

Surface Transforms plc
(“Surface Transforms” or the “Company”)

Placing and Open Offer to raise up to £5 million
Conversion of Loan of £400,000
Posting of Circular and Notice of General Meeting
Appointment of Joint Broker

Surface Transforms (AIM:SCE) is pleased to announce a conditional equity fundraising of up to £5.0 million. Cantor Fitzgerald Europe and finnCap Ltd have conditionally placed on behalf of the Company 28,125,000 new ordinary shares ("Placing Shares") of 1p each ("Ordinary Shares") at a price of 16p per share (the "Placing Price"), raising gross proceeds of £4.5 million (the "Placing").

Additionally, to provide shareholders who have not taken part in the Placing with an opportunity to participate, the Company is providing all Qualifying Shareholders with the opportunity to also subscribe at 16p per Ordinary Share, for an aggregate of 3,125,000 new Ordinary Shares ("Open Offer Shares") to raise up to £0.5 million. Qualifying Shareholders may subscribe for Open Offer Shares on the basis of 1 Open Offer Shares for every 17.02914592 Existing Ordinary Shares held on the Record Date. Shareholders subscribing for their full entitlement under the Open Offer may also request additional New Ordinary Shares through the Excess Application Facility.

Assuming full take up under the Open Offer, the gross proceeds of the Open Offer will raise a further £0.5 million. The Open Offer is not underwritten.

Group-14 LTD, a company beneficially owned by Richard Gledhill, a non-executive director, has also agreed, subject to shareholder approval, to convert an outstanding loan of £400,000 into Ordinary Shares at the Placing Price, resulting in the further issuance of 2,500,000 Ordinary Shares.

Reasons for the Fundraising

The Company remains focused on the premium automotive brake disc market, and the brake disc market for military and light commercial aircraft. As previously communicated to shareholders, the Company is in the process of pursuing a number of significant original equipment manufacturer ("OEM") production contract opportunities in these markets.

The net proceeds of the Fundraising will enable the Board to pursue its strategy of having the capacity to supply the commercial volumes which may be required by automotive OEMs who may be seeking an alternate supplier of carbon fibre reinforced ceramic brake discs from Brembo SGL as well as fulfil their existing commitments to the Company's aerospace and other customers. The Board consider the new facility will take approximately 15 months to fully commission and from around 2019 be capable of operating at full capacity, representing the production of approximately 17,000 discs per annum. In the Board's experience,

automotive OEM's seek to appoint suppliers for new models approximately 24 months in advance of production. As set out further below, the Company is in discussions with several OEMs with certain models anticipated to commence production mid-2018 onwards.

Automotive

The Company is currently in detailed discussions with five automotive OEMs, details of which are set out below. The Directors consider the key criteria for adoption by automotive OEMs are price, product quality, lead time and security of supply. To address these criteria, the Company is continuing its investment programme to progressively increase annual manufacturing capacity to the next milestone target of 17,000 discs per annum.

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

The lawyers of the Company and the German OEM are currently negotiating a draft pre-production development agreement to commit both companies to use best endeavours to work together to resolve the remaining product refinement requirements and for Surface Transforms to reserve capacity at its new Knowsley factory for this car model and potentially others.

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

German OEM Three: This prospective customer completed a product and factory visit of Surface Transforms in December 2015 and was impressed by the know-how and technology Surface Transforms has. Their testing continues. They have informed Surface Transforms of the target car which would potentially fit the Company's product, which is estimated to commence production in mid-2019 and generate estimated sales for Surface Transforms of up to £2.8 million per annum on this initial model.

British OEM One: This prospective 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. It is estimated that this contract will commence in mid-2018 and generate estimated sales for Surface Transforms of up to £1.6 million

per annum which is estimated to rise to £4.7 million 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 potential customer has discussed the benefits of using Surface Transforms' product in potentially both reducing cost on adjacent components and reducing their variety of sub systems. This has had the effect of delaying the estimated start of production from mid-2018 to mid-2019 but, paradoxically, in the Company's opinion improved the chances of them adopting the Company's product. If this programme goes to plan, the Company expects to generate estimated sales in 2019 of up to £1.0 million per annum.

Aerospace

Our aerospace activities remain focused on one existing customer, addressing three currently identified specific opportunities, for disc braking in both in civil and military aviation, further details of which were included by the Company in its half year financial results on 3 February 2016.

New factory

The Company announced on 18 February 2016 signed heads of terms for a new factory lease, together with the award of £600,000 of associated financial support expected to be made available and linked to future capital investment comprising:

- £200,000 Merseyside Special Investment Fund grant via the Regional Growth Fund expected to be received during 2016 and 2017;
- £300,000 Merseyside Special Investment Fund interest free loan, also via the Regional Growth Fund, to be draw down during 2016 and 2017 and repayable over three years from May 2019; and
- £100,000 Knowsley District Council rates relief over two years.

The new factory lease is for an existing 55,000 ft² Knowsley Industrial Estate facility with 30,000 ft² expected to be occupied in September 2016 and a further 25,000 ft² expected to be occupied from September 2019. The Company intends to vacate the existing Ellesmere Port 12,000 ft² facility in early 2017 on expiry of the existing lease.

Use of proceeds

To enable the Company to properly exploit the current commercial opportunities, including the forthcoming fit out of the new factory, the Directors have decided to raise £4.5 million, before expenses, through a Placing of New Ordinary Shares with existing Shareholders and new institutional and other investors, and up to £0.5 million, before expenses, by way of an Open Offer to all Qualifying Shareholders. The Placing funds raised will be used for:

- capital expenditure including new factory fit out, supporting increased production capacity, and improved production processes to reduce production costs per disc;
- to fund operating and development costs; and
- working capital.

Key capital expenditure is expected to include the purchase of a new high temperature furnace, an additional chemical vapour infiltration plant, purchase new ceramic furnaces and heat treatment facilities, further machining facilities and general new factory fit out costs.

It is expected that the Open Offer (on the assumption that it is fully subscribed) will raise a further £0.5 million. The net proceeds of the Open Offer are expected to also be applied to the uses set out above and to provide the Company with an additional working capital buffer to be applied at the discretion of the Board.

Current Trading and Outlook

The Company recently reported its unaudited results for the six months ended 30 November 2015 with turnover increasing to £782,000 (2014: £623,000), a reduction in loss before tax to £430,000 (2014: £471,000) and cash at the half year end of £525,000 (2014: £132,000 and £829,000 at the year ended 31 May 2015); further details are included in the Company's announcement of 3 February 2016.

Further progress has been made since reporting our half year financials with automotive and aerospace sales continuing, and the Board believes the Company remains on track to deliver full year revenue comfortably ahead of the prior year. The Company continues to progress the advancement of the key targeted automotive OEM contracts and on 18 February 2016 the Company announced the new intended factory facilities and associated financial support as detailed above.

Other details of the Placing and Open Offer

The record date for entitlement under the Open Offer is the close of business on 17 March 2016 and the ex-entitlement date of the Open Offer is 18 March 2016. The latest time and date for receipt of completed application forms and payment in full under the Open Offer and settlement of relevant CREST instructions (as appropriate) is 11.00 a.m. on 12 April 2016.

The Open Offer Shares have not been placed subject to clawback nor have they been underwritten. Consequently, there may be fewer than 3,125,000 new Ordinary Shares issued pursuant to the Open Offer.

Both the Placing and Open Offer are conditional, inter alia, on the approval by shareholders of the resolutions at the General Meeting of the Company at 11.00 a.m. on 4 April 2016 and upon the placing agreement becoming unconditional in all respects.

Assuming all resolutions are approved, trading of 27,764,751 Placing Shares is expected to commence on 5 April 2016 while trading in the remaining 360,249 Placing Shares is expected to commence on 6 April 2016.

Directors' participation

The following Directors are participating in the Placing and Open Offer. Their participation and resultant interests is set out in the table below:

<i>Director</i>	<i>Existing interest in Ordinary Shares</i>	<i>%</i>	<i>Placing Shares subscribed for</i>	<i>Interest in Ordinary Shares after Placing Admission</i>	<i>%</i>	<i>Open Offer Shares to be applied for</i>	<i>Interest in Ordinary Shares after Open Offer Admission^{3&4}</i>	<i>%</i>
David Bundred	560,747	1.05%	115,000	675,747	0.08%	41,250	716,997	0.82%
Richard Gledhill ¹	8,801,977	16.54%	-	8,801,977	10.82%	516,877	9,318,854	10.72%
Kevin D'Silva ²	826,203	1.55%	-	826,203	1.02%	93,750	919,953	1.06%

¹Held through his investment vehicle Group-14 Ltd.

²Held in his SIPPs. Assumes application in excess of proportional entitlement is met in full.

³Assuming Open Offer applications in total for the full number of Open Offer Shares available.

⁴Assuming Open Offer applications in total for the full number of Open Offer Shares available, and the Directors' applications are not sealed back.

Director loan

On 28 March 2014 Group-14 LTD (a company beneficially owned by Richard Gledhill, a non-executive director of the Company) provided a loan facility of £400,000 to the Company. The loan incurs interest at a rate of 9.5 per cent p.a. above the base rate of Barclays Bank PLC, payable monthly in arrears. Repayments commence at a rate of £8,500 per month three years after the first draw down date of 28 March 2014. No covenants are attached to the facility. The loan facility is repayable at any time at the discretion of the Company without penalty, but is immediately repayable in full should the Company complete a sale or there be a change of control.

Group-14 LTD has agreed the repayment due to it as a result of the Placing, can instead be settled by way of the issuance of new Ordinary Shares at the Placing Price. This will have the benefit of keeping cash in the Group to be utilised for the capital expenditure programme.

EIS / VCT

The Directors believe that the Placing Shares and Open Offer Shares should be eligible (subject to the circumstances of investors) for tax reliefs under the Enterprise Investment Scheme ("EIS") and for investment by Venture Capital

Trusts ("VCT"). The Company has obtained advance assurance from Her Majesty's Revenue and Customs that shares in the Company represent a qualifying investment for a VCT and qualify for EIS tax reliefs. The Directors are not aware of any change in the qualifying conditions or the Company's circumstances that would prevent the Placing Shares and Open Offer Shares from being eligible VCT and EIS investments on this occasion.

Notice of General Meeting

The Company announces that a notice to convene a General Meeting of the Company at 11.00 a.m. on 4 April 2016 at the offices of Gateley LLP, Ship Canal House, 98 King Street, Manchester M2 4WU to approve the Placing and Open Offer, will today be posted to shareholders, together with the circular which sets out further details of the Placing (the "Circular").

Copies of the Circular will be available at the Company's registered office and principal place of business at Surface Transforms plc, Unit 4 Olympic Park, Poole Hall Road, Ellesmere Port, South Wirral, Merseyside CH66 1ST and at the offices of Gateley LLP, Ship Canal House, 98 King Street, Manchester, M2 4WU up to and including the date of Admission and on Surface Transforms' website at www.surface-transforms.com.

David Bundred, Chairman of Surface Transforms commented:

"This fundraising enables the Company to move forward on the next step of its exciting development. I would therefore like to take this opportunity to thank both those new and existing shareholders who have participated in this Placing and are hopeful that existing shareholders continue to support the Company through the proposed Open Offer."

Appointment of Joint Broker

The Company is also pleased to announce the appointment of finnCap Ltd ('finnCap') as the Company's Joint Broker with immediate effect.

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For further Company details, visit www.surfacetransforms.com.