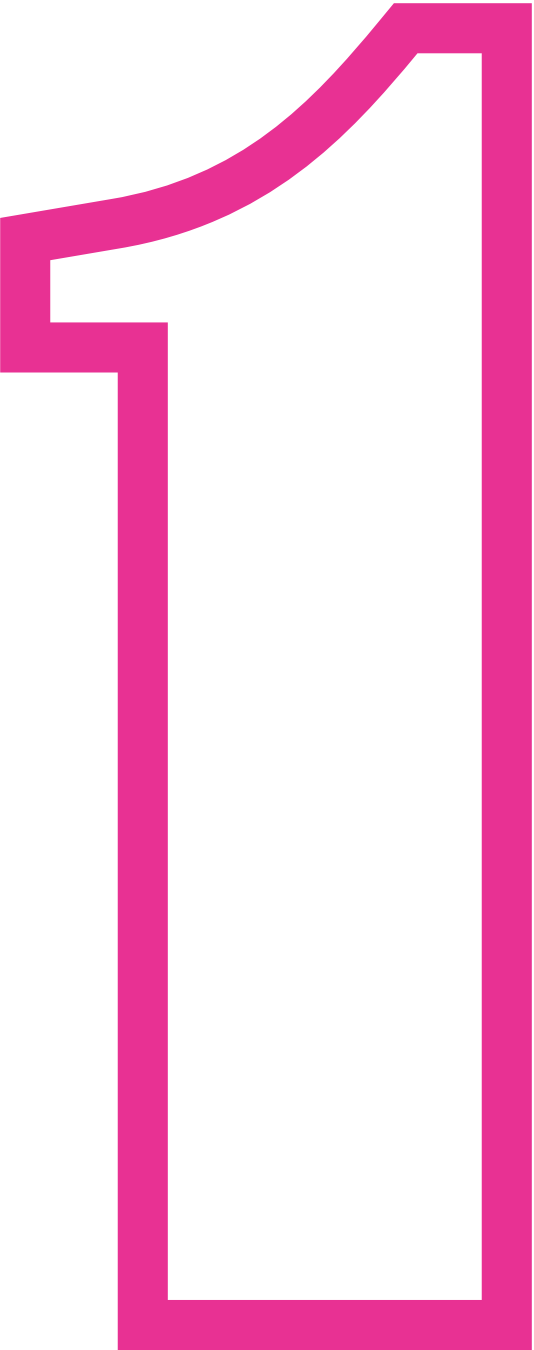




Company Information

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Highlights

The Company changed its year-end last year and its previous audited financial statements relate to the 15 months ended 31 March 2017. To ensure like-for-like comparisons, percentage changes shown below have been calculated using, as the base, unaudited results for the twelve months ended 31 March 2017 (“2016/17”), and where mentioned “last year” refers to 2016/17.

As previously announced, the 2017/18 financial performance was disappointing. Nevertheless, the Company continued to generate strong cash flow (relative to profit).

- 8% Revenue decline to £26.94m (2016/2017: £32.80m), 17% in constant currency
- 18% Gross Profit decline to £22.23m (2016/2017: £26.98m), 17% in constant currency
- 68% decrease in Profit Before Tax to £1.99m (2016/2017: £6.28m)
- 70% decrease in Profit After Tax to £1.21m (2016/2017: £4.03m)
- 69% decrease in fully diluted Earnings Per Share to 9.5p (2016/2017: 31.1p)
- £1.83m cash flow pre-financing, equating to 151% of Profit After Tax (2016/17: £6.60m, equating to 164% of Profit After Tax)
- £4.19m returned to shareholders by way of dividends during the year
- £5.78m cash at 31 March 2018 and no indebtedness (31 March 2017: £8.27m and no indebtedness)

Although not directly comparable, for completeness, the profit before tax for the year of £1.99m compares to £7.2m for the 15 months ended 31 March 2017.

DIVIDENDS

In view of the strong cash position, the Board is proposing to maintain the final dividend at 6.4 pence per share (2016/17: 6.4 pence per share).

“ 2017/18 was quite a year. We were slow to appreciate the speed and scale of change occurring in our market, with painful consequences for investors and staff alike. The realisation that client budget-cuts were significant and probably permanent galvanised us to react, rethink and reinvent. The result, we believe, is a more competitive and scalable offer, with the potential to build a much larger and more stable business over the years to come. 2018/19 will be a period of transition as we seek to sell-in our new and modified product offers against a challenging market backdrop. ”

JOHN KEARON
Chief Executive Officer

Chairman's Statement

System1 has had another eventful year, but unfortunately a much less successful one than we had anticipated. We entered 2017/18 expecting to deliver further progress on the back of our strong performance in 2016/17. The reality, however, proved very different and our first year as System1 Group (formerly BrainJuicer Group) was marked by a deterioration in trading conditions and a sharp fall in profits.

For the year to the end of March 2018, gross profit (the Company's main top-line performance indicator) declined by some 18% to £22.23m compared with the previous 12 months. Pre-tax profit fell by 68% to £1.99m, and fully diluted earnings per share by 69% to 9.5p. The Board proposes to pay a final dividend of 6.4p per share which is maintained at the same level as the prior year despite the lower profits. This would leave the total interim and final payout unchanged versus 2016/17 at 7.5p. A special dividend of 26.1p per share was paid to shareholders in August 2017. Despite the fall in profits, and the return of £4.19m to shareholders by way of dividends during the financial year, the Company's financial position remains strong, with a year end cash balance of £5.78m, equivalent to 46p per share.

John Kearon (CEO) and James Geddes (CFO) will review the results for the year in some detail in the sections following this Chairman's Statement. In essence, however, System1's disappointing 2017/18 performance reflected a combination of two factors – firstly a sharp downturn in revenue as clients cut back on spending on market research, and secondly an increase in our costs as we continued to invest in the business to support longer term growth.

So what happened, and how have we responded to the tougher trading environment? Did management have its eye off the ball due to the change of name and associated re-branding exercise? Buyers of market research, and in particular large, multinational companies, have for some time been seeking to get more automated, lower cost data delivered to them more quickly, but this trend gathered pace during 2017/18.

While the re-branding process, coupled with some leadership reorganization, may have had some impact, it is also the case that management took a characteristically robust and innovative series of product development and client service initiatives as the year progressed. This process is continuing in the current year. It takes time for such measures to gain traction, but we believe they will – and there is more innovation to come.

Turning to costs, in response to the disappointing revenue trends management took a number of steps to curtail the rate of cost growth, for example by reducing planned recruitment and closing our small office in Shanghai. Importantly for the longer term, however, we continued to invest in new product development. All things consid-

ered, I believe that System1's management responded well in adverse circumstances, finishing the year slightly ahead of revised expectations, and that the measures already taken and in the pipe-line will return the business to a growth trajectory. Now we have to deliver the goods.

I would like to offer my sincere thanks to all our employees for their hard work and commitment during what was in many ways a difficult year. I wish everyone connected with System1 a successful 2018/19. I have been non-executive Chairman of BrainJuicer/System1 since September 2007 and, despite last year's setback, have been delighted overall by the ways in which the business has become established as a well respected, and highly innovative, force in the market research space.

The Company was admitted to AIM in 2006 at a price of 108p, and even after the sharp decline from a little over £10 in May last year the share price as I write is approximately 200% above the issue price. In addition, we have since flotation returned no less than 97p per share to shareholders in dividends – a reflection of our profitability and enduring strong cash generation.

Corporate Governance guidelines suggest that after 9 years a non-executive director should no longer be considered to be fully independent, and for that reason I will not be standing for re-election at the forthcoming Annual General Meeting, which will be held on 25 July 2018.

I am delighted to recommend that Graham Blashill, who has served as a non-executive director since 2012, be elected Chairman, and that Robert Brand, who has served as a non-executive director since 2012, becomes the Senior Independent Director. We will also seek to further increase the number of non-executive directors on the board.

KEN FORD
Chairman

Chief Executive Officer's Statement

The Pain & Potential of Dramatic Change...

As a senior client, at one of the world's largest multinationals, said to me recently:

“ Market Research has changed more in the last 3 years, than in the previous 40.”

Having been a leading advocate of innovation and change over 17 years, we have to hold our hand up and admit we were slow to see the speed and scale of what was happening around us. We also have to acknowledge the painful consequences on revenues, profits and morale, for all concerned. In short, a miserable year. But as one of our investors said to James and I, during our half-year results roadshow:

“ You should never waste a good crisis.”

And we haven't. The realisation that client budget-cuts were significant and permanent, galvanised us to react, rethink and dramatically re-engineer our services, to get back out ahead of the market.

James' CFO Review that follows details the impact on costs, revenues and profits of the client budget-cuts and our re-engineered product, proposition and strategy for growth, detailed below.

On Friday 17th February last year, Unilever received and immediately rejected a £115bn bid from Kraft Heinz Co., backed by their controlling investors, Warren Buffet and 3G Capital. Although Unilever successfully fought off the bid, the following months saw a number of the World's largest consumer goods companies announce significant reductions in marketing spend, helping to bolster their short term profits and share price against hostile bids.

Unfortunately, these events had a more painful effect on our business than on many of our larger competitors, but also gave us the necessary insight for how to match the dramatic market changes with a dramatically more competitive offering, capable of building a far bigger, more resilient business.

It's not the biggest, fastest or even the smartest that survive, it's the most adaptable.

Successful adaptation to rapid change, requires bold ideas, grit, creativity and a great deal of hard work. Luckily, these are qualities in plentiful supply across the Company. We've deployed them many times, over many years and this is one of the reasons System1 is recognised by clients and peers alike as one of the leading innovators in Market Research:

- 1st to champion the predictive accuracy, cost and speed advantages of online research.
- 1st to use online's interactive and recursive capability, to automatically capture and structure any number of open-ended consumer responses. Since 2000, the MindReader® has been used 50m times, collecting over 100m open-ended responses [around 700m words], and continues to provide invaluable insight, colour and creativity to improve our clients' marketing.
- 1st to champion the superior accuracy of Predictive Markets [Wisdom of Crowds] and validate its ability to better predict the market potential of our clients' new product ideas. Since 2004, we have successfully assessed the market potential of more than 50,000 innovations.
- 1st to create and commercialise an online measure of emotion and validate that consumers' feelings about a brand and its marketing are the best predictor of their market potential. Since 2004, FaceTrace® has captured over 5m emotional responses from 80+ countries - making it the World's largest and most global, normative database of emotional metrics.

- 1st to champion and use behavioural science to better understand and more accurately predict consumer decision making – “We think much less than we think we think”, “We use our System 1 intuition, emotions and instinct to make most decisions, most of the time”.
- 1st Ad testing method to be externally validated* as highly predictive of an advert’s effectiveness and profitability [*by the Institute of Practitioners in Advertising – IPA – who have the World’s biggest, most validated database of Advertising Effectiveness case studies and whose work on how advertising works is accepted as the industry standard]. Since 2009, we have tested over 20,000 ads and predicted the success of a number of very famous campaigns, tested by us [not a claim our major competitors have felt able to make].

These innovations won us admiration and profile in the industry, who voted us, ‘Most Innovative Agency’, in six of the seven years since the competition started. More importantly, it secured us work from many of the World’s biggest brands, enabling year on year growth, in all but 3 of our 18 years.

So why were we affected by last year’s deep-cuts in marketing spend by the largest multinationals?

Every year, our largest multinational clients, run a good number of projects with System1, one or two of which, are usually much larger, multi-market projects testing many ideas [£100k-£300k]. For most of these clients, we’re one of their approved ‘Specialist Research Suppliers’, used for particular research needs, rather than a ‘Core Contractual Partner’, used regularly and internationally for their standard research requirements. They tend to use System1 for their more challenging projects, or when the idea(s) to be assessed are particularly emotional, where they feel an accurate assessment may be beyond the capability of their Core Contractual Partner. Our projects for them receive consistently high client satisfaction scores and often generate strong internal advocacy for System1 to become a Core Contractual Partner. Despite this, we’ve only successfully moved from ‘Specialist Research Supplier’ to ‘Core Contractual Partner’ in a small number of cases.

When the deep-cuts came, most of our clients’ reduced budget was committed to Core Contractual Partners, forcing them to cancel or reduce the scale of their more creative, discretionary projects. In our case, we won 94% of the number of projects in the previous year, but clients’ budget constraints meant there were fewer larger [£100k to £300k] projects, and overall a 13% reduction in average project size. It was a painful insight into the vulnerability of not being a Core Contractual Partner to more clients and the importance of adapting our offering to achieve it.

The market was changing, budgets were tightening, we were suffering and our most senior clients were being asked for a greater, more demonstrable contribution to brand growth, with less resources.

This was clearly the moment to innovate..., and we did.

We decided to separate two parts of idea testing [Prediction + Direction], that have always, by necessity, been bought and delivered together. By necessity, because the clarity of predictions currently emerges through detailed analysis of different performance metrics and looking for possible enhancements, before combining prediction and direction, to recommend the ideas with potential.

I realise separating prediction from direction doesn’t sound obviously innovative or significant, but surprisingly, it is.

Here’s why:

1. Currently, every idea a client tests requires significant time and cost, analysing performance, and looking for improvements before summarising potential.
2. We know, from testing tens of thousands of ideas, over half have no market potential. The significant time and cost currently required to establish each idea’s potential, represents a huge potential cost saving and efficiency gain, if there was a better way to get to predictions.
3. The superior accuracy of our predictions [based on extensive validations], are derived from just two or three innovative, quantitative measures of people’s system 1 response i.e. not reliant on extensive analysis of multiple measures and research expertise.

4. Our predictive measures lent themselves to automation, dramatically reducing the time and cost of predictions + further savings providing direction only on ideas with potential.
5. Ideas with no potential can be quickly discarded = huge savings of wasted time and money.
6. More time, on fewer ideas, enables higher quality direction, we now call 'Creative Guidance'.
7. Low-cost, high speed predictions, enables earlier, more frequent testing & improved outcomes.
8. By separating and automating our predictions and only charging for direction on good ideas:
 - Overall value to clients increases;
 - Speed of testing is significantly faster: next-day predictions + 3 days for direction;
 - Higher quality 'Creative Guidance' strengthens market potential;
 - More frequent testing improves outcomes & elevates Market Research's contribution to growth.

Having automated our predictions, a further innovation was to package the advantages of our re-engineered offer as a better, cheaper AND faster, 'Creative Guidance System'. The system enables clients to test earlier, more often, more accurately and more cheaply and the flexibility to decide the amount of creative guidance needed, to ensure better marketing outcomes. Clients can tailor the system to fit their company culture, process and needs, and use widely and at scale, to navigate their marketing to the North Star of; more growth, less waste and improved profitability. For System1, it's a dramatically more competitive proposition, more obviously an enterprise offering and massively increases our prospects of becoming a 'Core Contractual Partner' with many, many more clients. Calling it the 'Creative Guidance System' also helps connect our services and System1 name.

The re-engineering and repackaging took a great deal of brilliant work, by a great many talented staff. It's testament to the ethos of a remarkable group of people, to immediately respond to the market challenges and our poor results, with bold ideas, creative solutions and a great deal of grit and hard work. I'd like to thank them all, along with some incredible clients, who gave us great feedback and enormous encouragement that the Creative Guidance System was JUST what clients needed. Their genuine desire to see us win, was enormously energising.

There seems to be a major move by Heads of Research at some of the world's biggest multinationals to make their departments more commercial and accountable and make a more demonstrable contribution to brand growth. One of them caused quite a stir at a recent industry conference, by suggesting:

“Our role is to lead the business to ideas that sell more”

It's too early to report any meaningful data on the new offerings, so I'll avoid our own confirmation bias and skip the part where we say, "the early signs are promising". We'll share more at the half-year. Rest assured, every1 in the business knows, the only way to prove the potential of the 'Creative Guidance System' is through winning more business, with more clients, more of whom choose to use System1, at scale, as a 'Core Contractual Partner'.

To support and promote the growth of our research services, there's one last, potentially significant initiative to share, before you turn to James' excellent CFO review of the business.

Each year, for the last five years, we've assessed the effectiveness of ads, anywhere in the world, that won major creative or effectiveness awards, industry or mainstream media attention [around 700]. We put them through our testing model, and rank them from 1 to 5-Star according to their emotional power and effectiveness. Low 2-Star is the norm but our FeelMore50 celebrates the cream of the crop – the rare % of most emotional, memorable and ultimately most profitable 4 and 5-Star ads.

Having automated our predictions, we realised it was now easy to test 700 ads for FeelMore50. The subsequent thought was, “how about testing every ad aired in the UK in the last year, so we can stress-test our automated predictions and know the relative performance of our FeelMore50, compared to the real 1 to 5-Star distribution of all ads?”

Over a 3 week period last December we tested 2,500 UK ads in the top 6 advertised categories that aired in the previous 12 months. The results were a revelation. The overall performance distribution of all UK ads, was so much lower than our existing norms:

- 53% of all ads were 1-Star and likely to have absolutely no long term impact on brand growth or profitability. Put more bluntly, a complete waste of money. Now, we have numeric proof for the truth of the apocryphal saying, “half my marketing is wasted, I just don’t know which half” - the difference being, we now knew which half.
- A further 30% were 2-Star marginal with only weak potential to grow the brand.
- Leaving only 17% of ads rating 3-Star and above and likely to achieve meaningful brand growth and profitability, and just 1% were 5-Star – those memorable, emotional ads capable of growing long term brand share by 3%.

So we decided to do the same in America, testing 14,500 ads in the top 6 advertised categories, aired in the previous 12 months. The results were almost identical and suggested a significant commercial potential for an online, subscription service, rating the quality and effectiveness of advertising.

Later this year, we will launch System1 Ad Ratings in the UK and US. It will be an online, subscription based service providing, predictive next-day ratings of any new advert + past 12 months advertising performance of any brand and company. Our service will be dramatically better, cheaper and faster than any existing provider. It’s going to make for an interesting year ahead.

To close, there’s one person to mention, to whom we all owe a huge debt of gratitude – Ken Ford, or ‘Chairman Ken’ as he’s affectionately known. As the head of our chosen broker, Teather & Greenwood, he helped guide us from the world of private equity to a successful flotation on the AiM market – no easy task, as anyone who’s been through it knows.

Then as Chairman of System1, his no-nonsense wisdom, sharp business acumen and intimate City knowledge, successfully guided us, for almost a decade, through the many ups and downs and growing pains of any ambitious business. On behalf of all our investors, staff, clients and Board members [past and present]...

“ Thanks Ken ”

JOHN KEARON
Chief Executive Officer

Business and Financial Review

As previously announced and discussed elsewhere, this was a disappointing year in financial terms. Gross Profit (our main top line measure) declined 18% (17% in constant currency) to £22.23m, and Profit Before Tax declined to £1.99m from £6.28m in 2016/17.

We began the year with optimism following a strong set of results in 2016/17, and the downturn took us by surprise. Nevertheless, we reacted promptly over the course of the year. We re-designed our product offerings, re-organised some account management teams, and reduced costs. The Company is, we believe, in better shape now as a result, and finished the year slightly ahead of revised expectations.

Cash flow during the downturn remained healthy. The Company paid dividends during the year of £4.19m yet still had a cash balance at year-end of £5.78m.

Our business comprises, in the main, market research ("Research"), and a recently established small advertising agency ("Agency"). The purpose of both is to help clients create profitable marketing. Our market research methods and techniques are based on the behavioural sciences and are, we believe, highly predictive of in-market performance. They help clients determine which marketing initiatives and creative work to proceed with, which to stop, and which to develop further (and how to do it). The Research business has three main product lines, "Communications" (testing adverts prior to broadcast), "Brand" (tracking brand health), and "Innovation" (testing new product and packaging concepts and ideas). We offer them from our offices in the UK and the US, our two main markets, and in seven other countries across Europe, APAC and South America.

The decline in Gross Profit was most pronounced in Innovation, in part due to a decline in large ad hoc projects from a few global FMCG clients. Shifts in the broader market have also had a marked impact. Clients across the board are moving towards more automated cost-efficient solutions to answer recurring business questions (such as *"is my advert any good, and how can I make it better?"*). They are cutting market research budgets in the process. This trend has been building for several years and has become more pronounced latterly.

In spite of the pressures, the Company's Brand product line continued to grow well, with Gross Profit up 35% over that in the prior year. It now makes up 20% of the Company's total Gross Profit, and comprises, in the main, ongoing tracking studies. The Company introduced a new framework for successful brand-building in 2015 ("Fame, Feeling & Fluency") and this has helped drive the growth.

Geographically, the Company has experienced similar market pressures in each of its regions, but the impact on Gross Profit has been greatest in its US and UK businesses. The effect of these market shifts was compounded by the change in the Company's name from BrainJuicer to System1, and also by some leadership reorganisation, causing the business to look more at internal issues, and focus less on clients, for a period earlier in the financial year.

The Company responded by re-designing its Innovation and Communications product offerings. In essence this involved separating out the provision of research data which can be automated and delivered at scale, at speed, and at low cost ("Core Prediction"), from the more time-consuming consultative services provided by our account management teams ("Creative Guidance"). The aim is to better position the Company to win large-scale work programmes, and to turn occasional ad hoc business into regular repeat business.

To support this, the Company has been reorganising its account management teams in its larger markets into specialist practice teams (Communications, Brand and Innovation). This enables the Company to provide clients with more expertise in each of its business lines. The Company completed this reorganisation in the UK in 2017/18 and in the US in early 2018/19. To further drive efficiencies and free-up account management time, the Company has increased use of its outsourcing partners in Bulgaria for routine and project management tasks.

The sales cycle for large client programmes is long, and the impact of these initiatives has not yet flowed through into increased Gross Profit – H2 Gross Profit was 5% less than that in H1. Nevertheless, there was improvement in Q4 (see below), and clients have responded positively to the new product offerings. We have won two smaller but promising ongoing Communication programmes since January 2018 – one with approximately £0.4m pa of Gross Profit, and the other £0.2m pa of Gross Profit (both with uplift potential).

£m	Q1 16/17	Q2 16/17	Q3 16/17	Q4 16/17	Q1 17/18	Q2 17/18	Q3 17/18	Q4 17/18
Gross Profit	5.65	6.89	8.02	6.42	5.51	5.89	4.98	5.86

To further bolster its Research business, the Company has been working on establishing new widespread benchmark data testing all TV adverts in the UK and US in the main categories its clients operate in. This is a significant initiative: the Company tested around 2,500 adverts in the UK within a three week period and 14,500 adverts in the US within an eight week period. This data (“System1 Ad Ratings”) will enable clients to see how their advertising compares to that of competitors, category averages, total market averages, and to correlate the quality of the adverts with media spend. System1 Ad Ratings should provide a boost to the Communications product line, and help the Brand and Innovation product lines indirectly too. It will also provide the basis for a new subscription-based revenue stream in 2018/19 and beyond.

The advertising agency (Agency), generated £0.37m of Gross Profit (2016/17: £0.26m), and made a small loss of £0.40m (2016/17 £0.20m) after investing in expansion into the US. It has developed a number of high-value adverts for its clients and its value to the Company is as much a show-case for how to develop “5-Star” adverts, as in the additional new revenue stream. 1-Star adverts, which represent over 50% of all UK and US advertising, achieve little or no long term profitability for the brand, whereas 5-Star adverts, which represent less than 1% of all UK and US advertising, drive the highest profitable growth for brands.

Following the strong performance in the prior year, and in anticipation of continued top-line growth, the Company increased its headcount in early 2017/18. This caused a significant increase in the Company’s cost base. In H1, overheads excluding employee bonuses and Share Based Payments “Underlying Overhead Costs” increased by 27% (see below). Following the poor start to the year, the Company curbed recruitment, and then reduced costs in H2. The result was a decline in Underlying Overhead Cost of 5% in H2 compared to H1. The Company reduced its employee bonuses from £2.22m in 2016/17 to a negligible amount in 2017/18. Share Based Payments also fell markedly following the decline in the Company’s share price. The combined effect caused Total Overheads for the full year to fall by 2%.

£m (unless otherwise specified)	H1	Growth vs prior year	H2	Growth vs prior year	Year	Growth vs prior year
Average headcount	172	12%	159	-5%	165	3%
Underlying Overheads	10.29	27%	9.78	2%	20.07	13%
Bonus	0.00		0.11		0.11	
Share Based Payments	0.26		-0.19		0.07	
Total Overheads	10.55	8%	9.70	-11%	20.25	-2%

The large decline in Gross Profit and slight decline in the cost base caused Profit Before Tax to fall sharply, from £6.28m in 2016/17 to £1.99m in 2017/18. Normalised Profit Before Tax (defined as Profit Before Tax excluding Share Based Payments) declined similarly, from £7.03m to £2.06m. The effective tax rate was 39%, a little higher than that in 2016/17 (36%), due to a higher proportion of profit from higher tax rate jurisdictions (US and Continental European countries). The reduction in US corporation tax rates did not take effect in time to impact our 2017/18 financial year by very much, but will benefit the Company's future effective tax rate. Profit After Tax fell by a similar percentage to Profit Before Tax. The Company's share capital was stable, and both Basic and Diluted Earnings Per Share declined by similar percentages too.

The Company generated £1.83m of pre-financing cash flow, which equates to 151% of Profit After Tax. This reflects the Company's strong cash flow dynamics even in a poor year. The Company returned £4.19m to shareholders during the year, by way of ordinary and special dividends, and finished the year with £5.78m of cash (31 March 2017: £8.27m).

CASH RETURNS TO SHAREHOLDERS

The Company paid an interim dividend for 2017/18 in December 2017 of 1.1 pence per share (2016/17: 1.1 pence per share) and is proposing a final dividend of 6.4 pence per share (2016/17: 6.4 pence per share). The Company also paid a special dividend of 26.1 pence per share in August 2017 (at the same time as the 2016/17 final dividend). Details are set out in the table below.

	2017/18	2016/17
Interim dividend	1.1 pence per share	1.1 pence per share
Final dividend	6.4 pence per share	6.4 pence per share
Total ordinary dividends	7.5 pence per share	7.5 pence per share
Special dividend paid with the 2016/17 final dividend	26.1 pence per share	-
Special dividend paid with the 2016/17 interim dividend	-	12.0 pence per share
Total dividends	33.6 pence per share	19.5 pence per share

£m	2017/18	2016/17
Interim dividend for the year	0.14	0.14
Final dividend for the prior year	0.80	0.44
Special dividend paid with the 2016/17 final dividend	3.25	-
Special dividend paid with the 2016/17 interim dividend	-	1.47
Total dividends paid during the year	4.19	2.05
Share buy backs (net of option share exercise prices)	-	3.14
Total cash returned to shareholders	4.19	5.19

The Company will continue to return cash to shareholders by way of dividends and share buy-backs after accounting for its operational and investment funding requirements. In this regard, it will be paying particular attention to the needs of its new Ad Ratings business.

The Company has a progressive dividend policy, maintaining or growing a relatively low level of ordinary dividends in line with long-term earnings growth. It returns surplus cash (after payment of ordinary dividends) by way of special dividends or share buy-backs, dependent on the price of the Company's shares at the time.

OUTLOOK

The shifts in the market towards lower cost automated solutions where data is viewed as a commodity is likely to continue unabated, and will continue to put pressure on the Company's services. Furthermore, competitors are increasingly adopting the behavioural science approaches that the Company has been advocating over many years.

However, the Company believes that its methods are highly predictive of in-market performance of the advertising, long-term brand health, and new product concepts and ideas that the Company undertakes market research on. This underpins the Company's value proposition: to make a significant positive impact on clients' marketing activities and in particular help them to reduce low-value marketing spend.

The Company is aligning its Communications and Innovation product offerings in ways which enable clients to more easily purchase at scale, by offering cheaper, faster, provision of data, which is still highly predictive of in-market performance, but which is standardised and delivered through automated production processes. The Company continues to provide higher-value "Creative Guidance" consultancy services and these are now increasingly priced separately. The Company's new System1 Ad Ratings subscription service, planned for launch later in 2018/19, provides additional upside potential.

However, the market is in a state of change and the Company itself is in a period of transition as it endeavours to sell-in its new product offerings. If successful the business will have a higher percentage of larger on-going work programmes, but the sales cycle is longer than for smaller projects. Meanwhile, and notwithstanding the Company's successful Brand product line, we have to acknowledge that the business is still predominantly ad hoc with limited revenue visibility, and during the current period of market change it is particularly difficult to predict how revenue over the year will unfold.

The Company plans to maintain its overhead costs in 2018/19 at the same level as, or lower than, those in 2017/18. This is subject to operational investment in Ad Ratings, which it would want to gear up rapidly if the initial launch is successful. Such cost increases would be revenue led and phased to manage downside risks.

In summary, the Company has had a difficult year, and the market backdrop remains challenging, but management is taking steps to leave the Company better positioned with its large clients over the medium and longer term.

JAMES GEDDES
Chief Financial Officer

Business Risk Review

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

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

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

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

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

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

LOSS OF A SIGNIFICANT CLIENT

This is a significant risk, and we do not take it lightly, with the percentage of business from our largest client in the 12 months to 31 March 2018 at 10% of revenue (15 months to 31 March 2017: 9%). We therefore go to considerable lengths to monitor service quality and seek client feedback.

LOSS OF KEY PERSONNEL

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

LOSS OF A CRITICAL SUPPLIER

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

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

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

SYSTEMIC TAX OR LEGAL COMPLIANCE ERROR

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

MAJOR OUTAGE IN OUR SURVEY PLATFORM

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

CYBER-ATTACK CAUSING A MATERIAL BREACH IN OUR IT INFRASTRUCTURE

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

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

5 Year Summary

(£000s unless specified otherwise)

	12 months to 31 Mar		12 months to 31 Dec			
	2017/18	2016/17	2016	2015	2014	2013
	Audited	Unaudited	Unaudited	Audited	Audited	Audited
FINANCIAL KPIs						
Revenue	26,939	32,801	31,236	25,184	24,645	24,457
<i>growth</i>	-18%	27%	24%	2%	1%	17%
Gross profit	22,231	26,984	25,643	20,250	19,410	19,087
<i>growth</i>	-18%	29%	27%	4%	2%	19%
Administrative costs	20,246	20,676	19,414	15,704	15,109	15,537
<i>growth</i>	-2%	30%	24%	4%	-3%	7%
Bonus	107	2,294	2,396	63	1,077	1,941
Administrative costs (ex-bonus)	20,139	18,382	17,018	15,641	14,032	13,596
<i>growth</i>	10%	16%	9%	11%	3%	-6%
Pre-tax profit	1,992	6,279	6,200	4,501	4,286	3,556
<i>growth</i>	-68%	25%	38%	5%	21%	135%
Post-tax profit	1,213	4,029	3,968	3,032	2,897	2,435
<i>growth</i>	-70%	19%	31%	5%	19%	135%
EPS – diluted	9.5p	31.1p	30.3p	22.7p	21.3p	18.7p
<i>growth</i>	-69%	22%	33%	7%	14%	137%
Cash flow pre-financing	1,831	6,603	6,337	2,696	3,157	4,466
Cash balance	5,784	8,266	7,754	6,365	5,347	6,188
Dividend (interim & final)	7.5p	7.5p	7.5p	4.5p	4.3p	3.9p
<i>growth</i>	-%	67%	67%	5%	10%	26%
Special dividend	26.1p	12.0p	12.0p	-	12.0p	12.0p
Share buy-backs	1	3,141	3,195	948	1,938	71
NON-FINANCIAL KPIs						
Number of clients	204	224	223	243	235	224
<i>growth</i>	-9%	-4%	-8%	3%	5%	3%
Gross profit per project	20.0	23.0	22.6	19.6	20.0	20.0
<i>growth</i>	-	-13%	19%	15%	-2%	-1%
Average headcount	165	161	157	158	152	138
<i>growth</i>	2%	3%	-1%	4%	10%	-7%
Average gross profit per employee	135	168	163	128	128	138
<i>growth</i>	-20%	25%	27%	-%	-7%	27%

Pro Forma Results

for the **12 months** ended 31 March 2018

INTRODUCTION

The Group changed its year-end to 31 March last year. The audited financial statements are for the 12 month period ended 31 March 2018 with comparatives for the **15 month** period ended 31 March 2017.

To enable like-for-like prior period comparisons, the Company has produced unaudited pro forma comparatives for the **12 month** period ended 31 March 2017. The year-on-year percentage increases and decreases throughout this report relate to these unaudited proforma results.

The unaudited pro forma comparisons have been produced for: (i) the consolidated income statement; (ii) the consolidated cash flow statement; (iii) the segment information.

Pro Forma Results

Unaudited Consolidated Income Statement

for the 12 months ended 31 March 2018

	12 months to 31 Mar 2018	12 months to 31 Mar 2017
	£'000	£'000
REVENUE	26,939	32,801
Cost of sales	(4,708)	(5,817)
GROSS PROFIT	22,231	26,984
Administrative expenses	(20,246)	(20,676)
OPERATING PROFIT	1,985	6,308
Finance costs	7	(29)
PROFIT BEFORE TAXATION	1,992	6,279
Income tax expense	(779)	(2,250)
PROFIT FOR THE FINANCIAL PERIOD	1,213	4,029
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY	1,213	4,029
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		
Basic earnings per share	9.9p	32.7p
Diluted earnings per share	9.5p	31.1p

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

Pro Forma Results

Unaudited Consolidated Cash Flow Statement

for the 12 months ended 31 March 2018

	12 months to 31 Mar 2018	12 months to 31 Mar 2017
	£'000	£'000
NET CASH GENERATED FROM OPERATIONS	3,424	8,058
Tax paid	(1,480)	(1,240)
NET CASH GENERATED FROM OPERATING ACTIVITIES	1,944	6,818
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(91)	(185)
Purchase of intangible assets	(22)	(30)
NET CASH USED BY INVESTING ACTIVITIES	(113)	(215)
NET CASH FLOW BEFORE FINANCING ACTIVITIES	1,831	6,603
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest	7	(29)
Issue of shares	-	2
Proceeds from finance lease	140	-
Finance lease payments	(24)	-
Proceeds from sale of treasury shares	33	395
Purchase of own shares	(34)	(3,536)
Dividends paid to owners	(4,188)	(2,052)
NET CASH USED BY FINANCING ACTIVITIES	(4,066)	(5,220)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(2,235)	1,383
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8,266	6,555
Exchange (losses)/gains on cash and cash equivalents	(247)	328
CASH AND CASH EQUIVALENTS AT END OF YEAR	5,784	8,266

Pro Forma Results

Unaudited Segment Information

for the 12 months ended 31 March 2018

The financial performance of the Group’s geographic operating units (“Reportable Segments”) for the 12 months to 31 March 2018 (audited) and 12 months to 31 March 2017 (unaudited) is set out below:

12 months to 31 Mar 2018			12 months to 31 Mar 2017			
Revenue	Gross profit	Operating profit/(loss)	Revenue	Gross Profit	Operating Profit/(loss)	
£'000	£'000	£'000	£'000	£'000	£'000	
RESEARCH BUSINESS						
US	10,295	9,066	4,378	13,369	11,643	6,838
United Kingdom	6,044	5,051	2,667	8,175	6,386	3,935
Continental Europe	5,751	4,582	2,629	6,630	5,265	3,158
Asia	1,154	980	236	1,768	1,398	636
Brazil	1,469	1,123	473	1,573	1,272	591
Australia	1,256	1,056	733	857	759	532
	25,969	21,858	11,116	32,372	26,723	15,690
ADVERTISING AGENCY BUSINESS						
United Kingdom	970	373	(397)	429	261	(203)
	26,939	22,231	10,719	32,801	26,984	15,487

Segmental revenue is revenue generated from external customers and so excludes intercompany revenue and is attributable to geographical areas based upon the location in which the service is delivered. Segmental operating profit excludes allocation of central overheads relating to the Group’s Operations, IT, Marketing, HR, Legal and Finance teams and Board of Directors.

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

12 months to 31 Mar 2018			12 months to 31 Mar 2017	
	Revenue £'000	Gross Profit £'000	Revenue £'000	Gross Profit £'000
RESEARCH BUSINESS				
Communications (Ad Testing)	7,884	6,994	9,327	8,151
Brand (Brand Tracking)	5,846	4,511	4,457	3,349
Innovation (Predictive Markets and Concept Testing)	9,808	8,404	13,744	11,789
	23,538	19,909	27,528	23,289
Other services	2,431	1,949	4,844	3,434
	25,969	21,858	32,372	26,723
ADVERTISING AGENCY BUSINESS	970	373	429	261
	26,939	22,231	32,801	26,984

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

12 months to 31 Mar		
	2018 £'000	2017 £'000
OPERATING PROFIT FOR REPORTABLE SEGMENTS	10,719	15,487
Central overheads	(8,734)	(9,179)
OPERATING PROFIT	1,985	6,308
Finance costs	7	(29)
PROFIT BEFORE INCOME TAX	1,992	6,279

Strategic Report

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

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

These form part of this Strategic Report.

ON BEHALF OF THE BOARD

JAMES GEDDES
Chief Financial Officer
31 May 2018

Directors' Report

CHANGE OF NAME

The Company changed its name from BrainJuicer Group PLC to System1 Group PLC on 24 March 2017.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENT

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

DIVIDENDS

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

	12 months to 31 Mar 2018 £'000	15 months to 31 Mar 2017 £'000
Ordinary Shares		
2016/17 interim dividend paid, 1.1p per share		135
2017/18 interim dividend paid, 1.1p per share	137	
2016/17 special dividend paid at time of interim dividend, 12.0p per share		1,472
2017/18 special dividend paid at time of final dividend, 26.1p per share	3,253	
2016/17 final dividend paid, 6.4p per share		798
2017/18 final dividend proposed, 6.4p per share	798	
TOTAL DIVIDENDS ON ORDINARY SHARES	4,188	2,405

The final dividend for 2016/17 together with the special dividend for 2017/18 were paid on 23 August 2017 to shareholders on the register as at 28 July 2017. The Company paid the 2017/18 interim dividend on 8 December 2017 to shareholders on the register as at 10 November 2017. The Company proposes to pay a 2017/2018 final dividend of 6.4p in August 2018.

DIRECTORS

The following are the current directors of the parent company, System1 Group PLC, and each served throughout the period. In addition Alex Batchelor served as a director during the period but resigned from the Board on 30 June 2017.

John Kearon (executive)
James Geddes (executive)
Alex Hunt (executive) – appointed 1 April 2017
Ken Ford (non-executive)
Robert Brand (non-executive)
Graham Blashill (non-executive)

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

SHARE CAPITAL

Changes in the share capital of the Company during the year are given in note 10 to the financial statements. As at 8 April 2018, the Company was aware of the following significant interests in the ordinary issued share capital of the Company.

At 8 April 2018	Number	% of voting shares
John Kearon	3,320,209	26.6%
Liontrust Asset Management	1,069,458	8.6%
Ennismore Fund Management	964,703	7.7%
Lazard Frères Gestion	817,578	6.6%
Motley Fool Asset Management	700,000	5.6%
Boyles Asset Management	637,139	5.1%
Pie Funds	612,573	4.9%
Heritage Capital Management	377,774	3.0%

FINANCIAL RISK MANAGEMENT

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

CREDIT RISK

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

MARKET RISK – FOREIGN EXCHANGE RISK

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

LIQUIDITY RISK

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

OTHER RISKS

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

CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that it is able to continue as a going concern while maximising its return to shareholders. The Company's capital structure consists of cash and cash equivalents and share capital. The Group has no borrowings, other than a small finance lease arrangement, and is not subject to any externally imposed capital requirements. The Group has not entered into any derivative contracts.

GOING CONCERN

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

RESEARCH AND DEVELOPMENT

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

PURCHASE OF OWN SHARES

During the 12 months to 31 March 2018 the Company transferred 222,239 Ordinary Shares ("**Shares**") (with an aggregate nominal value of £2,222, representing 1.7% of the called up share capital of the Company) out of treasury to satisfy the exercise of employee share options over 222,239 shares, for cash consideration of £33,000. In addition the Company repurchased 10,598 Shares (with an aggregate nominal value of £106, representing 0.1% of the called up share capital of the Company) for cash consideration of £34,000.

At 31 March 2018, the Company had 13,226,773 Shares in issue (31 March 2017: 13,226,773) of which 750,348 were held in treasury (31 March 2017: 961,989). The treasury shares will be used to help satisfy the requirements of the Group's share incentive schemes.

EMPLOYEES

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

HEALTH AND SAFETY POLICIES

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

DIRECTORS' INDEMNITIES

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

AUDITOR

The Company will be seeking shareholder approval to reappoint its auditor, Grant Thornton UK LLP, at its Annual General Meeting

ON BEHALF OF THE BOARD

JAMES GEDDES
Chief Financial Officer
31 May 2018

Corporate Governance Report

The Board is committed to high standards of corporate governance, which it considers a pre-requisite to support the growth and ambitions of the Group. The Board takes the UK Corporate Governance Code (published by the Financial Reporting Council in 2016) seriously. However, the Directors believe that full compliance is not practical at its stage of development.

The Group places particular importance on the Corporate Governance Code published by the Quoted Companies Alliance in May 2018, and intends to move towards the adoption of this Code.

This report sets out the procedures and systems currently in place and explains why the Board considers them effective.

THE BOARD OF DIRECTORS

The Board comprised three executive directors and three independent non-executive directors during the 12 month period ended 31 March 2018. We believe that the directors have the necessary mix of skills and experience to oversee the Company. Their biographical details are presented on page 32.

The Board meets formally 11 times a year and discharges its responsibilities through a management team who hold formal and informal meetings as would be expected in a group of the Company's size. During the 12 month period ended 31 March 2018, it met formally 11 times.

Ken Ford is Chairman of the Group and John Kearon its Chief Executive Officer. John is also the founder and a significant shareholder. His role centres on formulating the Group's strategy and driving its commercial development. The Board's three non-executive directors act as a sounding board and challenge the executive directors both at monthly Board meetings and on a regular and informal basis. Matters referred to the Board are considered by the Board as a whole and no one individual has unrestricted powers of decision. There are procedures and controls, including a schedule of matters that require the Board's specific approval. This schedule includes:

- the Group's strategy and long-term objectives;
- extension of the Group's activities into new territories;
- significant capital expenditure beyond that budgeted;
- changes relating to the Group's capital structure, including debt-raising, reduction of capital, share issues and buy-backs;
- reporting, internal control systems and risk assessments;
- nominations for Board and Committee appointments; and
- other senior management appointments.

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 directors can obtain independent professional advice at the Company's expense in performance of their duties.

Each year at the Annual General Meeting, all of the directors retire by rotation, and are subject to re-election. This year Ken Ford has decided to retire permanently, and the other directors have each confirmed their willingness to be put forward for re-election at the 2018 Annual General Meeting. The Company is planning on appointing two new non-executive directors during 2018/19.

NON-EXECUTIVE DIRECTORS

The three non-executive directors are independent of management. The terms and conditions of the non-executive directors' appointments are available for inspection at the Company's registered office.

REMUNERATION COMMITTEE

The Remuneration Committee membership and a summary of its terms of reference are set out in the Remuneration Report.

AUDIT COMMITTEE

The Audit Committee aims to support the creation of long-term value for shareholders. The Committee comprises Robert Brand (Chairman), Graham Blashill and Ken Ford, the three non-executive directors. Robert Brand has relevant financial experience. If required, the Committee is entitled to request independent advice at the Company's expense in order for it to effectively discharge its responsibilities.

The Committee's main role and responsibilities can be found on the company's website, and currently are to:

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

The Committee is scheduled to meet twice in each financial year and at other times if necessary. During the 2017/18 financial year, meetings were held in June 2017 and October 2017. The Audit Committee Chairman met separately with the external audit partner in advance of these meetings.

The current auditors (Grant Thornton UK LLP) were appointed in 2003. Given the length of tenure of the current auditors, the Committee will be considering a change of auditor for the audit of the 2018/19 financial results. The Committee reviews the non-audit fees of the auditor, and notes that significant tax and accounting work is undertaken by the auditors' US and Chinese affiliate firms. However these overseas firms are independent of Grant Thornton UK LLP in terms of management and ownership. The Company has closed its small Chinese operation and so in future the work of the Chinese affiliate will cease. The non-audit fees of Grant Thornton UK LLP (excluding those of its overseas affiliate firms) are less than 50% of their audit fees, per the table below:

	Grant Thornton UK LLP £'000	Grant Thornton overseas affiliates £'000	Total £'000
AUDIT AND AUDIT RELATED FEES			
Audit of parent company and consolidated accounts	51	-	51
Audit related assurance services	7	10	17
	58	10	68
NON-AUDIT FEES			
Tax compliance	6	36	42
Tax advisory	10	-	10
Other services	-	43	43
	16	79	95
	74	89	163

The Group does not currently have an internal audit function, which the Board considers appropriate for a group of System1's size.

INTERNAL CONTROL PROCEDURES

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;
 - regular reviews of forecasts;
 - a limited number of directors and executives authorised to make payments and commit the company to legal agreements;
 - regular reviews of client and employee feedback;
 - information security controls (for which the Company has obtained ISO 27001 accreditation).

The Board in conjunction with the Audit Committee reviews the Group’s internal control system on a periodic basis. The Board seeks to ensure risk assessment procedures and responses are continuously improved.

COMMUNICATIONS WITH SHAREHOLDERS

The Board recognises the importance of regular and effective communication with shareholders. The primary forms of communication are:

- annual and interim statutory financial reports and associated investor and analyst presentations and reports;
- announcements relating to trading or business updates released to the London Stock Exchange;
- regular investor meetings.

MEETING ATTENDANCE

The number of regular meetings that each director attended is set out below:

	Board	Audit Committee	Remuneration Committee
Ken Ford	11	2	2
Robert Brand	11	2	2
Graham Blashill	11	2	2
John Kearon	11	n/a	n/a
James Geddes	11	2*	2*
Alex Hunt	11	n/a	n/a
Alex Batchelor	2	n/a	n/a

*attendance by invitation.

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

BOARD EVALUATION

The Board is planning on introducing a programme to evaluate and improve the performance and effectiveness of the Board on a continuous basis, during 2018/19.

Remuneration Report

ANNUAL STATEMENT FROM THE REMUNERATION COMMITTEE CHAIR, GRAHAM BLASHILL

Dear shareholder,

The Remuneration Committee sets the strategy, structure and levels of remuneration for the executive directors and reviews the remuneration of senior management, to ensure alignment of objectives and incentives throughout the business in pursuit of the Group's stated objectives.

This Remuneration Report is split into two parts:

- The *directors' remuneration policy* sets out the Company's policy on directors' remuneration, in particular the four-year long term incentive plan ("**LTIP**"), and the key factors that were taken into account in setting the policy. The directors' remuneration policy is not subject to a shareholder vote at the 2018 AGM, since the main variable element (the LTIP) was approved by shareholders at a General Meeting on 22 March 2017.
- The *annual report on remuneration* sets out payments and awards made to the directors for the 12 month period to 31 March 2018.

There are three elements in director remuneration:

- Base salary
- LTIP
- Benefits

Historically, the Company's LTIPs have been established in three to four year cycles. The current LTIP was established in February 2017 and will vest on 12 August 2021 (the "**2017 LTIP**"). Its primary performance targets are based on gross profit, with profit after tax and share price underpins.

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

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

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

- Base salary
- Bonus and profit share
- Benefits

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

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

We have had a stable membership of both the Board and the Remuneration Committee over the years. During 2017/18, Alex Batchelor, the former COO, resigned from the Board (on 30 June 2017) and Alex Hunt, head of the Research business was promoted to the Board (on 1 April 2017). The Remuneration Committee were the three non-executive directors of the Group. At 31 March 2018, the Board comprised three executive directors and three non-executive directors.

GRAHAM BLASHILL
Chair, Remuneration Committee

DIRECTORS' REMUNERATION POLICY

INTRODUCTION

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

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

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

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

BASE SALARY AND BENEFITS

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

LONG TERM INCENTIVE PLAN

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

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

The performance targets and vesting levels have been set with growth levels of between 10% and 30% pa in mind. At the 20% pa growth level, the gross profit would more than double over the four-year period. The specific vesting levels are set out in the following table.

	Equity level	Gross profit growth
Executive Directors	198,400 shares (1.5% of issued shares)	30% pa compound over 4 years
	132,267 shares (1.0% of issued shares)	20% pa compound over 4 years
	66,133 shares (0.5% of issued shares)	10% pa compound over 4 years
Senior Managers	132,267 shares (1.0% of issued shares)	30% pa compound over 4 years
	92,587 shares (0.7% of issued shares)	20% pa compound over 4 years
	46,293 shares (0.35% of issued shares)	10% pa compound over 4 years

There will be proportionate vesting if gross profit grows at between 10% and 20% pa or between 20% and 30% pa.

Remuneration Report continued

No awards will vest unless profit after tax (“PAT”) in 2020/21 has grown by at least 10% pa over the four years and the average share price of the Company during July 2021 is at least £9.945 (30% higher than the share price on the award date). For the higher levels of vesting triggered by gross profit growth above 20% pa, the PAT underpin increases to 20% pa growth.

For the purpose of these performance targets PAT in both the base year and the measurement period is calculated before deducting share-based payments (to avoid any circular argument problem when performing the calculations). The base year is the 12 months ended 31 March 2017.

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

There are two executive director participants (James Geddes and Alex Hunt) and four senior manager participants. Alex Batchelor, the former COO who left the business during the year, retains unvested option shares, but the maximum number that can vest in his case have been pro-rated down based on his departure date and amount to 11,446. John Kearon, CEO, has indicated to the Committee that due to his near 30% shareholding, any further increase would be inappropriate.

Instead in recognition of his strategic leadership role to achieve the growth targets, he will qualify for an annual bonus for each of the 4 years to 31 March 2021 of between 25-75% of annual salary in the event that compound annual gross profit growth for a given year is between 10-30% pa (using the 12 months ended 31 March 2017 as the base year), subject to the above profit after tax and EPS underpins.

There will be no other equity-based incentive scheme or reward for the Executives, during the four-year life of the 2017 LTIP.

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

DILUTION

Vested stock options are set out below.

	Number	%
Voting shares as at 31 March 2018	12,476,425	100%
2006 employee share option scheme (now closed)	50,178	0.4%
2010-2014 LTIP – vested on 28 May 2014	116,133	0.9%
2014-2016 LTIP – vested on 30 April 2017 (previous LTIP)	289,704	2.3%
	456,015	3.7%

Unvested options comprise options granted under the 2017 LTIP. The maximum dilution under the rules of the 2017 LTIP (the “Rules”) is 8.5% of the Company’s issued ordinary share capital as at 1 January 2017. This level of dilution would occur only if: (i) the performance targets are fully met (30% annual compound gross profit growth target and 20% pa annual compound growth profit before tax target over four years); (ii) the £9.945 share price threshold is exceeded during July 2021; and (iii) new awards are granted up to the maximum dilution limits permitted under the Rules, where room becomes available (for example due to the departure of Alex Batchelor).

Given the performance in 2017/18, the performance targets look a stretch, but the participants still believe they are achievable, at least at the lower levels of the bands.

NON-EXECUTIVE DIRECTORS

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

REMUNERATION OF ALL EMPLOYEES

All employees are entitled to base salary, benefits, and (providing not also an Executive) a discretionary annual bonus. Since January 2012 equity awards have not been granted to employees who are not also Executives.

The annual discretionary bonus was negligible in 2017/18 due to the poor performance of the Company.

For 2018/19 and future years, there will be two bonus/profit share schemes for employees (who are not also Executives):

- Bonus scheme for senior account management staff of up to 25% of salary dependent on individual performance;
- Profit share scheme for all staff (who are not also Executives) of up to 25% of salary dependent on the Company's profit performance.

The Company is also planning on introducing a commission arrangement to incentivise appropriately a very limited number of senior client development staff. This would be in lieu of Bonus, Profit Share and 2017 LTIP (where applicable).

DIRECTOR SERVICE CONTRACTS AND POLICY ON PAYMENT FOR LOSS OF OFFICE

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

ANNUAL REPORT ON REMUNERATION

REMUNERATION FOR EXECUTIVE DIRECTORS

	Salary £	Benefits £	Pension £	Options Exercised £	Compensation for loss of office £	Total (audited) £
12 months ended 31 March 2018 (audited)						
John Kearon	200,000	7,170	6,864	-	-	214,034
James Geddes	190,000	5,540	11,400	-	-	206,940
Alex Hunt	186,724	25,460	7,469	-	-	219,653
Alex Batchelor	47,500	2,700	2,850	1,194,532	214,987	1,462,569
Total	624,224	40,870	28,583	1,194,532	214,987	2,103,196

	Salary £	Benefits £	Pension £	Options Exercised £	Total £
12 months ended 31 March 2017 (unaudited)					
John Kearon	195,160	5,723	8,075	207,735	416,693
Alex Batchelor	173,500	5,275	10,410	490,696	679,881
James Geddes	173,500	5,055	10,410	371,969	560,934
Total	542,160	16,053	28,895	1,070,400	1,657,508

Remuneration Report continued

15 months ended 31 March 2017 (audited)	Salary £	Benefits £	Pension £	Options Exercised £	Total £
John Kearon	243,950	7,058	9,791	207,735	468,534
Alex Batchelor	216,875	6,525	13,013	490,696	727,109
James Geddes	216,875	6,420	13,013	371,969	608,277
Total	677,700	20,003	35,817	1,070,400	1,803,920

The executive directors received no profit share (bonus) for the year ended 31 March 2018 or for the 15 months to 31 March 2017.

The executive directors have not received any stock options or other equity awards other than under the Company’s LTIP arrangements as set out in the directors’ remuneration policy.

DIRECTORS’ INTERESTS IN SHARES AND OPTIONS

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

	31 Mar 2018 Number	31 Mar 2017 Number
John Kearon	3,320,209	3,420,209
James Geddes	192,325	192,325
Alex Batchelor (resigned 30 June 2017)	NA	134,650
Ken Ford	20,000	20,000
Robert Brand	30,000	30,000
Graham Blashill	5,000	5,000
Total	3,567,534	3,802,184

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

	Date of grant	Earliest exercise date	Exercise price	Number at 1 Apr 2017	Exercised in year	Lapsed in year	Number at 31 Mar 2018
John Kearon	16/01/2015	01/05/2018	0.0p	*137,040	-	(80,472)	56,568
John Kearon	22/07/2015	01/05/2018	0.0p	*60,000	-	-	*60,000
				197,040	-	(80,472)	116,568
James Geddes	16/01/2015	01/05/2018	0.0p	*137,040	-	(80,472)	56,568
James Geddes	22/07/2015	01/05/2018	0.0p	*60,000	-	-	*60,000
James Geddes	22/03/2017	12/08/2021	0.0p	**198,400	-	-	**198,400
				395,440	-	(80,472)	314,968
Alex Batchelor	28/05/2014	28/05/2014	0.0p	95,134	(95,134)	-	-
Alex Batchelor	16/01/2015	01/05/2018	0.0p	*137,040	-	(80,472)	56,568
Alex Batchelor	22/07/2015	01/05/2018	0.0p	*60,000	(60,000)	-	-
Alex Batchelor	22/03/2017	12/08/2021	0.0p	**198,400	-	(186,954)	**11,446
				490,574	(155,134)	(267,426)	68,014
Alex Hunt	22/03/2017	12/08/2021	0.0p	**198,400	-	-	**198,400

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

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

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

FEES FOR NON-EXECUTIVE DIRECTORS

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

	12 months to 31 Mar (audited)	12 months to 31 Mar (unaudited)	15 months to 31 Mar (audited)
	2018 £	2017 £	2017 £
Ken Ford	38,850	37,000	46,250
Robert Brand	34,650	33,000	41,250
Graham Blashill	34,650	33,000	41,250
Total	108,150	103,000	128,750

REMUNERATION COMMITTEE

The Remuneration Committee comprises the three non-executive directors: Graham Blashill (Chairman), Robert Brand and Ken Ford. The Committee is responsible for:

- determining the remuneration and incentive packages for each of the Company's executive directors;
- reviewing and approving the remuneration and benefits of senior management;
- reviewing and making recommendations to the Board on the design of remuneration structures and levels of pay and other incentives for employees of the Group;
- reporting to the Group's shareholders in relation to remuneration policies applicable to the executive directors.

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

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

Board of Directors

KEN FORD

NON-EXECUTIVE CHAIRMAN

Ken Ford joined System1 Group in 2007 as non-executive Chairman. He was previously CEO of Teather and Greenwood stockbrokers and other past directorships include Morgan Grenfell and Aberdeen Asset Management. He is a past Chairman of the Society of Investment Analysts and the Quoted Companies Alliance (QCA). He is currently non-executive Chairman of gear4music (Holdings) plc, Scientific Digital Imaging plc and Team Lewis PR, and a fellow of the Chartered Securities Institute.

ROBERT BRAND

NON-EXECUTIVE DIRECTOR AND CHAIRMAN OF THE AUDIT COMMITTEE

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

GRAHAM BLASHILL

NON-EXECUTIVE DIRECTOR AND CHAIRMAN OF THE REMUNERATION COMMITTEE

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

JOHN KEARON

CHIEF EXECUTIVE OFFICER

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

JAMES GEDDES

CHIEF FINANCIAL OFFICER

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

ALEX HUNT

PRESIDENT RESEARCH

(JOINED THE BOARD OF DIRECTORS FROM 1 APRIL 2017)

Alex Hunt joined System1 Group in 2009 as a Vice President in the Group's US business. He was promoted to head the Group's America's business in 2015, and from 1 January 2017 to lead all client facing teams in the Group's Research business globally. Before joining the Group, he began his career at Millward Brown, part of the WPP group, working across a range of large CPG, media, financial and retail clients in both the UK and US. He is a regular speaker at marketing and insights industry events as well as at several US business schools.

Directors' Responsibility Statement

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

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

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

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

The directors confirm that:

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

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

JAMES GEDDES

Company Secretary and Chief Financial Officer

31 May 2018

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

OPINION

OUR OPINION ON THE FINANCIAL STATEMENTS IS UNMODIFIED

We have audited the financial statements of System1 Group PLC (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2018 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Cashflow Statement, Consolidated Statement of Changes in Equity, Company Balance Sheet, Company Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosures Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

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

WHO WE ARE REPORTING TO

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.

CONCLUSIONS RELATING TO GOING CONCERN

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

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



OVERVIEW OF OUR AUDIT APPROACH

- Overall materiality: £220,000, which represents 4.7% of the “normalised” group’s profit before tax and profit related bonuses
- The Key Audit Matters identified were revenue recognition and share based payments
- We performed a full scope audit of the parent company and the group financial statements covering 100% of global revenue and net assets.

KEY AUDIT MATTERS

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

Key Audit Matter - Group	How the matter was addressed in the audit – Group
RISK 1 – REVENUE RECOGNITION Revenue and profits could potentially be manipulated by misstating revenue, including recognising revenue in advance of it being earned. We therefore identified revenue recognition as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: ▪ We have considered the revenue streams and their accounting treatment and tested a sample of transactions to contracts to ensure the treatment complies with IAS 18 “Revenue”. ▪ We tested the internal control environment to confirm design effectiveness by identifying the processes and controls over revenue recognition, including segregation of duties, and carrying out walkthrough tests to ensure the system operates as explained to us ▪ Agreeing a sample of sales throughout the year to customers’ purchase orders and proof of performance to ensure the sale occurred and had been recognised appropriately ▪ Agreeing a sample of sales invoices raised in March and April 2018 to proof of performance to ensure they were recognised in the correct period as we considered those months to be the highest likelihood of possible errors in respect of current year revenue recognition. The group’s accounting policy on revenue recognition is shown in note 3 to the financial statements. KEY OBSERVATIONS The revenue recognition policy complies with IAS 18 “Revenue” and based on our audit work has been applied appropriately and consistently. From our testing, we did not identify any material misstatements in respect of revenue recognition.

Independent Auditor’s Report

to the members of System1 Group PLC

continued

RISK 2 – SHARE BASED PAYMENTS The group has granted a substantial number of share options to management which have performance related vesting conditions. The share based payments charge arising from the grant of these options involves a number of estimates and judgements which have a material impact on the charge. The probability of achieving the performance conditions is assessed on an annual basis and affects the calculation of the charge. We therefore identified share based payments as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: ▪ Assessing the appropriateness of the Monte-carlo model used in the fair value calculation of the March 2017 LTIPs. ▪ Checking the arithmetic accuracy of the share based payment calculation and ensuring it followed the requirements of IFRS 2 “Share based payments”. ▪ Using our own valuations specialists to assess the reasonableness of the inputs into the fair value of options calculation; including the risk free rate, dividend yield and share price volatility by benchmarking and calculations of historical data ▪ Considering whether the judgements applied in the assessment of non-market performance conditions were appropriate through discussions with management and checking management assertions with other information obtained during the audit ▪ Checking the share option disclosures in the financial statements back to the supporting calculations and traced entries back to the individual share option agreements to ensure the calculation reflected the terms of the agreements KEY OBSERVATIONS The share based payment charge has been calculated in accordance with IFRS 2 From our testing we did not identify any material misstatements in respect of share based payments.
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We did not identify any Key Audit Matters in respect of the parent company.

OUR APPLICATION OF MATERIALITY

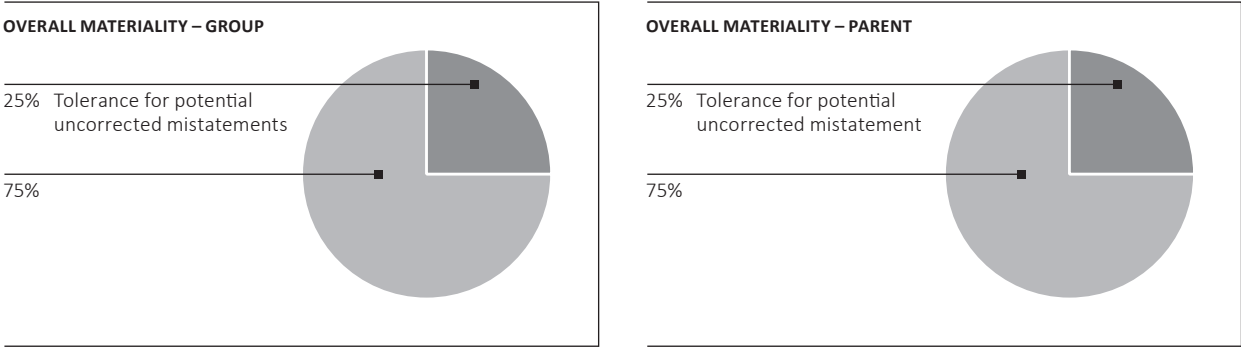
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating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

Materiality was determined as follows:

Materiality measure	Group	Parent
Financial statements as a whole	£220,000 which is 4.7% of normalised profit before tax. Normalised profit is calculated as the average of the profits before tax and profit related bonuses for the 3 years ended 31 December 2015, 31 March 2017 and 2018. The figure for the 12 months to 31 March 2017 has been apportioned from the 15 month accounting period to that date to avoid distorting the average. The profit benchmark is chosen because the business operates with profit based KPIs. A normalised profit has been applied this year because the results for the year were not consistent with past performance and we consider that a normalised profit amount reduces the impact of a large fluctuation. The materiality figure for the current year is substantially lower than the 5% of profit before tax and bonuses applied for the 15 month period ended 31 March 2017, being £481,000, due to a shorter period and reduced activity levels.	£100,000 which is 2% of total assets. This benchmark is considered the most appropriate because the company has no external revenue. It holds the investments in and loans to subsidiaries and is therefore considered to be an asset based business. Materiality for the current year is lower than the level that we determined for the period ended 31 March 2017 to reflect reduced activity.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.	75% of financial statement materiality.
Specific materiality	We also determined a lower level of specific materiality of £1,000 for certain areas such as directors' remuneration and related party transactions due to the inherent sensitivity of these transactions and related disclosures.	We also determined a lower level of specific materiality of £1,000 for certain areas such as directors' remuneration and related party transactions due to the inherent sensitivity of these transactions and related disclosures.
Communication of misstatements to the audit committee	£11,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£5,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

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

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



AN OVERVIEW OF THE SCOPE OF OUR AUDIT

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

- We performed a full scope audit of the group and the parent company financial statements
- We tested the design effectiveness of the entity level control environment and the activity level controls
- The group accounting function is centralised in the UK; therefore there is a common control environment and we had access to all the group’s accounting records
- Our audit testing covered 100% of the group’s revenue and expenditure and of its total assets and liabilities

OTHER INFORMATION

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

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

We have nothing to report in this regard.

OUR OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006 IS UNMODIFIED

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

- the information given in the strategic report and the directors’ report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors’ report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT UNDER THE COMPANIES ACT 2006

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL STATEMENTS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

JEREMY READ

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

Milton Keynes

31 May 2018

Consolidated Income Statement

for the 12 months ended 31 March 2018

	Note	12 months to 31 Mar 2018 £'000	15 months to 31 Mar 2017 £'000
REVENUE	4	26,939	39,002
Cost of sales	14	(4,708)	(6,939)
GROSS PROFIT	4	22,231	32,063
Administrative expenses	14	(20,246)	(24,803)
OPERATING PROFIT	4	1,985	7,260
Finance costs	17	7	(35)
PROFIT BEFORE TAXATION	15	1,992	7,225
Income tax expense	18	(779)	(2,538)
PROFIT FOR THE FINANCIAL PERIOD		1,213	4,687
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY		1,213	4,687
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Basic earnings per share	20	9.9p	37.8p
Diluted earnings per share	20	9.5p	35.9p

The notes on page 45 to 65 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 12 months ended 31 March 2018

	12 months to 31 Mar 2018 £'000	15 months to 31 Mar 2017 £'000
PROFIT FOR THE FINANCIAL PERIOD	1,213	4,687
OTHER COMPREHENSIVE INCOME:		
ITEMS THAT MAY BE SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS		
Exchange differences on translating foreign operations	(190)	563
Other comprehensive income for the period, net of tax	(190)	563
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS	1,023	5,250

The notes on pages 45 to 65 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

as at 31 March 2018

REGISTERED COMPANY NO. 05940040

	Note	31 Mar 2018 £'000	31 Mar 2017 £'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	5	269	360
Intangible assets	6	26	207
Deferred tax asset	19	372	984
		667	1,551
CURRENT ASSETS			
Inventories	8	131	95
Trade and other receivables	9	6,139	6,439
Current income tax asset		423	-
Cash and cash equivalents	7	5,784	8,266
		12,477	14,800
TOTAL ASSETS		13,144	16,351
EQUITY			
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Share capital	10	132	132
Share premium account		1,601	1,601
Merger reserve		477	477
Foreign currency translation reserve		221	411
Retained earnings		4,578	7,728
TOTAL EQUITY		7,009	10,349
LIABILITIES			
NON-CURRENT LIABILITIES			
Provisions	11	420	505
Finance lease payable		70	-
		490	505
CURRENT LIABILITIES			
Provisions	11	368	288
Finance lease payable		46	-
Trade and other payables	12	5,231	4,715
Current income tax liabilities		-	494
		5,645	5,497
TOTAL LIABILITIES		6,135	6,002
TOTAL EQUITY AND LIABILITIES		13,144	16,351

The notes on pages 45 to 65 are an integral part of these consolidated financial statements.

These financial statements were approved by the directors on 31 May 2018 and are signed on their behalf by:

JOHN KEARON JAMES GEDDES
Director Director

Consolidated Cash Flow Statement

for the 12 months ended 31 March 2018

	Note	31 Mar 2018 £'000	31 Mar 2017 £'000
NET CASH GENERATED FROM OPERATIONS	22	3,424	9,093
Tax paid		(1,480)	(2,055)
NET CASH GENERATED FROM OPERATING ACTIVITIES		1,944	7,038
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	5	(91)	(258)
Purchase of intangible assets	6	(22)	(32)
NET CASH USED BY INVESTING ACTIVITIES		(113)	(290)
NET CASH FLOW BEFORE FINANCING ACTIVITIES		1,831	6,748
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest	17	7	(35)
Issue of shares	10	-	2
Proceeds from finance lease		140	-
Finance lease payments		(24)	-
Proceeds from sale of treasury shares	10	33	395
Purchase of own shares	10	(34)	(3,536)
Dividends paid to owners	21	(4,188)	(2,052)
NET CASH USED BY FINANCING ACTIVITIES		(4,066)	(5,226)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(2,235)	1,522
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		8,266	6,365
Exchange (losses)/gains on cash and equivalents		(247)	379
CASH AND CASH EQUIVALENTS AT END OF PERIOD		5,784	8,266

The notes on pages 45 to 65 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the 12 months ended 31 March 2018

Note	Share capital £'000	Share premium account £'000	Merger reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Total £'000
AT 1 JAN 2016	132	1,599	477	(152)	7,184	9,240
PROFIT FOR THE FINANCIAL PERIOD	-	-	-	-	4,687	4,687
Other comprehensive income:						
- currency translation differences	-	-	-	563	-	563
TOTAL COMPREHENSIVE INCOME	-	-	-	563	4,687	5,250
Transactions with owners:						
Employee share options:						
- exercise of share options	-	2	-	-	-	2
- value of employee services 10	-	-	-	-	337	337
- current tax credited to equity	-	-	-	-	289	289
- deferred tax credited to equity 19	-	-	-	-	424	424
Dividends paid to owners 21	-	-	-	-	(2,052)	(2,052)
Sale of treasury shares	-	-	-	-	395	395
Purchase of own shares	-	-	-	-	(3,536)	(3,536)
	-	2	-	-	(4,143)	(4,141)
AT 31 MAR 2017	132	1,601	477	411	7,728	10,349
PROFIT FOR THE FINANCIAL YEAR	-	-	-	-	1,213	1,213
Other comprehensive income:						
- currency translation differences	-	-	-	(190)	-	(190)
TOTAL COMPREHENSIVE INCOME	-	-	-	(190)	1,213	1,023
Transactions with owners:						
Employee share options:						
- value of employee services 10	-	-	-	-	223	223
- current tax credited to equity	-	-	-	-	276	276
- deferred tax debited to equity 19	-	-	-	-	(673)	(673)
Dividends paid to owners 21	-	-	-	-	(4,188)	(4,188)
Sale of treasury shares 10	-	-	-	-	33	33
Purchase of own shares 10	-	-	-	-	(34)	(34)
	-	-	-	-	(4,363)	(4,363)
AT 31 MAR 2018	132	1,601	477	221	4,578	7,009

The notes on pages 45 to 65 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

for the 12 months ended 31 March 2018

1 GENERAL INFORMATION

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

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

The Company changed its financial year-end from 31 December to 31 March in the prior reporting period. This is the second financial reporting period adopting the new year-end date. These financial statements are therefore for the 12 month period ended 31 March 2018 with comparatives for the 15 month period ended 31 March 2017.

The Board of Directors approved these financial statements for the 12 month period ended 31 March 2018 (including the comparatives for the 15 month period ended 31 March 2017) on 31 May 2018.

2 BASIS OF PREPARATION

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

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

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

3 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

STANDARDS, AMENDMENTS AND INTERPRETATIONS IN ISSUE BUT NOT YET EFFECTIVE

The following standards, amendments and interpretations to existing standards, relevant to the financial statements of the Group, have been published and are mandatory for the Group’s accounting periods beginning on or after 1 April 2018 or later periods. The Group has not adopted them early, so they have not been applied to these financial statements.

IFRS 9, ‘FINANCIAL INSTRUMENTS’ (EFFECTIVE 1 JANUARY 2018)

The IASB have released IFRS 9 following completion of the project to replace IAS 39 ‘Financial Instruments: Recognition and Measurement’. The new standard introduces extensive changes to IAS 39’s guidance on the classification and measurement of financial assets and introduces a new ‘expected credit loss’ model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018. Management consider that IFRS9 will have no material impact on these consolidated financial statements.

Notes to the Consolidated Financial Statements continued

for the 12 months ended 31 March 2018

3 PRINCIPAL ACCOUNTING POLICIES continued

IFRS 15, 'REVENUE FROM CONTRACTS WITH CUSTOMERS' (EFFECTIVE 1 JANUARY 2018)

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities. IFRS 15 is effective for annual reporting periods on or after 1 January 2018. Management consider that IFRS 15 will have no material impact upon these consolidated financial statements, however will continue to assess this on a contract by contract basis as new revenue arrangements arise.

IFRS 16, 'LEASES' (EFFECTIVE 1 JANUARY 2019).

IFRS 16 replaces the current guidance in IAS 17 and will require significant changes in accounting by lessees in particular. The standard applies to annual periods beginning on or after January 1, 2019, with earlier application permitted if IFRS 15, Revenue from Contracts with Customers, is also applied. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for lessees for certain short-term leases and leases of low-value assets and there are also grand fathering provisions for leases existing at the date of initial application, which the Company is likely to take advantage of. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For lease contracts entered into after the initial application date and therefore not subject to the grand fathering provisions, the standard will have a significant impact upon these financial statements, resulting in the recognition of lease liabilities and right of use assets, upon which finance charges (calculated on the effective interest rate method) and straight-line depreciation will be charged respectively.

BASIS OF CONSOLIDATION

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 31 March 2018.

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 acquirer's net assets.

3 PRINCIPAL ACCOUNTING POLICIES continued

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

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

INTANGIBLE ASSETS

SOFTWARE

Acquired computer software licenses are capitalised at the cost of acquisition. These costs are amortised on a straight-line basis over their estimated useful economic life of two years.

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.

Furthermore, internally-generated software is recognised as an intangible asset only if the Group can demonstrate all of the following conditions:

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

Internally-generated intangible assets are amortised on a straight-line basis over their useful economic lives. Where no internally-generated intangible asset can be recognised, development expenditure is charged to administrative expenses in the period in which it is incurred. Once completed, and available for use in the business, internally developed software is amortised on a straight-line basis over its useful economic life which varies between 2 and 7 years.

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

Amortisation on all intangible assets is charged to administrative expenses.

Notes to the Consolidated Financial Statements continued

for the 12 months ended 31 March 2018

3 PRINCIPAL ACCOUNTING POLICIES continued

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

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

CASH AND CASH EQUIVALENTS

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

INVENTORIES – WORK IN PROGRESS

Work in progress comprises directly-attributable external costs on incomplete market research projects and is held in the balance sheet at the lower of cost and net realisable value.

INCOME TAXES

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

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

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

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

OPERATING LEASE AGREEMENTS

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

REVENUE RECOGNITION

Revenue is recognised only after the final written debrief has been delivered to the client, except on the rare occasion that a large project straddles a financial period end, and that project can be sub-divided into separate discrete deliverables; in such circumstances revenue is recognised on delivery of each separate deliverable. Revenue is measured by reference to the fair value of consideration receivable, excluding sales taxes. Revenue from all of the Group's Research product lines (Communications, Brand, Innovation, and other research products) and its advertising agency services are recognised on the same basis.

3 PRINCIPAL ACCOUNTING POLICIES continued

COST OF SALES

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

EMPLOYEE BENEFITS

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

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

SHARE-BASED PAYMENT TRANSACTIONS

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

With the exception of market-based elements of awards, these estimates are subsequently revised if there is any indication that the number of options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods.

The fair value of option awards with time vesting performance conditions are measured at the date of grant using a Black-Scholes based Option Valuation model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

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

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

PROVISIONS

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

Notes to the Consolidated Financial Statements continued

for the 12 months ended 31 March 2018

3 PRINCIPAL ACCOUNTING POLICIES continued

FOREIGN CURRENCIES

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

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

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

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

SEGMENT REPORTING

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

FINANCIAL INSTRUMENTS

FINANCIAL ASSETS

The Group's financial assets comprise loans and receivables. The Group does not possess assets held at fair value through profit or loss, held-to-maturity investments or available-for-sale financial assets. The classification is determined by management at initial recognition, being dependent upon the purpose for which the financial assets were acquired. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets. The Group's loans and receivables 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. Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. 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.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

3 PRINCIPAL ACCOUNTING POLICIES continued

FINANCIAL LIABILITIES

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

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

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

SHARE CAPITAL

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

SHARE PREMIUM

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

MERGER RESERVE

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

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

FOREIGN CURRENCY TRANSLATION RESERVE

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

TREASURY SHARES

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

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

SHARE BASED PAYMENTS

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

Notes to the Consolidated Financial Statements continued

for the 12 months ended 31 March 2018

3 PRINCIPAL ACCOUNTING POLICIES continued

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

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

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

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

EMPLOYEE BENEFITS

The Group has a sabbatical leave scheme, open to all employees, which provides 20 days paid leave for each six years’ of service. The carrying amount of the provision at the balance sheet date amounted to £706,000 (31 March 2017: £711,000). The provision for liabilities under the scheme is measured using the projected unit credit method. This model requires a number of estimates and assumptions.

The significant inputs into the model are rate of salary growth and average staff turnover as explained in Note 11.

4 SEGMENT INFORMATION

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

	12 months to 31 Mar 2018			15 months to 31 Mar 2017		
	Revenue £’000	Gross profit £’000	Operating profit/(loss) £’000	Revenue £’000	Gross profit £’000	Operating profit/(loss) £’000
RESEARCH BUSINESS						
US	10,295	9,066	4,378	15,427	13,452	7,663
United Kingdom	6,044	5,051	2,667	9,883	7,736	4,687
Continental Europe	5,751	4,582	2,629	8,082	6,415	3,998
Asia	1,154	980	236	2,359	1,872	871
Brazil	1,469	1,123	473	1,965	1,595	785
Australia	1,256	1,056	733	857	759	534
	25,969	21,858	11,116	38,573	31,829	18,538
ADVERTISING AGENCY BUSINESS						
United Kingdom	970	373	(397)	429	234	(323)
	26,939	22,231	10,719	39,002	32,063	18,215

Segmental revenue is revenue generated from external customers and so excludes intercompany revenue and is attributable to geographical areas based upon the location in which the service is delivered. Segmental operating profit excludes allocation of central overheads relating to the Group’s Operations, IT, Marketing, HR, Legal and Finance teams and Board of Directors.

4 SEGMENT INFORMATION continued

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

System1 Group PLC (the ultimate parent company) is domiciled in the UK. As at 31 March 2018, consolidated non-current assets, other than financial instruments and deferred tax assets, located in the UK is £205,000 and located in other countries is £90,000. As at 31 March 2017 the respective amounts were £457,000 and £110,000.

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

	12 months to 31 Mar 2018		15 months to 31 Mar 2017	
	Revenue £'000	Gross Profit £'000	Revenue £'000	Gross Profit £'000
RESEARCH BUSINESS				
Communications (Ad Testing)	7,884	6,994	10,788	9,459
Brand (Brand Tracking)	5,846	4,511	5,088	3,800
Innovation (Predictive Markets and Concept Testing)	9,808	8,404	16,063	13,810
	23,538	19,909	31,939	27,069
Other services	2,431	1,949	6,634	4,760
	25,969	21,858	38,573	31,829
ADVERTISING AGENCY BUSINESS	970	373	429	234
	26,939	22,231	39,002	32,063

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

	12 months to 31 Mar 2018 £'000	15 months to 31 Mar 2017 £'000
OPERATING PROFIT FOR REPORTABLE SEGMENTS	10,719	18,215
Central overheads	(8,734)	(10,955)
OPERATING PROFIT	1,985	7,260
Finance costs	7	(35)
PROFIT BEFORE INCOME TAX	1,992	7,225

Over the 12 months to 31 March 2018, the Group earned revenue of £2,563,000 from its largest customer, representing 10% of consolidated revenue (15 months to 31 March 2017: 9%). Consolidated revenue from the Group's largest customer is split by geographic segment as set out below.

	12 months to 31 Mar 2018 £'000	15 months to 31 Mar 2017 £'000
US	952	1,272
Brazil	949	1,072
Asia	409	964
UK	155	88
Australia	98	6
	2,563	3,402

Notes to the Consolidated Financial Statements continued

for the 12 months ended 31 March 2018

5 PROPERTY, PLANT AND EQUIPMENT

	Furniture, fittings and equipment £'000	Computer hardware £'000	Total £'000
For the 12 months ended 31 March 2018			
AT 1 APRIL 2017			
Cost	550	1,130	1,680
Accumulated depreciation	(289)	(1,031)	(1,320)
NET BOOK AMOUNT	261	99	360
12 MONTHS ENDED 31 MARCH 2018			
OPENING NET BOOK AMOUNT	261	99	360
Additions	25	66	91
Disposals	-	(1)	(1)
Foreign exchange	(6)	(3)	(9)
Depreciation charge for the year	(77)	(95)	(172)
CLOSING NET BOOK AMOUNT	203	66	269
AT 31 MARCH 2018			
Cost	562	1,160	1,722
Accumulated depreciation	(359)	(1,094)	(1,453)
NET BOOK AMOUNT	203	66	269

	Furniture, fittings and equipment £'000	Computer hardware £'000	Total £'000
For the 15 months ended 31 March 2017			
AT 1 JANUARY 2016			
Cost	397	953	1,350
Accumulated depreciation	(196)	(850)	(1,046)
NET BOOK AMOUNT	201	103	304
15 MONTHS ENDED 31 MARCH 2017			
OPENING NET BOOK AMOUNT	201	103	304
Additions	132	126	258
Disposals	-	(1)	(1)
Foreign exchange	6	5	11
Depreciation charge for the period	(78)	(134)	(212)
CLOSING NET BOOK AMOUNT	261	99	360
AT 31 MARCH 2017			
Cost	550	1,130	1,680
Accumulated depreciation	(289)	(1,031)	(1,320)
NET BOOK AMOUNT	261	99	360

6 INTANGIBLE ASSETS

For the 12 months ended 31 March 2018	Software licenses £'000	Software £'000	Total £'000
AT 1 APRIL 2017			
Cost	674	1,672	2,346
Accumulated amortisation	(639)	(1,500)	(2,139)
NET BOOK AMOUNT	35	172	207
12 MONTHS ENDED 31 MARCH 2018			
OPENING NET BOOK AMOUNT	35	172	207
Additions	22	-	22
Amortisation charge	(31)	(172)	(203)
CLOSING NET BOOK AMOUNT	26	-	26
AT 31 MARCH 2018			
Cost	697	1,672	2,369
Accumulated amortisation	(671)	(1,672)	(2,343)
NET BOOK AMOUNT	26	-	26

For the 15 months ended 31 March 2017	Software licenses £'000	Software £'000	Total £'000
AT 1 JANUARY 2016			
Cost	640	1,672	2,312
Accumulated amortisation	(580)	(1,213)	(1,793)
NET BOOK AMOUNT	60	459	519
15 MONTHS ENDED 31 MARCH 2017			
OPENING NET BOOK AMOUNT	60	459	519
Additions	32	-	32
Amortisation charge	(57)	(287)	(344)
CLOSING NET BOOK AMOUNT	35	172	207
AT 31 MARCH 2017			
Cost	674	1,672	2,346
Accumulated amortisation	(639)	(1,500)	(2,139)
NET BOOK AMOUNT	35	172	207

Software comprises the Group's main research software platform, which it developed over a number of years and introduced in 2011, at a cost of £1,604,000. It was amortised over 7 years and is now fully amortised. The carrying amount of this asset at the balance sheet date was £Nil (31 Mar 2017: £172,000).

Notes to the Consolidated Financial Statements continued

for the 12 months ended 31 March 2018

7 FINANCIAL RISK MANAGEMENT

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

CREDIT RISK

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

	31 Mar 2018 £'000	31 Mar 2017 £'000
CASH AND CASH EQUIVALENTS		
HSBC Bank PLC (AA credit rating)	5,079	7,810
Deutsche Bank	324	157
Santander	258	137
UBS	97	108
Other banks	26	54
	5,784	8,266
TRADE RECEIVABLES		
Largest customer by revenue	788	207

FINANCIAL INSTRUMENTS BY CATEGORY

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

ASSETS AND LIABILITIES AS PER BALANCE SHEET

	31 Mar 2018 £'000	31 Mar 2017 £'000
LOANS AND RECEIVABLES		
Trade and other receivables (excluding prepayments and accrued income)	5,698	5,979
Cash and cash equivalents	5,784	8,266
	11,482	14,245
OTHER FINANCIAL LIABILITIES CARRIED AT AMORTISED COST		
Trade payables	1,115	1,003
Accruals	2,519	2,250
Finance lease payable (£70,000 payable after one year)	116	-
	3,750	3,253

Of the Group’s financial liabilities (of £3,750,000), £70,000 is payable in greater than one year of the balance sheet date. The payment of the Group’s financial liabilities will be financed from existing cash reserves and operating cash flows. The carrying value of financial assets and liabilities approximates to their fair value.

8 INVENTORY

	31 Mar 2018 £'000	31 Mar 2017 £'000
WORK IN PROGRESS	131	95

9 TRADE AND OTHER RECEIVABLES

	31 Mar 2018 £'000	31 Mar 2017 £'000
Trade receivables	5,415	5,609
Other receivables	283	370
Prepayments	441	460
	6,139	6,439

9 TRADE AND OTHER RECEIVABLES continued

Trade and other receivables are due within one year and are not interest bearing. The maximum exposure to credit risk at the balance sheet date is the carrying amount of receivables (detailed above). The Group does not hold any collateral as security. The Directors do not believe that there is a significant concentration of credit risk within the trade receivables balance. As of 31 March 2018, trade receivables of £1,684,000 were past due but not impaired (31 March 2017: £1,818,000). The ageing of these trade receivables is as follows.

	31 Mar 2018 £'000	31 Mar 2017 £'000
Up to 3 months	1,045	1,539
3 to 6 months	639	279
	1,684	1,818

As of 31 March 2018, trade receivables of £Nil were impaired (31 March 2017: £24,000). The carrying amount of the Group's trade and other receivables are denominated in the following currencies.

	31 Mar 2018 £'000	31 Mar 2017 £'000
US Dollar	1,575	2,573
Sterling	1,855	1,901
Euro	1,357	1,247
Brazilian Real	510	299
Swiss Franc	242	149
Chinese Yuan	397	112
Australian Dollar	148	97
Singapore Dollar	55	36
New Zealand Dollar	-	16
Canadian Dollar	-	7
Japanese Yen	-	2
	6,139	6,439

10 SHARE CAPITAL

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

ALLOTTED, CALLED UP AND FULLY PAID ORDINARY SHARES

	Number	£'000
At 1 April 2017 and at 31 March 2018	13,226,773	132

During the 12 months to 31 March 2018 the Company transferred 222,239 Shares out of treasury to satisfy the exercise of employee share options at a weighted average exercise price of 15 pence per share for total consideration of £33,000. The weighted average share price at exercise date was 730 pence per share. In addition, the Company purchased into treasury 10,598 of its Shares at a weighted average price of 320 pence per share. The total consideration payable on purchase of these Shares amounted to £34,000.

At 31 March 2018, the Company had 13,226,773 Shares in issue (31 March 2017: 13,226,773) of which 750,348 were held in treasury (31 March 2017: 961,989). The treasury Shares will be used to help satisfy the requirements of the Group's share incentive schemes.

Notes to the Consolidated Financial Statements continued

for the 12 months ended 31 March 2018

10 SHARE CAPITAL continued

SHARE OPTIONS

EMPLOYEE SHARE OPTION SCHEME

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

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

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

	12 months to 31 Mar 2018		15 months to 31 Mar 2017	
	Average exercise price per share Pence	Options No	Average exercise price per share Pence	Options No
Opening balance	4.8	2,043,938	36.4	1,362,084
Granted	-	-	-	1,124,268
Lapsed	-	(428,370)	-	-
Exercised	0.1	(222,239)	89.8	(442,414)
CLOSING BALANCE	4.7	1,393,329	4.8	2,043,938
EXERCISABLE AT END OF PERIOD	14.2	456,015	29.9	328,550

The weighted average share price at date of exercise of options exercised during the 12 months to 31 March 2018 was 738 (15 months to 31 March 2017: 385) pence. During the 15 months to 31 March 2017, 1,124,268 nil cost share options were granted under the Company’s current long-term incentive scheme. The options granted during the prior period have a weighted average fair value of 295 pence per share, valued assuming a weighted average share price at grant date of 765 pence, weighted average risk free rate of 0.35%, dividend yield of 0.6% and weighted average volatility of 24.6%.

At 31 March 2018 and 31 March 2017, the Group had the following outstanding options and exercise prices.

	31 March 2018			31 March 2017		
	Average exercise price per share Pence	Options No	Weighted average remaining contractual life Months	Average exercise price per share Pence	Options No	Weighted average remaining contractual life Months
Expiry date						
2018	-	-	-	147.5	22,598	11.3
2019	94.0	3,011	9.3	94.0	3,011	21.3
2020	38.0	163,300	24.6	20.5	302,941	37.2
2025	-	289,704	84.2	-	591,120	95.5
2027	-	937,314	107.9	-	1,124,268	119.8
	4.7	1,393,329	93.0	4.8	2,043,938	99.2

10 SHARE CAPITAL continued

LONG TERM INCENTIVE SCHEMES

During the 15 months to 31 March 2017, the Company awarded 198,400 nil cost stock options to each of James Geddes, Alex Batchelor and Alex Hunt, and 132,267 to each of Orlando Wood, Horace McDonald, Rod Connors and Mark Johnson under the long-term incentive scheme approved at a General Meeting on 22 March 2017. During the 12 months to 31 March 2018 186,954 of the options held by Alex Batchelor lapsed.

SHARE-BASED PAYMENT CHARGE

The total charge relating to equity-settled employee share-based payment plans (for both the employee stock option plan and the senior executive long-term incentive plans) was £223,000 for the 12 months to 31 March 2018 (15 months to 31 March 2017: £337,000). The associated credit for social security, resulting from the fall in the Company's share price during the year, was £158,000 for the 12 months to 31 March 2018 (15 months to 31 March 2017: £436,000 charge).

11 PROVISIONS

	Sabbatical provision £'000	Dilapidation provisions £'000	Total £'000
AT 1 JANUARY 2016	652	80	732
Provided in the 15 month period	141	-	141
Utilised in the 15 month period	(82)	-	(82)
Foreign exchange	-	2	2
AT 31 MARCH 2017	711	82	793
Provided in the year	86	-	86
Utilised in the year	(91)	-	(91)
AT 31 MARCH 2018	706	82	788
Of which:			
Current	368	-	368
Non-current	338	82	420
	706	82	788

The Group has a sabbatical leave scheme, open to all employees. The scheme provides 20 days paid leave for each successive period of six years' service. There is no proportional entitlement for shorter periods of service. The provision for the liabilities under the scheme is measured using the projected unit credit method. The calculation of the provision for the 12 months to 31 March 2018 assumes an annual rate of growth in salaries of 7% (15 months to 31 March 2017: 7%), a discount rate of 2.2% (15 months to 31 March 2017: 2.5%), based upon good quality 6-year corporate bond yields, and an average staff turnover rate of 19% (15 months to 31 March 2017: 19%).

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 12 months ended 31 March 2018

12 TRADE AND OTHER PAYABLES

	31 Mar 2018 £'000	31 Mar 2017 £'000
Trade payables	1,115	1,003
Social security and other taxes	589	575
Accruals	2,519	2,250
Deferred income	1,008	887
	5,231	4,715

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

13 COMMITMENTS

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

	31 Mar 2018 £'000	31 Mar 2017 £'000
No later than 1 year	1,027	1,152
Later than 1 but no later than 5 years	3,531	3,653
More than 5 years	1,519	2,190
	6,077	6,995

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

	31 Mar 2018 Number of months	31 Mar 2017 Number of months
London office lease (£493,000 per annum, expiring 15 April 2025) – 9 months’ rent free at inception	4	4
New York office lease (\$492,000 per annum, expiring 31 August 2024) – 5 months’ rent free at inception	2	5
	6	9

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

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

14 EXPENSES BY NATURE

	12 months to 31 Mar 2018 £'000	15 months to 31 Mar 2017 £'000
Employee benefit expense	12,634	17,459
Depreciation and amortisation	374	556
Net foreign exchange losses/(gains)	189	(268)
Other expenses	11,757	13,995
	24,954	31,742
<i>Analysed as:</i>		
Cost of sales	4,708	6,939
Administrative expenses	20,246	24,803
	24,954	31,742

15 PROFIT BEFORE TAXATION

Profit before taxation is stated after charging:

	12 months to 31 Mar 2018 £'000	15 months to 31 Mar 2017 £'000
OPERATING LEASE EXPENSES – Land and buildings	1,269	1,269
DEPRECIATION AND AMORTISATION	374	556
NET LOSS/(GAIN) ON FOREIGN CURRENCY TRANSLATION	189	(268)

	12 months to 31 Mar 2018			15 months to 31 Mar 2017
	Grant Thornton UK LLP £'000	Grant Thornton UK overseas affiliates £'000	Total £'000	£'000
AUDIT AND AUDIT RELATED FEES				
Audit of parent company and consolidated accounts	51	-	51	55
Audit related assurance services	7	10	17	22
	58	10	68	77
NON-AUDIT FEES				
Tax compliance	6	36	42	75
Tax advisory	10	-	10	53
Other services	-	43	43	9
	16	79	95	137
	74	89	163	214

16 EMPLOYEE BENEFIT EXPENSE

The average number of staff employed by the Group during the financial year amounted to:

	12 months to 31 Mar 2018 No	15 months to 31 Mar 2017 No
NUMBER OF ADMINISTRATIVE STAFF	165	160

The aggregate employment costs of the above were:

	12 months to 31 Mar 2018 £'000	15 months to 31 Mar 2017 £'000
Wages and salaries	9,768	13,427
Social security costs	1,133	2,158
Pension costs – defined contribution plans	355	399
Long service leave cost	(5)	59
Share based remuneration	223	337
Redundancies	524	296
Medical benefits	636	783
	12,634	17,459

Notes to the Consolidated Financial Statements continued

for the 12 months ended 31 March 2018

16 EMPLOYEE BENEFIT EXPENSE continued

The Company had 6 key management personnel as at 31 March 2018 (31 March 2017: 6), including the three executive directors.

Compensation to key management is set out below.

	12 months to 31 Mar 2018 £'000	15 months to 31 Mar 2017 £'000
Short-term employee benefits – salaries, bonuses and benefits in kind	773	826
Short-term employee benefits – employer social security, including £109,000 credit (15 months to 31 March 2017: £384,000 charge) in respect of share incentive plans	7	489
Compensation for loss of office	215	-
Post-employment benefits (pension costs – defined contribution plans)	29	36
Long term bonus plan	55	-
Share-based payment	154	341
	1,233	1,692

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

17 FINANCE COSTS

	12 months to 31 Mar 2018 £'000	15 months to 31 Mar 2017 £'000
Other interest (receivable)/payable	(7)	35

18 INCOME TAX EXPENSE

	12 months to 31 Mar 2018 £'000	15 months to 31 Mar 2017 £'000
Current tax	843	2,478
Deferred tax	(64)	60
	779	2,538

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

	12 months to 31 Mar 2018 £'000	15 months to 31 Mar 2017 £'000
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1,992	7,225
Profit on ordinary activities multiplied by standard UK tax rate	378	1,445
Difference between tax rates applied to Group's subsidiaries	372	672
Expenses not deductible for tax purposes	12	165
Tax on intra-group management charges (Brazil and China)	108	153
Adjustment to current tax in respect of prior years	(84)	124
Withholding tax	8	75
Remeasurement of deferred tax	12	-
Credit on exercise of share options taken to income statement	(27)	(96)
	779	2,538

The standard tax rate for the 12 months to 31 March 2018 was 19%, and for 15 months to 31 March 2017 was 20%.

19 DEFERRED TAX

Deferred tax assets and liabilities are as follows.

	31 Mar 2018 £'000	31 Mar 2017 £'000
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	189	539
- Deferred tax assets to be recovered within 12 months	230	524
	419	1,063
Deferred tax liabilities:		
- Deferred tax liability to be recovered within 12 months	(47)	(79)
DEFERRED TAX ASSET (NET):	372	984

The gross movement in deferred tax is as follows.

	12 months to 31 Mar 2018 £'000	15 months to 31 Mar 2017 £'000
OPENING BALANCE	984	589
Foreign exchange differences	(3)	31
Income statement credit/(charge)	64	(60)
Tax (debited)/credited directly to equity	(673)	424
CLOSING BALANCE	372	984

The movement in deferred income tax assets and liabilities during the 12 month period, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:.

DEFERRED TAX ASSETS

	Other provisions £'000	Overseas tax losses £'000	Share options £'000	Dilapidation provisions £'000	Sabbatical provision £'000	Total £'000
AT 1 APRIL 2017	(10)	11	901	11	150	1,063
Foreign exchange differences	1	-	(3)	-	(6)	(8)
Credited/(charged) to income statement	39	(11)	15	(1)	(7)	35
Debited directly to equity	-	-	(673)	-	-	(673)
AT 31 MARCH 2018	30	-	240	10	137	417

DEFERRED TAX LIABILITIES

	Accelerated capital allowances £'000
AT 1 APRIL 2017	(79)
Foreign exchange differences	3
Charged to income statement	30
AT 31 MARCH 2018	(46)

There are no unrecognised deferred tax assets. 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.

Notes to the Consolidated Financial Statements continued

for the 12 months ended 31 March 2018

20 EARNINGS PER SHARE

(A) BASIC EARNINGS PER SHARE

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

	12 months to 31 Mar 2018	15 months to 31 Mar 2017
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY (£'000)	1,213	4,687
Weighted average number of Ordinary Shares in issue	12,265,507	12,388,680
BASIC EARNINGS PER SHARE	9.9p	37.8p

(B) DILUTED EARNINGS PER SHARE

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding assuming conversion of all dilutive share options to Ordinary Shares.

	12 months to 31 Mar 2018	15 months to 31 Mar 2017
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY AND PROFIT USED TO DETERMINE DILUTED EARNINGS PER SHARE (£'000)	1,213	4,687
Weighted average number of Ordinary Shares in issue	12,265,507	12,388,680
Share options	444,808	656,993
Weighted average number of Ordinary Shares for diluted earnings per share	12,710,315	13,045,673
DILUTED EARNINGS PER SHARE	9.5p	35.9p

21 DIVIDENDS

On 23 August 2017 the Company paid a final dividend of 6.4 pence per share, amounting to £798,000, in respect of the 15 months ended 31 March 2017 and a special dividend of 26.1 pence per share amounting to £3,253,000. On 8 December 2017, the Company paid an interim dividend of 1.1 pence per share, amounting to £137,000, in respect of the year ended 31 March 2018.

	12 months to 31 Mar 2018 £'000	15 months to 31 Mar 2017 £'000
Final dividend for 2016/17: 6.4p per share (prior period: 3.5p per share)	798	445
Interim dividend for 2017/18: 1.1p per share (prior period: 1.1p per share)	137	135
Special dividend: 26.1p per share (prior period: 12p per share)	3,253	1,472
	3,390	1,607
TOTAL ORDINARY DIVIDENDS PAID IN THE PERIOD	4,188	2,052

The directors are proposing a final dividend in respect of the 12 months to 31 March 2018 of 6.4 pence per share. These financial statements do not reflect this proposed dividend.

22 NET CASH GENERATED FROM OPERATIONS

	12 months to 31 Mar 2018 £'000	15 months to 31 Mar 2017 £'000
PROFIT BEFORE TAXATION	1,992	7,225
Depreciation	172	212
Amortisation	202	344
Interest (received)/paid	(7)	35
Loss on disposal of property, plant and equipment	1	1
Share-based payment expense	223	337
Increase in inventory	(36)	(5)
Decrease in receivables	300	156
Increase in payables	511	616
Exchange differences on operating items	66	172
NET CASH GENERATED FROM OPERATIONS	3,424	9,093

23 RELATED PARTY TRANSACTIONS

Dividends paid to directors were as follows.

	12 months to 31 Mar 2018 £	15 months to 31 Mar 2017 £
John Kearon	1,115,590	575,259
James Geddes	64,621	30,736
Alex Batchelor (paid subsequent to resignation)	43,761	21,204
Ken Ford	6,720	3,320
Robert Brand	10,080	4,980
Graham Blashill	1,680	830
	1,242,452	636,329

On 22 March 2017 share options were granted to the executive directors James Geddes, Alex Hunt and Alex Batchelor, and other senior executives under the long-term incentive scheme approved at a General Meeting on 22 March 2017 as set out in note 10.

24 AUDIT EXEMPTION

System1 Research Limited (company number 03900547) and System1 Agency Limited (company number 09829202), are exempt from the requirements of the Companies Act 2006 relating to the audit of accounts under section 479A.

25 CONTINGENT ASSET

As a consequence of a prima facie error by either Camden Council, the Valuation Office, or a combination of the two, there is a possibility that the Company may be entitled to a refund of £251,000 in respect of Business Rates payable on its London office relating to the period 15 June 2015 to 31 March 2017. It appears that the refund may be due because the Valuation Office did not take account of the fact that the Company was in occupation during this period and reduced the rateable value of the building (and the floor that the Company has occupied since 15 June 2015) to nil. We brought the apparent error to the attention of Camden Council as soon as we received notification of the credits but no definitive conclusion as to whether the credit is payable has been provided to date. Given the manifest error and therefore the uncertainty as to whether payment will be made, no asset or related income in respect of this item has been recognised in these financial statements.

Company Balance Sheet

as at 31 March 2018

REGISTERED COMPANY NO. 05940040

	Note	31 Mar 2018 £'000	31 Mar 2017 £'000
FIXED ASSETS			
Other intangible assets	2	26	207
Tangible assets	3	121	160
Investments	4	581	581
		728	948
CURRENT ASSETS			
Debtors due within one year	5	3,900	3,957
Debtors due after one year	5	122	402
Cash at bank		1,330	4,628
		5,352	8,987
CREDITORS: AMOUNTS DUE WITHIN ONE YEAR	6	(1,597)	(1,622)
NET CURRENT ASSETS		3,755	7,365
TOTAL ASSETS LESS CURRENT LIABILITIES		4,483	8,313
CREDITORS: AMOUNTS DUE AFTER ONE YEAR	7	(70)	-
PROVISIONS FOR LIABILITIES	8	(307)	(308)
NET ASSETS		4,106	8,005
CAPITAL AND RESERVES			
Share capital	10	132	132
Share premium account		1,601	1,601
Retained earnings (including profit for the year of £388,000)		2,373	6,272
SHAREHOLDERS' FUNDS		4,106	8,005

These financial statements were approved by the directors on 31 May 2018 and are signed on their behalf by:

JOHN KEARON JAMES GEDDES
Director Director

Company Statement of Changes in Equity

for the 12 months ended 31 March 2018

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
AT 1 JAN 2016	132	1,599	3,910	5,641
PROFIT FOR THE FINANCIAL PERIOD AND TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE EQUITY HOLDERS	-	-	6,586	6,586
Transactions with owners:				
Employee share options scheme:				
- Exercise of share options	-	2	-	2
- Value of employee services	-	-	337	337
- Current tax credited to equity	-	-	191	191
- Deferred tax credited to equity	-	-	441	441
Dividends paid to owners	-	-	(2,052)	(2,052)
Sale of treasury shares	-	-	395	395
Purchase of own shares	-	-	(3,536)	(3,536)
	-	2	(4,224)	(4,222)
AT 31 MAR 2017	132	1,601	6,272	8,005
PROFIT FOR THE FINANCIAL YEAR AND TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE EQUITY HOLDERS	-	-	388	388
Transactions with owners:				
Employee share scheme:				
- Value of employee services	-	-	223	223
- Current tax credited to equity	-	-	274	274
- Deferred tax debited to equity	-	-	(595)	(595)
Dividends paid to owners	-	-	(4,188)	(4,188)
Sale of treasury shares	-	-	33	33
Purchase of own shares	-	-	(34)	(34)
	-	-	(4,287)	(4,287)
AT 31 MAR 2018	132	1,601	2,373	4,106

Notes to the Company Financial Statements

for the 12 months ended 31 March 2018

1 ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

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

This Company is included in the consolidated financial statements of System1 Group PLC for the 12 months ended 31 March 2018. These accounts are available from the registered office address of the Company, and at www.system1group.com (investor section).

DISCLOSURE EXEMPTIONS ADOPTED

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

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

OTHER INTANGIBLE ASSETS

SOFTWARE

Acquired computer software licenses are capitalised at the cost of acquisition. These costs are amortised on a straight-line basis over their estimated useful economic life of two years.

Costs incurred in the development of identifiable and unique software products controlled by the Company, 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.

Furthermore, internally-generated software is recognised as an intangible asset only if the Company can demonstrate all of the following conditions:

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

Internally-generated intangible assets are amortised on a straight-line basis over their useful economic lives. Where no internally-generated intangible asset can be recognised, development expenditure is charged to administrative expenses in the period in which it is incurred. Once completed, and available for use in the business, internally developed software is amortised on a straight-line basis over its useful economic life which varies between 2 and 7 years.

1 ACCOUNTING POLICIES continued

The Company's main research software platform, which it developed over a number of years, was brought into use on 1 January 2011 at a cost of £1,604,000. It was amortised over 7 years and is now fully amortised.

Amortisation on all intangible assets is charged to administrative expenses.

TANGIBLE ASSETS

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

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

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

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

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

CASH AT BANK

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

INCOME TAXES

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

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

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

EMPLOYEE BENEFITS

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

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

Notes to the Company Financial Statements continued

for the 12 months ended 31 March 2018

1 ACCOUNTING POLICIES continued

SHARE-BASED PAYMENTS

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

PROVISIONS

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

FINANCIAL INSTRUMENTS

FINANCIAL ASSETS

The Company's financial assets comprise loans and receivables. The Company does not possess assets held at fair value through profit or loss, held-to-maturity investments or available-for-sale financial assets. The classification is determined by management at initial recognition, being dependent upon the purpose for which the financial assets were acquired. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets. The Company's loans and receivables comprise trade and other debtors and cash at bank in the balance sheet.

Trade debtors are initially recorded at fair value, but subsequently at amortised cost using the effective interest rate method. Provision against trade debtors is made when there is objective evidence that the Company will not be able to collect all amounts due to it in accordance with the original terms of those debtors. 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.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

FINANCIAL LIABILITIES

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

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

1 ACCOUNTING POLICIES continued

SHARE CAPITAL

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

SHARE PREMIUM

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

TREASURY SHARES

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

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

SHARE-BASED PAYMENTS

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

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

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

EMPLOYEE BENEFITS

The Company has a sabbatical leave scheme, open to all employees, which provides 20 days paid leave for each six years' of service. The carrying amount of the provision at the balance sheet date amounted to £288,000 (31 March 2017: £276,000). The provision for liabilities under the scheme is measured using the projected unit credit method. This model requires a number of estimates and assumptions. The significant inputs into the model are rate of salary growth and average staff turnover as explained in Note 8.

Notes to the Company Financial Statements continued

for the 12 months ended 31 March 2018

2 OTHER INTANGIBLE ASSETS

	Software licenses £'000	Software £'000	Total £'000
For the 12 months ended 31 March 2018:			
AT 1 APRIL 2017			
Cost	466	1,672	2,138
Accumulated amortisation	(432)	(1,499)	(1,931)
NET BOOK AMOUNT	34	173	207
12 MONTHS ENDED 31 MARCH 2018			
OPENING NET BOOK AMOUNT	34	173	207
Additions	22	-	22
Amortisation charge	(30)	(173)	(203)
CLOSING NET BOOK AMOUNT	26	-	26
AT 31 MARCH 2018			
Cost	488	1,672	2,160
Accumulated amortisation	(462)	(1,672)	(2,134)
NET BOOK AMOUNT	26	-	26

	Software licenses £'000	Software £'000	Total £'000
For the 15 months ended 31 March 2017:			
AT 1 JANUARY 2016			
Cost	435	1,672	2,107
Accumulated amortisation	(375)	(1,213)	(1,588)
NET BOOK AMOUNT	60	459	519
15 MONTHS ENDED 31 MARCH 2017			
OPENING NET BOOK AMOUNT	60	459	519
Additions	31	-	31
Amortisation charge	(57)	(286)	(343)
CLOSING NET BOOK AMOUNT	34	173	207
AT 31 MARCH 2017			
Cost	466	1,672	2,138
Accumulated amortisation	(432)	(1,499)	(1,931)
NET BOOK AMOUNT	34	173	207

3 TANGIBLE ASSETS

	Furniture, fittings and equipment £'000	Computer hardware £'000	Total £'000
For the 12 months ended 31 March 2018:			
AT 1 APRIL 2017			
Cost	147	466	613
Accumulated depreciation	(49)	(404)	(453)
NET BOOK AMOUNT	98	62	160
12 MONTHS ENDED 31 MARCH 2018			
OPENING NET BOOK AMOUNT	98	62	160
Additions	17	35	52
Disposals	-	(1)	(1)
Depreciation charge for the year	(30)	(60)	(90)
CLOSING NET BOOK AMOUNT	85	36	121
AT 31 MARCH 2018			
Cost	164	500	664
Accumulated depreciation	(79)	(464)	(543)
NET BOOK AMOUNT	85	36	121

	Furniture, fittings and equipment £'000	Computer hardware £'000	Total £'000
For the 15 months ended 31 March 2017:			
AT 1 JANUARY 2016			
Cost	99	386	485
Accumulated depreciation	(17)	(312)	(329)
NET BOOK AMOUNT	82	74	156
15 MONTHS ENDED 31 MARCH 2017			
OPENING NET BOOK AMOUNT	82	74	156
Additions	48	81	129
Disposals	-	(1)	(1)
Depreciation charge for the period	(32)	(92)	(124)
CLOSING NET BOOK AMOUNT	98	62	160
AT 31 MARCH 2017			
Cost	147	466	613
Accumulated depreciation	(49)	(404)	(453)
NET BOOK AMOUNT	98	62	160

Notes to the Company Financial Statements continued

for the 12 months ended 31 March 2018

4 INVESTMENTS

	Group companies £'000
GROUP COMPANIES	
Cost and net book amount at 1 Apr 2017 and 31 Mar 2018	581

SUBSIDIARY UNDERTAKINGS

Details of subsidiary undertakings and country of incorporation of each, at 31 March 2018 are as follows:

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

System1 Research Limited and System1 Agency Limited are wholly owned direct subsidiaries of System1 Group PLC. The remaining subsidiaries are each wholly owned direct subsidiaries of System1 Research Limited. The activities of all companies are the provision of online market research services, apart from System1 Agency Limited which provides advertising agency services.

5 DEBTORS

	31 Mar 2018 £'000	31 Mar 2017 £'000
DUE WITHIN ONE YEAR		
Trade debtors	295	226
Amounts due from group companies	2,782	2,957
Other debtors	13	22
VAT recoverable	169	-
Corporation tax recoverable	117	-
Deferred tax (Note 9)	170	458
Prepayments	354	294
	3,900	3,957
DUE AFTER ONE YEAR		
Deferred tax (Note 9)	122	402

6 CREDITORS: AMOUNTS DUE WITHIN ONE YEAR

	31 Mar 2018 £'000	31 Mar 2017 £'000
Trade creditors	533	216
Social security and other taxes	103	28
Amounts due to group undertakings	163	303
Finance lease creditor	46	-
Corporation tax	-	195
Accruals	752	880
	1,597	1,622

7 CREDITORS: AMOUNTS AFTER ONE YEAR

	31 Mar 2018 £'000	31 Mar 2017 £'000
Finance lease creditor	70	-

8 PROVISIONS FOR LIABILITIES

	Deferred tax (Note 9) £'000	Sabbatical provision £'000	Total £'000
AT 1 JANUARY 2016	45	304	349
Utilised in the 15 month period	(13)	(28)	(41)
AT 31 MARCH 2017	32	276	308
Provided in the year	-	39	39
Utilised in the year	(13)	(27)	(40)
AT 31 MARCH 2018	19	288	307

The Group has a sabbatical leave scheme, open to all employees. The scheme provides 20 days paid leave for each successive period of six years' service. There is no proportional entitlement for shorter periods of service. The provision for the liabilities under the scheme is measured using the projected unit credit method. The calculation of the provision for the 12 months to 31 March 2018 assumes an annual rate of growth in salaries of 7% (15 months to 31 March 2017: 7%), a discount rate of 2.2% (15 months to 31 March 2017: 2.5%), based upon good quality 6-year corporate bond yields, and an average staff turnover rate of 19% (15 months to 31 March 2017: 19%).

9 DEFERRED TAX

Deferred tax assets and liabilities are as follows.

	31 Mar 2018 £'000	31 Mar 2017 £'000
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	122	402
- Deferred tax assets to be recovered within 12 months	170	458
	292	860
Deferred tax liabilities:		
- Deferred tax liability to be recovered within 12 months	(19)	(32)
DEFERRED TAX ASSET (NET):	273	828

The gross movement in deferred tax is as follows.

	12 months to 31 Mar 2018 £'000	15 months to 31 Mar 2017 £'000
OPENING BALANCE	828	312
Income statement credit	40	75
Tax (debited)/credited directly to equity	(595)	441
CLOSING BALANCE	273	828

Notes to the Company Financial Statements continued

for the 12 months ended 31 March 2018

9 DEFERRED TAX continued

The movement in deferred income tax assets and liabilities during the 12 month period, 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
AT 1 APRIL 2017	2	805	53	860
Credited to income statement	9	16	2	27
Debited directly to equity	-	(595)	-	(595)
AT 31 MARCH 2018	11	226	55	292

DEFERRED TAX LIABILITIES				
				Accelerated capital allowances £'000
AT 1 APRIL 2017				(32)
Credited to income statement				13
AT 31 MARCH 2018				(19)

10 SHARE CAPITAL

ALLOTTED, CALLED UP AND FULLY PAID ORDINARY SHARES

	Number	£'000
AT 1 APRIL 2017 AND AT 31 MARCH 2018	13,226,773	132

11 PROFIT FOR THE PERIOD

The Company has made use of the exemptions as permitted by Section 408 of the Companies Act 2006 and accordingly the income statement of the Company is not presented as part of the accounts. The parent company profit for the 12 months to 31 March 2018 of £388,000 (15 months to 31 March 2017: £6,586,000) is included in the Group profit for the financial year. Details of executive and non-executive directors’ emoluments and their interest in shares and options of the company are shown within the directors’ Remuneration Report.