System1 Group

Press Release **6 June 2019**

System1 Group PLC (AIM: SYS1)
("**System1**" or "**the Group**" or "**the Company**")

Financial results to 31 March 2019

System1, the international marketing and market research agency, today announces its results for the 12 month period ended 31 March 2019.

As previously announced, the Company is making a significant investment in a new business line "AdRatings" and, for ease of prior year comparisons, is splitting its results into the existing business ("Consulting") and AdRatings.

12 months ended 31 March	2018/19			2017/18
£m	Consulting	AdRatings	**Total**	
Revenue	26.90	-	**26.90**	26.94
Gross Profit	22.05	-	**22.05**	22.23
Underlying Overheads	(18.35)	(2.22)	**(20.57)**	(20.18)
Underlying Profit Before Tax/(Loss)	3.70	(2.22)	**1.48**	2.05
Share Based Payments*	0.20	-	**0.20**	(0.07)
Exceptional Credit*	0.25	-	**0.25**	-
Finance income	-	-	**-**	0.01
Profit Before Tax/(Loss)	4.15	(2.22)	**1.93**	1.99

* See notes 10 and 25

Highlights

- Revenue flat at £26.90m, flat in constant currency
- 1% decline in Gross Profit to £22.05m (2017/18: £22.23m), 1% in constant currency
- 80% growth in Underlying Profit Before Tax (excluding AdRatings) to £3.70m (2017/18: £2.05m)
- Profit Before Tax (including AdRatings) stable at £1.93m (2017/18: £1.99m)
- 4% growth in Profit After Tax (including AdRatings) to £1.26m (2017/18: £1.21m)
- 3% growth in diluted Earnings Per Share to 9.8p (2017/18: 9.5p)

- £3.03m investment in AdRatings, of which £0.81m has been capitalised and £2.22m expensed
- £4.32m Cash at 31 March 2019 and no debt (31 March 2018: £5.78m and no debt)
- Final dividend 6.4p per share (total dividend for 2018/19 7.5p per share, same as 2017/18).

Commenting on the Company's results, John Kearon, Chief Executive Officer of System1, said:

'The previous year, our first as System1, was a painful one, but with the support of our future-focussed investors and dedicated staff, we held our nerve and pushed on with the work needed to turn our intellectual leadership into a scalable business, capable of becoming the industry leader over time.

This year's results may not be spectacular, but they were significant. Flat revenues, 7% growth in Ad Testing, a 23% increase in the number of clients and 5% growth in H2 revenues against H2 2018, leave us cautiously optimistic the changes are working. Increased productivity and efficiency from our product, process and technology enhancements, saw Underlying Profit Before Tax grow by 80%. We're looking forward to what we can achieve in the years ahead, both from established products and new offerings such as AdRatings.'

The Company can be found at www.system1group.com.

The information contained within this announcement is deemed to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. Upon the publication of this announcement, this inside information is now considered to be in the public domain.

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CHAIRMAN'S STATEMENT

The 2018/19 financial year was my first as Chairman of System1 Group PLC – I succeeded Ken Ford, who retired from the Board at our Annual General Meeting in July 2018. 2018/19 was characterised by a number of significant developments at System1 which I highlight in my comments below, following a brief summary of our results for the year.

Despite continued industry-wide pricing pressure our core Consultancy business largely stemmed the decline in performance seen during 2017/18, with Gross Profit, the Company's main top line performance measure, 1% lower than the prior year. Encouragingly, a drive to increase productivity delivered a significant improvement in profitability, and Underlying Profit Before Tax* increased by 80% to £3.70m.

These numbers exclude our substantial investment in AdRatings, and also share based payments and a one-off business rates rebate. Including all of these items, our reported Profit Before Tax for the year was £1.93m, equivalent to 15.4p per share. The Board proposes to pay a maintained final dividend of 6.4p per share. This would make for a full year dividend of 7.5p, the same as in 2017/18. System1's financial position remains strong. At the year-end we had a cash balance of £4.32m (31 March 2018: £5.78m), equivalent to 34.3p per share, and no debt.

While our core business stabilised last year, and indeed showed signs of returning to growth, there remains much to be done. System1's reputation as a leading innovator in the world of market research remains intact, but we need to turn this into greater commercial success in order to drive sustained growth. We need to work hard to ensure that more of the Company's large multi-national clients commit to purchasing System1's products and services at scale.

Recognising the substantial and ongoing changes in demand for market research products and services over the last couple of years, System1 has re-engineered a number of its processes, enhanced its product portfolio to meet customer requirements, and begun to improve the ways in which research findings are delivered to clients.

There has been a step change in the level of investment in new product development and IT systems during 2018/19 – an increase which the Board considers vital to the delivery of future growth. A new Chief Information Officer has recently been recruited to drive this process, and we are confident of delivering significant improvements over the coming years.

Our new AdRatings subscription service has been at the heart of the increased new product development programme. During the year System1 invested a total of £3.03m in AdRatings, a service which enables subscribers to compare the effectiveness of their advertisements with that of competitors, and to correlate advertising effectiveness with media spend. The product is being trialled by a number of clients as we refine and enhance its features. Investment in AdRatings will continue in 2019/20, and we plan to roll it out further during this financial year.

During 2018/19 the System1 Board was significantly strengthened by the appointment of two additional Non-Executive Directors – Jane Wakely and Sophie Tomkins. Jane, who is Lead Chief Marketing Officer of Mars Inc., brings to our discussions a wealth of highly relevant, top level, consumer goods marketing experience.

*Underlying Profit Before Tax is defined in the Business Review on page 11.

Sophie, a Chartered Accountant and former City financial analyst who is a Non-Executive Director of other AIM listed businesses, brings complementary and equally valuable insights to our Board discussions. I would personally like to welcome Jane and Sophie to the Board. Following these appointments, Robert Brand, who joined the Board as a Non-Executive Director in 2012, was appointed our Senior Independent Director. Alex Hunt, formerly an Executive Director of System1, left the business with our best wishes in September 2018.

In June 2018 System1 formally adopted the updated Quoted Companies Alliance Corporate Governance Code, and we have taken measures to ensure full compliance. Our corporate website has been revised to provide easy access to all appropriate governance information. An external consultant was engaged to conduct a Board Performance Review, and we are already taking steps to implement some recommendations. Similarly, our Senior Independent Director conducted a Performance Evaluation of the Chair exercise among the other members of the Board. Full details of our approach can be found in the Corporate Governance section of this Annual Report.

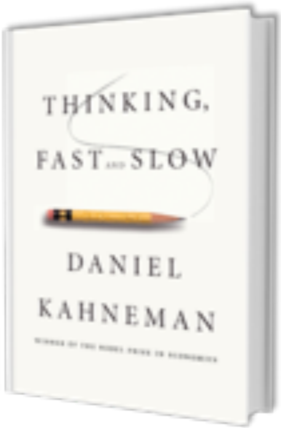
System1 employees have once again shown impressive commitment over the past year, understanding the need to alter their approach in response to evolving market requirements. I would like to place on record how much I appreciate the hard work and application of System1 employees everywhere. More of the same will be required over the coming year as we seek to build on our improved performance in 2018/19.

Graham Blashill
Chairman

CHIEF EXECUTIVE OFFICER'S STATEMENT

We are on a journey to take our business from being 'Intellectual #1' in our space, to 'Commercial #1'.

The journey started two years ago, changing our name to System1, Daniel Kahneman's term for instinctive 'Fast Thinking' that we use to make most decisions. As Kahneman says, ideas are more compelling in verse, so here's our summary of his work and its application to market research:



Two systems say Amos & Dan
Explain the decisions of man
The fast system drives
While the slow system skives
So we don't act according to plan

Behavioural science reveals
What standard research conceals
So, what must be done?
Embrace System1
And measure how people feel ☺

The System1 name change was accompanied by a book, summarising our pioneering application of Behavioural Science to predicting which ads will create the greatest long-term growth and profitability.
The book has achieved a 5-Star Amazon rating and distribution of over 10,000 copies. Here's a taster of how to create 5-Star returns on advertising investment:

- ☆ To grow a brand, you need to get, those who do not buy you yet.
- ☆ Speak to the heart, don't tax the brain, emotional ads give 11x the gain.
- ☆ Test, learn & push to perfect it, small changes can be highly effective.
- ☆ Aim for 5-Stars, don't stop at 3, to build your Fame, Feeling & Fluency*.
- ☆ Spend on winners, avoid any waste, to put a smile on your CFO's face.

* Fame, Feeling & Fluency are the best predictors of profitable long-term brand growth

During 2017/18, our first year as System1, we re-engineered our IP into a highly automated, value-enhancing 'Ad System', providing next day predictions, at a fraction of the previous cost, creating more consultancy time for profit-enhancing improvements of good ideas. Clients get a faster-cheaper-better 'System' to predict and maximise their advertising investment and we're better placed to win larger-scale, longer-term contracts and drive the business towards our long-term commercial leadership goal.

During 2018/19, our second year as System1, we restructured our sales teams into 'New Client Acquisition' and 'Existing Client Growth', hired a CIO, invested in digitising our product offerings and re-organised our back-office to improve productivity.

We also continued our long track record of innovation in our sector, by published ground-breaking, industry-lauded evidence for the enhanced profitability of ads that have a successful 'Fluent Device', like Compare-the-Market's Meerkats, Felix's cat and Evian's babies.

So how has it gone in our first two years as System1?

As shareholders and staff know only too well, year one was a painful one. Coinciding with a year of multinational budget cuts, our revenues fell by 18%, Profit Before Tax fell by 68% and staff morale took a tumble.

But with the support of our future-focussed investors and dedicated and talented staff, we held our nerve and pushed on with the work needed to turn our intellectual leadership into a compelling and scalable business, capable of becoming the industry leader over time.

Our second year's results were far from spectacular, but they were significant. Flat revenues is hardly impressive, but 7% growth in Ad Testing revenue, a 23% increase in the number of clients and 5% growth in 2019 H2 revenues against H2 2018, leave us cautiously optimistic the changes are working. In addition, increased productivity and efficiency from our product, process and technology enhancements, saw Underlying Profit Before Tax grow by 80%.

Today we sell our IP through consultancy products which help our clients make better marketing decisions. We aim to accelerate our business growth by leveraging this with judicious use of data, AI and the Internet. By doing this, we aspire to become a Global leader in long term advertising effectiveness.

An example of our new thinking is AdRatings. This is a digital product which takes our innovative IP and allows clients to benchmark their advertising against both competitors and the whole category and gain insights into how to improve their advertising effectiveness and profitability.

By leveraging these latest technologies, AdRatings evaluates adverts much more cheaply and quickly than in the past. We have built (to our knowledge) the world's biggest database of adverts rated on long-term effectiveness. The methodologies involved are familiar to our own Ad Testing clients, but the database can be used by any client, regardless of the technique they use to test their own ads. Currently the database covers some two thirds of all TV advertising in the UK and USA from the beginning of 2017. The "library" of adverts is updated daily, and we aim to evaluate every new advert within our covered categories within 24 hours of airing.

The goals for AdRatings are fourfold, sequential and progressive in their potential contribution to future Company growth:

1) **BUILD** the largest database of adverts evaluated on long term effectiveness. We use this asset to enhance our understanding of effective advertising which feeds into our consultancy business.

2) **BRAND** this database and provide topical, predictive data to industry publications, to raise System1's presence in ad industry conversations and increase our Fame, Feeling and Fluency. AdRatings is our first ownable asset. It is (we believe) world leading and gets better, larger and more compelling every day - a key benefit of having an asset versus a methodology.

3) **WIN** new clients in new industries (beyond the current Consumer Packaged Goods core) off the back of AdRatings' ability to increase our Fame, Feeling and Fluency. AdRatings is a low-cost way for clients to access System1 and does not require clients to decide to change how they evaluate their own adverts (though of course, if they do change to our methodology, this will be a bonus). Clients can use the database as a decision-making resource to augment their existing methodologies and insights. As clients don't have to change their advert testing methodologies, we are ambitious about achieving high penetration among advertisers spending over £1m annually, which is our key target market.

4) **SELL** access to the AdRatings' database via a subscription and/or other services and so create a new, scalable revenue stream. We are refining our product offerings to commercialise this database to greatest advantage. As with other new digital services, we expect that sales will accelerate once it begins to catch on, but cannot be certain when that will be.

The downside risks in AdRatings are relatively limited and the level of investment is closely monitored, while the long term advantages are potentially very significant. We will continue to innovate, invest in IT, improve productivity and build System1's Fame, Feeling and Fluency, as we attempt to fulfil our ambition of turning System 1's Intellectual Leadership', into 'Commercial Leadership'.

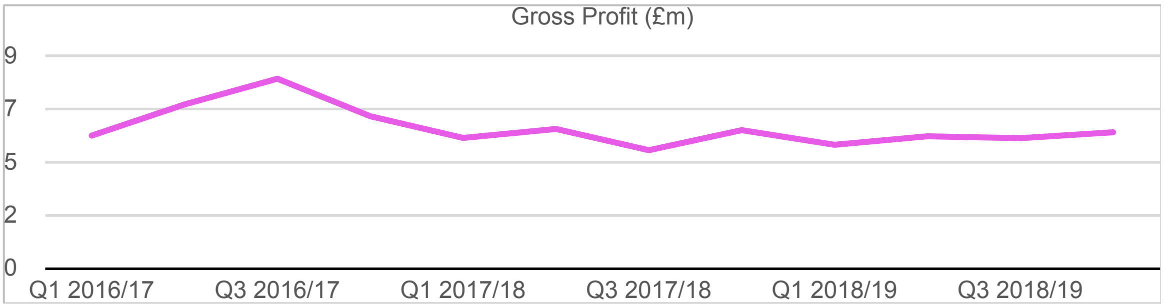
"A huge thank you to investors, staff and clients alike, for joining us on the journey."

John Kearon
Chief Executive Officer

BUSINESS AND FINANCE REVIEW

Introduction

Our 2018/19 financial year can best be described as a return to stability after poor results in 2017/18. Gross Profit (our main top line measure) declined slightly (1%), our cost base declined 12% (excluding AdRatings – see below), and Underlying Profit Before Tax increased 80% to £3.70m (again, see below for the definition). The resulting profit margin was 14%, which while behind our previous long-term average (19% on average over the 4 years from 2013-2016), was ahead of 2017/18's 8%.



£m	2016/17				2017/18				2018/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross Profit	5.61	6.93	8.02	6.43	5.51	5.89	4.99	5.84	5.22	5.58	5.50	5.75

To put our results into context, we need to look back to the decline in 2017/18. This stemmed primarily from external market pressures due predominantly to reductions in market research budgets within some of our largest FMCG clients. There was also pricing pressure across the market as a whole. This had been building over a few years but became more pronounced in 2017/18 with clients moving towards more automated, and lower cost, market research solutions.

The Company responded by reconfiguring its product offerings. A key initiative involved separating out the provision of *research data* which can be delivered at scale, at speed and at low cost, from the higher cost *consultancy* services provided by our account management teams. The aim was two-fold: (i) to deal with the pricing pressure and ensure our low cost (but high margin) data provision could compete with automated offerings from competitors and; (ii) to position the Company better to win large-scale work programmes. We have achieved the first: pricing competitiveness has been restored. The second is a work-in-progress. Hence sales have stabilised but are not yet growing.

More strategically, we made the decision to focus our resources on our core strength – predicting the long-term effectiveness of advertising – and to use digital technology to create new products from our existing intellectual property. AdRatings is the first example of this.

AdRatings is a large database showing 'ratings' or 'scores', of adverts in the market as a whole. It allows clients to assess the effectiveness of their historical advertising and benchmark it against peer companies, competitor categories and the industry as a whole. John Kearon sets out in his CEO Statement the strategic context for AdRatings and our four goals for it (a new scalable revenue stream being but one).

AdRatings has also been a catalyst for upgrading our technology across the business, as we endeavour to digitise the Company.

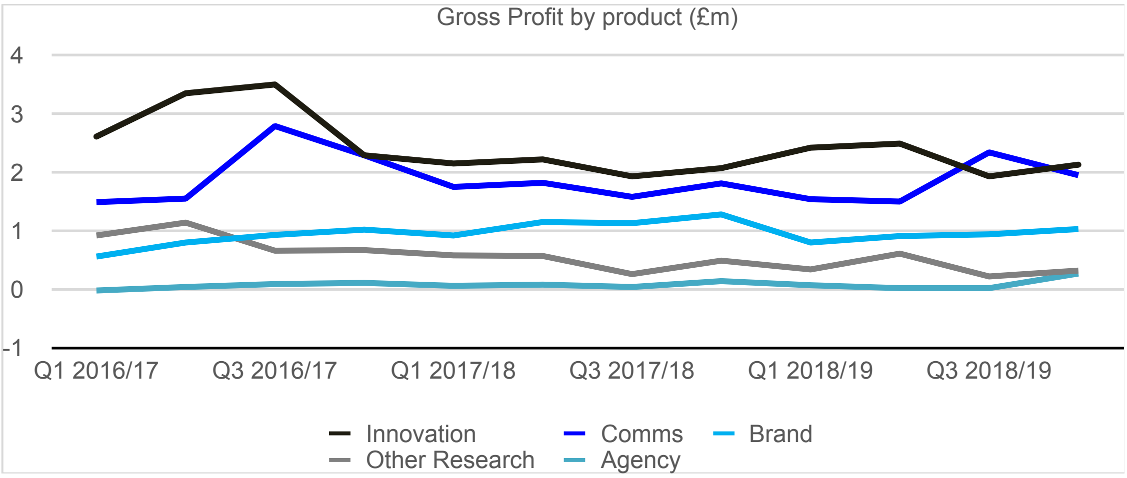
Product areas

Our business comprises, in the main, market research (**Research**), together with a small advertising agency (**Agency**). The Research business has three main product lines, **Communications** (testing adverts prior to broadcast), **Brand** (tracking brand health), and **Innovation** (testing new product and packaging concepts and ideas). We offer them from our offices in the UK, US, and seven other offices across Continental Europe and the rest of the world. In time we are hoping that the **AdRatings** subscription service will become an important adjunct to our Communications business.

Our main competitive strength is in Communications. We have developed market research techniques which we believe are better able to predict the long-term effectiveness of advertising than anyone else's. In addition, our Ad Testing research tool has, we believe, more external validation than any other. Communications is not our largest product area (33% of 2018/19 Gross Profit), but has the most potential, and is what we are increasingly best known for. Gross Profit from Communications grew 5%, not through any significant new client wins, but as a result of steady progress across a number of clients.

Our Brand product area is closely related to Communications and it comprised 17% of 2018/19 Gross Profit. Our brand tracking tracks the health of a brand over time, using a model which measures the "Fame", "Feeling" and "Fluency" of a brand. It provides a leading indicator of the direction of future sales (all other factors unrelated to the brand being equal). Gross Profit from Brand declined by 18%, as a result of some isolated client churn and slower than anticipated new wins. However, our Brand business tends to come from ongoing, and relatively stable, brand tracking projects, and we anticipate it returning to growth.

Our Innovation business is more ad hoc in nature than Communications and Brand, and is easier to win, and also easier to lose. It comprised most of Company's business in its early years and is still the largest product area (41% of 2018/19 Gross Profit). It declined significantly in 2017/18 following cuts in marketing spend by some of our largest clients and returned to growth in 2018/19 (7% Gross Profit growth).



£m	2016/17				2017/18				2018/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Innovation	2.62	3.36	3.51	2.30	2.16	2.23	1.94	2.08	2.43	2.50	1.94	2.14
Comms	1.50	1.56	2.80	2.30	1.76	1.83	1.59	1.82	1.55	1.51	2.35	1.96
Brand	0.57	0.81	0.94	1.03	0.93	1.16	1.14	1.29	0.81	0.92	0.95	1.04
Other	0.93	1.15	0.67	0.68	0.59	0.58	0.27	0.50	0.35	0.62	0.23	0.33
Agency	-0.01	0.05	0.10	0.12	0.07	0.09	0.05	0.15	0.08	0.03	0.03	0.28
	5.61	6.93	8.02	6.43	5.51	5.89	4.99	5.84	5.22	5.58	5.50	5.75

Our Agency business generated £0.43m of Gross Profit in 2019/20 (£0.37m in 2017/18) and so is a small Gross Profit contributor to the business. However, it covers most of its costs and supports the Company's core Communications product area, showcasing what we call 5 Star (i.e. highly effective brand-building) advertising.

Regional performance

The sales pattern across our main geographic regions has varied. Gross Profit grew in Continental Europe (up 19%, vs 2017/18), declined in our Americas region (down 6%), and was stable in the UK. APAC, our smallest region, was also down (by 21%) due to the loss of a large client. We have only a small market share in each of our regions and the addressable market in each one allows room for significant growth. Over the last few years we have pared back our geographic spread in order to focus resources on those regions which are most relevant to our clients and where we have highest potential.

£m	2016/17				2017/18				2018/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Americas	2.96	3.55	3.53	2.88	2.62	2.87	2.28	2.42	2.33	2.31	2.68	2.22
UK	1.52	1.42	1.94	1.51	1.27	1.14	1.15	1.49	1.18	1.10	1.21	1.54
Cont Eur	0.95	1.35	1.68	1.28	1.01	1.23	1.01	1.34	1.24	1.67	1.26	1.28
APAC	0.19	0.56	0.77	0.64	0.54	0.56	0.50	0.44	0.39	0.47	0.31	0.43
Agency	(0.01)	0.05	0.10	0.12	0.07	0.09	0.05	0.15	0.08	0.03	0.04	0.28
	5.61	6.93	8.02	6.43	5.51	5.89	4.99	5.84	5.22	5.58	5.50	5.75

AdRatings

We invested £3.03m in our AdRatings asset during the year, of which £0.81m has been capitalised and £2.22m has been expensed as an operating cost. This investment comprised £1.08m of data collection costs, £1.55m on technology, and £0.40m of running costs. The data collection costs are those incurred in undertaking the market research on the adverts and are mainly payments to the consumers who complete the research surveys. The technical costs are those to build, maintain and upgrade the database and client interface. The running costs relate to sales staff and other ad hoc costs.

We are piloting ways both to enhance and commercialise this database with a small number of clients, prior to an expected further roll out later in the current financial year. Notwithstanding the lack of visibility, we view the risk/reward profile of AdRatings as attractive. The investment has limited downside risk and high upside potential, both in terms of helping propel our existing Communications business and in creating a new scalable revenue stream.

The Company monitors its capital allocation with regard to investment in AdRatings closely and on an on-going basis, and as learnings develop it adjusts in the light of experience. Currently we are anticipating investing around £2.5m in AdRatings in 2019/20.

Productivity

We are focussing on improving productivity by eliminating low value work, streamlining processes, and providing enhanced role clarity across the business, particularly in account management. This is enabling the Company to redeploy resources to higher value areas (such as product development and technology) and reduce costs. Average headcount in 2018/19 was 12% lower than in 2017/18, and Underlying Overheads were down 9%.

Underlying Overheads excludes AdRatings (see below), share based payments, and an unusual one-off business rates rebate (discussed in our Interims Statement). Share based payments are a non-cash expense that varies with the Company's share price, and so we disclose them separately. Employee bonuses can be material and vary widely. However, they were immaterial in both 2018/19 and the prior year.

Total Overheads (excluding AdRatings) declined by 12% and including AdRatings by 1%. Costs excluding AdRatings are set out below.

£000 (unless otherwise specified)	Growth	2018/19	2017/18
Average headcount	- 12%	145	165
Underlying Overheads	- 9%	18.35	20.18
Share Based Payments	Not meaningful	(0.20)	0.07
Exceptional Credit (Rates Rebate given in error)	N/A	(0.25)	-
Total Overheads	- 12%	17.90	20.25

Underlying Profit Before Tax (i.e. excluding AdRatings, share based payments and the rates rebate) grew by 80% to £3.70m, rebounding from the sharp decline last year and Underlying Profit Before Tax margin was 14%. Profit Before Tax (i.e. including AdRatings, share based payments and the rates rebate) was down 3% (at £1.93m.)

Tax

The Company's effective tax rate (excluding AdRatings) has reduced to 26% from 39% in 2017/18 as a result of the reduction in the US Federal corporation tax rate. Including AdRatings, it has decreased to 35% from 39% in 2017/18. This smaller decrease is because the investment in AdRatings, and the associated tax credits, have all occurred in the UK where our tax rates are lowest.

Cash

We generated operational cash flow pre-financing (and pre AdRatings) of £2.53m. This represented 61% of Profit Before Tax (pre AdRatings), which is in line with our normal high cash conversion percentage. After the investment of £3.03m in AdRatings, and payment of £0.94m in dividends, our cash balance reduced from £5.78m on 31 March 2018 to £4.32m on 31 March 2019. The Company has no indebtedness.

Dividends

The Board proposes to pay a final dividend of 6.4 pence per share, which, together with the interim dividend of 1.1 pence per share, would give a total of 7.5 pence per share (the same as the prior year).

At our current level of earnings this represents a low dividend cover compared to historic levels (diluted EPS is only 1.3 times dividend per share). Given the investment opportunities with AdRatings, and a share price which some consider depressed, the decision to maintain the dividend was considered carefully.

This level of dividend will not impair the Company's plans for AdRatings, as we have sufficient liquidity to cover planned investment including that relating to AdRatings.

The Company's policy is to maintain a relatively low level of ordinary dividends which over the long-term grow broadly in line with earnings, and to return surplus cash (after payment of ordinary dividends) by way of special dividends or share buy-backs, dependent on the price of the Company's shares at the time. The Board views the current high dividend-to-earnings ratio (i.e. low dividend cover) as temporary and expects this to revert to our normal levels as earnings grow. Whilst the Board is prepared to consider reducing the dividend (as flagged in our Interim Statement), it views maintenance of the dividend as a useful discipline which it seeks to adhere to unless there is sufficiently clear-cut reason otherwise (which, in the Board's view, is not the case at this time).

Outlook

After poor results in the prior year, 2018/19 saw the business stabilise, upgrade its technology, invest in AdRatings, and improve productivity. We are planning to continue to digitise our product offerings, so that we can further leverage our core intellectual property through the judicious use of data. Gross Profit has grown 5.2% pa (compound) since 2012, and other than the double-digit growth in 2015/16 and equally steep decline the following year, has been reasonably steady year-on-year. Although we have limited short-term revenue visibility, we believe that the core business can return to steady long-term growth, and that in addition the Company has upside potential with AdRatings.

We believe that the downside risks are modest. Our core business is relatively stable, with a spread of large, diverse blue-chip clients and a competitive product portfolio, and our principal value proposition – prediction of the long-term effectiveness of advertising – is difficult to replicate. Investment in AdRatings, while significant, will not strain the balance sheet, is discretionary, and is being managed dynamically as we learn from initial client feedback.

James Geddes
Chief Financial Officer

BUSINESS RISK REVIEW

The key risks to long-term value creation are competitive pressure leading to lack of take-up of our services by large clients in favour of alternative providers, and cuts to marketing budgets by clients. Our competitors are very much larger than us with access to significantly greater resources. Furthermore, we do not have overt technological barriers preventing competitors from encroaching into our space. Our clients tend to be larger still, and small changes in behaviour by them can lead to significant impacts on our business.

Nevertheless, we believe that the predictive power of our services would be difficult for competitors to replicate and provide the opportunity to create significant value for our clients. Our ongoing challenge is to adapt our products and services offerings, our pricing, and our means of delivery to ensure our value proposition remains competitive.

Over the shorter-term, the key risk issue is lack of revenue visibility, and the fairly high peaks and troughs of business with clients which are very much larger than ourselves. The growth of our Brand Tracking and our focus on winning larger ongoing programmes of work will help here, as these services tend to give us more revenue visibility and stability. Nevertheless, we will likely have to accept continued volatility in underlying business for some time.

In other respects, we have relatively little exposure to significant short-term shocks. We do not attempt to manage all risk out of the organisation, but instead provide our teams with a high degree of autonomy and actively encourage our people to be entrepreneurial.

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

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

Loss of a significant client. This is a significant risk, and we do not take it lightly, with the percentage of business from our largest client in the 12 months to 31 March 2019 at 6% of revenue (2017/18: 5% for the same client). Revenue from our 10 largest clients accounted for 35% of revenue (2017/18: 36%). We therefore go to considerable lengths to monitor service quality and seek client feedback.

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

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

Material adverse event leading to a significant loss of property, software, or data, or an adverse legal claim. We cannot guarantee that all eventualities are covered, but nevertheless have continued to endeavour to protect the business from significant risks, through a combination of: comprehensive professional indemnity insurance; information security, particularly with regard to client confidentiality and personal data (see below); and sufficient focus on legal protections, for example through our terms and conditions.

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

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

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

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

The Company is also exposed to the usual financial risks (such as credit, foreign exchange and liquidity risks), as set out in the Director's Report. However, due to the straightforward nature of the business, the Company's strong balance sheet, and the fact that most of the Company's clients are large, well-known organisations, these risks are relatively less important.

5 YEAR SUMMARY
£000 unless specified otherwise

	12 months to 31 Mar				12 months to 31 Dec		
	2018/19		2017/18	2016/17	2016	2015	2014
	Ex AR*	Inc AR*					
	Audited	Audited	Audited	Unaudited	Unaudited	Audited	Audited
Financial KPIs							
Revenue	26,896	26,899	26,939	32,801	31,236	25,184	24,645
growth	*-%*	*-%*	*-18%*	*27%*	*24%*	*2%*	*1%*
Gross Profit	22,047	22,050	22,231	26,984	25,643	20,250	19,410
growth	*-1%*	*-1%*	*-18%*	*29%*	*27%*	*4%*	*2%*
Administrative Costs	17,901	20,118	20,246	20,676	19,414	15,704	15,109
growth	*-12%*	*-1%*	*-2%*	*30%*	*24%*	*4%*	*-3%*
Bonus (inc. within Admin Costs)	365	365	107	2,294	2,396	63	1,077
Profit Before Tax	4,148	1,934	1,992	6,279	6,200	4,501	4,286
growth	*108%*	*-3%*	*-68%*	*25%*	*38%*	*5%*	*21%*
Profit after tax		1,257	1,213	4,029	3,968	3,032	2,897
growth		*4%*	*-70%*	*19%*	*31%*	*5%*	*19%*
EPS – diluted		9.8p	9.5p	31.1p	30.3p	22.7p	21.3p
growth		*3%*	*-69%*	*22%*	*33%*	*7%*	*14%*
Cash flow pre-financing		(421)	1,838	6,603	6,337	2,696	3,157
Cash balance		4,315	5,784	8,266	7,754	6,365	5,347
Dividend (interim & final)		7.5p	7.5p	7.5p	7.5p	4.5p	4.3p
growth		*-%*	*-%*	*67%*	*67%*	*5%*	*10%*
Special dividend		-	26.1p	12.0p	12.0p	-	12.0p
Share buy-backs		(3)	1	3,141	3,195	948	1,938
Non-financial KPIs							
Number of clients		251	204	224	223	243	235

growth		*23%*	*-9%*	*-4%*	*-8%*	*3%*	*5%*
Gross profit per project		16.5	20.0	23.0	22.6	19.6	20.0
growth		*-18%*	*-13%*	*19%*	*15%*	*-2%*	*-%*
Average headcount		145	165	161	157	158	152
growth		*-12%*	*2%*	*3%*	*-1%*	*4%*	*10%*
Average gross profit per head		152	135	168	163	128	128
growth		*13%*	*-20%*	*25%*	*27%*	*-%*	*-7%*

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

STRATEGIC REPORT

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

- the way that management view the business;
- its strategy, positioning, and objectives;
- its historic financial performance;
- an assessment of its future potential;
- its key performance indicators; and
- its key business risks.

These form part of this Strategic Report.

ON BEHALF OF THE BOARD

James Geddes
Chief Financial Officer
5 June 2019

DIRECTORS' REPORT

Review of the business and future development

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

Dividends

The Company has paid and proposes to pay the following dividends:

Ordinary shares	31 Mar 2019	31 Mar 2018
	£000	£000
2018 interim dividend paid, 1.1p per share		137
2019 interim dividend paid, 1.1p per share	138	
2018 special dividend paid at time of final dividend, 26.1p per share		3,253
2018 final dividend proposed, 6.4p per share		798
2019 final dividend proposed, 6.4p per share	805	
Total dividends on ordinary shares	943	4,188

The Company paid the 2019 interim dividend on 20 December 2018 to shareholders on the register as at 16 November 2018. The Company proposes to pay a 2018/2019 final dividend of 6.4p in July 2019.

Directors

The following are the current directors of the parent company, System1 Group PLC, and each served during the period. In addition, Ken Ford and Alex Hunt served as directors during the year but resigned from the Board on 24 July 2018 and 30 September 2018 respectively.

John Kearon (executive)
James Geddes (executive)
Robert Brand (non-executive)
Graham Blashill (non-executive)
Sophie Tomkins (non-executive) – appointed 11 June 2018
Jane Wakely (non-executive) – appointed 24 July 2018

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

Share capital
Changes in the share capital of the Company during the year are given in Note 10 to the financial statements. As at 15 January 2019, the Company was aware of the following significant interests in the ordinary issued share capital of the Company.

At 15 January 2019	Number	% of voting shares
John Kearon	2,961,235	23.6%
University of Notre Dame	1,200,000	9.5%
Lazard Frères Gestion	817,578	6.5%
Ennismore Fund Management	723,000	5.8%
Stefan Barden	716,062	5.7%
Motley Fool Funds Trust	700,000	5.6%
Inv. AG f. langfr. Invest. TGV	670,000	5.3%
Invesco Advisors	400,000	3.2%
Heritage Capital Management	377,774	3.0%

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

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

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

Liquidity risk
The Company monitors its cash balances regularly and holds its cash in immediately available current accounts to minimise liquidity risk. The Company has no overdraft facilities.

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

Capital risk management
The Company manages its capital to ensure that it is able to continue as a going concern while maximising its return to shareholders. The Company's capital structure consists of cash and cash equivalents and share capital. The Group has no borrowings, other than a small finance lease

arrangement, and is not subject to any externally imposed capital requirements. The Group has not entered into any derivative contracts.

Going concern

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

Research and development

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

Purchase of own shares

During the year the Company transferred 100,192 Ordinary Shares ("**Shares**") (with an aggregate nominal value of £1,002, representing 0.8% of the called-up share capital of the Company) out of treasury to satisfy the exercise of employee share options over 100,192 shares, for cash consideration of £3,000.

At 31 March 2019, the Company had 13,226,773 Shares in issue (31 March 2018: 13,226,773) of which 650,156 were held in treasury (31 March 2018: 750,348). The treasury shares will be used to help satisfy the requirements of the Group's share incentive schemes.

Employees

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

Health and safety policies

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

Directors' indemnities

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

Auditor

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

ON BEHALF OF THE BOARD

James Geddes
Chief Financial Officer
5 June 2019

CORPORATE GOVERNANCE REPORT

Chairman’s Introduction

I am pleased to present the System1 Group PLC Corporate Governance Report for the financial year ended 31st March 2019.

Your Board is committed to delivering and maintaining high standards of Corporate Governance throughout the Group and formally adopted the QCA Corporate Governance Code in 2018. This report, together with the reports from the Audit and Remuneration Committees, provides a description of how the Company has applied the main principles and complied with the relevant provisions of the Code.

The Quoted Companies Alliance Governance Code applies the principles of the UK Corporate Governance Code to small and medium-sized quoted companies and is a comprehensive yet practical code for the Company to follow.

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

As I mentioned in my Chairman’s Report on page 4, this year has seen some changes to the Board of Directors, with two new non-executive members and the appointment of a Senior Independent Director. I am confident that this new composition strengthens the Board and provides us with the right balance of experience and new perspectives for achieving our ambitions for the future of the business.

Graham Blashill
Chairman
5 June 2019

Board of Directors

Graham Blashill – Non-Executive Chairman, appointed on 18 July 2012 (became Chairman on 25 July 2018);

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

Robert Brand – Non-Executive Director, appointed on 5 January 2012 (became Senior Independent Director on 25 July 2018);

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

Sophie Tomkins - Non-Executive Director, appointed on 11 June 2018

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

Jane Wakely – Non-Executive Director, appointed on 23 July 2018

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

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

James Geddes – Chief Financial Officer and Company Secretary
James Geddes joined System1 Group in 2003 as CFO. He is a Chartered Accountant, has a diploma in Corporate Treasury Management, and is a graduate of Harvard's executive programme. He was previously Executive Director of Corporate Finance at MediaOne (a US telecoms company), and CFO of Iobox (an early stage technology company backed by Morgan Stanley Capita, and sold to Telefonica), having started his career at Deloitte.

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

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

Risk Management
The Board reviews the risks facing the business on a regular basis. The identified principal risks and uncertainties are those outlined in the Business Risk Review on pages 13 and 14.

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

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

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

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

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

The Board of Directors
The Board comprised two executive Directors and four independent non-executive Directors, including the non-executive Chairman during the year ended 31 March 2019. The membership of the Board is set out in the Directors' Report. We believe that the directors have the mix of leadership, marketing and financial skills and experience necessary to oversee the Company and deliver its strategy for the benefit of the shareholders over the medium to long-term. The composition of the Board is intended to achieve a balanced range of personal qualities and capabilities, and to support the Company's commitment to promoting gender equality and diversity. The biographical details of the directors are presented on pages 21 and 22.

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. The Board has utilised the services of a Board Advisor, Stefan Barden, on strategy and technology, and the Remuneration Committee has 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, who were Grant Thornton UK LLP for the year ended 31 March 2019. The Board liaises regularly with the Company's Nominated Advisor, Canaccord Genuity to ensure compliance with AIM Rules.

The Chairman is responsible for leading the Board, setting its agenda and monitoring its effectiveness. There is a clear division of responsibilities between the Chairman and the Chief Executive Officer, and their respective roles are well defined and documented. The role of the Executive Directors is to manage the day-to-day business activities and implement the strategy. The role of the Non-Executive Directors as a whole is to supportively challenge and help to develop the direction of the business, and also to assess the performance of management.

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

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

The Company Secretary is also the Chief Financial Officer, as is the case with other companies of a similar size and complexity. The Board plans to split the roles when it reaches a size which warrants it.

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

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

	Board (11 meetings)	Audit Committee (2 meetings)	Rem Committee (2 meetings)
Graham Blashill	11	2	2
Robert Brand	11	2	2
Sophie Tomkins	9	1	2
Jane Wakely	8	n/a	2
Ken Ford	3	1	1
John Kearon	11	n/a	n/a
James Geddes	11	2*	2*

Alex Hunt	4	n/a	n/a

* Attendance by invitation.

On rare occasions a board member may attend by phone to accommodate overseas travel arrangements.

Management provides the Board with information on the Company's performance and appropriate information relating to the agenda prior to Board and Committee meetings.

Matters Reserved for the Board

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

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

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

Appointment of Directors

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

Remuneration Committee

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

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

The Remuneration Committee's role and responsibilities are to:

- set the remuneration and incentive schemes of Executive Directors (in the case of the Chief Financial Officer, in conjunction with the Chief Executive Officer), including pension rights, other benefits and any compensation payments, ensuring that no Director is involved in any decisions as to their own remuneration;
- review and approve the level and structure of remuneration and incentive schemes for senior management;
- select, appoint and set the terms of reference for any remuneration consultants who advise the Committee;

- approve the payments to Directors under any performance-related pay or share schemes operated by the Company;
- ensure that contractual terms on termination of any Director are fair to the individual and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- approve any major changes in employee benefits structures throughout the Group;
- approve the policy for authorising claims for expenses from the Directors.

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

The Remuneration Committee may invite the Chief Executive Officer or Chief Financial Officer to attend meetings of the Remuneration Committee. The Chief Executive Officer is consulted on proposals relating to the remuneration of the Chief Financial Officer and of other senior executives. The Chief Executive Officer is not involved in setting his own remuneration.

The Remuneration Committee may use consultants to advise it in setting remuneration structures and policies. It is exclusively responsible for appointing such consultants and setting their terms of reference.

The Annual Statement from the Remuneration Committee Chair is set out on pages 32 to 39.

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

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

The Audit Committee's role and responsibilities are to:

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

The Annual Report from the Audit Committee Chair is set out on pages 29 to 31.

Board Evaluation
The Board undertook a review of its effectiveness for the first time, in the Company's 2018/19 financial year. The Board will carry out further reviews of its effectiveness on an annual basis and may use an

external adviser. The objective of this evaluation process is to bring to light possible changes which could make the Board's activities and administration more effective and efficient. The Board Evaluation covered the following areas:

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

The exercise identified a number of positive areas particularly relating to the manner in which the Board is run, and the skills and experience and independence of the Board. The main area for improvement is the lack of a formal succession planning process (although succession is reviewed on an ongoing basis – see below), which will be addressed during the 2019/20 financial year.

Succession Planning
Succession planning for appointments to the Board and to senior management is carried out in the following way.

The Board, led by the Chairman, carries out ongoing assessments as to the succession needs and planning of the Board. Such assessments include reviewing the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position. Such succession planning involves identification and nomination of candidates to fill Board vacancies as and when they arise, using external recruitment consultants.

Senior management appointments are made by the Executive Directors, who carry out ongoing assessments of succession needs and skills gaps across the business. Key appointments are overseen by the Remuneration Committee.

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

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

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

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

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

Actions taken following client and employment feedback have included:

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

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

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

The Board is satisfied that the Chair of the Committee has recent and relevant financial experience. Sophie is a Chartered Accountant and is also Chair of the Audit Committee at both Hotel Chocolat plc and Cloudcall Group plc. The Committee meets at least twice a year and more frequently if required, and has unrestricted access to the Group's auditor. Attendance at Board and Committee meetings is set out in the Corporate Governance Report on page 20. During FY19 there were extra meetings of the Audit Committee as part of the audit tender process described below.

Duties

The main duties of the Audit Committee are set out in its terms of reference, which are summarised on page 26 and available on the Group's website (https://system1group.com/investors).

The work carried out by the Audit Committee during FY19 comprised the following:

- ensuring the financial performance of the Company is being properly measured and reported on;
- review of the FY19 audit plan;
- consideration of key audit matters and how they are addressed;
- review of suitability of the external auditor;
- review of the financial statements and Annual Report;
- review of the appropriateness of the Group's accounting policies and judgements made in the preparation of the financial statements, and adequacy of the disclosures made therein
- consideration of the external audit report and management representation letter;
- review of the risk management and internal control systems;
- meeting with the external auditor without management present;
- review of anti-bribery policy and 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, and notes that significant tax and accounting work is undertaken by the auditors' US and Chinese affiliate firms.

However, these overseas firms are independent of Grant Thornton UK LLP in terms of management and ownership. The Company has closed its small Chinese operation and so in future the work of the

Chinese affiliate will cease. The non-audit fees of Grant Thornton and their global affiliates are 189% of their audit fees, but the non-audit fees of Grant Thornton UK LLP (i.e. excluding overseas affiliate firms) are less than 50% of their audit fees, per the table below:

	Grant Thornton UK LLP	Grant Thornton overseas affiliates	Total
	£000	£000	£000
Audit and audit related fees			
Audit of parent company and consolidated accounts	51	6	57
Audit related assurance services	7	-	7
	58	6	64
Non-audit fees			
Tax compliance	10	48	58
Tax advisory	2	36	38
Other services	-	25	25
	12	109	121
	70	115	185

The Audit Committee also assesses the auditor's performance.

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

Tender and proposed change of auditor
Having engaged Grant Thornton UK LLP as the Company's auditor since 2003, the Board, on the recommendation of the Audit Committee, decided that it was appropriate to put the group statutory audit out to competitive tender. Longevity of tenure and consideration of the balance between audit and non-audit fees were key drivers for this tender process, which included formal proposals and presentations from three audit firms, including Grant Thornton.

Following the conclusion of this formal tender process led by the Company's Audit Committee, the Board has approved the proposed appointment of RSM UK Audit LLP as the Company's auditor for the financial year ending 31 March 2020. This will be subject to approval by the Company's shareholders at the next Annual General Meeting to be held on 31st July 2019. The Board would like to thank Grant Thornton and the audit team for their efficient work over the years.

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

Risk Management and Internal Controls

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

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

REMUNERATION REPORT

Annual statement from the Remuneration Committee chair, Graham Blashill

Dear shareholder,

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

This Remuneration Report is split into two parts:

- The *directors' remuneration policy* sets out the Company's policy on directors' remuneration, in particular the four-year long-term incentive plan ("**LTIP**"), and the key factors that were taken into account in setting the policy. The directors' remuneration policy is not subject to a shareholder vote at the 2019 AGM, since the main variable element (the LTIP) was approved by shareholders at a General Meeting on 22 March 2017.
- The *annual report on remuneration* sets out payments and awards made to the directors for the year to 31 March 2019.

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 February 2017 and will vest on 12 August 2021 (the "**2017 LTIP**"). Its primary performance targets are based on gross profit, with profit after tax and share price underpins.

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

The Company consulted with shareholders in designing the 2017 LTIP, and prior to implementing it, obtained shareholder approval at a General Meeting on 22 March 2017.

For levels below the participants in the 2017 LTIP, the remuneration ordinarily comprises:

- Base salary
- Bonus and profit share
- Benefits

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

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

During 2018/19, Alex Hunt, former Executive Director, resigned from the Board (on 30 September 2018) with Sophie Tomkins and Jane Wakely joining the Board as Non-Executive Directors on 11 June 2018 and 24 July 2018 respectively. Ken Ford retired as Non-Executive Chair on 24 July 2018.

Graham Blashill
Chair, Remuneration Committee

Directors' remuneration policy

Introduction

The policy described in this part of the Remuneration Report is intended to apply for four years beginning in the 2017/18 financial year, and covers executive directors and a small number of other senior managers ("**Executives**").

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

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

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

Base salary and benefits

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

Long term incentive plan

The company introduced the current LTIP in March 2017 (the 2017 LTIP). It was approved by shareholders at a General Meeting in March 2017 and covers the four-year period ending 31 March 2021.

The awards have taken the form of zero-cost stock options. They were granted to Executives on 22 March 2017 and will vest on 12 August 2021 provided the Company achieves performance targets in the Company's 2020/2021 financial year. The performance targets are based on gross profit growth (the Company's main top line performance indicator), with profit after tax and share price underpins. Given changes to the leadership team (for example as a result of a participant in the 2017 LTIP leaving the business), further awards may be granted to new members of the leadership team, at the discretion of the Remuneration Committee, but only within the maximum dilution limit approved by shareholders.

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

	Equity level	Gross profit target
Executive Directors	198,400 shares (1.5% of issued shares)	£39.5m
	132,267 shares (1.0% of issued shares)	£56.0m
	66,133 shares (0.5% of issued shares)	£77.1m
Senior Managers	132,267 shares (1.0% of issued shares)	£39.5m
	92,587 shares (0.7% of issued shares)	£56.0m
	46,293 shares (0.35% of issued shares)	£77.1m

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

No awards will vest unless profit after tax ("**PAT**") in 2020/21 is at least £7.0m and the average share price of the Company during July 2021 is at least £9.945 (30% higher than the share price on the award date). For the higher levels of vesting triggered by gross profit above £56.0m, the PAT underpin increases to £9.9m.

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

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

There is currently one executive director participant (James Geddes) and two senior manager participants. John Kearon does not currently participate in the 2017 LTIP, but instead, has an annual bonus for each of the 4 years to 31 March 2021 of between 25-75% of annual salary based on the growth targets and underpins above.

Participants in the 2017 LTIP do not participate in the Company's annual bonus or profit share scheme, and have no other short-term incentive plan. This is to ensure decision-making focus is primarily on achieving long-term growth. Therefore, over the period to March 2021, the only remuneration that they will receive will be base salary and benefits (with the exception of the CEO bonus), unless the Remuneration Committee determine awards in exceptional circumstances (at their sole discretion).

The Company has underperformed since the introduction of the 2017 LTIP and even the minimum targets are unlikely to be achieved. The Committee does not wish to reward underperformance and so will not be resetting the targets. However it does wish to continue to provide appropriate incentives, and so proposes (subject to shareholder approval at the Company's AGM) extending the date by when the targets can be met, by 3 years. The final performance period would be therefore be Company's 2023/24 financial year, and the lapse date 12 August 2024.

The Committee further proposes that Vesting would occur as and when the performance targets are met, so partial vesting may occur earlier than the lapse date, and then further vesting later (provided that no vesting could occur in relation to financial periods after the Company's 2023/24 financial year).

Several of the original participants are no longer in the 2017 LTIP, and the Board plan to add additional participants, provided that the maximum level of dilution from the scheme (assuming full vesting) does not exceed the current maximum (8.5% of the Company's issued Share Capital – 13,226,775 shares).

The Board are planning to add John Kearon to the LTIP at the higher of the two levels, instead of his bonus arrangement.

The Committee have granted an advisor to the Board, Stefan Barden, a separate equity award, comprising 300,000 zero cost stock options, subject to approval at the Company's AGM. They comprise three tranches of 100,000 options each, with the following performance conditions:

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

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

Dilution

Vested stock options are set out below.

	Number	%
Voting shares as at 31 March 2019	12,576,617	100%
2006 employee share option scheme (now closed)	47,167	0.4%
2010-2014 LTIP – vested on 28 May 2014	75,520	0.6%
2014-2016 LTIP – vested on 30 April 2017 (previous LTIP)	233,136	1.8%
	355,823	2.8%

Unvested options comprise options granted under the 2017 LTIP and the equity awards to Stefan Barden, described above. The maximum aggregate dilution under both of these schemes is 11.3% 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 (providing not also an Executive) a discretionary annual bonus. Since January 2012 equity awards have not been granted to employees who are not also Executives. The annual discretionary bonus was negligible in both 2018/19 and 2017/18 due to the poor performance of the Company.

Director service contracts and policy on payment for loss of office

Each of the executive directors have service contracts. The agreements include restrictive covenants which apply during employment and for a period of 12 months after termination. John Kearon's agreement can be terminated on six months' notice in writing by either the Company or by John. James Geddes' agreement can be terminated on 12 months' notice in writing by the Company and six months' notice by James.

Annual report on remuneration

Remuneration for executive directors

Year ended 31 March 2019 (audited)

	Salary	Benefits	Pension	Options Exercised	Comp for loss of office	Total
	£	£	£	£	£	£
John Kearon	200,000	8,169	6,000	-	-	214,169
James Geddes	190,000	6,338	11,400	169,704	-	377,442
Alex Hunt	99,615	13,050	2,517	-	-	115,182
Total	489,615	27,557	19,917	169,704	-	706,793

Year ended 31 March 2018 (audited)

	Salary	Benefits	Pension	Options Exercised	Comp for loss of office	Total
	£	£	£	£	£	£
John Kearon	200,000	7,170	6,864	-	-	214,034
James Geddes	190,000	5,540	11,400	-	-	206,940
Alex Hunt	186,724	25,460	7,469	-	-	219,653
Alex Batchelor	47,500	2,700	2,850	1,194,532	214,987	1,462,569
Total	624,224	40,870	28,583	1,194,532	214,987	2,103,196

The executive directors received no bonus for the year ended 31 March 2019 or for the year ended 31 March 2018. The executive directors have not received any stock options or other equity awards other than under the Company's LTIP arrangements as set out in the directors' remuneration policy.

Directors' interests in shares and options

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

	31 Mar 2019	31 Mar 2018
	Number	Number
John Kearon	2,961,235	3,320,209
James Geddes	263,178	192,325
Ken Ford (resigned 24 July 2018)	NA	20,000
Robert Brand	30,000	30,000
Graham Blashill	10,000	5,000
Total	3,264,413	3,567,534

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

	Date of grant	Earliest exercise date	Exercise price	Number at 1 Apr 2018	Exercised in year	Lapsed in year	Number at 31 Mar 2019
John Kearon	16/01/2015	01/05/2018	0.0p	56,568	-	-	56,568
John Kearon	22/07/2015	01/05/2018	0.0p	*60,000	-	-	*60,000
				116,568	-	-	116,568
James Geddes	16/01/2015	01/05/2018	0.0p	56,568	(56,568)	-	-
James Geddes	22/07/2015	01/05/2018	0.0p	*60,000	-	-	*60,000
James Geddes	22/03/2017	12/08/2021	0.0p	**198,400	-	-	**198,400
				314,968	(56,568)	-	258,400
Alex Hunt	22/03/2017	12/08/2021	0.0p	**198,400	-	(198,400)	-

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

** The options and conditional shares denoted by a double asterisk were granted under the current LTIP, as described in the directors' remuneration policy. None of these vest until 12 August 2021.

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

Fees for non-executive directors (audited)

The non-executive directors received fees, but no other benefits, as follows.

	Year to 31 Mar	Year to 31 Mar
	2019	2018
	£	£
Graham Blashill	38,217	34,650
Ken Ford (resigned 24 July 2018)	12,950	38,850
Robert Brand	36,883	34,650
Sophie Tomkins	30,000	N/A
Jane Wakely	27,000	N/A
Total	145,050	108,150

DIRECTORS' RESPONSIBILITY STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and the parent company financial statements in accordance with FRS 101 Reduced Disclosure Framework. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs and United Kingdom Accounting Standards in respect of the group and parent company financial statements respectively, have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

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

James Geddes
Company Secretary and Chief Financial Officer
5 June 2019

Independent auditor's report to the members of System1 Group PLC

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of System1 Group PLC (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2019, which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Cashflow Statement, Consolidated Statement of Changes in Equity, Company Balance Sheet, Company Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 Disclosures 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 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with 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 the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

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Overview of our audit approach

- Overall materiality: £216,000, which represents 4.7% of the group's three-year normalised profit before tax and profit related bonuses;
- Key audit matters were identified as revenue recognition and capitalisation of internally generated intangible assets; and
- We performed a full scope audit of the parent company and the group financial statements covering 100% of global revenue and net assets.

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

Key audit matters

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

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Risk 1 **Revenue recognition** Revenue and profits could potentially be manipulated by misstating revenue, including recognising revenue in advance of it being earned. The group adopted IFRS 15 "Revenue from contracts with customers" for the first time in these financial statements. The new standard is a significant change from the previous accounting standard and requires management to exercise more judgement. We therefore identified the risk of inappropriate recognition of revenue as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Assessing whether the group's revenue recognition policy is in accordance with IFRS 15 "Revenue from contracts with customers"; • For a sample of transactions, testing that revenue had been recognised in accordance with IFRS 15; • Testing the design effectiveness of the internal control environment identifying the processes and controls over revenue, including segregation of duties, and carrying out walkthrough tests; • Vouching a sample of revenue transactions back to invoices, purchase orders and proof of performance to confirm the occurrence of revenues; • Agreeing a sample of revenue transactions raised in March and April 2019 to proof of performance to ensure they were recognised in the correct period as we considered those months to be the highest likelihood of possible errors in respect of current year revenue recognition. The group's accounting policy on revenue recognition is shown in note 3 to the financial statements and related disclosures are included in notes 4 and 26. **Key observations** Based on our audit work performed we concluded that revenue is not materially misstated.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Risk 2 Development costs capitalised during the year may not meet capitalisation criteria Under International Accounting Standards (IAS) 38 “Intangible Assets”, development costs must be capitalised if recognition criteria are met, including determining whether the project provides a future economic benefit to the group. This involves significant management judgement and therefore there is a risk that development costs may be incorrectly capitalised. During the year the group invested a total of £3.03m in the AdRatings product, of which £0.92m (£0.81m after amortisation) has been capitalised as intangible development costs and £2.22m charged to profits (including amortisation of £0.11m). We therefore identified the risk that inappropriate capitalisation of development costs was a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Assessing of the group’s product development activities to ensure that capitalisation is in accordance with the appropriate criteria under IAS 38 “Intangible Assets”; • Discussing with management responsible for product development to understand the nature, technical and commercial feasibility of assets being developed; • Testing the design effectiveness of the internal control environment identifying the processes and controls over development costs, and carrying out walkthrough tests; • Assessing and challenging assumptions used in budgets confirming commerciality ; and • Testing of a sample of additions in the year including agreeing amounts to supporting documentation to ensure the amounts capitalised were appropriate. The group’s accounting policy on capitalisation of development costs is shown in note 3 to the financial statements, principal accounting policies, and related disclosures are included in note 6. **Key observations** Our testing did not identify any material misstatements in the capitalisation of development costs in accordance with IAS 38.

There were no key audit matters in respect of the parent company.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality measure	Group	Parent
Financial statements as a whole	£216,000 which is 4.7% of normalised profit before tax. Normalised profit is calculated as the average of the profits before tax and profit related bonuses for the 3 years ended 31 March 2017, 2018 and 2019. The figure for the 12 months to 31 March 2017 has been apportioned from the 15 month accounting period to that date to avoid distorting the average. The profit benchmark is chosen because the business operates with profit-based KPIs. A normalised profit has been applied this year because the results for the year were not consistent with past performance and we consider that a normalised profit amount reduces the impact of a large fluctuation. The materiality level for the current year is similar to prior year determined materiality of £220,000.	£123,000 which is 2% of total assets but restricted to 90% of group materiality. This benchmark is considered the most appropriate because the parent company does not generate revenues and holds investments and loans to subsidiaries and is therefore considered an assets-based business. Materiality for the current year is higher than the level that we determined for the year ended 31 March 2018 to reflect the change in the group assets.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.	75% of financial statement materiality.

Materiality measure	Group	Parent
Specific materiality	We determined a lower level of specific materiality for certain areas such as Directors' remuneration and related party transactions.	We determined a lower level of specific materiality for certain areas such as Directors' remuneration and related party transactions.
Communication of misstatements to the audit committee	£11,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£5,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality – Group	Overall materiality – Parent

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile and in particular included:

- evaluation of the group entities' internal controls environment through understanding the design of controls and testing the implementation of controls during the year;
- evaluation by the group audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality. Significance was determined as a percentage of the group's total assets, revenues and profit before taxation, with revenue being the key factor for trading entities;
- full scope audit procedures were performed at parent company financial statements. Targeted audit procedures were performed for the audit of the subsidiaries;
- Our audit testing covered 100% of the group's revenue and expenditure and of its total assets and liabilities.

Other information

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

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

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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 under the Companies Act 2006

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

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 for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 40, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: 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.

Jeremy Read
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Milton Keynes
5 June 2019

CONSOLIDATED INCOME STATEMENT
for the year ended 31 March 2019

	Note			31 Mar 2019	31 Mar 2018
		Consultancy £000	AdRatings £000	Total £000	Total £000
Revenue	4	26,896	3	26,899	26,939
Cost of sales	15	(4,849)	-	(4,849)	(4,708)
Gross profit	4	22,047	3	22,050	22,231
Administrative expenses	15	(17,901)	(2,217)	(20,118)	(20,246)
Operating profit/(loss)	4	4,146	(2,214)	1,932	1,985
Finance income	18	2	-	2	7
Profit/(loss) before taxation	16	4,148	(2,214)	1,934	1,992
Income tax expense/(credit)	19	(1,098)	421	(677)	(779)
Profit/(loss) for the financial period		3,050	(1,793)	1,257	1,213
Attributable to the equity holders of the Company		3,050	(1,793)	1,257	1,213

Earnings per share attributable to equity holders of the Company

Basic earnings per share	21			10.0p	9.9p
Diluted earnings per share	21			9.8p	9.5p

The notes on pages 51 to 81 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 2019

	31 Mar 2019	31 Mar 2018
	£000	£000
Profit for the financial period	1,257	1,213
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translating foreign operations	2	(190)
Other comprehensive income for the period, net of tax	2	(190)
Total comprehensive income for the period attributable to equity holders	1,259	1,023

The notes on pages 51 to 81 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET
as at 31 March 2019

Registered company no. 05940040

	Note	31 Mar 2019	31 Mar 2018 Restated*	1 Apr 2017 Restated*
		£000	£000	£000
ASSETS				
Non-current assets				
Property, plant and equipment	5	227	269	360
Intangible assets	6	814	26	207
Deferred tax asset	20	275	372	984
		1,316	667	1,551
Current assets				
Contract costs	8	208	131	95
Trade and other receivables	9	6,915	5,711	6,189
Current income tax asset		431	423	-
Cash and cash equivalents	7	4,315	5,784	8,266
		11,869	12,049	14,550
Total assets		13,185	12,716	16,101
EQUITY				
Attributable to equity holders of the Company				
Share capital	10	132	132	132
Share premium account		1,601	1,601	1,601
Merger reserve		477	477	477
Foreign currency translation reserve		223	221	411
Retained earnings		4,721	4,578	7,728
Total equity		7,154	7,009	10,349
LIABILITIES				
Non-current liabilities				
Provisions	11	610	420	505
Finance lease payable		23	70	-
		633	490	505
Current liabilities				
Provisions	11	225	368	288
Finance lease payable		48	46	-
Trade and other payables	12	4,591	4,223	3,828

Contract liabilities	13	534	580	637
Current income tax liabilities		-	-	494
		5,398	5,217	5,247
Total liabilities		6,031	5,707	5,752
Total equity and liabilities		13,185	12,716	16,101

* Restatement on change of accounting policy upon the adoption of IFRS15 (Refer to Note 26). The notes on pages 51 to 81 are an integral part of these consolidated financial statements. These financial statements were approved by the directors on 5 June 2019 and are signed on their behalf by:

John Kearon, Director James Geddes, Director

CONSOLIDATED CASHFLOW STATEMENT
for the year ended 31 March 2019

	Note	31 Mar 2019	31 Mar 2018
		£000	£000
Net cash generated from operations	23	1,249	3,424
Interest received	18	2	7
Tax paid		(642)	(1,480)
Net cash generated from operating activities		609	1,951
Cash flows from investing activities			
Purchases of property, plant and equipment	5	(107)	(91)
Purchase of intangible assets	6	(923)	(22)
Net cash used by investing activities		(1,030)	(113)
Net cash flow before financing activities		(421)	1,838
Cash flows from financing activities			
Proceeds from finance lease		-	140
Finance lease payments		(45)	(24)
Proceeds from sale of treasury shares	10	3	33
Purchase of own shares	10	-	(34)
Dividends paid to owners	22	(940)	(4,188)
Net cash used by financing activities		(982)	(4,073)
Net decrease in cash and cash equivalents		(1,403)	(2,235)
Cash and cash equivalents at beginning of period		5,784	8,266
Exchange losses on cash and equivalents		(66)	(247)
Cash and cash equivalents at end of period		4,315	5,784

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

		31 Mar 2019	31 Mar 2018
		£000	£000
Net cash generated from operating activities		2,639	1,951

Net cash used by investing activities		(107)	(113)
Net cash flow before financing activities (before AdRatings)		2,532	1,838
Net cash flow used by AdRatings		(2,953)	-
Net cash flow before financing activities (after AdRatings)		(421)	1,838

The notes on pages 51 to 81 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2018

	Note	Share capital	Share premium account	Merger reserve	Foreign currency translation reserve	Retained earnings	Total
		£000	£000	£000	£000	£000	£000
At 1 April 2017		132	1,601	477	411	7,728	10,349
Profit for the financial period		-	-	-	-	1,213	1,213
Other comprehensive income:							
- currency translation differences		-	-	-	(190)	-	(190)
Total comprehensive income		-	-	-	(190)	1,213	1,023
Transactions with owners:							
Employee share options:							
- value of employee services	10	-	-	-	-	223	223
- current tax credited to equity		-	-	-	-	276	276
- deferred tax debited to equity	20	-	-	-	-	(673)	(673)
Dividends paid to owners	22	-	-	-	-	(4,188)	(4,188)
Sale of treasury shares		-	-	-	-	33	33
Purchase of own shares		-	-	-	-	(34)	(34)
		-		-	-	(4,363)	(4,363)
At 31 Mar 2018		132	1,601	477	221	4,578	7,009
Profit for the financial year		-	-	-	-	1,257	1,257
Other comprehensive income:							
- currency translation differences		-	-	-	2	-	2
Total comprehensive income		-	-	-	2	1,257	1,259
Transactions with owners:							
Employee share options:							
- value of employee services	10	-	-	-	-	(132)	(132)
- deferred tax debited to equity		-	-	-	-	(79)	(79)
- current tax credited to equity	20	-	-	-	-	34	34

Dividends paid to owners	22	-	-	-	-	(940)	(940)
Sale of treasury shares	10	-	-	-	-	3	3
		-		-	-	(1,114)	(1,114)
At 31 Mar 2019		132	1,601	477	223	4,721	7,154

The notes on pages 51 to 81 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 March 2019

1. General information

System1 Group PLC ("the **Company**") was incorporated on 19 September 2006 in the United Kingdom. The Company's principal operating subsidiary, System1 Research Limited (formerly BrainJuicer Limited), was at that time already established, having been incorporated on 29 December 1999. The address of the Company's registered office is Russell Square House, 10-12 Russell Square, London WC1B 5EH. The Company's shares are listed on the Alternative Investment Market of the London Stock Exchange ("AIM").

The Company and its subsidiaries (together "the **Group**") provide marketing and market research consultancy services. The Chairman's Statement, the Chief Executive's Statement and the Business and Financial 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 2019 (including the comparatives for the year ended 31 March 2018) on 5 June 2019.

2. Basis of Preparation

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

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a high degree of judgement or complexity, or areas where estimates and judgements are significant to the consolidated financial statements are disclosed in Note 3.

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.

3. Principal accounting policies

The principal accounting policies adopted are consistent with those of the financial statements for the year ended 31 March 2018, except for the first time adoption of IFRS 15, ‘Revenue from contracts with customers’ and IFRS 9, ‘Financial Instruments’ (both Standards effective for accounting periods beginning on or after 1 January 2018).

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 ‘Revenue’, IAS 11 ‘Construction Contracts’, and several revenue-related Interpretations. The adoption of IFRS 15 has had no material impact on these accounts other than with respect to the reclassification of balance sheet items, as set out in Note 26. As a result of the reclassification of balance sheet items on adoption of IFRS 15, the comparative balance sheet presented in these financial statements as at 31 March 2018 is not the same as that presented in the audited financial statements for the year ended 31 March 2018. The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 April 2018 under the full retrospective method.

The Group’s revenues are primarily from the delivery of research services.

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

Revenue from all of the Group’s Research product lines (Communications, Brand, Innovation, and other research products) and its advertising agency services are recognised on the same basis.

IFRS 9 introduced extensive changes to IAS 39’s guidance on the classification and measurement of financial assets and introduces a new ‘expected credit loss’ model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

The adoption of IFRS 9 has had no material impact on these financial statements. The Group has applied IFRS 9 from 1 April 2018. and no financial instruments that have been previously designated as measured at fair value are no longer so designated. Comparative information has not been restated as the impact on prior periods is also not material.

Standards, amendments and interpretations in issue but not yet effective
The following standards, amendments and interpretations to existing standards, relevant to the financial statements of the Group, have been published and are mandatory for the Group’s accounting periods beginning on or after 1 April 2019 or later periods. The Group has not adopted them early, so they have not been applied to these financial statements.

IFRS 16, *‘Leases’ (effective 1 January 2019).* IFRS 16 replaces the current guidance in IAS 17 and will require significant changes in accounting by lessees in particular. The standard applies to annual periods beginning on or after January 1, 2019, with earlier application permitted if IFRS 15, Revenue from Contracts with Customers, is also applied. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a ‘right-of-use asset’ for virtually all lease contracts. The IASB has included an optional exemption for lessees for certain short-term leases and leases of low-value assets.

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company has undertaken a preliminary assessment, and the standard will have an impact on the balance sheet (with the recognition of lease liabilities and right of use assets, upon which finance charges and straight-line depreciation will be charged respectively), but insignificant impact on net assets and Profit Before Tax.

Basis of consolidation
The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 31 March 2019.

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

The Group obtains and exercises control through voting rights.

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

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

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

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

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

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

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

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

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

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

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

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

Costs relating to the research phase of the product, amounting to £2.11m in the year to 31 March 2019 (31 March 2018: £nil) have been expensed during the period. Development costs include professional fees and directly-attributable employee costs required to bring the software into working condition. Where no internally-generated intangible asset can be recognised, development expenditure is charged to administrative expenses in the period in which it is incurred.

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

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

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

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

The Group's main research software platform, which it developed over a number of years, was introduced in 2011, at a cost of £1,604,000. It was amortised over 7 years and is now fully amortised.

The AdRatings platform and the cost of data being made available to subscribers are being amortised over a period of 3 years on a straight line basis.

Amortisation on all intangible assets is charged to administrative expenses.

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

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

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

Income taxes
Current income tax liabilities comprise those obligations to fiscal authorities relating to the current or

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

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

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

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

Operating lease agreements
Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the income statement net of any incentives received from the lessor on a straight-line basis over the period of the lease.

Revenue recognition
The Group's revenues are primarily from the delivery of research and advertising agency 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 and are recognised on the same basis, as set out below.

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

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

Cost of sales
Cost of sales includes external costs attributable to client projects. For the research business, these include respondent sample, data processing, language translation and similar costs, and for the advertising agency they are mainly freelance creative costs and the costs of production of advertising.

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.

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

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

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

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

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

The results and financial position of all Group companies that have a Functional Currency different from the presentation currency are translated into the presentation currency as follows:
(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the balance sheet date;
(b) income and expenses for each income statement are translated at average exchange rates; and
(c) all resulting exchange differences are recognised as a separate component of equity.

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

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, held-to-maturity investments or available-for-sale financial assets. The classification is determined by management at initial recognition, being dependent upon the purpose for which the financial assets were acquired. 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. Amounts previously designated as loans and receivables under IAS 39 have been reclassified to amortised cost under IFRS 9. The Group's amortised cost financial assets comprise trade and other receivables and cash and cash equivalents in the balance sheet.

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

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

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities.
Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the income statement.

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

Accrued and deferred income
Accrued income is recognised when a performance obligation has been satisfied but has not yet been

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

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

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

In order to determine whether the Company's share options are equity or cash-settled, consideration needs to be given 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. The Group has a sabbatical leave scheme, open to all employees, which provides 20 days paid leave for each six years' of service. The carrying amount of the provision at the balance sheet date amounted to £753,000 (31 March 2018: £706,000). The provision for liabilities under the scheme is measured using the projected unit credit method. This model requires a number of estimates and assumptions. The significant inputs into the model are rate of salary growth and average staff turnover as explained in Note 11.

Capitalisation of AdRatings platform. The Group has capitalised £923,000 in respect of costs incurred in the development of the AdRatings Platform. The point at which development costs meet the criteria for capitalisation is dependent upon management's judgement as to the point at which the Group can demonstrate the existence of a market for the output of the intangible asset and the carrying value of development assets is dependent on management's ability to demonstrate the future economic benefits they will deliver.

The Group tests capitalised development costs for impairment on an annual basis by reference to expected future cash generation from the AdRatings product. In estimating future cash generation, management make judgements by reference to budgets and forecasts about the amount and timing of future profits. Details are contained in Note 6.

4. Segment information

The financial performance of the Group's geographic operating units ("**Reportable Segments**") is set out below.

	31 Mar 2019			31 Mar 2018*		
	Revenue	Gross profit	Operating profit/ (loss)	Revenue	Gross profit	Operating profit/ (loss)
	£000	£000	£000	£000	£000	£000
Research						
Americas	11,657	9,538	4,682	11,764	10,189	4,851
United Kingdom	6,022	5,034	2,399	6,044	5,051	2,667
Continental Europe	6,770	5,447	3,142	5,751	4,582	2,629
APAC	1,873	1,605	826	2,410	2,036	969
	26,322	21,624	11,049	25,969	21,858	11,116
Advertising Agency						
United Kingdom	577	426	(222)	970	373	(397)
	26,899	22,050	10,827	26,939	22,231	10,719

*Operating segments in the prior year reported 'Americas' as two separate units, being US and Brazil, and APAC as Australia and Asia as separate segments. This has been aligned to the reporting structure used in the current year and the comparatives represented accordingly.

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. Segmental operating profit excludes allocation of central overheads relating to the Group's Operations, IT, Marketing, HR, Legal and Finance teams and Board of Directors.

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

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

System1 Group PLC (the ultimate parent company) is domiciled in the UK. As at 31 March 2019, consolidated non-current assets, other than financial instruments and deferred tax assets, located in the UK is £968,000 and located in other countries is £73,000. As at 31 March 2018 the respective amounts were £205,000 and £90,000.

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

	31 Mar 2019		31 Mar 2018	
	Revenue	Gross Profit	Revenue	Gross Profit
	£000	£000	£000	£000
Research Business				
Communications (Ad Testing)	8,473	7,372	7,884	6,994
Brand (Brand Tracking)	4,985	3,699	5,846	4,511
Innovation (Predictive Markets and Concept Testing)	10,456	8,986	9,808	8,404
	23,914	20,057	23,538	19,909
Other services	2,408	1,567	2,431	1,949
	26,322	21,624	25,969	21,858
Advertising Agency Business	577	426	970	373
	26,899	22,050	26,939	22,231

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

	31 Mar 2019	31 Mar 2018
	£000	£000
Operating profit for Reportable Segments	10,827	10,719
Central overheads (including exceptional credit of £251,000 – see Note 25)	(6,678)	(8,734)
AdRatings costs	(3,030)	-
AdRatings development costs capitalised	923	-
Amortisation of AdRatings development costs	(110)	-
Operating profit	1,932	1,985
Finance income	2	7
Profit before income tax	1,934	1,992

Over the year to 31 March 2019, the Group earned revenue of £1,499,000 from its largest customer, representing 6% of consolidated revenue (31 March 2018: 10%). Consolidated revenue from the Group's largest customer in each year is split by geographic segment as set out below.

	31 Mar 2019	31 Mar 2018
	£000	£000
Continental Europe	775	952
Americas	632	949
APAC	92	507
UK	-	155
	1,499	2,563

5. Property, plant and equipment

For the year ended 31 March 2019:

	Furniture, fittings and equipment	Computer hardware	Total
	£000	£000	£000
At 1 April 2018			
Cost	562	1,160	1,722
Accumulated depreciation	(359)	(1,094)	(1,453)
Net book amount	203	66	269
Year ended 31 March 2019			
Opening net book amount	203	66	269
Additions	1	106	107
Disposals	(2)	-	(2)
Foreign exchange	3	1	4
Depreciation charge for the year	(74)	(77)	(151)
Closing net book amount	131	96	227
At 31 March 2019			
Cost	553	1,285	1,837
Accumulated depreciation	(422)	(1,189)	(1,611)
Net book amount	131	96	227

For the year ended 31 March 2018:

	Furniture, fittings and equipment	Computer hardware	Total
	£000	£000	£000
At 1 April 2017			
Cost	550	1,130	1,680
Accumulated depreciation	(289)	(1,031)	(1,320)
Net book amount	261	99	360
Year ended 31 March 2018			
Opening net book amount	261	99	360
Additions	25	66	91
Disposals	-	(1)	(1)
Foreign exchange	(6)	(3)	(9)

Depreciation charge for the year	(77)	(95)	(172)
Closing net book amount	203	66	269
At 31 March 2018			
Cost	562	1,160	1,722
Accumulated depreciation	(359)	(1,094)	(1,453)
Net book amount	203	66	269

6. Intangible assets

For the year ended 31 March 2019:

	Development costs (AdRatings)	Software licenses	Software	Total
	£000	£000	£000	£000
At 1 April 2018				
Cost	-	697	1,672	2,369
Accumulated amortisation	-	(671)	(1,672)	(2,343)
Net book amount	-	26	-	26
Year ended 31 March 2019				
Opening net book amount	-	26	-	26
Additions	923	-	-	923
Amortisation charge	(110)	(25)	-	(135)
Closing net book amount	813	1	-	814
At 31 March 2019				
Cost	923	697	1,672	3,292
Accumulated amortisation	(110)	(696)	(1,672)	(2,478)
Net book amount	813	1	-	814

For the year ended 31 March 2018:

	Software licenses	Software	Total
	£000	£000	£000
At 1 April 2017			
Cost	674	1,672	2,346

Accumulated amortisation	(639)	(1,500)	(2,139)
Net book amount	35	172	207
12 months 31 March 2018			
Opening net book amount	35	172	207
Additions	22	-	22
Amortisation charge	(31)	(172)	(203)
Closing net book amount	26	-	26
At 31 March 2018			
Cost	697	1,672	2,369
Accumulated amortisation	(671)	(1,672)	(2,343)
Net book amount	26	-	26

Software comprises the Group's main research software platform, which it developed over a number of years and introduced in 2011, at a cost of £1,604,000. It was amortised over 7 years and is now fully amortised. The carrying amount of this asset at the balance sheet date was £Nil (31 Mar 2018: £Nil).

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

The carrying value of the AdRatings product has been tested for impairment at as 31 March 2019. The carrying value of the asset has been allocated to the AdRatings cash generating unit ('CGU') for the purposes of assessing future cashflows. The principal assumptions used in the forecast are the timing and amount of future revenues and profit margins. No terminal growth rate applies as the period of assessment has been limited to the three-year useful economic life assigned to the asset. For similar reasons the impairment analysis is not sensitive to the discount rate, which is derived from the pre-tax WACC of the Group.

Revenue and margin assumptions have been based on the latest forecasts approved by the Board.

Management have considered the sensitivity of the impairment assessment to key assumptions, being the timing and quantum of revenues, and have determined that no impairment charge would arise if the commencement of revenue generation were to be delayed by three months or if target subscription numbers were to be reduced by 50%. These sensitivities do not take account of any associated reduction in forecast spend. Management are not currently aware of any circumstances which would lead to actual results deviating from assumptions by more than the parameters set out above.

7. Financial risk management

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

Credit risk

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

	31 Mar 2019	31 Mar 2018
	£000	£000
Cash and cash equivalents		
HSBC Bank PLC (AA credit rating)	3,849	5,079
Santander	231	258
Deutsche Bank	154	324
UBS	79	97
Other banks	2	26
	4,315	5,784
Trade receivables		
Largest customer by revenue	161	788

Financial instruments by category

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

Assets and liabilities as per balance sheet	31 Mar 2019	31 Mar 2018
	£000	£000
Financial assets carried at amortised cost		
Trade and other receivables (excluding prepayments and accrued income)	6,102	5,270
Cash and cash equivalents	4,315	5,784
	10,417	11,054
Other financial liabilities carried at amortised cost		
Trade payables	1,990	1,115
Accruals	2,309	2,519
Finance lease payable (£23,000 payable after one year)	71	116
	4,370	3,750

The application of IFRS 9 resulted in cash and cash equivalents and trade and other receivables being reclassified from loans and receivables to amortised cost. There have been no material changes in the carrying amounts of financial assets and financial liabilities arising from the adoption of IFRS 9.

Of the Group's financial liabilities (of £4,370,000), £23,000 is payable in greater than one year of the balance sheet date. The payment of the Group's financial liabilities will be financed from existing cash to their fair value.

8. Contract costs

	31 Mar 2019	31 Mar 2018
	£000	£000
Contract costs	208	131

9. Trade and other receivables

	31 Mar 2019	31 Mar 2018
	£000	£000
Trade receivables	5,794	4,987
Other receivables	308	283
Prepayments and accrued income	813	441
	6,915	5,711

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

Impairment of financial assets

	31 Mar 2019	31 Mar 2018
	£000	£000
Opening balance	-	24
Charged to the income statement	64	-
Utilisations and other movements	-	(24)
Provided at year-end	64	-

The Group has financial assets that are subject to the new IFRS 9 expected credit loss model and the Group was required to revise its impairment methodology under IFRS 9 for these assets. The Group has applied the simplified approach to measuring expected credit losses as permitted by IFRS 9 and recognises a loss allowance based on the financial assets' lifetime expected loss.

The identified impairment change at transition was immaterial and the impact of the change in impairment methodology on the Group's retained earnings was assessed as £nil. 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. In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. The Group established an allowance for impairment that represented its estimate of incurred losses where it was deemed that a receivable may not have been recoverable. When the debt was deemed irrecoverable the allowance account was written off against the underlying receivable.

As of 31 March 2019, trade receivables of £2,070,000 were past due but not impaired (31 March 2018: £1,684,000). The ageing of trade receivables, and the associated loss allowance, is as follows.

31 March 2019

	Not past due	Up to 3 months	3 to 6 months	Over 6 months
	£000	£000	£000	£000
Gross trade receivables	3,724	1,757	269	108
Loss allowance	-	-	64	-
Expected loss rate	0.0%	-	23.8%	0.0%

31 March 2018

	Not past due	Up to 3 months	3 to 6 months	Over 6 months
	£000	£000	£000	£000
Gross trade receivables	3,303	1,045	639	-
Loss allowance	-	-	-	-
Expected loss rate	0.0%	0.0%	0.0%	0.0%

As of 31 March 2019, no other receivables or contract costs were impaired (31 March 2018: £Nil).

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

	31 Mar 2019	31 Mar 2018
	£000	£000
US Dollar	2,727	1,529
Sterling	2,507	1,746
Euro	885	1,104
Brazilian Real	353	490
Swiss Franc	217	242
Chinese Yuan	24	397
Australian Dollar	107	148
Singapore Dollar	95	55
	6,915	5,711

10. Share capital

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

Allotted, called up and fully paid Ordinary Shares	Number	£'000
At 1 April 2018 and at 31 March 2019	13,226,773	132

During the year ended 31 March 2019 the Company transferred 100,192 Shares out of treasury to satisfy the exercise of employee share options at a weighted average exercise price of NIL pence per share for total consideration of £3,000. The weighted average share price at exercise date was 270 pence per share.

At 31 March 2019, the Company had 13,226,773 Shares in issue (31 March 2018: 13,226,773) of which 650,156 were held in treasury (31 March 2018: 750,348). The treasury Shares will be used to help satisfy the requirements of the Group's share incentive schemes.

Share options

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

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

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

	31 Mar 2019		31 Mar 2018	
	Average exercise price per share	Options	Average exercise price per share	Options
	Pence	No	Pence	No
Opening balance	4.7	1,393,329	4.8	2,043,938
Granted	-	-	-	-
Lapsed	-	(198,400)	-	(428,370)
Cancelled	-	(132,267)	-	-
Exercised	-	(100,192)	0.1	(222,239)
Closing balance	6.4	962,470	4.7	1,393,329
Exercisable at end of period	17.4	355,823	14.2	456,015

The weighted average share price at date of exercise of options exercised during the year ended 31 March 2019 was 270 (year ended 31 March 2018: 738) pence.

At 31 March 2019 and 31 March 2018, the Group had the following outstanding options and exercise prices.

	31 March 2019			31 March 2018		
	Average exercise price per share	Options	Weighted average remaining contractual life	Average exercise price per share	Options	Weighted average remaining contractual life
Expiry date	Pence	No	Months	Pence	No	Months

2019	-	-	-	94.0	3,011	9.3
2020	50.6	122,687	12.1	38.0	163,300	24.6
2025	-	233,136	72.8	-	289,704	84.2
2027	-	606,647	95.8	-	937,314	107.9
	6.4	962,470	79.5	4.7	1,393,329	93.0

Long-term incentive schemes. During the year 198,400 of the options held by Alex Hunt lapsed, under the long-term incentive scheme approved at a General Meeting on 22 March 2017. A further 132.267 options were cancelled. Options outstanding under the scheme number 606,647 (31 March 2018: 937,314).

Share-based payment charge. The total credit relating to equity-settled employee share-based payment plans (for both the employee stock option plan and the senior executive long-term incentive plans) was £132,000 for the year ended 31 March 2019 (31 March 2018: charge of £223,000). The associated credit for social security was £64,000 for the year ended 31 March 2019 (31 March 2018: £158,000 credit).

11. Provisions

	Sabbatical provision	Dilapidation provisions	Total
	£000	£000	£000
At 1 April 2017	711	82	793
Provided in the year	86	-	86
Utilised in the year	(91)	-	(91)
At 31 March 2018	706	82	788
Provided in the year	158	-	158
Utilised in the year	(111)	-	(111)
At 31 March 2019	753	82	835
Of which:			
Current	225	-	225
Non-current	528	82	610
	753	82	835

The Group has a sabbatical leave scheme, open to all employees. The scheme provides 20 days paid leave for each successive period of six years' service. There is no proportional entitlement for shorter periods of service. The provision for the liabilities under the scheme is measured using the projected unit credit method. The calculation of the provision for the year ended 31 March 2019 assumes an annual rate of growth in salaries of 7% (year ended 31 March 2018: 7%), a discount rate of 1.6% (year ended 31 March 2018: 2.2%), based upon good quality 6-year corporate bond yields, and an average staff turnover rate of 19% (year ended 31 March 2018: 19%).

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

12. Trade and other payables

	31 Mar 2019	31 Mar 2018
	£000	£000
Trade payables	1,990	1,115
Social security and other taxes	292	589
Accruals	2,309	2,519
	4,591	4,223

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

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

13. Contract liabilities

	31 Mar 2019	31 Mar 2018
	£000	£000
Contract liabilities	534	580

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

Included within Revenue is £355,000 relating to contract liabilities recognised at 1 April 2018. No revenue has been recognised in the year from performance conditions satisfied, or partially satisfied in previous periods.

14. Commitments

The Group leases offices under non-cancellable operating leases for which the future aggregate minimum lease payments are as follows.

	31 Mar 2019	31 Mar 2018
	£000	£000
No later than 1 year	1,120	1,027
Later than 1 but no later than 5 years	4,383	3,531
More than 5 years	2	1,519
	5,505	6,077

The Group has the benefit of rent-free periods in respect of its leases in London and New York. The number of rent-free months outstanding at the balance sheet date were as follows:

	31 Mar 2019	31 Mar 2018
	Number of months	Number of months
London office lease (£493,000 per annum, expiring 15 April 2025) – 9 months' rent free at inception	4	4
New York office lease ($492,000 per annum, expiring 31 August 2024) – 5 months' rent free at inception	2	2
	6	6

The benefit of the rent-free months together with other lease incentives of £23,000 have been spread over the length of each lease.

There are no contingent payments, purchase options or restrictive covenants.

15. Expenses by nature

	31 Mar 2019	31 Mar 2018
	£000	£000
Employee benefit expense	11,882	12,634
Depreciation and amortisation	286	374
Net foreign exchange (gains)/losses	(3)	189
Other expenses	12,802	11,757
	24,967	24,954
Analysed as:		
Cost of sales	4,849	4,708
Administrative expenses	20,118	20,246

	24,967	24,954

16. Profit Before Taxation

Profit Before Taxation is stated after charging:

	31 Mar 2019	31 Mar 2018
	£000	£000
Operating lease expenses – Land and buildings	1,200	1,269
Depreciation and amortisation	286	374
Net (gain)/loss on foreign currency translation	(3)	189

	31 Mar 2019			31 Mar 2018
	Grant Thornton UK LLP	Grant Thornton overseas affiliates	Total	
	£000	£000	£000	£000
Audit and audit related fees				
Audit of parent company and consolidated accounts	51	6	57	51
Audit related assurance services	7	-	7	17
	58	6	64	68
Non-audit fees				
Tax compliance	10	48	58	42
Tax advisory	2	36	38	10
Other services	-	25	25	43
	12	109	121	95
	70	115	185	163

17. Employee benefit expense

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

	31 Mar 2019	31 Mar 2018

	No	No
Number of administrative staff	145	165

The aggregate employment costs of the above were:

	31 Mar 2019	31 Mar 2018
	£000	£000
Wages and salaries	9,775	9,768
Social security costs	1,176	1,133
Pension costs – defined contribution plans	339	355
Long service leave cost	47	(5)
Share based remuneration	(132)	223
Redundancies	101	524
Medical benefits	576	636
	11,882	12,634

The Company had 6 key management personnel as at 31 March 2019 (31 March 2018: 6), including the two executive directors.

Compensation to key management is set out below.

	31 Mar 2019	31 Mar 2018
	£000	£000
Short-term employee benefits – salaries, bonuses and benefits in kind	662	773
Short-term employee benefits – employer social security, including £89,000 credit (year ended 31 March 2018: £109,000 charge) in respect of share incentive plans	32	7
Compensation for loss of office	-	215
Post-employment benefits (pension costs – defined contribution plans)	19	29
Long term bonus plan	(48)	55
Share-based payment	(62)	154
	603	1,233

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

18. Finance income

	31 Mar 2019	31 Mar 2018
	£000	£000

Other interest receivable	2	7

19. Income tax expense

	31 Mar 2019	31 Mar 2018
	£000	£000
Current tax	655	843
Deferred tax	22	(64)
	677	779

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

	31 Mar 2019	31 Mar 2018
	£000	£000
Profit on ordinary activities before taxation	1,934	1,992
Profit on ordinary activities multiplied by standard UK tax rate	367	378
Difference between tax rates applied to Group's subsidiaries	260	372
Expenses not deductible for tax purposes	2	12
Tax on intra-group management charges (Brazil and China)	97	108
Adjustment to current tax in respect of prior years	(27)	(84)
Withholding tax	-	8
Remeasurement of deferred tax	-	12
Credit on exercise of share options taken to income statement	(22)	(27)
	677	779

The standard tax rate for the year ended 31 March 2019 and 2018 was 19%.

20. Deferred tax

Deferred tax assets and liabilities are as follows.

	31 Mar 2019	31 Mar 2018
	£000	£000
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	121	189
- Deferred tax assets to be recovered within 12 months	175	230

	296	419
Deferred tax liabilities:		
- Deferred tax liability to be recovered within 12 months	(21)	(47)
Deferred tax asset (net):	275	372

The gross movement in deferred tax is as follows.

	31 Mar 2019	31 Mar 2018
	£000	£000
Opening balance	372	984
Foreign exchange differences	-	(3)
Income statement credit/(charge)	(18)	64
Tax (debited)/credited directly to equity	(79)	(673)
Closing balance	275	372

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	Other provisions	Share options	Dilapidation provisions	Sabbatical provision	Total
	£000	£000	£000	£000	£000
At 1 April 2018	30	242	10	137	419
Foreign exchange differences	-	-	-	-	-
Credited/(charged) to income statement	(16)	(34)	-	6	(44)
Debited directly to equity	-	(79)	-	-	(79)
At 31 March 2019	14	129	10	143	296

Deferred tax liabilities	Accelerated capital allowances
	£000
At 1 April 2018	(47)
Foreign exchange differences	-
Credited to income statement	26
At 31 March 2019	(21)

Deferred tax assets are recognised only to the extent that their recoverability is considered probable. There are no unrecognised deferred tax assets.

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

(a) Basic earnings per share

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

	31 Mar 2019	31 Mar 2018
Profit attributable to equity holders of the Company (£'000)	1,257	1,213
Weighted average number of Ordinary Shares in issue	12,547,658	12,265,507
Basic earnings per share	10.0p	9.9p

(b) Diluted earnings per share

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.

	31 Mar 2019	31 Mar 2018
Profit attributable to equity holders of the Company (£'000)	1,257	1,213
Weighted average number of Ordinary Shares in issue	12,547,658	12,265,507
Share options	330,378	444,808
Weighted average number of Ordinary Shares for diluted earnings per share	12,878,036	12,710,315
Diluted earnings per share	9.8p	9.5p

22. Dividends

On 20 December 2018, the Company paid an interim dividend of 1.1 pence per share, amounting to £138,000, in respect of the year ended 31 March 2019.

	31 Mar 2019	31 Mar 2018
	£000	£000
Final dividend for 2017/18: 6.4p per share (prior period: 6.4p per share)	802	798
Interim dividend for 2018/19: 1.1p per share (prior period: 1.1p per share)	138	137
Special dividend: Nil per share (prior period: 26.1p per share)	-	3,253
	138	3,390

Total ordinary dividends paid in the period	940	4,188

The directors are proposing a final dividend in respect of the year ended 31 March 2019 of 6.4 pence per share. These financial statements do not reflect this proposed dividend.

23. Net cash generated from operations

	31 Mar 2019	31 Mar 2018
	£000	£000
Profit Before Taxation	1,934	1,992
Depreciation	151	172
Amortisation	135	202
Interest received	(2)	(7)
Loss on disposal of property, plant and equipment	2	1
Share-based payment (credit)/expense	(132)	223
Increase in contract costs	(77)	(36)
(Increase)/decrease in receivables	(1,204)	300
Increase in payables	4244	568
Decrease in contract liabilities	(46)	(57)
Exchange differences on operating items	64	66
Net cash generated from operations	1,249	3,424

24. Related party transactions

Dividends paid to directors were as follows:

	31 Mar 2019	31 Mar 2018
	£	£
John Kearon	245,067	1,115,590
James Geddes	18,824	64,621
Alex Batchelor (resigned 30 June 2017)	NA	43,761
Ken Ford*	1,280	6,720
Robert Brand	2,250	10,080
Graham Blashill	750	1,680
	268,171	1,242,452

*Includes those dividends with an ex-dividend date prior to resignation as director

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

For the year ended 31 March 2019:

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

For the year ended 31 March 2018:

	Revenues/ (direct costs)	Overhead charges	Royalties	Amounts due from/(to) related parties
	£'000	£'000	£'000	£'000
System1 Group PLC	-	4,870	2,466	2,881
System1 Research Limited	-	(1,229)	(605)	(712)
System1 Research B.V.	-	(182)	(90)	31
System1 Research, Inc.	148	(2,099)	(978)	95
System1 Research Sarl	2	(314)	(152)	(269)
System1 Research GmbH	-	(486)	(238)	(253)
System1 Marketing Consulting (Shanghai) Co. Limited	(143)	-	(46)	23

System1 Research Do Brazil Servicos de Marketing Ltda.	-	-	-	(109)
System1 Research France Sarl	(150)	(190)	(93)	50
System1 Market Research Pte Ltd	143	(113)	(49)	(310)
System1 Research Pty Ltd.	-	(256)	(258)	(462)
BrainJuicer India Private Limited	-	-	-	(42)
System1 Agency Limited	-	-	-	(923)

25. Exceptional credit – Rates rebate

During the year the Company recognised an exceptional credit of £251,000 in respect of a Business Rates refund that was made as a result of an error by Camden Council and the Valuation Office.

26. Change in accounting policies

The adoption of IFRS 15, 'Revenue from Contracts with Customers' has resulted in no change in the comparative income statement. Changes to the balance sheet are set out below.

Balance sheet (extract)	IAS 18 carrying amount at 31 Mar 2018	Reclassification	IFRS 15 carrying amount at 1 Apr 2018
	£000	£000	£000
ASSETS			
Non-current assets			
Property, plant and equipment	269	-	269
Intangible assets	26	-	26
Deferred tax asset	372	-	372
	667	-	667
Current assets			
Contract costs	131	-	131
Trade and other receivables	6,139	(428)	5,711
Income tax recoverable	423	-	423
Cash and cash equivalents	5,784	-	5,784
	12,477	(428)	12,049
Total assets	13,144	(428)	12,716
EQUITY			
Attributable to equity holders of the Company			
Share capital	132	-	132
Share premium account	1,601	-	1,601
Merger reserve	477	-	477
Foreign currency translation reserve	221	-	221
Retained earnings	4,578	-	4,578
Total equity	7,009	-	7,009
LIABILITIES			
Non-current liabilities			
Provisions	420	-	420
Finance lease payable	70	-	70
	490	-	490
Current liabilities			
Provisions	368	-	368
Finance lease payable	46	-	46

Trade and other payables	5,231	(1,008)	4,223
Contract liabilities	-	580	580
	5,645	(428)	5,217
Total liabilities	6,135	(428)	5,707
Total equity and liabilities	13,144	(428)	12,716

Balance sheet (extract)	IAS 18 carrying amount at 31 Mar 2017	Reclassification	IFRS 15 carrying amount at 1 Apr 2017
	£000	£000	£000
ASSETS			
Non-current assets			
Property, plant and equipment	360	-	360
Intangible assets	207	-	207
Deferred tax asset	984	-	984
	1,551	-	1,551
Current assets			
Contract costs	95	-	95
Trade and other receivables	6,439	(250)	6,189
Cash and cash equivalents	8,266	-	8,266
	14,800	(250)	14,550
Total assets	16,351	(250)	16,101
EQUITY			
Attributable to equity holders of the Company			
Share capital	132	-	132
Share premium account	1,601	-	1,601
Merger reserve	477	-	477
Foreign currency translation reserve	411	-	411
Retained earnings	7,728	-	7,728
Total equity	10,349	-	10,349
LIABILITIES			
Non-current liabilities			
Provisions	505	-	505
	505	-	505
Current liabilities			
Provisions	288	-	288
Trade and other payables	4,715	(887)	3,828
Contract liabilities	-	637	637
Current income tax liabilities	494		494
	5,497	(250)	5,247
Total liabilities	6,002	(250)	5,752
Total equity and liabilities	16,351	(250)	16,101

Contract liabilities in relation to advances received from customers (£580,000 as at 31 March 2018) were previously presented as deferred income within trade and other payables. Amounts invoiced to customers where the right to consideration was not unconditional at the balance sheet date and those amounts remained unpaid (£428,000 as at 31 March 2018), were previously included within trade and other receivables with the matching liability recorded within deferred income. On adoption of IFRS 15 such amounts are neither included within trade receivables nor contract liabilities. At 31 March 2019 outstanding amounts invoiced to customers where the right to consideration was not unconditional at the balance sheet date amounted to £507,000 (31 March 2018: £428,000).

27. Audit exemption

System1 Research Limited (company number 03900547) and System1 Agency Limited (company number 09829202) 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 both entities above under section 479C of the Companies Act 2006.

COMPANY BALANCE SHEET
as at 31 March 2019

Registered Company No. 05940040

	Note	31 Mar 2019	31 Mar 2018
		£000	£000
Fixed assets			
Other intangible assets	2	814	26
Tangible assets	3	126	121
Investments	4	581	581
		1,521	728
Current assets			
Debtors due within one year	5	5,292	3,900
Debtors due after one year	5	100	122
Cash at bank		152	1,330
		5,544	5,352
Creditors: amounts due within one year	6	(2,660)	(1,597)
Net current assets		2,884	3,755
Total assets less current liabilities		4,405	4,483
Creditors: amounts due after one year	7	(23)	(70)
Provisions for liabilities	8	(287)	(307)
Net assets		4,095	4,106
Capital and reserves			
Share capital	10	132	132
Share premium account		1,601	1,601
Retained earnings		2,362	2,373
Shareholders' funds		4,095	4,106

These financial statements were approved by the directors on 5 June 2019 and are signed on their behalf by:

John Kearon, Director

James Geddes, Director

COMPANY STATEMENT OF CHANGES IN EQUITY
for the year ended 31 March 2019

	Share Capital	Share premium account	Retained earnings	Total
	£000	£000	£000	£000
At 1 April 2017	132	1,601	6,272	8,005
Profit for the financial period and total comprehensive income attributable to the equity holders	-	-	388	388
Transactions with owners:				
Employee share scheme				
Value of employee services	-	-	223	223
Current tax credited to equity	-	-	274	274
Deferred tax debited to equity	-	-	(595)	(595)
Dividends paid to owners	-	-	(4,188)	(4,188)
Sale of treasury shares	-	-	33	33
Purchase of own shares	-	-	(34)	(34)
	-	-	(4,287)	(4,287)
At 31 Mar 2018	132	1,601	2,373	4,106
Profit for the financial year and total comprehensive income attributable to the equity holders	-	-	1,110	1,110
Transactions with owners:				
Employee share scheme				
Value of employee services	-	-	(132)	(132)
Current tax credited to equity	-	-	18	18
Deferred tax debited to equity	-	-	(70)	(70)
Dividends paid to owners	-	-	(940)	(940)
Sale of treasury shares	-	-	3	3
	-	-	(1,121)	(1,121)
At 31 Mar 2019	132	1,601	2,362	4,095

NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the year ended 31 March 2019

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 12 months ended 31 March 2019. These accounts are available from the registered office address of the Company, and at www.system1group.com (investor section).

Disclosure exemptions adopted
In preparing these financial statements the Company has taken advantage of all disclosure exemptions available under FRS 101. Therefore, these financial statements do not include:
(a) a statement of cash flows and related notes;
(b) the requirement to produce a balance sheet at the beginning of the earliest comparative period;
(c) the requirements of IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more wholly owned members of the group;
(d) disclosure of key management personnel compensation;
(e) capital management disclosures;
(f) presentation of a comparative reconciliation of the number of shares outstanding at the beginning and at the end of the period;
(g) the effect of future accounting standards not adopted;
(h) disclosures in respect of financial instruments and fair value measurement.

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

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

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

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

Costs relating to the research phase of the product, amounting to £2.11m in the year to 31 March 2019 (31 March 2018: £nil) have been expensed during the period. Development costs include professional fees and directly-attributable employee costs required to bring the software into working condition. Where no internally-generated intangible asset can be recognised, development expenditure is charged to administrative expenses in the period in which it is incurred.

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

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

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

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

The Group's main research software platform, which it developed over a number of years, was introduced in 2011, at a cost of £1,604,000. It was amortised over 7 years and is now fully amortised.

The AdRatings platform and the cost of data being made available to subscribers are being amortised over a period of 3 years on a straight-line basis.

Amortisation on all intangible assets is charged to administrative expenses.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the year ended 31 March 2019

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.

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

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

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

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

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

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

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

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

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

Financial instruments
Financial assets. The Company's financial assets comprise trade and other receivables held at amortised cost. The Company does not possess assets held at fair value through profit or loss, held-to-maturity investments or available-for-sale financial assets. The classification is determined by management at initial recognition, being dependent upon the purpose for which the financial assets were acquired. 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 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. Amounts previously designated as loans and receivables under IAS 39 have been reclassified to amortised cost under IFRS 9. The Company's amortised cost financial assets comprise trade and other receivables and cash and cash equivalents in the balance sheet.

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

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

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

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

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

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

Significant accounting estimates and judgements

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

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

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

Employee benefits. The Company has a sabbatical leave scheme, open to all employees, which provides 20 days paid leave for each six years' of service. The carrying amount of the provision at the balance sheet date amounted to £280,000 (31 March 2018: £288,000). The provision for liabilities under the scheme is measured using the projected unit credit method. This model requires a number of estimates and assumptions. The significant inputs into the model are rate of salary growth and average staff turnover as explained in Note 8.

Capitalisation of AdRatings platform. The Group has capitalised £923,000 in respect of costs incurred in the development of the AdRatings Platform. The point at which development costs meet the criteria for capitalisation is dependent upon management's judgement as to the point at which the Group can demonstrate the existence of a market for the output of the intangible asset and the carrying value of development assets is dependent on management's ability to demonstrate the future economic benefits they will deliver.

The Group tests capitalised development costs for impairment on an annual basis by reference to expected future cash generation from the AdRatings product. In estimating future cash generation, management make judgements by reference to budgets and forecasts about the amount and timing of future profits. Details are contained in Note 2.

2. Other intangible assets

For the year ended 31 March 2019:

	Development costs (AdRatings)	Software licenses	Software	Total
	£000	£000	£000	£000
At 1 April 2018				
Cost	-	488	1,672	2,160
Accumulated amortisation	-	(462)	(1,672)	(2,134)
Net book amount	-	26	-	26
12 months ended 31 March 2019				
Opening net book amount	-	26	-	26
Additions	923	-	-	923
Amortisation charge	(110)	(25)	-	(135)
Closing net book amount	813	1	-	814
At 31 March 2019				
Cost	923	499	1,672	3,094
Accumulated amortisation	(110)	(498)	(1,672)	(2,280)
Net book amount	813	1	-	814

2. Other intangible assets (continued)

For the year ended 31 March 2018:

	Software licenses	Software	Total
	£000	£000	£000
At 1 April 2017			
Cost	466	1,672	2,138
Accumulated amortisation	(432)	(1,499)	(1,931)
Net book amount	34	173	207
12 months ended 31 March 2018			
Opening net book amount	34	173	207
Additions	22	-	22
Amortisation charge	(30)	(173)	(203)
Closing net book amount	26	-	26
At 31 March 2018			
Cost	488	1,672	2,160
Accumulated amortisation	(462)	(1,672)	(2,134)
Net book amount	26	-	26

Software comprises the Group's main research software platform, which it developed over a number of years and introduced in 2011, at a cost of £1,604,000. It was amortised over 7 years and is now fully amortised. The carrying amount of this asset at the balance sheet date was £Nil (31 Mar 2018: £Nil).

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

The carrying value of the Ad Rating product has been tested for impairment at the year end. The carrying value of the asset has been allocated to the AdRatings cash generating unit ('CGU') for the purposes of assessing future cashflows. The principal assumptions used in the forecast are the timing and amount of future revenues and profit margins. No terminal growth rate applies as the period of assessment has been limited to the three-year useful economic life assigned to the asset. For similar reasons the impairment analysis is not sensitive to the discount rate, which is derived from the pre-tax WACC of the Group.

Revenue and margin assumptions have been based on the latest forecasts approved by the Board.

Management have considered the sensitivity of the impairment assessment to key assumptions, being the timing and quantum of revenues, and have determined that no impairment charge would arise if the commencement of revenue generation were to be delayed by three months or if target subscription numbers were to be reduced by 50%. These sensitivities do not take account of any associated reduction in forecast spend. Management are not currently aware of any circumstances which would lead to actual results deviating from assumptions by more than the parameters set out above.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the year ended 31 March 2019

3. Tangible assets

For the year ended 31 March 2019:

	Furniture, fittings and equipment	Computer hardware	Total
	£000	£000	£000
At 1 April 2018			
Cost	164	500	664
Accumulated depreciation	(79)	(464)	(543)
Net book amount	85	36	121
12 months ended 31 March 2019			
Opening net book amount	85	36	121
Additions	1	80	81
Depreciation charge for the year	(31)	(45)	(76)
Closing net book amount	55	71	126
At 31 March 2019			
Cost	165	580	745
Accumulated depreciation	(110)	(509)	(619)
Net book amount	55	71	126

For the year ended 31 March 2018:

	Furniture, fittings and equipment	Computer hardware	Total
	£000	£000	£000
At 1 April 2017			
Cost	147	466	613
Accumulated depreciation	(49)	(404)	(453)
Net book amount	98	62	160

Year ended 31 March 2018			
Opening net book amount	98	62	160
Additions	17	35	52
Disposals	-	(1)	(1)
Depreciation charge for the year	(30)	(60)	(90)
Closing net book amount	85	36	121
At 31 March 2018			
Cost	164	500	664
Accumulated depreciation	(79)	(464)	(543)
Net book amount	85	36	121

4. Investments

Group companies	
	£000
Cost and net book amount at 1 Apr 2018 and 31 Mar 2019	581

Subsidiary undertakings

Details of subsidiary undertakings and country of incorporation of each, at 31 March 2019 are as follows:

System1 Research Limited	UK
System1 Research B.V.	Netherlands
System1 Research, Inc.	USA
System1 Research Sarl	Switzerland
System1 Research GmbH	Germany
System1 Marketing Consulting (Shanghai) Co. Limited	China
System1 Research Do Brazil Servicos de Marketing Ltda.	Brazil
System1 Research France Sarl	France
System1 Market Research Pte Ltd	Singapore
System1 Research Pty Ltd.	Australia
BrainJuicer India Private Limited	India
System1 Agency Limited	UK

System1 AdRatings Limited	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. System1 AdRatings Limited was incorporated on 17 April 2018 with issued ordinary share capital of £1. The activities of all companies are the provision of online market research services, apart from System1 Agency Limited which provides advertising agency services and System1 AdRatings Limited, which provides subscription access to marketing effectiveness data.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the year ended 31 March 2019

5. Debtors

	31 Mar 2019	31 Mar 2018
	£000	£000
Due within one year		
Trade debtors (intra-group)	696	295
Amounts due from group companies	3,452	2,782
Other debtors	10	13
VAT recoverable	190	169
Corporation tax recoverable	189	117
Deferred tax (Note 9)	79	170
Prepayments	676	354
	5,292	3,900
Due after one year		
Deferred tax (Note 9)	100	122

6. Creditors: amounts due within one year

	31 Mar 2019	31 Mar 2018
	£000	£000
Trade creditors	1,192	533
Social security and other taxes	133	103
Amounts due to group undertakings	822	163
Finance lease creditor	46	46
Accruals	467	752
	2,660	1,597

7. Creditors: amounts due after one year

	31 Mar 2019	31 Mar 2018
	£000	£000

Finance lease creditor	23	70

NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the year ended 31 March 2019

8. Provisions for liabilities

	Deferred tax (Note 9)	Sabbatical provision	Total
	£000	£000	£000
At 1 April 2017	32	276	308
Provided in the year	-	39	39
Utilised in the year	(13)	(27)	(40)
At 31 March 2018	19	288	307
Provided in the year	-	64	64
Utilised in the year	(12)	(72)	(84)
At 31 March 2019	7	280	287

The Group has a sabbatical leave scheme, open to all employees. The scheme provides 20 days paid leave for each successive period of six years' service. There is no proportional entitlement for shorter periods of service. The provision for the liabilities under the scheme is measured using the projected unit credit method. The calculation of the provision for the year to 31 March 2019 assumes an annual rate of growth in salaries of 7% (year to 31 March 2018: 7%), a discount rate of 2.2% (31 March 2018: 2.2%), based upon good quality 6-year corporate bond yields, and an average staff turnover rate of 19% (31 March 2018: 19%).

9. Deferred tax

Deferred tax assets and liabilities are as follows.

	31 Mar 2019	31 Mar 2018
	£000	£000
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	100	122
- Deferred tax assets to be recovered within 12 months	79	170
	179	292
Deferred tax liabilities:		
- Deferred tax liability to be recovered within 12 months	(7)	(19)
Deferred tax asset (net):	172	273

The gross movement in deferred tax is as follows.

9. Deferred tax (continued)

	Year to 31 Mar 2018	Year to 31 Mar 2017
	£000	£000
Opening balance	273	828
Income statement credit	(31)	40
Tax (debited)/credited directly to equity	(70)	(595)
Closing balance	172	273

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	Other provisions	Share options	Sabbatical Provision	Total
	£000	£000	£000	£000
At 1 April 2018	11	226	55	292
Credited to income statement	(9)	(32)	(2)	(43)
Debited directly to equity	-	(70)	-	(70)
At 31 March 2019	2	124	53	179

Deferred tax liabilities	Accelerated capital allowances
	£000
At 1 April 2018	(19)
Credited to income statement	12
At 31 March 2019	(7)

10. Share capital

Allotted, called up and fully paid Ordinary Shares	Number	£'000
At 1 April 2018 and at 31 March 2019	13,226,773	132

11. Profit for the year

The Company has made use of the exemptions as permitted by Section 408 of the Companies Act 2006 and accordingly the income statement of the Company is not presented as part of the accounts. The parent company profit for the year to 31 March 2019 of £1,110,000 (31 March 2018: £388,000) is included in the Group profit for the financial year. Details of executive and non-executive directors' emoluments and their interest in shares and options of the company are shown within the directors' Remuneration Report.