Half year 2022 results

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Novacyt S.A.

("Novacyt", the "Company" or the "Group")

Half year 2022 results

Significant progress against post-COVID-19 growth strategy to offset expected decline in COVID-19 sales

Paris, France and Camberley, UK - 29 September 2022 - Novacyt (EURONEXT GROWTH: ALNOV; AIM: NCYT), an international specialist in clinical diagnostics, announces its unaudited results for the six months ended 30 June 2022.

David Allmond, Group CEO of Novacyt, commented:

"During 2022, we have made good progress transitioning the business away from COVID-19 revenue, due to its expected decline, and beginning to deliver against our growth strategy, as outlined at our full year results earlier this year. Of note, we are pleased with the progress we have made in the development of the post-COVID-19 product portfolio, including the launch of our integrated and scalable molecular workflow capable of delivering over 1,000 tests per day. This has been significantly accelerated by signing an agreement for the immediate distribution of over 40 assays focused on our target therapeutic areas, which we expect to drive near-term growth and supplement our internal R&D. At the same time, we have also relaunched our extensive RUO portfolio to support near-term growth and are encouraged by the early success and new revenue streams.

"These developments bring together extraction capability, automated sample preparation, and broad menu expansion. We expect this to deliver a competitive market offering for rapid turnaround time, routine testing in our target areas of mid to low volume "spoke" laboratories and non-routine services in "hub" laboratories. Following our strategic review, we have also completed the closure of our Lab21 Healthcare and Microgen Bioproducts businesses allowing us to focus on our core capabilities and operations. Novacyt remains well positioned for future growth and value creation as we move past the pandemic and continue our journey to become a leading global clinical diagnostics company focused on unmet needs in infectious diseases."

Financial highlights

· Group revenue of £16.5m in H1 2022 (H1 2021: £52.2m), predominantly driven by the expected decline in COVID-19 related sales

· Revenue derived from COVID-19 products totalled £13.0m, or 79% of total H1 revenue in 2022 (H1 2021: £47.6m (91%))

· Revenue for the non-COVID-19 portfolio was £3.5m (H1 2021: £4.6m). As previously indicated, this decline was predominantly driven by lower instrument sales compared to a strong H1 2021 which benefited from COVID-19 demand

· Group gross profit improved to £4.0m (24%) in H1 2022 (H1 2021: £1.2m (2%)). The latter was impacted by the one-off exceptional costs relating to the DHSC dispute. H1 2022 gross profit was reduced as a result of significant stock provision based on lower forecast COVID-19 sales in addition to writing-off stock that had not been provided for previously. Excluding the impact of these items, the margin would be in excess of 60%.

· Group adjusted EBITDA loss of £7.1m in H1 2022 before exceptionals (H1 2021: £23.6m profit)

· Discontinued operations loss of £3.7m in H1 2022 (H1 2021: £0.6m)

· Loss after tax decreased to £8.7m in H1 2022 (H1 2021: £12.7m)

· Filed a defence of the DHSC claim issued against Primerdesign Ltd and Novacyt S.A. for £134.6m in relation to the contract dispute, as previously announced, and filed a counterclaim of £81.5m against the DHSC

· Cash position at 30 June 2022 was £99.6m (FY 2021: £101.7m) and the Company remains debt free

· Predicted Q3 2022 revenue of circa £2.0m, with similar levels expected in Q4 2022, resulting in an anticipated EBITDA loss for the full year of circa £13.5m

£'000	H1 2022	H1 2021
Continuing Operations*	Consol	Consol
Revenue	16,508	52,201
Gross profit **	4,010	1,177
Gross profit %	24%	2%
OPEX	(11,148)	(13,301)
EBITDA	(7,138)	(12,124)
Adjusted EBITDA **	(7,138)	23,646
Adjusted EBITDA %	(43%)	45%
Recurring operating loss ***	(8,179)	(12,958)
Operating loss	(8,712)	(12,958)

Other financial income and expenses	1,628	(1,421)
Income tax credit	2,041	2,295
Loss after tax from continuing operations	(5,043)	(12,084)
Loss from discontinued operations	(3,656)	(591)
Loss after tax attributable to the owners	(8,699)	(12,675)

* Following the 28 April 2022 announcement where Novacyt notified its intention to close Microgen Bioproducts and Lab21 Healthcare, the net results of the Lab21 Products segment for 2021 and 2022 has been reported on a separate line 'Loss from discontinued operations' in accordance with IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations".

** Due to the ongoing commercial dispute with the DHSC, £35.8m exceptional cost of sales were incurred in H1 2021 (H1 2022: £nil) that were one-off in nature. The two largest items were a £26.1m stock provision, as a result of the Group buying stock to fulfil expected future DHSC orders that did not materialise; and the expensing of £6.9m of stock delivered to the DHSC which has not been paid for as it is now part of the ongoing contract dispute.

*** H1 2022 recurring operating loss is stated before £0.5m of non-recurring charges in relation to the ongoing DHSC contract dispute.

Operational highlights

Portfolio development - clinical diagnostics in human health and instrumentation

· Completed a comprehensive market study to direct organic development of the post-COVID-19 diagnostics portfolio, resulting in high growth target infectious disease areas including respiratory, gastro-intestinal infections, transplant, and insect-borne pathogens

· Launched an automated liquid handling system (CO-Prep) and validating a nucleic acid extraction system to enhance post-COVID-19 integrated sample-to-result molecular workflow solution

· Advanced the design of two new direct-to-PCR assay panels for gastro-intestinal bacterial and viral infections to run on q32 instruments

o Panels will include high-sensitivity direct-to-PCR testing chemistry for use with faecal specimens, developed during the period, expanding PROmate® product chemistry compatibility beyond anterior nasal swab samples

· Developed two single analyte transplant viral assay panels for the Epstein-Barr virus and BK virus for use on open instrument platforms

· Launched new lateral flow test (LFT) reader for use in conjunction with a broad range of assays within Novacyt's Pathflow® product portfolio, consisting of 18 non-COVID-19 products for patient screening across sexually transmitted, gastrointestinal, respiratory and insect-borne infections

Global first responder

· Three additional UK CTDA approvals during the period, taking the total number of Novacyt products approved by the CTDA to five (including one post-period approval), the most of any UK-based company

· Key patent granted in relation to ORF1a/b, which will lead to a corporation tax credit against future profits and is back dated to the original patent submission date in October 2020

· Developed Monkeypox and Adenovirus F41 research-use-only (RUO) assays to support infection monitoring

· Developed and secured CE mark for two lyophilised PROmate® products enabling deployment of near-patient COVID-19 diagnostic solution without the need for cold-chain shipping

· CE mark for PathFlow® COVID-19 Rapid Antigen Self-Test received, one of the first saliva-based COVID-19 assays to be launched in the EEA and providing diagnosis of symptomatic and asymptomatic individuals in approximately 15 minutes

Post-period highlights

· Significantly expanded the clinical portfolio, adding 40 CE IVD assays, through a distribution agreement with Clonit srl, an Italian-based molecular diagnostic developer and manufacturer, to drive near-term growth

· Re-launched RUO portfolio globally with initial orders of over £100k in aggregate, including testing infectious salmon anaemia virus and bacterial kidney disease in salmon in Canada and testing salmonella in chickens in Poland, with the expectation of repeat business

· UK CTDA approval of exsig™ COVID-19 Direct Real-Time PCR assay

· Strategic decision to discontinue Microgen Bioproducts and Lab21 Healthcare businesses following a strategic review during the period

· Delivered an additional reduction in operating costs of £2.4m, in line with expectations, funded by a one-off cash restructuring charge of circa £0.8m

A presentation for investors is being held at 12:00 BST today, on the Investor Meet Company platform.

Investors can sign up to Investor Meet Company for free and add to meet NOVACYT S.A. via:

https://www.investormeetcompany.com/novacyt-sa/register-investor

The information contained within this Announcement is deemed by the Company to constitute inside information as stipulated under Article 7 of the Market Abuse Regulation (EU) No. 596/2014 (as amended) as it forms part of the domestic law of the United Kingdom by virtue of the European Union (Withdrawal) Act 2018 (as amended). Upon the publication of this Announcement via the Regulatory Information Service, this inside information is now considered to be in the public domain.

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About Novacyt Group

The Novacyt Group is an international diagnostics business generating an increasing portfolio of in vitro and molecular diagnostic tests. Its core strengths lie in diagnostics product development, commercialisation, contract design and manufacturing. The Company supplies an extensive range of high-quality assays and reagents worldwide. The Group directly serves microbiology, haematology and serology markets as do its global partners, which include major corporates.

For more information, please refer to the website: www.novacyt.com

Chief Executive's review

Novacyt continues to invest in R&D and commercial resources, which represents circa £10.0m of projected opex spend in 2022, to execute on the vision and strategy announced earlier in the year to develop and commercialise its non-COVID-19 portfolio. The Company has made substantial early progress delivering against this strategy in 2022 to-date.

Portfolio development

Clinical diagnostics in human health and instrumentation

Novacyt has made considerable progress enhancing its post-COVID-19 integrated sample-to-result molecular workflow solution. We are validating a nucleic acid extraction system and we have launched an automated liquid handling system (CO-Prep™) for assay set up that complements our proprietary q16 and q32 instruments and user friendly direct-to-PCR assays to deliver an end-to-end scalable workflow solution capable of processing over 1,000 tests per day. The new workflow reduces hands-on time and risk of contamination whilst providing robust sample stewardship to reduce the chance of human error. The complete workflow platform can be used where currently decentralised sample-to-result solutions are not easily scalable, slow, and costly.

Through our business development efforts, we have expanded our testing menu offering by entering into a global distribution agreement with Clonit srl, an Italian-based molecular diagnostic developer and manufacturer, to deliver near-term growth to underpin the base business and supplement the Company's internal R&D efforts. The agreement provides Novacyt with immediate access to over 40 CE marked assays (detailed below) aligned to the Company's therapeutic areas of focus identified following the comprehensive market study completed at the

beginning of the period to direct organic development of the post-COVID-19 diagnostics portfolio. These areas include:

· Sexually transmitted infections (STI) (e.g., Chlamydia trachomatis, Neisseria gonorrhoeae, Trichomonas vaginalis)

· Gastrointestinal infections (e.g., Clostridium difficile, Enterovirus)

· Respiratory (RI) (e.g., Mycoplasma pneumoniae)

· Transplantation (e.g., CMV, JCV, HHV-7, in addition to our internally developed EBV and BKV in vitro diagnostic transplantation assays)

· Insect-borne infections (e.g., Dengue, West Nile virus, Malaria)

All products are immediately available and designed for use on open instrument testing systems. In addition, the STI assay panel has been validated for use with Novacyt's instrumentation and the RI assay panels are expected to be validated by the end of Q1 2023, meaning the Company will be able to offer fully integrated diagnostic solutions for these two priority therapeutic areas.

These products and enhanced workflow will be targeted where there is a need for cost effective, rapid and highly precise diagnostic testing. Based on market research, we believe the key market for this offering is in routine testing in mid-to-low volume spoke laboratories and non-routine services in hub laboratories. As identified in April 2022 at the strategy update, we will target these markets due to our differentiated customer offering. For Europe, which is our initial target geography with CE marked products, the Company estimates a market size of circa £470m growing at a CAGR of 10%. The mid-term goal is to offer this to customers worldwide.

In our internal R&D pipeline, we have completed principal development of a high-sensitivity direct-to-PCR testing chemistry for use with faecal specimens. This new sample type expands PROmate® product chemistry compatibility beyond anterior nasal swab samples and will be deployed as part of our two new direct-to-PCR assay panels for gastro-intestinal bacterial and viral infections to run on our q32 instruments. In addition, we developed two single analyte transplant viral assay panels for the Epstein-Barr virus and BK virus for use on open instrument platforms during the period.

Our molecular portfolio is complemented by an extensive range of lateral flow (LFT) diagnostic tests for clinical use. The range complements the target disease areas covered by the molecular portfolio and has been further enhanced with the launch of a new LFT reader for use in conjunction with a number of key assays within Novacyt's Pathflow® product portfolio. The small, lightweight reader is designed to provide digital test results based on optical imaging technology, thereby removing the ambiguity of manually interpreting a reading. The result is available in a matter of seconds (~10-12 secs) in a digital form that can be exported to other systems.

Global first responder and research-use-only (RUO) diagnostics

In addition to the clinical diagnostics and instrument portfolio, Novacyt has an extensive and established life sciences portfolio of RUO products. In 2021 and early 2022, the Company refreshed and refined the portfolio to ensure the primers and probes were up to date to reliably target current pathogens. The portfolio was subsequently

relaunched globally as planned in July 2022 to deliver near-term growth to underpin the base business. This portfolio is intended to act as an innovation engine for future IVD products for use in human health.

We are encouraged by early success following the relaunch of our RUO portfolio, with initial orders of over £100k in aggregate. In addition to launching assays for both monkeypox and adenovirus F41, as announced during the period, we developed rapid solutions for testing infectious salmon anaemia virus and bacterial kidney disease in salmon in Canada. We also deployed our salmonella assays to test chickens farmed in Poland which could also be a significant market opportunity, based on initial interest.

The Company has also signed a contract with a leading global non-governmental organisation (NGO) to support the detection of arboviruses, including dengue, Zika and Chikungunya, with the total value of the first order approximately £220,000.

To ensure Novacyt remains well positioned for any future COVID-19 outbreaks in both developed and developing markets, the Company has consolidated its portfolio. To this end, Novacyt secured CE mark accreditation for its saliva based PathFlow® COVID-19 Rapid Antigen Self-Test and an ambient version of its PROmate® COVID-19 2G assay designed for international shipping. Both tests complement the Company's established genesig® COVID-19 Real-Time PCR portfolio and PROmate® COVID-19 direct to PCR 1G and 2G assays.

Geographic expansion

During the period, Novacyt has focused on deploying talent in key geographies and optimising its global distributor network to build coverage in new markets to ensure optimal coverage for its recently relaunched RUO portfolio and its growing clinical offering. Through this work, coverage has been added for 18 new countries across EMEA and the Company has begun conducting distributor training on its full portfolio, including its expanded clinical portfolio and workflow.

Business development

In addition to the internal development of the new portfolio, the Company continues to progress the M&A strategy as a priority to support the inorganic growth of the business through scale and diversification.

DHSC dispute

On 25 April 2022, the Company was notified that the DHSC had issued a claim against Primerdesign Ltd and Novacyt S.A. for £134.6m in relation to the contract dispute announced by the Company on 9 April 2021 regarding its second supply contract with the DHSC, announced on 29 September 2020. On 15 June 2022, the Company filed a defence of the claim received on 25 April 2022 and a counterclaim of £81.5m against the DHSC. The value of the counterclaim is broadly in line with the amounts previously announced by the Company in its full year 2020 results, plus related interest.

The Company continues to believe it has strong grounds to defend the claim and assert its contractual rights, including recovering outstanding sums due from the DHSC under the counterclaim.

Unfortunately, the Company is unable to provide further comment at this time but will provide further updates as appropriate and to the extent permitted to do so.

Current trading and outlook

Group revenue for Q3 2022 is expected to be circa £2.0m bringing the year-to-date revenue to £18.5m at the end of September 2022. The Company does not expect demand for its COVID-19 products to pick up in Q4 2022 as previously anticipated, therefore, the Board expects Q4 2022 revenue to be similar to Q3 2022 resulting in an anticipated EBITDA loss for the full year of circa £13.5m.

Financial review

Overview

As announced in the Company's July trading update, Novacyt's H1 2022 performance was impacted by a faster than anticipated decline in COVID-19 related sales and, as such, is reporting a loss for the first half of the year. As also announced at that time, the Company commenced a restructuring of its cost base which has been largely completed by the end of September 2022.

Discontinued operations

In early 2022, Novacyt carried out a strategic review of the Lab21 Healthcare and Microgen Bioproducts businesses to consider the merits of maintaining multiple company entities/names under the Novacyt Group umbrella versus a simplified business model and brand, which the Directors believed could be more impactful. Novacyt announced its intention to discontinue both businesses in April 2022, and they had ceased day to day trading at the end of June 2022.

In accordance with IFRS 5, the net result of the Lab21 Products business has been reported on a separate line "loss from discontinued operations" in the consolidated income statement for H1 2021 and 2022.

Revenue

Unaudited revenue for the first half of 2022 fell to £16.5m compared with £52.2m in H1 2021, driven by reduced demand for COVID-19 testing as we emerge from the pandemic.

Gross profit

The business delivered a gross profit of £4.0m (24%), compared with £1.2m (2%) in H1 2021. The margin, at 24%, is significantly below the Group's historic margin (60%+) predominantly driven by the impact of stock in the form of i) booking a higher stock provision than normal as a result of lower forecast COVID-19 sales and ii) writing-off stock that had not been provided for previously. Excluding the impact of these items, the margin would be in excess of 60%. The H1 2021 gross profit was impacted by the £35.8m one-time cost of sales exceptional charge relating to the DHSC dispute.

Operating expenditure

Group operating costs fell by £2.2m to £11.1m in the first half of 2022 compared with £13.3m in H1 2021. Savings are mainly due to lower staff costs as i) headcount for the continuing operations has fallen from circa 235 staff in June 2021 to circa 210 in June 2022 and ii) a reduced pay-out in relation to the LTIP scheme. Further savings have been made in legal and professional fees, lower commercial insurance as the business contracts, and savings in facilities costs.

These cost reductions allowed the business to continue to invest in research and development, which saw a year-on-year increase in expenditure that supported bringing a number of new products to the market.

EBITDA

The Group reported a H1 2022 EBITDA loss of £7.1m compared with a loss of £12.1m in H1 2021. The H1 2022 EBITDA loss was predominantly driven by providing for stock at risk of not being sold in the future as demand for COVID-19 products fell and related stock write-offs. The £5.0m year-on-year EBITDA improvement is driven by a higher gross profit contribution of £2.8m mainly due to not repeating the H1 2021 one-off DHSC related cost of sales entries, with the remaining £2.2m being due to a fall in operating expenditure.

Operating loss

The Group reported an operating loss of £8.7m compared with a H1 2021 loss of £13.0m. This improvement is predominantly driven by not repeating the one-off DHSC related cost of sales entries booked in H1 2021. Year-on-year, depreciation and amortisation charges have increased by £0.2m to £1.0m and other operating expenses have increased from £nil to £0.5m which mainly relates to the DHSC dispute. In H1 2021, £0.3m costs relating to the DHSC dispute were reported in general and administrative expenses, these were reclassified to other operating expenses in the 2021 year end accounts.

Loss after tax from continuing operations

The Group reported a loss after tax from continuing operations of £5.0m, improving its position from a £12.1m loss in H1 2021. Other financial income and expenses netted to a £1.6m income compared with a £1.4m charge in H1 2021, driven by a £1.4m net financial foreign exchange gain mainly resulting from revaluations of the 2017 to 2020 LTIP scheme liability and bank and intercompany accounts held in foreign currencies. In addition, with interest rates rising the Group received £0.1m interest on deposits held in bank accounts. Taxation at £2.0m compared with £2.3m in H1 2021 mainly represents corporation tax due in the UK and remains a credit balance due to the Group being loss making.

Loss from discontinued operations

In accordance with IFRS 5, the net result of the Lab21 Products business has been reported on a separate line "Loss from discontinued operations" in the consolidated income statement for H1 2021 and H1 2022.

The Lab21 Products business reported a net loss of £3.7m in H1 2022 versus a loss of £0.6m in H1 2021. The loss has increased year-on-year due to i) gross profit falling by £0.7m due to lower revenues as customers moved to COVID-19 testing and sales have not picked up to pre-COVID-19 levels, stock write offs and closure related stock provisions; ii) other closure related costs including the £1.0m impairment of right-of-use assets, the £0.6m impairment of remaining property, plant and equipment and £0.2m redundancy costs and iii) a £0.6m swing on tax, moving from a tax income to a tax expense, primarily due to the release of all deferred tax balances, as unused tax losses cannot be utilised by the Group post closure.

Statement of financial position

	Jun-22	Dec-21		Jun-22	Dec-21
	£'000	£'000		£'000	£'000
Goodwill	11,638	11,471	Share capital and premium	54,632	54,646
Right-of-use assets	552	1,788	Retained earnings and reserves	78,035	87,169
Property, plant and equipment	3,439	4,594	Total equity	132,667	141,815
Deferred tax assets	4,796	3,143			
Other non-current assets	3,625	3,918	Deferred tax liabilities	1,245	1,224
Total non-current assets	24,050	24,914	Lease liabilities long-term	1,324	1,446
			Other provisions and long-term liabilities	425	308
Inventories	4,255	11,461	Total non-current liabilities	2,994	2,978
Trade and other receivables	35,293	38,499			
Tax receivables	1,000	5,034	Lease liabilities short-term	347	424
Other current assets	1,889	2,043	Trade and other liabilities	8,128	17,190
Cash and cash equivalents	99,641	101,746	Other provisions and short-term liabilities	21,992	21,290
Total current assets	142,078	158,783	Total current liabilities	30,467	38,904
TOTAL ASSETS	166,128	183,697	TOTAL EQUITY AND LIABILITIES	166,128	183,697

Non-current assets

Right of use assets has decreased from £1.8m at 31 December 2021 to £0.6m at 30 June 2022, largely as a result of fully impairing the right-of-use asset associated with the Camberley facility following the closure of the businesses that operated from that site.

Property, plant and equipment has decreased by £1.2m from the year ended 2021 to £3.4m at 30 June 2022, driven by three main factors i) the £0.6m impairment of fixed assets associated with the Lab21 Products business ii) £0.7m depreciation charges and iii) offset by capital purchases of £0.1m.

A £4.8m deferred tax asset has been recorded at 30 June 2022 compared with £3.1m at the year ended 2021. £0.9m of the balance relates to the unpaid portion of the Long-Term Incentive Plan charge that was recognised in the 2020 accounts, but that will not be deducted for taxation until the remaining payments are made in 2022. £0.3m arises from the elimination of internal profit on products and services purchased by Primerdesign from Microgen Bioproducts and IT-IS International and still held in stock at the end of June 2022. The remaining £3.6m relates to UK tax losses that can be carried forward to offset future tax liabilities.

Current assets

Inventories and work in progress has fallen significantly to £4.3m at 30 June 2022 from £11.5m at 31 December 2021, this is mainly due to i) providing for stock that is at risk of not being sold due to the fall in expected future demand for COVID-19 related products and ii) expensing stock that has expired in 2022 that was not previously provided for.

Trade and other receivables has fallen by £3.2m since the year end in line with a decline in sales resulting in a closing balance of £35.3m. The trade receivables balance includes a £24.0m unpaid DHSC invoice raised in December 2020, in respect of products delivered during 2020 that remains unpaid at the date of publishing the interim accounts. Recovery of the invoice is dependent on the outcome of the contract dispute. Also included in trade and other receivables is a £8.4m VAT receivable balance (December 2021: £8.2m), that mainly relates to UK VAT paid on sales invoices in dispute with the DHSC. As these sales have not been recognised in accordance with IFRS 15, the revenue, trade receivable and VAT element of the transactions have been reversed, resulting in a VAT debtor balance.

Tax receivables has fallen by £4.0m from the year end to £1.0m at 30 June, as the Group received a refund for the overpayment of 2020 corporation tax from HMRC in March 2022. The current balance relates to 2021 losses that can be offset against 2020 taxable profits totalling £0.6m and a Research and Development Expenditure Credit (RDEC) accrual covering 2021 and 2022 totalling £0.4m.

Current liabilities

Trade and other liabilities fell to £8.1m at 30 June 2022 from £17.2m at 31 December 2021, predominantly as a result of payments made in relation to the 2017 to 2020 LTIP scheme, together with a £2.0m decrease in trade payables and accrued invoices in line with reduced sales.

Cash flow

Cash held at the end of June 2022 totalled £99.6m compared with £101.7m at 31 December 2021. Net cash used in operating activities was £1.7m compared with £12.2m cash used in H1 2021, made up of a working capital inflow of £5.4m offset by an EBITDA loss of £7.1m.

Capital expenditure in H1 2022 fell to £0.3m compared with £2.0m in H1 2021, after the Group heavily invested in insourcing manufacturing during 2021.

Net cash used in financing activities in H1 2022 totalled £0.2m versus £0.4m in H1 2021, with higher interest now being received on bank balances following interest rate rises, helping to reduce the outflow.

The Group remains debt free at 30 June 2022.

Patent Box

On 30 March 2022, Novacyt (specifically Primerdesign Ltd) received confirmation that the UK Intellectual Property Office had granted the key patent (ORF1a/b), with patent number GB2593010. This means that the effective rate of tax on profits (adjusted for certain rules) derived from the sale of products incorporating this patent is close to 10% rather than the current UK corporation tax rate of 19%.

The effective tax rate is given via a tax deduction and due to the uncertainty over the precise timing of the tax relief available to the company and the complexity involved in making a claim for the first time, a tax asset has not been recognised. The asset will only be recognised when Management can reliably measure and predict the outcome of a Patent Box claim in terms of value and timing.

Management believes that if the eventual claim is successful the benefit to Novacyt will be in excess of £5.0m of future tax credits to offset against future profits.

Consolidated income statement as at 30 June 2022

Amounts in £'000	Notes	(Unaudited) Six month 30 June 2022	(Unaudited) Six month 30 June 2021 (*)
Continuing Operations			
Revenue	4	16,508	52,201
Cost of sales	6	-12,498	-15,254

Cost of sales - exceptional	7	-	-35,770
Gross profit		4,010	1,177
Sales, marketing and distribution expenses		-2,887	-2,991
Research and development expenses		-3,271	-1,875
General and administrative expenses		-6,211	-9,477
Governmental subsidies		180	208
Operating loss before exceptional items		-8,179	-12,958
Other operating income	8	2	-
Other operating expenses	8	-535	-
Operating loss after exceptional items		-8,712	-12,958
Financial income	9	2,351	342
Financial expense	9	-723	-1,763
Loss before tax		-7,084	-14,379
Taxation	10	2,041	2,295
Loss after tax from continuing operations		-5,043	-12,084
Loss from discontinued operations	18	-3,656	-591
Loss after tax attributable to owners of the Company		-8,699	-12,675

Loss per share (£)		-0.12	-0.18
Diluted loss per share (£)		-0.12	-0.18
Loss per share from continuing operations (£)	11	-0.07	-0.17
Diluted loss per share from continuing operations (£)	11	-0.07	-0.17
Loss per share from discontinued operations (£)	11	-0.05	-0.01
Diluted loss per share from discontinued operations (£)	11	-0.05	-0.01

* The 2021 consolidated income statement is presented to reflect the impact of the application of IFRS 5 relative to discontinued operations, by stating the Lab21 Products activity on a single line 'Loss from discontinued operations'.

Consolidated statement of comprehensive income as at 30 June 2022

Amounts in £'000	(Unaudited) Six month 30 June 2022	(Unaudited) Six month 30 June 2021
Loss after tax	-8,699	-12,675
Items that may be reclassified subsequently to profit or loss:		
Translation reserves	-434	530

Total comprehensive loss	-9,133	-12,145
Comprehensive loss attributable to:		
Owners of the Company (*)	-9,133	-12,145

(*) There are no non-controlling interests.

Statement of financial position as at 30 June 2022

Amounts in £'000	Notes	(Unaudited) Six month 30 June 2022	(Audited) Year ended 31 December 2021
Goodwill		11,638	11,471
Other intangible assets		3,429	3,710
Property, plant and equipment		3,439	4,594
Right-of-use assets		552	1,788
Non-current financial assets		132	144
Deferred tax assets	12	4,796	3,143
Other long-term assets		64	64
Total non-current assets		24,050	24,914

Inventories and work in progress	13	4,255	11,461
Trade and other receivables	14	35,293	38,499
Tax receivables		1,000	5,034
Prepayments and short-term deposits		1,880	2,034
Investments short-term		9	9
Cash and cash equivalents		99,641	101,746
Total current assets		142,078	158,783
Total assets		166,128	183,697
Lease liabilities short-term		347	424
Contingent consideration short-term		849	836
Provisions short-term	15	19,962	19,956
Trade and other liabilities	16	8,128	17,190
Other current liabilities		1,181	498
Total current liabilities		30,467	38,904
Net current assets		111,611	119,879
Lease liabilities long-term		1,324	1,446
Provisions long-term	15	425	308
Deferred tax liabilities	12	1,245	1,224
Total non-current liabilities		2,994	2,978
Total liabilities		33,461	41,882

Net assets		132,667	141,815

Statement of financial position as at 30 June 2022 (continued)

Amounts in £'000	Notes	(Unaudited) Six month 30 June 2022	(Audited) Year ended 31 December 2021
Share capital	17	4,053	4,053
Share premium account		50,671	50,671
Own shares		-92	-78
Other reserves		-1,608	-1,174
Equity reserves		1,155	1,155
Retained earnings		78,488	87,188
Total equity - owners of the Company		132,667	141,815
Total equity		132,667	141,815

Statement of changes in equity as at 30 June 2022

Amounts in £'000	Share capital	Share premium	Own shares	Equity reserves	Other Group reserves				Retained earnings	Total equity
					Acquisition of the shares of Primer Design	Translation reserve	Other comprehensive income on retirement benefits	Total		
Balance at 1 January 2021	4,053	50,671	-49	1,155	-2,407	379	-8	-2,036	96,916	150,710
Translation differences	-	-	-	-	-	862	-	862	-	862
Loss for the period	-	-	-	-	-	-	-	-	-9,728	-9,728
Total comprehensive income/(loss) for the period	-	-	-	-	-	862	-	862	-9,728	-8,866
Own shares acquired/sold in the period	-	-	-29	-	-	-	-	-	-	-29
Balance at 31 December 2021	4,053	50,671	-78	1,155	-2,407	1,241	-8	-1,174	87,188	141,815
Translation differences	-	-	-	-	-	-434	-	-434	-	-434
Loss for the period	-	-	-	-	-	-	-	-	-8,700	-8,700
Total comprehensive loss for the period	-	-	-	-	-	-434	-	-434	-8,700	-9,134
Own shares acquired/sold in the period	-	-	-14	-	-	-	-	-	-	-14
Balance at 30 June 2022	4,053	50,671	-92	1,155	-2,407	807	-8	-1,608	78,488	132,667

Statement of cash flows as at 30 June 2022

Amounts in £'000	Notes	(Unaudited) Six month 30 June 2022	(Unaudited) Six month 30 June 2021
Net cash used in operating activities	19	-1,662	-12,179
Investing activities			
Purchases of patents and trademarks		-119	-115
Purchases of property, plant and equipment		-182	-1,924
Variation of deposits		-36	63
Acquisition of subsidiaries net of cash acquired		16	17
Net cash used in investing activities		-321	-1,959
Investing cash flows from discontinued operations		7	-108
Investing cash flows from continuing operations		-328	-1,851
Financing activities			
Repayment of lease liabilities		-200	-230
Purchase of own shares - net		-14	-50
Interest received/(paid)		55	-91
Net cash used in financing activities		-159	-371
Financing cash flows from discontinued operations		-84	-179
Financing cash flows from continuing operations		-75	-192

Net decrease in cash and cash equivalents	-2,142	-14,509
Cash and cash equivalents at beginning of year	101,746	91,765
Effect of foreign exchange rate changes	37	-52
Cash and cash equivalents at end of period	99,641	77,204

Notes to the interim financial statements for the six month period to 30 june 2022

1. General Information and basis of preparation

The Novacyt Group is an international diagnostics business generating an increasing portfolio of in vitro and molecular diagnostic tests. Its core strengths lie in diagnostics product development, commercialisation, contract design and manufacturing. The Group supplies an extensive range of high-quality assays, reagents and instruments worldwide. The Group directly serves microbiology, haematology and serology markets as do its global partners, which include major corporates. Its registered office is located at 13 Avenue Morane Saulnier, 78140 Vélizy Villacoublay.

The financial information contained in this report comprises the consolidated financial statements of the Group and its subsidiaries (hereinafter referred to collectively as the "Group"). They are prepared and presented in Great British Pounds ("GBP"), rounded to the nearest thousand ("£'000s").

This condensed consolidated interim financial information does not constitute full statutory accounts. It does not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements for the twelve months ended 31 December 2021. Statutory accounts for the year ended 31 December 2021 were approved by the Board of Directors and have been delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified. The financial information for the half years 30 June 2022 and 30 June 2021 is unaudited and the twelve months to 31 December 2021 is audited.

2. Summary of accounting policies applied by the Group

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union.

The financial information has been prepared on the historical cost basis except in respect of those financial instruments that have been measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in the financial information is determined on such a basis, except for leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

The areas where assumptions and estimates are material in relation to the financial information are the measurement of goodwill (see note 17 of the 2021 Statutory Accounts for further details), the carrying amounts and useful lives of the other intangible assets (see note 18 of the 2021 Statutory Accounts for further details), deferred taxes (see note 21 of the 2021 Statutory Accounts and note 12 of the 2022 Interim Accounts for further details), trade receivables (see note 23 of the 2021 Statutory Accounts and note 14 of the 2022 Interim Accounts for further details) and provisions for risks and other provisions related to the operating activities (see note 31 of the 2021 Statutory Accounts and note 15 of the 2022 Interim Accounts for further details).

The accounting policies set out below have been applied consistently to all periods presented in the financial information.

The accounting policies applied by the Group in these condensed consolidated interim financial statements are substantially the same as those applied by the Group in its financial statements for the year ended 31 December 2021 and which form the basis of the 2022 financial statements. The methodology for selecting assumptions underpinning the fair value calculations has not changed since 31 December 2021.

Basis of consolidation

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation. The Group's scope of consolidation included the following companies, all fully consolidated when included in the scope.

	At 30 June 2022 and 31 December 2021		At 30 June 2021	
Companies	Interest percentage	Consolidation method	Interest percentage	Consolidation method
Biotec Laboratories Ltd	100%	FC	100%	FC
IT-IS International Ltd	100%	FC	100%	FC
Lab21 Healthcare Ltd	100%	FC	100%	FC
Novacyt US Inc	100%	FC	0%	-
Novacyt Inc	100%	FC	0%	-
Microgen Bioproducts Ltd	100%	FC	100%	FC
Novacyt SA	100%	FC	100%	FC
Novacyt Asia Ltd	100%	FC	100%	FC
Novacyt China Ltd	100%	FC	100%	FC
Novacyt UK Holdings Ltd	100%	FC	100%	FC
Primer Design Ltd	100%	FC	100%	FC

Legend: FC: Full consolidation

Discontinued operations and assets held for sale

A discontinued operation is a component that either has been disposed of, or is classified as held for sale, and

a) represents a separate major line of business or geographical area of operations,

b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or

c) is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are presented in the consolidated income statement as a single amount comprising the total of:

· The post-tax profit or loss of the discontinued operation,

· The post-tax gain or loss recognised on the measurement to fair value less costs to sell, and

· The post-tax gain or loss recognised on the disposal of assets or the disposal group making up the discontinued operation.

Where material, the analysis of the single amount is presented in the relevant note, (see note 18).

In the statement of cash flows: the net cash flow attributable to the investing and financing activities of discontinued operations have been disclosed separately.

No adjustments have been made in the statement of financial position.

Comparatives for discontinued operations are restated.

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they adopt the going concern basis of accounting in preparing the financial statements.

The going concern model covers the period up to and including September 2023. In making this assessment, the directors have considered the following elements:

· The working capital requirements of the business;

· A positive cash balance at 30 June 2022 of £99,641,000;

· Full payment of the remaining Long-Term Incentive Plan ("LTIP") that commenced in November 2017 and vested in November 2020;

· Payment of the final earn-out milestone related to the IT-IS International acquisition; and

· Management's expectation of settling the outstanding commercial dispute as per note 20.

If however, Novacyt had to pay the full value of the claim in the period up to and including September 2023, then the Group would not have sufficient funds to settle the liability without agreeing a payment plan or raising additional cash. As a result of this, a material uncertainty exists that may cast significant doubt on the Group's ability as a going concern.

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, a CGU or a 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, a CGU or a 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, a CGU or a 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.

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost includes materials and supplies, and, where applicable, direct labour costs incurred in transforming them into their current state. It is calculated using

the weighted average cost method. The recoverable amount represents the estimated selling price less any marketing, sales and distribution expenses.

The gross value of goods and supplies includes the purchase price and incidental expenses.

A provision for impairment, equal to the difference between the gross value determined in accordance with the above terms and the current market price or the realisable value less any proportional selling costs, is recognised when the gross value is greater than the other stated item.

Trade receivables

The Group has an established credit policy under which the credit status of each new customer is reviewed before credit is advanced, including external credit evaluations where possible. Credit limits are established for all significant or high-risk customers, which represent the maximum amount permitted to be outstanding without requiring additional approval from the appropriate level of senior management. Outstanding debts are continually monitored by each division. Credit limits are reviewed on a regular basis, and at least annually. Customers that fail to meet the Group's benchmark creditworthiness may only transact with the Group on a prepayment basis.

Trade receivables are recorded initially at fair value and subsequently measured at amortised cost. This generally results in their recognition at nominal value less an allowance for any doubtful debts. Trade receivables in foreign currency are transacted in their local currency and subsequently revalued at the end of each reporting period, with any foreign exchange differences being recognised in the income statement as an income/expense.

The allowance for doubtful debts is recognised based on Management's expectation of losses without regard to whether an impairment trigger happened or not (an "expected credit loss" model). Through implementation of IFRS 9, the Group concluded that no real historical default rate could be determined due to a low level of historical write offs across the business. The Group therefore recognises an allowance for doubtful debts on the basis of invoice ageing. Once an invoice is overdue from its due date, based on agreed credit terms, by more than 90 days, this invoice is then more likely to default than those invoices operating within 90 days of their due date. As such, these invoices will be provided for in full as part of an expected credit loss model, except where Management have reviewed and judged otherwise.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there may be no reasonable expectation of recovery may include the failure of the debtor to engage in a payment plan, and failure to make contractual payments within 365 days of the original due date.

Cash and cash equivalents

Cash equivalents are held 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 Undertakings for Collective Investment in Transferable Securities ("UCITS"), negotiable debt securities, etc.) that can be liquidated or sold within a very short time (generally with original maturities of three months or less) and which have a negligible risk of change in value. All such items are measured at fair value, with any adjustments recognised in the income statement.

Trade payables

Trade payables are obligations to provide cash or other financial assets. They are recognised in the statement of financial position when the Group becomes a party to a transaction generating liabilities of this nature. Trade and other payables are recognised in the statement of financial position at fair value on initial recognition, except if

settlement is to occur more than 12 months after recognition. In such cases, they are measured using the amortised cost method. The use of the effective interest rate method will result in the recognition of a financial expense in the income statement. Trade and other payables are eliminated from the statement of financial position when the corresponding obligation is discharged.

Trade payables have not been discounted, because the effect of doing so would be immaterial.

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 there will be 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.

The provisions are for the restoration of leased premises, risks related to litigations and product warranties.

Long-Term Incentive Plan

Novacyt granted shares to certain employees under a LTIP adopted on 1 November 2017. The exercise price was set at the share price on the grant date and the options will be settled in cash. The options fully vested on the third anniversary of the grant date, 1 November 2020. The payment expenses are calculated under IFRS 2 "Share-based Payment". The accounting charge has been spread across the vesting period to reflect the services received and a liability recognised in the statement of financial position.

In December 2021, Novacyt implemented a cash LTIP to qualifying employees, based on achieving certain annual EBITDA targets over a three-year qualifying period. The plan will vest on the third anniversary of the grant date and will be settled in cash.

In February 2022, a Performance Share Awards programme for executive management was created as part of its new LTIP. This LTIP replaced the previous phantom share award scheme which ended in November 2020.

The 2022 Performance Share Awards programme is structured as nil-cost options, giving a right to acquire a specified number of shares at a nil exercise price per share (i.e. for no payment) in accordance with the rules, governed by sections L-225-197-1 and seq. of the French Commercial Code (actions gratuites).

The performance shares will vest after three financial years subject to the Company achieving certain total shareholder return growth conditions. The baseline for total shareholder return is based on the average closing price of the Company's shares in December 2021 which was £3.54. This will be compared to the equivalent figure in December 2024.

Consolidated revenue

IFRS 15 "Revenue from Contracts with Customers" establishes a principles-based approach to recognising revenue only when performance obligations are satisfied, and control of the related goods or services is transferred. It addresses items such as the nature, amount, timing and uncertainty of revenue, and cash flows arising from

contracts with customers. IFRS 15 replaces IAS 18 "Revenue" and other related requirements. IFRS 15 applies a five-step approach to the timing of revenue recognition and applies to all contracts with customers except those in the scope of other standards:

· Step 1 - Identify the contract(s) with a customer

· Step 2 - Identify the performance obligations in the contract

· Step 3 - Determine the transaction price

· Step 4 - Allocate the transaction price to the performance obligations in the contract

· Step 5 - Recognise revenue when (or as) the entity satisfies a performance obligation

The Group principally satisfies its performance obligations at a point in time and the amounts of revenue recognised relating to performance obligations satisfied over time are not significant. Therefore, the accounting for revenue under IFRS 15 does not represent a substantive change for recognising revenue from sales to customers.

The Group's revenue recognition processes are generally straightforward, with recognition of revenue at the point of sale and little significant judgement required in determining the timing of transfer of control.

Some contracts with customers contain a limited assurance warranty that is accounted for under IAS 37 (see Provisions accounting policy). If a repair or replacement is not possible under the assurance warranty, a full refund of the product price may be given. The potential refund liability represents variable consideration.

Under IFRS 15.53, the Group can use either:

· The expected value (sum of probability weighted amounts); or

· The most likely amount (generally used when the outcomes are binary).

The method used is not a policy choice. Management use the method that it expects will best predict the amount of consideration based on the terms of the contract. The method is applied consistently throughout the contract. Variable revenue is constrained if appropriate. IFRS 15 requires that revenue is only included to the extent that it is highly probable that there will not be a significant reversal in future periods.

In making this assessment, Management have considered the following factors (which are not exclusive):

· If the amount of consideration is highly susceptible to factors outside the Group's influence;

· Whether the uncertainty about the amount of consideration is not expected to be resolved for a long period of time;

· The Group's experience (or other evidence) with similar types of contract;

· The Group has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances; and

· The contract has a large number and broad range of possible consideration amounts.

The decision as to whether revenue should be constrained is considered to be a significant judgement as the term 'highly probable' is not defined in IFRS 15, Management consider highly probable to be significantly more likely than probable.

Taxation

Income tax on profit or loss for the period comprises current and deferred tax.

· Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is the result of the Group's judgement based on the advice of external tax professionals and supported by previous experience in respect of such activities.

· Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the reporting date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year

Current and deferred tax are recognised in the income statement, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

UK Patent Box regime

The UK Patent Box regime is a special low corporate tax rate used to incentivise research and development by taxing revenues from patented products differently from other revenues. On 30 March 2022 Novacyt (specifically Primer Design Ltd) received confirmation that the UK Intellectual Property Office had granted the key patent (ORF1a/b), with patent number GB2593010. This means that the effective rate of tax on profits (adjusted for certain rules) derived from the sale of products incorporating this patent is close to 10% rather than the current UK corporation tax rate of 19%.

The effective tax rate is given via a tax deduction and due to the uncertainty over the precise timing of the tax relief available to the company and the complexity involved in making a claim for the first time, a tax asset has not been recognised. The asset will only be recognised when Management can reliably measure and predict the outcome of a Patent Box claim in terms of value and timing.

Profit/loss per share

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

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

Exceptional items

Exceptional items are those costs or incomes that in the view of the Board of Directors, require separate disclosure by virtue of their size or incidence, and are charged or credited in arriving at operating profit on the face of the consolidated income statement.

3. Critical accounting judgements and key sources of estimatE uncertainty

In the application of the Group's accounting policies, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting judgements

· Constraint of revenue

Revenue is only constrained if it is highly probable there will not be a significant reversal of revenue in the future. Highly probable is not defined in IFRS 15 and so it is a significant judgement to be exercised by Management. The value of revenue related to performance obligations fulfilled in 2020 to which constraint has not been applied is £130,642,000.

· Trade and other receivables

An estimate of the risks of non-receipt based on commercial information, current economic trends and the solvency of individual customers is made to determine the need for impairment on a customer-by-customer basis. Management use significant judgement in determining whether a credit loss provision is required.

At 30 June 2022, the Group had trade receivables of £27,122,000 against which a credit loss provision of £345,000 has been applied. At the date of publishing the interim financial statements, £23,957,000 of the 30 June 2022 receivables were overdue due to the contract dispute with the Department of Health and Social Care "DHSC" (see note 20). Management considers it to be more likely than not that the 30 June 2022 balances are recoverable; this is a significant judgement.

· Provisions for product warranty

The value of provision required is determined by Management based on available information, experience and, in some cases, expert estimates. Product warranty provisions are only included if it is considered to be probable that an outflow of economic benefit will be required. Determination of probable is a significant judgement especially in light of the dispute described in note 20.

Key sources of estimation uncertainty

The Group has a number of key sources of estimation uncertainty. Of these items, only the measurement of goodwill is considered likely to result in a material adjustment. Where there are other areas of estimates these have been deemed not material.

· Measurement of goodwill

Goodwill is tested for impairment on an annual basis. The recoverable amount of goodwill is determined mainly on the basis of forecasts of future cash flows. The total amount of anticipated cash flows reflects Management's best estimate of the future benefits and liabilities expected for the relevant CGU. The assumptions used and the resulting estimates sometimes cover very long periods, taking into account the technological, commercial and contractual constraints associated with each CGU. These estimates are mainly subject to assumptions in terms of volumes, selling prices and related production costs, and the exchange rates of the currencies in which sales and purchases are denominated. They are also subject to the discount rate used for each CGU.

The value of the goodwill is tested whenever there are indications of impairment and reviewed at each annual closing date or more frequently should this be justified by internal or external events.

4. Revenue

The table below shows revenue on a geographical basis:

Amounts in £'000	(Unaudited)Six month30 June2022	(Unaudited)Six month30 June2021
Geographical area		
United Kingdom	8,447	21,116

Europe (excluding UK)	2,973	20,367
America	3,514	5,340
Asia-Pacific	1,234	4,359
Africa	202	750
Middle East	138	269
Total revenue	16,508	52,201

Revenue has decreased year on year as a result of COVID-19 sales dropping as the demand for tests has fallen.

The breakdown of revenue by operating segment and geographic area is presented in note 5.

5. Operating segments

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 to make decisions regarding the allocation of resources to the segment and to assess its performance; and

· for which discrete financial information is available.

The Group has identified four operating segments, whose performance and resources are monitored separately. Following the Group's announcement to discontinue the Microgen Bioproducts and Lab21 Healthcare businesses earlier this year, the Lab21 Products segment, which is made up of these businesses, is being treated as a discontinued operation:

· Primer Design

This segment represents the activities of Primer Design Ltd, which is a designer, manufacturer and marketer of molecular 'real-time' qPCR testing devices and reagents in the area of infectious diseases based in Southampton, UK.

· Lab21 Products

This segment represents the activities of Lab21 Products, which was a developer, manufacturer and distributor of a large range of protein-based infectious disease IVD products covering Microgen Bioproducts Ltd and Lab21

Healthcare Ltd, both based in Camberley, UK. As these businesses ceased trading in June 2022, this segment is being treated as a discontinued operation.

· IT-IS International

This segment represents the activities of IT-IS International Ltd, a diagnostic instrument development and manufacturing company specialising in the development of PCR devices for the life sciences and food testing industry based in Stokesley, UK.

· Corporate

This segment represents Group central/corporate costs. Where appropriate, costs are recharged to individual business units via a management recharge process.

· Intercompany eliminations

This column represents intercompany transactions across the Group that have not been allocated to an individual operating segment, but it is not a discreet segment.

The Chief Operating Decision Maker is the Chief Executive Officer.

Reliance on major customers and concentration risk

Primer Design's revenue includes approximately £1,272,000 from sales to the Group's largest customer, representing 7.7% of sales in the period (H1 2021: £9,264,000. This was a different customer). No customer contributed 10.0% or more to the Group's revenue in the reporting period.

88.3% of receivables are with one counterparty, with whom there is a contract dispute as disclosed in note 20. Management considers it to be more likely than not that the 30 June 2022 balances are recoverable.

Breakdown of revenue by operating segment and geographic area

· At 30 June 2022

Amounts in £'000	Primer Design	IT-IS International	Total
Geographical area			
United Kingdom	8,446	1	8,447
Europe (excluding UK)	2,705	268	2,973
America	3,271	243	3,514
Asia-Pacific	853	381	1,234
Africa	201	1	202
Middle East	138	-	138
Total revenue	15,614	894	16,508

· At 30 June 2021

Amounts in £'000	Primer Design	IT-IS International	Total
Geographical area			
United Kingdom	20,899	217	21,116
Europe (excluding UK)	20,201	166	20,367
America	4,948	392	5,340
Asia-Pacific	3,650	709	4,359
Africa	700	50	750
Middle East	253	16	269
Total revenue	50,651	1,550	52,201

Breakdown of result by operating segment

· 6 month ended 30 June 2022

Amounts in £'000	Primer Design	Lab21 Products	IT-IS International	Corporate	Intercompany Eliminations	Total
Revenue	15,614	-	902	-	-8	16,508
Cost of sales	-11,125	-	-1,670	-	297	-12,498
Sales and marketing costs	-2,493	-	-172	-222	-	-2,887
Research and development	-2,996	-	-275	-	-	-3,271
General and administrative	-3,780	-	-520	-870	-	-5,170
Governmental subsidies	163	-	17	-	-	180
Earnings before interest, tax, depreciation and amortisation as per management reporting	-4,617	-	-1,718	-1,092	289	-7,138
Depreciation and amortisation	-840	-	-202	-15	16	-1,041
Operating (loss)/profit before exceptional items	-5,457	-	-1,920	-1,107	305	-8,179

· 6 month ended 30 June 2021

Amounts in £'000	Primer Design	Lab21 Products	IT-IS International	Corporate	Intercompany Eliminations	Total
Revenue	50,652	-	7,424	-	-5,875	52,201
Cost of sales	-16,252	-	-3,579	-	4,577	-15,254
Cost of sales - exceptional	-37,192	-	-3,984	-	5,406	-35,770
Sales and marketing costs	-2,814	-	-80	-97	-	-2,991
Research and development	-1,662	-	-213	-	-	-1,875
General and administrative	-6,916	-	-852	-875	-	-8,643
Governmental subsidies	208	-	-	-	-	208
ADJUSTED Earnings before interest, tax, depreciation, amortisation and cost of sales - exceptional, as per management reporting	23,216	-	2,700	-972	-1,298	23,646
Earnings before interest, tax, depreciation and amortisation as per management reporting	-13,976	-	-1,284	-972	4,108	-12,124
Depreciation and amortisation	-620	-	-202	-12	-	-834
Operating (loss)/profit before exceptional items	-14,596	-	-1,486	-984	4,108	-12,958

Please note that in accordance with IFRS 5 the results of the Lab21 Products segment for 2021 and 2022 have been reported on a separate line 'Loss from discontinued operations' which is shown below EBITDA and thus all items above EBITDA have a nil value.

6. Cost of sales

The table below shows the cost of sales:

Amounts in £'000	(Unaudited) Six month 30 June 2022	(Unaudited) Six month 30 June 2021
Cost of inventories recognised as an expense	5,016	5,462
Change in stock provision	3,923	2,618
Non-stock items and supplies	514	167
Freight costs	42	347
Direct labour	2,984	6,817
Other	19	-157
Total cost of sales	12,498	15,254

Total cost of sales has declined year on year reflecting the reduction in sales. In H1 2022 the stock provision relating to continuing operations has increased by a net £3,923,000, based on lower future forecasted COVID-19 sales, to cover excess, short and out of shelf-life finished goods and raw materials. The movement in the stock provision includes a significant release for stock that has been written off in the period.

Direct labour has decreased year on year as a result of scaling back production to align to lower sales.

7. Cost of sales - exceptional

The table below shows the cost of sales - exceptional:

Amounts in £'000	(Unaudited)Six month30 June2022	(Unaudited)Six month30 June2021
Cost of inventories recognised as an expense	-	4,802
Change in stock provision	-	26,098
Direct labour	-	4,133
Other	-	737
Total cost of sales - exceptional	-	35,770

Due to the DHSC dispute mentioned in note 20, Management booked a number of one-off, non-recurring cost of sales charges in H1 2021. Two of the key items were a £26,098,000 stock provision, as a result of the Group buying stock to fulfil expected future DHSC orders that did not materialise, and the expensing of £6,884,000 of stock delivered to the DHSC which has not been paid for as it is now included in the ongoing contract dispute.

There were no costs classified as cost of sales - exceptional relating to the DHSC dispute in H1 2022.

8. Other operating income and expenses

Amounts in £'000	(Unaudited)Six month30 June2022	(Unaudited)Six month30 June2021
Other	2	-
Total other operating income	2	-
DHSC contract dispute costs	-462	-
Other	-73	-
Total other operating expenses	-535	-

Costs totalling £293,000 relating to the DHSC contract dispute were shown in 'General and administrative expenses' in the 2021 interim accounts. These costs were reclassified to 'Other operating expenses' in the year end 2021 accounts.

At June 2022 costs relating to the DHSC dispute amounted to £462,000.

9. Financial income and expense

The table below shows financial income and expense:

Amounts in £'000	(Unaudited)Six month30 June2022	(Unaudited)Six month30 June2021

Financial foreign exchange gains	2,001	185
Interest received	134	16
Other financial income	216	141
Total financial income	2,351	342
Interest on IFRS 16 liabilities	-24	-36
Financial foreign exchange losses	-594	-1,596
Other financial expense	-105	-131
Total financial expense	-723	-1,763

Financial foreign exchange gains and losses

Financial foreign exchange gains and losses in both periods are driven by revaluations of the LTIP liability and bank and intercompany accounts held in foreign currencies.

10. Taxation

The standard rate of corporation tax applied to reported profit is 19%, which is the tax rate applicable to the companies in the United Kingdom for the financial year 2022. It was 19% for the year 2021.

Taxation for other jurisdictions (mainly France) is calculated at the rates prevailing in the respective jurisdictions.

The Group's tax is the sum of the total current and deferred tax.

Amounts in £'000	(Unaudited)Six month30 June2022	(Unaudited)Six month30 June2021
Current tax income		
Current year tax income	-	3,030
Deferred tax income/(expense)		
Deferred tax income/(expense)	2,041	-735
Total taxation income in the income statement	2,041	2,295

The income for the period can be reconciled to the loss before tax as follows:

Amounts in £'000	(Unaudited)Six month30 June2022	(Unaudited)Six month30 June2021
Loss before tax from continuing operations	-7,084	-14,379
Tax at the UK corporation tax rate (2022: 19%, 2021: 19%)	1,346	2,732
Effect of different tax rates of subsidiaries operating in other jurisdictions	61	149
Effect of difference in tax rate applied to deferred tax	888	-

Effect of non-deductible expenses and non-taxable income	-254	-39
Change in unrecognised deferred tax assets	-	-524
Other adjustments	-	-23
Total taxation income for the period	2,041	2,295

The UK Government announced in its emergency budget on 23 September 2022 that the planned increase in corporation tax from 19% to 25% in April 2023 will not go ahead. The effect of these changes on the deferred tax balances will be reflected when this legislation is substantially enacted.

11. Loss per share

The loss per share is calculated based on the weighted average number of shares outstanding during the period. The diluted loss 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. At 30 June 2022, there are no outstanding dilutive instruments.

Amounts in £'000	(Unaudited)Six month30 June2022	(Unaudited)Six month30 June2021
Net loss attributable to owners of the Company	-8,699	-12,675
Weighted average number of shares	70,626,248	70,626,248
Loss per share (£)	-0.12	-0.18
Diluted loss per share (£)	-0.12	-0.18
Loss per share from continuing operations (£)	-0.07	-0.17
Diluted loss per share from continuing operations (£)	-0.07	-0.17

Loss per share from discontinued operations (£)	-0.05	-0.01
Diluted loss per share from discontinued operations (£)	-0.05	-0.01

12. Deferred tax assets and liabilities

The table below shows the movements in deferred tax assets and liabilities during the reporting period:

Amounts in £'000	Accelerated capital allowances	Intangible assets	Intra-Group profit	Long-term incentive plan	Tax losses	Other temporary differences	Total
At 1 January 2020	-238	-489	897	2,125	-	-73	2,222
(Charge)/credit to income statement	-542	47	-569	-	657	104	-303
At 31 December 2021	-780	-442	328	2,125	657	31	1,919
(Charge)/credit to income statement	-41	23	-59	-1,220	2,931	-2	1,632
At 30 June 2022	-821	-419	269	905	3,588	29	3,551

At 30 June 2022, deferred tax liabilities amounting to £821,000 (December 2021: £780,000) reflect the tax advantage from investments in fixed assets, that is obtained in advance of the depreciation in future financial years.

At 30 June 2022, deferred tax liabilities amounting to £419,000 (December 2021: £442,000) result from the recognition of brand and customer relationships intangible assets as part of the October 2020 IT-IS International acquisition.

At 30 June 2022, deferred tax assets amounting to £269,000 (December 2021: £328,000) result from the elimination of the internal margin on intercompany stock, provisions or assets held.

At 30 June 2022, deferred tax assets amounting to £905,000 (December 2021: £2,125,000) relates to the unpaid portion of the LTIP charge that was recognised by Novacyt UK Holdings in 2020, but will not be deducted for taxation until payments are made in 2022.

Carry forward tax losses total £3,588,000 at 30 June 2022, and have increased from December 2021 as a result of significant losses in H1 2022.

Deferred tax assets and liabilities are recognised on the statement of financial position as follows:

Amounts in £'000	(Unaudited) Six month30 June2022	(Audited) Year ended31 December2021
Deferred tax assets	4,796	3,143
Deferred tax liabilities	-1,245	-1,224
Net deferred tax assets	3,551	1,919

13. Inventories and work in progress

The table below shows inventories and work in progress:

Amounts in £'000	(Unaudited)Six month30 June2022	(Audited)Year ended31 December2021

Raw materials	16,670	19,382
Work in progress	5,338	3,350
Finished goods	5,395	7,831
Stock provisions	-23,148	-19,102
Total inventories and work in progress	4,255	11,461

Total inventories and work in progress has reduced significantly since December 2021, predominantly driven by a large one-off stock provision in H1 2022 related to lower future forecasted COVID-19 sales. Furthermore, a substantial amount of expired or excess stock, of which a significant amount had been provided for, has been disposed of in H1 2022, resulting in a £4,046,000 net movement in the Group stock provision. The Group will continue to look for ways to use inventory that has been provided for.

14. Trade and other receivables

The table below shows trade and other receivables:

Amounts in £'000	(Unaudited)Six month30 June2022	(Audited)Year ended31 December2021
Trade and other receivables	27,122	30,279

Expected credit loss provision	-345	-89
Tax receivables - Value Added Tax	8,449	8,213
Receivables on sale of businesses	66	66
Other receivables	1	30
Total trade and other receivables	35,293	38,499

Trade receivables have declined since the year end in line with falling monthly sales.

The trade receivables balance includes a £23,957,000 unpaid DHSC invoice raised in December 2020, in respect of products delivered during 2020, that remains unpaid at the date of publishing the interim accounts. Recovery of the invoice is dependent on the outcome of the contract dispute.

During H1 2021, £49,034,000 (including VAT) of products and services were delivered and invoiced to the DHSC which has now been included as part of the ongoing dispute. As these sales have not been recognised in accordance with IFRS 15, the revenue, trade receivable and VAT element of the transactions have been reversed. This accounting treatment does not change the Group's legal position or rights in relation to the dispute with the DHSC.

The 'Tax receivables - Value Added Tax' balance of £8,449,000 mainly relates to VAT paid in the UK on sales invoices in dispute with the DHSC. As these sales have not been recognised in accordance with IFRS 15, the revenue, trade receivable and VAT element of the transactions have been reversed, resulting in a VAT debtor balance.

Trade receivables balances are due within one year. Once an invoice is more than 90 days overdue, it is deemed more likely to default and as such, these invoices have been provided for in full as part of an expected credit loss model, except where Management have reviewed and judged otherwise.

15. Provisions

The table below shows the nature of and changes in provisions for risks and charges for the period from 1 January 2022 to 30 June 2022:

Amounts in £'000	(Audited) At 31 December2021	Increase	(Unaudited) At 30 June2022
Provisions for restoration of premises	308	117	425
Provisions long-term	308	117	425
Provision for litigation	157	-	157
Provisions for product warranty	19,799	6	19,805
Provisions short-term	19,956	6	19,962

Provisions for product warranty predominantly relates to the ongoing contract dispute with the DHSC as detailed in note 20. Management have assessed the DHSC product warranty provision held at 31 December 2021 and have deemed that it is still appropriate at 30 June 2022.

16. Trade and other liabilities

Amounts in £'000	(Unaudited)Six month30 June2022	(Audited)Year ended31 December 2021

Trade payables	914	1,363
Accrued invoices	2,015	3,534
Social security liabilities	1,454	954
Tax liabilities - Value Added Tax	121	115
Other liabilities	3,624	11,224
Total trade and other liabilities	8,128	17,190

Trade payables and accrued invoices have decreased in line with reduced sales.

Other liabilities has fallen as a result of payments being made in relation to the 2017 to 2020 LTIP scheme, leaving the final tranche, which is forecast to be paid by the end of 2022.

17. Share capital

	Amount of share capital in £'000	Amount of share capital in €'000	Unit value per sharein €	Number of shares issued
(Audited) At 31 December 2021	4,053	4,708	0.07	70,626,248
(Unaudited) At 30 June 2022	4,053	4,708	0.07	70,626,248

As of 31 December 2021, the Company's share capital of €4,708,416.54 was divided into 70,626,248 shares with a par value of 1/15th of a Euro each.

As of 30 June 2022, the Company's share capital of €4,708,416.54 was divided into 70,626,248 shares with a par value of 1/15th of a Euro each.

The Company's share capital consists of one class of share. All outstanding shares have been subscribed, called and paid.

18. Discontinued operations

In early 2022, Novacyt commenced a strategic review of the business, which included a review of the Microgen Bioproducts and Lab21 Healthcare businesses to consider the merits of maintaining multiple company entities/names under the Novacyt Group umbrella versus a simplified business model and brand, which the directors believed could be more impactful. In April 2022, Novacyt announced its intention to discontinue both businesses, and as at the end of June 2022 they had ceased day to day trading operations.

In accordance with IFRS 5, the net result of the Lab21 Products business has been reported in the line 'Loss from discontinued operations' on the consolidated income statement.

The table below presents the detail of the loss generated by these two businesses as of 30 June 2021 and 2022:

Amounts in £'000	(Unaudited)Six month30 June2022	(Unaudited)Six month30 June2021
Discontinued Operations		
Revenue	1,349	1,749
Cost of sales	-979	-652
Gross profit	370	1,097

Sales, marketing and distribution expenses	-300	-379
Research and development expenses	-17	-6
General and administrative expenses	-2,839	-1,292
Operating loss before exceptional items	-2,786	-580
Other operating expenses	-173	-63
Operating loss after exceptional items	-2,959	-643
Financial income	86	90
Financial expense	-371	-208
Loss before tax	-3,244	-761
Taxation (expense)/income	-412	170
Loss after tax from discontinued operations	-3,656	-591

19. Notes to the cash flow statement

Amounts in £'000	(Unaudited)Six month30 June2022	(Unaudited)Six month30 June2021
Loss for the period	-8,699	-12,675
Loss from discontinued operations	-3,656	-591
Loss from continuing operations	-5,043	-12,084
Adjustments for:		
Depreciation, amortisation, impairment loss and provisions	2,724	938
Decrease of fair value	117	-
Losses on disposal of assets	60	35
Income tax credit	-1,809	-2,673
Other non-cash movements	-	-7
Operating cash flows before movements of working capital	-7,607	-14,382
Decrease in inventories (*)	7,264	14,760
Decrease in receivables	3,561	40,396
Decrease in payables	-9,069	-23,596
Cash (used in)/from operations	-5,851	17,178
Income taxes received/(paid)	4,244	-29,447
Finance (income)/costs	-55	90
Net cash used in operating activities	-1,662	-12,179

(*) The variation of the inventories value results from the following movements:

Amounts in £'000	(Unaudited)Six month30 June2022	(Unaudited)Six month30 June2021
Decrease/(increase) in the gross value of inventory	3,218	-13,615
Increase in the stock provision	4,046	28,375
Total variation of the net value of inventories	7,264	14,760

The details for the increase in the stock provision are covered in notes 6, 7 and 13.

20. Contingent liabilities

During 2021, the Group received notification of a contract dispute between its subsidiary, Primer Design Ltd, and the DHSC related to revenue totalling £129,125,000 in respect of performance obligations satisfied during the financial year to 31 December 2020.

During 2021, a further £49,034,000 (including VAT) of products and services were delivered and invoiced to the DHSC which have subsequently been included as part of the ongoing dispute. Management made the judgement that in accordance with IFRS 15, Revenue from Contracts with Customers, it was not appropriate at that stage in the dispute to recognise as revenue, any sales invoices raised to the customer in 2021 that were in dispute. However, Management remains committed to obtaining payment for these goods and services.

Payment for £23,957,000 of invoices in respect of products delivered during 2020 remains outstanding at the date of publishing the interim accounts and recovery of the debt is dependent on the outcome of the dispute.

On 25 April 2022, legal proceedings were issued by the DHSC to the Group for amounts paid to Novacyt totalling £134,635,000 (including VAT). This refers to £132,814,000 (including VAT) of reagent sales out of a total disputed amount of £154,950,000 (£129,125,000 excluding VAT as previously reported) plus £1,821,000 (£1,517,000 excluding VAT) of q16 instruments which have been added to the dispute. This takes the total 2020 revenue in dispute to £130,642,000.

On 15 June 2022, Novacyt filed a defence of the claim received on 25 April 2022, and made a counterclaim of

£81,500,000 including interest against the DHSC.

The Group continues to believe it has strong grounds to defend the claim and assert its contractual rights, including recovering outstanding sums due from the DHSC under the counterclaim.

Management have reviewed the position at 30 June 2022 and deem this to be an appropriate reflection of the current commercial dispute.

Management and the Board of Directors have reviewed the product warranty provision totalling £19,753,000 booked in 2020 in relation to the DHSC dispute and have deemed that it remains appropriate at 30 June 2022.

21. Subsequent events

No significant events have taken place since the reporting date.

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