

18 June 2024

**Surface Transforms plc**  
**("Surface Transforms" or the "Company")**

**FY23 audit update**

Surface Transforms (AIM:SCE), manufacturers of carbon fibre reinforced ceramic automotive brake discs, announces that the audit of its statutory accounts for the year ended 31 December 2023 ("FY23") is ongoing and the Board of the Company currently anticipate its FY23 final results will be published in late June 2024.

There are two particular areas that have and are contributing to the extended audit timeline:

- (1) Impairments to the carrying value of certain intangible and tangible assets; and
- (2) Revenue recognition, namely relating to revenue generated from engineering, testing and tooling services provided to OEM customers during the development phase of the contract.

It is important to note that none of these matters impact cash, but taking each in turn:

**1. Impairments**

*Intangible assets:*

The Company has applied a significantly higher discount rate in its assessment of its intangible assets and whether there is any indication of impairment. This assessment was performed in order to address the combined challenges of cash flow forecasting risk and the potential gap between implied market value and carrying value and resulted in a recoverable amount lower than the carrying value. Whilst not yet agreed, the Board estimate that £6.2 million of non-cash impairments to intangible assets, specifically, capitalised R&D, software and right of use assets, will be recognised in FY23.

The Board note however that these assets continue to generate revenue, underpin its £390m order book and the accounting decision has no impact on daily operational performance.

*Tangible assets:*

The Company's impairment assessment of its tangible assets has identified that a particular furnace was not performing to contracted specification. Furthermore, despite considerable engineering review with the supplier, the Board does not now believe a cost-effective solution to improve the performance of this one particular furnace, can be made. Consequently, and whilst not yet agreed, the Board estimate that £3.0 million of non-cash impairment to tangible assets will be recognised in FY23.

The poor performance of this furnace is not impacting current output due to better than planned output from a complementary furnace together with some outsourcing.

**2. Revenue recognition**

Following discussions with the Company's auditors, the Board has re-assessed its revenue recognition policy relating to revenue generated from engineering, testing and tooling services performed, together "development revenues". This will now result in development revenues being recognised upon completion of system integration by the OEM or when control is passed over for the contracted services as opposed to in

system integration by the OEM or when control is passed over for the contracted services as opposed to in line with work performed and percentage completed under the current policy. This change will not impact cash, and whilst not yet agreed is expected to transfer approximately £2.0m in total from FY23 and prior periods into future years.

Further updates will be made as appropriate.

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**About Surface Transforms**

*Surface Transforms plc. (AIM:SCE) develops and produces carbon-ceramic material automotive brake discs. The Company is the UK's only manufacturer of carbon-ceramic brake discs, and only one of two mainstream carbon ceramic brake disc companies in the world, serving customers that include major OEMs in the global automotive markets.*

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

*The Company holds the London Stock exchange's Green Economy Mark*

*For additional information please visit [www.surfacetransforms.com](http://www.surfacetransforms.com)*

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