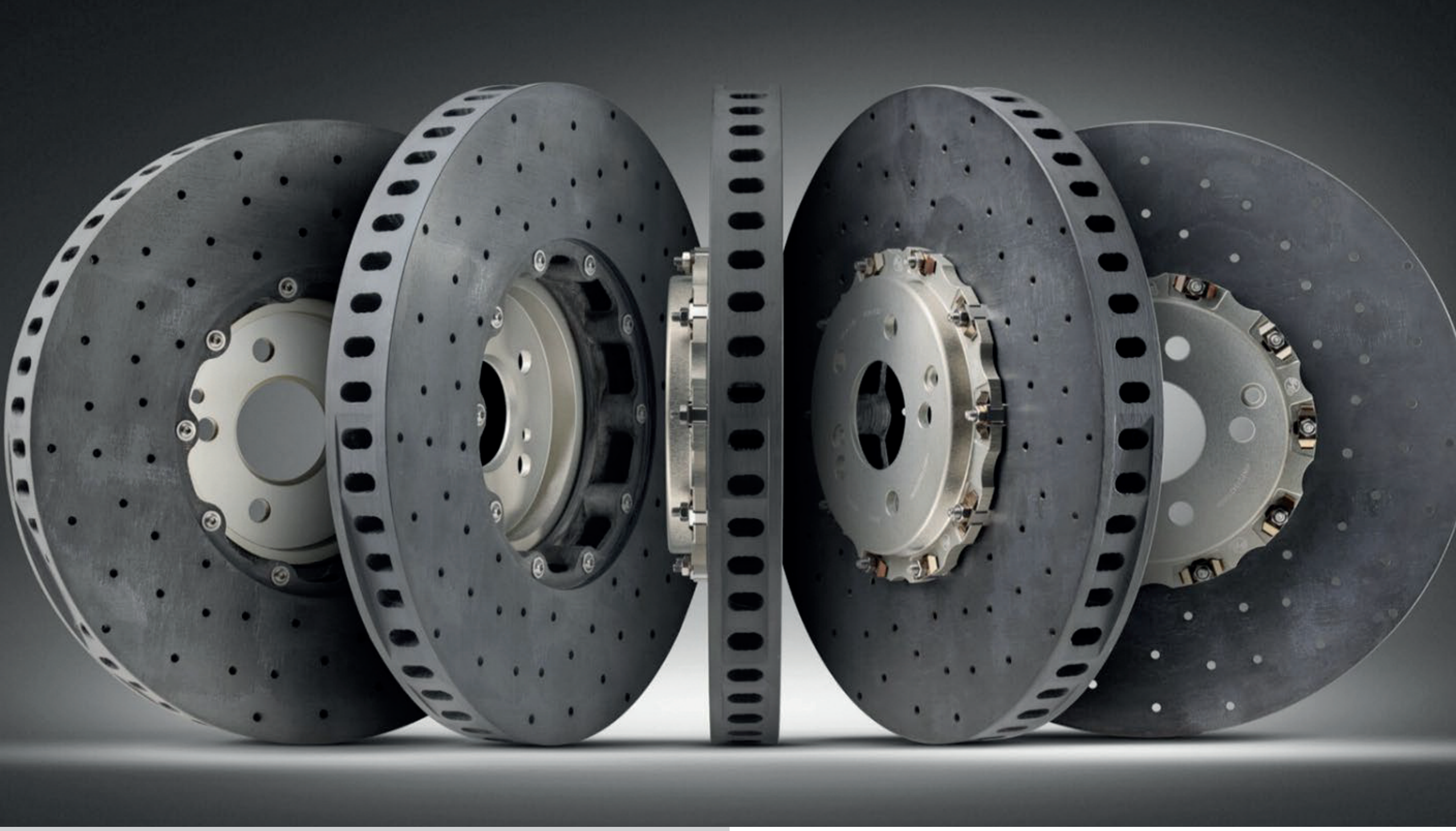
Surface Transforms Plc

Registered number 03769702

Annual Report and
Financial Statements

for the year ended 31 December 2022



Company Profile

Surface Transforms plc. (AIM: SCE) 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 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%, longer product life, consistent performance, reduced brake pad dust and corrosion free.

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Highlights

Financial highlights

- Revenues improved 116% to £5.1m *(2021: £2.4m)*
- Gross margin was 60% *(2021: 65%)*
- Net research costs of £5.6m *(2021: £3.4m)* after capitalising £1.6m *(Year to 31 December 2021 £0.3m)* of gross expenditure. Research costs also partially offset by accrued R&D tax credit of £1.3m *(2021: £0.7m)*
- Loss after taxation was £4.8m *(2021: £4.0m)*
- Loss per share of 2.34p *(2021: 2.08p)*
- Cash used in operating activities increased by £2.8m to £6.5m *(2020: £3.7m)*
- Cash at 31 December 2022 was £14.9m *(2021 (restated): £10m)* whilst capital expenditure in the year was £8.3m *(2021: £3.9)*

Customer and Operational highlights

- Increased order book by £175m (lifetime value) to £290m at end of the year
- Added a new customer – US based OEM 9 – to growing portfolio of customers
- Demonstrated the ability to win "carry over" business with existing customers OEM 10 and OEM 8
- With the £100m OEM 10 contract award took a further step towards reducing customer concentration risks
- Post balance sheet, resolved a long-standing technical problem that impacted P&L in both Q4 2022 and Q1 2023. The last major impediment to meeting ongoing daily customer requirements
- Progressively implemented new production capacity to reach phase 1 target of £20m p.a sales in the year and ordered equipment (delivery Q2 2023) to reach phase 2 target of £50m p.a sales, operational by September 2023

Board Changes

- During the year the Company welcomed Ian Cleminson to the board as a new Non-Executive Director. Ian has taken on the role of chair of the audit committee, effective from October 2022.
- Matthew Taylor has stepped down as chair of the audit committee but remains as senior independent non-executive director.
- David Bundred (Chairman) resigned from the audit committee in November 2022 ensuring it is now composed solely of wholly independent directors.
- After 13 years on the Board, Richard Gledhill retired with effect from 31 October 2022.
- In December Michael Cunningham announced his resignation and will step down from the board on 31 May 2023.

Chairman's Statement

"A transitional year that leaves us ideally placed for the future"

The twelve months to December 2022 was one of exceptional commercial success catapulting the Company from being regarded as a start-up to becoming a serious participant in the plans of mainstream automotive companies. The Company won £175m (lifetime value) of new orders in the year taking the total order book to £290m (lifetime value). The wins demonstrated both the Company's ability to deepen relationships with existing customers (carry over contracts) as well as developing new long-term relationships as we added a £100m lifetime value contract award to our relationship with OEM 10, thereby alleviating customer concentration risks

Our operational performance did not match this commercial progress, albeit resolved post balance sheet in Q1 2023. Our primary launch customer, OEM 8, had its own challenges and delayed its start of production (SOP) by six months. In addition, the Company had several individual but unrelated technical problems in its own production – explained in more detail below – which further contributed, albeit less significantly to the 2022 sales being behind our expectations. This technical problem persisted into Q1 2023 but is now resolved.

The Company continues to provide capacity for its increasing contracted demand. During the year, the Company completed its plan to increase capacity to support sales of £20m p.a. In 2021, the Company raised £19m (net of expenses) to increase this current £20m p.a. capacity to £50m p.a. sales. This equipment was specified and ordered during 2022, is being delivered in Q2 2023 and will be operational in Q3 2023.

Additionally, in September 2022 the board concluded that even this increase in capacity was insufficient to meet the expected mid-decade sales forecast and raised a further £17m (net of expenses) to ultimately lift capacity to £150m p.a. in two phases, initially to £75m p.a. sales on the existing site, and then, by building a second factory, raising sales capacity by 2026 to £150m p.a. To this end, post balance sheet, the Company agreed heads of terms on a new building adjacent to its current site.

Throughout the year Environmental, Social and Governance (ESG) concerns were at the forefront of our thinking. We are proud that our products assist in reducing both engine and brake dust particle emissions. To ensure that we do not lose these environmental credentials through the production process our actions have included buying new equipment with power consumption requirements that will materially reduce our per unit carbon footprint. Our work on the social aspect of the ESG agenda continues our objective of being "employer of choice" in Knowsley was strengthened again this year. Additionally, we have also strengthened our educational activity both within the company and the community. Within the factory 14% of our workforce is in some form of formal, externally approved, apprenticeship (including 10 graduate apprentices). Within the community we have partnered with two local schools in Knowsley and Liverpool. In respect to the third element of ESG our governance improvement included increasing the number of independent directors in addition to changing membership and chairmanship of the audit committee.

Progress on Customers:

For the customer's own reasons we must seek their permission to use their true names in any written or social media external communications and therefore we use nomenclatures OEM 1 to (currently) 10 whenever we describe them.

The Strategic Report, below, explains how our products are now at the centre of the changes taking place in the automotive industry. In summary the industry is currently undergoing radical and fundamental change. The changes began with the increasing focus on emissions, initially engine emissions, driving the growth in Electric Vehicles (EV) but now also with major focus on brake dust emission; the use of carbon ceramic (CC) disks halves brake dust emissions. CC discs are a key part of the industry response to these changes.

It is the combination of our innovative technology with these underlying forces that is the strategic foundation underpinning our commercial success.

Building on this strong strategic foundation, our commercial priority over the past few years has been to deepen our presence with existing customers, with a particular focus on winning carry over contracts with these existing customers. This objective has been achieved with all key customers having now awarded carryover contracts, the ultimate accolade of market acceptance.

Chairman's Statement

At the same time we have set ourselves the objective of establishing a balanced portfolio of customers – mid-decade – with four roughly equal pillars OEMs 5, 8 and 10 being the three stand-alone customer legs with the fourth being the combined total of our other mainly specialist car customers. We already have firm awards that will provide sales in excess of £20m p.a, each with OEM 8 and 10 by mid-decade. Our contract wins to date with OEM 5 are currently less than that level but there is more opportunity in the pipeline with that customer.

During the strains of our technical problems we were pleased that our customers understood the issues the Company was facing, noted the progress and, throughout the period continued discussions on future programmes. Our order book (£290m) is unchanged, and our prospective contract pipeline (£393m) has grown in the year.

With our technical problems now resolved and new capacity in place, we can now also return to the task of widening our customer base beyond OEM 8. This will not be immediately visible to shareholders as the work is necessarily commercially confidential and it takes many years from opening discussions to SOP; But shareholders can be comforted both that the pipeline contracts discussions are still very active and that this next phase of seeking additional customers is underway, thereby maintaining our explosive sales growth.

Progress on Operations:

We have demand that has increased from £2m sales in 2020 to approximately £20m in 2023 and £30m in 2024. Installing the capacity to meet this demand and troubleshooting the technical problems incurred in the initial volume production runs was the prime focus of 2022.

- **Technical problems:** Almost all our, more than 20, manufacturing sub-processes have had scale-up problems, albeit with most of these individual, separate, problems being resolved in a few weeks or less. However there has been one core problem that has taken several months to satisfactorily resolve, made worse by supply chain issues for furnace insulation. This issue particularly impacted financial performance in Q4 2022 and Q1 2023. In January 2023 we informed shareholders that it had impacted the end of 2022 (by about £2m sales in 2022), we had made improvements but said, at the time that we wished to see several weeks of consistent output before being comfortable to confirm that the problem had been resolved. This caution was prescient, as the problem continued into Q1.

  However, detailed, quite fundamental process changes were made post balance sheet date in January and February, resulting in continuous successful manufacture since that time; we are confident that this problem has finally been resolved. This was the last major impediment to meeting ongoing daily customer requirements.

- **Capacity:** However, the fact that these technical problems are in the public domain also reflects the reality that we have been capacity constrained. Arguably, technical problems are an ever-present factor in high complexity manufacturing. We can reduce them through our work on process variability and planned maintenance, but never eliminate them. Therefore, process resilience through capacity is of equal importance to fixing the problem as they arise. Technical problems only impact the customer and shareholder perspective when we don't have spare capacity to catch up after problems are resolved. Delivering the additional capacity is therefore an equal partner to fixing the technical problems.

  The timetable for delivering the new capacity has been described above. The key is that the two key bottleneck relief furnaces are being delivered in Q2 and will be operational by Q3. We should then have capacity of over £4m per month against demand of £2m to £3m per month in the second half of the year.

  This will certainly make a significant difference to our H2 resilience and thus confidence in our revised production projections.

- **Gas and Energy Cost:** As a result of negotiating fixed price energy contracts pre-Ukraine war the Company was protected from the energy price surge throughout 2022 with gas prices protected until April 2023. Post balance sheet Q1 2023 has seen a reduction in energy pricing such that energy pricing is now back to planned levels. Accordingly, the Company is in the process of fixing new agreements that will secure this pricing level for the next two years.

  Shareholders will recall that we also reported during the Q4 2022 fund raising that our new furnaces would significantly reduce energy costs per disc. This is still the expectation but is regarded as a contingency not yet in the forecast.

- **Operational Management:** The Board has been reviewing the managerial capacity of our current operational management: Accordingly, we have decided to introduce a more strategic level of management above the current team with the appointment of a Chief Operating Officer reporting to the Chief Executive to take a broader view of the operational processes and the three operational responsibilities. Given the immediacy of the task we have initially appointed an interim executive to assist the board, who has been working with us since January 2023; in parallel we have been undertaking a search for a permanent appointment that is almost complete.
- **Recruitment:** The pace of growth has inevitably led to significant recruitment needs, 47 new starters in 2022 continuing at that rate into 2023. Whilst there are always (often national) skill shortages in specific areas, we have largely been able to find the skills we want, particularly as we assume that the unique nature of our processes often requires further training by the Company. For example, even the best metal machinists need increased skills to machine carbon ceramic, the Company provides that training.
- **Cost reduction:** The unit cost will further reduce as the phase 2 (£50m p.a.) capacity comes on stream post balance sheet in 2023. But we will not stop there. The Company regards reduction in unit disc cost as a continuous process and is already well advanced on further unit cost reduction plans.

Progress on Environment Social and Governance:

- **Environment:** The Company continues to prioritise the actions required to further extend our ESG investment credentials. Our products reduce engine carbon emissions on internal combustion engine (ICE) 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. Our products also reduce emissions by significantly extending product life, contrasted with its iron alternative. Additionally, carbon ceramic brake discs significantly reduce brake pad particles being released into the atmosphere and watercourses, an area that is increasingly being identified for legislation. Finally, our end-of-life disc product acts as a carbon sink as the aluminium bell can be recycled and carbon and silicon 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, including our supply chain through excessive energy usage. Our environmental focus is therefore in this area. The Company has focussed on specifying and ordering furnaces which will significantly reduce the amount of energy required to manufacture our product. Specifically new furnaces have been ordered which should reduce consumption of electricity to around half that previously used in the older furnaces.

  Additionally, the Company is actively planning re-use of its waste streams through a combined Heat and Power Plant; further reducing our carbon footprint.
- **Social:** We believe that our prime social goal is the provision of well-paid, safe employment in one of the most disadvantaged areas in the country. There are few companies expanding employment on the Knowsley Industrial Park at the rate of Surface Transforms. The Company has adopted the policy of meeting the real living wage as set by the Living Wage Foundation for all employees. As part of our employee welfare concerns, we are proud that we are on target, in April 2023, to reach the anniversary of our fourth year without a reportable accident. Given the hazardous nature of our furnace processes and cutting machinery this is no mean achievement.

  We have also increased our commitment to education both within the factory and the community. Within Surface Transforms 24% of our employees are graduates or above, thus training and education is key to future success, as a result 14% of our workforce are in formal apprenticeships including a graduate apprentice scheme that was started in the year. We are taking the view that our technology is so unique we need to grow our own people to meet our long-term personnel needs.

Chairman's Statement

Within the community we have partnered with two local schools one in Knowsley and the other in Liverpool. Our partnership with the Knowsley school who do not have a sixth form (the norm in Knowsley) is aimed at encouraging younger teenagers, particularly girls, to see science as being fun and in the real world. Many of these children have little aspiration to or even understanding of why you should study STEM subjects. Success will be measured by an increase in pupils selecting STEM subjects for GCSE and then going onto further education in those subjects outside the borough. The Liverpool school is, by contrast, a high achieving UTC specialising in STEM subjects and our partnership includes internships, work experience, visits and some modest sponsorship. The partnership is already seeing success with some of their A-level students having applied for graduate apprenticeships with the Company. We also see other internal benefits as our own employees greatly enjoy working with both partnership schools.

The Company also regards its separate positive engagement with the smaller "retail" investors as being part of its social goals. To this end the Company offers research notes aimed at the smaller investor, site visit Capital Market days for non-institutional investors, and webinars where non-institutions can hear management presentations and quiz senior executives.

The Company maintains its certifications in ISO 45001 and ISO 27001.

- **Governance:** The Company adheres to the QCA corporate governance code. Following the findings of the last self-assessment carried out by the Company which identified independence as an issue, a further independent non-executive director has been appointed and the Company believes itself to be fully compliant with the code. The Company also strengthened the independence and accounting technical capability of the audit committee. The Board conducts an internal review of its effectiveness using a questionnaire. The survey was last conducted in Q1 2021. Accordingly, questionnaires have been completed in Q1 2023 and the Board will meet in April 2023 to discuss the feedback.

Summary:

The management team are justifiably proud of their commercial achievements, in 2022. However, the year saw several technical problems, both externally and internally. Externally our major customer OEM 8 delayed their SOP causing a major shortfall in sales outcome. Internally almost all our processes had challenges as we scaled tenfold from our £2m p.a. base. Most were dealt with quickly, but one particular problem persisted for many months.

Nonetheless, albeit six months late our customer announced SOP at the end of the year, and we believe that we finally fixed our technical problem in February 2023. We can now deliver the large order book.

Achieving forecast revenue and profitability targets in 2023 remains our key goals. We will achieve ongoing monthly profitability during Q2 of 2023, however we do not yet know the extent to which we can catch up the first quarter shortfall and thus the overall result for the year.

David Bundred
Chairman

14 April 2023

Strategic Report

Operational review and principal activity

Our strategic objective 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.

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.

Strategic Report

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

- Support our customers 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 a circa £2 billion market
- Build manufacturing capacity revenue of circa £50m p.a., with the footprint available to reach circa £75m capacity revenue p.a. for which we raised £17m in Q4 2022
- 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 sustainability of supply

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:

Automotive OEMs

The continued progress on building capacity for our game changing contracts provides a clear path to achieving its strategic objective of profitability and cash generation. Coupled with this the continued success of winning additional 'carry over' contracts and new major OEM customer contracts has significantly strengthened the revenue growth curve for the Company over the coming years.

The Company also continues its successful engineering development objectives in anticipation of further contract awards for both 'carry over' customer contracts and new customer contracts during 2022 and beyond.

The Company's internal activities are therefore focused on supporting series supply for these contracts and on Companywide continuous improvement objectives across all functions.

- Health and Safety – maintain and improve our health and safety record. We have an excellent health and safety record which we will continue to maintain.
- Quality – continue to have excellent in-service quality. Improving quality is a never-ending process, therefore our primarily focus is on continuous improvement and reducing the internal cost of quality.
- Environmental – protect and improve our environment. Our products make a fantastic contribution to reducing CO_2 emissions in use, significantly reducing brake dust pollution, and over the lifetime of the car reducing the carbon footprint. Our internal goals are aimed on reducing our manufacturing environmental footprint.
- Customer supply performance – maintaining our performance as a good supplier. As we enter series supply with our OEM customers a key objective is to deliver good supplier performance.
- Capacity improvements – ensure we have the manufacturing capacity and manufacturing resilience in line with our customer requirements. We have a manufacturing strategy which will deliver £50m of capacity revenue during 2022 and 2023.
- Productivity and cost reduction – perpetual improvement of our productivity through cost reduction. We have halved the cost to manufacture over the last ten years and have a programme to repeat this success going forward to maintain good margins and support our customers to achieve their pricing goals.
- Supply chain performance – Improve the sustainability and productivity of our supply chain, including but not limited to, our ethical standards. As with any manufacturing process we are only as good as our supply chain. We have improvement plans with our existing suppliers and are adding new suppliers to our approved supplier list.

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, Surface Transforms successfully raised funds to support the Company's current and future growth strategy and to meet contracted and expected orders.

The board believes that governance of Surface Transforms is best achieved by delegation of its authority of 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 and the Company is committed to paying more than the living wage to all employees. The Company has recently commenced employee surveys to monitor employee sentiment and is 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 align with 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 and the Company has invited shareholders and other interested stakeholders to visit the site at a Capital Markets Day in April 2022;
- 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 maintained an apprentice scheme and started its own graduate apprentice scheme in September 2022.

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

Financial Review

Revenue increased in the year to £5.1m against a figure of £2.4m in 2021, an increase of 116%. This growth has been driven by both increased development revenues from the contracts already won and from series production into 3 OEM contracts. Revenue was down on expectations due to several issues, not least being a delayed start to production by OEM 8 followed by a halt to delivery because of our own technical problems described in the Chairman's statement.

Gross profit margin dropped to 60% from 65% in 2021. This has been driven by product mix and by the yield issues encountered in some of our processes. This deterioration is not expected to be long term and as previously communicated the new furnaces due on site in early 2023 will improve energy consumption within the process significantly.

During the year the Company spent significantly more on research and development activities to deliver robust processes for series delivery. This product R&D is now mostly complete with future R&D expenditure earmarked for process and cost improvements. The Company expects R&D activities to carry on at these levels over the coming years but with the focus being heavily skewed to process optimisation now that the product is well understood.

The cash figure for 2021 has been restated due to the reclassification of cash on deposit as security for an irrevocable letter of credit, disclosed prominently in last years statutory accounts, being reclassified as current asset investments. As already disclosed this letter of credit was for a furnace and stage payments related to its delivery.

Gross cash at the year-end was £14.9m *(2021 (Restated): £10.0m)*. Included in the 2021 cash figure was £3.0m of cash deposits related to security for an irrevocable letter of credit which have been restated and which was satisfied during the year, consequently no liability currently exists under any letters of credit. Total loans amounted to £1.2m *(2021: £1.8m)* giving a net cash position of £13.7m *(2021 (restated): £8.2m)*.

Administrative expenses were £3.4m an increase of 38% on the prior year figure of £2.4m. The increase in expenses were driven by the rapid expansion of the workforce in preparation for the delivery of series production.

During the year the Company was again supported by shareholders with a fundraise of £17m after fees to support the future growth of the Company and to give prospective customers the confidence in the Company's ability to expand it's capacity. Indeed this confidence lead to the award of a £100m contract with OEM 10 almost immediately following the fundraise.

Following the budget announcements, the Company is pleased with the improvement in the R&D tax regime for smaller companies. The impact is that the Company will have a tax credit in the coming year that is similar to previous years. The Company had previously guided that the tax credit would be minimal.

Loss before taxation was £6.0m *(2021: £4.6m)* leading to a loss per share of 2.34p *(2021: 2.08p)*.

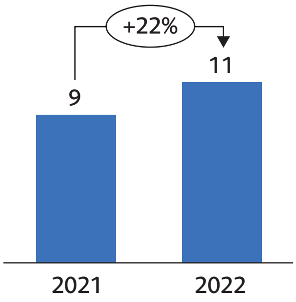
Key performance indicators

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 has assessed the results against these KPI's and believe that solid progress has been made against the Company's targets.

Strategic Report

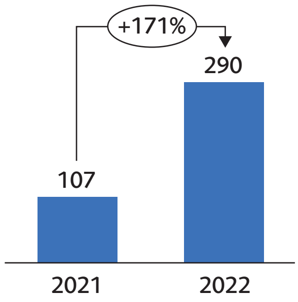
In addition to these financial metrics the board assesses the performance of the Company against 6 business development KPI's:

Contracted Models



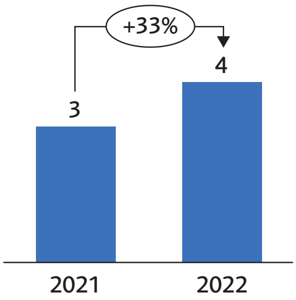
During the year the Company was awarded new models with OEM 9 a US based EV manufacturer and OEM 10 a US based legacy manufacturer.

Lifetime Contract Value £'m



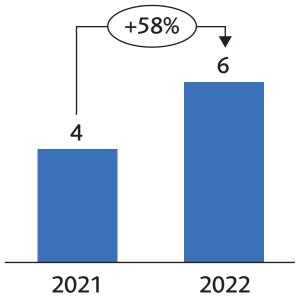
These 2 models translated, along with an expansion in OEM 8's demand, to the significant increase in contracted value.

Carry Over Contracts



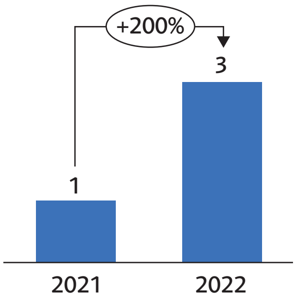
With the OEM 10 contract being another carry over award, the Company's assertion that, once awarded one contract, further contracts naturally follow.

Average Contract Life



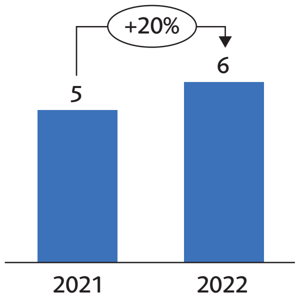
The recent models won have all been more mainstream and have correspondingly moved the average contract life towards the industry norm of 7 years.

Contracts in Series



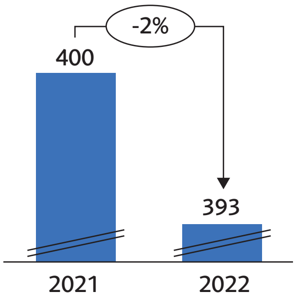
Despite the issues in the year around start of production the Company now has 3 models in series production.

Contracted OEMs



The award of the contract by OEM 9 lifts the number of contracted OEMs to 6, further deconcentrating the exposure to individual manufacturers and giving a more balanced customer base for the future with less reliance on one OEM as was the case in 2022.

Prospective Contract Pipeline £'m



The award of the OEM 9 and 10 contracts has obviously resulted in the conversion of pipeline into lifetime contracted values. Further carry over contracts have been identified with current customers to replenish the order pipeline.

Strategic Report

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 1,000 days since the last lost time incident. In addition, the Company measures its environmental impact through its Environmental management framework and through Performance in Environment Agency audits which have resulted in an A grade score 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.

Risks and uncertainties

The Company has embedded risk management activities and maintains through regular reviews throughout the year an effective risk register of the issues that may affect the strategy of the Company or the delivery of its aims.

The principal short-term risk is the execution risks associated with ramping production to series volumes. This is being managed on a daily basis by a team comprised of senior leads within the production team. Whilst issues have been encountered regarding furnace reliability the team are focussed on identifying these issues rapidly and resolving them. In addition, the team are focussed on creating excess capacity in order to mitigate the risks when furnace and equipment failures occur. Significant Capex has been committed to this subject and by mid-year2023 there should be no processes that do not have adequate levels of resilience.

There is also a risk to customer Start of Production (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.

The Company has an exposure to exchange risk however this is partially mitigated through natural hedging activities. The contracts for OEM 6, 7, 8 and 10 have 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

The Company has signed heads of terms over a new property with the intention to double the potential capacity of the Company to £150m.

Directors and staff

Directors: In April the Company announced the appointment of Ian Cleminson as an independent non-executive director.

Ian joins the board from Innospec Inc, an international speciality chemical business employing 2100 personnel in 25 countries and with a turnover of $1.5 billion, where he is the current Executive Vice President and CFO. Innospec is a $2.5 billion NASDAQ listed company.

In August Richard Gledhill announced his retirement from the board after 13 years to be effective from October.

Strategic Report

In December Michael Cunningham announced his resignation from the board. Michael will continue with the Company to effect a managed handover and leave on 31 May 2023. The Board is at an advanced stage of a search for Michael's successor and an announcement is expected to be made in the near future.

Management Team: The Company continued its policy of strengthening management as the Company matures and the managerial needs evolve.

	Managerial roles as at 31 December 2022		Managerial roles as at 31 December 2021	
	Male	**Female**	**Male**	**Female**
Directors	5	1	5	1
Senior managers	4	2	3	2
	9	3	8	2

As planned the Company focussed on the recruitment of second line management in the year including the appointment a new Head of IT to strengthen the fundamental operations of the business. The appointment is particularly focussed on delivery of robust production systems and improvements in cybersecurity.

Outlook

Achieving forecast revenue and profitability targets in 2023 remain our key goals.

With the technical issues now resolved, and demand remaining strong. the board remains confident that the Company will be profitable in Q2 2023 and thereafter. We can now deliver the strong demand. However, given the issues experienced in Q1 2023, and the ongoing production ramp in Q2, we communicated to the market, on 3 April 2023 that, notwithstanding ongoing profitability, it is premature to assume that we can catch up these delayed sales.

In respect to cash we have modelled our cash flows on this most pessimistic assumption, that the sales lost in H1 are lost for the year and confirm that we still have sufficient cash to maintain the momentum of our capital expenditure programme.

On behalf of the board

David Bundred
Chairman

14 April 2023

Dr Kevin Johnson
Chief Executive

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2022.

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)*
I Cleminson* *(Appointed 1 May 2022)*
RD Gledhill* *(Retired 31 October 2022)*
M Cunningham *(Chief Financial Officer and Company Secretary)*
M Taylor*
J Woodhouse*

* denotes non-executive director. All non-executive directors are deemed to be independent except RD Gledhill (by size of shareholding) and David Bundred (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:

	Number of £0.01 ordinary shares		**% of issued**
	Interest at start of period	**Interest at end of period**	**share capital at end of period**
I Cleminson	–	164,553	0.1%
Dr K Johnson	991,308	991,308	0.4%
J Woodhouse	–	125,000	0.1%
M Taylor	55,000	430,000	0.2%
D Bundred	1,360,025	1,397,525	0.6%
M Cunningham	170,000	170,000	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 21 to 22.

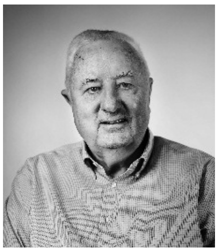
The Directors benefited from qualifying third-party indemnity provisions in place during the financial year and at the date of this report.

Directors' Report

Board Skills and Experience

David Bundred, Non Executive Chairman

Tenure: 11 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.

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: 16 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 world's foremost authorities on carbon ceramics and has significant experience of strategic management in the automotive sector.

Michael Cunningham, Chief Financial Officer

Tenure: 5 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 joined 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

Julia Woodhouse, Non Executive Director

Tenure: 1 year

Julia spent her executive career in the global automotive industry 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, employing 9,000 people, listed on Nasdaq and based in Helsinki. She is also a member of the Outokumpu audit committee and external ESG advisory council. In addition 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, Senior Independent Director

Tenure: 1 year

Matthew joins the Board after retiring from his role as CEO of Bekaert SA in 2020. Bekaert SA is a €5billion, 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.

Ian Cleminson

Tenure: Appointed 1 May 2022

Ian is currently Executive Vice President and Chief Financial Officer of Innospec Inc., an international speciality chemical business employing 2100 personnel, in 25 countries with sales of over $2.0 billion and quoted on the US NASDAQ exchange with a market capitalisation of over $2.5 billion. Ian joined Innospec in 2002 and has served as CFO since 2006. Prior to joining Innospec, Ian held several senior financial management and accounting positions including Financial Controller at a division of BASF and an accountant in practice at KPMG. Ian has a Master of Social Science degree from Birmingham University and is a Fellow of the Association of Chartered Certified Accountants

During the year the following meetings were held:

	Board meetings	Audit committee	Remuneration committee
No of meetings	12	3	2
Attendance by director:			
D Bundred+	12	3	2
K Johnson	12	3	2
I Cleminson*+	8	1	–
RD Gledhill	10	2	2
M Cunningham	11	3	1
J Woodhouse*+	12	3	2
M Taylor1*+	12	3	2

* Member of the Audit Committee
\+ Member of the Nomination and Remuneration Committee

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

Directors' Report

Corporate governance

The Company is quoted on the Alternative Investment Market (AIM) of the London Stock Exchange, 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 Nominations and Remuneration Committee, which is responsible for new senior appointments and reviewing executive remuneration and performance. The Remuneration Committee is made up of four non-executive Directors, David Bundred, Matthew Taylor, Julia Woodhouse and Ian Cleminson. The Audit Committee is made up of the three independent NEDs (David Bundred resigned in the year) and is chaired by Ian Cleminson. Details of the Remuneration Committee are disclosed in the report on Directors' remuneration on pages 21 to 22.

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 £4.8m during the year 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 until the end of April 2024.

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 an 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 in Dollar and Euro accounts with currency purchased for capital expenditure, all being managed on a daily basis. 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 £4,782k *(2021: £3,952k)*. The Directors do not recommend the payment of a dividend *(2021: £nil)*.

Directors' Report

Substantial Shareholdings

The Directors are aware of the following interests, other than those dealt with in the summary of Directors' interests in the remuneration report, held by persons acting together which as at 31 December 2022, exceeded 3% of the Company's issued share capital.

Shareholder	Number of ordinary shares	Percentage
Richard Sneller	32,113,012	13.36%
Canaccord Genuity Wealth Management	30,168,782	12.54%
Unicorn Asset Management	17,807,491	7.41%
Richard Gledhill	15,013,346	6.24%
Janus Henderson	11,967,500	4.98%
Killick Asset Management	11,908,057	4.95%
Chelverton Asset Management	10,000,000	4.16%

Disclosure of information to auditor

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.

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.

On behalf of the board

D Bundred
Chairman

14 April 2023

Image Business Park
Acornfield Road
Liverpool
L33 7UF

Audit Committee Report

Dear shareholders

Following my appointment to the Board in May 2022, I assumed responsibility as Chair of the Audit Committee in October 2022, taking over from Matthew Taylor, who remains on the committee. Due to the size of the board and the stage of development of the Company the audit committee is comprised of all non-executive members of the board excluding the Chairman namely M Taylor, J Woodhouse and myself. Only members of the audit committee are required to attend committee meetings, however the Chairman, Chief Executive, Chief Financial Officer, external auditors and other staff members are able to join by invitation. The Board believes that Committee members have an appropriate range of financial, operational, commercial and risk management expertise to allow the Committee to fulfil its duties. The Board considers that I have recent and relevant financial experience to perform the role of Committee Chair.

During the year the committee met three times and reviewed a number of matters:

- Review, comment and recommend to the Board the Company's interim and year end statements;
- Consider and approve proposals from the external auditor regarding the approach to the audit strategy for the year ended 31 December 2022 including the proposed materiality level for the audit and review of the findings of the audit;
- Review of the report of the external auditors Grant Thornton (UK) LLP, to the audit committee;
- Review of the independence, effectiveness and remuneration of the Company's auditors;
- Consideration of a number of detailed disclosure areas and consider the appropriateness of presenting alternative performance measures and the clarity of disclosure relating to these measures;
- Consider the appropriateness of the going concern basis used to prepare the financial statements and the Boards statements on viability;
- Review of internal controls; and
- Review and consider the appropriateness of the outcome of areas where significant judgement and estimates are required in the preparation of the financial statements of key risks.

The main risks reviewed during the year include:

An analysis of the viability and going concern of the company. For this risk, management have prepared detailed financial projections covering the period 12 months from the date of these financial statements to April 2024 and for further periods.

A review of the carrying value of intangible assets for development work. The Company continues to take a prudent approach to the capitalisation of development work, restricting this to programs that have been awarded and are under formal development process with the customer.

The committee is responsible for monitoring the integrity of the financial statements including the Company's annual and half-yearly results. This is assisted by the external auditors who provide a report to shareholders, commenting on the truth and fairness of the statements in this annual report. This report can be found on pages 24 to 32.

The audit committee has recommended to the board that a resolution be placed before shareholders at the annual general meeting to reappoint Grant Thornton UK LLP as auditors.

Ian Cleminson
Chair of the Audit Committee

14 April 2023

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, Julia Woodhouse, Matthew Taylor, Ian Cleminson and prior to his retirement, 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 £	Bonus £	Fees £	31 December 2022 £	Salary £	Bonus £	Fees £	31 December 2021 £
Executive directors								
Dr K Johnson	**256,960**	**34,116**	–	**291,076**	212,716	36,423	–	249,139
M Cunningham	**127,000**	**15,408**	–	**142,408**	102,491	15,467	–	117,958
	383,960	**49,524**	–	**433,484**	315,207	51,890	–	367,097
Non executive directors								
DG Bundred	**20,000**	–	**60,000**	**80,000**	12,000	–	36,000	48,000
RD Gledhill	**23,333**	–	–	**23,333**	35,000	–	–	35,000
J Woodhouse	**35,000**	–	–	**35,000**	29,167	–	–	29,167
M Taylor	**35,000**	–	–	**35,000**	29,167	–	–	29,167
I Cleminson	**23,333**	–	–	**23,333**	-	–	–	–
K D'Silva	–	–	–	–	17,500	–	–	17,500
	136,666	**-**	**60,000**	**196,666**	122,834	–	36,000	158,834

Prior to the appointment of Matthew Taylor and Julia Woodhouse a review of board salaries was carried out with benchmarking carried out by the Company's advisors. This review was initiated due to the fundamental change in market capitalisation and the need to attract quality applicants for all non-executive board positions. Changes were made to all NEDs, including the Chairman. Non-Executive pay is now accepted to be in line with median AIM salaries for Companies of a similar market capitalisation to Surface Transforms.

The high growth of the Company and the subsequent need to recruit new managers also identified that historic Surface Transforms executive salaries were below market rate and an impediment to effective recruitment. The Company therefore undertook a benchmarking exercise. The exercise confirmed the need to bring executive directors into market norm.

With the exception of Dr Kevin Johnson and Mr Michael Cunningham, none of the Directors received pension contributions in respect of their office. In addition to the emoluments received, as stated above, Dr Kevin Johnson received £17,612 *(2021: £13,799)* in respect of pension contribution and Mr Michael Cunningham received £7,875 *(2021: £6,355)*.

Report on Directors' Remuneration

Directors' interests

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

Share Saving Schemes and Long-Term Incentive Plans

The Directors believe that the Company benefits from all employees participating in the share ownership of the company's shares through share option plans. As the Company has grown we are no longer eligible to participate in the highly tax efficient HMRC approved Enterprise Management Incentive Scheme (EMI) and need to establish a new scheme.

Details of existing awards to directors under the EMI scheme are shown below.

As a result of the subsequent review, the Company intends to replace the Company wide EMI scheme for all employees with an HMRC approved Share Incentive Plan (SIP). This scheme is a mix of individual employee saving and share awards in proportion to the employee saving. The scheme will, after the normal employee trial period, be open to all with the same incentive regardless of seniority or length of service. Whilst HMRC allows non-executive directors to participate, the QCA guidelines do not approve of NEDs holding share options and the Company will follow these guidelines.

Additionally, the Company intends to replace the EMI scheme for Executive share options with a Long-Term Incentive Plan (LTIP). The scheme will cover the Chief Executive and his first reports with the first awards being made after the Annual General Meeting. The awards will be proportional to salary and seniority. Share issues under the scheme will be made at market rate and will vest over 3 years based on performance related vesting criteria. As SCE shares can sometimes be relatively illiquid and the exercise of options has to be managed without damage to the share price, the Company intends to establish an Employee Benefit Trust (EBT) to handle the purchase of and subsequent sale into the market of executive options.

The Company intends to seek shareholder approval for both new schemes at the AGM.

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.

Director	Date of Grant	Holding on 1 January 2022	Disposals	Holding on 31 December 2022	Exercise Price	Exercise Period
D Bundred	02/10/16	250,000	–	**250,000**	£0.16	02/10/18-02/10/25
D Bundred	04/01/18	450,000	–	**450,000**	£0.15	04/01/18-04/01/28
M Cunningham	04/01/18	990,000	–	**990,000**	£0.15	04/01/18-04/01/28
Dr K Johnson	04/07/18	1,590,000	–	**1,590,000**	£0.16	19/09/18-19/09/28
Dr K Johnson	05/12/18	1,910,000	–	**1,910,000**	£0.13	05/12/18-05/12/28
M Cunningham	11/11/21	173,700	–	**173,700**	£0.57	11/11/21-11/11/31
		5,363,700	–	**5,363,700**		

The market price of the shares as at 31 December 2022 was 39.5 pence and during the period varied from 37 pence to 57.5 pence.

On behalf of the board

D Bundred
Chairman

14 April 2023

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual report and the financial statements in accordance with applicable law, including international accounting standards in conformity with the requirements of the Companies Act 2006/UK-adopted international accounting standards.

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 in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 of the company and of 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 UK adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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.

D Bundred
Chairman

14 April 2023

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 2022, which comprise the Statement of Total Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the 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 UK-adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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 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.

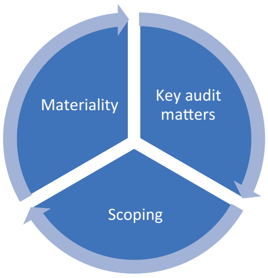
Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent Auditor's Report

to the members of Surface Transforms Plc

Our approach to the audit



Overview of our audit approach

Overall materiality: £308,800, which represents approximately 5% of the Company's loss before tax.

Key audit matters were identified as:

- Revenue recognition on over-time contracts subject to the conditions of IFRS 15 (same as previous year); and
- Going concern (same as previous year).

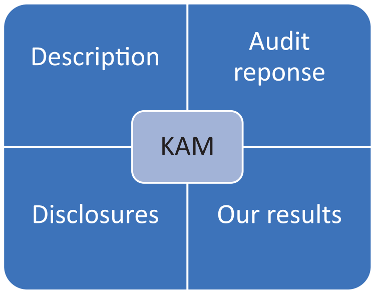
Our auditor's report for the year ended 31 December 2021 included no key audit matters that have not been reported as key audit matters in our current year's report.

However, we note our key audit matter in respect of revenue recognition on over-time contracts was only relevant to one particular contract, OEM 8, in our previous year's report. In the current year, the Company has grown and entered into an increased number of over-time contracts amongst other OEM customers, and therefore we consider the key audit matter to be relevant across all OEM contracts.

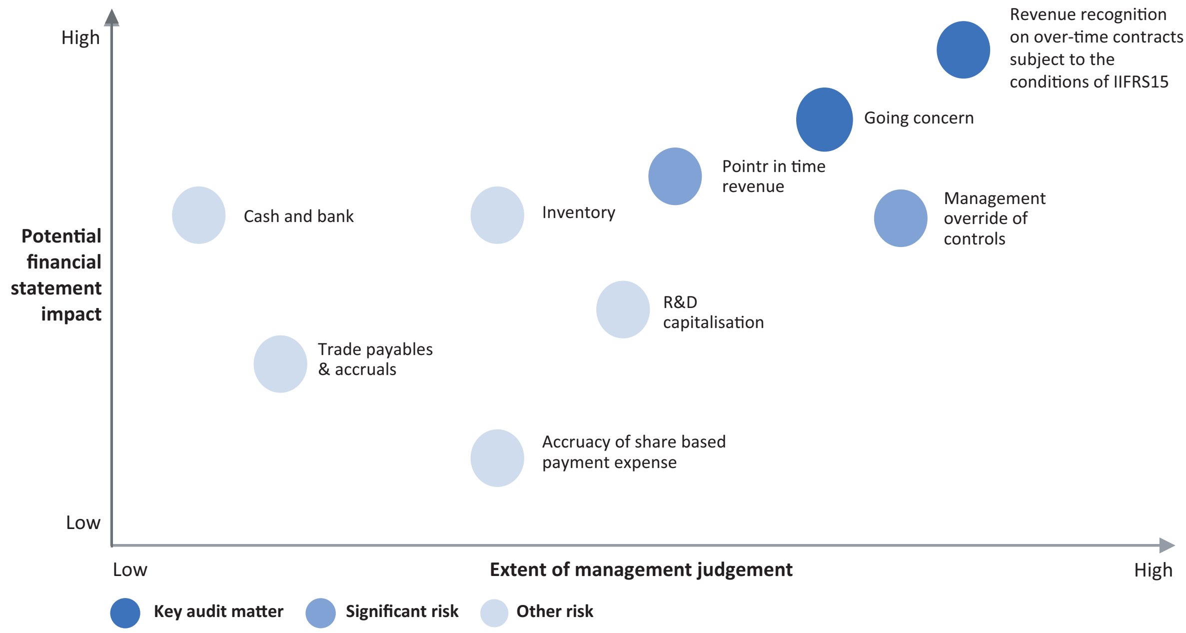
We performed a full-scope audit of the financial statements of the Company.

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 year 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.



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

Key Audit Matter	How our scope addressed the matter
Revenue recognised on over-time contracts subject to the conditions of IFRS 15. We identified revenue recognised on over-time contracts subject to the conditions of International Financial Reporting Standard (IFRS) 15 'Revenue from Contracts with Customers' as one of the most significant assessed risks of material misstatement due to fraud and error. Total revenue for the current year is £5,121,000. Of this, £743,000 (15%) relates to revenue recognised over-time on contracts held with large Original Equipment Manufacturer (OEM) customers. There is a risk that revenue has been misstated through fraud or error, due to the complexity of the revenue contracts and the recognition criteria of IFRS 15's 5-step approach. There is management judgement involved in determining the amount of revenue that is recognised at the year-end for engineering services, which is a management estimate that is calculated manually at year end, based on the stage of completion of the contract. We also consider there to be significant judgement in the assessment of performance obligations per the contract in accordance with IFRS 15, which determines revenue recognition over multi-year contracts. **Relevant disclosures in the Annual Report and Financial Statements 2022** ● Financial statements: Note 1, Accounting policies ● Strategic Report, Financial Review.	In responding to the key audit matter, we performed the following audit procedures: ● Assessed the Company's accounting policies against the financial reporting requirements of IFRS 15; ● Performed substantive analytical procedures on revenue recognised on OEM contracts in the year; ● Corroborated any variances from our expectations with supporting documentation; ● Tested a sample of revenue recognised on OEM contracts to supporting documentation to confirm both the occurrence and accuracy of amounts recognised; ● Documented our understanding of the engineering revenues and agreed to supporting documentation, challenging management on their assumed stage of completion; ● Reviewed prior year estimations of contract completion. We have assessed management's estimate assumptions and evaluated prior year predictions against actuals to assess the quality of management's forecasting of the contract completion stage; ● Challenged management on the impact and consequence of delivery delays on OEM contracts; and ● Challenged management's assumptions in relation to the contract stage of completion, and the performance obligations satisfied. **Our results** Our audit procedures did not identify any material misstatements in respect of revenue recognition on over-time revenue contracts.

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. This was as a result of the management judgement required to conclude whether there is a material uncertainty in relation to going concern. In addition, there are inherent risks associated with the Company's business model, including the effects arising from macro-economic uncertainties such as unprecedented increases in energy costs, inflation and interest rates, which could adversely impact the future trading performance of the entity. Management have applied significant judgement in their forecasting and have included the potential impact of increasing energy costs, inflation and interest rates in their forecast, and the effect on future performance and anticipated cash flows. **Relevant disclosures in the Annual Report and Financial Statements 2022** • Financial statements: Note 1, Accounting policies • Audit committee report: going concern and viability statement on page 20.	In responding to the key audit matter, we performed the following audit procedures: • Assessed management's going concern considerations, including base cash flow forecasts covering the period up to and including April 2024, being at least 12 months from the date of approval of the financial statements; • Assessed how cash flow forecasts were compiled and assessed their appropriateness by applying relevant sensitivities to the underlying assumptions. We challenged those assumptions including those related to revenue growth and profitability; • Used industry data and other external information available, such as forecasted interest rates, to challenge the reasonableness of management's assumptions regarding future costs and revenue, built into the forecast cashflow; • Tested the accuracy of management's forecasting through a comparison of budget for 2022 to actual data for 2022; • Obtained management's sensitised forecasts and reverse stress testing, reducing revenues between 5% and 50%. We evaluated management's assumptions and assessed the impact, evaluating whether the assumptions used are consistent with our understanding of the business and wider automotive environment; • Performed additional scenario sensitivities over and above the sensitivities applied by management, and considered the available headroom under such sensitivities; • Assessed the impact of the mitigating factors available to management, for example, reduction in capital expenditure or reductions in planned staff recruitment; • Considered the inherent risks associated with the Company's business model including effects arising from macro-economic uncertainties such as rising energy costs, inflation and interest rates, we assessed and challenged the reasonableness of estimates and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period; and • Assessed the adequacy of related disclosures within the annual report and financial statements. **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:

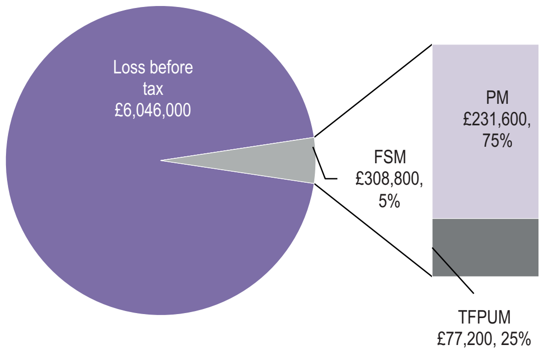
Materiality measure	
Materiality for financial statements as a whole	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.
Materiality threshold	**£308,800, which is approximately 5% of the loss before taxation.**
Significant judgements made by auditor in determining the materiality	In determining materiality, we made the following significant judgements: • 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 • A percentage of 5% was chosen given ongoing risk due to wider macro-economic impacts caused by the cost-of-living crisis, including rising energy costs, inflation and interest rates. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2021, which reflects the higher loss in the current year than in the prior year. Despite making a higher loss than in the prior year, the Company has benefited from an increase in revenue and growth of their customer base. This materiality is considered a suitable threshold in capturing any significant balances for audit purposes.
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	**£231,600, which is 75% of financial statement materiality.**
Significant judgements made by auditor in determining the performance materiality	In determining performance materiality, we made the following significant judgments: • We increased the measurement percentage from 70% in the prior year to 75% this year as Covid-19 has had little effect on the Company in the current year and is no longer affecting the internal workings of the Company, such as remote working, isolation or socially distanced workspaces and is therefore no longer considered a risk. • The Company has a strong governance structure in place, with separate governance and audit committees. Furthermore, there is a strong culture of compliance and doing the right thing. • The senior finance team are experienced in both their industry and within the wider finance and accounting industry. The senior team have all been with Surface Transforms plc for a significant period and have the relevant qualifications to perform their roles effectively. • The number and quantum of unadjusted misstatements identified in the prior year were not considered to be significant, which contributed to us increasing our measurement percentage to 75%. The control deficiencies raised in the prior year were also addressed by management, which supports our decision to raise the measurement percentage for performance materiality.

Materiality measure

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	We determined a lower level of specific materiality for the following areas: • Directors' remuneration • Related party transactions, including share-based payment transactions.
Communication of misstatements to the audit committee	We determine a threshold for reporting unadjusted differences to the audit committee.
Threshold for communication	£15,400 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

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 and its environment, including controls

- We obtained an understanding of the Company, its environment and the controls in place; and
- 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 financial statements of the Company;
- An evaluation of significant management estimates and judgements, including those estimates and judgements made in respect of over-time revenue contracts;
- An assessment of material accounting policies for compliance with the financial reporting framework;

- Undertaking substantive audit procedures on over-time revenues, 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 over-time revenue contracts subject to the requirements of IFRS 15'; and
- 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

Audit work undertaken has been a hybrid mix between onsite visits and remote working.

Changes in approach from previous period

There have been no changes in approach from the prior year.

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. The directors are responsible for the other information contained within the annual report and financial statements. 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.

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 of the financial statements themselves. 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 set out on page 23, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. 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 the most significant are those that relate to the financial reporting framework, being the Companies Act 2006 and UK- adopted international accounting standards, together with tax compliance regulations and health and safety law;
- 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, those charged with governance and the Audit Committee as to 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 corroborated the results of our inquiries to relevant supporting documentation;
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the engagement team included:
  - Evaluation of the design and implementation of controls that management has put in place to prevent and detect fraud;
  - Testing journal entries, including manual journal entries processed at the year-end for financial statements preparation;
  - Challenging assumptions and judgements made by management in its significant accounting estimates; and
  - Identifying and testing related party transactions
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it;
- 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.

- The engagement partner's assessment of 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 engagements of a similar size and complexity through appropriate training and participation; and
  - understanding of the legal and regulatory requirements specific to the Company.
- We communicated relevant laws and regulations and potential fraud risks to all engagement team members, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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.

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

14 April 2023

Statement of Total Comprehensive Income

For the year ended 31 December 2022

	Note	Year to 31 December 2022 £'000	2021 £'000
Revenue	3	**5,121**	2,369
Cost of Sales		**(2,039)**	(821)
Gross Profit		**3,082**	1,548
		60%	65%
Other Income		**36**	24
Total Income		**3,118**	1,572
Administrative Expenses:			
Before research and development costs		**(3,365)**	(2,432)
Research and development costs		**(5,625)**	(3,405)
Total administrative expenses		**(8,990)**	(5,837)
Other operating income			
Operating loss before non-recurring items	4	**(5,872)**	(4,265)
Non-recurring items		**0**	(180)
Operating loss after non-recurring items		**(5,872)**	(4,444)
Financial Income	8	**6**	–
Financial Expenses	7	**(180)**	(134)
Loss before tax		**(6,046)**	(4,579)
Taxation	9	**1,264**	627
Loss for the year after tax		**(4,782)**	(3,952)
Other comprehensive income			
Total comprehensive loss for the year attributable to members		**(4,782)**	(3,952)
Loss per ordinary share			
Basic and diluted	24	**(2.34)p**	(2.08)p

The notes on pages 37 to 59 form part of these financial statements

Statement of Financial Position

At 31 December 2022

	Note	As at 31 December 2022 £'000	As at 31 December 2022 £'000	As at 31 December 2021 Restated Note 1 £'000	As at 31 December 2021 Restated Note 1 £'000
Non-current Assets					
Property, plant and equipment	10	**15,188**		9,403	
Intangibles	11	**2,237**		577	
			17,425		9,980
Current assets					
Inventories	12	**3,376**		1,338	
Trade receivables	13	**1,051**		376	
Other receivables	13	**3,400**		1,714	
Current asset investments		**–**		3,007	
Cash and cash equivalents		**14,924**		9,959	
			22,750		16,394
Total assets			**40,175**		26,374
Current liabilities					
Other interest-bearing loans and borrowings	14	**(211)**		(325)	
Lease liabilities		**(295)**		(279)	
Trade and other payables	15	**(3,710)**		(1,990)	
		(4,216)		(2,594)	
Non-current liabilities					
Government grants	14	**(188)**		(200)	
Lease liabilities		**(1,335)**		(1,449)	
Other interest-bearing loans and borrowings	14	**(887)**		(1,239)	
Total liabilities			**(6,626)**		(5,482)
Net assets			**33,551**		20,892
Equity					
Share capital	17		**2,406**		1,952
Share premium			**58,215**		41,446
Capital reserve			**464**		464
Retained loss			**(27,534)**		(22,970)
Total equity attributable to equity shareholders of the company			**33,551**		20,892

These financial statements were approved by the board of directors on 14 April 2023 and were signed on it's behalf by:

D Bundred
Chairman
14 April 2023

Company Registered Number 03769702

The notes on pages 37 to 59 form part of these financial statements

Statement of Changes in Equity

For the year ended 31 December 2022

	Share capital £'000	Share premium account £'000	Capital reserve £'000	Retained Loss £'000	Total £'000
Balance as at 31 December 2021	1,952	41,446	464	(22,970)	20,892
Comprehensive income for the year					
Loss for the period	–	–	–	(4,782)	(4,780)
Total comprehensive income for the year	–	–	–	(4,782)	(4,780)
Transactions with owners, recorded directly to equity					
Shares issued in the period	450	17,536	–	–	17,986
Share options exercised	5	61	–	–	66
Cost of issue off to share premium		(828)	–	–	(828)
Equity settled share based payment transactions	–	–	–	216	216
Total contributions by and distributions to the owners	455	16,769	–	216	17,440
Balance at 31 December 2022	**2,407**	**58,215**	**464**	**(27,536)**	**33,550**

For the year to 31 December 2021

	Share capital £'000	Share premium account £'000	Capital reserve £'000	Retained Loss £'000	Total £'000
Balance as at 31 December 2020	1,549	22,779	464	(19,114)	5,678
Comprehensive income for the year					
Loss for the period	–	–	–	(3,952)	(3,952)
Total comprehensive income for the year	–	–	–	(3,952)	(3,952)
Transactions with owners, recorded directly to equity					
Shares issued in the period	400	19,600	–	–	20,000
Share options exercised	3	38	–	–	41
Cost of issue to share premium	–	(971)	–	–	(971)
Equity settled share based payment transactions	–	–	–	96	96
Total contributions by and distributions to the owners	403	18,667	–	96	19,166
Balance at 31 December 2021	**1,952**	**41,446**	**464**	**(22,970)**	**20,892**

The notes on pages 37 to 59 form part of these financial statements

Statement of Cash Flows

For the year ended 31 December 2022

	12 months to 31 December	
	2022 £'000	**2021 £'000**
Cash flow from operating activities		
Loss after tax for the year	**(4,782)**	(3,952)
Adjusted for:		
Depreciation and amortisation charge	**969**	671
Disposal of fixed assets	**–**	6
Non-Government Grant amortisation	**(12)**	–
Equity settled share-based payment expenses	**216**	96
Foreign exchange (gains)/losses	**(345)**	24
Financial expense	**180**	134
Financial income	**(6)**	–
Taxation	**(1,264)**	(627)
	(5,044)	(3,648)
Changes in working capital		
Decrease/(increase) in inventories	**(2,038)**	(763)
Decrease/(increase) in trade and other receivables	**(1,805)**	(962)
Increase/(decrease) in trade and other payables	**1,720**	1,070
	(7,167)	(4,303)
Taxation received	**709**	577
Net cash used in operating activities	**(6,458)**	(3,726)
Cash flows from investing activities		
Acquisition of tangible and intangible assets	**(8,351)**	(3,949)
Cash transfer (to)/from current asset investments	**3,007**	(3,007)
Interest received	**6**	–
Proceeds from disposal of property, plant and equipment	**–**	2
Net cash used in investing activities	**(5,337)**	(6,954)
Cash flows from financing activities		
Proceeds from issue of share capital, net of expenses	**18,051**	20,041
Costs for issue of share capital	**(828)**	(971)
Payment of finance lease liabilities	**(153)**	(156)
Proceeds from long term loans	**–**	1,000
Payments of long term loans	**(473)**	(175)
Interest paid	**(180)**	(134)
Net cash generated from financing activities	**16,417**	19,605
Net (decrease)/increase in cash and cash equivalents	**4,620**	8,925
Foreign exchange losses	**345**	(24)
Cash and cash equivalents at the beginning of the period	**9,959**	1,058
Cash and cash equivalents at the end of the period (Restated)	**14,924**	9,959

The notes on pages 37 to 59 form part of these financial statements

Notes to the Financial Statements

For the year ended 31 December 2021

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 UK adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The financial statements were approved by the board on 14 April 2023.

Basis of preparation

The financial statements of Surface Transforms Plc have been prepared in accordance with UK adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. 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.

Prior year adjustments

The directors, having reviewed the prior year accounts have identified the misclassification of cash deposits held for security against a letter of credit as cash in the 2021 statements. The directors have therefore restated the balance sheet in 2021 to show £3m of cash and cash equivalents as current asset investments. In addition, the statement of cash flows has been restated to show this restatement within cash flows from investing activities.

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 £4.8m 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 up to and including April 2024. 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.

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 14. 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.

The Company capitalises 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 statement of total comprehensive income.

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 OEMs 8, 9 & 10), 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 Business Interruption Loans 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 the company has entered a formal program or development process with the customer. The amount is then amortised straight line over the life of the contract.

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.

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.

1 Accounting policies continued

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.

Notes to the Financial Statements

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 £2,646k (2021: £82k) in current year on the basis that the deferred tax liabilities of £82k could be offset by deductible differences per IAS 12.28. Further information regarding the level of unrecognised deferred tax is included in note 9.

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.

Current asset investments

These are assets not freely convertible to cash within 90 days of the year end.

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.

Notes to the Financial Statements

3 Revenue by geographical destination

	2022 £'000	2021 £'000
United Kingdom	**1,623**	894
Germany	**349**	188
Sweden	**354**	129
Rest of Europe	**341**	136
United States of America	**2,254**	831
Rest of World	**200**	191
	5,121	2,369

4 Operating loss and auditors remuneration

	Year to 31 December	
	2022 £'000	2021 £'000
Operating loss is stated ***after charging***		
Loss on disposal of property plant and equipment	–	6
Depreciation of property plant and equipment	**865**	601
Amortisation of Intangible assets	**104**	71
Research costs expensed as incurred	**5,625**	3,405
Exchange losses/(gains)	**(345)**	24
after crediting		
Government grants	**24**	12

Auditors remuneration

Amounts receivable by auditors and their associates in respect of:

	Year to 31 December	
	2022 £'000	2021 £'000
Fees payable to the company auditor for the audit of the financial statements	**78**	60
Total	**78**	60

5 Remuneration of directors

The aggregate amount of emoluments paid to Directors in respect of qualifying services during the period was £630,150 *(2021: £546,084)*.

The amounts set out above include remuneration in respect of the highest paid director of £291,016 *(2021: £249,139)*.

Pension contributions of £25,486 *(2021: £20,154)*. were made to a money purchase scheme on behalf of two 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:

	Year to 31 December	
	2022	**2021**
Directors	**6**	6
Other employees	**90**	59
	96	65

At the year end the Company employed 118 people.

The aggregate payroll of these persons was as follows:

	Year to 31 December	
	2022 £'000	**2021 £'000**
Wages and salaries	**3,552**	2,428
Social security costs	**436**	257
Other pension costs	**196**	164
Share based compensation	**–**	96
	4,184	2,945

7 Financial Expenses

	Year to 31 December	
	2022 £'000	**2021 £'000**
Total interest expense on financial liabilities measured at amortised cost	**180**	134

8 Financial Income

	Year to 31 December	
	2022 £'000	**2021 £'000**
Total interest income	**6**	0

9 Taxation

	Year to 31 December	
	2022 £'000	**2021 £'000**
Analysis of credit in year		
UK corporation tax		
Adjustment in respect of prior years – R&D tax allowances	**59**	(23)
R&D tax allowance for current year	**1,205**	650
Total income tax credit	**1,264**	627

	Year to 31 December	
	2022 £'000	**2021 £'000**
Reconciliation of effective tax rate		
Loss for year	**(4,782)**	(3,952)
Total income tax credit	**(1,264)**	(627)
Loss excluding income tax	**(6,047)**	(4,579)
Current tax at average rate of 19%	**(1,148)**	(870)
Effects of:		
Non-deductible expenses	**1**	1
Change in unrecognised timing differences		
Current year losses for which no deferred tax recognised	**1,148**	869
R&D tax allowance for current year	**(1,205)**	(650)
Adjustment in respect of prior years – R&D tax allowances	**(59)**	23
Income tax credit	**(1,264)**	(627)

Following the 2023 spring budget the government have announced that the regime for R&D tax credits will be higher than that announced in the 2022 November autumn statement. Consequently, as the Company expects to satisfy the R&D intensive threshold in 2023 the level of support will be advantageous to the Company.

The main rate of corporation tax will rise to 25% from April 2023 however the Company expects that before it's carried forward losses are exhausted it expects to have in place patents that will deliver patent box tax relief.

10 Property, plant and equipment

	Land and Buildings £'000	Leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Capital in progress £'000	Total £'000
Cost						
At 31 December 2020	1,503	237	3,566	487	2,121	7,914
Transfers from Capital in progress	–	–	233	2	(247)	(12)
IFRS16 Lease modification	430	–	–	–	–	430
Additions	–	15	150	60	3,742	3,967
Disposals	–	–	(33)	(7)	–	(40)
At 31 December 2021	1,933	252	3,916	542	5,616	12,259
Transfers from Capital in progress	–	12	2,873	5	(2,954)	(64)
Additions	–	147	1,285	41	5,241	6,714
At 31 December 2022	**1,933**	**411**	**8,074**	**588**	**7,903**	**18,909**
Depreciation						
At 31 December 2020	426	125	1,308	429	–	2,288
Charge	126	16	431	28	–	601
Disposals	–	–	(26)	(7)	–	(33)
At 31 December 2021	552	141	1,713	450	–	2,856
Charge	142	24	656	43	–	865
At 31 December 2022	**694**	**165**	**2,369**	**493**	**–**	**3,721**
Net book value						
At 31 December 2020	1,078	112	2,258	57	2,121	5,626
At 31 December 2021	1,381	111	2,203	92	5,616	9,403
At 31 December 2022	**1,239**	**246**	**5,705**	**95**	**7,903**	**15,188**

11 Intangibles

	Software £'000	Capitalised R&D £'000	Total £'000
Cost			
At 31 December 2020	268	141	409
Transfers from Capital in progress	12	–	12
Additions	52	305	357
At 31 December 2021	332	446	778
Transfers from Capital in progress	65	–	65
Additions	70	1,629	1,699
At 31 December 2022	**467**	**2,075**	**2,542**
Amortisation			
At 31 December 2020	131	–	131
Charge for period	68	2	71
At 31 December 2021	199	2	201
Charge for period	97	7	104
At 31 December 2022	**296**	**10**	**305**
Net book value			
At 31 December 2020	137	141	278
At 31 December 2021	133	444	577
At 31 December 2022	**171**	**2,065**	**2,237**

Capitalised R&D assets are primarily development costs for product and are amortised over the expected volume of the contract. Expected remaining life of these assets ranges from 3 to 9 years, depending on which contract they relate to. Software has a remaining life of 5 years.

12 Inventories

	Year to 31 December	
	2022 £'000	**2021 £'000**
Raw materials and consumables	**2,117**	808
Work in progress	**491**	253
Finished goods	**768**	277
	3,376	1,338

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £2,039k (2021: £821k).

13 Trade and other receivables

	Year to 31 December	
	2022 £'000	2021 Restated £'000
Trade receivables	**1,051**	376
Other receivables	**837**	287
Accrued tax credit	**1,206**	650
Prepayments and accrued income	**438**	571
Contract assets	**919**	206
	4,451	2,090

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

Bad debts totalling £4k were written off in the year *(Dec 2021; £1k)* Provision against bad debt £43k *(Dec 2021; £36k)*.

14 Other interest-bearing loans and liabilities

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.

	Year to 31 December	
	2022 £'000	2021 £'000
Current liabilities		
Lease liabilities	**295**	279
Other borrowings	**211**	325
	506	604

	Year to 31 December	
	2022 £'000	2021 £'000
Non-current liabilities		
Other borrowings	**887**	1,239
Lease liabilities	**1,335**	1,449
	2,222	2,688

14 Other interest-bearing loans and liabilities continued

Finance lease liabilities are payable as follows:

	Future minimum lease payments 2022 £'000	Interest 2022 £'000	Present value of minimum lease payments 2022 £'000	Future minimum lease payments 2021 £'000	Interest 2021 £'000	Present value of minimum lease payments 2021 £'000
Less than one year	418	(123)	295	399	(121)	278
More than one year	2,014	(406)	1,608	2,386	(523)	1,863
	2,432	(529)	1,903	2,785	(644)	2,141

As at 31 December 2022	Due in 1 year £'000	Due in 2-5 years £'000	Total £'000
Other borrowings (MSIF* Loans)	211	614	825

As at 31 December 2021	Due in 1 year £'000	Due in 2-5 years £'000	Total £'000
Other borrowings (MSIF* Loans)	325	825	1,150

*MSIF is the Merseyside Investment Fund

15 Trade and other payables amounts falling due within one year

	Year to 31 December	
	2022 £'000	2021 £'000
Trade payables	2,031	1,345
Taxation and social security	220	148
Accruals and deferred income	1,404	476
Contract liabilities	55	21
	3,710	1,990

Notes to the Financial Statements

16 Deferred tax

	As at 31 December	
	2022 £'000	**2021 £'000**
Difference between accumulated depreciation and amortisation and capital allowances	**2,646**	417
Tax losses	**(5,955)**	(1,739)
	(3,309)	(1,322)

The Company has an unrecognised deferred tax asset at 31 December 2022 of £3,309k *(2021; £1,322k)* relating principally to tax losses which the Company can offset against future taxable profits. The Company has recognised it's deferred tax liability of £2,646k as these are recognised as soon as they arise. The Company anticipates that an equal value of its deferred tax asset could be utilised against this liability and this has been deferred against the deferred tax liability.

17 Called up share capital

Allotted called up and fully paid of £0.01 each	**Number**	**£'000**
At 31 December 2020	154,918,319	1,549
Issue of shares	40,270,000	403
At 31 December 2021	195,188,319	1,952
Issue of shares	45,424,914	454
At 31 December 2022	240,613,233	2,406

During the year the Company issued 361,175 shares through the exercise of options.

During the year the Company issued 44,963,739 ordinary shares in the Company in a placing, subscription and open offer taking the total issued share capital to 240,613,233 and raising a total of £17.1m 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.

Notes to the Financial Statements

17 Called up share capital continued

The options granted to Directors, date of grant and exercise price under the scheme are set out in the report on Directors' remuneration on pages 21 to 22. In addition to the Directors' share options certain employees and former employees have been granted the following options:

Note	At 31 Dec 2021	Granted	Leaver	Exercised	At 31 Dec 2022	Exercise price	Date from which exercisable	Expiry date
(a)	27,842	–	–	(27,842)	0	£0.1200	01/03/16	15/03/22
(a)	300,000	–	–	–	300,000	£0.1050	25/09/17	25/09/24
(a)	125,000	–	–	–	125,000	£0.1450	30/09/18	30/09/25
(b)	250,000	–	–	–	250,000	£0.1550	02/10/18	02/10/25
(a)*	1,505,000	–	–	(273,333)	1,331,667	£0.1525	04/01/18	04/01/28
(d)*	450,000	–	–	–	450,000	£0.1525	04/01/18	04/01/28
(a)*	1,835,753	–	–	(20,000)	1,815,753	£0.2050	04/07/18	19/09/27
(a)	405,000	–	–	(140,000)	265,000	£0.1300	05/12/19	05/12/29
(b)	1,910,000	–	–	–	1,910,000	£0.1300	05/12/19	05/12/29
(e)	140,000	–	–	–	140,000	£0.1525	28/03/19	28/03/29
(a)	360,000	–	–	–	360,000	£0.2350	04/12/21	04/12/29
(f)	210,000	–	–	–	210,000	£0.2600	28/01/20	28/01/30
(e)	140,000	–	(20,000)	–	120,000	£0.4600	20/10/20	20/10/30
(h)	210,000	–	–	–	210,000	£0.5000	23/02/21	23/02/31
(g)	40,000	–	–	–	40,000	£0.5000	23/02/21	23/02/31
(i)	1,110,105	–	–	–	1,110,105	£0.5700	11/11/21	11/11/31
(g)	680,000	–	(160,000)	–	520,000	£0.5700	11/11/21	11/11/31
	–	910,000	–	–	910,000	£0.0500	13/07/22	13/07/32
Total	9,698,700	910,000	(180,000)	(461,175)	10,067,525			

* These issues were incorrectly allocated in last years accounts and have been corrected. There was no error in the total number of options in issue.

There is a total of 4,233,825 unexpired options held by employees, 470,000 unexpired options held by former employees and a total of 5,363,700 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, 20 October 2020, 11 November 2021 and 13 July 2022 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 £341k *(2021; £223k)*. During the year two Directors and several senior managers opted to enter salary exchange arrangements whereby they sacrificed salary for increased pension contributions. These arrangements accounted for £178k of the pension contributions *(2021; £107k).*

19 Related party disclosures

Transactions with key management personnel

During the year Ian Cleminson acquired 102,053 shares in the Company through an open market transaction. In addition, 4 Directors participated in the placing and subscription and the shares acquired are detailed below:

Director	Shares subscribed for
David Bundred	37,500
Matthew Taylor	375,000
Julia Woodhouse	125,000
Ian Cleminson	62,500

Related party disclosures

	Year to 31 December	
	2022 £'000	**2021 £'000**
Wages and salaries	**1,053**	935
Social security costs	**128**	95
Pension costs	**58**	47
Share based payments	**216**	96
	1,455	1,173

20 Net debt

	As at 1 January 2022 (Restated Note 1) £'000	**Cash Flow £'000**	**Other non-cash movements £'000**	**31 December 2022 £'000**
Lease liabilities	(1,579)	189	(99)	(1,489)
Long term loans	(1,712)	554	(81)	(1,239)
Liabilities arising from financing activities	(3,291)	743	(180)	(2,728)
Cash	9,959	4,621	345	14,925
Total net debt	**6,668**	**5,364**	**165**	**12,197**

	As at 1 January 2021 £'000	**Cash Flow £'000**	**Other non-cash movements £'000**	**31 December 2021 (Restated Note 1) £'000**
Lease liabilities	(1,371)	320	(528)	(1,579)
Long term loans	(446)	(862)	(404)	(1,712)
Liabilities arising from financing activities	(1,817)	(542)	(932)	(3,291)
Cash	1,058	8,925	(24)	9,959
Total net debt	**(759)**	**8,383**	**(956)**	**6,668**

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 along 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 $197k (£176k) and a balance of €15k (£13k).

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

Sensitivity analysis

A ten per cent strengthening of the pound against the US Dollar and the Euro at 31 December 2022 would have increased losses by the amounts shown below. This analysis assumes that all other variables, most notably, interest rates, remain constant. The analysis is performed on the same basis for December 2021.

	US Dollar £'000	**Euro £'000**
31 December 2020	(28)	(23)
31 December 2021	**(240)**	**(61)**

A ten percent weakening of the pound against the US Dollar and the Euro at 31 December 2022 would have reduced loses by the amounts shown below; on the basis all other variables remain constant.

	US Dollar £'000	**Euro £'000**
31 December 2020	34	28
31 December 2021	**294**	**74**

Price risk

The Company aims to minimise it's exposure to supplier price increases and customer price decreases by offsetting reciprocal supplier and customer arrangements and by entering fixed cost contracts where these are available.

21 Financial instruments continued

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 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 £860k *(2021; £414k)*.

	31 December 2022			31 December 2021		
	Gross £'000	Impairment £'000	Net £'000	Gross £'000	Impairment £'000	Net £'000
Not past due	**377**	**–**	**377**	39	–	39
Past due 0 to 30 days	**127**	**–**	**127**	111	–	111
Past due 31+ days	**398**	**(43)**	**355**	300	(36)	264
	902	**(43)**	**859**	450	(36)	414

The aging of trade receivables at the reporting date was:

	2022	2021
Opening balance	**36**	27
Amounts written off	**(4)**	–
Amounts provided for	**10**	9
Provision at year end	**42**	36

There was an amount of £42k *(December 2021; £36k)* in the allowance for impairment in respect of trade receivables.

The average debtor days are 64 days *(2021; 41 days)*, the average creditor days are 31 days *(2021; 52 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, excluding the contract receivables, at the current and preceding balance sheet date is within one year. The contract receivables are due over a predetermined volume of discs with the various OEM's with the majority being due within the first couple of years of series production.

The contractual maturity of trade and other payables at the current and preceding balance sheet date is within 3 months.

The contractual maturity of lease liabilities and loan liabilities can be found in note 22.

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:

	2022 £'000	2021 £'000
Fixed rate instruments:		
Lease liabilities		
Less than one year	**90**	95
More than one year	**371**	457
Total	**461**	552
Other Loans and Borrowings		
Less than one year	**211**	175
More than one year	**614**	825
Total	**825**	1,000

Sensitivity analysis

A 20% increase in the BOE base rate would result in an increase in interest on the interest bearing loan of £185k.

	£'000
2022 interest at current rate of 2.5%	40
2022 interest at sensitivity rate of 22.5%	269
Increase in interest payments in 2022	229

Capital management

The Company manages it's capital to ensure that it will be able to continue as a going concern and satisfy it's 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 are comprised of £18,325k which consists of cash and trade receivables.

Financial liabilities are comprised of £6,243k which consists of trade payables, lease liabilities and current and long-term interest-bearing loans.

22 Right of use assets

	L&B £'000	Other £'000	Total £'000
Net Carrying value at 1 January 2022	1,381	18	1,399
Lease modification	0	–	–
Additions	–	63	63
Depreciation charge for the period	(142)	(26)	(168)
Net Carrying value at 31 December 2022	**1,239**	**55**	**1,294**
Net Carrying value at 1 January 2021	1,077	19	1,096
Lease modification	430	–	430
Additions	–	7	7
Depreciation charge for the period	(126)	(8)	(134)
Net Carrying value at 31 December 2021	**1,381**	**18**	**1,399**

Amounts recognised in the income statement

	December 2022 £'000	December 2021 £'000
Interest on lease liabilities	**99**	86

Lease liabilities

	December 2022 £'000	December 2021 £'000
Current	**295**	279
Non-Current	**1,335**	1,449
Total Lease Liabilities	**1,630**	1,728

	December 2022 £'000	December 2021 £'000
Total cash outflow for leases	**276**	303

Maturity Analysis – Contractual undiscounted lease payments

	December 2022 £'000	December 2021 £'000
Within 1 year	**222**	226
Greater than one year but less than five years	**655**	659
Greater than five years but less than ten years	**1,085**	1,085
Greater than ten years but less than fifteen years	**–**	163
Total Lease Liabilities	**1,962**	2,133

Capital commitments as at 31 December 2022 were £5,791k *(2021; £5,242k)* which all related to equipment for the OEM production line, none related to leases.

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.

	12 months to 31 December	
Basic	**2022**	**2021**
Loss after tax (£)	(4,780,363)	(3,951,292)
Weighted average number of shares (No. of shares)	204,340,456	190,215,345
Loss per share (pence)	(2.34p)	(2.08p)

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.

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 Dec 2021	Granted	Leaver	Exercised	At 31 Dec 2022	Exercise price	Date from which exercisable	Expiry date
(a)	27,842	–	–	(27,842)	0	0.1200	01/03/16	15/03/22
(a)	300,000	–	–	–	300,000	0.1050	25/09/17	25/09/24
(b)	0	–	–	–	0	0.1050	25/09/17	25/09/24
(a)	125,000	–	–	–	125,000	0.1450	30/09/18	30/09/25
(b)	250,000	–	–	–	250,000	0.1550	02/10/18	02/10/25
(a)*	1,505,000	–	–	(173,333)	1,331,667	0.1525	04/01/18	04/01/28
(d)*	450,000	–	–	–	450,000	0.1525	04/01/18	04/01/28
(a)*	1,835,753	–	–	(20,000)	1,815,753	0.2050	04/07/18	19/09/27
(a)	405,000	–	–	(140,000)	265,000	0.1300	05/12/19	05/12/29
(b)	1,910,000	–	–	–	1,910,000	0.1300	05/12/19	05/12/29
(e)	140,000	–	–	–	140,000	0.1525	28/03/19	28/03/29
(a)	360,000	–	–	–	360,000	0.2350	04/12/21	04/12/29
(f)	210,000	–	–	–	210,000	0.2600	28/01/20	28/01/30
(e)	140,000	–	(20,000)	–	120,000	0.4600	20/10/20	20/10/30
(h)	210,000	–	–	–	210,000	0.5000	23/02/21	23/02/31
(g)	40,000	–	–	–	40,000	0.5000	23/02/21	23/02/31
(i)	1,110,105	–	–	–	1,110,105	0.5700	10/11/21	10/11/31
(g)	680,000	–	(160,000)	–	520,000	0.5700	10/11/21	10/11/31
(j)	–	910,000	–	–	910,000	0.0500	12/07/22	12/07/32
Total	9,698,700	910,000	(180,000)	(461,175)	10,067,525			

* These issues were incorrectly allocated in last years accounts and have been corrected. There was no error in the total number of options in issue.

(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.

24 Loss per ordinary share continued

(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.

(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.

(h) 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: Achievement of staffing requirements for start of OEM production, ongoing staff turnover levels below industry average in a 3 year period and the delivery of £5m of revenue in a financial year.

(i) 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: Achieving a minimum of £20m of sales in a rolling twelve-month period, achieving a minimum of £5m profit before tax in a rolling twelve-month period and installing capacity capable of achieving annual sales of at least £60m.

(j) 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: Achieving a minimum of £20m of sales in a rolling twelve-month period, achieving a minimum of £5m profit before tax in a rolling twelve-month period and installing capacity capable of achieving annual sales of at least £80m.

25 Government grants

Government grants on the statement of financial position at the year end relate to grants received for capital equipment for use in production. These grants are to be amortised over the life of the equipment to which they relate. During the year to December 2022 the Company recognised £13k of income against the furnaces which have entered production.

26 Post reporting date events

Following the period end the Company has signed heads of terms over an additional property adjacent to the existing factory.

Company Information and Advisers

Website	www.surfacetransforms.com
Registered Number	03769702
Directors	**David George Bundred** *(Non-executive Chairman)* **Dr Kevin Johnson** *(Chief Executive)* **Matthew Taylor** *(NED and Senior Independent Director)* **Julia Woodhouse** *(Non-executive Director)* **Ian Cleminson** *(Non-executive Director)* **Michael Cunningham** *(Chief Financial Officer)*
Company Secretary	**Michael Cunningham**
Address	Image Business Park Acornfield Road Liverpool L33 7UF Tel: 0151 356 2141
Nominated Adviser and Joint Broker	**Zeus Capital Ltd** 125 Old Broad Street London EC2N 3AR
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 Plc** 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 on Tuesday 27 June 2023 at 10:00am. at the offices of finnCap, 1 Bartholomew Close, London, EC1A 7BL.

Following the AGM the Board will give an update on the Company's progress with the opportunity to ask questions of the Board.

The AGM will ask to consider and if thought fit, pass the following resolutions, of which 1 to 12 (inclusive) will be proposed as ordinary resolutions, and resolution 13 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 2022 together with the last Directors' report, the last Directors' remuneration report and the auditors' report on those accounts.
2. To re-appoint Grant Thornton UK LLP as auditors for the Company holding office from the conclusion of this meeting until the conclusion of the next annual general meeting of the Company and to authorise the Directors to fix their remuneration.
3. To re-elect Dr Kevin Johnson, who retires by rotation pursuant to article 113 of the Company's articles of association and who, being eligible, offers himself for re-election as a Director.
4. To re-elect Matthew Taylor, who retires by rotation pursuant to article 113 of the Company's articles of association and who, being eligible, offers himself for re-election as a Director.

Special Business

5. **THAT** the Surface Transforms Plc Long Term Incentive Plan (the **LTIP Scheme**) a summary of which is included in the schedule attached (the **Scheme Overview Document**), be approved and the Directors be authorised to do all acts and things necessary to establish the LTIP Scheme and invite eligible employees and Directors (**Eligible Employees**) to participate in the LTIP Scheme.
6. **THAT**, subject to and conditional on the passing of the resolution 5 above, that the directors be authorised to grant options under the LTIP Scheme (the **LTIP Options**) to such Eligible Employees as the Directors, acting in their discretion and with the approval of the Remuneration Committee, may select over ordinary shares of £0.01 each in the capital of the Company provided that the aggregate number of shares over which LTIP Options are granted, when aggregated with the number of shares subject to other discretionary employee share schemes over shares in the Company, shall not exceed 5% of the issued ordinary share capital of the Company.
7. **THAT** the Company be authorised to establish a trust (the **EBT**) for the benefit of employees of the Company and its subsidiaries (the **Group**) and that the Directors be authorised to do all acts and things necessary to establish the EBT.
8. **THAT**, subject to resolution 7 being passed, the incorporation of a wholly-owned subsidiary of the Company to act as trustee of the EBT be approved.
9. **THAT** the Surface Transforms Plc Share Incentive Plan (the **SIP**), (the **SIP Rules**) a summary of which is included in the Scheme Overview Document under the heading "SIP", be approved and the Directors be authorised to do all acts and things necessary or desirable to establish the SIP to comply with the requirements of Schedule 2 to the Income Tax (Earnings and Pensions) Act 2003.
10. **THAT**, subject to and conditional on the passing of resolution 9 above, the directors be and are hereby authorised to do all acts and things which they may consider necessary for the purposes of implementing and giving effect to the SIP.
11. **THAT**, subject to and conditional on the passing of resolutions 9 and 10 above, that the directors be authorised to make awards (the **SIP Awards**) on substantially the terms set out in the Scheme Overview Document over ordinary shares of £0.01 each in the capital of the Company provided that the aggregate number of shares over which SIP Awards are granted, when aggregated with the number of shares subject to other employee share schemes over shares in the Company, shall not exceed 5% of the issued ordinary share capital of the Company.
12. **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**"):

Notice of Annual General Meeting

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 £805,344 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 £805,344 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.

13. **THAT**, if resolution 12 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 £241,603, 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: 24 May 2023

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 PXS 1, 10th Floor, Central Square, 29 Wellington Street, Leeds, LS1 4DL by 9.30am on 23 June 2023. 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 PXS 1, 10th Floor, Central Square, 29 Wellington Street, Leeds, LS1 4DL by 9.30am on 23 June 2023.
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 23 June 2023 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.

EXPLANATORY NOTES:

Resolution 12 – 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 £805,344, 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 £805,344, 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 13 – 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 £241,603which is equal to 10% of the nominal value of the current ordinary share capital of the Company, subject to resolution 12(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).

Scheme Overview Document

The Directors believe that the Company benefits from all employees participating in the share ownership of the Company's shares through share option plans. As the Company has grown, we are no longer eligible to participate in the highly tax efficient HMRC approved Enterprise Management Incentive Scheme (EMI) and need to establish a new scheme.

As a result of the subsequent review, the Company intends to replace the Company wide EMI scheme for all employees with an HMRC approved Share Incentive Plan ("SIP"). This scheme is a mix of individual employee saving and share awards in proportion to the employee saving. The scheme will, after the normal employee trial period, be open to all with the same incentive regardless of seniority or length of service. Whilst HMRC allows non-executive directors to participate, the QCA guidelines do not approve of NEDs holding share options and the Company will follow these guidelines.

Additionally, the Company intends to replace the EMI scheme for Executive share options with a Long-Term Incentive Plan (LTIP). The scheme will cover the Chief Executive and his first reports with the first awards being made after the Annual General Meeting. The awards will be proportional to salary and seniority. Share issues under the scheme will be made at market rate and will vest over 3 years based on performance related vesting criteria. As SCE shares can sometimes be relatively illiquid and the exercise of options has to be managed without damage to the share price, the Company intends to establish an Employee Benefit Trust (EBT) to handle the purchase of and subsequent sale into the market of executive options.

The maximum number of options expected to be issued before the next AGM is expected to not exceed 3 million shares based upon the current price of the Company's shares.

Notes

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