SRT MARINE SYSTEMS PLC
(AIM: SRT)
("SRT" or the "Company")

FINAL RESULTS FOR THE YEAR ENDED 31 MARCH 2017

SRT, the AIM-quoted provider of maritime domain awareness technologies, products and solutions, announces its results for the year ended 31 March 2017.

FINANCIAL SUMMARY

- Profit before tax of £1.2 million (2016: Profit of £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 HIGHLIGHTS

- 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

Commenting on today's results, Simon Tucker, CEO of SRT said:

" SRT Marine Systems now sits at the centre of the growing global market for maritime domain awareness technologies, products and systems. We end the year having increased our profits over three times and start the new year with a £77 million contract order book to deliver over the next three years and a validated pipeline of new sales opportunities worth up to £270 million."

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About SRT:

SRT develops, manufactures and supplies maritime tracking technology and turn-key system solutions to marine stakeholders across the globe with a particular expertise in AIS. The Company's products and solutions are used by individual vessel owners, port authorities, maritime infrastructure owners, coast guards and national security agencies to enhance their maritime domain awareness. Applications include the tracking of commercial and leisure vessels; sustainable fishery; anti-collision; search and rescue; waterway management, port and coast security; pollution management; and environmental management.

The information communicated in this announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) No. 596/2014.

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 £5.3 million 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.

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 £77 million 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.

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2017

	Note	2017 £	2016 £
Revenue		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		1,278,161	320,273
Finance expenditure		(43,980)	(45,549)
Finance income		220	645
Profit before tax		1,234,401	275,369
Income tax credit		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:	4		
Basic		1.14p	0.34p
Diluted		1.09p	0.33p

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2017

	2017 £	2016 £
Assets		
Non-current assets		
Intangible assets	5,810,954	6,076,204
Property, plant and equipment	184,854	139,269
Total non-current assets	5,995,808	6,215,473
Current assets		
Inventories	3,281,521	4,258,556
Trade and other receivables	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	(3,055,819)	(2,849,583)
Financial liabilities	(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	(500,000)	(1,000,000)
Deferred tax	(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	127,613	127,513
Share premium account	4,872,779	4,855,729
Retained earnings	4,138,891	2,446,015
Other reserves	5,490,596	5,490,596
Total shareholders' equity	14,629,879	12,919,853

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2017

	2017 £	2016 £
Cash generated from operating activities	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

Notes

1. Status of financial information

SRT is a public limited company incorporated in England and Wales whose ordinary shares of 0.1p each are traded on the AIM Market of the London Stock Exchange. The Company's registered office is Wireless House, Westfield Industrial Estate, Midsomer Norton, Bath BA3 4BS.

The Board of Directors approved this preliminary announcement on 6 June 2017. Whilst the financial information included in this preliminary announcement has been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union, this announcement does not itself contain sufficient information to comply with all the disclosure requirements of IFRS and does not constitute statutory accounts of the Company for the years ended 31 March 2017 or 31 March 2016.

The financial information has been extracted from the statutory accounts of the Company for the years ended 31 March 2017 and 31 March 2016. The auditors reported on those accounts; their reports were unqualified and did not contain a statement under either Section 498 (2) or Section 498 (3) of the Companies Act 2006. The auditors, in forming their opinion on the financial statements, which is not modified have included in their report an emphasis of matter on the recoverability of trade receivables of £2.166m, which have been outstanding for fourteen months and remain 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.

The statutory accounts for the year ended 31 March 2016 have been delivered to the Registrar of Companies, whereas those for the year ended 31 March 2017 will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

2. Basis of preparation

This financial information has been prepared in accordance with the principles of International Financial Reporting Standards ("IFRS") as adopted by the European Union and International Financial Reporting Interpretations Committee ("IFRIC") recommendations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. For the purposes of the preparation of the consolidated financial information, the Group has applied all standards and interpretations that are effective for accounting periods beginning on or after 1 April 2016. There have been no changes in accounting policies during the year. The financial information has been prepared under the historical cost convention unless otherwise stated.

3. Dividends

The Board is not recommending the payment of a final dividend.

4. Earnings per Ordinary 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).

5. Annual Report and AGM

The Annual Report will be available from the Company's website, www.srt-marine.com from 7 June 2017. To locate the report, click "Investors" and then scroll down the page to "Reports and Presentations". The Annual Report and Notice of AGM will be posted to shareholders on 9 June 2017. The AGM will take place at the Centurion Hotel, Charlton Lane, Midsomer Norton, Radstock BA3 4BD at 11.00 a.m. on 12 July 2017.