3 February 2016

Surface Transforms Plc.

("Surface Transforms" or the "Company")

Half-year financial results for the six months ended 30 November 2015

Surface Transforms, (AIM:SCE) manufacturers of carbon fibre reinforced ceramic (CFRC) materials, announces its half-year financial results for the six months ended 30 November 2015.

Financial highlights:

- Turnover increased to £782k (2014: £623k)
- EBITDA loss, including tax credits and excluding share based payments decreased to £27k (2014: loss £165k)
- Total comprehensive loss reduced to £124k (2014: £254k)
- Loss before tax reduced to £430k (2014: £471k)
- Cash at 30 November 2015 was £525k (2014: £132k)

Financial review

Revenue for the period was £782k (2014: £623k) being approximately 26% higher than the corresponding period last year. The increased revenue was attributable to a catch up in sales delayed in the previous year following the furnace break down in May 2015 including approximately £107k from increased aircraft customer revenues. Within the core automotive customer base, it is encouraging to note that there was a 60% increase in retrofit car sales and a 20% increase in near OEM car sales, equivalent to an increase of approximately £100k in aggregate between the comparable half year periods. The increase in retrofit car sales reflects new customers, while the increase in near OEM car sales is due to sales to existing customers.

The increase in sales resulted in increased gross profit of £447k (2014: £293k), an increase reflecting both volume and improved percentage margins, being 57% in the period (2014: 47%). However, as signaled in previous announcements, and in line with budget, R & D costs increased to £590k (2014: £427k) as a result of increased activity on the game changing contracts. Nonetheless, the company was able to substantively offset this cost increase by both grant income of £61k (2014: £9k) and an increase in the R&D tax credit to £306k (2014: £217k). This all contributed to the reduction in EBITDA loss to a near break-even loss of £27k (2014: loss £165k).

Cash was £525k at the half-year end (2014: £132k and £829k at the year ended 31 May 2015). However, net current assets excluding cash increased by £203k in the period and will convert to cash over the next few months, demonstrating the business being close to operating cash break-even in the first half. Without the R& D tax credit, the Company will use cash in the second half, including capital expenditure of £168k on furnace modifications.

Loss per share was 0.23p (2014: 0.60p).

Outlook

Historically the Company's second half trading pattern is for higher revenue in the second half of the year, however as explained above, the first half benefited from the one-off effect of catch-up sales. Accordingly, the Board expects the second half revenue performance of the current financial year to be comparable to that achieved in the first half.

In the second half of the year, the key issue for the Company will be the advancement of the game changing contracts where the current status is as follows:

Aerospace: We have been notified that our customer, the aircraft brake systems supplier, has received technical sign off and “go ahead” approval from their customer, the aircraft manufacturer. All that remains is final test flights and qualification. The programme is on schedule and, as previously notified will have a minimal contribution to this financial year and the next but is expected to commence production in the middle of the 2017/18 financial year, reaching mature sales of £1.3m per annum in 2018/19.

Automotive: The Company is in detailed discussions with five mainstream automotive manufacturers:

German OEM One: The customer has successfully completed the first phase of testing, and has identified a small number of optimisation opportunities to be completed over the next six months. This has led to the customer informing the Company that completion of these tasks would lead to a mid year contract award on a named new model programme (already shared with the Company) which is expected to commence production in mid 2018 generating sales for Surface Transforms of up to £4m per annum on mature volumes in the following year. The Board believes that the six-month optimisation timetable is tough but achievable.

German OEM Two: This is a sister company of the above customer, they are sharing information with “German OEM One” and effectively following in their wake. Sales with this customer could therefore begin in late 2019 generating sales for Surface Transforms of up to £4.2m per annum for the supply contract on which discussions have to date been based.

German OEM Three: This customer completed a product and factory audit of Surface Transforms in December and was complimentary about the technology, process capability and plans to provide for their capacity requirements. Their testing continues. They have informed Surface Transforms of the target car which would potentially fit the Company’s product, which is expected to commence production in mid 2019 and generating sales for Surface Transforms of up to £2.8m per annum on this initial model.

British OEM One: This customer has satisfactorily concluded testing, informed us of their intention to purchase the Company’s product and shared its Surface Transforms product introduction programme with us, by model type, over the next few years. This contract is expected to commence in mid 2018 generating sales for Surface Transforms of up to £1.6m per annum rising to £4.7m in 2020 as later models are released. The Company expects to be able to formally announce this contract award when the model itself is launched during this calendar year.

British OEM Two: This customer has seen the benefits of using Surface Transforms’ product in both reducing cost on adjacent components and reducing their variety of sub systems. This has had the effect of delaying start of production from mid 2018 to mid 2019 but, paradoxically, improved the chances of them adopting the Company’s product. If this programme goes to plan, the Company expects to generate sales in 2019 of up to £1.0m per annum.

Progress on the new plant and grant funding: The consequence of the above progress with automotive OEMs will require new capacity, which in turn requires additional floor space. The Company plans to bring the capacity on stream over the next 18 months in time for commencement of car production in mid-2018. The task is to build a plant that would initially have capacity for £15m sales as the first step towards our medium term goal of sales in excess of £50m in which the Board estimate to be a £1 billion market. To this end, after a difficult start to negotiations, the Company is pleased with recent progress on grant discussions with local authorities. Additionally the Company has now identified a preferred site for the “pilot plant” and is in negotiations with the site owner on rental terms. An announcement providing further details on both these points is expected in the very near future.

These are encouraging first half operating results which have been achieved against the background of considerable management time and effort also being devoted to the longer term strategic development of the Company.

The Board has been able to provide greater detail on the game changing contracts, reflecting the increasing confidence of the Board in the outcome of the customer testing programmes. The testing is going well and the customers are being supportive, all of which provides the Board with an increased confidence of being able to announce automotive contract awards during this year.

David Bundred
Chairman
2 February 2016

Statement of Total Comprehensive Income
For the six months ended 30 November 2015

	Note	Six months ended 30-Nov 2015 (unaudited) £'000's	Six months ended 30-Nov 2014 (unaudited) £'000's	Year ended 31-May 2015 (audited) £'000's
Revenue		782	623	1,066
Cost of sales		(335)	(330)	(521)
Gross profit		447	293	545
Administrative expenses:				
Before research costs		(328)	(325)	(666)
Research costs		(590)	(427)	(933)
Total administrative expenses		(918)	(752)	(1,599)
Other operating income		61	9	114
Operating loss		(410)	(450)	(940)
Financial expenses		(20)	(21)	(42)
Loss before tax		(430)	(471)	(982)
Taxation	*2*	306	217	217
Loss for the period after tax		(124)	(254)	(765)
Total comprehensive loss for the period attributable to members		**(124)**	**(254)**	**(765)**
Loss per ordinary share				
Basic and diluted	3	(0.23p)	(0.60p)	(1.65p)
EBITDA (including tax credits and excluding share based payments)		**(27)**	**(165)**	**(584)**

Statement of Financial Position

As at 30 November 2015

	As at 30-Nov 2015 (unaudited) £'000's	As at 30-Nov 2014 (unaudited) £'000's	As at 31-May 2015 (audited) £'000's
Non-current assets			
Property, plant and equipment	477	538	483
Total non-current assets	477	538	483
Current assets			
Inventories	380	278	317
Trade and other receivables	579	312	367
Cash and cash equivalents	525	132	829
Total current assets	1,484	722	1,513
Total assets	1,961	1,260	1,996
Current liabilities			
Other interest bearing loans and borrowings	(11)	(5)	(9)
Trade and other payables	(449)	(441)	(379)
Total current liabilities	(460)	(446)	(388)
Non current liabilities			
Other interest bearing loans and borrowings	(402)	(418)	(409)
Total liabilities	(862)	(864)	(797)
Net assets	1,099	396	1,199
Equity			
Share capital	535	423	532
Share premium	9,186	7,995	9,186
Capital reserve	464	464	464
Retained loss	(9,086)	(8,486)	(8,983)
Total equity attributable to equity shareholders of the Company	1,099	396	1,199

Statement of Cash Flows
For the six months ended 30 November 2015

	Six Months Ended 30-Nov 2015 (unaudited) £'000's	Six Months Ended 30-Nov 2014 (unaudited) £'000's	Year ended 31-May 2015 (audited) £'000's
Cash flows from operating activities			
Loss after tax for the period	(124)	(254)	(765)
Adjusted for:			
Depreciation charge	56	58	115
Equity settled share-based payment expenses	21	10	24
Financial expenses	20	21	42
Taxation	(306)	(217)	(217)
	(333)	(382)	(801)
Changes in working capital			
(Increase)/decrease in inventories	(63)	(7)	46
Decrease/(increase)in trade and other receivables	(211)	142	87
(Decrease)/increase in trade and other payables	65	42	(16)
	(542)	(205)	(776)
Taxation received	306	217	217
Net cash used in operating activities	(236)	12	(559)
Cash flows from investing activities			
Acquisition of property, plant and equipment	(50)	(10)	(12)
Net cash used in investing activities	(50)	(10)	(12)
Cash flows from financing activities			
Proceeds from issue of share capital, net of expenses	3	-	1,300
Payment of finance lease liabilities	-	-	(9)
Payment of borrowings	-	-	-
Interest paid	(21)	(21)	(42)
Net cash (used)in/from financing activities	(18)	(21)	1,249
Net decrease in cash and cash equivalents	(304)	(19)	678
Cash and cash equivalents at the beginning of the period	829	151	151
Cash and cash equivalents at the end of the period	525	132	829

Statement of Changes in Equity
For the six months to 30 November 2015

For the six months to 30 November 2015	Share capital £'000	Share premium account £'000	Capital reserve £'000	Retained loss £'000	Total £'000
Balance at 31 May 2015	532	9,186	464	(8,983)	1,199
Loss for the period	-	-	-	(124)	(124)
Total comprehensive income for the period	**-**	**-**	**-**	**(124)**	**(124)**
Transactions with owners, recorded directly to equity					
Shares issued in the year	3	-	-	-	3
Equity settled share based payments	-	-	-	21	21
Total contributions by and distributions to the owners	**3**	**-**	**-**	**21**	**24**
Balance at 30 November 2015	535	9,186	464	(9,086)	1,099

For the six months to 30 November 2014	Share Capital £'000's	Share premium account £'000's	Capital reserve £'000's	Retained deficit £'000's	Total £'000's
Balance at 31 May 2014	423	7,995	464	(8,242)	640
Loss for the period	-	-	-	(254)	(254)
Total comprehensive income for the period	-	-	-	(254)	(254)
Transactions with owners, recorded directly to equity					
Equity settled share based payments	-	-	-	10	10
Total contributions by and distributions to the owners	-	-	-	10	10
Balance at 30 November 2014	423	7,995	464	(8,486)	396

For the year to 31 May 2015	Share Capital £'000's	Share premium account £'000's	Capital reserve £'000's	Retained deficit £'000's	Total £'000's
Balance at 31 May 2014	423	7,995	464	(8,242)	640
Loss for the year	-	-	-	(765)	(765)
Total comprehensive income for the year	-	-	-	(765)	(765)
Transactions with owners, recorded directly to equity					
Shares issued in the year	109	1,308	-	-	1,417
Cost of issue written off to share premium	-	(117)	-	-	(117)
Equity settled share based payments	-	-	-	24	24
Total contributions by and distributions to the owners	109	1,191	-	24	1,324
Balance at 31 May 2015	532	9,186	464	(8,983)	1,199

SURFACE TRANSFORMS PLC
NOTES

1. Accounting policies

The interim financial statements are the responsibility of the Directors and were authorised and approved by the Board of Directors for issuance on 2 February 2016.

Basis of preparation

In the condensed consolidated half-yearly financial statements, the term ‘Company’ refers to Surface Transforms plc, a Company incorporated in the United Kingdom. These condensed consolidated half-yearly financial statements comprise the Company and its subsidiaries as detailed in note 6 (together referred to as ‘the Group’ or ‘Surface Transforms’). The financial statements of the Group for the six months ended 30 November 2015 are available from the Company’s website www.surfacetransforms.com.

These financial statements have not been prepared in accordance with IAS 34 “Interim Financial Reporting”. They do not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Company for the year ended 31 May 2015.

The comparative figures for the financial year ended 31 May 2015 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The accounting policies and presentation used in the preparation of these condensed consolidated half-yearly financial statements are consistent with those used in the preparation of the Company’s published financial statements for the year ended 31 May 2015.

Segmental reporting

IFRS 8 "Operating Segments" requires that the segments should be reported on the same basis as the internal reporting information that is provided to, and regularly reviewed by, the chief operating decision-maker, whom the Group has identified as the CEO.

The Board has reviewed the requirements of IFRS 8, including consideration of what results and information the CEO reviews regularly to assess performance and allocate resources, and concluded that all revenue falls under a single business segment.

The Directors consider that the Group does not have separate divisional segments as defined under IFRS 8. The CEO assesses the commercial performance of the business based upon consolidated revenues, margins, operating costs and assets are reviewed at a consolidated level.

Estimates

The preparation of half-yearly financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these condensed consolidated half-yearly financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 May 2015.

Seasonality of operations

As noted in the Chairman's report the Company expects sales and profitability in the six months ending 30 November 2016 to mirror trading in the first half; this difference from normal trading patterns reflecting the normal seasonality of the business offset by the absence of the "catch up" from the May 2015 furnace breakdown.

Going concern

The financial statements have been prepared on a going concern basis which the Directors believe to be appropriate. Whilst the Group incurred a net loss of £124k during the period, the Directors are satisfied that sufficient cash is available to meet the Company's liabilities as and when they fall due for at least 12 months from the date of signing the half yearly report.

2 Taxation

Analysis of credit in the period

	Six months ended 30-Nov 2015 £'000's (unaudited)	Six months ended 30-Nov 2014 £'000's (unaudited)	Year ended ended 31-May 2015 £'000's (audited)
UK Corporation tax			
Current tax on income for the period	-	-	-
Research and development tax repayment	306	217	217
	306	217	168

The effective rate of tax for the period/year is lower than the standard rate of corporation tax in the UK of 20 per cent. principally due to losses incurred by the Company.

The potential deferred tax asset relating to losses has not been recognised in the financial statements because it is not possible to assess whether there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

3 Loss per share

	Six months ended 30-Nov 2015 (unaudited) Pence	Six months ended 30-Nov 2014 (unaudited) Pence	Year ended 31-May 2015 (audited) Pence
Loss per share:			
Basic and diluted	(0.47)	(0.60)	(1.65)

Loss per ordinary share is based on the Company's loss for the financial period of £124k (30 November 2014: £254k; 31 May 2015: £765k). The weighted average number of shares used in the basic calculation is 53,183,567 (30 November 2014: 42,278,636; 31 May 2015: 46,449,946).

The calculation of diluted loss per ordinary share is identical to that used for the basic loss per ordinary share. This is because the exercise of share options would have the effect of reducing the loss per ordinary share and is therefore not dilutive under the terms of International Accounting Standard 33 “Earnings per share”.

4. Segment reporting

Due to the start-up nature of the business the Company is currently focused on building revenue streams from a variety of markets. As there is only one manufacturing facility and this has capacity above and beyond the current levels of trade there is no requirement to allocate resources to or discriminate between specific markets or products. As a result the Company’s chief operating decision maker, the CEO, reviews performance information for the Company as a whole and does not allocate resources based on products or markets. In addition, all products manufactured by the Company are produced using similar processes.

Having considered this information in conjunction with the requirements of IFRS 8, as at the reporting date the board of directors have concluded that the Company has only one reportable segment, being the manufacture and sale of carbon ceramic products and the development of technologies associated with this.

The Company considers it offers product technology namely carbon fibre re-enforced ceramic material which is matched into different shapes depending on the intended purpose of the end user.

	Total
Period ended 30 November 2015	**£’000**
Segment revenues	782
Operating expenses	(1,253)
Other operating income	61
Results from operating activities	(410)
Net finance costs	(20)
Loss before tax	(430)
Assets	
Segment assets	1,260
Segment liabilities	(864)

	Total
Period ended 30 November 2014	**£’000**
Segment revenues	623
Operating expenses	(1,073)
Results from operating activities	(450)
Net finance costs	(21)
Loss before tax	(471)
Assets	
Segment assets	1,260
Segment assets	(864)