

**System1**

# **Building Momentum**

**Annual Report and Accounts**  
for the year ended 31 March 2023

“ We believe in the value of testing early and often... System1’s platform is incredibly efficient and effective at predicting the success of our creative and identifying areas of improvement. ”

Lesya Lysyj, CMO, Boston Beer Company

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# Highlights

	2023 ("FY23") £m	2022 ("FY22") £m	Change* %
<b>Management basis*</b>			
Platform Revenue ("Predict & Improve")	<b>17.4</b>	12.4	40%
Other Revenue (Bespoke consultancy)	<b>6.0</b>	11.7	-48%
Total Revenue	<b>23.4</b>	24.1	-3%
Gross profit	<b>19.7</b>	20.2	-2%
Adjusted operating costs	<b>(18.9)</b>	(19.2)	-1%
<b>Adjusted profit before taxation</b>	<b>0.8</b>	1.0	-24%
<b>Statutory basis</b>			
<b>Revenue</b>	<b>23.4</b>	24.1	-3%
<b>Gross profit</b>	<b>19.7</b>	20.2	-2%
Operating costs	<b>(19.3)</b>	(19.6)	-1%
Other operating income	<b>0.3</b>	0.3	18%
<b>Profit before taxation</b>	<b>0.7</b>	0.9	-23%
Tax charge	<b>(0.3)</b>	0.0	nm
<b>Profit for the financial year</b>	<b>0.4</b>	0.9	-58%
<b>Diluted earnings per share</b>	<b>3.2p</b>	7.4p	

\* Adjusted Operating Costs exclude impairment, other interest, share based payments, bonuses and commissions, severance costs, IP litigation costs, and other staff costs (sabbatical and holiday provisions). Adjusted Profit Before Taxation is Gross Profit less Adjusted Operating Costs and excludes Other Operating Income. Adjusted figures exclude items, positive and negative, that impede easy understanding of underlying performance. See note 15 to the consolidated financial statements for further information.

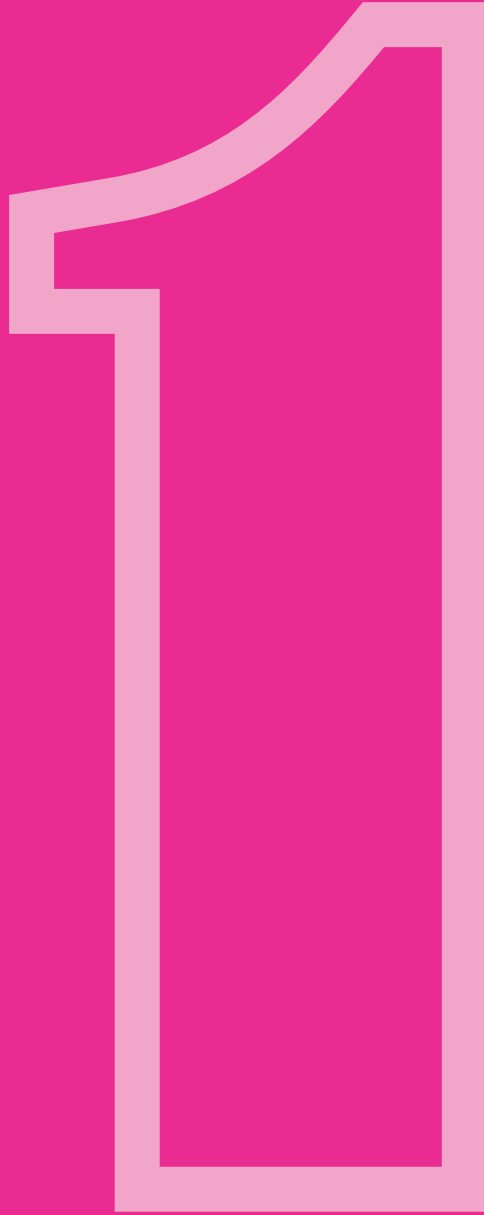
\*\* Year-on-year percentage change figures are based on unrounded numbers.

- Growing sales momentum: H2 Platform Revenue £9.8m, 29% up on H1 £7.6m
- Full-year platform Revenue £17.4m, up 40% year-on-year representing 74% of group revenue (FY22: 52%)
- Non-platform bespoke consultancy revenue increased slightly in H2 ending the year at £6.0m
- Gross profit margin improved in H2 resulting in an 84.2% margin for the year, higher than in FY22 (83.8%)
- Adjusted Operating Costs, statutory operating costs and headcount all 1% lower than in FY22
- £4m cash investment in platform, products and IP (FY22: £4m), £0.2m amortised (FY22: nil, nil). TYX platform fully automated across all 3 product groups with additional features
- US IP Litigation settled out of court in June 2023
- Net cash £5.7m at 31 March 2023 (FY22: £8.7m), £2.5m revolving credit facility fully repaid in November 2022

“ The business delivered a strong second half year and created momentum that has carried through into FY24 with profitable growth across our platform offering. We are relentlessly executing the plan outlined in the strategic review. ”

James Gregory, Chief Executive Officer

# Strategic Report



# Group Overview – System1 on a page

## Who we are and why we exist

System1 is a marketing decision-making platform business.

Our target customers are the world’s largest advertisers. These businesses understand that creativity is the most powerful tool for growth within their control. System1 helps them make confident creative decisions that lead to transformational business results.

## What we do

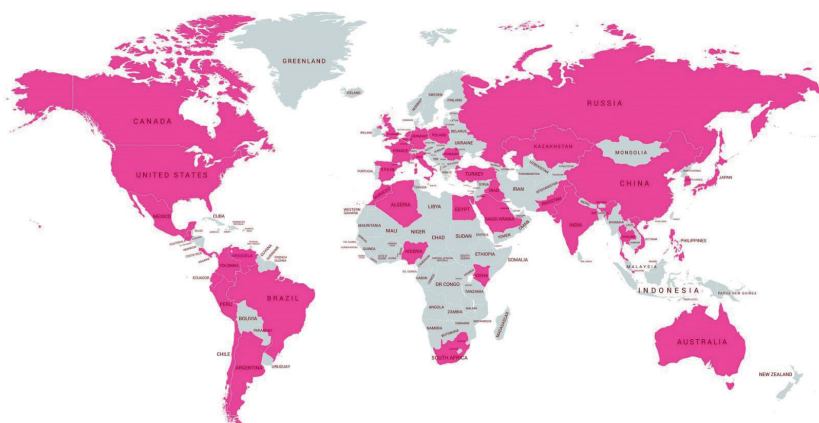
System1 predicts and improves marketing effectiveness. Our advertising and idea tests measure emotion to give our customers the most accurate predictions of the business impact of creativity. We ‘predict’ (provide research results) and ‘improve’ (provide insight and consultancy on those results) on arguably three of the most critical marketing questions for our customers: advertising effectiveness, innovation effectiveness and brand effectiveness. We aspire to do these three things better than anyone else at a value that makes System1 our customers’ choice.

## Our products

Product Type	Communications	Brand	Innovation
<b>Data (Platform)</b>	TYA Premium (subscription) TYA Essential TYB Pro	TYB Essential TYA Pro	TYI Essential TYI Pro
<b>Data-Led Consultancy (Platform)</b>	TYA Express Guidance TYA Expert Guidance TYA Audit	TYB Guidance TYB KDA TYB DAT TYB Landscaping	TYI Express Guidance TYI Full Guidance TYI Audit Concept Test
<b>Bespoke Consultancy</b>	Enterprise Comms	Enterprise Brand Tracking	Enterprise Innovation

## Where we operate

We employ over 150 people across 13 companies in 9 countries from where we serve over 450 customers across the world



## Investment case

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

# Chairman's Statement



The past year proved to be a challenging one for marketing technology businesses like System1 as well as the broader technology and media sectors as witnessed by the large-scale job reductions

announced by some of the world's leading businesses. Whereas the US economy has fared relatively well, in Europe, domestic spending was held back by high energy prices in the wake of the Ukraine conflict, followed by more general cost-of-living pressures that dented both consumer and business confidence. Against this backdrop, your company produced creditable results with Platform revenue increasing by 40%, £0.7M profit before taxation, and earnings of £0.4m (3.2p basic and diluted earnings per share).

When I succeeded Graham Blashill as your Chairman at last September's AGM my first and most urgent task was to conduct a review of the company's strategic options for growing the business and increasing shareholder value, which had

been announced a month before my appointment. This review was led by the independent directors with significant support from the executive and external advisers. At the end of November we set out the review's key findings which included:

- Best in class Predictiveness offered at market-beating speed and value is System1's unique selling proposition
- Increased focus on supporting digital advertising formats
- Target the world's largest advertisers with the aim to generate recurring and repeatable revenue streams
- Work with commercial platform and media partners to reduce customer acquisition costs
- Significantly increase focus on US geographic market

Since November we have launched a well-received Test Your Ad variant specifically for digital content, won new business with some of the world's leading advertisers, and sealed new partnerships with Finecast, JCDecaux, Teads, and Pinterest.



Having the right insight that [the Ribena Ad] still performs in the top 20 soft drinks ads in 2023 made us excited about the opportunity to bring it back.

Sarah Fleetwood, Head of Brand Global Marketing & Innovation Director, Suntory Beverage & Food GB



“ Your group produced creditable results with Platform revenue increasing by 40%, £0.7M Profit before taxation, and earnings of £0.4m (3.2p basic and diluted earnings per share). ”

In the US John Kearon dedicated most of his time and effort to developing new business opportunities from the final quarter. The turnaround was not expected to be immediate but initial signs are encouraging with new US client wins including one of the world's largest publicly traded international oil and gas companies, a worldwide employment website, a multinational enterprise software company, and one of the largest chocolate manufacturers in the world. We have also formed a US advisory team comprising Jon Bond (US Advertising Hall of Fame Member) and Noah Brier (marketing platform and AI guru) and expect to add further advisers in due course. Also in the US, we were pleased to conclude a co-existence agreement with System1 OpCo LLC, thereby settling a long-running legal dispute and providing clarity on the current and future use of the System1 mark.

The review of strategic options last year immediately preceded James Gregory's appointment as CEO and John Kearon's appointment as Founder and President with a particular focus on new business development in the US. Phillip Machray also joined the board as an independent director in May 2022 and has served as chairman of the Remuneration Committee since December. Following Jane Wakely's resignation, Conrad Bona joined the board in September 2022 as an independent director, and his experience in strategic

corporate and legal affairs proved valuable during the review. I believe we have the right blend of experience and expertise on the board to guide the group towards achieving its strategic objectives.

As a board we are conscious of our fiduciary duty to all stakeholders including customers, employees and shareholders. Over the year we were satisfied with our engagement with customers and colleagues. However, the share price performance in the period and the dissatisfaction expressed by a number of shareholders in the lead up to the AGM and the 21 April 2023 general meeting has been listened to and considered carefully. We will continue to engage with all shareholders, including those who voted in favour of the resolutions, to improve alignment on the Group's strategy and increase shareholder value.

Finally on behalf of the board I would like to thank my predecessor, Graham Blashill, for his nine years' service of as director of the business and close by paying tribute to the immense effort that our 150 colleagues in the business make every day to meet and exceed the needs of our customers. Their efforts, guided by our new strategy, are beginning to bear fruit.

Rupert Howell  
Chairman

## CEO's Statement

“ We have a go-to-market strategy aimed at winning with the world's largest businesses; new product channels (digital and audio) amplified by new partnerships, all spearheaded by a realigned executive team and John Kearon leading the charge on US growth. ”



### Building momentum

FY23 has truly been a year of 2 halves as we have moved from a period of design and transition to one of relentless commercial execution. This shone through in our second-half performance. H1 delivered revenue of £10.5m down 15% vs prior first half year, while we addressed the underlying structural issues in the US that had caused revenue to decline there in FY22 and started a thorough strategic review of the whole group and how best to grow the business to create shareholder value. With renewed strategic focus in H2, we delivered £12.9m revenue, up 10% vs the second half of FY22, as we executed a refined go-to-market strategy, with a realigned Executive team and clarity of mission.

While total revenue was down for the year (-3% vs FY22), we saw improving platform growth of 34% H1 FY23 vs prior year and 45% in H2 FY23 vs prior year, up 40% for FY23 vs prior year as a whole. This was driven by 44% growth in our data (Predict Your) products and 23% growth in our data-led consultancy (Improve Your) offer. In 3 years, we have built out a £17m per annum platform business that provides automated, accurate predictions and world class improvement insights across the advertising, innovation and brand tracking universe.

### Investments

We continued investment in developing the platform and product suite, as well as investing in our sales and marketing functions to build out the growth engines of the business, while ensuring costs were held flat (at £19m) and gross profit margin was up (to 84.2%). With the core Test Your Ad, Test Your Idea and Test Your Brand product

suite fully automated by May 2022, we increased the breadth of the offer to cover all marketing channels (Digital and Audio were

recently added to the TV, Print and Outdoor advertising offering). A year of focussed fame building, amplified by new partnerships resulted in strong growth in the number of new platform clients in FY23 (net increase of 31), and new revenue (net increase of £5m, of which £3m was from clients recruited in FY23).

### Strategy

The strategic review offered the business a moment to reflect and refine its strategy, clarifying how our customers of today and the future buy marketing predictions and insights and ensuring we have the capability, structure and focus to deliver these. We have increased the volume of the voice of the customer in our decision making; we are clear on how our understanding of emotions drives business profit, allowing us a unique way in to work with Chief Marketing Officers in the world's largest advertisers compared with traditional market research agencies. We are dedicated to creating a performance-based culture, relentlessly focussed on execution against our strategy.

As I've recently taken on the role of CEO, I am indebted to the support and trust of our staff, executive team, board and shareholders who have backed our refined go-to-market strategy as well as the continued partnership of our suppliers and commitment of our industry-leading customers. Personally, I am also incredibly thankful for continued wise-counsel and support from John Kearon, throughout the transition this year as we look to take System1 to the next level of continued, repeatable and sustainable business growth.

74%

Platform revenue as a percent of total  
FY23



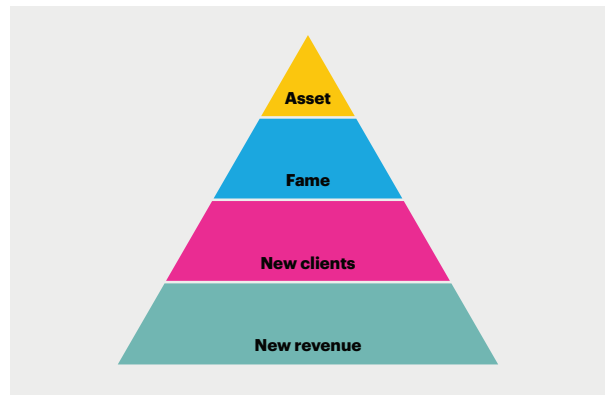
## Progress towards our goals

This year, alongside our shift of culture towards relentless execution, we made significant progress towards delivering the four goals we set out 5 years ago, namely: Build defensible assets; Generate fame; Win new customers; and Generate new revenues.

### 1 Build defensible assets

We have continued to build out our world class platform and product suite, translating our unique IP into predictions and improvements for our customers.

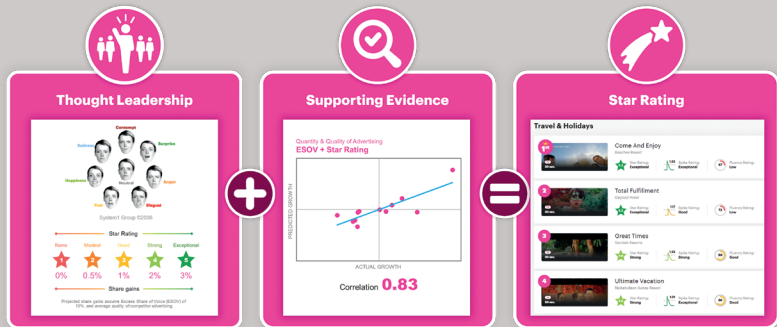
Our thought leadership has been developed over the last 15 years as we have been obsessed in understanding how emotional response to advertising, innovation and brand translates into marketing and business success. This year, we have



created a new executive role of Chief Product Officer, where Robyn Di Cesare, partners with Orlando Wood, our Chief Innovation Officer to translate the learnings from our thought leadership into our product suite.

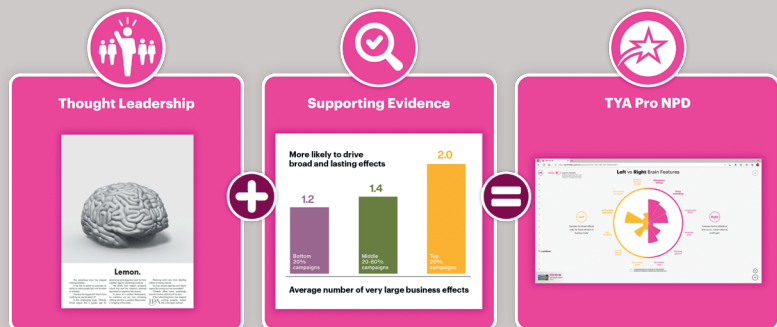
## Predict share gain from emotional response

Translating emotional responses to marketing into business performance underpins everything System1 stands for. It creates our unique ability to predict how well our customers' advertising and innovation translates to brand growth and ultimately their businesses' profitability.



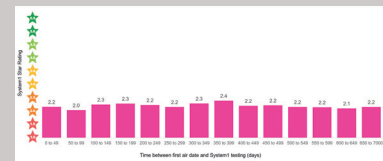
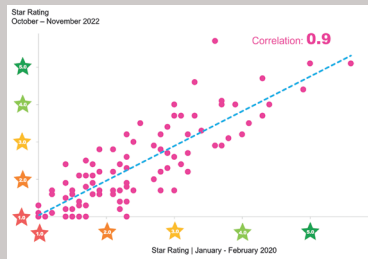
## How left & right brain features result in profitable marketing

Building on System1's IP, set out in the publication of Lemon (2019), of how emotional marketing drives broad and long-lasting business impact, we have built out product features to translate this methodology into actionable insight for our customers as part of the platform offer.



**Advertising wears in over time, rather than wearing out**

System1's research shows that high scoring adverts that are built on emotion, improve their performance the longer they air for, offering marketers who are facing constrained costs in recessionary environments a simple and effective way to gain market share without incurring significant new costs.



**A methodology proven worldwide**

<p>Ads   Brands Ideas tested</p> <p><b>175K+</b></p>	<p>Survey Responses</p> <p><b>12.5m+</b></p>	<p>Emotions measured through FaceTrace™</p> <p><b>27m+</b></p>	<p>Markets</p> <p><b>75+</b></p>
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In May 2022, we completed the full automation of our 'Test Your' product suite, enabling us to predict the impact of advertising, innovation and brand on business results, with zero manual intervention and therefore, high levels of scalability. These predictions are delivered at world-class speed, ready for customers within 24 hours and offered at incredible value pricing. This creates an automated marketing decision-making platform to delight our customers and create competitive advantage, enabling System1 to build out significant market share. We continue to innovate on

these products, ensuring we can answer all our customer needs across the offering while also adding value with additional features.

We also continued our investment in growing our world-leading Test Your Ad database to over 80,000 ads, where we test almost\* every ad in the US and UK on a daily basis, creating what we believe to be the world's largest database of validated ad-effectiveness data and providing our customers with unique insight into the performance of them and their competitors.

Product	Platform	Database	Innovation
<b>Test Your Ad</b>	Fully automated June 2021	Now c. 80,000 ads UK 95% of all TV Ads US 75% of all TV Ads	TYA Pro+ TYA Digital
<b>Test Your Brand</b>	Fully automated November 2021	Now c. 7,000 brands	API development
<b>Test Your Idea</b>	Fully automated May 2022	Now c. 60,000 concepts	DAT automation TYI enhancement

\* Every advert that breaks in the US and the UK across the majority of advertising categories.

## 2 Generate fame

As we have refined our go-to-market strategy, we have increased the volume and quality of fame creation, including developing world class content in partnership with global industry-leading companies, which we promote through a wide range of channels, focussed primarily on the US and UK and secondarily into our other key markets in Brazil, Germany, France, Asia and Australia.

**Ad of the Week US and UK**, celebrates the best and most effective creative content from around the world, publicised through The Drum (UK) and AdWeek (US), to generate significant industry attention and direct customer wins.

**Feeling Seen US**, builds on the UK equivalent publication, demonstrating how diverse advertising has the power to make people feel seen and translates into greater commercial effectiveness when executed properly.

**Wise Up**, in partnership with ITV, is the answer to one of the industry's greatest challenges: how can advertisers portray age more accurately and consistently? This first-of-its-kind exploration of age diversity in advertising provides actionable insights to effectively engage with this important audience. When brands and agencies wise up and get it right, the benefits are enormous.

**The Short-Cut Guide to Short Term Advertising**, in partnership with ITV, addresses how brands can best harness their creatives for immediate short-

term impact, through a deep dive into more than 20,000 ads and their Spike Ratings, a predictive score that indicates short-term sales effect over the 8-10 weeks after an advert has aired, derived from two factors: speed of branding and intensity of emotional response.

**Addressable Advantage: How Addressable TV Makes Audiences Happy**, in partnership with Finecast, illustrates how partnering the right creative content with a targeted audience allows brands to dial up campaign effectiveness and deliver greater long-term brand impact, deeper emotional connection and quicker sales activation.

**Digital Ad Effectiveness**, in partnership with Pinterest, is groundbreaking research to show how digital ads can captivate audiences and command customer attention across platforms like TikTok, Instagram, Pinterest, and Facebook. The findings show that ads with an emotional look-and-feel drive a remarkable 75% higher action intent and if an ad achieves an above-average Star Rating, the impact soars with a 20% increase in ad recall and an astonishing 6 times greater action intent.

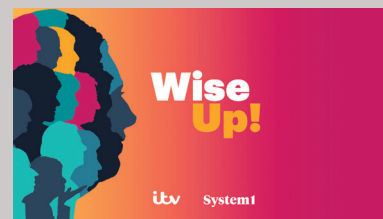
**Creativity Goes Omni**, in partnership with Teads, a leading online video advertising marketplace reaching 1.2 billion unique visitors, explores the importance of brand building and the role for creativity in an Omni-Channel world which was showcased at Cannes Lions. Teads and System1 are actively working with Lumen to prepare the global release of this powerful new research in 2023.



Ad of the Week US and UK



Feeling seen USA



Wise Up



The Short-Cut Guide



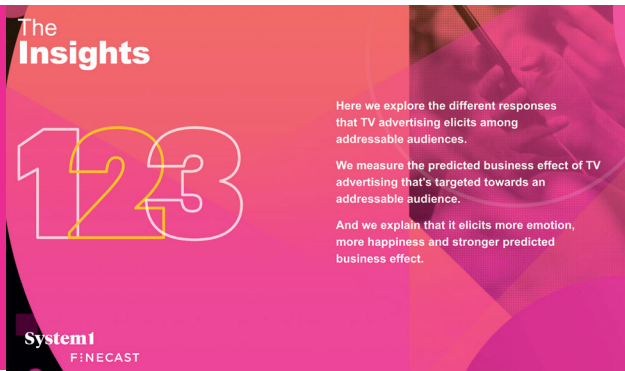
Addressable Advantage



Pinterest Digital

If Finecast is to unlock the true potential of creative effectiveness within the increasingly addressable media world, we need a partner with best-in-class tech and data (and just as) importantly, a team of consultants who can help plug the knowledge gaps. For Finecast, that's System1.

Kristian Claxton, Global Head of Innovation, Finecast



System1 helped us better understand which muesli idea could evolve into a marketable product with additional work from our internal teams. It's been wonderful to see our idea come to life on supermarket shelves.

Becca Hamson, Brand Manager, Dorset Cereals



**How To Create The Perfect Digital Poster**, in partnership with JCDecaux, a world leader in outdoor advertising, operating in 80 countries, measures the effect of outdoor advertising which was presented together in a keynote session at MADfest London. System1 are now assisting JCDecaux to test and improve the effect of their largest advertisers.

**Hot Topic Webinars**, showcase System1's ability to help customers navigate industry-wide challenges and create winning key moment campaigns. Examples include:

- "The Importance of Innovating in a Recession and How to Do it Well" in partnership with Professor Mark Ritson, provided a guide for how brands can survive – even thrive – in tough times.
- "The Gift of Christmas Creative" with Havas, Asda and ITV, showcased creative effectiveness best practices and how to use System1 tools to create the next winning Christmas ad.
- "System1 SuperBowl LVII" reviewed the event of the year for US advertisers, in partnership with the Sports Illustrated executive and former NFL Player Mark Pattison.

**The Uncensored CMO**, hosted by Jon Evans, System1's Chief Customer Officer, became the global number1 marketing podcast in 2023, hosting Sir

Martin Sorrell, Rory Sutherland, Ed Pilkington (Diageo CMO America), Fernando Machado (Burger King / Not Co CMO), Allesandra Bellini (Tesco), Yusuf Chuku (NBC), Lex Bradshaw-Zanger (L'Oreal CMO).

Building on the success of publications of Lemon (2019) and Look out (2021), Orlando Wood, Chief Innovation Officer, continued to reinforce System1's thought leadership, sharing "Triple Opportunity: a study on how investing above your brands' size with emotive creative on high-attention media represents a triple opportunity for growth" at Cannes Lions International Festival of Creativity in 2023.

**3 Win new customers**

FY23 was a record year for new client acquisition, based on our platform automation and increased fame building, amplified through many global partnerships. We recruited 149 new platform clients in the financial year (previous year: 117). Whilst we are not permitted to name many of our clients, new wins in the period included: William Grant, Southeastern Grocers (Winn Dixie), Block, Dole and Upwork Global (and that's just in the US). Our global partnership strategy has accelerated access to the world's leading advertisers and fast-tracked customer acquisition.

## New customer case study: winning Tesco

### Fame building

Following up with Wise Up, looking at older age group representation, we used another Tesco campaign as a case study and invited Alessandra Bellini the Tesco CMO to join our panel for the launch event to discuss how Tesco were using our insight to craft their advertising.

Tesco also won “AD of the week” for its ‘Food Love Stories’ campaign, which was highlighted within S1 marketing (<https://system1group.com/ad-of-the-week/tesco-puts-the-stories-in-food-love-stories>).

### Creative agency partnership

As a result we worked alongside BBH, the Tesco advertising agency, to run some early stage testing and ensure that their creative work was both representative and effective. This meant

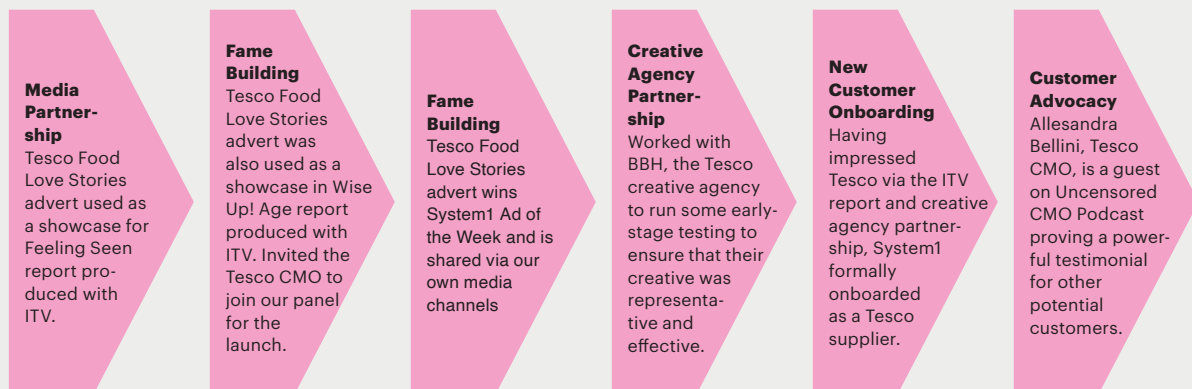
that not only was System1 embedded in the creative process to help optimise the work but was also being used by the people who make the advertising and not just the brand owner.

### New customer onboarding

Having proven ourselves via their creative agency and with the benefit of our database of competitors norms, speed of testing and quality of guidance we were formally onboarded as a Tesco supplier and look forward to a long relationship together.

### Customer advocacy

The strength of relationship and endorsement of System1 can be seen in the Uncensored CMO podcast interview with Alessandra Bellini the Tesco CMO which creates a powerful testimonial for other potential customers.



## Tesco

### Media partnership

Working with one of our partners, ITV, to promote System1 to their customers, the launch of Feeling Seen UK showcased the Tesco “Aunties Sumak Chicken” advert, as one twelve case studies profiled in the report.

**Wise Up! Theme**

**2 Make The Most Of Friendship**

Brands have done amazing work to raise awareness of how much of an issue loneliness can be for older people. But the flipside is that for many old age is a time when friendships really bloom.

Celebrating older friendship is a proven winner in ads – whereas showing older people as lonely can be fraught with risk as it creates too much sadness.

**Example**  
Tesco – “Sue’s Crispy Pork Noodles”  
A celebration of friendship, fun and fearlessness among older women, one of the few ads which scored better with an older audience.

NetRep: 23 55+ Female

Tesco Food Love Stories  
Sue’s Crispy Pork Noodles

## 4 Generate new revenues

Test Your Ad has continued to grow as the largest revenue stream, growing 32% to £11m revenue and accounting for 77% of Predict Your revenue in FY23. Test Your Ad Pro is our top selling product, and we extended the functionality with a new offer, Test Your Ad Pro+ in July 2023 which sits alongside the main Test Your Ad Pro offer, to provide even greater predictive insight for our customers.

Test Your Brand saw significant growth in FY23 of 222% vs FY22, with strong growth in LATAM with adoption across Natura, Avon and Globo. Following the launch of Test Your Idea, Innovation product revenue increased by 28% in H2 versus H1 and remains a large opportunity for future revenues.

All regions saw strong growth of platform revenue aided by regional partnerships and targeted thought leadership with LATAM growing at 152% and UK at 44%.

Data-led consultancy saw strong growth of 23% vs FY22 (FY23 £3.3m) as we improved our 24-hour turnaround 'Express' offer and added depth to the 'Full Guidance' offer with additional insights building on our IP.

Bespoke Consultancy declined year on year (-48%) but our focus to retain the capability to service this work to enable us to win the world's largest advertisers resulted in a flattening out of revenue throughout the year and modest growth H2 vs H1. We expect to maintain Bespoke Consultancy revenues at similar levels to those in FY23 in coming years.

As highlighted in the strategic review, we have more clarity on how people buy today, with over three quarters of our revenue coming from customers who buy across the full platform – data predictions and data-led consultancy. Our top 10 customers in FY23 accounted for 35% of revenue; the top 20 customers accounted for 54% of revenue. All these customers bought a combination of Predict Your (data) and Improve Your services or Bespoke Consultancy (data-led consultancy) and have confirmed that they would not buy the predictions without the ability to have the data-led

insight alongside it. We are confident in the scalability of our business model, using the automated platform to process the prediction and first-level insights, supported by high-margin additional consultancy alongside it.

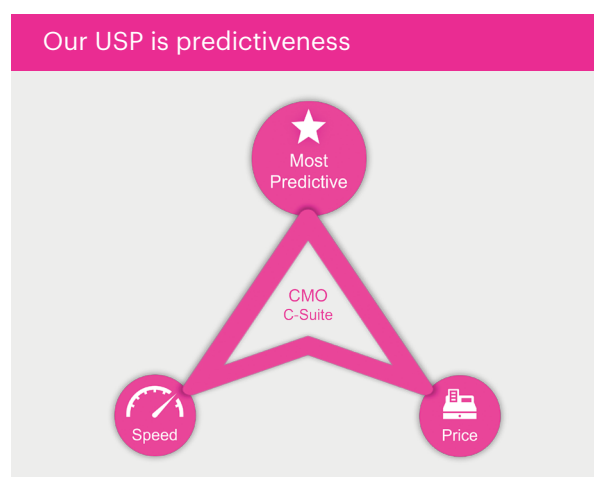
## Progress on strategic review initiatives

In FY23, we undertook a thorough strategic review, considering the best options for growing the business and increasing shareholder value. The Review validated our existing successful focus on automated 'Test Your' and 'Improve Your' services for testing and improving creative content, including all forms of advertising and product innovations, underpinned by our world-leading IP, brand tracking and the TYA Premium (formerly AdRatings) database. We set out clear objectives on areas of specific focus.

## Clarity on the unique selling proposition

System1 offers unmatched predictiveness alongside market-beating speed and value. We translate the language of creativity, into the language of business – money! Measuring emotion underpins everything we do, which is why we can be so predictive.

We have built our product, platform and data-led consultancy offer on clear IP, that understands and evaluates how emotion translates to business performance and ultimately profit. We have tested



Testing with System1 ahead of finalising the ad proved that we had a winning creative on our hands, and helped us make the final tweaks needed, including choosing the perfect music to make it great.

Anna McNally, Head of Marketing Communications and Creative, Camelot



System1's research was invaluable for helping us understand how the ad was working and how we could make improvements as well as giving our organisation and stakeholders the confidence that we are investing our marketing funds effectively.

Susan Coghill, Chief Marketing Officer, Tourism Australia



over 175,000 ads, ideas and brands, through over 12.5 million surveys in over 75 markets, culminating in measurement of over 27 million emotional responses. Our data science team works continuously with our product teams to ensure we create and retain high levels of predictiveness across all products.

Predictiveness alone is not enough, which is why we have automated the platform that powers our products and data-led consultancy, allowing us to offer incredible speed, with predictions provided in under 24 hours, and at a price point that is competitive.

We know this is why customers come to System1 in the first instance, and why they remain for years as they see the ROI on their marketing investments.

### Increased focus on non-TV formats

While TV remains crucial to any marketer, digital marketing spend now accounts for over 50% of global advertising spend and campaigns are more

omnichannel than ever before. So we have built our offering to cover the full breadth of advertising campaigns, offering testing for Digital and Audio, alongside our existing offer of TV, Print and Outdoor. We have also created new partnerships for these offers, to build credibility, increase fame and also provide direct access to a large, targeted client base.

### Target the world's largest advertisers with the aim to generate recurring and repeatable revenue streams

We are fortunate to already work with many of the world's largest advertisers and have learnt how to embed System1 as a fundamental part of their marketing and creative process. Recognising the scale and size of these opportunities, we are focussed on becoming the partner of choice to all large advertisers, who have both capacity and funding to test at scale and the capability to use the predictions and insight to design and improve marketing campaigns and product development.

## Customer success story: Aldi

In 2016, Aldi UK and its longstanding agency McCann featured a talking carrot in its 'Twas the Night Before Christmas-inspired ad – and the rest is history. Over the years, Kevin the Carrot's world has expanded with bigger adventures, extended family and additional characters like Ebanana Scrooge. His recurring appearances during the festive season have made him a lovable Fluent Device for the retailer who drives real results.

"Entertainment and humour are so powerful for us," said Darren Hawkins, Group Strategy Director, McCann Manchester. "When developing a new ad featuring Kevin, we are aiming for a positive emotional response and a memorable story that will enable quick attribution for the Aldi brand to keep customers returning and win over new shoppers."

With the campaign now in its seventh year, McCann and Aldi are continually challenged with keeping the narrative fresh and delivering an ad that the public will enjoy. With the 2022 Christmas season coupled with a controversial World Cup and the country's cost-of-living and energy crisis, there were additional things to consider.

"How we show up amidst current events is very important. This year, we needed to strike the right chord regarding the World Cup and the difficult financial challenges that people are facing," said Jamie Peate, Global Head of Retail Strategy and Head of Effectiveness for McCann Worldgroup

### Solution

McCann works months in advance to brainstorm creative ideas that will top the previous

year's Christmas ad. The team decided to address the World Cup in a fun, playful way to deliver an entertaining teaser and full-length ad.

To gain real audience insights on the latest concept for Kevin, McCann once again leveraged System1's Test Your Ad platform. It assigns a Star Rating based on viewers' emotional responses to ads using a 5-Star scale. Only 1% of ads achieve 5-Stars, an exceptional result that supports long-term brand building.

"We start early with testing at the animatic stage, rather than leaving it until the end," added Peate. "It really helps to get feedback on what's working, how it's working and what might be missing or misfiring."

### Results

In addition to the World Cup, there are other cultural references, like the classic Christmas movie Home Alone, plus more than a few funny moments interspersed with shots of Aldi's delicious offerings.

It's the perfect mix of nostalgia, entertainment and humour, as the ad lands 5.9-Stars, the highest score possible on Test Your Ad. In addition to this exceptional brand building result, the Spike Rating of 1.5 means the ad also has impressive short-term sales potential.

Aldi is also the first Christmas advertiser to score 5-Star ads four years in a row and the first to snag a 5-Star Christmas teaser with this year's clever nod to Nike's 1998 World Cup "Airport" ad. To add to the accolades, Aldi was named Brand of the Year at the 2022 Marketing Week Awards and won Gold at the 2022 IPA Effectiveness Awards. In September, the retailer also overtook Morrisons to become Britain's fourth-biggest supermarket group.

Working with System1 has given us (Aldi and McCann) the confidence to consistently build on and invest in a successful and creatively effective idea.

Jamie Peate, Chief Brand & Marketing, Aldi







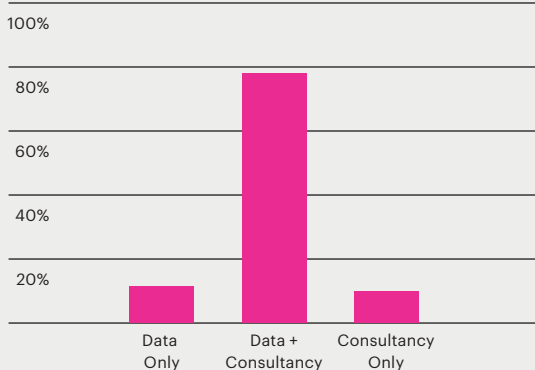
Poor branding, alongside creative that is unlikely to be remembered, is perhaps the single biggest source of waste in marketing. Working with our partner at System1 helps LinkedIn ensure our clients produce ads that are not only well branded but also emotionally engaging, maximising the chances that the brand is remembered and minimizing the risk their competitor is remembered instead. Every smart CFO should mitigate risk by having her marketers test their ad first (generally the biggest line item in the marketing budget!).

Jon Lombardo, Head of Research, The B2B Institute, LinkedIn

We recognise at the same time the opportunity that could exist to target the long tail of marketing spend, across a very large number of small businesses and have the ability to serve this market through our automated self-serve platform. We can also leverage our partnerships with media platforms such as LinkedIn or ITV to speak directly with these business without heavy investment in SEO, SEM and above the line marketing. However, the current market price point for testing, alongside the capability of these smaller businesses to use predictions and insights prevent it from being a likely short term opportunity for revenue generation for System1.

### How customers purchase

Revenue by offering (percent of total)



### Work with commercial platform and media partners to reduce customer acquisition costs and provide scale and fame

We have a clear business model to ensure that our partnerships with global media platforms, creative agencies, industry partners and professional service firms is successful.

### 1. Partnerships provide credible fame with global reach

Our new partnerships are focussed on increasing global presence in specific channels and each launched with joint thought leadership content to promote the partnership and grow System1's fame.

- Pinterest (digital advertising in Europe)
- Finecast (addressable TV advertising US, UK Canada, Australia)
- Teads (mobile advertising US and UK)
- JCDecaux (out-of-home advertising US and UK)

### 2. Partnerships provide direct or indirect access to a large customer base

This access can be formal and direct, such our partnership with LinkedIn, where we are part of the LinkedIn B2B Edge programme, helping LinkedIn grow its advertising revenues by increasing the effectiveness of the advertisers on their platform.

This can also be informal, such as our partnership with ITV, where we jointly host events to promote our thought leadership, directly to the ITV customer base.

The value we bring to our partners is our ability to help them increase the spend of their customers on their platforms, or through their businesses. The value they bring us is increased credibility, amplification of fame and access to the world's largest marketing spenders.

### Significantly increase the focus on US geographic market

The US has historically been the largest business for System1 (and before that, Brainjuicer) and remains the largest opportunity for growth. A whopping US\$321bn of advertising spend is forecast in FY24, 43% of global advertising mar-

ket spend, as well as the US accounting for 53% of global market research expenditure.

FY23 was a year of re-establishing our team and presence in the US, as we brought in new leadership with Jason Chebib appointed GM Americas and John Kearon now based in the US to lead our new business team. We have seen this now kick in to deliver strong results. Excellent progress was



made in Q4 where we won new mandates from 3 of the country's 25 biggest advertising spenders, including the largest. In H2 the

US delivered its highest half year of revenue since FY21, and standard product revenue increased by 23% for the year as a whole.

We have set up a new US advisory team that will amplify our fame and provide introductions to the business, as well as local market advice. The role of the advisory team will be to help the Company grow revenue quickly in the US. The team will be led by Jon Bond, founder of New York agency Kirshenbaum & Bond and now active in the MarTech space. Noah Brier, a New York digital leader, will also be on the team. He is the founder of BrXnd.ai, co-founder of Variance and Percolate and one of the leading talents in the US MarTech space. We are in discussions with other prominent US sector specialists to join this team.

## Outlook

FY24 has started promisingly, continuing the momentum of revenue growth and new wins from H2 FY23. We expect the growth in platform revenue to continue, which taken together with the levelling out of revenue in bespoke consultancy, should lead to overall revenue growth in FY24. The launch of TYA Digital and TYA Audio products early in FY24 has increased TYA's addressable market. The new global partnerships provide access to prospective customers, thereby increasing our reach. One year in, our US commercial team is making good progress and we are continuing to focus marketing and business development investment in the US. We have signed 3 new global mandates for world-leading advertisers already this year and are excited about the prospects in the pipeline.

Once more, thank you to our staff whose daily efforts are the energy behind our business, to our customers for their commitment to delivering marketing that works and to our shareholders for their support as we deliver on the potential of the business.

James Gregory  
CEO

# Financial Review

## Overview

	2023 £m	2022 £m	Change** £m	Change** %
Platform Revenue ("Predict & Improve")	17.4	12.4	4.9	40%
Other Revenue (Bespoke consultancy)	6.0	11.7	(5.6)	-48%
Total Revenue	23.4	24.1	(0.7)	-3%
Direct Costs	(3.7)	(3.9)	(0.2)	-5%
Gross profit	19.7	20.2	(0.5)	-2%
Adjusted operating costs*	(18.9)	(19.2)	(0.3)	-1%
Adjusted profit before taxation*	0.8	1.0	(0.2)	-24%
Statutory profit before taxation	0.7	0.9	(0.2)	-23%
Tax credit/(charge)	(0.3)	0.0	(0.3)	nm
Statutory profit for the financial year	0.4	0.9	(0.5)	-58%

\* All figures in the Financial Review are presented in millions rounded to one decimal place unless specified otherwise. Percentage movements are calculated based on the numbers reported in the financial statements and accompanying notes. Adjusted Cost and Profit figures are as defined in the Highlights section.

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

## KPIs

	2023	2022
Platform Revenue % total Revenue	74	52
*Platform Revenue growth %	40	nm
Gross Profit % Revenue	84.2	83.8
Adjusted EBITDA £m <sup>1</sup>	1.8	2.1
Adjusted EBITDA % Revenue	8	9
**"Rule of 40" <sup>2</sup>	48	nm
Free cash flow <sup>3</sup>	(3.1)	2.5
Net cash £m	5.7	8.7

\*Due to the launch of the platform offering during the year ended 31 March 2021, the company does not have a full year of comparatives to allow meaningful metrics to be calculated for 2022.

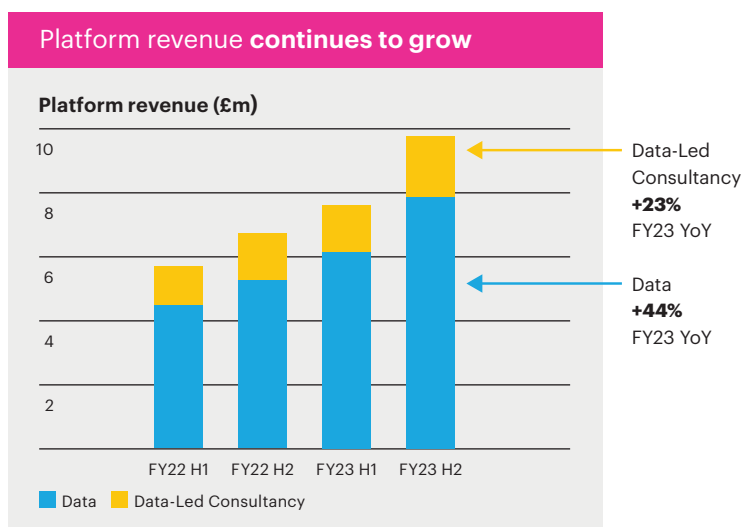
<sup>1</sup> Statutory profit before taxation + share-based payments + interest, depreciation and amortisation

<sup>2</sup> Platform Revenue growth % + Adjusted Group EBITDA % Group Revenue

<sup>3</sup> Cash flow after interest and before debt raising/reduction, buybacks/dividends

## Revenue performance

Platform revenue rose by £4.9m (40%) in the year to £17.4m with particularly strong growth in automated ad-testing revenues. Predict Your platform revenue rose 44% fuelled by the continued success of Test Your Ad. Improve Your platform-led consultancy revenue increased by 23%. Overall platform revenue represented 74% of total revenue in FY23, compared with 52% in the previous year. In line with recent trends, other revenue, primarily bespoke consultancy, fell £5.6m year on year as customers continued to adopt the standard platform products, and the company focussed its resources on the platform-based product suite.



The Communications product group, including Test Your Ad, grew by £0.9m (6%) year-on-year, notably in the UK and the US. Communications revenue, including ad-testing, accounted 68% of all revenue in FY23 (FY22: 62%) Brand tracking revenues increased by £0.4m (13%) helped by wins in the Americas and APAC. Innovation revenues were down in all regions, £2.0m (35%) lower overall than the previous year, with the launch of Test Your Idea arriving too late in the year to reverse the trend. The geographic spread of the business remained similar to the previous period. The Americas region grew for the second consecutive year helped by a buoyant LatAm performance, and the UK again showed double-digit growth year on year. Continental Europe was affected, particularly in the first half of the year, by customers' budgetary response to the Ukraine invasion and associated economic shocks.

## Expenditure

Total expenditure\* fell by £0.4m versus last year, with direct costs and administrative expenses each £0.2m lower. The reduction in direct costs was due partly to lower sales volume and partly to improved cost management, with gross profit margin rising to 84.2% from 83.8%.

## Adjusted operating expenditure

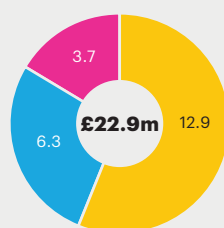
The company invested an additional £0.7m in customer acquisition costs, mainly additional employee costs, and a further £0.4m in IT development in order to accelerate the development of the platform. Adjusted operating costs featured increased investment in the sales, marketing and IT development teams. These investments in platform revenue growth were funded by reductions totalling £1.0m in operational expenses including savings in outsourced services and the capitalisation of £1.2m platform development costs. Travel and entertaining expenditure increased by £0.3m from a very low base with the return of international air travel after two years of restrictions caused by the pandemic.

## Other expenditure

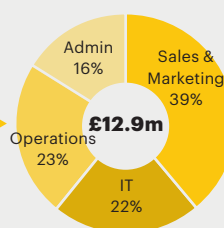
Other expenditure comprises expenditure items and charges/credits which are excluded from adjusted operating expenditure as they impede easy understanding of underlying performance. Other expenditure was broadly unchanged year on year with a £0.4m reduction in the share-based payment charge being offset by the non-repetition of a £0.2m prior-year credit relating to IFRS16 lease impairment reversal, and reductions in sabbatical provision releases.

## Operational gearing from platform – Cost base is mainly fixed, mainly people

Expenditure by type – Statutory



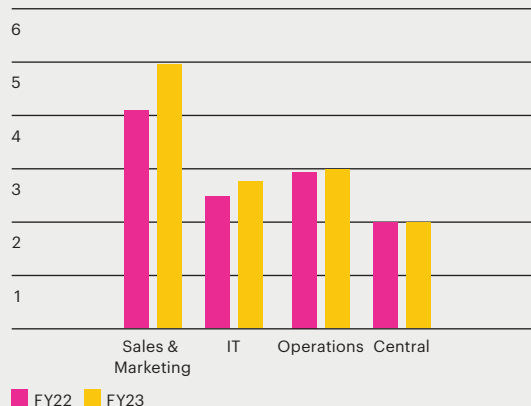
Staff overhead



■ Direct costs ■ Staff overhead ■ Non-staff overhead

## Focused investment – Growth as planned in Sales & Marketing team in FY23

Staff overhead by business area (£m)



\* Defined as statutory cost of sales and administrative expenses.

### Profit before taxation

Adjusted profit before taxation for the year of £0.8m was £0.2m lower than the previous year owing to the flow through of slightly lower sales volumes. Likewise, statutory profit before tax of £0.7m was £0.2m lower than last year. Adjusted EBITDA declined year on year to £1.8m (2022: £2.1m).

### Tax

The Group's effective tax rate increased from -1% (tax credit) to 44%. This is due mainly to the impact of R&D tax credits (£0.5m recognised in FY22, £nil in FY23). R&D claims for FY22 and FY23 are in progress, but are yet to be approved and have not been recognised in the financial statements.

### Funding and liquidity

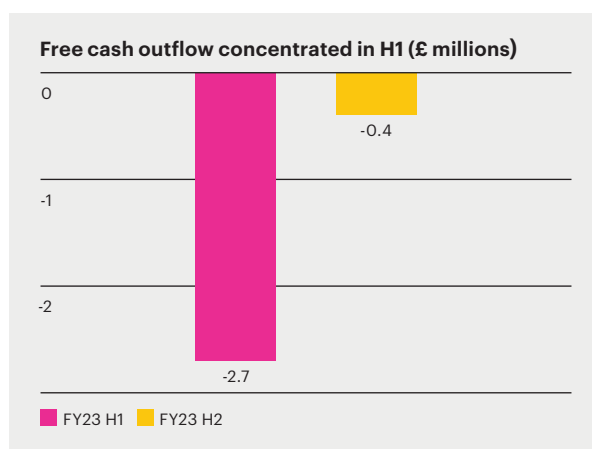
Net cash reduced from £8.7m to £5.7m during the year, with the outflows concentrated in H1 reflecting continued investment in the TYX platform and customer acquisition costs during a period of reduced customer demand in Europe following Russia's invasion of Ukraine. A further £0.1m was spent on repurchasing shares in H1 before the programme was suspended ahead of the group's review of strategic options in the autumn. Free cash-flow declined from an inflow of £2.5m in FY22 to an outflow of £3.1m in FY23. Operating cash flow trends improved in H2 in line with revenue and profitability, the latter being helped by improved gross margins and lower year-on-year adjusted operating costs. The

Group repaid in full a £2.5m revolving credit facility in November after reviewing the outlook for interest rates and the expected cash requirements and replaced it with an as yet unutilised overdraft facility.

Some £4.0m cash was invested in product innovation and development in the year, related primarily to the TYX marketing predictions platform, development of new intellectual property, automated prediction products and the TYA Premium (formerly AdRatings) database.

### Litigation

On 27 September 2021, the Company filed a complaint for trademark infringement, unfair competition and deceptive trade practices at the United States District Court Southern District of New York against System1 LLC ("LLC"), since renamed System1 Inc., an omnichannel customer acquisition marketing provider, over their infringing use of the mark "SYSTEM1". On 30 June 2023 the Company announced that a settlement had been reached with LLC. The parties have signed a global agreement which governs the co-existence of their respective use of the "System1" mark in connection with their operations. As part of this agreement, the Company is receiving a fixed undisclosed payment payable in instalments. The parties have agreed to keep further detail of their agreement confidential.



## Principal Risks and Uncertainties

The Board is responsible for reviewing risk and regularly reviews the risks facing the Group, as well as the controls in place to mitigate potential adverse impacts. The risk register is assessed at least twice a year, but the Board's consideration of risk matters is not limited to those formal reviews. The Audit Committee reviews the effectiveness of financial controls. The Board endeavours to identify and protect the business from the big remote risks: those that do not occur very often, but which when they do, have major ramifications. The types of such event that we are concerned about and seek to manage are:

Risk Area	Potential Impact	
<b>Loss of a significant customer</b>	Revenues and profits fall due to the loss of a large customer	We work with more than 450 customers and work hard to earn their loyalty. Our customer base is diversified such that we have no customers contributing over 10% of revenue.
<b>Loss of key personnel</b>	Key personnel leave the business, taking knowledge and external relationships with them	We have a relatively senior team with broad experience and seek to ensure that System1 is as attractive to existing employees as it is to talented external recruits. Reward is competitive and regular performance evaluation identifies individuals who may be "at risk". For the most senior executives, the LTIP (long-term incentive plan) is designed to provide a strong motivation to stay with System1.
<b>Loss of a critical supplier</b>	The bankruptcy, change of control or resignation of a strategic supplier leaves the Company unable to meet customer demand	We have several mission-critical functions carried out by third-party suppliers (such as panel suppliers). For these functions, we seek to ensure we are not too reliant on any one organisation and typically have three qualified providers. We work in close co-operation with our strategic suppliers, ensuring that any issues and concerns are surfaced rapidly and resolved in partnership.
<b>Loss of assets, data, intellectual property</b>	Theft of intellectual property via unauthorised or illegal access to or copying of the Company's product ideas, databases, proprietary methods, and algorithms	We endeavour to protect the business from significant risks, through a combination of trademark protection; insurance; development of internal guidelines and policies; comprehensive information security programme, and our employee, client and supplier terms and conditions.
<b>Litigation risk</b>	Legal action is taken against the Company by customers, employees, suppliers, or other stakeholders	We endeavour to protect the business from significant risks, through our terms and conditions, trademark protection and comprehensive professional indemnity insurance.

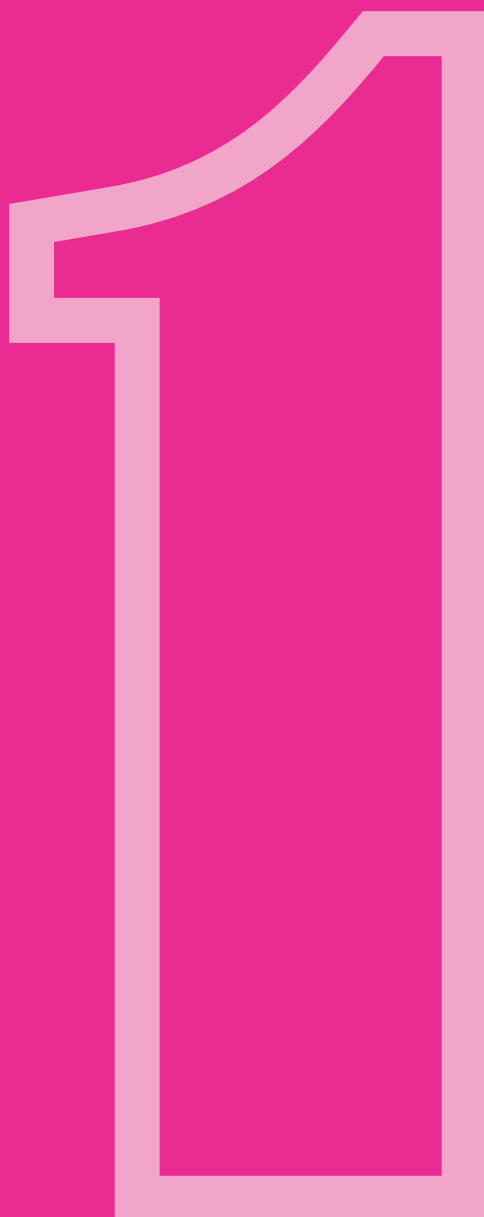
Risk Area	Potential Impact	Mitigation
<b>Strategic risk</b>	Technological advances including artificial intelligence reduce the commercial viability of the group's methodology	The group positions itself as "the most predictive" provider of information to support creative and marketing decisions. Currently a combination of real-life panel respondents and System1's methodology achieves this goal. The group acknowledges that this may change over time and continuously reviews the application of AI and other tools in predictive market research and more generally.
	Participation. The group does not compete effectively in the largest and faster-growing markets	The group formally reviews product and geographic markets as part of its annual strategy review. We upweighted our presence in the US to reflect the significant opportunity in that market and launched digital and audio versions of Test Your Ad.
<b>Operational risk</b>	An outage or other technical issues on our survey platform results in delays in delivering customer projects	All our services are hosted on a secure external cloud infrastructure with multiple failover options. We continuously monitor system availability and endeavour to alert the customer to any delays on the rare occasions where there is disruption.
	A reduction in panel data quality affects the company's reputation with key customers	We conduct both operational and strategic reviews of respondent quality in close collaboration with our approved panel suppliers and can switch provider where required.
	A cyber-attack causes a material breach to our infrastructure	Our business does not ordinarily hold non-employee personal data. Any personal data of clients' or suppliers' employees is held by System1 in compliance with the applicable legislation. We have invested in our controls (including penetration tests), processes and IT infrastructure and hold ISO 27001 accreditation covering information security.
	The volume of change initiatives in System1's transition to a platform business could lead to a loss of operational control	All change initiatives are subject to project governance, and development is run on an "agile" methodology. The Executive Team reviews operational performance regularly providing early warning of potential deviations from plan. The Board reviews operational performance monthly and strategic direction regularly and when appropriate.
<b>Financial risk</b>	Failure to manage credit, currency, market, interest rate or liquidity risk expose the Group to losses	Due to the straightforward nature of the business, its international cost base, the Company's strong balance sheet, and the fact that most of the Company's customers are large, credit-worthy organisations, foreign exchange and credit risks have historically proved to be modest. Further detail is given in note 8 of the financial statements.

## Principal Risks and Uncertainties continued

Risk Area	Potential Impact	Mitigation
<b>Environmental and political risks</b>	The company's revenue streams could be affected by customers' decisions to reduce marketing budgets	The Company trades principally in Europe and the USA and is exposed to the social and economic impacts in those regions. The recent Covid-19 pandemic demonstrated the Group's ability to operate normally without access to its offices. The main exposure is to our customers' decisions on the size of market research budgets in response to an economic downturn.
	Shareholder relations: the company's plans could be opposed by significant shareholders	The company holds comprehensive investor one-on-one and group meetings in roadshows after the full-year and interim results are announced. In addition, quarterly trading updates provide an opportunity to engage with shareholders who follow the company closely.
	Political risk through adverse regime or regulatory change	The territories representing the vast majority of the Group's revenue are socially, politically, and economically stable. We do not currently service clients based in Russia or Belarus, and our operations have not been directly affected by the ongoing conflict. We have a regional operations centre in Brazil where just under 10 percent of our employees are based and are comfortable that the benefits of the operation outweigh the slightly elevated risks.



# Environmental and Social Report



## Section 172 Report

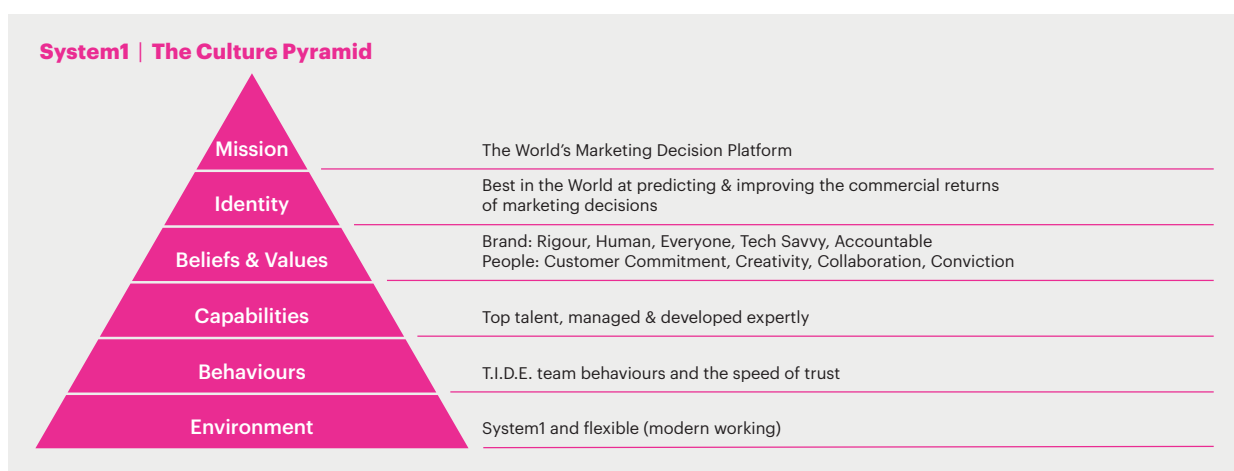
Section 172 of the Companies Act requires the Board to take into consideration the interests of stakeholders in its decision making. This section provides information about the Board’s approach to engagement with stakeholders, namely:

- Customers
- Talent
- Investors
- Suppliers
- Community and Environment

In determining the Board’s approach, the Board members have regard to the following:

- The likely consequences of any decision in the long term
- The interests of the company’s employees
- The need to foster the company’s business relationships with suppliers, customers and others
- The impact of the company’s operations on the community and the environment
- The desirability of the company maintaining a reputation for high standards of business conduct, and
- The need to act fairly as between members of the company.

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



### Customers

Our target customers are the world’s largest advertisers. The board understands the importance of forming and retaining good working relationships with its existing and target customers. These customers understand that creativity is the most powerful tool for growth within their control.

*“The power of creativity for growth could be considered our industry’s most fundamental reason for being. Creativity is a superpower”*

Marc Pritchard, P&G Chief Brand Officer

System1 helps these companies make confident creative decisions that lead to transformational business results. Our advertising and idea tests measure emotion to give our customers the most accurate predictions of the business impact of creativity. We also provide expert guidance to our customers to help them improve the effectiveness of their ad or innovation.

Enabling our customers to **Create with Confidence.**

Our fame is spreading – FY23 was a record year for new customer wins with 149 new platform clients, an increase of 27% versus the previous year.

## Customer case study: Sam Adams (Boston Beer Company)

### Opportunity

Each year, the Super Bowl is the most-watched sporting event in the US, attracting more than 100 million viewers and generating just as much buzz for the advertising as the teams playing in the championship game and the half-time performance. And with advertisers investing millions of dollars to produce and air their big game commercials, there's pressure on brands to deliver great work that will drive market share growth.

For years the Boston Beer Company has debuted new game-day creative for Samuel Adams from its agency partner Goodby Silverstein & Partners. The regional ads also enlist the help of the brand's recurring Fluent Device "Your Cousin from Boston," who can be counted on to bring humour, fun and a bit of rebellion.

Ensuring that these ads land well with viewers across major markets is key.

*"Innovation and experimentation is in our DNA, so we also bring that energy into the planning process for our big game commercial each year,"* said Lesya Lysyj, CMO, the Boston Beer Company. *"Understanding how consumers are going to respond before we finalize our creative is key."*

### Solution

The Boston Beer Company leveraged System1's Test Your Ad platform to understand the commercial impact of its advertising for the 2022 and 2023 games. Test Your Ad surveys real audiences and measures their second-by-second emotional response to pinpoint how creative makes people feel. Ultimately, ads will leave viewers feeling happy to solidify positive brand associations and quick recall at the time of purchase.

System1's team of experts also provide guidance to brands and agencies to help enhance the brand-building potential of advertising. With insights around story arc, characters, soundtrack and more, advertisers can often implement minor changes that have a major, positive impact on effectiveness.

*"We believe in the value of testing early and often, especially with such a wide-reaching campaign like a big game commercial,"* added Lysyj. *"System1's platform is incredibly efficient and effective at predicting the success of our creative and identifying areas of improvement."*

### Results

Nearly half of ads in System1's database score 1-Star and only 1% score 5-Stars. Even for the Super Bowl, a time when brands are hyper-focused on developing strong creative, commercials consistently average in the 2-Star range from year to year.



In 2022, Samuel Adams' spot featuring "Your Cousin" and robots from Boston Dynamics took the top spot among all Super Bowl ads with 4.9-Stars and exceptional Spike and Fluency Ratings. In 2023, "Your Cousin" imagined a Boston where everyone is nice to one another, and walked away with a 3-Star result for the 30-second game-day commercial and an even higher Star Rating for the 60-second version that dropped ahead of the game. Since the launch of Boston Lager Remastered, Samuel Adams has seen a 4.7% increase in Boston Lager.

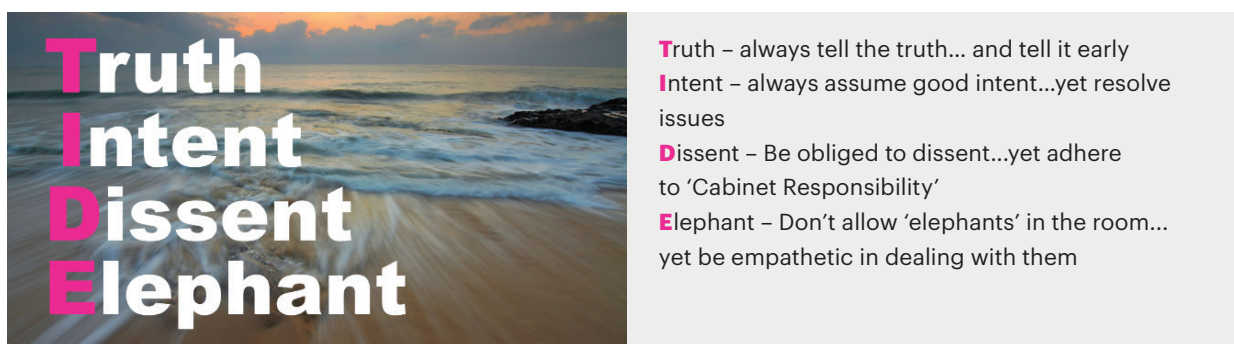
*"System1 measures what truly matters. We're thrilled to have won the hearts of viewers and the number one ranking in 2022 and a strong result in 2023 as well,"* said Lysyj.

### Talent

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

#### How we engage with our talent

We have cultural values (Customer Commitment, Creativity, Collaboration and Conviction) as well as a set of team behaviours known as TIDE, which describe how we work together.



This helps to ensure that employees understand the behaviours expected of them and allow us to operate a high trust environment, which is linked to business success. We embed our values and behaviours by the following:

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

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

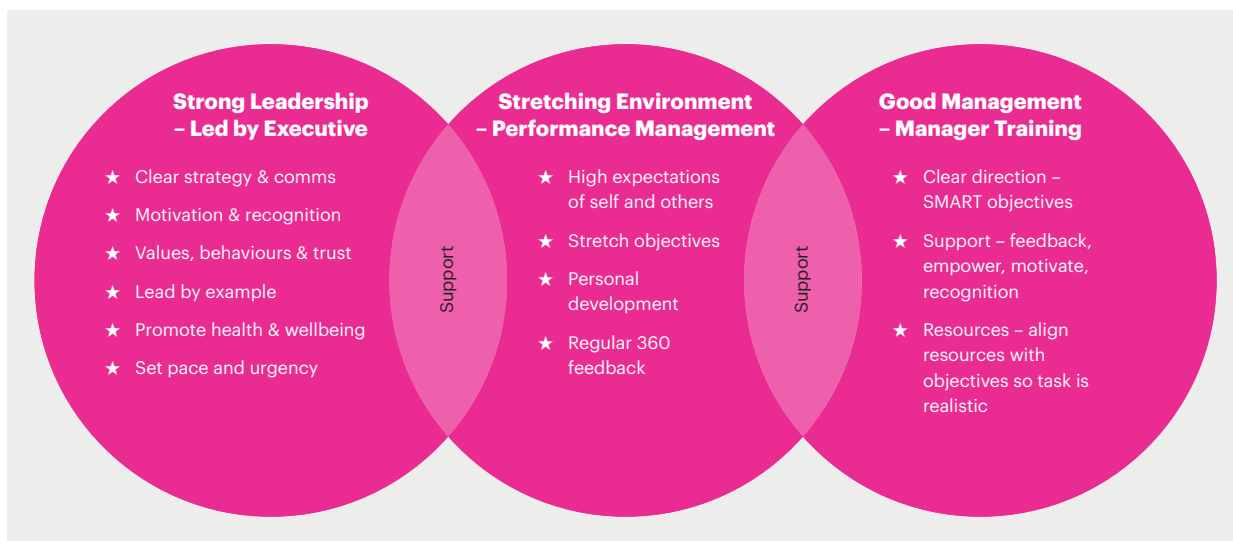
In addition to monthly Town Hall meetings with all staff, we also hold monthly senior management forums and run monthly workshops with managers. These meetings give us the opportunity to connect across the business at different levels, share and cascade updates and celebrate success - including System1 Value Awards, where employees are nominated by colleagues and are recognised for working according to our values.

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

#### Talent engagement outcome

We continue to develop our hybrid virtual working approach, working closely with managers and all employees to maximise productivity, creativity and happiness. We believe in a healthy performance culture and use the below model to guide us in achieving this.

In April 2023 we introduced a Flexible Holiday pilot, to build on our Flexible Working approach and additionally launched a Flexible Benefits platform. This provides our employees with increased autonomy when it comes to choosing how they work and rest and we have received very positive feedback on all of these initiatives. We find it very important to regularly bring people together in person, to share updates and build relationships, to complement the time spent working remotely. For example, we run 1derful Wednesday events to encourage employees to socialise together in the office and in November 2023 we plan to gather all staff in the UK for an all-company Strategy update meeting.



## Investors

The most visible way that the Company takes the interests of equity investors into consideration is through the high level of share ownership on the Board. In addition, the Group Executive Team members’ interests are aligned through their participation in a valuable LTIP scheme.

The Company encourages two-way communications with all its shareholders and responds quickly to requests or queries received. Larger investors and potential investors are invited to meet management after the full-year and interim results. In addition, the Company maintains regular contact with its principal bank to ensure that it is kept informed of the Company’s performance and prospects. In the past year we began using InvestorMeetCompany, an investor engagement platform which we use for capital markets days, group meetings of investors and the annual general meeting.

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

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

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

## Suppliers

We work with a small number of trusted suppliers and operate on a strong partnership basis. As outlined in the Principal Risks and Uncertainties section on page 20, the loss of a critical supplier could leave the Group unable to meet customer demand, therefore the Board has regard to the importance of fostering good relationships with our suppliers to promote the success of the Group. Our approach is centred on lean principles and continuous quality improvement, with weekly and monthly meetings to review service levels, KPIs and resolve issues. We share data between teams to ensure that there is one view of our partnership metrics.

Our key delivery suppliers include:

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

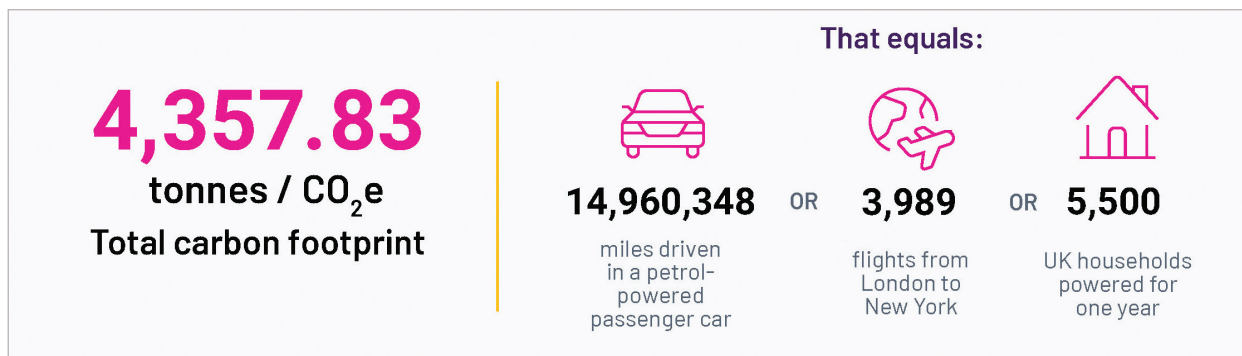
## Community

### ESG Strategy

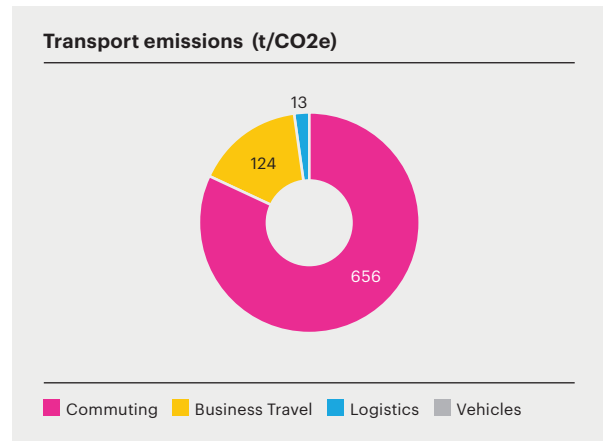
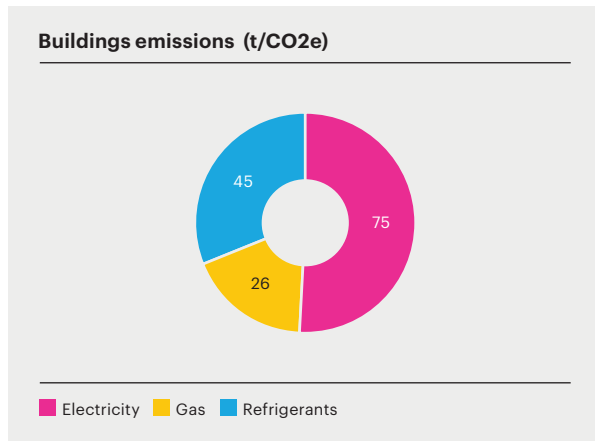
We are currently in the process of developing a comprehensive ESG Strategy with the support of expert consultants, to create an appropriate plan that includes achievable goals and timelines that are in line with science-based targets. In the meantime, we have outlined below some of the things that we are currently doing under each heading.

### Environment

In 2022, System1 partnered with Carbon Intelligence (CI) to report on its carbon emissions and to voluntarily disclosing its energy and carbon footprint, based on our worldwide figures. The methodology is aligned to the Greenhouse Gas Protocol, developed by the World Resources Institute, and it is the industry standard for measurement and reporting. Using data on our business activities, CI applied an emissions factor against emissions statistics from government and other third-party databases/regulatory disclosures to estimate our total emissions, expressed in “tonnes of carbon dioxide equivalent” (t/CO<sub>2</sub>e).

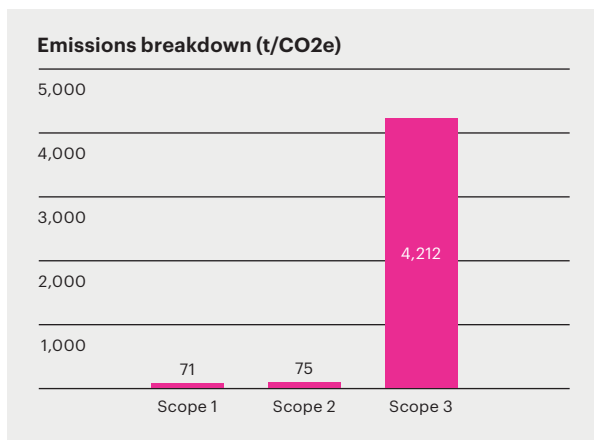


These numbers are based on averages in the UK



The findings were as follows:

- In 2022, the Company’s total carbon footprint was 4,358 t/CO<sub>2</sub>e
- The vast majority of our emissions come from our supply chain and procurement network, accounting for 3,391 t/CO<sub>2</sub>e (79%)
- Of the total, our right-of-use assets emitted 146 t/CO<sub>2</sub>e (3%), and transport (including vehicular/air travel and public transport) emitted 792 t/CO<sub>2</sub>e (18%)



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

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

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

As the Group is a provider of professional and digital services with coworking offices, has a flexible working environment, and has a fully cloud computing infrastructure other than employee laptops and mobiles, the majority of our footprint is in scope 3. This is also in line with the marketing and technology industry. However, System1's flexible working approach also meant that the travel footprint was low compared to similar firms.

The next step we identified was to conduct a survey amongst our supply chain, on how they are approaching their carbon footprint. Our findings were that most of our suppliers, who are also SMEs, are in the early stages of creating their approach.

This year, we are partnering with ITV on Sustainability initiatives in two ways:

1. We are working together to produce and publish research on Sustainability in Advertising – this will seek to understand the most effective ways to talk about sustainability in advertising with a view to behaviour change. We will launch this at the Festival of Marketing in October
2. We are committing to assist ITV in achieving its emissions reduction targets, in alignment with the Science-Based Targets initiative ("SBTi") Corporate Net-Zero Standard Framework ([sciencebasedtargets.org](https://sciencebasedtargets.org)) and to achieve at least a 5% reduction of Greenhouse Gas Emissions year on year

## Social

We launched Look Out volunteering this year. Under this initiative, employees are invited to participate in local events that support the community. So far these have included delivering meals to vulnerable people in Singapore, preparing clothing packages for homeless people in Brazil and working with Breakthrough in the UK, to prepare ex-offenders to re-enter the workplace.

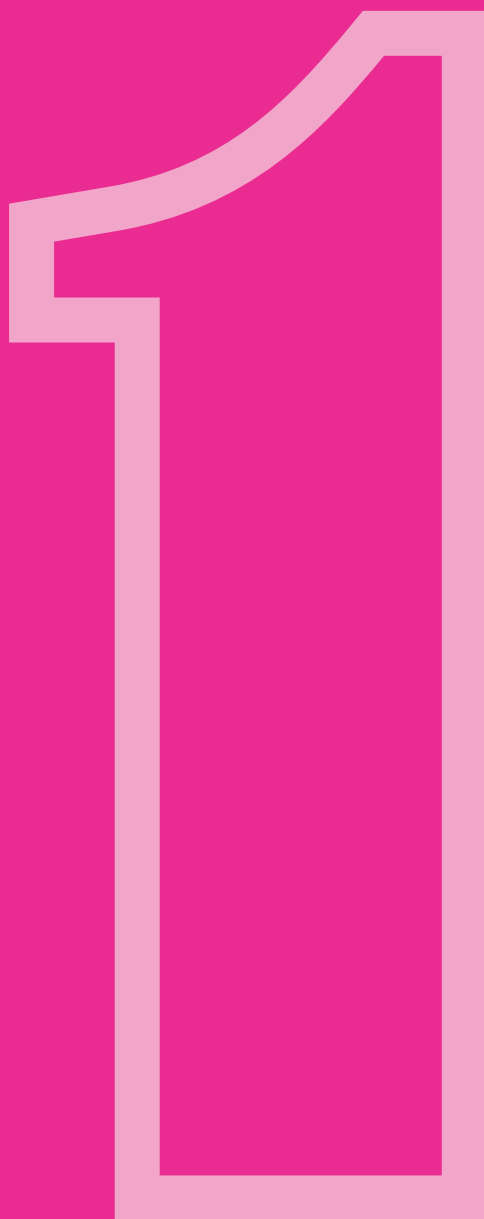
In addition, we are supporting the ESOMAR Foundation ([esomarfoundation.org](https://esomarfoundation.org)) and Women In Research (<https://www.womeninresearch.org/>). John Kearon has been President of the Foundation for the last four years. Its purpose is, 'using Market Research to build a better world' and it is run on a purely voluntary basis. With a team of System1 volunteers, together with five volunteer research industry Board members, the Foundation provides research training, inspirational case studies, and support, to help charities anywhere in the world in making a difference to the communities they serve. The Foundation raises over £100,000 a year, through annual donations from the research community, to fund these activities. Emma Cooper (Chief People Officer) organises WIRexec (Women in Research) annual summits and System1 is sponsoring the European event this year. WIRe believes in the positive impact of women in business and works to advance the contributions and voice of women in research, both for themselves and for the greater good of the industry. System1 is also putting 10 employees through the WIRe Accelerate program, a multi-module, virtual program delivering professional development concepts.

System1 increases its sphere of influence by partnering on initiatives that impact the community. In addition to the Sustainability example outlined in the previous section, other examples include the Feeling Seen and Wise Up reports we have produced with ITV. These provide guidance on diversity in advertising, and we have conducted events and run panels to help socialise our findings within the industry.

On behalf of the Board

Chris Willford  
Chief Financial Officer  
25 August 2023

# Governance & Group Directors' Report





# Group Directors' Report

## Review of the business and future development

The Chairman's Statement, CEO's Statement, the Financial Review, the Section 172 Report, Principal Risks and Uncertainties, and the Corporate Governance Report set out:

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

## Dividends

The Company did not pay an interim dividend in the year ended 31 March 2023 and does not propose the payment of a final dividend.

## Directors

The following individuals served as directors of the Company, System1 Group PLC, during the year and up to the date of approval of the financial statements:

James Gregory	(Executive)	appointed 6 December 2022
John Kearon	(Executive)	
Chris Willford	(Executive)	
Graham Blashill	(Non-Executive)	resigned 28 September 2022
Conrad Bona	(Non-Executive)	appointed 1 September 2022
Rupert Howell	(Non-Executive)	
Phillip Machray	(Non-Executive)	appointed 27 May 2022
Sophie Tomkins	(Non-Executive)	
Jane Wakely	(Non-Executive)	resigned 15 July 2022

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

## Share capital

At 31 March 2023, the Company had 13,226,773 Shares in issue (2022: 13,226,773) of which 547,844 were held in treasury (2022: 487,151). The treasury shares will be used to help satisfy the requirements of the Group's share incentive schemes.

On 7 January 2022, the Company initiated a share buyback programme that oversaw the purchase of 158,674 (1.2%) of its own its own shares for an aggregate value of £0.6m in order to enhance shareholder returns and to satisfy obligations in relation to employee share schemes. The share buy-back programme ended 31 March 2022, however the Company purchased a further further 60,693 (0.5%) of its own shares on an ad hoc basis in July and August 2022 for a total consideration of £0.1m.

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

## Substantial shareholders

As at 1 August 2023, the Company was aware of the following significant interests in the ordinary issued share capital of the Company.

	Number	% of voting shares
John Kearon	2,818,235	22.2
Investmentaktiengesellschaft für Langfristige Investoren TGV	1,312,547	10.4
MEDIQON Group AG	700,000	5.5
Stefan Barden	657,736	5.2
Lombard Odier Asset Mgt	603,476	4.8
Herald Investment Management	580,111	4.6
Ruffer	570,000	4.5
Motley Fool Asset Mgt	514,609	4.1
University of Notre Dame Du Lac	500,000	3.9
Ennismore Fund Mgt	437,276	3.5

## Financial risk management

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

### Credit risk

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

### Market risk – Foreign exchange risk

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

### Liquidity risk

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

### Other risks

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

### Capital risk management

The Group manages its capital to ensure that it can continue as a going concern while maximising its return to shareholders. The Group's capital structure consists of cash and cash equivalents, and share capital. In November 2022, the Company repaid in full the £2.5m revolving credit facility with HSBC. The revolving credit facility expired in February 2023, and in the same month, the Company secured a £1.5m secured overdraft facility with HSBC. To 31 March 2023, no amounts have been drawn under the overdraft facility. The Group has not entered any derivative contracts.

### Going concern

As noted in Principal Risks and Uncertainties, and in note 3 to the consolidated financial statements, the Directors have considered financial and operational risks in the post-Covid economic climate and marketing industry trends in the going concern assessment. In addition to the mitigating actions taken by the Company to address these risks, the Directors have closely monitored the performance of the Group throughout the year, noting the continued £5.7m cash balance at year-end even with a larger post-Covid cost base and after the repayment of the £2.5m revolving cash facility.

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

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

### **Research and development**

The Company's Labs and IT Development teams are involved in the development and validation of new market research methods and products.

### **Employees**

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

### **Health and safety policies**

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

### **Directors' indemnities**

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

### **Subsequent events**

On 30 June 2023, the Group reached a mutually agreeable resolution of the lawsuit filed by System1 Group PLC against System1 OpCo, LLC in the Southern District of New York for trademark infringement. The parties have signed a global agreement which governs the co-existence of their respective use of the "System1" trademark in connection with their operations. As part of this agreement, the Group will receive a fixed amount, payable in instalments, in the years ending 31 March 2024 and 2025. The parties have agreed to keep further detail of their agreement confidential.

### **Disclosure of information to auditors**

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the System1 Group PLC website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In the case of each Director in office at the date the Directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the group's and company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group's and company's auditors are aware of that information.

On Behalf of the Board

Chris Willford  
Chief Financial Officer  
25 August 2023

# Statement of Directors' Responsibilities

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

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

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

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

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

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and accounting estimates that are reasonable and prudent;
- c. for the group financial statements, state whether they have been prepared in accordance with UK-adopted international accounting standards;
- d. for the company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the company financial statements
- e. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the System1 Group PLC website.

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

On behalf of the Board

Chris Willford  
Chief Financial Officer  
25 August 2023

# Corporate Governance

## Governance

System1 understands how vital good governance is for achieving our business goals and sustainability targets. We will share more about our approach to governance in later sections of this report.

We know that good governance is key for our company’s success. It benefits everyone involved with our group – not just our shareholders, but our employees, clients, and partners too. That is why we have built a governance structure that makes sure our decisions are transparent, responsible, and uphold the highest ethical standards.

This past year, we have been busy improving our governance policies and processes. We have been aligning them with the latest industry standards, legal requirements, and ESG principles. We are committed to ongoing review and refinement to make sure we manage risks effectively and stay compliant with laws and regulations.

Our Board of Directors is central to our governance structure. It consists of individuals with a wide range of skills and experiences. They provide critical oversight, strategic counsel, and informed decision-making, ensuring our commitment to the highest ethical standards is never compromised.

Employee engagement and development form a crucial part of our governance strategy. Our significant investment in ongoing professional development ensures our team is equipped with the latest industry knowledge, skills, and best practices to deliver exceptional market research and insights to our clients.

As we move forward, we are committed to maintaining and improving our governance standards and to promoting a culture of responsibility, integrity, and excellence throughout System1.

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

## Deliver growth

Establish a strategy and business model to promote long-term value for shareholders	Our strategy is to grow the platform-based predictions business and achieve economies of scale	See Group Overview page 3 and CEO’s Statement on page 6
Understand and meet shareholder needs and expectations	The CEO and CFO communicate regularly with investors at half-yearly results roadshows	Visit <a href="http://system1group.com/investors">system1group.com/investors</a> for further information
Take into account wider stakeholder and social responsibilities and their implications for long-term success	The preferences of customers, employees, suppliers, community as well as investors inform our decision making	See Section 172 Report page 24 and <a href="http://system1group.com/investors">system1group.com/investors</a>
Embed effective risk management, considering both opportunities and threats, throughout the organisation	The Board is responsible for setting risk appetite and tolerance. The Executive manages risk day to day	See Principal Risks and Uncertainties page 20 and Board Effectiveness page 40

## Maintain a dynamic management framework

Maintain the Board as a well- functioning, balanced team led by the Chair	The Board has two Committees: Audit Committee; and Remuneration Committee. The composition and experience of the Board is reviewed in the Board Evaluation	See Corporate Governance page 38 and 39
Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities	The Board members have the appropriate ranges of skills and experience, covering, Sales & Marketing, Technology, Finance, Governance and Sustainability	See Board experience page 41 and Board Effectiveness on page 40
Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement	The Board carries out an annual effectiveness review assess its strengths and areas for development and improvement	See Corporate Governance page 37 and Board Effectiveness on page 40
Promote a corporate culture that is based on ethical values and behaviours	The culture of System1 is guided by the core “TIDE” values	See Section 172 Report page 26
Maintain governance structures and processes that are fit for purpose and support good decision making by the Board	The Board is satisfied that the delegated authorities and budgetary processes in the company are adequate to support its strategic growth plans	See Board of Directors pages 41 and <a href="http://system1group.com/investors">system1group.com/investors</a>

## Build trust

Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	The investors section of our website includes our Annual Report, results, presentations, notice of AGM and results of the AGM and general meetings.	See Remuneration and Audit Committee reports on pages 44 and 42 and Visit <a href="http://system1group.com/investors">system1group.com/investors</a> for further information
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## Strategy

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

The Board actively participates in setting, and regularly reviewing, the strategy of the business, and is responsible for ensuring that the Company’s business model is, and remains, aligned to the achievement of its strategic objectives. The Company sets out its strategy within the Strategic Report section of its Annual Report and Accounts.

## Risk management

The Board reviews the risks facing the business on a regular basis. The identified principal risks and uncertainties are those outlined in the Strategic Report.

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

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

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

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

### **Corporate culture**

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

### **The Board of Directors**

The Board comprised three Executive Directors and four independent Non-Executive Directors, including the Non-Executive Chairman for most of the year ended 31 March 2023. The membership of the Board is set out in the Group 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, and this mix is regularly under review as strategy develops. The composition of the Board is set out on page 41 and is intended to achieve a balanced range of personal qualities and capabilities, and to support the Company's commitment to promoting gender equality and diversity. The biographical details of the directors are presented below.

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

During the year, the Remuneration Committee sought advice from external consultants on board and senior management remuneration. Neither the Board nor the respective committees have sought other external advice on any significant matter during the year. The Audit Committee works with the Company's auditor, RSM Audit LLP. The Board liaises regularly with the Company's Nominated Advisor, Canaccord Genuity to ensure compliance with AIM Rules.

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

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

During the financial year ended 31 March 2023, the Company combined the role of Company Secretary with that of the Company General Counsel. The office had previously been held by the Chief Financial Officer.

The Board schedules regular monthly meetings during the year, except August, and additional ad hoc meetings as required. All Directors can allocate sufficient time to the Company to discharge their responsibilities fully. In recent times, we have embraced a hybrid approach to our board and committee meetings, conducting them both virtually via Microsoft Teams as well as in person at our central London location. The number of regular meetings that each director attended during the financial year is set out below:

	Board (12 meetings)	Audit Committee (3 meetings)	Remuneration Committee (2 meetings)
Graham Blashill (resigned 28 September 2022)	5	1	n/a
Rupert Howell	12	3	2
Sophie Tomkins	12	3	2
Jane Wakely (resigned 15 July 2022)	3	n/a	n/a
Phil Machray (appointed 27 May 2022)	10	2	2
Conrad Bona (appointed 1 September 2022)	7	1	2
James Gregory (appointed 6 December 2022)	4	n/a	n/a
John Kearon	12	n/a	1*
Chris Willford	12	3*	2*

\* by invitation.

### Matters reserved for the Board

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

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

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

The provisions on engagement with stakeholders including shareholders, employees and customers are dealt within the Section 172 Report on page 24.

### 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. Its members are:

Philip Machray – Chairman of the Remuneration Committee (appointed 1 December 2022)

Graham Blashill (resigned 28 September 2022)

Conrad Bona (appointed 1 September 2022)

Rupert Howell

Sophie Tomkins

Jane Wakely (resigned 15 July 2022)



The Remuneration Committee's role and responsibilities are to:

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

The Remuneration Committee schedules two formal meetings per year and meets at other times as necessary. The Remuneration Committee may invite any of the executive directors to attend meetings of the Remuneration Committee. The Remuneration Committee may use consultants to advise it in setting remuneration structures and policies. It is exclusively responsible for appointing such consultants and setting their terms of reference.

The Annual Statement from the Remuneration Committee Chair is set out in the Remuneration Committee Report on page 44.

### **Audit Committee**

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

Sophie Tomkins – Chair of the Audit Committee

Graham Blashill (resigned 28 September 2022)

Conrad Bona (appointed 1 September 2022)

Rupert Howell

Philip Machray (appointed 27 May 2022)

The Audit Committee's role and responsibilities are to:

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

## Board effectiveness

In line with best practice governance, the Group's Senior Independent Director recently concluded the annual review of the Chair. This involved confidential discussions with the independent Directors, to act as a sounding board for any concerns, and to ensure that the Board is functioning optimally. The review concluded that the Board meetings were being run well, with all Directors given full opportunity to express views and ask questions of the Executive, and with clear goal setting and follow up of action points.

Additionally, this year's Board Evaluation included a number of key topics including:

- the effectiveness of the Board in setting strategy and assessing risk;
- the relationship between the CEO and Chair;
- that decision making was balanced and objective and took active account of relevant stakeholder issues;
- areas for improvement in shareholder communications, including use of the annual AGM;
- that the Board was effective and responsive to new information and events; and
- that the Board had the appropriate composition and skills to discharge its duties, and had sufficient process in place for regular self assessment.

Overall, the Board Evaluations have indicated that Board processes have been robust, although certain areas have been flagged as needing improvement. In particular, succession planning has been identified as needing greater focus, and these processes have been enhanced in response. The Board continues to pursue practical and transparent ways of engaging with its shareholders, notably via the Company's second Capital Markets Event in February 2023. The Board continues to challenge itself on the best way of taking account of risk matters in its decision making and maximising the combined commercial experience of Board members to challenge and refine strategy.

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

The skills and experience of the Board are set out in their biographical details on page 41. The experience and knowledge of each of the Directors gives them the ability to constructively challenge strategy and to scrutinise performance. The Board meets regularly with external experts including the NOMAD to ensure that it remains abreast of developments and current best practice.

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

The Group maintains communication with a wide range of stakeholders to ensure that their needs, interests and expectations are understood and reflected within the Group's strategy and in Board decision making. Further details of how the Board has taken account of the needs of the Group's stakeholders are set out in pages 24-29.

## Succession planning

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

# The Board

## Conrad Bona

Independent Non-Executive Director, Appointed on 1 September 2022

Conrad joined System 1 Group in September 2022 as a Non-Executive Director. Conrad is a business consultant, investor and entrepreneur who started his career as a banking and finance lawyer and has worked in Toronto, London and Tokyo. He has a degree in economics from the University of Western Ontario, law degrees from the University of Edinburgh and the University of New Brunswick and qualified to practice as a lawyer in multiple jurisdictions. No longer practicing law Conrad now advises companies on a wide range of commercial, financial and business matters. He has both Canadian and British citizenship and is based in London, England.

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

## Rupert Howell

Independent Non-Executive Director, Appointed on 15 February 2021 (Became Chairman on 28 September 2022)

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

**Favourite ad of all time:** *Tango Slap*

## James Gregory

Chief Executive Officer, Appointed on 6 December 2022.

Prior to joining System1, James worked at HomeServe Plc as Chief of Staff, Tesco Plc as Online Director, and Capgemini Consulting. He brings 15 years of leadership experience in strategy and transformation, operations and commercial management across digital, distribution and online retail environments. Past roles involved scaling digital businesses, initiating and leading large scale, complex transformations, and delivering new customer propositions.

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

## John Kearon

Founder and President / New Business Director, US

John founded the Company in 1999 and remains its largest shareholder. During 20 years as CEO, JK steered System1 from a start-up to where it is today, shaking up traditional market

research with fresh innovative thinking & game-changing methods. Before System1, JK founded innovation agency, Brand Genetics, after being Planning Director at Publicis, and holding various research/marketing positions at Unilever.

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

## Philip Machray

Independent Non-Executive Director, Appointed On 27 May 2022

Phil joined System1 Group in 2022 as a Non-Executive Director and was appointed chair of the Remuneration Committee on 1 December 2022. He started his career at Deloitte in 1992, rising to Director of Assurance and Advisory. He then joined Trinity Mirror Group, where he held a number of roles, and became Director of Corporate Development, reporting to the CEO, of what became Reach PLC. Since 2021, Phil has been Chief Financial Officer of Merit Group PLC, a data and intelligence business, and a Non-Executive Director, and audit committee Chair of Digitalbox, a mobile-first digital publisher and AIM-listed company.

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

## Sophie Tomkins

Independent Non-Executive Director, appointed on 11 June 2018

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

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

## Chris Willford

Chief Financial Officer, Appointed 26 June 2020

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

**Favourite ad of all time:** *Skoda Cake*

## Board skills and experience

	Sales and marketing	Technology	Finance	Governance	Sustainability
Conrad Bona		★	★	★	
Rupert Howell	★	★		★	★
James Gregory	★	★			★
John Kearon	★	★			★
Phillip Machray		★	★	★	
Sophie Tomkins		★	★	★	
Chris Willford		★	★	★	

# Audit Committee Report

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

## Members of the Audit Committee

The membership of the Committee is set out on page 39 of the Corporate Governance Report. All members of the Committee are independent Non- Executive Directors. The Chief Financial Officer routinely attends the Audit Committee meetings by invitation, but other Executive Directors or members of the management team may also be invited to attend meetings as required. The Non-Executive Directors are provided an opportunity at the Audit Committee meetings to discuss matters with the Auditors without the presence of the Executive Directors.

The Board is satisfied that the Chair of the Committee has recent and relevant financial experience. Sophie is a Chartered Accountant and is also Chair of the Audit Committee at Hotel Chocolat Group plc, and Virgin Wines UK plc. The Committee meets at least twice a year and more frequently if required and has unrestricted access to the Group's auditor. Attendance at Board and Committee meetings is set out in the Corporate Governance Report on page 37. During FY 2022/23, three formal meetings were held.

## Duties

The main duties of the Audit Committee are set out in its terms of reference, which are summarised on page 39 and available on the Group's website ([system1group.com/investors](http://system1group.com/investors)).

The work carried out by the Audit Committee during FY 2022/23 comprised the following:

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

## Role of the external auditor

The Audit Committee monitors the relationship with the external auditor to ensure that auditor independence and objectivity are maintained. As part of this role, the Committee reviews the non-audit fees of the auditor. RSM's fees for the financial year to 31 March 2023 relate to the Audit and Interim review.

## Auditor Performance

The Audit Committee also assesses the auditor's performance. The Committee has adopted a broad framework to review the effectiveness of the Group's external audit process and audit quality which includes: assessment of the audit partner and team with particular focus on the lead audit engagement partner; planning and scope of the audit, with identification of particular areas of audit risk; the planned approach and execution of the audit; management of an effective audit process; communications by the auditors with the Committee; how the audit contributes insights and adds value; a review of independence and objectivity of the audit firm; and the quality of the formal audit report to shareholders. The Audit Committee recommends that RSM be re-appointed as the Group's auditor at the next AGM.

### **Areas of key significance in the preparation of the financial statements**

Prior to publication of this Annual Report and Accounts, the Committee reviewed the accounting policies and significant judgements and estimates underpinning the financial statements as disclosed in notes to the consolidated financial statements.

Significant focus is placed on key accounting policies, including any judgements and estimates, which underpin the financial statements, which include:

- revenue recognition;
- capitalisation and valuation of intangibles;
- valuation of share-based payments.

Further detail on the approach to these areas can be found in Note 4 to the financial statements

### **Audit process**

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

### **Internal audit**

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

### **Risk management and internal controls**

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

### **Whistleblowing**

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

### **Anti-bribery**

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

Sophie Tomkins  
Chair, Audit Committee

# Remuneration Committee Report

## Annual statement from the Remuneration Committee chair, Philip Machray

Dear Shareholder,

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

This Remuneration Report is split into two parts:

1. *The directors' remuneration policy* sets out the Company's policy on directors' remuneration, in particular the long-term incentive plan ("**LTIP**"), and the key factors that were considered in setting the policy. The directors' remuneration policy is not subject to a shareholder vote at the 2023 AGM, since the main variable element (the LTIP) was approved by shareholders at the Annual General Meeting on 13 August 2021.
2. *The annual report on remuneration* sets out payments and awards made to the directors for the year to 31 March 2023.

There are three elements in director remuneration:

- Base salary
- LTIP
- Benefits

Historically, the Company's LTIPs have been established in three-to-four-year cycles. The current LTIP was established in October 2021 with vesting due on 12 August 2025 (the "2021 LTIP").

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

For levels below the participants in the 2021 LTIP, the remuneration ordinarily comprises:

- Base salary
- Bonus and profit share
- Benefits

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

## Directors' remuneration policy

The policy described in this part of the Remuneration Report is intended to apply for three years beginning in the 2022/23 financial year to 21 March 2025 and covers Executive Directors and a small number of other senior managers ("Executives").

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

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

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

The balance of variable elements, between short-term and long-term awards, is designed to focus decision making on delivering shareholder value. In the period to March 2023 the Committee judged that delivery of the Group's long-term growth strategy was the primary objective and no short-term awards were granted. For the period to March 2024, the Committee considered that, in light of the recent strategic review, short-term incentives (bonuses) matched to the near-term goals of the strategic review would be applicable to retain and reward Executives.

## Base salary and benefits

**Years ended 31 March 2023 and 31 March 2024:** 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 Group'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.

## Bonuses

**Year ended 31 March 2023:** Participants in the 2021 LTIP did not participate in the Company's annual bonus or profit share scheme and had no other short-term incentive plans. Therefore, over the period to March 2023, the only remuneration received was base salary and benefits.

**Year ended 31 March 2024:** Executives have the opportunity to earn cash bonuses for exceeding annual targets. Targets are set such that no bonus accrues until Adjusted Profit before Taxation (= Profit before Taxation and Share-Based Payments) exceeds the budgeted performance for that measure. The level of bonus payable increases progressively from zero for meeting target to a maximum potential payment of 50% of salary for Executive Directors. Payment is dependent upon a share price accretion underpin.

## The long-term incentive plan

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

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

- The awards have taken the form of zero-cost stock options.
- The overall plan limit is 10% of issued ordinary share capital as at 1 January 2017.
- New awards can be granted up to 22 March 2025 so that all executives' interests are aligned.
- The award has 4 tranches of vesting dates on 12 August 2022 to 2025 with a hard end-date of 21 March 2027.
- The market conditions underpinning these options are an average daily closing mid-price of the Company's shares must be at least £4.00 during the month of July (excluding weekends) of the relevant year when vesting occurs. If the share price target is not met, the award will roll onto the next date of vesting.
- Non-market performance conditions: If for the financial year immediately preceding the year of Vesting, Adjusted

Profit After Tax is greater than £0 and subject to the Remuneration Committee considering and being satisfied with the level of profitability for the financial year immediately preceding the year of Vesting and the overall corporate and share price performance since 31 March 2021:

- a) all of the award will vest if revenue is equal to or greater than the Stretch Target;
  - b) one-third of the award will vest if revenue is equal to the Threshold Target;
  - c) a proportionate amount of the award will vest on a straight-line basis if revenue is between the Threshold Target and the Stretch Target (between one-third and all of the award).
- The Threshold Target means revenue of £45m in the Company's financial year ending 31 March and represents the minimum level of revenue that must be achieved for vesting to occur.
  - The Stretch Target means revenue of £88m in the Company's financial year ending 31 March and represents the minimum level of revenue that must be achieved for full vesting to occur.

At 31 March 2023, the number of options granted under the 2021 LTIP reached 1,130,959 (or 8.6% of issued ordinary share capital of maximum capacity at 10%).

At 31 March 2023, there were three Executive Director participants in the 2021 LTIP (James Gregory, John Kearon, and Chris Willford) and six senior manager participants. The specific vesting levels are set out as follows:

Equity level shares	No.	Of issued shares	Revenue target	
Executive Directors	154,311	1.2%	£45.0m	Threshold
	308,623	2.3%	£88.0m	Stretch
	462,934	3.5%		
Senior Managers	198,401	1.5%	£45.0m	Threshold
	396,802	3.0%	£88.0m	Stretch
	595,203	4.5%		

## Non-employee plan

In April 2019, the Committee granted Stefan Barden, then an advisor to the Board, a separate equity award, comprising 300,000 zero-cost stock options in three tranches of 100,000, with the following performance conditions: In October 2021, the non-employee plan was modified to reflect the same targets as the 2021 LTIP scheme.

Tranche 1: 100,000 zero-priced stock options

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

Tranche 2: 100,000 zero-priced stock options

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

Tranche 3: 100,000 zero-priced stock options

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

Stefan Barden resigned as director on 31 January 2022 and as advisor to the Board on 31 March 2022. As at 31 March 2023, Stefan Barden retained 46,995 of his Tranche 1 options, with the remaining 253,005 options cancelled.



## Dilution

Vested stock options are set out below:

	No.	%
Voting shares as at 31 March 2023	12,678,929	100%
2006 employee share option scheme (closed)	7,000	<1%
2010-2014 LTIP – vested on 28 May 2014 (closed)	10,144	<1%
	<b>17,144</b>	<b>&lt;1%</b>

Unvested options comprise options granted under the 2019 and 2021 LTIP schemes, and the Non- Employee Plan, all described above. The maximum aggregate dilution under these schemes is 9.4% 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 a discretionary annual bonus or commissions. Since January 2012, equity awards have not been granted to employees who are not also members of executive management.

## Director service contracts and policy on payment for loss of office

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

## Annual report on remuneration

### Remuneration for Executive Directors

Year ended 31 March 2023 (audited)	Salary £	Salary in lieu of pension £	Benefits £	Pension £	Options Exercised £	Comp for loss of office £	Total £
John Kearon	265,000	-	6,622	-	-	-	271,622
Chris Willford	210,000	12,600	5,943	-	-	-	228,543
James Gregory	57,973	-	-	3,899	-	-	61,872
Total	532,973	12,600	12,565	3,899	-	-	562,037

Year ended 31 March 2022 (audited)	Salary £	Salary in lieu of pension £	Benefits £	Pension £	Options Exercised £	Comp for loss of office £	Total £
Stefan Barden	192,000	-	2,851	-	-	-	194,851
John Kearon	265,000	-	8,205	1,767	278,363	-	553,335
Chris Willford	200,000	12,000	6,045	-	-	-	218,045
Total	657,000	12,000	17,101	1,767	278,363	-	966,231

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

## Directors' interests

The Directors who held office at 31 March 2023 held the following shares in the Company as at that date:

	No	No.
John Kearon	2,818,235	23.1%
Chris Willford	33,666	0.3%
James Gregor	15,384	0.1%
Conrad Bona	26,407	0.2%
Phil Machray	15,380	0.1%
Sophie Tomkins	8,000	0.1%
Rupert Howell	10,000	0.1%

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

	Date of grant	Earliest exercise date	Exercise price	No. at 1 Apr 2022	Exercised in year	Cancelled in year	No. at 31 Mar 2023
<b>John Kearon</b>	04/09/2019	12/08/2022	0.0P	198,400	-	-	<b>198,400</b>
<b>Chris Willford</b>	27/11/2020	12/08/2022	0.0p	132,267	-	-	<b>132,267</b>
<b>James Gregory</b>	27/10/2021	12/08/2022	0.0p	132,267	-	-	<b>132,267</b>

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

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

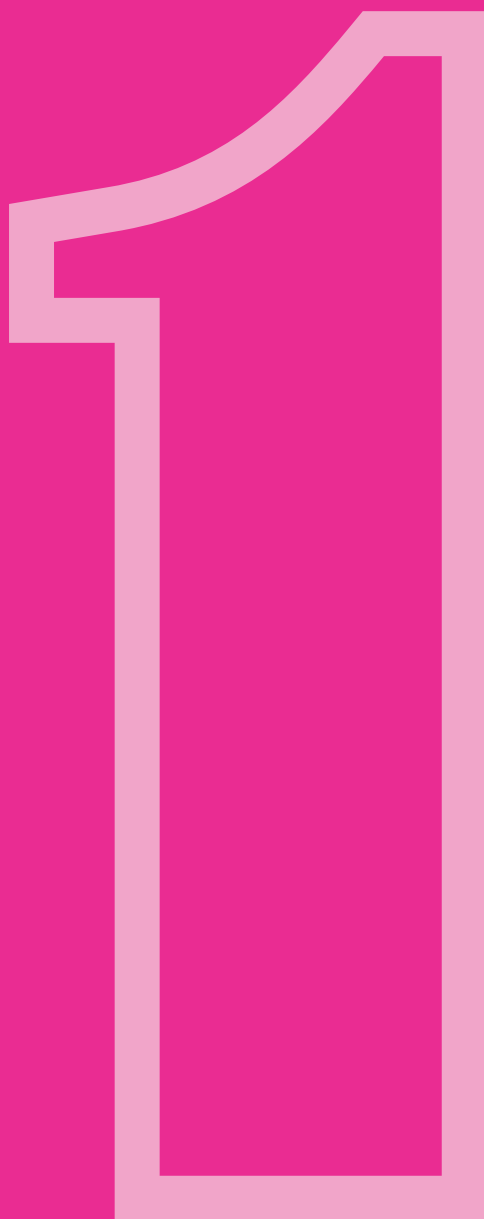
## Fees for non-executive directors (audited)

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

	2023 £	2022 £
Graham Blashill (resigned 28 September 2022)	<b>21,000</b>	40,000
Robert Brand	-	14,128
Rupert Howell	<b>40,000</b>	36,000
Sophie Tomkins	<b>40,000</b>	37,333
Jane Wakely (resigned 15 July 2022)	<b>11,108</b>	36,000
Conrad Bona (appointed 1 September 2022)	<b>22,167</b>	-
Phil Machray	<b>32,772</b>	-
	<b>167,046</b>	163,461

Philip Machray  
Chair, Remuneration Committee

# Independent Auditor's Report



# Independent Auditor's Report to the Members of System1 Group PLC

## Opinion

We have audited the financial statements of System1 Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2023 which comprise consolidated income statement, consolidated statement of comprehensive income, consolidated and Company balance sheets, consolidated statement of cash flows and consolidated and Company statements of changes in equity and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and UK-adopted International Accounting Standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2023 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities<sup>1</sup> and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Summary of our audit approach

<b>Key audit matters</b>	<b>Group</b>
	<ul style="list-style-type: none"> <li>• Revenue recognition</li> </ul>
<b>Materiality</b>	<b>Group and Parent Company</b>
	<ul style="list-style-type: none"> <li>• Capitalisation and valuation of intangibles</li> <li>• Valuation of sabbatical provision</li> <li>• Valuation of share-based payment credit</li> </ul>
<b>Materiality</b>	<b>Group</b>
	<ul style="list-style-type: none"> <li>• Overall materiality: £73,000 (2022: £80,800)</li> <li>• Performance materiality: £54,750 (2022: £60,600)</li> </ul>
<b>Materiality</b>	<b>Parent Company</b>
	<ul style="list-style-type: none"> <li>• Overall materiality: £36,700 (2022: £40,000)</li> <li>• Performance materiality: £27,525 (2022: £30,000)</li> </ul>
<b>Scope</b>	Our audit procedures covered 100% of revenue, total assets and of profit before tax.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group and parent company financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the group and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Revenue recognition

<b>Key audit matter description</b>	<p>The group has recognised revenue of £23,410k (2022: £24,097k), as disclosed in Note 5, and as per the revenue accounting policy described in Note 4.</p> <p>The application of IFRS 15 to the group's revenues and, in particular, whether a contract with a customer exists, delivery of performance obligations and allocation of transaction price to those performance obligations, involves management judgement and there is also a fraud risk. As a result of this, and the impact on allocation of audit resource, the matter was considered to be one of most significance in the group audit and therefore determined to be a key audit matter.</p>
<b>How the matter was addressed in the audit</b>	<p>Our response to this risk included:</p> <ul style="list-style-type: none"><li>• Reviewing the revenue recognition policies applied by management against IFRS 15 "Revenue from contracts with customers".</li><li>• Performing data analytics on all sales recorded in the year.</li><li>• Testing a sample of sales made close to the year end and obtaining evidence to confirm that they have been recognised in the correct period.</li></ul>

### Capitalisation and valuation of intangibles

<b>Key audit matter description</b>	<p>The consolidated and company financial statements include capitalised development costs of £1,124k (2022: £nil) as disclosed in Note 7 of the consolidated financial statements.</p> <p>The assessment of whether costs incurred in research and development activities meet the definition of development costs involves a high degree of management judgement and the carrying value of such cost and any impairment against it, involves both management judgement on forward looking assumptions and resultant estimation uncertainty. As a result of this, and the impact on allocation of audit resource, the matter was considered to be one of most significance in the group audit and therefore determined to be a key audit matter.</p>
<b>How the matter was addressed in the audit</b>	<p>Our response to this risk included:</p> <ul style="list-style-type: none"><li>• Reviewing, for a sample of additions, the supporting evidence held for costs capitalised.</li><li>• Challenging the judgements made by management in relation to the projects that were deemed to meet the IAS 38 capitalisation criteria for development costs.</li><li>• Reviewing and challenging estimates made by management in relation to the useful economic life of the intangibles held and the judgement as to when to commence amortisation.</li><li>• Reviewing management's assessment of any indicators of impairment within the intangible asset balance.</li><li>• Reviewing the disclosures made in the financial statements.</li></ul>

# Independent Auditor's Report to the Members of System1 Group PLC continued

## Valuation of sabbatical provision

<b>Key audit matter description</b>	<p>The group has a sabbatical leave scheme that provides 20 days paid leave for each six years' of service. In the current year, the rules of this scheme were changed to close it to new entrants and to state that only those within 2.5 years of earning a sabbatical entitlement at the year end date would remain to be eligible. The carrying amount of the provision in the consolidated financial statements is £419k (2022: £475k) as disclosed in Note 11.</p> <p>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 the rate of salary growth and average staff turnover. The employee retention rate is the most sensitive in the calculation and changes in this, or the other assumptions, may lead to a material movement in the provision.</p> <p>As a result of this risk of material movements, the level of estimation uncertainty and the impact on allocation of audit resource, the matter was considered to be one of most significance in the group audit and therefore determined to be a key audit matter.</p>
<b>How the matter was addressed in the audit</b>	<p>Our response to this risk included:</p> <ul style="list-style-type: none"> <li>• Agreeing the closing provision at 31 March 2023 to the valuation performed by management's expert.</li> <li>• Challenging management's view of the inputs used in the calculation, including in relation to: <ul style="list-style-type: none"> <li>◦ Salary growth and bonuses</li> <li>◦ Employee retention rate</li> <li>◦ Discount rate</li> </ul> </li> <li>• Review sensitivity analysis completed by management's expert and discussing the implications with management as well as reviewing these results against those disclosed in the financial statements to quantify estimation uncertainty.</li> <li>• Reviewing the number of staff included in the provision, including their eligibility per the changes to the scheme rules against their service period per company records.</li> </ul>

## Valuation of share based payment credit

<b>Key audit matter description</b>	<p>The Group has an equity settled LTIP share based payment scheme with outstanding options at the year end. These options have both market and non-market vesting conditions attached and therefore the valuation of the grants in the year, as well as the estimate of the number of options expected to vest, involves management to exercise judgement. During the year, the Group and parent company have both recognised a net credit in relation to equity-settled share based payments of £153k (with an associated credit for social security of £18k), arising due to a change in the estimate of the number of options expected to vest in comparison to the prior year as explained in Note 4 (Significant estimates and judgements) and Notes 10 and 15.</p> <p>As a result of this risk of material movements, the level of estimation uncertainty and the impact on the group's result for the year, the matter was considered to be one of most significance in the group audit and therefore determined to be a key audit matter. basis valuation of share-based payments is considered to be a significant risk. Furthermore, there has been a modification to the scheme in the current year, which will impact the scheme's valuation, potentially significantly.</p>
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## Valuation of share based payment credit continued

<b>How the matter was addressed in the audit</b>	<p>Our response to the risk included:</p> <ul style="list-style-type: none"> <li>• A recalculation of the share based payment credit, for the year based on management’s assumptions and the valuation of the new grant performed by management’s expert.</li> <li>• Verifying the new grants to the underlying options agreements including the vesting conditions in those agreements.</li> <li>• Use of an auditor’s expert to review the valuation of options granted in the year performed by management’s expert.</li> <li>• A review of management’s assessment of the proportion of charge, or credit, recognised in the year based on the likelihood of meeting profit and revenue based targets. This included assessment in line with the Group’s forecasts.</li> </ul> <p>A review of the disclosures in the consolidated financial statements and the explanation of the critical judgements and estimates made in the accounting for share based payments.</p>
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### Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. Based on our professional judgement, we determined materiality as follows:

	Group	Parent Company
<b>Overall materiality</b>	£73,000 (2022: £80,800)	£36,700 (2022: £40,000)
<b>Basis for determining overall materiality</b>	5% of results before tax, using a 5 year average of results	1% of results before tax
<b>Rationale for benchmark applied</b>	Profit measure used for the trading activities of the Group.	Applied for the purpose of calculating an appropriate component materiality.
<b>Performance materiality</b>	£54,750 (2022: £60,600)	£27,525 (2022: £30,000)
<b>Basis for determining</b>	75% (2022: 75%) of overall materiality	75% (2022: 75%) of overall materiality
<b>Reporting of misstatements to the Audit Committee</b>	Misstatements in excess of £3,650 (2022: £4,040) and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £1,835 (2022: £2,000) and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

# Independent Auditor's Report to the Members of System1 Group PLC continued

## **An overview of the scope of our audit**

The group consists of 13 components, located in:

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

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

## **Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- obtaining an understanding of relevant controls over the going concern models prepared by management, including the review of the inputs and assumptions used in those models.
- testing the accuracy of management's models, including agreement to the most recent Board approved budgets and forecasts.
- auditing the forecasts prepared by management from 1 April 2023 to 31 March 2025 by challenging the key assumptions of these forecasts by:
  - comparing forecast revenue with the Group's historical performance;
  - evaluating the historical accuracy of forecasts prepared by management;
  - assessing the sensitivity of the available headroom on the liquidity of the Group;
  - review of post year end trading of the group and comparison to the forecasts supplied by management.
- auditing the sufficiency of going concern disclosures in the financial statements, including whether commentary regarding the new facility entered into by the Group is appropriate.

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

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

## **Other information**

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

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

We have nothing to report in this regard.



### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 34, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditor's responsibilities for the audit of the financial statements**

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

### **The extent to which the audit was considered capable of detecting irregularities, including fraud**

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

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

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

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

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

The most significant laws and regulations were determined as follows:

Legislation / Regulation	Additional audit procedures performed by the Group audit engagement team included:
<b>IFRS/UK-adopted IAS, Companies Act 2006</b>	Review of the financial statement disclosures and testing to supporting documentation; Completion of disclosure checklists to identify areas of non-compliance.
<b>Tax compliance regulations</b>	Inspection of computations received from external tax advisors and consideration of whether any matter during the audit required reporting to an appropriate authority outside the entity.

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

Risk	Audit procedures performed by the audit engagement team:
<b>Revenue recognition</b>	Please see the key audit matter above.
<b>Existence of employees</b>	Testing was completed on a sample basis to review photographic identification, employer background checks and to meet with employees of the group.
<b>Management override of controls</b>	Testing the appropriateness of journal entries and other adjustments; Assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and Evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

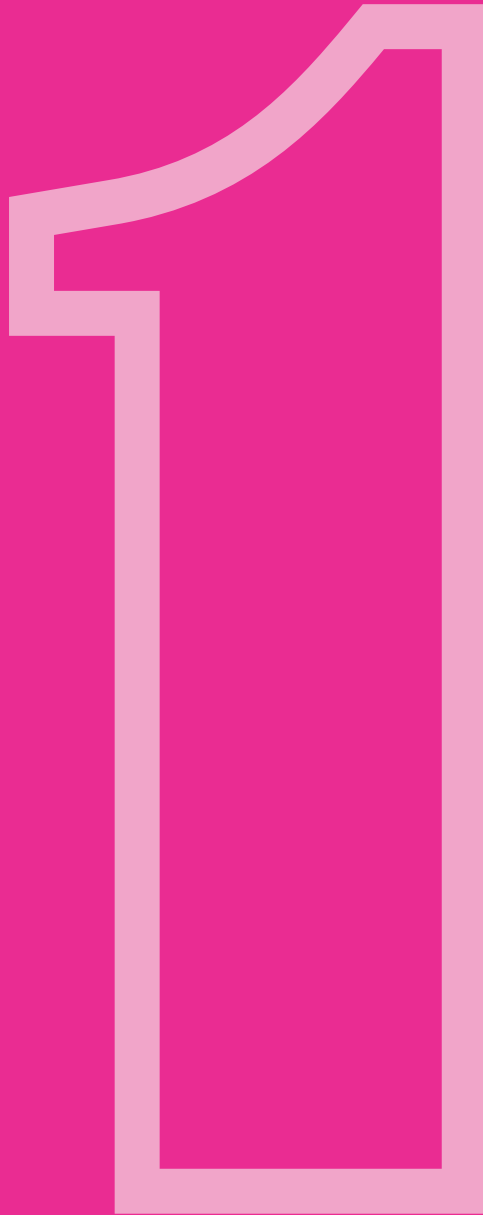
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Richard Bartlett-Rawlings (Senior Statutory Auditor)  
For and on behalf of RSM UK Audit LLP, Statutory Auditor  
Chartered Accountants  
The Pinnacle  
170 Midsummer Boulevard,  
Milton Keynes  
Buckinghamshire,  
MK9 1BP  
25 August 2023

# Financial Report



# Consolidated Income Statement

for the year ended 31 March 2023

	Note	2023 £'000	2022 £'000
<b>Revenue</b>	5	<b>23,410</b>	24,097
Cost of sales	15	<b>(3,692)</b>	(3,898)
<b>Gross profit</b>		<b>19,718</b>	20,199
Administrative expenses	15	<b>(19,203)</b>	(19,383)
Other operating income		<b>340</b>	289
<b>Operating profit</b>		<b>855</b>	1,105
Finance expense	18	<b>(136)</b>	(160)
<b>Profit before taxation</b>	19	<b>719</b>	945
Income tax (expense)/credit	19	<b>(315)</b>	10
<b>Profit for the financial period</b>		<b>404</b>	955
<b>Attributable to the equity holders of the Company</b>		<b>404</b>	955
<b>Earnings per share attributable to equity holders of the Company</b>			
Basic earnings per share	21	<b>3.2p</b>	7.4p
Diluted earnings per share	21	<b>3.2p</b>	7.4p

The notes on page 63 to 84 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 2023

	<b>2023</b> <b>£'000</b>	2022 £'000
<b>Profit for the financial year</b>	<b>404</b>	955
<b>Other comprehensive income:</b>		
<b>Items that may be subsequently reclassified to profit/(loss)</b>		
Currency translation differences on translating foreign operations	<b>227</b>	342
Other comprehensive income for the period, net of tax	<b>227</b>	342
<b>Total comprehensive income for the period attributable to equity holders of the Company</b>	<b>631</b>	1,297

The notes on pages 63 to 84 are an integral part of these consolidated financial statements.

# Consolidated Balance Sheet

as at 31 March 2023

REGISTERED COMPANY NO. 05940040

	Note	2023 £'000	2022 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant, and equipment	6	<b>1,162</b>	2,054
Intangible assets	7	<b>1,396</b>	382
Deferred tax asset	20	<b>203</b>	292
		<b>2,761</b>	2,728
<b>Current assets</b>			
Contract assets		<b>102</b>	198
Trade and other receivables	9	<b>6,344</b>	4,492
Income tax receivables		<b>55</b>	-
Cash and cash equivalents	8	<b>5,719</b>	11,174
		<b>12,220</b>	15,864
<b>Total assets</b>		<b>14,981</b>	18,592
<b>Equity</b>			
<b>Attributable to equity holders of the Company</b>			
Share capital	10	<b>132</b>	132
Share premium account		<b>1,601</b>	1,601
Merger reserve		<b>477</b>	477
Foreign currency translation reserve		<b>423</b>	196
Retained earnings		<b>5,974</b>	5,857
<b>Total equity</b>		<b>8,607</b>	8,263
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Provisions	11	<b>353</b>	432
Lease liabilities	8, 14	<b>362</b>	1,417
		<b>715</b>	1,849
<b>Current liabilities</b>			
Provisions	11	<b>101</b>	77
Lease liabilities	8, 14	<b>1,094</b>	1,091
Borrowings		-	2,500
Contract liabilities	13	<b>764</b>	991
Income taxes payable		-	267
Trade and other payables	12	<b>3,700</b>	3,554
		<b>5,659</b>	8,480
<b>Total liabilities</b>		<b>6,374</b>	10,329
<b>Total equity and liabilities</b>		<b>14,981</b>	18,592

The notes on pages 63 to 84 are an integral part of these consolidated financial statements.

These financial statements were approved by the directors on 25 August 2023 and are signed on their behalf by:

James Gregory      Chris Willford  
Director              Director

# Consolidated Statement of Cash Flows

for the year ended 31 March 2023

	Note	2023 £'000	2022 £'000
<b>Net cash used in/generated from operations</b>	23	<b>(87)</b>	4,098
Tax paid		<b>(541)</b>	(63)
<b>Net cash used in/generated from operating activities</b>		<b>(628)</b>	4,035
<b>Cash flows from investing activities</b>			
Purchases of property, plant, and equipment	6	<b>(30)</b>	(79)
Purchase of intangible assets	7	<b>(1,225)</b>	(59)
<b>Net cash used by investing activities</b>		<b>(1,255)</b>	(138)
<b>Net cash flow before financing activities</b>		<b>(1,883)</b>	3,897
<b>Cash flows from financing activities</b>			
Interest paid		<b>(136)</b>	(161)
Property lease liability payments		<b>(1,053)</b>	(1,218)
Purchase of own shares	10	<b>(134)</b>	(567)
Repayment of borrowings		<b>(2,500)</b>	-
<b>Net cash used by financing activities</b>		<b>(3,823)</b>	(1,946)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(5,706)</b>	1,951
<b>Cash and cash equivalents at beginning of year</b>		<b>11,174</b>	9,008
Exchange gain/(loss) on cash and equivalents		<b>251</b>	215
<b>Cash and cash equivalents at end of year</b>		<b>5,719</b>	11,174

Office lease costs are not included within "Net cash flow before financing activities" (the Company's key cash flow performance indicator). "Net cash flow before financing activities", adjusted for office leases, known by the Company as "Operating cash flow" is shown below:

	2023 £'000	2022 £'000
Net cash flow before financing activities	<b>(1,883)</b>	3,897
Net cash flow for property leases	<b>(1,116)</b>	(1,307)
<b>Operating cash flow</b>	<b>(2,999)</b>	2,590

## Consolidated Movements in Net Cash and Financing Activities

	Cash and cash equivalents £'000	Borrowings £'000	Lease liabilities £'000	Total £'000
<b>At 1 April 2022</b>	11,174	(2,500)	(2,508)	<b>6,166</b>
Cash flows	(5,706)	2,500	1,116	<b>(2,090)</b>
Non-cash charges:				
- Interest on lease liabilities	-	-	(64)	<b>(64)</b>
- Exchange and other non-cash movements	251	-	-	<b>251</b>
<b>At 31 March 2023</b>	5,719	-	(1,456)	<b>4,263</b>
<b>At 1 April 2021</b>	9,008	(2,500)	(2,575)	<b>3,933</b>
Cash flows	1,951	-	1,218	<b>3,169</b>
Non-cash charges:				
- Interest on lease liabilities	-	-	(89)	<b>(89)</b>
- New lease liabilities	-	-	(1,704)	<b>(1,704)</b>
- Disposal of lease liabilities	-	-	601	<b>601</b>
- Exchange and other non-cash movements	215	-	41	<b>256</b>
<b>At 31 March 2022</b>	11,174	(2,500)	(2,508)	<b>6,166</b>

The notes on pages 63 to 84 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

for the year ended ended 31 March 2023

Note	Share capital £'000	Share premium account £'000	Merger reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	<b>Total £'000</b>
<b>At 31 March 2021</b>	132	1,601	477	(146)	5,170	<b>7,234</b>
<b>Profit for the financial year</b>	-	-	-	-	955	<b>955</b>
Other comprehensive income:						
- currency translation differences	-	-	-	342	-	<b>342</b>
<b>Total comprehensive income</b>	-	-	-	342	955	<b>1,297</b>
Transactions with owners:						
Employee share options:						
- value of employee services	10	-	-	-	299	<b>299</b>
Purchase of treasury shares	-	-	-	-	(567)	<b>(567)</b>
<b>At 31 March 2022</b>	132	1,601	477	196	5,857	<b>8,263</b>
<b>Profit for the financial year</b>	-	-	-	-	404	<b>404</b>
Other comprehensive income:						
- currency translation differences	-	-	-	227	-	<b>227</b>
<b>Total comprehensive income</b>	-	-	-	227	404	<b>631</b>
Transactions with owners:						
Employee share options:						
- value of employee services	10	-	-	-	(153)	<b>(153)</b>
Purchase of treasury shares	-	-	-	-	(134)	<b>(134)</b>
<b>At 31 March 2023</b>	132	1,601	477	423	5,974	<b>8,607</b>

The notes on pages 63 to 84 are an integral part of these consolidated financial statements.



# Notes to the Consolidated Financial Statements

for the year ended 31 March 2023

## 1 General information

System1 Group PLC (the “Company”) was incorporated on 19 September 2006 in the United Kingdom. The Company’s principal operating subsidiary, System1 Research Limited, was at that time already established, having been incorporated on 29 December 1999. The address of the Company’s registered office is 4 More London Riverside, London, England, SE1 2AU. The Company’s shares are listed on the AIM Market of the London Stock Exchange (“AIM”).

The Company and its subsidiaries (together the “Group”) provide market research data and insight services. The Chairman’s Statement, the Chief Executive’s Statement and the 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 2023 (including the comparatives for the year ended 31 March 2022) on 25 August 2023.

## 2 Basis of preparation

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

The preparation of financial statements in accordance with UK-adopted international accounting standards (“UK-adopted 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 critical accounting judgements and estimates applied in the preparation of the consolidated financial statements are disclosed in Note 4.

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

## 3 Going concern

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

As noted in the Financial Review, cash balances and cash flow are healthy, and we will continue to invest in our products, data assets and talent. We ended the year with a cash balance and net cash of £5.7m and net assets at £8.6m (31 March 2022: £8.8m and £8.3m respectively).

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

The Group is very confident in its ability to respond to an abrupt negative situation, whatever the cause. Our mitigating factors involve an active review cycle of the Group’s performance. The Board reviews the performance of the Group monthly, and senior management has a weekly assessment of sales revenue and gross profit. The Group also reviews its profit forecasts on a monthly basis.

The Group is confident that our strong balance sheet position, in particular the cash balance, will be able to sustain the Group reasonably until August 2024 and beyond.

## 4 Principal accounting policies

The principal accounting policies adopted are consistent with those of the financial statements for the year ended 31 March 2022.

### Standards, amendments and interpretations in issue but not yet effective

No new accounting standards or interpretations have been published that are applicable to the Group but are not mandatory for 31 March 2023 reporting periods and have not been early adopted by the Group.

## 4 Principal accounting policies continued

### Basis of consolidation

The Group financial statements consolidate those of the Company and all its subsidiary undertakings drawn up to 31 March 2023.

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

The Group obtains and exercises control through voting rights.

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

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

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

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

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

### Property, plant and equipment

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

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

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

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

### Right-of-use assets

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

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. The Group had no such lease arrangements for the years ended 31 March 2023 or 2022.

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

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

## 4 Principal accounting policies continued

### Intangible assets

#### Software

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

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

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

#### Research and development – internally generated intangible assets

All on-going research expenditure is expensed in the year in which it is incurred. Where no internally generated intangible asset can be recognised, development expenditure is charged to administrative expenses in the period in which it is incurred.

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

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

#### Amortisation

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

Computer software licenses	2 years
Capitalised development costs	3 years

Amortisation on all intangible assets is charged to administrative expenses.

### Impairment of property, plant and equipment, right-of-use assets and intangible assets

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

### Cash and cash equivalents

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

### Contract assets

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

### Income taxes

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

## 4 Principal accounting policies continued

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

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

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

### Revenue recognition

The Group's revenues are primarily derived from the delivery of research services. Revenue from the Group's research product lines (Platform Revenues and Other Consultancy services) arise from contracts with customers within the scope of IFRS 15 'Revenue from Contracts with Customers' and are recognised on the same basis, as set out below.

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

Revenue is recognised only after the results or final written debrief has been delivered to the customer, except on the rare occasion that a large project straddles a financial period end, and that project can be sub-divided into separate discrete deliverables; in such circumstances revenue is recognised on delivery of each separate deliverable, and the transaction price is allocated across the discrete performance obligations by reference to the standalone price for the separate services. Where a contract with a customer requires a purchase order, signed schedule of work or similar document to evidence the right to consideration, revenue is not recognised until the Group receives these documents.

There are no elements of variable consideration in the contracts entered into by the Group. Revenue is measured by reference to the fair value of consideration receivable, excluding sales taxes.

### Other operating income

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

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

### Cost of sales

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

### Employee benefits

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

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due, and any outstanding amounts due at the reporting date are recognised within accruals.

### 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.

## 4 Principal accounting policies continued

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

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

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

### Provisions

Provisions for sabbatical leave and dilapidations are recognised when:

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

### Foreign currencies

Transactions in foreign currencies are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses arising from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement.

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

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

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

### Segment reporting

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

### Financial instruments

#### Financial assets

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

## 4 Principal accounting policies continued

### Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group's amortised cost financial assets comprise trade and other receivables and cash and cash equivalents in the Consolidated 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 Consolidated Balance Sheet. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all its financial liabilities.

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

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

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

### Accrued income and contract liabilities

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 120 days. In certain cases, payments are received from customers prior to satisfaction of performance obligations and recognised as deferred income. These balances are considered contract liabilities. There is no significant passage of time between the receipt of funds from a customer and the delivery of services, or between the delivery of services to a customer and the receipt of funds when payment is in arrears. The Group does not enter contractual arrangements with significant financing components.

### Lease liabilities

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

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

### Share capital

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

### Share premium

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

## 4 Principal accounting policies continued

### 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

The preparation of the consolidated financial statements requires the Directors and management to make judgements and estimates in respect of certain items where the choice of accounting policy and assumptions applied in determining the judgement or estimate could materially affect the Group's financial position or results at the reporting date.

#### Share-based payments – judgement and estimate

The fair value of options granted is determined using Monte Carlo simulation models. These models require several estimates and assumptions. The significant inputs into the models are share price at grant date, exercise price, historic exercise multiples, expected volatility and the risk-free rate. Volatility is measured at the standard deviation of expected share price returns based on statistical analysis of historical share prices. These inputs are provided in Note 10.

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

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

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

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

The 2021 LTIP is subject to Revenue, Profit After Tax and the Company's share price exceeding certain targets; the full details of which are given in the Company's Remuneration Report. The measure of the share-based payment charge is dependent on the estimates made in respect of the probability of those targets being achieved over the vesting period of the options. The key inputs into those estimates are the Company's forecasts, revenue volatility and inflation. Revenue volatility is determined by reference to the share price volatility used to determine the fair value of the options (with an assumption that the two will have a high level of correlation). Inflation is determined by reference to the Bank of England data for the UK in March and April 2023. The non-market probability factor utilised in the share-based payment model for the year ended 31 March 2023 is between 13% and 17% (31 March 2022: 62% to 65%). The cumulative charge recognised in respect of share options is £126,000 at 31 March 2023. If the non-market probability factor was reduced by 33% to between 9% and 11%, the cumulative charge would reduce to £84,000.

## 4 Principal accounting policies continued

### Employee benefits – estimate

The Group has a sabbatical leave scheme, which provides 20 days paid leave for each six years of service. During the year ended 31 March 2023, the Group modified the terms of the scheme such that rather than being open to all employees, the scheme is now only available to those individuals who have accrued three or more years of unbroken service as at 30 September 2022. The provision for liabilities under the scheme is measured using the projected unit credit method. This model requires several estimates and assumptions. The significant inputs into the model are rate of salary growth and average staff turnover as explained in Note 11.

### Leases – estimate and judgement

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

The discount rate used to calculate the lease liability is the rate implicit in the lease, if it can be readily determined, or the lessee's incremental borrowing rate if not. Incremental borrowing rates are determined based on the term, country, currency and start date of the lease, to derive the rate of interest that the lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Details of lease liabilities can be found in note 14.

## 5 Segment information

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

	2023	2022
	Revenue £'000	Revenue £'000
<b>By location of customer</b>		
Americas	9,428	9,043
United Kingdom	8,895	7,918
Rest of Europe	3,741	5,463
APAC	1,346	1,673
	<b>23,410</b>	24,097

\*Segmental revenue is revenue generated from external customers and so excludes intercompany revenue and is attributable to geographical areas based upon the location in which the service is delivered.

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

	2023	2022
	Revenue £'000	*Restated Revenue £'000
<b>By product variant</b>		
Predict Your (data)	14,060	9,747
Improve Your (data-led consultancy)	3,311	2,683
Standard (platform) revenue	17,371	12,430
Other consultancy (non-platform)	6,039	11,667
<b>Total revenue</b>	<b>23,410</b>	24,097
<b>By product group</b>		
Communications (Ad Testing)	15,879	14,955
Brand (Brand Tracking)	3,669	3,295
Innovation	3,862	5,847
	<b>23,410</b>	24,097

\*Following the expansion of the Group's data and platform-led offering, revenue segments in respect of "By product type" have been revised in the current year to reflect the new structure of the Group's internal reporting. The comparatives have been re-stated accordingly.



## 5 Segment information continued

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

	2023 £'000	2022 £'000
<b>Non-Current Assets</b>		
United Kingdom	<b>2,204</b>	1,846
Rest of world	<b>354</b>	590
	<b>2,558</b>	2,436

## 6 Property, plant and equipment

	Right-of-use assets £'000	Furniture and fixtures £'000	Computer hardware £'000	Total £'000
<b>At 1 April 2021</b>				
Cost	4,691	140	224	5,055
Accumulated depreciation	(3,346)	(123)	(151)	(3,620)
<b>Net book value</b>	1,345	17	73	1,435
<b>Net book value, at 1 April 2021</b>	1,345	17	73	1,435
Additions	1,984	1	73	2,058
Disposals	(196)	-	-	(196)
Foreign exchange	16	1	4	21
Remeasurement of right-of-use assets	(405)	-	-	(405)
Depreciation charge for the year	(773)	(15)	(71)	(859)
Net book value, at 31 March 2022	1,971	4	79	2,054
<b>At 31 March 2022</b>				
Cost	3,555	33	192	3,780
Accumulated depreciation	(1,584)	(29)	(113)	(1,726)
<b>Net book value</b>	1,971	4	79	2,054

	Right-of-use assets £'000	Furniture and fixtures £'000	Computer hardware £'000	Total £'000
<b>At 1 April 2022</b>				
Cost	<b>3,555</b>	<b>33</b>	<b>192</b>	<b>3,780</b>
Accumulated depreciation	<b>(1,584)</b>	<b>(29)</b>	<b>(113)</b>	<b>(1,726)</b>
<b>Net book value</b>	<b>1,971</b>	<b>4</b>	<b>79</b>	<b>2,054</b>
<b>Net book value, at 1 April 2022</b>	<b>1,971</b>	<b>4</b>	<b>79</b>	<b>2,054</b>
Additions	-	-	<b>30</b>	<b>30</b>
Foreign exchange	<b>49</b>	-	<b>2</b>	<b>51</b>
Depreciation charge for the year	<b>(894)</b>	<b>(3)</b>	<b>(76)</b>	<b>(973)</b>
<b>Net book value, at 31 March 2023</b>	<b>1,126</b>	<b>1</b>	<b>35</b>	<b>1,162</b>
<b>At 31 March 2023</b>				
Cost	<b>2,050</b>	<b>11</b>	<b>206</b>	<b>2,267</b>
Accumulated depreciation	<b>(924)</b>	<b>(10)</b>	<b>(171)</b>	<b>(1,105)</b>
<b>Net book value</b>	<b>1,126</b>	<b>1</b>	<b>35</b>	<b>1,162</b>

Depreciation charges are included within administrative expenses.

## 6 Property, plant and equipment continued

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

	Right-of-use assets £'000	Furniture and fixtures £'000	Computer hardware £'000	Total £'000
	1,547	22	16	<b>1,585</b>

## 7 Intangible assets

	Development costs £'000	Software £'000	Total £'000
<b>At 1 April 2021</b>			
Cost	-	464	464
Accumulated amortisation	-	(46)	(46)
<b>Net book value</b>	-	418	418
<b>Net book value, at 1 April 2021</b>	-	418	418
Additions	-	59	59
Amortisation for the year	-	(95)	(95)
<b>Net Book Value, at 31 March 2022</b>	-	382	382
<b>At 31 March 2022</b>			
Cost	-	525	525
Accumulated amortisation	-	(143)	(143)
<b>Net book value</b>	-	382	382
<b>At 1 April 2022</b>			
Cost	-	<b>525</b>	<b>525</b>
Accumulated amortisation	-	<b>(143)</b>	<b>(143)</b>
<b>Net book value</b>	-	<b>382</b>	<b>382</b>
<b>Net book value, at 1 April 2022</b>	-	<b>382</b>	<b>382</b>
Additions	<b>1,225</b>	-	<b>1,225</b>
Amortisation for the year	<b>(101)</b>	<b>(110)</b>	<b>(211)</b>
<b>Net book value, at 31 March 2023</b>	<b>1,124</b>	<b>272</b>	<b>1,396</b>
<b>At 31 March 2023</b>			
Cost	<b>1,225</b>	<b>525</b>	<b>1,750</b>
Accumulated amortisation	<b>(101)</b>	<b>(253)</b>	<b>(354)</b>
<b>Net book value</b>	<b>1,124</b>	<b>272</b>	<b>1,396</b>

Amortisation charges are included within administrative expenses.

The only software cost as at 31 March 2023 is the Group's finance and operations system that was brought into use October 2020 and the Group's HR system that was brought into use in August 2021.

Development costs relate to costs capitalised for the development of the "Test Your" platform (carrying value £865k), which completed during the year ended 31 March 2023, and the Supply Chain Automation platform (carrying value £259k), which is due for completion in the year ended 31 March 2024. Development costs in respect of completed projects are tested for impairment where impairment indicators exist. Development costs in respect of ongoing projects are tested for impairment at each reporting date. The carrying value of the assets in each case are assigned to their respective cash generating units for the purposes of assessing future cashflows. The principal assumptions used in the forecasts were the timing and amount of future revenues and cost savings, which were derived from the latest forecasts approved by the Board. Following the assessment, the Board have determined that no impairment of assets is required as at 31 March 2023.

## 8 Financial risk management

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

### Credit risk

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

	2023 £'000	2022 £'000
<b>Cash and cash equivalents</b>		
HSBC Bank PLC (AA credit rating)	5,190	10,586
Santander	349	362
Deutsche Bank	38	115
UBS	142	94
Other banks	-	17
	<b>5,719</b>	11,174

At 31 March 2023, the Group has cash balances of £42,000 (2022: £nil) which are not readily available for use due to ongoing restrictions imposed by overseas banking institutions. The Group has made full provision against these balances at the year end.

### Financial instruments by category

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

	2023 £'000	2022 £'000
<b>Financial assets carried at amortised cost</b>		
Trade and other receivables (excluding prepayments)	5,918	4,229
Cash and cash equivalents	5,719	11,174
	<b>11,637</b>	15,403
<b>Other financial liabilities carried at amortised cost</b>		
<b>Current liabilities</b>		
Trade payables	1,595	925
Accruals	1,676	2,060
Lease liabilities	1,094	1,091
Borrowings	-	2,500
	<b>4,365</b>	6,576
<b>Non-current liabilities</b>		
Lease liabilities	362	1,417
	<b>362</b>	1,417

On 10 February 2020, the Company entered a 3-year revolving credit facility with HSBC. The agreement allowed the Company to draw down up to £2,500,000 for the purposes of funding general corporate and working capital requirements. The loan was fully repaid on 30 November 2022. On 22 February 2023, the Company entered into an Overdraft Facility with HSBC. The facility of up to a maximum of £1,500,000, is secured over the Company's trade receivables, and incurs interest at 3% above the Bank of England base rate on drawn balances. The facility has no fixed end date and can be cancelled by either party at any time. During the year ended 31 March 2023, the Company has not drawn any amounts under the facility, and no amounts have been drawn to the date of the signing of these financial statements.

## 9 Trade and other receivables

	2023 £'000	2022 £'000
Trade receivables	5,694	3,758
Prepayments and accrued income	426	452
Other receivables	224	282
	<b>6,344</b>	4,492

Trade and other receivables are due within one year and are not interest bearing. The maximum exposure to credit risk at the balance sheet date is the carrying amount of receivables (detailed in Note 8). The Group does not hold any collateral as security against trade receivables. The Directors do not believe that there is a significant concentration of credit risk within the trade receivables balance.

### Impairment of financial assets

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

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

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

As of 31 March 2023, trade receivables of £1,733,000 (2022: £861,000) were past due but not impaired. The ageing of trade receivables, and the associated loss allowance, is as follows:

	£'000	0-3 months due £'000	3-6 months due £'000	Over 6 months due £'000	Total £'000
<b>At 31 March 2023</b>					
Gross trade receivables	4,007	1,260	403	200	5,870
Loss provision	46	24	15	91	176
Expected loss rate	1%	2%	4%	45%	
<b>At 31 March 2022</b>					
Gross trade receivables	2,920	801	70	76	3,867
Loss provision	24	15	5	65	109
Expected loss rate	1%	2%	7%	86%	

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

	2023 £'000	2022 £'000
<b>Provision for impairment of trade receivables</b>		
Opening balance	110	120
Charged to the income statement	101	51
Utilisations and other movements	(35)	(61)
	<b>176</b>	110

As of 31 March 2023, no other receivables or contract costs were impaired (2022: £Nil).

## 9 Trade and other receivables continued

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

	2023 £'000	2022 £'000
United States dollar	1,916	1,587
British sterling	2,607	1,669
Euro dollar	744	286
Brazilian real	574	365
Swiss franc	233	321
Australian dollar	129	94
Singapore dollar	141	170
	<b>6,344</b>	4,492

## 10 Share capital

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

	2023		2022	
	No.	£'000	No.	£'000
At 1 April and 31 March				
Allotted, called up, and fully paid ordinary shares	<b>13,226,773</b>	<b>132</b>	13,226,773	132

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

	2023		2022	
	Treasury shares No.	Weighted average exercise price per share Pence	Treasury shares No.	Weighted average exercise price per share Pence
<b>Shares held by treasury</b>				
<b>At 1 April</b>	<b>487,151</b>		510,421	
Purchase of treasury shares	<b>60,693</b>		158,674	
Transfer of shares to satisfy options exercise	-	-	(181,944)	
<b>At 31 March</b>	<b>547,844</b>		487,151	

No shares were purchased from related parties of the Group.

## Share options

### Employee share option scheme

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

Options granted in more recent years have been awarded in accordance with management long-term incentive plans and such options have a zero-exercise price and are subject to performance criteria. If share options remain unexercised after a period of ten years from the date of grant, the options expire. Share options are forfeited in some circumstances if the employee leaves the Group before the options vest, unless otherwise agreed by the Remuneration Committee of the Board.

## 10 Share capital continued

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

	2023		2022	
	Options No.	Weighted average exercise price per share Pence	Options No.	Weighted average exercise price per share Pence
<b>Share options outstanding</b>				
Opening balance	1,194,590	0.8	1,623,362	0.6
Granted	198,401	-	148,289	-
Lapsed	-	-	-	-
Replaced	(132,267)	-	-	-
Cancelled	-	-	(395,117)	-
Exercised	-	-	(181,944)	-
<b>Closing balance</b>	<b>1,260,724</b>	<b>0.7</b>	1,194,590	0.8
<b>Exercisable at year-end</b>	<b>17,144</b>	<b>53.7</b>	17,144	53.7
<b>Weighted average share price at date of options exercised (pence)</b>		<b>NA</b>		268.4
<b>Weighted average fair value of options granted in the year (pence)</b>		<b>43.3</b>		236.0

The Group had the following outstanding options and exercise prices:

Expiry date	2023			2022		
	Options No.	Weighted average exercise price per share Pence	Weighted average remaining contractual life Months	Options No.	Weighted average exercise price per share Pence	Weighted average remaining contractual life Months
2024	64,139	14.4	14.9	64,139	14.4	26.9
2025	-	-	-	-	-	-
2027	1,196,585	-	39.8	1,130,451	-	59.7
2028	-	-	-	-	-	-
2029	-	-	-	-	-	-
2032	-	-	-	-	-	-
	<b>1,260,724</b>	<b>0.7</b>	<b>38.5</b>	1,194,590	0.8	57.9

### Long term incentive scheme

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

At 31 March 2023, the number of options granted under the 2021 LTIP reached 1,130,959 or 8.6% of issued ordinary share capital of maximum capacity at 10% (2022: 932,558 or 7.1% of issued ordinary share capital).

The key inputs into the fair value measurement of the 198,401 options granted in the year are as follows:

- Expected Life: 2 years and 7.5 months
- Exercise price: £Nil
- Share price at date of grant: £1.45
- Expected volatility: 53.52%
- Risk free rate: 3.51%

The number of options outstanding under the replaced 2019 LTIP scheme is 54,180 (31 March 2022: 186,447).

## 10 Share capital continued

### Non-employee option plan

On 17 April 2019, the Company granted Stefan Barden who was then an advisor to the Board, an equity award comprising 300,000 zero cost options. In the year ended 31 March 2022, the plan was modified to reflect the same targets as the 2021 LTIP scheme. As at 31 March 2023, Stefan Barden retained 46,995 of his first tranche options, with the remaining 253,005 options cancelled following his resignation in 2022.

### Share-based payment charge

The total credit relating to equity-settled share-based payment plans was £153,000 (2022: charge of £299,000). The associated credit for social security was £18,000 (2022: credit of 28,000). This credit is a result of the decrease within the assumption relating to the probability of meeting the non-market vesting conditions. As the vesting period shortens, the probability of meeting the conditions will continue to reduce, we have disclosed the sensitivity of this assumption within the significant accounting estimates and judgements note on page 69.

## 11 Provisions

	Sabbatical £'000	Leasehold dilapidations £'000	Total £'000
<b>At 1 April 2021</b>	688	72	760
Provided in the year	76	7	83
Utilised in the year	(19)	(16)	(35)
Reversals of unused amounts	(266)	(29)	(295)
Foreign exchange movement	(4)	-	(4)
<b>At 31 March 2022</b>	475	34	509
Provided in the year	75	-	75
Utilised in the year	(58)	-	(58)
Reversals of unused amounts	(73)	-	(73)
Foreign exchange movement	-	1	1
<b>At 31 March 2023</b>	<b>419</b>	<b>35</b>	<b>454</b>
Due within one year	91	10	101
Due after one year	328	25	353

The Group has a sabbatical leave scheme which provides 20 days paid leave for each successive period of six years' service. There is no proportional entitlement for shorter periods of service. During the year ended 31 March 2023, the Group modified the terms of the scheme such that rather than being open to all employees, the scheme is now only available to those individuals who have accrued three or more years of unbroken service as at 30 September 2022. The provision is expected to unwind over the next three to four years. The assumptions used in the sabbatical provision is as follows:

	2023	2022
Measurement method	Project unit credit method	
Discount rate, based on 6-year corporate bond yields*	5.0%	2.5%
Annual salary growth rate	7%	7%
Staff turnover	14%	30%

\*The discount rate for the UK has been disclosed, as this accounts for nearly 70% of the total provision.

	£'000
Changes to the assumptions will increase the provision by:	
0.25% decrease to discount rate	-
10% increase to salary increase assumption	8
5% decrease to staff turnover assumption	12
10% of salary paid as bonus to all members	39

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

# Notes to the Consolidated Financial Statements continued

for the year ended 31 March 2023

## 12 Trade and other payables

	2023 £'000	2022 £'000
Trade payables	1,595	925
Social security and other taxes	429	569
Accruals	1,676	2,060
	<b>3,700</b>	3,554

Trade and other payables are due within one year and are not interest bearing. The contractual terms for the payment of trade payables are generally 30-45 days from receipt of invoice.

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

## 13 Contract liabilities

	2023 £'000	2022 £'000
<b>Contract liabilities</b>	<b>764</b>	991

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 £816,000 relating to contract liabilities recognised at 1 April 2022 (2021: £653,000). No revenue has been recognised in the year from performance conditions satisfied, or partially satisfied in previous periods.

## 14 Borrowings

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

	2023 £'000	2022 £'000
Within one year	1,031	1,147
Later than 1 but no later than 5 years	457	1,447
More than 5 years	-	-
Total contractual undiscounted cashflows	1,488	2,594
Impact of discounting	(32)	(86)
Total lease liabilities	1,456	2,508

The present value of finance lease liabilities is as follows:

	2023 £'000	2022 £'000
Within one year	1,094	1,091
Later than 1 but no later than 5 years	362	1,417
More than 5 years	-	-
	<b>1,456</b>	2,508

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



## 15 Expenses by nature

	2023 £'000	2022 £'000
Employee benefit expense	<b>10,574</b>	9,968
Employee benefit expense – research and development	<b>2,341</b>	2,041
Other research and development costs	<b>1,602</b>	1,740
Capitalised development costs – gross of amortisation	<b>(1,225)</b>	-
Depreciation, amortisation, and impairment	<b>1,184</b>	954
Impairment on right-of-use asset	-	(235)
Net foreign exchange (gains)/losses	<b>(183)</b>	(131)
Lease expense related to short term leases	<b>199</b>	106
Other expenses	<b>8,403</b>	8,838
	<b>22,895</b>	23,281
<i>Analysed as:</i>		
Cost of sales	<b>3,692</b>	3,898
Administrative expenses	<b>19,203</b>	19,383
	<b>22,895</b>	23,281

### Reconciliation between Operating Costs and Adjusted Operating Costs:

	2023 £'000	2022 £'000
Administrative expenses	<b>19,203</b>	19,383
Finance expense	<b>136</b>	160
Total Operating Costs	<b>19,339</b>	19,543
<i>Less: Adjusting items</i>		
Impairment of right-of-use asset	-	(235)
Compensation for loss of office	<b>39</b>	81
Bonus and commissions expense	<b>453</b>	268
Share-based payment (credit)/expense*	<b>(171)</b>	270
Other interest expense	<b>73</b>	70
Other staff costs	<b>(82)</b>	(211)
Trademark litigation	<b>110</b>	150
	<b>422</b>	393
Adjusted Operating Costs	<b>18,917</b>	19,150

\* Inclusive of social security accrued in respect of share options.

## 16 Auditor remuneration

	2023 £'000	2022 £'000
Audit of parent company and consolidated accounts	<b>117</b>	<b>68</b>
Audit-related assurance services	<b>14</b>	<b>13</b>
	<b>131</b>	<b>81</b>

# Notes to the Consolidated Financial Statements continued

for the year ended 31 March 2023

## 17 Employee benefit expense

	2023 £'000	2022 £'000
Employee benefit expenses (including directors) comprise:		
Wages and salaries	<b>10,784</b>	9,888
Social security contributions and similar taxes	<b>1,437</b>	1,278
Defined contribution pension cost	<b>458</b>	369
Long service leave cost – sabbatical provision	<b>(61)</b>	(225)
Share-based payment expense	<b>(153)</b>	299
Compensation for loss of office	<b>39</b>	81
Medical benefits	<b>412</b>	319
	<b>12,916</b>	12,009

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the Group, including the 3 (2022: 2) Executive Directors of the company. Details of directors' emoluments are given in the Remuneration Report on page 47.

Compensation to key management is set out as follows:

	2023 £'000	2022 £'000
Salaries and benefits in kind	<b>725</b>	865
Social security contributions	<b>93</b>	145
Defined contribution pension cost	<b>4</b>	2
Share-based payment expense	<b>(30)</b>	85
	<b>792</b>	1,097

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

	2023 £'000	2022 £'000
Sales and marketing	<b>48</b>	43
Operations	<b>43</b>	52
IT	<b>37</b>	36
Administration	<b>23</b>	22
	<b>151</b>	153

## 18 Finance expenses

	2023 £'000	2022 £'000
Other net interest payable	<b>72</b>	71
Interest on lease liabilities	<b>64</b>	89
	<b>136</b>	160

## 19 Income tax expense

	2023 £'000	2022 £'000
Current tax	<b>209</b>	(1)
Deferred tax	<b>106</b>	(9)
	<b>315</b>	(10)

## 19 Income tax expense continued

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

	2023 £'000	2022 £'000
<b>Profit on ordinary activities before taxation</b>	<b>719</b>	945
Profit on ordinary activities multiplied by standard UK tax rate	<b>137</b>	180
Difference between tax rates applied to Group's subsidiaries	<b>264</b>	222
Net expenses not deductible for tax purposes	<b>15</b>	(35)
Adjustments to trading losses and brought forward values	<b>(395)</b>	-
Remeasurement of deferred tax for change in tax rates	<b>72</b>	-
Tax on intra-group management charges (Brazil)	<b>188</b>	-
Receipt of research and development credits	-	(487)
Adjustment to current tax in respect of prior years	<b>78</b>	(92)
Adjustments to foreign and withholding tax	<b>(390)</b>	(5)
Adjustments to deferred tax in respect of prior and current years	<b>346</b>	354
	<b>315</b>	(10)

The standard tax rate for the years ended 31 March 2023 and 2022 was 19%.

The R&D Tax Credit in respect of the year ended 31 March 2020 provided a benefit of approximately £0.5m, which was received and recognised in the year ended 31 March 2022. The R&D Tax Credit application of approximately £0.04m in respect of the year ended 31 March 2022 has been submitted to HM Revenue and Customs. It was not neither received nor recognised during the year nor subsequent to year-end. The Company is working with its advisors to submit a claim for a R&D Tax Credit in respect of the year ended 31 March 2023.

## 20 Deferred tax

Deferred tax assets and liabilities are as follows.

	2023 £'000	2022 £'000
Deferred tax assets:		
- deferred tax assets to be recovered after more than 12 months	<b>118</b>	272
- deferred tax assets to be recovered within 12 months	<b>85</b>	14
	<b>203</b>	286
Deferred tax liabilities:		
- Deferred tax (liability)/asset to be recovered within 12 months	-	6
<b>Deferred tax asset (net):</b>	<b>203</b>	292

The gross movement in deferred tax is as follows.

	2023 £'000	2022 £'000
<b>Opening balance</b>	<b>292</b>	286
Income statement credit/(charge)	<b>(106)</b>	6
Foreign exchange movements	<b>17</b>	-
<b>Closing balance</b>	<b>203</b>	292

## 20 Deferred tax continued

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

### Deferred tax assets

	Trading losses £'000	Other provisions £'000	Share options £'000	Dilapidation provisions £'000	Sabbatical provision £'000	Accelerated capital allowances £'000	Total £'000
<b>At 1 April 2022</b>	98	14	62	5	107	6	292
Credited/(charged) to income statement	(98)	62	(39)	3	(21)	44	(89)
<b>At 31 March 2023</b>	-	<b>76</b>	<b>23</b>	<b>8</b>	<b>86</b>	<b>10</b>	<b>203</b>

### Deferred tax liabilities

	Accelerated capital allowances £'000
<b>At 1 April 2022</b>	-
Charged to income statement	-
<b>At 31 March 2023</b>	-

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

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

## 21 Earnings per share

	2023	2022
<b>Profit attributable to equity holders of the company (£'000)</b>	<b>404</b>	955
Weighted average number of Ordinary Shares in issue	<b>12,698,398</b>	12,863,257
<b>Basic earnings/(losses) per share</b>	<b>3.2p</b>	7.4p
<b>Profit attributable to equity holders of the Company, in £'000</b>	<b>404</b>	955
Weighted average number of Ordinary Shares in issue	<b>12,698,398</b>	12,863,257
Share options	<b>12,888</b>	12,881
Weighted average number of Ordinary Shares for diluted earnings per share	<b>12,711,286</b>	12,876,138
<b>Diluted earnings per share</b>	<b>3.2p</b>	7.4p

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

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding assuming conversion of all dilutive share options to Ordinary Shares. Options are included in the determination of diluted earnings per share if the required performance thresholds would have been met based on the Group's performance up to the reporting date, and to the extent that they are dilutive. Accordingly, employee options of 1.3 million (2022: 1.2 million) have not been included in the calculation of diluted EPS because their exercise is contingent on the satisfaction of certain criteria that had not been met at 31 March 2023 and 31 March 2022. The total number of options in issue is disclosed in Note 10.

## 22 Dividends

The Company did not pay an interim dividend in the year ended 31 March 2023 and does not propose the payment of a final dividend.

No dividends were paid to directors in the years ended 31 March 2023 and 2022.

## 23 Net cash generated from operations

	2023 £'000	2022 £'000
<b>Profit before taxation</b>	<b>719</b>	945
Depreciation and impairment of property, plant, and equipment	<b>973</b>	859
Amortisation and impairment of intangible assets	<b>211</b>	95
Reversal of impairment of right-of-use asset	-	(235)
Interest paid	<b>136</b>	161
Share-based payment (credit)/expense	<b>(153)</b>	299
Decrease in contract assets	<b>96</b>	120
(Increase)/decrease in trade and other receivables	<b>(1,853)</b>	1,389
Increase in trade and other payables	<b>146</b>	415
(Increase)/decrease in contract liabilities	<b>(227)</b>	188
Decrease in provisions	<b>(55)</b>	(251)
Exchange differences on operating items	<b>(80)</b>	113
	<b>(87)</b>	4,098

## 24 Related party transactions

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

	Overhead charges £'000	Royalties £'000	Amounts due from/(to) related parties £'000
<b>2023</b>			
System1 Group PLC	<b>6,801</b>	<b>2,107</b>	<b>2,035</b>
System1 Research Limited	<b>(2,860)</b>	<b>(886)</b>	<b>(583)</b>
System1 Research, Inc.	<b>(2,304)</b>	<b>(714)</b>	<b>(1,065)</b>
System1 Research B.V.	<b>(116)</b>	<b>(36)</b>	<b>(327)</b>
System1 Research Sarl	<b>(332)</b>	<b>(103)</b>	<b>35</b>
System1 Research GmbH	<b>(285)</b>	<b>(88)</b>	<b>(557)</b>
System1 Marketing Consulting (Shanghai) Co. Limited	-	-	<b>178</b>
System1 Research Do Brazil Servicos de Marketing Ltda.	-	-	<b>108</b>
System1 Research France Sarl	<b>(470)</b>	<b>(146)</b>	<b>488</b>
System1 Market Research Pte Ltd	<b>(131)</b>	<b>(41)</b>	<b>(315)</b>
System1 Research Pty Ltd.	<b>(304)</b>	<b>(94)</b>	<b>0</b>
System1 Agency Limited	-	-	<b>5</b>
System1 AdRatings Limited	-	-	<b>(4)</b>
<b>2022</b>			
System1 Group PLC	-	7,673	5,010
System1 Research Limited	-	(2,886)	(3,846)
System1 Research, Inc.	-	(2,588)	(1,258)
System1 Research B.V.	-	(176)	244
System1 Research Sarl	-	(598)	67
System1 Research GmbH	-	(296)	(473)
System1 Marketing Consulting (Shanghai) Co. Limited	-	-	(213)
System1 Research Do Brazil Servicos de Marketing Ltda.	-	-	28
System1 Research France Sarl	-	(560)	249
System1 Market Research Pte Ltd	-	(214)	(125)
System1 Research Pty Ltd.	-	(354)	318
System1 Agency Limited	-	-	2
System1 AdRatings Limited	-	-	(3)

During the year, purchases of £141,181 (2022: £nil) were made from Merit Data & Technology Limited, a related party by virtue of the common directorship of Mr Philip Machray. At the year end, an amount of £nil was owed (2022: £nil).

## **25 Post balance sheet events**

On 30 June 2023, the Group reached a mutually agreeable resolution of the lawsuit filed by System1 Group PLC against System1 OpCo, LLC in the Southern District of New York for trademark infringement. The parties have signed a global agreement which governs the co-existence of their respective use of the "System1" trademark in connection with their operations. As part of this agreement, the Group will receive a fixed amount, payable in instalments, in the years ending 31 March 2024 and 2025.

## **25 Audit exemption**

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

# Company Balance Sheet

as at 31 March 2023

REGISTERED COMPANY NO. 05940040

	Note	2023 £'000	2022 £'000
<b>Fixed assets</b>			
Intangible assets	2	<b>1,396</b>	382
Tangible assets	3	<b>808</b>	1,464
Investments in subsidiaries	4	<b>581</b>	581
		<b>2,785</b>	2,427
<b>Debtors due after one year</b>	5	<b>26</b>	-
<b>Current assets</b>			
Debtors due within one year	5	<b>5,924</b>	8,147
Cash and cash equivalents		<b>1,242</b>	2,288
		<b>7,166</b>	10,435
<b>Creditors: amounts due within one year</b>	6	<b>5,182</b>	7,367
<b>Net current assets</b>		<b>1,984</b>	3,068
<b>Total assets less current liabilities</b>		<b>4,795</b>	5,495
<b>Creditors: amounts due after one year</b>	6	<b>163</b>	792
<b>Provisions for liabilities</b>	7	<b>194</b>	264
<b>Net assets</b>		<b>4,438</b>	4,439
<b>Capital and reserves</b>			
Share capital	9	<b>132</b>	132
Share premium account	1	<b>1,601</b>	1,601
Retained earnings	1	<b>2,705</b>	2,706
<b>Shareholders' funds</b>		<b>4,438</b>	4,439

As permitted by Section 408 of the Companies Act 2006, the Company's profit and loss account has not been included in these financial statements. The Company's profit after tax was £287,000 (2022: £1,667,000).

The notes on pages 87 to 96 are an integral part of these company financial statements.

These financial statements were approved by the directors on 25 August 2023 and are signed on their behalf by:

James Gregory    Chris Willford  
Director            Director

# Company Statement of Changes in Equity

for the year ended 31 March 2023

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
<b>At 1 April 2021</b>	132	1,601	1,307	<b>3,040</b>
<b>Profit for the financial period and total comprehensive income attributable to the equity holders</b>	-	-	1,667	<b>1,667</b>
Transactions with owners:				
Employee share options scheme:				
- value of employee services	-	-	299	<b>299</b>
Purchase of treasury shares			(567)	<b>(567)</b>
	-	-	(268)	<b>(268)</b>
<b>At 31 March 2022</b>	132	1,601	2,706	<b>4,439</b>
<b>Profit for the financial period</b>	-	-	287	<b>287</b>
<b>Total comprehensive income attributable to the equity holders</b>	-	-	287	<b>287</b>
Transactions with owners:				
Employee share options scheme:				
- value of employee services	-	-	(153)	<b>(153)</b>
Purchase of treasury shares			(135)	<b>(135)</b>
	-	-	(288)	<b>(288)</b>
<b>At 31 March 2023</b>	132	1,601	2,705	<b>4,438</b>



# Notes to the Company Financial Statements

for the year ended 31 March 2023

## 1 Accounting policies

### Statement of compliance

The separate financial statements of the Company are presented in accordance with Financial Reporting Standard 101 – ‘The Reduced Disclosure Framework’. They have been prepared under the historical cost convention. The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been applied consistently throughout the year.

This Company is included in the consolidated financial statements of System1 Group PLC for the year ended 31 March 2023. These accounts are available from the registered office address of the Company, and at [system1group.com/investors](http://system1group.com/investors).

### Disclosure exemptions adopted

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

- a) a statement of cash flows and related notes;
- b) the requirements of IAS 24 Related Party Disclosures to disclose related party transactions entered between two or more wholly owned members of the group;
- c) disclosure of key management personnel compensation;
- d) capital management disclosures;
- e) disclosure of leases as required by paragraph 52 of IFRS 16 “Leases”;
- 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 share-based payments
- i) disclosures in respect of financial instruments and fair value measurement.

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

### Research and development – internally generated intangible assets

All on-going research expenditure is expensed in the year in which it is incurred. Where no internally generated intangible asset can be recognised, development expenditure is charged to administrative expenses in the period in which it is incurred.

Costs relating to the research phase of the product, amounting to £3.9m were expensed in the year to 31 March 2023. Development costs include professional fees and directly attributable employee costs required to bring the software into working condition.

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

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

### Amortisation

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

Capitalised development costs are amortised on a straight-line basis over their estimated useful economic life of three years.

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

## 1 Accounting policies continued

### Investments

Fixed asset investments comprise investments by the Company in the shares of subsidiary undertakings. The carrying value of is reviewed for indicators of impairment on an annual basis. Where such indicators are present, a quantified impairment test is required and the value in use calculated based upon a discounted cash flow methodology using the most recent forecasts prepared by management. No impairment indicators were identified at 31 March 2023 or 31 March 2022.

### Tangible assets and right-of-use assets

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

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

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

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

### Impairment of property, plant and equipment and intangible assets

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

### Cash at bank

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

### Income taxes

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

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

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

### Employee benefits

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

The Company operates a defined contribution pension plan. The Company pays contributions to the plan based upon the contractual terms agreed with each employee. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Any amounts outstanding at the reporting date are recognised in liabilities within accruals.

## 1 Accounting policies continued

### Share-based payments

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

### Provisions

Provisions are recognised when: the Company has a legal or constructive obligation because of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Where material, the increase in provisions due to passage of time is recognised as interest expense.

The provision for sabbatical leave is measured using the projected unit credit method.

The provision for dilapidations is measured at the present value of expenditures expected to be required to settle those obligations.

### Financial instruments

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

#### Trade and other receivables

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

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

#### Financial liabilities

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

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

#### Lease liabilities

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

## 1 Accounting policies continued

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

### Share capital

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

### Share premium

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

### Treasury shares

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

### Share-based payments – judgement

The fair value of options granted under the long-term incentive scheme is determined using Monte Carlo simulation models. These models require several estimates and assumptions. The significant inputs into the models are share price at grant date, exercise price, historic exercise multiples, expected volatility and the risk-free rate. Volatility is measured at the standard deviation of expected share price returns based on statistical analysis of historical share prices.

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

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

The 2021 LTIP is subject to Revenue, Profit After Tax and the Company's share price exceeding certain targets; the full details of which are given in the Company's Remuneration Report. The measure of the share-based payment charge is dependent on the estimates made in respect of the probability of those targets being achieved over the vesting period of the options. The key inputs into those estimates are the Company's forecasts, revenue volatility and inflation. Revenue volatility is determined by reference to the share price volatility used to determine the fair value of the options (with an assumption that the two will have a high level of correlation). Inflation is determined by reference to the Bank of England data for the UK in March and April 2023. The non-market probability factor utilised in the share-based payment model for the year ended 31 March 2023 is between 13% and 17% (31 March 2022: 62% to 65%). The cumulative charge recognised in respect of share options is £126,000 at 31 March 2023. If the non-market probability factor was reduced by 33% to between 9% and 11%, the cumulative charge would reduce to £84,000.

## 1 Accounting policies continued

### Employee benefits – estimate

The Company has a sabbatical leave scheme, which provides 20 days paid leave for each six years of service. During the year ended 31 March 2023, the Company modified the terms of the scheme such that rather than being open to all employees, the scheme is now only available to those individuals who have accrued three or more years of unbroken service as at 30 September 2022. The provision for liabilities under the scheme is measured using the projected unit credit method. This model requires several estimates and assumptions. The significant inputs into the model are rate of salary growth and average staff turnover as explained in Note 7.

The average number of staff employed by the Company during the year ended 31 March 2023 was 64 (2022: 61) and total employment costs were £6,072,000 (2022: £5,700,000).

### Leases – estimate and judgement

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

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

## 2 Intangible assets

	Development costs £'000	Software £'000	Total £'000
<b>At 1 April 2021</b>			
Cost	-	464	464
Accumulated amortisation	-	(46)	(46)
<b>Net book value</b>	-	418	418
<b>Net book value, at 1 April 2021</b>	-	418	418
Additions	-	59	59
Amortisation for the year	-	(95)	(95)
<b>Net Book Value, at 31 March 2022</b>	-	382	382
<b>At 31 March 2022</b>			
Cost	-	525	525
Accumulated amortisation	-	(143)	(143)
<b>Net book value</b>	-	382	382
<b>At 1 April 2022</b>			
Cost	-	525	525
Accumulated amortisation	-	(143)	(143)
<b>Net book value</b>	-	382	382
<b>Net book value, at 1 April 2022</b>	-	382	382
Additions	1,225	-	1,225
Amortisation for the year	(101)	(110)	(211)
<b>Net book value, at 31 March 2023</b>	1,124	272	1,396
<b>At 31 March 2023</b>			
Cost	1,225	525	1,750
Accumulated amortisation	(101)	(253)	(354)
<b>Net book value</b>	1,124	272	1,396

# Notes to the Company Financial Statements continued

for the year ended 31 March 2023

## 2 Intangible assets continued

The only software cost as at 31 March 2023 is the Company's finance and operations system that was brought into use October 2020 and the Company's HR system that was brought into use in August 2021.

Development costs relate to costs capitalised for the development of the "Test Your" platform (carrying value £865k), which completed during the year ended 31 March 2023, and the Supply Chain Automation platform (carrying value £259k), which is due for completion in the year ended 31 March 2024. Development costs in respect of completed projects are tested for impairment where impairment indicators exist. Development costs in respect of ongoing projects are tested for impairment at each reporting date. The carrying value of the assets in each case are assigned to their respective cash generating units for the purposes of assessing future cashflows. The principal assumptions in the used in the forecasts were the timing and amount of future revenues and cost savings, which were derived from the latest forecasts approved by the Board. Following the assessment, the Board have determined that no impairment of assets is required as at 31 March 2023.

## 3 Tangible assets

	Right-of-use assets £'000	Furniture and fixtures £'000	Computer hardware £'000	Total £'000
<b>At 1 April 2021</b>				
Cost	2,139	60	181	2,380
Accumulated depreciation	(850)	(55)	(119)	(1,024)
<b>Net book value</b>	<b>1,289</b>	<b>5</b>	<b>62</b>	<b>1,356</b>
<b>Net book value, at 1 April 2021</b>	<b>1,289</b>	<b>5</b>	<b>62</b>	<b>1,356</b>
Additions	1,245	1	68	1,314
Disposals	(196)	-	-	(196)
Depreciation charge for the year	(939)	(3)	(68)	(1,010)
<b>Net book value, at 31 March 2022</b>	<b>1,399</b>	<b>3</b>	<b>62</b>	<b>1,464</b>
<b>At 31 March 2022</b>				
Cost	2,682	10	165	2,857
Accumulated depreciation	(1,283)	(7)	(103)	(1,393)
<b>Net book value</b>	<b>1,399</b>	<b>3</b>	<b>62</b>	<b>1,464</b>
<b>At 1 April 2022</b>				
Cost	<b>2,682</b>	<b>10</b>	<b>165</b>	<b>2,857</b>
Accumulated depreciation	<b>(1,283)</b>	<b>(7)</b>	<b>(103)</b>	<b>(1,393)</b>
<b>Net book value</b>	<b>1,399</b>	<b>3</b>	<b>62</b>	<b>1,464</b>
<b>Net book value, at 1 April 2022</b>	<b>1,399</b>	<b>3</b>	<b>62</b>	<b>1,464</b>
Additions	-	-	23	23
Depreciation charge for the year	(621)	(1)	(57)	(679)
<b>Net book value, at 31 March 2023</b>	<b>778</b>	<b>2</b>	<b>28</b>	<b>808</b>
<b>At 31 March 2023</b>				
Cost	<b>1,245</b>	<b>11</b>	<b>188</b>	<b>1,444</b>
Accumulated depreciation	<b>(467)</b>	<b>(9)</b>	<b>(160)</b>	<b>(636)</b>
<b>Net book value</b>	<b>778</b>	<b>2</b>	<b>28</b>	<b>808</b>

## 4 Investments

	£'000
Cost and net book amount at 1 April 2022 and 31 March 2023	581

### Subsidiary undertakings

Details of subsidiary undertakings, registered office and country of incorporation of each, at 31 March 2023 are as follows:

Subsidiary undertaking	Registered office	Country of incorporation
System1 Research Limited	4 More London Riverside, London, England, SE1 2AU	UK
System1 Research B.V.	Conradstraat 38 D2. 138, 3013AP Rotterdam	Netherlands
System1 Research, Inc.	251 Little Falls Drive, Wilmington, DE 19808, New Castle County, Delaware	USA
System1 Research Sarl	Avenue Gratta Paille 2, 1018 Lausanne, Switzerland	Switzerland
System1 Research GmbH	Kleine Seilerstrasse 1 D-20359 Hamburg	Germany
System1 Research Do Brazil Servicos de Marketing Ltda.	Avenida das Nacoes Unidas 14261 – Conj. 25-126B – Cond. WT Morumbi, CEP 04794-000, Vila Gertrudes, São Paulo	Brazil
System1 Research France Sarl	17 Rue de Turbigo, 75002 Paris	France
System1 Market Research Pte Ltd	30 Cecil Street, #19-08 Prudential Tower, 049712	Singapore
System1 Research Pty Ltd.	Suite 1, Level 11, 60 Castlereagh Street, Sydney, NSW 2000	Australia
System1 Agency Limited	4 More London Riverside, London, England, SE1 2AU	UK
System1 AdRatings Limited	4 More London Riverside, London, England, SE1 2AU	UK

System1 Research Limited, System1 Agency Limited, and System1 AdRatings Limited are wholly owned direct subsidiaries of System1 Group PLC. The remaining subsidiaries are each wholly owned direct subsidiaries of System1 Research Limited. The activities of all companies are the provision of market research data and insight services, apart from System1 Agency Limited and System1 AdRatings Limited, which are dormant.

## 5 Debtors

	2023 £'000	2022 £'000
<b>Due within one year</b>		
Trade debtors	12	10
Trade debtors from group companies	5,131	3,745
Amounts due from group companies	126	3,880
Other debtors	92	126
VAT recoverable	203	127
Corporation tax recoverable	2	43
Deferred tax asset	-	19
Prepayments	358	197
	<b>5,924</b>	8,147
<b>Due after one year</b>		
Deferred tax asset	26	-

The Company is part of a VAT group with its wholly owned subsidiary, System1 Research Limited. At 31 March 2023, System1 Research Limited had a VAT liability of £415,000, therefore the net exposure of the two entities is £211,000 (2022: debtor of £90,000).

# Notes to the Company Financial Statements continued

for the year ended 31 March 2023

## 6 Creditors

	<b>2023</b> £'000	2022 £'000
<b>Due within one year</b>		
Trade creditors	<b>741</b>	436
Social security and other taxes	-	304
Amounts due to group companies	<b>3,220</b>	2,615
Lease liabilities	<b>630</b>	681
Borrowings	-	2,500
Accruals	<b>591</b>	831
	<b>5,182</b>	7,367
<b>Due after one year</b>		
Lease liabilities	<b>163</b>	792
	<b>163</b>	792

## 7 Provisions for liabilities

	Sabbatical £'000	Deferred tax £'000	Total £'000
<b>At 1 April 2021</b>	299	-	299
Provided in the year	-	10	10
Reversal of unused amount	(45)	-	(45)
<b>At 31 March 2022</b>	254	10	264
Provided in the year	-	-	-
Utilised in the year	(11)	-	(11)
Reversal of unused amount	(69)	-	(69)
<b>At 31 March 2023</b>	<b>184</b>	<b>10</b>	<b>194</b>
Due within one year	32	10	42
Due after one year	152	-	152

The Company has a sabbatical leave scheme, which provides 20 days paid leave for each successive period of six years' service. There is no proportional entitlement for shorter periods of service. During the year ended 31 March 2023, the Group modified the terms of the scheme such that rather than being open to all employees, the scheme is now only available to those individuals who have accrued three or more years of unbroken service as at 30 September 2022. The provision is expected to unwind over the next three to four years. The assumptions used in the sabbatical provision is as follows:

	<b>2023</b>	2022
Measurement method	Project unit credit method	
Discount rate, based on 6-year corporate bond yields*	<b>5.0%</b>	2.5%
Annual salary growth rate	<b>7%</b>	7%
Staff turnover	<b>14%</b>	30%

	£'000
Changes to the assumptions will increase the provision by:	
0.25% decrease to discount rate	-
10% increase to salary increase assumption	8
5% decrease to staff turnover assumption	12
10% of salary paid as bonus to all members	39



## 8 Deferred tax

Deferred tax assets and liabilities are as follows.

	2023 £'000	2022 £'000
Deferred tax assets:		
- deferred tax assets to be recovered after more than 12 months	70	1
- deferred tax assets to be recovered within 12 months	26	123
	<b>96</b>	124
Deferred tax liabilities:		
- deferred tax liability to be recovered within 12 months	<b>(70)</b>	(105)
<b>Deferred tax asset (net):</b>	<b>26</b>	19

The gross movement in deferred tax is as follows.

	2023 £'000	2022 £'000
<b>Opening balance</b>	<b>19</b>	46
Income statement credit/(charge)	<b>7</b>	(27)
<b>Closing balance</b>	<b>26</b>	19

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 £'000	Share options £'000	Sabbatical provision £'000	Total £'000
<b>At 1 April 2022</b>	<b>1</b>	<b>61</b>	<b>63</b>	<b>125</b>
Credited to income statement	27	(39)	(17)	(29)
<b>At 31 March 2023</b>	<b>28</b>	<b>22</b>	<b>46</b>	<b>96</b>

### Deferred tax liabilities

	Accelerated capital allowances £'000
<b>At 1 April 2022</b>	<b>(105)</b>
Charged to income statement	35
<b>At 31 March 2023</b>	<b>(70)</b>

# Notes to the Company Financial Statements continued

for the year ended 31 March 2023

## 9 Share capital

At 1 April and 31 March	2023		2022	
	No.	£'000	No.	£'000
Allotted, called up, and fully paid ordinary shares	<b>13,226,773</b>	<b>132</b>	13,226,773	132

Included within issued share capital are 547,844 ordinary shares held in treasury.

## 10 Related party transactions

During the year, purchases of £141,181 (2022: £nil) were made from Merit Data Technology Limited, a related party by virtue of the common directorship of Mr Philip Machray. At the year end, an amount of £nil was owed (2022: £nil).

## 11 Post balance sheet events

On 30 June 2023, the Group reached a mutually agreeable resolution of the lawsuit filed by System1 Group PLC against System1 OpCo, LLC in the Southern District of New York for trademark infringement. The parties have signed a global agreement which governs the co-existence of their respective use of the "System1" trademark in connection with their operations. As part of this agreement, the Group will receive a fixed amount, payable in instalments, in the years ending 31 March 2024 and 2025.

# Company Information

## **Company Secretary**

Renata Ziolkó-Nishikant

## **Registered Office**

4 More London Riverside  
London  
SE1 2AU  
United Kingdom

## **Registered Number**

05940040

## **Independent Auditor**

RSM UK Audit LLP  
Statutory Auditor  
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# System1

## **System1 Group PLC**

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