pages 41 to 67 are an integral part of these consolidated financial statements.

These financial statements were approved by the directors on 30 June 2020 and are signed on their behalf by:

JOHN KEARON
Director

CHRIS WILLFORD
Director

Consolidated Cash Flow Statement

for the year ended 31 March 2020

	Note	31 Mar 2020 £'000	31 Mar 2019 Restated* £'000
NET CASH GENERATED FROM OPERATIONS	23	3,180	2,220
Tax paid		(463)	(642)
NET CASH GENERATED FROM OPERATING ACTIVITIES		2,717	1,578
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	6	(102)	(107))
Purchase of intangible assets	7	(814)	(923)
NET CASH USED BY INVESTING ACTIVITIES		(916)	(1,030)
NET CASH FLOW BEFORE FINANCING ACTIVITIES		1,801	548
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest received		-	2
Lease liability payments		(47)	(45)
Property lease liability payments		(892)	(835)
Interest paid on property leases		(122)	(136)
Proceeds from borrowings		2,500	-
Proceeds from sale of treasury shares	10	30	3
Dividends paid to owners	22	(943)	(940)
NET CASH FROM/(USED BY) FINANCING ACTIVITIES		526	(1,951)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		2,327	(1,403)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		4,315	5,784
Exchange gains on cash and equivalents		8	(66)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		6,650	4,315

* Prior period comparatives have been restated for the transition to IFRS 16. Under IFRS 16 office lease costs are now treated as a "financing activity" (rather than as an operating activity, as was the case previously). Office lease costs are therefore not now included within "Net cash flow before financing activities" (the Company's key cash flow performance indicator). "Net cash flow before financing activities", adjusted for office leases, known by the Company as "Operating Cash Flow" is shown below:

	31 Mar 2020 £'000	31 Mar 2019 Restated* £'000
Net cash flow before financing activities	1,801	548
Net cash outflow for property leases	(1,014)	(969)
OPERATING CASH FLOW	787	(421)

A summary of cash flow before financing activities, separating out Ad Ratings is presented below.

	31 Mar 2020 £'000	31 Mar 2019 Restated* £'000
Net cash generated from operating activities	4,229	3,608
Net cash used by investing activities	(470)	(107)
Net cash flow before financing activities (before AdRatings)	3,759	3,501
Net cash outflow for property and finance leases	(1,014)	(969)
OPERATING CASH FLOW (BEFORE ADRATINGS)	2,745	2,532
Net cash flow used by AdRatings	(1,958)	(2,953)
OPERATING CASH FLOW (AFTER ADRATINGS)	787	(421)

The notes on page 41 to 67 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended ended 31 March 2020

	Note	Share capital £'000	Share premium account £'000	Merger reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Total £'000
At 1 April 2018 as originally stated		132	1,601	477	221	4,578	7,009
Transition to IFRS 16		-	-	-	-	(96)	(96)
At 1 April 2018 restated		132	1,601	477	221	4,482	6,913
PROFIT FOR THE FINANCIAL PERIOD		-	-	-	-	1,267	1,267
Other comprehensive income:							
- currency translation differences		-	-	-	2	-	2
TOTAL COMPREHENSIVE INCOME		-	-	-	2	1,267	1,269
Transactions with owners:							
Employee share options:							
- value of employee services	10	-	-	-	-	(132)	(132)
- current tax credited to equity		-	-	-	-	34	34
- deferred tax debited to equity	20	-	-	-	-	(79)	(79)
Dividends paid to owners	22	-	-	-	-	(940)	(940)
Sale of treasury shares		-	-	-	-	3	3
		-	-	-	-	(1,114)	(1,114)
AT 31 MARCH 2019 RESTATED		132	1,601	477	223	4,635	7,068
LOSS FOR THE FINANCIAL YEAR		-	-	-	-	(231)	(231)
Other comprehensive income:							
- currency translation differences		-	-	-	(91)	-	(91)
TOTAL COMPREHENSIVE LOSS		-	-	-	(91)	(231)	(322)
Transactions with owners:							
Employee share options:							
- value of employee services	10	-	-	-	-	(60)	(60)
- deferred tax debited to equity	20	-	-	-	-	(31)	(31)
- current tax credited to equity	20	-	-	-	-	16	16
Dividends paid to owners	22	-	-	-	-	(943)	(943)
Sale of treasury shares	10	-	-	-	-	30	30
		-	-	-	-	(988)	(988)
AT 31 MARCH 2020		132	1,601	477	132	3,416	5,758

The notes on pages 41 to 67 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

System1 Group PLC ("the **Company**") was incorporated on 19 September 2006 in the United Kingdom. The Company's principal operating subsidiary, System1 Research Limited (formerly BrainJuicer Limited), was at that time already established, having been incorporated on 29 December 1999. The address of the Company's registered office is 52 Bedford Row, Holborn, London, England, WC1R 4LR. The Company's shares are listed on the Alternative Investment Market of the London Stock Exchange ("AIM").

The Company and its subsidiaries (together "the **Group**") provide marketing and market research consultancy services. The Chairman's Statement, the Chief Executive's Statement and the Business and Finance Review provide further detail of the Group's operations and principal activities.

The Board of Directors approved these financial statements for the year ended 31 March 2020 (including the comparatives for the year ended 31 March 2019) on 30 June 2020.

2 BASIS OF PREPARATION

The Group has prepared its consolidated financial statements in accordance with International Financial Reporting Standards and IFRIC Interpretations as adopted in the European Union ("**IFRSs**"), and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a high degree of judgement or complexity, or areas where estimates and judgements are significant to the consolidated financial statements are disclosed in Note 4.

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the **Functional Currency**'). The consolidated financial statements are presented in Pounds Sterling (GBP), which is the Company's functional and presentation currency. The financial statements are presented in round thousands unless otherwise stated.

3 GOING CONCERN

The Group has prepared its financial statements on a going concern basis.

As noted in the Business and Finance Review, the global Covid-19 pandemic had minimal impact on the reported results for FY 2019/20, however, inevitably, the effects of lockdowns around the world and the corresponding economic slowdown have been felt in the first months of the current financial year.

Whilst the longer term impact of Covid-19 of the Group cannot be assessed with certainty, Management have prepared detailed forecasts and undertaken scenario planning for FY2020/21 and have already taken mitigating actions including deferring employment costs, reducing the number of hours paid for where the volume of work has fallen, reducing discretionary expenditure, exiting a small number of colleagues, and taking advantage of government-backed business support and furloughing schemes. As part of this initiative, the Board and other senior executives in System1 agreed in April 2020 to defer 20% of their salaries until further notice.

Management continue to monitor sales closely and adjust costs accordingly, whilst ensuring that the Company maintains an appropriate level of investment in future sales growth. At 31 March 2020, the Company had cash of £6,650,000 and borrowings of £2,500,000.

In the two months to end May, Revenue and Gross Profit were 36% and 38% respectively below the same period of last year. Over these months the business as a whole incurred a Pre-Tax loss of some £0.7m as we pursued our short-term objectives of continuing to develop our new automated product set, while conserving cash by shrinking the cost base to offset lower sales. Cash net of debt facilities ended May at £3.9m compared with £4.1m at 31 March. In June, the sales pipeline has shown early signs of recovering towards pre-pandemic levels, and our cost base was in line with our targets

Having considered all information available, the Directors remain confident that the Company will be able to settle liabilities as they fall due for a period of at least 12 months from the date of the approval of these financial statements, and for this reason consider that it is appropriate to prepare these financial statements on a going concern basis.

4 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted are consistent with those of the financial statements for the 12-month period ended 31 March 2019, except for the first-time adoption of IFRS 16, 'Leases' which was adopted on 1 April 2019.

IFRS 16 replaced the existing guidance in IAS 17. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. The weighted average incremental borrowing rate applied to lease liabilities is 4.30%.

A reconciliation of operating lease commitments as at 31 March 2019 to the lease liability is as follows:

	£000
Operating lease commitments disclosed at 31 March 2019	5,505
Adjustment for forecast exercise of break clause	(2,211)
Effect of discounting	(489)
LEASE LIABILITY RECOGNISED AT 1 APRIL 2019	2,805
Existing finance lease payables at 1 April 2019	71
TOTAL LEASE LIABILITIES AT 1 APRIL 2019	2,876

The Group has elected to apply the full retrospective approach to the transition to IFRS 16. The full retrospective approach requires the transition to be implemented with restatement of the prior year results as if IFRS 16 had always been applied. Adoption of the IFRS 16 has resulted in the recognition of Right of use assets and lease liabilities with a corresponding increase in depreciation charges and finance costs offset by a reduction in operating lease costs in the income statement. Operating lease costs were previously recognised on a straight-line basis in the income statement. In the earlier periods of a lease, the expenses associated with the lease under IFRS 16 will be higher when compared to lease expenses under IAS 17. For classification within the statement of cash flows, the interest and repayment of principal elements of the lease payments are separately disclosed in financing activities. The implementation of IFRS 16 has made an insignificant impact on the net assets and profit before tax of the Group, as set out in note 26.

STANDARDS, AMENDMENTS AND INTERPRETATIONS IN ISSUE BUT NOT YET EFFECTIVE

Certain new accounting standards and interpretations have been published that are not mandatory for 31 March 2020 reporting periods and have not been early adopted by the Group. The only amendment identified as applicable to the Group is as follows:

AMENDMENTS TO IAS 1 AND IAS 8 – DEFINITION OF MATERIAL

The IASB has made amendments to 'IAS 1 Presentation of Financial Statements' and 'IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality' throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information. These amendments clarify the guidance on the application of materiality and the definition of 'primary users of general purpose financial statements'.

This amendment is not expected to have a material impact on the entity in the current or future reporting periods or on foreseeable future transactions.

BASIS OF CONSOLIDATION

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 31 March 2020.

Subsidiaries are all entities over which the Group has power over the subsidiary, i.e. the Group has existing rights that give it the ability to direct the relevant activities (the activities that significantly affect the subsidiary's returns), exposure or rights, to variable returns from its involvement with the subsidiary and the ability to use its power over the subsidiary to affect the amount of the subsidiary's returns.

The Group obtains and exercises control through voting rights.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

All intra-group transactions and balances are eliminated on consolidation. Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided to write off the cost of all property, plant and equipment to its residual value on a straight-line basis over its expected useful economic lives, which are as follows:

Furniture, fittings and equipment	5 years
Computer hardware	2 to 3 years

The residual value and useful life of each asset is reviewed and adjusted, if appropriate, at each balance sheet date.

Depreciation on all property, plant and equipment is charged to administrative expenses.

RIGHT-OF-USE ASSETS

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. The Group had no such lease arrangements for the years ended 31 March 2020 or 2019. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

Depreciation on all Right-of-use assets is charged to administrative expenses.

4 PRINCIPAL ACCOUNTING POLICIES continued

INTANGIBLE ASSETS

SOFTWARE

Acquired computer software licenses are capitalised at the cost of acquisition.

Costs incurred in the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Costs include professional fees and directly-attributable employee costs required to bring the software into working condition. Non-attributable costs are expensed under the relevant income statement heading.

RESEARCH AND DEVELOPMENT – INTERNALLY GENERATED INTANGIBLE ASSETS

All on-going research expenditure is expensed in the year in which it is incurred. Development costs incurred in the development of the Company's new AdRatings product are capitalised as an internally generated asset when all criteria for capitalisation are met. The AdRatings product comprises the product platform and the data available to product subscribers.

Costs relating to the research phase of AdRatings, amounting to £2.11m were expensed in the year to 31 March 2019. Development costs include professional fees and directly-attributable employee costs required to bring the software into working condition. Where no internally-generated intangible asset can be recognised, development expenditure is charged to administrative expenses in the period in which it is incurred.

Furthermore, internally-generated software and product development costs are recognised as an intangible asset only if the Group can demonstrate all of the following conditions:

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
(b) its intention to complete the intangible asset and use or sell it;
(c) its ability to use or sell the intangible asset;
(d) how the intangible asset will generate probable future economic benefits;
(e) among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
(f) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
(g) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

AMORTISATION

Acquired computer software licences are amortised on a straight-line basis over their estimated useful economic life of two years.

Internally-generated intangible assets are amortised on a straight-line basis over their useful economic lives.

The AdRatings platform and the cost of data being made available to subscribers were being amortised over a period of 3 years on a straight line basis, prior to impairment in full in the year ended 31 March 2020.

Amortisation on all intangible assets is charged to administrative expenses.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INTANGIBLE ASSETS

At each balance sheet date the Group reviews the carrying amount of its property, plant and equipment and intangible assets for any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Intangible assets not available for use are tested for impairment on at least an annual basis. The recoverable amount is the higher of the fair value less costs to sell and value in use.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand and bank deposits available on demand.

CONTRACT COSTS

Contract costs comprise directly-attributable external costs incurred in fulfilling customer contracts that relate to incomplete market research projects. The Group assesses at each balance sheet date whether there is objective evidence that contract cost assets are impaired and provision is made when there is evidence that the Group will not be able to recover all costs incurred under the terms of the customer contract.

INCOME TAXES

Current income tax liabilities comprise those obligations to fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws that have been enacted or substantively enacted at the reporting date applicable to the fiscal periods to which they relate, based on the taxable profit for the year.

All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items charged or credited to other comprehensive income or directly to equity.

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amounts of assets and liabilities in the consolidated financial statements with their respective tax bases. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are always provided for in full. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date. Deferred tax is recognised as a component of tax expense in the income statement, except where it relates to items charged or credited to other comprehensive income or directly to equity.

REVENUE RECOGNITION

The Group's revenues are primarily from the delivery of research services. Revenue from all of the Group's Research product lines (Communications, Brand, Innovation, and other research products) and its advertising agency services arise from contracts with customers within the scope of IFRS 15 'Revenue from Contracts with Customers' and are recognised on the same basis, as set out below.

Revenue is recognised at a point in time (rather than over time) as the key performance obligation is the delivery of the final written debrief to the client.

Revenue is recognised only after the final written debrief or creative content (in respect of our Agency business) has been delivered to the client, except on the rare occasion that a large project straddles a financial period end, and that project can be sub- divided into separate discrete deliverables; in such circumstances revenue is recognised on delivery of each separate deliverable. There are no elements of variable consideration in the contracts entered into by the Group. Revenue is measured by reference to the fair value of consideration receivable, excluding sales taxes.

COST OF SALES

Cost of sales includes external costs attributable to client projects. For the research business, these include respondent sample, data processing, language translation and similar costs.

EMPLOYEE BENEFITS

All accumulating employee-compensated absences that are unused at the balance sheet date are recognised as a liability. The Group operates several defined contribution pension plans. The Group pays contributions to these plans based upon the contractual terms agreed with each employee.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

4 PRINCIPAL ACCOUNTING POLICIES continued

SHARE-BASED PAYMENT TRANSACTIONS

The Group issues equity-settled share-based compensation to certain employees (including directors). Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payment is expensed on a straight-line basis over the vesting period, together with a corresponding increase in equity, based upon the Group's estimate of the shares that will eventually vest.

With the exception of market-based elements of awards, these estimates are subsequently revised if there is any indication that the number of options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods. The fair value of option awards with time vesting performance conditions are measured at the date of grant using a Black-Scholes based Option Valuation model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The fair value of awards made with market-based performance conditions (for example, the entity's share price) are measured at the grant date using a Monte Carlo simulation method incorporating the market conditions in the calculations. The awards made in respect of the Group's long-term incentive scheme have been measured using such a method.

Social security contributions payable in connection with the grant of share options are considered integral to the grant itself, and the charge is treated as a cash-settled transaction.

PROVISIONS

Provisions for sabbatical leave and dilapidations are recognised when: (i) the Group has a legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) the amount has been reliably estimated. Where material, the increase in provisions due to passage of time is recognised as interest expense. The provision for sabbatical leave is measured using the projected unit credit method. The provision for dilapidations is measured at the present value of expenditures expected to be required to settle those obligations.

FOREIGN CURRENCIES

Items included in the individual financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates ("the **Functional Currency**"). The consolidated financial statements are presented in Sterling ('GBP'), which is the Company's functional and the Group's presentation currency. Transactions in foreign currencies are translated into the Functional Currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses arising from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement.

The results and financial position of all Group companies that have a Functional Currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the balance sheet date;
(b) income and expenses for each income statement are translated at average exchange rates; and
(c) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are recognised in other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

4 PRINCIPAL ACCOUNTING POLICIES continued

SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the main decision-making body of the Company, which collectively comprises the Executive Directors. The Executive Directors are responsible for allocating resources and assessing performance of the operating segments.

FINANCIAL INSTRUMENTS

FINANCIAL ASSETS

The Group's financial assets comprise trade and other receivables held at amortised cost. The Group does not possess assets held at fair value through profit or loss. The classification is determined by management at initial recognition, being dependent upon the business model and the contractual cash flows of the assets. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets arising from contracts with customers are separately presented in accordance with IFRS 15 in the Balance Sheet.

TRADE AND OTHER RECEIVABLES

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group's amortised cost financial assets comprise trade and other receivables and cash and cash equivalents in the balance sheet.

Trade receivables are initially recorded at fair value, but subsequently at amortised cost using the effective interest rate method. In accordance with IFRS 9, the Group assesses on a forward-looking basis the expected credit losses associated with its financial assets at amortised cost. The Group assesses expected credit losses based on the ageing of the receivable, the Group's historical experience and informed credit assessment. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

FINANCIAL LIABILITIES

Financial liabilities are initially recognised at fair value, net of transaction costs, and subsequently carried at amortised cost using the effective interest rate method. Financial liabilities arising from contracts with customers are separately presented in accordance with IFRS 15 in the Statement of Financial Position. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities.

Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the income statement.

Finance costs are calculated so as to produce a constant rate of return on the outstanding liability. Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited directly to equity.

ACCRUED AND DEFERRED INCOME

Accrued income is recognised when a performance obligation has been satisfied but has not yet been billed. Accrued income is transferred to receivables when the right to consideration is unconditional and billed per the terms of the contractual agreement. The Group is generally paid in arrears for its services and invoices are typically payable within 60 days. In certain cases, payments are received from customers prior to satisfaction of performance obligations and recognised as deferred income. These balances are considered contract liabilities. There is no significant passage of time between the receipt of funds from a customer and the delivery of services, or between the delivery of services to a customer and the receipt of funds when payment is in arrears. The Group does not enter into contractual arrangements with significant financing components.

4 PRINCIPAL ACCOUNTING POLICIES continued

LEASE LIABILITIES

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

SHARE CAPITAL

Ordinary shares are classified as equity. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

SHARE PREMIUM

Share premium represents the excess over nominal value of the fair value of consideration received for equity shares, net of direct expenses of the share issue.

MERGER RESERVE

The merger reserve represents the difference between the parent company's cost of investment and a subsidiary's share capital and share premium. The merger reserve in these accounts has arisen from a group reconstruction upon the incorporation and listing of the parent company that was accounted for as a common control transaction.

Common control transactions are accounted for using merger accounting rather than the acquisition method, where this reflects the substance of the transaction.

FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve represents the differences arising from translation of investments in overseas subsidiaries.

TREASURY SHARES

Where the Company purchases the Company's equity share capital, the consideration paid is deducted from the total shareholders' equity and classified as treasury shares until they are cancelled. Where such shares are subsequently sold or re-issued, any consideration received is included in total shareholders' equity. No gain or loss is recognised on the purchase, sale, issue or cancellation of the Company's own equity instruments.

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

SHARE BASED PAYMENTS – JUDGEMENT

The fair value of options granted is determined using a Black Scholes based Employee Stock Option Valuation model (for the employee share option scheme) and a Monte Carlo simulation model (for the long-term incentive scheme). These models require a number of estimates and assumptions. The significant inputs into the models are share price at grant date, exercise price, historic exercise multiples, expected volatility and the risk-free rate. Volatility is measured at the standard deviation of expected share price returns based on statistical analysis of historical share prices. These inputs are provided in Note 10.

In previous years the Company has often purchased shares to satisfy the exercise of share options in order to minimise shareholder dilution and create shareholder value. IFRS 2 does not provide guidance on the application of 'substance over form' when evaluating whether a share based payment should be accounted for as equity or cash settled.

In order to determine whether the Company's share options are equity or cash-settled, consideration needs to be given as to whether the settlement of the share options through the issue and subsequent repurchase of treasury shares should be treated as one transaction or as two distinct transactions, and whether the Company has an obligation to settle in cash.

4 PRINCIPAL ACCOUNTING POLICIES continued

The Company does not publicise to option holders that option shares may be repurchased, the decision to repurchase option shares is only made at the point of option exercise, and there is no contractual or other obligation to settle in cash. Therefore, it is appropriate to treat the exercise of options and repurchase of option shares as two separate transactions and account for the option exercise as equity-settled rather than cash-settled.

In the past the Company has on occasion cash-settled part of long-term incentive plan equity awards. Despite the repurchase of these equity interests the Company did not have an obligation to do so and does not have an obligation, constructive or otherwise to do so in the future. As a result, the Company continues to account for share-based payments related to its long-term incentive plans as equity rather than cash-settled.

EMPLOYEE BENEFITS – ESTIMATE

The Group has a sabbatical leave scheme, open to all employees, which provides 20 days paid leave for each six years' of service. The carrying amount of the provision at the balance sheet date amounted to £724,000 (31 March 2019: £753,000). The provision for liabilities under the scheme is measured using the projected unit credit method. This model requires a number of estimates and assumptions. The significant inputs into the model are rate of salary growth and average staff turnover as explained in Note 11.

CAPITALISATION OF ADRATINGS PLATFORM – ESTIMATE

The Group tests capitalised development costs for impairment on an annual basis by reference to expected future cash generation from the AdRatings product. In estimating future cash generation, management make judgements by reference to budgets and forecasts about the amount and timing of future profits. As a result of the impairment testing performed for the year ended 31 March 2020, management have determined that future attributable revenues are not forecast to be sufficient to supporting the carrying value of the capitalised development costs and a charge of £921,000 has been recognised to impair the asset in full. Details are contained in Note 7.

LEASES – ESTIMATE AND JUDGEMENT

Management exercises judgement in determining the likelihood of exercising break or extension options in determining the lease term, and reviews this on a lease by lease basis.

The discount rate used to calculate the lease liability is the rate implicit in the lease, if it can be readily determined, or the lessee's incremental borrowing rate if not. Incremental borrowing rates are determined based on the term, country, currency and start date of the lease, to derive the rate of interest that the lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

5 SEGMENT INFORMATION

The financial performance of the Group's geographic operating units ("**Reportable Segments"**) is set out below. The Group defines its Consultancy business as Research and Advertising Agency.

	31 Mar 2020		31 Mar 2019*	
	Revenue £'000	Gross profit £'000	Revenue £'000	Gross profit £'000
CONSULTANCY				
Americas	12,772	10,933	11,657	9,538
United Kingdom	5,480	4,653	6,596	5,457
Continental Europe	5,628	4,630	6,770	5,447
APAC	1,542	1,332	1,873	1,605
	25,422	21,548	26,896	22,047
ADRATINGS				
United Kingdom	35	35	-	-
Americas	18	18	3	3
	53	53	3	3
	25,475	21,601	26,899	22,050

* Comparative information for 2019 has been restated to disclose revenues and gross profits attributable to AdRatings. The Advertising Agency business has been aggregated with the United Kingdom Research business.

5 SEGMENT INFORMATION continued

Segmental revenue is revenue generated from external customers and so excludes intercompany revenue and is attributable to geographical areas based upon the location in which the service is delivered. Operating expenses are not reported to the Executive Directors by segment, but is provided at a consolidated level.

All revenues are recognised when the research results are delivered to the client.

Consolidated balance sheet information is regularly provided to the executive directors, but segment balance sheet information is not, and accordingly the Company does not disclose segment balance sheet information here.

System1 Group PLC (the ultimate parent company) is domiciled in the UK. As at 31 March 2020, consolidated non-current assets, other than financial instruments and deferred tax assets, located in the UK is £2,462,000 and located in other countries is £1,877,000. As at 31 March 2019 the respective amounts were £1,543,000 and £2,118,000 (restated for IFRS 16).

The split of business by research solution is set out below.

	31 Mar 2020		31 Mar 2019	
	Revenue £'000	Gross Profit £'000	Revenue £'000	Gross Profit £'000
CONSULTANCY				
Communications (Ad Testing)	9,002	7,992	8,473	7,372
Brand (Brand Tracking)	4,637	3,423	4,985	3,699
Innovation*	9,829	8,555	11,195	9,608
Other services	1,954	1,578	2,243	1,368
	25,422	21,548	26,896	22,047
ADRATINGS	53	53	3	3
	25,475	21,601	26,899	22,050

* The Group has reclassified certain product offerings from 'Other services' to Innovation in the current period, and the comparative period analysis has been restated accordingly. Advertising Agency revenues and gross profit have been included in 'Other services'.

A reconciliation of total operating profit for Reportable Segments to total profit before income tax is set out below.

	31 Mar 2020 £'000	31 Mar 2019 £'000
Gross profit for Consultancy (Research and Agency)	21,548	22,047
Gross profit for AdRatings	53	3
GROSS PROFIT FOR REPORTABLE SEGMENTS	21,601	22,050
Operating expenses for reportable segments	(13,235)	(14,329)
Central overheads*	(8,031)	(6,047)
Exceptional credit (see Note 25)	-	250
Share based payment credit**	83	132
OPERATING PROFIT	418	2,056
Finance expense	(122)	(135)
PROFIT BEFORE INCOME TAX	296	1,921

* In the Annual Report for the year ended 31 March 2019, central delivery costs of £892k were allocated to central overheads in the segmental reporting. The comparable central delivery costs are included within the operating expenses for reportable segments above for both periods presented.
** Inclusive of associated social security

Segmental operating profit excludes allocation of central overheads relating to the Group's Operations, IT, Marketing, HR, Legal and Finance teams and Board of Directors. Operating expenses are not reported to the Executive Directors by segment, but is provided at a consolidated level.

5 SEGMENT INFORMATION continued

Over the year to 31 March 2020, the Group earned revenue of £2,596,000 from its largest customer, representing 10% of consolidated revenue (31 March 2019: 6%). Consolidated revenue from the Group's largest customer in each year is split by geographic segment as set out below.

	31 Mar 2020 £'000	31 Mar 2019 £'000
Continental Europe	-	775
Americas	2,596	632
APAC	-	92
	2,596	1,499

6 PROPERTY, PLANT AND EQUIPMENT

For the year ended 31 March 2020	Right-of-use assets *Restated £'000	Furniture, fittings and equipment £'000	Computer hardware £'000	Total *Restated £'000
AT 1 APRIL 2019				
Cost	5,286	553	1,285	7,124
Accumulated depreciation	(2,666)	(422)	(1,189)	(4,277)
NET BOOK AMOUNT	2,620	131	96	2,847
YEAR ENDED 31 MARCH 2020				
OPENING NET BOOK AMOUNT	2,620	131	96	2,847
Additions	2,336	-	102	2,438
Disposals	(54)	(13)	-	(67)
Foreign exchange	88	3	-	91
Depreciation charge for the year	(1,183)	(74)	(81)	(1,338)
CLOSING NET BOOK AMOUNT	3,807	47	117	3,971
AT 31 MARCH 2020				
Cost	5,532	452	1,398	7,382
Accumulated depreciation	(1,725)	(405)	(1,281)	(3,411)
NET BOOK AMOUNT	3,807	47	117	3,971

For the year ended 31 March 2019	Right of use assets *Restated £'000	Furniture, fittings and equipment £'000	Computer hardware £'000	Total *Restated £'000
AT 1 APRIL 2018				
Cost	5,018	562	1,160	6,740
Accumulated depreciation	(1,864)	(359)	(1,094)	(3,317)
NET BOOK AMOUNT	3,154	203	66	3,423
YEAR ENDED 31 MARCH 2019				
OPENING NET BOOK AMOUNT	-	203	66	269
Adjustment on transition to IFRS 16	3,154	-	-	3,154
Additions	320	1	106	427
Disposals	-	(2)	-	(2)
Foreign exchange	121	3	1	125
Depreciation charge for the year	(975)	(74)	(77)	(1,126)
CLOSING NET BOOK AMOUNT	2,620	131	96	2,847
AT 31 MARCH 2019				
Cost	5,286	553	1,285	7,124
Accumulated depreciation	(2,666)	(422)	(1,189)	(4,277)
NET BOOK AMOUNT	2,620	131	96	2,847

7 INTANGIBLE ASSETS

For the year ended 31 March 2020	Development costs (AdRatings) £'000	Software licenses £'000	Software £'000	Total £'000
AT 1 APRIL 2019				
Cost	923	697	1,672	3,292
Accumulated amortisation	(110)	(696)	(1,672)	(2,478)
NET BOOK AMOUNT	813	1	-	814
YEAR ENDED 31 MARCH 2020				
OPENING NET BOOK AMOUNT	813	1	-	814
Additions	446	-	368	814
Amortisation charge	(338)	(1)	-	(339)
Impairment charge	(921)	-	-	(921)
CLOSING NET BOOK AMOUNT	-	-	368	368
AT 31 MARCH 2020				
Cost	1,369	697	2,040	4,106
Accumulated amortisation	(1,369)	(697)	(1,672)	(3,738)
NET BOOK AMOUNT	-	-	368	368

For the year ended 31 March 2019	Development costs (AdRatings) £'000	Software licenses £'000	Software £'000	Total £'000
AT 1 APRIL 2018				
Cost	-	697	1,672	2,369
Accumulated amortisation	-	(671)	(1,672)	(2,343)
NET BOOK AMOUNT	-	26	-	26
YEAR ENDED 31 MARCH 2019				
OPENING NET BOOK AMOUNT	-	26	-	26
Additions	923	-	-	923
Amortisation charge	(110)	(25)	-	(135)
CLOSING NET BOOK AMOUNT	813	1	-	814
AT 31 MARCH 2019				
Cost	923	697	1,672	3,292
Accumulated amortisation	(110)	(696)	(1,672)	(2,478)
NET BOOK AMOUNT	813	1	-	814

Software comprises the Group's main research software platform, at a cost of £1,604,000, other software licences of £68,000, and additions of £368,000 relating to the Group's new finance system. The carrying amount of the Group's main research software platform at the balance sheet date was £Nil (31 Mar 2019: £Nil). The Group's finance system was still in development at the year end and therefore has not been amortised.

Development costs comprise amounts capitalised for the Group's AdRatings product. This comprises the platform and the data available to subscribers, which are both amortised over three years.

The carrying value of the AdRatings product has been tested for impairment at as 31 March 2020. The carrying value of the asset has been allocated to the AdRatings cash generating unit ('CGU') for the purposes of assessing future cashflows. The principal assumptions used in the forecast are the timing and amount of future revenues and profit margins, which are derived from the latest forecasts approved by the Board. As a result of this review, and in light of the continuing modest AdRatings revenues of £0.05m in the year, the carrying value of the asset has been impaired in full, and accordingly the amortisation charge above includes impairment charges of £921,000.

8 FINANCIAL RISK MANAGEMENT

The Group's financial risk management policies and objectives are explained in the Group Directors' report.

CREDIT RISK

The Group reviews and manages credit risk, arising from trade receivables and cash and cash equivalents, on a consolidated basis. The vast majority of the Group's clients are large blue-chip organisations, and the Group has only ever suffered minimal bad debts. The Group has concentrations of credit risk as follows.

	31 Mar 2020 £'000	31 Mar 2019 £'000
CASH AND CASH EQUIVALENTS		
HSBC Bank PLC (AA credit rating)	6,135	3,849
Santander	360	231
Deutsche Bank	84	154
UBS	64	79
Other banks	7	2
	6,650	4,315
TRADE RECEIVABLES		
Largest customer by revenue	390	161

FINANCIAL INSTRUMENTS BY CATEGORY

At the balance sheet date the Group held the following financial instruments by category.

ASSETS AND LIABILITIES AS PER BALANCE SHEET

	31 Mar 2020 £'000	31 Mar 2019 *Restated £'0000
FINANCIAL ASSETS CARRIED AT AMORTISED COST		
Trade and other receivables (excluding prepayments and accrued income)	5,072	6,102
Cash and cash equivalents	6,650	4,315
	11,722	10,417
OTHER FINANCIAL LIABILITIES CARRIED AT AMORTISED COST		
CURRENT LIABILITIES		
Trade payables	1,005	1,990
Accruals	2,086	2,226
Lease liabilities	1,001	899
	4,092	5,115
NON-CURRENT LIABILITIES		
Borrowings	2,500	-
Lease liabilities	3,273	1,977
	5,773	1,977

The application of IFRS 16 has resulted in the recognition of lease liabilities in respect of property leases previously treated as operating leases and expensed in the income statement on a straight line basis. The payment of the Group's financial liabilities will be financed from existing cash to their fair value.

On 10 February 2020, the Company entered into a revolving credit facility with HSBC. The agreement allows the Company to draw down up to £2,500,000 for the purposes of funding general corporate and working capital requirements. The facility is available for three years and is secured over the assets of those Group companies domiciled in the the United Kingdom and the United States. The loan accrues interest at a rate of 2.5% above LIBOR and is subject to leverage and interest covenants.

9 TRADE AND OTHER RECEIVABLES

	31 Mar 2020 £'000	31 Mar 2019 *Restated £'000
Trade receivables	4,678	5,794
Other receivables	394	308
Prepayments and accrued income	351	805
	5,423	6,907

Trade and other receivables are due within one year and are not interest bearing. The maximum exposure to credit risk at the balance sheet date is the carrying amount of receivables (detailed above). The Group does not hold any collateral as security against trade receivables. The Directors do not believe that there is a significant concentration of credit risk within the trade receivables balance.

IMPAIRMENT OF FINANCIAL ASSETS

	31 Mar 2020 £'000	31 Mar 2019 £'000
Opening balance	64	-
Charged to the income statement	99	64
Utilisations and other movements	(52)	-
PROVIDED AT YEAR-END	111	64

The Group has financial assets, primarily trade receivables, that are subject to the IFRS 9 expected credit loss model and the Group is required to assess these assets for expected credit losses. The Group has applied the simplified approach to measuring expected credit losses as permitted by IFRS 9 and recognises a loss allowance based on the financial assets' lifetime expected loss.

The Group assesses on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost. The Group assesses expected credit losses based on the ageing of the receivable, the Group's historical experience and informed credit assessment. Further credit losses are recognised where the Group has information that indicates it is unlikely to recover balances in full.

The Group has no financial assets designated as measured at fair value.

As of 31 March 2020, trade receivables of £1,352,000 were past due but not impaired (31 March 2019: £2,070,000). The ageing of trade receivables, and the associated loss allowance, is as follows.

31 March 2020	Not past due £'000	Up to 3 months £'000	3 to 6 months £'000	Over 6 months £'000
Gross trade receivables	3,326	1,274	117	72
Loss allowance	-	-	39	72
Expected loss rate	0%	0%	33%	100%

31 March 2019	Not past due £'000	Up to 3 months £'000	3 to 6 months £'000	Over 6 months £'000
Gross trade receivables	3,724	1,757	269	108
Loss allowance	-	-	64	-
Expected loss rate	0%	0%	24%	0%

As of 31 March 2020, no other receivables or contract costs were impaired (31 March 2019: £Nil).

9 TRADE AND OTHER RECEIVABLES continued

The carrying amount of the Group's trade and other receivables are denominated in the following currencies.

	31 Mar 2020 £'000	31 Mar 2019 £'000
US Dollar	2,350	2,727
Sterling	1,397	2,507
Euro	893	885
Brazilian Real	257	353
Swiss Franc	281	209
Chinese Yuan	35	24
Canadian Dollar	16	-
Australian Dollar	144	107
Singapore Dollar	50	95
	5,423	6,907

10 SHARE CAPITAL

The share capital of System1 Group PLC consists only of fully paid Ordinary Shares ("**Shares**") with a par value of one pence each. All Shares are equally eligible to receive dividends and the repayment of capital, and represent one vote at the Annual General Meeting.

ALLOTTED, CALLED UP AND FULLY PAID ORDINARY SHARES

	Number	£'000
At 1 April 2019 and at 31 March 2020	13,226,773	132

During the year ended 31 March 2020 the Company transferred 23,167 Shares out of treasury to satisfy the exercise of employee share options at a weighted average exercise price of 132 pence per share for total consideration of £30,000. The weighted average share price at exercise date was 204 pence per share.

At 31 March 2020, the Company had 13,226,773 Shares in issue (31 March 2019: 13,226,773) of which 626,989 were held in treasury (31 March 2019: 650,156). The treasury Shares will be used to help satisfy the requirements of the Group's share incentive schemes.

SHARE OPTIONS

EMPLOYEE SHARE OPTION SCHEME

The Group issues share options to directors and to employees under an HM Revenue and Customs approved Enterprise Management Incentive (EMI) scheme and also under an unapproved scheme.

The exercise price for share options granted historically is equal to the mid-market opening quoted market price of the Company's Shares on the date of grant, and in general, they vested evenly over a period of one to three years following grant date. Options granted in more recent years have been awarded in accordance with management long-term incentive plans and such options have a zero exercise price and are subject to performance criteria. If share options remain unexercised after a period of ten years from the date of grant, the options expire. Share options are forfeited in some circumstances if the employee leaves the Group before the options vest, unless otherwise agreed by the Group.

10 SHARE CAPITAL continued

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows.

	31 Mar 2020		31 Mar 2019	
	Average exercise price per share Pence	Options No	Average exercise price per share Pence	Options No
Opening balance	6.4	962,470	4.7	1,393,329
Granted	-	1,358,135	-	-
Lapsed	131.5	(17,000)	-	(198,400)
Replaced	-	(462,934)	-	-
Cancelled	-	(132,267)	-	(132,267)
Exercised	131.5	(23,167)	-	(100,192)
CLOSING BALANCE	0.5	1,685,237	6.4	962,470
EXERCISABLE AT END OF PERIOD	0.5	315,656	17.4	355,823

The weighted average share price at date of exercise of options exercised during the year ended 31 March 2020 was 204 (year ended 31 March 2019: 270) pence.

At 31 March 2020 and 31 March 2019, the Group had the following outstanding options and exercise prices.

	31 Mar 2020			31 Mar 2019		
Expiry date	Average exercise price per share Pence	Options No	Weighted average remaining contractual life Months	Average exercise price per share Pence	Options No	Weighted average remaining contractual life Months
2020	-	10,144	1.9	50.6	122,687	12.1
2024	5.3	172,376	50.9	-	-	-
2025	-	233,136	60.8	-	233,136	72.8
2027	-	1,069,581	83.7	-	606,647	95.8
2029	-	100,000	112.0	-	-	-
2032	-	100,000	148.1	-	-	-
	0.5	1,685,237	82.2	6.4	962,470	79.5

LONG TERM INCENTIVE SCHEME

On 4 September 2019 the Company granted 1,058,135 zero cost options to certain members of the senior management team at a weighted average fair value of 17 pence per share. Of these, 462,934 options were granted as replacements to equity awards made under the 2017 LTIP scheme. The options vest between 12 August 2020 and 12 August 2024, subject to Gross Profit, Profit After Tax and the Company's share price exceeding certain targets. These targets are the same as those set under the 2017 LTIP scheme, full details of which are given in the Company's Remuneration Report. The options lapse on 21 March 2027. 132,267 options were cancelled.

Options outstanding under the scheme number 1,058,135 (31 March 2019: 606,647).

10 SHARE CAPITAL continued

NON-EMPLOYEE OPTION PLAN

On 17 April 2019 the Company granted an advisor to the Board, Stefan Barden, an equity award comprising of 300,000 zero cost options at a weighted average fair value at date of grant of 37 pence per share. These options vest in three tranches of 100,000 each subject to Gross Profit and the Company's share price exceeding certain targets. The three tranches lapse on 30 July 2024, 30 July 2029 and 30 July 2032 respectively. Full details of the grant can be found in the Company's Remuneration Report.

SHARE-BASED PAYMENT CHARGE

The total credit relating to equity-settled share-based payment plans was £60,000 for the year ended 31 March 2020 (31 March 2019: credit of £132,000). The associated credit for social security was £23,000 for the year ended 31 March 2020 (31 March 2019: £64,000 credit).

11 PROVISIONS

	Sabbatical provision £'000	Dilapidation provisions £'000	Total £'000
AT 1 APRIL 2018	706	82	788
Provided in the year	158	-	158
Utilised in the year	(111)	-	(111)
AT 31 MARCH 2019	753	82	835
Provided in the year	12	59	71
Utilised in the year	(41)	-	(41)
AT 31 MARCH 2020	724	141	865
Of which:			
Current	237	63	300
Non-current	487	78	565
	724	141	865

The Group has a sabbatical leave scheme, open to all employees. The scheme provides 20 days paid leave for each successive period of six years' service. There is no proportional entitlement for shorter periods of service. The provision for the liabilities under the scheme is measured using the projected unit credit method. The calculation of the provision for the year ended 31 March 2020 assumes an annual rate of growth in salaries of 7% (year ended 31 March 2019: 7%), a discount rate of 2.1% (year ended 31 March 2019: 1.6%), based upon good quality 6-year corporate bond yields, and an average staff turnover rate of 19% (year ended 31 March 2019: 19%). The key assumptions are considered to be the estimation of future salary increases and staff turnover. An adjustment of 10% to the assumptions for salary increases and staff turnover rates would result in a change in the valuation of the provision as at 31 March 2020 of £55,000 and £150,000 respectively.

Dilapidation provisions represent £63,000 in relation to agreed settlements and the remainder represents the Group's best estimate of costs required to meet its obligations under property lease agreements.

12 TRADE AND OTHER PAYABLES

	31 Mar 2020 £'000	31 Mar 2019 *Restated £'000
Trade payables	1,005	1,990
Social security and other taxes	118	292
Accruals	2,086	2,226
	3,209	4,508

Trade and other payables are due within one year and are not interest bearing. The contractual terms for the payment of trade payables are generally 45 days from receipt of invoice.

The contractual maturity of all trade and other payables is within one year of the balance sheet date.

13 CONTRACT LIABILITIES

	31 Mar 2020 £'000	31 Mar 2019 £'000
CONTRACT LIABILITIES	671	534

From time to time, payments are received from customers prior to work being completed. Such payments are recorded in the balance sheet as contract liabilities.

Included within Revenue is £358,000 relating to contract liabilities recognised at 1 April 2019 (2019: £355,000). No revenue has been recognised in the year from performance conditions satisfied, or partially satisfied in previous periods.

14 BORROWINGS

The analysis of the maturity of lease liabilities is as follows:

	31 Mar 2020 £'000	31 Mar 2019 *Restated £'000
Within one year	1,208	1,002
Later than 1 but no later than 5 years	3,405	1,972
More than 5 years	-	201
Minimum lease payments	4,613	3,175
Future finance charges	(339)	(299)
Recognised as a liability	4,274	2,876

The present value of finance lease liabilities is as follows:

	31 Mar 2020 £'000	31 Mar 2019 *Restated £'000
Within one year	1,001	899
Later than 1 but no later than 5 years	3,273	1,786
More than 5 years	-	191
	4,274	2,876

There are no contingent payments, purchase options or restrictive covenants in respect of property leases. Details of loan facilities and balances are given in note 8.

15 EXPENSES BY NATURE

	31 Mar 2020 £'000	31 Mar 2019 *Restated £'000
Employee benefit expense	12,551	11,882
Depreciation, amortisation and impairment	2,598	1,261
Net foreign exchange (gains)/losses	(21)	(3)
Other expenses	9,929	11,703
	25,057	24,843
Analysed as:		
Cost of sales	3,874	4,849
Administrative expenses	21,183	19,994
	25,057	24,843

16 PROFIT BEFORE TAXATION

Profit before taxation is stated after charging:

	31 Mar 2020 £'000	31 Mar 2019 *Restated £'000
DEPRECIATION AND AMORTISATION	1,677	1,261
SHARE-BASED PAYMENTS	(60)	(132)
LOSS ON DISPOSAL	66	2
IMPAIRMENT OF DEVELOPMENT COSTS	921	-
NET (GAIN)/LOSS ON FOREIGN CURRENCY TRANSLATION	(21)	(3)

	31 Mar 2020 £'000	31 Mar 2019 £'000
AUDIT AND AUDIT RELATED FEES		
Audit of parent company and consolidated accounts	58	57
Audit related assurance services	10	7
	68	64
NON-AUDIT FEES		
Tax compliance	-	58
Tax advisory	-	38
Other services	-	25
	-	121
	68	185

17 EMPLOYEE BENEFIT EXPENSE

The average number of staff employed by the Group during the financial year was as follows:

	31 Mar 2020 No	31 Mar 2019 No
NUMBER OF ADMINISTRATIVE STAFF	146	145

The aggregate employment costs of the above were:

	31 Mar 2020 £'000	31 Mar 2019 £'000
Wages and salaries	10,134	9,775
Social security costs	1,131	1,176
Pension costs – defined contribution plans	361	339
Long service leave cost – sabbatical provision	(29)	47
Share based remuneration	(60)	(132)
Compensation for loss of office	521	101
Medical benefits	493	576
	12,551	11,882

The Company had 7 key management personnel as at 31 March 2020 (31 March 2019: 6), including the two Executive Directors.

Compensation to key management is set out below.

	31 Mar 2020 £'000	31 Mar 2019 £'000
Short-term employee benefits – salaries, bonuses and benefits in kind	949	662
Short-term employee benefits – employer social security, including £15,000 credit (year ended 31 March 2019: £89,000 credit) in respect of share incentive plans	78	32
Compensation for loss of office	220	-
Post-employment benefits (pension costs – defined contribution plans)	11	19
Long term bonus plan	(7)	(48)
Share-based payment	(24)	(62)
	1,227	603

Details of directors' emoluments are given in the Remuneration Report.

18 FINANCE EXPENSES

	31 Mar 2020 £'000	31 Mar 2019 £'000
Other interest payable / (receivable)	4	(2)
Finance charges on property leases	118	137
	122	135

19 INCOME TAX EXPENSE

	31 Mar 2020 £'000	31 Mar 2019 *Restated £'000
Current tax	886	660
Deferred tax	(359)	(6)
	527	654

Income tax expense for the year differs from the standard rate of taxation as follows:

	31 Mar 2020 £'000	31 Mar 2019 *Restated £'000
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	296	1,921
Profit on ordinary activities multiplied by standard UK tax rate	56	365
Difference between tax rates applied to Group's subsidiaries	265	237
Expenses not deductible for tax purposes	7	4
Tax on intra-group management charges (Brazil and China)	113	97
Adjustment to current tax in respect of prior years	(41)	(27)
Withholding tax	45	-
Derecognition of trading losses	84	-
Credit on exercise of share options taken to income statement	(2)	(22)
	527	654

The standard tax rate for the year ended 31 March 2020 and 2019 was 19%.

The Company is working with its advisors to submit claims for a Research & Development Tax Credit ("R&D Tax Credit") in respect of the two years ended 31 March 2020. The R&D Tax Credit in respect of the year to 31 March 2019 is anticipated to provide a benefit of approximately £0.5m, which will be recognised on approval by HMRC. No amounts have been recognised in these financial statements in relation to these claims.

20 DEFERRED TAX

Deferred tax assets and liabilities are as follows.

	31 Mar 2020 £'000	31 Mar 2019 £'000
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	570	145
- Deferred tax assets to be recovered within 12 months	79	175
	649	320
Deferred tax liabilities:		
- Deferred tax liability to be recovered within 12 months	(22)	(21)
DEFERRED TAX ASSET (NET):	627	299

The gross movement in deferred tax is as follows.

	31 Mar 2020 £'000	31 Mar 2019 £'000
OPENING BALANCE	299	372
Income statement credit	359	6
Tax debited directly to equity	(31)	(79)
CLOSING BALANCE	627	299

20 DEFERRED TAX continued

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

DEFERRED TAX ASSETS

	Trading losses £'000	Other provisions £'000	Share options £'000	Dilapidation provisions £'000	Sabbatical provision £'000	Total £'000
AT 1 APRIL 2019	-	38	129	10	143	320
Credited/(charged) to income statement	377	(10)	(11)	17	(13)	360
Debited directly to equity	-	-	(31)	-	-	(31)
AT 31 MARCH 2020	377	28	87	27	130	649

DEFERRED TAX LIABILITIES

	Accelerated capital allowances £'000
AT 1 APRIL 2019	(21)
Charged to income statement	(1)
AT 31 MARCH 2020	(22)

Deferred tax assets are recognised only to the extent that their recoverability is considered probable. All deferred tax assets have been recognised with the exception of those relating to our Singaporean business (£83,000 of tax benefit that would have been recognised in respect of trading losses).

The deferred tax asset in respect of the Company's share option plans relates to corporate tax deductions available on exercise of employee share options.

21 (LOSSES)/EARNINGS PER SHARE

(A) BASIC (LOSSES)/EARNINGS PER SHARE

Basic (losses)/earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of Ordinary Shares in issue during the year.

	31 Mar 2020	31 Mar 2019 *Restated
(LOSS)/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY (£'000)	(231)	1,267
Weighted average number of Ordinary Shares in issue	12,582,934	12,547,658
BASIC (LOSSES)/EARNINGS PER SHARE	(1.8)p	10.1p

(B) DILUTED (LOSSES)/EARNINGS PER SHARE

Diluted (losses)/earnings per share is calculated by adjusting the weighted average number of shares outstanding assuming conversion of all dilutive share options to Ordinary Shares. Options are included in the determination of diluted earnings per share if the required performance thresholds would have been met based on the Group's performance up to the reporting date, and to the extent that they are dilutive.

	31 Mar 2020	31 Mar 2019 *Restated
(LOSS)/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY (£'000)	(231)	1,267
Weighted average number of Ordinary Shares in issue	12,582,934	12,547,658
Share options	NA	330,378
Weighted average number of Ordinary Shares for diluted earnings per share	12,582,934	12,878,036
DILUTED (LOSSES)/EARNINGS PER SHARE	(1.8)p	9.8p

22 DIVIDENDS

On 13 December 2019, the Company paid an interim dividend of 1.1 pence per share, amounting to £138,000, in respect of the year ended 31 March 2020.

	31 Mar 2020 £'000	31 Mar 2019 £'000
Final dividend for 2018/19: 6.4p per share (prior period: 6.4p per share)	805	802
Interim dividend for 2019/20: 1.1p per share (prior period: 1.1p per share)	138	138
	138	138
TOTAL ORDINARY DIVIDENDS PAID IN THE PERIOD	943	940

The directors do not propose a final dividend in respect of the year ended 31 March 2020.

23 NET CASH GENERATED FROM OPERATIONS

	31 Mar 2020 £'000	31 Mar 2019 *Restated £'000
PROFIT BEFORE TAXATION	296	1,921
Depreciation	1,338	1,126
Amortisation and impairment	1,260	135
Interest paid	122	135
Loss on disposal of property, plant and equipment	66	2
Share-based payment credit	(60)	(132)
Increase in contract costs	(8)	(77)
Decrease/(increase) in receivables	1,484	(1,204)
(Decrease)/increase in payables	(1,265)	417
Increase/(decrease) in contract liabilities	137	(46)
Exchange differences on operating items	(190)	(57)
NET CASH GENERATED FROM OPERATIONS	3,180	2,220

24 RELATED PARTY TRANSACTIONS

Dividends paid to directors were as follows.

	31 Mar 2020 £	31 Mar 2019 £
John Kearon	222,093	245,067
James Geddes (resigned 20 April 2020)	19,738	18,824
Ken Ford* (resigned 24 July 2018)	NA	1,280
Robert Brand	2,250	2,250
Graham Blashill	750	750
	244,831	268,171

* Includes those dividends with an ex-dividend date prior to resignation as director on 24 July 2018.

A family member of James Geddes is due to receive commission from WeWork during the year to 31 March 2021 equal to 10% of the first year of rental payments to be made by the Company on its new WeWork office space in London. This commission will amount to £40,000, and the proposed transaction was reviewed by, and received the prior approval of, the Company's Audit Committee. No such transactions arose in the year ended 31 March 2019.

24 RELATED PARTY TRANSACTIONS continued

The following transactions took place between entities within the Group, all of which are consolidated in these financial statements, and are related parties by virtue of the common control of the Company.

For the year ended 31 March 2020	Revenues/ (direct costs) £'000	Overhead charges £'000	Royalties £'000	Amounts due from/(to) related parties £'000
System1 Group PLC	2	6,090	2,403	351
System1 Research Limited	(190)	(1,371)	(557)	(78)
System1 Research B.V.	(88)	271	(113)	(51)
System1 Research, Inc.	(169)	(2,858)	(1,120)	(416)
System1 Research Sarl	219	(489)	(188)	465
System1 Research GmbH	-	(410)	(158)	(211)
System1 Marketing Consulting (Shanghai) Co. Limited	-	-	-	254
System1 Research Do Brazil Servicos de Marketing Ltda.	-	-	-	(6)
System1 Research France Sarl	88	(291)	(112)	223
System1 Market Research Pte Ltd	45	(116)	(45)	(52)
System1 Research Pty Ltd.	11	(284)	(109)	182
System1 Agency Limited	84	-	-	(661)

For the year ended 31 March 2019	Revenues/ (direct costs) £'000	Overhead charges £'000	Royalties £'000	Amounts due from/(to) related parties £'000
System1 Group PLC	-	4,953	2,462	3,327
System1 Research Limited	154	(1,210)	(601)	(1,050)
System1 Research B.V.	-	(124)	(62)	(22)
System1 Research, Inc.	(236)	(2,008)	(997)	(339)
System1 Research Sarl	120	(495)	(246)	243
System1 Research GmbH	-	(505)	(251)	(752)
System1 Marketing Consulting (Shanghai) Co. Limited	94	-	(2)	30
System1 Research Do Brazil Servicos de Marketing Ltda.	-	-	-	(108)
System1 Research France Sarl	150	(239)	(119)	(22)
System1 Market Research Pte Ltd	(201)	(176)	(87)	(469)
System1 Research Pty Ltd.	(29)	(197)	(98)	76
System1 Agency Limited	(52)	-	-	(915)

25 EXCEPTIONAL CREDIT – RATES REBATE IN PRIOR YEAR

During the year ended 31 March 2019, the Company recognised an exceptional credit of £251,000 in administrative expenses in respect of a Business Rates refund that was made as a result of an error by Camden Council and the Valuation Office. There were no exceptional credits in the year to 31 March 2020.

26 CHANGE IN ACCOUNTING POLICIES

The adoption of IFRS 16, 'Leases' has resulted in the following changes to the previously reported figures:

Balance sheet	31 Mar 2019 £'000	Impact of IFRS 16 £'000	31 Mar 2019 Restated £'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	227	2,620	2,847
Intangible assets	814	-	814
Deferred tax asset	275	24	299
	1,316	2,644	3,960
CURRENT ASSETS			
Contract costs	208	-	208
Trade and other receivables	6,915	(8)	6,907
Current income tax asset	431	-	431
Cash and cash equivalents	4,315	-	4,315
	11,869	(8)	11,861
TOTAL ASSETS	13,185	2,636	15,821
EQUITY			
ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Share capital	132	-	132
Share premium account	1,601	-	1,601
Merger reserve	477	-	477
Foreign currency translation reserve	223	-	233
Retained earnings	4,721	(86)	4,635
TOTAL EQUITY	7,154	(86)	7,068
LIABILITIES			
NON-CURRENT LIABILITIES			
Provisions	610	-	610
Lease liabilities	23	1,954	1,977
	633	1,954	2,587
CURRENT LIABILITIES			
Provisions	225	-	225
Lease liabilities	48	851	899
Trade and other payables	4,591	(83)	4,508
Contract liabilities	534	-	534
	5,398	768	6,166
TOTAL LIABILITIES	6,031	2,722	8,753
TOTAL EQUITY AND LIABILITIES	13,185	2,636	15,821

26 CHANGE IN ACCOUNTING POLICIES continued

Income statement (extract)	31 Mar 2019 £'000	Impact of IFRS 16 £'000	31 Mar 2019 Restated £'000
Operating profit	1,932	124	2,056
Finance income/(expense)	2	(137)	(135)
Income tax expense	(677)	23	(654)
PROFIT AFTER TAXATION	1,257	10	1,267

Cash flow statement (extract)	31 Mar 2019 £'000	Impact of IFRS 16 £'000	31 Mar 2019 Restated £'000
Net cash generated from operating activities	609	969	1,578
Net cash used by investing activities	(1,030)	-	(1,030)
Net cash used by financing activities	(982)	(969)	(1,951)
Net decrease in cash and cash equivalents	(1,403)	-	(1,403)
CASH AND CASH EQUIVALENTS AT 31 MARCH	4,315	-	4,315

The Group has elected to apply the full retrospective approach to the transition to IFRS 16. The full retrospective approach requires the transition to be implemented with restatement of the prior year results as if IFRS 16 had always been applied.

On adoption of IFRS 16, the Group has recognised lease liabilities reflecting future lease payments, and 'Right-of-use assets' in respect of property leases which meet the definition of a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. Further details are given in note 3 of the financial statements.

As a result of the implementation of IFRS 16, the following restatements have been made:

1. The increase in property, plant and equipment from the recognition of Right-of-use assets
2. The increase in lease liabilities from the recognition of liabilities for future lease payments, discounted to present value
3. The elimination of prepayments and accruals in respect of operating lease rentals, including those amounts recognised in respect of lease incentives
4. The recognition of depreciation and finance expenses in place of operating lease charges, with a corresponding increase in finance charges and a decrease in operating expenses for the periods presented.

26 CHANGE IN ACCOUNTING POLICIES continued

Balance sheet	31 Mar 2018 £'000	Impact of IFRS 16 £'000	31 Mar 2018 Restated £'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	269	3,154	3,423
Intangible assets	26	-	26
Deferred tax asset	372	-	372
	667	3,154	3,821
CURRENT ASSETS			
Contract costs	131	-	131
Trade and other receivables	5,711	(7)	5,704
Current income tax asset	423	-	423
Cash and cash equivalents	5,784	-	5,784
	12,049	(7)	12,042
TOTAL ASSETS	12,716	3,147	15,863
EQUITY			
ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Share capital	132	-	132
Share premium account	1,601	-	1,601
Merger reserve	477	-	477
Foreign currency translation reserve	221	-	221
Retained earnings	4,578	(96)	4,482
TOTAL EQUITY	7,009	(96)	6,913
LIABILITIES			
NON-CURRENT LIABILITIES			
Provisions	420	-	420
Lease liabilities	70	2,489	2,559
	490	2,489	2,979
CURRENT LIABILITIES			
Provisions	368	-	368
Lease liabilities	46	831	877
Trade and other payables	4,223	(77)	4,146
Contract liabilities	580	-	580
	5,217	754	5,971
TOTAL LIABILITIES	5,707	3,243	8,950
TOTAL EQUITY AND LIABILITIES	12,716	3,147	15,863

27 AUDIT EXEMPTION

System1 Research Limited (company number 03900547), System1 Agency Limited (company number 09829202) and System1 Ad Ratings Limited (company number 11313402) are exempt from the requirements of the Companies Act 2006 relating to the audit of accounts under section 479A. System1 Group Plc has given a parental guarantee for all entities above under section 479C of the Companies Act 2006.

Company Balance Sheet

REGISTERED COMPANY NO. 05940040

as at 31 March 2020

	Note	31 Mar 2020	31 Mar 2019 *Restated for IFRS 16 £'000	1 Apr 2018 *Restated for IFRS 16 £'000
FIXED ASSETS				
Intangible assets	2	368	814	26
Tangible assets	3	2,076	591	1,014
Investments	4	581	581	581
		3,025	1,986	1,621
CURRENT ASSETS				
Debtors due within one year	5	2,075	5,292	3,900
Debtors due after one year	5	385	100	122
Cash at bank		3,966	152	1,330
		6,426	5,544	5,352
CREDITORS: AMOUNTS DUE WITHIN ONE YEAR	6	(2,678)	(3,106)	(2,117)
NET CURRENT ASSETS		3,748	2,438	3,235
TOTAL ASSETS LESS CURRENT LIABILITIES		6,773	4,424	4,856
CREDITORS: AMOUNTS DUE AFTER ONE YEAR	7	(4,101)	(66)	(494)
PROVISIONS FOR LIABILITIES	8	(270)	(287)	(307)
NET ASSETS		2,402	4,071	4,055
CAPITAL AND RESERVES				
Share capital	10	132	132	132
Share premium account		1,601	1,601	1,601
Retained earnings		669	2,338	2,322
SHAREHOLDERS' FUNDS		2,402	4,071	4,055

As permitted by Section 408 of the Companies Act 2006, the Parent Company's profit and loss account has not been included in these financial statements. The Parent Company's loss after tax was £663,000 (2019: restated profit of £1,137,000).

These financial statements were approved by the directors on 30 June 2020 and are signed on their behalf by:

JOHN KEARON
Director

CHRIS WILLFORD
Director

Company Statement of Changes in Equity

for the year ended 31 March 2020

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
At 1 April 2018 as originally stated	132	1,601	2,373	4,106
Transition to IFRS 16	-	-	(51)	(51)
AT 1 APRIL 2018 RESTATED	132	1,601	2,322	4,055
PROFIT FOR THE FINANCIAL PERIOD AND TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE EQUITY HOLDERS	-	-	1,137	1,137
Transactions with owners:				
Employee share options scheme:				
- Value of employee services	-	-	(132)	(132)
- Current tax credited to equity	-	-	18	18
- Deferred tax debited to equity	-	-	(70)	(70)
Dividends paid to owners	-	-	(940)	(940)
Sale of treasury shares	-	-	3	3
	-	-	(4,287)	(4,287)
AT 31 MARCH 2019 RESTATED	132	1,601	2,338	4,071
LOSS FOR THE FINANCIAL YEAR AND TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO THE EQUITY HOLDERS	-	-	(663)	(663)
Transactions with owners:				
Employee share scheme:				
- Value of employee services	-	-	(60)	(60)
- Deferred tax debited to equity	-	-	(33)	(33)
Dividends paid to owners	-	-	(943)	(943)
Sale of treasury shares	-	-	30	30
	-	-	(1,006)	(1,006)
AT 31 MARCH 2020	132	1,601	669	2,402

1 ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The separate financial statements of the Company are presented in accordance with Financial Reporting Standard 101 – 'The Reduced Disclosure Framework'. They have been prepared under the historical cost convention. The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been applied consistently throughout the year except for the first-time adoption of IFRS 16, 'Leases' which was adopted on 1 April 2019.

IFRS 16 replaced the existing guidance in IAS 17. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. The weighted average incremental borrowing rate applied to lease liabilities is 3.5%.

The Company has elected to apply the full retrospective approach to the transition to IFRS 16. The full retrospective approach requires the transition to be implemented with restatement of the prior year results as if IFRS 16 had always been applied. Adoption of the IFRS 16 has resulted in the recognition of right-of-use assets and lease liabilities with a corresponding increase in depreciation charges and finance costs offset by a reduction in operating lease costs in the income statement. The implementation of IFRS 16 has made an insignificant impact on the net assets of the Company, as set out in note 12.

This Company is included in the consolidated financial statements of System1 Group PLC for the 12 months ended 31 March 2020. These accounts are available from the registered office address of the Company, and at www.system1group.com (investor section).

DISCLOSURE EXEMPTIONS ADOPTED

In preparing these financial statements the Company has taken advantage of all disclosure exemptions available under FRS 101. Therefore, these financial statements do not include:

(a) a statement of cash flows and related notes;
(b) the requirement to produce a balance sheet at the beginning of the earliest comparative period;
(c) the requirements of IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more wholly owned members of the group;
(d) disclosure of key management personnel compensation;
(e) capital management disclosures;
(f) presentation of a comparative reconciliation of the number of shares outstanding at the beginning and at the end of the period;
(g) the effect of future accounting standards not adopted;
(h) disclosures in respect of financial instruments and fair value measurement.

RESEARCH AND DEVELOPMENT – INTERNALLY GENERATED INTANGIBLE ASSETS

All on-going research expenditure is expensed in the year in which it is incurred. Development costs incurred in the development of the Company's new AdRatings product are capitalised as an internally generated asset when all criteria for capitalisation are met. The AdRatings product comprises the product platform and the data available to product subscribers.

Costs relating to the research phase of the product, amounting to £2.11m were expensed in the year to 31 March 2019. Development costs include professional fees and directly-attributable employee costs required to bring the software into working condition. Where no internally-generated intangible asset can be recognised, development expenditure is charged to administrative expenses in the period in which it is incurred.

Furthermore, internally-generated software and product development costs are recognised as an intangible asset only if the Company can demonstrate all of the following conditions:

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
(b) its intention to complete the intangible asset and use or sell it;
(c) its ability to use or sell the intangible asset;
(d) how the intangible asset will generate probable future economic benefits;

1 ACCOUNTING POLICIES continued

(e) among other things, the Company can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
(f) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
(g) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

AMORTISATION

Acquired computer software licences are amortised on a straight-line basis over their estimated useful economic life of two years.

Internally-generated intangible assets are amortised on a straight-line basis over their useful economic lives.

The AdRatings platform and the cost of data being made available to subscribers were being amortised over a period of 3 years on a straight line basis, prior to impairment in full in the year ended 31 March 2020.

Amortisation and impairment on all intangible assets is charged to administrative expenses.

TANGIBLE ASSETS

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided to write off the cost of all property, plant and equipment to its residual value on a straight-line basis over its expected useful economic lives, which are as follows:

Furniture, fittings and equipment	5 years
Computer hardware	2 to 3 years

The residual value and useful life of each asset is reviewed and adjusted, if appropriate, at each balance sheet date. Depreciation is charged to administrative expenses in the income statement.

Right-of-use assets are measured at cost to include the lease liability, direct and restoration cost and are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Payments associated with short term leases of equipment and vehicles and all leases of low value assets are recognised on a straight-line basis as an expense in the profit and loss.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

At each balance sheet date the Company reviews the carrying amount of its property, plant and equipment and intangible assets for any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Intangible assets not available for use are tested for impairment on at least an annual basis. The recoverable amount is the higher of the fair value less costs to sell and value in use.

CASH AT BANK

Cash at bank comprises cash in hand and bank deposits available on demand.

INCOME TAXES

Current income tax liabilities comprise those obligations to fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws that have been enacted or substantively enacted at the reporting date applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement, except where it relates to items charged or credited to other comprehensive income or directly to equity.

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amounts of assets and liabilities in the consolidated financial statements with their respective tax bases. In addition, tax losses available to be carried forward as well as other income tax credits to the Company are assessed for recognition as deferred tax assets.

Deferred tax liabilities are always provided for in full. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date. Deferred tax is recognised as a component of tax expense in the income statement, except where it relates to items charged or credited to other comprehensive income or directly to equity.

1 ACCOUNTING POLICIES continued

EMPLOYEE BENEFITS

All accumulating employee-compensated absences that are unused at the balance sheet date are recognised as a liability.

The Company operates a defined contribution pension plan. The Company pays contributions to the plan based upon the contractual terms agreed with each employee. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

SHARE-BASED PAYMENTS

Equity-settled, share-based payments are measured at fair value at the date of grant. Equity-settled, share-based payments that are made available to employees of the Company's subsidiaries are treated as increases in equity over the vesting period of the award, with a corresponding increase in the Company's investments in subsidiaries, based on an estimate of the number of shares that will eventually vest.

PROVISIONS

Provisions for sabbatical leave are recognised when: the Company has a legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Where material, the increase in provisions due to passage of time is recognised as interest expense. The provision for sabbatical leave is measured using the projected unit credit method. The provision for dilapidations is measured at the present value of expenditures expected to be required to settle those obligations.

FINANCIAL INSTRUMENTS

The Company's financial assets comprise trade and other receivables held at amortised cost. The Group does not possess assets held at fair value through profit or loss. The classification is determined by management at initial recognition, being dependent upon the business model and the contractual cash flows of the assets. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets arising from contracts with customers are separately presented in accordance with IFRS 15 'Revenue from Contracts with Customers' in the Balance Sheet.

TRADE AND OTHER RECEIVABLES

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's amortised cost financial assets comprise trade and other receivables and cash and cash equivalents in the balance sheet.

Trade receivables are initially recorded at fair value, but subsequently at amortised cost using the effective interest rate method. In accordance with IFRS 9, the Company assesses on a forward-looking basis, the expected credit losses associated with its financial assets carried at amortised cost. This assessment takes into account the age of the debt, as well as historical experience. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

FINANCIAL LIABILITIES

Financial liabilities are initially recognised at fair value, net of transaction costs, and subsequently carried at amortised cost using the effective interest rate method. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the income statement. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability. Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited directly to equity.

SHARE CAPITAL

Ordinary shares are classified as equity. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

1 ACCOUNTING POLICIES continued

SHARE PREMIUM

Share premium represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.

TREASURY SHARES

Where the Company purchases the Company's equity share capital, the consideration paid is deducted from the total shareholders' equity and classified as treasury shares until they are cancelled. Where such shares are subsequently sold or re-issued, any consideration received is included in total shareholders' equity. No gain or loss is recognised on the purchase, sale, issue or cancellation of the Company's own equity instruments.

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

SHARE-BASED PAYMENTS – JUDGEMENT

The fair value of options granted is determined using a Black Scholes based Employee Stock Option Valuation model (for the employee share option scheme) and a Monte Carlo simulation model (for the long-term incentive scheme). These models require a number of estimates and assumptions. The significant inputs into the models are share price at grant date, exercise price, historic exercise multiples, expected volatility and the risk-free rate. Volatility is measured at the standard deviation of expected share price returns based on statistical analysis of historical share prices.

In previous years the Company has often purchased shares arising from the exercise of share options in order to minimise shareholder dilution and create shareholder value. IFRS 2 does not provide guidance on the application of 'substance over form' when evaluating whether a share based payment should be accounted for as equity or cash-settled. In order to determine whether the Company's share options are equity or cash-settled, consideration needs to be given to whether the settlement of the share options through the issue and subsequent repurchase of treasury shares should be treated as one transaction or as two distinct transactions, and whether the Company has a present obligation to settle in cash. The Company does not publicise to option holders that treasury shares may be repurchased and the decision to do so is only made at the point of option exercise. Consequently, for subsequent settlements treasury shares issued may not be purchased. For this reason, treating the transaction as a whole would not reflect the transaction's substance. There is no present obligation to settle in cash given that the Company does not have a policy of repurchasing treasury shares and has not advertised to employees that this option will be open to them until the point of exercise. As a result, the Company's share options continue to be accounted for as equity rather than cash-settled.

In prior periods the Company has on occasion cash-settled part of long-term incentive plan equity awards. Despite the repurchase of these equity interests the Company did not have an obligation to do so and does not have an obligation, constructive or otherwise to do so in the future. As a result, the Company continues to account for share-based payments related to its long-term incentive plans as equity rather than cash-settled.

EMPLOYEE BENEFITS – ESTIMATE

The Company has a sabbatical leave scheme, open to all employees, which provides 20 days paid leave for each six years' of service. The carrying amount of the provision at the balance sheet date amounted to £257,000 (31 March 2019: £280,000). The provision for liabilities under the scheme is measured using the projected unit credit method. This model requires a number of estimates and assumptions. The significant inputs into the model are rate of salary growth and average staff turnover as explained in Note 8.

The average number of staff employed by the Company during the year ended 31 March 2020 was 49 (2019: 44) and total employment costs were £5,343,000 (2019: £3,533,000).

LEASES – ESTIMATE AND JUDGEMENT

Management exercises judgement in determining the likelihood of exercising break or extension options in determining the lease term, and reviews this on a lease by lease basis.

The discount rate used to calculate the lease liability is the rate implicit in the lease, if it can be readily determined, or the lessee's incremental borrowing rate if not. Incremental borrowing rates are determined based on the term, country, currency and start date of the lease, to derive the rate of interest that the lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

1 ACCOUNTING POLICIES continued

CAPITALISATION OF ADRATINGS PLATFORM

The Group tests capitalised development costs for impairment on an annual basis by reference to expected future cash generation. In estimating future cash generation, management make judgements by reference to budgets and forecasts about the amount and timing of future profits.

The carrying value of the AdRatings product was tested for impairment as at 31 March 2020. The carrying value of the asset has been allocated to the AdRatings cash generating unit ('CGU') for the purposes of assessing future cashflows. The principal assumptions used in the forecast are the timing and amount of future revenues and profit margins, which are derived from the latest forecasts approved by the Board. As a result of this review, and in light of the continuing modest AdRatings revenues of £0.05m in the year, the carrying value of the asset has been impaired in full, and accordingly the amortisation charge for the year ended 31 March 2020 includes impairment charges of £921,000.

2 INTANGIBLE ASSETS

For the year ended 31 March 2020	Development costs (AdRatings) £'000	Software licenses £'000	Software £'000	Total £'000
AT 1 APRIL 2019				
Cost	923	499	1,672	3,094
Accumulated amortisation	(110)	(498)	(1,672)	(2,280)
NET BOOK AMOUNT	813	1	-	814
12 MONTHS ENDED 31 MARCH 2020				
OPENING NET BOOK AMOUNT	813	1	-	814
Additions	446	-	368	814
Amortisation charge	(338)	(1)	-	(339)
Impairment charge	(921)	-	-	(921)
CLOSING NET BOOK AMOUNT	-	-	368	368
AT 31 MARCH 2020				
Cost	1,369	499	2,040	3,908
Accumulated amortisation	(1,369)	(499)	(1,672)	(3,540)
NET BOOK AMOUNT	-	-	368	368

For the year ended 31 March 2019	Development costs (AdRatings) £'000	Software licenses £'000	Software £'000	Total £'000
AT 1 APRIL 2018				
Cost	-	488	1,672	2,160
Accumulated amortisation	-	(462)	(1,672)	(2,134)
NET BOOK AMOUNT	-	26	-	26
12 MONTHS ENDED 31 MARCH 2019				
OPENING NET BOOK AMOUNT	-	26	-	26
Additions	923	-	-	923
Amortisation charge	(110)	(25)	-	(135)
CLOSING NET BOOK AMOUNT	813	1	-	814
AT 31 MARCH 2019				
Cost	923	499	1,672	3,094
Accumulated amortisation	(110)	(498)	(1,672)	(2,280)
NET BOOK AMOUNT	813	1	-	814

Software comprises the Company's main research software platform, at a cost of £1,604,000, other software licences of £68,000, and additions of £368,000 relating to the Company's new finance system. The Company's main research software platform was developed over a number of years and introduced in 2011. It was amortised

2 INTANGIBLE ASSETS continued

over 7 years and is now fully amortised. The carrying amount of this asset at the balance sheet date was £Nil (31 Mar 2019: £Nil). The Company's finance system was still in development at the year end and therefore has not been amortised.

Development costs comprise amounts capitalised for the Company's AdRatings product. This comprises the platform and the data available to subscribers, which were being amortised over three years prior to impairment.

The carrying value of the AdRatings product has been tested for impairment at as 31 March 2020. The carrying value of the asset has been allocated to the AdRatings cash generating unit ('CGU') for the purposes of assessing future cashflows. The principal assumptions used in the forecast are the timing and amount of future revenues and profit margins, which are derived from the latest forecasts approved by the Board. As a result of this review, and in light of the continuing modest AdRatings revenues of £0.05m in the year, the carrying value of the asset has been impaired in full, and accordingly the amortisation charge above includes impairment charges of £921,000.

3 TANGIBLE ASSETS

For the year ended 31 March 2020	Right-of-use assets *Restated £'000	Furniture, fittings and equipment £'000	Computer hardware £'000	Total *Restated £'000
AT 1 APRIL 2019				
Cost	2,163	165	580	2,908
Accumulated depreciation	(1,698)	(110)	(509)	(2,317)
NET BOOK AMOUNT	465	55	71	591
12 MONTHS ENDED 31 MARCH 2020				
OPENING NET BOOK AMOUNT	465	55	71	591
Additions	1,997	-	73	2,070
Disposals	-	(13)	-	(13)
Depreciation charge for the year	(483)	(32)	(57)	(572)
CLOSING NET BOOK AMOUNT	1,979	10	87	2,076
AT 31 MARCH 2020				
Cost	2,139	56	653	2,848
Accumulated depreciation	(160)	(46)	(566)	(772)
NET BOOK AMOUNT	1,979	10	87	2,076

For the year ended 31 March 2019	Right-of-use assets *Restated £'000	Furniture, fittings and equipment £'000	Computer hardware £'000	Total *Restated £'000
AT 1 APRIL 2018				
Cost	2,163	164	500	2,827
Accumulated depreciation	(1,270)	(79)	(464)	(1,813)
NET BOOK AMOUNT	893	85	36	1,014
12 MONTHS ENDED 31 MARCH 2019				
OPENING NET BOOK AMOUNT	-	85	36	121
Adjustment on transition to IFRS 16	893	-	-	893
Additions	-	1	80	81
Depreciation charge for the year	(428)	(31)	(45)	(504)
CLOSING NET BOOK AMOUNT	465	55	71	591
AT 31 MARCH 2019				
Cost	2,163	165	580	2,908
Accumulated depreciation	(1,698)	(110)	(509)	(2,317)
NET BOOK AMOUNT	465	55	71	591

4 INVESTMENTS

	Group companies £'000
GROUP COMPANIES	
Cost and net book amount at 1 April 2019 and 31 March 2020	581

SUBSIDIARY UNDERTAKINGS

Details of subsidiary undertakings, registered office and country of incorporation of each, at 31 March 2020 are as follows:

Subsidiary undertaking	Registered office	Country of incorporation
System1 Research Limited	52 Bedford Row, Holborn, London, WC1R 4LR	UK
System1 Research B.V.	Conradstraat 38 D2. 138, 3013AP Rotterdam	Netherlands
System1 Research, Inc.	251 Little Falls Drive, Wilmington, DE 19808, New Castle County, Delaware	USA
System1 Research Sarl	Avenue Gratta Paille 2, 1018 Lausanne, Switzerland	Switzerland
System1 Research GmbH	Kleine Seilerstrasse 1 D-20359 Hamburg	Germany
System1 Marketing Consulting (Shanghai) Co. Limited	58 Fumin Zhi Road, Chongming County, Shanghai 201914	China
System1 Research Do Brazil Servicos de Marketing Ltda.	Avenida das Nacoes Unidas 14261 – Conj. 25-126B – Cond. WT Morumbi, CEP 04794-000, Vila Gertrudes, São Paulo	Brazil
System1 Research France Sarl	17 Rue de Turbigo, 75002 Paris	France
System1 Market Research Pte Ltd	30 Cecil Street, #19-08 Prudential Tower, 049712	Singapore
System1 Research Pty Ltd.	Suite 1, Level 11, 60 Castlereagh Street, Sydney, NSW 2000	Australia
System1 Agency Limited	52 Bedford Row, Holborn, London, WC1R 4LR	UK
System1 AdRatings Limited	52 Bedford Row, Holborn, London, WC1R 4LR	UK

System1 Research Limited, System1 Agency Limited and System1 AdRatings Limited are wholly owned direct subsidiaries of System1 Group PLC. The remaining subsidiaries are each wholly owned direct subsidiaries of System1 Research Limited. The activities of all companies are the provision of online market research services, apart from System1 Agency Limited which provided advertising agency services and System1 AdRatings Limited, which provides subscription access to marketing effectiveness data. Brainjuicer India Private Limited, previously a dormant wholly owned subsidiary of System1 Research Limited, was dissolved during the year.

5 DEBTORS

	31 Mar 2020 £'000	31 Mar 2019 £'000
DUE WITHIN ONE YEAR		
Trade debtors (intra-group)	312	696
Amounts due from group companies	918	3,452
Other debtors	135	10
VAT recoverable	227	190
Corporation tax recoverable	126	189
Deferred tax (Note 9)	56	79
Prepayments	301	676
	2,075	5,292
DUE AFTER ONE YEAR		
Deferred tax (Note 9)	385	100

6 CREDITORS: AMOUNTS DUE WITHIN ONE YEAR

	31 Mar 2020 £'000	31 Mar 2019 *Restated £'000
Trade creditors	451	1,192
Social security and other taxes	128	133
Amounts due to group undertakings	848	822
Lease liabilities	460	428
Accruals	791	531
	2,678	3,106

7 CREDITORS: AMOUNTS AFTER ONE YEAR

	31 Mar 2020 £'000	31 Mar 2019 *Restated £'000
Lease liabilities	1,601	66
Bank loan	2,500	-
	4,101	66

8 PROVISIONS FOR LIABILITIES

	Deferred tax (Note 9) £'000	Sabbatical provision £'000	Total £'000
AT 1 APRIL 2018	19	288	307
Provided in the year	-	64	64
Utilised in the year	(12)	(72)	(84)
AT 31 MARCH 2019	7	280	287
Provided in the year	6	17	23
Utilised in the year	-	(40)	(40)
AT 31 MARCH 2020	13	257	270

The Company has a sabbatical leave scheme, open to all employees. The scheme provides 20 days paid leave for each successive period of six years' service. There is no proportional entitlement for shorter periods of service. The provision for the liabilities under the scheme is measured using the projected unit credit method. The calculation of the provision for the year ended 31 March 2020 assumes an annual rate of growth in salaries of 7% (year ended 31 March 2019: 7%), a discount rate of 2.1% (year ended 31 March 2019: 1.6%), based upon good quality 6-year corporate bond yields, and an average staff turnover rate of 19% (year ended 31 March 2019: 19%). The key assumptions are considered to be the estimation of future salary increases and staff turnover. An adjustment of 10% to the assumptions for salary increases and staff turnover rates would result in a change in the valuation of the provision as at 31 March 2020 of £20,000 and £55,000 respectively.

9 DEFERRED TAX

Deferred tax assets and liabilities are as follows.

	31 Mar 2020 £'000	31 Mar 2019 £'000
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	385	100
- Deferred tax assets to be recovered within 12 months	56	79
	441	179
Deferred tax liabilities:		
- Deferred tax liability to be recovered within 12 months	(13)	(7)
DEFERRED TAX ASSET (NET):	428	172

The gross movement in deferred tax is as follows.

	Year to 31 Mar 2020 £'000	Year to 31 Mar 2019 £'000
OPENING BALANCE	172	273
Income statement credit/(charge)	289	(31)
Tax debited directly to equity	(33)	(70)
CLOSING BALANCE	428	172

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

DEFERRED TAX ASSETS

	Trading losses £'000	Other provisions £'000	Share options £'000	Sabbatical provision £'000	Total £'000
AT 1 APRIL 2019	-	2	124	53	179
Credited to income statement	304	-	(5)	(4)	295
Debited directly to equity	-	-	(33)	-	(33)
AT 31 MARCH 2020	304	2	86	49	441

DEFERRED TAX LIABILITIES

	Accelerated capital allowances £'000
AT 1 APRIL 2019	(7)
Charged to income statement	(6)
AT 31 MARCH 2020	(13)

10 SHARE CAPITAL

ALLOTTED, CALLED UP AND FULLY PAID ORDINARY SHARES

	Number	£'000
AT 1 APRIL 2019 AND AT 31 MARCH 2020	13,226,773	132

11 (LOSS)/PROFIT FOR THE YEAR

The Company has made use of the exemptions as permitted by Section 408 of the Companies Act 2006 and accordingly the income statement of the Company is not presented as part of the accounts. The parent company loss for the year to 31 March 2020 of £663,000 (31 March 2019: profit of £1,137,000) is included in the Group loss for the financial year. Details of Executive and Non-Executive Directors' emoluments and their interest in shares and options of the company are shown within the Directors' Remuneration Report.

12 CHANGE IN ACCOUNTING POLICIES

The adoption of IFRS 16, 'Leases' has resulted in the following changes to the previously reported figures:

Balance sheet	31 Mar 2019	Impact of IFRS 16 £'000	31 Mar 2019 Restated £'000
FIXED ASSETS			
Other intangible assets	814	-	814
Tangible assets	126	465	591
Investments	581	-	581
	1,521	465	1,986
CURRENT ASSETS			
Debtors due within one year	5,292	-	5,292
Debtors due after one year	100	-	100
Cash at bank	152	-	152
	5,544	-	5,544
CREDITORS: AMOUNTS DUE WITHIN ONE YEAR	(2,660)	(446)	(3,106)
NET CURRENT ASSETS	2,884	19	2,438
TOTAL ASSETS LESS CURRENT LIABILITIES	4,405	19	4,424
CREDITORS: AMOUNTS DUE AFTER ONE YEAR	(23)	(43)	(66)
PROVISIONS FOR LIABILITIES	(287)	-	(287)
NET ASSETS	4,095	(24)	4,071
CAPITAL AND RESERVES			
Share capital	132	-	132
Share premium account	1,601	-	1,601
Retained earnings	2,362	(24)	2,338
SHAREHOLDERS' FUNDS	4,095	(24)	4,071

12 CHANGE IN ACCOUNTING POLICIES continued

Balance sheet	31 Mar 2018	Impact of IFRS 16 £'000	31 Mar 2018 Restated £'000
FIXED ASSETS			
Other intangible assets	26	-	26
Tangible assets	121	893	1,014
Investments	581	-	581
	728	893	1,621
CURRENT ASSETS			
Debtors due within one year	3,900	-	3,900
Debtors due after one year	122	-	122
Cash at bank	1,330	-	1,330
	5,352	-	5,352
CREDITORS: AMOUNTS DUE WITHIN ONE YEAR	(1,597)	(520)	(2,117)
NET CURRENT ASSETS	3,755	(520)	3,235
TOTAL ASSETS LESS CURRENT LIABILITIES	4,483	373	4,856
CREDITORS: AMOUNTS DUE AFTER ONE YEAR	(70)	(424)	(494)
PROVISIONS FOR LIABILITIES	(307)	-	(307)
NET ASSETS	4,106	(51)	4,055
CAPITAL AND RESERVES			
Share capital	132	-	132
Share premium account	1,601	-	1,601
Retained earnings	2,373	(51)	2,322
SHAREHOLDERS' FUNDS	4,106	(51)	4,055

The Company has elected to apply the full retrospective approach to the transition to IFRS 16. The full retrospective approach requires the transition to be implemented with restatement of the prior year results as if IFRS 16 had always been applied.

On adoption of IFRS 16, the Company has recognised lease liabilities reflecting future lease payments, and 'Right-of-use assets' in respect of property leases which meet the definition of a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease.

As a result of the implementation of IFRS 16, the following restatements have been made:

1. The increase in property, plant and equipment from the recognition of Right-of-use assets
2. The increase in lease liabilities from the recognition of liabilities for future lease payments, discounted to present value
3. The elimination of prepayments and accruals in respect of operating lease rentals, including those amounts recognised in respect of lease incentives
4. The recognition of depreciation and finance expenses in place of operating lease charges, with a corresponding increase in finance charges and a decrease in operating expenses for the periods presented.

Company Information

COMPANY SECRETARY
CHRIS WILLFORD

REGISTERED OFFICE
52 Bedford Row
Holborn
London
WC1R 4LR

REGISTERED NUMBER
05940040

INDEPENDENT AUDITOR
RSM UK AUDIT LLP
Statutory Auditor
Chartered Accountants
The Pinnacle
170 Midsummer Boulevard
Milton Keynes
Buckinghamshire
MK9 1BP

REGISTRARS
LINK ASSET SERVICES
34 Beckenham Road
Beckenham
Kent
BR3 4TU

STOCKBROKERS
CANACCORD GENUITY LIMITED
88 Wood Street
London
EC2V 7QR

System1 Group

System1 Group PLC
52 Bedford Row
Holborn
London
WC1R 4LR

info@system1group.com
www.system1group.com