

15 June 2016

Surface Transforms plc

("Surface Transforms", the "Company" or the "Group")

Trading, Premises and Operating Update

Surface Transforms (AIM: SCE), manufacturers of carbon fibre reinforced ceramic brake discs, announces that revenue in the year ended 31 May 2016 was in line with expectations of £1.4 million (2015: £1.1 million). Margins and costs are also expected to be in line with expectations but income from R&D and investment grants and credits was about £100k below plan.

The increase in sales was primarily driven by an increase of 25% in sales to retrofit customers in 2016 of £384k (2015: £306k), a 55% increase in sales to near OEM customers of £174k (2015: £112k) and a one-off increase of approximately £142k in aerospace development revenues. All other customer sales were approximately in line with the previous year.

The cash position as at 31 May 2016 was £4.8m (2015: £0.8m), while the Board anticipates receiving an R&D tax credit in excess of £250k (2015: £306k) in the next four months in addition to previously announced £500k in grants and interest free loans from local authorities in support of our capital investment.

Premises update

The Company has now formally signed the lease on its new Knowsley premises and ordered equipment (including the payment of deposits) for the new factory with a total investment cost of £3.1m. The actual order value of the equipment is in line with budget. The Company will begin disassembling the equipment in the existing Ellesmere Port factory in August for reassembly in Knowsley, with full vacation of the existing site planned for February 2017 in line with management expectations.

Operating update

In respect of the five main automotive manufacturers the Group is working on or in discussions with:

OEM 1 (British) Start of production ("SOP") on this limited edition car is expected in mid-2018, with first financial year ("FY") sales of £1.0m and a further £1.2m in the following financial year. If the further named vehicles in the currently agreed introduction schedule come on stream potential annual revenues would be expected to exceed £5m. For reasons unconnected with Surface Transforms this performance car customer has extended the vehicle freeze date of the first model by three months (at which point they are expected to formally contract) but is stating that this will not impact the SOP of the car. The Company's disc is the only unit being tested on the car, no new issues have arisen and engineering discussions have started on follow on models.

OEM 2 (British) SOP is currently scheduled for late 2019 with first FY sales of £0.6m and future mature production sales of £1.1m. This luxury car company continues to test, however it is a sister company of OEM 3 and is therefore waiting for the OEM 3 tests to finish before contractually committing to Surface Transforms. Nonetheless the size and weight of this vehicle is such that the superior heat dissipation characteristics of the Surface Transforms product is particularly relevant to this vehicle.

OEM 3 (German) SOP is currently scheduled for mid-2019 with pre-production revenues starting mid-2018. Revenues during production approval in calendar year 2018 are expected to be approximately £3m with expected future mature production sales after SOP of approximately £10m-£12m. These revised projections are potentially earlier than previously forecast and higher mature volumes as it is now understood that the discs will first be available on a higher volume production model however the details of these numbers are still in discussion.

OEM 4 (German) SOP is currently scheduled for late 2019 with expected first FY revenues of £2.4m and future mature production sales of £4.3m. As previously announced, this is a sister company to OEM 3 and whilst delivery milestones are later, the current testing required by OEM 3 should not need to be duplicated.

OEM 5 (German) SOP is currently scheduled for mid-2019 with expected first FY revenues of £2.7m and future mature production sales of £4.3m. There has been an acceleration of activity with this customer who is both aware of their competitors' activities with Surface Transforms and seeking to ensure they get equality of resource allocation. No new issues have arisen from recent testing.

In respect of the Group's aerospace activities with its main US customer, SOP is currently scheduled for January 2018 with expected first FY revenues of £0.5m and future mature production sales of £1.3m. This project is proceeding to timetable and the customer is now completing the process/product change approvals required from the aircraft customer in line with normal aerospace practices. There has been little progress on the light aircraft opportunity, solely driven by resource constraints within our customer.

The Company expects to announce its preliminary results in September.

David Bundred (Chairman) said "Good progress is being made on all the "game changing contracts" - albeit the Board shares investors' frustrations that we have not yet been able to announce the names of the automotive and aerospace companies. Their continuing desire for anonymity is driven by their marketing and product planning motivations and not by the engineering and purchasing personnel we work with.

Since the successful fundraising there has been a significant acceleration in the pace of implementation action on both the testing activity on the "game changing contracts" and the supporting operational activity to deliver the capacity required. The programmes are all on target and the Company continues to look forward with confidence."

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