RNS Number : 2245U
Surface Transforms PLC
28 June 2024

Surface Transforms plc
("Surface Transforms" or the "Company")
Full year results for year ended 31 December 2023 and Notice of AGM

Surface Transforms (AIM:SCE), manufacturers of carbon fibre reinforced ceramic automotive brake discs, is pleased to announce its audited results for the twelve months ended 31 December 2023.

Financial highlights
- Revenues grew 81% to £7.3m (2022 restated £4.0m), following change to revenue recognition criteria
- Gross margin 57% (2022 Restated: 64%), reduction due to higher temporary outsourcing
- Net research costs of £9.7m (2022: £5.6m)
- £9.2m non-cash impairment of tangible assets (£3.0m) and Intangible assets (£6.2m)
- Loss after taxation, including £9.2m impairment, was £19.6m (2022 Restated: £5.3m)
- Loss per share of 7.92p (2022 Restated: 2.58p)
- Cash used in operating activities £10.3m (2022: £6.5m)
- Cash at 31 December 2023 of £6.1m (2022: £14.9m)
- £10.1m equity placing and open offer to support ongoing working capital needs in the year and £8.8m net of fees further equity raised post balance sheet
- £13.2m loan secured to fund future capital investment

Customer highlights
- Increased order book by £100m (lifetime value) to £390m at the end of the year
- Further demonstrated the ability to win "carry over" business with existing customer OEM 10
- 5 contracts in multi-year revenue generation phase
- Customers have been critical but supportive in response to our production difficulties

Operational highlights
- Continuing operational problems restricted sales throughout the year albeit quarter- on - quarter growth in output
- Resultant extensive program of technical, personnel and process changes in the year to reduce equipment down time and scrap rates
- Capital investments of £9.1m (2022: £8.4m) in the year
- Capacity constraints progressively reduced
- Focus now on improving process capability of all operations

Senior Management Changes
- Post balance sheet, in April 2024, David Bundred announced his intention to retire as Chairman
- Isabelle Maddock joined the board as CFO on 4 September 2023
- Stephen Easton appointed COO on 4 September 2023
- Michael Cunningham resigned from the Board as CFO on 31 May 2023

Other
- Awarded London Stock Exchange "Green Economy Mark" in the year

Posting of Annual Report and Notice of Annual General Meeting:
The Company's Annual Report and Accounts for the year ended 31 December 2023, together with a notice convening the Company's Annual General Meeting ("AGM") will be posted to shareholders today and will be available on the Company's website www.surfacetransforms.com.

The AGM will be held at 1 Paternoster Square, London, EC4M 7DX on 23 July 2024 at 11.00 a.m.

Chairman's Statement
After many years of product development, leading to our £390m order book, 2023 was dominated by the challenge of converting that hard won order book into consistent volume production. Progress was made, sales have grown in each quarter, we were awarded a significant carry over contract in the year, but the overall operational progress simply was not good enough.

As a result, the Company had to seek fresh equity funding both in 2023 and in May 2024, and in parallel negotiated a £13.2m loan ringfenced for capital expenditure. The pricing of the funding and resultant market capitalisation has impacted the annual review of asset valuation and led to a subsequent, non-cash, asset impairment. The Board obviously regrets the circumstances that have led to these distressed equity raisings and completely understands the frustration and anger of shareholders over the subsequent dilution. The Board believes the combination of these equity fundraisings and local authority loan is sufficient for working capital and capital expenditure needs.

Sales Progress
The Company is growing; 81% year on year revenue growth. The central issue in 2023 was that there was sufficient demand for twice the level of the H2 output; we had originally forecast that we would satisfy this demand, but production issues meant we could not.

Progress on Operations
Surface Transforms is not sales constrained. The inability to achieve production targets, a recurring theme of 2023, has therefore been a continuing key frustration. We are in a learning curve, involving numerous interrelated but separate technical problems. That learning curve has proved to be both steeper and longer than we expected.

There were three broad reasons for these continuing 2023 problems, the delays in installing notional capacity, the inability to achieve the target output from this notional capacity and the personnel learning curve.

- **New capacity installation delays:** the Company entered 2023 without adequate capacity to meet demand and spent the year closing the capacity gap with £5.8m of fixed asset capital expenditure in the year.

  The background is well known to shareholders. We ordered our Phase 1 £20m p.a. sales capacity in 2020, and phase 2 (£50m p.a.) in 2021. For both phases, we believed that 2 years was sufficient lead time for both the suppliers and the Company. Additionally, we assumed, that the projected demand for 2023 would not exceed £20m.

  In the event the plant has taken 3 years, not 2, to build and commission, and the speed of our commercial success exceeded our most optimistic assumptions. The subsequent lack of capacity impacts the Company in two ways. Firstly exceeded our most optimistic assumptions. The subsequent lack of capacity impacts the Company in two ways. Firstly, we had underlying demand for £30m sales in 2023, that we could not satisfy, requiring careful customer management. However, the immediate 2023 problem was that without the headroom of spare capacity, a single point of failure (down time or scrap) on a single machine became a total factory bottleneck.

The Phase 2 £50m sales capacity was progressively installed during the year and into 2024. With one exception, the £50m notional capacity has been achieved in the first half of 2024, albeit with work required on process capability to achieve all the notional capacity. The outstanding item from this £50m programme is one furnace that is now expected to be installed at the end of the year.

However the growth in demand continues and the installed capacity increase will soon be thereafter be overtaken by the next step change in demand, requiring the next part of the phase 2 capacity increase to £75m. This increase to £75m sales is planned for commissioning in H2 2025, with equipment being ordered in 2024. That task is underway and is in line with plan.

In summary we had planned to take 2 years to install our £50m capacity but will have taken over 3 years. The 2024 capacity task is therefore twofold; completing this phase to £50m p.a capacity increase whilst, at the same time, ordering the plant for our £75m p.a sales factory, thus competing Phase 2. We expect to have balanced short-term demand and capacity by the end of 2024 and will maintain this resilience thereafter.

- **Process capability, and scrap:** the issue of lack of capacity was compounded by the inability, in some sub processes to achieve the planned output from this notional capacity. As the Company scaled production, technical (and some tooling) issues emerged with the capital equipment that were not apparent during the development phase resulting in excessive down time and scrap. Running furnaces 24/7 is a different challenge to running them occasionally producing prototype volumes.

  The central problem was excessive variability in some production processes - known as process capability. The effect was high levels of rejected product scrap. Improving process capability is a well-known technique in volume manufacture, requiring detailed analysis of input and output variables. This programme started in the year with, reduced scrap results already seen in 2024.

- **New personnel and procedures:** we always knew that setting up a volume production site required new skills and operational procedures not previously needed in a prototype factory. Not everybody in our original team, at all levels, was able to transition from prototype to volume production.

  To this end the Company made two significant senior management appointments in Q3 2023, with Isabelle Maddock joining us as Chief Financial Officer and Stephen Easton as Chief Operating Officer. In turn, both Isabelle and Stephen have subsequently made further appointments in their own departments. In particular, over the last few months, operations have been significantly re-organised, at all levels, involving both new and existing personnel, with, for example a fundamentally different approach to the type of furnace technicians and maintenance personnel we needed.

  We have also instigated a step change in internal training, ranging from CNC programming for operators to a Manchester University executive degree programme for managers. We have always been proud of being a "learning" company, (27% of our workforce are graduate level) but nonetheless have now stepped up a gear in that area.

  In parallel, the Company has undertaken a deep review of the organisational procedures of operational planning, maintenance, quality, and supplier development. Unsurprisingly all show the potential for significant improvement with work on these projects, under the new leadership, now well advanced.

Progress with customers
Given the operational background the key commercial task in 2023 was to ensure that we kept customers fully informed, including realistic expectations of what they could expect. The customer's response has been what we would have hoped; they have reiterated that they want to buy our product and expect us to fix our operational problems. They have been, rightly, critical but have also offered technical support. We remain in continuous dialogue.

Crucially, the customers continue to support us. Indeed OEM 10 awarded us a carry-over £100m contract in October 2023. We do not take this support for granted and whilst the threat to existing contracts now seems under control, the real proof of our ongoing relationship will be the continuing ability to convert the prospective contract pipeline ("PCP") into firm orders. Customers will want to see firm operational progress before making future commitments.

Looking beyond 2024 we have contracted demand that enables us to reach up to £75m sales per annum within the next 4 - 5 years. Our PCP is in addition to this and is dominated by carryover business from our existing customers, and the Company's ambition remains generating revenues of £100m per annum within the next 5 years.

Beyond these major customers, we are continuing to widen our customer base including the very small niche vehicle builders (we describe them as "Near OEMs") as they provide both a very attractive return on the investment required, 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.

Trading Update and Outlook
The Board's expectation of 2024 and 2025 financial performance are unchanged from those described in the recent fund raising, albeit now at the lower end of that described range. And as we note in our going concern statement below, at the current time we need to recognise a material uncertainty in our sales forecast. As described in the fundraising circular dated 3 May 2024, the first half of 2024 is expected to be one of consolidation as capacity is installed and the process capability work maintains momentum, with growth accelerating in the second half. Almost all the single point of failure capacity bottlenecks have now been dealt with.

In relation to which, significant progress was made in Q1 on reducing scrap and expanding capacity; this continued into Q2. However, April and May were impacted by operational supply chains caused by our working capital constraints in Q2 (now, since early June, fully resolved by the fund raising). The Company will be reporting the output for H1 FY24 before the Annual General Meeting on 23 July.

To reiterate the comments above, the problematic furnace , the cost of which has been fully impaired has neither had nor is expected to have an impact on overall production output and the team has a longer term solution that avoids the need for this furnace at all.

The Company's ambition remains generating revenue of £100m sales per year within the next five years.

Summary
The last twelve months have been, arguably, the most difficult in the history of the Company. The operational underperformance was a particular disappointment leading to the need for an unplanned cash injection. As previously stated, the Board obviously regrets the circumstances that have led to this distressed fund raising and completely understands the frustration and anger of shareholders over the subsequent dilution.

However, it is important to remind ourselves that the Company's long-term sales and profit potential is unchanged. Our product works, is wanted by the marketplace, there is still only one other worldwide competitor, the market is likely to be demand constrained for at least the next 5 years, and we are continuing to install capacity that will, eventually, reach £150m sales. The Board would not be building this capacity without anticipating the detail of how we will fill it.

The central immediate need remains that of resolving the twin problems of installing the capacity and then achieving the output from this notional capacity. Last year we made progress yet there is still much work to be done, further progress has been made in 2024 year to date and that continuing progress will be maintained.

Finally, I want to take the opportunity to thank employees for their valiant work during a tough year and of course to thank all shareholders for their support of our recent equity fundraisings.

Financial Review

Prior Year Re-statement - Revenue Recognition for System Integration Services:

We have reassessed our interpretation of revenue recognition for multi-year service integration contracts under IFRS 15. This has resulted in changes to the criteria upon which revenue is recognised for certain engineering, testing, and tooling services. Previously, revenue had been recognised by a careful assessment of these services over time based on the stage of completion for each contract, using detailed project information. This approach which aimed to reflect a fair representation of revenue earned, aligned with management's previous interpretation of IFRS 15.

However, since we have been unable to adequately evidence the right to payment for incomplete performance obligations, the criteria for recognising revenue has been revised to only recognise revenue at a point in time being either upon completion of system integration by the OEM or when control is passed over for the contracted services.

Impact of prior year:

Based on this new interpretation management determined there to be a material difference in how the Company has previously recognised revenue. To comply with IAS 8 the Company is retrospectively applying this new interpretation and adjusting prior year audited financial statements. The prior year revenue related to these services amounts to a cumulative decrease of £1.4million, with £1.1m impacting 2022 and £0.3m impacting 2021.

These adjustments have also impacted other financial statement line items, such as cost of sales, contract receivables and contract fulfilment assets, as detailed in Note 30. The Company now expects to recognise more revenue for these services in future periods as system integrations are completed by the OEMs as detailed in Note 3.

Revenue

Revenue increased 81% to £7.3m in 2023, driven by increasing customer in series production contracts.

Revenue expectations fell short notably stemming from the production challenges which took a considerable amount of research and development to overcome, impacting timelines, revenue, overhead costs and cashflow. In response, the Company has made a number of significant technical, personnel and procedural changes improving machinery output, operational planning, maintenance, quality, and supplier development to enable a continuous evolution of the technology for more effective future scaling.

Gross margin

Gross profit margin decreased to 57% due to product mix and process outsourcing which will continue in 2024 whilst some of our larger pieces of equipment are installed and commissioned.

Overheads

Administrative expenses rose 59% to £5.4 million in 2023, compared to £3.4 million in 2022. In addition, £9.2m of impairments and £0.5m of other non- recurring costs are discussed below.

Excluding the impairments and other non-recurring costs, underlying administrative expenses increased by £2.0 million, primarily driven by the addition of 54 new personnel to support series production. The Company was staffed to meet the forecast demand that was not met due to the operational problems. Accordingly future growth, beyond actual achieved 2023 revenues will not result in further proportional overhead increases.

Our commitment to research and development continues to fuel our growth, yet expenditure in the year was unusually high rising, after capitalisation, by £4.0 million to £9.7 million (2022: £5.6m) during the period. The R&D spend was focussed on process development, reflecting the considerable technical spend in the year fixing the manufacturing problems. This spend is reducing as the problems are being resolved.

Looking ahead, R&D expenditure is anticipated to stabilise at a more sustainable level following the significant investments made in 2023. The valuable insights and improvements gained from this past year's R&D efforts will inform future strategies.

Research will continue to focus on:

- Exploring new techniques to enhance efficiency and product quality
- Optimising production processes
- Identifying ways to utilise better materials, and lower costs

This focus on continuous improvement through process and cost optimisation will remain a core strategy for the future.

Other non-recurring costs

As well as the unusually high incidence of R&D in 2023 management have identified £0.5 million of non- recurring costs that were incurred in the first half of the year due to a temporary lapse in our fixed-price energy contract. The Company has secured fixed energy prices until March 2025, and the practice of fixed-term contracts is expected to continue, management view this as an exceptional item albeit for reporting purposes it is within overhead.

Impairment

At the balance sheet date the Company recognised £9.2m of asset impairment.

As reported in the Chairman's report we identified that a particular furnace is not performing to contracted specification. We have resolved the issue operationally, using other furnaces and external supply but hold the supplier responsible for the failure. We are pursuing potential contractual and legal remedies yet the outcome remains uncertain. As a result of the furnace's inoperability, an impairment of £3.0 million has been recognised in the Statement of Comprehensive Income for the year. This figure reduces the value of the asset to the best estimate of its recoverable amount. We have not recorded an asset in relation to any potential legal recovery as we do not currently meet the recognition criteria for a contingent asset under IAS 37.

IAS 36 requires us to assess the recoverable amount of our assets annually and whenever there is an indication of impairment. To apply IAS 36 the Company has necessarily included the recent fundraises as one market assessment indication along with the risk inherent in the company. Management's discounted cash flow model assumed no expansion capital expenditure or growth beyond current capacity and applied a pre-tax discount rate of 14% based on our determination of our weighted average cost of capital. This initially demonstrated no impairment as the discounted cash flows exceeded the carrying value of assets. In order to address the combined challenges of cash flow forecasting risk in a scale up company and the potential gap between implied market value and carrying value, we have reassessed the carrying value of our assets. The final impairment test applied a pre-tax discount rate of 22% to reflect a further risk premium of 8%. This resulted in a recoverable amount lower than the carrying value, and an impairment charge of £6.2 million, with £5.2 million allocated to capitalised development costs and £1.0 million allocated to software and right-of-use assets.

It's important to note that the impaired development assets continue to generate revenue aligned with our contracted order book with a lifetime value of £390 million. As a consequence of this impairment, future amortisation expense related to these assets will no longer be amortised on a systematic basis over each contract's useful life, thus reducing future amortisation expense.

A reconciliation of the above impairments is detailed in Note 4 to the accounting statements.

Exceptional costs
The Company recognised £0.4m of other non- recurring exceptional costs in the year relating to restructuring costs.

Net loss
Net loss in the year (after taxation) after impairments and other non-recurring and exceptional costs was £19.6m (2022 Restated: £5.3m). Expected tax credit similar to previous years due to R&D tax regime. The increase in net loss was driven by significant levels of spend on research and development, production challenges and high defects, growth in workforce in readiness for increased volumes and lower than expected revenues.

Cash Flow
Gross cash at the year end was £6.1m (2022: £14.9m). Supported by £10.1m fundraising to facilitate working capital growth, supplier and customer confidence.

Balance Sheet
Capital investment in the period amounted to £5.8m (2022: £8.4m), with an impairment of £3.0m recognised against a furnace reflecting its best estimated recoverable amount. A further £6.2m impairment charge resulted in a £5.2 million reduction in the carrying value of capitalised development costs and a £1.0 million reduction in software and right-of-use assets. This impairment reflects the results of an impairment test using a pre-tax 22% discount rate.

Revenue grew in the period, leading to a £0.5 million increase in trade and other receivables, a £0.6 million increase in contract fulfilment assets, and a £1.1 million rise in inventory. Contract fulfilment assets are described in note 1 of the notes to the financial statements.

Equity
During the year, the Company successfully raised £10.1 million in equity funding (net of fees) to support working capital requirements and fulfil orders. Shareholder contributions, including the exercise of 1,120,000 employee share options, totalled £10.5 million net of fees for the year. Despite this after the net loss of £19.6m, net assets decreased by £9.1m.

Loans
In December 2023, the Company secured a £13.2 million loan 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 will be 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 over the next 24 months until 31 December 2025. Similar to a revolving credit facility, the loan liability will only be recognised once funds are drawn down. No funds had been drawn down as at 31 December 2023 accordingly no financial asset or liability at 31 December 2023 has been recognised.

Going Concern
The continued operation of the Company as a going concern is dependent on our ability to successfully navigate the upcoming scale-up phase. Two key areas of material uncertainty have been identified:

1. Scaling Up Production: Successfully ramping up production to meet the demands of our major OEM contracts is essential to our financial viability. This process presents inherent risks, and any unforeseen challenges could delay our ability to deliver on these contracts. Such delays could necessitate additional cash injections to bridge any funding gaps.
2. Maintaining Financial Flexibility: Our current cash reserves provide us with a runway to achieve our goals. However, there is a risk that we may exhaust this cash headroom before achieving profitability. This scenario could lead to a breach of our loan covenants, potentially jeopardising our access to future funding.

The Directors acknowledge the existence of a material uncertainty related to the Company's ability to continue as a going concern. This uncertainty arises from challenges associated with yield improvement and necessary investments during the scale-up phase to meet production targets for the 12 OEM contracts. The duration and extent of these challenges could significantly impact operational performance, particularly sales and EBITDA generation, which are crucial for transitioning the Company from a loss-making entity to a cash- generating business.

The Directors have modelled a management high case, base case and low case scenarios. Performance since the balance sheet date has demonstrated strong growth on prior year, yet short of management expectations for the base case forecast at the time of writing this report.
Additional disclosures are given in note 1 to the financial statements to provide an understanding of the forecast scenarios bank facilities, and cash. The Company cannot be assured that it will not exhaust its cash headroom or breach its covenants and that there is therefore a material uncertainty over the going concern of the Company. The challenges are described in detail in this report along with mitigating actions to address them.

Yield challenges have significantly impacted the Company's profitability. Lower yields not only limit the number of saleable discs, reducing revenue, but also inflate manufacturing costs due to disc scrappage before the final stage. This directly affects our profit margins.

Management has proactively addressed this issue. Recent months have seen several successful upgrades to the manufacturing process, leading to a significant reduction in scrappage rates. We are committed to long-term efficiency and scalability. While strategically investing in process optimisation might temporarily delay reaching desired production levels and impact cash flow in the short term, it will ultimately establish a more robust and sustainable operation, well-positioned to meet future demand.

Our ongoing investment to expand production capacity carries the potential for delays or exceeding initial funding estimates. As our manufacturing strategy relies heavily on capital and working capital expenditure, any unforeseen issues with existing equipment during production ramp- up, challenges with new equipment installation, or delays in equipment investment or arrival could affect our ability to meet production targets or limit our internally generated funding from operations.

To mitigate these risks, we leverage a dedicated Project Management Office (PMO) with expertise in executing complex projects on time. The PMO proactively identifies and manages long lead times for equipment within the program. Additionally, we prioritise talent through proactive recruitment, retention, and development programs, including graduate and apprenticeship initiatives under the guidance of seasoned PMO professionals. These initiatives foster career progression, knowledge continuity, and succession planning. While we are confident that our manufacturing plans incorporate sufficient contingencies to fulfill existing, future, and prospective contracts, inherent uncertainties could still impact our ability to achieve these goals within the anticipated timeframe.

Achieving our strategic goals hinges on effective planning, robust project management, and access to timely management information. While we have growth plans in place, executing them can put significant strain on our management, operational, financial, and personnel resources.

Recognising this potential challenge, we are actively taking steps to mitigate it. We are implementing a rigorous prioritisation framework within our phased approach to growth. This ensures we focus on the most critical initiatives along the critical path, ensuring efficient resource allocation. Additionally, we have proactively addressed resource constraints by:

- Scaling our team: We have recruited experienced engineers and professionals to bolster our technical expertise. We're also investing in training and development programs to upskill existing operators and create future team leaders.

- Investing in technology: We view software applications supporting manufacturing, maintenance, and project management as a continuous value-add process. Ongoing investment in these tools streamlines operations and empowers our team.

Management believes the Company has the ability to meet future demand due to the ongoing investments in capacity, people, software and process optimisation. However, there can be no guarantee that recent improvements in yield can be maintained or improved at levels in line with management expectations, particularly as production volumes are increasing, and there can be no guarantee that the increase in production capacity is effected at the pace planned for. For these reasons the Company cannot be assured that it will not exhaust its cash headroom or breach its covenants, and that there is therefore a material uncertainty over the going concern of the Company.

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. The circumstances noted above indicate the existence of a material uncertainty which may cast significant doubt over the ability of the Company to continue as a going concern. The financial statements do not contain the adjustments that would arise if the Company were unable to continue as a going concern.

Statement of Total Comprehensive Income

	Note	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000 *(Restated)*
Revenue	3	**7,312**	4,045
Cost of Sales		**(3,137)**	(1,448)
Gross Profit		**4,175**	2,597
		57%	64%
Other Income		**16**	36
Gross profit after other income		**4,191**	2,633
Administrative Expenses:			
Before research and development costs		**(5,439)**	(3,365)
Research and development costs		**(9,676)**	(5,625)
Impairment of fixed assets		**(9,238)**	-
Total administrative expenses		**(24,353)**	(8,990)
Operating loss before exceptional items	4	**(20,162)**	(6,357)
Exceptional items	5	**(389)**	-
Operating loss after exceptional items		**(20,551)**	(6,357)
Financial Income	9	**5**	6
Financial Expenses	8	**(176)**	(180)
Loss before tax		**(20,722)**	(6,531)
Taxation	10	**1,163**	1,264
Loss for the year after tax		**(19,559)**	(5,267)
Total comprehensive loss for the year attributable to members		**(19,559)**	(5,267)
Loss per ordinary share			
Basic and diluted	26	**(7.92)p**	(2.58)p

Statement of Financial Position
At 31 December 2023

	Note	As at 31 December 2023 £'000	As at 31 December 2022 (Restated) £'000
Non-current Assets			
Property, plant and equipment	11	**16,017**	15,188
Intangibles	12	**-**	2,237
Total non-current assets		**16,017**	17,425
Current assets			
Inventories	13	**4,469**	3,376
Trade receivables	14	**1,702**	1,051
Other receivables	14	**1,161**	1,276
Tax receivable	14	**1,196**	1,206
Contract fulfillment asset		**1,342**	693
Cash and cash equivalents		**6,064**	14,924
Total current assets		**15,934**	22,526
Total assets		**31,951**	39,951
Current liabilities			
Other interest-bearing borrowings	15	**(211)**	(211)
Lease liabilities	15	**(357)**	(295)

Trade and other payables	16	**(5,649)**	(4,220)
Total current Liabilities		**(6,217)**	(4,726)
Non-current liabilities			
Government grants	27	**(174)**	(188)
Lease liabilities	15	**(1,429)**	(1,335)
Other interest-bearing borrowings	15	**(404)**	(887)
Total non-current liabilities		**(2,007)**	(2,410)
Total liabilities		**(8,224)**	(7,136)
Net assets		**23,727**	32,815
Equity			
Share capital	18	**3,521**	2,406
Share premium		**67,370**	58,215
Capital reserve		**464**	464
Retained loss		**(47,628)**	(28,270)
Total equity attributable to equity shareholders of the Company		**23,727**	32,815

Statement of Changes in Equity
For the year ended 31 December 2023

	Share capital	Share premium	Capital reserve	Retained Loss	Total
Balance as at 31 December 2022 as originally stated	**2,406**	**58,215**	**464**	**(27,534)**	**33,551**
Impact of restatement	**-**	**-**	**-**	**(736)**	**(736)**
Balance as at 31 December 2022 as restated	**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**

For the year ended 31 December 2022 (Restated)

	Share capital	Share premium	Capital reserve	Retained Loss	Total
Balance as at 31 December 2021 as originally stated	1,952	41,446	464	(22,968)	20,894
Impact of restatement	-	-	-	(251)	(251)
Balance as at 31/12/21 as restated	1,952	41,446	464	(23,219)	20,643
Comprehensive income for the year					
Loss for the period	-	-	-	(5,267)	(5,267)
Total comprehensive income for the year	-	-	-	(5,267)	(5,267)
Transactions with owners, recorded directly to equity					
Shares issued in the period	449	17,536	-	-	17,985
Share options exercised	5	61	-	-	66
Cost of issue to share premium	-	(828)	-	-	(828)
Equity settled share based payment transactions	-	-	-	216	216
Total contributions by and distributions to the owners	454	16,769	-	216	17,439
Balance as at 31 December 2022 as restated	2,406	58,215	464	(28,270)	32,815

Statement of Cash Flows
For the year ended 31 December 2023

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000 *(Restated)*
Cash flow from operating activities		
Loss after tax for the year	**(19,559)**	(5,267)

Adjusted for:		
Depreciation and amortisation charge	**1,262**	969
Disposal of fixed assets	**6**	-
Impairment of assets	**9,238**	-
Non-government grant amortisation	**(13)**	(12)
Equity settled share-based payment expenses	**201**	216
Foreign exchange (gains)/losses	**54**	(345)
Financial expense	**176**	180
Financial income	**(5)**	(6)
Taxation	**(1,163)**	(1,264)
	(9,803)	(5,529)
Changes in working capital		
Increase in inventories	**(1,093)**	(2,038)
Increase in trade and other receivables	**(537)**	(974)
Increase in Contract Fulfillment Asset	**(649)**	(693)
Increase in trade and other payables	**649**	2,068
	(11,433)	(7,166)
Taxation received	**1,172**	709
Net cash used in operating activities	**(10,261)**	(6,457)
Cash flows from investing activities		
Acquisition of tangible assets	**(4,769)**	(8,281)
Acquisition of intangible assets	**(3,279)**	(70)
Cash transfer (to)/from current asset investments	**-**	3,007
Interest received	**5**	6
Net cash used in investing activities	**(8,043)**	(5,338)
Cash flows from financing activities		
Proceeds from issue of share capital	**11,195**	18,050
Costs for issue of share capital	**(925)**	(828)
Payment of finance lease liabilities	**(356)**	(153)
Payments of interest bearing borrowings	**(240)**	(473)
Interest paid	**(176)**	(180)
Net cash generated from financing activities	**9,498**	16,416
Net (decrease)/increase in cash and cash equivalents	**(8,806)**	4,621
Foreign exchange losses	**(54)**	345
Cash and cash equivalents at the beginning of the period	**14,924**	9,958
Cash and cash equivalents at the end of the period	**6,064**	14,924

Notes to the Financial Statements

3. Revenue by geographical destination

	2023 £'000	2022 (Restated) £'000
United Kingdom	**845**	1,623
Germany	**492**	349
Sweden	**168**	354
Netherlands	**583**	1
Rest of Europe	**117**	341
United States of America	**5,006**	1,177
Rest of World	**102**	200
	7,312	4,045

System Integration Services (Not Applicable): While our accounting policies mention system integration services, we did not recognise any revenue related to these services in fiscal year 2023 or 2022. Therefore, all revenue recognised in the current and prior year pertains solely to the sale of goods category. This approach ensures transparency and accurately reflects the nature of our current business activities.

The table below presents the transaction price allocated to the remaining performance obligations for our system integration services, as required by IFRS 15.120. These obligations represent unperformed services that we will deliver to customers in the future and for which we will recognise revenue upon completion of system integration by the OEM or when control is passed over for the contracted services. The table provides a breakdown of the estimated recognition of the transaction price by year, reflecting the expected timing of revenue recognition.

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**

As at 31 December 2022:	**2023 £'000**	**2024 £'000**	**2025 Onwards £'000**	**Total £'000**

Total transaction price allocated to the remaining performance obligations	-	2,437	-	2,437

4. Operating loss and auditor's remuneration

	12 months to 31 December 2023 £'000	12 months to 31 December 2022 (Restated) £'000
Operating loss is stated after charging		
Loss on disposal of property plant and equipment	**6**	0
Depreciation of property plant and equipment	**1,189**	865
Impairments *(see 4.2 below)*	**9,238**	-
Amortisation of Intangible assets	**73**	104
Research costs expensed as incurred *(see 4.1 below)*	**9,676**	5,625
Exchange losses/(gains)	**54**	(345)
after crediting		
Government grants	**13**	36

Auditors remuneration

	12 months to 31 December 2023 £'000	12 months to 31 December 2022 £'000
Fees payable to the Company auditor for the audit of the financial statements	**170**	78
Total	**170**	78
Fees payable to the Company auditor for other services		
Financial due diligence for debt financing arrangement	**80**	-
	80	-

4.1 Research costs expensed in the year rose by £4.1 million to £9.7 million during the period. R & D spend was focused on process development more than product, reflecting the considerable technical spend in the year fixing the manufacturing problems.

4.2 Impairments

IAS 36 requires us to assess the recoverable amount of our assets annually and whenever there is an indication of impairment.

The Company operates as a single Cash-Generating Unit (CGU) for impairment testing under IAS 36. Its cash inflows and value in use are best assessed at the entire company level due to its singular Business, it has
no separate operating segments with independent cash flows, all revenue and cash flows stem from the Company's core activities. This approach provides a more meaningful impairment assessment compared to individual asset testing or further grouping.

To apply IAS 36 the Company has necessarily included the recent fundraises as one market assessment indication along with the risk inherent in the Company. Management's discounted cash flow model assumed no expansion capital expenditure or growth beyond current capacity and applied a pre-tax discount rate of 14% based on our determination of our weighted average cost of capital. The model shows growth against assets in use at the balance sheet date for a period of 2 years to December 2025, after that period, a terminal growth rate of 2% has been applied to all balances, except tax (as the Company has a large deferred tax asset which takes 7 years before a full year of tax is recognised). This initially demonstrated no impairment as the discounted cash flows exceeded the carrying value of assets. In addition to the discounted cash flow (DCF) valuation, the Company considered fair value less costs of disposal (FVLCOD) as an alternative measure of recoverable amount. This involved referencing recent observable market capitalisation of comparable assets. While this comparison did not suggest an impairment, it is acknowledged that it is not a formal business valuation and may not fully capture the Company's specific circumstances. The DCF valuation was used as the primary basis for the impairment assessment.

In order to address the combined sensitivities and challenges of cash flow forecasting risk and the potential gap between implied market value and carrying value, we have reassessed the pre-tax discount rate.

The Company has determined that the recoverable amount calculations are most sensitive to changes in revenue and discount rates. To determine the final recoverable amount, taking on board the sensitivities and challenges described a Value in Use (VIU) approach was employed, incorporating a pre-tax discount rate of 22% to reflect a further risk premium of 8%. This resulted in a recoverable amount lower than the carrying value, and an impairment charge of £6.2 million, with £5.2 million allocated to capitalised development costs and £1.0 million allocated to software and right-of-use assets. The calculation is sensitive to any movement in these assumptions and with regard to the discount rates a 1% reduction would lead to a £1.2m increase in the carrying value, whilst a 1% increase leads to a £1m reduction in carrying value.

The Company also identified an inoperable furnace and the impairment reflects recoverable amount. No legal recovery asset recognised (IAS 37). In total an impairment charge of £9,238K has been taken in 2023, the split of impairment charge by asset is shown below:

	Note	At Cost	Amortisation	NBV
Tangible Fixed Assets				
Land and Buildings	11	736	-	736
Capital in progress	11	3,060	-	3,060
Intangible Fixed Assets				
Software	12	587	(367)	220
Capitalised R&D	12	5,233	(11)	5,222
		9,615	(378)	9,238

	9,615	(378)	9,238

5. Exceptional items

The Company recognises £389,000 of other non- recurring exceptional costs in the year relating to restructuring costs.

6. Remuneration of directors

The aggregate amount of emoluments paid to Directors in respect of qualifying services during the period was £674,957 (2022: £630,150).

The amounts set out above include remuneration in respect of the highest paid director of £334,500 (2022: £291,016). Pension contributions of £24,453 (2022: £25,468) were made to a money purchase scheme on behalf of two directors.

The share transactions and key compensations of management designated as Key Management Personnel are disclosed in note 20 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	
	2023	**2022**
Staff numbers and costs		
Directors	**6**	6
Other employees	**141**	90
	147	96

The aggregate payroll costs of these persons were as follows:

	Year to 31 December	
	2023 £'000	**2022 £'000**
Wages and salaries	**5,684**	3,552
Social security costs	**687**	436
Other pension costs	**262**	196
	6,633	4,184

8. Financial Expenses

	Year to 31 December	
	2023 £'000	**2022 £'000**
Interest expense in relation to lease liabilities	**129**	99
Other interest charges	**47**	81
Total interest expense on financial liabilities measured at amortised cost	**176**	180

9. Financial Income

	Year to 31 December	
	2023 £'000	**2022 £'000**
Total Interest Income	**(5)**	(6)

10. Taxation

	2023 £'000	**2022 (Restated) £'000**
Analysis of credit in year		
UK corporation tax		
Adjustment in respect of prior years - R&D tax allowances	**33**	(59)
R&D tax allowance for current year	**(1,196)**	(1,205)
Total income tax credit	**(1,163)**	(1,264)

The tax assessed for the year is lower (2022: lower) than the rate of corporation tax in the UK of 25% (2022: 19%).

The differences are explained below:

	Year to 31 December	
	2023 £'000	**2022 (Restated) £'000**
Reconciliation of effective tax rate		
Loss for year	**(19,559)**	(5,268)
Total income tax credit	**(1,163)**	(1,264)
Loss excluding income tax	**(20,722)**	(6,532)
Current tax at average rate of 23.5%	**(4,870)**	(1,241)
Effects of:		

Non-deductible expenses	**1**	1
Change in unrecognised timing differences		
Current year losses for which no deferred tax recognised	**4,869**	1,240
R&D tax allowance for current year	**(1,196)**	(1,205)
Adjustment in respect of prior years - R&D tax allowances	**33**	(59)
Income tax credit	**(1,163)**	(1,264)

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19% previously enacted). This new law was substantively enacted on 24 May 2021. For the financial year ended 31 December 2023, the current weighted average tax rate was 23.5%. Deferred taxes as at the reporting date have been measured using these enacted 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 2021	1,934	252	3,916	542	5,616	12,260
Transfers from Capital in Progress	-	12	2,873	5	(2,890)	-
Transfers to Intangible assets					(65)	(65)
Additions	-	147	1,285	41	5,241	6,714
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)
Impairment	(736)	-	-	-	(3,060)	(3,795)
At 31 December 2023	**1,198**	**417**	**11,065**	**678**	**7,535**	**20,894**
Depreciation						
At 31 December 2021	552	141	1,713	450	-	2,856
Charge	142	24	656	43	-	865
At 31 December 2022	694	165	2,369	493	-	3,721
Charge	142	34	953	60	-	1,189
Disposals	-	-	(27)	(6)	-	(32)
At 31 December 2023	**836**	**199**	**3,295**	**547**	**-**	**4,878**
Net book value						
At 31 December 2021	1,381	111	2,203	93	5,616	9,403
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**
Impairment Loss 2023	**(736)**	**-**	**-**	**-**	**(3,060)**	**(3,795)**

The carrying value of certain fixed assets has been assessed for impairment. An impairment loss of £3.8 million has been recognised in the year. Please see note 4 for further detail.

12. Intangibles

	Software £'000	Capitalised R&D £'000	Total £'000
Cost			
At 31 December 2021	332	446	778
Transfers from Capital in Progress	65	0	65
Additions	70	1,629	1,699
At 31 December 2022	467	2,075	2,542
Transfers from Capital in Progress	0		0
Additions	120	3,158	3,278
Impairment	(587)	(5,233)	(5,820)
At 31 December 2023	-	-	-
Amortisation			
At 31 December 2021	199	2	201
Charge for period	97	7	104
At 31 December 2022	296	9	305
Charge for period	71	2	73
Impairment	(367)	(11)	(378)

At 31 December 2023	-	-	-
Net book value			
At 31 December 2021	134	444	577
At 31 December 2022	171	2,066	2,237
At 31 December 2023	-	-	-
Impairment Loss	220	5,222	5,442

Capitalised R&D assets are primarily development costs for product and are amortised over the expected volume of the contract. All intangible assets have been impaired in the year following a value in use assessment. Please see note 4 for further detail.

13. Inventories

	Year to 31 December	
	2023 £'000	**2022 £'000**
Raw materials and consumables	**2,286**	2,117
Work in progress	**1,187**	491
Finished goods	**997**	768
	4,469	3,376

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £3,137k (2022 restated: £1,448k). 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	
	2023 £'000	**2022 (Restated) £'000**
Trade receivables	**1,757**	1,093
Provision for impairment on trade receivables	**(55)**	(42)
Net trade receivables	**1,702**	1,051
Other receivables	**222**	837
Prepayments and accrued income	**939**	439
Contract Assets	**-**	-
Total other receivables	**1,161**	1,276
Tax receivable	**1,196**	1,206
Trade and other receivables	**4,058**	3,532

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 £Nil were written off in the year (Dec 2022; £4k). 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 £55k (Dec 2022; £43k) and is accounted for under " Provision impairment on trade receivables".

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

Current liabilities		
Lease Liabilities	**357**	295
Interest bearing borrowings	**211**	211
	568	506
Non-current liabilities		
Lease Liabilities	**1,429**	1,335
Interest bearing borrowings	**404**	887
	1,833	2,222

Finance lease liabilities are payable as follows:

Finance lease liabilities are payable

	Future minimum lease payments 2023 £'000	Interest 2023 £'000	Present value of minimum lease payments 2023 £'000	Future minimum lease payments 2022 £'000	Interest 2022 £'000	Present value of minimum lease payments 2022 £'000

Less than one year	**475**	**(119)**	**357**	418	(123)	295
More than one year	**1,742**	**(313)**	**1,429**	2,014	(406)	1,608
	2,217	**(432)**	**1,786**	2,432	(528)	1,903

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**

The presentation of hire purchase leases and ROU leases has been changed for the current year to classify them together. However, due to the immateriality of the difference in the prior year, the prior year's presentation has not been restated.

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**

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

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 2023 the Company has a remaining loan balance of £614,000.

Future Loan Funding
In December 2023, the Company secured a £13.2 million funding facility from the LCR UDF Limited partnership. This loan facility is supported by the Liverpool city region's Urban Development Fund, which is part-funded by the European Regional Development Fund (ERDF). The loan will be used to invest in new manufacturing facilities, thereby increasing our production capacity. It is solely for capital investment purposes and can be drawn down for eligible capital projects over the next 24 months until 31 December 2025. There is no enforceable right to receive cash until a utilisation request is made with applicable supporting documentation evidencing eligible projects, the loan liability will only be recognised once funds are drawn down. £Nil had been drawn down at the period end and no financial liability at 31 December 2023 is recognised. Future drawdowns will be subject to interest at the EC reference rate for the period, which as at 1 March 2024 is 5.65%, with a commercial margin is 6.50% the aggregate interest rate 12.15%.

16. Trade and other payables

	12 months to 31 December	
	2023 £'000	**2022 (Restated) £'000**
Trade payables	**3,859**	2,031
Taxation and social security	**357**	220
Accruals and deferred income	**841**	1,404
Contract Liabilities	**593**	566
	5,649	4,220

17. Deferred tax

Difference between accumulated depreciation and amortisation and capital allowances	**4,280**	2,646
Tax losses	**(8,934)**	(5,955)
Un-recognised deferred tax asset	**(4,654)**	(3,309)

The Company has an un-recognised deferred tax asset at 31 December 2023 of £4,654k (2022; £3,309k) relating principally to tax losses which the Company can offset against future taxable profits. The Company has recognised a deferred tax liability of £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.

18. Called up share capital

Allotted called up and fully paid of £0.01 each	**Number**	**£'000**
At 31 December 2021	195,188,319	1,952
Issue of shares	45,424,914	454
At 31 December 2022	240,613,233	2,406
Issue of shares	111,459,405	1,115
At 31 December 2023	**352,072,638**	**3,521**

During the year 1,120,000 shares were issued through the exercise of options.

During the year the Company issued 110,339,405 ordinary shares in the Company in a placing, subscription and open offer taking the total issued share capital to 352,072,638 and raising a total of £10.1m after fees.

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

In addition to the Directors' share options certain employees and former employees have been granted options the details are listed in note 27.

19. 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 £320k (2022; £341k). During the year two Directors and several senior managers opted to enter salary exchange arrangements whereby they sacrificed salary for increased pension contributions. These arrangements accounted for £232k of the pension contributions (2022; £178k).

20. 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 4 directors acquired 930,608 shares in the Company through an open market transaction and 5 Directors participated in the placing and subscription, and the shares acquired in both these events are detailed below:

	Pre-employment open market transaction	Open Market Transaction	Share placing and subscription	Acquired in Year
D Bundred	n/a	155,101	500,000	655,101
Dr K Johnson	n/a	-	150,000	150,000
I Cleminson	n/a	155,101	-	155,101
J Woodhouse	n/a	310,203	100,000	410,203
M Taylor	n/a	310,203	500,000	810,203
I Maddock	13,763	-	100,000	113,763
	13,763	930,608	1,350,000	2,294,371

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

	Year to 31 December	
	2023 £'000	2022 £'000
Base salary	**751**	1,131
Bonuses	**86**	50
Benefits (fees, pension)	**61**	58
Share-based payments	**202**	216
Termination benefits	**30**	0
	1,129	1,455

21. Net debt

Current liabilities	15	Interest-bearing borrowings and lease liabilities	**568**	506
Non-current liabilities	15	Interest-bearing borrowings and lease liabilities	**1,833**	2,222
Total debt			**2,401**	2,728
Cash			**(6,064)**	(14,924)
Net debt (cash)			**(3,663)**	(12,196)

	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**	**(8,016)**	**(518)**	**3,664**

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

The presentation of HP and ROU leases has been changed for the current year to classify them together. However, due to the immateriality of the difference in the prior year, the prior year's presentation has not been restated and the total 2022 liabilities arising from financing activities has not changed.

22. Financial instruments

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

Currency risk
The Company transacts business in foreign currencies and therefore incurs some transaction risk due to potential foreign currency cash balances. At the year end the Company held a balance of $3k (£2k) and a balance of €109k (£95k).

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

Sensitivity analysis
A ten per cent strengthening of the pound against the US Dollar and the Euro at 31 December 2023 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 2022.

	US Dollar £'000	**Euro £'000**
31 December 2022	12	20
31 December 2023	**(35)**	**44**

A ten percent weakening of the pound against the US Dollar and the Euro at 31 December 2023 would have reduced loses by the amounts shown below; on the basis all other variables remain constant.

	US Dollar £'000	**Euro £'000**
31 December 2022	(15)	(25)
31 December 2023	**43**	**(54)**

Price risk
The Company manages price risk associated with large contracts with major Original Equipment Manufacturers (OEMs). These contracts typically fix the price per part for the entire manufacturing period, mitigating the risk of price reductions based on volume fluctuations. However, the Company acknowledges the potential impact of inflationary pressures on raw material and labour costs, which could increase the cost of manufacturing. To address this long-term challenge, the Company has a commenced a capital programme
which invests in technology for scale alongside the pursuit of operational efficiencies and improved processes. These combined efforts aim to drive down 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 £1,702k (2022; £860k).

The aging of trade receivables at the reporting date was:

	31 December 2023	**31 December 2022**
Opening balance	**43**	36
Amounts written off	**-**	(4)
Amounts provided for	**12**	10
Provision at year end	**55**	43

There was an amount of £55k (December 2021; £43k) in the allowance for impairment in respect of trade receivables and unbilled receivables. The average debtor days are 94 days (2022; 64 days), the average creditor days are 54 days (2022; 31 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:

	2023 £'000	**2022 £'000**
Fixed rate instruments:		
Lease liabilities		
Less than one year	**358**	295
More than one year	**1,429**	1,335
Total	**1,787**	1,630
Other Loans and Borrowings		
Less than one year	**211**	211
More than one year	**404**	887
Total	**615**	1,098

Sensitivity analysis
A 20% increase in the BOE base rate would result in an increase in interest on the interest bearing loan of £252k.

	£'000
2023 interest at current rate of 2.5%	**47**
2023 interest at sensitivity rate of 22.5%	**299**

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

Financial assets are comprised of £15,934k which consists of cash and trade receivables.
Financial liabilities are comprised of £8,224k which consists of trade payables, lease liabilities and current and long-term interest-bearing loans.

23. Right of use assets
Amounts recognised in the income statement

	L&B £'000	Other £'000	Total £'000
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**
Net Carrying value at 1 January 2022	1,382	18	1,399
Additions	-	63	63
Depreciation charge for the period	(142)	(26)	(168)
Net Carrying value at 31 December 2022	**1,240**	**55**	**1,294**

Amounts Recognised in the Income Statement

	December 2023 £'000	December 2022 £'000
Interest on Lease liabilities	**129**	99

Lease Liabilities

	December 2023 £'000	December 2022 £'000
Current	**357**	295
Non-Current	**1,429**	1,335
Total Lease Liabilities	**1,786**	1,630

	December 2023 £'000	December 2022 £'000
Total Cash outflow for leases	**454**	276

	December 2023 £'000	December 2022 £'000
Within 1 year	**475**	222
Greater than one year but less than five years	**1,145**	655
Greater than five years but less than ten years	**597**	1,085
Greater than ten years but less than fifteen years	**-**	-
Total Lease Liabilities	**2,217**	1,962

24. Capital Commitments
Contracts placed for future capital expenditure as at 31 December 2023 were £1,406k (2022; £5,791k)

25. 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.

26. 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	**2023**	**2022 (Restated)**	**2022 (As Reported)**
Loss after tax (£)	**(19,558,869)**	(5,266,295)	(4,780,363)
Weighted average number of shares (No. of shares)	**247,044,609**	204,340,456	204,340,456
Loss per share (pence)	**(7.92p)**	(2.58p)	(2.34p)

The calculation of diluted loss per ordinary share is identical to that used for the basic loss per ordinary share. This is because the exercise of options would have the effect of reducing the loss per ordinary share from continuing operations and is therefore anti-dilutive under the terms of IAS 33.

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

The fair value uses the weighted average share price and a risk free rate of return of 2.0%.
Due to Company's current state of growth no dividends have been included in any calculations however this is reviewed annually by the board.

27. Share options
There is a total of 3,668,825 unexpired options held by employees and a total of 4,200,000 unexpired options held by Directors. The number of options outstanding under the Company's share option scheme is as follows:

Note	At 31 December 2022	Leaver	Exercised	At 31 December 2023	Exercise price	Date from which exercisable	Expiry date
E1	300,000	(300,000)	-	**-**	£0.1050	25/09/2017	25/09/2024
E1	125,000	(125,000)	-	**-**	£0.1450	30/09/2018	30/09/2025
U1.0	250,000	-	-	**250,000**	£0.1550	02/10/2018	02/10/2025
E1	1,331,667	-	(1,010,000)	**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	1,815,753	-	(40,000)	**1,775,753**	£0.2050	04/07/2018	19/09/2027
E1	265,000	(20,000)	-	**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
E2	140,000	(70,000)	(70,000)	**-**	£0.1525	28/03/2019	28/03/2029
E1	360,000	-	-	**360,000**	£0.2350	04/12/2021	04/12/2029
E3	210,000	-	-	**210,000**	£0.2600	28/01/2020	28/01/2030
E2	120,000	-	-	**120,000**	£0.4600	20/10/2020	20/10/2030
E5	210,000	-	-	**210,000**	£0.5000	23/02/2021	23/02/2031
E4	40,000	-	-	**40,000**	£0.5000	23/02/2021	23/02/2031
E6	1,110,105	(463,700)	-	**646,405**	£0.5700	10/11/2021	10/11/2031
E4	520,000	(20,000)	-	**500,000**	£0.5700	10/11/2021	10/11/2031
E7	910,000	(80,000)	-	**830,000**	£0.0500	12/07/2022	12/07/2032
Total	10,067,525	(1,078,700)	(1,120,000)	**7,868,825**			

EMI approved scheme
All the options below have been granted under the EMI approved scheme. The options under E2, E3, E5, E6 and E7 below vest 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.

28. 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 2023 the Company recognised £13k of income against the furnaces which have entered production.

29. Post reporting date events

Following the period end, the Company contractually completed lease ownership of additional property adjacent to the existing factory. The estimated impact on amortisation expense for the acquired property is expected to be £63,000 annually. The impact on other financial categories is not material.

30. Prior year restatement

This note describes a restatement of prior year revenue related to system integration services (engineering, testing, and tooling). Previously, revenue had been recognised by a careful assessment of these services over time based on the stage of completion for each contract, using detailed project information. This approach which aimed to reflect a fair representation of revenue earned, aligned with management's previous interpretation
of IFRS 15. However, since we have been unable to adequately evidence the right to payment for incomplete performance obligations, the criteria for recognising revenue has been revised to only recognise revenue at a point in time being either upon completion of system integration by the OEM or when control is passed over for the contracted services. To ensure our financial statements comply with this revised interpretation, we have corrected the error in prior year revenue for related to these services.

Based on this new interpretation the error in prior year revenue related to these services amounts to a cumulative decrease of £1.4million, with £1.1m impacting 2022 and £0.3m impacting 2021.

The restatement of prior year revenue for system integration services has resulted in a £1.07 million reduction in 2022 revenue. In reversing the revenue this adjusts the unbilled receivables balance within Other Receivables, as the revenue cannot be recognised yet, the costs associated with these contracts are removed from the statement of total comprehensive income and shown as contract fulfilment assets on the face of the statement of financial position until such time that control is transferred to the customer and revenue can be recognised.
The financial statements reflect a change in presenting the tax credit on the SFP and in note 14. Previously included in "Other Receivables," the tax credit (FY22 £1,206) is now a separate line item for improved clarity (operating vs. other receivables). This change is applied retrospectively, restating prior period amounts in the SFP and note 14. This change is classified as an error correction under IAS 8. We believe previously the balance was not separately presented in accordance with the requirements of IAS 1. IAS 8.49(a).

The impact of these restatements are shown in the tables below.

Loss per ordinary share IAS 8.49 (b)

	2022 (As Reported)	Prior Year Adjustment	2022 (Restated)
Basic			
Loss after tax (£)	(4,780,363)	(485,932)	(5,266,295)
Weighted average number of shares (No. of shares)	204,340,456	-	204,340,456
Loss per share (pence)	(2.34p)	(0.24p)	(2.58p)

Statement of Total Comprehensive Income

	2022 (As Reported) £'000	Prior Year adjustment £'000	2022 (Restated) £'000
Revenue	5,121	(1,077)	4,045
Cost of Sales	(2,039)	591	(1,448)
Gross Profit	3,083	(486)	2,597
Gross profit after other income	3,119	(486)	2,633
Operating loss before exceptional items	(5,871)	(486)	(6,357)
Operating loss after exceptional items	(5,871)	(486)	(6,357)
Loss before tax	(6,045)	(486)	(6,531)
Taxation	1,264	-	1,264
Loss for the year after tax	(4,781)	(486)	(5,267)
Total comprehensive loss for the year attributable to members	(4,781)	(486)	(5,267)

Statement of Cash Flows

	2022 (As Reported) £'000	Prior Year adjustment £'000	2022 (Restated) £'000
Cash flow from operating activities			
Loss after tax for the year	(4,781)	(486)	(5,267)
Changes in working capital			
Decrease/(increase) in inventories	(2,038)	-	(2,038)
Decrease/(increase) in trade and other receivables	(1,805)	831	(974)
Decrease/(increase) in Contract Fulfillment Asset	-	(693)	(693)
Increase/(decrease) in trade and other payables	1,720	348	2,068
	(7,167)	-	(7,167)
Net (decrease)/increase in cash and cash equivalents	4,621	-	4,621

Under the revised interpretation, revenue for the year end 2021 has also been adjusted down by £0.35m, this has been adjusted on the balance sheet. To ensure consistency across the financial statements, the net assets on the balance sheet have been retrospectively adjusted by £0.74 million for both 2022 and 2021. This ensures the 2022 carried-forward net assets reflect all historical corrections.

Prior Year Restatement

	2022 (As Reported)	Prior Year adjustment	2022 (Restated)

	£'000	£'000	£'000
Current assets			
Inventories	3,376	-	3,376
Trade receivables	1,051	-	1,051
Other Receivables	3,401	(919)	1,276
Tax receivable	-	1,206	1,206
Contract Fulfillment Asset	-	693	693
Cash and cash equivalents	14,924	-	14,924
	22,752	(226)	22,526
Total assets	40,177	(226)	39,951
Current liabilities			
Trade and other payables	(3,710)	(510)	(4,220)
	(4,216)	(510)	(4,726)
Total liabilities	(6,626)	(510)	(7,136)
Net assets	33,551	(736)	32,815
Equity			
Retained loss	(27,534)	(736)	(28,270)
Total equity attributable to equity shareholders of the Company	33,551	(736)	32,815

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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

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