System1 Group

System1 Group PLC

Annual Report and Accounts
for the year ended 31 March 2021

Registered Number 05940040

INDEX

Highlights

	2020/21 £m	2019/20 £m	Change** %
MANAGEMENT BASIS*			
ADJUSTED REVENUE	**22.8**	25.3	-10
ADJUSTED GROSS PROFIT	**19.2**	21.4	-10
Adjusted operating costs	**(16.2)**	(19.4)	-16
ADJUSTED PROFIT BEFORE TAXATION	**3.0**	2.0	46
STATUTORY BASIS			
REVENUE	**22.8**	25.5	-11
GROSS PROFIT	**19.2**	21.6	-11
Operating costs	**(17.7)**	(21.3)	-17
Other operating income	**0.6**	-	n.m.
PROFIT BEFORE TAXATION	**2.1**	0.3	601
Tax charge	**(0.4)**	(0.5)	-27
PROFIT/(LOSS) FOR THE FINANCIAL YEAR	**1.7**	(0.2)	n.m.
DILUTED EARNINGS PER SHARE	**13.1p**	(1.8)p	n.m.

* Management Basis figures for Adjusted Revenue, Adjusted Gross Profit and Adjusted Profit before Taxation exclude discontinued Agency business from 2019/20. Adjusted Operating Costs exclude impairment, interest, share based payments, bonuses, severance costs and government support related to the Covid pandemic. Adjusted figures exclude items, positive and negative, that impede easy understanding of underlying performance. See note 15 to the consolidated financial statements for further information.
** Year-on-year percentage change figures are based on unrounded numbers.

- Adjusted Profit before Taxation rose 46% to £3.0m (Statutory Profit before Taxation up 601% to £2.1m)
- Revenue declined 11% to £22.8m. H1 down 26%, H2 up 8%
- Operating cost reductions more than offset the Revenue decline. Adjusted Operating Costs fell 16% year-on-year (Statutory Operating Costs: 17% down). No bonuses were awarded in 2020/21
- Impairment charge related to property lease assets £1.0m, taken in H1 (2019/20 Impairment: £0.9m, related to intangible assets)
- Profit for the financial year up £1.9m to £1.7m, helped by £0.6m R&D tax credits
- Diluted earnings per share 13.1p (2019/20: Loss per Share 1.8p)
- Cash net of borrowings (excluding lease liabilities) increased by £2.3m in the period to £6.5m, reflecting strong underlying cash flows, a tax credit receipt, and US Paycheck Protection Program loan forgiveness
- As previously announced, we will look to reinstate the share buyback programme which was suspended in 2020 due to uncertainty over the potential impact of the Covid pandemic on our business. More information will be provided on the proposed buyback later in the year. No final dividend will be declared
- Transition to scalable automated data products is underway. Data products represented 15% of Revenue in the final quarter helped by the success of Test Your Ad which also led to an 18% year-on-year increase in Comms Revenue
- We continued to invest in our growth strategy, spending over £2m on product development and restoring headcount to pre-pandemic levels to service demand in H2

Commenting on the Company's results, John Kearon, Founder and Executive President, said:
"Over the last year System1 has taken its leading research intellectual property and created automated prediction products, with assets to complement our historic consultancy services. We have been recognised by marketing industry thought leaders and are firmly becoming the research industry's champion for creativity, backed by data. As System1 returns to its pre-pandemic level of revenue, we do so in a position of relative strength. Cash balances and cash flow are healthy, and we will continue to invest in our products, data assets and talent. We plan to remain profitable and to continue to generate cash in the 2021/22 financial year, as we prioritise scaling our automated predictive products. Notwithstanding that, we are targeting revenue growth to be at least matched by the rate of cost growth, due to the pandemic-related cost reductions in the year just ended."

WHO WE ARE

System1 Group has undergone much change over the past three years. We would like to take this opportunity on behalf of Management to reaffirm who we are and what we do.

System1 Group PLC was born from the world-leading intellectual property (IP) created over many years as BrainJuicer PLC. System1 owes a great debt to BrainJuicer for its prediction methodologies, as well as a strong cash flow which we can invest into turning this IP into market leading, repeatable, scalable products.

Such is the extent of change in the business that System1 feels in some respects like a three-year-old start-up. We are now a product-focussed seller of marketing predictions and improvements – we believe the best in the world. We leverage data and production economics, rather than service economics. Data and production economics point to industry value accruing disproportionately to a small number of scalable players. We are laser focussed on becoming one of them.

WHAT WE DO

System1 predicts and improves marketing effectiveness. We 'predict' (provide research results) and 'improve' (provide insight and consultancy on those results) where required on arguably three of the most critical marketing questions for our customers:

- Advertising effectiveness
- Brand effectiveness
- Innovation effectiveness

We aspire to do these three things better than anyone else.

OUR PRODUCTS

	COMMS	BRAND	INNOVATION
Automated Predictions	Test Your Ad (TYA) ESSENTIAL or PRO	Test Your Brand (TYB) ESSENTIAL or PRO	Test Your Idea (TYI) ESSENTIAL or PRO
Expert Guidance	TYA Creative Guidance EXPRESS or FULL	TYB Creative Guidance EXPRESS or FULL	TYI Creative Guidance EXPRESS or FULL
	TYA Effectiveness Audit	TYB Effectiveness Audit	
Additional Products	TYA dB Free Access	TYB Distinctive Assets Test	ConceptTest
	TYA dB Premium	TYB Key Drivers Analysis	Pack Test

The table above shows System1's standard product set. The products shown in grey boxes for Comms, Brand, and Innovation (Idea) are Automated Data products which 'Predict'. The 'Improve Your' guidance products immediately beneath them are data-enabled, rapid-turnaround consultancy assignments that utilise the same data to 'Improve'.

The products shown in the third layer are higher value-add consultancy 'Improve' products, which are more standardised than our previous consultancy services. We continue to undertake large, bespoke consulting assignments for a small number of major customers but anticipate that this type of offering will decline in significance for System1 as customers convert to the faster, cheaper standard products.

We have already created what we believe to be the largest dataset of advertising predictions in the US and UK, where we test overnight every advert that breaks in the categories we cover. This data asset has value in its own right and supports our consultancy business, helping us build unique relationships with key global customers. Direct customer access to the database also helpfully provides some subscription revenues.

So, if that is “who we are” and “what we do”, what might we become?

THE SIZE OF THE PRIZE

‘Predictions’ currently represent less than 20% of the global research market. We estimate that our target markets of predicting advert, brand and innovation effectiveness represent about £6bn of the £42bn (traditional) research market.[1] Currently at less than 1% share, we believe that System1 can gain 10% global market share in the next decade—a lower share than the current market leaders. Whether we can achieve that scale is the management challenge. But a necessary, if not sufficient, pre-condition to success is having the vision and a plan.

REASONS TO BELIEVE

We believe System1 can credibly become a global winner in marketing predictions, if we achieve the following:

1. WORLD BEATING PREDICTION AND IMPROVEMENT METHODOLOGIES

We maintain that our predictions are the most accurate, cheapest and quickest (24-hour turnaround), and that our guidance to improve our customers’ marketing is the best in the industry. This is the heart of our sales pitch. Our predictive and improvement methodologies are the foundation of the success of the company and were developed by John Kearon (Founder and Executive President) and Orlando Wood (Chief Innovation Officer) and supported by other key team members. Every day we demonstrate to customers the enhanced efficacy of our results over alternative, often well-established approaches; indeed, customers would not go through the disruptive change in research partner to us if we could not convince them of this superiority. We also believe that we have published more research proving the superior predictability of our methodologies in this space than any competitor.

2. UNIQUE AND STEP-CHANGE IMPROVEMENT IN PRODUCT VALUE FOR CUSTOMERS

Today many of our Advertising predictions are automated, and we have challenged ourselves to deliver them at 1/100th the cost and 100 x faster than traditional methods. We believe we are far ahead of traditional competitors in automated predictions and indeed that some of our competitors’ legacy economics will make it difficult for them to catch up with us. In addition, our pioneering framework for how advertising works at its best also enables our experts to provide the very best improvement advice for increasing our customers’ return on their annual advertising investment.

3. CONTINUOUS IMPROVEMENT TO MAINTAIN THIS PRODUCT LEAD

As BrainJuicer we pioneered these research techniques. As System1 we are commercialising them. However, we do continue to invest in improving our products every day to maintain and enhance our lead. We are, for example, working with Warwick University on UK government grant-funded research looking to harness artificial intelligence (AI) and our proprietary databases to further improve our understanding of predictions.

4. PREDICTION AND IMPROVEMENT MARKET DYNAMICS ARE FAVOURABLE

We believe that predictions and improvements are the most value-enhancing segment of the market research industry, and together with our improvement advice, we are intent on increasing the value and size of the segment still further. Some £1.9 trillion is spent on marketing worldwide each year, of which £900bn is on advertising. But only £0.9bn is spent on predicting and improving their advertising investment (one one-thousandth of total spend). By encouraging customers to test earlier and more often we can help them achieve a greater return from their annual advertising investment; from improving their adverts, to helping identify which adverts in which countries to put most media money behind.

[1] Global Market Research 2020 - ESOMAR

5. OUR BUSINESS IS PROTECTED THROUGH IP, BRANDING, CUSTOMER AND SUPPLIER RELATIONSHIPS
Our products are difficult to copy, and the economics of our business protect us to some extent. This is why we launched automated Test Your Ad prediction products at low prices last year, to drive customer penetration and increase volume per customer. We are building our Brand, first mover advantage in this space, and our associated Fame. We are also forging valuable industry partnerships including ITV (the UK's leading commercial broadcaster[2]) and LinkedIn (the world's largest B2B marketing solutions company[3]). Both of these advertising platforms are working with System1 to help their advertisers achieve a greater return on their ad investment. We are also building strong partnerships with some of the world's top creative agencies.

6. THERE ARE SOME EARLY SIGNS THAT OUR PLAN IS WORKING
It is very early days, but we are comfortable with progress. We believe that we have proved the model and are now redoubling efforts to scale, which will be key to our future. We are aware that changing a research provider is not always a burning priority for CMOs or Insight Directors, and so we sometimes need to wait for a customer's priorities or personnel to change for them to be receptive. Many forward-thinking marketeers are engaging strongly with System1 and converting, and these relationships are important to us.

7. A CHALLENGE FOR THE NEAR TERM IS TO GROW
We believe that System1 could be worth £1 billion eventually. Management owns 30% of the business, excluding shares under option. We take every decision with our medium term £100m+ Revenue milestone in mind. Aside from the automated product strategy, our choices on the calibre of our talent, the workflows in the company, our supply chain, the IT systems, and much more support achieving this goal.

In summary, we have a vision, a plan, a leadership team that is motivated via share ownership, and reasons to believe we can succeed. The last year demonstrated that life could take many twists and turns and so nothing is guaranteed other than our determination to win where we compete and to create value for all shareholders.

JOHN KEARON
Founder and Executive President

STEFAN BARDEN
Chief Executive Officer

CHRIS WILLFORD
Chief Financial Officer

[2] https://www.itvmedia.co.uk/advertising-on-itv
[3] https://news.linkedin.com/2021/april/linkedin-business-highlights-from-microsoft-s-fy21-q3-earnings

Strategic Report
Chairman's Statement

This year for System1, as for the rest of society, has been a dramatic one dominated by the Covid pandemic and the governmental, corporate, and personal responses to the unfolding situation. Whilst a small number of System1 employees across the world contracted a Covid infection, I am pleased to report that none was seriously ill, and all have made a full and complete recovery.

Our financial year commenced on 1 April 2020, just four days after the introduction of the first UK lockdown. The immediate reaction from companies and our customers in the UK and worldwide was to find ways to adapt to the new conditions, initially to conserve funds by cutting expenditure deemed to be discretionary, and postponing future plans. This inevitably had a significant impact on System1 Revenue in Q1 as customers' research and marketing expenditures were cut back.

From Q2 onwards we saw a steady recovery in our order book, but Revenue was still lower by 26% at the half-year. By contrast the second half of the year saw a strong sales upturn as our new products gained support, with H2 Revenue some 8% higher than the equivalent period in the previous year. This trend gives us confidence as we face the future. Our full year Revenue declined by 11% overall, however our Adjusted Operating Costs were 16% lower, leading to an Adjusted Profit before Taxation of £3.0m, (2019/20: £2.0m). Statutory Profit before Taxation increased by £1.8m to £2.1m, reflecting the growth in the adjusted measure and the impact of paying no bonuses. The business continues to generate cash and our financial position remains strong, ending the year with £6.5m cash net of debt, compared with £4.2m at last year end. Consequently, we will look to reinstate the share buyback, which was suspended in 2020, with details to be announced later.

System1 had previously operated with some limited use of employees working from home, and already had effective systems and technology to facilitate this, which enabled the company to move rapidly and effectively to 100% home working. This method of operating was substantially maintained throughout the year, and great credit must go to all our staff for their flexibility in adapting to the new circumstances.

We utilised some £0.6m of support from the US and UK government employment subsidy schemes, and senior staff took a 20% salary deferral, which we were able to pay back in full and re-instate normal salaries by October 2020. We also used the opportunity to reduce our office footprint, by closing seven locations, and economising on rental costs.

Throughout the period we have maintained a high level of contact with all our customers, not only though video conferencing but with a variety of very well attended webinars, sometimes with senior industry figures joining the System1 team, where our products and ratings tools were showcased.

During the year and despite the new working arrangements, System1 has maintained its investment in updating and automating its suite of "Test Your" research products. Led by Test Your Ad, an automated advertising prediction tool, it has led to increased take-up by major advertisers and agencies and contributed significantly to the improved performance in H2. Work continues to enhance our Test Your Brand and Test Your Idea products which will give customers a more rapid and less expensive way of testing, and a stimulus to purchase our added-value guidance on how to improve the effectiveness of their brands and innovations.

In addition to customer commissioned research, we have leveraged our thought leadership by entering into partnerships with leading broadcasters, advertising agencies, and others where they recommend and integrate the use of our products into their own sales and business development processes. Our partnership with ITV, which encourages and incentivises advertisers to create more effective TV commercials, uses the System1 Test Your Ad measurement. The LinkedIn platform is another partner offering the System1 research tool to potential advertisers to refine and improve the effectiveness of their messages prior to transmission.

In the year ahead, we plan selectively to increase investment in future product development and IT, with priority given to scaling our automated prediction products. We also plan for an enhanced sales and marketing capability to expand our reach and generate new business.

In June 2020 Stefan Barden and Chris Willford were appointed to the Board as executive directors. Stefan Barden was subsequently appointed CEO in March 2021, with John Kearon, our Founder, becoming Executive President. These changes of title largely reflected their existing operational responsibilities and facilitated the recruitment and promotion of several key senior managers which will significantly strengthen the business.

The new financial year will see some further changes to our Board composition. Robert Brand, our Senior Independent Director, will not seek re-election at the Annual General Meeting having served on the Board since 2012. We have benefited greatly from his wise counsel, and he leaves with our heartfelt thanks and our best wishes for the future. He will be succeeded as Senior Independent Director by Sophie Tomkins, currently Audit Committee Chair. I am also delighted to welcome Rupert Howell to the Board as an Independent Director. Rupert joined in February following a long and illustrious career in advertising, public relations, television, and publishing, and is proving to be a strong addition to the team.

None of our business results this year and our future ambitions could be achieved without the unswerving support of all our people across the globe. This year, more than ever, their resilience and dedication has been outstanding, and on behalf of the Board and our shareholders, I thank them all for their outstanding efforts.

GRAHAM BLASHILL
Chairman

Founder and Executive President's Statement

WHAT A YEAR!

We have already set out System1's market positioning, potential, and headline financial performance, so I am going to focus on how we survived the impact of the pandemic and exited the year with real progress towards our goal of becoming the world leader in predicting advertising effectiveness.

SHAPING UP

As the pandemic hit, many customers understandably pressed the 'pause-button' on their marketing, and our first quarter Revenue dropped 32%. From a practical point of view, the digitisation of the business meant we were able to move immediately to remote working with no loss of productivity and quickly acclimatise to remote working as the norm.

The drop in sales galvanised our remarkable staff to simplify everything we were doing and accelerate our plans to reshape the business, from tailor-made consultancy to automated prediction products and enhanced creative guidance. In the second half of the year, the top line revenue exceeded last year's level thanks to quarter-on-quarter growth from a significantly reshaped business:

- Our automated prediction products represented 1% of Revenue at the half-year, 7% in the December quarter and 15% in the final quarter (34% for Test Your Ad) and are on track to continue growing in the coming months.
- Our Comms Revenue, including Test Your Ad, grew 18% in the year to become the largest part of the business, with significant new Test Your Ad customers like adidas, Danone, Sky, Boston Beer, Carlsberg, Kellogg's, and Globo.
- Our Partnerships Team won two major advertising platform customers: ITV and LinkedIn, who are promoting and recommending our Test Your Ad services to help enhance their advertisers' returns.
- Our US business grew quarter on quarter, almost back to early 2019 revenue levels by the end of the period.
- Our productivity improved, delivering higher Revenue in the second half with less cost in the business.

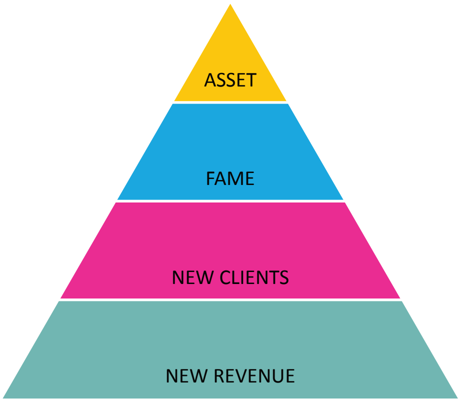
By the end of the year, we had shaped our automated prediction products into the following simple but compelling offerings of what we believe to be the most predictive methods, at the lowest cost, fastest turnaround and with the best value-enhancing, creative guidance:

	TEST YOUR AD	TEST YOUR BRAND	TEST YOUR IDEA
ESSENTIAL	PREDICT YOUR AD… Star – long-term profit potential Spike – short-term sales potential Fluency – strength of branding	PREDICT YOUR BRAND… Fame – reflects current brand share Feeling – predicts future brand share Fluency – creates brand premium Star Rating – brand performance	PREDICT YOUR IDEA… Predicted Acceptance Speed of Choice Emotional Pull Star Rating – predicted success
PRO	PREDICT YOUR AD AND… Custom sample as well as nat-rep Pro diagnostics to explain & improve	PREDICT YOUR BRAND AND… Custom sample as well as nat-rep Pro diagnostics to explain & improve	PREDICT YOUR IDEA AND… Custom sample as well as nat-rep Pro diagnostics to explain & improve
GUIDANCE	IMPROVE YOUR AD… Expert creative guidance to enhance the effectiveness of your advertising	IMPROVE YOUR BRAND… Expert creative guidance to enhance the effectiveness of your brand	IMPROVE YOUR IDEA… Expert creative guidance to enhance the effectiveness of your innovation
SUBSCRIPTION	BENCHMARK YOUR… Own advertising effectiveness Competitor advertising effectiveness Against every US/UK TV ad in all major categories (over 50,000 ads)		

PROGRESS TOWARDS GLOBAL LEADERSHIP

To improve the utility of and access to System1 predictions, we continue to standardise, digitise, and automate our approaches, and the year saw significant progress in the four progressive goals we set out three years ago:

1. BUILD DEFENSIBLE ASSETS



We have now tested over 50,000 ads and have the largest database, that we are aware of, of validated ad effectiveness data and spend in the world. We use this asset to continuously enhance our understanding of ad effectiveness and help prove the value of creativity to advertisers. The database continues to prove an invaluable asset in demonstrating and validating the essential qualities of the most effective advertising. Orlando Wood is currently using the database in his work with The Institute of Practitioners in Advertising (IPA) on *Lemon II*, the working title of a follow-up publication to the critically acclaimed *Lemon* (the IPA's biggest ever selling book), showing how the principles of the most effective advertising apply as much, if not more, to online video, as they do in TV advertising. Our approaches have been critically acclaimed by such industry luminaries as Peter Field, co-author, *The Long and the Short of It*, who said,

"The marketing world desperately needs better metrics to benchmark the long-term growth driving potential of their advertising; to offset the tsunami of short-term metrics washing around. So, I welcome System1's new Ad Ratings service, which has to be an important step in the right direction."

2. GENERATE FAME

Testing every new ad in the categories we cover 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 have been able to generate significantly more System1 coverage than in any previous year.

Our Ad of the Week feature, celebrating the best, most effective creative from any category in the US or UK, generated significant industry attention, as well as helping to win a number of significant new customers. In recent months we have initiated Ad of the Month, celebrating the best, most effective creative in each of our international markets: France, Germany, Brazil, Singapore, and Australia.

Orlando Wood's 2019 *Lemon* publication continued to generate significant customer interest and presentations to many thousands of client marketers and agency influencers alike. As mentioned, Orlando is working on a new book to provide the industry with a blueprint for dramatically increasing the effectiveness of the customer shift in spend towards digital channels.

We have managed to generate industry accolades from leading industry figures like Mark Ritson, Virtual Marketing Professor, who said,

"System1 is special because you've looked at creativity in a far more detailed way. You've balanced the creativity/media thing, you've done it on an effectiveness basis."

3. WIN NEW CUSTOMERS

Our increased industry effectiveness profile, the automation of our superior products, together with our enhanced Sales and Partnership teams, has led to several significant wins, including: adidas, Expedia, Danone, Sky, Boston Beer, Carlsberg, Kellogg's, Globo and perhaps most significantly, ITV and LinkedIn, who are promoting and recommending our Test Your Ad services to help enhance their advertisers' returns.

4. GENERATE NEW REVENUES

Test Your Ad revenues increased 18% to make ad testing our most popular product, and accounting for almost half of total revenues. Part of this growth was a significant increase in customers using our Test Your Ad platform, to test a total of 2,471 advertising ideas, at varying stages of development. These tests were using our basic 'Essential' product, and the recent launch of our enhanced 'Pro' product will offer customers additional diagnostics to improve their advertising performance. Thirty companies also added an annual subscription for the competitive data on all ads in their category, with 1,086 users now accessing the platform for competitive monitoring and ad performance evaluation. In the case of adidas, we set up a new Sports Apparel category, in their 4 major markets, including backtesting the last 12 months of ads in each market. This is something we hope to do for other multinational customers in the current year, extending their competitive and performance monitoring outside of the US and UK, to include additional markets they request.

Over the last three years, we have reshaped the business, begun to automate our products, generated increasing industry profile and put together 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 our product set is 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 intellectual property and created automated prediction products, with assets to complement our historic consultancy services. We have been recognised by marketing industry thought leaders 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 in the US with LinkedIn, who are on a mission to do for online B2B advertising what Facebook and Google have done for online consumer advertising. 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.

JOHN KEARON
Founder and Executive President

OVERVIEW

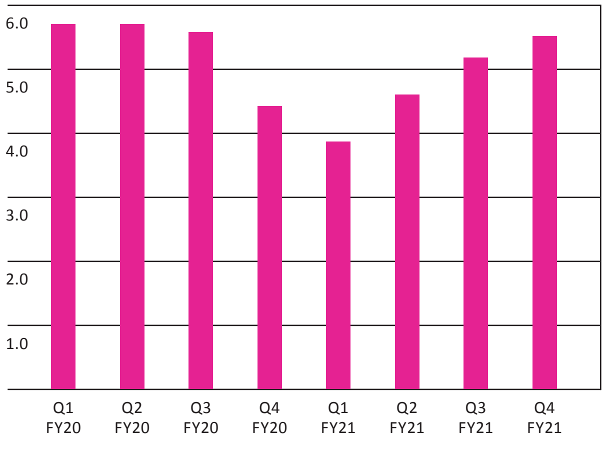
	2021 £m	2020 £m	Change £m	Change** %
Adjusted revenue*	**22.8**	25.3	(2.5)	-10
Adjusted gross profit*	**19.2**	21.4	(2.2)	-10
Adjusted operating costs*	**(16.2)**	(19.4)	3.2	-16
Adjusted profit before taxation*	**3.0**	2.0	1.0	46
Statutory profit before taxation	**2.1**	0.3	1.8	601
Taxation	**(0.4)**	(0.5)	0.1	-27
Statutory profit/(loss) for the financial year	**1.7**	(0.2)	1.9	n.m.

* All figures in the Financial 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. Adjusted Revenue, Cost and Profit figures are as defined in the Highlights section.

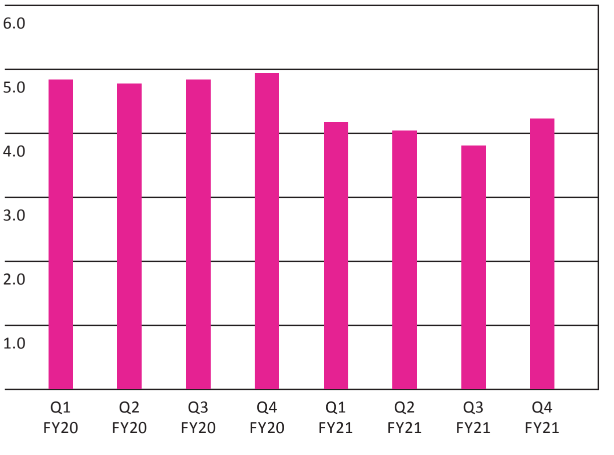
** Year-on-year percentage change figures are based on unrounded numbers.

Adjusted profit before tax rose 46% to £3.0m in the year despite a 10% decline in adjusted revenue. After a disappointing first quarter there were three consecutive quarters of top-line growth, and sales ended the year at a run-rate close to what was achieved in the first half of FY 2019/20. Adjusted Revenue and Gross Profit both increased by 8% in the second half-year (first half 26% lower). Statutory Profit before Taxation increased by £1.8m to £2.1m.

REVENUE (£m)
Since April 2019



ADJUSTED OPERATING COSTS BY QUARTER (£m)
Since April 2019



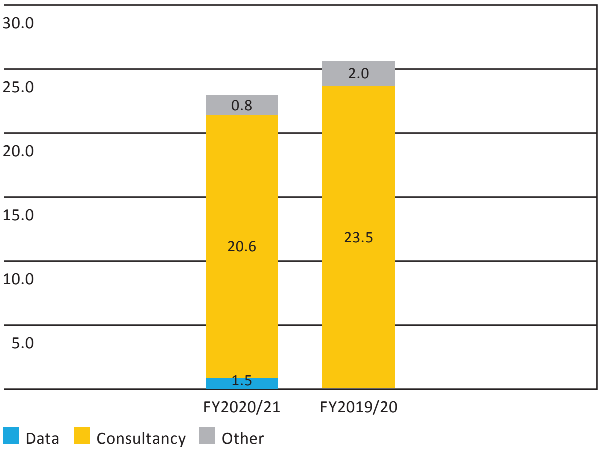
Adjusted Operating Costs fell in each of the first three quarters of the financial year, due mainly to the Company's precautionary decision to reduce expenditure at the beginning of the Covid pandemic. To the extent that these reductions were due to decreased working hours, they had already been reversed by the end of the third quarter. The Company began recruiting for growth in the second half-year, ending the financial year with a similar level of manpower to the previous year.

Profit for the financial year increased by £1.9m to £1.7m on the back of improved operating profitability and lower tax payable, assisted by a £0.6m R&D tax credit received in the period. Diluted Earnings Per Share of 13.1p compared favourably to the previous year's Loss Per Share of 1.8p.

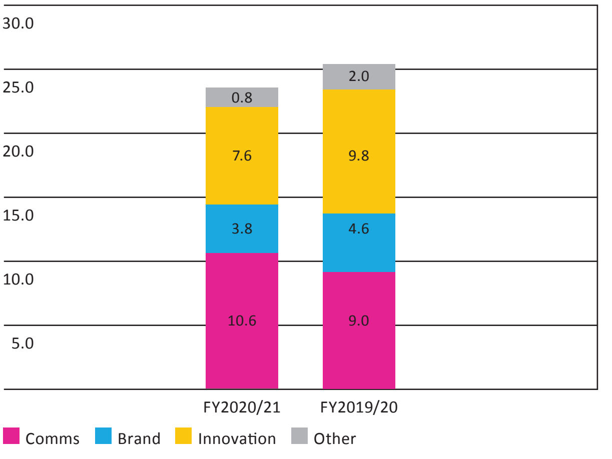
PRODUCT PERFORMANCE

The last year saw the launch of System1's automated "Test Your..." data products, starting with Test Your Ad, complemented by the "Improve Your..." standard data-enabled consultancy range of creative guidance products. For this reason, we now segment our revenue primarily by product variant rather than product area (Comms, Brand, Innovation). For continuity, we show both product variant and product area in this report. The uptake of automated data products (principally Test Your Ad) accelerated in the second half and Data represented 15% of Revenue in the final quarter compared with 6% for the year as a whole. Consultancy declined in line with the overall Revenue. Within the total, new creative guidance that provides further insight on the automated data reports and recommends improvements performed well. Bespoke consultancy assignments decreased in absolute and relative terms, in line with our plan to concentrate on standard consultancy products.

REVENUE BY PRODUCT VARIANT (£m)



REVENUE BY PRODUCT AREA (£m)

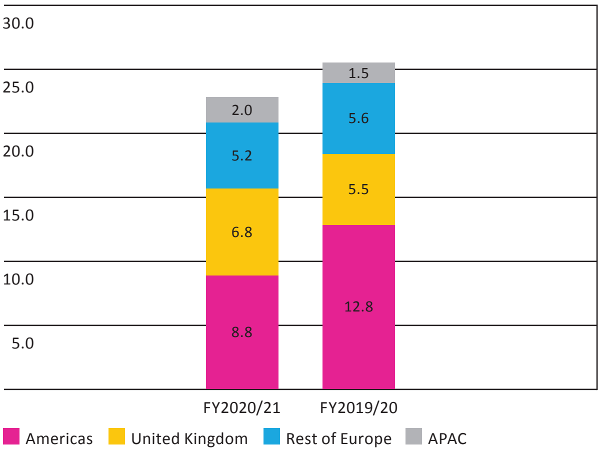


The success of Test Your Ad led to Communications growing in all geographic regions, representing nearly half the Group's Revenue for the year. This was offset by declines in our customers' Innovation spend, particularly in the Americas. The Brand product area fell back year on year, due mainly to two large brand tracking customers in Continental Europe scaling back their marketing operations in the region.

REGIONAL PERFORMANCE

Revenue in the Americas fell by £4m versus a strong prior year, with all the reduction coming in the first half, partly as a result of the region's three biggest customers reducing their spend. Second half revenue in The Americas recovered and was just above H2 2019/20. The UK was the first to benefit from the Test Your Ad launch, consistently achieving high revenue growth, particularly in Comms. Continental Europe revenue fell slightly year on year, despite achieving double-digit growth in the second half-year. APAC revenue grew consistently throughout the year on the back of strong Innovation sales, ending the period a third up on FY 2019/20.

REVENUE BY REGION (£m)



OPERATING EXPENDITURE

At the interims we changed the way we report our expenditure in order to provide clearer information on System1's recurring operational cost base whilst disclosing separately the sometimes-significant non-recurring costs and credits. Adjusted Operating Costs therefore exclude severance, subsidies received, and bonuses. Adjusted Operating Costs fell by £3.2m (16%) in the year to £16.2m due mainly to average headcount that was some 9% lower. Office rents declined as we continued to vacate offices; travel and related expenditure also fell sharply as a result of pandemic travel restrictions. Statutory-basis operating costs fell by £3.6m (17%), due partly to the lack of bonus awards in FY 2020/21. A reconciliation of adjusted operating costs to statutory operating costs is shown in Note 15 to the Consolidated Financial Statements. The benefit of the Paycheck Protection Program in the USA and small pandemic-related subsidies in other countries is reported as Other Income in the statutory numbers.

In the first half of the year, the Group reviewed its office estate for lease impairment under IFRS 16 in view of the pandemic and System1's widespread adoption of new ways of working and decided to close our offices in Rio, Sydney, Los Angeles, Rotterdam, Hamburg and Chicago as those leases expired. The review concluded that a significant reduction in the utilisation of the New York office required an impairment of the lease asset alongside much smaller impairments on leases in Chicago, Hamburg, and Rotterdam. The resulting £1.0m non-cash Impairment Charge (£0.9m relating to the New York office) affects the Group's statutory operating costs and profit before taxation, but is excluded from the Adjusted figures. As a result of these changes, annual rental costs are falling by some £0.4m. Since the end of the financial year, we have signed an agreement to sublet the New York office from July 2021 until the lease expires in 2024, on terms slightly better than the early termination alternative that informed the mid-year impairment calculation.

TAX

The Group's effective tax rate fell from 178% to 19% due mainly to a £0.6m research and development tax credit for 2018/19 associated with the development of the AdRatings database and System1's automated prediction products. We subsequently made a successful claim for 2019/20 which is being recognised on receipt in H1 2021/22. We anticipate a claim for FY 2020/21 which is yet to be quantified or submitted. Excluding the tax credits, the effective tax rate fell from 178% to 45%.

FUNDING AND LIQUIDITY

The Group began the year with £6.7m Cash on the balance sheet and ended it with £9.0m: funding from the £2.5m revolving credit facility is included in both years' balances. The £2.3m cash inflow is attributable to £1.9m cash generated from operations after property lease costs, £0.6m subsidies received, and £0.3m net cash tax refund. These inflows were partially offset by £0.2m capital expenditure, loan interest £0.1m and a £0.3m adverse translation effect of non-sterling bank balances of reflecting primarily the strengthening of the pound against the dollar in the period. Some £2.5m cash was spent on research and development in the year, related primarily to the development of new IP, automated prediction products and the AdRatings database.

No dividends were declared or paid in the year.

OUTLOOK

As System1 returns to its pre-pandemic level of revenue we do so in a position of relative strength. Cash balances and cash flow are healthy, and we will continue to invest in our products, data assets and talent. We will look to reinstate the share buyback programme which was suspended in 2020 due to uncertainty over the potential impact of the Covid pandemic on our business. More information will be provided on the proposed buyback later in the year. We plan to remain profitable and to continue to generate cash in the 2021/22 financial year, as we prioritise scaling our automated prediction products. Notwithstanding that, we are targeting revenue growth to be at least matched by the rate of cost growth, due to the pandemic-related cost reductions in the year just ended.

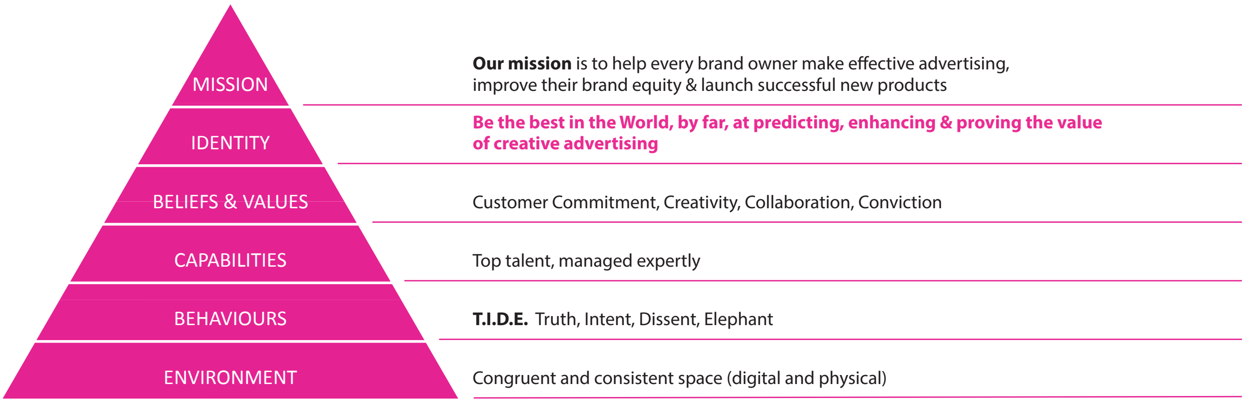
Section 172 Report

Section 172 of the Companies Act requires the Board to take into consideration the interests of stakeholders in its decision making. This section provides information about the Board's approach to engagement with stakeholders, namely:

- Customers
- Talent
- Investors
- Suppliers
- Community

Overarching the Group's approach to all stakeholders is System1's culture pyramid:

System1 | **Culture Pyramid** | What do the layers mean?



CUSTOMERS

The success of our customers is at the centre of our purpose as a company. Our mission is to help every brand owner make effective advertising, improve their brand equity, and launch successful new products. Our pursuit of the mission is guided by our core beliefs and values: Customer Commitment, Creativity, Collaboration and Conviction. We are single-mindedly focussed on improving the effectiveness of our customers' marketing budgets by providing better, faster, and cheaper predictions on the following:

- Whether their advert will change people's behaviours in the way they intend
- Whether their brand will grow stronger in the mind of their target customers; and
- Whether their new product/service ideas are more or less likely to be successful
- How we engage with our customers

We invest significant resource in developing and growing deep customer relationships including highly rated training and professional development sessions that draw on our behavioural science expertise. We seek structured feedback from customers on all our research projects so we can improve and develop our products and services.

CUSTOMER SUCCESS STORIES

LINKEDIN

LinkedIn has been a major success story with their advertising working with us through every stage of their creative process to not only optimise it but ultimately test it across countries and air it globally. LinkedIn *Plant* was tested from script to storyboard to animatics to finished film with System1. Every stage included System1 recommended optimisations and System1 will be creating a case study from this ad which will now be aired globally with a series of promotions and perfect timing to coincide with the current job market. Leaning into how taking small steps with the LinkedIn community can help members to grow and find opportunity. Following System1's recommendations to lead with emotion; to have a story with a beginning, middle and end; to testing different soundtracks to ensuring the highest star score; and finally testing different endings to ensure as System1 recommends the ad ends with happiness. Looking forward to many more opportunities with this partnership account!

adidas

System1 is proudly partnering with adidas in creating effective advertising. Since early 2021, adidas bought into System1's thinking, tech-enabled ad products and its consultancy, leveraging System1's Test Your Ad solution suite at a global scale. adidas' exciting brand campaigns, such as the *Impossible Is Nothing* campaign, and product campaigns are tested throughout the creative development process in a coherent way with System1's proven metrics for business effects.

TALENT

Our primary focus is on attracting, growing, and retaining world class talent with a culture of performance. To achieve this, we embed structures that promote equal opportunity and guard against discrimination. We are proud of being an inclusive organisation – our culture is founded on principles of inclusion such as feedback, honesty, and creativity.

HOW WE ENGAGE WITH OUR TALENT

Alongside our corporate values (Customer Commitment, Creativity, Collaboration and Determination), System1 promotes a set of team behaviours known as TIDE.

Truth – always tell the truth… and tell it early
Intent – always assume good intent…yet resolve issues
Dissent – Be obliged to dissent...yet adhere to 'Cabinet Responsibility'
Elephant – Don't allow 'elephants' in the room... yet be empathetic in dealing with them

This helps to ensure that employees understand the behaviours expected of them and allow us to operate a high trust environment, which is linked to business success.

We conduct quarterly employee input surveys which are reviewed by the Board. These use our FaceTrace methodology to capture how employees feel about working at System1, along with reasons. We also ask them what is working well, what could be improved and add a topical question. We hold follow up discussions with each team across the business, chaired by the departmental head and the Chief People Officer to agree improvements, actions and owners.

There is a comprehensive programme of employee communication and engagement sessions, ranging from the monthly Town Hall meetings with all staff, to fortnightly senior management forums, through to drop in "coffee meetings". During the past year virtually all of these have been held online. They give us the opportunity to connect across the business at different levels, share updates and celebrate success – including System1 Value Awards, where employees are nominated by colleagues and are recognised for working according to our values.

We pay fairly – there is no discrimination across any factor – we ensure this by using benchmarking data and conducting annual salary reviews by individual and across roles, and there is a structured approach to career and professional development across the business. We have a strong learning and development culture. We encourage employees to plan their development using the support and resources we provide (including access to LinkedIn Learning, internal training programs and professional certifications). We advertise roles internally and promote inter departmental opportunities.

TALENT ENGAGEMENT OUTCOME

In the depth of the Covid pandemic when our people were forced to work at home, we surveyed their attitudes towards home-based versus office-based working, which is informing our plans on introducing hybrid virtual working. The feedback prompted the Company to improve and clarify its policy on providing equipment for home working. The survey feedback is also helping us to formulate plans to increase employee satisfaction via continued flexible working whilst reducing our worldwide office footprint and associated costs.

INVESTORS

The most visible way that the Company takes the interests of equity investors into consideration is through the high level of share ownership on the Board. In addition, the Group Executive Team members' interests are aligned through their participation in a valuable LTIP scheme. They have no cash bonus scheme.

The Company encourages two-way communications with all its shareholders and responds quickly to requests or queries received. Larger investors and potential investors are invited to meet management after the full-year and interim results. In addition, the Company maintains regular contact with its lender in the revolving credit facility to ensure that it is kept informed of the Company's performance and prospects.

Communication is primarily through the Company's website and the Annual General Meeting which shareholders are encouraged to attend and where participation is encouraged so that the Board may answer questions. All shareholders have at least twenty-one clear days' notice of the Annual General Meeting.

All shareholders will receive a copy of the Annual Report. We encourage the use of electronic copy but still produce a small quantity of hard copies for investors who request them. The interim report is available online via the Company's website.

The Group seeks advice from its Nominated Advisor, Canaccord on all formal shareholder communications and relies on their services to arrange the twice-yearly investor "roadshows".

As we have no foreseeable requirement for additional equity capital, System1 does not currently hold capital markets days, but would consider doing so if requested by a sufficient number of investors.

SUPPLIERS

We work with a small number of trusted suppliers and operate on a strong partnership basis. Our approach is centred on lean principles and continuous quality improvement, with weekly and monthly meetings to review service levels, KPIs and resolve issues. We share data between teams to ensure that there is one view of our partnership metrics.

Our key delivery suppliers include:

- MAP Marketing Research – provides us with survey programming and project management services
- Toluna, Prodege and NetQuest – provide us with market research panel respondents to complete our surveys
- Datawise – provides us with bespoke data processing and charting services on our non-standard deliverables
- Intonation – provides us with translation services (forward translation of questionnaires and back translation of respondent verbatim)

During the year we ran our first virtual Supplier Conference, to share System1's latest strategy update with current and potential suppliers. We invited them to help us disrupt the industry by offering solutions to support us in new ways. It received excellent feedback and has resulted in deeper partnerships with a better understanding of our strategy, as well as discussions about alternative ways of partnering as we scale our digital solutions.

COMMUNITY

The ESOMAR Foundation (esomarfoundation.org) is the charity arm of the Market Research industry. John Kearon has been President of the Foundation for the last four years. Its purpose is, 'using Market Research to build a better world' and it is run on a purely voluntary basis. With a team of six System1 volunteers, together with five volunteer research industry Board members, the Foundation provides research training, inspirational case studies, and support, to help charities anywhere in the world in making a difference to the communities they serve. The Foundation raises over £100,000 a year, through annual donations from the research community, to fund these activities.

Principal Risks and Uncertainties

The Board is responsible for reviewing risk and regularly reviews the risks facing the Group, as well as the controls in place to mitigate potential adverse impacts. The risk register is assessed at least twice a year, but the Board's consideration of risk matters is not limited to those formal reviews. The Audit Committee reviews the effectiveness of financial controls. 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:

Risk Area	Potential Impact	Mitigation
LOSS OF A SIGNIFICANT CUSTOMER	Revenues and profits fall due to the loss of a large customer	We work with more than 250 customers and work hard to earn their loyalty. The percentage of business from our largest customer in the 12 months to 31 March 2021 stood at 8% of revenue
LOSS OF KEY PERSONNEL	Key personnel leave the business, taking knowledge and external relationships with them	We have a relatively senior team with broad experience and seek to ensure that System1 is as attractive to existing employees as it is to talented external recruits. Reward is competitive and regular performance evaluation identifies individuals who may be "at risk". For the most senior executives, the LTIP provides a strong motivation to stay with System1
LOSS OF A CRITICAL SUPPLIER	The bankruptcy, change of control or resignation of a strategic supplier leaves the Company unable to meet customer demand	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 and typically have three qualified providers. We work in close co-operation with our strategic suppliers, ensuring that any issues and concerns are surfaced rapidly and resolved in partnership
LOSS OF ASSETS, DATA, INTELLECTUAL PROPERTY	Theft of intellectual property via unauthorised or illegal access to or copying of the Company's databases, proprietary methods, and algorithms	We endeavour to protect the business from significant risks, through a combination of trademark protection; insurance; information security, and our employee, customer and supplier terms and conditions
LITIGATION RISK	Legal action is taken against the Company by customers, employees, suppliers, or other stakeholders	We endeavour to protect the business from significant risks, through our terms and conditions, trademark protection and comprehensive professional indemnity insurance

Risk Area	Potential Impact	Mitigation
OPERATIONAL RISK	An outage or other technical issues on our survey platform results in delays in delivering customer projects	All our services are hosted on a secure external cloud infrastructure with multiple failover options. We continuously monitor system availability and endeavour to alert the customer to any delays on the rare occasions where there is disruption
	A cyber-attack causes a material breach to our infrastructure	Our business does not ordinarily hold non-employee personal data. We have invested in our controls (including penetration tests), processes and IT infrastructure and hold ISO 27001 accreditation covering information security
	The volume of change initiatives in Sytem1's transition to a data predictions business could lead to a loss of operational control	All change initiatives are subject to project governance, and development is run on an "agile" methodology. The Executive Team reviews operational performance every week providing early warning of potential deviations from plan. The Board reviews operational performance monthly and strategic direction annually
FINANCIAL RISK	Failure to manage credit, currency, market, interest rate or liquidity risk expose the Group to losses	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 customers are large, credit-worthy organisations, foreign exchange and credit risks have historically proved to be modest. Since February 2020, the Group has been exposed to interest rate risk through its £2.5m floating rate revolving credit facility which always has been more than matched by unencumbered cash
ENVIRONMENTAL AND POLITICAL RISKS	Pandemics – the company's revenue streams could be affected by customers' decisions to reduce marketing budgets	The Company trades principally in Europe the USA and is exposed to the social and economic impacts in those regions. The recent Covid-19 pandemic demonstrated the Group's ability to operate normally without access to its offices. The main exposure is to our customers' decisions on the size of market research budgets in response to an economic downturn
	Political risk through adverse regime or regulatory change	The territories representing the vast majority of the Group's revenue are socially, politically, and economically stable. The impact of Brexit has been negligible to date. We have a regional operations centre in Brazil where just under 10 percent of our employees are based and are comfortable that the benefits of the operation outweigh the slightly elevated risks

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENT

The Group Overview, Chairman's Statement, Founder and Executive President's Statement, the Financial Review, the Section 172 Report, Principal Risks and Uncertainties, and the Corporate Governance Report 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 (Group Overview, Chairman and Founder & Executive President's statements, Financial Review);
- its strategy, positioning, and objectives (Group Overview, Chairman's, and Founder & Executive President's Statements).
- its historic financial performance (Chairman's and Founder & Executive President's statements, Financial Review);
- an assessment of its future potential (Group Overview, Chairman's and Founder & Executive President's Statements, Financial Review);
- its key performance indicators (Financial Review); and
- its key business risks (Principal Risks and Uncertainties).

DIVIDENDS

The Company has paid the following dividends:

	2021 £'000	2020 £'000
2020 INTERIM DIVIDEND PAID, 1.1P PER SHARE	-	138
2019 final dividend paid, 6.4p per share	-	805
	-	943

The Company did not pay an interim dividend in the year ended 31 March 2021 and does not propose the payment of a final dividend.

DIRECTORS

Stefan Barden	(Executive)	appointed 26 June 2020
John Kearon	(Executive)	
Chris Willford	(Executive)	appointed 26 June 2020
Graham Blashill	(Non-Executive)	
Robert Brand	(Non-Executive)	
Rupert Howell	(Non-Executive)	appointed 15 February 2021
Sophie Tomkins	(Non-Executive)	
Jane Wakely	(Non-Executive)	
James Geddes	(Executive)	resigned 20 April 2020

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

SHARE CAPITAL

At 31 March 2021, the Company had 13,226,773 Shares in issue (2020: 13,226,773) of which 510,421 were held in treasury (2020: 626,989). The treasury shares will be used to help satisfy the requirements of the Group's share incentive schemes.

During the year, the Company transferred 116,568 Ordinary Shares, representing 0.9% of the called-up share capital of the Company, out of treasury to satisfy the exercise of zero-priced employee share options of 116,568 shares.

Changes in the share capital of the Company during the year are given in Note 10 to the financial statement.

SUBSTANTIAL SHAREHOLDERS

As at 1 June 2021, the Company was aware of the following significant interests in the ordinary issued share capital of the Company.

	Number	% of voting shares
John Kearon	2,918,235	22.62
University of Notre Dame Du Lac (USA)	1,200,000	9.30
Invest. fur Langfristige Investoren (Bonn)	1,020,000	7.91
Ruffer (London)	800,000	6.20
Stefan Barden	791,645	6.14
Lazard Freres Gestion (Paris)	685,000	5.31
Motley Fool Asset Mgt (Alexandria)	645,000	5.00
Ennismore Fund Mgt (London)	579,099	4.49
Heritage Capital Mgt UK	424,260	3.29

FINANCIAL RISK MANAGEMENT

The Group's activities expose it to the following financial risks to a small degree. Further assessment of financial risks is outlined in Note 8 to the Consolidated Financial Statements.

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 customers 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, Rest of 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 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 Group manages its capital to ensure that it can continue as a going concern while maximising its return to shareholders. The Group's capital structure consists of cash and cash equivalents, bank borrowings and share capital. Towards the end of the year ended 31 March 2020, 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 any derivative contracts.

GOING CONCERN
As noted in Principal Risks and Uncertainties, and in Note 3 to the Consolidated Financial Statements, the Covid 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, the Directors have closely monitored the performance of the Group throughout the pandemic, noting the strong net cash balance at year-end compared to last year due to stronger performance in the second half of the year.

The Group has reviewed its financial forecasts for the 12 months from the approval of these financial statements, flexing sensitivity analysis scenarios with external and internal inputs that would represent the Group's central forecast and various downturn scenarios.

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 and IT Development teams are involved in the development and validation of new market research methods and products.

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 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. All relevant information known to the Directors has been relayed to the appointed auditor.

ON BEHALF OF THE BOARD

CHRIS WILLFORD
Chief Financial Officer and Company Secretary
14 July 2021

Statement of Directors' Responsibilities

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 group and company financial statements for each financial year. The directors have elected under company law and required by the AIM Rules of the London Stock Exchange to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and to prepare the company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law.

The Group and Company financial statements are required by law and international accounting standards in conformity with the requirements of the Companies Act 2006 to present fairly the financial position of the group and the company and the financial performance of the group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period.

In preparing each of the group and company financial statements, the directors are required to:

a. select suitable accounting policies and then apply them consistently;
b. make judgements and accounting estimates that are reasonable and prudent;
c. state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group 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 requirements of 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 are responsible for the maintenance and integrity of the corporate and financial information included on the System1 Group PLC website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CHRIS WILLFORD
Chief Financial Officer and Company Secretary
14 July 2021

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 Strategic Report section 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 Strategic Report.

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 commit the company to legal agreements or make payments;
- regular reviews of customer 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 continuous improvement programme.

CORPORATE CULTURE

The Company endeavours to maintain a culture built on integrity. To surface unethical or deceitful behaviours, it promotes openness amongst its employees, provides channels for employees to feedback concerns to the Executive Directors and the Board (such as anonymous employee feedback surveys, and confidential whistleblowing channels), and conducts exit interviews. Further information on System1's culture and values can be found in the Section 172 Report.

THE BOARD OF DIRECTORS

The Board comprised three Executive Directors and four independent Non-Executive Directors, including the Non-Executive Chairman for most of the year ended 31 March 2021. 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 above.

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 Remuneration Committee sought advice from PWC on the Company's LTIP. 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, RSM Audit LLP. 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 ten 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 any of the Executive Directors; and
- they have no conflict of interest given their other roles and business activities.

For financial year ended 31 March 2021, 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 and will split the roles when it reaches a size which warrants it.

The Board schedules regular monthly meetings during the year, except for July or August, and additional ad hoc meetings as required. All Directors can allocate sufficient time to the Company to discharge their responsibilities fully. As a result of the global pandemic, all board and board committee meetings during the year were held virtually over Microsoft Teams. 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
Rupert Howell (appointed 15 February 2021)	2	n/a	1
Sophie Tomkins	11	2	2
Jane Wakely	11	n/a	2
Stefan Barden	11^	n/a	1*
John Kearon	11	n/a	1*
Chris Willford	11^	2*	2*

^ of which 2 by invitation

* by invitation.

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 share buybacks, 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.

The provisions on engagement with stakeholders including shareholders, employees and customers are dealt within the Section 172 Report on page 13.

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
Rupert Howell
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 any of the executive directors to attend meetings of the Remuneration Committee. 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.

Rupert Howell will succeed Graham Blashill as Chairman of the Remuneration Committee following the 2021 AGM.

The Annual Statement from the Remuneration Committee Chair is set out in the Remuneration Committee Report.

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
Rupert Howell

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 in the Audit Committee Report.

BOARD EVALUATION
The Board undertook an annual review of its effectiveness, in January 2021. The Board will carry out further reviews of its effectiveness on an annual basis and may use an external advisor. 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 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 the categories saw improved scores year on year. The main areas identified for improvement in this second evaluation were minor administrative matters, which will be monitored between now and the next review.

In January 2021, a review was carried out by the Senior Independent Director with respect to evaluating the performance of the Chairman. All other Directors participated in the review, which produced both a positive overall outcome and some constructive suggestions regarding improvements which could be achieved. These suggestions have already been acted upon. A further review will be undertaken when appropriate.

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.

The Board

STEFAN BARDEN
CHIEF EXECUTIVE OFFICER,
APPOINTED 26 JUNE 2020
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.

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 pie (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 di vision 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.

RUPERT HOWELL
INDEPENDENT NON-EXECUTIVE DIRECTOR,
APPOINTED ON 15 FEBRUARY 2021
Rupert has an extensive career of around 40 years in the advertising and media sector. He was the co-founder of Howell Henry Chaldecott Lury, a UK-based advertising agency, where he worked from 1987 until 1997 when it was acquired by Chime Communications plc, where he became Chief Executive Officer in 1997. He held several roles at McCann Erickson from 2003 to 2007, including President of EMEA, Chairman of the UK & Ireland Group and Regional Director of EMEA Operations. He was Managing Director of the Broadcast and Online division and a board director of ITV plc from 2007 to 2010. He joined Trinity Mirror plc (now Reach plc) as group development director, from 2013 to 2020. He is chairman of Roxi, the music streaming service, pinwheel, a green energy and sustainable living app start-up and is chairman of the advisory board of Empresa Cura Medicinal, LDA.

JOHN KEARON
FOUNDER AND EXECUTIVE PRESIDENT
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.

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 Hotel Chocolat Group PLC (retail and manufacturing), Cloudcall Group PLC (software), and Virgin Wines UK PLC (online retail). 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 24 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, across categories as diverse as cosmetics, beauty care, healthcare, food, confectionery, and pet care. She is Global Chief Marketing Officer for the Pet Nutrition business 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.

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). Prior to joining System1, Chris worked as a consultant with a portfolio of scale up media and tech businesses.

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 25 of the Corporate Governance Report. Sophie Tomkins took over from Robert Brand as Chair in January 2019, and Rupert Howell joined the Committee on his appointment in February 2021. 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 Hotel Chocolat plc, Cloudcall Group plc, and Virgin Wines UK 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 23. During 2019/20 there was additional Audit Committee contact with the Auditor due to the change of Auditor. In 2020/21, this reverted to a more standard audit cycle. During 2020/21, two formal meetings were held, with additional meetings to discuss system change and audit planning.

DUTIES

The main duties of the Audit Committee are set out in its terms of reference, which are summarised on page 25 and available on the Group's website (system1group.com/investors).

The work carried out by the Audit Committee during 2020/21 comprised the following:

- ensuring the financial performance of the Company is being properly measured and reported on;
- review of the 2020/21 audit plan;
- consideration of key audit matters and how they are addressed;
- going concern review;
- 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 31 March 2021 relate primarily to the Audit and Interim review, with additional work performed on the Group's transition to a new finance system during the year.

The Audit Committee also assesses the auditor's performance.

AUDIT PROCESS

The auditor prepares an audit plan for the review of the full period financial statements. The audit plan sets out the scope of the audit, areas to be targeted and audit timetable. This plan is reviewed and agreed by the Audit Committee. Following the audit, the auditor presents 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.

CHANGE OF AUDITOR IN PRIOR YEAR

The Board appointed RSM UK Audit LLP as the Company's auditor from the financial year ending 31 March 2020 and the Audit Committee oversaw the transition with nothing to report. 2020/21 has been the second financial year audited by RSM.

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 (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:

1. The *directors' remuneration policy* sets out the Company's policy on directors' remuneration, in particular the long-term incentive plan ("**LTIP**"), and the key factors that were considered in setting the policy. The directors' remuneration policy is not subject to a shareholder vote at the 2021 AGM, since the main variable element (the LTIP) was approved by shareholders at the Annual General Meeting on 31 July 2019.
2. The *annual report on remuneration* sets out payments and awards made to the directors for the year to 31 March 2021.

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 with vesting due on 12 August 2024 (the "**2019 LTIP**").

We are proposing some amendments to the 2019 LTIP for shareholder approval at the 2021 AGM. Further information on the changes is provided later in this section.

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).

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 forgo 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.

DIRECTORS' REMUNERATION POLICY

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 31 March 2024 and covers Executive Directors and a small number of other senior managers ("Executives").

The Remuneration Committee considers the 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 (primarily revenue 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.

THE CURRENT 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 originally 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 had joined the company subsequent to the 2017 LTIP grant. By 31 March 2021, the number of options granted under the LTIP had risen to 1,124,274, the maximum level currently permitted.

The final performance period of the 2019 LTIP is the Company's 2023/24 financial year, and the lapse date is 12 August 2024.

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	144,667 shares (1.09% of issued shares)	£39.5m
	144,667 shares (1.09% of issued shares)	£56.0m
	124,001 shares (0.94% of issued shares)	£77.1m
Total awards	330,669 shares (3.12% of issued shares)	
Senior Managers	248,829 shares (1.88% of issued shares)	£39.5m
	248,829 shares (1.88% of issued shares)	£56.0m
	213,282 shares (1.61% of issued shares)	£77.1m
Total awards	710,393 shares (5.38% 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 three Executive Director participants in the 2019 LTIP (James Geddes, John Kearon, and Chris Willford) and six 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).

In April 2019, the Committee granted Stefan Barden, then an advisor to the Board, a separate equity award, comprising 300,000 zero-cost stock options in three tranches of 100,000, 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.

Stefan Barden has subsequently joined the Board of Directors and retains this separate equity option award.

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

DILUTION

Vested stock options are set out below:

	No.	%
Voting shares as at 31 March 2021	12,716,352	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	116,568	0.9%
	199,088	**1.6%**

Unvested options comprise options granted under the 2019 LTIP and the equity awards to Stefan Barden, described above. The maximum aggregate dilution under both schemes is 11.2% of the Company's voting shares.

PROPOSED CHANGES TO THE 2019 LTIP

The LTIP is the cornerstone element of our remuneration package for motivating and attracting top talent to drive our new strategy and deliver long-term value for our shareholders. Given the fundamental changes to our business strategy, the Board believes that it is simpler and more efficient to amend existing awards (primarily through changing performance conditions and the vesting timeframe) and adopt a consistent framework for equity grants to new hires rather than introduce a new plan and lapse in-flight awards which contain measures which are at odds with our new strategic priorities. Changes to the scheme that require shareholder approval will be voted on at the AGM.

The principal proposals for change are:

- Extend the performance period by one year (with the final vesting date being 12 August 2025) to reflect the impact of Covid-19 in 2020/21 and align with the strategic time horizon.
- Increase the overall plan limit from 8.5% to 10% of issued ordinary share capital as at 1 January 2017 to allow for the inclusion of John Kearon (added in 2019, not foreseen in the original 2017 scheme) and for awards to be made to potential incoming members of the executive management team.
- Extend the life of the plan during which new awards can be granted for a further 4 years from 22 March 2021 to 22 March 2025 so that all executives' interests are aligned.
- The share price underpins for vesting of awards to occur will be reduced from c.£9.95 to £4.00. The Company's share price when the original target was set was c.£7.65 with the target set at 30% above this. The share price at the time the new proposals were designed was c.£1.90 and therefore the revised underpin of £4.00 represented a > 100% increase on the Company's current share price which has since risen slightly to £2.27 at the beginning of June.
- The Gross Profit performance measure will be replaced with Revenue. The Revenue required for threshold performance is proposed to be £45m and the Revenue required for stretch performance is proposed to be £88m.
- Given our change in business model and valuation, the Profit After Tax underpin will be replaced with the Remuneration Committee considering the level of profitability in the year of vesting and the overall corporate and share price performance over the period.

The Board believes that the proposed changes are in the best interest of all our shareholders and stakeholders for the following reasons:

- FOCUS ON RECOVERING AND ENHANCING SHAREHOLDER VALUE – we believe that a key measure of the success of the implementation of the new strategy is that it leads to the recovery and enhancement of the share price over the next period.
- FOCUS ON LONG-TERM SUSTAINABLE PERFORMANCE – it is critical at this point that the management team and staff are focussed on ensuring the long-term sustainable performance of the Company. The implementation of the new strategy is unlikely to be linear and the management team needs to be flexible and nimble on their feet to exploit opportunities as and when they arise.

- ALIGNMENT TO SHAREHOLDER EXPERIENCE – the Board feels it is important that the management team members are fully aligned with the experience of shareholders. It is for this reason that the long-term incentive plan is their sole incentive in the business. The Company does not have an annual bonus plan for executives as it strongly believes that the long-term holding of equity creates the strongest alignment with the Company strategy and shareholder interests.
- RETENTION – as our sole incentive program, the long-term incentive plan must be retentive as well as motivating. As we implement the change in strategy and look to deliver the proposed growth, we feel that the retention of our management team and key members of staff is vital for successful execution. Were we to leave the 2019 LTIP as per the original design, we believe we could disincentivise the management team and participants due to the fact that the performance criteria are set at a level that is almost impossible to achieve given the Company's current strategy, performance and planned growth.

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 or profit share. 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

All the Executive Directors have service contracts. The agreements include restrictive covenants which apply during employment and for a period of 6 or 12 months after termination. All the Executive Directors' service contracts can be terminated on six months' notice in writing by either the Company or the director.

ANNUAL REPORT ON REMUNERATION

REMUNERATION FOR EXECUTIVE DIRECTORS

Year ended 31 March 2021 (audited)	Salary £	Benefits £	Pension £	Options Exercised £	Comp for loss of office £	Total £
Stefan Barden	193,968	-	-	-	-	193,968
John Kearon	232,500	7,866	3,200	-	-	243,566
Chris Willford	161,641	3,919	-	-	-	165,560
Total	588,109	11,785	3,200	-	-	603,094

Compensation for loss of office for James Geddes was recognised in the last financial year and paid in April 2020.

Year ended 31 March 2021 (audited)	Salary £	Benefits £	Pension £	Options Exercised £	Comp 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

The Executive Directors are not eligible for an annual cash bonus and received no bonus payments in either of the past two financial years.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

Directors' interests in the shares of the Company at year-end are shown below:

	2021 No.	2020 No.
John Kearon	**2,918,235**	2,961,235
Stefan Barden	**815,639**	716,062
Chris Willford	**27,000**	-
James Geddes	***263,178**	263,178
Robert Brand	**30,000**	30,000
Graham Blashill	**10,000**	10,000
Sophie Tomkins	**8,000**	-
Total	**4,072,052**	3,980,475

* James Geddes holdings are only known to the Company insofar as to the number on the date of his resignation from the Board

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

	Date of grant	Earliest exercise date	Exercise price	No. at 1 Apr 2020	Granted in year	Exercised in year	Cancelled in year	No. at 31 Mar 2021
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
				314,968	-	-	-	314,968
STEFAN BARDEN	17/04/2019	-	0.0p	100,000	-	-	-	100,000
	17/04/2019	-	0.0p	100,000	-	-	-	100,000
	17/04/2019	-	0.0p	100,000	-	-	-	100,000
				300,000	-	-	-	300,000
CHRIS WILLFORD	27/11/2020	12/08/2021	0.0p	-	**132,267	-	-	**132,267
				-	132,267	-	-	132,267
JAMES GEDDES	22/07/2015	01/05/2018	0.0p	*60,000	-	(60,000)	-	-
	04/09/2019	12/08/2020	0.0p	**198,400	-	-	(115,733)	**82,667
				258,400		(60,000)	(117,733)	82,667

* Options 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.
** Options and conditional shares 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.

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.

	2021 £	2020 £
Graham Blashill	**40,000**	40,000
Robert Brand	**38,000**	38,000
Rupert Howell	**6,000**	-
Sophie Tomkins	**36,000**	36,000
Jane Wakely	**36,000**	36,000
Total	**156,000**	150,000

GRAHAM BLASHILL

Chair, Remuneration Committee

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 2021 which comprise of the consolidated income statement, consolidated statement of comprehensive income, consolidated and Company balance sheets, consolidated and Company cash flow statements and consolidated and Company statements of changes in equity, and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 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 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 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 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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. For an explanation of how we evaluation management's assess of the group's and parent company's ability to continue to adopt the going concern basis of accounting and our key observations arising in respect to that evaluation, please see the going concern key audit matter.

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

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

SUMMARY OF OUR AUDIT APPROACH

KEY AUDIT MATTERS	GROUP ▪ Going concern and the impact of COVID-19 ▪ Valuation of sabbatical provision ▪ Impairment of intercompany receivable
MATERIALITY	GROUP ▪ Overall materiality: £101,000 (2020: £145,000) ▪ Performance materiality: £75,900 (2020: £109,000)
	PARENT COMPANY ▪ Overall materiality: £50,000 (2020: £72,500) ▪ Performance materiality: £37,500 (2020: £54,300)
SCOPE	Our audit procedures covered 100% of revenue, total assets and profit before tax.

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.

GOING CONCERN AND THE IMPACT OF COVID-19

KEY AUDIT MATTER DESCRIPTION

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 page 16 and the going concern statement on page 20. The potential risks to the Group include loss of a significant clients, 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.

HOW THE MATTER WAS ADDRESSED IN THE AUDIT.

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 for the period to December 2023.
- We have reviewed the FY22 budget and challenged management on the assumptions and inputs included in this budget.
- Management have provided us with various contingency plans and scenarios should the business not increase sales and meet budgeted targets as expected.
- We have tested the compliance with covenants post year end through recalculation of the covenant against the compliance requirements noted in the signed HSBC agreement. No issues with the compliance has been noted in the budgeted scenario. However, in the worst-case scenario, we note that covenants are breached and repayment of the loan is factored into the cash flows therein. We note that in these cases, there is still a positive forecasted cash position at 12 months from anticipated sign-off.
- We have reviewed the disclosure surrounding going concern within the financial statements;
- We have reviewed management's worst-case scenario, in which bank covenants are noted to be breached. Repayments of the loan due to this breach is incorporated into the cash flow forecasts therein. We note that in these cases, there is still a positive forecasted cash position at 12 months from anticipated sign-off;

- 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;
- The impact of the Coronavirus has created a significant uncertainty for the entire economy. Such is the scale and speed of developments of this virus that it is not possible to predict with any degree of certainty what the effects will be on businesses and therefore on cash flows. We have therefore included going concern as a key audit matter in the audit report. Whilst uncertainty exists, our audit work over going concern has provided sufficient assurance that we do not believe a material uncertainty exists.

VALUATION OF SABBATICAL PROVISION

KEY AUDIT MATTER DESCRIPTION

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 31 March 2021 was £688,000, which is included within note 11 of the notes to the financial statements. 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. The employee retention rate is very sensitive in the calculation and a small percentage swing can cause a material movement in the provision.

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

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

We have performed the following testing and concluded as below:

- We have checked the closing provision at 31 March 2021 to the valuation performed by PwC. No variances were noted in the financial statements.
- We have checked the inputs used in the sabbatical provision calculation. The inputs included within the calculation are:
  - Salary growth
  - Bonuses
  - Employee retention rate
  - Discount rate
- We challenged the use of historical values used by management given the current economic situation. When sensitised the movement in employee retention rate caused the biggest change provision value.
- We have checked the number of staff included in the provisions calculation to payroll records provided by HR. Given the calculated provision is highly sensitive to the employee retention rate estimated by management, the rate used is a critical accounting estimate and we recommended management disclose this is in the accounting policies along with a sensitivity analysis.

IMPAIRMENT OF INTERCOMPANY RECEIVABLE

KEY AUDIT MATTER DESCRIPTION

System1 Group Plc has c.£5.3m amounts due from subsidiaries at the year-end. This is included within the Company notes to the financial statements within the debtors note. Under IFRS 9, Financial Instruments, management are required to perform a calculation of impairment based on the IFRS 9 'expected loss' model against intercompany receivables, for subsidiaries that do not have sufficient liquid resources to repay the balance at the end of the reporting period. There is judgement involved in the estimates used to calculate the expected loss provision in respect of intercompany receivables. This includes both assessing the scenarios of recoverability and probabilities applied to each scenario and because of this it was considered to be one of most significance in the audit and was therefore determined to be a key audit matter.

HOW THE MATTER WAS ADDRESSED IN THE AUDIT.

We have reviewed management's assessment in respect of each balance due from its subsidiary undertakings. This included a review as to whether the assessment is in line with forecasts and budgets reviewed elsewhere in our audit work.

We have additionally reviewed the disclosures in the parent company financial statements and consider further for reasonableness.

It should be noted that this has no impact on the consolidated plc Annual Report as all intercompany balances are eliminated at the group level.

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. Based on our professional judgement, we determined materiality as follows:

	Group	Parent Company
OVERALL MATERIALITY	£101,000 (2020: £145,000)	£50,000 (2020: £72,500)
BASIS FOR DETERMINING OVERALL MATERIALITY	5% of profit before tax	2% of net assets
RATIONALE FOR BENCHMARK APPLIED	Profit measure used for the trading activities of the Group.	Parent Company is the main trading component therefore Group materiality applied for the purpose of calculating an appropriate component materiality.
PERFORMANCE MATERIALITY	£75,900 (2020: £109,000)	£37,500 (2020: £54,300)
BASIS FOR DETERMINING PERFORMANCE MATERIALITY	75% of overall materiality	75% of overall materiality
REPORTING OF MISSTATEMENTS TO THE AUDIT COMMITTEE	Misstatements in excess of £5,060 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £2,500 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

The group consists of 13 components, located in:

- United Kingdom;
- Netherlands;
- United States of America ("USA");
- Switzerland;
- Germany;
- China;
- Brazil;
- France;
- Singapore; and
- Australia.

A full scope audit was performed on the component in the United Kingdom and specified audit procedures were applied to the other components, achieving 100% coverage by our audit procedures.

OTHER INFORMATION

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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 21, 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.

THE EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the group audit engagement team:

- obtained an understanding of the nature of the industry and sector, including the legal and regulatory framework that the group and parent company operates in and how the group and parent company are complying with the legal and regulatory framework;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

All relevant laws and regulations identified at a Group level and areas susceptible to fraud that could have a material effect on the financial statements were communicated to component auditors. Any instances of non-compliance with laws and regulations identified and communicated by a component auditor were considered in our audit approach.

The most significant laws and regulations were determined as follows:

Legislation / Regulation	Additional audit procedures performed by the Group audit engagement team included:
IFRS/UK-ADOPTED IAS, COMPANIES ACT 2006 AND	Review of the financial statement disclosures and testing to supporting documentation; Completion of disclosure checklists to identify areas of non-compliance.
TAX COMPLIANCE REGULATIONS	Consideration of whether any matter identified during the audit required reporting to an appropriate authority outside the entity

The most significant laws and regulations were determined as follows:

Risk	Audit procedures performed by the audit engagement team:
MANAGEMENT OVERRIDE OF CONTROLS	Testing the appropriateness of journal entries and other adjustments; Assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and Evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

14 July 2021

Consolidated Income Statement

for the year ended 31 March 2021

	Note	2021 £'000	2020 £'000
REVENUE	5	**22,838**	25,475
Cost of sales	15	**(3,686)**	(3,874)
GROSS PROFIT	5	**19,152**	21,601
Administrative expenses	15	**(17,517)**	(21,183)
Other operating income		**652**	-
OPERATING PROFIT		**2,287**	418
Finance expense	18	**(211)**	(122)
PROFIT BEFORE TAXATION	16	**2,076**	296
Income tax expense	19	**(386)**	(527)
PROFIT/(LOSS) FOR THE FINANCIAL PERIOD		**1,690**	(231)
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY		**1,690**	(231)

EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Basic earnings/(losses) per share	21	13.4p	(1.8)p
Diluted earnings/(losses) per share	21	13.1p	(1.8)p

The notes on page 46 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 2021

	2021 £'000	2020 £'000
PROFIT/(LOSS) FOR THE FINANCIAL YEAR	**1,690**	(231)
OTHER COMPREHENSIVE INCOME:		
ITEMS THAT MAY BE SUBSEQUENTLY RECLASSIFIED TO PROFIT/(LOSS)		
Currency translation differences on translating foreign operations	**(278)**	(91)
Other comprehensive loss for the period, net of tax	**(278)**	(91)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**1,412**	(322)

The notes on pages 46 to 67 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

as at 31 March 2021

REGISTERED COMPANY NO. 05940040

	Note	2021 £'000	2020 £'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant, and equipment	6	**1,435**	3,971
Intangible assets	7	**418**	368
Deferred tax asset	20	**286**	627
		2,139	4,966
CURRENT ASSETS			
Contract assets		**318**	217
Trade and other receivables	9	**5,880**	5,423
Income taxes receivables		**-**	21
Cash and cash equivalents	8	**9,008**	6,650
		15,206	12,311
TOTAL ASSETS		**17,345**	17,277
EQUITY			
ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Share capital	10	**132**	132
Share premium account		**1,601**	1,601
Merger reserve		**477**	477
Foreign currency translation reserve		**(146)**	132
Retained earnings		**5,170**	3,416
TOTAL EQUITY		**7,234**	5,758
LIABILITIES			
NON-CURRENT LIABILITIES			
Provisions	11	**560**	565
Borrowings	8	**2,500**	2,500
Lease liabilities	8, 14	**928**	3,273
		3,988	6,338
CURRENT LIABILITIES			
Provisions	11	**200**	300
Lease liabilities	8, 14	**1,647**	1,001
Contract liabilities	13	**803**	671
Income taxes payable		**334**	-
Trade and other payables	12	**3,139**	3,209
		6,123	5,181
TOTAL LIABILITIES		**10,111**	11,519
TOTAL EQUITY AND LIABILITIES		**17,345**	17,277

The notes on pages 46 to 67 are an integral part of these consolidated financial statements.

These financial statements were approved by the directors on 14 July 2021 and are signed on their behalf by:

JOHN KEARON
Director

CHRIS WILLFORD
Director

Consolidated Statement of Cash Flows

for the year ended 31 March 2021

	Note	2021 £'000	2020 £'000
NET CASH GENERATED FROM OPERATIONS	23	**3,791**	3,180
Tax received/(paid)		**332**	(463)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**4,123**	2,717
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant, and equipment	6	**(102)**	(102)
Purchase of intangible assets	7	**(96)**	(814)
NET CASH USED BY INVESTING ACTIVITIES		**(198)**	(916)
NET CASH FLOW BEFORE FINANCING ACTIVITIES		**3,925**	1,801
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		**(211)**	(122)
Property lease liability payments		**(1,093)**	(892)
Lease liability payments		**-**	(47)
Proceeds from sale of treasury shares	10	**-**	30
Proceeds from borrowings		**-**	2,500
Dividends paid to owners	22	**-**	(943)
NET CASH USED BY FINANCING ACTIVITIES		**(1,304)**	526
NET INCREASE IN CASH AND CASH EQUIVALENTS		**2,621**	2,327
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**6,650**	4,315
Exchange (loss)/gain on cash and equivalents		**(263)**	8
CASH AND CASH EQUIVALENTS AT END OF YEAR		**9,008**	6,650

Office lease costs are not 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:

	2021 £'000	2020 £'000
Net cash flow before financing activities	**3,925**	1,801
Net cash flow for property leases	**(1,229)**	(1,014)
OPERATING CASH FLOW	**2,696**	787

CONSOLIDATED MOVEMENTS IN NET CASH/(DEBT)

	Cash and cash equivalents £'000	Borrowings £'000	Lease liabilities £'000	**Total £'000**
AT 1 APRIL 2020	6,650	(2,500)	(4,273)	**(123)**
Cash flows	2,620	-	1,093	**3,713**
Non-cash charges:				
- interest on lease liabilities	-	-	(136)	**(136)**
- new lease liabilities	-	-	(46)	**(46)**
- disposal of lease liabilities			605	**605**
- exchange and other non-cash movements	(262)	-	182	**(80)**
AT 31 MARCH 2021	9,008	(2,500)	(2,575)	**3,933**

The notes on pages 46 to 67 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended ended 31 March 2021

	Note	Share capital £'000	Share premium account £'000	Merger reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	**Total £'000**
AT 31 MARCH 2019		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 INCOME		132	1,601	477	132	4,404	**6,746**
Transactions with owners:							
Employee share options:							
- value of employee services	10	-	-	-	-	(60)	**(60)**
- current tax credited to equity	20	-	-	-	-	(31)	**(31)**
- deferred tax credited to equity	20	-	-	-	-	16	**16**
Dividends paid to owners	22	-	-	-	-	(943)	**(943)**
Sale of treasury shares	10	-	-	-	-	30	**30**
AT 31 MARCH 2020		132	1,601	477	132	3,416	**5,758**
PROFIT FOR THE FINANCIAL YEAR		-	-	-	-	1,690	**1,690**
Other comprehensive income:							
- currency translation differences		-	-	-	(278)	-	**(278)**
TOTAL COMPREHENSIVE INCOME		132	1,601	477	(146)	5,106	**7,170**
Transactions with owners:							
Employee share options:							
- value of employee services	10	-	-	-	-	22	**22**
- deferred tax credited to equity	20	-	-	-	-	25	**25**
- adjustments with respect to prior year		-	-	-	-	17	**17**
AT 31 MARCH 2021		132	1,601	477	(146)	5,170	**7,234**

The notes on pages 46 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, 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 2021 (including the comparatives for the year ended 31 March 2020) on 14 July 2021.

2 BASIS OF PREPARATION

The Group has prepared its consolidated financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in accordance with International Financial Reporting Standards ("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 Financial Review, the Group has had a solid close to 2020/21 in light of a challenging first half-year, partly as a result of the Covid pandemic. Cash balance (gross of £2.5m borrowings) was at £9.0m, net assets were £7.1m after £1.0m of lease asset impairment, and revenues were returning to pre-pandemic levels.

The Group has reviewed its financial forecasts for the 12 months from the approval of these financial statements, flexing sensitivity analysis scenarios with external and internal inputs that would represent the Group's forecast and various downturn scenarios. Our internal assessment of a reasonable worst-case scenario shows that, in the face of a striking negative downturn on System1's immediate capacity to function, management would respond appropriately by reducing our costs as soon as possible, as with last year's Covid pandemic.

Contrary to many businesses at the onset of the pandemic last year, the Group is a lot more confident about how to respond to an abrupt negative situation, whatever the cause. Our mitigating factors involve an active review cycle of the Group's performance. The Board reviews the performance of the Group monthly, and senior management has a weekly assessment of sales revenue and gross profit. The Group also reviews its profit forecasts on a monthly basis.

The Group is confident that our strong balance sheet position, in particular the cash balance, will be able to sustain the Group reasonably until June 2022 and beyond.

4 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted are consistent with those of the financial statements for the year ended 31 March 2021.

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 2021 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 its subsidiary undertakings drawn up to 31 March 2021.

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 their 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.

4 PRINCIPAL ACCOUNTING POLICIES continued

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 2021 or 2020.

Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities to reflect the actual and expected effect of exercising extension and termination options in lease arrangements.

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

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. Where no internally generated intangible asset can be recognised, development expenditure is charged to administrative expenses in the period in which it is incurred.

Development costs incurred in the development of the Company's AdRatings product were fully impaired in the year ending 31 March 2020 as the Company viewed that it will no longer generate substantive future economic benefits. Accordingly, all AdRatings development costs incurred since the impairment, such as professional fees and directly attributable employee costs required to bring the software into working condition, have been charged to administrative expenses.

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

Intangible assets are amortised on a straight-line basis over their expected useful economic lives, which are as follows:

Computer software licenses	2 years
Internally generated intangible assets	Estimated economic life

Amortisation on all intangible assets is charged to administrative expenses.

4 PRINCIPAL ACCOUNTING POLICIES continued

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 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 customer.

Revenue is recognised only after the final written debrief or creative content (in respect of our Agency business) has been delivered to the customer, 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.

OTHER OPERATING INCOME

During the year in response to Covid, the Group participated in some government employment support schemes and other support schemes to mitigate our staff and property costs. These government grants were not a part of the Group's usual operations, and the staff and lease costs would have been incurred regardless of the schemes.

4 PRINCIPAL ACCOUNTING POLICIES continued

COST OF SALES

Cost of sales includes external costs attributable to customer 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.

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.

Apart from 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 because 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

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. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all 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 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 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 several 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.

4 PRINCIPAL ACCOUNTING POLICIES continued

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 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%.

In previous years, the Company has often purchased shares to satisfy the exercise of share options 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.

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.

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 provision for liabilities under the scheme is measured using the projected unit credit method. This model requires several 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 had been recognised in the year ended 31 March 2020 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 a Research and Advertising Agency.

	2021		2020	
	Revenue £'000	**Gross Profit £'000**	Revenue £'000	Gross Profit £'000
BY LOCATION OF CUSTOMER				
Americas	**8,822**	**7,571**	12,790	10,951
United Kingdom	**6,780**	**5,668**	5,515	4,688
Rest of Europe	**5,233**	**4,231**	5,628	4,630
APAC	**2,003**	**1,682**	1,542	1,332
	22,838	**19,152**	25,475	21,601

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.

Consolidated balance sheet information is regularly provided to the Executive Directors while segment balance sheet information is not. Accordingly, the Company does not disclose segment balance sheet information here.

	2021		2020	
	Revenue £'000	**Gross Profit £'000**	Revenue £'000	Gross Profit £'000
BY PRODUCT VARIANT				
Data	**1,480**	**1,270**	-	-
Consultancy	**20,561**	**17,467**	23,468	19,976
Other services	**797**	**415**	2,008	1,625
	22,838	**19,152**	25,475	21,601
BY PRODUCT GROUP				
Communications (Ad Testing)	**10,603**	**9,177**	9,002	7,992
Brand (Brand Tracking)	**3,796**	**2,878**	4,637	3,428
Innovation	**7,642**	**6,682**	9,829	8,555
Other services	**797**	**415**	2,008	1,625
	22,838	**19,152**	25,475	21,601

AdRatings revenues and gross profit were £nil in the year (2020: £53,000). With no projections of further performance that led to the impairment in the year ended 2020, the balance has been aggregated into "Other services".

As the Company is domiciled in the UK, its consolidated non-current assets, other than financial instruments and deferred tax assets are as follows:

	2021 £'000	2020 £'000
NON-CURRENT ASSETS		
United Kingdom	**1,778**	2,462
Rest of world	**75**	1,877
	1,853	4,339

In the year ended 31 March 2021, the Group earned revenue of £1,861,000 (2020: £2,596,000) from its largest customer based in the Americas, representing 8% of its consolidated revenue (2020: 10%).

6 PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets £'000	Furniture and fixtures £'000	Computer hardware £'000	Total £'000
AT 1 APRIL 2019				
Cost	5,286	553	1,285	7,124
Accumulated depreciation	(2,666)	(422)	(1,189)	(4,277)
NET BOOK VALUE	2,620	131	96	2,847
NET BOOK VALUE, AT 1 APRIL 2019	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)
NET BOOK VALUE, AT 31 MARCH 2020	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 VALUE	3,807	47	117	3,971
AT 1 APRIL 2020				
Cost	**5,532**	**452**	**1,398**	**7,382**
Accumulated depreciation	**(1,725)**	**(405)**	**(1,281)**	**(3,411)**
NET BOOK VALUE	**3,807**	**47**	**117**	**3,971**
NET BOOK VALUE, AT 1 APRIL 2020	**3,807**	**47**	**117**	**3,971**
Additions	**46**	**4**	**52**	**102**
Disposals	**(516)**	**(5)**	**(11)**	**(532)**
Foreign exchange	**(104)**	**(2)**	**(1)**	**(107)**
Depreciation charge for the year	**(951)**	**(27)**	**(84)**	**(1,062)**
Impairment charge	**(937)**	**-**	**-**	**(937)**
NET BOOK VALUE, AT 31 MARCH 2021	**1,345**	**17**	**73**	**1,435**
AT 31 MARCH 2021				
Cost	**4,691**	**140**	**224**	**5,055**
Accumulated depreciation	**(3,346)**	**(123)**	**(151)**	**(3,620)**
NET BOOK VALUE	**1,345**	**17**	**73**	**1,435**

7 INTANGIBLE ASSETS

	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 VALUE	813	1	-	814
NET BOOK VALUE, AT 1 APRIL 2019	813	1	-	814
Additions	446	-	368	814
Amortisation for the year	(338)	(1)	-	(339)
Impairment charge	(921)	-	-	(921)
NET BOOK VALUE, AT 31 MARCH 2020	-	-	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 VALUE	-	-	368	368

7 INTANGIBLE ASSETS continued

	Development costs (AdRatings) £'000	Software licenses £'000	Software £'000	Total £'000
AT 1 APRIL 2020				
Cost	**1,369**	**697**	**2,040**	**4,106**
Accumulated amortisation	**(1,369)**	**(697)**	**(1,672)**	**(3,738)**
NET BOOK VALUE	**-**	**-**	**368**	**368**
NET BOOK VALUE, AT 1 APRIL 2020	**-**	**-**	**368**	**368**
Additions	**-**	**-**	**96**	**96**
Disposals	**-**	**-**	**-**	**-**
Amortisation for the year	**-**	**-**	**(46)**	**(46)**
NET BOOK VALUE, AT 31 MARCH 2021	**-**	**-**	**418**	**418**
AT 31 MARCH 2021				
Cost	**-**	**-**	**464**	**464**
Accumulated amortisation	**-**	**-**	**(46)**	**(46)**
NET BOOK VALUE	**-**	**-**	**418**	**418**

The only software cost as at 31 March 2021 is the Group's new finance and operations system that was brought into use October 2020. As historical items such as the AdRatings product and other software licences were fully impaired or amortised as at 31 March 2020, their respective costs and accumulated amortisation have been removed this year.

The carrying value of the AdRatings product was tested for impairment at as 31 March 2020. The carrying value of the asset was allocated to the AdRatings cash generating unit ('CGU') for the purposes of assessing future cashflows. The principal assumptions used in the forecast were the timing and amount of future revenues and profit margins, which were derived from the latest forecasts approved by the Board. As a result of this review and considering the continuing modest AdRatings revenues of £0.05m in 2019/20, the carrying value of the asset was fully impaired; the amortisation charge included impairment charges of £0.9m.

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 customers are large blue-chip organisations, and the Group has only ever suffered minimal bad debts. The Group has concentrations of credit risk as follows.

	2021 £'000	2020 £'000
CASH AND CASH EQUIVALENTS		
HSBC Bank PLC (AA credit rating)	**8,458**	6,135
Santander	**368**	360
Deutsche Bank	**74**	84
UBS	**90**	64
Other banks	**18**	7
	9,008	6,650
TRADE RECEIVABLES		
Largest customer by revenue	**666**	390

8 FINANCIAL RISK MANAGEMENT continued

FINANCIAL INSTRUMENTS BY CATEGORY

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

	2021 £'000	2020 £'000
FINANCIAL ASSETS CARRIED AT AMORTISED COST		
Trade and other receivables (excluding prepayments and accrued income)	**5,568**	5,072
Cash and cash equivalents	**9,008**	6,650
	14,576	11,722
OTHER FINANCIAL LIABILITIES CARRIED AT AMORTISED COST		
CURRENT LIABILITIES		
Trade payables	**845**	1,005
Accruals	**1,871**	2,086
Lease liabilities	**1,647**	1,001
	4,363	4,092
NON-CURRENT LIABILITIES		
Borrowings	**2,500**	2,500
Lease liabilities	**928**	3,273
	3,428	5,773

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 a 3-year 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 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

	2021 £'000	2020 £'000
Trade receivables	**5,265**	4,678
Prepayments and accrued income	**312**	351
Other receivables	**303**	394
	5,880	5,423

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

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.

9 TRADE AND OTHER RECEIVABLES continued

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 2021, trade receivables of £1,716,000 (2020: £1,352,000) were past due but not impaired. The ageing of trade receivables, and the associated loss allowance, is as follows:

	£'000	0-3 months due £'000	3-6 months due £'000	Over 6 months due £'000	Total £'000
AT 31 MARCH 2021					
Gross trade receivables	**3,610**	**1,576**	**106**	**93**	**5,385**
Loss provision	**61**	**53**	**4**	**2**	**120**
Expected loss rate	**2%**	**3%**	**4%**	**2%**	
AT 31 MARCH 2020					
Gross trade receivables	3,326	1,274	117	72	4,789
Loss provision	-	-	39	72	111
Expected loss rate	0%	0%	33%	100%	

Movements in the impairment allowance for trade receivables are as follows:

	2021 £'000	2020 £'000
PROVISION FOR IMPAIRMENT OF TRADE RECEIVABLES		
Opening balance	**111**	64
Charged to the income statement	**131**	99
Utilisations and other movements	**(122)**	(52)
	120	111

As of 31 March 2021, no other receivables or contract costs were impaired (2020: £Nil).

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

	2021 £'000	2020 £'000
United States dollar	**2,004**	2,350
British sterling	**1,527**	1,397
Euro dollar	**654**	893
Brazilian real	**263**	257
Swiss franc	**465**	281
Chinese yuan	**-**	35
Canadian dollar	**-**	16
Australian dollar	**118**	144
Singapore dollar	**597**	50
	5,628	5,423

10 SHARE CAPITAL

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

	2021		2020	
At 1 April and 31 March	No.	£'000	No.	£'000
Allotted, called up, and fully paid ordinary shares	**13,226,773**	**132**	13,226,773	132

The Company has treasury shares to satisfy the requirements of the Group's share incentive schemes. The movement in the Company's treasury shares balance is as follows:

	2021		2020	
	Treasury shares No.	Weighted average exercise price per share Pence	Treasury shares No.	Weighted average exercise price per share Pence
SHARES HELD BY TREASURY				
AT 1 APRIL	**626,989**		650,156	
Transfer of shares to satisfy options exercise	**(116,568)**	**-**	(23,167)	131.5
AT 31 MARCH	**510,421**		626,989	

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 under an unapproved scheme.

Options granted in more recent years have been awarded in accordance with management long-term incentive plans and such options have a zeroexercise 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 Remuneration Committee of the Board.

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

	2021		2020	
	Options No.	Weighted average exercise price per share Pence	Options No.	Weighted average exercise price per share Pence
SHARE OPTIONS OUTSTANDING				
Opening balance	**1,685,237**	**0.5**	962,470	6.4
Granted	**380,780**	**-**	1,358,135	-
Lapsed	**-**	**-**	(17,000)	131.5
Replaced	**-**	**-**	(462,934)	-
Cancelled	**(326,087)**	**-**	(132,267)	-
Exercised	**(116,568)**	**-**	(23,167)	131.5
CLOSING BALANCE	**1,623,362**	**0.6**	1,685,237	0.5
EXERCISABLE AT YEAR-END	**199,088**	**4.6**	315,656	2.9
WEIGHTED AVERAGE SHARE PRICE AT DATE OF OPTIONS EXERCISED		**133.7**		204.0

10 SHARE CAPITAL continued

The Group had the following outstanding options and exercise prices:

	2021			2020		
Expiry date	Options No.	Weighted average exercise price per share Pence	Weighted average remaining contractual life Months	Options No.	Weighted average exercise price per share Pence	Weighted average remaining contractual life Months
2020	-	-	-	10,144	-	1.9
2024	**182,520**	**5.0**	**38.9**	172,376	5.3	50.9
2025	**116,568**	**-**	**48.8**	233,136	-	60.8
2027	**743,494**	**-**	**71.7**	1,069,581	-	83.7
2028	**264,534**	**-**	**83.7**	-	-	-
2029	**216,246**	**-**	**97.7**	100,000	-	112.0
2032	**100,000**	**-**	**136.1**	100,000	-	148.1
	1,623,362	**0.6**	**75.8**	1,685,237	0.5	82.2

LONG TERM INCENTIVE SCHEME

During the past year, 380,780 new options were granted and 326,087 were cancelled, a net increase of 54,693 that leaves the capacity of the 2019 scheme fully utilised. 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 final performance period of the 2019 LTIP is the Company's 2023/24 financial year, and the lapse date is 12 August 2024.

The number of options outstanding under the 2019 LTIP scheme is 1,124,274 (31 March 2020: 1,058,135). Full details of the LTIP can be found in the Remuneration Committee Report, including some proposed changes to the scheme.

NON-EMPLOYEE OPTION PLAN

On 17 April 2019, the Company granted Stefan Barden who was then an advisor to the Board, an equity award comprising 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 Remuneration Committee Report.

SHARE-BASED PAYMENT CHARGE

The total charge relating to equity-settled share-based payment plans was £22,000 (2020: credit £60,000). The associated charge for social security was £53,000 (2020: credit £23,000).

11 PROVISIONS

	Sabbatical £'000	Leasehold dilapidations £'000	Total £'000
AT 1 APRIL 2019	753	82	835
Provided in the year	12	59	71
Utilised in the year	(41)	-	(41)
AT 31 MARCH 2020	724	141	865
Utilised in the year	(11)	(63)	(74)
Reversals of unused amounts	(25)	-	(25)
Foreign exchange movement	-	(6)	(6)
AT 31 MARCH 2021	**688**	**72**	**760**
Due within one year	155	45	200
Due after one year	533	27	560

11 PROVISIONS continued

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 assumptions used in the sabbatical provision are as follows:

	2021	2020
Measurement method	Project unit credit method	
Discount rate, based on 6-year corporate bond yields	**1.2%**	2.1%
Annual salary growth rate	**7%**	7%

	£'000
Changes to the assumptions will increase the provision by:	
0.25% decrease to discount rate	6
10% increase to salary increase assumption	84
3% decrease to staff turnover assumption	78

Dilapidation provisions represent £Nil (2020: £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

	2021 £'000	2020 £'000
Trade payables	**845**	1,005
Social security and other taxes	**423**	118
Accruals and deferred income	**1,871**	2,086
	3,139	3,209

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 30-45 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

	2021 £'000	2020 £'000
CONTRACT LIABILITIES	**803**	671

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.

14 BORROWINGS

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

	2021 £'000	2020 £'000
Within one year	**1,720**	1,208
Later than 1 but no later than 5 years	**943**	3,405
More than 5 years	**-**	-
Minimum lease payments	**2,663**	4,613
Future finance charges	**(88)**	(339)
Recognised as a liability	**2,575**	4,274

14 BORROWINGS continued

The present value of finance lease liabilities is as follows:

	2021 £'000	2020 £'000
Within one year	**1,647**	1,001
Later than 1 but no later than 5 years	**928**	3,273
More than 5 years	**-**	-
	2,575	4,274

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

	2021 £'000	2020 £'000
Employee benefit expense	**9,105**	11,774
Employee benefit expense - research and development	**1,456**	777
Other research and development costs	**1,054**	1,313
Depreciation, amortisation, and impairment	**1,108**	2,598
Impairment on right-of-use asset	**937**	-
Net foreign exchange losses/(gains)	**57**	(21)
Other expenses	**7,486**	8,616
	21,203	25,057
Analysed as:		
Cost of sales	**3,686**	3,874
Administrative expenses	**17,517**	21,183
	21,203	25,057

Reconciliation between Operating Costs and Adjusted Operating Costs:

	2021 £'000	2020 £'000
Administrative expenses	**17,517**	21,183
Finance expense	**211**	122
Total Operating Costs	**17,728**	21,305
Less: Adjusting item		
Impairment	**990**	921
Compensation for loss of office	**564**	498
Bonus expense	**(161)**	296
Share-based payment expense	**75**	(84)
Other interest expense	**75**	122
Other staff costs	**(31)**	-
Movement in provisions	**-**	11
Advertising Agency	**-**	174
	1,512	1,938
Adjusted Operating Costs	**16,216**	19,367

16 AUDITOR REMUNERATION

Profit before taxation is stated after charging:

	2021 £'000	2020 £'000
Audit of parent company and consolidated accounts	**62**	58
Audit-related assurance services	**10**	10
	72	68

17 EMPLOYEE BENEFIT EXPENSE

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

	2021 £'000	2020 £'000
Employee benefit expenses (including directors) comprise:		
Wages and salaries	**8,086**	10,134
Social security contributions and similar taxes	**1,119**	1,131
Defined contribution pension cost	**302**	361
Long service leave cost - sabbatical provision	**(16)**	(29)
Share-based payment expense	**75**	(60)
Compensation for loss of office	**564**	521
Medical benefits	**431**	493
	10,561	12,551

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the Group, including the 3 Executive Directors of the company. Details of directors' emoluments are given in the Remuneration Report.

Compensation to key management is set out as follows:

	2021 £'000	2020 £'000
Salaries and benefits in kind	**875**	949
Social security contributions	**109**	78
Compensation for loss of office	**-**	220
Defined contribution pension cost	**3**	11
Long-term bonus plan	**-**	(7)
Share-based payment expense	**3**	(24)
	990	1,227

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

	2021 £'000	2020 £'000
Sales and marketing	**31**	36
Operations	**55**	67
IT	**27**	19
Administration	**21**	24
	134	146

18 FINANCE EXPENSES

	2021 £'000	2020 £'000
Other net interest payable	**75**	4
Finance charges on property leases	**136**	118
	211	122

19 INCOME TAX EXPENSE

	2021 £'000	2020 £'000
Current tax	**95**	886
Deferred tax	**291**	(359)
	386	527

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

	2021 £'000	2020 £'000
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	**2,076**	296
Profit on ordinary activities multiplied by standard UK tax rate	**387**	56
Difference between tax rates applied to Group's subsidiaries	**7**	265
Net expenses not deductible for tax purposes	**165**	7
Adjustments to trading losses and brought forward values	**110**	84
Tax on intra-group management charges (Brazil and China)	**(6)**	113
Receipt of research and development credits	**(581)**	-
Adjustment to current tax in respect of prior years	**(48)**	(41)
Adjustments to foreign and withholding tax	**(2)**	45
Adjustments to deferred tax in respect of prior and current years	**354**	-
Credit on exercise of share options taken to income statement	**-**	(2)
	386	527

The standard tax rate for the years ended 31 March 2021 and 2020 was 19%.

The R&D Tax Credit in respect of the year ended 31 March 2019 provided a benefit of approximately £0.6m and was received and recognised in this year. The R&D Tax Credit in respect of the year ended 31 March 2020 provided a benefit of approximately £0.5m, which was received and recognised subsequent to year-end. The Company is working with its advisors to submit a claim for a Research & Development Tax Credit ("R&D Tax Credit") in respect of the year ended 31 March 2021.

20 DEFERRED TAX

Deferred tax assets and liabilities are as follows.

	2021 £'000	2020 £'000
Deferred tax assets:		
- deferred tax assets to be recovered after more than 12 months	**306**	570
- deferred tax assets to be recovered within 12 months	**43**	79
	349	649
Deferred tax liabilities:		
- deferred tax liability to be recovered within 12 months	**(63)**	(22)
DEFERRED TAX ASSET (NET):	**286**	627

The gross movement in deferred tax is as follows.

	2021 £'000	2020 £'000
OPENING BALANCE	**627**	299
Income statement (charge)/credit	**(316)**	359
Tax (debited)/credited directly to equity	**(25)**	(31)
CLOSING BALANCE	**286**	627

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 2020	377	28	87	27	130	649
(Charged)/credited to income statement	(277)	15	(17)	(15)	(2)	(296)
Adjustments with respect to prior year	20	-	-	-	-	20
Debited directly to equity	-	-	(25)	-	-	(25)
AT 31 MARCH 2021	**120**	**43**	**45**	**12**	**128**	**348**

DEFERRED TAX LIABILITIES

	Accelerated capital allowances £'000
AT 1 APRIL 2020	(22)
Charged to income statement	20
Adjustments with respect to prior year	(60)
AT 31 MARCH 2021	**(62)**

Deferred tax assets are recognised only to the extent that their recoverability is considered probable.

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 EARNINGS PER SHARE

	2021	2020
PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY (£'000)	**1,690**	(231)
Weighted average number of Ordinary Shares in issue	**12,657,318**	12,582,934
BASIC EARNINGS/(LOSSES) PER SHARE	**13.4p**	(1.8)p
PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY, IN £'000	**1,690**	(231)
Weighted average number of Ordinary Shares in issue	**12,657,318**	12,582,934
Share options	**193,768**	NA
Weighted average number of Ordinary Shares for diluted earnings per share	**12,851,086**	12,582,934
DILUTED EARNINGS/(LOSSES) PER SHARE	**13.1p**	(1.8)p

Basic earnings/(losses) 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.

Diluted earnings/(losses) 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.

Employee options of 1.4 million (2020: 1.2 million) have not been included in the calculation of diluted EPS because their exercise is contingent on the satisfaction of certain criteria that had not been met at 31 March 2021. The total number of options in issue is disclosed in note 10.

22 DIVIDENDS

	2021 £'000	2020 £'000
2020 INTERIM DIVIDEND PAID, 1.1P PER SHARE	-	138
2019 final dividend paid, 6.4p per share	-	805
	-	943

The Company did not pay an interim dividend in the year ended 31 March 2021 and does not propose the payment of a final dividend.

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.

23 NET CASH GENERATED FROM OPERATIONS

	2021 £'000	2020 £'000
PROFIT BEFORE TAXATION	**2,076**	296
Depreciation and impairment of property, plant, and equipment	**1,999**	1,338
Amortisation and impairment of intangible assets	**46**	1,260
Loss on disposal of property, plant, and equipment	**(73)**	66
Interest paid	**211**	122
Share-based payment expense	**40**	(60)
Increase in contract assets	**(109)**	(8)
(Increase)/decrease in trade and other receivables	**(450)**	1,484
Decrease in trade and other payables	**(71)**	(1,265)
Increase in contract liabilities	**131**	137
Decrease in provisions	**(104)**	-
Exchange differences on operating items	**94**	(190)
	3,791	3,180

24 RELATED PARTY TRANSACTIONS

Dividends paid to directors were as follows:

	2021 £	2020 £
John Kearon	-	222,093
James Geddes (resigned 20 April 2020)	-	19,738
Robert Brand	-	2,250
Graham Blashill	-	750
	-	244,831

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.

	Revenues/ (direct costs) £'000	Overhead charges £'000	Royalties £'000	Amounts due from/(to) related parties £'000
2021				
System1 Group PLC	**(32)**	**5,893**	**2,176**	**3,877**
System1 Research Limited	**(37)**	**(1,809)**	**(670)**	**(465)**
System1 Research, Inc.	**61**	**(2,106)**	**(774)**	**(2,587)**
System1 Research B.V.	**-**	**(226)**	**(82)**	**(317)**
System1 Research Sarl	**(11)**	**(645)**	**(241)**	**(177)**
System1 Research GmbH	**22**	**(230)**	**(87)**	**234**
System1 Marketing Consulting (Shanghai) Co. Limited	**-**	**-**	**-**	**70**
System1 Research Do Brazil Servicos de Marketing Ltda.	**-**	**-**	**-**	**(18)**
System1 Research France Sarl	**(5)**	**(329)**	**(122)**	**17**
System1 Market Research Pte Ltd	**2**	**(274)**	**(80)**	**(180)**
System1 Research Pty Ltd.	**-**	**(273)**	**(120)**	**(361)**
System1 Agency Limited	**-**	**-**	**-**	**(32)**
System1 AdRatings Limited	**-**	**-**	**-**	**(62)**
2020				
System1 Group PLC	2	6,090	2,403	351
System1 Research Limited	(190)	(1,371)	(557)	(78)
System1 Research, Inc.	(169)	(2,858)	(1,120)	(416)
System1 Research B.V.	(88)	271	(113)	(51)
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)

25 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

as at 31 March 2021

	Note	2021 £'000	2020 £'000
FIXED ASSETS			
Intangible assets	2	**418**	368
Tangible assets	3	**1,356**	2,076
Investments	4	**581**	581
		2,355	3,025
DEBTORS DUE AFTER ONE YEAR	5	**-**	385
CURRENT ASSETS			
Debtors due within one year	5	**6,046**	2,075
Cash and cash equivalents		**514**	3,966
		6,560	6,041
CREDITORS: AMOUNTS DUE WITHIN ONE YEAR	6	**2,246**	2,678
NET CURRENT ASSETS		**4,314**	3,363
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,669**	6,773
CREDITORS: AMOUNTS DUE AFTER ONE YEAR	6	**3,330**	4,102
PROVISIONS FOR LIABILITIES	7	**299**	270
NET ASSETS		**3,040**	2,402
CAPITAL AND RESERVES			
Share capital		**132**	132
Share premium account		**1,601**	1,601
Retained earnings		**1,307**	669
SHAREHOLDERS' FUNDS		**3,040**	2,402

As permitted by Section 408 of the Companies Act 2006, the Company's profit and loss account has not been included in these financial statements. The Company's profit/(loss) after tax was £573,000 (2020: £(663,000)).

The notes on pages 70 to 78 are an integral part of these company financial statements.

These financial statements were approved by the directors on 14 July 2021 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 2021

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
AT 1 APRIL 2019	**132**	**1,601**	**2,338**	**4,071**
LOSS FOR THE FINANCIAL PERIOD AND TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE EQUITY HOLDERS	-	-	(663)	**(663)**
Transactions with owners:				
Employee share options 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**
PROFIT FOR THE FINANCIAL PERIOD AND TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE EQUITY HOLDERS	-	-	573	**573**
Transactions with owners:				
Employee share scheme:				
- value of employee services	-	-	22	**22**
- deferred tax credited to equity	-	-	25	**25**
- adjustments with respect to prior year	-	-	18	**18**
	-	-	65	**65**
AT 31 MARCH 2021	**132**	**1,601**	**1,307**	**3,040**

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.

This Company is included in the consolidated financial statements of System1 Group PLC for the year ended 31 March 2021. These accounts are available from the registered office address of the Company, and at system-1group.com/investors.

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) as permitted by the Companies Act 2006 section 408, the Company's profit and loss account;
b) a statement of cash flows and related notes;
c) the requirement to produce a balance sheet at the beginning of the earliest comparative period;
d) the requirements of IAS 24 Related Party Disclosures to disclose related party transactions entered between two or more wholly owned members of the group;
e) disclosure of key management personnel compensation;
f) capital management disclosures;
g) presentation of a comparative reconciliation of the number of shares outstanding at the beginning and at the end of the period;
h) the effect of future accounting standards not adopted;
i) 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 2020. 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 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 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 are charged to administrative expenses.

1 ACCOUNTING POLICIES continued

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 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.

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.

1 ACCOUNTING POLICIES continued

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 because 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 considers 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. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all 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 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.

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.

1 ACCOUNTING POLICIES continued

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 several 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 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. 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 provision for liabilities under the scheme is measured using the projected unit credit method. This model requires several estimates and assumptions. The significant inputs into the model are rate of salary growth and average staff turnover as explained in Note 7.

The average number of staff employed by the Company during the year ended 31 March 2021 was 53 (2020: 49) and total employment costs were £4,763,000 (2020: £5,343,000)

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.

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 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%.

1 ACCOUNTING POLICIES continued

CAPITALISATION OF ADRATINGS PLATFORM – ESTIMATE

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.

2 INTANGIBLE ASSETS

	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 VALUE	813	1	-	814
NET BOOK VALUE, AT 1 APRIL 2019	813	1	-	814
Additions	446	-	368	814
Amortisation for the year	(338)	(1)	-	(339)
Impairment charge	(921)	-	-	(921)
NET BOOK VALUE, AT 31 MARCH 2020	-	-	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 VALUE	-	-	368	368
AT 1 APRIL 2020				
Cost	**1,369**	**697**	**2,040**	**4,106**
Accumulated amortisation	**(1,369)**	**(697)**	**(1,672)**	**(3,738)**
NET BOOK VALUE	**-**	**-**	**368**	**368**
NET BOOK VALUE, AT 1 APRIL 2020	**-**	**-**	**368**	**368**
Additions	**-**	**-**	**96**	**96**
Disposals	**-**	**-**	**-**	**-**
Amortisation for the year	**-**	**-**	**(46)**	**(46)**
NET BOOK VALUE, AT 31 MARCH 2021	**-**	**-**	**418**	**418**
AT 31 MARCH 2021				
Cost	**-**	**-**	**464**	**464**
Accumulated amortisation	**-**	**-**	**(46)**	**(46)**
NET BOOK VALUE	**-**	**-**	**418**	**418**

The only software cost as at 31 March 2021 is the Company's new finance and operations system that was brought into use October 2020. As historical items such as the AdRatings product and other software licences were fully impaired or amortised as at 31 March 2020, their respective costs and accumulated amortisation have been removed this year.

2 INTANGIBLE ASSETS continued

The carrying value of the AdRatings product was tested for impairment at as 31 March 2020. The carrying value of the asset was allocated to the AdRatings cash generating unit ('CGU') for the purposes of assessing future cashflows. The principal assumptions used in the forecast were the timing and amount of future revenues and profit margins, which were derived from the latest forecasts approved by the Board. As a result of this review, and considering the continuing modest AdRatings revenues of £0.05m in the year, the carrying value of the asset was fully impaired; the amortisation charge included impairment charges of £0.9m.

3 TANGIBLE ASSETS

	Right-of-use assets £'000	Furniture and fixtures £'000	Computer hardware £'000	Total £'000
AT 1 APRIL 2019				
Cost	2,163	165	580	2,908
Accumulated depreciation	(1,698)	(110)	(509)	(2,317)
NET BOOK VALUE	465	55	71	591
NET BOOK VALUE, AT 1 APRIL 2019	465	55	71	591
Additions	1,997	-	73	2,070
Disposals	-	(13)	-	(13)
Foreign exchange	-	-	-	-
Depreciation charge for the year	(483)	(32)	(57)	(572)
NET BOOK VALUE, AT 31 MARCH 2020	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 VALUE	1,979	10	87	2,076
AT 1 APRIL 2020				
Cost	**2,139**	**55**	**653**	**2,848**
Accumulated depreciation	**(160)**	**(46)**	**(566)**	**(772)**
NET BOOK VALUE	**1,979**	**10**	**87**	**2,076**
NET BOOK VALUE, AT 1 APRIL 2020	**1,979**	**10**	**87**	**2,076**
Additions	**-**	**5**	**43**	**48**
Disposals	**-**	**-**	**-**	**-**
Foreign exchange	**-**	**-**	**-**	**-**
Depreciation charge for the year	**(690)**	**(10)**	**(68)**	**(768)**
NET BOOK VALUE, AT 31 MARCH 2021	**1,289**	**5**	**62**	**1,356**
AT 31 MARCH 2021				
Cost	**2,139**	**60**	**181**	**2,380**
Accumulated depreciation	**(850)**	**(55)**	**(119)**	**(1,024)**
NET BOOK VALUE	**1,289**	**5**	**62**	**1,356**

4 INVESTMENTS

	£'000
Cost and net book amount at 1 April 2020 and 31 March 2021	581

SUBSIDIARY UNDERTAKINGS

Details of subsidiary undertakings, registered office and country of incorporation of each, at 31 March 2021 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.

5 DEBTORS

	2021 £'000	2020 £'000
DUE WITHIN ONE YEAR		
Trade debtors	**112**	-
Trade debtors from group companies	**4,329**	312
Amounts due from group companies	**595**	918
Other debtors	**127**	135
VAT recoverable	**505**	227
Corporation tax	**-**	126
Deferred tax asset	**46**	56
Prepayments	**332**	301
	6,046	2,075
DUE AFTER ONE YEAR		
Deferred tax asset	**-**	385

During the year, the Company impaired trade debtors from group companies of £367,000 (2020: £769,000).

6 CREDITORS

	2021 £'000	2020 £'000
DUE WITHIN ONE YEAR		
Trade creditors	**229**	451
Social security and other taxes	**123**	128
Amounts due to group companies	**480**	848
Lease liabilities	**771**	460
Accruals and deferred income	**682**	792
Corporation tax payable	**(39)**	-
	2,246	2,678
DUE AFTER ONE YEAR		
Lease liabilities	**830**	1,601
Bank loan	**2,500**	2,500
	3,330	4,101

7 PROVISIONS FOR LIABILITIES

	Sabbatical £'000	Deferred tax £'000	Total £'000
AT 1 APRIL 2019	**280**	**7**	**287**
Provided in the year	17	6	23
Utilised in the year	(40)	-	(40)
AT 31 MARCH 2020	**257**	**13**	**270**
Provided in the year	42		42
Utilised in the year	-	(10)	(10)
Adjustments with respect to prior year	-	61	61
AT 31 MARCH 2021	**299**	**64**	**363**
Due within one year	78	64	181
Due after one year	221	-	182

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 assumptions used in the sabbatical provision is as follows:

	2021	2020
Measurement method	Project unit credit method	
Discount rate, based on 6-year corporate bond yields	**1.2%**	2.1%
Annual salary growth rate	**7%**	7%

	£'000
Changes to the assumptions will increase the provision by:	
0.25% decrease to discount rate	6
10% increase to salary increase assumption	84
3% decrease to staff turnover assumption	78

8 DEFERRED TAX

Deferred tax assets and liabilities are as follows.

	2021 £'000	2020 £'000
Deferred tax assets:		
- deferred tax assets to be recovered after more than 12 months	**101**	385
- deferred tax assets to be recovered within 12 months	**9**	56
	110	441
Deferred tax liabilities:		
- deferred tax liability to be recovered within 12 months	**(64)**	(13)
DEFERRED TAX ASSET (NET):	**46**	428

The gross movement in deferred tax is as follows.

	2021 £'000	2020 £'000
OPENING BALANCE	**428**	172
Income statement (charge)/credit	**(357)**	289
Tax (debited)/credited directly to equity	**(25)**	(33)
CLOSING BALANCE	**46**	428

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 2020	304	2	86	49	441
(Charged)/credited to income statement	(324)	7	(17)	8	(326)
Adjustments with respect to prior year	20	-	-	-	20
Debited directly to equity	-	-	(25)	-	(25)
AT 31 MARCH 2021	**-**	**9**	**44**	**57**	**110**

DEFERRED TAX LIABILITIES

	Accelerated capital allowances £'000
AT 1 APRIL 2020	(13)
Charged to income statement	10
Adjustments with respect to prior year	(61)
AT 31 MARCH 2021	**(64)**

9 SHARE CAPITAL

ALLOTTED, CALLED UP AND FULLY PAID ORDINARY SHARES

	Number	£'000
AT 1 APRIL 2020 AND AT 31 MARCH 2021	13,226,773	132

Company Information

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REGISTERED NUMBER
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