

22 November 2016

Solid State plc
("Solid State", the "Company" or the "Group")
Interim Results for the six months ended 30 September 2016

Solid State plc (AIM: SOLI), the AIM listed supplier of specialist industrial/ruggedised computers, electronic components, advanced antenna products, communications systems and battery power solutions to the electronics market, is pleased to announce its Interim Results for the six months ended 30 September 2016.

Highlights in the period include:

Financial:

	2016	2015	Change
Turnover	£20.09m	£22.02m	-9%
Profit before tax	£1.64m	£1.49m	+10%
Earnings per share (basic)	16.6p	18.1p	-8%
Gross profit margin	31.2%	27.7%	+350bps
Operating margin	8.2%	7.0%	+120bps
Dividend	4.0p	4.0p	-
Dividend cover	4.2X	4.5X	-7%

Operational:

- Cash settlement from Ministry of Justice ("MoJ") to be deployed within the business to fund future organic growth opportunities and acquisitions
- Acquisition of custom battery business Creasefield Ltd for £1.60m
- Integration of Creasefield and relocation of Redditch battery operations to Crewkerne, Somerset
- Deliveries of new rail ticketing machines
- Expansion of marketing resource to support Group sales teams
- Website development and common Group branding to promote cross Group identity for cross-selling opportunities
- Appointment of two specialists in fields of obsolescent component sourcing, anti-counterfeiting testing solutions, component up-screening and high reliability solutions in Military, Aerospace, Rail and Oil & Gas markets
- Appointment of Peter James as Group Finance Director commencing 20 February 2017
- Group order backlog at 30 September 2016 - £14.8m

Commenting on the results and prospects, Tony Frere, Chairman of Solid State said:

"Solid State has had a very positive first half. The acquired businesses are trading well in their respective sectors and contributing well to initiatives which will drive future organic growth.

"The Group order backlog at 30 September 2016 was £14.8m. Solid State has a strong balance sheet and a supportive bank which enables the Group to confidently pursue future growth initiatives and acquisitions. The Board is optimistic about Solid State's prospects."

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Notes to Editors:

Solid State plc (SOLI) is a leading value added group of companies providing specialist design-in and manufacturing services to those acquiring industrial/rugged computing products, battery power solutions, communications systems, advanced antenna products and electronic components for use in harsh environments.

Serving niche markets in oil & gas production, medical, construction, security, military and field maintenance, Solid State acts as both a distributor to OEMs and bespoke manufacturer of specialist units to clients with complex requirements.

Headquartered in Redditch, Solid State employs over 200 staff across five sites. Solid State operates through two main divisions: Solid State Supplies and Steatite.

Solid State was established in 1971 and admitted to AIM in June 1996.

CHAIRMAN'S STATEMENT

I am pleased to announce the interim results for the six months ended 30 September 2016. This has been a period of good progress for the Group in which it has completed its ninth acquisition in addition to the continued development of its manufacturing and distribution divisions.

While the broader economy continues to encourage prudence in clients' buying patterns following the results of the EU referendum, we have maintained a strong order backlog of £14.8m as at 30 September 2016.

On 31 May 2016 we completed the acquisition of Creasefield Ltd ("Creasefield") for a total consideration of £1.6 million. Creasefield specialises in the design and manufacture of custom battery packs to a diverse range of industry sectors principally in the UK, including; Commercial Aerospace, Oil & Gas, Medical, Subsea, Safety, Water, Rail, Military, Security and Government. As indicated at the time of the acquisition, Creasefield will make a positive contribution to the performance of the Group as a whole for the remainder of this fiscal year ending 31 March 2017 after integration costs, and a more significant contribution in the year to 31 March 2018.

Despite the fact that the MoJ contract was terminated prior to this accounting period, the settlement was not agreed until 25 May 2016. This was agreed on a without fault basis and has resulted in a settlement which will be deployed in the further growth of the Group both organically and by acquisition.

We continue to actively pursue further acquisitions across all business units within the Group and have a strong pipeline of potential targets.

On 21 November 2016 we announced the appointment of Peter James as Group Finance Director with effect from 20 February 2017. With 11 years' experience at PwC and more recently four years as Group Financial Controller at IQE (AIM: IQE), we believe his finance and manufacturing knowledge will be of significant benefit to the Group. Following the appointment of Matthew Richards as the new Managing Director of Steatite in April 2016, the Board is pleased to announce this new appointment which further strengthens the Executive Director team.

Financial Review

Revenue for the period was £20.09m (2015: £22.02m). From June 2016 the Group benefitted from revenue from Creasefield of £1.7m, however this was more than offset by the absence of £3.5m of revenue recognised in the period to 30 September 2015 as part of the mobilisation element of the Ministry of Justice contract terminated in February 2016. Underlying revenue was flat in the six month period to 30 September 2016.

Pleasingly the higher margin product mix in this period counteracted the loss of the lower margin mobilisation revenue resulting in an increase in profit before tax of 10% to £1.64m (2015: £1.49m).

Basic earnings per share were 16.6p (2015: 18.1p) having been impacted by two principal factors. Firstly, as a result of a much higher tax charge this year following a lower research & development claim compared to last year and, secondly, the combination of reduced tax relief on share options exercised in the period and the subsequent dilutive effect of the new shares issued as a result of the exercise of the share options.

The Group open order book stood at £14.8m as at 30 September 2016, comprising £12.7m of underlying revenue and £2.1m of Creasefield revenue, acquired on 31 May 2016, (30 September 2015: £14.2m – excluding discontinued SEMS division MoJ revenue of £3.5m). This open order book is particularly pleasing as many customers are placing shorter order schedules, as is common at this stage of the economic cycle.

Gross profit margins improved to 31.2% (2015: 27.7%). The Group benefitted from exchange rate gains in the period, reliant in part on forward currency hedges. A continuing weakening of Sterling would not result in a repeat of this benefit in the second half of the year due to some limited US Dollar exposure.

Following recent acquisitions and the growth of the distribution division, it is anticipated that the Group sales performance will be less second half weighted than in previous years. An example of this change is the addition of more balanced order flows in the batteries business.

Dividends

The Board is proposing to maintain the interim dividend at 4.0p (2015: 4.0p) having increased it by some +45% in 2013 (H1 2013: 2.75p). The dividend is 4.2X times covered. The interim dividend will be paid on 20 January

2017 to shareholders on the register at the close of business on 23 December 2016. The shares will be marked ex-dividend on 22 December 2016.

Business Review

The Group is focussed on the supply and support of specialist electronics equipment which include high tolerance and tailor made battery packs, specialist electronic components, displays, specialist Antennas, industrial/rugged computers and secure communications systems.

The market for the Group's products and services is driven by the need for custom electronic solutions to address complex needs, typically in harsh environments where enhanced durability and resistance to extreme and volatile temperatures is vital. Drivers in our markets include efficiency improvement, cost saving, environmental monitoring and safety.

Divisional Review

The Group operates through two divisions – manufacturing (including Steatite which incorporates Computers, Secure Communications, Batteries, and Antennas) and component distribution (including Solid State Supplies and Ginsbury displays).

Steatite

Steatite is one of the leading UK suppliers of specialist electronic equipment for harsh environments and high reliability applications. It designs, manufactures and supplies a range of products and solutions that include bespoke battery packs, rugged mobile computing solutions, secure mesh radio systems, wideband antennas, industrial computer hardware and software. Key to its strategy is the ability to design, manufacture and test to customer requirements, and against the most stringent of standards and qualifications.

Steatite has made a number of complementary acquisitions over recent years to build its product portfolio. Central to its strategy in 2016 has been the integration of acquisitions and the promotion of cross selling opportunities within the Group to maximise organic growth.

Integration of the Creasefield battery operation (acquired on 31 May 2016) with the Steatite business has progressed well, with efficiencies achieved across both the Redditch and Crewkerne facilities. Production of battery packs are now being predominately carried out in Crewkerne with the Redditch site focussing on the delivery of computing and communication solutions. The acquisition of Creasefield has broadened the battery chemistries offered and the range of industrial sectors served by the division and has allowed for a greater share of production and engineering resource.

The combined battery operations under a single sales channel are responding to strong demand for power solutions. As well as new opportunities in the industrial sector and harsh environment robotics, existing customers in the aerospace and safety markets are placing repeat business, which gives confidence in the growth potential for this division.

The Oil & Gas industry, which previously accounted for a large proportion of the battery division's revenue, is starting to show signs of recovery. Encouragingly, this revenue is now considered supplementary to the existing business flow of the battery division, as opposed to being its core, as was previously the case.

Steatite Antennas, formed from the acquisition of Q-Par in May 2013, is at the forefront of antenna design and manufacture. It excels in the research, design and manufacture of commercial grade and bespoke microwave antennas, subsystems and associated microwave components.

In the period, Steatite Antennas has had particular success innovating with a major prime contractor on an electronic solution countering the threat from piracy at sea. In addition, we are now seeing the benefit of interdivisional co-operation and the resulting force multiplier with our battery, computing and rugged communications teams partnering with a third-party company producing a chemical, biological, nuclear and radiological sensor.

The relocation of the Steatite Antennas division to its new purpose built facilities in Leominster, Herefordshire, that will include the advanced testing range, is now underway. Installation of the advanced near field antenna test chamber has already been completed. With additional technical and commercial staff recruited to address pent up demand and to take certain existing outsourced functions in-house, the business is poised for growth.

Steatite has been requested by a longstanding tier 1 defence OEM client to supply an enlarged loom wired cabinet for advanced systems integration. This is an example of the contribution that Steatite brings to the client relationship through its design-in services and broad product manufacturing capability.

Additionally, Steatite has been a long term supplier of ticketing machines to the train operating companies ("TOCs"). Steatite has been working with the TOCs on a redesigned ticketing machine to replace the 4500+ machines in service across the UK. Just over half of these replacement machines have now been supplied to selected TOCs, with the remaining replacement machines to be rolled out under a controlled programme.

Solid State Supplies

Solid State Supplies ("SSS") is a distributor of specialist components to the UK electronics OEM community; selling semiconductors, modules and related products for embedded processing, wireless and wired connectivity, displays, power management and LED lighting.

At the half year, Solid State Supplies is pleased to be able to report that all key metrics are either on target or ahead of target. The book:bill ratio remains positive and the order backlog at the half year point is up 6% on the corresponding period in the previous year.

The rapidly decreasing value of the Pound Sterling against the key currencies of the USD and Euro has resulted in careful micro managing of the division's gross margins. The division has developed key models that allow the potential effects of the falling Pound on the business to be monitored and for action to be taken. The result of which is that despite the devaluation of Sterling, the gross margins have been maintained and EBIT is slightly ahead of the half year target.

In the period, SSS has expanded its sourcing operation into both component sourcing and obsolescence supplies sourcing. The division secured two key staff members, both industry experts in their own right, to open this market to the division. Several of Solid State Supplies existing customers have carried out detailed audits of the company's capability in this area and have, as a result, added SSS to their register of approved obsolete component suppliers. The division anticipates that several new customers will be added early in FY 2017 and that this area of the business will make a positive contribution to growth in the 2017/2018 financial year.

At the end of last financial year, the division reported that it had secured two new franchises, one of these, Silicon Labs, is now making a significant contribution to the overall business and is expected to increase in value again throughout the remainder of the year. In the first half of this year, the division also secured the Kemet franchise. Kemet are a well-known manufacturer of capacitors which complement the existing range of products carried by the division.

The Ginsbury display business, acquired in 2015, and which now has a design team onsite in Redditch alongside the rest of the SSS team, is now benefiting from extensive cross selling and the business has established a very close relationship with a number of key Chinese suppliers that is giving it a significant advantage in the market without any compromise of quality.

Plans for group cross selling of the battery business are now well advanced. Following the acquisition of Creasefield, the business has gained access to an increased portfolio of battery cells from leading premium manufacturers. The Steatite battery business development leads are working with Solid State Supplies sales team with their existing diverse customer base to extend the reach for both battery packs and single cell sales. Positive results of this targeted programme are anticipated during calendar 2017.

During 2016 the division has invested heavily in the skills of its human resource base with approximately 30% of the personnel now in some form of recognised development programme. Several new apprentices have been appointed to various areas of the business.

Divisional Summary

The Divisions in the Solid State group have distinct characteristics in their market places. A depth of technical understanding and a collaborative approach to client relationships have always promoted an integrated process of product design and supply. The degree of co-operation has always been appreciated by our clients and we believe it is of significant commercial value both to us and our customers. Solid State will continue to pursue this approach and to extend it into new relationships where appropriate.

Our stated strategy is to supplement organic growth with selective acquisitions within the electronics industry which will complement our existing Group companies and enable us to achieve improved operating margins through the employment of operational efficiencies, scale and distribution.

Outlook

Solid State has had a very positive first half. The acquired businesses are trading well in their respective sectors and contributing well to cross-selling initiatives which will drive future organic growth.

The Group has a particular resilience given the Group product mix and nature of client relationships which is particularly evident in times of economic volatility. Our clients are typically long term in nature and embedded via the 'share of mind' that they receive from our design-in service and knowledgeable operations teams. A good example of this is the systems integration cabinets being supplied at the request of a longstanding tier 1 defence OEM. We expect this characteristic to be more widely acknowledged in the client base as our cross-selling initiatives progress.

The Creasefield acquisition has proven to be an excellent addition to the battery business. The ubiquity of batteries in electronic products, either as a primary or secondary source, presents many cross-selling opportunities with the other divisions of the Group. The Sales effort is being strengthened and the Oil & Gas sector is showing renewed signs of life. There is scope for growth in both the battery and computing sectors and the business is resourcing accordingly.

The new site for Steatite Antennas presents opportunities to not only bring currently outsourced work in-house but also to potentially offer these same services as a revenue generating activity. It represents an excellent reference site for clients and an opportunity to expand in a highly specialist and high margin area.

Counter terrorism is both topical and an area of opportunity for Solid State. Many of our technologies touch on counter terrorism applications and form the basis of a targeted initiative.

Component lines are attracted by Solid State Supplies added value services capability and high integrity manufacturing standards. We are in dialogue with a number of potential lines where franchise agreements are anticipated.

The Group order backlog at 30 September 2016 was £14.8m. Solid State has a strong balance sheet and a supportive bank which enables the Group to confidently pursue future growth initiatives and acquisitions. The Board is optimistic about Solid State's prospects.

Tony Frere
Chairman

INTERIM CONSOLIDATED INCOME STATEMENT
for the six months ended 30th September 2016

	Unaudited Six months to 30 th September 16 £'000	Unaudited Six months to 30 th September 15 £'000	Audited Year to 31 st March 16 £'000
Revenue	20,086	22,017	44,100
Cost of sales	(13,826)	(15,928)	(30,072)
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Gross profit	6,260	6,089	14,028
Distribution costs	(1,976)	(1,943)	(3,722)
Administrative expenses	(2,602)	(2,598)	(5,998)
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Profit from operations	(4,578)	(4,541)	(9,720)
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	1,682	1,548	4,308
Finance costs	(41)	(55)	(112)
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Profit before taxation	1,641	1,493	4,196
Tax expense	(244)	20	(28)
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PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	1,397	1,513	4,168
Other comprehensive income	-	-	-
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TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	1,397	1,513	4,168
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Earnings per share (see below)			
Basic	16.6p	18.1p	49.9p
Diluted	16.4p	17.8p	49.2p

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30th September 2016
(unaudited)

	Share Capital £'000	Share premium reserve £'000	Capital Redemption Reserve £'000	Retained Earnings £'000	Shares held in Treasury £'000	Total £'000
Balance at 31st March 2015	417	3,629	5	8,653	(313)	12,391
Total comprehensive income for the period	-	-	-	1,513	-	1,513
Issue of new shares	4	-	-	-	-	4
Dividends	-	-	-	(670)	-	(670)
Share based payment expense	-	-	-	-	-	-
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Balance at 30 th September 2015	421	3,629	5	9,496	(313)	13,238
Total comprehensive income for the period	-	-	-	2,655	-	2,655
Issue of new shares	-	-	-	-	-	-
Dividends	-	-	-	(334)	-	(334)
Share based payment expense	-	-	-	174	-	174
Transfer of shares into All Employee Ownership Plan	-	-	-	-	32	32
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31st March 2016	421	3,629	5	11,991	(281)	15,765
Total comprehensive income for the period	-	-	-	1,397	-	1,397
Issue of new shares	4	-	-	-	-	4
Dividends	-	-	-	(677)	-	(677)
Share based payment expense	-	-	-	-	-	-
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Balance at 30 th September 2016	425	3,629	5	12,711	(281)	16,489

CONSOLIDATED BALANCE SHEET
as at 30th September 2016

	Unaudited as at 30 th September 16 £'000	Unaudited as at 30 th September 15 £'000 (restated)	Audited as at 31 st March 16 £'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	1,501	1,474	1,366
Intangible assets	6,021	5,900	5,283
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TOTAL NON-CURRENT ASSETS	7,522	7,374	6,649
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CURRENT ASSETS			
Inventories	6,421	6,120	5,534
Trade and other receivables	9,083	10,439	13,465
Corporation tax recoverable	-	129	-
Cash and cash equivalents	232	321	994
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TOTAL CURRENT ASSETS	15,736	17,009	19,993
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	23,258	24,383	26,642
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LIABILITIES			
CURRENT LIABILITIES			
Bank overdraft	(435)	(4,911)	(4,398)
Trade and other payables	(5,500)	(5,548)	(6,024)
Corporation tax liabilities	(173)	(102)	(165)
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TOTAL CURRENT LIABILITIES	(6,108)	(10,561)	(10,587)
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NON-CURRENT LIABILITIES			
Trade and other payables	(8)	(182)	(5)
Corporation tax liabilities	(254)	-	-
Deferred tax liability	(399)	(402)	(285)
Provision for liabilities	-	-	-
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TOTAL NON-CURRENT LIABILITIES	(661)	(584)	(290)
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TOTAL LIABILITIES	(6,769)	(11,145)	(10,877)
	<hr/>	<hr/>	<hr/>
TOTAL NET ASSETS	16,489	13,328	15,765
	<hr/>	<hr/>	<hr/>
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital	425	421	421
Share premium reserve	3,629	3,629	3,629
Capital redemption reserve	5	5	5
Retained earnings	12,711	9,496	11,991
Shares held in treasury	(281)	(313)	(281)
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TOTAL EQUITY	16,489	13,238	15,765
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CONSOLIDATED CASH FLOW STATEMENT
for the six months ended 30th September 2016

	Unaudited as at 30 th September 16 £'000	Unaudited as at 30 th September 15 £'000 (restated)	Audited as at 31 st March 16 £'000
OPERATING ACTIVITIES			
Net profit from ordinary activities before taxation	1,641	1,493	4,196
Adjustments for:			
Depreciation	205	182	406
Amortisation	119	124	225
Impairments	-	-	618
(Profit)/loss on disposal of property, plant and equipment	(9)	2	2
Share based payment expense	-	-	174
Finance costs	41	55	112
Other	-	-	32
Operating profit before changes to working capital and provisions	<u>1,997</u>	<u>1,856</u>	<u>5,765</u>
(Increase)/decrease in inventories	(185)	(424)	162
Decrease/ (increase) in trade and other receivables	5,209	(913)	(3,663)
(Decrease) in trade and other payables	(915)	(928)	(468)
Cash generated from/(absorbed by) operations	<u>6,106</u>	<u>(409)</u>	<u>1,796</u>
Income taxes paid	-	-	(102)
Income taxes recovered	-	-	128
Cash flows from operating activities	<u>6,106</u>	<u>(409)</u>	<u>1,822</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(232)	(398)	(900)
Purchase of intangible assets	(11)	(25)	(36)
Proceeds from sale of property, plant and equipment	107	35	55
Consideration paid on acquisition of subsidiaries	(1,941)	(1,585)	(1,760)
Cash with subsidiaries over which control has been obtained	(114)	977	977
	<u>(2,191)</u>	<u>(996)</u>	<u>(1,664)</u>
FINANCING ACTIVITIES			
Issue of ordinary shares	4	4	5
Interest paid	(41)	(55)	(112)
Dividends paid to equity shareholders	(677)	(670)	(991)
	<u>(714)</u>	<u>(721)</u>	<u>(1,098)</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<u>3,201</u>	<u>(2,126)</u>	<u>(940)</u>
Cash and cash equivalents brought forward	<u>(3,404)</u>	<u>(2,464)</u>	<u>(2,464)</u>
CASH AND CASH EQUIVALENTS CARRIED FORWARD	<u>(203)</u>	<u>(4,590)</u>	<u>(3,404)</u>

Represented by:			
Cash at bank and in hand	232	321	994
Bank overdrafts	(435)	(4,911)	(4,398)
	(203)	(4,590)	(3,404)

NOTES TO THE INTERIM REPORT
for the six months ended 30th September 2016

1. Basis of preparation of interim financial information

The consolidated interim financial statements have been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards as endorsed by the European Union ("IFRS") and expected to be effective at the year end of 31st March 2017. The accounting policies are unchanged from the financial statements for the year ended 31st March 2016.

The interim financial statements are unaudited and do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31st March 2016, prepared in accordance with IFRS, have been filed with the Registrar of Companies. The Auditors' Report on these accounts was unqualified, did not include any matters to which the Auditors drew attention by way of emphasis without qualifying their report and did not contain any statements under section 498 of the Companies Act 2006.

The comparative figures within the consolidated cash flow statement for the six months ended 30th September 2015 and the consolidated balance sheet as at 30th September 2015 have been restated to reflect correctly the timing of the payment of dividends and the consideration paid on the acquisition of subsidiaries. The effect of these changes on the consolidated cash flow statement has been to adjust cash from operations and cash flows from operating activities from positive £705,000 to negative £409,000 with a reduction of consideration paid on acquisition of subsidiaries of £525,000 and an increase in the closing bank overdraft of £589,000, and on the consolidated balance sheet to increase the bank overdraft and decrease trade and other payables within current liabilities by £589,000.

2. The earnings per share

The earnings per share figures are based on the profit on ordinary activities after taxation as stated in the unaudited income statement and the weighted average number of shares in issue during each period. The weighted average number of shares in issue during the period was 8,439,927 for the six months ended 30th September 2016, 8,345,406 for the year ended 31st March 2016 and 8,363,720 for the six months ended 30th September 2015. The calculation of diluted earnings per share was based on 8,510,894 for the six months ended 30th September 2016, 8,476,536 for the year ended 31st March 2016 and 8,527,913 for the six months ended 30th September 2015.

3. Dividends

Dividends paid during the period from 1st April 2015 to 30th September 2016 were as follows:

29th September 2015 share	Final dividend year ended 31st March 2015	8.00p	per
26th February 2016 share	Interim dividend year ended 31st March 2016	4.00p	per
23rd September 2016 share	Final dividend year ended 31st March 2016	8.00p	per

The directors are intending to pay an interim dividend for the year ended 31st March 2017 in January 2017 of 4.00p per share. This dividend has not been accrued at 30th September 2016.

4. Further copies of this document are available at the registered office of the Company. The statement will also be available to download on the Company's website: www.solidstateplc.com