Surface Transforms Plc

Registered number 03769702

Annual Report and Financial Statements

for the year ended 31 December 2024

Company Profile

Surface Transforms plc (AIM: SCE) pioneers the development and manufacturing of cutting-edge carbon ceramic automotive brake discs. As the sole UK-based producer of carbon ceramic brake discs and one of only two global leaders in this field, the company supplies to world leading Original Equipment Manufacturers (OEMs) across the automotive landscape. Leveraging its proprietary Carbon Ceramic Technology, Surface Transforms engineers lightweight brake discs tailored for high-performance road and track applications, servicing both traditional internal combustion engine and electric vehicle markets.

Distinguished by its innovative approach, Surface Transforms sets itself apart from competitors by employing continuous carbon fibre weaving to construct a robust 3D matrix. This technique enhances product durability and heat conductivity, resulting in lower operating temperatures for brake systems. The outcome: lighter, longer-lasting components delivering superior braking performance. Surface Transforms' carbon ceramic brake discs offer a myriad of advantages over traditional iron discs. These include up to 70% weight savings, extended product lifespan, consistent performance, reduced pad dust, and corrosion resistance.

Contents

Highlights

Financial highlights

- Revenue increased by 13% to £8.2m (2023 : £7.3m), due to a 21% increase in disc sales
- Gross margin of 50% (2023: 57%), reduction due to movement in product mix towards customers with higher future volumes
- Net research costs pre-capitalisation of £15.4m (2023:£12.9m) due to extensive programme of initiatives to improve manufacturing efficiency and yields.
- Impairment of fixed assets of £6.5m (2023: £9.2m)
- Loss after taxation was £22.3m (2023: £19.6m)
- Loss per share of 2.31p (2023: 7.92p)
- Cash used in operating activities of £14.0m (2023: £10.3m)
- Cash as at 31 December 2024 of £0.5m (2023 : £6.1m)
- £9.5m equity placing and open offer to support ongoing working capital needs in the year
- £5.1m ERDF loan advanced to fund capital investment

Customer highlights

- Six multi-year OEM contracts in series production
- Customers have been highly supportive through direct funding of working capital and operational expertise, which has continued into 2025
- Confidence in our business and desire for our product remains high

Operational highlights

- Extensive programme of technical, personnel and process changes in the year to reduce equipment down time and scrap rates
- Capital investments of £6.2m (2023: £9.1m) in the year
- Capacity constraints progressively reduced with built volumes 29% higher than prior year, which has continued in 2025 year to date
- Focused on improving yield and process capability of all operations

Board Changes

- David Bundred retired as Chairman on 16 Sept 2024
- Ian Cleminson appointed as Interim Chairman on 6 November 2024 and Chairman on 22 May 2025
- Post year-end, Isabelle Maddock announced her intention to retire as CFO and Steve Harrison joined as interim CFO (non-board director) on 17 March 2025

Chairman's Statement

2024 proved to be another difficult year which was dominated by the challenge of delivering consistent volume production with yields that would result in a viable and profitable operating model. Progress was frustratingly slow and resulted in a funding requirement leading the Company to raise fresh equity in May 2024 and seek financial and operational support from key customers post November 2024.

Against this backdrop the customer base has been hugely supportive, and the business has shown incredible resolve. Fundamentally however, the performance has just not been good enough and shareholders are right to be disappointed.

Sales Progress

The Company grew modestly; 13% year on year revenue growth. Similar to prior periods, the business experienced demand levels beyond its available supply.

Progress on Operations

The inability to deliver higher production volumes stems from three broad categories

- the inability to achieve the target yield from current capacity;
- the failure to deliver a consistent and repeatable process and;
- the delays in installing capacity

As the Company scaled production, mechanical and material science issues emerged with upgraded or new equipment that were not apparent during the development phase resulting in excessive down time and low yields. Since the year end, operational efficiency and consistency has seen a continued improvement, driven by equipment upgrades, improved processes, and the impact of operational support from customers.

The Company is executing a capital investment program totalling £13.2 million, funded through ERDF support, aimed at enhancing the manufacturing process. This investment is pivotal to achieving a sustainable and profitable operating model. It underpins the Company's ability to meet projected demand, drive down operating costs, improve production yields, and realise sustainable cash flows.

As at 31 December 2024, £5.1 million of the programme had been deployed.The remaining £8.2 million is expected to be spent over the course of 2025, weighted towards H1 with full spend anticipated by year-end. This programme will address future capacity limitations, positioning the Company to meet its commercial and operational objectives with greater efficiency and resilience.

Personnel

The transition to full-scale production has continued to place significant demands on our team. As with any period of sustained operational change, the resulting pressure has led to notable staff churn, which, while disruptive at times, has also created opportunities to strengthen the organisation.

Attracting and integrating skilled professionals across key technical disciplines, including mechanical, electrical, and heat treatment engineering, as well as maintenance is key to building depth and resilience. In parallel, we have expanded our quality and operations teams and invested in the development of senior management to support the evolving demands of the business. Again, customer operational support post November 2024 has been pivotal to the improvement we are now realising. A key focus for the Board this year has been investing in our people, with a particular emphasis on leadership development through external support.

Progress with customers

During the year we ensured that all customers were kept fully informed of our operational difficulties and ability to deliver products at volume. The major customers have been hugely supportive, offering both financial and operational assistance. Beyond these major customers, we are maintaining our customer base of small niche vehicle builders ("Near OEMs") as they offer a degree of flexibility in our operational planning and have only a marginal impact on capacity in a market segment that is growing and larger than we previously believed. Strategic discussions on commercial agreements specifying multi- year volumes and prices as well as customer manufacturing support, received through prepayments (£11.9m at 31 May 2025) are well advanced.

Trading Update

The Board expects the 2025 financial performance to reflect continued growth driven by increased production capacity and yield improvement, alongside our cost reduction activities.

The Company will be reporting H1 FY25 at the Annual General Meeting on 22 July 2025.

Summary

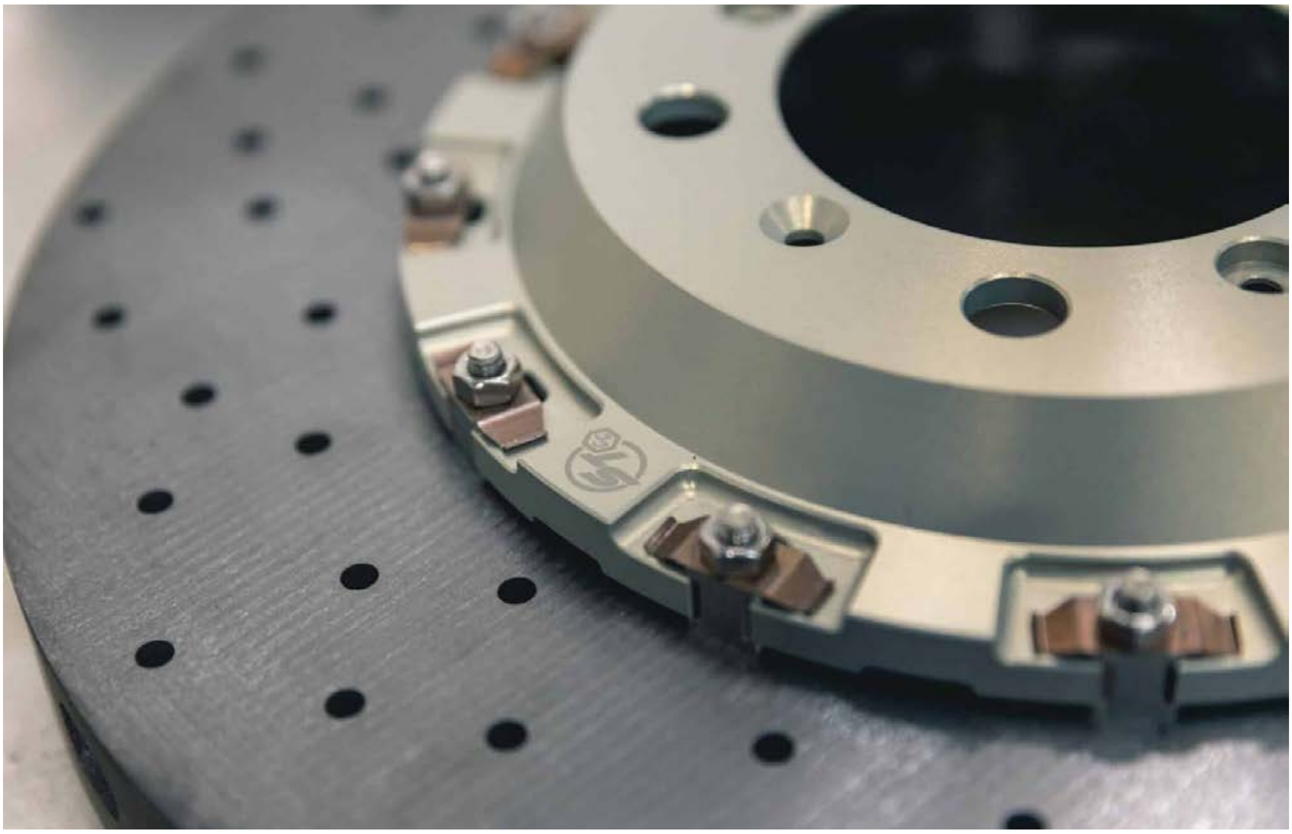
There is no doubt 2024 has been a year of disappointment and frustration. Despite this the support of customers has been incredibly strong and reflects the high value placed on our product and technology. The financial and operational assistance that has been forwarded to the Company has been both welcomed and key to any progress made.

Since November 2024 the Board has been focused solely on operational improvement and cash management. We are starting to see sustainable improvements in output, yield and quality that gives us a degree of confidence that 2025 will be a much better year. While there remains a lot still to do we are encouraged that a pivotal change has occurred.

Finally I want to thank all the employees for their dedication to the Company in what has been a highly stressful period and shareholders for their patience and support.

Ian Cleminson
Chairman

9 June 2025



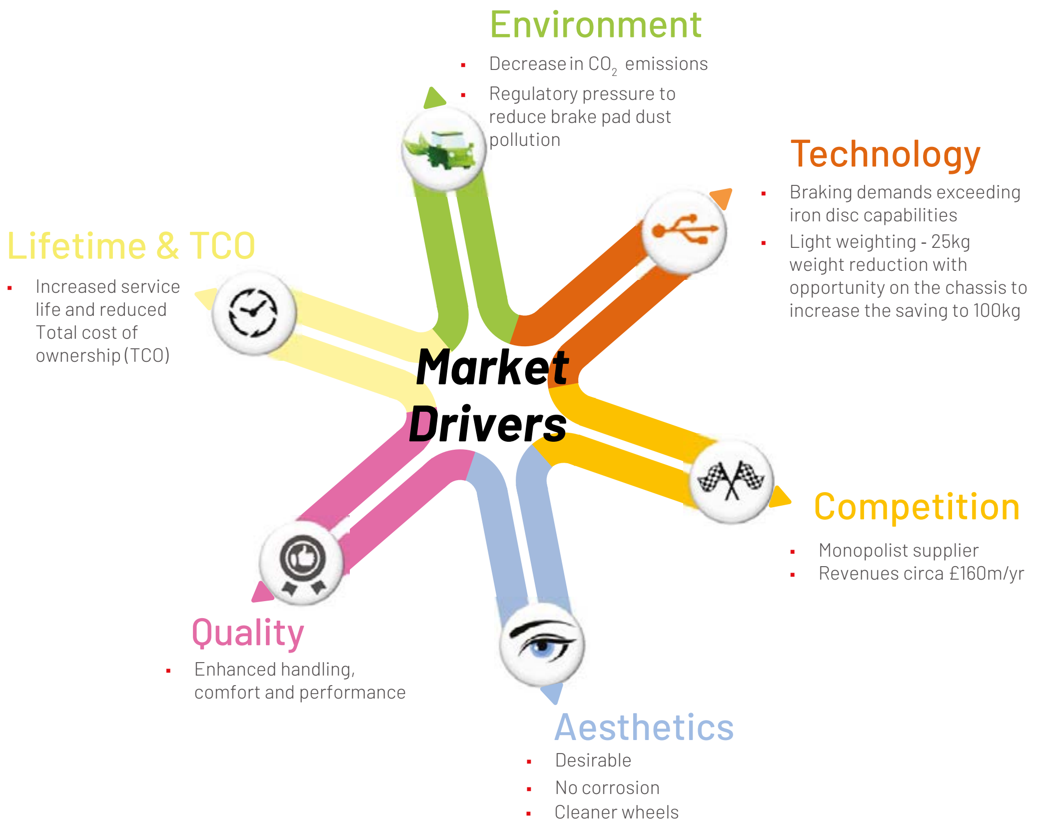
Strategic Report

Strategic Background

Surface Transforms is the newer entrant in the £2 billion market for carbon ceramic disc brakes which is hitherto a Brembo-SGL monopoly.

The technical advantages of carbon ceramic discs compared to grey iron discs are unarguable – lower weight, improved performance and longer life– but the growth has been limited by both the need for extensive testing (many years) of a safety critical component and the fact that carbon ceramic discs are significantly more expensive than grey iron discs and required significant, upfront capital investment.

Surface Transforms' current share of the immediately accessible market is small but our contracted order book and capacity investment plan indicates a 4 to 5 year potential of up to 5% market share.



Surface Transforms strategy is to innovate and supply superior products compared to its competitor, secure and manage its supply chain, build and scale its manufacturing capabilities and deliver to our customers expectations through operational excellence.

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.

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

Our strategy is closely aligned to the key market drivers and customer values.

Significant and rapidly growing market, estimated at more than £2 billion.

Reduce the environmental impact of automotive vehicles, lowering CO_2 emissions, improving air quality and meeting environmental regulations.

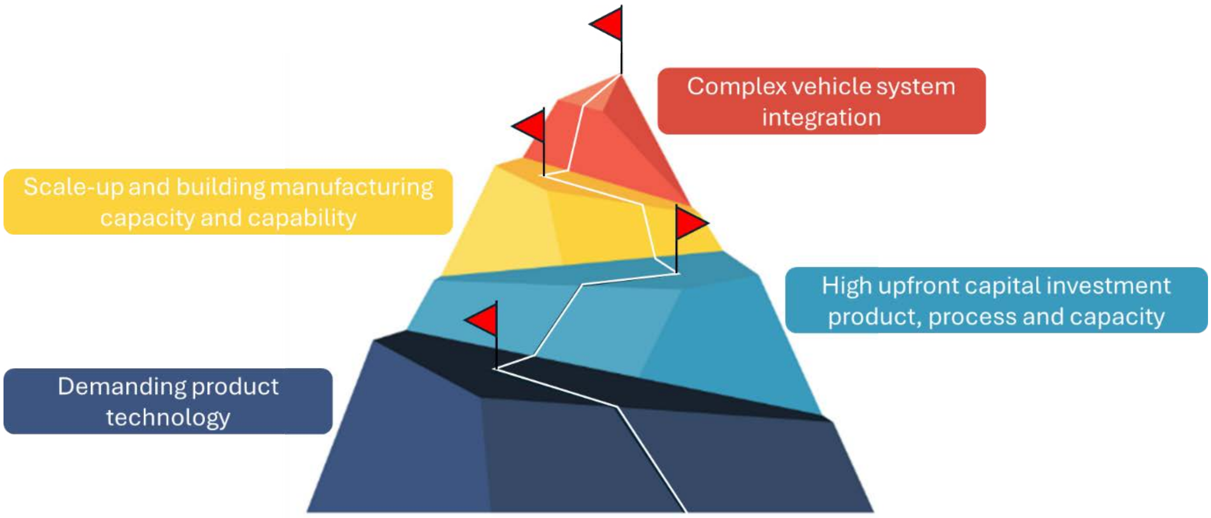
Unique product technology enabling the design and development of desirable braking solutions that deliver to vehicle manufacturer's needs.

Breaking a monopolist market, which is restricting market growth through a constrained amount of manufacturing capacity.

Strategic Report continued

Market drivers and ST strategy

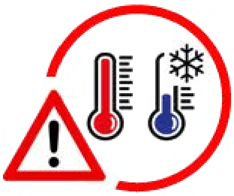
There are high barriers to entry



Barriers to entry

Bringing a complex product to market

There are many complexities and challenges of bringing a new, complex product to market, particularly one requiring significant upfront investment and integration with existing systems. We develop proprietary product technology, to meet customer needs, for a safety critical component, operating in extreme environments.



Developing new technology requires a substantial initial investment. The process involves a lengthy development phase to design and test the foundation disc, followed by system integration phase to seamlessly incorporate them into the complex vehicle platform. Building manufacturing capacity occurs concurrently, demanding careful planning to ensure consistency with the final product design.

OEM phases of business supply

OEM Business Supply			
Development Phase	OEM System Integration Phase	In Series	After Sales
			
1 Year	2-3 Years	5-7 Years	10-15 Years

Nomination and Development Phase

Series and Aftermarket Phase

Surface Transforms Phase			
Disc Development In order to be in contention for program nomination, the disc benchmarked and approved by the OEM. Product development is completed at our own cost.	**Car Development** After program nomination is achieved, the brake development phase starts from prototype to design validation over a period of two summer and two winters. ST support services encompass commercial, engineering, project management, tooling and testing services.	**Series Supply** Once the development process is signed off, series supply starts with Surface Transforms manufacturing and supplying for the length of the series contract (5-7 years).	**Aftermarket** OEM aftermarket business, which includes spares, commences under a separate contract for a further period defined by the customer (10 or 15 years).

Strategic Report continued

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

Customer – Support our customer across key markets, achieving contract awards to multiple OEMs with products for several models with multi-year long term supply agreements.

Product – 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 versus iron brake discs: weight savings of up to 70%, extending product and service life, consistent performance, environmentally friendly through reducing both CO_2 emissions and brake pad dust, reducing the total cost of ownership, corrosion free and are highly desirable.

Price – With our product and process differentiation, operating lean manufacturing techniques and market positioning we are securing long term pricing agreements with good margins which can sustainably support the business.

Quality – 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 work closely with our customers to deliver high quality products which exceed our customers' expectations.

Manufacturing capacity – Building manufacturing capacity revenue of, £50m p.a.

Security of supply – Support, manage and develop our supply chain partners and scale up equipment to deliver to our customer contracts.

Environment – 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.

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 know-how and a product which cannot be reverse engineered.

Delivering our objectives:

The Company continues to invest in its engineering development to support existing contract awards and new customer contracts in the future. We are in Series supply for a number of our OEM contracts with demand being carefully managed to match supply.

The Company's capacity has been hampered due to production yield challenges. Unlocking our existing capacity by improving our manufacturing yield is a priority. In addition, the Company is completing the construction of additional capacity to support our customer contracts. The effective utilisation of our capacity is the pathway to profitability and cash generation.

The Company's activities are therefore focused on firstly improving our manufacturing processes with our existing capacity to support series supply contracts and secondly executing its manufacturing capacity expansion programs.

Improving our manufacturing processes

Health and Safety – maintain and improve our health and safety record. We have an excellent health and safety record which we will continue to focus on.

Quality – maintain product and improve process quality, with the priority manufacturing yield. Having scaled our processes, we have observed instability in some manufacturing processes and gone through a significant process technology learning curve. Improving quality is a never-ending process, therefore our primary focus is on continuous improvement and reducing the internal cost of quality. Our manufacturing yield has been inconsistent with a wide range from week to week. Eliminating variation is the pathway to consistently high manufacturing yield.

Operational excellence – to improve manufacturing resilience, we have mitigated our single points of failure with the support of our supply chain and the installation of additional machines. We are improving our management and control systems to assist in the maintenance and operational planning of production. We continue to strengthen and train our teams to improve critical thinking and problem-solving capability. The results from these activities are, and will continue to be, a reduction in manufacturing variations and process inconsistency leading to improved manufacturing yields and sustainability.

Environmental – Our product is renowned for reducing brake dust, light weighting and durability. We are targeting the reduction of energy used in the manufacturing process with the introduction of new furnaces.

Social – We believe in training and developing our own talent and continue to invest in people. We actively support employee health and wellbeing with health surveillance and mental health support. We actively engage in local school partnerships and promote STEM awareness through school events, work experience and promoting STEM career pathways.

See pages 12–14 for further information on employees, health and safety, accreditations, and society as referenced in the Section 172 statement and ESG disclosures.

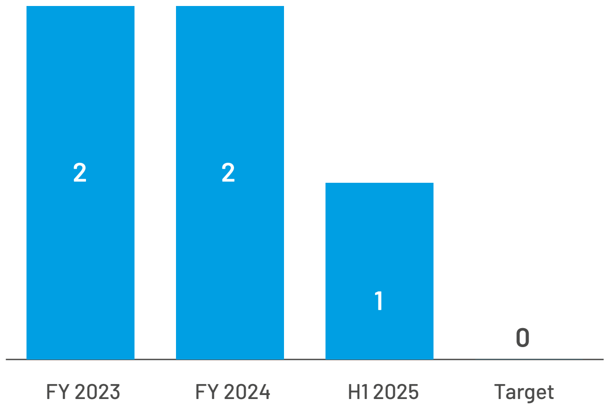
Strategic Report continued

Key performance indicators

The Directors monitor the Company's performance using a defined set of internal Key Performance Indicators (KPIs), which include yield, sales output, gross margin, profitability, cash management, supply chain capacity, health and safety, product quality, and the manufacturing cost of automotive discs. These metrics form the basis of regular performance reviews and are a standing agenda item at monthly Board meetings.

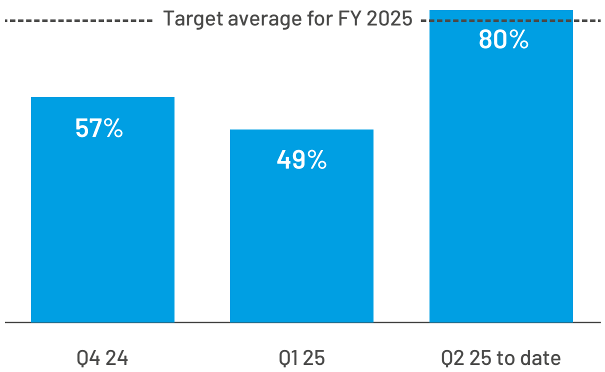
While all KPIs are important in guiding strategic direction, the Board's immediate focus is on safety, product quality, production yield, unit manufacturing cost, cash management and the ability to meet customer demand with our manufacturing capacity. Progress against these indicators is closely tracked, ensuring management remains aligned with the Company's operational goals and long-term growth objectives.

Health & Safety



The safety and well being of our staff is of critical importance. We measure lost time accidents as a KPI and have a target of zero lost time accidents in any year. In both 2023 and 2024 we had two accidents with lost time. 2025 is tracking a similar trend with one accident in H1 2025. The whole Surface Transforms team are engaging in maintaining and improving this trend.

Operational Performance and Yield Improvement



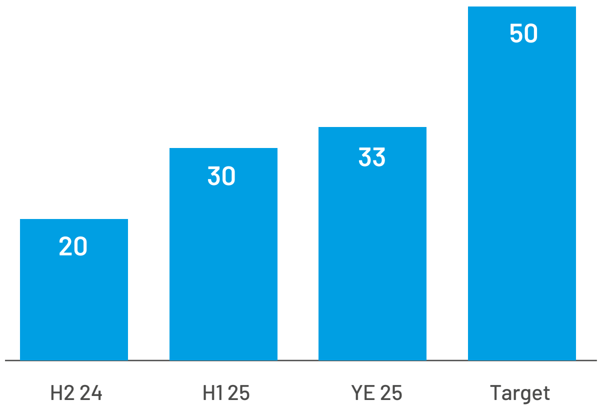
Yield from our manufacturing processes has a significant bearing on our ability to deliver to our customers and achieve financial profitability.

Production yield has shown a clear upward trend across the most recent quarter, reflecting the successful execution of operational improvements and increased process stability. Average yield has improved from 57% in Q4 2024 to 80% in Q2 2025 to date, following a temporary dip in Q1 2025 linked to ramp-up challenges.

The improvement in yield in Q2 2025 is now above the full year average yield target of 77%. This gives us the capability to deliver to our customer in 2025 from our existing capacity and reduces the cost of quality and enables the company to be financially sustainable. Q2 2025 performance is encouraging and gives us a good platform for further improvement.

Sustaining this level of a percentage yield is in line with our average target for FY 2025 and enables us to deliver to customers demand.

Annualised manufacturing capacity revenue £'m

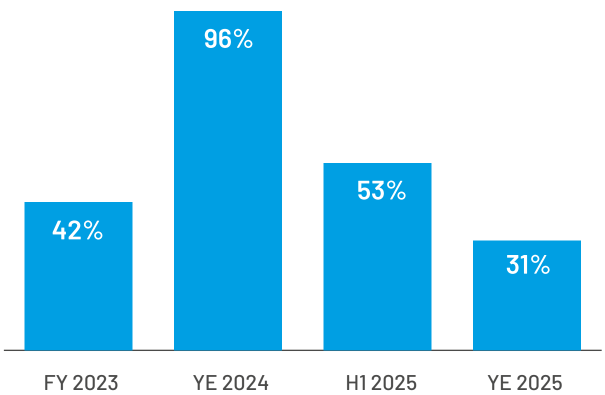


We continue to invest in manufacturing capacity. As the existing equipment is enhanced and new equipment is installed, commissioned and validated for production our capacity increases. We measure this using annualised manufacturing capacity revenue to determine whether our capacity is sufficient to support our customers' demands.

In H2 24 we had £20m of manufacturing capacity revenue which gave the Company only limited headroom. As investment plans have been completed we have seen our capacity revenue increase to £30m and expect this to continue for the year end 2025 with capacity revenue increasing to £33m.

To support our customers future demand we continue our investment programme with a target of reaching £50m of manufacturing capacity revenue.

Cost reduction – % difference from target



Our unit cost to manufacture is a KPI as it links directly to our financial performance and gross margin. The lower the % difference the closer we are to reaching target cost.

When comparing our target unit cost to manufacture to what was achieved in 2023 and 2024, we saw costs increase significantly in 2023 and almost double by the end of 2024. The increases were driven by energy costs, raw material costs, inflation and inefficiencies in our manufacturing. Our cost reduction programme did not offset these increases.

During H1 2025 our cost reduction activities are beginning to reduce our unit costs and we are regaining some lost ground. We have detailed project plans for further cost reduction which we anticipate could bring us towards our target.

Section 172 statement

The Board is committed to acting in accordance with Section 172 of the Companies Act and promoting the long-term success of the Company for the benefit of all stakeholders. During the year, we secured £8.9m funding (net of fees) to support our working capital requirements and fulfil orders.

We actively engage with key stakeholders, including Customers, Investors and Funders to foster strong relationships and act fairly in their interests.

Customers

We prioritise building strong partnerships with our global customer base, recognising their vital role in our success. Throughout the development process, we engage in collaborative development projects with key customers, fostering long-term relationships and mutual benefit. In 2024, we saw the benefits of proactive communication and regular consultations with customers as their support helped us scale up and overcome production challenges. In addition, our customers advanced the Company £1.6m of cash to support working capital. We maintain a commitment to open communication and problem-solving, ensuring our valued customers remain satisfied and our partnerships continue to thrive.

Employees

Our employees are a continuing part of our success story and enjoy an open and inclusive workplace environment where everyone has an opportunity to contribute, learn and grow.

- During the year the Company performed well against KPI's relating to Health and Safety. The company is accredited with ISO 45001.

  Management promotes a culture of open communication through a structured program of employee engagement. Regular company-wide Townhalls are held throughout the year to facilitate two-way dialogue, enabling leadership to listen to and address employee perspectives. These are complemented by targeted pulse surveys focused on safety and organisational culture. In addition, ongoing initiatives are in place to support continuous improvement, encouraging employees at all levels to contribute ideas for enhancing our facilities, processes, and overall working environment.
- In 2023, we received shareholder approval to launch a company-wide Share Incentive Plan (SIP) which launched in H1 2024. By sharing ownership through the SIP, we align employee interests with those of our shareholders, creating a more unified focus on long-term value creation for everyone. With over 170 employees eligible we believe the SIP fosters a stronger sense of community and shared purpose, leading to an enhanced work environment for all. Post year end the Board approved the second wave of SIP commencing April 2025.

Investors and shareholders

- Throughout the year, we actively engaged with our shareholders through various channels. Capital market days and the announcement of full year and half year results enhanced shareholder understanding by offering further insights into our operations.

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.

In 2024 the Company completed a successful surveillance audit of its ISO 14001:2015 environmental management and ISO 45001:2018 occupational health and safety management systems with zero non-conformances. The ISO 45001:2018 certification provides significant value to the company by helping to reduce workplace incidents and demonstrate OH&S commitment. This boosts reputation, morale and retention.

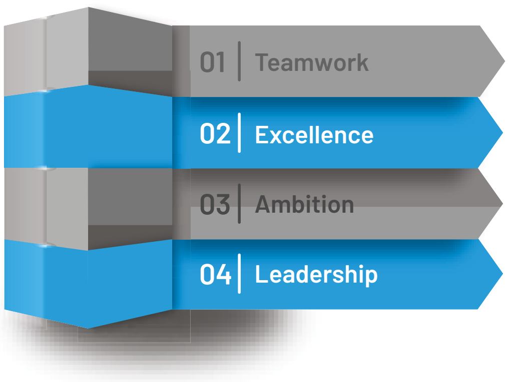
As an IATF 16949 Certified business, the company is always looking for continuous improvement within the organisation, emphasising defect prevention and the reduction of variation and waste in the automotive supply chain and its processes.

Partners and suppliers

In 2024 we took further strides to strengthen our relationships with partners and suppliers.

Understanding the importance of trust, and security of supply, we prioritised discussions and commercial arrangements with our supplier base during our production challenges. This commitment to financial responsibility is crucial for mitigating the inherent risks associated with scaling up our operations.

The Company values open communication and collaboration with our partners. We believe in ethical conduct and hold ourselves and our partners to the highest standards of responsibility. This collaborative approach fosters long-term, mutually beneficial relationships. As a testament to this commitment, we have established long-term contracts with key suppliers, providing them with stability and certainty to support our shared success.



Society

The Company is committed to being a responsible corporate citizen and making a positive impact on society. We strive to:

- Reduce CO_2 in our manufacturing process and wherever commercially viable to source materials and technical support locally in the Knowsley and Liverpool area.
- Engage with the local schools and actively participate in work placement programs and STEM initiatives.
- We foster a welcoming and inclusive workplace that values the unique contributions of all individuals.
- The Company demonstrates our commitment as a responsible employer, by paying employees, the real living wage.

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

Environmental, Social and Governance (ESG)

Progress on Environmental, Social and Governance

Notwithstanding the priority of improving operations, we are maintaining our ESG activities. In addition to the importance of ESG, as a corporate goal, we continue to believe that our ESG work contributes directly to improving both short-term and long-term profitability.

- **Environmental:** The Company's product contribution to the environment is well known. Lower weight leads to reduced exhaust emissions on internal combustion engine vehicles ("ICE") and, amongst other benefits, range extension on electrical vehicles ("EV"). Additionally, and of increasing importance, for both ICE and EV, is the impact of carbon ceramic brakes on reducing brake dust. This reduction in tyre dust and brake dust is a central feature of the new Euro 7 regulations due for implementation in July 2025. Many of our customers see carbon ceramic discs as a contributor to them progressively achieving Euro 7 compliance.

  Our ESG task is to ensure that these environmental benefits are not lost in the manufacturing process, therefore reducing our carbon footprint remains a high priority. This programme also translates directly into improving our profitability, as it is also a cost reduction. For example, all our new furnaces have significantly lower power and gas requirement

- **Social:** Our prime social task is still that of providing well-paid employment in one of the most deprived UK local authority areas. To this end we continue to adopt the policy of meeting the real living wage.

  We have established partnerships with two schools – the local High School and the leading university technical college ("UTC") in Liverpool. Our ambitions are both long-term and short-term and our motivations both social and financial. In the short-term we are seeking to improve our recruitment of the most able technical young people in the City Region. Our longer-term objective is with the local High School to increase the number of pupils, particularly girls, doing STEM subjects, to at least at GCSE level, if not beyond. Our programme involves interaction with school staff, site visits, and presentations in school to children and parents.

- **Governance:** Governance continued to be a key focus and responsibility of the Board, particularly during a year of Chair transition. The Board has two committees established, Audit and Remuneration and both had a busy cadence of meetings, supporting the Board. The Company's governance framework enables oversight and robust decision making and the Board will continue to review the framework as the company matures.

Financial Review

Revenue

Revenue increased 13% to £8.2m in 2024, driven by a 21% increase in discs sold in the period.

Movement toward meeting the higher volume, but lower price, OEM's rather than small dealer sales meant the unit price fell slightly.

Gross margin

Gross profit margin decreased to 50% due to the above shift in product mix and costs incurred in efforts to improve capacity and yield.

Other Income

During the year, we recognised £0.5 million in other income relating to the resolution of a historical equipment supply matter. While specific details remain confidential under the terms of the agreement, this represents a partial recovery in respect of the matter reported in the prior year.

Overheads

Administrative expenses rose 11% to £6.0 million in 2024, up from £5.4 million in 2023. The increase in overheads was primarily driven by a combination of factors, including increases in audit-related fees and additional spend on external expertise to support technical accounting and disclosure requirements. Further increases arose from higher legal fees across a variety of matters and elevated repairs and maintenance costs.

Our continued commitment to research and development (R&D) remains a key driver of innovation and future growth. During the year, pre-capitalisation R&D expenditure increased by £2.5 million to £15.4 million (2023: £12.9 million). Investment was primarily directed towards process and equipment development, the resolution of technical challenges, and the establishment of repeatable processes for higher-volume production. As these development hurdles are progressively overcome, it is expected that the level of spend will reduce accordingly.

During the year, we recognised an accelerated depreciation charge of £0.6 million following a review of the useful economic lives of certain assets. This reflects the Group's transition to newer technologies and the associated replacement of older generation equipment. The adjustment aligns with our capital investment strategy and ensures our asset base continues to reflect its operational utility and future economic benefits.

In accordance with IAS 38 Intangible Assets, no R&D costs were capitalised during the year in relation to the development of our OEM products because it was not possible to demonstrate how the development costs will generate future economic benefits using the principles of IAS 36 Impairment of Assets. See note 4 for details of the impairment assessment for the related CGU performed at 31 December 2024.

Impairment

As part of our annual financial review, the Company conducted an impairment assessment in accordance with IAS 36. Based on a value-in-use analysis reflecting management's current expectations of future performance, an impairment charge of £6.5 million has been recognised in the year (2023: £9.2 million), allocated on a pro-rata basis across all non-current asset categories, including fixed assets, intangible assets, and contract fulfilment assets.

The assessment reflects updated forecasts and a risk-adjusted view of operational delivery and performance timing. While the impairment reduces the carrying value of certain assets, management continues to view the asset base as integral to the Company's ability to fulfil customer contracts and support future revenue generation.

Further details, including key assumptions and sensitivity analysis, are provided in Note 4 to the financial statements.

Net loss

Net loss in the year (after taxation) £22.3m (2023 £19.6m).

Cash Flow

Gross cash at the year-end was £0.5m (2023: £6.1m), supported by a £9.5m fundraising to facilitate working capital growth. In addition, £1.6m of cash advances were received from a key customer during the final quarter of the year to further support working capital. Customer support has continued into 2025 including further working capital funding, increased pricing and funded manufacturing expertise. At the time of writing, discussions with key customers regarding further support remain ongoing.

Financial Review continued

Balance Sheet

Inventories increased by £0.9m and trade and other receivables rose by £0.7m, reflecting higher activity levels. Contract fulfilment assets decreased by £0.7m as costs held on the balance sheet were released in line with the transfer of related goods and services to the customer (see note 15 for further details). Trade and other payables increased by £1.9m, which included a cash advance received from a key customer.

Equity

During the year, the Company successfully raised £9.5m in equity funding to support working capital requirements.

Despite this, after the net loss of £22.3m, net assets decreased by £13.4m.

Loans

In December 2023, the Company secured a £13.2 million loan facility from the LCR UDF Limited partnership. This loan originates from Liverpool city region's Urban Development Fund, which is part-funded by the European Regional Development Fund (ERDF). The loan is used to invest in new manufacturing facilities, thereby increasing our production capacity. It is solely for capital purposes and can be drawn down for eligible capital projects up until 31 December 2025. Similar to a revolving credit facility, the loan liability is only recognised once funds are drawn down. As at 31 December 2024, £5.1m (2023: £ nil) had been drawn down. The loan covenant position is further described in the going concern section of this report. As a result of a covenant breach as at December 2024, the loan is presented as a current liability. Further details, including the post-year-end waiver, are provided in Note 16 – Interest-bearing Borrowings and Lease Liabilities (page 67).

Going Concern and Material Uncertainty Statement

The continued operation of the Company as a going concern is dependent on its ability to successfully navigate the current scale-up phase, where the efficiency of the production process will determine the sales volume achievement, since demand is running well ahead of capacity. The Directors have identified two key areas of material uncertainty that may cast significant doubt over the Company's ability to continue as a going concern: cost and yield challenges and flexibility in commercial arrangements and level of committed funding.

1. Cost and Yield Challenges

- *Cost of Manufacture:* Inflationary pressures continue to pose a risk to raw material and labour costs. In response, the Company has renegotiated current pricing across all major OEM contracts and is pursuing ongoing investments in scalable technology and process efficiencies. These initiatives are expected to reduce manufacturing costs and support margin sustainability, but the accuracy of that expectation remains to be demonstrated consistently.
- *Yield:* Achieving consistent improvements in manufacturing yield remains critical to meeting customer demand and achieving long-term cost efficiencies. The production process is inherently complex, requiring specific operating metrics, particularly around yield, to be consistently met. Lower than expected yields not only reduce the number of saleable units, thereby limiting revenue, but also increase production costs due to higher rates of disc scrappage. This adversely impacts profit margins and cash flows.

Management has taken proactive steps to address these challenges. Several successful upgrades to the manufacturing process were implemented during the year, with further improvements and the involvement of external technical expertise continuing into 2025. These initiatives are expected to materially reduce scrappage rates and enhance overall efficiency.

However, while initial improvements have been encouraging, the underlying processes are still maturing, and several months of sustained high yields will be required before this uncertainty can be fully mitigated.

Until such consistency is demonstrated, Management believes there remains material uncertainty. Any unforeseen setbacks in yield performance could hinder the Company's ability to fulfil contractual obligations, potentially leading to delays, renegotiations with customers, or the need for additional funding.

Furthermore, as an exporter primarily to the US, the Company is mindful of the varying trade and tariff environment. Having established Incoterms transferring title for goods at UK dispatch with the majority of its customers, the Company believes the impacts will be more macro in terms of overall price pressures rather than directly within the supply chain. The Company has advanced mid and long term price negotiations with customers to limit tariff and currency pressures to the highest extent possible.

2. Flexibility in Commercial Arrangements and Level of Committed Funding

The Company's future cash position is heavily dependent on two further factors: the successful finalisation of new commercial contract terms with OEM partners and ongoing support from the Liverpool Combined Authority ("LCA") through waivers for breach of covenant on the ERDF loan.

- *Commercial Contracts:* The timing of finalising full commercial agreements specifying multi-year volumes and prices as well as possible loan conversion for customer manufacturing support, received through prepayments (£11.9m at 31 May 2025) remains uncertain. Any unforeseen delays in securing these agreements or accelerated demand for recovery of the prepayment could lead to funding gaps or breaches of loan covenants, which would further restrict access to future funding and thereby put additional pressure on cash reserves.
- *ERDF loan:* During 2024, the Company made further drawdowns on the ERDF loan utilising £5.1m of the £13.2m facility. In December 2024 the ERDF covenants were again breached and this position remained unrectified in March 2025 . However, the LCA have been willing to waive the December breach in recognition of its temporary nature ahead of a much-improved long term outlook and it is anticipated that further waivers will be given in 2025 until revised covenants are agreed. Further permitted drawdowns have occurred during 2025 and it is anticipated that the £13.2m facility will be fully drawn by the end of the year. Whist Management are confident that the unwavering support from the LCA will continue, should covenants be breached and a further waiver not granted then the Company would be required to raise funds from other sources. Therefore, the requirement for covenant waivers contributes to the material uncertainty.

The Directors have modelled a range of scenarios incorporating the years ending December 2025 and half year to 2026 with base case and downside cases exploring the impact on liquidity from reductions in the key areas of revenue, cost and yield. They have also noted that, since the balance sheet date, the Company has made significant progress in the above areas on price and volumes and tangible unit cost reductions when compared to 2024. Further information on the scenario modelling and key judgments underpinning the going concern assessment is disclosed in the notes to the accounts on pages 49 to 50.

The full-year 2025 outlook remains aligned with Management's base case expectations of revenue and EBIT as well as the achievement of cash positive monthly flows by the second half of the year. However, the Directors acknowledge that uncertainty remains regarding yield performance, cost control, and the timing of commercial agreements.

As such, there exists a material uncertainty that may cast significant doubt over the Company's ability to continue as a going concern. Should these challenges persist or worsen in the short term, they may adversely impact operational performance, including sales and EBITDA generation, which are essential for transitioning from a loss-making to a cash-generative business.

Notwithstanding the material uncertainty, after due consideration the Directors have a reasonable expectation that the Company has sufficient resources to continue in operational existence for the period of 12 months from the date of approval of these financial statements. Accordingly, the financial statements continue to be prepared on the going concern basis and do not contain the adjustments that would arise if the Company were unable to continue as a going concern.

Risks and uncertainties

The Company has embedded risk management activities as part of its business planning process with risks being routinely reviewed throughout the year. The principal risks are execution risks; these may affect the strategy of the Company or the pace at which we can deliver our aims. The Company has a comprehensive plan to mitigate these risks and to minimise disruptions and delays.

Execution risk refers to the potential for unexpected challenges and problems arising during the process of increasing our manufacturing output from a small scale to a large-scale operation. These challenges can lead to delays impacting the customer and creating cost overruns and cash constraints. The principal execution risks are described in the table below.

The organisational structure of the Company enables management to maintain oversight daily on the majority of execution risks.

Risk description	Impact	Mitigation Strategies	Likelihood (Post-Mitigation)
Safety Employee health, safety and wellbeing are paramount. If an incident within our manufacturing facilities were to arise this could potentially cause serious harm, illness or injuries to employees, lost production time and reputational damage.	Moderate (increased injuries, workplace fatigue)	• Board-level commitment to safety culture (e.g., training, visible leadership) • Standards-based approach to health and safety (ISO 45001)	Low
Liquidity Risk of difficulty meeting short-term obligations due to limited cash.	High (supplier issues)	• Prioritise production, optimise working capital financing, enact cost cutting tactical plans	Moderate
People Difficulty retaining critical skills and ensuring a smooth workforce adaptation to evolving technologies and business needs.	High (Lost "Know-How", Production inefficiencies, quality control issues, low morale)	• Foster an engaged and rewarded workforce • Succession planning for senior team with specialist know how and skills • OnBoarding programmes Comprehensive training	Moderate

Risk description	Impact	Mitigation Strategies	Likelihood (Post-Mitigation)
People Difficulty retaining critical Reliance upon key senior leadership for business decision making	High (Operational disruption and diversion from achieving strategic plans)	• Experienced Board and frequent Board meeting cadence provides timely considered decision making • Retention plans in place	Moderate
Process technology Inefficiencies, inconsistencies, or failures in manufacturing processes due to newly specified and evolving technology, inadequate process control, or process deviations.	High (Production downtime, increased costs, lost revenue)	• Dedicated maintenance team and strategy shift to "reliability" • Dedicated heat treatment team • 24/7 support system for critical equipment • Duplicate equipment eliminating single point of failure • Skilled workforce with continuous training and development programmes Adoption of maintenance management system for efficient upkeep • Develop headroom capacity on equipment	Low
Yield Production output falls short of expectations.	High (Scrap rate, lost sales)	• Have a strong quality team and assurance process • Root cause analysis and targeted improvements Cross-functional scrap reduction teams • Capital plan introducing further automation to production	Low

Risks and uncertainties continued

Risk description	Impact	Mitigation Strategies	Likelihood (Post-Mitigation)
Manufacturing cost Targets to reduce cost to manufacture not met	Low (Reduction in profitability leading to financial loss)	• Multiple projects being run to each reduce an element of cost, with objectives and targets set for manufacturing areas accordingly	Low
Product quality and safety The risk of product recalls, liability claims, damaging to business and brand reputation.	Low (Reputational damage from product liability recall and financial loss)	• 2 years of pre-launch testing, alongside stringent product and quality specifications • We maintain a robust quality assurance (QA) and quality control (QC) program throughout the manufacturing process and have an extremely low risk of a defect reaching the customer • Insurance provides the ultimate cover to the Company in the event of a recall	Low
Capacity constraints and bottlenecks Risk of production delays and lost revenue due to limitations in manufacturing capacity or the presence of bottlenecks that slow down the overall production process.	High (bottlenecks, customer delays, lost sales, reputational damage, lost revenue)	• Expand use of site space and progress £13m investment program for increased capacity • Research and development into manufacturing process to maximise production volumes at key stages • Reduce defects and scrap rate • Develop production headroom capacity and build buffer stocks	Low
Cybersecurity and IT systems resilience Risk of disruption, data breaches, or operational paralysis due to cyberattacks on IT systems, production controls, or confidential information	High (Financial loss, reputational damage)	• Dedicated cyber security resources • Industry-leading security measures • Ongoing policy development and disaster recovery planning	Moderate

Risk description	Impact	Mitigation Strategies	Likelihood (Post-Mitigation)
Supply chain Risk of production disruptions or delays due to issues with obtaining raw materials, components, or finished goods from suppliers	Moderate (Production delays, increased costs, lost revenue)	• Dual sourcing of critical materials • Strong supplier relationships and supply agreements	Low
Inability to meet customer demand Risk of customer dissatisfaction if the company cannot fulfil orders on time or in the desired quantities	High (Lost revenue, customer trust loss)	• Build capacity and resilience • Regular customer engagement & planning • Contingency plans for production disruptions using open communication with customers	Moderate
High customer concentration Reduced potential for customer bargaining power due to a reliance on a limited number of customers for a significant portion of revenue.	Moderate (dependency, reduced commercial leverage)	• Prospecting to broaden customer base over the mid-term and ensure continued scalability	Moderate
Energy: Risk of production disruptions or increased costs due to the inability to secure sufficient energy supplies locally to meet the Company's intensive production requirements	High (Capital plans constrained, forecasting and budgeting difficult)	• Progress combined heat and power (CHP) plant solutions and other energy-efficient technologies • Lock in energy prices annually to provide greater certainty on cost	Moderate
Geopolitical: Changes in international trade policies (e.g. tariffs, trade wars) can significantly impact supply chains, costs and market access	Moderate (Loss of revenue, reduction in profitability, delay in shipping times both from suppliers or to customers)	• Incoterms to be set to best avail of the trade climate	Moderate

Risks and uncertainties continued

Risk description	Impact	Mitigation Strategies	Likelihood (Post-Mitigation)
Intellectual property ("IP"): Risk of unauthorised use or theft of Company's intellectual property	Moderate (Financial loss)	• Comprehensive patent protection, physical and legal safeguards over access to sensitive IP	Moderate

By being proactive and taking steps to mitigate these risks we are increasing the likelihood of achieving our production objectives.

Kevin Johnson
CEO

9 June 2025

Director's Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2024.

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*	*(Non-Executive Chairman retired 16 September 2024)*
A Kitchingman*	*Chairman appointed 16 Sept 2024, resigned 6 November 2024*
I Cleminson*	*(Interim Non-Executive Chairman appointed 6 November 2024, Non-Executive Chairman appointed 20th May 2025, formerly Non-Executive Director)*
Dr K Johnson	*(Chief Executive Officer)*
I Maddock	*(Chief Financial Officer – retires 30 June 2025)*
M Taylor*	
J Woodhouse*	

* denotes Non-Executive Director. All Non-Executive Directors are deemed to be independent).

The Directors who held office at the end of the period had the following interests in the ordinary shares (£0.01 ordinary shares) of the Company:

	Ordinary shares at the start of the period*	Ordinary shares at the end of the period*	% of Issued share capital at the end of the period
D Bundred	2,052,626	4,552,626	0.35%
K Johnson	1,141,308	3,641,308	0.28%
I Maddock	113,763	463,763	0.04%
M Taylor	1,240,203	11,240,203	0.86%
I Cleminson	319,654	2,819,654	0.22%
J Woodhouse	535,203	3,035,203	0.23%

* Number of £0.01 ordinary shares

The Directors benefited from qualifying third-party indemnity provisions in place during the financial year and at the date of this 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 Remuneration Committee, which is responsible for new senior appointments, and reviewing executive performance and remuneration. This committee is made up of three Non-Executive Directors Julia Woodhouse (Chair), Ian Cleminson and Matthew Taylor. The Audit Committee is made up of the three independent NEDs and is chaired by Ian Cleminson. Details of the Remuneration Committee are disclosed in the report on Directors' remuneration on page 29.

Going concern

The Directors acknowledge a material uncertainty regarding the Group's ability to operate as a going concern. Further details on the uncertainty are detailed in the Financial Review.

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 weekly, monthly and ad hoc basis; it is reviewed at Board level and managed daily by the finance function.

Exchange rate risk

It is the Company's policy to negotiate contracts in sterling where possible. Contracts for all OEMs with the exception of one European manufacturer, have been negotiated in sterling to mitigate any exchange risk. The Company has a certain quantity of supplier payments in Euro and there is an anticipated approximate natural hedge between this supply and the non-sterling revenues. 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 will 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.

A more detailed discussion of these risks, including currency sensitivity price risk and credit risk, can be found in Note 22 to the financial statements.

Principal Activity

The principal activity of the Company is to design, manufacture and sell carbon ceramic components. The Company also conducts R&D into better performing carbon ceramic products.

Impairment

The 2024 impairment charge described in the Financial Review reflects an accounting adjustment required under IFRS. The underlying assets continue to be integral to fulfiling our customer contracts and generating future revenue.

Result for the year and proposed dividend

The loss for the year after taxation amounted to £22.3m (2023: £19.6m). The Directors do not recommend the payment of a dividend (2023: £nil).

Post balance sheet event

Since the balance sheet date, the Company has taken strategic steps to enhance liquidity and operational efficiency. This includes securing over £10 million in cash advances from a key customer under revised commercial terms to support working capital. The Company is also renegotiating pricing structures with key partners and enhancing manufacturing capabilities to drive long-term value and performance. Further details are provided in Note 30 to the financial statements.

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

Ian Cleminson
Chairman

9 June 2025

Image Business Park
Acornfield Road
Liverpool
L33 7UF

Board of Directors

Board Skills and Experience

Ian Cleminson
Chairman

Appointed Chair on 22 May 2025

Appointed Interim Chair on 6 November 2024

Non-Executive Board Member since 1 May 2022

Ian is currently Executive Vice President and Chief Financial Officer of Innospec Inc., an international specialty chemical business employing 2450 personnel, in 22 countries with sales of $2.0 billion and quoted on the US NASDAQ exchange with a market capitalisation of over $2 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

Dr Kevin Johnson
Chief Executive Officer

Appointed April 2005

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 within 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 2004 and the Board as CEO in 2005. Since then Kevin has been responsible for leading Surface Transforms through its development phase to the current position of winning OEM brake disc contracts and scaling up manufacturing.

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

Isabelle Maddock
Chief Financial Officer

(retiring June 2025)

Isabelle brings over 30 years of financial leadership experience across the manufacturing, software, retail, PFI, and publishing sectors. A Fellow of the Chartered Institute of Management Accountants (CIMA), she previously served for nine years as Chief Financial Officer at James Cropper Plc and held senior financial positions at companies including Adobe Systems Europe Ltd and Ethicon Ltd. Her breadth of sector experience, financial expertise, and strategic insight have been of significant value to the Board. The company has implemented a structured handover to an interim CFO to ensure continuity.

Julia Woodhouse
Non Executive Director

Appointed March 2021

Julia's executive career was spent in the global automotive industry where her international leadership roles with Ford Motor Company included Director, Global Power Train Purchasing, based in USA and Director Global Chassis Purchasing, based in Germany. Julia is currently a non-executive director of Outokumpu Corporation, a leading Nasdaq listed stainless steel manufacturer and is a member of the remuneration committee, following her prior membership of the audit committee. Julia is also a member of the Outokumpu external ESG advisory council. She is also a charity trustee.

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

Board of Directors continued

Matthew Taylor
Senior Independent Non-Executive Director

Appointed March 2021

Matthew retired from his role as CEO of Bekaert SA in 2020 and joined the Board in March 2021. Bekaert SA, a €5 billion, 30,000 employees global steel cord business headquartered in Belgium with 45% of its business in automotive. Prior to this role Matthew was CEO of Edwards Vacuum, CEO of JC Bamford, and Global MD of Land Rover following his early career in sales and marketing roles with Ford after a short spell in the Royal Navy.

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

During the year the following meetings were held:

	Board Meeting	Audit committee	Remuneration committee
No of meetings	**18**	**2**	**15**
Attendance by Director:			
D Bundred+	11	1	12
A Kitchingman	2	–	1
K Johnson	18	2	9
I Cleminson*+	18	2	13
I Maddock	18	2	–
J Woodhouse*+	17	2	15
M Taylor*+	18	2	15

* Member of the Audit Committee

\+ Member of the 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.

Report of the Audit Committee

The main objectives and key areas of focus for the Committee's work this year were:

1. Support Management in driving continuous improvements in accounting and internal financial control across the Company.
2. Support Management where needed to improve the quality of people resources in our finance function.
3. Work with Management and the Board to oversee the equity raise of the Company which concluded in May 2024.
4. Work with Management to continue to refine the approach to financial risk management.
5. To oversee a smooth transition to a new audit partner from our audit firm Grant Thornton.

Composition

The Audit Committee comprises of three members:

Ian Cleminson (Chair)
Matthew Taylor
Julia Woodhouse

All of us are independent Non-Executive Directors. The Committee therefore complied with the requirements of the 2016 Code for a smaller company, this being to have at least two independent Non-Executive members.

Biographical details and experience of members are set out on pages 25 to 26. The Board believes that Committee members have an appropriate range of financial, operational, commercial management expertise to allow the Committee to fulfil its duties. The Board considers that Ian Cleminson has the relevant and recent financial experience to perform the role of Committee Chair.

Responsibilities during the year

During the year ended 31 December 2024, the Committee met two times. The meetings were attended by the independent Non-Executive Directors (the members), the Company Secretary and, by invitation, the Chair of the Board, the Chief Executive Officer, the Chief Financial Officer and representatives of the external auditors.

The external auditors have access to all Committee papers and minutes. The Committee meets privately at least once a year with representatives from the external auditors which provides an opportunity for any matters to be raised in confidence which they consider should be brought to the attention of the Committee without the Executive Directors being present. Full details of Director attendance during the year are set out in the table of all Committee meetings on page 26.

In addition to the specific areas of focus described above, the Committee also carried out the following work under its Terms of Reference:

- Review, comment on, and recommend to the Board the Companies interim and full year financial statements for approval;
- Review and consider the appropriateness of the outcome of areas where significant judgements and estimates are required in the preparation of the financial statements, including those outlined on pages 54 to 55
- Consider the appropriateness of the going concern basis used to prepare the financial statements.
- Consider the appropriateness of presenting alternative performance measures and the clarity of disclosure relating to these measures;
- Consider and approve proposals from the external auditor regarding the approach to the audit strategy for the year ended 31 December 2024, including the proposed materiality level for the audit, and review of the findings of the audit;
- Review and update the Committee's terms of reference; and
- Review the Committee's effectiveness.

Going concern

The Audit Committee has carefully assessed the Group's ability to continue as a going concern. This assessment considered the current cash position, available credit facilities, and a range of forecast scenarios, including the assumptions underlying those forecasts. The Committee acknowledges the challenges described in the Financial Review that introduce uncertainty into the performance outlook. We believe these assumptions are reasonable in the circumstances. However, given the inherent uncertainties surrounding the year's performance, the Committee concludes that a reference to a material uncertainty in the context of the going concern basis of the financial statements is appropriate.

Impairments

The Audit Committee reviewed the impairment tests performed by management and the resulting charges described in Note 4 to the Financial statements. We are satisfied that the procedures were conducted in accordance with IAS 36 and that the impairment loss is appropriately reflected in the financial statements.

The Audit Committee challenged management's assessment of the forecasts and risks underpinning the impairment analysis.

We considered the latest operational and yield improvements and the likelihood and sustainability of maintaining the improvements over a longer period. In addition, we considered the assets replaced during the financial year and their future contributions. Finally, we considered the sensitivity of commercial arrangements including contracts, pricing and volumes.

We are satisfied with management's assessment and believe the impairment loss is appropriately and reasonably recognised in the financial statements.

The Committee monitors the integrity of the Company's financial information and other formal documents relating to its financial performance and makes appropriate recommendations to the Board before publication. A key factor in the integrity of financial statements is ensuring that suitable and compliant accounting policies are adopted and applied consistently year-on year. In this respect, the Committee also considers significant estimates and judgements made by management in preparing the financial statements. The Committee's considerations are supported by input from other assurance providers, e.g. the external auditors.

Details of total remuneration for the Auditor for the year, including audit services, audit-related services and other non-audit services, can be found in Note 4 to the consolidated financial statements.

(a) Auditor independence and objectivity

The independence of the external Auditor is essential to the provision of an objective opinion on the true and fair view presented in the financial statements. Auditor independence and objectivity is safeguarded by limiting the nature and value of non-audit services performed by the external Auditor. The Company has policies of not recruiting senior employees of an external Auditor who have worked on the audit in the past two years to senior financial positions within the Company. The lead engagement partner of the auditor is rotated at least every five years.

(b) Non-audit services provided by the external Auditor

To safeguard the independence and objectivity of the Auditor, the Committee has approved a policy on non-audit services provided by the Auditor in line with professional practice and in accordance with ethical standards published by the Audit Practices Board of the Financial Reporting Council. Control of non-audit services is exercised by ensuring that all non-audit services, where fees exceed an agreed limit, are subject to the prior approval of the Committee, who must be satisfied there is no conflict of interest.

(c) Assessment of effectiveness of external audit

The Committee has a formal system for evaluating the performance and independence of the external Auditor. This system involves active dialogue with the lead engagement partner and the auditor's response to accounting, financial control and audit issues as these arise. The Committee conducts an annual review of the structure and approach taken in the external audit, the level of non-audit fees, and the effectiveness, independence and objectivity of the external Auditor.

Having made the requisite enquiries, so far as the Directors in office at the date of the approval of this report are aware, there is no relevant audit information of which the Auditor is unaware and each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the Auditor is aware of that information.

Ian Cleminson
Chair to the Audit Committee

9 June 2025

Report on 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.

During the year the Remuneration Committee comprised of David Bundred (until resignation in April 2024), Julia Woodhouse, Matthew Taylor and Ian Cleminson. In April 2024, Julia Woodhouse became Chair of the Remuneration Committee.

The Remuneration Committee plays a crucial role in ensuring good governance by overseeing two key areas: Board composition and executive compensation.

- The committee reviews and determines appointments to the Board, ensuring the Board has the necessary skills and experience to guide the company effectively.
- The committee oversees the company's policy on executive remuneration, including granting options under the Share Option Scheme. This ensures executive pay is fair and competitive, reflecting individual contributions and aligning with the company's long-term goals.
- The Committee also monitors performance and succession planning at both Board level and the Senior Leadership Team.

Fees for non-executive Directors

- The fees for non-executive Directors are determined by the Board, after taking advice from its brokers and advisors. The non-executive Directors are not involved in the decisions about their own 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:

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 and fees		Bonus		Pension		Total	
	31-Dec 2024 £	31-Dec 2023 £	31-Dec 2024 £	31-Dec (Restated) *** 2023 £	31-Dec 2024 £	31-Dec 2023 £	31-Dec 2024 £	31-Dec (Restated) *** 2023 £
Executive Directors								
Dr K Johnson	**284,500**	284,500	**57,500**	30,250	**20,847**	20,847	**362,847**	335,597
I Maddock	**213,100**	69,002	**12,000**	10,000	**14,000**	4,611	**239,100**	83,613
M Cunningham	**–**	58,455	**–**	–	**–**	3,605	**–**	62,060
	497,600	411,957	**69,500**	40,250	**34,847**	29,063	**601,947**	481,270
Non-Executive Directors								
DG Bundred**	**76,667**	83,000	**–**	–	**–**	–	**76,667**	83,000
Andrew Kitchingman*	**2,528**	–	**–**	–	**–**	–	**2,528**	–
J Woodhouse	**26,250**	35,000	**–**	–	**–**	–	**26,250**	35,000
M Taylor	**26,250**	35,000	**–**	–	**–**	–	**26,250**	35,000
I Cleminson	**26,250**	35,000	**–**	–	**–**	–	**26,250**	35,000
	157,945	188,000	**–**	–	**–**	–	**157,945**	188,000

* DG Bundred Retired 16 September 2024

** Andrew Kitchingman appointed 16 Sept 2024, resigned 6 Nov 2024.

*** The 2023 bonus has been restated to exclude the bonus paid in 2023 in respect of the 2022 financial year of £70k and to include the bonus paid in 2024 in respect of the 2023 financial year of £40k in line with Companies Act requirements.

Report on Directors' remuneration continued

Directors are eligible to receive an annual discretionary bonus of up to a set percentage of salary, based on performance against a range of internal KPIs agreed at the start of the financial year. Performance is assessed by the Remuneration Committee. The Non-Executive Directors elected to waive their fees from October 2024 through to the end of the financial year. This voluntary decision reflects their commitment to supporting the business during a challenging period. As a result, total Non-Executive Director fees for the year are lower than in prior periods.

Information regarding Directors' shareholdings in the Company for 2024 is detailed in the sections below on Share Saving Schemes and Long-Term Incentive Plans. The Company has maintained Directors' and Officers' liability insurance throughout the period. We are pleased to report that no contracts requiring disclosure due to a Director's material interest were entered into during the reporting period. For further details on related party transactions, please refer to Note 21.

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. By sharing ownership we align employee interests with those of our shareholders, creating a more unified focus on long-term value creation for everyone. As the Company has grown, we are no longer eligible to participate in the HMRC approved Enterprise Management Incentive Scheme (EMI) and therefore established a Long Term Incentive Plan, approved at the 2023 AGM.

All options are granted at the discretion of the Board. Existing awards to Directors under the EMI scheme, 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 2024	Disposals	Holding on 31 December 2024	Exercise Price	Exercise Period
Dr K Johnson	04/07/2018	1,590,000	–	**1,590,000**	£0.16	19/09/18-19/09/28
Dr K Johnson	05/12/2018	1,910,000	–	**1,910,000**	£0.13	05/12/18-05/12/28
		3,500,000		**3,500,000**		

Share awards made during the financial period to 31 Dec 2024, under the long term incentive plan (LTIP) to executive Directors were as follows;

Director	Options at 31 Dec 2023	Options granted in the period	Month of grant	Exercise price (pence per share) of options	Options exercised in the period	Options Lapsed in the period	Options as at 31 Dec 2024
Kevin Johnson	–	2,504,554	Jan-24	10.98	–	–	2,504,554
Kevin Johnson	–	16.082,812	Aug-24	1.71	–	–	16,082,812
Isabelle Maddock	–	1,366,120	Jan-24	10.98	–	–	1,366,120
Isabelle Maddock	–	7,675,887	Aug-24	1.71	–	–	7,675,887

On 16 January 2024 Surface Transforms granted, in total, 7.3m share options to Directors and senior managers pursuant to its long term incentive plan ("LTIP"). Kevin Johnson (CEO) has been awarded 2.50m Options, Isabelle Maddock (CFO) 1.37m, and the other senior managers a total of 3.41m. The exercise price of the Options was 10.98p. The Options represented 2.1% of the total issued share capital of the Company at that time. The Options vest at the third anniversary of grant if the following vesting requirements are met:

- EBITDA per share between 3.34 pence (10.5% of the award) and 4.00 pence per share (30% of the award).
- This is based on achieving between £12.5m EBITDA and £15m EBITDA in the year to 31 December 2026.
- Installation of realisable £75m sales capacity (30% of the award).
- Share price above 60p on a VWAP basis for the 20 days prior to the vesting date (20% of the award)
- A commercially confidential strategic milestone providing additional technical excellence, aimed at maintaining the Company's technical leadership in the marketplace (20% of the award).

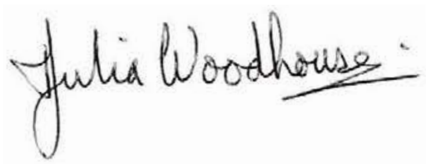
On 15 August 2024 Surface Transforms granted, in total, 50.9m share options to Directors and senior managers pursuant to its long term incentive plan ("LTIP"). Kevin Johnson (CEO) has been awarded 16.1m Options and Isabelle Maddock (CFO) 8.8m, and the other senior managers a total of 26m. The exercise price of the Options was 1.70p. The Options represented 3.9% of the total issued share capital of the Company. The Options vest at the third anniversary of grant if the following vesting requirements are met:

- EBITDA per share between 0.31 pence (10.5% of the award) and 0.46 pence per share (30% of the award).
- This is based on achieving between £4m EBITDA and £6m EBITDA in the year to 31 December 2026
- Installation of realisable £75m sales capacity (30% of the award)
- Share price above 5p on a VWAP basis for the 20 days prior to the vesting date (20% of the award)
- A commercially confidential strategic milestone providing additional technical excellence, aimed at maintaining the Company's technical leadership in the marketplace (20% of the award).

The vesting criteria are independent of each other, albeit clearly linked if the separate criteria are to be achieved.

After exercise, the participants in the LTIP will be required to maintain a level of shareholding proportional to their salary.

On behalf of the Board



Julia Woodhouse
Non-Executive Director

9 June 2025

Statement of Director's responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with UK-adopted international accounting standards. 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.

Ian Cleminson
Chairman

9 June 2025

Independent auditor's report

to the members of Surface Transforms Plc

Opinion

Our opinion on the company financial statements is unmodified

We have audited the financial statements of Surface Transforms Plc for the year ended 31 December 2024, 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 material accounting policy information. 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 2024 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 fulfiled 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.

Material uncertainty related to going concern

We draw attention to the going concern section within Note 1 to the financial statements, which indicates that the continued operation of the company as a going concern is dependent on its ability to successfully navigate the current scale-up phase. The Directors have identified two key areas of material uncertainty that may cast significant doubt over the Company's ability to continue as a going concern: cost and yield challenges and flexibility in commercial arrangements and level of committed funding. As a result, this may exhaust cash headroom or incur further breaches of loan covenants in a downside case scenario.

As stated in note 1, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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.

Our evaluation of management's assessment of the entity's ability to continue as a going concern

Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- obtaining an understanding of relevant controls relating to the assessment of the going concern model;
- considering the inherent risks associated with the Company's business model including the effects arising from macro-economic uncertainties such as interest rates, inflation and the ongoing impact of U.S. tariffs;
- obtaining and reviewing management's assessment of going concern, including the Board-approved forecasts covering the period up to and including June 2026, being more than 12 months from the date of approval of the financial statements, and testing the mathematical accuracy of those forecasts;
- assessing the reasonableness of the inputs and assumptions used in the model;
- testing the accuracy of management's historical forecasting through a comparison of budget to actual data;
- corroborating the existence of the Company's loan facilities and relevant covenant requirements to loan agreements for the period covered by management's forecasts;
- assessing scenario sensitivities and reverse stress tests performed by management, and determining if they are plausible;
- performing our own scenario sensitivities over and above the sensitivities of management and considering the available headroom and compliance with covenants;
- testing the adequacy of the supporting evidence for cash flow forecasts by agreeing to relevant supporting documentation and actual performance, and considering the headroom available to the Company;
- assessing the appropriateness of assumptions regarding mitigating actions to reduce costs or manage cashflows in downside scenarios;
- engaging an internal going concern specialist to assist in forming our opinion and conclusion in relation to going concern; and
- assessing the adequacy of related disclosures within the annual report.

Based on the work we have performed, we have identified two key areas of material uncertainty 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

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.

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

Our approach to the audit

Grant Thornton

Overview of our audit approach

Overall materiality: £670k, which represents approximately 4% of the Company's loss before tax excluding impairment charges

Key audit matters were identified as:

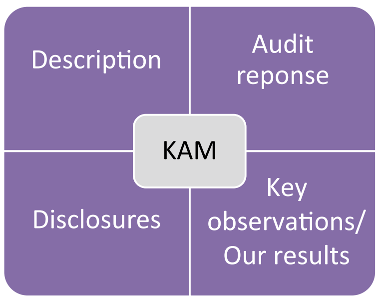
- Revenue recognition in relation to contracted system integration services (same as previous year);
- Going concern (same as previous year); and
- Carrying value of property, plant and equipment (same as previous year).

Our auditor's report for the year ended 31 December 2023 included the carrying value of intangible assets as a key audit matter. Given intangible assets were fully impaired last year, and the carrying value of intangible assets for the year ended 31 December 2024 is immaterial, the significant risk has been pinpointed to the carrying value of property, plant and equipment in our current year's report.

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

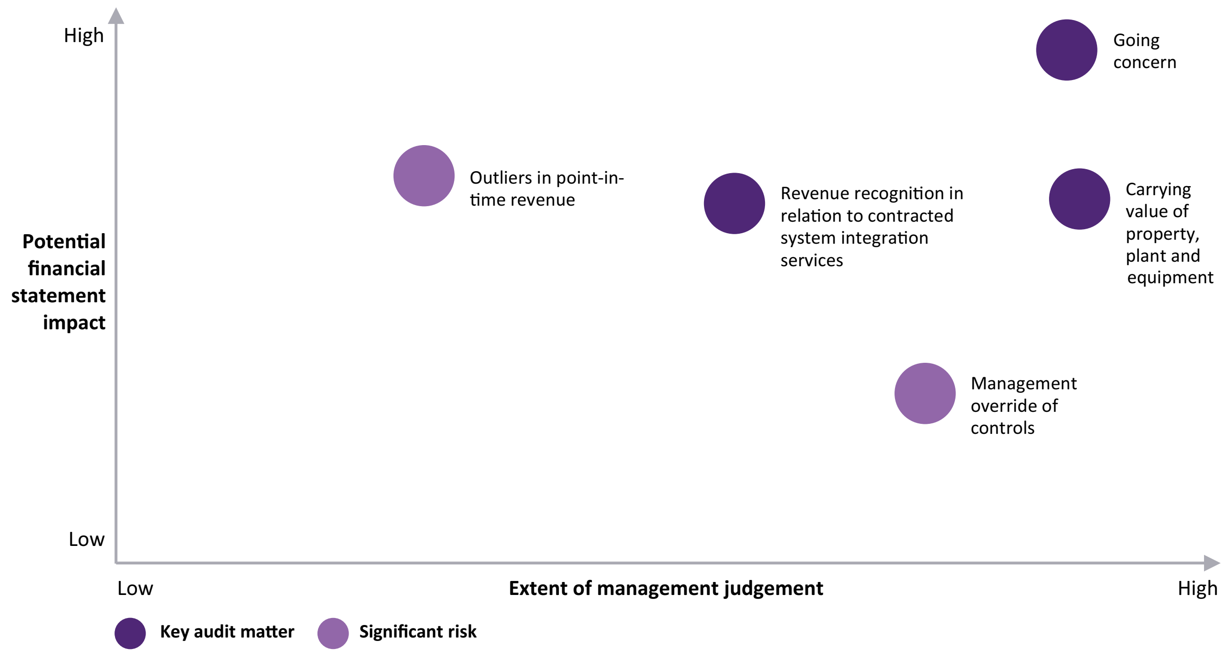
Key audit matters

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



Independent auditor's report continued

In the graph below, we have presented the key audit matters and significant risks relevant to the audit. This is not a complete list of all risks identified by our audit.



In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	How our scope addressed the matter
Revenue recognition in relation to contracted system integration services We identified revenue recognised in relation to contracted system integration services 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. 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. Specifically, there are significant judgements in the assessment of performance obligations per the contract, which determines revenue recognition for multi-year contracts. **Relevant disclosures in the Annual Report** • Financial statements: Note 1 Accounting policies; Basis of preparation, Note 3 Revenue by geographical destination, Note 15 Contract fulfilment asset	In responding to the key audit matter, we performed the following audit procedures: • updated our understanding of and evaluated the design and implementation of relevant controls over revenue recognition; • assessed the revenue recognition accounting policy for compliance with accounting standards, including appropriateness and disclosure within the financial statements; • obtained and inspected contract documents and challenged the identification of performance obligations, contract clauses and assessed whether the method of revenue recognition is in accordance with IFRS 15; • assessed the appropriateness of management's assumptions in respect of expected lifetime volumes under each contract; • agreed a sample of disc sales to supporting evidence to corroborate the occurrence of revenue recognised in the period; and • assessed the accuracy and sufficiency of financial statements disclosures. **Our results** Based on our audit work performed, we did not identify a material misstatement in revenue recognition in relation to contracted system integration services.

Independent auditor's report continued

Key Audit Matter	How our scope addressed the matter
Carrying value of property, plant and equipment We identified the carrying value of property, plant and equipment as one of the most significant assessed risks of material misstatement due to error following the continued operational challenges experienced by the Company. Under International Accounting Standard ('IAS') 36 'Impairment of Assets', management are required to assess for indicators of impairment at the period end, and where such indicators exist perform an assessment to estimate the recoverable value of the asset. The process for assessing whether impairment of non-current assets exists under IAS 36 is complex. Management identified indicators of impairment at the period end and as such they prepared an impairment model to assess the value in use. Calculating value in use, through forecasting cash flows for the associated cash-generating unit ('CGU'), and the determination of relevant CGUs, appropriate discount rates and other assumptions to be applied is highly judgemental and subject to management bias or error. The selection of certain inputs into the cash flow forecasts can also significantly impact the results of the impairment assessment.	In responding to the key audit matter, we performed the following audit procedures: • obtained an understanding of and evaluated the design and implementation of relevant controls relating to the impairment model; • obtained management's Board-approved assessment over carrying value and value in use; • assessed the mathematical accuracy of the impairment model and methodology applied by management for consistency with the requirements of IAS 36, including the associated sensitivities performed; • tested the accuracy of management's forecasting through a comparison of current period budget to actual data; • assessed the appropriateness of management's assumptions and sensitivities, and performed our own sensitivities, relating to the calculations of the value in use of CGUs and estimated future cash flows, including growth rates and discount rates; • assessed whether fair value less costs of disposal would result in a higher valuation, with reference to the valuation implied by the listed price and applying multiples derived from listed comparables; • used our internal valuation specialists to inform our challenge of management concerning the reasonableness of the assumptions used within the calculation of weighted average cost of capital and specific cash flow risk premiums; and • assessed the accuracy and sufficiency of the required financial statement disclosures.
Relevant disclosures in the Annual Report	**Our results**
• Financial statements: Note 1 Accounting policies; Impairment of Assets, Note 11 Property, plant and equipment • Audit committee report: Impairment	Our audit testing and challenge of management resulted in a revision to: a) the forecasted cashflows; and b) the discount rate utilised. This led to the recognition of impairment charges to non-current assets amounting to £6.5m with £6.3m allocated to property, plant and equipment. Based on our audit work, we are satisfied that the assumptions used in management's revised impairment model are appropriate and we did not identify any further material misstatements in the carrying value of property, plant and equipment. We consider the disclosures with respect to the carrying value of intangible and tangible assets to be in accordance with IAS 36.

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:

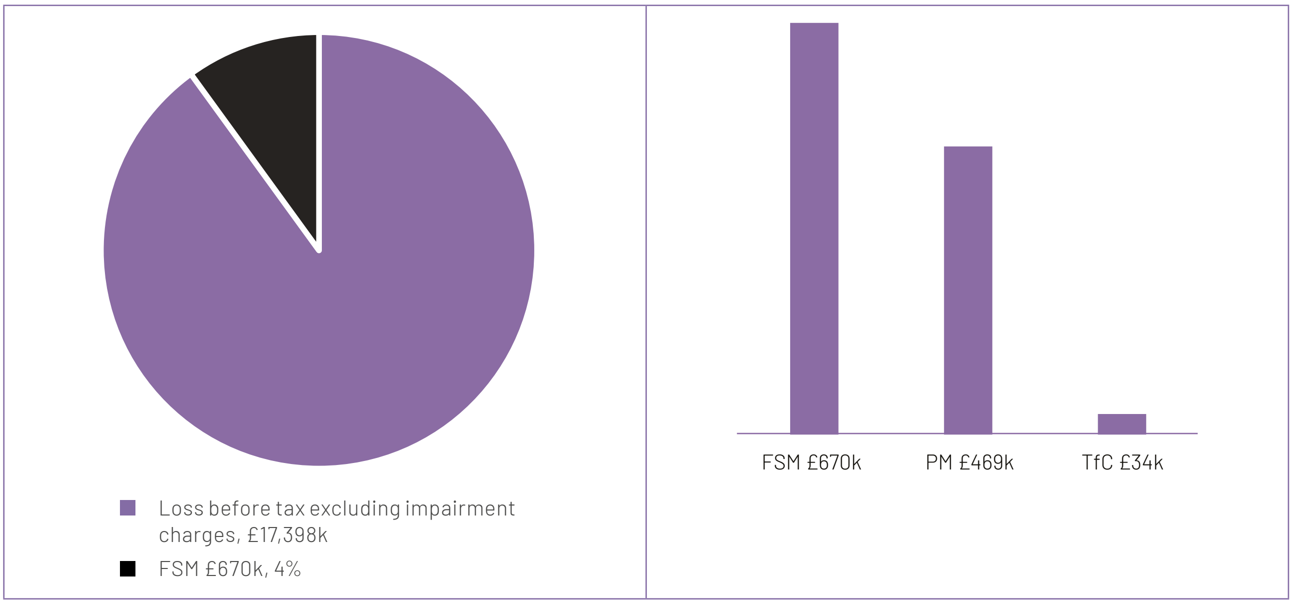
Materiality measure	Company
Materiality for financial statements as a whole	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.
Materiality threshold	£670k (2023: £567k), which represents approximately 4% of loss before tax excluding impairment charges.
Significant judgements made by auditor in determining 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; • We excluded impairment charges on the basis that they are of a large magnitude and do not reflect the underlying performance of the company; • A percentage of 4% was chosen given the challenging business environment and the increased level of debt held. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2023 to reflect the higher loss in the current year compared to the prior year. Despite making a higher loss (excluding impairment charges) than in the prior year, the Company has benefited from an increase in revenue and growth of their customer base.
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	£469k (2023: £425k), which is 70% (2023: 75%) of financial statement materiality.
Significant judgements made by auditor in determining performance materiality	In determining performance materiality, we made the following significant judgements: • The number and magnitude of unadjusted misstatements identified in the prior year were considered to be significant; and • The nature and impact of control deficiencies identified in the prior year, some of which were considered to be significant.

Independent auditor's report continued

Materiality measure	Company
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; and • Related party transactions.
Communication of misstatements to the audit committee	We determine a threshold for reporting unadjusted differences to the Audit Committee.
Threshold for communication	£34k (2023: £28k), which represents 5% of financial statement materiality, 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 threshold for communication to the audit committee.

Overal materiality



FSM: Financial statement materiality, PM: Performance materiality, TfC: Threshold for communication to the audit committee

An overview of the scope of our audit

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

Understanding the company, its environment, including controls

- we 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 risk of material misstatement

Work to be 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 revenue recognition in relation to contracted system integration services;
- an assessment of material accounting policies for compliance with the financial reporting framework;
- undertaking substantive audit procedures on revenue recognised in relation to contracted system integration services, 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 in relation to contracted system integration services; and
- undertaking substantive audit procedures over the carrying value of property, plant and equipment, subject to the requirements of IAS 36, including review and challenge of management's value in use calculation which addressed the key audit matter 'Carrying value property, plant and equipment'; 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

- in order to gain sufficient appropriate audit evidence to address the risks described above, an audit of financial information of the Company was carried out, which included a mix of 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, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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 by the Company, 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

As explained more fully in the directors' responsibilities statement set out on page 32, 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 company 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 applicable to the Company and the industry in which it operates. We determined that the most significant laws and regulations are those that relate to the financial reporting framework, being the Companies Act 2006 and UK-adopted international accounting standards, together with tax legislation and health and safety law;
- We obtained an understanding of how the Company complies with those legal and regulatory frameworks by making enquiries of management, the finance team, those charged with governance and the Audit Committee whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud. We corroborated our inquiries to relevant supporting documents and through our review of Board minutes and papers provided to the Audit Committee;
- 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;
  - obtaining an understanding of how those charged with governance considered and addressed the potential for override of controls or other inappropriate influence over the financial reporting process;
  - identifying and testing journal entries, in particular any journals with unusual characteristics, and increasing our testing in areas of higher risk as identified during our audit;
  - designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing;
  - challenging assumptions and judgements made by management in its significant accounting estimates;
  - identifying and testing related party transactions; and
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- 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;

Independent auditor's report continued

- 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, including specialists, 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.

Andrew Turner FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham

9 June 2025

Statement of Total Comprehensive Income

For the year ended 31 December 2024

	Note	Year to 31 December 2024 £'000	Year to 31 December 2023 £'000
Revenue	3	**8,243**	7,312
Cost of Sales		**(4,137)**	(3,137)
Gross Profit		**4,106**	4,175
		50%	57%
Other Income		**516**	16
Gross profit after other income		**4,622**	4,191
Administrative Expenses:			
Before research and development costs		**(6,050)**	(5,439)
Research and development costs		**(15,440)**	(9,676)
Impairment of fixed assets		**(6,488)**	(9,238)
Total administrative expenses		**(27,978)**	(24,353)
Operating loss before exceptional items	4	**(23,356)**	(20,162)
Exceptional items	5	**–**	(389)
Operating loss after exceptional items		**(23,356)**	(20,551)
Financial Income	9	**148**	5
Financial Expenses	8	**(678)**	(176)
Loss before tax		**(23,886)**	(20,722)
Taxation	10	**1,537**	1,163
Loss for the year after tax		**(22,349)**	(19,559)
Total comprehensive loss for the year attributable to members		**(22,349)**	(19,559)
Loss per ordinary share			
Basic and diluted	27	**(2.31)p**	(7.92)p

The notes on pages 49 to 81 form part of these financial statements

Statement of Financial Position

At 31 December 2024

	Note	As at 31 December 2024 £'000	As at 31 December 2023 (Restated) £'000
Non-current Assets			
Property, plant and equipment	11	**13,772**	16,017
Intangibles	12	**34**	-
Contract fulfilment asset	15	**422**	723
Total non-current assets		**14,228**	16,740
Current assets			
Inventories	13	**5,376**	4,469
Trade receivables	14	**1,543**	1,702
Other receivables	14	**1,998**	1,161
Contract assets	14	**278**	-
Tax receivable	14	**1,331**	1,196
Contract fulfilment asset	15	**235**	619
Cash and cash equivalents		**462**	6,064
Total current assets		**11,223**	15,211
Total assets		**25,451**	31,951
Current liabilities			
Other interest-bearing borrowings	16	**(5,214)**	(211)
Lease liabilities	16	**(390)**	(357)
Trade and other payables	17	**(7,524)**	(5,649)
Total current Liabilities		**(13,128)**	(6,217)
Non-current liabilities			
Government grants	29	**(161)**	(174)
Lease liabilities	16	**(1,648)**	(1,429)
Other interest-bearing borrowings	16	**(193)**	(404)
Total non-current liabilities		**(2,002)**	(2,007)
Total liabilities		**(15,130)**	(8,224)
Net assets		**10,321**	23,727
Equity			
Share capital	19	**13,021**	3,521
Share premium		**66,799**	67,370
Capital reserve		**464**	464
Retained loss		**(69,963)**	(47,628)
Total equity attributable to equity shareholders of the company		**10,321**	23,727

These financial statements were approved by the board of directors on 9 June 2025 and were signed on its behalf by:

Ian Cleminson
Chairman

Company Registered Number 03769702

The notes on pages 49 to 81 form part of these financial statements

Statement of Changes in Equity

For the year ended 31 December 2024

	Share capital £'000	Share premium account £'000	Capital reserve £'000	Retained Loss £'000	Total £'000
Balance as at 31 December 2023	3,521	67,370	464	(47,628)	23,727
Comprehensive income for the year					
Loss for the period	-	-	-	(22,349)	(22,349)
Total comprehensive income for the year	-	-	-	(22,349)	(22,349)
Transactions with owners, recorded directly to equity					
Shares issued in the period	9,500	-	-	-	9,500
Share options exercised	-	-	-	-	-
Cost of issue to share premium	-	(571)	-	-	(571)
Equity settled share based payment transactions	-	-	-	14	14
Total contributions by and distributions to the owners	9,500	(571)	-	14	8,943
Balance as at 31 December 2024	13,021	66,799	464	(69,963)	10,321

For the year to 31 December 2023

	Share capital £'000	Share premium account £'000	Capital reserve £'000	Retained Loss £'000	Total £'000
Balance as at 31 December 2022	2,406	58,215	464	(28,270)	32,815
Comprehensive income for the year					
Loss for the period	–	–	–	(19,559)	(19,559)
Total comprehensive income for the year	–	–	–	(19,559)	(19,559)
Transactions with owners, recorded directly to equity					
Shares issued in the period	1,104	9,921	–	–	11,025
Share options exercised	11	159	–	–	170
Cost of issue to share premium	–	(925)	–	–	(925)
Equity settled share based payment transactions	–	–	–	201	201
Total contributions by and distributions to the owners	1,115	9,155	–	201	10,471
Balance as at 31 December 2023	3,521	67,370	464	(47,628)	23,727

The notes on pages 49 to 81 form part of these financial statements

Statement of Cash Flows

For the year ended 31 December 2024

	12 Months to 31 December 2024 £'000	12 Months to 31 December 2023 £'000
Cash flow from operating activities		
Loss after tax for the year	**(22,349)**	(19,559)
Adjusted for:		
Depreciation and amortisation charge	**2,091**	1,262
Disposal of fixed assets	**–**	6
Impairment of assets	**6,488**	9,238
Non-government grant amortisation	**(13)**	(13)
Equity settled share-based payment expenses	**14**	201
Foreign exchange (gains)/losses	**22**	54
Financial expense	**678**	176
Financial income	**(148)**	(5)
Taxation	**(1,537)**	(1,163)
	(14,754)	(9,803)
Changes in working capital		
Increase in inventories	**(907)**	(1,093)
Increase in trade and other receivables	**(678)**	(537)
Increase in contract assets	**(278)**	-
Decrease in contract fulfilment asset	**492**	(649)
Increase in trade and other payables	**691**	649
	(15,434)	(11,433)
Taxation received	**1,402**	1,172
Net cash used in operating activities	**(14,032)**	(10,261)
Cash flows from investing activities		
Acquisition of tangible assets	**(4,253)**	(4,769)
Acquisition of intangible assets	**(59)**	(3,279)
Proceeds from disposal of property, plant and equipment	**10**	-
Interest received	**148**	5
Net cash used in investing activities	**(4,154)**	(8,043)
Cash flows from financing activities		
Proceeds from issue of share capital	**9,500**	11,195
Costs for issue of share capital	**(571)**	(925)
Proceeds from long term loans	**4,950**	-
Payment of finance lease liabilities	**(438)**	(356)
Payments of interest bearing borrowings	**(316)**	(240)
Interest paid	**(519)**	(176)
Net cash generated from financing activities	**12,606**	9,498
Net (decrease)/increase in cash and cash equivalents	**(5,580)**	(8,806)
Foreign exchange losses	**(22)**	(54)
Cash and cash equivalents at the beginning of the period	**6,064**	14,924
Cash and cash equivalents at the end of the period	**462**	6,064

The notes on pages 49 to 81 form part of these financial statements

Notes to the Financial Statements

For the year ended 31 December 2024

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 9 June 2025.

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 Restatement

During the year, the Company refined its assessment and presentation of contract fulfilment assets associated with certain contracted system integration services, including engineering, testing, and tooling. These services are now considered to form part of a single performance obligation together with the manufacture and sale of brake discs.

This assessment reflects the fact that the integration services are highly interrelated and interdependent with the manufacturing process. They serve as essential inputs in delivering the bespoke product that the customer expects and, therefore, are not separately identifiable under IFRS 15. The impact of this change on revenue recognised in prior periods is immaterial. As a result of the change, the contract fulfilment asset is amortised over the expected period in which the related brake disks will be delivered rather than within one year which has impacted the presentation of the contract fulfilment asset in the statement of financial position with £723k of the contract fulfilment asset now being presented as a non-current asset whereas in the prior year the total balance of £1,342k was presented as part of current assets.

The prior year restatement has had no impact on profit after tax and equity.

Going concern – Judgements

This note should be read in conjunction with the Going Concern and Material Uncertainty statement included on page 16 of the Financial Review, which provides further context on the assumptions and judgments made.

Scenario modelling:

The Company's operating model reflects the binary nature of contract wins from a relatively small number of customers with substantial volumes attached. Revenue growth in 2025 is high due to the impact of one major OEM, whilst succeeding years are modelled only modestly, effectively growing the existing base.

The downside case scenario modelled

The downside case scenario anticipates annualised revenue growth, exceeding 76% in the eighteen month period to 30 June 2026. This growth is attributed to production output for our principle contracted OEM and an agreed partial deferral of delivery on other OEM contracts. This scenario anticipates lower revenue than the base case due to a 45% volume reduction from base case demand. Yields are projected at 55% in 2025 and 2026.

1 Accounting policies continued

In this case the current level of funding through customer manufacturing support would need to remain in place and furthermore, as the cash headroom would fall below zero in February 2026, additional funding in the form of further prepayment would also then need to be sought. This is modelled a c.£4.9m over the period until 30 June 2026.

Negotiations on continued customer manufacturing support are not currently concluded and should there be a requirement to repay the support earlier than anticipated, the cash headroom could then be eroded further. Similarly, if volumes were to reduce further than modelled in the downside case scenario, due to a further reduction in yield levels, then cash headroom would erode earlier.

The base case scenario modelled

The base case scenario anticipates significant revenue growth in 2025 and moderate growth in 2026. This growth is attributed to successful production output and indicative volumes from existing OEM's. This scenario targets an average yield of 77% in 2025 and 86% in 2026.

Equipment capacity is expected to be achieved in line with Project Management Office (PMO) plans and customer manufacturing support funding is expected to reduce by £3.5m in the latter half of 2025 prior to any conversion.

While base case cash headroom is above £0.5m, it will diminish if performance weakens.

The Directors acknowledge that uncertainty remains regarding yield performance, cost control, and the timing of commercial agreements. As such, there exists a material uncertainty that may cast significant doubt over the Company's ability to continue as a going concern. Should these challenges persist or worsen, they may adversely impact operational performance, including sales and EBITDA generation, which are essential for transitioning from a loss-making to a cash-generative business.

Notwithstanding the material uncertainty, after due consideration the Directors have a reasonable expectation that the Company has sufficient resources to continue in operational existence for the period of 12 months from the date of approval of these financial statements. Accordingly, the financial statements continue to be prepared on the going concern basis and do not contain the adjustments that would arise if the Company were unable to continue as a going concern.

Share based payments

The Company operates several share-based payment arrangements to incentivise and retain employees, including Enterprise Management Incentive (EMI) options, Long-Term Incentive Plan (LTIP) awards, and a Share Incentive Plan (SIP).

EMI Options

The fair value of EMI options 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 three years from the date of grant, and historically there has been no early exercise of options. The valuation model incorporates a risk-free rate of return and assumes no dividend yield, reflecting the Company's current stage of growth. These assumptions are reviewed annually by the Board.

LTIP Awards

LTIP awards are equity-settled share-based payments and may be subject to both market-based and non-market-based performance conditions. Awards with market-based performance conditions (e.g. share price targets) are valued at the grant date using a Monte Carlo simulation model, in accordance with IFRS 2. The grant date fair value is not subsequently adjusted, regardless of the outcome of the market-based conditions. Awards with non-market-based performance conditions (e.g. EBITDA targets, sales capacity, or commercial milestones) are initially valued based on the share price at the grant date. The total expense is recognized over the vesting period and is adjusted at each reporting date to reflect management's best estimate of the number of awards expected to vest.

SIP Awards

Awards under the Share Incentive Plan are accounted for as equity-settled share-based payments. As the SIP does not contain any market-based performance conditions, the fair value of matching shares is based on the share price at the grant date. The total charge recognised reflects the value of participant contributions during the year, matched on a one-for-one basis with free shares.

The total share-based payment expense is recognised over the vesting period of each scheme, based on the number of awards expected to vest, and is adjusted for actual and expected forfeitures in accordance with IFRS 2.

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.

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	5 – 15 years
• Fixtures and fittings	3 years
• Leasehold improvements	Over life of lease
• Buildings(right of use)	Over life of lease
• Land	n/a

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. Land is held at cost, subject to impairment charges.

ROU leases

The Company leases property and equipment to support its operations. These leases are typically property leases with some finance equipment leases, and lease terms range from 1 to 10 years.

Intangibles

Intangible assets comprise capitalised development costs recognised in line with the Company's development expenditure policy. Costs include all directly attributable expenses necessary to make the asset capable of operating as intended. These assets are stated at cost less accumulated amortisation and any accumulated impairment losses. Capitalised development costs are amortised on a straight-line basis over the contractual period to which the development relates. The Company assesses each contract periodically and recognises an impairment loss if the recoverable amount of the associated asset is less than its carrying value.

During 2024 it was deemed that the development expenditure incurred did not meet the capitalisation criteria detailed in IAS 38, in particular it was not deemed probable that the intangible asset would generate probable future economic benefit.

Amortisation is applied to software over 5 years on a straight-line basis.

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.

Impairment of Assets

The Company reviews the carrying amount of its tangible and intangible assets at each financial statement date and for event-driven assessments to determine potential impairment losses. Impairment testing is performed by establishing the recoverable amount of an asset in line with IAS 36 "Impairment of Assets." The recoverable amount is the higher of fair value less costs to sell and value in use. When assessing value in use, discounted future cash flows are used to reflect current market assessments and risks. If the recoverable amount is estimated to be less than the asset's carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is then recognised as an expense in the Statement of Consolidated Income.

Revenue recognition

The Company accounts for customer contracts in accordance with IFRS 15 Revenue from Contracts with Customers. Revenue from the sale of carbon ceramic brake discs is typically recognised at a point in time, when control of the goods transfers to the customer, usually upon despatch.

Notes to the Financial Statements continued

1 Accounting policies continued

Contracted system integration services, such as engineering, testing, and tooling, are considered part of a single performance obligation together with the manufacture of brake discs. The total transaction price, including any consideration for integration services, is allocated to the expected number of discs to be delivered under the contract. Revenue is recognised proportionally as the control of the related brake discs is transferred to customers.

Contract Assets and Contract Liabilities

Contract assets (ref note 14) arise when revenue has been recognised in advance of invoicing the customer, typically where the transaction price includes consideration for services or tooling that is amortised over the volume of brake discs to be delivered. These assets represent accrued income and are presented separately from trade receivables.

Contract fulfilment assets (ref note 15) represent costs incurred to satisfy a contract before the transfer of goods, such as engineering or tooling costs. These are explained below.

Contract liabilities (ref note 16) arise when the Company has received payment from a customer before transferring control of goods or services. These amounts are recognised as deferred revenue and are released to income in line with the transfer of brake discs to the customer.

Contract assets are presented separately on the balance sheet and are not offset, contract liabilities are presented within Trade and Other payables. The Company does not consider there to be any significant estimates or judgements in the assessment of contract positions.

Contract fulfilment assets

The Company recognises certain engineering services as contract fulfilment costs in accordance with IFRS 15. These services meet the following criteria for qualifying as a contract asset:

- Directly Linked to Fulfilling a Contract: The system integration services (including engineering, testing, and tooling services) are incurred specifically to fulfill a customer contract and are not for general or future use.
- Expected Recoverable Cost: The Company has reasonable certainty that it will recover the costs from the customer through payment or by generating sufficient contract margins.
- Measurable Cost: The cost of the engineering services can be reliably measured based on detailed project information.

Costs that meet these criteria are recognised as contract fulfilment assets on the statement of financial position. These assets are expensed in line with the delivery of discs, reflecting the single performance obligation that links the delivery of discs to the system integration services.

Contract fulfilment assets are assessed based on their expected recoverability. As a result, assets previously considered recoverable within one year are now expected to be recovered over the forecasted contract volume, consistent with the pattern of revenue recognition. Accordingly, contract fulfilment assets are classified as either current or non-current, depending on the timing of expected recovery.

This accounting interpretation is applied retrospectively, with any prior period adjustments reflected in the current year's financial statements

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.

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.

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 expenditure

Expenditure on research activities is recognised in the statement of total comprehensive income as an expense as incurred.

Development expenditure

Development expenditure is capitalised in accordance with IAS 38 Intangible Assets when all of the following criteria are met:

- The project is part of a formalised development program with a customer;
- It is probable that the development will generate future economic benefits;
- The development costs can be measured reliably;
- The Company has the intention and ability to complete the development for use or sale;
- The product or process is technically and commercially feasible;
- Adequate resources are available to complete the development;
- The Company retains ownership of the relevant intellectual property or know-how.

Where these criteria are not met, development expenditure is expensed 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.

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.

Notes to the Financial Statements continued

1 Accounting policies continued

Financial Instruments

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.

Non-derivative financial instruments

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

Trade 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. Due to the nature of the current business the Company provides for impairments to trade receivables on an individual basis using management judgement. Trade and other receivables represent financial assets and are considered for impairment on an expected credit loss model. In accordance with IFRS 9, all receivables, including unbilled receivables, are assessed for impairment going forward, the expected credit loss (ECL). The assessment incorporates historical information (past customer payment behaviour) and forward-looking estimates of potential credit losses and economic risk.

Trade and other payables

Financial liabilities are initially measured at the fair value of the consideration received, adjusted for directly attributable transaction costs.

These liabilities are subsequently measured at amortised cost. The company derecognises financial liabilities when the obligations that gave rise to them are extinguished.

Cash and cash equivalents

Cash is defined as cash in hand and on demand deposits. Cash equivalents are defined as short-term highly liquid investments with original maturities of three months or less.

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.

Key estimates assessed by management are as follows:

Impairment

IAS 36, Impairment of Assets, requires us to assess the recoverable amount of our assets annually and whenever there is an indication of impairment. The recoverable amount is the higher of fair value less costs of disposal and value in use. Estimating the recoverable amount requires significant judgment, particularly when using valuation techniques such as discounted cash flow models. Key factors considered in this process include:

- Discount rate: The discount rate reflects the time value of money and the risks specific to the asset. Determining the appropriate discount rate requires significant judgment and involves estimating the entity's weighted average cost of capital (WACC) and incorporating additional risk premiums for factors such as market sensitivities and uncertainties in future cash flows.
- Cash flow projections: The accuracy of the recoverable amount is highly dependent on the reliability of the underlying cash flow projections used in the discounted cash flow model. These projections require careful consideration of customer demand, execution and operational plans.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and tax losses can be utilised. Management estimation is required to determine the amount of deferred tax assets recognised. At 31 December 2024, the Company has recognised a deferred tax liability of £572k (2023: £4,280k), which has arisen from taxable temporary differences. The Company has also recognised an equivalent amount of deferred tax assets to the extent that they offset this liability, in line with the requirements of IAS 12.28.

Deferred tax assets in excess of this amount, primarily relating to unused tax losses, have not been recognised due to uncertainty regarding the availability of sufficient future taxable profits. These unrecognised deferred tax assets amounted to £9,680k at 31 December 2024 (2023: £4,654k). Further information is disclosed in Note 18.

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 and whether future economic benefits are probable.

Identification of performance obligations

The Company enters into long-term contracts that include contracted system integration services such as engineering, testing, and tooling, alongside the manufacture of brake discs. Management has determined that these elements form part of a single performance obligation under IFRS 15.

Determining whether the various goods and services promised in these contracts are distinct requires significant judgement. Each contract has been assessed individually, taking into account the interrelationship of the services, the integration required, and whether the customer can benefit from each element on its own or together with other readily available resources.

The final accounting treatment reflects management's judgement that the integration services are not separately identifiable from the manufacturing deliverables and should therefore be not be accounted for as a separate performance obligation. Rather the transaction price related to system integration activities is allocated to the overall manufacturing performance obligation and is recognised only when a future brake disc sale occurs. The amount of the transaction price allocated to each brake-disc sale is based on estimated lifetime volumes for that specific contract.

Estimated lifetime volumes

Estimating the total expected volumes involves significant estimation uncertainty and is based on historical customer activity, current forecasts, and commercial discussions.

As actual volumes may vary from those initially estimated, periodic reassessment is performed and any changes in expected volumes are reflected prospectively in the revenue recognition profile. This estimation process is reviewed regularly to ensure it reflects the most up-to-date and supportable information available.

Loans

In December 2023, the Company secured a £13.2 million loan facility from the LCR UDF Limited partnership. This loan originates from Liverpool city region's Urban Development Fund, which is part-funded by the European Regional Development Fund (ERDF). The loan is being used to invest in new manufacturing facilities, thereby increasing our production capacity and capability. It is solely for capital investment purposes and will be drawn down for eligible capital projects up until December 31, 2025. Loan funds are held in a "blocked account", while the cash physically resides in a company account, the European Regional Development Fund (ERDF) approval process dictates that the company does not have full control over the funds. Due to this lack of control, the cash is not recognised on the company's balance sheet. The loan liability will only be recognised once funds are drawn down.

1 Accounting policies continued

New standards and interpretations

The following new standards, amendments and interpretations became effective for annual periods beginning on or after 1 January 2024 and have been adopted by the Company:

- Amendments to IAS 1 – Non-current Liabilities with Covenants (effective 1 January 2024)
- Amendments to IFRS 16 – Lease Liability in a Sale and Leaseback (effective 1 January 2024)
- Amendments to IAS 7 and IFRS 7 – Supplier Finance Arrangements (effective 1 January 2024)

The adoption of these amendments did not have a material impact on the Company's financial position or performance.

Standards and amendments issued but not yet effective

The following standards, amendments and interpretations have been issued but are not yet effective and have not been early adopted by the Company:

- Amendments to IAS 21 – Lack of Exchangeability (effective 1 January 2025)
- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date deferred indefinitely)
- IFRS 18 Presentation and Disclosure in Financial Statements (effective for annual periods beginning on or after 1 January 2027)

The Company is currently assessing the impact of these new pronouncements. However, they are not expected to have a significant impact on the Company's financial statements.

2 Segment Reporting

The Company operates in a single segment being the manufacture and sale of carbon fibre materials and associated technologies. This segment includes all manufacturing, development, and sales activities related to carbon fibre materials, regardless of the specific market or product application. All carbon fibre materials are manufactured using comparable processes, further supporting a single segment view. The Company recognises its product technology as carbon fibre-reinforced ceramic material, which can be customised into various shapes for diverse end-user applications.

The Company currently operates one manufacturing facility, eliminating the need to allocate resources or discriminate between markets or product lines. The Chief Executive Officer, who acts as the chief operating decision maker, reviews performance information for the entire company and does not allocate resources based on individual markets or products.

3 Revenue by geographical destination

Revenue by Geographical Destination

	2024 £'000	2023 £'000
United Kingdom	**1,729**	845
Germany	**813**	492
Sweden	**366**	168
Netherlands	**219**	583
Rest of Europe	**155**	117
United States of America	**4,395**	5,006
Rest of World	**566**	102
	8,243	7,312

During the year ended 31 December 2024, revenue of £0.44 million was recognised in relation to system integration services (2023: £nil). The remaining £7.9 million of revenue recognised in the current year (2023: £7.3 million) pertains solely to the sale of goods.

System Integration Services – remaining performance obligations disclosure (IFRS 15.120)

The table below presents the updated transaction price allocated to the remaining performance obligations related to system integration services, in accordance with IFRS 15.120. The expected timing of revenue recognition has changed from prior year estimates due to an updated assessment of performance obligations under IFRS 15. Pre-production services, known in the industry as System Integration Services along with finished goods are considered a single performance obligation, with revenue recognised upon transfer of control of the finished goods in line with the delivery of discs to satisfy the contractual obligation to the customer. This updated interpretation has impacted the allocation and timing of expected revenue recognition across future periods. As the prior year disclosure represented a forward-looking estimate at 31 Dec 2023, no restatement has been made to the comparative figures.

As at 31 December 2024:	2025 £'000	2026 £'000	2027 Onwards £'000	Total £'000
Total transaction price allocated to the remaining performance obligations	**647**	**419**	**1,686**	**2,752**

As at 31 December 2023:	2024 £'000	2025 £'000	2026 Onwards £'000	Total £'000
Total transaction price allocated to the remaining performance obligations	2,437	486	–	2,923

During the reporting period, the Company derived approximately 36.8% of its revenue (£3.0 million) from a single customer (*2023: 11.8%, £0.86 million*). In accordance with IFRS 8, the identity of the customer has not been disclosed due to commercial sensitivity.

4 Operating loss and auditor's remuneration

	12 months to 31 December 2024 £'000	12 months to 31 December 2023 £'000
Operating loss is stated after charging		
Loss on disposal of property plant and equipment	–	6
Depreciation of property plant and equipment (4.1)	**2,082**	1,189
Impairments *(4.2)*	**6,488**	9,238
Amortisation of Intangible assets (note 12)	**10**	73
Research costs expensed as incurred *(4.1)*	**15,440**	9,676
Exchange losses/(gains)	**22**	54
Staff costs excluding Research costs expensed	**2,508**	2,267
after crediting		
Government grants	**13**	13

Auditors remuneration

Amounts receivable by auditors and their associates in respect of:

	12 months to 31 December 2024 £'000	12 months to 31 December 2023 £'000
Fees payable to the company auditor for the audit of the financial statements	**236**	170
Total	**236**	170
Fees payable to the company auditor for other services		
Financial due diligence on borrower for debt financing arrangement	–	80
	–	80

4.1 Research and Development and Depreciation

The Company's continued investment in research and development (R&D) remains central to our strategy for innovation and long-term growth. Total R&D expenditure increased by £2.5 million during the year to £15.4 million (2023: £12.9 million on a pre-capitalisation basis; £9.7 million post-capitalisation, as presented above). This increase primarily reflects investment in process and equipment development, resolution of technical challenges, and the establishment of robust, repeatable processes for higher-volume production.

In accordance with IAS 38 Intangible Assets, no R&D costs were capitalised during the year in relation to the development of our layered products due to the fact that it was not possible to demonstrate how the development costs will generate future economic benefits using the principles of IAS 36 Impairment of Assets, the impairment assessments are described in 4.2 below.

Depreciation expense increased during the year, including an accelerated charge of £0.6 million recognised following a reassessment of the useful economic lives of certain assets. This adjustment reflects the Group's transition to newer technologies and the replacement of legacy equipment in line with our capital investment strategy. The revised estimates ensure the asset base continues to reflect current and future operational requirements.

4.2 Impairment assessments

In accordance with IAS 36 *Impairment of Assets*, the Company assesses the recoverable amount of its assets whenever there is an indication of impairment. For the purposes of impairment testing, the Company is considered a single cash-generating unit (CGU), reflecting the integrated nature of its operations and the fact that cash inflows are generated collectively.

An impairment assessment was carried out using a value-in-use model based on the Board-approved five-year business plan. The forecast cash flows reflect management's best estimates and are based on assumptions that are reasonable and supportable, considering past experience and future expectations. A terminal growth rate of 2.0% (2023: 2.0%) was applied beyond the forecast period.

A post-tax discount rate of 16.5% (pre-tax: 20%) was applied, reflecting risks specific to the CGU. In the prior year, a post-tax discount rate of 21% (pre-tax: 22%) was used. As a result of this assessment, an impairment charge of £6.5 million (2023: £9.2 million) has been recognised in the year.

Key Assumptions

The value-in-use model was prepared using management's current post-tax forecasts, which incorporate expectations regarding future revenue growth, EBITDA margins, and operating performance. Revenue is projected to grow 232% over the first two years of the forecast period reflecting the ramp-up of production capacity, yield improvements, and delivery against contracted and forecast volumes. In the following years, growth is expected to moderate. Over the five-year forecast period, revenue is projected to increase by approximately 355%, supported by planned operational improvements and sustained customer demand. The discount rate applied reflects the Company's estimated weighted average cost of capital, adjusted for risks specific to the CGU and the uncertainty associated with delivering planned performance enhancements.

Capital expenditure included in the impairment model reflects the Company's existing commitments in respect of in-progress development projects, as well as ongoing maintenance expenditure over the forecast period. Management believes the assumptions used are reasonable and supportable in light of current market conditions.

Sensitivity analysis

The recoverable amount is sensitive to changes in key assumptions. A 1.0% decrease in the discount rate would increase the recoverable amount by approximately £2.6 million, whereas a 1.0% increase would decrease it by £2.2 million.

The recoverable amount is particularly sensitive to the achievement of forecast revenue in the early years of the model, reflecting the Company's current position in its operational scale-up phase.

A revised downside sensitivity scenario has been considered to reflect reasonably possible short-term risks associated with operational execution. This scenario assumes revenue reductions of 30%, 10%, 5%, 3%, and 1% across Years 1 to 5 respectively. These assumptions reflect the potential impact of delays or challenges in achieving planned improvements in operations, equipment ramp-up, process optimisation, and workforce effectiveness. Such risks are expected to diminish over time as initiatives are embedded and the business stabilises, with residual revenue risk normalising to around 1% by Year 5. Under this downside scenario, an additional impairment of approximately £5.9 million could arise.

An upside sensitivity has also been assessed, applying revenue uplifts of 30%, 10%, 5%, 3%, and 1% across Years 1 to 5 respectively. This scenario reflects the Company remaining ahead of plan in executing operational improvements and cost reduction programmes. If this positive trajectory continues, sales are expected to exceed base forecasts, supported by strong market demand ensuring full utilisation of available production capacity. As with the downside case, operational risks are assumed to normalise by Year 5, with ongoing improvements already embedded. Under this upside scenario, the recognised impairment charge would reduce by approximately £5.9 million.

4 Operating loss and auditor's remuneration continued

Sensitivity analysis continued

These revenue sensitivities translate into corresponding variations in underlying EBITDA projections, with downside scenarios potentially reducing cumulative EBITDA by around 25-30% relative to base forecasts, while upside scenarios may increase EBITDA by a similar magnitude. This range highlights the material impact of operational execution on the Company's profitability and impairment outcomes. Market risk is considered immaterial, as demand for the Company's product remains strong and is supported by contracted or expected offtake for all forecast production volumes.

Allocation of impairment charge

The total impairment charge of £6.5 million (*2023: £9.2 million*) has been allocated on a pro-rata basis across all non-current asset categories within the cash-generating unit (CGU), in accordance with IAS 36.104. These asset categories comprise Fixed Assets (including capital work in progress), Intangible Assets, and Contract Fulfilment Assets.

The impairment assessment was conducted using a value-in-use model based on management's best estimate of future cash flows. Management considered that a fair value less costs of disposal approach would not result in a higher recoverable amount, given the nature of the Company's integrated asset base and the significant cost and complexity that would be involved in replacing operationally embedded assets.

While the impairment assessment has resulted in a reduction in carrying value, management believes that the underlying assets remain integral to fulfilling customer contracts and generating future revenue. The impairment charge for the year has been allocated across both tangible and intangible asset categories. Full details of the allocation of the current and prior year impairment charges are presented within the relevant asset notes:

- Tangible Fixed Assets – see Note 11
  (Land and Buildings, Leasehold Improvements, Plant and Machinery, Fixtures and Fittings)
- Intangible Fixed Assets – see Note 12
  (Software, Capitalised Research & Development)
- Contract fulfilment Assets – see Note 15

5 Exceptional items

The company recognised £nil (2024: £389,000) of other non- recurring exceptional costs in the year.

6 Remuneration of directors

The aggregate emoluments paid to Directors for qualifying services during the period amounted to £759,892 (2023: £669,270, restated – see Directors' Remuneration, page 29).

This includes remuneration of £362,847 (2023: £335,597, restated) paid to the highest-paid director. Pension contributions of £34,848 (2023: £29,063) were made to a money purchase scheme on behalf of executive directors.

Details of share transactions and other key compensation for individuals designated as Key Management Personnel are disclosed in Note 21 – Related Party Disclosures.

7 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	
	2024	2023
Staff numbers and costs		
Directors	**6**	6
Management and Admin	**66**	52
Production	**98**	89
	170	147

The aggregate payroll costs of these persons were as follows:

	Year to 31 December	
	2024 £'000	2023 £'000
Employee Costs		
Wages and salaries	**7,793**	5,684
Social security costs	**853**	687
Other pension costs	**277**	262
	8,923	6,633
Share based compensation	**14**	201
	8,937	6,834

8 Financial Expenses

	Year to 31 December	
	2024 £'000	2023 £'000
Interest expense in relation to lease liabilities	**175**	129
Other interest charges	**503**	47
Total interest expense on financial liabilities measured at amortised cost	**678**	176

9 Financial Income

	Year to 31 December	
	2024 £'000	2023 £'000
Total Interest Income	**(148)**	(5)

Notes to the Financial Statements continued

10 Taxation

	2024 £'000	2023 £'000
Analysis of credit in year		
UK corporation tax		
Adjustment in respect of prior years – R&D tax allowances	**(206)**	33
R&D tax allowance for current year	**(1,331)**	(1,196)
Total income tax credit	**(1,537)**	(1,163)

The tax assessed for the year is lower than (2023: *lower than*) the rate of corporation tax in the UK of 25%. The differences are explained below:

	Year to 31 December	
	2024 £'000	2023 £'000
Reconciliation of effective tax rate		
Loss for year	**(22,349)**	(19,559)
Total income tax credit	**(1,537)**	(1,163)
Loss excluding income tax	**(23,886)**	(20,722)
Current tax at average rate of 25%/23.5%	**(5,971)**	(4,870)
Effects of:		
Non-deductible expenses	**1**	1
Change in unrecognised timing differences		
Current year losses for which no deferred tax recognised	**5,970**	4,869
R&D tax allowance for current year	**(1,331)**	(1,196)
Adjustment in respect of prior years – R&D tax allowances	**(206)**	33
Income tax credit	**(1,537)**	(1,163)

For the financial year ended 31 December 2024, the tax rate remained 25% across the whole period (2023:average weighted 23.5%). Deferred taxes as at the reporting date have been measured using these tax rates.

11 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 2022	1,934	411	8,074	588	7,902	18,909
Transfers from Capital in Progress	–	–	1,408	–	(1,408)	–
Additions	–	6	1,634	96	4,101	5,837
Disposals	–	–	(51)	(6)	–	(57)
At 31 December 2023 (restated)	1,934	417	11,065	678	10,595	24,689
Transfers from Capital in Progress	–	–	1,075	–	(1,075)	–
Additions	672	–	567	97	4,791	6,127
Disposals	–	–	(96)	–	–	(96)
At 31 December 2024	**2,606**	**417**	**12,611**	**775**	**14,311**	**30,720**
Depreciation						
At 31 December 2022	694	165	2,369	493	–	3,721
Charge	142	34	953	60	–	1,189
Disposals	–	–	(27)	(6)	–	(32)
Impairment	735	–	–	–	3,060	3,795
At 31 December 2023 (restated)	1,571	199	3,295	547	3,060	8,672
Charge	124	34	1,838	86	–	2,082
Disposals	–	–	(86)	–	–	(86)
Impairment	285	58	2,369	44	3,524	6,280
At 31 December 2024	**1,980**	**291**	**7,417**	**677**	**6,584**	**16,949**
Net book value						
At 31 December 2022	1,240	246	5,705	95	7,902	15,188
At 31 December 2023	362	218	7,770	131	7,535	16,017
At 31 December 2024	**626**	**126**	**5,194**	**98**	**7,728**	**13,772**

An impairment loss of £6.3 million had been recognised in 2024 (2023: £3.8 million). Please see note 4 for further detail. The cost and depreciation comparative figures for Land and Buildings have been restated as the 2023 impairment charge was incorrectly allocated to cost rather than depreciation. This restatement does not impact the net book value of Land and Buildings.

Notes to the Financial Statements continued

12 Intangibles

	Capitalised R&D £'000	Software £'000	Total £'000
Cost			
At 31 December 2022	2,075	466	2,541
Transfers from Capital in Progress	–	–	–
Additions	3,158	121	3,279
Impairment	(5,233)	(587)	(5,820)
At 31 December 2023	–	–	–
Transfers from Capital in Progress	–	–	–
Additions	–	59	59
At 31 December 2024	**–**	**59**	**59**
Amortisation			
At 31 December 2022	9	296	305
Charge for period	2	71	73
Impairment	(11)	(367)	(378)
At 31 December 2023	–	–	–
Charge for the period	–	10	10
Impairment	–	15	15
At 31 December 2024	**–**	**25**	**25**
Net book value			
At 31 December 2022	2,066	171	2,237
At 31 December 2023	–	–	–
At 31 December 2024	**–**	**34**	**34**

All intangible assets were impaired in 2023 following a value in use assessment. Please see note 4 for further detail.

13 Inventories

	Year to 31 December	
	2024 £'000	**2023 £'000**
Raw materials and consumables	**1,880**	2,286
Work in progress	**1,864**	1,187
Finished goods	**1,632**	997
	5,376	4,469

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £4,137k (2023: *£3,317k*). There is no significant difference between the replacement cost of work in progress and finished goods and their carrying amounts.

14 Trade and other receivables

	Year to 31 December	
	2024 £'000	**2023 £'000**
Trade receivables	**1,567**	1,757
Provision for impairment on trade receivables	**(24)**	(55)
Net trade receivables	**1,543**	1,702
Other receivables	**1,459**	222
Prepayments and accrued income	**539**	939
Total other receivables	**1,998**	1,161
Contract asset	**278**	–
Tax receivable	**1,331**	1,196
Trade and other receivables	**5,150**	4,058

All receivables fall due within one year.

The Company uses the expected credit loss (ECL) model under IFRS 9 to assess credit risk for all receivables. This model considers historical payment performance, and forward looking factors such as economic forecasts, and individual customer creditworthiness.

Bad debts amounting to £16k were written off in the year (Dec 2023; £Nil). Exposure to credit risk arises from the potential of a customer defaulting on their invoiced sales. The Company closely monitors the credit risk of customers and offers credit only to those with healthy scores, on- going credit risk is managed through regular review of ageing analysis. Based on the current assessment and the Company's strong contractual relationships with major customers, the estimated ECL for unbilled receivables is currently low. All trade receivables (billed and unbilled) have been reviewed for expected credit loss impairment and the expected credit loss (ECL) is estimated to be £24k (Dec 2023; £55k) and is accounted for under " Provision impairment on trade receivables".

15 Contract fulfilment asset

	2024 £'000	12 months to 31 December 2023 (Restated) £'000
Non-Current Assets -Contract Fulfilment Asset pre-impairment	**615**	723
Impairment	**(193)**	–
Non-Current Assets -Contract Fulfilment Asset	**422**	723
Current Assets - Contract Fulfilment Asset	**235**	619
Total Contract Fulfilment Asset	**657**	1,342

The Company recognises certain engineering and related services as contract fulfilment assets in accordance with IFRS 15, where such costs meet the criteria set out in paragraph 95 of the standard. Costs associated with system integration services, including engineering, tooling, and testing services required to fulfil the Company's contractual obligations to customers, are recognised as contract fulfilment assets. These costs are recognised when they are directly attributable to a specific customer contract, are not intended for general or future use, are expected to be recovered through contract payments or sufficient contract margins, and are reliably measurable based on detailed project documentation and analysis.

Classification of Assets between current and non-current.

Following a change in the determination of the performance obligation—now defined as the delivery of complete discs—contract fulfilment assets are assessed based on their expected recoverability. As a result, assets previously considered recoverable within one year are now expected to be recovered over the forecasted contract volume, consistent with the pattern of revenue recognition. Accordingly, contract fulfilment assets are classified as either current or non-current, depending on the timing of expected recovery. This accounting interpretation is applied retrospectively.

Recognition and Release

Both current and non-current contract fulfilment assets are recognised on the statement of financial position and are systematically released to the income statement in line with the transfer of the related goods to the customer. An impairment charge of £0.2 million (*2023: £ nil*) has been allocated to the Non-current contract fulfilment asset, see note 4 for further details.

16 Interest-bearing borrowings and lease liabilities

This note provides information about the contractual terms of the Company's interest-bearing borrowings and liabilities which are measured at amortised cost. At 31 December 2024, the Company was in breach of a financial covenant associated with its Liverpool City Region Urban Development Fund facility. In accordance with applicable accounting standards, the outstanding balance of £5,214k has been classified as a current liability. Subsequent to year-end, the Company obtained a formal waiver of this covenant breach from the lender, confirming that no immediate repayment is required.

	As at 31 December	
	2024 £'000	2023 £'000
Current liabilities		
Lease liabilities	**390**	357
Interest bearing borrowings	**5,214**	211
	5,604	568
Non-current liabilities		
Lease liabilities	**1,648**	1,429
Interest bearing borrowings	**193**	404
	1,841	1,833

Finance lease liabilities are payable as follows:

	Future minimum lease payments 2024 £'000	Interest 2024 £'000	Present value of minimum lease payments 2024 £'000	Future minimum lease payments 2023 £'000	Interest 2023 £'000	Present value of minimum lease payments 2023 £'000
Less than one year	**538**	**(148)**	**390**	475	(119)	357
More than one year	**2,140**	**(492)**	**1,648**	1,742	(313)	1,429
	2,678	**(640)**	**2038**	2,217	(432)	1,786

The total contractual cash flows of Non-derivatives are as follows:

As at 31 December 2024	Due in 1 year £'000	Due in 2-5 years £'000	Due in 6-10 years £'000	Total Contractual cash flows £'000	Carrying amount £'000
Interest bearing borrowings	**6,024**	**200**	**–**	**6,224**	**5,407**
Lease liabilities	**538**	**1,386**	**755**	**2,679**	**2,038**
Trade and other payables	**7,524**	**-**	**-**	**7,524**	**7,524**
Total Non-derivatives	**14,086**	**1,586**	**755**	**16,427**	**14,970**

16 Interest-bearing borrowings and lease liabilities continued

As at 31 December 2023	Due in 1 year £'000	Due in 2-5 years £'000	Due in 6-10 years £'000	Total Contractual cash flows £'000	Carrying amount £'000
Interest bearing borrowings	248	433	–	681	615
Lease liabilities	475	1,145	597	2,217	1,787
Trade and other payables	5,649	–	–	5,649	5,649
Total Non-Derivatives	6,372	1,578	597	8,547	8,051

For more information about the Company's exposure to interest rate and foreign currency risk see note 22.

Other interest bearing borrowings:

MSIF Loans

In March 2021, the Company secured a £1 million loan from River Capital Management Limited (formerly Alliance Fund Managers Limited) from the Merseyside Investment Fund (MSIF) supported by the Liverpool City Region Combined Authority's Flexible Growth Fund programme. As of the 31 December 2024 the Company has a remaining loan balance of £404,000.

LCR UDF Loan Funding (also referred to as the ERDF loan)

In December 2023, the Company secured a £13.2 million loan facility from the LCR UDF Limited Partnership, supported by the Liverpool City Region Urban Development Fund and part-funded by the European Regional Development Fund (ERDF). The facility is restricted to qualifying capital investment projects. As at 31 December 2024, £5.1 million had been drawn, with a remaining undrawn commitment of £8.1 million available until 31 December 2025.

The facility operates on a drawdown basis, and there is no enforceable right to receive cash until a formal utilisation request is made, supported by documentation evidencing eligible expenditure. Accordingly, a loan liability is recognised only when funds are drawn.

In December 2024, the Company breached certain ERDF financial covenants associated with the facility. A waiver was granted by the LCR UDF in recognition of the temporary nature of the breach and the Company's improving long-term financial outlook. Since the year end, as of March 2025, a further waiver is expected to be required and is anticipated to be granted. The Company is working closely with the LCR UDF Partnership to review its long-term plans and establish revised covenants that align with the business's transition to sustainable operations while continuing to serve regional development goals.

Drawdowns have continued into 2025, and the Company expects the full £13.2 million facility to be fully utilised by the end of the year.

Drawdowns are subject to interest at the ECB reference rate for the period, which as at 1 April 2025 is 5.35%, with a commercial margin is 6.50% the aggregate interest rate 11.85%.

As at 31 December 2024	Due in 1 year £'000	Due in 2-5 years £'000	Total £'000
Other Borrowings (MSIF Loan)	**211**	**193**	**404**
Other Borrowings (ERDF Loan)	**5,003**	**–**	**5,003**
Total Other Borrowings	**5,214**	**193**	**5,407**

As at 31 December 2023	Due in 1 year £'000	Due in 2-5 years £'000	Total £'000
Other Borrowings (MSIF Loans)	211	404	614

17 Trade and other payables

	12 months to 31 December	
	2024 £'000	**2023 £'000**
Trade payables	**3,584**	3,859
Taxation and social security	**831**	357
Accruals and deferred income	**851**	841
Contract Liabilities	**2,258**	593
	7,524	5,649

18 Deferred tax

	As at 31 December	
	2024 £'000	**2023 £'000**
Difference between accumulated depreciation and amortisation and capital allowances	**572**	4,280
Tax losses	**(10,252)**	(8,934)
Un-recognised deferred tax asset	**(9,680)**	(4,654)

The Company has an un-recognised deferred tax asset at 31 December 2024 of £9,680k *(2023: £4,654k)* relating principally to tax losses which the Company can offset against future taxable profits. The Company has recognised a deferred tax liability of £572k (*2023: £4,280k*) 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.

19 Called up share capital

Allotted called up and fully paid of £0.01 each	Number	£'000
At 31 December 2022	240,613,233	2,406
Issue of shares	111,459,405	1,115
At 31 December 2023	352,072,638	3,521
Issue of shares	950,000,000	9,500
At 31 December 2024	**1,302,072,638**	**13,021**

During the year, the Company issued 950,000,000 ordinary shares through a placing, subscription, and open offer. As a result, the total issued share capital increased to 1,302,072,638 ordinary shares, raising net proceeds of £8.9 million after fees.

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

Details of options granted to Directors, including the date of grant and exercise price, are disclosed in the Report on Directors' Remuneration on page 29. In addition to the Directors' share options, certain employees and former employees have also been granted options, with further details provided in Note 28.

No share options were exercised by either Directors or employees during the period (2023: 1,120,000 shares were issued through the exercise of options).

20 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 £335k (*2023; £320k*). During the year one director (prior 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 £58k of the pension contributions (*2023; £75k*).

21 Related party disclosures

Transactions with key management personnel

Individuals are designated as Key Management Personnel (KMP) due to their involvement in planning, directing, controlling, and making crucial decisions for the company. Share transactions and Compensation paid to key management personnel are reported below.

During the year 6 directors acquired 20,350,000 shares in the Company by participating in the placing and subscription of shares as detailed below:

		Existing shareholding before subscription	Share placing and subscription	Total shares acquired in year	Shareholding at 31 Dec 2024
David Bundred	Non-executive Chair*	2,052,626	2,500,000	2,500,000	4,552,626
Kevin Johnson	CEO	1,141,308	2,500,000	2,500,000	3,641,308
Isabelle Maddock	CFO	113,763	350,000	350,000	463,763
Matthew Taylor	Independent NED	1,240,203	10,000,000	10,000,000	11,240,203
Ian Cleminson	Independent NED & Chair	319,654	2,500,000	2,500,000	2,819,654
Julia Woodhouse	Independent NED	535,203	2,500,000	2,500,000	3,035,203
		5,402,757	20,350,000	20,350,000	25,752,757

* David Bundred retired 16 Sept 2024

** Number of £0.01 ordinary shares

Compensation paid to key management personnel in the year is as follows:

	Year to 31 December	
	2024 £'000	2023 (Restated*) £'000
Short term employee benefits	**1,034**	815
Post-employment benefits	**47**	43
Other long-term benefits	**–**	–
Termination benefits	**–**	30
Share Based Payments	**73**	202
	1,154	1,090

* The 2023 short term benefits have been restated to exclude the bonus paid in 2023 in respect of the 2022 financial year of £86k and to include the bonus paid in 2024 in respect of the 2023 financial year of £46k in line with Companies Act requirements.

Notes to the Financial Statements continued

22 Net debt

	Note		As at 31 December 2024 £'000	2023 £'000
Current liabilities	16	Interest-bearing borrowings and lease liabilities	**5,604**	568
Non-current liabilities	16	Interest-bearing borrowings and lease liabilities	**1,841**	1,833
Total debt			**7,445**	2,401
Cash			**(462)**	(6,064)
Net debt (cash)			**6,983**	(3,663)

	As at 1 January 2024 £'000	Cash Flow £'000	Other non-cash movements £'000	31 December 2024 £'000
Lease Liabilities	**(1,786)**	**613**	**(865)**	**(2,038)**
Interest bearing borrowings	**(614)**	**(4,320)**	**(473)**	**(5,407)**
Liabilities arising from financing activities	**(2,400)**	**(3,707)**	**(1,338)**	**(7,445)**
Cash	**6,064**	**(5,580)**	**(22)**	**462**
Total net debt	**3,664**	**(9,287)**	**(1,360)**	**(6,983)**

	As at 1 January 2023 £'000	Cash Flow £'000	Other non-cash movements £'000	31 December 2023 £'000
Lease Liabilities	(1,489)	534	(831)	(1,786)
Interest bearing borrowings	(1,239)	258	367	(614)
Liabilities arising from financing activities	(2,728)	792	(464)	(2,400)
Cash	14,925	(8,807)	(54)	6,064
Total net debt	12,197	(8,015)	(518)	3,664

23 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 is exposed to foreign currency risk arising from transactions and balances denominated in currencies other than sterling, primarily relating to bank deposits, trade receivables, and trade payables. These exposures can result in exchange differences that affect reported profits. At the year end, the most significant exposures were to the US dollar and the euro.

Euro-denominated balances translated into sterling at the balance sheet date comprised cash at bank of £128k, trade receivables of £185k and trade payables of £701k resulting in a net exposure of £388k.

US dollar-denominated balances translated into sterling at the balance sheet date comprised trade receivables of £296k and trade payables of £272k, with no cash at bank, resulting in a net exposure of £22k.

The Company's net exposure to foreign currency risk, based on the carrying amounts of monetary financial instruments, was as follows:

Sensitivity analysis

A ten per cent strengthening of the pound against the US Dollar and the Euro at 31 December 2024 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 2023.

	US Dollar £'000	Euro £'000
31 December 2023	(35)	44
31 December 2024	**(2)**	**35**

A ten percent weakening of the pound against the US Dollar and the Euro at 31 December 2024 would have reduced loses by the amounts shown below; on the basis all other variables remain constant.

	US Dollar £'000	Euro £'000
31 December 2023	43	(54)
31 December 2024	**3**	**(43)**

Price risk

The Company manages price risk associated with large contracts with major Original Equipment Manufacturers (OEMs). These contracts generally fix the price per part for the entire manufacturing period, helping to mitigate the risk of price reductions due to volume fluctuations. However, the Company recognises that inflationary pressures on raw materials and labour costs can still increase overall manufacturing costs. To address this, the Company is renegotiating pricing on all major OEM contracts. Looking ahead, and in line with its ongoing capital investment programme, the Company expects that investments in scalable technology, along with a focus on operational efficiencies and improved processes, will help to reduce manufacturing costs over time.

Credit risk

The Company uses the expected credit loss (ECL) model under IFRS 9 to assess credit risk for all receivables, including unbilled receivables. This model considers historical payment performance, and forward looking factors such as economic conditions and forecasts, and individual customer creditworthiness.

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 £1,543k (*2023; £1,702k*).

23 Financial instruments continued

Movement in the provision for impairment on Trade Receivables	31 December 2024	31 December 2023
Opening balance	**55**	43
Decreased during the period	**31**	–
Utilised during the period	**–**	12
Provision at year end	**24**	55

There was an amount of £24k (December 2023; £55k) in the allowance for impairment in respect of trade receivables and unbilled receivables. The average debtor days are 42 days *(2023; 94 days)*, the average creditor days are 79 days *(2023; 54 days)*.

Liquidity risk

The Company's objective is to maintain a balance between continuity and flexibility of funding through the use of short- term deposits. The contractual maturity of all cash, trade and other receivables at the current and preceding balance sheet date is within one year. The contractual maturity of trade and other payables at the current and preceding balance sheet date is within 3 months.

Interest rate risk

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

	2024 £'000	2023 £'000
Fixed rate instruments:		
Lease liabilities		
Less than one year	**390**	358
More than one year	**1,648**	1,429
Total	**2,038**	1,787
Other Loans and Borrowings		
Less than one year	**5,214**	211
More than one year	**193**	404
Total	**5.407**	615

Sensitivity analysis

A 10% increase in the BOE base rate would result in an increase in interest on the interest bearing loan of £1,050k.

	£'000
2024 interest at current rate of 4.5%	**472**
2024 interest at sensitivity rate of 14.5%	**1,523**
Notional increase in interest payments in 2024 @ 10% upward sensitivity	**1,050**

Capital management

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

Financial assets are comprised of £4,281k (*2023; £8,927k*) which consists of cash and trade receivables.

Financial liabilities are comprised of £11,880k (*2023; £7,101k*) which consists of trade payables, lease liabilities and current and long-term interest-bearing loans.

24 Right of use assets

Amounts recognised in the income statement

	L&B £'000	Other £'000	Total £'000
Net Carrying value at 1 January 2024	**362**	**118**	**479**
Additions	**672**	**–**	**672**
Depreciation charge for the period	**(124)**	**(50)**	**(174)**
Impairment	**(75)**	**–**	**(75)**
Net Carrying value at 31 December 2024	**835**	**68**	**902**
Net Carrying value at 1 January 2023	1,240	55	1,294
Additions	–	135	135
Depreciation charge for the period	(142)	(47)	(189)
Disposals net book value	–	(25)	(25)
Impairment	(736)	–	(736)
Net Carrying value at 31 December 2023	**362**	**118**	**479**

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Notes to the Financial Statements continued

24 Right of use assets continued

Amounts Recognised in the Income Statement

	December 2024 £'000	December 2023 £'000
Interest on Lease liabilities	**175**	129

Lease Liabilities

	December 2024 £'000	December 2023 £'000
Current	**390**	357
Non-Current	**1,648**	1,429
Total Lease Liabilities	**2,038**	1,786

	December 2024 £'000	December 2023 £'000
Total Cash outflow for leases	**613**	454

	December 2024 £'000	December 2023 £'000
Within 1 year	**538**	475
Greater than one year but less than five years	**1,386**	1,145
Greater than five years but less than ten years	**755**	597
Greater than ten years but less than fifteen years	**–**	–
Total Lease Liabilities	**2,679**	2,217

25 Capital Commitments

Contracts placed for future capital expenditure as at 31 December 2024 were £1,457k *(2023; £1,406k)*

26 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.

27 Loss per ordinary share

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

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

Basic	2024	2023
Loss after tax (£)	**(22,348,538)**	(19,558,869)
Weighted average number of shares (No. of shares)	**968,516,673**	247,044,609
Loss per share (pence)	**(2.31p)**	(7.92p)

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.

28 Share options

There is a total of 2,758,825 unexpired options held by employees,700,000 unexpired options held by former officers and a total of 3,500,000 unexpired options held by directors. The number of options outstanding under the Company's share option scheme is as follows:

Note	At 31 Dec 2023	Granted	Leaver	Exercised	Cancelled	Lapsed	At 31 Dec 2024	Exercise price	Date from which exercisable	Expiry date
E2	40,753	–	–	–	–	–	**40,753**	£0.1050	05/07/2018	04/07/2028
E2	745,000	–	–	–	–	–	**745,000**	£0.1450	30/09/2018	04/07/2028
E2	990,000	–	–	–	–	–	**990,000**	£0.1588	01/10/2018	04/07/2028
U1.0	250,000	–	–	–	–	–	**250,000**	£0.1550	02/10/2018	02/10/2025
E1	321,667	–	–	–	–	–	**321,667**	£0.1525	04/01/2018	04/01/2028
U1.1	450,000	–	–	–	–	–	**450,000**	£0.1525	04/01/2018	04/01/2028
E1	245,000	–	0	–	–	–	**245,000**	£0.1300	05/12/2019	05/12/2029
U1.0	1,910,000	–	–	–	–	–	**1,910,000**	£0.1300	05/12/2019	05/12/2029
E1	360,000	–	(20,000)	–	–	–	**340,000**	£0.2350	04/12/2021	04/12/2029
E4	210,000	–	–	–	–	–	**210,000**	£0.2600	28/01/2020	28/01/2030
E3	120,000	–	–	–	–	–	**120,000**	£0.4600	20/10/2020	20/10/2030
E5	210,000	–	(210,000)	–	–	–	**0**	£0.5000	23/02/2021	23/02/2031
E6	40,000	–	–	–	–	–	**40,000**	£0.5000	23/02/2021	23/02/2031
E7	646,405	–	(60,000)	–	–	–	**586,405**	£0.5700	10/11/2021	10/11/2031
E5	500,000	–	(290,000)	–	–	–	**210,000**	£0.5700	10/11/2021	10/11/2031
E8	830,000	–	(330,000)	–	–	–	**500,000**	£0.5050	12/07/2022	12/07/2032
Total	7,868,825	0	(910,000)	0	0	0	**6,958,825**			

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28 Share options continued

EMI approved scheme

All the options below have been granted under the EMI approved scheme. The options under E2, E3, E5, E6 and Evest on the achievement of specific performance criteria relating to contract awards, cost targets and revenue levels.

E1 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.

E2 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.

E3 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.

E4 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.

E5 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.

E6 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.

E7 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.

Unapproved scheme

All the options below have been granted under the unapproved scheme. The options under U1.1 below vest on the achievement of specific performance criteria relating to contract awards and revenue levels.

U1.0 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.

U1.1 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.

A total share-based payment credit of £113,372 was recognised in the income statement during the year in relation to the Company's historic EMI scheme. This credit primarily arose due to the forfeiture of options by employees who left the business during the period.

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LTIP schemes

Under the Company's Long Term Incentive Plan (LTIP), executive directors and senior management have been granted options over ordinary shares, subject to service and performance conditions. The LTIP is equity-settled and accounted for in accordance with IFRS 2 Share-based Payment.

At 31 December 2024, 35,022,823 options (2023: nil) remained potentially capable of vesting by August 2027.

Options at 31 Dec 2023	Options granted in the period	Options exercised in the period	Options not expected to vest	Options Lapsed in the period	Options potential to vest at 31 Dec 2024
Nil	**58,081,655**	nil	(19,652,962)	(3,405,870)	35,022,823

There were no exercises of share options during the period (2023: nil), and no gains were realised (2023: £nil). Further details on directors' participation in the scheme are provided in the Remuneration Report.

Valuation of Awards

For LTIP awards with market-based performance conditions (i.e. requiring the Company's share price to reach at least 5 pence by the end of the vesting period), the fair value was determined at the grant date using a Monte Carlo simulation model, in line with IFRS 2. The model incorporated 100,000 iterations simulating potential share price paths and exit values to determine the expected pay-out, discounted to present value.

The following key assumptions were applied in the model:

Grant date	15-Jan-24	14-Aug-24
Share price at date of grant	£0.108	£0.016
Exercise Price	£0.110	£0.017
Vesting period	3 Years	3 Years
Volatility	36.5%	36.5%
Dividend Yield	0%	0%
Valuation methodology	Monte Carlo simulation (100,000 iterations)	

Awards with non-market performance conditions, such as operational or financial targets, are valued at the share price on the grant date, and the charge is adjusted each period based on management's estimate of the number of options expected to vest.

The fair value per option for all LTIP awards with market-based performance conditions is £0.001. For the remaining LTIP awards, the fair value is aligned with the share price at the date of grant, as shown in the table. The total share-based payment charge recognised in the income statement during the year in relation to the LTIP was £94,233 (2023: £nil).

Share Incentive Scheme (SIP)

In April 2024, the Company launched its first Share Incentive Plan (SIP) for employees, structured as a tax-efficient, all-employee share plan. Under the scheme, eligible employees were able to contribute between £10 and £150 per month, up to the lower of £1,800 or 10% of annual salary, over a 12-month accumulation period. Contributions made are used to acquire Partnership Shares, and for each Partnership Share purchased, the Company will grant one Matching Share at no cost. Shares are held in a trust and must be retained for a minimum period of three years, in line with SIP requirements.

28 Share options continued

Participation in the SIP was fixed at the start of the accumulation period (1 April 2024), with 73 employees enrolling. No new participants could join mid-cycle, although employees were permitted to withdraw from the scheme during the period. In such cases, employee contributions were refunded, and no Matching Shares were issued. As at 31 December 2024, employee contributions totalling approximately £29,220 had been made under the scheme. Based on a fair value of £0.0885 per share at the SIP grant date and an expected Matching Share issuance of 1,948,000 shares, the total IFRS 2 share-based payment charge for the 48-month vesting period was calculated at £172,398.

The fair value of Matching Shares granted under the SIP equals the market value at the SIP grant date. As there are no market-based or performance vesting conditions, no additional valuation modelling (e.g., Monte Carlo) was required.

A charge of £32,325 has been recognised in the income statement for the 2024 financial year, representing 9 months of the total charge.

This is the Company's only SIP scheme in place as at 31 December 2024. Future annual SIP cycles are anticipated.

The total share-based payment charge/(credit) recognised in the income statement during the year was as follows:

Scheme	Charge/(Credit)	Description
Long-Term Incentive Plan (LTIP)	£94k	Fair value measured using Monte Carlo simulation; see details below.
Share Incentive Plan (SIP)	£32k	Based on matching shares awarded over a 12-month accumulation period.
EMI Scheme (Historic)	(£112k)	Credit arising from forfeited options due to employee departures.
Total	(£14k)	

29 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 2024 the Company recognised £13k of income against the furnaces which have entered production.

30 Post reporting date events

Strategic Commercial Realignment

Subsequent to the balance sheet date, the Company has taken steps to strengthen its liquidity and operational effectiveness through strategic commercial arrangements. This includes securing over £10 million in cash advances under revised commercial terms from a key customer, aimed at supporting working capital and reinforcing operational continuity.

The Company is actively engaged in the realignment of pricing structures and broader commercial terms with this key customer. In parallel, negotiations are underway with other OEMs to implement enhanced pricing agreements across remaining production capacity, reflecting a strategic shift toward a more value-driven commercial model.

To support operational efficiency and scale, the Group has also enhanced its manufacturing capabilities. This includes the deployment of specialist expertise—both internally sourced and introduced through commercial arrangements—resulting in measurable improvements in production yield and output.

These initiatives form part of a broader commercial repositioning to align the business model with long-term growth objectives. Discussions regarding longer-term frameworks remain ongoing, and the Company will provide further updates as appropriate.

Notice of Annual General Meeting

NOTICE IS GIVEN that the annual general meeting (the **AGM**) of Surface Transforms PLC will be held at 98 King Street, Manchester M2 4WU on 22 July 2025 at 11.00 am to consider, and if thought fit pass, the following resolutions, of which 1 to 4 (inclusive) will be proposed as ordinary resolutions and 5 will be proposed as a special resolution.

Ordinary Resolutions

1. To receive the company's annual reports and accounts for the financial year ended 31 December 2024.

2. To re-appoint Grant Thornton UK LLP as auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next annual general meeting of the Company and to authorise the Directors to fix their remuneration.

3. To re-elect Ian Cleminson, who retires by rotation under article 118 of the Company's articles of association and who, being eligible, offers himself for re-election as a director.

4. That in substitution for all existing and unexercised authorities and powers, the directors of the Company be generally and unconditionally authorised for the purpose of section 551 Companies Act 2006 (the **Act**):

   4.1 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 (those shares and rights being together referred to as **Relevant Securities**) up to a total nominal value of £4,340,242 to those persons at the times and generally on the terms and conditions as the directors may determine (subject always to the articles of association of the Company); and further

   4.2 to allot equity securities (as defined in section 560 of the Act) up to a total nominal value of £4,340,242 (that amount to be reduced by the nominal value of any Relevant Securities allotted under the authority in paragraph 4.1 above) 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 those 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 six months after the next accounting reference date of the Company (if earlier) save that the directors of the Company may, before the expiry of that 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 that period and the directors of the Company may allot relevant securities or equity securities (as the case may be) under that offer or agreement as if the authority conferred by this resolution had not expired.

Special Resolution

5. That if resolution 4 above is passed, the directors of the Company be authorised to allot equity securities (as defined in section 560 of the Act) for cash under the authority given by that resolution 4 and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Act did not apply to that allotment or sale, the authority to be limited to:

   5.1 the allotment of equity securities or sale of treasury shares 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 those 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

5.2 the allotment of equity securities or sale of treasury shares (otherwise than under paragraph 5.1 above) up to a total nominal amount of £1,302,072, representing approximately 10% of the current share capital of the Company,

PROVIDED THAT this authority shall, unless previously renewed varied or revoked by the Company in general meeting, expire at the end of the next annual general meeting of the Company (or, if earlier, at the close of business on the date which is 6 months after the next accounting reference date of the Company) but, in each case, before its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the directors of the Company may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

By Order of the Board

Richard Hattersley
Secretary

Date: 9 June 2025

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

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 or her rights to attend, speak and vote at that meeting on his or her 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 in these notes. To be effective, the proxy vote must be submitted at www.signalshares.com so as to have been received by the Company's registrars not less than 48 hours (excluding weekends and public holidays) before the time appointed for the meeting or any adjournment of it.
By registering on the Signal Shares portal at www.signalshares.com, you can manage your shareholding, including:
   - **cast your vote**
   - **change your dividend payment instruction**
   - **update your address**
   - **select yo**ur communication preference.
3. Alternatively, you can vote via the VOTE+ app, a free app for smartphone and tablet provided by MUFG Corporate Markets (the company's registrar). It offers shareholders the option to submit a proxy appointment quickly and easily online, as well as real-time access to their shareholding records. The app is available to download on both the Apple App Store and Google Play, or by scanning the relevant QR code below.

Apple App Store **GooglePlay**

Notice of Annual General Meeting continued

4. Any power of attorney or other authority under which the proxy is submitted must be returned to the Company's Registrars, MUFG Corporate Markets, PXS1, Central Square, 29 Wellington Street, Leeds, LS1 4DL. If a paper form of proxy is requested from the registrar, it should be completed and returned to MUFG Corporate Markets, PXS1, Central Square, 29 Wellington Street, Leeds, LS1 4DL to be received not less than 48 hours before the time of the meeting.
5. In order to revoke a proxy appointment, a member must sign and date a notice clearly stating his or her intention to revoke his or her proxy appointment and deposit it at the office of the Company's Registrars, MUFG Corporate Markets at PXS1, Central Square, 29 Wellington Street, Leeds LS1 4DL by 11am 18 July 2025.

6. 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 registrars, MUFG Corporate Markets (whose CREST Participation ID is RA10) at PXS 1, Central Square, 29 Wellington Street, Leeds LS1 4DL by the latest time for receipt of proxy appointments specified in note 2 above. 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 in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

7. Proxymity Voting – if you are an institutional investor you may also be able to appoint a proxy electronically via the Proxymity platform, a process which has been agreed by the Company and approved by the Registrar. For further information regarding Proxymity, please go to www.proxymity.io. Your proxy must be lodged by 11am 18 July 2025 in order to be considered valid or, if the meeting is adjourned, by the time which is 48 hours before the time of the adjourned meeting. Before you can appoint a proxy via this process you will need to have agreed to Proxymity's associated terms and conditions. It is important that you read these carefully as you will be bound by them and they will govern the electronic appointment of your proxy. An electronic proxy appointment via the Proxymity platform may be revoked completely by sending an authenticated message via the platform instructing the removal of your proxy vote.

8. Unless otherwise indicated on the Form of Proxy, CREST, Proxymity or any other electronic voting instruction, the proxy will vote as they think fit or, at their discretion, withhold from voting.

9. If you need help with voting online, or require a paper proxy form, please contact our Registrar, MUFG Corporate Markets by email at shareholderenquiries@cm.mpms.mufg.com, or you may call on 0371 664 0391. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales.

10. 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. A certified copy of the board resolution of the corporation appointing the relevant person as the representative of that corporation in connection with the meeting must be deposited at the office of the Company's Registrars before the commencement of the meeting.

11. 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 6pm on 18 July 2025 shall be entitled to attend and vote for 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.

Company Information and Advisers

Website	www.surfacetransforms.com
Registered Number	03769702
Directors	Ian Cleminson *(Non-executive Chairman)* Dr Kevin Johnson *(Chief Executive)* Matthew Taylor *(NED and Senior Independent Director)* Julia Woodhouse *(Non-executive Director)* Isabelle Maddock *(Chief Financial Officer)*
Company Secretary	Richard Hattersley
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	Cavendish Capital Markets Limited One Bartholomew Close London EC1A 7BL
Auditors	Grant Thornton UK LLP 17th Floor Colmore Row Birmingham B3 3AG
Solicitors to the Company	Gateley Plc Ship Canal House 98 King Street Manchester M3 4WU
Bankers	NatWest 2nd Floor, 1 Spinningfields Sq Manchester M3 3AP
Registrars	MUFG Corporate Markets Central Square 29 Wellington Street Leeds LS1 4DL

For your Notes

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