Surface Transforms Plc

Registered number 03769702

Annual Report and Financial Statements

for the year ended 31 December 2020

Contents

Highlights

Financial highlights

- Revenues stable at £1,952k *(Year to 31 December 2019*: £1,938k) (7 months to 31 December 2019: £1,451k)*
- Gross margin increased to 67.1% *(Year to 31 December 2019*: 59.5%) (7 months to 31 December 2019: 59.6%)*
- Net research costs of £2,468k (Year to 31 December 2019*: £2,437k) *(7 months to 31 December 2019 £1,502k)* after capitalising £141k *(Year/7 months to December 2019*: Nil)* of gross expenditure.
- Other administrative expenses increased by £292k to £1,888k *(Year to 31 December 2019*: £1,596k) (7 months to 31 December 2019: £1,063k)*
- Loss before taxation was £2,916k *(Year to 31 December 2019*: £2,982k) (7 months to 31 December 2019: £1,760k)*
- Research costs partially offset by an accrued R&D tax credit of £600k *(Year to 31 December 2019*: £1.131k** reflecting 19 months tax credit in FY19)*
- Loss per share of 1.54p *(Year to 31 December 2019*:1.39p) (7 months to 31 December 2029: 0.97p)*
- Cash used in operating activities increased by £241k to £1,012k *(Year to 31 December 2019*: £771k)*
- Cash at 31 December 2020 was £1,058k *(31 December 2019: £770k)*
- Capital expenditure in the period was £643k *(Year to 31 December 2019*: £376k) (7 months to 31 December 2019: £344k)*
- Cash tax credits of £443k received in the period against an accrual of £420k
- Post balance sheet date the Company successfully raised £19m net of fees in a significantly over-subscribed placing, subscription and open offer. In addition to this the Company has agreed a £1m low interest loan with the local authority in March.

Customer and Operational highlights

- Secured a £27.5m contract over four years from a global automotive, (OEM 8) with start of production ("SOP") in H2 2021. Discussions continue regarding follow on business
- Secured a contract in excess of £5m over 5 years on the Koenigsegg Gemera with SOP of mid-2022. The third contract award from this customer
- SOP was delayed on the Aston Martin Valkyrie
- Continued to install, test and system integrate the new machines in OEM Production Cell One; on target to meet customer SOPs in mid-2021
- Dealt with the implications of Covid 19 lockdown. Prioritised employee welfare whilst managing to stay open and therefore suffered minimal impact to both new projects and short-term sales
- Restarted Combined Heat and Power (CHP) project, further enhancing our ESG objectives

Board Appointments

- Strengthened the Board with the appointment of two new non-executive directors with substantial experience in the global automotive industry
- After 17 years on the Board Kevin D'Silva is retiring with effect from April 12 2021

* Year to December 2019 figures are unaudited. Using an unaudited comparative period is considered an alternative performance measure and is intended to aid the users of the accounts to compare like-for-like as the prior period was only 7 months.

** R&D tax receipt in year to December 2019 was inflated due to change in accounting policy, moving from cash receipt basis to accruals basis.

Chairman's Statement

The twelve months to December 2020, covered in this report, in combination with recent events in 2021 mark the "coming of age" for Surface Transforms plc. In this period the Company has increased its order book to £43m with multi-year contracts, some of which extend to 2027; has virtually completed the installation of capacity for £20m p.a. sales; has raised the capital required to fund a further expansion to £35m p.a. sales, as yet uncontracted but realistically anticipated; and significantly strengthened the Board.

The Company is now poised to move into profit and cash generation, initially on a monthly basis as OEM 8 and Aston Martin Valkyrie enter production in the second half of 2021, and then looking forward to reporting full year profits and cash generation in 2022.

Progress on Customers:

OEM 8: In September 2020 the Company announced that it had been notified of its selection, as a tier one supplier, on a vehicle by a global vehicle manufacturer, we describe as OEM 8. The selection was as the standard fit, sole supplier of the carbon ceramic brake disc on both axles of a variant of a key model in their range.

The lifetime revenue on this contract, commencing in the second half of 2021, is estimated to be approximately £27.5m. In line with normal automotive practice, there are no minimum values in the contract. Forecast production volumes in the contract show a ramp up to full series volume commencing in second half of 2021 with annual revenue being approximately £8m p.a. for the following three years. The contract currently covers series production to 2024 but may potentially be extended and is priced in GBP.

The technical approval is for an engineering package that we expect the customer to implement on other cars in their planned new model range – known as "carry-over" in the automotive industry. If these models are launched we are confident that our brake discs will be on these cars.

Koenigsegg Gemera: In June 2020 the Company announced that it has been selected as the tier one sole supplier of carbon ceramic brake discs on both axles of the Koenigsegg Gemera. The lifetime value of the contract is in excess of £5m with a start of production in mid-2022 completing in mid-2027. Revenue is expected to be generated broadly evenly over the contract with approximately £1m per year being recognised in each of the four mid-programme years commencing 2023.

OEM 5: In the previous year, 2019, the Company was awarded an €11m (£9.8m) order from this German mainstream manufacturer. SOP is expected to be in 2022 and continues until tapering off in 2027. During 2020, the Company successfully supported OEM 5 on their vehicle system integration tasks and the car testing required to achieve vehicle homologation.

The Company continues to progress discussions on "carry over" orders with this customer. The outcome of these discussions has been delayed by the customer's revision to their new product introductions timetable as a result of the pandemic. In effect the engineering lockdowns have put their new model decisions back by one year.

OEM 9: This potential customer is a new entrant to the automotive market. The Company has largely completed testing, is in detailed commercial discussions with the customer, and progress is most encouraging. An issue that previously emerged during commercial discussions was the timing gap between expected nomination and SOP being different from our experience elsewhere with implications for capacity availability. This issue formed the backdrop for the decision to raise funds required for capacity expansion in Q1 2021. This is covered in more detail, in the capacity and OEM Production Cell Two review below.

Aston Martin Valkyrie: The Company had anticipated SOP on this vehicle in 2020 originally forecasting approximately £900k of sales in the year. In the event the SOP has been delayed until the second half of 2021. The sales have not been lost as the cars have been presold (with deposits).

Chairman's Statement

OEM 3: This Company is a division of a major German vehicle manufacturer and has been given responsibility by the parent company for approval of a second source carbon ceramic brake disc across all divisions in the group. The customer has a unique and demanding environmental test that has challenged the Company for a number of years. However particularly good progress was made in the year on the fundamental chemistry underlying the technical challenge. As a result, the Company is now able to report materially improved product performance, against the criteria in this test and is in discussions with the customer on the new test reports.

Other OEMs: The year also saw a considerable acceleration of both test rig and vehicle testing by a number of other new customers some of whom are likely to nominate in the next twelve months for SOP in 2024 and 2025. The Company anticipates winning a proportion of these new programmes.

Retrofit and Near OEM customers: Retrofit describes end use customers swapping out either iron or competitor discs for our product on already registered cars. Near OEM encompasses the large number of very niche car manufacturers producing or modifying less than 100 unregistered cars per year, often much less than that.

It was a successful year for these customers and the resultant sales were the prime reason that the Company was able to ride out the worst excesses of the Covid-19 pandemic. In simple terms, whilst our mainstream OEM customers essentially locked down in the year, our near OEM and retrofit customers did not and nor did we.

These customers have been the mainstay of the early years of Surface Transforms, providing road mileage experience, end use customer testimonials and not insignificant cash over ten years. The customers remain important to us, and we continue to expect near OEM sales to grow, but the combined financial impact of retrofit and near OEM will diminish proportionately as the mainstream OEMs contribute to revenue.

Progress on Operations:

Overview: The Company's Knowsley site has a footprint that, with further capital expenditure, is sufficient for £75m p.a sales made up of a £4m Small Volume Production Cell and five broadly equal modular OEM Production Cells. The first of these cells is under construction, completion mid-2021, bringing the site installed capacity to £20m p.a. sales. The second cell is planned – and now financed – with completion targeted for early 2023 which will then bring installed capacity to £35m p.a.

Small Volume Production Cell (SVP): Almost all the 2020 and half of the 2021 sales are produced in the SVP Cell. It is therefore encouraging to report considerable progress on improving productivity and increasing capacity in this cell in addition to a step change in internal quality control and first-time yields. The Board sees this as an example of the potential for continuous improvement in the Company when production processes are stabilised under professional production management. Production management can be justifiably proud of their performance in SVP in 2020.

OEM Production Cell One: This is the first production cell for our newly won contracts with mainstream vehicle manufacturers. Almost all the equipment was delivered in 2019 and the 2020 year has been devoted to repeat testing and system integration of the whole cell. The cell has been designed on lean manufacturing principles. The focus is therefore now more on the overall process rather than individual machines, consequently all machines must work at the same rate (known as takt-time) with minimal inventory between machines.

Whilst the Cell carries out much the same tasks as SVP a number of the detailed processes are new including bringing in-house previously bought-out operations. Whilst there have been some minor teething problems, which have needed to be overcome the bulk of the work is now complete and the Board is confident that the cell will be ready for customers' SOP in mid-2021.

Capacity and OEM Production Cell Two: Future production cells will be replicas of Production Cell One and thus we anticipate the cell could be built in approximately 18 months. Historically the timeline between contract award and SOP has been two years and thus the Company should have been able to build production on the back of firm contracts. This remains the case for OEMS 1 to 7.

Chairman's Statement

However, the "disruptor" OEMs – notably OEMs 8 and 9 – work to shorter timescales and therefore the Company does not have the luxury of investment decisions linked tofirm contracts. Accordingly, the Company took the decision in late 2020 to double capacity, in anticipation of potential, but yet to be awarded, further contracts from the disruptors. Albeit the risk of unwanted capacity is somewhat ameliorated by the expectation of wins, requiring capacity, from some of the new OEMs in 2024 and 2025. Thus, the real risk is one of timing (too early) not eventual need.

The Company, post year end, successfully concluded a significantly over subscribed equity fundraising, which raised net proceeds of £19m to finance a new OEM Production Cell Two, and for general working capital purposes and headroom.

Cost reduction: The Company saw production cost reductions in 2020 that contributed to improving margin in the year. As previously reported the bulk of the phase one cost reductions will be achieved when Production Cell One is fully implemented in mid-2021. This will mean that the Company will have more than halved production costs over the past five years. However this is a never-ending process and thus the Company is already reviewing plans to repeat that process over the next five years.

Covid-19: The Company operates in Knowsley, the borough with the highest Covid-19 infection rates for much of 2020 and early 2021, and was one of the few UK Tier 3 areas in the summer 2020 lockdown. Accordingly the Company's first priority was the protection of its employees, whilst at the same time, but as a secondary objective, seeking to maintain momentum on both engineering and production at the very point when – after over 15 years – the Company was about to realise its long awaited breakthrough on programmes.

The reaction of the workforce to this conundrum – at all levels – has been exemplary. Some, at Company request, took furlough, all who could worked from home, some of the production team had to shield for both family and personal reasons but the bulk of the production team kept the factory open. Senior management surrendered their bonus entitlement for 2020 and accepted 2021 payment for the 2019 bonus.

Operations were, of course, conducted in a strict Covid secure discipline with social distancing and adherence to government guidelines. The result has been that the engineering/sales projects have been broadly kept on track – the delays were almost universally customer delays – and (as noted in the SVP comments above) production was not merely maintained, it improved.

The net effect can be seen in the contract wins, the acceleration of new projects, increased output and the financial performance. Everybody in Surface Transforms can be proud of these outcomes against the Covid-19 background.

Brexit: As previously reported only about 15% of revenues up to 2024 are into the EU zone and as such it is not a central issue in our planning. Indeed we learnt in the year that a significant proportion of OEM 5's car production on "our" models is to be manufactured in South Africa, not Germany. Nonetheless supply disruption has been seen in the early post-Brexit days. The Company's attitude has been pragmatic; if it now takes weeks to do what used to be done in days we simply have to accept that reality and plan accordingly. The medium-term response will be a warehouse, or some assembly, on the continent when we reach mature volumes on more than one EU based OEM.

Environment Social and Governance:

Environment: The Company continues to prioritise the actions required to further extend our ESG investment credentials. Our product reduces carbon emissions on internal combustion engine vehicles through reduced vehicle weight; a benefit that is needed even more on heavier, faster accelerating electric vehicles and thus our technology is particularly assisting the transition to electric vehicles. The product also reduces emissions by the significantly extended life contrasted with its iron alternative. Additionally, carbon ceramic brake discs significantly reduce brake pad particles being released into the atmosphere and watercourses. Finally our end of life disc product acts as a carbon sink as the aluminium bell can be recycled and carbon and silica are almost the only remaining elements at the end of the product's life.

Our task however is to ensure that these environmental benefits are not lost in the manufacturing process, through excessive energy usage. Our environmental focus is therefore in this area and, for example, includes restarting the previously halted Combined Heat and Power Plant (CHP) project. The task is to use the waste heat from our furnaces to generate our own power. This project is a key objective for 2021.

Chairman's Statement

But whilst our focus is on energy consumption this is not our sole environmental action area. For example, as part of our determination to be a good neighbour we are going beyond Environmental Agency requirements on emissions reduction, containment and monitoring.

Social: We believe that our prime social goal is the provision of well-paid employment in one of the most disadvantaged areas in the country, there are few companies doubling employment on the Knowsley Industrial Park at the moment. Within this overall objective we are additionally delighted to be part of the local apprenticeship scheme employing our first apprentices in 2020.

The Company is also in early-stage internal discussions on an enhanced community outreach policy and would like to help in education, a key issue in Knowsley.

Finally, combining both environmental and social goals the Company sought the award of ISO 45001 in the year, the international standard for health and safety, this was awarded post reporting date in March 2021.

Governance: The Company adheres to the QCA corporate governance code and in the year completed a self-assessment on compliance. The self-assessment saw the Company broadly compliant with the code with the exception of the need to improve independence and diversity of non-executive directors. This issue has been addressed post balance sheet date and, at the date of this report, the Company believes itself to be fully compliant.

Nonetheless the Company is now participating in an external detailed survey of our data against all the sustainability goals to calibrate our internal perceptions.

Summary:

The transformation of our Company in 2020 has been quite remarkable, with progress on almost all fronts. This progress will be demonstrated, financially, when we go into production on OEM 8 and Aston Martin Valkyrie in 2021, at which point we will be profitable and generating cash from operations, before further capital investment.

Finally may I conclude by recording the Board's appreciation of the outstanding contribution by all members of staff, in one of the toughest economic and social backgrounds since WWII. Thank You!

David Bundred
Chairman

9 April 2021

Strategic Report

Operational review and principal activity

Surface Transforms plc develop and produce carbon-ceramic material automotive brake discs. The Company is the UK's only manufacturer of carbon-ceramic brake discs, and only one of two mainstream carbon ceramic brake disc companies in the world, serving customers that include major original equipment manufacturers (OEMs) in the global automotive markets.

The Company utilises its proprietary next generation Carbon Ceramic Technology to create lightweight brake discs for high-performance road and track applications for both internal combustion engine and electric vehicles. While competitor carbon-ceramic brake discs use discontinuous chopped carbon fibre, Surface Transforms interweaves continuous carbon fibre to form a 3D matrix, producing a stronger and more durable product with improved heat conductivity compared to competitor products; this reduces the brake system operating temperature, resulting in lighter and longer life components with superior brake performance. These benefits are in addition to the benefits of all carbon-ceramic brake discs vs. iron brake discs: weight savings of up to 70%, extending product and service life, consistent performance, environmentally friendly through reducing both CO2 emissions and brake pad dust, reducing the total cost of ownership, corrosion free and are highly desirable.

Automotive market drivers – fuelling the demand for carbon-ceramic brakes

Our strategy is to be a profitable, series production supplier of carbon ceramic brake discs to the large volume OEM automotive market. To achieve this, we work directly with OEMs and closely with Tier One suppliers to meet the customers' requirements on product, price, quality, capacity and security of supply.

In addition, we supply carbon ceramic brake discs to small volume vehicle manufacturing and retrofit high performance kits for performance cars.

Strategic Report

The key features of our business model are as follows:

- Support our customer across key geographical markets, achieving contract awards to multiple OEMs with products for multiple models with multiyear supply agreements.
- Engineer market leading carbon ceramic brake products, which deliver best in class performance for the luxury and performance brakes markets, which we estimate to be, ultimately, a circa £2 billion p.a. market.
- Utilise our manufacturing capacity revenue of circa £20 million p.a., with expansion underway to circa £35 million p.a. and with the footprint available to reach circa £75 million capacity revenue p.a. with future investment.
- Operate lean manufacturing processes, enabling the Company to produce products that are competitively priced with good margins.
- Be a 'Quality Company' with a culture that lives and breathes its world-class business processes and management systems. We surpass the automotive quality standards (IATF16949); and thus, have the confidence that we are able to pass all customer audits, as evidenced by recent contract wins.
- Protect the environment by minimising the environmental impacts arising from our activities, products and services and be committed to continuous improvement of our environmental performance.
- Support and manage our supply chain which can deliver to our customers' requirements on product, price, quality, capacity and security of supply.

Our overall objective is to work collaboratively with all stakeholders to deliver a sustainable successful business. Succeeding in these activities generates highly desirable, environmentally friendly, world leading quality products, which are price competitive and profitable to the business.

Furthermore, our products and processes are protected by a high level of intellectual property through deep, complex process knowhow and a product which cannot be reverse engineered.

Delivering our objectives:

The continued progress with new automotive contract wins achieved during the year has provided the Company with a clear path to achieving its strategic objective of profitability and cash generation as series supply commences with all our OEM customers.

The Company also continues its engineering development objectives in anticipation of further contract awards for both 'carry over' customer programmes and new customer programmes during 2021 and beyond.

The Company's internal activities are therefore focused on supporting series supply for these contracts and on Company-wide continuous improvement objectives.

- Health and Safety – In the short term there has been a focus on the creation of a Covid-19 safe environment which has been very successful with no loss of operational activity and minimum disruption. Our broader objective of creating and maintaining a safe working culture and environment never stops with all our key performance indicators positive for 2020. As part of our ongoing activities the Company is actively supporting its employees and their families mental health and wellbeing by implementing a staff support service.
- Customer supply performance – As we enter series supply with our OEM customers a key objective is to deliver good supplier performance, as this, in part, should facilitate being awarded carry over contracts. Our customers report that our performance is good and we look forward to maintain this assessment into the future.
- Capacity improvements – With the majority of OEM Production Cell One capacity allotted to current contracts during 2021 and 2022, we have embarked on building OEM Production Cell Two. This programme although complex has been significantly de-risked through the Company's adoption of the modular approach to manufacturing. OEM Production Cell Two will be a close replica of OEM Production Cell One. Sourcing and supplier selection has begun with the conclusion of the project expected to provide new capacity during the second half of 2022.
- Quality – The Company continues to have excellent in-service quality. But improving quality is a never-ending process, particularly in the automotive industry. Our measure of improving quality is therefore primarily focussed on reducing the internal cost of quality; for example, reducing internal processing, which of course also reduces cost; good progress is being made but there is always more to do. Additionally, maintaining IATF 16949 quality approval is another measure of success in this area. This quality approval process requires annual re-certification audits and it is pleasing to report that in the year the Company successfully completed its annual recertification of both IATF 16949 and ISO 9001. Additionally, the Company has been successfully appraised by a number of OEM customers.
- Environmental – The Company has the objective of being responsible for the environment and improving it. We are determined to be a good neighbour. We are a ISO 14001 certified company and have an environmental permit to operate our processes. We protect the environment through control and monitoring of all emissions from our processes and have set objectives to reduce our environmental footprint. This is currently focused on recycling one of our waste stream and generating heat and power for reuse in our processes. The Company also believes its product addresses key environmental challenges through eliminating the need for replacement part, reducing emissions and particulate pollution and carbon capture and sink.
- Productivity and cost reduction – The cost reduction objectives set a number of years ago are now being realised within our OEM cell manufacturing process. Many of these cost reductions have also been implemented across our small volume production (SVP) Cell resulting is improved margins. We continue to view productivity and cost reduction as perpetual with new projects having been identified and earmarked for implementation over the coming years. We therefore plan to maintain good margins and support our customers to achieve their pricing goals.
- Supply chain performance – As with any manufacturing process we are only as good as our supply chain. Improvements have been made to our supply chain in terms of both improving our existing suppliers and adding new suppliers to our approved supplier list. Further improvements have been identified and will be addressed during the year. We are pleased with progress made and will continue to reduce our supply chain risks and work collaboratively with supplier partners.

Summary

Our investment in people, processes, plant and product has been successful and is aligned to support further progress on our objectives. Our efforts encompassing customers, capacity, health and safety, quality, environment, supply chain, and cost reduction continue.

Section 172 statement

In accordance with the requirements of section 172 of the Companies Act. The board believes that during the year it has acted in a way that they consider, in good faith, would most likely lead to the success of the Company in the long term and to the benefit of all stakeholder groups. During the year the board raised funds to support the Company through the Covid-19 pandemic and utilised these funds in addition to the furlough scheme to retain as many staff as possible and avoid the loss of key skills and knowledge from the business.

The board believes that governance of Surface Transforms is best achieved by delegation of its authority for the executive management of Surface Transforms to the CEO. The board regularly monitors the delegation of authority, updating regularly whilst retaining responsibility.

The board has identified 6 key stakeholder groups and engages with them to foster strong relations and to act fairly between them:

- Customers: Surface Transforms engages with customers throughout the development process, building strong collaborative environments for long term mutual benefit. This is highlighted by carry over contract awards from existing customers and meets the Company's strategic aims of growing our customer base;
- Employees: Our employees are critical to the success of Surface Transforms and we engage through an environment of openness and inclusivity and trying to create a sense of ownership. All employees receive some share options after a qualifying period of employment. The Company has recently commenced employee surveys to monitor employee sentiment and along with the appointment of our new HR executive are placing a higher focus on employee recruitment and retention. In addition with the current stresses on the workforce the Company has made available counselling services for employees;

  These actions fit the Company's aim to be an employer of choice within the Knowsley area;
- Government and regulators: The Company is committed to engaging with all relevant government organisations and ensuring adherence to all statutory requirements. The Company has a strong working relationship with the environmental agency and regularly enters dialogue as to the fulfilment of our responsibilities;
- Investors and shareholders: The board gives opportunities for both institutional and retail investors to meet with the Company and to see the progress of the Company. During the year the Company has held a number of webcasts allowing investors to question the board on progress and on our strategy. The Company has engaged one to one with advisors and investors on environmental, social and governance (ESG) issues with a view to improving the Company's performance in this area;
- Partners and suppliers: The Company engages collaboratively with its partners and behaves in a responsible manner and expects partners to act ethically and in a responsible manner. The Company aims to build long term collaborative relationships and has signed long term contracts with suppliers for material supply, giving certainty to their businesses; and
- Society: The Company engages on social media and welcomes engagement with the wider public. In addition the Company is conscious of its position as a growing employer within the Knowsley area, an area of recognised social disadvantage. To this end the Company has during the year commenced an apprentice scheme and has recruited its first two apprentices in October 2020.

The board considers these stakeholders within its strategy discussions, the performance of the Company, the workforce and in its governance.

Financial Review

Revenue in the year was broadly flat at £1,952k from £1,938k* in the previous twelve months despite the underlying Covid-19 scenario. The Company is pleased to report that production continued throughout the year uninterrupted. This has allowed the Company to continue to deliver significant levels of production and development parts to new and existing

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customers and has helped in the successful award of the £27.5m and £5m multi-year contracts from OEM 8 and Koenigsegg during the year.

Gross profit margin increased in the year to 67% from 60% in 2019. This improvement has been primarily driven by improved unit cost but also reflects some improved pricing.

During the year the Covid-19 pandemic forced the Company to utilise the government furlough scheme to cope with a period of reduced customer demand in the first half of the year. This government support amounted to £240k and was important to the continuing health of the Company when at the time there was so much uncertainty. During this period the Company made arrangements with staff to ensure that salaries remained at normal levels during this furlough period. Additionally, any discretionary expenditure was cut. Finally, the senior management team accepted a deferral in the payment of 2019 bonuses until 2021 and cancelled any bonus entitlement in 2020.

During this early period of the year the Company was again well supported by its shareholder base with the raise of £2.25m after fees as a measure to support the Company through the expected impact of Covid-19.

Administrative expenses increased by £292k to £1,888k *(seven months to December 2019: £1,063k; year to December 2019*: £1,596k)*. This increase was almost all in salary costs reflecting extra staffing for OEM Production Cell One and a strengthened management team.

Net research expenses were £2,468k *(seven months to December 2019: £1,502k)* broadly in line with the prior year to December 2019 £2,437k. These costs were net of capitalisation of £141k in the year *(seven months to December 2019: nil; year to December 2019*: nil)*. This is the first year of capitalisation of research and development costs. The Company has not historically capitalised R&D but given the size and likelihood of near term commercial revenues being generated, these meet the definition of an asset and for the future economic benefits of such assets to be amortised over the perceived useful economic lives of the asset, namely on a straight-line basis over the life of the contract to which they relate.

Cash at 31 December 2020 was £1,058k *(31 December 2019: £770k)*. In addition, the Company expects the receipt of an R&D tax credit totalling £600k during the coming year *(seven months to December 2019: £320k)*.

Loss before taxation was £2,917k *(seven months to December 2019: £1,760k; year to 31 December 2019*: £2,982k)*. As a result of the change to reporting year-end dates there were two receipts of R&D tax credits in 2019 – reflecting 19 months trading. The tax credit in the year to December 2020 was an accrued £600k *(seven months to December 2019: £320k; year to 31 December 2019*: £1,131k)*. Consequently the loss after taxation was £2,303k in the year to 31 December 2020 *(seven months to December 2019: £1,317k; year to 31 December 2019*: £1,851k)*.

Loss per share was 1.54p *(seven months to December 2019: 0.97p; year to December 2019*: 1.39p)*

Key performance indicators

The Directors continue to monitor the business internally with several performance indicators: order intake, sales output, gross margins, profitability, supply chain capacity, health and safety, quality and manufacturing cost of automotive discs. A set of business milestones has been agreed and are discussed as part of the monthly board meeting. The board have assessed the results against these KPI's and believe that solid progress has been made against the Company's targets.

During the year the Company has performed well against KPI's relating to Health and Safety with no reportable accidents during the year and in excess of 1 year since the last lost time incident. In addition the Company measures it's environmental impact through its Environmental management framework and through Performance in Environment Agency audits which have resulted in A grade scores during the year.

The Company produces an annual business plan and full monthly forecasts detailing sales, profitability and cash flow to help monitor business performance going forward.

Management meetings are held on a weekly basis, all senior managers attend and discuss production, engineering, financial and quality issues.

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Risks and uncertainties

The Company has embedded risk management activities and maintains an effective risk register of the issues that may affect the strategy of the Company or the delivery of its aims. These are highlighted below:

The principal short-term risk is the execution risks associated with bringing the newly purchased furnaces into production. This is being managed by both a project team that has the experience and skills to deliver this type of project as well as pre-delivery testing at the supplier's premises. Regular weekly and monthly reviews are held and the project's progress is communicated across the Company on a regular basis.

There is also a risk to customer SOP dates and the speed at which the customers move from initial to mature build rates. It is also normal in the automotive industry that customers do not contract minimum build rates. These risks are managed by continuing dialogue with the customers to ensure early notification of possible changes.

As in previous years another major risk faced by the Company is considered to be the speed at which our customers and potential customers adopt the new carbon ceramic product technology. The contract awards in the period indicate the strengthening desire from a number of volume automotive OEMs to incorporate the Company's product in their respective platforms. This risk is constantly assessed by regular customer review meetings but is now clearly much reduced.

There is a risk of delay on customer production due to Covid-19, however as at the date of publication of this report all of our customers have returned to production and there is a customer focus on short term revenue generation. This leads the directors to believe that this risk is currently low unless a further shutdown should occur. Moreover, the business performance in 2020 demonstrates that the Company has robust procedures in place to continue operations throughout the most severe periods of another Covid-19 outbreak.

Brexit is currently causing delivery delays as a result of paperwork issues, however these issues are only affecting retrofit sales at present. Should the delays not improve before the start of production with OEM 5 then it has always been the Company's intention to expand our German facilities to include a warehouse to hold buffer stock for this contract. This risk is ameliorated by the fact that looking forward to 2024 only 15% of total sales are forecast to be within the EU and, indeed OEM 5 has recently informed us that a portion of their production will actually be in South Africa.

The Company has an exposure to exchange risk however this is partially mitigated through natural hedging activities. The contract for OEM 8 has been negotiated in sterling to mitigate any exchange risk and this is the Company's policy where possible.

In terms of uncertainties, product sales are still expected to grow with future OEM projections now supported by contracts. The Board expects continuing growth with Near OEM customers but sales growth is expected to be modest in the retrofit market. This uncertainty is constantly assessed by regular customer meetings and monitoring the level of enquiries and orders for both the Company's products and industry wide.

In summary, the Company has made satisfactory progress in its automotive projects and is progressing well with its expansion plans. Please refer to note 21 for information on financial risk management and exposure.

Events after the reporting period

Following the balance sheet date the Company has raised £19m after fees in a very heavily oversubscribed, placing, subscription and open offer. This action was taken to facilitate the delivery of OEM Production Cell Two within the factory to allow for reduced timescales from new customers. The fund raise also provides the Company with working capital and cash headroom through to profitability once OEM 8 is at full run rate.

In addition to this fundraise the Company continues to be well supported by the local authority and has received a beneficial long term loan of £1m at an interest rate 2% over base rate to assist with the Company's rapid growth plans.

Directors and staff

Directors: Post balance sheet date, in March 2021, the Company strengthened the Board by the appointment of two new independent non-executive directors, Matthew Taylor and Julia Woodhouse

Matthew Taylor joins the Board after retiring from his role as CEO of Bekaert SA in 2020. Bekaert SA is a €5 billion, 30,000 employees global steel cord business headquartered in Belgium with 45% of its business in automotive. Prior to this role

Strategic Report

Matthew was CEO of Edwards Vacuum, CEO of JC Bamford, and Global MD of Land Rover following his early career in sales and marketing roles with Ford after a short spell in the Royal Navy.

Julia Woodhouse also joins the Board as non-executive director. Julia spent her executive career with Ford Motor Company where her roles included Director, Global Power Train Purchasing, based in USA and Director, Global Chassis Purchasing, based in Germany. She retired from Ford in 2018 and is currently a non-executive director of Outokumpu a leading global stainless-steel manufacturer based in Helsinki. Julia is also a member of the RICS Standards and Regulations Board.

Following these appointments, after 17 years on the Board Kevin D'Silva retired with effect from the publication of the preliminary results. The Board wants to thank Kevin for his major role in the very existence of the Company, without his contribution over these years the Company may not even exist and would certainly not be in the shape that it is today.

Management Team: The Company continued its policy of strengthening management as the Company matures and the managerial needs evolve. Below the CEO, all but one of the management team are new appointees over the past three years.

In January 2020 Leigh Welch was appointed sales director. Leigh has more than 20 years experience of sales roles in the automotive industry and joins Surface Transforms from Delphi Technologies where he held the role of Global Account Manager in the diesel fuel systems business. Previously, Leigh had been Sales Director of the Robert Bosch braking division based in Paris responsible for a product range that included calipers, brake discs and brake system components.

Also in December 2020 the Company appointed its first human resources executive, Rebecca Hooper, reporting to the Chief Executive. Rebecca has worked at both large and small companies, including Raytheon and Unilever and in both traditional engineering and newer digital companies. She brings considerable experience in what has previously been a gap in the management team.

	Managerial roles as at 31 December 2020		Managerial roles as at publication date	
	Male	**Female**	**Male**	**Female**
Directors	5	–	6	1
Senior managers	3	2	3	2
	8	2	9	3

Outlook

2021 will be one of contrasting halves. The SOP of both key contracts starting in the year (OEM 8 and Valkyrie) is mid-year. Consequently, the first half of the year will be broadly unchanged from the run rate achieved in 2020 whereas the second half will reflect the output from OEM Production Cell One and the contract revenues from these two new contracts.

As a result, the Company expects to be profitable and generating cash from operations on a monthly basis in the second half of 2021 but not before.

On behalf of the board

David Bundred
Chairman

9 April 2021

Dr Kevin Johnson
Chief Executive

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2020.

Directors and Directors' interests

The Directors who held office during the year and to the date of signature of the financial statements were as follows:

D Bundred* *(Chairman)*
Dr K Johnson *(Chief Executive)*
K D'Silva* *(Chair of Audit Committee)*
RD Gledhill*
M Cunningham *(Company Secretary)*
M Taylor* *(Appointed 1 March 2021)*
J Woodhouse* *(Appointed 1 March 2021)*

* denotes non-executive Director. All non-executive directors are deemed to be independent except R Gledhill and K D'Silva (by way of length of service)

The Directors who held office at the end of the period had the following interests in the ordinary shares of the Company according to the register of Directors' interests:

	Number of £0.01 ordinary shares		% of issued
	Interest at start of period	Interest at end of period	share capital at end of period
K D'Silva	1,129,295	1,260,315	0.8%
RD Gledhill	13,431,755	14,813,346	9.6%
Dr K Johnson	799,000	991,308	0.7%
D Bundred	894,641	1,310,025	0.8%
M Cunningham	100,000	120,000	0.1%

According to the register of Directors' interests, no rights to subscribe for shares in or debentures of the Company were granted to any of the Directors or their immediate families, or exercised by them during the financial period, except as disclosed in the report on Directors' remuneration on pages 20 and 21.

The Directors benefited from qualifying third-party indemnity provisions in place during the financial year and at the date of this report.

The Board started the process of self assessment of its effectiveness in the year and finished the evaluation in January 2021. The review involves the completion of individual reviews of both each board member and the overall Board effectiveness by means of a questionnaire completed by both the Board and the senior management team, which were then collated and discussed openly. To preserve anonymity of the initial evaluation the questionnaires were sent to and summarised by the Company's lawyers.

Board Skills and Experience

David Bundred, Non Executive Chairman

Tenure: 9 years

David has 30 years experience of general management in the automotive and aerospace industries with a particular speciality in the brake systems segment. Before joining Surface Transforms he was CEO of TMD Friction GmbH a €600m sales, private, German headquartered company that is one of the world's leading brake pad system suppliers for the automotive industry. He had previously been with Lucas Industries for 24 years, which included, amongst other roles, positions as COO of Lucas Aerospace, and General Manager of both the Lucas Brake Controls and Lucas Truck Brake Divisions.

Directors' Report

Within the Brake Controls business he led the industry introduction of anti lock brakes, an experience now mirrored in the introduction of carbon ceramic disc brakes, both safety critical products. He is now an active investor with "a hands on" focus in a small number of high growth companies. He holds an MBA from Cranfield University and is both a chartered engineer and chartered management accountant.

David has a deep understanding of operational and strategic management within the manufacturing and automotive sectors along with experience of managing significant teams.

Dr Kevin Johnson, Chief Executive Officer

Tenure: 14 years

Kevin has a doctorate in Chemistry from the University of Liverpool and an MBA from Manchester Business School. He spent six years in product development for the chemical industry and has a broad experience with OEM multinationals in the area of new technology development. Previously he worked for Avecia, formerly AstraZeneca. Kevin joined the Company in 2006 as CEO. Since then Kevin has been responsible for leading Surface Transforms through its development phase to the current position of winning OEM brake disc contracts.

Kevin is one of the worlds foremost authorities on carbon ceramics and has significant experience of strategic management in the automotive sector.

Kevin D'Silva, Senior Non-Executive Director

Tenure: 17 years

Kevin joined the Company in 2003 as Chairman and moved to a non executive director position in 2011.

Kevin's career has been in the life science products and the medical devices industry where he has been CEO or chairman of several private and publicly quoted companies. He is currently chairman of Michelson Diagnostics Ltd and Manchester Imaging Ltd ; a director Micrima Ltd; former chairman of Hallmarq Veterinary Imaging Ltd; Monica Healthcare; Imorphics Ltd; Crystallon Ltd and former CEO and founder of Bioquell plc and Ferraris Group plc. Through his consultancy partnership, Salusinvest LP (www.salusinvest.com), he is a board member of Metrasens Ltd and Michelson Diagnostics Ltd and advises a number of EU and US listed med tech companies. He is a chemical engineer, graduating from the University of Leeds and has an MBA from Manchester Business School.

Kevin's experience in early phase companies, plc's and compliance has been of value to Surface Transforms.

Kevin chairs the Surface Transforms audit committee. He retires from the board on 12 April 2021.

Michael Cunningham, Financial Director

Tenure: 3 years

Michael is a Fellow of the Association of Chartered Certified Accountants, holds an MBA from the European School of Management and Technology in Berlin and a Bachelor of Engineering degree from Queens University Belfast. Michael joins the Company from Bentley Motors Ltd where he was Profitability Controller, and previously Senior Finance Manager (Mulliner), reporting into the Company CFO. Prior to joining Bentley, Michael was Finance Director of Aquila Truck Centres Ltd and Commercial Director of MAN Truck and Bus UK. Prior to this Michael had significant experience within automotive retail.

Michael brings significant experience within automotive OEM manufacturing and finance as well as strong technical and cash management skills which have been important to Surface Transforms in recent years.

Michael acts as the Company Secretary for Surface Transforms.

Directors' Report

Richard Gledhill, Non Executive Director

Tenure: 12 years

Since 1972, Richard's principal activity has been, and continues to be, the building and developing of USG-Gledco Ltd. The company produces mechanical carbon components and materials for the aerospace and oil and gas industries and, following the acquisition of US Graphite in 1998, now supplies carbon components worldwide from three locations in the UK, USA and Mexico.

Richard brings his knowledge of carbon fibre as well as being a strong representative for the shareholder base.

Julia Woodhouse, Non Executive Director

Tenure: Appointed 1 March 2021

Julia spent her executive career with Ford Motor Company where her roles included Director, Global Power Train Purchasing, based in USA and Director, Global Chassis Purchasing, based in Germany. She retired from Ford in 2018 and is currently a non-executive director of Outokumpu a leading global stainless-steel manufacturer based in Helsinki. Julia is also a member of the RICS Standards and Regulations Board.

Julia brings her extensive international business experience and listed board background as well as knowledge of Surface Transforms customer base and significant launch experience.

Matthew Taylor, Non Executive Director

Tenure: Appointed 1 March 2021

Matthew joins the Board after retiring from his role as CEO of Bekaert SA in 2020. Bekaert SA is a €5 billion, 30,000 employees global steel cord business headquartered in Belgium with 45% of its business in automotive. Prior to this role Matthew was CEO of Edwards Vacuum, CEO of JC Bamford, and Global MD of Land Rover following his early career in sales and marketing roles with Ford after a short spell in the Royal Navy.

Matthew, a worldwide businessman brings strategic and leadership skills to Surface Transforms as well as a thorough understanding of the Company's target market.

During the year the following meetings were held:

	Board meetings	Audit committee	Remuneration committee
No of meetings	12	2	4
Attendance by director:			
D Bundred	12	2	4
K Johnson	12	2	–
K D'Silva	12	2	4
RD Gledhill	12	2	4
M Cunningham	12	2	–

Non-Executive directors are expected to spend 1-2 days per month on Company business and the Chairman approximately 1 day per week.

Shareholder	Number	%
Cannacord Genuity	24,706,525	12.7
Richard Sneller	24,280,700	12.5
Unicorn Asset Management	17,807,491	9.13
Janus Henderson	6,267,500	3.2
Rathbone plc	5,884,336	3.0

Directors' Report

Corporate governance

The Directors recognise the importance of sound corporate governance and confirm that although compliance with the UK Corporate Governance Code is not compulsory for AIM listed companies, the Company is following the guidelines of the QCA Corporate Governance Code (as devised by the QCA in consultation with a number of significant institutional small company investors) to the extent appropriate and practical for a Company of its nature and size. The Company's governance statement can be found at https://surfacetransforms.com/corporate-governance.

The Board has appointed an Audit Committee whose primary role is to review the Company's interim and annual financial statements before submission to the Board for approval. The Board has also appointed a Remuneration Committee, which is responsible for reviewing executive remuneration and performance. The Remuneration Committee is made up of three non-executive Directors, David Bundred, Kevin D'Silva and Richard Gledhill. The Audit Committee is made up of the same three non-executive Directors. Details of the Remuneration Committee are disclosed in the report on Directors' remuneration on pages 20 and 21.

Going concern

The financial statements have been prepared on a going concern basis which the Directors believe to be appropriate. The Company incurred a net loss of £2,303k during the period however the Directors are satisfied, based on detailed cash flow projections and after the consideration of reasonable sensitivities, that sufficient cash is available to meet the Company's needs as they fall due for the foreseeable future and for at least 12 months from the date of signing the accounts.

Liquidity risk

With regard to liquidity, the Company's policy has throughout the year been to ensure that the Company is able at all times to meet its financial liabilities as and when they fall due. Cash flow forecasting is undertaken on a monthly basis approved at board level and managed on a daily basis by the finance function.

Exchange rate risk

As the Company evolves, exchange rate fluctuations could have an adverse effect on the Company's profitability or the price competitiveness of its services. There can be no assurance that the Company would be able to compensate or hedge against such adverse effects and therefore negative exchange rate movements could have a material adverse effect on the Company's business, prospects, and financial performance.

Currently the Company's exchange risk is limited to retrofit and near OEM sales and is managed daily. In the future this risk will increase in line with turnover and the Company's position is therefore, where possible, to price contracts in sterling and where this is not possible to utilise natural hedging from component and material suppliers.

Principal Activity

The principal activity of the Company is to design, manufacture and sell carbon ceramic components. The Company also conducts research and development into better performing carbon ceramic discs.

Result for the year and proposed dividend

The loss for the year after taxation amounted to £2,303k *(seven months to December 2019: £1,317k; year to 31 December 2019: £1,851k)*. The Directors do not recommend the payment of a dividend *(2019: £nil)*.

Post reporting date events

Please refer to note 26 for details.

Directors' Report

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Strategic report

The information required by schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 has been included in the Strategic Report in accordance with section 414C(11) of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Items normally reserved for the directors' report relating to risks and uncertainties have been included within the strategic report along with items relating to future developments of the Company.

Auditor

During the year, because of regulatory changes and a subsequent need to separate audit and non-audit activities, the Company appointed Grant Thornton UK LLP as its auditor. The Company maintains its relationship with RSM UK LLP as its tax advisor.

On behalf of the board

D Bundred
Chairman

9 April 2021

Image Business Park
Acornfield Road
Liverpool
L33 7UF

Audit Committee Report

Dear shareholders

In this my last year as Chair of the audit committee (AC) before retiring from the board, I present the audit committee report of Surface Transforms plc.

The primary role of the AC is to assist the Board in fulfilling its oversight responsibilities in areas such as the integrity of the financial reporting, the effectiveness of risk management, the internal control system as well as consideration of compliance matters.

The AC annually reviews the independence of the external auditors and assesses and makes representations to the Board regarding the appointment of a new external auditor. This has been an area that has been addressed in the current year with the appointment of Grant Thornton UK LLP to replace RSM (UK) LLP. This appointment has been necessitated by the recent regulatory changes; the need to separate audit and non audit services and the wish of the Company to retain the tax services of RSM. I would like to thank RSM for their diligence and assistance over the last number of years as auditor and they have served the Company well.

Historically, the small size of the Company limits the number of audit committees held each year. Many of the topics normally reserved for AC are instead discussed regularly at the full board meetings and so I believe that the required oversight has been delivered. The Finance director and I keep in regular contact when specific technical issues arise. The frequency of AC meetings is expected to increase in line with the Company's growth expectations.

In summary this first audit on the current year's result by the Grant Thornton team has been rigorous and was delivered successfully and on time.

I wish the board and all the Company's employees all the success for the future.

Kevin D'Silva
Chair of the Audit Committee

9 April 2021

Report on Directors' Remuneration

Policy on executive Directors' remuneration

The Company is not required to publish a directors remuneration report, however for transparency chooses to show directors remuneration without adhering to the Companies act format.

The Remuneration Committee comprises of David Bundred, Kevin D'Silva and Richard Gledhill.

The Remuneration Committee is responsible for reviewing and determining the Company's policy on executive remuneration (including the grant of options under the Share Option Scheme). Executive remuneration packages are designed to ensure the Company's executive Directors and senior executives are fairly rewarded for their individual contributions to the Company.

Fees for non-executive Directors

The fees for non-executive Directors are determined by the Board. The non-executive Directors are not involved in the decisions about their own remuneration.

Directors' remuneration

Set out below is a summary of the fees and emoluments received by all Directors for the year or, where applicable, period of office:

	Salary £	Fees £	31 December 2020 £	Salary £	Fees £	31 December 2019 £
Executive directors						
Dr K Johnson	**131,960**	–	**131,960**	147,683	–	147,683
M Cunningham	**97,000**	–	**97,000**	105,473	–	105,473
	228,960	–	**228,960**	253,156	–	253,156
Non executive directors						
K D'Silva	**17,100**	–	**17,100**	18,000	–	18,000
RD Gledhill	**17,100**	–	**17,100**	18,000	–	18,000
D Bundred	**6,413**	**19,238**	**25,650**	6,750	20,250	27,000
	40,613	**19,238**	**59,850**	42,750	20,250	63,000

With the exception of Dr K Johnson and Mr M Cunningham, none of the Directors received pension contributions in respect of their office. In addition to the emoluments received, as stated above, Dr K Johnson received £8,638 *(year to December 2019: £7,324)* in respect of pension contribution and Mr M Cunningham received £5,564 *(year to December 2019: £5,400)*.

Directors' interests

Details of any contracts in which a Director has a material interest are disclosed in note 19.

None of the Directors received any remuneration or benefits under long term incentive schemes.

Report on Directors' Remuneration

Share options

The Company operates a share incentive scheme. All options are granted at the discretion of the Board. The number of options granted, date of grant, exercise price and exercise periods under the scheme are set out below. Vesting criteria are shown in note 24.

Director	Date of Grant	Holding on 1 January 2020	Number of options Exercised	Holding on 31 December 2020	Exercise Price	Exercise Period
D Bundred	17/10/2011	100,000	(100,000)	–	£0.09	17/10/14 – 17/10/21
D Bundred	17/10/2011	100,000	(100,000)	–	£0.09	17/10/14 – 17/10/21
D Bundred	17/10/2011	100,000	(100,000)	–	£0.09	17/10/14 – 17/10/21
D Bundred	02/10/2016	250,000	–	**250,000**	£0.16	02/10/18 – 02/10/25
D Bundred	04/01/2018	450,000	–	**450,000**	£0.15	04/01/18 – 04/01/28
M Cunningham	04/01/2018	990,000	–	**990,000**	£0.15	04/01/18 – 04/01/28
Dr K Johnson	04/07/2018	1,590,000	–	**1,590,000**	£0.16	19/09/17 – 19/09/28
Dr K Johnson	05/12/2018	1,910,000	–	**1,910,000**	£0.13	05/12/18 – 05/12/28
		5,490,000	(300,000)	**5,190,000**		

The market price of the shares at 31 December 2020 was 49 pence and during the period varied from 13.9 pence to 53.7 pence.

On behalf of the board

D Bundred
Chairman

9 April 2021

Image Business Park
Acornfield Road
Liverpool
L33 7UF

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements of the company in accordance with International Financial Reporting Standards ("IFRSs") in conformity with the requirements of the Companies Act 2006.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by he European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report

to the members of Surface Transforms Plc

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Surface Transforms Plc (the 'Company') for the year ended 31 December 2020, which comprise the Statement of Total Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of the Company's loss for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company to cease to continue as a going concern.

A description of our evaluation of management's assessment of the ability to continue to adopt the going concern basis of accounting, and the key observations arising with respect to that evaluation is included in the key audit matters section of our report.

In our evaluation of the directors' conclusions, we considered the inherent risks associated with the Company's business model including effects arising from macro-economic uncertainties such as Brexit and Covid-19, we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

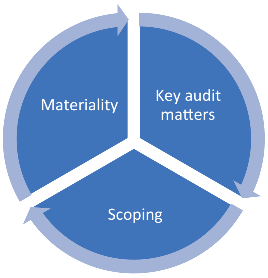
The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.

Independent Auditor's Report

to the members of Surface Transforms Plc

Our approach to the audit

Grant Thornton



Overview of our audit approach

Overall materiality: £145,750, which represents 5% of the Company's loss before taxation.

Key audit matters were identified as:

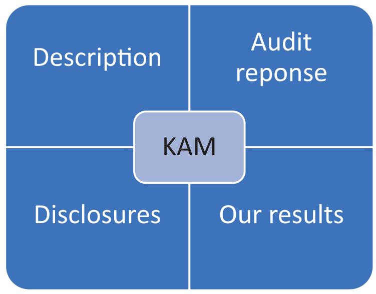
- Revenue recognised on Original Equipment Manufacturer 8 (OEM 8); and
- Going concern.

This is our first year of audit of the Company's financial statements. The predecessor auditor identified going concern as a key audit matter in its auditor's report of the financial statements for the seven-month period ended 31 December 2019.

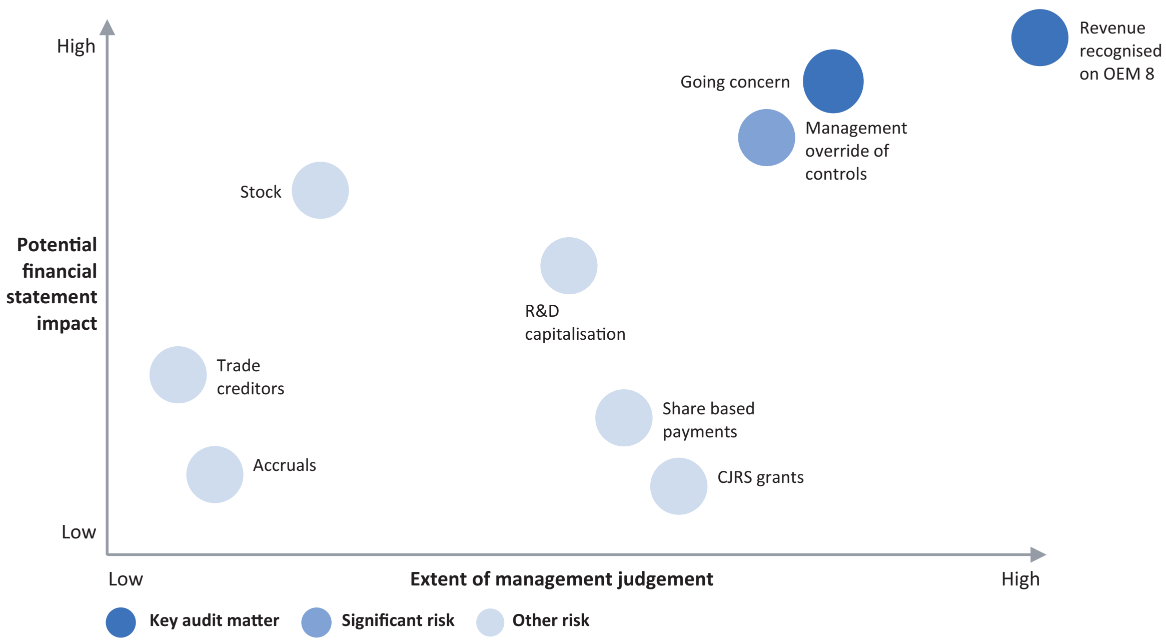
We performed a full-scope audit of the financial statements of the Company. The audit was performed 100% remotely due to Covid-19 restrictions and the audit procedures covered 99% of revenue, 100% of EBITDA and 99% of total assets.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



In the graph below, we have presented the key audit matters, significant risks and other risks relevant to the audit.



Independent Auditor's Report

to the members of Surface Transforms Plc

Key Audit Matter	How our scope addressed the matter
Revenue recognition on OEM 8 We identified revenue recognition on OEM 8 as one of the most significant assessed risks of material misstatement due to fraud and error. The Company's revenue totaled £1,952,000 for the year ended 31 December 2020 (2019: £1,1451,000), of which £117,250 related to revenue recognised on the OEM 8 contract (2019: £Nil). There is a risk that revenue has been misstated through fraudulent entries and due to the complexity of the revenue contracts there is a risk that revenue recognition criteria is not being properly applied. The key audit matter relates specifically to the OEM 8 contract which was assessed as more complex and had a higher degree of judgement than other revenue contracts. There is management judgement involved in determining the amount of revenue that is recognised at year end for engineering services, which is a management estimate that is performed manually at year end based on stage of completion. We also consider there to be significant judgement in the assessment of performance obligations per the contract in accordance with IFRS 15 'Revenue from Contracts with Customers', which determines revenue recognition this year and going forward, as this is a multi-year contract. **Relevant disclosures in the Annual Report and Accounts 2020** • Financial statements: Note 1, Accounting policies • Chairman's statement: Progress on customers, OEM 8 • Strategic Report, Financial Review	In responding to the key audit matter, we performed the following audit procedures: • We have assessed the Company's accounting policies against IFRS 15; • We undertook substantive analytical procedures on revenue recognised on the OEM 8 contract in the year. Corroborating variances from our expectations with responses from management and supporting documentation; • We have tested a sample of revenue recognised on the contract to supporting documentation to confirm the occurrence and accuracy of the amounts recognised; • We have documented our understanding of the engineering revenues and agreed to supporting documentation where possible, and challenging management on their stage of completion assumptions in relation to engineering revenues and overall monitoring of this stream, and • We have challenged managements assumptions in relation to the contract consulted and the performance obligations identified. **Our results** Our audit procedures did not identify any material misstatements in respect of revenue recognition for the OEM 8 contract.

Independent Auditor's Report

to the members of Surface Transforms Plc

Key Audit Matter	How our scope addressed the matter
Going concern We identified going concern as one of the most significant assessed risks of material misstatement due to fraud and error Covid-19 is amongst the most significant economic events currently faced by the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty. This event could adversely impact the future trading performance of the Company and as such increases the extent of judgement and estimation uncertainty associated with management's decision to adopt the going concern basis of accounting in the preparation of the financial statements. **Relevant disclosures in the Annual Report and Financial Statements 2020** • Financial statements: Note 1, Accounting policies • Directors Report, Going concern	In responding to the key audit matter, we performed the following audit procedures: • We have reviewed management's going concern assessment, including base cash flow forecasts covering the period to December 2023; • We have assessed how these cash flow forecasts were compiled and assessed their appropriateness by applying relevant sensitivities to the underlying assumptions, and challenging those assumptions e.g. revenue growth assumptions; • We have obtained management's forecast with no growth. We evaluated management's assumptions regarding the impact of this. We considered whether the assumptions are consistent with our understanding of the business derived from other detailed audit work undertaken; • We have assessed the impact of the mitigating factors available to management, for example reducing the capital expenditure spend, in respect of the ability to restrict cash impact, including the level of available facilities; and • Assessed the adequacy of related disclosures within the annual report. **Our results** We have nothing to report in addition to that stated in the "Conclusions relating to going concern" section of our report.

Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

Materiality was determined as follows:

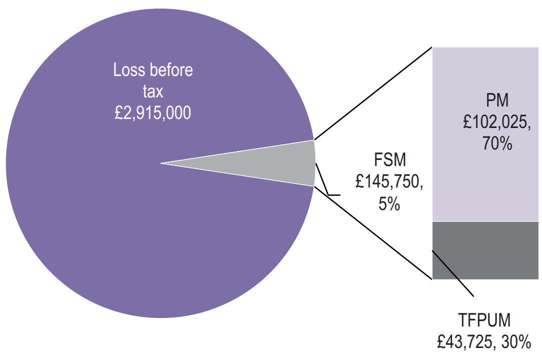
Materiality measure	
Materiality for financial statements as a whole	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.
Materiality threshold	**£145,750, which is 5% of the Company's loss before tax.**
Significant judgements made by auditor in determining the materiality	In determining materiality, we made the following significant judgments: ● We selected loss before tax as the benchmark as the Company operates in an industry in which the customer base is stable and the cost of servicing the customers does not vary significantly. Loss before tax is also a key performance measure for the Company and is therefore of most interest to the stakeholders; and ● Potential increased risk due to Covid-19 and therefore increased uncertainty amongst many businesses and the economy. Materiality for the current year is lower than the level that the previous auditor determined for the period ended 31 December 2019.
Performance materiality used to drive the extent of our testing	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.
Performance materiality threshold	**£102,025, which is 70% of financial statement materiality.**
Significant judgements made by auditor in determining the performance materiality	In determining performance materiality, we made the following significant judgments: ● Our risk assessment: based on the results of our risk assessment procedures, we considered the Company's overall control environment to be effective, however we understood there to be some segregation of duties issues due to the size of the finance team; and ● From our predecessor auditor file review, we noted the level of identified misstatements as being low.
Specific materiality	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
Specific materiality threshold	**We determined a lower level of specific materiality for the following areas:** **Directors' remuneration and related party transactions.**
Communication of misstatements to the audit committee	We determine a threshold for reporting unadjusted differences to the audit committee.
Threshold for communication	£7,300 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

Independent Auditor's Report

to the members of Surface Transforms Plc

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality



FSM: Financial statements materiality, PM: Performance materiality, TFPUM: Tolerance for potential uncorrected misstatements

An overview of the scope of our audit

We performed a risk-based audit that requires an understanding of the Company's business and in particular matters related to:

Understanding the Company, its environment, including controls

- We evaluated the design and implementation of controls relevant to the audit and assessed the risks of material misstatement.

Work performed on financial information of the Company (including how it addressed the key audit matters)

- A full-scope audit of the Company, with audit procedures covering 99% of revenues, 100% of EBITDA and 99% of total assets;
- An evaluation of significant management estimates and judgements, including those estimates and judgements made in respect of the OEM 8 contract;
- An assessment of material accounting policies for compliance with the financial reporting framework;
- Undertaking substantive audit procedures on the OEM 8 contract, including evaluation of management's assessment of revenue recognition and whether it was in accordance with IFRS 15, which addressed the key audit matter 'Revenue recognition on Original Equipment Manufacture (OEM) 8 contract;
- An assessment of the ability of the Company to continue as a going concern through reference to cashflow forecasts, sensitivity analysis and reverse stress testing which addressed the key audit matter 'Going concern'.

Performance of our audit

- All audit work has been undertaken by the audit team remotely due Covid-19 restrictions; and
- Given this is a first-year audit, we invested significant time in understanding and evaluating the Company's internal control environment, processes and controls.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and financial statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors for the financial statements

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are those that relate to the financial reporting framework, being the Companies Act 2006, international accounting standards in conformity with the requirements of the Companies Act 2006, and tax compliance regulations.
- We obtained an understanding of how the Company was complying with those legal and regulatory frameworks by making enquiries of management. We enquired of management whether they were aware of instances of non-compliance with laws and regulations, or whether they had any knowledge of actual, suspected or alleged fraud.
- We enquired of those charged with governance and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud. We corroborated the results of our enquires to relevant supporting documentation.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that principal risks were in relation to:
  - Journals to revenue where the corresponding entry fell outside of our expectation of a standard sales transaction; and
  - Journals posted by senior management personnel.
- In assessing the potential risks of material misstatement, we obtained an understanding of the Company's operations, including the nature of its revenue sources, products and services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- We assessed the appropriateness of the collective competence and capabilities of the engagement team including consideration of the engagement team's:
  - understanding of, and practical experience with audit engagement of a similar size and complexity through appropriate training and participation; and
  - understanding of the legal and regulatory requirements specific to the Company.
- We did not identify any material matters relating to non-compliance with laws and regulation or relating to fraud.

Independent Auditor's Report

to the members of Surface Transforms Plc

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Grant Thornton UK LLP

Gareth Hitchmough

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Liverpool

9 April 2021

Statement of Total Comprehensive Income

For the year ended 31 December 2020

	Note	Year to 31 December 2020 £'000	7 months to 31 December 2019 Audited £'000	Year to 31 December 2019 Unaudited £'000
Revenue	3	**1,952**	1,451	1,938
Cost of Sales		**(642)**	(583)	(783)
Gross Profit		**1,310**	868	1,155
		67%	60%	60%
Other Income		**240**	–	–
Administrative Expenses:				
Before research and development costs		**(1,888)**	(1,063)	(1,596)
Research and development costs		**(2,468)**	(1,502)	(2,437)
Total administrative expenses		**(4,356)**	(2,566)	(4,033)
Operating loss	4	**(2,806)**	(1,698)	(2,878)
Financial Income	7	**–**	1	2
Financial Expenses	8	**(111)**	(63)	(106)
Loss before tax		**(2,917)**	(1,760)	(2,982)
Taxation	9	**614**	443	1,131
Loss for the year after tax		**(2,303)**	(1,317)	(1,851)
Other comprehensive income				
Total comprehensive loss for the year attributable to members		**(2,303)**	(1,317)	(1,851)
Loss per ordinary share				
Basic and diluted	24	**(1.54p)**	(0.97p)	(1.39p)

Unaudited figures for the year to 31 December 2019 have been included to provide like-for-like comparatives with statutory information.

The notes on pages 36 to 57 form part of these financial statements

Statement of Financial Position

At 31 December 2020

	Note	As at 31 December 2020 £'000	As at 31 December 2020 £'000	As at 31 December 2019 £'000	As at 31 December 2019 £'000
Non-current Assets					
Property, plant and equipment	10	**5,626**		5,518	
Intangibles	11	**278**		175	
			5,904		5,693
Current assets					
Inventories	12	**575**		1,006	
Trade receivables	13	**219**		817	
Other receivables	13	**859**		501	
Cash		**1,058**		770	
			2,711		3,094
Total assets			**8,615**		8,787
Current liabilities					
Other interest-bearing loans and borrowings	14	**(75)**		(118)	
Lease liabilities	14	**(224)**		(138)	
Trade and other payables	15	**(920)**		(1,028)	
		(1,219)		(1,284)	
Non-current liabilities					
Government Grants	25	**(200)**		(200)	
Lease Liabilities	14	**(1,147)**		(1,207)	
Other interest-bearing loans and borrowings	14	**(371)**		(476)	
Total liabilities			**(2,937)**		(3,167)
Net assets			**5,678**		5,620
Equity					
Share capital	17		**1,549**		1,361
Share premium			**22,779**		20,712
Capital redemption reserve			**464**		464
Retained loss			**(19,114)**		(16,917)
Total equity attributable to equity shareholders of the company			**5,678**		5,620

These financial statements were approved by the board of directors on 9 April 2021 and were signed on its behalf by:

D Bundred
Chairman

Company Registered Number 03769702

The notes on pages 36 to 57 form part of these financial statements

Statement of Changes in Equity

For the 7 months to 31 December 2019

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Retained Loss £'000	Total £'000
Balance as at 31 May 2019	1,360	20,704	464	(15,706)	6,822
Comprehensive income for the year					
Loss for the period	–	–	–	(1,317)	(1,317)
Total comprehensive income for the year	–	–	–	(1,317)	(1,317)
Transactions with owners, recorded directly to equity					
Share options exercised	1	8	–	–	9
Equity settled share based payment transactions	–	–	–	106	106
Total contributions by and distributions to the owners	1	8	–	106	115
Balance at 31 December 2019	**1,361**	**20,712**	**464**	**(16,917)**	**5,620**

For the year to 31 December 2020

	Share capital £'000	Share premium account £'000	Capital reserve £'000	Retained Loss £'000	Total £'000
Balance as at 31 December 2019	1,361	20,712	464	(16,917)	5,620
Comprehensive income for the year					
Loss for the year	–	–	–	(2,303)	(2,303)
Total comprehensive income for the year	–	–	–	(2,303)	(2,303)
Transactions with owners, recorded directly to equity					
Shares issued in the year	185	2,220	–	–	2,405
Share options exercised	3	24	–	–	27
Cost of issue off to share premium	–	(177)	–	–	(177)
Equity settled share based payment transactions	–	–	–	106	106
Total contributions by and distributions to the owners	188	2,067	–	106	2,361
Balance at 31 December 2020	**1,549**	**22,779**	**464**	**(19,114)**	**5,678**

The notes on pages 36 to 57 form part of these financial statements

Statement of Cash Flows

For the year ended 31 December 2020

	12 months to 31 December 2020 £'000	7 months to 31 December 2019 Audited £'000	12 months to 31 December 2019 Unaudited £'000
Cash flow from operating activities			
Loss after tax for the year	**(2,303)**	(1,317)	(1,851)
Adjusted for:			
Depreciation and amortisation charge	**494**	289	488
Equity settled share-based payment expenses	**106**	106	161
Foreign exchange losses	**18**		
Financial expense	**111**	63	106
Financial income	**–**	(1)	(2)
Taxation	**(614)**	(442)	(1,131)
	(2,188)	(1,302)	(2,229)
Changes in working capital			
Decrease/(increase) in inventories	**431**	157	102
Decrease/(increase) in trade and other receivables	**520**	(501)	(328)
Decrease/(increase) in trade and other payables	**(109)**	443	640
	(1,346)	(1,203)	(1,815)
Taxation received	**334**	523	1,044
Net cash used in operating activities	**(1,012)**	(680)	(771)
Cash flows from financing activities			
Acquisition of tangible and intangible assets	**(643)**	(344)	(376)
Proceeds from disposal of property, plant and equipment	**–**	–	–
Net cash used in financing activities	**(643)**	(344)	(376)
Cash flows from investing activities			
Proceeds from issue of share capital, net of expenses	**2,432**	9	1,802
Costs for issue of share capital	**(176)**	–	–
Payment of lease liabilities	**(56)**	(53)	(53)
Payments of long-term loans	**(128)**	(25)	(48)
Interest received	**–**	1	2
Interest paid	**(111)**	(63)	(106)
Net cash generated from/(used) from investing activities	**1,961**	(131)	1,597
Net increase/(decrease) in cash	**306**	(1,155)	450
Foreign exchange losses	**(18)**	–	–
Cash at the beginning of the period	**770**	1,925	319
Cash at the end of the period	**1,058**	770	769

Unaudited figures for the year to 31 December 2019 have been included to provide like-for-like comparatives with statutory information.

The notes on pages 36 to 57 form part of these financial statements

Notes to the Financial Statements

For the year ended 31 December 2020

1 Accounting policies

Surface Transforms plc (the Company) incorporated and domiciled in the UK, the registered office of business is Image Business Park, Acornfield Road, Liverpool L33 7UF.

Surface Transforms is a UK-based developer and manufacturer of carbon ceramic products for the brakes market. The company is exempt from producing consolidated financial statements in accordance with s402 of the Companies Act 2006 because its four dormant subsidiary companies are not material individually or in aggregate for the purpose of giving a true and fair view. The subsidiaries are ST Aerospace Ltd., ST Automotive Ceramic Ltd., ST Defence Ltd and ST Racing Ltd.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') in conformity with the requirements of the Companies Act 2006.

The financial statements were approved by the board on 9 April 2021.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, under the historical cost convention and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £'000.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Going concern

The financial statements have been prepared on a going concern basis which the Directors believe to be appropriate. The Company incurred a net loss of £2,303k during the period however the Directors are satisfied, based on detailed cash flow projections and after the consideration of reasonable sensitivities, that sufficient cash is available to meet the Company's needs as they fall due for the foreseeable future and at least 12 months from the date of signing the accounts. The detailed cash flow assumptions are based on the company's annual budget, prepared and approved by the Board, which reflects a number of key assumptions including; revenue growth, underpinned by current pipeline; customer compliance with payment terms; other receipts of a value and timing consistent with previous years. These forecasts also include the impacts of the Covid situation and the significant post year end fund raise which has increased cash balances.

The current COVID-19 situation is expected to continue to impact operations throughout 2021. In addition the company has taken cash protection measures in order to preserve working capital until the situation has been resolved. The fundraise has however delivered the headroom required to give comfort over going concern.

Further information regarding the Company's business activities, together with the factors likely to affect future development, performance and position are set out in the Chairman's statement on pages 3 to 6 and the Strategic report on pages 7 to 13. In addition, note 21 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and its exposures to credit risk and liquidity risk.

The Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

1 Accounting policies continued

Share based payments

The share option programme allows employees to acquire shares of the Company. The fair value is measured at grant date and spread over the period during which the employees and Directors become unconditionally entitled to the options. The fair value of the options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Volatility is calculated using the standard deviation of the exercise price with respect to the share price since admission. This is due to the price being driven by news flow and it is anticipated that when the share begins to have lower volatility from news then a shorter period will be used. The amount recognised as an expense is adjusted to reflect the actual number of share options that are expected to vest except where forfeiture is only due to share prices not achieving the threshold for vesting. Cancelled or settled options are accounted for as an acceleration of vesting and the amount that would have been recognised over the remaining vesting period is recognised immediately.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Following the adoption of IFRS 16 the company treats long term leases for property and plant as assets and corresponding liabilities. The liabilities are calculated on the basis of a discounted cash flow. For these calculations the company has assumed an incremental borrowing interest rate of 6%, this is based on historical and potential future interest rates on loans.

Depreciation is charged to the statement of total comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

• Plant and machinery	6.66% – 20% per annum
• Fixtures and fittings	33% per annum
• Leasehold improvements	Over life of lease
• Buildings(right of use)	Over life of lease

Depreciation methods and useful lives are reviewed at each balance sheet date. No depreciation is charged on assets classified as capital in progress. Depreciation is charged once an asset in brought into use by the business.

Intangibles

Cost comprises the aggregate amount paid and includes costs directly attributable to making the asset capable of operating as intended. Intangibles stated at cost less accumulated depreciation. Amortisation is computed by allocating the amortisation amount of an asset on a systematic basis over its useful life and is applied separately to each identifiable component. Amortisation is applied to software over 5 years on a straight-line basis.

For the first time the company has commenced capitalising project development costs in line with IAS 38. The Company's policy is to amortise these development costs over the contracted period. The Company also assesses each contracts value and impairs capitalised development costs when it is apparent that the contract value has diminished.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the balance sheet date. The gains or losses on retranslation are included in the income statement.

1 ## Accounting policies continued

Revenue recognition

Revenue arises primarily from the provision of carbon ceramic brake discs.

To determine whether to recognise revenue, the company follows a 5-step process:

1. Identify the existence of a contract with a customer
2. Identify the separable performance obligations
3. Determine an appropriate transaction price for the contract
4. Allocate the transaction price to the performance obligations
5. Recognise revenue either at a point in time, or over time, dependent on how the obligation is satisfied.

The majority of revenue is currently recognised at a point in time, when the control of the goods has passed to the buyer (usually on dispatch of the goods). These contracts contain only one performance obligation being the provision of the specified goods.

The company is beginning to enter contracts (notably OEM 8), which have a number of separable elements included as part of the provision of pre-production services to the customer. For such contracts where it has been determined that a good or service is being transferred, the performance obligations which are capable of being distinct must first be identified and then an assessment made of whether the identified performance obligations are distinct in the context of the contract. Judgement is exercised in making this assessment and is driven by what the customers expectation of goods and services to be received are.

When transferring a good or service to the customer the revenue recognition point is determined based on whether the control of the good or service is transferred over time or at a point in time. Where the customer receives and consumes benefits simultaneously over the period of the performance revenue is recognised over time whereas when the service is transferring a good at a point in time the revenue is recognised at that time. Where revenue is recognised on an over time basis, the Company uses a percentage of completion model to recognise the appropriate revenue in the year. This percentage of completion is a judgement based on time booked to the contract.

Government grants

Capital grants are initially recognised as deferred income and credited to the statement of total comprehensive income over the life of the asset to which it relates.

Other income

Other income recognised in the year relates to government support received in the form of the coronavirus job retention scheme. This has been recognised in line with IAS 20 "Government Grants" on a systematic basis over the periods in which the related costs toward which they are intended to compensate are recognised as expenses.

Post-retirement benefits

The Company operates a workplace pension scheme and contributes to specific employees' personal pension schemes. The amount charged to the profit and loss account represents the contributions payable to employees' personal pension schemes and workplace pensions during the accounting year.

1 **Accounting policies** continued

Leases and right of use assets

The company assesses whether a contract is or contains a lease at inception of the contract. A lease conveys the right to direct the use and obtain substantially all the economic benefits of an identified asset for a period of time in exchange for consideration.

A right of use asset and corresponding lease liability are recognised at commencement of the lease. The lease liability is measured at the present value of the lease payments, discounted at the rate implicit in the lease, or if that cannot be readily determined, at the lessee's incremental borrowing rate specific to the term, country, currency and start date of the lease.

The lease liability is subsequently measured at amortised cost using the effective interest rate method. The right of use asset is initially measured at cost, comprising: the initial lease liability; any lease payments already made less any lease incentives received; initial direct costs. The right of use asset is subsequently depreciated on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset. The right of use asset is tested for impairment if there are any indicators of impairment.

Leases of low value assets and short-term leases of 12 months or less are expensed to the income statement, as are variable payments dependent on performance or usage, 'out of contract' payments and non-lease service components.

Reserves

Share Capital

Share capital reflects the nominal value of the shares issued by the Company.

Share Premium

This reserve records the amount above the nominal value received for shares sold, less transaction costs.

Capital Redemption Reserve

This reserve records the nominal value of shares repurchased by the Company.

Research and development expenditure

Expenditure on research activities is recognised in the statement of total comprehensive income as an expense as incurred. Expenditure arising from the Company's development is recognised only if all of the following conditions are met and an asset is created that can be identified:

- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably;
- the Company has the intention to complete the asset and the ability and intention to use or sell it;
- the product or process is technically and commercially feasible; and
- sufficient resources are available to complete the development and to either sell or use the asset.

Expenditure is only capitalised if there is a high probability by the customer for the programme to proceed to full-scale commercial sales.

Where these criteria have not been achieved, development expenditure is recognised as an expense in the statement of total comprehensive income in the period in which it is incurred.

1 Accounting policies continued

Inventories

Inventories are stated at the lower of cost and net realisable value. In determining the cost of raw materials and consumables the purchase price is used. For work in progress and finished goods, cost is taken as production cost.

Taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred or accelerated arising from temporary differences between the carrying amounts of certain items for taxation and for accounting purposes.

Deferred taxation is provided for in full at the tax rate which is expected to apply to the period when the deferred taxation is expected to be realised, including on tax losses carried forward.

Deferred taxation assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Tax credits received in relation to research and development expenditure are accrued during the year that the expense is incurred and included in the tax line in keeping with the HMRC small company scheme. The Board considers that there is sufficient probability of future receipts given the Company's history of receiving tax credits from HMRC.

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at transaction value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. The Company has adopted IFRS 9 standard which looks at how an entity should classify and measure financial assets, financial liabilities and contracts to buy or sell non-financial items. Due to the nature of the current business the Company provides for impairments to trade receivables on an individual basis using management judgement.

The Company has reviewed its classification and measurement of financial assets and liabilities in line with IFRS 9. The classification of financial assets and liabilities has changed however, they are still carried at amortised cost and there has been no impact on the result for the current year. Trade and other receivables represent financial assets and are considered for impairment on an expected credit loss model, The Company continues to trade with the similar customers in the same market sectors and therefore the future expected credit losses have been considered in line with the past performance of the customers in the recovery of their receivables.

Trade and other payables

Trade and other payables are recognised initially at transaction value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at transaction value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. In considering key judgements, management have considered revenue recognised over time as judgement however this is not material in current year. See revenue recognition accounting policy for further details.

1 Accounting policies continued

Key judgements assessed by management are as follows:

Research and development expenditure

The Board considers the definitions of research and development costs as outlined in IAS 38: Intangible Assets when determining the correct treatment of costs incurred. Where such expenditure is technically and commercially feasible, the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset it is treated as development expenditure and capitalised on the statement of financial position.

In considering whether an item of expenditure meets these criteria, the Board applies judgement in determining when the items are technically and commercially feasible.

Deferred tax

Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. At present management have not recognised deferred tax assets above the value of the deferred tax liability recognised, on the basis that future taxable profits are possible, not probable.

There has been a deferred tax asset recognised for £159k in current year on the basis that the deferred tax liabilities of £159k could be offset by deductible differences per IAS 12.28. Further information regarding the level of unrecognised deferred tax is included in note 16.

Management do not consider there to be any significant estimates included in the accounts which have a significant risk of causing a material adjustment to carrying amount of assets and liabilities within the next financial year.

2 Segment reporting

Due to the nature of the business the Company is currently focussed on building revenue streams from a variety of different markets. As there is only one manufacturing facility, and as 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 Chief Executive, 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 that being the manufacture and sale of carbon fibre materials and the development of technologies associated with this.

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

3 Revenue by geographical destination

Revenue by Geographical Destination	12 months to 31 December 2020 £'000	7 months to 31 December 2019 Audited £'000	12 months to 31 December 2019 Unaudited £'000
United Kingdom	**487**	963	1,056
Rest of Europe	**569**	165	489
United States of America	**806**	251	312
Rest of World	**90**	72	81
	1,952	1,451	1,938

4 Operating loss and auditors' remuneration

Expenses and auditors' remuneration	12 months to 31 December 2020 £'000	7 months to 31 December 2019 Audited £'000	12 months to 31 December 2019 Unaudited £'000
Operating loss is stated after charging:			
Depreciation of property plant and equipment	**433**	255	429
Amortisation of Intangible assets	**61**	34	58
Research costs expensed as incurred	**2,468**	1,502	2,437
Exchange losses/(gains)	**18**	16	22

Auditors' remuneration
Amounts receivable by auditors and their associates in respect of:

	12 months to 31 December 2020 £'000	7 months to 31 December 2019 Audited £'000	12 months to 31 December 2019 Unaudited £'000
Fees payable to the company auditor for the audit of the financial statements	**55**	–	–
Total	**55**	–	–
Fees payable to the Company's predecessor auditor			
For the audit of the financial statements	**–**	37	55
For audit related assurance services	**1**	1	1
For tax compliance services	**1**	1	1
For tax advisory services	**33**	15	21
	35	54	78

Notes to the Financial Statements

5 Remuneration of Directors

The aggregate amount of emoluments paid to Directors in respect of qualifying services during the period was £303,012 *(year to December 2019: £328,880) (seven months to December 2019: £190,423)*. In addition David Bundred exercised 300,000 options with a gain of £108,000.

The amounts set out above include remuneration in respect of the highest paid director of £131,960 *(year to December 2019: £147,683) (seven months to December 2019: £96,972)*.

Pension contributions of £14,201 *(year to 31 December 2019: £20,299) (seven months to December 2019: £14,997)*. were made to a money purchase scheme on behalf of two directors.

During the year no options were issued to directors.

6 Staff numbers and costs

The average number of persons employed by the company (including Directors) during the year, analysed by category, was as follows:

Staff numbers and costs	12 months to 31 December 2020 £'000	7 months to 31 December 2019 Audited £'000	12 months to 31 December 2019 Unaudited £'000
Directors	**5**	5	5
Other employees	**43**	39	40
	48	44	45

The aggregate payroll of these persons were as follows:

	12 months to 31 December 2020 £'000	7 months to 31 December 2019 Audited £'000	12 months to 31 December 2019 Unaudited £'000
Wages and salaries	**1,764**	1,075	1,592
Social security costs	**193**	106	218
Other pension costs	**123**	62	134
Share based compensation	**106**	106	161
	2,186	1,349	2,105

7 Financial Income

	12 months to 31 December 2020 £'000	7 months to 31 December 2019 Audited £'000	12 months to 31 December 2019 Unaudited £'000
Total bank interest	**–**	1	2

8 Financial Expenses

	12 months to 31 December 2020 £'000	7 months to 31 December 2019 Audited £'000	12 months to 31 December 2019 Unaudited £'000
Total interest expense on financial liabilities measured at amortised cost	**111**	63	106

9 Taxation

	12 months to 31 December 2020 £'000	7 months to 31 December 2019 Audited £'000	12 months to 31 December 2019 Unaudited £'000
Analysis of credit in year			
UK corporation tax			
Adjustment in respect of prior years – R&D tax allowances	**14**	123	593
R&D tax allowance for current year	**600**	320	588
Total income tax credit	**614**	443	1,131

	2020 £'000	2019 Audited £'000	2019 Unaudited £'000
Reconciliation of effective tax rate			
Loss for year	**(2,303)**	(1,317)	(1,851)
Total income tax credit	**(614)**	(443)	(1,131)
Loss excluding income tax	**(2,917)**	(1,760)	(2,982)
Current tax at average rate of 19%	**(554)**	(334)	(567)
Effects of:			
Non-deductible expenses	**1**	1	1
Change in unrecognised timing differences			
Current year losses for which no deferred tax recognised	**553**	333	567
R&D tax allowance for current year	**(600)**	(320)	(538)
Adjustment in respect of prior years – R&D tax allowances	**(14)**	(123)	(593)
Income tax credit	**(614)**	(443)	(1,131)

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25% for companies with profits of £250,000 or greater. For companies with profits of £50,000 or less the corporation tax rate will remain at 19%. A tapered rate will be introduced for companies with profits greater than £50,000 and less than £250,000. Since the proposal to increase the corporation tax rates had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be immaterial.

Details of the unrecognised deferred tax asset are included in note 16.

Notes to the Financial Statements

10 Property, plant and equipment

	Right of use assets £'000	Leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Capital in progress £'000	Total £'000
Cost						
At 31 May 2019	–	218	1,812	434	2,777	5,241
Adjustment for transition to IFRS16	1,510	–	–	–	–	1,510
At 31 May 2019 (restated)	1,510	218	1,812	434	2,777	6,751
Additions	2	12	151	12	446	623
At 31 December 2019	1,512	230	1,963	447	3,223	7,374
Transfers from Capital in progress	–	–	1,366	–	(1,366)	–
Additions	19	7	237	12	264	540
At 31 December 2020	**1,531**	**237**	**3,566**	**459**	**2,121**	**7,914**
Depreciation						
At 31 May 2019	–	96	838	263	–	1,197
Adjustment for transition to IFRS16	229	–	–	–	–	229
At 31 May 2019 (restated)	229	96	838	263	–	1,426
Charge	112	14	191	112		429
At 31 December 2019	341	110	1,029	375	–	1,855
Charge	94	15	279	45		433
At 31 December 2020	**435**	**125**	**1,308**	**420**	**–**	**2,288**
Net book value						
At 31 May 2019	1,281	121	974	171	2,777	5,324
At 31 December 2019	1,171	119	935	71	3,223	5,518
At 31 December 2020	**1,096**	**112**	**2,258**	**39**	**2,121**	**5,626**

Notes to the Financial Statements

11 Intangibles

	Software £'000	Capitalised R&D £'000	Total £'000
Cost			
At 31 May 2019	238	–	238
Additions	7	–	7
At 31 December 2019	245	–	245
Additions	23	141	164
At 31 December 2020	**268**	**141**	**409**
Amortisation			
At 31 May 2019	36	–	36
Charge for period	34	–	34
At 31 December 2019	70	–	70
Charge for period	61	–	61
At 31 December 2020	**131**	**–**	**131**
Net book value			
At 31 May 2019	202	–	202
At 31 December 2019	175	–	175
At 31 December 2020	**137**	**141**	**278**

12 Inventories

	At 31 December	
	2020 £'000	**2019 £'000**
Raw materials and consumables	**297**	309
Work in progress	**130**	517
Finished goods	**148**	180
	575	1,006

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £641,724 *(Seven months to December 2019: £583,437; Year to December 2019 (unaudited): £783,223).*

13 Trade and other receivables

	At 31 December	
	2020 £'000	**2019 £'000**
Trade receivables	**219**	817
Other receivables	**17**	7
Accrued tax credit	**600**	320
Prepayments and accrued income	**235**	174
Contract Assets	**7**	–
	1,078	1,318

All receivables fall due within one year excepting the contract asset which is recoverable over a predetermined number of units with a major customer.

Debt written off in the year amounted to £22k *(December 2019: £nil)*, Provision against bad debt in the year was *£27,265 (December 2019: £6,502).*

14 Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate and foreign currency risk, see note 21.

	At 31 December	
	2020 £'000	**2019 £'000**
Current liabilities		
Lease liabilities	**224**	138
Other borrowings	**75**	118
	299	256

	At 31 December	
	2020 £'000	**2019 £'000**
Non-current liabilities		
Other borrowings	**371**	476
Lease liabilities	**1,147**	1,207
	1,518	1,683

14 Other interest-bearing loans and borrowings continued

As at 31 December

Lease liabilities are payable as follows:

	Future minimum lease payments 2020 £'000	Interest 2020 £'000	Present value of minimum lease payments 2020 £'000	Future minimum lease payments 2019 £'000	Interest 2019 £'000	Present value of minimum lease payments 2019 £'000
Less than one year	**254**	**(30)**	**224**	222	(16)	206
More than one year	**1,909**	**(541)**	**1,368**	2,111	(653)	1,458
	2,163	**(571)**	**1,592**	2,333	(669)	1,664

As at 31 December 2020	Due in 1 year £'000	Due in 2-5 years £'000	Total £'000
Other Borrowings (MSIF loan)	**75**	**150**	**225**

As at 31 December 2019	£'000	£'000	£'000
Other Borrowings (MSIF loan)	50	225	275

15 Trade and other payables amounts falling due within one year

	As at 31 December 2020 £'000	As at 31 December 2019 £'000
Trade payables	**609**	705
Taxation and social security	**57**	76
Accruals and deferred income	**254**	247
	920	1,028

16 Deferred tax

	As at 31 December 2020 £'000	As at 31 December 2019 £'000
Difference between accumulated depreciation and amortisation and capital allowances	**159**	39
Tax losses	**(1,027)**	(799)
	(868)	(760)

The Company has an unrecognised deferred tax asset at 31 December 2020 of £868k *(December 2019: £760k)* relating principally to tax losses which the Company can offset against future taxable profits. The Company has recognised its deferred tax liability of £159k as these are recognised as soon as they arise. In addition the Company anticipates that an equal value of its deferred tax asset could be utilised against this liability and this has been offset against the deferred tax liability.

17 Called up share capital

	Number	£'000
Allotted called up and fully paid of £0.01 each		
At 31 December 2018	123,710,416	1,237
Issue of shares	12,303,600	123
At 31 May 2019	136,014,016	1,360
Issue of shares	85,000	1
At 31 December 2019	136,099,016	1,361
Issue of shares	**18,819,303**	**188**
At 31 December 2020	**154,918,319**	**1,549**

During the year 320,000 shares were issued through the exercise of options.

After the reporting date the Company issued a further 40,000,000 ordinary shares in the Company in a placing, subscription and open offer taking the total issued share capital to 194,918,319 and raising a total of £19m after fees.

The Company operates a share incentive scheme for the benefit of the Directors and certain employees. All options are granted at the discretion of the Board. The scheme grants options to purchase ordinary shares of £0.01 each.

The options granted to Directors, date of grant and exercise price and exercise periods under the scheme are set out in the report on Directors' remuneration on pages 20 and 21. In addition to the Directors' share options, certain employees and former directors have been granted the following options:

Date of grant	Number of unexpired share options	Exercise price	Exercise period
15/02/2012	27,842	£0.1200	01/03/2016-15/03/2022
25/09/2014	400,000	£0.1050	25/09/2017-25/09/2024
30/09/2015	125,000	£0.1450	30/09/2018-30/09/2025
04/01/2018	985,000	£0.1525	01/01/2018-04/01/2028
04/07/2018	285,753	£0.2050	04/07/2018-19/09/2028
05/12/2018	565,000	£0.1300	05/12/2019-05/12/2029
25/03/2019	210,000	£0.1525	28/03/2019-28/03/2029
04/12/2019	360,000	£0.2350	04/12/2021-04/12/2029
27/01/2020	210,000	£0.2600	28/01/2020-28/01/2030
19/10/2020	180,000	£0.4600	20/10/2020-20/10/2030
	3,248,595		

There is a total of 8,438,595 unexpired options held by employees, 470,000 unexpired options held by former employees and a total of 5,190,000 unexpired options held by Directors. The options issued to directors and senior managers on 19 September 2017,4 January 2018, 5 December 2018, 28 March 2019, 28 January 2020 and 20 October 2020 vest on the achievement of specific performance criteria relating to contract awards, cost targets and revenue levels.

18 Pension scheme

The Company contributes to specific employees' personal pension schemes. The pension charge for the year represents contributions payable by the Company to the schemes and amounted to £126,807 *(December 2019: £61,714)*. During the year two directors and several senior managers opted to enter into salary exchange arrangements whereby they sacrificed salary for increased pension contributions. These arrangements accounted for £36,450 of the pension contributions *(as at 31 December 2019: £19,583)*.

There were outstanding contributions of £3,276 *(as at 31 December 2019: £26,872)* at the end of the financial year.

19 Related party disclosures

Transactions with key management personnel
During the year Michael Cunningham acquired 20,000 of the shares in the Company in an open market transaction. David Bundred acquired 300,000 shares through the exercise of options. In addition Kevin D'Silva, David Bundred, Richard Gledhill and Kevin Johnson all partook in the April 2020 placing. Directors of the Company and their close family control 11.9% *(as at 31 December 2019: 12.0%)* of the voting shares of the company.

Related party disclosures

	12 months to 31 December 2020 £'000	7 months to 31 December 2019 Audited £'000	12 months to 31 December 2019 Unaudited £'000
Wages and salaries	**567**	328	516
Social security costs	**60**	36	56
Pension costs	**33**	15	23
Share based payments	**–**	–	101
	660	379	696

20 Net Debt

	As at 1 January 2020 £'000	Cash Flow £'000	Other non-cash movements £'000	31 December 2020 £'000
Lease liabilities	(1,345)	56	(82)	(1,371)
Long term loans	(594)	128	20	(446)
Liabilities arising from financing activities	**(1,939)**	**184**	**(62)**	**(1,817)**
Cash	770	306	(18)	1,058
Total net debt	**(1,169)**	**490**	**(80)**	**(759)**

20 Net Debt continued

	As at 1 June 2019 (restated) £'000	Cash Flow (restated) £'000	Other non-cash movements (restated) £'000	31 December 2019 (restated) £'000
Lease liabilities	(1,439)	53	41	(1,345)
Long term loans	(300)	25	(319)	(594)
Liabilities arising from financing activities	**(1,739)**	**91**	**291**	**(1,939)**
Cash	1,925	(1,155)	–	770
Total net debt	**186**	**(1,064)**	**291**	**(1,169)**

The prior year comparative has been re-stated to include all lease liabilities, which were previously omitted in error.

21 Financial Instruments

The Company's policies with regard to financial instruments are set out below. The risks arising from the Company's financial assets and liabilities are set out below with the policies for their respective management.

Currency Risk

The Company transacts business in foreign currencies and therefore incurs some transaction risk due to potential foreign currency cash balances. At the year end the Company held a balance of $377k (£278k) and a balance of €279k (£252k).

The Company's exposure to foreign currency risk was as follows, this is based on the carrying amount for monetary financial instruments:

Interest rate risk

The Company finances its operations through cash. Cash resources are invested to attract the highest rates for periods that do not limit access to these resources.

Sensitivity Analysis

A ten per cent strengthening of the pound against the US Dollar and the Euro at 31 December 2020 would have increased losses by the amounts below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for December 2019 and December 2020.

	US Dollar £'000	Euro £'000
31 December 2019	(5)	(5)
31 December 2020	**(28)**	**(23)**

A ten per cent weakening of the pound against the US Dollar and the Euro at 31 December would have reduced losses by the amounts below; on the basis all other variables remain constant.

	US Dollar £'000	Euro £'000
31 December 2019	7	7
31 December 2020	**34**	**28**

21 **Financial Instruments** continued

Price Risk

The Company aims to minimise its exposure to supplier price increases and customer price decreases by offsetting reciprocal supplier and customer arrangements.

Credit Risk

The Company operates a closely monitored collection policy. The Company closely monitors the credit risk of customers and offers credit only to those with healthy scores.

All sales to retrofit and smaller near OEM customers are on a payment before shipping basis and only OEM's qualify for significant levels of credit. Where appropriate the Company has in the past and would again secure trade credit insurance for significant debt. The total credit risk is therefore £219k *(2019: £817k)*.

The ageing of trade receivables at the reporting date was:

	31 December 2020			31 December 2019		
	Gross £'000	Impairment £'000	Net £'000	Gross £'000	Impairment £'000	Net £'000
Not past due	144	–	144	229	–	229
Past due 0 to 30 days	7	–	7	161	–	161
Past due 31 to 90 days	95	(27)	68	433	(7)	427
	246	(27)	219	823	(7)	817

Trade receivables impairment

	2020	2019
Opening balance	6	–
Amounts written off	(6)	–
Amounts provided for	27	6
Provision at year end	27	27

There was an amount of £27k *(December 2019: £6k)* in the allowance for impairment in respect of trade receivables.

The average debtor days are 47 days *(December 2019: 120 days)*, the average creditor days are 41 days *(2019: 117 days)*.

Liquidity risk

The Company's objective is to maintain a balance between continuity and flexibility of funding through the use of short-term deposits.

The contractual maturity of all cash, trade and other receivables at the current and preceding balance sheet date is within one year.

The contractual maturity of trade and other payables at the current and preceding balance sheet date is within three months.

The contractual maturity of lease liabilities and loan liabilities can be found in note 14.

Notes to the Financial Statements

21 Financial Instruments continued

Interest rate risk

At the balance sheet date, the interest rate profile of the Company's interest-bearing financial instruments was:

	2020 £'000	2019 £'000
Fixed rate instruments:		
Lease liabilities		
Less than one year	**103**	108
More than one year	**458**	554
	561	662

As all of the loans outstanding are fixed rate for the term of the loans there is no interest rate risk.

Post the reporting date the Company has entered into a loan facility with the Liverpool Combined Authority to secure £1m of funding. This facility attract interest at an interest rate of 2% above Bank of England base rate. The Company has currently not accessed any of this funding.

Capital management

The Company manages its capital to ensure that it will be able to continue as a going concern and satisfy its debt as it falls due whilst also maximising opportunities to progress the development of the business. The capital structure of the Company consists of cash and equity attributable to shareholders comprising issued capital. The key indicator of capital management performance used by management is the level of cash available to the Company.

Financial assets compromise of £1,277k measured at amortised cost, which consists of cash and trade receivables.

Financial liabilities compromise of £2,405k measured at amortised cost, which consists of trade payables, lease liabilities and long term and current interest bearing loans.

22 Right of use Assets

	L&B £'000	Other £'000	Total £'000
Net Carrying value at 1 January 2020	1,167	4	1,171
Additions	–	19	19
Depreciation charge for the period	(90)	(4)	(94)
Net Carrying value at 31 December 2020	**1,077**	**19**	**1,096**
Net Carrying value at 1 June 2019	1,236	3	1,239
Additions	–	2	2
Depreciation charge for the period	(69)	(1)	(70)
Net Carrying value at 31 December 2019	**1,167**	**4**	**1,171**

Notes to the Financial Statements

22 Right of use Assets continued

Amounts recognised in the income statement

	Year to 31 December 2020 £'000	7 months to 31 December 2019 £'000
Interest on Lease liabilities	**82**	49

Lease liabilities

	As at 31 December 2020 £'000	As at 31 December 2019 £'000
Current	**224**	138
Non-Current	**1,147**	1,207
Total Lease Liabilities	**1,371**	1,345

	Year to 31 December 2020 £'000	7 months to 31 December 2019 £'000
Total Cash outflow for leases	**128**	56

Maturity analysis – Contractual undiscounted lease payments

	As at 31 December 2020 £'000	As at 31 December 2019 £'000
Within 1 year	**152**	137
Greater than one year but less than five years	**691**	623
Greater than five years but less than ten years	**850**	850
Greater than ten years but less than fifteen years	**128**	468
Total Lease Liabilities	**1,821**	2,078

Capital commitments as at 31 December 2020 were £579k *(2019: £103k)* which all related to equipment for OEM Production Cells.

23 Ultimate controlling party

The Directors do not consider there to be an ultimate controlling party due to no individual party owning a majority share in the Company.

24 ## Loss per ordinary share

The calculation of basic loss per ordinary share is based on the loss for the financial year divided by the weighted average number of shares in issue during the year.

Losses and number of shares used in the calculation of loss per ordinary share are set out below:

Basic	12 months to 31 December 2020 £'000	7 months to 31 December 2019 Audited £'000	12 months to 31 December 2019 Unaudited £'000
Loss after tax (£)	**(2,301,426)**	(1,317,209)	(1,851,466)
Weighted average number of shares (No. of shares)	**149,013,664**	136,036,376	133,397,863
Loss per share (pence)	**(1.54p)**	(0.97p)	(1.39p)

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 options would have the effect of reducing the loss per ordinary share from continuing operations and is therefore anti-dilutive under the terms of IAS 33.

Share based payments

The fair value of options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Exercise is assumed to occur 3 years from the date of grant and historically there has been no early exercise of options and so this has been ignored.

The fair value uses the weighted average share price and a risk free rate of return of 2.0%.

Due to Company's current state of growth no dividends have been included in any calculations however this is reviewed annually by the board.

Volatility is calculated using the standard deviation of the exercise price with respect to the share price since admission. This is due to the price being driven by news flow and it is anticipated that when the share begins to have lower volatility from news then a shorter period will be used. The Board believes that the Company's shares are still very volatile due to this news flow impact and so uses a time period including volatility to achieve this outcome.

Notes to the Financial Statements

24 Loss per ordinary share continued

Share options

The number of options outstanding under the Company's share option scheme is as follows:

Note	At 31 December 2019	Granted	Leaver	Exercised	Lapsed	At 31 December 2020	Exercise price	Date from which exercisable	Expiry date
(a)	20,000	–	–	–	(20,000)	–	£0.0900	01/03/2016	01/03/2020
(b)	100,000	–	–	(100,000)	–	–	£0.0900	01/03/2016	17/10/2021
(b)	100,000	–	–	(100,000)	–	–	£0.0900	01/03/2016	17/10/2021
(b)	100,000	–	–	(100,000)	–	–	£0.0900	01/03/2016	17/10/2021
(a)	27,842	–	–	–	–	**27,842**	£0.1200	01/03/2016	15/03/2022
(a)	300,000	–	–	–	–	**300,000**	£0.1050	25/09/2017	25/09/2024
(b)	100,000	–	–	–	–	**100,000**	£0.1050	25/09/2017	25/09/2024
(a)	125,000	–	–	–	–	**125,000**	£0.1450	30/09/2018	30/09/2025
(b)	250,000	–	–	–	–	**250,000**	£0.1550	02/10/2018	02/10/2025
(a)	1,745,000	–	–	–	–	**1,745,000**	£0.1525	04/01/2018	04/01/2028
(d)	700,000	–	(20,000)	–	–	**680,000**	£0.1525	04/01/2018	04/01/2028
(a)	1,875,753	–	–	–	–	**1,875,753**	£0.2050	04/07/2018	19/09/2027
(a)	585,000	–	–	(20,000)	–	**565,000**	£0.1300	05/12/2019	05/12/2029
(b)	1,910,000	–	–	–	–	**1,910,000**	£0.1300	05/12/2019	05/12/2029
(e)	210,000	–	–	–	–	**210,000**	£0.1525	28/03/2019	28/03/2029
(a)	500,000	–	(140,000)	–	–	**360,000**	£0.2350	04/12/2021	04/12/2029
(f)	–	210,000	–	–	–	**210,000**	£0.2600	28/01/2020	28/01/2030
(e)	–	180,000	–	–	–	**180,000**	£0.4600	20/10/2020	20/10/2030
Total	**8,648,595**	**390,000**	**(160,000)**	**(320,000)**	**(20,000)**	**8,538,595**			

(a) These options have been granted under the EMI approved scheme. There have been no variations to the terms and conditions, or performance criteria attached to these share options during the financial year. There are no performance conditions attached to the options issued other than continued employment by the Company.

(b) These options have been granted under the unapproved scheme. There have been no variations to the terms and conditions, or performance criteria attached to these share options during the financial year. There are no performance conditions attached to the options issued other than continued employment by the Company.

(c) These options have been granted under the EMI approved scheme. There have been no variations to the terms and conditions, or performance criteria attached to these share options during the financial year. For these options there are three performance criteria: The nomination of a track car, a nomination by a mainstream OEM for a production vehicle and/or the delivery of £5m of revenue in a financial year.

(d) These options have been granted under the unapproved scheme. There have been no variations to the terms and conditions, or performance criteria attached to these share options during the financial year. For these options there are three performance criteria: The nomination of a track car, a nomination by a mainstream OEM for a production vehicle and/or the delivery of £5m of revenue in a financial year.

(e) These options have been granted under the approved scheme. These options have been granted under the EMI approved scheme. There have been no variations to the terms and conditions, or performance criteria attached to these share options during the financial year. For these options there are performance criteria relating cost and production targets.

(f) These options have been granted under the EMI approved scheme. There have been no variations to the terms and conditions, or performance criteria attached to these share options during the financial year. For these options there are three performance criteria: Production cell OEM1 meeting certain production criteria, the company achieving a certain target cost for the manufacture of a carbon ceramic disc and the delivery of £5m of revenue in a financial year.

24 Loss per ordinary share continued

(g) These options have been granted under the EMI approved scheme. There are no performance conditions attached to the options issued other than continuous employment by the Company for a period of 2 years and continuing employment.

25 Government grants

Government grants on the statement of financial position at the year-end related to grants received for capital equipment in OEM Cell One. These grants are to be amortised over the life of the equipment to which they relate. During the year to December 2020 no amounts were released to profit and loss as all of the equipment had not entered full production. As previously stated this is expected to occur in 2021 and the corresponding release of grants will occur.

	2020 £'000	**2019 £'000**
Grant income due less than 1 year	**7**	–
Grant income due more than 1 year	**193**	200
	200	200

In addition the Company was in receipt of £240k *(year ended 31 December 2019: £Nil)* of Coronavirus Job retention Scheme funds during the year. These have been treated as other income on the statement of total comprehensive income.

26 Post reporting date events

Following the reporting date the Company raised £19m after fees in a heavily over-subscribed placing, subscription and open offer. In addition to this the Company agreed a £1m loan facility at 2% over Bank of England base rate through the local combined authority.

In addition to these funding actions the Company strengthened it's board with the appointment of two new non-executive directors, Julia Woodhouse and Matthew Taylor. Both Julia and Matthew come with a wealth of automotive industry experience.

Company Information and Advisers

Website	www.surfacetransforms.com
Registered Number	03769702
Directors	**David George Bundred** (Non-executive Chairman) **Dr Kevin Johnson** (Chief Executive) **Kevin D'Silva** (Non-executive Director) **Matthew Taylor** (Non-executive Director) **Julia Woodhouse** (Non-executive Director) **Richard Douglas Gledhill** (Non-executive Director) **Michael Cunningham** (Finance Director)
Company Secretary	**Michael Cunningham**
Address	Image Business Park Acornfield Road Liverpool L33 7UF Tel: 0151 356 2141
Nominated Adviser and Joint Broker	**Zeus CapitalLtd** 10 Old Burlington Street London W1S 3AG
Joint Broker	**finnCap** One Bartholomew Close London EC1A 7BL
Auditors	**Grant Thornton UK LLP** Royal Liver Building Liverpool L3 1PS
Solicitors to the Company	**Gateley LLP** Ship Canal House 98 King Street Manchester M3 4WU
Bankers	**NatWest** Chester Branch 33 Eastgate Street Chester CH1 1LG
Registrars	**Link Group** 10th Floor Central Square 29 Wellington Street Leeds LS1 4DL

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of the above named Company will be held at Image Business Park, Acornfield Road, Knowsley Industrial Estate, L33 7UF on Wednesday 2 June 2021 at 9.30am. Due to uncertainty regarding coronavirus restrictions at the date of the AGM the board propose to continue with the current social distancing measures and shareholders will be unable to attend the AGM in person and are therefore strongly encouraged to appoint the chairman of the AGM as their proxy.

Additionally shareholders will be given an update on the Company's progress via a CEO/CFO presentation on the Company's website to be posted at 7.00am on 2 June and the opportunity to question all the Board via a webinar hosted on the Hardman website at 10.00am on the same day 2 June 2021.

The AGM will be to consider and if thought fit pass the following resolutions, of which 1 to 5 (inclusive) will be proposed as ordinary resolutions, and resolution 6 will be proposed as a special resolution:

Ordinary Business

1. To receive the annual accounts of the Company for the financial year ended 31 December 2020 together with the last Directors' report, the last Directors' remuneration report and the auditors' report on those accounts.
2. To reappoint Grant Thornton UK LLP as auditors for the Company to hold office from the conclusion of this meeting until the conclusion of the next annual general meeting of the Company and to authorize the Directors to fix their remuneration.
3. To re-elect Matthew Taylor, who was appointed during the year and retires under article 118 of the Company's articles of association and who, being eligible, offers himself for re-election as a Director.
4. To re-elect Julia Woodhouse, who was appointed during the year and retires under article 118 of the Company's articles of association and who, being eligible, offers herself for re-election as a Director.

Special Business

To consider and, if thought fit, pass the following resolution which will be proposed as an ordinary resolution:

5. "**THAT**, in substitution for all existing and unexercised authorities and powers, the Directors of the Company be and they are hereby generally and unconditionally authorised for the purpose of section 551 of the Companies Act 2006 (the "**Act**"):

   a) to exercise all or any of the powers of the Company to allot shares of the Company or to grant rights to subscribe for, or to convert any security into, shares of the Company (such shares and rights being altogether referred to as "**Relevant Securities**") up to an aggregate nominal value of £678,590 to such persons at such times and generally on such terms and conditions as the Directors may determine (subject always to the articles of association of the Company); and further

   b) to allot equity securities (as defined in section 560 of the Act) up to an aggregate nominal value of £678,590 in connection with a rights issue or similar offer in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them subject only to such exclusions or other arrangements as the directors of the Company may consider appropriate to deal with fractional entitlements or legal and practical difficulties under the laws of, or the requirements of any recognised regulatory body in any territory,

   PROVIDED THAT this authority shall, unless previously renewed, varied or revoked by the Company in general meeting, expire at the conclusion of the next annual general meeting or on the date which is 6 months after the next accounting reference date of the Company (if earlier) save that the Directors of the Company may, before the expiry of such period, make an offer or agreement which would or might require relevant securities or equity securities (as the case may be) to be allotted after the expiry of such period and the Directors of the Company may allot relevant securities or equity securities (as the case may be) in pursuance of such offer or agreement as if the authority conferred hereby had not expired."

Notice of Annual General Meeting

To consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:

6. **THAT**, if resolution 5 above is passed the Directors of the Company be and are hereby authorised pursuant to section 570 of the Act to allot equity securities (as defined in section 560 of the Act) pursuant to the authority conferred upon them by resolution 5 as if section 561 of the Act did not apply to any such allotment provided that this authority and power shall be limited to:

   a) the allotment of equity securities in connection with a rights issue or similar offer in favour of ordinary shareholders where the equity securities respectively attributable to the interest of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them subject only to such exclusions or other arrangements as the Directors of the Company may consider appropriate to deal with fractional entitlements or legal and practical difficulties under the laws of, or the requirements of any recognised regulatory body in any, territory; and

   b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £195,038, representing approximately 10% of the current issued share capital of the Company,

   such authority to expire at the conclusion of the next annual general meeting or on the date which is 6 months after the next accounting reference date of the Company (if earlier) save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired."

BY ORDER OF THE BOARD

Michael Cunningham
Company Secretary

Date: 9 April 2021

Registered office:
Image Business Park
Acornfield Road
Liverpool
L33 7UF

Notice of Annual General Meeting

Notes:

1. A member of the Company entitled to attend and vote at the meeting convened by this notice is entitled to appoint one or more proxies to exercise any of his rights to attend, speak and vote at that meeting on his behalf. If a member appoints more than one proxy, each proxy must be entitled to exercise the rights attached to different shares. A proxy need not be a member of the Company.
2. A proxy may only be appointed using the procedures set out in these notes and the notes to the proxy form. To appoint a proxy, a member may complete, sign and date the enclosed proxy form and deposit it at the Company's Registrars, Link Group at 10th Floor, Central Square, 29 Wellington Street, Leeds, LS1 4DL by 9.30am on 28 May 2021. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be enclosed with the proxy form.
3. In order to revoke a proxy appointment, a member must sign and date a notice clearly stating his intention to revoke his proxy appointment and deposit it at the Company's Registrars, Link Group at 10th Floor, Central Square, 29 Wellington Street, Leeds, LS1 4DL by 9.30am on 28 May 2021.
4. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so in relation to the meeting, and any adjournment(s) of that meeting, by utilising the procedures described in the CREST Manual. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message must be transmitted so as to be received by the Company's Agent, Link Group at PXS 1, Link Group, Central Square, 29 Wellington Street, Leeds, LS1 4DL (CREST Participant ID:RA10) by no later than 48 hours before the time of the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
5. Any corporation which is a member of the Company may authorise one or more persons (who need not be a member of the Company) to attend, speak and vote at the meeting as the representative of that corporation.
6. The right to vote at the meeting shall be determined by reference to the register of members of the company. Only those persons whose names are entered on the register of members of the Company at entitlement time and date close of business on 28 May 2021 shall be entitled to attend and vote in respect of the number of shares registered in their names at that time. Changes to entries on the register of members after that time shall be disregarded in determining the rights of any person to attend and/or vote at the meeting.

Notes to the Financial Statements

EXPLANATORY NOTES:

Resolution 5 – Directors' power to allot relevant securities
Under section 551 of the Act, relevant securities may only be issued with the consent of the shareholders, unless the shareholders pass a resolution generally authorising the directors to issue shares without further reference to the shareholders. This resolution authorises the general issue of shares up to an aggregate nominal value of £678,590, which is equal to 33.33% of the nominal value of the current ordinary share capital of the Company and a further issue of shares up to an aggregate nominal value of £650,128, which is equal to a further 33.33% of the nominal value of the current share capital of the Company for the purposes of fully pre-emptive rights issues. Such authorities will expire at the conclusion of the next annual general meeting of the Company or the date which is 6 months after the next accounting reference date of the Company (whichever is the earlier).

Resolution 6 – Disapplication of pre-emption rights on equity issues for cash
Section 561 of the Act requires that a company issuing shares for cash must first offer them to existing shareholders following a statutory procedure which, in the case of a rights issue, may prove to be both costly and cumbersome. This resolution excludes that statutory procedure as far as rights issues are concerned. It also enables the directors to allot shares up to an aggregate nominal value of £195,038 which is equal to 10% of the nominal value of the current ordinary share capital of the Company, subject to resolution 5(b) being passed. The directors believe that the limited powers provided by this resolution will maintain a desirable degree of flexibility. Unless previously revoked or varied, the disapplication will expire on the conclusion of the next annual general meeting of the Company or on the date which is 15 months after the resolution being passed (whichever is the earlier).

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