NOVACYT GROUP

INTERIM ACCOUNTS 2021

Consolidated income statement as at 30 June 2021

Amounts in £'000 Continuing Operations	Notes	(Unaudited) Six month 30 June 2021	(Unaudited) Six month 30 June 2020 (*)
Revenue	4	53,950	63,257
Cost of sales	6	-15,906	-10,584
Cost of sales - exceptional	7	-35,770	-
Gross profit	8	**2,274**	**52,673**
Sales, marketing and distribution expenses		-3,370	-1,718
Research and development expenses		-1,881	-518
General and administrative expenses		-10,769	-7,897
Governmental subsidies		208	-
Operating (loss)/profit before exceptional items		**-13,538**	**42,540**
Other operating income		-	4
Other operating expenses		-63	-308
Operating (loss)/profit after exceptional items		**-13,601**	**42,236**
Financial income	9	233	76
Financial expense	9	-1,773	-2,002
(Loss)/profit before tax		**-15,141**	**40,310**
Tax income/(expense)	10	2,466	-5,179
(Loss)/profit after tax attributable to owners of the company		**-12,675**	**35,131**
(Loss)/profit per share (£)	11	-0.18	0.53
Diluted (loss) /profit per share (£)	11	-0.18	0.53

(*) The comparative information for 2020 has been restated to reflect the change in presentation currency of the Group (see Note 2).

Consolidated statement of comprehensive income as at 30 June 2021

Amounts in £'000	(Unaudited) Six month 30 June 2021	(Unaudited) Six month 30 June 2020 (*)
(Loss)/profit after tax	**-12,675**	**35,131**
Items that may be reclassified subsequently to profit or loss:		
Translation reserves	530	771
Total comprehensive (loss)/profit	**-12,145**	**35,902**
Comprehensive (loss)/profit attributable to:		
Owners of the company (**)	**-12,145**	**35,902**

(*) The comparative information for 2020 has been restated to reflect the change in presentation currency of the Group (see Note 2).

(**) There are no non-controlling interests.

NOVACYT GROUP

Statement of financial position as at 30 June 2021

Amounts in £'000	Notes	(Unaudited) Six month 30 June 2021	(Audited) Year ended 31 December 2020
Goodwill		17,457	17,877
Other intangible assets		3,901	4,255
Property, plant and equipment		3,236	1,643
Right of use assets		1,890	2,259
Non-current financial assets		126	138
Deferred tax assets		2,535	3,023
Other long-term assets		104	96
Total non-current assets		**29,249**	**29,291**
Inventories and work in progress	12	15,127	29,888
Trade and other receivables	13	40,570	79,592
Tax receivables	14	17,725	-
Prepayments and short-term deposits		2,293	3,731
Investments short-term		9	9
Cash and cash equivalents		77,204	91,765
Total current assets		**152,928**	**204,985**
Total assets		**182,177**	**234,276**
Bank overdrafts and current portion of long-term borrowings		-	-
Lease liabilities short-term		365	414
Contingent consideration short-term		1,037	1,022
Provisions short-term	15	19,852	19,856
Trade and other liabilities	16	12,826	36,784
Tax liabilities	10	-	15,116
Other current liabilities		192	950
Total current liabilities		**34,272**	**74,142**
Net current assets/(liabilities)		**118,656**	**130,843**
Lease liabilities long-term		1,707	1,964
Contingent consideration long-term		824	812
Provisions long-term	15	181	242
Deferred tax liabilities		1,034	800
Other liabilities long-term		5,608	5,606
Total non-current liabilities		**9,354**	**9,424**
Total liabilities		**43,626**	**83,566**
Net assets		**138,551**	**150,710**

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Statement of financial position as at 30 June 2021 (continued)

Amounts in £'000	Notes	(Unaudited) Six month 30 June 2021	(Audited) Year ended 31 December 2020
Share capital	17	4,053	4,053
Share premium account		50,671	50,671
Own shares		-63	-49
Other reserves		-1,506	-2,036
Equity reserve		1,155	1,155
Retained earnings		84,241	96,916
Total equity - owners of the company		**138,551**	**150,710**
Total equity		**138,551**	**150,710**

Statement of changes in equity as at 30 June 2021

Amounts in £'000					Other group reserves					
	Share capital	**Share premium**	**Own shares**	**Equity reserves**	**Acquisition of the shares of Primer Design**	**Translation reserve**	**Other comprehensive income on retirement benefits**	**Total**	**Retained earnings**	**Total equity**
Balance at 1 January 2020	**3,311**	**46,999**	**-141**	**336**	**-2,407**	**491**	**-8**	**-1,924**	**-36,119**	**12,462**
Translation differences	-	-	-	-	-	-112	-	-112	-	-112
Profit for the period	-	-	-	-	-	-	-	-	132,423	132,423
Total comprehensive income/(loss) for the period	**-**	**-**	**-**	**-**	**-**	**-112**	**-**	**-112**	**132,423**	**132,311**
Issue of share capital	567	2,011	-	-	-	-	-	-	-	2,578
Own shares acquired/sold in the period	-	-	92	-	-	-	-	-	-	92
Conversion of warrants and debts	175	1,661	-	819	-	-	-	-	612	3,267
Balance at 31 December 2020	**4,053**	**50,671**	**-49**	**1,155**	**-2,407**	**379**	**-8**	**-2,036**	**96,916**	**150,710**
Translation differences	-	-	-	-	-	530	-	530	-	530
Loss for the period	-	-	-	-	-	-	-	-	-12,675	-12,675
Total comprehensive (loss)/income for the period	**-**	**-**	**-**	**-**	**-**	**530**	**-**	**530**	**-12,675**	**-12,145**
Own shares acquired/sold in the period	-	-	-14	-	-	-	-	-	-	-14
Balance at 30 June 2021	**4,053**	**50,671**	**-63**	**1,155**	**-2,407**	**909**	**-8**	**-1,506**	**84,241**	**138,551**

NOVACYT GROUP

Statement of cash flows as at 30 June 2021

Amounts in £'000	Notes	(Unaudited) Six month 30 June 2021	(Unaudited) Six month 30 June 2020 (*)
Net cash (used in)/from operating activities	18	**-12,179**	**21,504**
Investing activities			
Proceeds from disposal of property, plant and equipment		-	3
Purchases of patents and trademarks		-115	-38
Purchases of property, plant and equipment		-1,924	-234
Variation of deposits		63	68
Acquisition of subsidiaries net of cash acquired		17	6
Net cash used in investing activities		**-1,959**	**-195**
Financing activities			
Repayments of lease liabilities		-230	-177
Repayments of other borrowings and financial liabilities		-	-5,060
Proceeds from issue of shares		-	2,542
(Purchase)/disposal of own shares – Net		-50	31
Repayment of other short-term financing facilities		-	-677
Interest paid		-91	-1,580
Net cash used in financing activities		**-371**	**-4,921**
Net (decrease)/increase in cash and cash equivalents		**-14,509**	**16,388**
Cash and cash equivalents at beginning of year		91,765	1,578
Effect of foreign exchange rate changes		-52	-730
Cash and cash equivalents at end of period		**77,204**	**17,236**

(*) The comparative information for 2020 has been restated to reflect the change in presentation currency of the Group (see Note 2).

1. GENERAL INFORMATION AND BASIS OF PREPARATION

The Novacyt Group is an international diagnostics business generating an increasing portfolio of invitro and molecular diagnostic tests. Its core strengths lie in diagnostics product development, commercialisation, contract design and manufacturing. The Group's lead business units comprise of Primerdesign and Lab21 Products, supplying 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. Novacyt S.A. (the "Company") is the parent company of the Novacyt Group and 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 Company and its subsidiaries (hereinafter referred to collectively as the "Group"). They are prepared and presented in '000s of Great British Pounds "GBP".

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 2020. Statutory accounts for the year ended 31 December 2020 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 2021 and 30 June 2020 is unaudited and the twelve months to 31 December 2020 is audited.

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 2021 and 31 December 2020		At 30 June 2020	
Companies	**Interest percentage**	**Consolidation method**	**Interest percentage**	**Consolidation method**
Biotec Laboratories Ltd	100%	FC	100%	FC
IT-IS International Ltd	100%	FC	0%	–
Lab 21 Healthcare Ltd	100%	FC	100%	FC
Microgen Bioproducts Ltd	100%	FC	100%	FC
Novacyt S.A.	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

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 and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

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 15 of the 2020 Statutory Accounts for further details), the carrying amounts and useful lives of intangible assets (see Note 16 of the 2020 Statutory Accounts for further details), deferred taxes (see Note 20 of the 2020 Statutory Accounts for further details), trade receivables (see Note 23 of the 2020 Statutory Accounts for further details) and provisions for risks and other provisions related to the operating activities (see Note 30 of the 2020 Statutory 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 2020 and which form the basis of the 2021 financial statements. The methodology for selecting assumptions underpinning the fair value calculations has not changed since 31 December 2020.

Change of presentation currency

The Group has opted to change its presentation currency to Great British Pounds, "GBP", to better reflect the Group's trading activities, which are mainly conducted in GBP. This change was made for the year end 2020 accounts.

Following this change in accounting policy, the comparative consolidated financial statements are presented in GBP. Consolidation translation differences were reset to zero as of 1 January 2014, the date of creation of the consolidated Group. The cumulative translation differences on consolidation are presented as if the Group had used the GBP as its presentation currency for its consolidated financial statements since that date, 1 January 2014.

The functional currency of the parent company, Novacyt S.A., remains the Euro. Translation differences arising from the parent company are presented in "other reserves".

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 continue to adopt the going concern basis of accounting in preparing the financial statements.

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 2021 of £77,204,000;
- Payment of the second tranche of the Long-Term Incentive Plan ("LTIP") that commenced in November 2017 and concluded in November 2020;
- Payment of the first earn-out milestone related to the IT-IS International acquisition; and
- Management's confidence in settling the outstanding commercial dispute (see Note 20).

- **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 lesser of their acquisition cost and their recoverable amount. The acquisition cost of inventories includes materials and supplies, and, where applicable, personnel expenses incurred in transforming inventories 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 upon 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 profit or loss.

Trade payables

Trade payables are obligations to provide cash or other financial assets. They are recognised in the balance sheet when the Group becomes a party to a transaction generating liabilities of this nature. Trade and other payables are recognised in the balance sheet 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 balance sheet when the corresponding obligation is extinguished.

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, an industrial relations litigation, a long-term management incentive plan and product warranties.

Long Term Incentive Plan

Novacyt granted to certain employees shares under a long-term management incentive plan adopted on 1 November 2017. The exercise price is 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 Payments”. The accounting charge has been spread across the vesting period to reflect the services received and a liability recognised on the statement of financial position.

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. Given that, 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.

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

The income tax expense represents the sum of the tax currently payable 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 profit or loss 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. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

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.

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. These options are taken into account for the calculation of the profit/loss per share only if their exercise price is higher than the market price and if they have a dilutive effect on the result per share.

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/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.

- **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 2021, the Group had trade receivables of £32,452,000 against which a credit loss provision of £246,000 has been applied. At the date of releasing the interim financial statements, £23,957,000 of the 30 June 2021 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 2021 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 resolution of the contract dispute with the DHSC described in Note 20.

Key sources of estimation uncertainty

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

- **Measurement of goodwill**

Goodwill is tested for impairment at minimum 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 from ordinary operations:

Amounts in £'000	(Unaudited) Six month 30 June 2021	(Unaudited) Six month 30 June 2020
Manufactured goods	53,610	63,113
Traded goods	69	23
Other	271	121
Total revenue	**53,950**	**63,257**

£40,759,000 (excluding VAT) of revenue for goods and services delivered to the DHSC during the first half of 2021 have been excluded from the interim accounts in accordance with IFRS 15. This accounting treatment does not change the Group's legal position or rights in relation to the dispute between the DHSC and the Group's subsidiary, Primer Design Limited, and the Group believes it has strong grounds to assert its contractual rights

A portion of the Group's revenue is generated in foreign currencies (particularly in Euros and US Dollars). The Group has not hedged against the associated currency risk.

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 performances and resources are monitored separately:

- **Primerdesign**

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 areas of infectious diseases based in Southampton, UK.

- **Lab21 Products**

This segment represents the activities of Lab21 Products, which is a developer, manufacturer and distributor of a large range of protein-based infectious disease IVD products with both Microgen Bioproducts Ltd and Lab 21 Healthcare Ltd based in Camberley, UK.

- **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

Primerdesign's revenue includes approximately £9,264,000 (H1 2020: £nil) from sales to the Group's largest customer. One other customer contributed 10% or more to the Group's revenue in the reporting period.

74% 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 2021 balances are recoverable.

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Breakdown of revenue by operating segment and geographic area

- At 30 June 2021

Amounts in £'000	Primerdesign	Lab21 Products	IT-IS International	Total
Geographical area				
United Kingdom	20,898	320	217	21,435
Europe (excluding UK)	20,201	600	166	20,967
America	4,949	143	392	5,484
Asia-Pacific	3,650	458	709	4,817
Africa	700	103	50	853
Middle East	253	125	16	394
Total revenue	**50,651**	**1,749**	**1,550**	**53,950**

- At 30 June 2020

Amounts in £'000	Primerdesign	Lab21 Products	Total
Geographical area			
United Kingdom	34,349	302	34,651
Europe (excluding UK)	16,379	522	16,901
America	3,221	171	3,392
Asia-Pacific	2,416	453	2,869
Africa	1,760	56	1,816
Middle East	3,567	61	3,628
Total revenue	**61,692**	**1,565**	**63,257**

Breakdown of result by operating segment

- 6 month ended 30 June 2021

Amounts in £'000	Primerdesign	Lab21 Products	IT-IS International	Corporate	Intercompany Eliminations	Total
Revenue	50,651	3,124	7,424	-	-7,249	53,950
Cost of sales	-16,252	-1,132	-3,579	-	5,057	-15,906
Cost of sales - exceptional	-37,192	-	-3,984	-	5,406	-35,770
Sales and marketing costs	-2,814	-379	-80	-97	-	-3,370
Research and development	-1,662	-6	-213	-	-	-1,881
General and administrative	-6,915	-1,189	-852	-875	-	-9,831
Governmental subsidies	208	-	-	-	-	208
ADJUSTED Earnings before interest, tax, depreciation, amortisation and cost of sales – exceptional, as per management reporting	**23,216**	**418**	**2,700**	**-972**	**-2,192**	**23,170**
Earnings before interest, tax, depreciation and amortisation as per management reporting	**-13,976**	**418**	**-1,284**	**-972**	**3,214**	**-12,600**
Depreciation and amortisation	-620	-104	-202	-12	-	-938
Operating (loss)/profit before exceptional items	**-14,596**	**314**	**-1,486**	**-984**	**3,214**	**-13,538**

- 6 month ended 30 June 2020

Amounts in £'000	Primerdesign	Lab21 Products	Corporate	Intercompany Eliminations	Total
Revenue	61,692	1,579	-	-14	63,257
Cost of sales	-9,381	-1,219	-	16	-10,584
Sales and marketing costs	-1,106	-584	-1	-27	-1,718
Research and development	-516	-2	-	-	-518
General and administrative	-1,811	-1,014	-4,491	25	-7,291
Governmental subsidies	-	-	-	-	-
Earnings before interest, tax, depreciation and amortisation as per management reporting	**48,878**	**-1,240**	**-4,492**	**-**	**43,146**
Depreciation and amortisation	-368	-229	-9	-	-606
Operating profit/(loss) before exceptional items	**48,510**	**-1,469**	**-4,501**	**-**	**42,540**

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6. COST OF SALES

The table below shows the cost of sales:

Amounts in £'000	(Unaudited) Six month 30 June 2021	(Unaudited) Six month 30 June 2020
Cost of inventories recognised as an expense	5,960	4,205
Change in stock provision	2,277	127
Non-stock items and supplies	167	114
Freight costs	369	107
Direct labour	7,133	6,003
Other	-	28
Total cost of sales	**15,906**	**10,584**

Cost of sales is higher year on year as a result of increasing the stock provision for the underlying business and due to product mix, with increased direct labour and product costs as the portfolio of COVID-19 products have evolved and higher instrument sales.

7. COST OF SALES - EXCEPTIONAL

The table below shows the cost of sales - exceptional:

Amounts in £'000	(Unaudited) Six month 30 June 2021	(Unaudited) Six month 30 June 2020
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 dispute mentioned in Note 20, Management have booked a number of charges that it is presenting as one-off, non-recurring cost of sales. Two of the key items making up the £35,770,000 are a £26,098,000 stock provision, as a result of the Group buying stock to fulfil expected future DHSC orders that have not materialised, 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.

8. GROSS PROFIT

The table below provides a view of the underlying business gross profit performance when adjusting for one-off exceptional items:

Amounts in £'000	(Unaudited) Six month 30 June 2021	(Unaudited) Six month 30 June 2020
Revenue	53,950	63,257
Cost of sales	-15,906	-10,584
Cost of sales - exceptional	-35,770	-
Gross profit	**2,274**	**52,673**
Add back cost of sales - exceptional	35,770	-
Underlying Business gross profit	**38,044**	**52,673**
Underlying Business gross profit percentage	**71%**	**83%**

The H1 2021 underlying business gross profit of 71% is slightly below the Group's historic margin. This is due to booking a higher business as usual stock provision; margin dilution as result of significantly higher instrument sales as the Group builds its installed base and as a result of commencing the donation of approximately one million tests to UNICEF, with over 194,000 tests delivered free of charge at the end of June 2021.

9. FINANCIAL INCOME AND EXPENSE

The table below shows financial income and expense:

Amounts in £'000	(Unaudited) Six month 30 June 2021	(Unaudited) Six month 30 June 2020
Financial foreign exchange gains	211	29
Discount of financial instruments	6	47
Other financial income	16	-
Total financial income	**233**	**76**
Interest on IFRS 16 liabilities	-105	-107
Interest on loans	-	-1,417
Financial foreign exchange losses	-1,596	-100
Other financial expense	-72	-378
Total financial expense	**-1,773**	**-2,002**

Financial Expense:

Interest on loans

The decrease in loan interest from June 2020 is due to the settlement of all outstanding debts, predominantly the €5,000,000 Harbert European Growth Capital bond and its associated interest charges, in H1 2020.

Financial foreign exchange losses

Financial foreign exchanges losses in H1 2021 are driven by revaluations of the LTIP and bank and intercompany accounts held in foreign currencies.

10.INCOME TAX

The standard rate of corporation tax applied to reported profit is 26.5%, which is the tax rate applicable to Novacyt S.A. in France for the financial year 2021. It was 28.0% for the year 2020.

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

Amounts in '000 £	(Unaudited) Six month 30 June 2021	(Unaudited) Six month 30 June 2020
Current tax expense		
Current year income/(charge)	3,201	-5,179
Deferred tax expense		
Deferred tax	-735	-
Total income tax income/(expense) in the income statement	**2,466**	**-5,179**

The credit/(charge) for the period can be reconciled to the (loss)/profit before tax as follows:

Amounts in £'000	(Unaudited) Six month 30 June 2021	(Unaudited) Six month 30 June 2020
(Loss)/profit before tax on continuing operations	-15,141	40,310
Tax at the French corporation tax rate (2021: 26.5%, 2020: 28.0%)	4,013	-11,287
Effect of different tax rates of subsidiaries operating in other jurisdictions	-987	4,098
Effect of non-deductible expenses and non-taxable income	-39	-88
Effect of utilisation of tax losses not previously recognised	-	213
Change in unrecognised deferred tax assets	-524	-1,407
Research tax expenditure enhancement	-	78
Patent box relief	-	3,219
Other adjustments	3	-5
Total tax income/(expense) for the period	**2,466**	**-5,179**

Matters affecting the tax charge

During 2020, Novacyt applied for a number of patents for technology it developed during the period. Patents can take several years to be granted, if at all, and at the reporting date, all the patents were still going through the process for approval. If one or more of the patents ultimately are granted then the Group hopes to be able to benefit from the UK Patent Box regime, which is a special low corporate tax rate used by several countries to incentivise research and development by taxing revenues from patented products differently from other revenues. Subject to a number of adjustments, the effective rate of tax on profits derived from the sale of products subject to patents is close to 10% rather than the current UK corporation tax rate of 19% (due to rise to 25% in 2023). The Patent Box rate can only be claimed once a patent has been granted, although the benefit can be backdated to the time at which the patent was applied for, and so this is not reflected in the interim accounts. The H1 2020 estimated patent box tax relief of £3,219,000 was reversed in the full year 2020 accounts and a revised figure will be booked once/if patents are granted.

The corporation tax liability of £15,116,000 at 31 December 2020 was paid in January 2021.

11.PROFIT/LOSS PER SHARE

The profit or loss per share is calculated based on the weighted average number of shares outstanding during the period. The diluted profit or 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 June 2021 there are no outstanding dilutive instruments.

Amounts in £'000	**(Unaudited) Six month 30 June 2021**	**(Unaudited) Six month 30 June 2020**
Net (loss)/profit attributable to owners of the Company	-12,675	35,131
Impact of dilutive instruments	-	-
Net (loss)/profit attributable to owners of the Company	-12,675	35,131
Weighted average number of shares	70,626,248	65,721,150
Impact of dilutive instruments	-	-
Weighted average number of diluted shares	70,626,248	65,721,150
(Loss)/profit per share (£)	**-0.18**	**0.53**
Diluted (loss)/profit per share (£)	**-0.18**	**0.53**

12.INVENTORIES AND WORK IN PROGRESS

The table below shows inventories and work in progress:

Amounts in £'000	(Unaudited) Six month 30 June 2021	(Audited) Year ended 31 December 2020
Raw materials	21,508	14,406
Work in progress	11,558	8,999
Finished goods	13,503	9,550
Stock provisions	-31,442	-3,067
Total inventories and work in progress	**15,127**	**29,888**

Gross inventory has increased significantly since the year end. This inventory build was the Group’s direct response to support the UK Government’s call for UK manufacturers to build manufacturing capacity and supply chain flexibility in response to the COVID-19 pandemic and was based on likely demand indicated by the DHSC. As such, the stock provision has increased to £31,442,000 at 30 June 2021 of which £26,098,000 relates to not securing additional contracts with the DHSC and £5,344,000 relates to the usual ongoing operations of the business. The Group will continue to look for ways to use this inventory.

13.TRADE AND OTHER RECEIVABLES

The table below shows trade and other receivables:

Amounts in £'000	(Unaudited) Six month 30 June 2021	(Audited) Year ended 31 December 2020
Trade and other receivables	32,452	79,341
Estimated credit loss provision	-246	-160
Tax receivables – Value Added Tax	8,262	343
Receivables on sale of businesses	67	67
Other receivables	35	1
Total trade and other receivables	**40,570**	**79,592**

The main driver for the reduction in the trade receivables balance is a £47,927,000 receipt from the DHSC clearing a 2020 invoice. The current trade receivables balance includes a £23,957,000 unpaid DHSC invoice raised in 2020 in respect of products delivered during 2020 that remains unpaid at the date of signing the interim accounts, recovery of the invoice is dependent on the outcome of the contract dispute.

During the first half of 2021, £49,034,000 (including VAT) of product and services were delivered and invoiced to the DHSC and 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 and the Group believes it has strong grounds to assert its contractual rights.

The 'Tax receivables – Value Added Tax' balance of £8,262,000 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.

14.TAX RECEIVABLES

There are three key items that make up the corporation tax receivable balance of £17,725,000. A £4,346,000 overpayment of corporation tax in relation to 2020 and an overpayment of £9,976,000 in relation to 2021, as a result of the late impact the DHSC contract dispute had on the financial results after payments had been made. The final element of £3,201,000 relates to H1 2021 losses that can be carried back to be offset against 2020 taxable profits.

15.PROVISIONS

The table below shows the nature of and change in provisions for risks and charges for the period from 1 January 2021 to 30 June 2021:

Amounts in £'000	(Audited) At 1 January 2021	Increase	Reduction	Unwinding discount	Change in exchange rates	(Unaudited) At 30 June 2021
Provisions for restoration of premises	242	4	-70	5	-	181
Provisions long-term	**242**	**4**	**-70**	**5**	**-**	**181**
Provision for litigation	68	-	-	-	-4	64
Provisions for product warranty	19,788	-	-	-	-	19,788
Provisions short-term	**19,856**	**-**	**-**	**-**	**-4**	**19,852**

Management have assessed the product warranty claim provision held at 31 December 2020 and deem it to still be appropriate as at 30 June 2021. This predominantly relates to the ongoing contract dispute with the DHSC as detailed in Note 20.

16.TRADE AND OTHER LIABILITIES

Amounts in £'000	(Unaudited) Six month 30 June 2021	(Audited) Year ended 31 December 2020
Trade payables	1,587	5,228
Accrued invoices	4,602	8,016
Social security liabilities	884	1,082
Tax liabilities - Value Added Tax	139	16,831
Other liabilities	5,614	5,627
Total trade and other liabilities	**12,826**	**36,784**

Trade payables and accrued invoices have fallen in line with reduced sales in Q2 2021 versus Q4 2020.

The closing 2020 Tax liability - Value Added Tax balance predominantly relates to UK VAT payable to HMRC covering the months of November and December 2020. This was paid in Q1 2021.

The other liabilities balance relates to the second tranche of the LTIP payment that is due to be paid in November 2021.

17.SHARE CAPITAL

	Amount of share capital in £'000	Amount of share capital in €'000	Unit value per share in €	Number of shares issued
(Audited) At 31 December 2020	**4,053**	**4,708**	**0.07**	**70,626,248**
(Unaudited) At 30 June 2021	**4,053**	**4,708**	**0.07**	**70,626,248**

As of 31 December 2020, 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 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.

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

18. NOTES TO THE CASH FLOW STATEMENT

Amounts in £'000	(Unaudited) Six month 30 June 2021	(Unaudited) Six month 30 June 2020
(Loss)/profit for the period	-12,675	35,131
Adjustments for:		
Depreciation, amortisation, impairment loss and provisions	938	784
Management long-term incentive plan	-	3,648
(Increase)/decrease of fair value	-	-79
Losses/(gains) on disposal of assets	35	145
Income tax (credit)/charge	-2,673	5,178
Other non-cash movements	-7	-47
Operating cash flows before movements of working capital	**-14,382**	**44,760**
(Increase)/decrease in inventories (*)	14,760	-12,032
(Increase)/decrease in receivables	40,396	-24,768
Increase/(decrease) in payables	-23,596	11,584
Cash from/(used in) operations	**17,178**	**19,544**
Income taxes (paid)/received	-29,447	3
Finance costs	90	1,957
Net cash (used in)/from operating activities	**-12,179**	**21,504**

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

Amounts in £'000	(Unaudited) Six month 30 June 2021	(Unaudited) Six month 30 June 2020
Increase in the gross value of inventory	-13,615	-12,130
Increase in the stock provision	28,375	98
Total variation of the net value of inventories	**14,760**	**-12,032**

The details for the increase in the stock provision are covered in Notes 6, 7 and 12.

19.IMPACT OF BREXIT ON THE GROUP'S ACTIVITY

The UK left the EU on 31 January 2020, and the Brexit transition period ended on 31 December 2020 with a Trade and Cooperation Agreement ("TCA") in place between the UK and EU. Our overriding priority in preparing for the UK's exit from the EU has been to maintain continuity of supply of our products to customers.

To date, the impact of Brexit has not had a material impact on the business but as we are in the early stages of the post-Brexit era, management continues to monitor and manage the situation.

20.CONTINGENT LIABILITIES

During the first half of 2021, the Group received notification of a contract dispute between its subsidiary, Primer Design Limited and the DHSC related to revenue totalling £129,124,000 in respect of performance obligations satisfied during the financial year to 31 December 2020. Payment for £23,957,000 of invoices in respect of products delivered during 2020 remains outstanding at the date of releasing the interim accounts and recovery of the invoice is dependent on the outcome of the contract 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 contract dispute and have deemed that it remains appropriate at 30 June 2021.

21.SUBSEQUENT EVENTS

Updates on the contract dispute with the DHSC are included in Note 20, Contingent Liabilities.