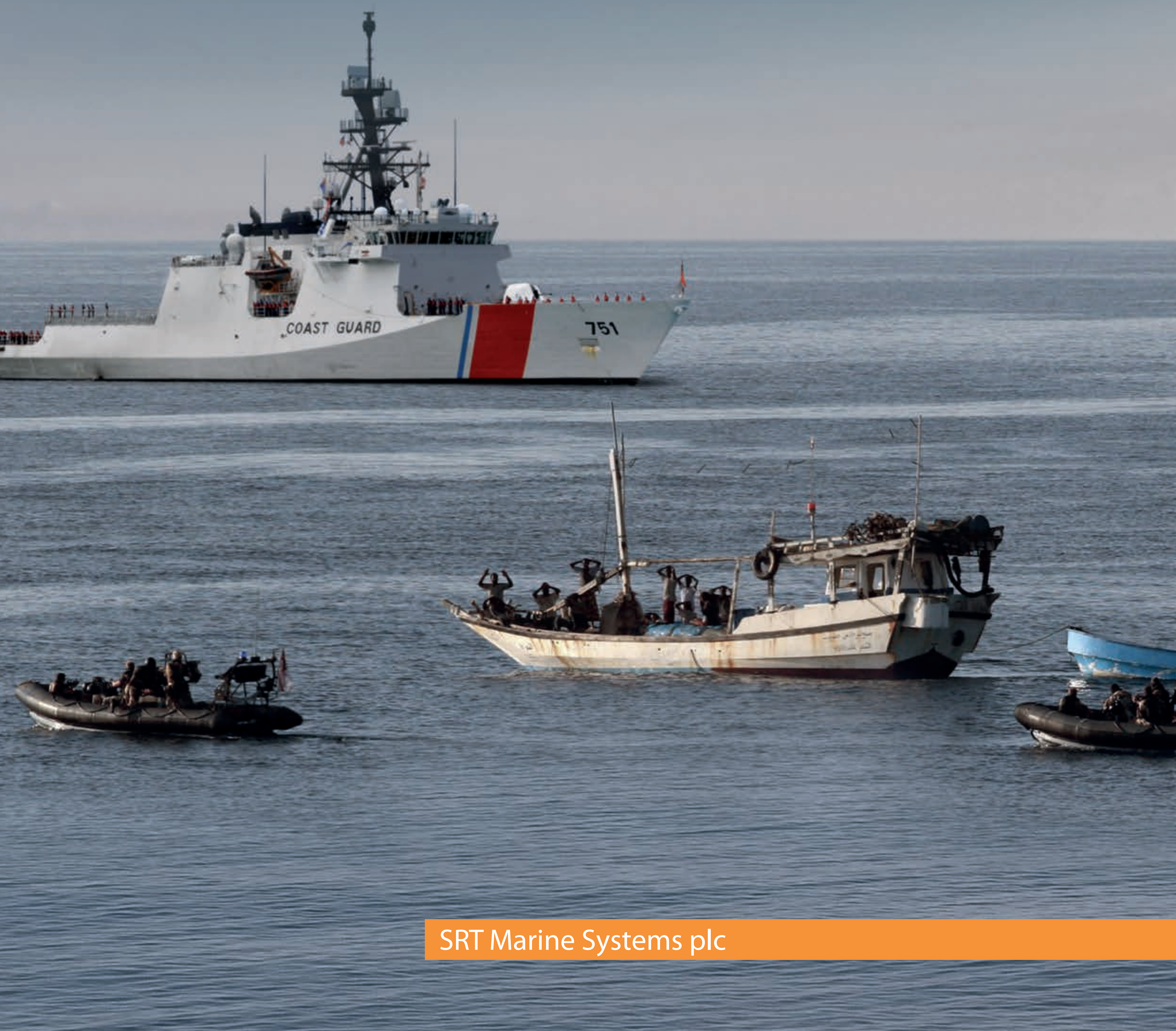
SRT

TECHNOLOGY | PRODUCTS | SYSTEMS

Maritime surveillance, monitoring & management solutions

2017 Report

Annual Report and Accounts for the year ended 31st March 2017



SRT Marine Systems plc

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DIRECTORS AND ADVISORS

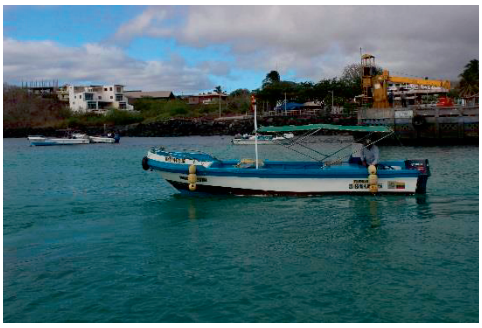
Directors	Simon Tucker Neil Peniket Richard Hurd Simon Rogers Andrew Lapping
Secretary	Richard Hurd
Registered Office	Wireless House Westfield Industrial Estate Midsomer Norton Bath BA3 4BS
Bankers	Barclays Bank plc 1 Queen Square, Bath Somerset BA1 2HA
Statutory Auditor and Chartered Accountants	Nexia Smith & Williamson Audit Limited Chartered Accountants Portwall Place Portwall Lane Bristol BS1 6NA
Tax Advisors	Smith & Williamson LLP Chartered Accountants Portwall Place Portwall Lane Bristol BS1 6NA
Solicitors	CMS Cameron McKenna Mitre House 160 Aldersgate Street London EC1A 4DD
Nominated Advisor & Broker	finnCap 60 New Broad Street London EC2M 1JJ
Registrars	Computershare Investor Services PLC PO Box 82 The Pavilions Bridgewater Road Bristol BS99 7NH
Company' registered number	05459678
Website	www.srt-marine.com

ABOUT SRT MARINE SYSTEMS PLC

SRT Marine Systems PLC (SRT), and its subsidiaries develop and supply technologies, products and systems which provide maritime domain awareness (MDA). Our systems are used across a broad range of applications including, maritime surveillance border control and security, fishery monitoring & management, infrastructure monitoring, search and rescue and environment monitoring. SRT's products provide customers with information, analysis, dynamic event visualisation, and management functionality that enable them to understand, monitor, control and manage maritime activities.

SRT has developed specialist knowledge and technologies in the area of MDA and is the global leader in the development of Automatic Identification System (AIS) technologies and derivative products and systems. AIS is an international VHF radio based data communications technology standard which was developed and continues to be maintained and evolved by IEC and ITU international technical committees under the auspices of the International Maritime Organisation (IMO). AIS is a sophisticated 'mesh' network radio communications system technology specifically designed for the marine domain. It uses an intelligent combination of GPS and VHF radio to enable real time, simultaneous data communication between multiple, independent entities providing information such as identity, GPS position, course, speed and other customised data.

Following its creation in the 1990's, AIS was first mandated on all vessels over 300GT in 2002 by the IMO under the SOLAS Agreement, thus immediately establishing AIS as a global maritime technology for vessel identification. Today AIS has evolved to become a critical path technology in use around the world across a variety of applications from individual leisure boats, to national maritime security programs.



Having first entered the AIS market in the late 1990's as a contract developer of core technology for third party product manufacturers, in 2006 SRT pioneered the development of a broad range of next generation integrated AIS core technologies and derivative products suitable for large scale use within MDA applications. Through sustained core technology development SRT has taken the size of an AIS transceiver from several shoe boxes to the size of a credit card. This strategic technology and product development made largescale deployment of AIS on vessels under 300GT viable for the first time and in turn has enabled latent interest in AIS functionality to convert into growing global demand for AIS in MDA applications.

Today SRT offers a full range of AIS products as well as fully integrated turn-key maritime domain monitoring system solutions which also fuse other maritime sensor technologies such as radar, CCTV and communications. With AIS now a critical technology component of most MDA systems, SRT benefits from a strategic position in the multi-billion dollar global MDA market which its commercial strategy seeks to leverage.

ANNUAL REPORT HIGHLIGHTS

FINANCIAL:

- Profit before tax of £1.2 million (2016: £0.3 million)
- Growing revenues
- 65.7% gross profit margin
- £77 million contracted future order book
- Growing validated sales opportunity pipeline of £270 million

OPERATIONAL:

- Repositioned company as a marine systems provider
- New project contracts signed
- Significant progress with pending pipeline sales opportunities
- Launch of new integrated vessel transceiver products
- Significant functionality enhancements to GeoVS

CHAIRMAN'S STATEMENT

During the year, SRT completed its transformation into a leading global maritime domain awareness systems business, which is now starting to be reflected in our finances. I am pleased to report that for the third year running we have achieved our financial and most of our operational targets and are reporting a profit before tax of £1.2 million which is a significant increase on the prior year. Most importantly we have made significant progress with a number of high value project sales opportunities within our validated sales opportunity pipeline.

Group revenue increased year-on-year by 3% to £11.0 million with a profit before tax of £1.2 million compared to £10.7 million and a profit before tax of £0.3 million respectively in the previous financial year. The gross profit margin was 65.7% which is significantly ahead of our long-term target average of 50%. Gross cash stood at £1.8 million with saleable stock valued at a cost of £3.3 million at the year end.

Our em-trak business that sells AIS transceivers for leisure and commercial vessels via a global network of distributors and dealers delivered £1.5 million in revenues which was a 46% year on year increase. During the year we commenced a program to accelerate revenue growth that is targeting the doubling of our dealer network over the next two years, more products available in each dealer and substantially improved point of sale merchandising designed to increase per dealer sales.

Our OEM & Module business that supplies AIS own branded product and embedded technology module solutions to a broad range of customers from mainline marine electronics brands to entities targeting more specialist application areas such as UAVs, delivered £4.1 million in revenues which was a 12% year on year increase. During the year, we introduced new products with innovative utilities and performance characteristics to these customers which will appear as new product lines towards the end of 2017.

Adoption of AIS in the non-mandated commercial and leisure vessel markets is primarily focused in Europe and the USA and remains at a very early stage with penetration into the addressable boat park that we estimate at under 1%; this compares with radar which we estimate at approximately 25%. A number of regulations all affecting commercial vessels (mandates) are now in effect that require certain types of vessels to fit an AIS transceiver – these include a USCG regulation affecting most commercial vessels, EU Inland waterway vessels and European Fishing vessels over 15 meters. Each of these regulations creates demand for AIS transceivers that our em-trak dealers and OEM & module customers meet. However, the demand profile of each is normally highly variable as it depends on authority enforcement once the mandate fit deadline has passed which in many cases can be very relaxed in the initial years. Encouragingly this year we have seen increasingly strict enforcement in the EU Inland waterways which is resulting in a new stream of sales from this market following the initial rush in 2010 when the regulation was first introduced.

In recent years, an AIS transceiver has become a standard specification at the point of new purchase on most large vessels (+40ft), leisure and commercial, and over time we expect this trend to continue to smaller vessels. In addition, we expect to see a gradual increase in the annual rate of adoption by existing vessels (retro-market) as the installed base of AIS increases making the acquisition of a transceiver more relevant along with the continued introduction of AIS based applications and services. Combining these two established trends, we believe that the market for AIS will see a steadily increasing annual growth rate over a ten year period, thus providing a significant long-term opportunity.

Our projects business generated revenues of £5.3million compared with £5.9 million in the previous financial year. This was predominantly driven by the conversion of sales opportunities from our validated sales opportunity pipeline into new contracts during the year and then the completion of milestone deliverables. The high software content of these projects produces a higher gross profit margin than hardware only sales and was the reason behind our exceptional gross margin of 65.7% for the year.

CHAIRMAN'S STATEMENT - continued

This business targets the global maritime domain awareness (MDA) market. SRT has developed three core system products, VTS (Ports, waterways & infrastructure), VMS (Fisheries monitoring & management) and MDM (Coastal Surveillance) systems, each of which are customised in scale and functionality for specific customer requirements. These systems are typically purchased by maritime infrastructure owners and national authorities who have an increasing desire to monitor and control maritime activities for security, commercial, safety and environmental reasons.

Each project includes a similar integrated combination of hardware, software and data, with each project varying in precise quantities and functionality. For many of the projects, once they reach a certain implementation stage, we expect to supply our S-MDA satellite data product, which will provide ongoing recurring revenues, in addition to the expected system upgrades and enhancements. Satellites enable monitoring and surveillance coverage to be extended beyond the coastal and territorial water regions which are covered with much higher resolution real time terrestrial sensor systems. Our innovative S-MDA product sources data from multiple satellite constellations to provide an optimal solution for the specific requirements of the customer.

During the year, a total of seven new projects of varying size and type were contracted, six of which were completed during the period and one which was signed towards the end of the period with some initial deliveries completed; this leaves SRT with two active projects as at the year end with a total current forward contract value of approximately £77million that we expect to be delivered over the next three years.

In March 2016, SRT entered a contract to supply our MDM system to the prime contractor for a large integrated maritime monitoring system in Asia. The contract was expected to be worth up to $100 million to SRT over three years across three delivery phases. In accordance with the contract deliveries started immediately for phase 1, but were subsequently paused prior to completion as a result of a significant rescoping and planning by the end customer, causing a delay in payments and the completion of remaining phase 1 deliverables. This rescoping has now been completed and is in the final stages of sign-off by the end customer, whereupon a revised contract is expected to be entered, the current phase 1 will be completed as originally defined, and the rescoped project and revised phasing implemented. Whilst the pause and consequent delay has been frustrating, such variability with large projects is common and to be expected. SRT believes that the rescoping may result in a significant, but as yet not confirmed or contracted, increase in the final value of the contract which we still expect to have to substantially completed in phases of variable value and content by 2020.

As at year end the estimated total value of project opportunities qualifying for inclusion in our validated sales opportunity pipeline (VSP) stood at approximately £270 million, with significant other potential opportunities pending future inclusion once sufficiently mature and validated. The VSP project opportunities are where SRT is actively engaged in detailed discussions and there is sufficient confidence that a contract will be entered into within a rolling time horizon of three years – with variable delivery profiles after contracting. Given the nature of these large and complex government driven projects, forecasting the exact contracting date, subsequent delivery profile and thus revenue is extremely challenging. However, this is an area which the Board continues to monitor closely and effort is being made to give more clarity to shareholders on the size of contracts in the pipeline. However, due to the nature of many of the end customers and projects, certain details about the projects are strictly confidential and cannot be disclosed. I am pleased to report that four projects located in the Middle East and Asia with an aggregate value of approximately £60 million appear to have made significant progress towards contract signing during the year, with several others also making key break throughs.

I therefore believe that our projects business is very well positioned in a large and growing global market place which is at the beginning of a massive upgrade program of old and outdated systems and we can expect to sign further new contracts and complete deliveries in the coming year, as well as complete deliveries against our existing contracts.

CHAIRMAN'S STATEMENT – continued

Underpinning our business is our ability to develop consistently high quality, high performance products with innovative functionality, providing a menu of interoperable products we can sell individually and as systems. I am pleased to report that during the year we have continued to execute on this strategy with the launch of new Class A and Class B products and the commencement of some new highly innovative core technologies that will be embedded in a range of new products scheduled for launch during 2018. Of particular note, is SRT's focus on differentiated core AIS performance through our HF-AIS technology, which delivers far better target processing, SAT-Trak which not only enables AIS Class B transmissions to be detected by AIS equipped satellites, but also significantly enhances the percentage that are detected, and VMS-Connect which is a unique live data collection system embedded within our systems.

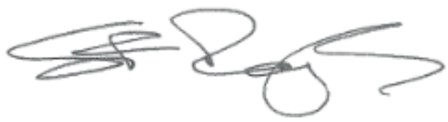
The balance of our technology and product development investment has evolved such that we now invest approximately half our resources on our GeoVS data management and display system and half on transceivers. We expect this to continue in the future as GeoVS provides a range of powerful visualisation, operational management and data analytic functionality that enables operators to make use of the increasing amount of data and our investments in this product will continue to enhance and expand these capabilities.

Overall our cash overheads increased from £4.8 million to £5.6 million reflecting our increasing support activities across multiple project opportunities, but remain relatively low and tightly controlled for a business addressing such a large and global market. In the coming year, we expect to see some further increases, but these will be directly linked to project activities and deliverables. A key aspect to SRT's low overhead business model is our long- standing network sales channel partners with whom we continue to work closely to deliver our products, systems and services.

Our progress and position within this large global market would not have been possible without the loyalty, dedication and talent of our 55 full time employees working out of our Cardiff and Somerset offices and I would like to take this opportunity to thank them on behalf of the Board.

Our strategy remains to be one of the world's leading providers of maritime domain awareness systems through the development and provision of innovative, high performance, quality product and system solutions that are reliably delivered to end customers in co-operation with our sales channel partners that meet the requirements of a diverse and fragmented global market. Our investments and innovation in AIS technology, and in turn the adoption of AIS as a critical path technology by the market across the MDA sector, has endowed SRT with a strategically advantageous position that we are now leveraging.

Looking to the immediate and long term future I expect to see our em-trak and OEM & Module businesses to continue to grow, whilst our project business with a £77 million current contract order book, and a VSP of projects worth up to £270 million should drive significant revenue growth in the years ahead.



Simon Rogers
Chairman

STRATEGIC REPORT

FOR THE YEAR ENDED 31 MARCH 2017

The directors present their group strategic report for the year ended 31 March 2017.

Business Review

The principal activity of the SRT Marine Systems plc group is the development and supply of Automatic Identification System (AIS) based maritime domain awareness (MDA) technologies, derivative product and system solutions for use in a wide range of maritime applications from safety and security to fishery management and environment protection.

The financial Key Performance Indicators (KPIs) used by the Board to monitor progress are revenue growth, gross margin, profit before tax and cash flow. These are used because they best indicate performance against the Group's strategic objective of delivering profitable growth which in turn will drive shareholder value. Non-financial KPIs used include status of development projects against milestone targets, warranty returns and on-time customer delivery. Performance against the financial metrics has been discussed in the Chairman's Statement on pages 5-7.

Principal Risks and Uncertainties

The early stage of the market within which the Group operates, means that future revenues are often unpredictable and difficult to forecast. The Group mitigates this risk to the extent possible by maintaining regular communication with its customers and industry experts.

The directors acknowledge that the Group's ability to attract and retain employees with appropriate expertise and skills cannot be guaranteed and difficulties experienced in this area could affect the trading performance of the Group.

Due to the Group's size and limited resources it may not be able to detect and prevent infringement of its Intellectual Property Rights ("IPR"). The directors believe that although adequate steps have been taken to protect its IPR such measures may be inadequate to prevent the misappropriation of its proprietary information.

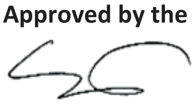
The Group's existing and potential customers operate in numerous countries, each of which has its own national characteristics relating to how business is regulated and conducted in terms of economic, political, judicial, administrative, taxation or other regulatory matters. The Group could therefore be affected by any one of these factors, as well as other unforeseen matters, which, particularly given the size of contracts with customers, could have a material adverse effect on its business, operating results or financial condition.

The Group's management regularly assesses these risk areas to ensure that such risk is mitigated so far as reasonably possible.

Investing for the Future

We acknowledge that our chosen market places are still in their early stages and as a result we need to continue to invest in our organisation in order to meet the challenges that a growing market will bring. This will involve adding to our existing product and system portfolio as well as evolving our current technology offerings which is further discussed in the Chairman's Statement.

Approved by the Board of Directors and signed on behalf of the Board



S Tucker
Director

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2017

General information and change of name

SRT Marine Systems plc is a public limited company which is listed on the AIM market of the London Stock Exchange and is incorporated and domiciled in the United Kingdom. During the year, the company changed its name from Software Radio Technology plc.

Results for the Year and Dividends

The Group achieved a profit after tax of £1,450,728 (2016: £433,674). The directors have not recommended the payment of a dividend (2016: £nil).

Future developments and strategy

These are considered in the chairman's statement on page 5-7.

Financial instruments and risk management

Details of the Group's financial instruments and its policies with regard to financial risk management are given in note 23 to the accounts.

Directors

The directors who served during the year were:

Non Executives	
Chairman	Simon Rogers
Non Executive Director	Andrew Lapping
Executives	
Chief Executive Officer	Simon Tucker
Chief Operating Officer	Neil Peniket
Chief Financial Officer	Richard Hurd

Disclosure of Information to the Auditors

In the case of each person who was a director at the time this report was approved:

- so far as that director was aware there was no relevant available information of which the company's auditors were unaware; and
- that director had taken all steps that the director ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the company's auditors were aware of that information.

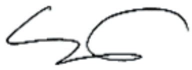
This information is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

DIRECTORS' REPORT – continued

Auditors

A resolution to appoint the auditors, Nexia Smith & Williamson Audit Limited, will be proposed at the next Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board



S Tucker
Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

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

Company law requires the directors to prepare accounts for each financial year. Under that law the directors have elected to prepare the group and parent company accounts in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company accounts, as applied in accordance with the provisions of the Companies Act 2006. Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing these accounts, 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 that the accounts comply with IFRSs as adopted by the European Union;
- 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 accounts comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are also responsible for ensuring that they meet their responsibilities under the AIM Rules.

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 accounts may differ from legislation in other jurisdictions.

CORPORATE GOVERNANCE REPORT

FOR THE YEAR ENDED 31 MARCH 2017

The directors recognise the importance of, and are committed to, high standards of corporate governance. Whilst under the AIM rules full compliance with the UK Corporate Governance Code is not required, the directors believe that the Company applies a number of the recommendations insofar as is practicable and appropriate for a public company of its size.

The Board of Directors

The Board of Directors at the date of this report consists of three Executive and two Non-Executive directors. The Board believes that the composition and breadth of experience of the Board are appropriate for the Company. The Board meets at least 7 times throughout the year and through its Chairman and Executive directors in particular, maintains regular contact with its advisers in order to ensure that the Board develops an understanding of the views of major shareholders about the Company.

The Board is responsible for such key matters as the approval or monitoring of strategic plans, the annual trading budget, major capital expenditure, treasury policies and financial performance. It delegates responsibility for the day to day operation of the business to the Executive directors who are charged with consulting the Board on all significant financial and operational matters.

Audit Committee

The Audit Committee comprises Andrew Lapping (Chairman) and Simon Rogers – the two Non-Executive directors. It meets at least once per year. The meeting to review feedback from the 2017 audit took place on 31 May 2017.

Remuneration Committee

The Remuneration Committee comprises Andrew Lapping (Chairman) and Simon Rogers; it meets at least twice a year. During the year, the Committee met to discuss the remuneration of the Executive directors.

The remuneration policy for Directors is set by the Board and is described below. It is determined by the Remuneration Committee within the framework of this policy. The remuneration of the Executive Directors is determined by the Remuneration Committee which consists entirely of Non-Executive Directors.

The Remuneration Committee consults with Simon Tucker, the Group Chief Executive Officer, as appropriate with regard to its proposals relating to the remuneration of the Executive Directors.

The policy of the Remuneration Committee is to review the Executive Directors' Remuneration based on market practice within the Company's market sector. The Group wishes to attract, motivate and retain key executives. Accordingly, its policy is to design remuneration packages which, through an appropriate combination of basic salary, performance related bonuses, share options, pension arrangements and certain benefits, reward executives fairly and responsibly for their individual contributions, whilst linking their potential earnings to the performance of the Group as a whole. The overall package, which is reviewed at least annually may contain the following elements:-

a) Basic salaries

Basic salaries for Executive Directors are reviewed annually by the Remuneration Committee and are set at levels which reflect their performance and degree of responsibility.

CORPORATE GOVERNANCE REPORT

FOR THE YEAR ENDED 31 MARCH 2017 - continued

b) Enterprise Management Incentive Share Option Scheme

The company has had in place, since November 2005, an enterprise management incentive share option scheme under which awards are met at the discretion of the Remuneration Committee. The share options held by the Directors are set out on page 28.

c) Performance related bonus

The Remuneration Committee can award discretionary bonuses, which are linked to the achievement of demanding individual, business and corporate objectives.

d) Pension allowance

Simon Tucker elected not to join the Company's Money Purchase Pension Scheme and in compensation for this the Remuneration Committee agreed to pay him the amount that the Company would have paid to the pension scheme on his behalf, for him to invest as he wishes.

e) Other benefits

Other benefits include private health insurance.

f) Non-Executive Directors

The Non-Executive Directors are independent of management and have no relationship which could materially interfere with the exercise of their independent judgement. The remuneration of the Non-Executive Directors is decided by the Remuneration Committee in consultation with the Executive Directors.

Nomination Committee

The Nomination Committee comprises Simon Rogers (Chairman) and Andrew Lapping. The Nomination Committee met during the year to discuss the appointment of new members of the senior management team.

Independent auditor's report to the shareholders of SRT Marine Systems Plc

We have audited the financial statements of SRT Marine Systems Plc for the year ended 31 March 2017 which comprise the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Company and Consolidated Statements of Financial Position, the Company and Consolidated Statements of Changes in Equity, the Company and Consolidated Statements of Cash Flows, and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the parent company accounts, as applied in accordance with the provisions of the Companies Act 2006.

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.

Respective responsibilities of Directors and Auditor
As explained more fully in the Statement of Directors' Responsibilities in respect of the Accounts set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2017 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 IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

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

Emphasis of Matter – recoverability of receivables
In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 13 to the financial statements, concerning the recoverability of £2.166m of trade receivables, which are more than twelve months old.

As described in note 13 the directors believe the debt is recoverable. The financial statements do not reflect any additional provision that may be required if the £2.166m cannot be recovered in full.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where 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.

Michael Neale
Senior Statutory Auditor, for and on behalf of
Nexia Smith & Williamson
Statutory Auditor & Chartered Accountants
Portwall Place
Bristol, BS1 6NA 6 June 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME for the year ended 31 MARCH 2017

	Notes	2017 £	2016 £
Revenue	2	11,025,730	10,683,639
Cost of sales		(3,786,176)	(5,515,775)
Gross profit		7,239,554	5,167,864
Administrative costs		(5,961,393)	(4,847,591)
Operating profit	6	1,278,161	320,273
Finance expenditure	5	(43,980)	(45,549)
Finance income	5	220	645
Profit before tax		1,234,401	275,369
Income tax credit	7	216,327	158,305
Profit for the year after tax		1,450,728	433,674
Total comprehensive income for the year		1,450,728	433,674
Earnings per share:			
Basic	22	1.14	0.34p
Diluted	22	1.09	0.33p

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 MARCH 2017

	Notes	2017	2016
		£	£
Assets			
Non-current assets			
Intangible assets	9	5,810,954	6,076,204
Property, plant and equipment	10	184,854	139,269
Total non-current assets		5,995,808	6,215,473
Current assets			
Inventories	12	3,281,521	4,258,556
Trade and other receivables	13	7,926,686	4,726,522
Cash and cash equivalents		1,760,861	1,862,048
Total current assets		12,969,068	10,847,126
Liabilities			
Current liabilities			
Trade and other payables	14	(3,055,819)	(2,849,583)
Financial liabilities	15	(500,000)	-
Total current liabilities		(3,555,819)	(2,849,583)
Net current assets		9,413,249	7,997,543
Total assets less current liabilities		15,409,057	14,213,016
Long term liabilities			
Financial liabilities	15	(500,000)	(1,000,000)
Deferred tax	7	(279,178)	(293,163)
Total long term liabilities		(779,178)	(1,293,163)
Net assets		14,629,879	12,919,853
Shareholders' equity			
Share capital	16	127,613	127,513
Share premium account		4,872,779	4,855,729
Retained earnings		4,138,891	2,446,015
Other reserves	18	5,490,596	5,490,596
Total shareholders' equity		14,629,879	12,919,853

The accounts were approved by the Board of Directors on 6 June 2017 and were signed on its behalf by:

S Tucker
Director

COMPANY STATEMENT OF FINANCIAL POSITION as at 31 MARCH 2017

	Notes	2017	2016
Assets		**£**	**£**
Non-current assets			
Investments in subsidiaries	11	932,503	932,503
Intangible assets	9	-	54,160
Property, plant and equipment	10	25,479	20,836
Total non-current assets		957,982	1,007,499
Current assets			
Trade and other receivables	13	10,306,157	10,546,597
Cash and cash equivalents		744,752	613,287
Total current assets		11,050,909	11,159,884
Liabilities			
Current liabilities			
Trade and other payables	14	(544,046)	(234,435)
Financial liabilities	15	(500,000)	-
Total current liabilities		(1,044,046)	(234,435)
Net current assets		10,006,863	10,925,449
Total assets less current liabilities		10,964,845	11,932,948
Long term liabilities			
Financial liabilities	15	(500,000)	(1,000,000)
Net assets		10,464,845	10,932,948
Shareholders' equity			
Share capital	16	127,613	127,513
Share premium account		4,872,779	4,855,729
Retained earnings		5,402,053	5,887,306
Other reserves	18	62,400	62,400
Total shareholders' equity		10,464,845	10,932,948

The loss for the year ended 31 March 2017 was £727,401 (2016: loss £429,406).

The accounts were approved by the Board of Directors on 6 June 2017 and were signed on its behalf by:

S Tucker
Director
Company's registered number: 05459678

CONSOLIDATED STATEMENT OF CASH FLOWS for the year ended 31 MARCH 2017

	Notes	2017	2016
		£	£
Cash generated from operating activities	21	1,235,380	853,394
Corporation tax received		202,342	451,468
Net cash generated from operating activities		1,437,722	1,304,862
Investing activities			
Expenditure on product development		(1,389,371)	(1,453,370)
Purchase of property, plant and equipment		(122,928)	(106,572)
Interest received		220	645
Net cash used in investing activities		(1,512,079)	(1,559,297)
Financing activities			
Net proceeds on issue of shares		17,150	10,800
Interest paid		(43,980)	(45,549)
Net cash used in financing activities		(26,830)	(34,749)
Net decrease in cash and cash equivalents		(101,187)	(289,184)
Net cash and cash equivalents at beginning of year		1,862,048	2,151,232
Net cash and cash equivalents at end of year		1,760,861	1,862,048

COMPANY STATEMENT OF CASH FLOWS for the year ended 31 MARCH 2017

	Notes	2017	2016
		£	£
Cash generated from operating activities	21	175,744	634,231
Investing activities			
Purchase of property, plant and equipment		(17,669)	(18,346)
Interest received		220	645
Net cash used in investing activities		(17,449)	(17,701)
Financing activities			
Net proceeds on issue of shares		17,150	10,800
Interest paid		(43,980)	(45,549)
Net cash used in financing activities		(26,830)	(34,749)
Net increase in cash and cash equivalents		131,465	581,781
Net cash and cash equivalents at beginning of year		613,287	31,506
Net cash and cash equivalents at end of year		744,752	613,287

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the year ended 31 MARCH 2017

	Share capital	Share premium	Retained earnings	Other reserves	Total
	£	£	£	£	£
At 1 April 2015	127,453	4,844,989	1,993,437	5,490,596	12,456,475
Total comprehensive income for the year	-	-	433,674	-	433,674
Issue of equity share capital	60	10,740	-	-	10,800
Share based payment charge	-	-	18,904	-	18,904
At 31 March 2016	127,513	4,855,729	2,446,015	5,490,596	12,919,853
Total comprehensive income for the year	-	-	1,450,728	-	1,450,728
Issue of equity share capital	100	17,050	-	-	17,150
Share based payment charge	-	-	242,148	-	242,148
At 31 March 2017	127,613	4,872,779	4,138,891	5,490,596	14,629,879

COMPANY STATEMENT OF CHANGES IN EQUITY for the year ended 31 MARCH 2017

	Share capital £	Share premium £	Retained earnings £	Other reserves £	Total £
At 1 April 2015	127,453	4,844,989	6,297,808	62,400	11,332,650
Total comprehensive expense for the year	-	-	(429,406)	-	(429,406)
Issue of equity share capital	60	10,740	-	-	10,800
Share based payment charge	-	-	18,904	-	18,904
At 31 March 2016	127,513	4,855,729	5,887,306	62,400	10,932,948
Total comprehensive expense for the year	-	-	(727,401)	-	(727,401)
Issue of equity share capital	100	17,050	-	-	17,150
Share based payment charge	-	-	242,148	-	242,148
At 31 March 2017	127,613	4,872,779	5,402,053	62,400	10,464,845

NOTES TO THE ACCOUNTS for the year ended 31 MARCH 2017

1. **Accounting policies**

SRT Marine Systems plc is a public limited company, limited by shares, incorporated in England and Wales. The address of the registered office is Wireless House, Westfield Industrial Estate, Midsomer Norton, Bath BA3 4BS. The nature of the Group's operations and its principal activities are noted in the Chairman's Statement and Strategic Report.

The principal accounting policies are summarised below. They have all been applied consistently throughout the period covered by these accounts.

Basis of preparation

The accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, applied in relation to the company accounts in accordance with the provisions of the Companies Act 2006.

The accounts have been prepared under the historical cost convention.

Basis of consolidation

The Group accounts incorporate the accounts of the Company and entities controlled by the Company prepared to 31 March each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

All intra-group transactions and balances and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the consolidated accounts.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

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. Identifiable assets acquired and liabilities and contingent liabilities assumed in the business combination are measured initially at their fair values at the acquisition date.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of accounts in conformity with generally accepted accounting practice requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the year end date and the reported amounts of revenues and expenses during the year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

NOTES TO THE ACCOUNTS for the year ended 31 MARCH 2017 - continued

1. **Accounting Policies – continued**

Judgements

- Capitalisation of development costs, whereby the recognition of such costs is dependent on a number of criteria as set out below.

- Revenues generated from the sale of maritime system solutions are broken down into their constituent elements. Revenue on licenses is recognised on despatch when there is no significant further obligation on the Group. Revenue from the sale of goods is recognised as set out in the accounting policy below.

Key sources of estimation uncertainty

- Other intangible assets are amortised over their useful economic lives. Useful lives are based on management's estimates of the period that the assets will generate revenue, which are periodically reviewed for appropriateness. Changes in estimates could result in significant variations in the carrying value.

- Recoverability of receivables. A full line by line review of trade receivables is carried out at each month end. Whilst every attempt is made to ensure that the bad debt provisions are as accurate as possible, there remains a risk that the provisions do not match the level of debts which ultimately prove to be uncollectible.

- Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units (CGU) to which goodwill has been allocated (note 9). The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and apply a suitable discount rate in order to calculate the present value.

Research and development

Research expenditure is written off to profit or loss in the year in which it is incurred. Development expenditure is capitalised and amortised over the period during which the Company is expected to benefit, currently considered to be five years. This cost is included as part of administrative expenses within profit or loss.

Development expenditure capitalised represents time spent by company employees, sub-contractor costs, and any other directly attributable costs incurred in creating the asset for the purposes intended by management, valued at cost. In recognising such development costs as assets consideration is given to each of the following:-

- The technological feasibility of completing the asset so that it may be used or sold
- The intention and ability to use or sell the asset
- How the asset will generate future probable economic benefits, for example by demonstrating that there is a market for the asset's output
- Availability of adequate technical, financial and other resources to complete the development and to use the asset
- The ability to measure reliably the expenditure on the asset during its development.

Once management have satisfied themselves that the above criteria are met the development costs are carried as assets. The amortisation periods of each of the assets is five years, as this is considered to be the revenue generating life of each asset. This period is subject to annual review by management. The AIS technology assets have between 3 and 60 months of amortisation remaining.

NOTES TO THE ACCOUNTS for the year ended 31 MARCH 2017 - continued

1. Accounting Policies – continued

Revenue recognition

Revenue comprises the value of sales of SRT technology based products and system solutions. Revenue is measured at the fair value of the consideration received or receivable and represents amounts recoverable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Revenue from the sale of goods and associated license software installed on the goods is recognised when goods are delivered and title has passed unless the sale conforms to the “bill and hold” sale requirements of IAS 18 where the following conditions have to be met for the revenue to be recognised:-

- It is probable that delivery will be made
- The item is on hand, identified and ready for delivery to buyer at the time the sale is recognised
- The buyer specifically acknowledges the deferred delivery instructions
- The usual payment terms apply

Revenues from the sale of system solutions are broken down into the relevant constituent elements including training and support services and recognised according to the value of the relevant goods and services provided to the end customer.

Property, plant and equipment

Property, plant and equipment are valued at net book value, being the cost less accumulated depreciation. Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets concerned. Annual lives of 3-4 years are used for plant and equipment.

Taxation

Where an income tax credit arises, this represents the sum of the tax currently receivable and deferred tax. Current tax is based on taxable profits for the year using tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is provided for on a full provision basis on all temporary differences, which have arisen but not reversed at the statement of financial position date. Temporary differences represent the accumulated differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax is calculated at the tax rates that are expected to apply when the related deferred tax balance is settled. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity in which case the deferred tax is also dealt with in equity. Deferred tax assets are recognised to the extent that it is probable that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

Pension costs

Contributions to defined contribution schemes are charged to profit or loss as they become payable in accordance with the rules of the scheme.

Leases

Leases other than finance leases are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the lease term.

NOTES TO THE ACCOUNTS for the year ended 31 MARCH 2017 – continued

1. Accounting Policies – continued

Foreign currencies

Transactions denominated in a foreign currency are translated into sterling at the rate of exchange ruling at the date of the transaction. At the statement of financial position date, monetary assets and liabilities denominated in foreign currency are translated at the rate ruling at that date. All exchange differences are dealt with in profit or loss.

Inventories

Inventories and work in progress are stated at the lower of cost and net realisable value. Cost comprises direct materials and other subcontracted manufacturing costs. The costs of finished products are expensed to profit or loss to match against the corresponding revenues from those products. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made against slow and obsolete moving inventories to ensure the value at which inventories are held in the statement of financial position is reflective of anticipated future sales patterns.

Share based payments

The Group operates an equity settled share based compensation plan whereby the company grants share options to employees of all Group companies. The fair values of the options granted under this plan are calculated using an appropriate valuation model which takes into account assumptions about future events and market conditions. Further details are provided in note 17.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service condition are fulfilled, ending on the date on which the relevant employees become fully entitled to the award. The cumulative expense recognised for equity-settled transactions at each reporting date, until the vesting date, reflects the extent to which the vesting period has expired and the Directors' best estimate of the number of equity instruments that will ultimately vest.

In making this judgement consideration must be made as to the likely number of shares that will vest, and the fair value of each award granted. The fair value is determined using a valuation model, which is dependent on further estimates, including the Group's future dividend policy, employee turnover, the timing with which options will be exercised and the future volatility in the price of the Group's shares. Such assumptions are based on publicly available information and reflect market expectations.

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. A provision is established when there is objective evidence that the Group will not be able to collect all amounts due. The amount of any provision is recognised in profit or loss. Cash and cash equivalents comprise cash held by the Group. Trade and other payables and financial liabilities (notes 14 and 15) are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Financial liabilities and equity instruments issued by the Group are classified in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the company are recorded at the fair value of the proceeds received, net of direct issue costs.

NOTES TO THE ACCOUNTS for the year ended 31 MARCH 2017 – continued

1. Accounting Policies – continued

Going concern

The Group’s business activities, together with the key factors likely to affect its future development, profitability, cash flows, liquidity position, borrowing facilities and financial position are outlined within the Directors' Report.

After making due enquiries, the Directors believe they have a reasonable basis to conclude that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

New accounting standards

There were a number of amendments to existing standards and interpretations that were effective for the current period, but the adoptions of those amendments to existing standards and interpretations did not have a material impact on the accounts of the Group. There are a number of new standards, amendments to standards and interpretations which are not expected to materially impact the financial statements of the Group over the next 12 months which include:

		Effective date (periods beginning on or after)	EU Adopted?
IFRS 9	Financial Instruments: Classification & Measurement	1 January 2018	Yes
IFRS 15	Revenue from Contracts with Customers	1 January 2018	Yes
IFRS 16	Leases	1 January 2019	No

The directors are considering the financial impact of the introduction of IFRS 9, IFRS 15 and IFRS 16.

NOTES TO THE ACCOUNTS for the year ended 31 MARCH 2017 – continued

2 Revenue and segment information

Business and Geographical Segments

The directors have given due consideration to the requirements of IFRS 8 and the components of the group which management use to make decisions about operating matters and internal reports that are regularly reviewed by the chief operating decision maker, which is considered to be the board of directors.

During the previous year, the internal organisation was restructured into a single business segment, the Marine technology business, which therefore reflects the results presented in the primary statements.

From a geographical perspective, the Group earns revenue from a number of countries as set out below:

Revenue by geographical destination:	**2017**	**2016**
	£	**£**
Europe	3,832,356	5,228,348
Middle East	4,318,690	3,760,967
North America	921,242	595,847
UK	839,412	222,556
Other	1,114,030	875,921
	11,025,730	10,683,639

Included within revenues are 2 customers (2016: 3) with amounts exceeding 10% of the Group's total revenue. In both years, all of these customers were within the Marine business segment. Sales to the Group's largest customer from the Middle East amounted to £3,900,004 (2016: £3,524,331), the second largest customer from Belgium amounted to £1,846,827 (2016: £2,001,575). In the previous year, revenues from the Group's third largest customer amounted to £1,558,079.

NOTES TO THE ACCOUNTS for the year ended 31 MARCH 2017 - continued

3 Directors' emoluments

The remuneration of the individual Directors was as follows:

Year ended 31 March 2017	Salary	Bonus	Pension Contributions	Total 2017
	£	£	£	£
Executive Directors				
S Tucker	184,000	144,400	-	328,400
N Peniket	115,000	90,250	5,758	211,008
R Hurd	90,000	64,000	4,500	158,500
Non Executive Directors				
S Rogers	18,667	-	-	18,667
A Lapping	18,667	-	-	18,667
Total	426,334	298,650	10,258	735,242

Year ended 31 March 2016	Salary	Bonus	Pension Contributions	Total 2016
	£	£	£	£
Executive Directors				
S Tucker	160,000	24,000	-	184,000
N Peniket	100,000	15,000	5,022	120,022
R Hurd	65,000	9,750	3,121	77,871
Non Executive Directors				
S Rogers	12,000	-	-	12,000
A Lapping	12,000	-	-	12,000
Total	349,000	48,750	8,143	405,893

Share options at 31 March 2017

	Total options	Exercise price	Expiry date
Executive Directors			
S Tucker	1,500,000	0.1p	8 August 2026
S Tucker	2,200,000	9p	18 February 2020
N Peniket	750,000	0.1p	8 August 2026
N Peniket	1,300,000	2.5p	20 July 2019
R Hurd	450,000	0.1p	8 August 2026
R Hurd	500,000	20p	18 December 2022
R Hurd	75,000	2.5p	20 July 2019

At 31 March 2016, all of the above options remained outstanding except for those with exercise prices of 0.1p which were granted during the year ended 31 March 2017.

NOTES TO THE ACCOUNTS for the year ended 31 MARCH 2017 - continued

3 **Directors' emoluments (continued)**

Those options granted at an exercise price of 0.1p during the year vest in three equal tranches dependent on the Company's share price. The first tranche vests when the share price has exceeded 50p. This occurred during the year and so the first tranche has vested and is exercisable. The second and third tranches vest on the same basis but with thresholds of 75p and £1.25. This criteria has not been met and as such those options are have not yet vested and are not exercisable. The criteria for all other executive share options have been met and therefore all are exercisable immediately.

An insurance premium of £3,000 (2016: £3,430) was paid in respect of directors' and officers' liability. Retirement benefits are accruing to two directors (2016: two) under the money purchase pension scheme.

4 **Employee Information**

The average number of persons, including directors, employed by the group during the year was:

	2017 No.	**2016 No.**
Technical	34	28
Administration and sales	18	19
	52	47

Staff costs for the above persons were:

	2017 £	**2016 £**
Wages and salaries	2,357,955	1,446,216
Social security costs	240,305	162,562
Pension costs - defined contributions	62,921	47,822
	2,661,181	1,656,600

Total wages and salaries, as stated above, exclude costs capitalised and included within deferred development expenditure amounting to £977,778 (2016: £854,577). Wages and salaries also include £242,148 (2016: £18,904) in respect of share-based payment charges.

The company employed an average of 8 persons within administration and sales (2016: 8) with total wages and salaries of £766,931 (2016: £457,854), including social security costs of £60,357 (2016: £42,394) and pension costs of £7,054 (2016: £5,558). The wages and salaries of the company also include £242,148 (2016: £18,904) in respect of share-based payment charges.

5 **Finance income and expenditure**

	2017 £	**2016 £**
Bank interest payable	43,980	45,549
Bank interest receivable	220	645

NOTES TO THE ACCOUNTS for the year ended 31 MARCH 2017 – continued

6 Operating profit

Operating profit for the year is stated after charging/(crediting):	**2017**	**2016**
	£	**£**
Inventories recognised as an expense	3,689,862	5,398,403
Amortisation of intangible assets	1,654,621	1,432,331
Depreciation	77,343	77,846
Auditors' remuneration		
Fees payable to the company's auditor for the audit of the parent company's accounts	13,500	12,000
Fees payable to the company's auditor for other services:		
- audit of the company's subsidiaries	23,500	22,000
- audit-related assurance services	4,100	2,250
- tax compliance services	15,000	15,065
- tax advisory services	2,070	2,440
Exchange gain	(344,304)	(116,017)
Operating lease rentals - land & buildings	97,080	113,544
Research and development costs not capitalised	86,770	80,594

7 Taxation

Income tax credit	**2017**	**2016**
UK corporation tax at 20% (2016: 20%):	**£**	**£**
Tax credit	202,342	451,468
Deferred tax (charge) / credit	13,985	(293,163)
Total tax credit for the year	216,327	158,305

Factors affecting tax charge for the year

Profit on ordinary activities before tax	1,234,401	275,369
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK 20% (2016: 20%)	(246,880)	(55,074)
Effects of:		
Expenses not deductible for tax purposes	(51,483)	(5,221)
Other differences	5,415	-
Additional deduction for R&D expenditure	309,978	-
Patent Box additional deduction	150,296	-
Adjustment to tax charge in previous periods	202,342	451,465
Adjustment to tax charge in previous periods - deferred tax	(162,981)	-
Temporary differences not recognised in computation	107,804	-
Deferred tax not recognised	(77,292)	(232,865)
Effect of change of tax rates	(20,872)	-
Tax credit for the year	216,327	158,305

NOTES TO THE ACCOUNTS for the year ended 31 MARCH 2017 – continued

7 **Taxation - continued**

	2017	2016
	£	£
Losses carried forward	2,830,040	3,648,992
Movement in deferred tax provision:		
At 1 April, 2016	293,163	-
Deferred tax charge	(13,985)	293,163
At 31 March, 2017	279,178	293,163
Deferred tax provision:		
Fixed asset temporary differences	906,789	990,861
Short term temporary differences	(314,469)	(203,870)
Losses and other deductions	(313,142)	(493,828)
Deferred tax liability	279,178	293,163
Unprovided deferred tax:		
Fixed asset temporary differences	1,671	3,750
Short term temporary differences	-	-
Losses and other deductions	(167,966)	(162,990)
Unprovided deferred tax asset	(166,295)	(159,240)

8 **Company Loss for the financial year**

The Company has taken advantage of the exemption under Section 408 of the Companies Act 2006 not to publish its individual income statement. The loss for the year ended 31 March 2017, dealt with in the accounts of the Company, was £727,401 (2016: loss £429,406). The company made no gains or losses which would be reported in other comprehensive income in the years ended 31 March 2017 and 2016 and therefore the Company has not published its individual Statement of Comprehensive Income.

NOTES TO THE ACCOUNTS for the year ended 31 MARCH 2017 - continued

9 Intangible assets

	Patent	Development costs	Goodwill	Total
		£	£	£
Cost				
At 1 April 2015	54,160	11,651,425	633,645	12,339,230
Additions	-	1,453,370	-	1,453,370
At 31 March 2016	54,160	13,104,795	633,645	13,792,600
Additions	-	1,389,371	-	1,389,371
At 31 March 2017	54,160	14,494,166	633,645	15,181,971
Amortisation				
At 1 April 2015	-	6,284,065	-	6,284,065
Charge for the year	-	1,432,331	-	1,432,331
At 31 March 2016	-	7,716,396	-	7,716,396
Charge for the year	54,160	1,600,461	-	1,654,621
At 31 March 2017	54,160	9,316,857	-	9,371,017
Net book value				
At 31 March 2017	-	5,177,309	633,645	5,810,954
At 31 March 2016	54,160	5,388,399	633,645	6,076,204
At 1 April 2015	54,160	5,367,360	633,645	6,055,165

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination identified according to operating segments. The carrying amount of goodwill has been allocated to the Marine CGU.

The recoverable amount of the goodwill has been determined based on a value in use calculation. That calculation uses cash flow projections covering a three-year period, and a discount rate of 10%. Management estimated the discount rate using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the market in which the Marine CGU operates.

The main assumption in the cash flow projections is the budgeted sales which have been determined using in-house estimates.

The results during the year include a significant amount of revenue and profits which are attributable to the business acquired and the associated goodwill. Management therefore do not consider there to be any recognised impairment. None of the goodwill is expected to be tax deductible.

Development costs in respect of assets not in use are subject to an impairment review.

The patent is the only intangible asset owned by the Company.

NOTES TO THE ACCOUNTS for the year ended 31 MARCH 2017

10 **Property, plant and equipment**

	Company Plant & Equipment £	Group Plant & Equipment £
Cost		
At 1 April 2015	177,619	639,604
Additions	18,346	106,572
At 31 March 2016	195,965	746,176
Additions	17,669	122,928
At 31 March 2017	213,634	869,104
Depreciation		
At 1 April 2015	157,065	529,061
Charge for the year	18,064	77,846
At 31 March 2016	175,129	606,907
Charge for the year	13,026	77,343
At 31 March 2017	188,155	684,250
Net book value		
At 31 March 2017	25,479	184,854
At 31 March 2016	20,836	139,269
At 1 April 2015	20,554	110,543

NOTES TO THE ACCOUNTS for the year ended 31 MARCH 2017

11 Investment in subsidiaries – Company

Cost - Shares in group undertakings	£
At 31 March 2016 and 31 March 2017	932,503

Holdings of more than 20%

The company holds more than 20% of the share capital of the following companies:

Subsidiary	Country of Incorporation	Shares held Class	%
SRT Marine Technology Limited	UK	Ordinary	100
Em-trak Marine Electronics Limited	UK	Ordinary	100
SRT Software Development (India) Private Limited*	India	Ordinary	100
SRT Marine Technology System Solutions Limited	UK	Ordinary	100
SRT Marine System Solutions Limited	UK	Ordinary	100

** not consolidated as non-trading*

The address of the above entities is the same as the Registered Office of the parent company, SRT Marine Systems plc as given on page 2. The principal activities of these undertakings for the last relevant financial year were as follows:

Subsidiary	Principal activity
SRT Marine Technology Limited	Sale, development and licensing of maritime communication products
Em-trak Marine Electronics Limited	Distribution of marine tracking equipment
SRT Marine Technology System Solutions Limited	Non-trading
SRT Marine System Solutions Limited	Development & supply of real time maritime domain data and traffic movements into interactive 3D display presentation
SRT Software Development (India) Private Limited	Non-trading

NOTES TO THE ACCOUNTS for the year ended 31 MARCH 2017 – continued

12 Inventories

Group	2017	2016
	£	£
Raw materials and consumables	1,113,335	1,031,089
Finished goods	2,168,186	3,227,467
	3,281,521	4,258,556

13 Trade and other receivables

Group	2017	2016
	£	£
Trade receivables	5,006,985	3,516,152
Other receivables	4,321	162,678
Prepayments and accrued income	2,915,380	1,047,692
	7,926,686	4,726,522

As at 31 March 2017 and 31 March 2016 the following movements in the provision account for credit losses were recognised during the year:-

Group	2017	2016
	£	£
Balance at 1 April	138,216	288,625
Amounts charged during the year	40,963	38,882
Amounts written off during the year	(22,971)	(152,387)
Amounts released during the year	(60,440)	(36,904)
	95,768	138,216

As at 31 March 2017 trade receivables of £2,246,270 (2016: £157,299) were past due but not impaired. The ageing analysis of these trade receivables is as follows:-

Group	2017	2016
	£	£
Up to 3 months past due	65,498	79,596
3 to 6 months past due	-	-
Over 6 months past due	2,180,772	77,703
	2,246,270	157,299

NOTES TO THE ACCOUNTS for the year ended 31 MARCH 2017 – continued

Trade and other receivables - continued

Included in trade receivables is a debt due of £2.166m, which has been outstanding for fourteen months and remains unpaid. Due to the length of time that has passed, there is a potential risk to the recoverability. Based upon information provided by SRT's customer, the directors are confident that this balance will be paid in full, however the exact timing is uncertain due to the end customers internal project deliverable sign off processes. The financial statements do not reflect any additional provision that may be required, if the £2.166m is not recoverable.

Company	**2017**	**2016**
	£	**£**
Amounts owed by group undertakings	10,215,926	10,448,496
Prepayments and accrued income	70,870	78,507
Other receivables	19,361	19,594
	10,306,157	10,546,597

The inter-company balances are unsecured, interest free and have no fixed dates for repayment. Prepayments and accrued income and other receivables do not contain impaired assets.

14 Trade and other payables

Group	**2017**	**2016**
	£	**£**
Trade payables	929,152	1,597,936
Other tax and social security payable	84,376	68,920
Other payables	22,101	20,161
Accruals and deferred income	2,020,190	1,162,566
	3,055,819	2,849,583

Company	**2017**	**2016**
	£	**£**
Trade payables	141,754	107,754
Other tax and social security payable	14,945	12,176
Other payables	199	1,123
Accruals and deferred income	387,148	113,382
	544,046	234,435

The directors consider that the carrying amount of trade and other payables approximates to fair value.

NOTES TO THE ACCOUNTS for the year ended 31 MARCH 2017 – continued

15 Financial liabilities

Group & Company	**2017**	**2016**
	£	**£**
Less than one year:		
Bank loan	500,000	-
More than one year:		
Bank loan	500,000	1,000,000

Bank borrowings are secured by a floating charge over the Group's assets, which is cross guaranteed by all entities within the Group. Interest is charged at a variable rate of 4% above the base rate. There are no material differences between the fair value of the borrowings and the actual book value.

16 Called up share capital

Allotted: Ordinary shares of 0.1p each	**2017**	**2016**
	No.	**No.**
Number of shares allotted	127,612,419	127,512,419
	£	**£**
Value of shares allotted	127,613	127,513

Reconciliation of movements in share capital:

	No.
Shares outstanding at 31 March 2015	127,452,419
Exercise of share options (a)	60,000
Shares outstanding at 31 March 2016	127,512,419
Exercise of share options (b)	100,000
Shares outstanding at 31 March 2017	127,612,419

Notes:

a) The employee exercise of options occurred during September 2015 at an exercise price of 18p.
b) 30,000 options were exercised at a price of 18p in April 2016, 20,000 at an exercise price of 29p in July 2016, 30,000 at an exercise price of 2.5p in July 2016 and 20,000 at an exercise price of 26p in November 2016.

NOTES TO THE ACCOUNTS for the year ended 31 MARCH 2017 – continued

17 Share based payment

The Company operates an Enterprise Management Incentive share option scheme and a Non Enterprise Management Incentive scheme for directors and employees. The general terms of the schemes are that awards are made once an employee has completed a minimum of six months' service with the Company. The awards made to employees are at the discretion of the Management Team and those to the directors at the discretion of the Remuneration Committee.

The options are expected to vest over a period of up to four years and the maximum exercise period for the options is ten years from the date of grant. Upon vesting the options are equity settled. Details of the share options outstanding during the year and previous year are as follows:-

	No. of options	**Weighted average exercise price**
Balance at 1 April 2015	5,458,000	12.5p
Granted during the year	330,000	26.0p
Exercised during the year	(60,000)	18.0p
Lapsed during the year	(180,000)	27.5p
Balance at 31 March 2016	5,548,000	12.4p
Granted during the year	3,445,000	0.1p
Exercised during the year	(100,000)	17.2p
Lapsed during the year	(360,000)	25.3p
Balance at 31 March 2017	8,533,000	6.8p
Balance exercisable at 31 March 2017	5,702,500	8.6p
Balance exercisable at 31 March 2016	4,542,000	9.6p

The value of the options granted during the year has been measured by using the Black Scholes pricing model as adjusted where applicable for market based performance criteria. For share options granted during the year and in the previous year, the inputs into the Black Scholes model included an expected life of 2-4 years as well as the relevant share price, exercise price, volatility and risk free rate at the date of grant. All options granted during the year had an exercise price of 0.1p and a share price on the date of issue ranging from 34p to 40p.

Expected volatility was determined by referencing volatility data received and using historical data for similar sized companies over the previous five years and ranged from 46% to 104% for the grants made during the year. Risk free rates were determined using government bonds and ranged from 1.6% to 2.6%. The expected dividend yield was 0%.

NOTES TO THE ACCOUNTS for the year ended 31 MARCH 2017 – continued

17 **Share based payment - continued**

For share options outstanding at the year end, vesting criteria and dates and expiry dates are as set out below.

Vesting date/criteria	Number issued	Exercise price	Expiry date
Vested and exercisable immediately	1,384,000	2.5p	July 2019
Vested and exercisable immediately	2,200,000	9p	Feb 2020
Vested and exercisable immediately	30,000	32p	Oct 2021
Vested and exercisable immediately	500,000	20p	Dec 2022
Vested and exercisable immediately	180,000	18p	Dec 2022
Vested and exercisable immediately	60,000	23p	Jan 2023
Vested and exercisable immediately	90,000	23p	Aug 2023
Vested and exercisable immediately	136,000	25p	Dec 2023
Vested and exercisable immediately	70,000	29p	Feb 2025
Vested and exercisable immediately	90,000	26p	Dec 2025
Vested and exercisable immediately	62,500	0.1p	July 2026
Vested and exercisable immediately	900,000	0.1p	Aug 2026
Share price criteria not met	30,000	37p	May 2021
Share price criteria not met	30,000	23p	May 2021
Share price criteria not met	1,800,000	0.1p	May 2026
Vested but not exercisable before:			
June 2017	68,000	25p	Dec 2023
Not exercisable before:			
November 2017	110,000	26p	Dec 2025
November 2018	110,000	26p	Dec 2025
September 2017	62,500	0.1p	July 2026
September 2018	62,500	0.1p	July 2026
September 2018	62,500	0.1p	July 2026
December 2017	145,000	0.1p	Dec 2026
December 2018	145,000	0.1p	Dec 2026
December 2019	145,000	0.1p	Dec 2026
February 2018	20,000	0.1p	Feb 2027
February 2019	20,000	0.1p	Feb 2027
February 2020	20,000	0.1p	Feb 2027
Total outstanding options	8,533,000		

18 **Reserves**

Reserves for the Group and Company are set out in the Statement of Changes in Equity on pages 20 and 21 respectively. Other reserves consist of a capital redemption reserve, warrant reserve and a merger reserve as set out below:

NOTES TO THE ACCOUNTS for the year ended 31 MARCH 2017 – continued

18 Reserves

	Capital redemption reserve	Warrant reserve	Merger reserve	Total
	£	£	£	£
At 31 March 2015, 2016, 2017	2,857	62,400	5,425,339	5,490,596

The capital redemption reserve arose on 8 March 2005 when 285,714 deferred 1p shares with an aggregate nominal value of £2,857 were repurchased by Software Radio Technology (UK) Limited for the aggregate consideration of 1p. The merger reserve arose on 19 October 2005 when SRT Marine Systems plc acquired the entire share capital of Software Radio Technology (UK) Limited by means of a share for share exchange. The warrant reserve arose on Software Radio Technology plc listing on the London Alternative Investment Market in November 2005 when for every one share issued one warrant was also issued. This reserve represents the other reserve within the Company.

19 Operating lease commitments

At 31 March 2017, the Group has lease agreements in respect of properties and equipment for which the payments extend over a number of years.

Group	**2017**	**2016**
	£	**£**
Due:		
Within one year	126,031	91,053
Between two and five years	326,177	212,875
After five years	368,985	430,957
	821,193	734,885

20 Related party transactions

Key management are those persons having authority and responsibility for planning, controlling and directing the activities of the Group. In the opinion of the Board, the Group's key management are the directors of SRT Marine Systems plc. The compensation of the directors of SRT Marine Systems plc is disclosed in note 3. In addition, a total share based payment expenses of £175,010 (2016: £621) was recognised during the year in respect of share options granted to directors, together with an aggregate charge relating to directors' employer's national insurance contributions of £84,854 (2016: £47,024).

During the year, there were expenses charged from the Company to its subsidiaries which are related parties for services provided. These transactions amounted to £936,558 (2016: £703,256). As at 31 March 2017, the Company had an outstanding receivables balance from SRT Marine Technology Ltd of £12,223,976 (2016: £12,081,602) and an outstanding payables balance with SRT Marine System Solutions Ltd of £2,050,183 (2016: £2,189,034).

During the year goods and services amounting to £1,436,868 (2016: £1,082,439) were transferred between subsidiaries.

NOTES TO THE ACCOUNTS for the year ended 31 MARCH 2017 – continued

21 Cash generated from operations

Group	2017 £	2016 £
Operating profit	1,278,161	320,273
Depreciation of property, plant and equipment	77,343	77,846
Amortisation of intangible fixed assets	1,654,621	1,432,331
Share based payment charge	242,148	18,904
Decrease in inventories	977,035	702,403
Increase in trade and other receivables	(3,200,164)	(3,122,100)
Increase in trade and other payables	206,236	1,423,737
	1,235,380	853,394

Company	2017 £	2016 £
Operating loss	(683,642)	(384,502)
Depreciation of property, plant and equipment	13,026	18,064
Amortisation of intangible fixed assets	54,160	-
Share based payment charge	242,148	18,904
Increase in trade and other receivables	7,871	(12,603)
Decrease in amounts owed by group undertakings	232,570	940,486
Increase in trade and other payables	309,611	53,882
	175,744	634,231

22 Basic and diluted earnings per share

The basic earnings per share has been calculated on the profit on ordinary activities after taxation of £1,450,728 (2016: £433,674) divided by the weighted number of ordinary shares in issue of 127,583,214 (2016: 127,485,789).

During the year, the calculation of diluted earnings per share has also been calculated on profit on ordinary activities after taxation of £1,450,728 (2016: £433,674). It assumes conversion of all potentially dilutive ordinary shares, all of which arise from share options. A calculation is performed to determine the number of shares that could have been acquired at fair value, based upon the monetary value of subscription rights to outstanding share options. The number of dilutive shares under options was 5,775,672 (2016: 2,938,446) and the weighted average number of ordinary shares for the purposes of dilutive earnings per share was 133,358,885 (2016: 130,424,235).

NOTES TO THE ACCOUNTS for the year ended 31 MARCH 2017 – continued

23 Financial instruments

The Group and Company's financial instruments comprise cash and cash equivalents, borrowings and items such as trade payables and trade receivables which arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Group and Company's operations.

The Group and Company's operations expose it to a variety of financial risks including credit risk, interest rate risk and foreign currency exchange rate risk. Given the size of the Group and Company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the company's finance department.

Credit risk

The Group's credit risk is primarily attributable to its trade receivables. The Company had no trade receivables at 31 March 2017 (2016: £nil). The Group has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually by each subsidiary's management team. The carrying amount of financial assets represents the maximum credit exposure. The maximum credit exposure to credit risk at the reporting date was:-

	2017	2016
	£	£
Trade receivables	5,006,985	3,516,512
Cash and cash equivalents	1,760,861	1,862,048
	6,767,846	5,378,560

The Company has cash and cash equivalents of £744,752 (2016: £613,287).

Interest rate risk

The Group and Company have interest bearing assets and liabilities which comprise of cash and cash equivalents and a short and medium term loan (see note 15) which earn or incur interest at a variable rate.

The Group and Company have not entered into any derivative transactions during the period under review.

The Group and Company's cash and cash equivalents earned interest at a variable rate totalling £220 (2016: £645) during the year. Interest payable on the short and medium term loan at a variable rate amounted to £43,980 (2016: £45,549) for the Group and Company.

NOTES TO THE ACCOUNTS for the year ended 31 MARCH 2017 – continued

Foreign currency exchange rate risk

The Group is exposed to foreign currency exchange rate risk as a result of trade payables and trade receivables which will be settled in US Dollars and Euros. The Company had no material exposure to foreign exchange risk. During the year the Group did not enter into any arrangements to hedge this risk, as the directors did not consider the exposure to be significant given the short term nature of the balances. The Group will review this policy as appropriate in the future.

The Group's currency exposure comprises monetary assets and liabilities that are denoted in currencies other than sterling, principally those denominated in US Dollars and Euros. Such transactions give rise to net currency gains and losses recognised in profit or loss.

At the year end this exposure comprised £5,322,575 (2016: £2,440,004) of assets denominated in US Dollars, £3,340,879 (2016: £2,188,814) of assets denominated in Euros and £398,529 (2016: £1,061,167) of liabilities denominated in US Dollars and £837,594 (2016: £22,286) of liabilities denominated in Euros.

The table below illustrates the hypothetical sensitivity of the Group's reported profits and equity to a 10% increase and decrease in the US dollar/Sterling and Euro/Sterling exchange rates at the year-end date assuming all other variables remain unchanged. The sensitivity rate of 10% represents the Directors assessment of a reasonable possible change.

Positive figures represent an increase in profit and equity.

Year-end exchange rates applied in the analysis below are US Dollar 1.25 (2016: 1.44) and Euro 1.17 (2016: 1.27).

	2017	2016
Sterling strengthens by 10%	**£**	**£**
US Dollar	(447,641)	(125,349)
Euro	(227,571)	(196,957)
Sterling weakens by 10%		
US Dollar	492,405	137,884
Euro	250,328	216,653

24 **Capital risk management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders. The Group defines capital as being share capital plus reserves. The Group is not subject to any externally imposed capital requirements.

25 **Financial commitments**

As at 31 March 2017, the Group had financial purchase order commitments with its contract manufacturer amounting to £249,996 (2016: £127,593).

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt about the action you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser duly authorised under the Financial Services and Markets Act 2000.

If you have sold or otherwise transferred all your ordinary shares in the Company, please forward this document to the purchaser or transferee or to the stockbroker, bank or other person through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Notice of Annual General Meeting

NOTICE is hereby given that the Annual General Meeting of SRT Marine Systems plc (the "Company") will be held at the Centurion Hotel, Charlton Lane, Radstock, England BA3 4BD at 11.00 a.m. on July 12th, 2017 for the purpose of considering and, if thought fit, passing the following ordinary resolutions (in the case of resolutions 1 to 6) and special resolution (in the case of resolution 7):

ORDINARY RESOLUTIONS

1. To receive the audited annual accounts and reports of the Company for the financial year ended 31 March 2017.

2. To re-appoint Nexia Smith & Williamson Audit Limited as the auditors of the Company, to hold office until the conclusion of the next Annual General Meeting of the Company.

3. To authorise the directors to determine Nexia Smith & Williamson Audit Limited's remuneration as the auditors of the Company.

4. To re-appoint Andrew Lapping as a director of the Company.

5. To re-appoint Simon Tucker as a director of the Company.

6. THAT the directors be generally and unconditionally authorised to exercise all the powers of the Company to allot shares, and to grant rights to subscribe for or to convert any security into shares up to an aggregate nominal amount of £42,561 provided that this authority shall expire (unless previously varied as to duration, revoked or renewed by the Company in general meeting) on October 12th, 2018, or, if earlier, at the conclusion of the Annual General Meeting in 2018, except that the Company may before such expiry make any offer or agreement which would or might require shares to be allotted or such rights to be granted after such expiry and the directors may allot shares or grant such rights in pursuance of such offer or agreement as if the authority conferred by this resolution had not expired, and this authority shall be in substitution of any such previous authorities.

SPECIAL RESOLUTION

7. THAT subject to the passing of resolution 6, the directors be empowered pursuant to section 570 of the Companies Act 2006 to allot equity securities (as defined in section 560 of that Act) for cash pursuant to the general authority conferred on them by resolution 6 above and/or to sell equity securities held as treasury shares for cash pursuant to section 727 of the Companies Act 2006, in each case as if section 561 of that Act did not apply to any such allotment or sale, provided that this power shall be limited to:

Notice of Annual General Meeting (continued)

(a) any such allotment and/or sale of equity securities in connection with an offer or issue by way of rights or other pre-emptive offer or issue, open for acceptance for a period fixed by the directors, to holders of ordinary shares (other than the Company) on the register on any record date fixed by the directors in proportion (as nearly as may be) to the respective number of ordinary shares deemed to be held by them, subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements, legal or practical problems arising in any overseas territory, the requirements of any regulatory body or stock exchange or any other matter whatsoever; and

(b) any such allotment and/or sale, otherwise than pursuant to sub-paragraph (a) above, of equity securities having, in the case of ordinary shares, an aggregate nominal value or, in the case of other equity securities, giving the right to subscribe for or convert into ordinary shares having an aggregate nominal value, not exceeding the sum of £12,768.

This authority shall expire, unless previously revoked or renewed by the Company in general meeting, at such time as the general authority conferred on the directors by resolution 6 above expires, except that the Company may before such expiry make any offer or agreement which would or might require equity securities to be allotted or equity securities held as treasury shares to be sold after such expiry and the directors may allot equity securities and/or sell equity securities held as treasury shares in pursuance of such an offer or agreement as if the power conferred by this resolution had not expired.

The directors believe that the proposed resolutions to be put to the meeting are in the best interests of shareholders as a whole and recommend that shareholders vote in favour of all the resolutions, as they intend to do in respect of their own beneficial shareholdings in the Company.

On behalf of the Board

Richard Hurd
Company Secretary
June 6th, 2017

Registered Office:
Wireless House, Westfield Industrial Estate,
Midsomer Norton, Bath BA3 4BS
Registered in England and Wales No. 05459678

Notice of Annual General Meeting (continued)

Notes:

1. A shareholder is entitled to appoint another person as that shareholder's proxy to exercise all or any of that shareholder's rights to attend and to speak and vote at the Annual General Meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy does not need to be a shareholder of the Company.

2. A form of proxy for use in connection with the Annual General Meeting is enclosed with the document of which this notice forms part. Completion and return of a form of proxy will not prevent a shareholder from attending and voting at the Annual General Meeting. Addresses (including electronic addresses) in this document are included strictly for the purposes specified and not for any other purpose.

3. To appoint a proxy or proxies shareholders must complete: (a) a form of proxy, sign it and return it, together with the power of attorney or any other authority under which it is signed, or a notarially certified copy of such authority, to the Company Secretary at the Company's offices, or (b) a CREST Proxy Instruction (see note 4 below) in each case no later than 48 hours before the time fixed for holding the meeting or any adjournment thereof.

4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting and any adjournment(s) of the meeting by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members and those CREST members who have appointed any voting service provider(s) should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent by the latest time for receipt of proxy appointments set out in paragraph 3 above.

For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed any voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as is necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Notice of Annual General Meeting (continued)

5. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), only those shareholders included in the register of members of the Company at 6.00 p.m. on July 10th, 2017 being the time not less than 48 hours before the time fixed for the meeting or, if the meeting is adjourned, in the register of members at 6.00 p.m. on the day which is two days before the day of any adjourned meeting, will be entitled to attend and to vote at the Annual General Meeting in respect of the number of shares registered in their names at that time. Changes to entries on the share register after 6.00 p.m. on July 10th, 2017 or, if the meeting is adjourned, in the register of members after 6.00 p.m. on the day which is two days before the day of any adjourned meeting, will be disregarded in determining the rights of any person to attend or vote at the Annual General Meeting.

6. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – www.icsa.org.uk – for further details of this procedure. The guidance includes a sample form of representation letter if the chairman is being appointed as described in (i) above.

Explanatory Notes for Shareholders

The notice of the Annual General Meeting of the Company to be held at 11.00 a.m. on July 12th, 2017 is set out on pages 44-47 of the annual report and accounts. The following notes provide an explanation as to why the resolutions set out in the notice are to be put to shareholders.

Resolutions 1 to 6 are ordinary resolutions. These resolutions will be passed if more than 50% of the votes cast for or against are in favour.

Resolution 1 – Directors' report and audited accounts for year ended 31 March 2017
The directors are required by the Companies Act 2006 to present to the shareholders of the Company at a general meeting the audited accounts and the reports of the directors and auditors for the year ended 31 March 2017. The report of the directors and the audited accounts have been approved by the directors, and the report of the auditors has been approved by the auditors, and both reports are contained in the Company's Annual Report and Accounts.

Resolution 2 – Re-appointment of auditors
The Companies Act 2006 requires that auditors be appointed at each general meeting at which accounts are laid, to hold office until the next such meeting. This resolution seeks shareholder approval for the reappointment of Nexia Smith & Williamson Audit Limited. The Audit Committee keeps under review the independence and objectivity of the external auditors. After considering relevant information the Audit Committee recommended to the board of directors that Nexia Smith & Williamson Audit Limited be reappointed.

This resolution proposes the re-appointment of Nexia Smith & Williamson Audit Limited as auditors of the Company.

Resolution 3 – Auditors' remuneration
This resolution gives authority to the directors to determine the remuneration of Nexia Smith & Williamson Audit Limited as auditors of the Company.

Resolutions 4 & 5 – Directors' re-appointment
Andrew Lapping and Simon Tucker will retire at this year's Annual General Meeting and offer themselves for re-election.

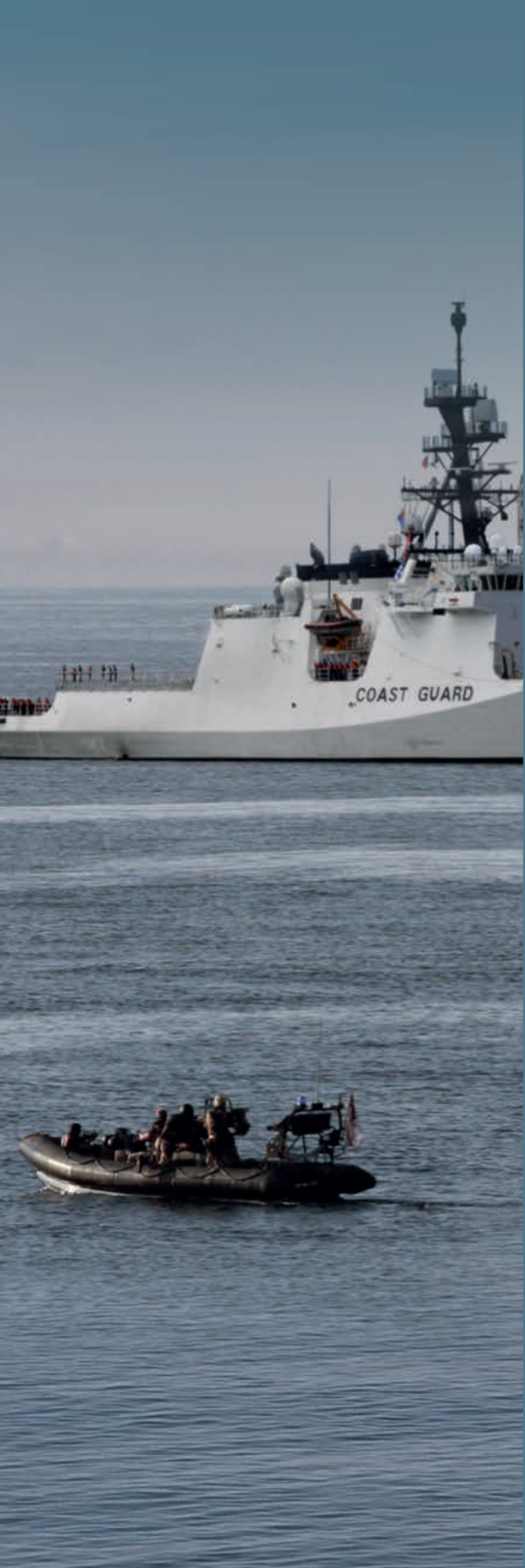
Resolution 6 – Authority to allot shares
The Companies Act 2006 provides that the directors may only allot shares or grant rights to subscribe for or to convert any security into shares if authorised by shareholders to do so. Resolution 6 will, if passed, authorise the directors to allot shares up to a maximum nominal amount of £42,561.

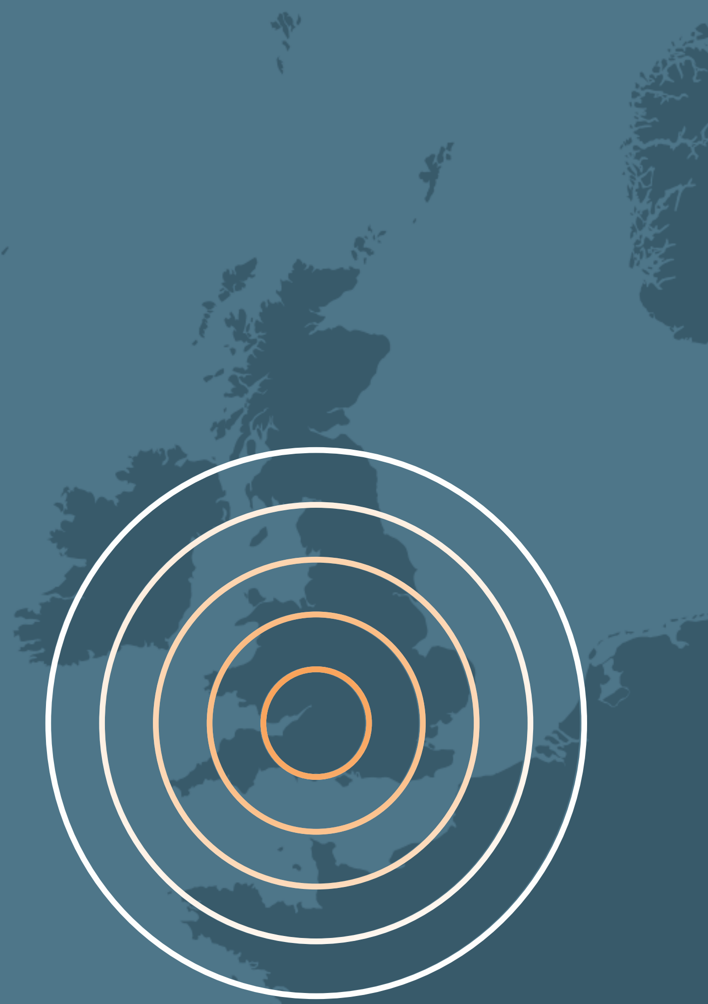
It is accordingly proposed that the directors be granted general authority at any time prior to October 12th 2018, or, if earlier, at the conclusion of the Annual General Meeting in 2018, to allot shares up to an aggregate nominal amount of £42,561, which represents an amount which is approximately equal to one-third of the issued ordinary share capital of the Company as at the date of the notice of Annual General Meeting. Passing this resolution will give the directors flexibility to act in the best interests of shareholders, when opportunities arise, by issuing new shares. The directors have no current plans to make use of this authority.

Explanatory Notes for Shareholders (continued)

Resolution 7 is a special resolution. This resolution will be passed if not less than 75% of the votes cast for and against are in favour.

Resolution 7 – Disapplication of pre-emption rights
The Companies Act 2006 requires that, if the Company issues new shares, or grants rights to subscribe for or to convert any security into shares, for cash or sells any treasury shares, it must first offer them to existing shareholders in proportion to their current holdings. If passed, resolution 7 will authorise the directors to issue shares for cash and/or sell shares from treasury (if any are so held) up to an aggregate nominal amount of £12,768 (representing approximately 10% of the Company's issued share capital as at the date of the notice of Annual General Meeting) without offering them to shareholders first, and will also modify statutory pre-emption rights to deal with legal, regulatory or practical problems that may arise on a rights or other pre-emptive offer or issue. If passed, this authority will expire at the same time as the authority to allot shares given pursuant to resolution 6. The Company does not at present hold any shares in treasury.





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