CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

PREPARED IN ACCORDANCE WITH IFRS AS ADOPTED BY THE EUROPEAN UNION

NOVACYT
Limited liability company *(société anonyme)* with capital of 1,161,134 euros
Versailles Trade and Companies Register 491 062 527
Registered office: 13, avenue Morane Saulnier
78140 Velizy Villacoublay

NOVACYT
GROUP

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Consolidated statement of financial position as of 31 December 2016

Amounts in € thousand	Note	As of 31/12/2016	As of 31/12/2015
Intangible assets	3.2.1	5 333	1 297
Goodwill	3.1	16 466	9 256
Property, plant and equipment	3.2.2	1 096	683
Non-current financial assets	3.3	138	204
Deferred taxes	3.4	-	-
Other long-term assets		48	56
Non-current assets		**23 082**	**11 497**
Inventories and work in progress		1 614	1 488
Trade and other receivables	3.5	2 356	1 878
Tax receivables		211	152
Other current assets	3.6	313	400
Short-term financial investments		23	1 164
Cash and cash equivalents	3.7	2 843	527
Current assets		**7 360**	**5 609**
Total assets		**30 442**	**17 106**

		As of 31/12/2016	As of 31/12/2015
Share capital		1 161	479
Share premium		47 120	32 382
Own shares		- 165	- 98
Other reserves		123	- 81
Retained earnings		- 30 470	- 22 157
Total equity attributable to owners of the company		**17 769**	**10 524**
Total equity		**17 769**	**10 524**
Borrowings	3.8	2 756	2 103
Primer Design contingent consideration (non-current portion)	3.8	946	-
Employee benefits	3.9	14	40
Other provisions	3.9	89	103
Deferred taxes		53	-
Total non-current liabilities		**3 857**	**2 246**
Bank overdrafts and current portion of long-term borrowings	3.8	3 499	1 270
Primer Design contingent consideration (current portion)	3.8	1 646	
Provisions (current portion)	3.9	66	66
Trade and other payables	3.10	3 504	2 968
Tax liabilities		77	1
Other current liabilities	3.11	24	30
Total current liabilities		**8 816**	**4 335**
Total liabilities		**12 673**	**6 581**
Total liabilities		**30 442**	**17 106**

Consolidated income statement as of 31 December 2016

Amounts in € thousand	Note	2016	2015
Revenue	4.1	11 076	8 892
Cost of revenue	4.2	- 4 996	- 4 617
Gross profit		**6 080**	**4 275**
Sales and marketing expenditure	4.3	- 3 170	- 2 285
Research and development	4.4	- 794	- 588
General and administrative	4.5	- 5 616	- 4 785
Subsidies		427	148
Recurring operating profit/(loss)		**- 3 074**	**- 3 235**
Costs related to the acquisition of Primer Design	4.6	- 508	
Other operating income and expenses	4.6	- 880	- 9 950
Operating profit/(loss)		**- 4 463**	**- 13 185**
Income from cash and cash equivalents		-	1
Gross borrowing costs		- 1 047	- 947
Net borrowing costs	**4.7**	**- 1 047**	**- 946**
Other financial income	**4.8**	**736**	**470**
Other financial expense	**4.8**	**- 936**	**- 246**
Profit/(loss) before tax		**- 5 709**	**- 13 907**
Income tax	4.9	- 2	- 1
Profit/(loss) after tax		**- 5 711**	**- 13 908**
Attributable to owners of the company		**- 5 711**	**- 13 908**
Attributable to non-controlling interests		**-**	**-**
Earnings per share	4.10	- 0.47	- 2.05
Diluted earnings per share	4.10	- 0.47	- 2.05

Consolidated statement of comprehensive income as of 31 December 2016

Amounts in € thousand	2016	2015
Consolidated net profit/(loss) for the year	**- 5 711**	**- 13 908**
Other comprehensive income		
Actuarial differences IAS19R (not recyclable)	- 1	- 3
Translation reserves (recyclable)	206	- 49
Change in gains and losses recognised in equity	205	- 52
Total comprehensive income	**- 5 506**	**- 13 960**
Comprehensive income attributable to:		
Owners of the company	- 5 506	- 13 960
Non-controlling interests		

Statement of changes in equity as of 31 December 2016

Amounts in € thousand	Share capital	Share premium	Own shares	Other group reserves			Retained earnings	Total equity attributable to owners of the company	Total equity
				Translation reserve	OCI on retirement benefits	Total			
Position at the beginning of year 2015.12	**418**	**28 184**	**- 86**	**- 21**	**- 9**	**- 30**	**- 8 213**	**20 273**	**20 273**
Actuarial gains on retirement benefits	-	-	-	-	- 3	- 3	-	- 3	- 3
Translation differences	-	-	-	- 49	-	- 49	-	- 49	- 49
Profit/(loss) for the period	-	-	-	-	-	-	- 13 908	- 13 908	- 13 908
Total profit/(loss) for the period	**-**	**-**	**-**	**- 49**	**- 3**	**- 52**	**- 13 908**	**- 13 959**	**- 13 959**
Capital increase	61	4 198	-	-	-	-	-	4 259	4 259
Change in own shares	-	-	- 12	-	-	-	-	- 12	- 12
Other changes	-	-	-	-	-	-	- 37	- 37	- 37
Situation at the close of year 2015.12	**479**	**32 382**	**- 98**	**- 69**	**- 12**	**- 81**	**- 22 157**	**10 524**	**10 524**
Actuarial gains on retirement benefits	-	-	-	-	- 1	- 1	-	- 1	- 1
Translation differences	-	-	-	206	-	206	-	206	206
Profit/(loss) for the period	-	-	-	-	-	-	- 5 711	- 5 711	- 5 711
Total profit/(loss) for the period	**-**	**-**	**-**	**206**	**- 1**	**205**	**- 5 711**	**- 5 506**	**- 5 506**
Capital increase in cash	439	7 099	-	-	-	-	-	7 538	7 538
Change in own shares	-	-	- 67	-	-	-	-	- 67	- 67
Other changes	243	7 639	-	-	-	-	- 2 602	5 280	5 280
Situation at the close of year 2016.12	**1 161**	**47 120**	**- 165**	**136**	**- 13**	**123**	**- 30 470**	**17 769**	**17 769**

The following items are presented under "Other changes":

- in the column headed "Capital", the amount of increases by contribution of securities (acquisition of Primer Design) or by conversion of the OCABSA bonds (see section 3.8) and not in cash;
- in the column headed "Share premium", the consequences of these transactions on the share premium;
- in the column headed "Retained earnings":
  - the IFRS adjustment of the acquisition of the Primer Design securities in the negative amount of €2,947,000,
  - the impact on equity of the allocation of Novacyt warrants to Kreos Capital, valued at €283,000 at the date of issue, and
  - the IFRS adjustment of the OCABSA bonds issued in 2016.

Statement of cash flows as of 31 December 2016

Amounts in € thousand	2016	2015
Total consolidated net profit/(loss)	- 5 711	- 13 908
Adjustments		
Elimination of depreciation, amortisation and provisions	826	10 067
Elimination of accretion gains/(losses)	86	-
Elimination of change in fair value through profit or loss	293	- 439
Elimination of gains on disposals and dilution gains and losses	23	- 17
Cash flow after net borrowing costs and tax	**- 4 483**	**- 4 297**
Elimination of tax expense/(income)	- 425	
Elimination of gross borrowing costs	1 047	946
Cash flow before net borrowing costs	**- 3 861**	**- 3 351**
Impact of change in inventories	141	- 128
Impact of change in trade receivables	338	- 89
Impact of change in trade payables	766	- 1 667
Impact of change in debt issuance costs	- 71	- 160
Taxes paid	126	49
Cash from/(used in) operating activities	**- 2 560**	**- 5 346**
Impact of change in scope	- 6 742	
Purchase of PP&E and intangible assets	- 548	- 829
Change in loans and advances	- 75	- 296
Disposal of PP&E and intangible assets	-	40
Cash from/(used in) investing activities	**- 7 364**	**- 1 085**
Capital increase	7 923	4 259
Net sales/(purchases) of own shares	- 67	- 12
Bond issues	4 887	3 768
Bond redemptions	- 915	- 1 165
Net interest paid	- 633	- 946
Other cash from/(used in) financing activities	-	- 163
Cash from/(used in) financing activities	**11 195**	**5 742**
Impact of change in exchange rates	- 97	43
Change in cash	**1 174**	**- 646**
Opening cash and cash equivalents	1 681	2 327
Closing cash and cash equivalents	2 856	1 681

The impact of changes in the scope of consolidation corresponds to the purchase price of Primer Design securities paid during the year, i.e. €7,490,000, less the value of the cash acquired, i.e. €748,000.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 : APPLICABLE ACCOUNTING STANDARDS

Novacyt (hereinafter **"the Company"** or **"Novacyt"**), a limited company (*société anonyme*) with capital of 669,328 euros, specialises in cancer and infectious disease diagnostics. Its registered office is located at 13 avenue Morane Saulnier, 78140 Velizy Villacoublay. The financial statements include the accounts of the Company and its subsidiaries (hereinafter referred to collectively as **"the Group"**). They are prepared and presented in thousands of euros.

Pursuant to European regulation 1606/2002 of 19 July 2002, the Company's financial statements for the year ended 31 December 2016 were prepared in accordance with international accounting standards as adopted by the European Union as of 31 December 2016 and mandatory as of that date.

International accounting standards include IFRS (International Financial Reporting Standards) and IAS (International Accounting Standards), as well as interpretations issued by IFRIC (International Financial Reporting Interpretations Committee) and SIC (Standard Interpretations Committee).

Evolution of the accounting standards

- Mandatory standards, interpretations and amendments to the standards at 1st January 2016
  - Amendments IAS 16 and IAS 38 : « Clarification of the acceptable depreciation methods » ;
  - Amendment IFRS 11 : « Acquisition of a share in a common activity » ;
  - Annual improvements of the IFRS 2012 – 2014.
- Standards, interpretations and amendments to the standards issues by IASB and endorsed by the European Union, the application of which is not yet mandatory at 31st December 2016
  - IFRS 15 and amendment IFRS 15 : « Revenue from contracts with customers » ;
  - IFRS 9 « Financial instruments ».

  The Group did not early adopt these standards or interpretations in preparing these financial statements. The Group does not anticipate any significant impact on the accounts.

The Group did not early adopt any standards or interpretations in preparing these financial statements. The analysis of the impacts on the accounts of the IFRS 15 « Revenue from contracts with customers » et IFRS 9 « Financial instruments » is currently being carried out. The Group does not anticipate any significant impact on the accounts.

The texts adopted by the European Union are available on the website of the European Commission at the following address:
http://ec.europa.eu/finance/company-reporting/ifrs-financial-statements/index_en.htm

The financial statements were approved by the Board of Directors at its meeting of 28 April 2017, which authorised their publication.

NOTE 2 : SUMMARY OF ACCOUNTING POLICIES APPLIED BY THE GROUP

The financial statements were prepared primarily on the basis of the historical cost principle, with the exception of optional instruments, for which the fair value model was used.

The preparation of financial statements under IFRS requires management to exercise judgement on the application of accounting policies, and to make estimates and assumptions that affect the amounts of assets and liabilities, and income and expenses. The underlying estimates and assumptions, made in accordance with the going concern principle, are based on past experience and other factors deemed reasonable in the circumstances. They serve as the basis for the exercise of judgement required in determining the carrying amounts of assets and liabilities that cannot be obtained directly from other sources. Actual amounts may differ from these estimates. The underlying estimates and assumptions are reviewed continuously. The impact of changes in accounting estimates is recognised in the period of the change if it affects only that period, or in the period of the change and subsequent periods if such periods are also affected.

The areas where assumptions and estimates are material in relation to the consolidated financial statements are the measurement of goodwill resulting from Novacyt's acquisition of the Lab21 subgroup and Primer Design (see 3.1), the carrying amounts and useful lives of intangible assets (see 3.2.1), deferred taxes (see 3.4), trade receivables (see 3.5) and provisions for risks and other provisions related to the operating activities (see 3.9).

The consequences of the financial crisis, especially as regards the volatility of the capital markets and economic growth, make it difficult to assess a business's medium-term outlook. As such, the consolidated financial statements have been established in reference to the immediate environment, notably as regards the estimates presented below.

The accounting policies described below have been applied consistently to all periods presented in the consolidated financial statements.

2.1 PRINCIPLES OF CONSOLIDATION

2.1.1 Going concern

The 2016 consolidated financial statements were prepared in accordance with the going concern principle. Cash flow projections for the next 12 months point to a positive cash position. They take particular account of the following factors:

- Available cash as of 31 December 2016 amounted to €2,843,000;
- The drawing of an additional €500,000 on the Yorkville convertible bonds;
- A convertible bond of €1,500,000 subscribed on 31 March 2017;
- The payment of the first part of the contingent consideration in May 2017 in the amount of approximately €1,750,000;
- Assumptions of capital increases or equivalent financing in a total amount of €5,000,000 to be carried out between the third quarter of 2017 and the first quarter of 2018.

No agreement has been reached, and no undertaking can be given that these assumptions will be confirmed by actual transactions.
Failure to obtain a satisfactory outcome in terms of prospective financing or revenue would place uncertainty on the going concern principle applied in preparing the financial statements insofar as the company may in this case not be able to repay its debts and dispose of its assets in the ordinary

course of its business. The going concern principle applied for the period ended 31 December 2016 could in that case prove inappropriate.

2.1.2 Scope and method of consolidation

Novacyt's consolidated financial statements include all companies under exclusive control. The Company does not exercise joint control or have significant influence over other companies. Subsidiaries are consolidated from the date on which the Group obtains effective control.

Exclusively controlled companies are consolidated by the full consolidation method with recognition of non-controlling interests. Under IFRS 10, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The determination of control takes into account potential voting rights that give access to additional voting rights when they are currently exercisable or convertible.

As of 31 December 2016, Novacyt's scope of consolidation included the following companies, all fully consolidated:

	Closing			Opening		
Unités	Taux d'intérêt	Taux de contrôle	Méthode de conso.	Taux d'intérêt	Taux de contrôle	Méthode de conso.
Biotec Laboratories Ltd	100,00 %	100,00 %	FC	100,00 %	100,00 %	FC
Healthcare	100,00 %	100,00 %	FC	100,00 %	100,00 %	FC
Lab21 Ltd	100,00 %	100,00 %	FC	100,00 %	100,00 %	FC
Microgen Bioproducts Ltd	100,00 %	100,00 %	FC	100,00 %	100,00 %	FC
Myconostica Ltd	100,00 %	100,00 %	FC	100,00 %	100,00 %	FC
Novacyt SA	100,00 %	100,00 %	FC	100,00 %	100,00 %	FC
Novacyt Asia	100,00 %	100,00 %	FC	100,00 %	100,00 %	FC
Novacyt China	100,00 %	100,00 %	FC	100,00 %	100,00 %	FC
Np Tech Services Ltd	100,00 %	100,00 %	FC	100,00 %	100,00 %	FC
Selah technologies Llc	100,00 %	100,00 %	FC	100,00 %	100,00 %	FC
Primer Design Ltd	100,00 %	100,00 %	FC			NC

With: FC: Full consolidation
NC: Not consolidated

Novacyt acquired Primer Design on 12 May 2016.

2.1.3 Consolidation rules

The consolidated financial statements are prepared using uniform accounting policies for transactions and other similar events in similar circumstances.

- **Elimination of intercompany transactions**

The intercompany balances arising from transactions between consolidated companies, as well as the transactions themselves, including income, expenses and dividends, are eliminated.

- **Translation of accounts denominated in foreign currency**

Novacyt's financial statements are presented in euros. The financial statements of companies whose functional currency is not the euro are translated into euros as follows:

- balance sheet items are translated at the closing exchange rate, excluding equity items, which are stated at historical rates;
- transactions in the income statement and statement of cash flows are translated at the average annual exchange rate.

For the conversion of the accounts of Primer Design, the average exchange rate was determined by reference to the average rates for the period running from the acquisition date to 31 December 2016.

Translation differences on earnings and equity are recognised directly in other comprehensive income under "Translation reserve" for the portion attributable to the Group. On disposal of a foreign company, the translation differences relating thereto and recognised in other comprehensive income are reclassified to profit or loss.

Exchange differences arising from intragroup balances are recognised as exchange losses or gains in the consolidated income statement.

2.1.4 Business combinations and measurement of goodwill

- **Business combinations**

Business combinations are accounted for using the purchase method (see IFRS 3R).

Each time it takes over a company or group of companies constituting a business, the Group identifies and measures the assets acquired and liabilities assumed, most of which are carried at fair value. The difference between the fair value of the consideration transferred, including the recognised amount of any non-controlling interest in the acquiree and the net amount recognised in respect of the identifiable assets acquired and liabilities assumed measured at fair value, is recognised as goodwill.

Pursuant to IFRS 3R, the Group applies the following principles:

- transaction costs are recognised immediately as operating expenses when incurred;
- any prospective price adjustment of an asset or a liability assumed is estimated at fair value at the acquisition date, and the initial assessment may only subsequently be adjusted against goodwill in the event of new information related to facts and circumstances existing at the acquisition date if this assessment occurs within the 12-month allocation period after the acquisition date. Any adjustment of the financial liability recognised in respect of an additional price subsequent to the interim period or not meeting these criteria is recognised in the Group's comprehensive income;
- any negative goodwill arising on acquisition is immediately recognised as income;
- if acquired in stages, the achievement of control triggers the remeasurement at fair value of the interest previously held by the Group in profit or loss; loss of control results in the remeasurement of the possible residual interest at fair value in the same way.

For companies acquired during the year, only the results for the period following the acquisition date are included in the consolidated income statement.

- **Measurement of goodwill**

Goodwill is broken down by cash-generating unit (CGU) or group of CGUs, depending on the level at which goodwill is monitored for management purposes. In accordance with IAS 36, none of the CGUs or groups of CGUs defined by the Group are greater in size than an operating segment.

- **Impairment testing**

Goodwill is not amortised, but is subject to impairment testing when there is an indication of loss of value, and at least once a year at the reporting date.

Such testing consists of comparing the carrying amount of an asset to its recoverable amount. The recoverable amount of an asset, CGU or group of CGUs is the greater of its fair value less costs to sell and its value in use. Fair value less costs to sell is the amount obtainable from the sale of an asset, CGU or group of CGUs in an arm's length transaction between well-informed, willing parties, less the costs of disposal. Value in use is the present value of future cash flows expected to arise from an asset, CGU or group of CGUs.

It is not always necessary to determine both the fair value of an asset less costs to sell and its value in use. If either of these amounts exceeds the carrying amount of the asset, the asset is not impaired and it is not necessary to estimate the other amount.

2.2 FIXED ASSETS

2.2.1 Intangible assets

- **Patents**

Patents on the balance sheet were acquired or created internally.

These patents have been recognised in accordance with the following rules:

- Research phase: recognition of expenses in operating expenses;
- Development phase: recognition in assets insofar as the patents are identifiable assets controlled by the Company and from which future economic benefits will arise.

Each patent has been recognised in accordance with its value corresponding to the costs incurred during the development phase or at the acquisition price.

The event generating amortisation is the start of use, i.e. the filing date of the patent. Patents are amortised on a straight-line basis over 20 years.

- **Customers**

In accordance with IFRS 3, Novacyt's acquisition of Primer Design resulted in the recognition of the value of the acquired customer base on the balance sheet. The value of this asset was determined by discounting the additional margin generated by customers after remuneration of the contributing assets.

Customers will be amortised on a straight-line basis over nine years.

- **Trademark**

The acquisition price of Primer Design by Novacyt was also "allocated" in part to the Primer Design trademark. The value of this asset was determined by discounting the cash flows that could be generated by licensing the trademark, estimated as a percentage of revenue derived from information available on comparable assets.

The trademark will also be amortised on a straight-line basis over nine years.

- **Other intangible assets**

Intangible assets include licences recognised at cost and amortised over useful lives of between 7 and 20 years.

2.2.2 Assets under construction

Pursuant to IAS 38, Novacyt capitalises development costs (external costs and personnel expenses), provided that they meet the following criteria:

- the Group has the intention, as well as the financial and technical capacity, to complete the development project,
- the asset will generate future economic benefits, and
- the cost of the intangible asset can be measured reliably.

Assets under construction are not amortised until the development programme has been completed and the asset brought into use. Other research and development expenses not meeting the criteria set out above are expensed directly.

2.2.3 Property, plant and equipment

Items of property, plant and equipment are recognised at their acquisition cost (purchase price plus incidental expenses and acquisition costs).

2.2.4 Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis, with major components identified separately where appropriate, based on the following estimated useful lives:

- Patents:	Straight-line basis – 20 years
- Trademark:	Straight-line basis – 9 years
- Customers:	Straight-line basis – 9 years
- Industrial machinery and equipment:	Straight-line basis – 3 to 6 years
- General fittings, improvements:	Straight-line basis – 3 to 5 years
- Transport equipment:	Straight-line basis – 5 years
- Office equipment:	Straight-line basis – 3 years
- Computer equipment:	Straight-line basis – 2 to 3 years

The depreciation or amortisation of fixed assets begins when they are ready for use and ceases at their disposal, scrapping or reclassification as assets held for sale in accordance with IFRS 5.

Given the nature of its assets, the Group does not recognise residual value on the items of property, plant and equipment it uses.

Depreciation and amortisation methods and useful lives are reviewed at each reporting date and revised prospectively if necessary.

2.2.5 Asset impairment

Depreciable assets are subject to impairment testing when indications of loss of value are identified. In assessing whether there is any indication that an asset may be impaired, the Company considers the following external and internal indicators:

External indicators:

- drop in the market value of the asset (to a greater extent than would be expected solely from the passage of time or the normal use of the asset);
- significant changes with an adverse effect on the entity, either having taken place during the period or expected to occur in the near future, in the technical, economic or legal environment in which the Company operates or in which the asset is used;
- increases in market interest rates or other market rates of return during the year, when it is likely that such increases will significantly reduce the market value and/or value in use of the asset.

Internal indicators:

- existence of indication of obsolescence or physical damage of an asset unforeseen in the depreciation or amortisation schedule;
- significant changes in the way the asset is used;
- weaker-than-expected performance by the asset;
- significant reduction in the level of cash flow generated by the asset.

If there is an indication of impairment, the recoverable amount of the asset is compared with its carrying amount. The recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is the present value of future cash flows expected to arise from an asset over its estimated useful life.

The recoverable amount of assets that do not generate independent cash flows is determined by that of the cash-generating unit (CGU) to which it belongs, a CGU being the smallest homogeneous group of identifiable assets generating cash flows that are largely independent of other assets or groups of assets.

The carrying amount of an asset is its gross value less, for depreciable fixed assets, accumulated depreciation and impairment losses.

In the event of loss of value, an impairment charge is recognised in profit or loss. Impairment is reversed in the event of a change in the estimate of the recoverable value or if indications of loss of value disappear. Impairment is recognised under "Depreciation, amortisation and provisions for impairment of property, plant and equipment and intangible assets" in the income statement.

Intangible assets not subject to amortisation are tested for impairment at least once a year.

2.3 LEASES

Leases in which the Novacyt group is the lessee are analysed on the basis of their substance and financial reality, and are classified either as operating leases or finance leases.

- **Finance leases**

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. It is treated as the acquisition of an asset by the lessee, financed by a loan granted by the lessor.

The group has not concluded any such contracts.

- **Operating leases**

An operating lease is a contract that does not transfer substantially all the risks and rewards incidental to ownership to the lessee. Lease payments under an operating lease are expensed on a straight-line basis over the entire lease term, even if payments are not made with the same regularity.

The lease agreement for Novacyt's offices in Vélizy can be analysed as an operating lease.

A provision for restoration of leased office space has been set aside to address the contractual obligations arising from lease contracts (see section 2.8).

2.4 TRADE RECEIVABLES

Trade receivables are recognised upon transfer of ownership, which generally corresponds to delivery for sales of goods and the rendering of the service for services.

Receivables are recorded at their fair value, which corresponds most often to their nominal value. Receivables may be impaired by means of a provision, to take into account any difficulties in recovering the outstanding amounts. Provisions for impairment are determined by comparing the acquisition cost and the likely realisable value, which is defined as the present value of the estimated recoverable amounts.

2.5 SHORT-TERM FINANCIAL INVESTMENTS

Short-term investments consist mainly of term accounts, which are initially recognised at cost.

Provisions for potential impairment are determined by comparing the acquisition cost with the likely trading value for unlisted securities, and with the market price for listed securities.

2.6 CASH AND CASH EQUIVALENTS

Cash equivalents are held in order to meet short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent, it must be readily convertible into a known amount of cash and be subject to an insignificant risk of change in value. Cash and cash equivalents comprise cash funds, current bank accounts and marketable securities (cash UCITS, negotiable debt securities, etc.) that can be liquidated or sold within a very short time (generally less three months at the acquisition date) and which have a negligible risk of change in value. All such items are measured at fair value; any adjustments are recognised in profit or loss.

2.7 FINANCIAL LIABILITIES

Borrowings are initially recognised at fair value. They are subsequently accounted for using the amortised cost method, based on the effective interest rate. Under this principle, any arranging costs are carried in the balance sheet item relating to the relevant borrowings and amortised in financial expense over the life of the loan.

- Compound financial instruments

Some financial instruments contain both a liability and an equity component. This is notably the case of the OCABSAs, which are bonds convertible into shares with warrants. The various components of these instruments are accounted for and presented separately according to their substance, as defined in IAS 32 "Financial Instruments: Disclosure and Presentation". The amortised cost is calculated on the basis of the liability only, once the equity component and, in this case, the embedded derivative have been separated.

- Primer Design contingent consideration

Novacyt negotiated a contingent consideration for the acquisition of the Primer Design securities with the company's former shareholders, subject to the achievement of a revenue target. Payment will be made in cash in May 2017 and May 2018.

In accordance with IAS 39, the financial liability has been remeasured at its fair value as of the balance sheet date to take into account changes in the exchange rate of the pound sterling on the one hand and the accretion expense of the liability on the other hand.

2.8 PROVISIONS

In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", a provision is recognised when the Group has a current obligation as of the reporting date in respect of a third party and it is probable or certain that an outflow of resources to this third party, without at least equivalent consideration from the said third party. Provisions for risks and charges cover the amount corresponding to the best estimate of the future outflow of resources required to settle the obligation.

They consist of provisions for restoration of leased premises and a provision for industrial relations litigation.

2.9 EMPLOYEE BENEFITS

Group employees receive short-term benefits (paid leave, sick leave, etc.) and post-employment benefits via defined-contribution or -benefit plans (retirement bonuses, pensions, etc.).

For defined-contribution plans, payments made by the Group are expensed in the period in respect of which they are due.

Post-employment benefits relate mainly to retirement bonuses, and cover Novacyt employees only. Defined benefits are the subject of a calculation performed by an actuary, based on the following parameters:

- retirement at the age of 64 for managers,
- retirement at the age of 62 for non-managers,
- wage increases at a rate of 3% per annum, i.e. the long-term inflation rate plus 1%,
- discount rate of 1.5% in 2016, in line with the average rate of private sector bonds issued in euros (blue chip) for durations equivalent to the commitments in question,
- staff turnover based on the Group's actual experience: projection of 0.5 resignations over the next 12 months,
- life expectancy based on the Insee 2012-2014 mortality table,

- average rate of social security contributions of 41.10%.

Rights expressed as months of wages resulting from the application of national agreements and the "Pharmaceuticals, pharmacy, veterinary products: production & trade" collective agreement. These retirement benefits are expensed when due. The provision for this expense is reversed in the same period.

2.10 DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

Discontinued operations and assets held for sale are restated in accordance with IFRS 5. There were no discontinued operations or assets held for sale during the periods presented.

2.11 CONSOLIDATED REVENUE

The applicable standard is IAS 18 "Revenue".

- **Novacyt's activity**

Revenue from "sales of goods" consists primarily of the sale of machines (automated equipment, accessories and spare parts to distributors and industrial partners or sold directly from laboratories or hospitals). Revenue is recognised upon transfer of the risks and rewards incidental to ownership, which corresponds to the date on which the machines are delivered to the distributor or the end customer in case of direct sales.

Revenue from "production sold" is the activity involving the distribution of consumables such as bottles and settling systems.

- **The activity of Lab21 and its subsidiaries**

Lab21 provides laboratory-based diagnostic services. Revenue is recognised when the service is rendered (diagnosis made).

Lab21's subsidiaries manufacture and sell reagents and kits for bacterial and blood tests.

Revenue is recognised upon delivery of products sold and, where appropriate, after formal customer acceptance.

- **Primer Design's activity**

Primer Design designs, manufactures and distributes test kits for certain diseases in humans, animals and food products. These kits are intended for laboratory use and rely on "polymerase chain reaction" technology. Revenue is recognised when the test kits are sold. The company accounts for the sale of the product upon delivery.

2.12 CURRENT AND DEFERRED TAX

The tax expense for the year comprises current tax and deferred tax.
A deferred tax asset is recognised for deductible temporary differences and the carryforward of tax losses and tax credits insofar as their future utilisation appears probable and determinable in time.

A deferred tax liability is recognised on timing differences related to accelerated depreciation. It only covers Primer Design.

2.13 TREATMENT OF TAX CREDITS

Directly taxed industrial and commercial companies that record research expenditure are entitled to a tax credit in France, which is the case of Novacyt. The tax credit is calculated per calendar year and deducted from the tax payable by the company in respect of the year during which research expenses were incurred. Tax credits that cannot be deducted from tax expense are refunded to the company. The granting of the tax credit is independent of the Group's tax position. Novocyt has accordingly elected to treat it as a subsidy. It appears in an item covering grants in the income statement.

The Lab21 sub-group companies and Primer Design also benefit from tax credits for their research activities. Such tax credits are treated as grants in the income statement.

In France, the law amending the 2012 budget introduced a new tax credit from 1 January 2013, known as the competitiveness and employment tax credit (*crédit d'impôt pour la compétitivité et l'emploi* – CICE). Its calculation is based on a portion of the salaries paid to employees of French companies. It is paid by the state, regardless of the position of the entity in respect of corporation tax. It has been decided to classify this income as a reduction in personnel expenses.

2.14 EARNINGS PER SHARE

The Group reports basic and diluted earnings per common share. Basic earnings per share is calculated by dividing the profit attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period.

Diluted earnings per share is determined by adjusting the profit attributable to common shareholders by the weighted average number of common shares outstanding, taking into account the effects of all potential dilutive common shares, including options.

2.15 SEGMENT REPORTING

Pursuant to IFRS 8, an operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- whose operating results are regularly reviewed by the group's chief executive and the managers leaders of the various entities to make decisions regarding the allocation of resources to the segment and to assess its performance;
- for which discrete financial information is available.

The Group has identified three operating segments, whose performances and resources are monitored separately:

- **Cytology**

This segment corresponds to the sale of machines (automated equipment, accessories and spare parts to distributors and partners, or directly to laboratories or hospitals) and consumables (mainly bottles and storage systems) in the field of cytology. It is Novacyt's core business.

- **Diagnostics**

This segment corresponds to diagnostic activities in laboratories, and the manufacturing and distribution of reagents and kits for bacterial and blood tests. This is the activity conducted by Lab21 and its subsidiaries.

- **Molecular products**

This segment represents the activities of recently acquired Primer Design, which designs, manufactures and distributes test kits for certain diseases in humans, animals and food products. These kits are intended for laboratory use and rely on "polymerase chain reaction" technology.

NOTE 3 : NOTES TO THE BALANCE SHEET AS OF 31 DECEMBER 2016

3.1 GOODWILL

Goodwill is the difference recognised, upon consolidation of a company, between the fair value of the purchase price of its shares and the net assets acquired and liabilities assumed, measured in accordance with IFRS 3.

- **Primer Design**

Primer Design entered the scope of consolidation on 12 May 2016. Goodwill totalling €7,210,000 has been identified:

Components of the purchase price of securities:	
Value of Novacyt securities tendered	€3,430,000
Option to purchase Novacyt securities	€445,000
Cash disbursed	€7,081,000
Contingent consideration payable in 2017 and 2018	€2,610,000
Total purchase price	€13,566,000
Value at the date of acquisition of assets and liabilities on the Primer Design balance sheet:	€2,021,000
Value of the Primer Design customer base:	€3,676,000
Value of the Primer Design trademark:	€660,000
Goodwill	€7,210,000

The contingent consideration of €2,610,000 is due in the event of the achievement of revenue targets; payment is scheduled in May 2017 and May 2018. The value of this liability was determined based on the best estimates of management at the date of the acquisition.

In accordance with IFRS 3, Novacyt's acquisition of Primer Design resulted in the recognition of assets, namely "customer relationships" and the brand, separately from goodwill. These assets fit the definition posed by the IASB's conceptual framework, which cites resources controlled by the company as the result of past transactions and from which the company expects to obtain future economic benefits.

The value of "customer relationships" was determined by discounting the additional margin generated by customers after remuneration of the contributing assets.

The value of the trademark was determined by discounting the cash flows that could be generated by licensing the Primer Design brand, estimated as a percentage of revenue derived from information available on comparable assets.

IFRS 3 provides for a period of 12 months from the takeover to complete the identification and measurement of the fair value of assets acquired and liabilities assumed. The gross amount of goodwill is therefore subject to adjustment in the coming months.

- **Lab21**

The Lab21 Ltd subgroup entered the scope of consolidation on 30 June 2014. Goodwill totalling €19,042,000 has been identified:

- Purchase price of securities: €18,847,000
- Share of Lab21's adjusted equity as of 30 June 2014: negative €1,952,000
- Goodwill transferred from Lab21: €2,147,000
- Goodwill: €19,042,000

The deadline for the identification and measurement of assets and liabilities has expired. The gross amount of goodwill can therefore no longer be changed.

Goodwill is subject to impairment testing annually, and whenever there is an indication of loss of value. To perform this testing, goodwill is deemed to have been assigned to the subgroup of the British companies comprising Lab21 and its subsidiaries, housed in the "Diagnosis" operating segment.

The goodwill impairment testing performed on 31 December 2015 resulted in a goodwill impairment in the amount of €9,786,000, bringing goodwill to a recoverable amount of €9,256,000.

The impairment testing of the CGU as of 31 December 2016 was conducted by the DCF (discounted cash flow) method, with the key assumptions as follows:

- Five-year business plan,
- Extrapolation of cash flows beyond five years based on a growth rate of 1.5%,
- Discount rate corresponding to the expected rate of return on the market for a similar investment, regardless of funding sources, equal to 15%.

The implementation of this approach demonstrated that the value of goodwill amounted to €9,558,000, higher than the carrying amount of this asset. As such, no impairment was recognised for the year.

Sensitivity of the value derived from the DCF model to change in the assumptions used

		Terminal growth rates						
	9 558	0,0%	0,5%	1,0%	1,5%	2,0%	2,5%	3,0%
WACC rates	13,0%	10 685	10 896	11 119	11 355	11 607	11 877	12 165
	13,5%	10 243	10 436	10 638	10 852	11 079	11 322	11 580
	14,0%	9 832	10 008	10 193	10 387	10 594	10 812	11 044
	14,5%	9 449	9 611	9 779	9 957	10 145	10 343	10 553
	15,0%	9 091	9 240	9 395	9 558	9 729	9 910	10 100
	15,5%	8 756	8 894	9 036	9 186	9 343	9 508	9 681
	16,0%	8 442	8 569	8 701	8 839	8 983	9 134	9 293
	16,5%	8 147	8 265	8 387	8 514	8 647	8 786	8 931
	17,0%	7 869	7 979	8 092	8 210	8 333	8 461	8 594

This sensitivity table shows the difference in the recoverable amounts of goodwill depending on change in the discount rate (WACC) and the terminal growth rate. Our sensitivity analysis shows that an increase of point in the WACC would result in the need to impair the Lab21 goodwill.

3.2 PROPERTY, PLANT AND EQUIPMENT AND OTHER INTANGIBLE ASSETS

3.2.1 Other intangible assets

Amounts in € thousand	As of 1 January 2016	Acquisitions	Disposal	Allowances for the year	Change in exchange rates	Change in scope	As of 31 December 2016
Development costs	186	49			- 28		207
Concessions, patents and similar rights	1 552	163	- 8		- 6		1 701
Software	147				- 22	16	141
Trademark						659	659
Customer base						3 676	3 676
Other intangible assets	3				- 3	43	43
Intangible assets	**1 887**	**212**	**- 8**	**-**	**- 59**	**4 395**	**6 427**
Amt/Dep. development costs				- 21	1		- 20
Amt/Imp. concessions, patents and similar rig	- 470		1	- 139	5		- 604
Amt/Imp. software	- 117			- 11	18	- 16	- 126
Amt/Dep. trademarks				- 46			- 46
Amt/Dep. customer base				- 255			- 255
Amt/Imp. other intangible assets	- 3				3	- 43	- 43
Dep./Imp. property, plant and equipment	**- 590**	**-**	**1**	**- 472**	**27**	**- 60**	**- 1 093**
Total net amount	**1 297**	**212**	**- 7**	**- 472**	**- 32**	**4 335**	**5 333**

3.2.2 Property, plant and equipment

- Change in property, plant and equipment

Amounts in € thousand	As of 1 January 2016	Acquisition	Disposal	Allowances for the year	Change in exchange rates	Change in scope	As of 31 December 2016
Technical facilities, equipment and tools	1 757	274	- 29		- 127	429	2 305
Office equipment	51	2			- 7		45
Transport equipment	73		- 27		- 0	1	47
Computer equipment	283	17	- 36		- 38	44	271
Other property, plant and equipment	254	43	- 1		- 54	270	512
Property, plant and equipment under constr	348						348
Property, plant and equipment	**2 767**	**336**	**- 93**	**-**	**- 226**	**745**	**3 528**
Amt/Dép. technical facilities, equipment an	- 42			- 3	6		- 39
Dep./Imp. office equipment	- 31		11	- 10	0		- 30
Dep./Imp. transport equipment:	- 249		36	- 23	33	- 28	- 231
Dep./Imp. computer equipment	- 1 218		29	- 224	94	- 232	- 1 550
Amt/Dep. other property, plant and equipm	- 197		1	- 47	29	- 20	- 233
Amt/Dép. intangible assets under construct	- 348			-			- 348
Amt/Dep. property, plant and equipmen	**- 2 084**	**-**	**77**	**- 307**	**162**	**- 280**	**- 2 432**
Total net amount	**683**	**336**	**- 16**	**- 307**	**- 65**	**465**	**1 096**

3.3 NON-CURRENT FINANCIAL ASSETS

Amounts in € thousand	As of 1 January 2016	Increases	Reductions	Change in scope	Change in exchange rates	As of 31 December 2016
Guarantee deposits with lessors	204	440	- 504	-	- 2	138
Total non-current financial assets	**204**	**440**	**- 504**	**-**	**- 2**	**138**

3.4 DEFERRED TAX ASSETS

As of 31 December 2016, each of the Group's major companies had tax loss carryforwards. Their period of use is unlimited. With the exception of Primer Design, no deferred tax assets have been recognised in the financial statements, since visibility as to when it will be possible to utilise the loss carryforwards against taxable profits is insufficient.

The following table shows the deferred tax assets not presented in the balance sheet.

Amounts in € thousand	As of 31 December 2016	As of 31 December 2015
Novacyt	5 900	4 076
Lab21	4 534	4 445
Healthcare	1 111	1 118
Microgen	63	-
Total unrecognised deferred tax assets	**11 608**	**9 639**

3.5 TRADE AND OTHER RECEIVABLES

- Trade and other receivables

Amounts in € thousand	As of 31 December 2016	As of 31 December 2015
Trade and other receivables	2 072	1 651
Impairment of trade and other receivables	- 139	- 174
Invoices not yet issued	89	20
Current account – assets – current	-	1
Employee and social security receivables	4	6
Tax receivables (excluding income tax)	284	286
Trade receivables		42
Other receivables	151	168
Impairment of other receivables	- 105	- 122
Total trade and other receivables	**2 356**	**1 878**

- Aged analysis of trade receivables as of 31 December 2016, net of provisions for impairment

Amounts in € thousand	Not due or < 90 days	90-180 days	180-360 days	> 360 days	Total	Total receivables	Provisions on receivables
Trade receivables net of provisions	1 701	46	97	88	1 932	2 071	- 139

3.6 OTHER CURRENT ASSETS

"Other current assets" consists of prepaid expenses.

Amounts in € thousand	As of 31 December 2016	As of 31 December 2015
Loan fees – current portion	53	50
Prepaid expenses	260	350
Total other current assets	**313**	**400**

3.7 CASH AND CASH EQUIVALENTS

The net cash available to the Group includes the following items:

Amounts in € thousand	As of 31 December 2016	As of 31 December 2015
Available cash	2 843	527
Cash and cash equivalents	**2 843**	**527**
Bank overdrafts		
Accrued interest		
Other cash position items	**-**	**-**
Net cash	**2 843**	**527**

3.8 BORROWINGS

The following tables show borrowings and financial liabilities carried at amortised cost.

- Schedule by maturity as of 31 December 2016

Amounts in € thousand	< 1 year	2-5 years	> 5 years	Total
Convertible bonds	3 017	2 603	-	5 620
Bank loans	67	153	-	220
Accrued interest on borrowings	414			414
Contingent consideration liability	1 647	946		2 593
Total borrowings	**5 145**	**3 702**	**-**	**8 848**

- Change in borrowings and financial liabilities in 2016

Amounts in € thousand	As of 31 December 2015	Increase		Repayment/ Conversion	As of 31 December 2016
Convertible bonds	3 284	4 221	-	1 885	5 620
Bank loans	32	250	-	62	220
Accrued interest on borrowings	57	429	-	72	414
Contingent consideration liability	-	2 845	-	252	2 593
Total borrowings	**3 373**	**7 745**	**-**	**2 271**	**8 847**

As of 31 December 2016, the Group's financing primarily comprised:

- The bond subscribed by Kreos Capital IV Ltd in the amount of €3.5 million, with an interest rate of 12.5%. This bond was issued on 15 July 2015 for a term of three years, with a first redemption due on 1 February 2016.
- A second bond subscribed by Kreos Capital V Ltd in the amount of €3.0 million issued on 10 May 2016, with an interest rate of 12.5% for a term of three years, with a first redemption due on 1 November 2016.

On 31 July 2015, the Board of Directors, making use of the delegation of powers and authorisations granted at the Annual General Meeting of 29 June 2015, approved the principle of the issue of 20 OCABSA warrants (the "Warrants") exercisable at the discretion of Novacyt over the subsequent 36 months, in several successive tranches representing bond debt in a maximum amount of €5 million, as part of a private placement subscribed by the YA Global Master SPV Ltd private equity fund.

Novacyt immediately exercised one (1) Warrant, resulting in the subscription of 25 OCABSAs, i.e. bond debt of €250,000. The 475 remaining convertible bonds may be issued during the subsequent 36 months through the exercise of the 19 remaining Warrants, it being stipulated that Novacyt is under no obligation to exercise these Warrants.

The convertible bonds (OCA) issued on 31 July 2015, and which will subsequently be issued upon exercise of the Warrants, have the same characteristics.

OCAs are issued at par, i.e. €10,000 each, with an interest rate of 2% per annum, and have a maturity of nine months from issue. Novacyt must redeem unconverted OCAs upon maturity.

The bond debt represented by the OCAs (par value of an OCA taking into account, if applicable, the corresponding interest) can be converted into shares at the request of the holder, on the basis of the following conversion rate: 95% of the lowest of the five (5) average daily prices of the Novacyt share weighted by volume (as reported by Bloomberg) immediately preceding the request for the conversion of the relevant OCA, without it being possible for this amount to be lower than the par value of the Novacyt share, i.e. 1/15th of a euro. The OCAs are transferable subject to Novacyt's prior written consent.

The number of equity warrants to be issued upon each issuance of OCABSAs is that which will be multiplied by the exercise price of the equity warrants (determined under the terms set out below). The amount received will be equal to half of the par value of the 25 OCAs issued, i.e. €125,000.

The equity warrants will be immediately detached from the OCAs and will be transferable from issue. They may be exercised from issue until the 36th month inclusive following their issue date (the "Exercise Period"). Each equity warrant will entitle the holder thereof, during the Exercise Period, to subscribe for one (1) new Novacyt share.

The exercise price of the equity warrants will be equal to 110% of the closing price of the Novacyt share on the day immediately preceding the Warrant exercise request date giving rise to the issuance of the OCAs from which the equity warrants will be detached (or the issue date of the OCAs for the first tranche of OCAs, i.e. 31 July 2015).

The OCAs and the warrants will not be the subject of a request for admission to trading on Alternext Paris, and as such will not be listed.

In accordance with IAS 32, the first tranche of the bond issued on 31 July in the amount of €250,000 (tranche 1) breaks down as follows:

- the conversion option, treated in this case as an embedded derivative under IAS 32, worth €13,158, was recorded at "fair value through profit or loss" in current borrowings,
- the equity warrants, valued at €9,831 overall, were treated as equity instruments and accounted for net of tax, i.e. €6,554,
- lastly, the residual amount, €227,011, was recognised at amortised cost under current financial liabilities.

As of 31 December 2015, all OCAs had been converted, 5 OCAs on 31 July 2015, 15 OCAs on 9 October 2015 and the remaining 5 OCAs on 3 December 2015.

Between 1 January 2016 and 31 December 2016, Novacyt exercised 8 Warrants (OCABSA warrants), each resulting in the issuance of 25 OCABSAs in a total amount of €250,000. In accordance with IAS 32, each tranche of bonds issued during the year has been broken down in the same way as the first instalment and in identical amounts. Issuance is as follows:

- Issuance of the second tranche on 1 March 2016 (tranche 2): all OCABSAs were converted during the year;

- Concurrent issuance of the third and fourth tranches on 18 April 2016 (tranches 3 and 4): all OCABSAs were converted during the year;
- Concurrent issuance of the fifth and sixth tranches on 2 August 2016 (tranches 5 and 6): all OCABSAs were converted during the year;
- Concurrent issuance of the seventh, eighth and ninth tranches on 26 September 2016 (tranches 7, 8 and 9): only the tranche 7 OCABSAs were converted during the year. (It should nevertheless be noted that 20 tranche 8 OCABSAs were converted on 4 January 2017, i.e. after the reporting date.)

3.9 PROVISIONS

- Nature of and change in provisions for risks and charges in 2016

Amounts in € thousand	As of 1 January 2016	Increase	Reduction	Change in exchange rates	Change in scope	As of 31 December 2016
Employee benefits	40	1	- 27			14
Provisions for restoration of premises	103	-	-	- 14	-	89
Non-current provisions	**143**	**1**	**- 27**	**- 14**	**-**	**103**
Provisions for litigation	66					66
Provisions (current portion)	**66**	**-**	**-**	**-**	**-**	**66**

3.10 TRADE AND OTHER PAYABLES

Amounts in € thousand	As of 31 December 2016	As of 31 December 2015
Trade payables	2 087	1 816
Accrued invoices	694	638
Social security liabilities	348	384
Tax liabilities	53	82
Other liabilities	29	49
Options classified as liabilities	293	
Total trade and other payables	**3 504**	**2 968**

Options treated as liabilities relate to:

- Novacyt equity warrants granted to former Primer Design shareholders in the amount of €266,000. This is a component of the purchase price;
- The conversion option attached to tranches 8 and 9 of the OCABSAs unconverted as of 31 December 2016, in the amount of €27,000.

3.11 OTHER CURRENT LIABILITIES

Amounts in € thousand	As of 31 December 2016	As of 31 December 2015
Deferred income	24	30
Total other current liabilities	**24**	**30**

3.12 BREAKDOWN OF FINANCIAL INSTRUMENTS BY CATEGORY

Amounts in € thousand	Carrying amount	Fair value through profit or loss	Amortised cost
Non-current financial assets	138		138
Other long-term assets	48		48
Trade and other receivables	2 356		2 356
Short-term financial investments	23	23	
Cash and cash equivalents	2 843	2 843	
Assets	**5 407**	**2 866**	**2 542**
Borrowings and other financial liabilities	6 255		6 255
Primer Design contingent consideration	2 592		
Trade and other payables	3 238	293	2 945
Novacyt equity warrants (Novacyt acquisition pric	266		
Liabilities	**12 351**	**293**	**9 200**

Trade receivables and payables have not been discounted because the effect would be immaterial. The only adjustment is the contingent consideration liability, to reflect the payment schedule in May 2017 and May 2018.

NOTE 4 : NOTES TO THE INCOME STATEMENT

4.1 REVENUE

The table below shows revenue from ordinary operations:

Amounts in € thousand	As of 31 December 2016	As of 31 December 2015
Manufactured goods	9 453	7 384
Services	870	939
Traded goods	417	271
Other	336	299
Revenue	**11 076**	**8 892**

The breakdown of revenue by operating segment and geographic area is presented in section 4.11.1.

4.2 COST OF REVENUE

The table below shows the main items of expenses by nature that comprise "Cost of revenue":

Amounts in € thousand	As of 31 December 2016	As of 31 Decembe r 2015
Purchases and movement in inventories of raw materials and other supplies	3 074	3 300
Purchases and movement in inventories of traded goods	291	182
Movement in finished goods and work in progress	98	- 117
Change in stock provision	15	- 18
Non-stock items and supplies	140	39
Freight costs	143	115
Direct labour	1 168	1 095
Other	67	21
Cost of revenue	**4 996**	**4 617**

4.3 SALES AND MARKETING EXPENSES

The table below shows the main items of expenses by nature that comprise "Sales and marketing expenses":

Amounts in € thousand	As of 31 December 2016	As of 31 December 2015
Remuneration of intermediaries and fees	430	230
Advertising costs	251	161
Transport of sales	278	249
Employee compensation and social security contributions	1 642	1 372
Travel and representation expenses	210	136
Other sales and marketing expenses	359	137
Sales and marketing expenses	**3 170**	**2 285**

4.4 RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses consist entirely of wages and social security contributions relative to dedicated employees.

Amounts in € thousand	As of 31 December 2016	As of 31 December 2015
Employee compensation and social security contributions	693	536
Other expenses	101	52
Research and development expenses	**794**	**588**

4.5 GENERAL AND ADMINISTRATIVE EXPENSES

The table below shows the main items of expenses by nature that comprise "General and administrative expenses":

Amounts in € thousand	As of 31 December 2016	As of 31 December 2015
Purchases of non-stored raw materials and supplies	166	122
Subcontracting	137	
Lease and similar payments	427	381
Maintenance and repairs	170	156
Insurance premiums	133	115
Remuneration of intermediaries and fees	1 098	912
Travel and representation expenses	327	439
Banking services	71	90
Other external expenses	174	147
Employee compensation and social security contributions	1 913	1 991
Allowances to and reversals of depreciation, amortisation and provisions	840	308
Other general and administrative expenses	161	124
General and administrative expenses	**5 616**	**4 785**

4.6 OTHER OPERATING INCOME AND EXPENSES

Amounts in € thousand	As of 31 December 2016	As of 31 December 2015
Costs resulting from the acquisition of Primer Design (Lab21 in 2014 and 2015)	- 508	- 70
Goodwill impairment	-	- 9 786
Other expenses	- 900	- 224
Other operating expenses	**- 1 408**	**- 10 080**
Proceeds from disposals of fixed assets	-	40
Reversal of provision for industrial relations litigation	-	30
Other income	20	60
Other operating profit/(loss)	**20**	**130**

Other exceptional expenses in 2016 and 2015 consist primarily of fees incurred for work related to the transition to IFRS and other specific work.

4.7 NET BORROWING COSTS

Amounts in € thousand	As of 31 December 2016	As of 31 December 2015
Income from cash and cash equivalents	-	1
Gross borrowing costs	- 1 047	- 947
Net borrowing costs	**- 1 047**	**- 946**
Other financial income	736	470
Other financial expense	- 936	- 246

4.8 OTHER FINANCIAL INCOME AND EXPENSE

Amounts in € thousand	As of 31 December 2016	As of 31 December 2015
Exchange gains	416	25
Change in fair value of options	178	439
Reversals of financial provisions	110	1
Amortisation of operating expenses spread over several years	31	
Other financial income	1	5
Other financial income	**736**	**470**
Exchange losses	- 565	- 194
Accretion expense	- 235	
Other financial expense	**- 936**	**- 246**

Exchange gains result from recurring operations and, in the amount of €252,000, from variations by sterling on the continent consideration liability between the Primer Design acquisition date and the reporting date.
The change in Novacyt equity warrants granted to former Primer Design shareholders Design was recorded in financial income in the amount of €178,000.

Exchange losses are mainly those recorded by British company Lab21 Ltd on its operations.
The accretion expense relates to the change in the contingent consideration liability in favour of Primer Design shareholders, due in May 2017 and May 2018.

4.9 INCOME TAX

As of 31 December 2016, Novacyt had a tax loss carryforward of €17,699,000, whose period of use is unlimited. As of the same date, British company Lab21 Ltd and its subsidiaries had accumulated tax losses amounting to £4,626,000.

However, no deferred tax assets have been recognised in the accounts since visibility as to when it will be possible to utilise the loss carryforwards against taxable profits is insufficient.

The main consolidated companies do not pay income taxes, but receive tax credits for their research and development expenditures.

4.10 EARNINGS PER SHARE

Earnings per share is calculated based on the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated based on the weighted average number of shares outstanding and the number of shares issuable as a result of the conversion of dilutive financial instruments.

Amounts in € thousand	As of 31 December 2016	As of 31 December 2015
Net profit/(loss) attributable to owners of the con	- 5 711	- 13 908
Impact of dilutive instruments	-	-
Net profit/(loss) attributable to owners of the con	- 5 711	- 13 908
Weighted average number of shares	12 086 037	6 787 588
Impact of dilutive instruments	-	-
Weighted average number of diluted shares	12 086 037	6 787 588
Earnings per share (in euros)	**- 0,47**	**- 2,05**
Diluted earnings per share (in euros)	**- 0,47**	**- 2,05**

Pursuant to IAS 33, options whose exercise price is higher than the value of the Novacyt security were not taken into account in determining the effect of dilutive instruments.

4.11 OPERATING SEGMENTS

4.11.1 Breakdown of revenue by operating segment and geographic area

- 2016

Amounts in € thousand	Cytology	Diagnostics	Molecular products	Total
Geographical area				
Africa	-	376	249	625
Europe	1 095	3 217	1 620	5 932
Asia-Pacific	326	1 555	511	2 392
America	-	542	690	1 232
Middle East	171	506	218	895
Revenue	**1 592**	**6 196**	**3 288**	**11 076**

- 2015

Amounts in € thousand	Cytology	Diagnostics	Total
Geographical area			
Africa		349	349
Europe	1 057	3 861	4 917
Asia-Pacific	148	1 827	1 976
America		667	667
Middle East	103	881	984
Revenue	**1 308**	**7 585**	**8 892**

4.11.2 Breakdown of revenue by operating segment

- 2016

Amounts in € thousand	Cytology	Diagnostics	Molecular products	Total
Revenue	1 592	6 196	3 288	11 076
		-		
Cost of revenue	- 804	- 3 586	- 607	- 4 996
		-		
Recurring expenses:		-		
Sales and marketing expenditure	- 1 295	- 1 360	- 515	- 3 170
Research and development	- 388	- 131	- 275	- 794
General and administrative	- 1 823	- 2 813	- 979	- 5 616
		-		
Subsidies	210	162	55	427
Recurring operating profit/(loss)	**- 2 508**	**- 1 532**	**966**	**- 3 074**
Other operating income and expenses	- 1 120	- 233	- 36	- 1 388
Operating profit/(loss)	**- 3 628**	**- 1 765**	**930**	**- 4 462**
Income from cash and cash equivalents		-		-
Gross borrowing costs	- 1 047	-		- 1 047
Net borrowing costs	**- 1 047**	**-**	**-**	**- 1 047**
Other financial income and expense	285	- 526	41	- 200
Profit/(loss) before tax	**- 4 390**	**- 2 290**	**971**	**- 5 709**
Income tax	- 2	-	-	- 2
Profit/(loss) after tax	**- 4 391**	**- 2 290**	**971**	**- 5 711**
Total net profit/(loss)	**- 4 391**	**- 2 290**	**971**	**- 5 711**
Attributable to owners of the company	**- 4 391**	**- 2 290**	**971**	**- 5 711**
Attributable to non-controlling interests	**-**	**-**	**-**	**-**

- 2015

Amounts in € thousands	Cytology	Diagnostics	Total
Revenue	1 308	7 584	8 892
Cost of revenue	- 671	- 3 946	- 4 617
Recurring expenses:			
Sales and marketing expenditure	- 727	- 1 558	- 2 285
Research and development	- 450	- 138	- 588
General and administrative	- 1 608	- 3 177	- 4 785
Subsidies	148	-	148
Recurring operating profit/(loss)	**- 2 000**	**- 1 235**	**- 3 235**
Other operating income and expenses	- 10 137	187	- 9 950
Operating profit/(loss)	**- 12 137**	**- 1 048**	**- 13 185**
Income from cash and cash equivalents			1
Gross borrowing costs	- 221	- 726	- 947
Net borrowing costs	**- 221**	**- 726**	**- 49**
Other financial income and expense	**- 33**	**257**	**224**
Profit before tax	**- 12 391**	**- 1 517**	**- 13 010**
Income tax		-	- 1
Profit after tax	**- 12 391**	**- 1 517**	**- 13 908**

4.11.3 Workforce

The breakdown of employees between the three segments as of the reporting date is as follows:

	As of 31 December 2016	As of 31 December 2015
Cytology	8	10
Diagnostics	61	57
Molecular products	28	
Total	**97**	**67**

4.12 PRO-FORMA INFORMATION

The table below shows the group's results over the 12-month period to 31 December 2016 as if the acquisition of Primer Design had occurred on 1 January 2016.

Amounts in € thousand	2016 pro forma
Revenue	12 925
Cost of revenue	- 5 297
Gross profit	**7 628**
Sales and marketing expenditure	- 3 451
Research and development	- 895
General and administrative	- 6 229
Subsidies	372
Recurring operating profit/(loss)	**- 2 575**
Other operating income and expenses	- 1 423
Operating profit/(loss)	**- 3 998**
Income from cash and cash equivalents	-
Gross borrowing costs	- 1 047
Net borrowing costs	**- 1 047**
Other financial income and expense	**- 154**
Profit before tax	**- 5 199**
Income tax	- 44
Profit/(loss) after tax	**- 5 243**
Total net profit/(loss)	**- 5 243**
Attributable to owners of the company	**- 5 243**
Attributable to non-controlling interests	**-**

NOTE 5 : EMPLOYEE COMPENSATION AND BENEFITS

5.1 POST-EMPLOYMENT BENEFITS

The cost of defined-benefit plans is determined at the end of each year in accordance with the projected unit credit method. The calculation is based on an actuarial method using assumptions with regard to future salary and retirement age.

The Group's defined benefit plan relates to bonuses payable under collective agreements in a lump sum on retirement. Pursuant to the law and collective agreements, the Group gives a bonus to each employee upon retirement, expressed in number of months' salary (calculated on the basis of the wages paid during the 12 months preceding retirement) and seniority within the Group.

- Net expense for the year

Amounts in € thousand	As of 31 December 2016	As of 31 December 2015
Service cost	3.7	5.6
Financial cost	0.2	0.5
Other items	- 31.1	
Expense (income)	**- 27.3**	**6.2**

- Change in the actuarial liability

Amounts in € thousand	As of 31 December 2016	As of 31 December 2015
Obligation – beginning of year	**40.0**	**31.0**
Service cost	3.7	5.6
Decreases/payments	- 31.1	
Financial cost	0.2	0.5
Actuarial gains and losses	1.2	2.8
Obligation – end of year	**13.9**	**40.0**

- Breakdown of actuarial gains and losses

Amounts in € thousand	As of 31 December 2016	As of 31 December 2015
- Effect of experience	0.5	4.0
- Change in demographic assumptions	0.0	0.1
- Change in financial assumptions	0.6	- 1.3
Actuarial gains and losses	**1.2**	**2.8**

- Actuarial assumptions

The assumptions used for measuring change in obligations in respect of retirement benefits are presented in the table below:

Amounts in € thousand	As of 31 December 2015	As of 31 December 2015
Retirement age – managers	64 years	64 years
Retirement age – non-managers	62 years	62 years
Wage increases	3.00%	3.00%
Rate of social security contributions	41.10%	42.56%
Discount rate	2.00%	2.00 %

5.2 EXECUTIVE COMPENSATION

Amounts in € thousand	As of 31 December 2016	As of 31 December 2015
Fixed compensation and company cars	263	178
Variable compensation	140	
Social security contributions	54	69
Contributions to supplementary pension plans	12	
Total	**469**	**247**
Number of people concerned	1	1

The executive officers whose compensation is disclosed above are considered related parties for the application of IAS 24. Amounts due to related parties are disclosed below, in section 6.2.

NOTE 6 : LIABILITIES, RELATED PARTIES AND SUBSEQUENT EVENTS

6.1 COMMITMENTS GIVEN AND RECEIVED

The guarantees given by the Group are as follows:

Under the terms of the bond contracts subscribed by Kreos Capital IV Ltd and Kreos Capital V Ltd, and as a guarantee of perfect repayment of this loan and interest, fees, commissions and other amounts due, the Group has agreed to the following guarantees in favour of the two structures:

- Pledge of the business;
- Senior pledge on receivables;
- Non-possessory pledge of inventories;
- Senior and non-recourse pledge of bank accounts.

The amount of guaranteed loans is presented in section 3.8 "Borrowings and financial liabilities".

The Company has also granted Primer Design shareholders a variable contingent consideration, settlement of which is scheduled for May 2017 and 2018. As security for the payment of such sums, third-line pledges on business assets and collateral subject to English law (mortgage debentures) have been implemented.

The transactions performed on assets received under operating leases are subject to contracts providing the following minimum future payments:

	As of 31 December 2016	As of 31 December 2015
Future minimum payments in respect of non-cancellable contracts		
Payments due in less than 1 year	334	340
Payment due in more than 1 year and less than 5 years	288	425
Total	**623**	**766**

6.2 RELATED PARTIES

Parties related to Novacyt are:

- the managers, whose compensation is disclosed in section 5.2, and
- the directors of Novacyt and Lab21 listed in the table below.

Liabilities in respect of related parties are summarised as follows:

Amounts in € thousand	As of 31 December 2016	As of 31 December 2015
CUP92 (director company, J.P. Crinelli)	41	-
A. Howard, Director	35	-
A. Howard, Director	17	-
Total	**93**	**-**

6.3 SUBSEQUENT EVENTS

The following significant events have taken place since 1 January 2016, the opening date of the current fiscal year:

On 31 March 2017, Novacyt issued a convertible bond in the amount of €1,500,000 by issuing 1,500,000 bonds convertible into shares for the benefit of the FCPI Dividendes Plus 4 and FCPI Dividendes Plus 5 funds.

These bonds were issued in a single tranche with a maturity of three years, an annual interest rate of 7.9% and a non-conversion premium paid in arrears of 0.1%. They are convertible in the event of non-compliance by Novacyt with its repayment obligations. The conversion ratio is 1.25 new shares for 1 bond.

No other significant events have taken place since the reporting date.

NOTE 7 : ADDITIONAL INFORMATION

7.1 CHANGES IN SHARE CAPITAL

As of 31 December 2015, Novacyt's capital consisted of 7,189,213 shares with a par value of 1/15th of a euro each, i.e. share capital of €479,280.

The most recent transactions on share capital are summarised below:

- On 22 February 2016, the company decided to increase its capital through the issue of 2,365,815 shares subject to one or more capital increases in a total amount of at least 7,000,000 euros or the receipt of an equivalent amount. This transaction subject to a condition precedent is consideration for the contribution of 59,893 shares of Primer Design Limited by its shareholders.
- On 29 March 2016, the Company completed a capital increase from €479,280.87 to €569,423.20 through the issue of 1,352,135 shares at a price of €1.40 per share, with an issue premium of €1,802,846.67.
- On 29 March 2016, the Company completed a capital increase from €569,423.20 to €574,089.87 through the issue of 70,000 shares at a price of €1.40 per share, with an issue premium of €93,333.33.
- On 21 April 2016, the Company completed a capital increase from €574,089.87 to €669,328 through the issue of 1,428,572 shares at a price of €1.40 per share, with an issue premium of €1,904,762.67.
- On 26 April 2016, the Company completed a capital increase from €669,328 to €674,101.27 through the issue of 71,599 shares at a price of €1.401 per share, with an issue premium of €95,537.84.
- On 3 May 2016, the Company completed a capital increase from €674,101.27 to €678,963.40 through the issue of 72,932 shares at a price of €1.376 per share, with an issue premium of €95,493.43.
- On 11 May 2016, the Company noted that the condition precedent on the capital increase through a contribution in kind approved on 22 February 2016 had been lifted. Share capital was consequently increased from €678,963.40 to €836,684.40 through the issue of 2,365,815 shares at a price of €2.696 per share, or an issue premium of €6,220,514.
- On 19 May 2016, the Company completed a capital increase from €836,684.40 to €842,372.20 through the issue of 85,317 shares at a price of €1.176 per share, with an issue premium of €94,645.53.
- On 23 May 2016, the Company completed a capital increase from €842,372.20 to €867,933.40 through the issue of 383,418 shares at a price of €1.176 per share, with an issue premium of €425,338.80.
- On 1 June 2016, the Company completed a capital increase from €867,933.40 to €935,650.53 through the issue of 1,015,757 shares at a price of €1.40 per share, with an issue premium of €1,354,342.67.
- On 25 August 2016, the Company completed a capital increase from €935,650.53 to €943,967.66 through the issue of 124,757 shares at a price of €1.20 per share, with an issue premium of €141,766.20.

- On 7 September 2016, the Company completed a capital increase from €943,967.66 to €949,438.26 through the issue of 82,059 shares at a price of €1.22 per share, with an issue premium of €94,723 84.
- On 21 September 2016, the Company completed a capital increase from €943,967.66 to €949,438.26 through the issue of 119,751 shares at a price of €1.26 per share, with an issue premium of €150,408.33.
- On 5 October 2016, the Company completed a capital increase from €957,421.66 to €962,942.86 through the issue of 82,818 shares at a price of €1.21 per share, with an issue premium of €100,458.34.
- On 1 December 2016, the Company completed a capital increase from €962,942.86 to €969,517.06 through the issue of 98,613 shares at a price of €1.02 per share, with an issue premium of €100,388.89.
- On 15 December 2016, the Company completed a capital increase from €969,517.06 to €1,151,183.73 through the issue of 2,725,000 shares at a price of €1.00 per share, with an issue premium of €2,543,333.33.
- On 21 December 2016, the Company completed a capital increase from €1,151,183.73 to €1,161,134.20 through the issue of 149,257 shares at a price of €1.01 per share, with an issue premium of €140,799.53.

As of 31 December 2016, Novacyt's share capital of €1,161,134.20 was divided into 17,417,013 shares with a par value of 1/15th of a euro each.

The numerous capital increases in 2016 can be divided into three categories:

- The capital increase approved subject to a condition precedent in February 2016 and carried out through the contribution of Primer Design securities;
- The 10 transactions resulting from the conversion of OCABSAs in a total amount of €85,000 (see section 3.8 "Borrowings and financial liabilities");
- Cash capital increases used to finance a portion of the purchase price of Primer Design securities paid in May 2016, and the group's cash requirements.

7.2 EXPOSURE TO FINANCIAL RISKS

The Group's main financial liabilities are loans, as well as trade and other payables. The main purpose of these financial liabilities is to finance operating activities.

Loans, receivables and payables, as well as cash and cash equivalents held by the Group, are generated by operating activities.

- Interest rate risk

The Group has mainly contracted bonds to finance its activities. That subscribed by Kreos Capital IV Ltd bears interest at fixed rates, interest being increased upon payment of the final instalment in July 2018 in an amount ranging from €0 to €500,000 depending on Novacyt's share price by this date.

- Currency risk

The Group has a strong presence in the UK, where its main subsidiaries are located. Nevertheless, the Group's funding is mainly denominated in euros.

The table below shows the euro value of the group's assets and liabilities denominated in GBP:

Amounts in € thousand	As of 31 December 2016	As of 31 December 2015
Intangible assets	4 239	225
Property, plant and equipment	623	198
Non-current financial assets: security deposit	14	16
Inventories	1 334	1 072
Trade and other receivables	1 611	1 225
Other current assets	170	180
Available cash	449	385
Total assets	**8 442**	**3 301**
Provisions for expenses	89	103
Deferred tax liabilities	53	
Primer Design contingent consideration liability	2 592	
Trade and other payables	1 638	1 765
Other current liabilities	19	24
Total liabilities	**4 390**	**1 892**

- Credit risk

Credit risk is the risk of financial loss, following the failure by a third party to honour its commitment to repay a debt. The Group is exposed to credit risk due to its operating activities (mainly through trade receivables) and through deposits with banks.

The Group's exposure to credit risk is represented by the risk of counterparty default: maximum exposure is equal to the carrying amount of these instruments.

- Liquidity risk

Since its creation, the Group has financed its growth by successive capital increases, loans, grants and public aid for innovation and the reimbursement of research tax credit receivables.

To overcome limits in its capacity to self-finance its growth, the Group is required to seek other sources of funding, notably through capital increases.

The Group may fail to obtain additional capital when it needs it, or such capital may not be available on acceptable financial terms for the Group.

The realisation of one or more of these risks could have a material adverse effect on the Group's business, financial position, earnings, growth and prospects.

7.3 MARKET VALUE OF FINANCIAL INSTRUMENTS CARRIED AT AMORTISED COST

These fair values are an estimate of the instantaneous value of the investment as of 31 December 2016. They are liable to fluctuate from day to day due to the variations of several parameters, including interest rates and the credit quality of counterparties. In particular, they may differ significantly from the amounts actually received or paid at maturity of the instruments. In most cases, the revalued market value is not destined to be immediately realised, and may not be realised in practice. It does not represent the actual value of the instruments from the perspective of Novacyt as a going concern.

Most of these instantaneous market values are not pertinent, so are not taken into account for the purposes of managing the Group's activities.

The market value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between well-informed, willing parties, at arm's length.

Amounts in € thousand	Carrying amount	Estimated market value
Bonds	6 034	6 337
Primer Design contingent consideration	2 593	2 611
Total	**8 627**	**8 948**

The market values of assets and liabilities mentioned in the table above were determined in accordance with the free cash flow approach.

7.4 AUDITORS' FEES

Amounts in € thousand	As of 31 December 2016	As of 31 December 2015
Fees paid to the statutory auditors		
Fees – Auditing	220	179
Total	**220**	**179**

7.1 IMPACT OF BREXIT ON THE GROUP'S ACTIVITY

Companies in operating in the "Diagnosis" and "Molecular testing" sectors are established in the United Kingdom. It is difficult to anticipate the impact of Brexit on trade relations and regulatory constraints. The tax consequences depend on the outcome of negotiations between Europe and the United Kingdom, and to date are undetermined. Management is seeking to identify market, operational and legal risks and to take the appropriate adaptation measures as required.