System1 Group

System1 Group PLC

Annual Report and Accounts
for the year ended 31 March 2022

Registered Number 05940040

INDEX

Highlights

	2021/22 £m	2020/21 £m	Change** %
MANAGEMENT BASIS*			
REVENUE	**24.1**	22.8	6%
GROSS PROFIT	**20.2**	19.2	5%
Adjusted operating costs	**(19.2)**	(16.2)	18%
ADJUSTED PROFIT BEFORE TAXATION	**1.0**	3.0	-65%
STATUTORY BASIS			
REVENUE	**24.1**	22.8	6%
GROSS PROFIT	**20.2**	19.2	5%
Operating costs	**(19.6)**	(17.7)	11%
Other operating income	**0.3**	0.6	-55%
PROFIT BEFORE TAXATION	**0.9**	2.1	-54%
Tax charge	**0.0**	(0.4)	-103%
PROFIT FOR THE FINANCIAL YEAR	**0.9**	1.7	-46%
DILUTED EARNINGS PER SHARE	**7.4p**	13.1p	

* Adjusted Operating Costs exclude impairment, interest, share based payments, bonuses and commissions, 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.

- Revenue increased 6% to £24.1m. Data Revenue increased by £8.4m year on year to £9.7m (H2: £5.3m), representing 40% of the total (H2: 45%)
- Adjusted Operating Costs increased 18% year on year, reflecting the planned investment in people, partnerships and platform
- Adjusted Profit before Taxation dropped 65% to £1.0m
- Statutory Operating Costs up 11% to £19.6m. Statutory Profit before Taxation down 54% to £0.9m
- Statutory Profit for the financial year down from £1.7m to £0.9m
- Diluted earnings per share 7.4p (2020/21: 13.1p)
- Cash net of borrowings (excluding lease liabilities) up by £2.2m in the period to £8.7m, reflecting strong underlying cash flows, a £0.5m tax credit receipt in Q1, and a £0.6m share buyback in Q4

Commenting on the Company's results, John Kearon, Chief Executive Officer said:
"Underneath the 6% growth, we have built a fast-growing £10m automated marketing prediction business over the past two years. The majority of Data sales are now coming from new customers, including the No.1 UK Advertiser, No.1 UK Broadcaster, World's No.1 B2B platform, World's No.1 laptop manufacturer, and World's No.2 sportswear brand. The most significant source of new business has been through partnerships with advertising agencies and media platforms like LinkedIn, ITV, and Globo. New and existing customers seem genuinely excited by the accuracy, speed, and incredible value of our advertising decision-making platform. We are committed to continuing our investment in people, partnerships, and platform to develop and commercialise our automated marketing predictions, to accelerate this growth."

Group Overview

WHO WE ARE

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.

We are now a marketing decision-making platform providing our customers with predictions and improvements by using data and insights grounded in behavioural science. We believe we are the best in the world at what we do. The "Test Your…" platform leverages 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 at a value that makes System1 our customers' choice.

OUR PRODUCTS

	COMMS	BRAND	IDEAS
Automated Data *Predict Your...*	TYA Premium Database		
.	Test Your Ad (TYA) ESSENTIAL or PRO	Test Your Brand (TYB) ESSENTIAL or PRO	Test Your Idea (TYI) ESSENTIAL or PRO
Data Consultancy *Improve Your...*	TYA Creative Guidance EXPRESS or FULL	TYB Guidance	TYI Guidance EXPRESS or FULL
	TYA Audit	TYB KDA (Key Drivers Analysis)	
Additional Products		TYB DAT (Distinctive Assets Testing)	ConceptTest
		TYB Landscaping	

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 Additional 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 opt for faster, cheaper standard products.

We have already created the TYA Premium Database (formerly AdRatings) which 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 via subscription revenues. It also supports our business development, helping us build unique relationships with key global customers.

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 10% of the global research market. We estimate that our target markets of predicting and improving advertising, brand and innovation effectiveness represent about $10bn of the $89bn 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:

ASSERTION	THESIS
1	World-beating prediction/improvement methodologies
2	Unique, step-change improvements in product value for customers
3	Innovation and investment to maintain this product lead
4	Prediction and Improvement market dynamics are very favorable
5	Defensible through IP, Branding, Customer and Supplier relationships
6	We are winning new customers, retaining & growing them
7	Strong scalability and operational gearing from Platform
CONCLUSION	System1 could be worth a billion+ once it had fully scaled with a 10% market share

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 (Chief Executive Officer) 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 1/20th the cost and 20x 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.

[1] Global Market Research 2021 - ESOMAR

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 have been 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 $850 billion[2] is spent on advertising globally. But only $1.34 billion[3] is spent on predicting and improving that advertising investment. 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.

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[4]) and LinkedIn (the world's largest B2B marketing solutions company[5]). 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. WE ARE WINNING NEW CUSTOMERS, RETAINING AND GROWING THEM
It is still early days, but we are making significant progress. We believe that we have proved the model and are now attempting to scale, which will be key to our future. We are aware that changing 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. STRONG SCALABILITY AND OPERATIONAL GEARING FROM PLATFORM
For speed to market, we launched our market leading, automated prediction products as standalone products, allowing our customers the benefits of testing fast and often over the last year. Now that we have built and launched these products, we are building a fully integrated platform, with a customer friendly user interface.

In summary, we have the vision, tech, and team, motivated via share ownership, and reasons to believe we can succeed. Whilst nothing is guaranteed, we are determined to win where we compete and to create, delight our customers and create value for all shareholders.

JOHN KEARON
Chief Executive Officer

CHRIS WILLFORD
Chief Financial Officer

[2] This Year Next Year, June 2022 - GroupM
[3] Global Market Research 2021 - ESOMAR
[4] https://www.itvmedia.co.uk/advertising-on-itv
[5] https://news.linkedin.com/2022/april/linkedin-business-highlights-from-microsoft-s-fy21-q3-earnings

Strategic Report
Chairman's Statement

This financial year has seen a welcome recovery following a period heavily influenced by the progress of the Covid pandemic around the world and its impact on customer expenditure on marketing services.

Marketing activity, and hence the use of research tools, picked up to more normal levels this year albeit slightly restrained by the outbreak of hostilities in Ukraine in the final quarter of our reporting period.

System1 saw revenues grow 6% over the year, and more encouragingly saw a major shift in the components of our revenue as the newly developed platform business grew strongly at the expense of the legacy ad-hoc research project business which previously dominated.

Our successful investment over the past two years in the research platform and tv advertising database underpinning the suite of "Test Your" products, for Advertising, Brand, and Ideas, was demonstrated by this year's performance. Data and platform revenue grew to £9.7m (2021: £1.5m) representing 40% of the total. Its rapid and growing adoption by customers both old and new was highly encouraging and gives us confidence for the future. System1 now has the ability to test at scale, with rapid results and detailed diagnostics delivered to a customer's desktop in record time and at value pricing.

Adjusted profit before taxation for the year at £1.0m (2021: £3.0m) was disappointing, affected by both the scaling up of employee resources to sell the platform service, but also by an unexpected fall in US revenue in Q4. Statutory profit reduced to £0.9m from £2.1m in 2021. We moved quickly to address the issues in the US, and we remain committed to an increased sales capability and continued targeted investment to further develop our platform and database.

Cash generation continued strongly, and the financial position of the company is very sound. At the end of the year cash was £8.7m net of borrowings (2021: £6.5m) after repurchasing shares to the value of £0.6m in the final quarter. The company is mindful of capital allocation and will continue to respond prudently and appropriately in returning surplus capital to shareholders.

Our customer partnerships have deepened over the year, principally with ITV and LinkedIn, both of whom recommend and promote the use of System1's Test Your Ad for potential advertisers to maximise their advertising impact and effectiveness prior to broadcast. We have other similar partnerships in development which we anticipate will lead to even wider adoption of System1 methodology in the pre-testing of advertising content.

We continue to be recognised for thought leadership in the industry. Following on from his earlier seminal work, Lemon, published jointly with the Institute of Practitioners in Advertising (IPA), our Chief Innovation Officer, Orlando Wood, published Look out, to widespread critical acclaim. He develops and illustrates the now proven view that advertising with stories, music and humour with which the viewer can engage emotionally is far more successful than simple information giving. He has been in demand throughout the world to speak to both companies' in-house marketing conferences and to wider audiences about how to improve advertising effectiveness and improve returns on advertising budgets.

Our Board composition has changed over the year with Stefan Barden stepping down as planned in January from his position as CEO, following his highly successful steering of the transformation project to upgrade our systems and develop our automated platform and database. Thereafter, John Kearon, our founder, resumed his former CEO role. In May we welcomed Philip Machray to the Board as a Non-Executive Director. Philip has extensive experience of corporate strategy and finance at a very senior level in the media sector, and his skills will complement those of his Board colleagues. More recently, Jane Wakely informed the Board that due to the demands of her international career she would be resigning from her role as a Non-Executive Director in July after serving for four years. Her contribution and wise counsel will be greatly missed, and we wish her every success in her new senior marketing role.

In the coming financial year, having served nine years on the Board both at BrainJuicer and System1, the last four as Chairman, I will not be seeking re-election at the forthcoming Annual General Meeting. I am delighted that Rupert Howell will succeed me in that role having been a Non-Executive Director since February 2021. He is eminently qualified, and I wish him every success. I believe that the Board now has exceptional qualities and skills for a company of our size, and it is a significant strength for the future.

As ever, the Company could not succeed without the tireless efforts of our staff around the world. Some are still subject to Covid limitation measures, many are still working largely from home, but their continued dedication and commitment give me great confidence. On behalf of the Board and our Shareholders I thank them wholeheartedly for their contribution.

GRAHAM BLASHILL
Chairman

TEST YOUR… TRANSFORMATIONAL POTENTIAL

Top-line growth was 6%, reduced from our double-digit half-year growth by an unexpected Q4 reduction in our US bespoke research business. We have rapidly addressed the issues in the USA by injecting fresh talent and unifying our sales and marketing activities under one Chief Customer Officer, Jon Evans, and operations under our Chief Operating Officer, James Gregory.

Underneath our respectable but unspectacular 6% growth, was a far more impressive 521% growth in our automated 'Predict Your Ad' platform business, and a 419% growth in our associated 'Improve Your Ad' creative guidance. In two years, we have built a £10m automated Ad prediction business, with advertising platform partners like LinkedIn, ITV, and Globo, winning significant new customers like Lenovo and Intel, and growing existing significant customers like adidas, Sky, Aldi and Boston Beer. In the last year, almost a quarter of our business, £6m, came from winning new customers to our 'Test Your Ad' prediction platform. New and existing customers seem genuinely excited by the accuracy, speed, and incredible value of our advertising decision-making platform, together with the clarity and helpfulness of our creative guidance.

Based on Test Your Ad's success, and to enhance our growth potential, we completed and launched our automated 'Test Your Brand' platform, in November. More recently, in May 2022, we launched our automated 'Test Your Idea' platform, ensuring we can offer the same industry-leading predictions, 24-hour turnaround, and best value prices, across all three parts of our business, in every major market.

During the year, we significantly enhanced our industry profile, with Orlando Wood's brilliant book on advertising effectiveness, Look out, along with our Ad of the Week, Feeling Seen diversity report and Jon Evans' Uncensored CMO podcasts.

I'm incredibly grateful for the hard work and brilliance of our staff, the belief and commitment of an increasing number of industry-leading customers, the terrific partnership of our suppliers, and the advice and encouragement of our incredibly supportive shareholders.

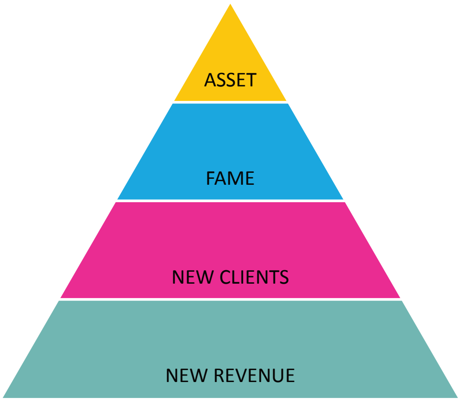
PROGRESS TOWARDS OUR GOALS

The year saw significant progress in the four progressive goals we set out four years ago:

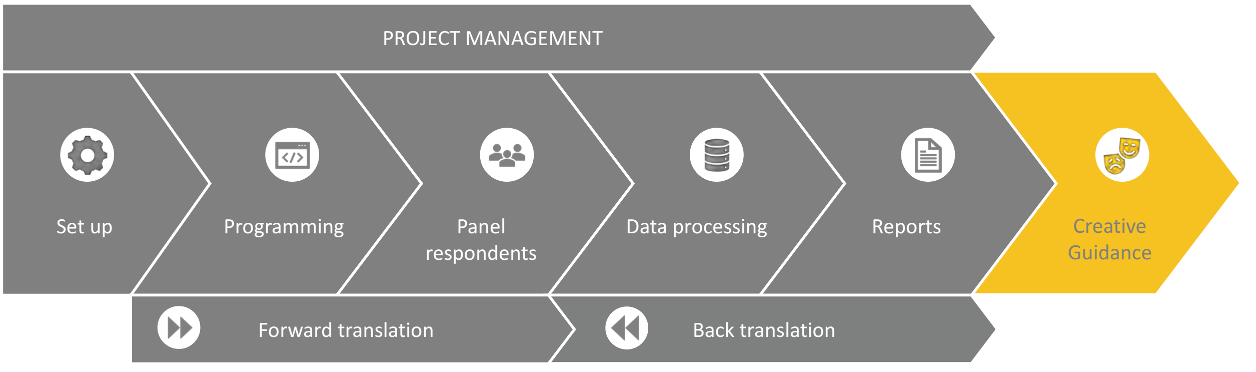
1. BUILD DEFENSIBLE ASSETS

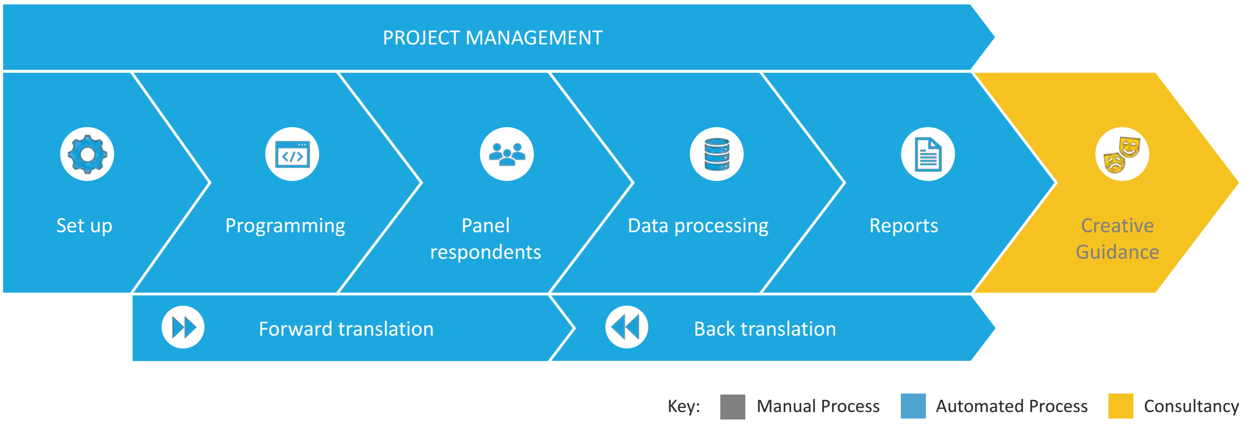
We have now tested over 80,000 ads, making Test Your Ad the world's largest database of validated ad-effectiveness data which we're aware of. We use this asset to continuously enhance our understanding of advertising and prove the value of creativity to advertisers. The database continues to prove an invaluable asset. Orlando Wood, our Chief Innovation Officer used the database in his new book, Look out (now the IPA's Advertising biggest ever selling book), acclaimed by such industry luminaries as Peter Field, co-author, *The Long and the Short* of It, who said:

" If Orlando's last book, Lemon, was the wake-up call for those who champion effectiveness, then Look out is the playbook for rebuilding the effectiveness that advertising has lost over the last decade."



It has been a monumental task automating the many complex, sequential steps involved in predicting the potential of our customers' advertising, innovations, and brands. As of May 2022, every step that used to require manual intervention (grey in the visual below), has been automated (blue in the visual below). This has enabled us to offer our industry-leading predictions, within 24-hours, at incredible value pricing, across all three parts of our business. This amounts to an automated marketing decision-making platform (Test Your Ad, Test Your Idea, and Test Your Brand), giving us a huge competitive advantage in winning significant market share, delighting our customers, and achieving our goals.





	PLATFORM	DATABASE	INNOVATION
Test Your Ad	Fully automated Jun 21	Now c.80,000 Ads	TYA Pro Reports Jun 21 TYA Static Ads Feb 22 TYA Profit Projector Mar 22
Test Your Brand	Fully automated Nov 21	Now c.6,000 Ads	TYA Pro Reports Nov 21
Test Your Idea	Fully automated May 22	Now c.60,000 Ads	TYA Pro Reports May 22

2. GENERATE FAME

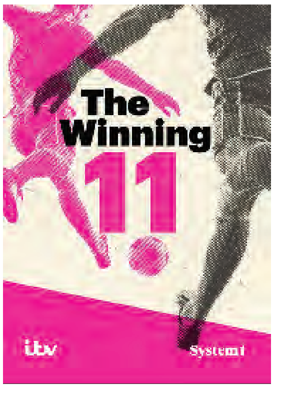
Testing every new US and UK ad across almost all categories, and many in our other markets, Brazil, Germany, France, Asia, Australia, generated significantly more coverage for System1 than in any previous year.

AD OF THE WEEK, celebrating the best, most effective creative from around the world has generated significant industry attention, and led directly to many new customer wins.

FEELING SEEN, written in partnership with our partner ITV, is a first-of-its-kind UK report exploring and celebrating the benefits of inclusive advertising as seen through the eyes of real, diverse audiences. We were able to prove diverse advertising isn’t just about ‘doing good’ – it leads to greater engagement and greater commercial effectiveness. The report led directly to significant new customer wins. We’ve just published our US Feeling Seen, with partners LinkedIn and BBDO, which is generating significant interest.

THE UNCENSORED CMO created by our Chief Customer Officer, Jon Evans, interviewing industry luminaries, has become the pre-eminent marketing podcast in our biggest markets which has led directly to significant new customer wins.

LOOK OUT, published in October 2021, has already been presented to 10,000 marketers from many of the world’s largest advertisers, and led to significant new customer wins. Orlando Wood is due to present our findings and advice for improving advertising effectiveness, on the main stage at this year’s Cannes Advertising Festival, the world’s leading industry event.



THE WINNING 11, written in partnership with our partners ITV and Globo, summarises our advice to this year’s football World Cup advertisers, on how to make a famous, highly effective ad. The report is already starting to generate significant industry attention and we’re starting to test ads in development for the event.

Our work has generated industry accolades from leading industry figures like Professor Mark Ritson:
“System1 is special because you’ve looked at creativity in a far more detailed way. You’ve balanced the creativity/media thing and done it on an effectiveness basis.”

3. WIN NEW CUSTOMERS

Our Test Your Ad automation, increased industry profile, and Partnerships with ITV, LinkedIn, Globo, enabled us to win 209 new customers in the year, many of which are industry leaders like Lenovo and H&M. Our total customer base rose to 465, an increase of 17% to date.

Having completed and launched our Test Your Brand automation in November 2021, and our Test Your Idea automation in May this year, our sales team are working hard to achieve the same success and growth in new customers and revenue achieved with our Test Your Ad automation.

4. GENERATE NEW REVENUES

Test Your Ad revenues increased six-fold year on year, making it now our most popular product, accounting for 31% of our revenues. Just over half of TYA revenue came from customers won since April 2020.

Partnerships with major advertising platforms, including ITV and LinkedIn, have produced multiple new customer leads and acquisitions. Test Your Ad has become a key element in our partners commitment to improving their advertisers' effectiveness and drive their own revenues and profitability. LinkedIn have acknowledged System1 as a key partner in their LinkedIn B2B Edge Program in helping them increase their advertising business, partnering with the best B2B marketing organisations in the world, including AIG, HP, Infosys, Oracle, SAS and Workhuman.

In contrast to the growing success of our automated marketing decision-making platform, our bespoke research business declined by 39% during the year, reducing its contribution to 48% of total revenues. This was particularly the case in our bespoke consultancy business in the Americas, which declined 52% in the year. A sizeable proportion of our bespoke research revenues come from our traditional innovation testing business. Our hope is the new automated Test Your Idea will repeat the success of Test Your Ad, converting existing customers and winning new customers to the faster, cheaper, platform solution.

OUTLOOK

Over the last few years, we have made the creative and financial investments needed to take our industry-leading IP and create a market-leading, automated 'Predict Your…' platform, complemented by best-in-class 'Improve Your…' consultancy. We've hired additional talent capable of winning over Chief Marketing Officers of big companies, and been recognised as thought-leaders and champions for creativity backed by data. We have also built a management team capable of achieving our ambitious goals. There remains much to do, but we believe our marketing decision-making platform is far ahead of our competitors and combined with our ability to advise customers on how to improve the effectiveness of their marketing, leaves the company well-place for accelerated growth and influence in the industry.

There are of course, two known headwinds for us to face and overcome: the exposure of a few of our large customers to the loss of their Russian market, which has already led to reduced marketing budgets; and the looming threat and impact of a recession on our customers' marketing investment.

Finally, I would like to say a heartfelt thank you to our talented and committed staff, enthusiastic and appreciative customers, and incredibly supportive shareholders.

In the spirit of appreciation: Gratitude Ignites. Gratitude Attracts. Gratitude Accelerates.

JOHN KEARON
Founder & Chief Executive Officer

Financial Review

OVERVIEW

	2021 £m	2020 £m	Change £m	Change** %
Revenue	**24.1**	22.8	1.3	6%
Gross profit	**20.2**	19.2	1.0	5%
Adjusted operating costs*	**(19.2)**	(16.2)	(3.0)	18%
Adjusted profit before taxation*	**1.0**	3.0	(2.0)	-65%
Statutory profit before taxation	**0.9**	2.1	(1.2)	-54%
Tax credit/(charge)	**0.0**	(0.4)	0.4	103%
Statutory profitfor the financial year	**0.9**	1.7	(0.8)	-46%

* 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.

Revenue rose by £1.3m (6%) in the year to £24.1m with strong growth in automated ad-testing revenues partly offset by declines in legacy complex consultancy projects. As anticipated, adjusted operating costs increased appreciably versus the Covid-affected prior year as the company continued to invest in people, platform and partnerships. Adjusted profit before tax declined by £2.0m in the year due partly to the decline in our USA consultancy revenues in the final quarter. Statutory profit before taxation decreased by £1.2m to £0.9m.

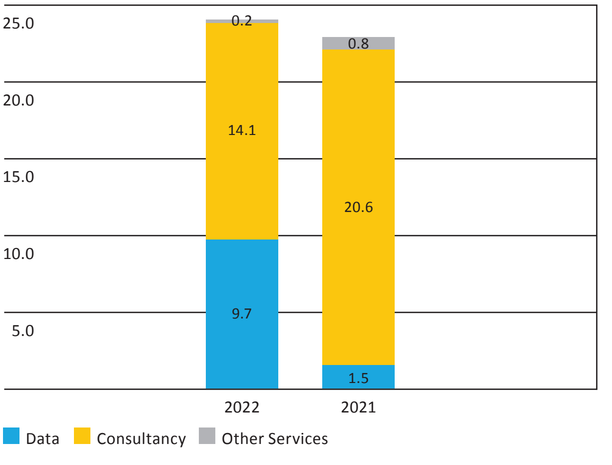
Profit for the financial year fell by £0.8m to £0.9m. Diluted Earnings Per Share of 7.4p compared to the previous year's Earning Per Share of 13.1p.

REVENUE PERFORMANCE

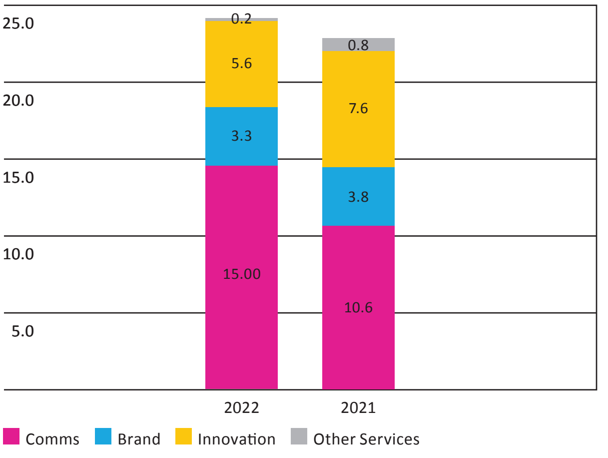
Last year was the first full year of Test Your Ad, our leading automated data product. Test Your Brand launched during the year, and Test Your Idea has just come to market in the new financial year. Data products represented 40% of Revenue for the year as a whole (2020/21: 6%), with the proportion of data sales rising over the period to reach 45% in the second half-year. We have in effect built a £10m data business in 18 months, just over 60% of it coming from new customers.

The company's focus on the new automated product set has coincided with softer revenues from legacy complex consultancy assignments, especially from Innovation and in the USA.

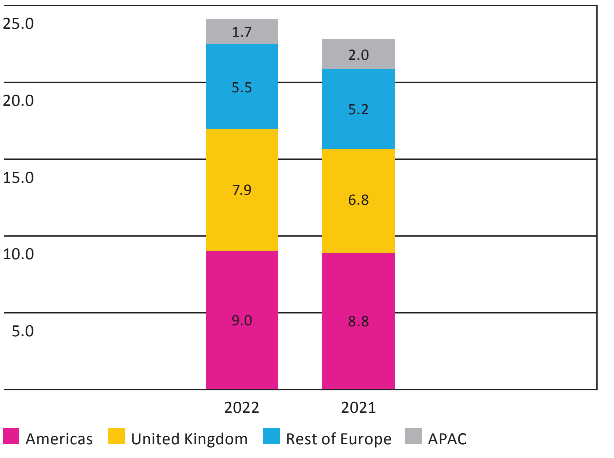
REVENUE BY PRODUCT VARIANT (£m)



REVENUE BY PRODUCT GROUP (£m)



REVENUE BY REGION (£m)



The success of Test Your Ad led to Communications revenue growing in all geographic regions and representing 62% of Group's Revenue for the year. This was offset by declines in our customers' Innovation spend, particularly in the Americas and APAC. The Brand product area fell back year on year, as we converted low-profit, high-effort bespoke brand tracking business to Test Your Brand.

Sales of Test Your Ad in UK and Europe contributed to the growth in both these areas. Despite a disappointing final quarter, the Americas region returned to growth, with significant new ad-testing wins offsetting declines in the innovation consultancy business. The Asia-Pacific revenues fell back from a strong prior year performance.

OPERATING EXPENDITURE

We made it clear a year ago that expenditure would rise steeply year on year, partly as a result of the Covid-related reduction in costs during FY 2020/21 and also because of our decision to accelerate the development of the TYX automated platform and the partnership approach to new business development.

As a consequence of those plans, adjusted operating costs increased by 18% to £19.2m. The biggest area of increase was sales and marketing. Of the £3.0m cost increase year on year about a half was people costs and the other half external spend such as fame building activities including Ad of the Week and the launch of Look Out and Feeling Seen. In the prior year we had a number of employees on reduced hours during the first wave of the pandemic and were carrying some vacancies. The next largest increase was in IT, primarily due to the growth in the number of in-house developers working on new platform features including Test Your Brand and Test Your Idea. We also expanded the number of categories on the TYA Premium database (previously called the AdRatings Database).

Direct costs (those between Revenue and Gross Profit) rose in line with revenue, producing a stable gross profit margin of 84%.

TAX

The Group's effective tax rate fell from 19% to -1% due mainly to the higher proportional impact of R&D tax credits (£0.5m recognised in the period) on lower taxable profits. We have submitted a £0.2m R&D tax credit claim for FY 2020/21 which is yet to be approved or recognised.

FUNDING AND LIQUIDITY

The Group began the year with £9.0m cash on the balance sheet and ended with £11.2m: funding from the £2.5m revolving credit facility is included in both years' balances. Cash net of debt rose from £6.5m to £8.7m. The £2.2m cash inflow is attributable to £2.5m cash generated from operations before tax and after property lease costs, £0.5m tax credit, and a £0.3m favourable translation effect of non-sterling bank balances reflecting primarily the weakening of the pound against the dollar around the year end. These inflows were partially offset by £0.5m tax paid, £0.1m capital expenditure, and loan interest £0.1m, and a £0.6m share buyback in the final quarter.

Some £3.8m cash was spent on research and development in the year, related primarily to the development of new intellectual property, automated prediction products and the TYA Premium database.

No dividends were declared or paid in the year. During the final quarter the Company spent £0.6m repurchasing 158,674 ordinary shares on market. The repurchased shares are now held in treasury with no voting or dividend rights.

DISTRIBUTION POLICY

Since the year-end the Company has clarified its policy on capital distribution and intends to return excess capital to shareholders regularly by way of tender offers or buybacks, in preference to dividends. The Board has concluded that the capital distribution policy will be progressive, taking into account underlying business performance. It is expected that the absolute level of distribution for the year end 31 March 2023 will be between 30-40% of through-the-cycle profit after tax. The Board is comfortable that this policy will support continued investment in the business, provide funds for potential in-fill acquisitions to supplement organic growth and will deliver returns to shareholders. In addition, in July 2022, the Board announced a near-term return of capital of up to £1.5m worth of shares by way of a tender offer at the earliest opportunity. Subsequently, the Board has taken the decision to suspend the tender offer for the time being, whilst the Company undertakes a full strategic review.

LITIGATION

On 27 September 2021, the Company filed a complaint for trademark infringement, unfair competition and deceptive trade practices at the United States District Court Southern District of New York against System1 LLC ("LLC"), since renamed System1 Inc., an omnichannel customer acquisition marketing provider, over their infringing use of the mark "SYSTEM1". The matter is still at an early stage and at the time of publication the court is reviewing a motion to dismiss from LLC.

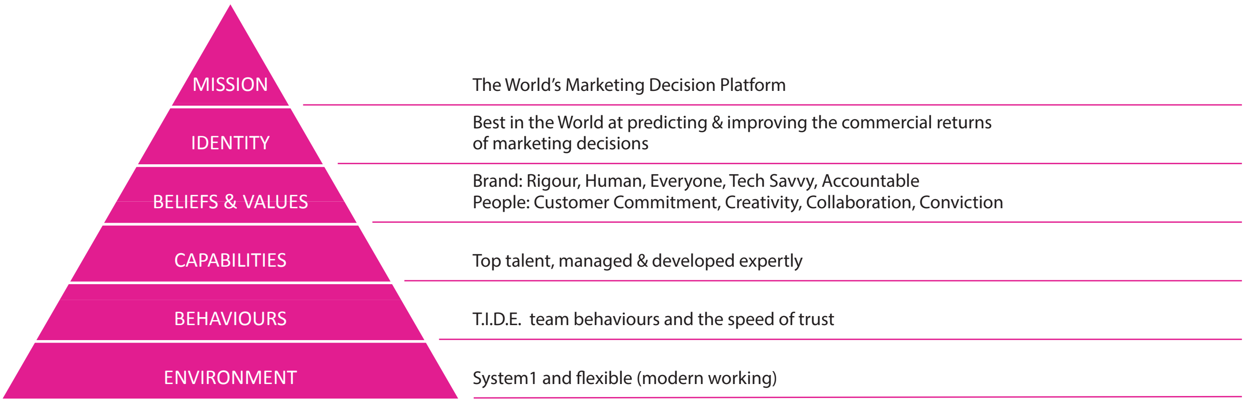
Section 172 Report

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 | The Culture Pyramid



CUSTOMERS

The success of our customers is at the centre of our purpose as a company. Our mission is to be The World's Marketing Decision Platform which encapsulates our desire to make our services available to everyone because we are the best in the world at predicting & improving the commercial returns of marketing decisions. Our brand values guide how we interact with customers: Rigour, Human, Everyone, Tech Savvy, Accountable. 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 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 healthy 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 (Rigour, Human, Everyone, Tech Savvy, Accountable) we have cultural values (Customer Commitment, Creativity, Collaboration and Conviction) as well as a set of team behaviours known as TIDE, which describe how we work together.

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 embed our values and behaviours by the following:

1. Introducing them to all employees during their onboarding programme, as part of a 1Welcome afternoon, chaired by the CEO and Chief People Officer
2. Making them a consistent part of all company communications and
3. Celebrating examples of best practice with awards on our Town Halls.

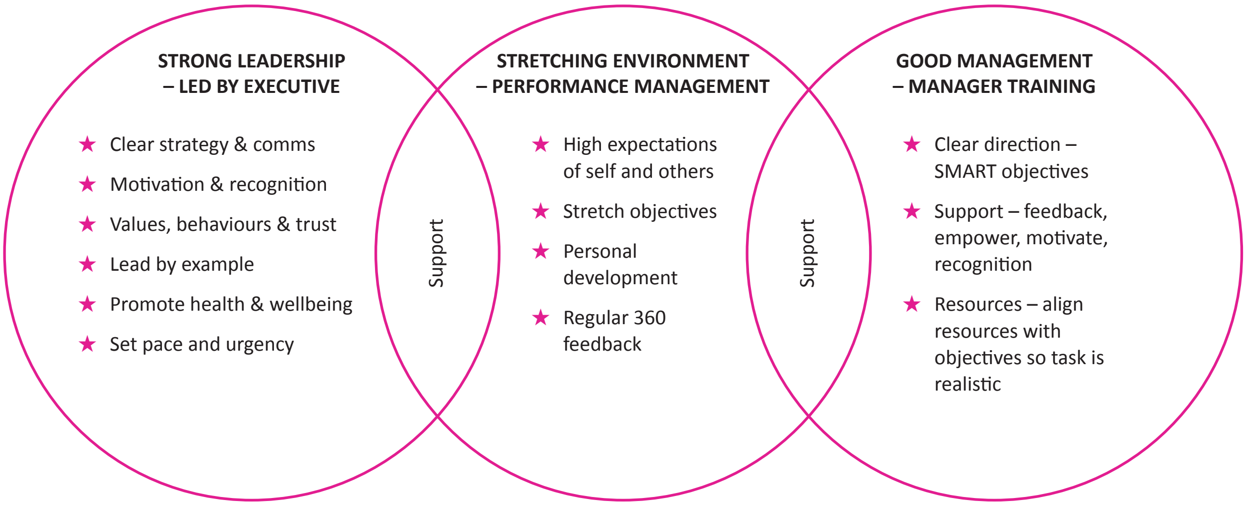
We conduct quarterly employee input surveys which are reviewed by the Board. These use our FaceTrace methodology to capture how employees feel about working at System1, along with reasons. We also ask them what is working well, what could be improved and add a topical question. We hold follow up discussions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

There is a comprehensive programme of employee communication and engagement sessions, monthly Town Hall meetings with all staff, to fortnightly senior management forums, through to "birthday cheers" with the CEO. 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, professional certifications and MBA sponsorships). We advertise roles internally and promote inter departmental opportunities.

TALENT ENGAGEMENT OUTCOME

As we move out of the Covid pandemic, we are developing our hybrid virtual working approach, working closely with managers and all employees to maximise productivity, creativity and happiness. A key area of focus has been on employee wellbeing and ensuring people feel supported through this change. We believe in a healthy performance culture and have developed a model to guide us in achieving this, which includes the delivery of a programme of Manager Training, introduced this year.



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".

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 an RFP process to determine the best suppliers to partner with for the future of our business. We invited them to help us disrupt the industry by offering solutions to support us in new ways. Based on the outcome, we are prioritising supply chain automation.

COMMUNITY

CHARITY AND VOLUNTARY ACTIVITIES

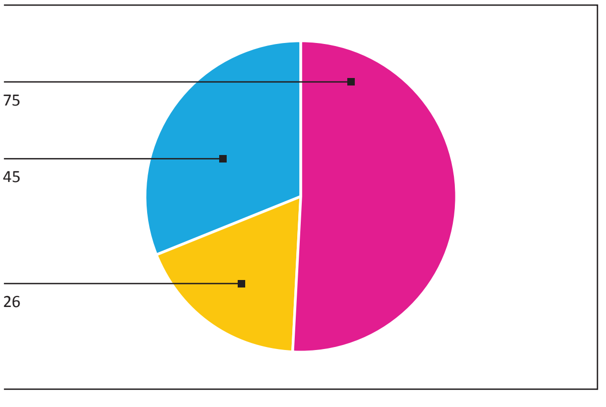
The ESOMAR Foundation (esomarfoundation.org) is the charity arm of the Market Research industry. John Kearon has been President of the Foundation for the last four years. Its purpose is, 'using Market Research to build a better world' and it is run on a purely voluntary basis. With a team of six System1 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.

SUSTAINABILITY AND NET ZERO

System1 has partnered with Carbon Intelligence (CI) to report on its carbon emissions and develop a strategy to reach net zero. We are also collaborating with industry partners to promote action on climate change, including a program run by the ESOMAR Foundation.

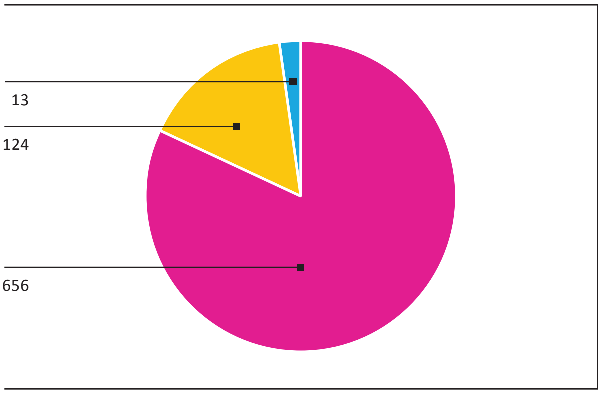
FY 2021/22 is the Company's first year voluntarily disclosing its energy and carbon footprint, based on our worldwide figures. The methodology is aligned to the Greenhouse Gas Protocol, developed by the World Resources Institute, and it is the industry standard for measurement and reporting. Using data on our business activities, CI applied an emissions factor against emissions statistics from government and other third-party databases/regulatory disclosures to estimate our total emissions, expressed in "tonnes of carbon dioxide equivalent" (t/CO2e).

BUILDINGS EMISSIONS (t/CO2e)



Electricity Gas Refrigerants

TRANSPORT EMISSIONS (t/CO2e)

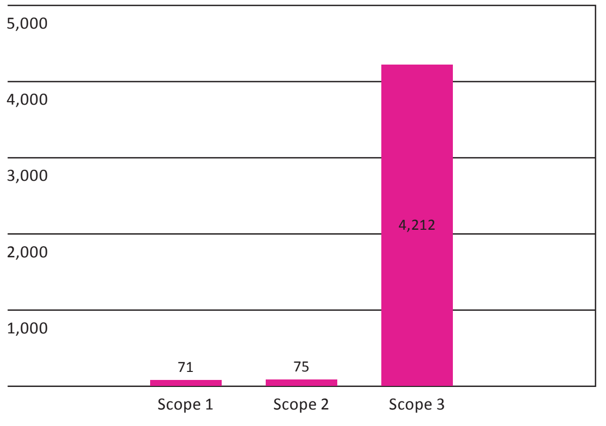


Commuting Business Travel Logistics Vehicles

The findings were as follows:

- In FY2021/22, the Company's total carbon footprint was 4,358 t/CO2e
- The vast majority of our emissions come from our supply chain and procurement network, accounting for 3,391 t/CO2e (79%)
- Of the total, our right-of-use assets emitted 146 t/CO2e (3%), and transport (including vehicular/air travel and public transport) emitted 792 t/CO2e (18%)

EMISSIONS BREAKDOWN (t/CO2e)



Scope 1 emissions are greenhouse gas (GHG) emissions that are owned or controlled by the Company and are directly related to the Company operations.

Scope 2 emissions are indirect emissions that come from electricity, steam, heat, or cooling.

Scope 3 emissions are indirect emissions associated with upstream and downstream operations such as purchased goods & services (supply chain), business travel, employee commuting, and capital investments.

As the Company is a provider of professional and digital services with coworking offices has a flexible working environment, and has a fully cloud computing infrastructure other than employee laptops and mobiles, it was anticipated that the majority of our footprint would be in scope 3. This is also in line with the marketing and technology industry. However, System1's flexible working approach also meant that the travel footprint was low compared to similar firms. This may increase going forward as we strike a balance in seeing our global customers and colleagues in person.

CI provides a platform that is updated live as companies in the supply chain change their carbon footprint. As we progress in the year, we intend to review the suppliers we engage alongside their sustainability plans and actions. We also plan to keep travel low in the post-Covid environment by maximising virtual meetings and online collaborative tools, while meeting essential business requirements. As we compile more comparative data, going forward, we aim to implement science-based targets as part of System1's long-term strategy to reach net zero.

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. Our customer base is diversified such that we have no customers contributing over 10% 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; development of internal guidelines and policies; comprehensive information security programme, and our employee, client 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. Any personal data of clients' or suppliers' employees is held by System1 in compliance with the applicable legislation. 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 regularly and when appropriate.
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. The Group is exposed to interest rate risk through it's £2.5m floating rate revolving credit facility.
ENVIRONMENTAL AND POLITICAL RISKS	Post-pandemic economy – the company's revenue streams could be affected by customers' decisions to reduce marketing budgets	The Company trades principally in Europe and 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. We do not currently service clients based in Russia and our operations have not been directly affected by the ongoing conflict. 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 Chairman's Statement, CEO'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 CEO's statements, Financial Review);
- its strategy, positioning, and objectives (Group Overview, Chairman and CEO's statements).
- its historic financial performance (Chairman and CEO's statements, Financial Review);
- an assessment of its future potential (Group Overview, Chairman and CEO's statements, Financial Review);
- its key performance indicators (Financial Review); and
- its key business risks (Principal Risks and Uncertainties).

DIVIDENDS

The Company did not pay an interim dividend in the year ended 31 March 2022 and does not propose the payment of a final dividend.

DIRECTORS

Stefan Barden	(Executive)	resigned 31 January 2022
John Kearon	(Executive)	
Chris Willford	(Executive)	appointed 26 June 2020
Graham Blashill	(Non-Executive)	
Robert Brand	(Non-Executive)	resigned 13 August 2021
Rupert Howell	(Non-Executive)	
Sophie Tomkins	(Non-Executive)	
Jane Wakely	(Non-Executive)	

Jane Wakely has resigned from the Board 15 July 2022
Philip Machray was appointed as a Non-Executive Director on 27 May 2022.

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

SHARE CAPITAL

At 31 March 2022, the Company had 13,226,773 Shares in issue (2021: 13,226,773) of which 487,151 were held in treasury (2021: 510,421). The treasury shares will be used to help satisfy the requirements of the Group's share incentive schemes.

During the year, the Company transferred 181,944 Ordinary Shares, representing 1.4% of the called-up share capital of the Company, out of treasury to satisfy the exercise of zero-priced employee share options of 181,944 shares.

On 7 January 2022, the Company initiated a share buyback programme that oversaw the purchase of 158,674 of its own shares for an aggregate value of £0.6m in order to enhance shareholder returns and to satisfy obligations in relation to employee share schemes. The programme ended 31 March 2022.

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 August 2022, the Company was aware of the following significant interests in the ordinary issued share capital of the Company.

	Number	% of voting shares
John Kearon	2,818,235	22.1
Investmentaktiengesellschaft für Langfristige Investoren TGV (Bonn)	984,047	7.7
Stefan Barden	791,645	6.2
MEDIQON Group AG	700,000	5.5
Lombard Odier Asset Management (London)	595,976	4.7
Herald Investment Management	580,111	4.6
Motley Fool Asset Management	572,720	4.5
Ruffer Investment Management (London)	570,000	4.5
Ennismore Fund Management	565,512	4.5
University of Notre Dame Du Lac (USA)	500,000	3.9

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. 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 Directors have considered financial and operational risks in the post-Covid economic climate and marketing industry trends in the 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 year, noting the continued strong net cash balance at year-end even with a larger post-Covid cost base and after a £0.6m share buyback programme.

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

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
26 August 2022

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 are required by the AIM Rules of the London Stock Exchange to prepare the group financial statements in accordance with applicable law and UK-adopted international accounting standards and have elected under company law to prepare the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 101 "Reduced Disclosure Framework"

The Group financial statements are required by law and UK-adopted international accounting standards 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. for the group financial statements, state whether they have been prepared in accordance with UK-adopted international accounting standards
d. for the company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the company financial statements;
e. prepare the financial statements on a going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group 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
26 August 2022

Corporate Governance

As an AIM-listed company, System1 adheres to the ten principles of the Quoted Companies Alliance (QCA) Corporate Governance Code. The QCA Code identifies ten principles that underpin growth in long-term shareholder value, encompassing an efficient, effective and dynamic management framework accompanied by good communication to promote confidence and trust.

DELIVER GROWTH

Establish a strategy and business model to promote long-term value for shareholders	Our strategy is to grow the platform-based predictions business and achieve economies of scale	See Group Overview page 2
Understand and meet shareholder needs and expectations Loss of key personnel	The CEO and CFO communicate regularly with investors at half-yearly results roadshows	Visit system1group.com/investors for further information
Take into account wider stakeholder and social responsibilities and their implications for long-term success Loss of a critical supplier	The preferences of customers, employees, suppliers, community as well as investors inform our decision making	See Section 172 Report page 13
Embed effective risk management, considering both opportunities and threats, throughout the organisation	The Board is responsible for setting risk appetite and tolerance. The Executive manages risk day to day	See Principal Risks and Uncertainties page 18

MAINTAIN A DYNAMIC MANAGEMENT FRAMEWORK

Maintain the Board as a well- functioning, balanced team led by the Chair	The Board has two Committees: Audit Committee; and Remuneration Committee. The composition and experience of the Board is reviewed in the Board Evaluation	See Corporate Governance page 28
Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities	The Board members have the appropriate ranges of skills and experience, covering, Sales & Marketing, Technology, Finance, Governance and Sustainability	See Board experience page 30
Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement	The Board carries out an annual effectiveness review assess its strengths and areas for development and improvement	See Corporate Governance page 26
Promote a corporate culture that is based on ethical values and behaviours	The culture of System1 is guided by the core "TIDE" values	See Section 172 Report page 13
Maintain governance structures and processes that are fit for purpose and support good decision making by the Board	The Board is satisfied that the delegated authorities and budgetary processes in the company are adequate to support its strategic growth plans	See Corporate Governance page 26

BUILD TRUST

Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	The investors section of our website includes our Annual Report, results, presentations, notice of AGM and results of the AGM and general meetings.	Visit system1group.com/investors for further information

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 2022. 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 below.

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 PricewaterhouseCoopers 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 2022, the Company Secretary was also the Chief Financial Officer, as is the case with other companies of a similar size and complexity. The Group intends to combine the role of Company Secretary with Legal Counsel in the coming year.

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, board and board committee meetings during the year were held either virtually over Microsoft Teams or in person in central London. 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 (3 meetings)
Graham Blashill	11	2	3
Robert Brand (resigned 13 August 2021)	4	1	1
Rupert Howell	11	2	3
Sophie Tomkins	11	2	3
Jane Wakely (resigned 15 July 2022)	11	n/a	3
Stefan Barden (resigned 31 January 2022)	9	n/a	n/a
John Kearon	10	n/a	n/a
Chris Willford	11	2*	3*

* 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:

Rupert Howell – Chairman of the Remuneration Committee
Graham Blashill
Philip Machray (appointed 27 May 2022)
Sophie Tomkins
Jane Wakely (resigned 15 July 2022)

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.

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
Rupert Howell
Philip Machray (appointed 27 May 2022)

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.

BOARD EFFECTIVENESS

System1 Group has conducted an externally facilitated Board Evaluation questionnaire and feedback analysis for three years: FY2018/19 to FY2020/21. In FY2021/22, at the recommendation of its Senior Independent Director (SID), the Board decided to review the output of these three successive Board Evaluations as part of an internal Board evaluation process, and in particular, to review progress against those areas which have been marked lowest by the all-Board scoring process. This review was carried out alongside the SID's engagement with the Non-Executive Directors without the Chair present to gain greater insight as to whether the Board is operating in the best way possible.

- the effectiveness of the Board in setting strategy;
- confirmation that rigorous and wide-ranging debate of issues was taking place;
- that decision making was balanced and objective and took active account of relevant stakeholder and ESG issues;
- that the Board was effective and responsive to new information and events; and
- that the Board had the appropriate composition and skills to discharge its duties.

Overall, the Board Evaluations have indicated that Board processes have been robust, although certain areas have been flagged as needing improvement. In particular, the Evaluations have identified succession planning as needing greater focus, and these processes have been enhanced in response. AGM planning has also been a recurrent challenge during Covid impacted years, but the Board continues to pursue practical and transparent ways of engaging with its shareholders, notably via a Capital Markets Event in April 2022. The Board continues to challenge itself on the best way of taking account of risk matters in its decision making and maximising the combined commercial experience of Board members to challenge and refine strategy.

As a result of this year's process, a number of actions were agreed including increasing opportunities for Non-Executive Directors to meet colleagues and revisiting the Board's annual schedule of operational and strategic deep dive presentations.

The skills and experience of the Board are set out in their biographical details on pages 29. The experience and knowledge of each of the Directors gives them the ability to constructively challenge strategy and to scrutinise performance. The Board meets regularly with external experts including the NOMAD to ensure that it remains abreast of developments and current best practice.

All Directors undertook a thorough induction process on joining the Board, tailored to the existing knowledge and experience of the Director concerned.

The Group maintains communication with a wide range of stakeholders to ensure that their needs, interests and expectations are understood and reflected within the Group's strategy and in Board decision making. Further details of how the Board has taken account of the needs of the Group's stakeholders are set out in pages 26-30.

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.

GRAHAM BLASHILL
INDEPENDENT NON-EXECUTIVE CHAIRMAN,
APPOINTED ON 1 JULY 2012
(BECAME CHAIRMAN ON 25 JULY 2018);
Graham joined System1 Group in 2012 as a Non-Executive Director and has been Chairman since July 2018. He was previously a main board director of Imperial Tobacco Group plc (a FTSE 100 company) where he spent the majority of his career, having joined W.D.& H.O. Wills (a division of Imperial Tobacco) in 1968. He became Managing Director Imperial Tobacco UK in 1995, then Regional Director for Western Europe. In 2005 Graham was appointed Group Sales and Marketing Director responsible for Imperial Tobacco's global trading operations, and a member of the main Board. He is an investor and Director of several venture capital backed companies.

Favourite ad of all time: *Maxell Me Ears Are Alight*

RUPERT HOWELL
INDEPENDENT NON-EXECUTIVE DIRECTOR,
APPOINTED ON 15 FEBRUARY 2022
Rupert joined System1 Group in 2021 as a Non-Executive Director and became Chair of the Remuneration Committee in December 2021. He founded a multi-award-winning ad agency HHCL (named 1 of the top 10 ad agencies of all time). Rupert was then CEO of Chime Communications PLC, President EMEA of McCann Erickson, PLC Executive Director at ITV PLC, Chairman of Matomy Media, and Executive Director of Reach PLC. He is currently Chairman of ROXi, a music streaming and entertainment business, and Co-founder/Chairman of Pinwheel, the sustainable living and planet repair app, helping offset the Platinum Jubilee Pageant for HM the Queen.

Favourite ad of all time: *Tango Slap*

JOHN KEARON
CHIEF EXECUTIVE OFFICER
John founded the Company in 1999 and remains its largest shareholder. As CEO, JK has steered System1 from a start-up to where it is today, shaking up traditional market research with fresh innovative thinking & game-changing methods. Before System1, JK founded innovation agency, Brand Genetics, after being Planning Director at Publicis, and holding various research/marketing positions at Unilever.

Favourite ad of all time: *Coca Cola Life Argentina*

PHILIP MACHRAY
INDEPENDENT NON-EXECUTIVE DIRECTOR,
APPOINTED ON 27 MAY 2022
Phil joined System1 Group in 2022 as a Non-Executive Director. He started his career at Deloitte in 1992, rising to Director of Assurance and Advisory. He then joined Trinity Mirror Group, where he held a number of roles, and became Director of Corporate Development, reporting to the CEO, of what became Reach PLC. Since 2021, Phil has been Chief Financial Officer of Merit Group PLC, a data and intelligence business, and a Non-Executive Director, and audit committee Chair of Digitalbox, a mobile-first digital publisher and AIM-listed company.

Favourite ad of all time: *John Smiths Peter Kay, 'Ave It*

SOPHIE TOMKINS
INDEPENDENT NON-EXECUTIVE DIRECTOR,
APPOINTED ON 11 JUNE 2018
Sophie joined the Board as Non-Executive Director in June 2018 and became Senior Independent Director in August 2021. Her career included nearly two decades as a London-based stockbroker, focusing mainly on high growth small to mid-cap companies. She started at Cazenove & Co, and became more entrepreneurial, at both Collins Stewart, and then Fairfax. As a City Analyst, and then Head of Equities, Sophie advised numerous companies and Boards on a huge range of high profile IPOs and M&A deals. She is currently Non-Executive Director and Audit Committee Chair of, Hotel Chocolat Group PLC, Virgin Wines UK PLC, and The Snowfox Group. Sophie is also a qualified Chartered Accountant.

Favourite ad of all time: *Yellow Pages JR Hartley*

JANE WAKELY
INDEPENDENT NON-EXECUTIVE DIRECTOR,
APPOINTED ON 24 JULY 2018
Jane joined System 1 Group in July 2018 as a Non–Executive Director. Passionate about creativity, innovation and profitable brand growth, she's worked for many world leading CPG companies (Mars, P&G and Unilever), across categories as diverse as cosmetics, beauty care, healthcare, food, confectionery and pet care. Until recently Jane was Lead Global CMO For Mars Incorporated and drove a transformational marketing agenda to build brands for mutual value with purpose at the heart. She helped to innovate digitally and creatively across the business resulting in Mars being recognised as one of the world's most creatively awarded companies. In 2022, she became EVP Chief Consumer & Marketing Officer for PepsiCo, leading their international growth and drive for purposeful growth. She's also a Chartered Management Accountant.

Favourite ad of all time: *John Lewis Monty the Penguin*

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.

Favourite ad of all time: *Skoda Cake*

BOARD EXPERIENCE

	Sales and marketing	Technology	Finance	Governance	Sustainability
Graham Blashill	★	★		★	
Rupert Howell	★	★		★	★
John Kearon	★	★			★
Phillip Machray		★	★	★	
Sophie Tomkins		★	★	★	
Jane Wakely	★		★		★
Chris Willford		★	★	★	

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 28 of the Corporate Governance Report. 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 Group plc, Virgin Wines UK plc, and The Snowfox Group. 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 26. During FY 2021/22, two formal meetings were held, with an additional meeting to discuss audit planning.

DUTIES

The main duties of the Audit Committee are set out in its terms of reference, which are summarised on page 28 and available on the Group's website (system1group.com/investors).

The work carried out by the Audit Committee during FY 2021/22 comprised the following:

- ensuring the financial performance of the Company is being properly measured and reported on;
- review of the 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 2022 relate to the Audit and Interim review.

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 and other matters of audit relevance are regularly communicated.

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, RUPERT HOWELL

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 2022 AGM, since the main variable element (the LTIP) was approved by shareholders at the Annual General Meeting on 13 August 2021.
2. The annual report on remuneration sets out payments and awards made to the directors for the year to 31 March 2022.

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 October 2021 with vesting due on 12 August 2025 (the "2021 LTIP").

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 2021 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 2021/22 financial year to 21 March 2025 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.

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 2022, the only remuneration that they will receive will be base salary and benefits, unless the Remuneration Committee determine awards in exceptional circumstances (at their sole discretion).

THE LONG-TERM INCENTIVE PLAN

The Company introduced the current 2021 LTIP in October 2021. It was approved by shareholders at the Annual General Meeting on 13 August 2021 and covers the period ending 21 March 2025. The 2021 LTIP was implemented in October 2021 as a modification to the 2019 LTIP.

Under the approved modified scheme, the 2021 LTIP features the following:

- The awards have taken the form of zero-cost stock options.
- The overall plan limit is 10% of issued ordinary share capital as at 1 January 2017.
- New awards can be granted up to 22 March 2025 so that all executives' interests are aligned.
- The award has 4 tranches of vesting dates on 12 August 2022 to 2025 with a hard end-date of 21 March 2027.
- The market conditions underpinning these options are an average daily closing mid-price of the Company's shares must be at least £4.00 during the month of July (excluding weekends) of the relevant year when vesting occurs. If the share price target is not met, the award will roll onto the next date of vesting.
- Non-market performance conditions: If for the financial year immediately preceding the year of Vesting, Adjusted Profit After Tax is greater than £0 and subject to the Remuneration Committee considering and being satisfied with the level of profitability for the financial year immediately preceding the year of Vesting and the overall corporate and share price performance since 31 March 2021:
  a) all of the award will vest if revenue is equal to or greater than the Stretch Target;
  b) one-third of the award will vest if revenue is equal to the Threshold Target;
  c) a proportionate amount of the award will vest on a straight-line basis if revenue is between the Threshold Target and the Stretch Target (between one-third and all of the award).
- The Threshold Target means revenue of £45m in the Company's financial year ending 31 March and represents the minimum level of revenue that must be achieved for vesting to occur.
- The Stretch Target means revenue of £88m in the Company's financial year ending 31 March and represents the minimum level of revenue that must be achieved for full vesting to occur.

At 31 March 2022, there were two Executive Director participants in the 2021 LTIP (John Kearon and Chris Willford) and five senior manager participants. The specific vesting levels are set out as follows:

Equity level shares	No.	Of issued shares	Revenue target	
Executive Directors	110,222 220,445	0.8% 1.7%	£45.0m £88.0m	Threshold Stretch
	330,667	2.5%		
Senior Managers	176,356 352,713	1.3% 2.7%	£45.0m £88.0m	Threshold Stretch
	529,069	4.0%		

NON-EMPLOYEE PLAN

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: In October 2021, the non-employee plan was modified to reflect the same targets as the 2021 LTIP scheme.

Tranche 1: 100,000 zero-priced stock options

- Vest: when audited Revenue in any financial year exceeds £45m, subject to the Company's share price exceeding £4.00 per share for a 30-day consecutive dealing day period prior to the lapse date;
- Lapse: on 30 July 2025.
- Reduced to 46,995 on 31 March 2022

Tranche 2: 100,000 zero-priced stock options

- Vest: when audited Revenue in any financial year exceeds £66.5m, subject to the Company's share price exceeding £7.50 per share for a 30-day consecutive dealing day period prior to the lapse date;
- Lapse: on 30 July 2029
- Cancelled 31 March 2022

Tranche 3: 100,000 zero-priced stock options

- Vest: when audited Revenue in any financial year exceeds £88m, subject to the Company's share price exceeding £10.00 per share for a 30-day consecutive dealing day period prior to the lapse date;
- Lapse: on 30 July 2032.
- Cancelled 31 March 2022

Stefan Barden resigned as director on 31 January 2022 and as advisor to the Board on 31 March 2022. As at 31 March 2022, Stefan Barden retained 46,995 of his Tranche 1 options, with the remaining 253,005 options cancelled.

DILUTION

Vested stock options are set out below:

	No.	%
Voting shares as at 31 March 2022	12,739,622	100%
2006 employee share option scheme (closed)	7,000	0.1%
2010-2014 LTIP – vested on 28 May 2014 (closed)	10,144	0.1%
	17,144	**0.1%**

Unvested options comprise options granted under the 2019 and 2021 LTIP schemes, and the Non- Employee Plan, all described above. The maximum aggregate dilution under these schemes is 8.9% of the Company's voting shares.

NON-EXECUTIVE DIRECTORS

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

REMUNERATION OF ALL EMPLOYEES

All employees are entitled to base salary, benefits, and, excepting those participating in the 2019 and 2021 LTIP, a discretionary annual bonus or commissions. 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 2022 (audited)	Salary £	Benefits £	Pension £	Options Exercised £	Comp for loss of office £	Total £
Stefan Barden	192,000	2,851	-	-	-	194,851
John Kearon	265,000	8,205	1,767	278,363	-	553,335
Chris Willford	212,000	6,045	-	-	-	218,045
Total	669,000	17,101	1,767	278,363	-	966,231

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

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

This Annual report on Remuneration discloses the highest paid director in the year.

DIRECTORS' INTERESTS

The Directors who held office at 31 March 2022 held the following shares in the Company as at that date:

	2021 No.	2020 No.
John Kearon	**2,818,235**	22.1%
Chris Willford	**27,000**	0.2%
Graham Blashill	**10,000**	0.1%
Rupert Howell	**10,000**	0.1%
Sophie Tomkins	**8,000**	0.1%

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 2021	Exercised in year	Cancelled in year	No. at 31 Mar 2022
JOHN KEARON	a)	16/01/2015	01/05/2018	0.0p	56,568	(56,568)	-	-
	a)	22/07/2015	01/05/2018	0.0p	60,000	(60,000)	-	-
	b)	04/09/2019	12/08/2022	0.0p	198,400	-	-	198,400
					314,968	(116,568)	-	198,400
STEFAN BARDEN		17/04/2019	-	0.0p	100,000	-	(53,005)	46,995
		17/04/2019	-	0.0p	100,000	-	(100,000)	-
		17/04/2019	-	0.0p	100,000	-	(100,000)	-
					300,000	-	(253,005)	46,995
CHRIS WILLFORD	b)	27/11/2020	12/08/2022	0.0p	132,267	-	-	132,267

a) 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.

b) Options and conditional shares granted under the 2019 LTIP and modified in 2021, as described in the Directors' remuneration policy. These modified options can vest at any time between 12 August 2022 and 12 August 2025, provided performance and market targets are met, where previously the 2019 LTIP options can vest anytime between 12 August 2020 and 12 August 2024.

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.

	2022 £	2021 £
Graham Blashill	**40,000**	40,000
Robert Brand	**14,128**	38,000
Rupert Howell	**36,000**	6,000
Sophie Tomkins	**37,333**	36,000
Jane Wakely	**36,000**	36,000
Total	**163,461**	150,000

RUPERT HOWELL

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 2022 which comprise consolidated income statement, consolidated statement of comprehensive income, consolidated and Company balance sheets, consolidated statement of cash flows 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 the preparation of the group financial statements is applicable law and UK-adopted International Accounting Standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

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 2022 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 entities1 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.

SUMMARY OF OUR AUDIT APPROACH

KEY AUDIT MATTERS	GROUP ▪ Valuation of sabbatical provision ▪ Impairment of intercompany receivable ▪ Valuation of share based payments
MATERIALITY	GROUP ▪ Overall materiality: £80,800 (2021: £101,000) ▪ Performance materiality: £60,600 (2021: £75,900)
	PARENT COMPANY ▪ Overall materiality: £40,000 (2021: £50,000) ▪ Performance materiality: £30,000 (2021: £37,500)
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.

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 2022 was £475,000, 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 2022 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.
KEY OBSERVATIONS	When sensitised the movement in employee retention rate caused the biggest change provision value. It was noted that when sensitised, the following movements were noted: ▪ A decrease in the retention rate of 5% from the 30% assumed in the model caused a corresponding movement of c.£45k in the underlying provision; ▪ A 10% increase in salary caused a movement of c.£30k; and ▪ A 0.25% movement in the discount rate results in a c.£2k movement in the provision.

IMPAIRMENT OF INTERCOMPANY RECEIVABLES

KEY AUDIT MATTER DESCRIPTION	System1 Group Plc has c.£7.6m 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. Due to 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.
KEY OBSERVATIONS	We have reviewed the assessment provided and have determined that some balances held with some subsidiaries have some indication of impairment against the balance due to System1 Group Plc. However, we note that the amounts due from these entities have been paid over to System1 Group Plc post year-end on 29th June 2022. As such, no impairment has been noted in respect of these balances. No indication of impairment has been noted in the debtor balances held with any other group entities.

VALUATION OF SHARE BASED PAYMENTS

KEY AUDIT MATTER DESCRIPTION	The total charge relating to equity-settled share-based payment plans was £299k as disclosed in note 10. There is a modification to the scheme in the current year and as such, there could be a more significant charge in the P&L in the current year. Furthermore, the treatment of the modification will be reviewed in the year. As such, there are some significant judgements in the current year and updated valuations during the year. Therefore, based on the above, we consider this to be a key audit matter in the current year. The group has a long term incentive (LTIP) scheme in place for management with share price and profit targets attached. The options under the LTIP, prior year grants and new grants in the year, also have profit based (PBT and gross profit) targets which requires management to assess at the end of each reporting period the number of options expected to vest. On this basis valuation of share-based payments is considered to be a significant risk. Furthermore, there has been a modification to the scheme in the current year, which will impact the scheme's valuation, potentially significantly.

VALUATION OF SHARE BASED PAYMENTS continued

HOW THE MATTER WAS ADDRESSED IN THE AUDIT	We have: ▪ Reviewed the treatment of a modification of the scheme in the year and concluded that a modification of the scheme occurred in the year. ▪ Performed a re-calculation of the share-based payment charge for the year, verifying the fair value of options to management expert's valuation (for new option grants) and prior year financial statements (for option grants in previous periods). ▪ Verified a sample of option grants to underlying agreements and have not noted any issues in performance of this. ▪ We have used our internal valuations team to perform a review of Azets' valuation of any new option grants. No issues have been noted with the approach taken to the valuation method. ▪ Confirmed the replacement option grants have been correctly accounted for in accordance with IFRS 2 Share- Based payments. No significant issues have been noted from this review. ▪ Reviewed management's assessment of the proportion of charge recognised in the year based on likelihood of meeting profit based targets. 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 consolidated financial statements and consider further for reasonableness in relation to IFRS 2.
KEY OBSERVATIONS	No significant issues have been noted in respect of the modification to the scheme in the year or with the valuation of the share based payments at the year-end.

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	£80,800 (2021: £101,000)	£40,000 (2021: £50,000)
BASIS FOR DETERMINING OVERALL MATERIALITY	5% of results before tax	1% 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	£60,600 (2021: £75,900)	£30,000 (2021: £37,500)
BASIS FOR DETERMINING PERFORMANCE MATERIALITY	75% of overall materiality	75% of overall materiality
REPORTING OF MISSTATEMENTS TO THE AUDIT COMMITTEE	Misstatements in excess of £4,040 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £2,000 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.

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. Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- Checking the integrity and accuracy of the cash flow forecasts and covenant calculation's provided by management for the period to March 2024.
- We have reviewed the FY23 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.

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.

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 26, 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	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 areas that we identified as being susceptible to material misstatement due to fraud were:

Risk	Audit procedures performed by the audit engagement team:
REVENUE RECOGNITION IN RELATION TO CUT-OFF	We have reviewed a sample of sales straddling the year end and no errors were noted. For the sample selected sales were recorded in the correct period.
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
26 August 2022

Consolidated Income Statement

for the year ended 31 March 2022

	Note	2022 £'000	2021 £'000
REVENUE	5	**24,097**	22,838
Cost of sales	15	**(3,898)**	(3,686)
GROSS PROFIT	5	**20,199**	19,152
Administrative expenses	15	**(19,383)**	(17,517)
Other operating income		**289**	652
OPERATING PROFIT		**1,105**	2,287
Finance expense	18	**(160)**	(211)
PROFIT BEFORE TAXATION	16	**945**	2,076
Income tax credit/(expense)	19	**10**	(386)
PROFIT FOR THE FINANCIAL PERIOD		**955**	1,690
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY		**955**	1,690

EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Basic earnings per share	21	**7.4p**	13.4p
Diluted earnings per share	21	**7.4p**	13.1p

The notes on page 50 to 71 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 2022

	2022 £'000	2021 £'000
PROFIT FOR THE FINANCIAL YEAR	**955**	1,690
OTHER COMPREHENSIVE INCOME:		
ITEMS THAT MAY BE SUBSEQUENTLY RECLASSIFIED TO PROFIT/(LOSS)		
Currency translation differences on translating foreign operations	**342**	(278)
Other comprehensive profit/(loss) for the period, net of tax	**342**	(278)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**1,297**	1,412

The notes on pages 50 to 71 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

as at 31 March 2022

REGISTERED COMPANY NO. 05940040

	Note	2022 £'000	2021 £'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant, and equipment	6	**2,054**	1,435
Intangible assets	7	**382**	418
Deferred tax asset	20	**292**	286
		2,728	2,139
CURRENT ASSETS			
Contract assets		**198**	318
Trade and other receivables	9	**4,492**	5,880
Cash and cash equivalents	8	**11,174**	9,008
		15,864	15,206
TOTAL ASSETS		**18,592**	17,345
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		**196**	(146)
Retained earnings		**5,857**	5,170
TOTAL EQUITY		**8,263**	7,234
LIABILITIES			
NON-CURRENT LIABILITIES			
Provisions	11	**432**	560
Lease liabilities	8, 14	**1,417**	928
Borrowings	8	**-**	2,500
		1,849	3,988
CURRENT LIABILITIES			
Provisions	11	**77**	200
Lease liabilities	8, 14	**1,091**	1,647
Borrowings		**2,500**	-
Contract liabilities	13	**991**	803
Income taxes payable		**267**	334
Trade and other payables	12	**3,554**	3,139
		8,480	6,123
TOTAL LIABILITIES		**10,329**	10,111
TOTAL EQUITY AND LIABILITIES		**18,592**	17,345

The notes on pages 50 to 71 are an integral part of these consolidated financial statements.

These financial statements were approved by the directors on 26 August 2022 and are signed on their behalf by:

JOHN KEARON
Director

CHRIS WILLFORD
Director

Consolidated Statement of Cash Flows

for the year ended 31 March 2022

	Note	**2022 £'000**	2021 £'000
NET CASH GENERATED FROM OPERATIONS	23	**4,098**	3,791
Tax paid		**(63)**	332
NET CASH GENERATED FROM OPERATING ACTIVITIES		**4,035**	4,123
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant, and equipment	6	**(79)**	(102)
Purchase of intangible assets	7	**(59)**	(96)
NET CASH USED BY INVESTING ACTIVITIES		**(138)**	(198)
NET CASH FLOW BEFORE FINANCING ACTIVITIES		**3,897**	3,925
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		**(161)**	(211)
Property lease liability payments		**(1,218)**	(1,093)
Purchase of own shares	10	**(567)**	-
NET CASH USED BY FINANCING ACTIVITIES		**(1,946)**	(1,304)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,951**	2,621
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**9,008**	6,650
Exchange gain/(loss) on cash and equivalents		**215**	(263)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**11,174**	9,008

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	**3,897**	3,925
Net cash flow for property leases	**(1,307)**	(1,229)
OPERATING CASH FLOW	**2,590**	2,696

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	2,621	-	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	(263)	-	182	**(80)**
AT 31 MARCH 2021	9,008	(2,500)	(2,575)	**3,933**
AT 1 APRIL 2021	9,008	(2,500)	(2,575)	**3,933**
Cash flows	1,951	-	1,218	**3,169**
Non-cash charges:				
- interest on lease liabilities	-	-	(89)	**(89)**
- new lease liabilities	-	-	(1,704)	**(1,704)**
- disposal of lease liabilities			601	**601**
- exchange and other non-cash movements	215	-	41	**256**
AT 31 MARCH 2022	11,174	(2,500)	(2,508)	**6,166**

The notes on pages 50 to 71 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended ended 31 March 2022

	Note	Share capital £'000	Share premium account £'000	Merger reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	**Total £'000**
AT 31 MARCH 2020		132	1,601	477	132	3,416	**5,758**
LOSS FOR THE FINANCIAL YEAR		-	-	-	-	1,690	**1,690**
Other comprehensive income:							
- currency translation differences		-	-	-	(278)	-	**(278)**
TOTAL COMPREHENSIVE INCOME		-	-	-	(278)	1,690	**1,412**
Transactions with owners:							
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**
PROFIT FOR THE FINANCIAL YEAR		-	-	-	-	955	**955**
Other comprehensive income:							
- currency translation differences		-	-	-	342	-	**342**
TOTAL COMPREHENSIVE INCOME		132	1,601	477	203	955	**1,297**
Transactions with owners:							
Employee share options:							
- value of employee services	10	-	-	-	-	299	**299**
Purchase of treasury shares		-	-	-	-	(567)	**(567)**
AT 31 MARCH 2022		132	1,601	477	196	5,857	**8,263**

The notes on pages 50 to 71 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 March 2022

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 4 More London Riverside, London, England, SE1 2AU. The Company's shares are listed on the AIM 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 2022 (including the comparatives for the year ended 31 March 2021) on 26 August 2022.

2 BASIS OF PREPARATION

The Group has prepared its consolidated financial statements in accordance with UK-adopted international accounting standards and applicable law. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in accordance with UK-adopted international accounting 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, as the Company 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 ended the year with a cash balance (gross of £2.5m borrowings) of £11.2m and net assets at £8.3m.

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.

The Group is very confident in its ability 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 August 2023 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

No new accounting standards or interpretations have been published that are applicable to the Group but are not mandatory for 31 March 2022 reporting periods and have not been early adopted by the Group.

BASIS OF CONSOLIDATION

The Group financial statements consolidate those of the Company and all its subsidiary undertakings drawn up to 31 March 2022.

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 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 2022 or 2021.

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.

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.

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.

4 PRINCIPAL ACCOUNTING POLICIES continued

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, which 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

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.

During the year, the Group partnered with the University of Warwick on UK government grant-funded research looking to harness artificial intelligence (AI) and our proprietary databases to further improve our understanding of predictions. The grant was specific to this research and was not a part of the Group's usual operations.

Income from subleasing right-of-use assets generated from our London and New York offices have been posted as other operating income.

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.

4 PRINCIPAL ACCOUNTING POLICIES continued

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.

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.

4 PRINCIPAL ACCOUNTING POLICIES continued

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.

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.

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.

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.

	2022	2021
	Revenue £'000	Revenue £'000
BY LOCATION OF CUSTOMER		
Americas	**9,043**	8,822
United Kingdom	**7,918**	6,780
Rest of Europe	**5,463**	5,233
APAC	**1,673**	2,003
	24,097	22,838

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.

	2022	2021
	Revenue £'000	Revenue £'000
BY PRODUCT VARIANT		
Data	**9,747**	1,480
Consultancy	**14,102**	20,561
Other services	**248**	797
	24,097	22,838
BY PRODUCT GROUP		
Communications (Ad Testing)	**14,955**	10,603
Brand (Brand Tracking)	**3,295**	3,796
Innovation	**5,599**	7,642
Other services	**248**	797
	24,097	22,838

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

	2022 £'000	2021 £'000
NON-CURRENT ASSETS		
United Kingdom	**1,846**	1,778
Rest of world	**590**	75
	2,436	1,853

6 PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets £'000	Furniture and fixtures £'000	Computer hardware £'000	Total £'000
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	1,347	17	73	1,435

	Right-of-use assets £'000	Furniture and fixtures £'000	Computer hardware £'000	Total £'000
AT 1 APRIL 2021				
Cost	**1,747**	**30**	**114**	**1,891**
Accumulated depreciation	**(402)**	**(13)**	**(41)**	**(456)**
NET BOOK VALUE	**1,345**	**17**	**73**	**1,435**
NET BOOK VALUE, AT 1 APRIL 2021	**1,345**	**17**	**73**	**1,435**
Additions	**1,984**	**1**	**73**	**2,058**
Disposals	**(196)**	**-**	**-**	**(196)**
Foreign exchange	**16**	**1**	**4**	**21**
Remeasurement of right-of-use assets	**(405)**	**-**	**-**	**(405)**
Depreciation charge for the year	**(773)**	**(15)**	**(71)**	**(859)**
NET BOOK VALUE, AT 31 MARCH 2022	**1,971**	**4**	**79**	**2,054**
AT 31 MARCH 2022				
Cost	**3,555**	**33**	**192**	**3,780**
Accumulated depreciation	**(1,584)**	**(29)**	**(113)**	**(1,726)**
NET BOOK VALUE	**1,971**	**4**	**79**	**2,054**

Depreciation charges are included within administrative expenses.

On 1 April 2021, the Group removed assets with net book values of £nil. This eliminated the cost and accumulated depreciation of each asset category as follows:

	Right-of-use assets £'000	Furniture and fixtures £'000	Computer hardware £'000	Total £'000
	2,944	110	110	**3,164**

7 INTANGIBLE ASSETS

	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
Amortisation for the year	-	-	(46)	(46)
NET BOOK VALUE	-	-	418	418
AT 31 MARCH 2021				
Cost	-	-	464	464
Accumulated amortisation	-	-	(46)	(46)
NET BOOK VALUE	-	-	418	418
AT 1 APRIL 2021				
Cost	**-**	**-**	**464**	**464**
Accumulated amortisation	**-**	**-**	**(46)**	**(46)**
NET BOOK VALUE	**-**	**-**	**418**	**418**
NET BOOK VALUE, AT 1 APRIL 2021	**-**	**-**	**418**	**418**
Additions	**-**	**-**	**59**	**59**
Amortisation for the year	**-**	**-**	**(95)**	**(95)**
NET BOOK VALUE, AT 31 MARCH 2022	**-**	**-**	**382**	**382**
AT 31 MARCH 2022				
Cost	**-**	**-**	**525**	**525**
Accumulated amortisation	**-**	**-**	**(143)**	**(143)**
NET BOOK VALUE	**-**	**-**	**382**	**382**

Amortisation charges are included within administrative expenses.

The only software cost as at 31 March 2022 is the Group's new finance and operations system that was brought into use October 2020 and the Group's HR system that was brought into use in August 2021.

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.

	2022 £'000	2021 £'000
CASH AND CASH EQUIVALENTS		
HSBC Bank PLC (AA credit rating)	**10,586**	8,458
Santander	**362**	368
Deutsche Bank	**115**	74
UBS	**94**	90
Other banks	**17**	18
	11,174	9,008

8 FINANCIAL RISK MANAGEMENT continued

FINANCIAL INSTRUMENTS BY CATEGORY

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

	2022 £'000	2021 £'000
FINANCIAL ASSETS CARRIED AT AMORTISED COST		
Trade and other receivables (excluding prepayments)	**4,229**	5,568
Cash and cash equivalents	**11,174**	9,008
	15,403	14,576
OTHER FINANCIAL LIABILITIES CARRIED AT AMORTISED COST		
CURRENT LIABILITIES		
Trade payables	**925**	845
Accruals	**2,046**	1,871
Lease liabilities	**1,091**	1,647
Borrowings	**2,500**	-
	6,576	4,363
NON-CURRENT LIABILITIES		
Borrowings	**-**	2,500
Lease liabilities	**1,417**	928
	1,417	3,428

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 secured over the assets of those Group companies domiciled in the United Kingdom and the United States. The loan accrued interest at a rate of 2.5% above LIBOR and is subject to leverage and interest covenants, up to 31 December 2021 when the rate transitioned to 2.5% above SONIA.

9 TRADE AND OTHER RECEIVABLES

	2022 £'000	2021 £'000
Trade receivables	**3,758**	5,265
Prepayments and accrued income	**452**	312
Other receivables	**282**	303
	4,492	5,880

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 in Note 8). 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, which 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 2022, trade receivables of £861,000 (2021: £1,716,000) 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 2022					
Gross trade receivables	**2,920**	**801**	**70**	**76**	**3,867**
Loss provision	**24**	**15**	**5**	**65**	**109**
Expected loss rate	**1%**	**2%**	**7%**	**86%**	
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%	

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

	2022 £'000	2021 £'000
PROVISION FOR IMPAIRMENT OF TRADE RECEIVABLES		
Opening balance	**120**	111
Charged to the income statement	**51**	131
Utilisations and other movements	**(61)**	(122)
	110	120

As of 31 March 2022, no other receivables or contract costs were impaired (2021: £Nil).

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

	2022 £'000	2021 £'000
United States dollar	**1,587**	2,004
British sterling	**1,669**	1,527
Euro dollar	**286**	654
Brazilian real	**365**	263
Swiss franc	**321**	465
Australian dollar	**94**	118
Singapore dollar	**170**	597
	4,492	5,628

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.

	2022		2021	
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:

	2022		2021	
	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	**510,421**		626,989	
Purchase of treasury shares	**158,674**			
Transfer of shares to satisfy options exercise	**(181,944)**	-	(116,568)	-
AT 31 MARCH	**487,151**		510,421	

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 zero-exercise price and are subject to performance criteria. If share options remain unexercised after a period of ten years from the date of grant, the options expire. Share options are forfeited in some circumstances if the employee leaves the Group before the options vest, unless otherwise agreed by the Remuneration Committee of the Board.

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

	2022		2021	
	Options No.	**Weighted average exercise price per share Pence**	Options No.	Weighted average exercise price per share Pence
SHARE OPTIONS OUTSTANDING				
Opening balance	**1,623,362**	**0.6**	1,685,237	0.5
Granted	**148,289**	**-**	380,780	-
Lapsed	**-**	**-**	-	-
Replaced	**-**	**-**	-	-
Cancelled	**(395,117)**	**-**	(326,087)	-
Exercised	**(181,944)**	**-**	(116,568)	-
CLOSING BALANCE	**1,194,590**	**0.8**	1,623,362	0.6
EXERCISABLE AT YEAR-END	**17,144**	**53.7**	199,088	4.6
WEIGHTED AVERAGE SHARE PRICE AT DATE OF OPTIONS EXERCISED		**268.4**		133.7

10 SHARE CAPITAL continued

The Group had the following outstanding options and exercise prices:

	2022			2021		
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
2024	**64,139**	**14.4**	**26.9**	182,520	5.0	38.9
2025	-	-	-	116,568	-	48.8
2027	**1,130,451**	-	**59.7**	743,494	-	71.7
2028	-	-	-	264,534	-	83.7
2029	-	-	-	216,246	-	97.7
2032	-	-	-	100,000	-	136.1
	1,194,590	**0.8**	**57.9**	1,623,362	0.6	75.8

LONG TERM INCENTIVE SCHEME

The Company introduced the current 2021 LTIP in October 2021. The 2021 LTIP was implemented in October 2021 as a modification to the 2019 LTIP. The 2021 LTIP options vest between 12 August 2022 and 12 August 2025, subject to Revenue, Profit After Tax and the Company's share price exceeding certain targets. The full details of which are given in the Company's Remuneration Report. The final vesting date of the 2021 LTIP is 12 August 2025, with the exercise period ending on 21 March 2027.

Of the total 1,064,825 options granted under the 2021 LTIP, 916,536 options were granted as direct replacements to the 2019 scheme and 148,289 options were new grants to senior management who either joined the company subsequent to the 2019 LTIP grant or additional grants due to the 2019 LTIP plan limit of 8.5%. At 31 March 2022, the number of options granted under the 2021 LTIP reached 932,558 (or 7.1% of issued ordinary share capital of maximum capacity at 10%).

The number of options outstanding under the replaced 2019 LTIP scheme is 186,447 (31 March 2021: 1,124,274).

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. In the year, the plan was modified to reflect the same targets as the 2021 LTIP scheme. These options vest in three tranches of 100,000 each subject to Revenue and the Company's share price exceeding certain targets. The three tranches lapse on 30 July 2025, 30 July 2029, and 30 July 2032 respectively. As at 31 March 2022, Stefan Barden retained 46,995 of his first tranche options, with the remaining 253,005 options cancelled.

SHARE-BASED PAYMENT CHARGE

The total charge relating to equity-settled share-based payment plans was £299,000 (2021: £22,000). The associated credit for social security was £28,000 (2021: charge of £53,000).

11 PROVISIONS

	Sabbatical £'000	Leasehold dilapidations £'000	Total £'000
AT 1 APRIL 2020	724	141	865
Provided in the year	(11)	(63)	(74)
Utilised in the year	(25)	-	(25)
Foreign exchange movement	-	(6)	(6)
AT 31 MARCH 2021	688	72	760
Provided in the year	76	7	83
Utilised in the year	(19)	(16)	(35)
Reversals of unused amounts	(266)	(29)	(295)
Foreign exchange movement	(4)	-	(4)
AT 31 MARCH 2022	**475**	**34**	**509**
Due within one year	67	10	77
Due after one year	408	24	432

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:

	2022	2021
Measurement method	Project unit credit method	
Discount rate, based on 6-year corporate bond yields	**2.5%**	1.2%
Annual salary growth rate	**7%**	7%
Staff turnover	**30%**	18%

	£'000
Changes to the assumptions will increase the provision by:	
0.25% decrease to discount rate	2
10% increase to salary increase assumption	30
5% decrease to staff turnover assumption	45

Dilapidation provisions represent the Group's best estimate of costs required to meet its obligations under property lease agreements.

12 TRADE AND OTHER PAYABLES

	2022 £'000	2021 £'000
Trade payables	**925**	845
Social security and other taxes	**570**	423
Accruals and deferred income	**2,060**	1,871
	3,554	3,139

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

	2022 £'000	2021 £'000
CONTRACT LIABILITIES	**991**	803

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:

	2022 £'000	2021 £'000
Within one year	**1,147**	1,720
Later than 1 but no later than 5 years	**1,447**	943
More than 5 years	**-**	-
Minimum lease payments	**2,594**	2,664
Future finance charges	**(86)**	(88)
Recognised as a liability	**2,508**	2,575

The present value of finance lease liabilities is as follows:

	2022 £'000	2021 £'000
Within one year	**1,091**	1,647
Later than 1 but no later than 5 years	**1,417**	928
More than 5 years	**-**	-
	2,508	2,575

The weighted incremental borrowing rate applied to lease liabilities is 3.24% (2021: 4.30%).

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

	2022 £'000	2021 £'000
Employee benefit expense	**9,968**	9,105
Employee benefit expense – research and development	**2,041**	1,456
Other research and development costs	**1,740**	1,054
Depreciation, amortisation, and impairment	**954**	1,108
Impairment on right-of-use asset	**(235)**	937
Net foreign exchange (gains)/losses	**(131)**	57
Other expenses	**8,944**	7,485
	23,281	21,203
Analysed as:		
Cost of sales	**3,898**	3,686
Administrative expenses	**19,383**	17,517
	23,271	21,203

15 EXPENSES BY NATURE continued

Reconciliation between Operating Costs and Adjusted Operating Costs:

	2022 £'000	2021 £'000
Administrative expenses	**19,383**	17,517
Finance expense	**160**	211
Total Operating Costs	**19,543**	17,728
Less: Adjusting items		
Impairment	**(235)**	990
Compensation for loss of office	**81**	564
Bonus and commissions expense	**268**	(161)
Share-based payment expense	**270**	75
Other interest expense	**70**	75
Other staff costs	**(211)**	(31)
Trademark litigation	**150**	-
	393	1,512
Adjusted Operating Costs	**19,150**	16,216

16 AUDITOR REMUNERATION

	2022 £'000	2021 £'000
Audit of parent company and consolidated accounts	**68**	**62**
Audit-related assurance services	**13**	**10**
	81	**72**

17 EMPLOYEE BENEFIT EXPENSE

	2022 £'000	2021 £'000
Employee benefit expenses (including directors) comprise:		
Wages and salaries	**9,888**	8,086
Social security contributions and similar taxes	**1,278**	1,119
Defined contribution pension cost	**369**	302
Long service leave cost – sabbatical provision	**(225)**	(16)
Share-based payment expense	**299**	75
Compensation for loss of office	**81**	564
Medical benefits	**319**	431
	12,009	10,561

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the Group, including the 2 (2021: 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:

	2022 £'000	2021 £'000
Salaries and benefits in kind	**865**	875
Social security contributions	**145**	109
Defined contribution pension cost	**2**	3
Share-based payment expense	**85**	3
	1,097	990

17 EMPLOYEE BENEFIT EXPENSE continued

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

	2022 £'000	2021 £'000
Sales and marketing	**43**	31
Operations	**52**	55
IT	**36**	27
Administration	**22**	21
	153	134

18 FINANCE EXPENSES

	2022 £'000	2021 £'000
Other net interest payable	**71**	75
Finance charges on property leases	**89**	136
	160	211

19 INCOME TAX EXPENSE

	2022 £'000	2021 £'000
Current tax	**(1)**	**95**
Deferred tax	**(9)**	**291**
	(10)	**386**

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

	2022 £'000	2021 £'000
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	**945**	2,076
Profit on ordinary activities multiplied by standard UK tax rate	**180**	387
Difference between tax rates applied to Group's subsidiaries	**222**	7
Net expenses not deductible for tax purposes	**(35)**	165
Adjustments to trading losses and brought forward values	**-**	110
Tax on intra-group management charges (Brazil and China)	**-**	(6)
Receipt of research and development credits	**(487)**	(581)
Adjustment to current tax in respect of prior years	**(92)**	(48)
Adjustments to foreign and withholding tax	**(5)**	(2)
Adjustments to deferred tax in respect of prior and current years	**207**	354
	(10)	386

The standard tax rate for the years ended 31 March 2022 and 2021 was 19%.

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 in the year. The R&D Tax Credit application of approximately £0.2m in respect of the year ended 31 March 2021 has been submitted to HM Revenue and Customs. It was not neither received nor recognised during the year nor subsequent to year-end. The Company is working with its advisors to submit a claim for a R&D Tax Credit in respect of the year ended 31 March 2022.

20 DEFERRED TAX

Deferred tax assets and liabilities are as follows.

	2022 £'000	2021 £'000
Deferred tax assets:		
- deferred tax assets to be recovered after more than 12 months	**272**	306
- deferred tax assets to be recovered within 12 months	**14**	43
	286	349
Deferred tax liabilities:		
- deferred tax liability to be recovered within 12 months	**6**	(63)
DEFERRED TAX ASSET (NET):	**292**	286

The gross movement in deferred tax is as follows.

	2022 £'000	2021 £'000
OPENING BALANCE	**286**	627
Income statement credit/(charge)	**6**	(316)
Tax (debited)/credited directly to equity	**-**	(25)
CLOSING BALANCE	**292**	286

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	Accelerated capital allowances £'000	Total £'000
AT 1 APRIL 2021	120	43	45	12	128	-	348
Credited/(charged) to income statement	(22)	(29)	17	(7)	(21)	6	(56)
AT 31 MARCH 2022	**98**	**14**	**62**	**5**	**107**	**6**	**292**

DEFERRED TAX LIABILITIES

	Accelerated capital allowances £'000
AT 1 APRIL 2021	(62)
Charged to income statement	62
AT 31 MARCH 2022	**-**

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

	2022	2021
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY (£'000)	**955**	1,690
Weighted average number of Ordinary Shares in issue	**12,863,257**	12,657,318
BASIC EARNINGS/(LOSSES) PER SHARE	**7.4p**	13.4p
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY, IN £'000	**955**	1,690
Weighted average number of Ordinary Shares in issue	**12,863,257**	12,657,318
Share options	**12,881**	193,768
Weighted average number of Ordinary Shares for diluted earnings per share	**12,876,138**	12,851,086
DILUTED EARNINGS PER SHARE	**7.4p**	13.1p

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

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

Employee options of 1.2 million (2021: 1.4 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 2022. The total number of options in issue is disclosed in Note 10.

22 DIVIDENDS

The Company did not pay an interim dividend in the year ended 31 March 2022 and does not propose the payment of a final dividend.

No dividends were paid to directors in the years ended 31 March 2022 and 2021.

23 NET CASH GENERATED FROM OPERATIONS

	2022 £'000	2021 £'000
PROFIT BEFORE TAXATION	**945**	2,076
Depreciation and impairment of property, plant, and equipment	**859**	1,999
Amortisation and impairment of intangible assets	**95**	46
Reversal of impairment of right-of-use asset	**(235)**	-
Profit on disposal of property, plant, and equipment	**-**	(73)
Interest paid	**161**	211
Share-based payment expense	**299**	40
(Increase)/decrease in contract assets	**120**	(109)
(Increase)/decrease in trade and other receivables	**1,389**	(450)
(Increase)/decrease in trade and other payables	**415**	(71)
Increase in contract liabilities	**188**	131
Decrease in provisions	**(251)**	(104)
Exchange differences on operating items	**113**	94
	4,098	3,791

24 RELATED PARTY TRANSACTIONS

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
2022				
System1 Group PLC	-	**7,673**	**2,272**	**5,010**
System1 Research Limited	-	**(2,886)**	**(856)**	**(3,846)**
System1 Research, Inc.	-	**(2,588)**	**(766)**	**(1,258)**
System1 Research B.V.	-	**(176)**	**(52)**	**244**
System1 Research Sarl	-	**(598)**	**(175)**	**67**
System1 Research GmbH	-	**(296)**	**(88)**	**(473)**
System1 Marketing Consulting (Shanghai) Co. Limited	-	-	-	**(213)**
System1 Research Do Brazil Servicos de Marketing Ltda.	-	-	-	**28**
System1 Research France Sarl	-	**(560)**	**(167)**	**249**
System1 Market Research Pte Ltd	-	**(214)**	**(64)**	**(125)**
System1 Research Pty Ltd.	-	**(354)**	**(105)**	**318**
System1 Agency Limited	-	-	-	**2**
System1 AdRatings Limited	-	-	-	**(3)**
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)

25 POST BALANCE SHEET EVENTS

As at 12 April 2022, the Group entered a new agreement with WeWork to move our London office and headquarters. This agreement included the early termination of our current premises on 30 June 2022, with the subsequent commencement of a two-year lease at the new premises on 1 July 2022. The material impact is reflected in the balance sheet as at 31 March 2022.

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 2022

REGISTERED COMPANY NO. 05940040

	Note	2022 £'000	2021t £'000
FIXED ASSETS			
Intangible assets	2	**382**	418
Tangible assets	3	**1,464**	1,356
Investments	4	**581**	581
		2,427	2,355
DEBTORS DUE AFTER ONE YEAR	5	-	-
CURRENT ASSETS			
Debtors due within one year	5	**8,147**	6,046
Cash and cash equivalents		**2,288**	514
		10,435	6,560
CREDITORS: AMOUNTS DUE WITHIN ONE YEAR	6	**7,367**	2,246
NET CURRENT ASSETS		**3,068**	4,314
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,495**	6,669
CREDITORS: AMOUNTS DUE AFTER ONE YEAR	6	**792**	3,330
PROVISIONS FOR LIABILITIES	7	**264**	299
NET ASSETS		**4,439**	3,040
CAPITAL AND RESERVES			
Share capital		**132**	132
Share premium account		**1,601**	1,601
Retained earnings		**2,706**	1,307
SHAREHOLDERS' FUNDS		**4,439**	3,040

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 after tax was £1,637,000 (2021: £573,000).

The notes on pages 74 to 82 are an integral part of these company financial statements.

These financial statements were approved by the directors on 26 August 2022 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 2022

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
AT 1 APRIL 2020	132	1,601	669	**2,402**
PROFIT 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	-	-	22	**22**
- deferred tax debited 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**
PROFIT FOR THE FINANCIAL PERIOD	-	-	1,667	**1,667**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE EQUITY HOLDERS	-	-	1,667	**1,667**
Transactions with owners:				
Employee share scheme:				
- value of employee services	-	-	299	**299**
Purchase of treasury shares			(567)	**(567)**
	-	-	(268)	**(268)**
AT 31 MARCH 2022	132	1,601	2,706	**4,439**

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 2022. These accounts are available from the registered office address of the Company, and at system1group.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) a statement of cash flows and related notes;
b) the requirements of IAS 24 Related Party Disclosures to disclose related party transactions entered between two or more wholly owned members of the group;
c) disclosure of key management personnel compensation;
f) capital management disclosures;
d) presentation of a comparative reconciliation of the number of shares outstanding at the beginning and at the end of the period;
e) the effect of future accounting standards not adopted;
f) disclosures in respect of financial instruments and fair value measurement.

As permitted by the Companies Act 2006 section 408, the Company does not present a profit and loss account.

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 AdRatings platform are capitalised as an internally generated asset when all criteria for capitalisation are met. None have been capitalised in the past two years.

Costs relating to the research phase of the product, amounting to £3.8m were expensed in the year to 31 March 2022. 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.

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, which 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 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 33.

The average number of staff employed by the Company during the year ended 31 March 2022 was 61 (2021: 53) and total employment costs were £5,075,000 (2021: £4,763,000)

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.

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2 INTANGIBLE ASSETS

	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
Amortisation for the year	-	-	(46)	(46)
NET BOOK VALUE	-	-	418	418
AT 31 MARCH 2021				
Cost	-	-	464	464
Accumulated amortisation	-	-	(46)	(46)
NET BOOK VALUE	-	-	418	418
AT 1 APRIL 2021				
Cost	-	-	464	464
Accumulated amortisation	-	-	(46)	(46)
NET BOOK VALUE	-	-	418	418
NET BOOK VALUE, AT 1 APRIL 2021	**-**	**-**	**418**	**418**
Additions	**-**	**-**	**59**	**59**
Amortisation for the year	**-**	**-**	**(95)**	**(95)**
NET BOOK VALUE, AT 31 MARCH 2022	**-**	**-**	**382**	**382**
AT 31 MARCH 2022				
Cost	**-**	**-**	**525**	**525**
Accumulated amortisation	**-**	**-**	**(143)**	**(143)**
NET BOOK VALUE	**-**	**-**	**382**	**382**

The only software cost as at 31 March 2022 is the Company's finance and operations system that was brought into use October 2020 and the Company's HR system that was brought into use in August 2021.

3 TANGIBLE ASSETS

	Right-of-use assets £'000	Furniture and fixtures £'000	Computer hardware £'000	Total £'000
AT 1 APRIL 2020				
Cost	2,139	55	653	2,848
Accumulated depreciation	(160)	(45)	(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
AT 1 APRIL 2021				
Cost	**2,139**	**60**	**181**	**2,380**
Accumulated depreciation	**(850)**	**(55)**	**(119)**	**(1,024)**
NET BOOK VALUE	**1,289**	**5**	**62**	**1,356**
NET BOOK VALUE, AT 1 APRIL 2021	**1,289**	**5**	**62**	**1,356**
Additions	**1,245**	**1**	**68**	**1,314**
Disposals	**(196)**	**-**	**-**	**(196)**
Depreciation charge for the year	**(939)**	**(3)**	**(68)**	**(1,010)**
NET BOOK VALUE, AT 31 MARCH 2022	**1,399**	**3**	**62**	**1,464**
AT 31 MARCH 2022				
Cost	**2,682**	**11**	**165**	**2,857**
Accumulated depreciation	**(1,283)**	**(7)**	**(103)**	**(1,393)**
NET BOOK VALUE	**1,399**	**3**	**62**	**1,464**

4 INVESTMENTS

	£'000
Cost and net book amount at 1 April 2021 and 31 March 2022	581

SUBSIDIARY UNDERTAKINGS

Details of subsidiary undertakings, registered office and country of incorporation of each, at 31 March 2022 are as follows:

Subsidiary undertaking	Registered office	Country of incorporation
System1 Research Limited	4 More London Riverside, London, England, SE1 2AU	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	4 More London Riverside, London, England, SE1 2AU	UK
System1 AdRatings Limited	4 More London Riverside, London, England, SE1 2AU	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

	2022 £'000	2021 £'000
DUE WITHIN ONE YEAR		
Trade debtors	**10**	112
Trade debtors from group companies	**3,745**	4,329
Amounts due from group companies	**3,880**	595
Other debtors	**126**	127
VAT recoverable	**127**	505
Corporation tax	**43**	-
Deferred tax asset	**19**	46
Prepayments	**197**	332
	8,147	6,046
DUE AFTER ONE YEAR – INCLUDED IN THE ABOVE		
Deferred tax asset	**19**	46

During the year, the Company impaired trade debtors from group companies of £nil (2021: £367,000).

6 CREDITORS

	2022 £'000	2021 £'000
DUE WITHIN ONE YEAR		
Trade creditors	**436**	229
Social security and other taxes	**304**	123
Amounts due to group companies	**2,615**	480
Lease liabilities	**681**	771
Borrowings	**2,500**	-
Accruals and deferred income	**831**	682
Corporation tax payable	**-**	(39)
	7,367	2,246
DUE AFTER ONE YEAR		
Lease liabilities	**792**	830
Bank loan	**-**	2,500
	792	3,330

7 PROVISIONS FOR LIABILITIES

	Sabbatical £'000	Deferred tax £'000	Total £'000
AT 1 APRIL 2020	257	-	257
Provided in the year	42	-	42
AT 31 MARCH 2021	299	-	299
Provided in the year	-	10	10
Reversal of unused amount	(45)	-	(45)
AT 31 MARCH 2022	**254**	**10**	**264**
Due within one year	11	10	21
Due after one year	243	-	243

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:

	2022	2021
Measurement method	Project unit credit method	
Discount rate, based on 6-year corporate bond yields	**2.5%**	1.2%
Annual salary growth rate	**7%**	7%
Staff turnover	**30%**	18%

	£'000
Changes to the assumptions will increase the provision by:	
0.25% decrease to discount rate	2
10% increase to salary increase assumption	30
5% decrease to staff turnover assumption	45

8 DEFERRED TAX

Deferred tax assets and liabilities are as follows.

	2022 £'000	2021 £'000
Deferred tax assets:		
- deferred tax assets to be recovered after more than 12 months	**1**	101
- deferred tax assets to be recovered within 12 months	**123**	9
	124	110
Deferred tax liabilities:		
- deferred tax liability to be recovered within 12 months	**(105)**	(64)
DEFERRED TAX ASSET (NET):	**19**	46

The gross movement in deferred tax is as follows.

	2022 £'000	2021 £'000
OPENING BALANCE	**46**	428
Income statement credit/(charge)	**(27)**	(357)
Tax (debited)/credited directly to equity	**-**	(25)
CLOSING BALANCE	**19**	46

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 2021	-	9	44	57	110
Credited/(charged) to income statement	-	(8)	17	6	14
AT 31 MARCH 2022	**-**	**1**	**61**	**63**	**124**

DEFERRED TAX LIABILITIES

	Accelerated capital allowances £'000
AT 1 APRIL 2021	(64)
Charged to income statement	(41)
AT 31 MARCH 2022	**(105)**

9 SHARE CAPITAL

	2022		2021	
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

Included within issued share capital are 487,151 ordinary shares held in treasury.

Company Information

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