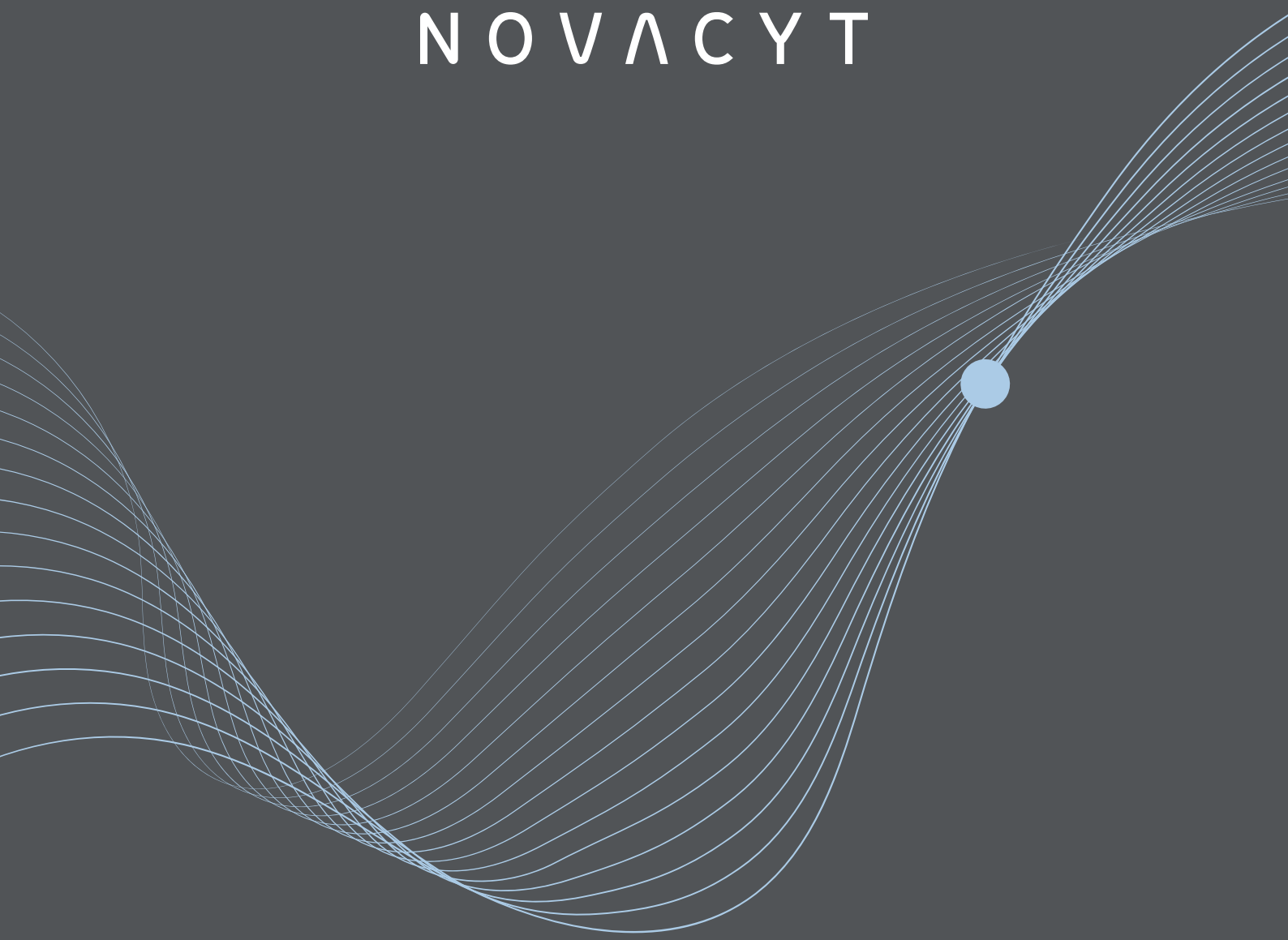
NOVACYT



Global leaders in the fight against infectious diseases

Novacyt Annual Report and Accounts
for the year ended 31 December 2021

NOVACYT

Novacyt is a diagnostics solution provider, manufacturing diagnostic and pathogen testing kits based on molecular and protein technologies sold into human clinical, life science, food and industrial markets.

Our purpose

We protect lives from invisible threats by providing actionable health information in the right place, at the right time.

Our vision

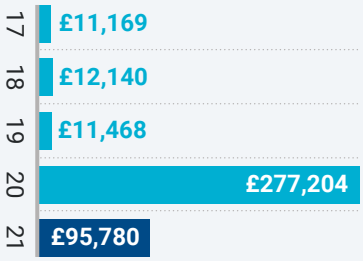
Global leaders in the fight against infectious diseases

Read about **our new strategy** on pages 16 to 17

Financial highlights

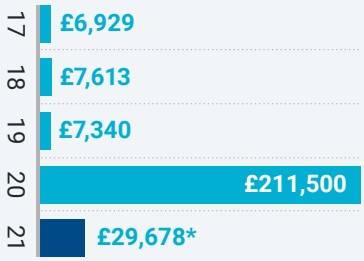
Revenue £'000

£95,780



Gross margin £'000

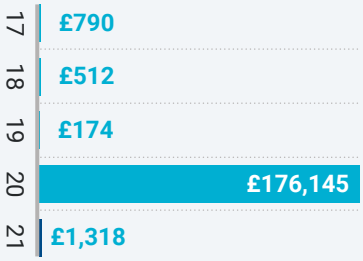
£29,678*



* After cost of sales exceptional items

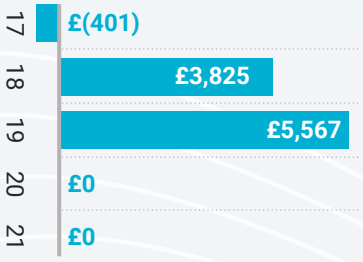
EBITDA £'000

£1,318



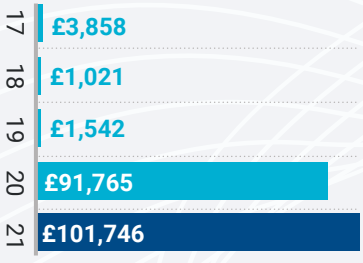
Net debt £'000

£0



Cash balance £'000

£101,746



Operational highlights

- Rapid development and launch of 15 new assays to support laboratories, clinicians, and private testing of COVID-19 since the beginning of 2021
- Launch of VersaLab™ mobile processing laboratories and VersaLab™ Portable to expand near-patient testing opportunities in private sector testing
- Inclusion in National Framework Agreement, resulting in a new £4.7 million contract with the DHSC for the supply of PROmate® COVID-19 tests to the NHS
- Secured new contracts with a leading global health organisation and UNICEF for the supply of COVID-19 products
- Growth of new markets for private testing, including travel, sport, film, media, and workplace settings

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Novacyt's Key Strengths

1

Clinical Diagnostics

Our goal is to improve patient pathways by providing clinical information at the right place at the right time. We do this by partnering with public and private laboratories as well as commercial partners to provide clinical diagnostic testing workflows, which includes qPCR instrumentation and high-quality reagents.

2

Life Sciences

We have passion for patient-centric solutions that advance the science behind diagnostics. This fuels our drive to deliver high-quality and reliable reagents and instruments for the Life Sciences market. We have a comprehensive range of qPCR assays with our instruments to enable personalised solutions customised to meet the needs of Life Sciences research across Food and Beverages, Animal Health, Human Pathogen, and many more other applications.

We have a dedicated technical and field support specialist team that provides round-the-clock support to our partners, ensuring optimum results.

5

Bioinformatics Surveillance

Global tracking of virus mutations enables our R&D to quickly develop tests to identify viruses and their mutations that could be detrimental to the healthcare system.

Currently, our in-house bioinformatics surveillance group has worked with a global network of virologists to track the SARS-CoV-2 variants to identify the mutations expected to pose the most significant challenges to healthcare and vaccine efficacy.

6

World-class R&D Team

We have deep scientific expertise in developing primers and probes within our R&D team. Our R&D strategy focuses on new product development and validation, advancing our proprietary technology platforms and manufacturing process improvement across Novacyt.

With an in-house clinical and validation team, our R&D can leverage insights and data to progress cutting-edge technology designs to meet the diagnostic needs of our customers and their patients.

3

Global First Responder

As a pioneer in clinical diagnostics, Novacyt has a proven history of responding quickly to changing global health needs and key outbreaks worldwide, including providing testing solutions for Zika, Swine Flu, and Ebola viruses. Solidifying this position, Novacyt was among the first to respond to the COVID-19 pandemic in 2020, providing a rapid and reliable gold standard SARS-CoV-2 test kit that the WHO approved.

Our streamlined research and development (R&D) pipelines and commitment to better innovate to meet patients' needs have enabled us to respond quickly to global outbreaks, achieving accurate identification and detection with our proprietary molecular and protein detection technologies.

4

Instruments

As a global leader in qPCR innovation, we offer gold standard real-time PCR instrumentations. The genesig® and MyGo series of qPCR instruments empower our customers to take real-time PCR tests anywhere and everywhere they may need them.

Our qPCR instruments are designed to offer mobility, versatility, and speed to meet any testing needs. The capability to operate multiple units at once enables efficient and cost-saving operations.

Group at a Glance

2021 and post-period operational highlights

1

Launch of VersaLab™ mobile testing solutions

2

Launch of 15 new assays to support COVID-19 testing

3

Inclusion in DHSC National Framework Agreement

4

Approval of PROmate® COVID-19 2G and 1G (q32) Real-Time PCR tests by the CTDA

5

Strengthened commercial management team

6

New contracts with a leading global health organisation and UNICEF for supply of COVID-19 tests

7

Growth of private testing in film and media, cruise ships, education and NGOs

8

Surveillance programme able to detect all published strains of SARS-CoV-2

9

Lab21 and Microgen business review completed

10

Granted a key patent for ORF1a/b, which will lead to a corporation tax credit against future profits

Group at a Glance

Our Innovative Solutions

We offer an increasing portfolio of in-vitro diagnostic tests, utilising molecular and protein detection technologies to support healthcare and disease prevention across the globe in the clinical and life science sectors. Agile product development, commercialisation, design, and manufacturing ensure quality products and robust supply.

Innovation Highlights

genesig® Real-Time PCR

Our comprehensive range of qPCR assays and instruments offer personalised solutions to individual customers to meet the many testing demands of patients. Building on the heritage behind our genesig® portfolio of qPCR kits, we can also develop bespoke products in response to customer requests to meet a specific need.

Our genesig® kits are real-time PCR assays designed and developed to assess target organisms of particular interest. Our qPCR assay development includes designed primers to match healthcare needs, PCR mix optimisation and assay development to ensure a very effective qPCR reaction. In-house laboratory testing and evaluation ensure high levels of sensitivity and specificity for pathogen detection, food and water testing, veterinary and agricultural testing.

PROmate® Nearer-to-Patient Evolution

PROmate® COVID-19 assays are a total workflow solution for the qualitative detection of SARS-CoV-2 viral RNA, that includes sample preparation, qPCR amplification and analysis on our genesig® q16 and q32 instruments. The PROmate® workflow enables easy, time-efficient testing without the need for a class 2 biosafety cabinet. It was one of the first direct-to-PCR assays to be approved by the UK's Technology Validation Group and the UK Health Security Agency's Medical Devices Regulations 2021 (Coronavirus Test Device Approvals) to allow near-to-patient testing.

The reagents involved in COVID-19 RNA extraction and PCR test products were repackaged, with some reagents also freeze-dried, to reduce the number of consumables and steps required. This cut operator complexity and improved cycle times. PROmate® uses a viral inactivation methodology validated by Public Health England for potential use outside of laboratory environments.

PathFlow® Rapid Tests

Lateral flow testing has been thrust into the limelight following the COVID-19 pandemic. As well as lateral flow tests for COVID-19, we also have a comprehensive portfolio of lateral flow tests for clinical use under our PathFlow® brand. These solutions cover a range of infectious diseases across respiratory such as Flu A & B and gastrointestinal infections, like Norovirus, inflammatory bowel disease and nosocomial infections.

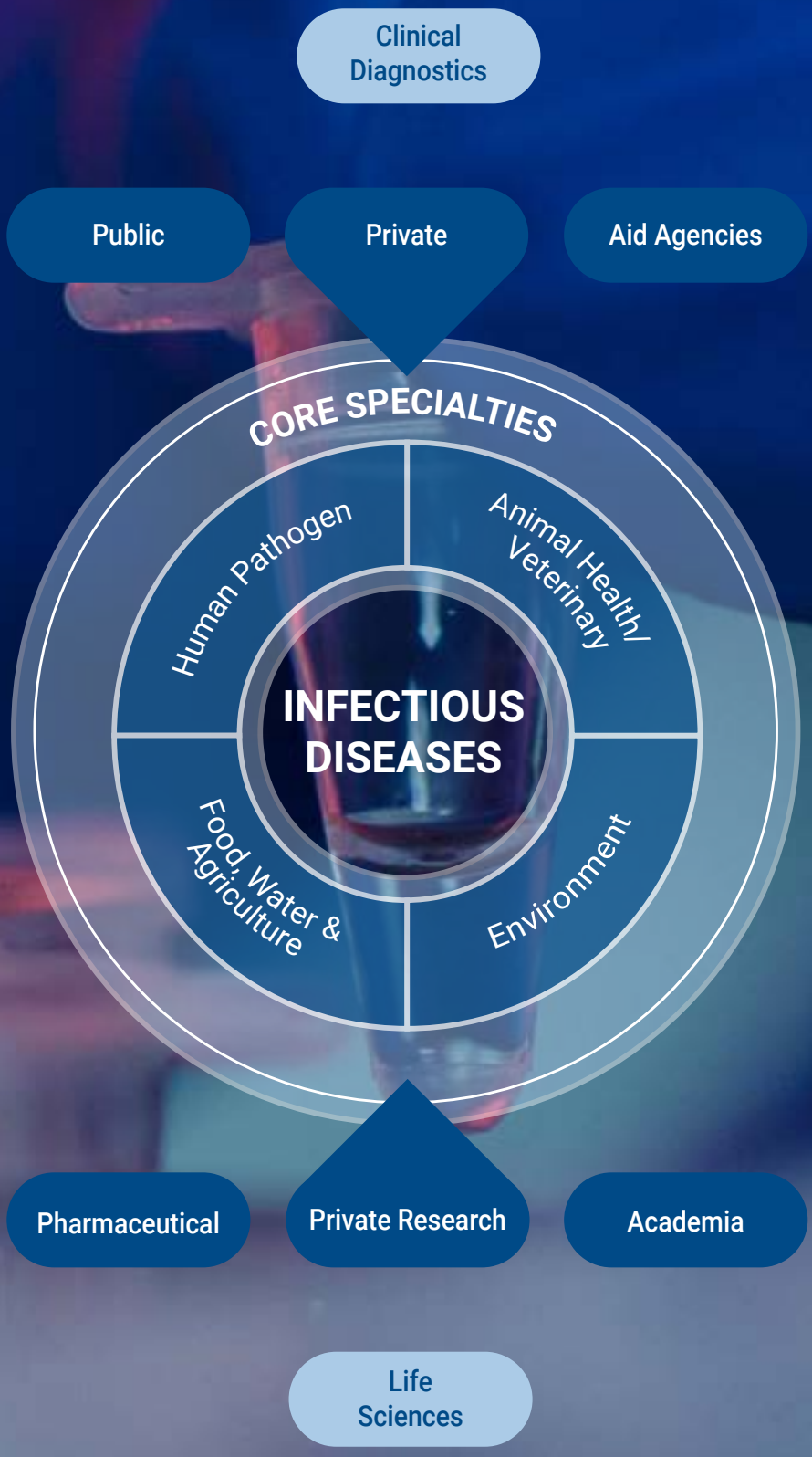
With PathFlow®, we are committed to continuous product innovation that develops high performing rapid testing products that enable actionable results for better patient management and care, and ultimately better patient outcomes.

SNPsig® SARS-CoV-2 Variant Detection

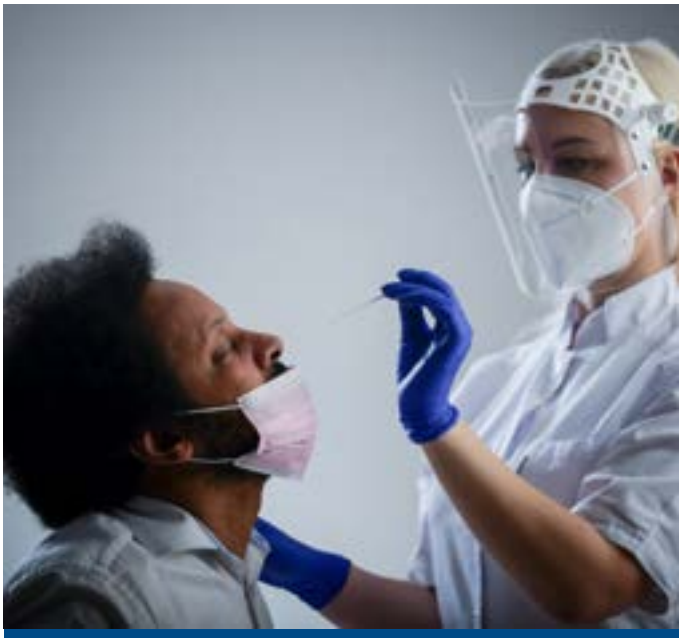
This portfolio identifies Single Nucleotide Polymorphisms (SNPs) critical to each SARS-CoV-2 variant, one of the first commercially available range of assays for variant detection. The SNPsig® portfolio for detecting variants complements Novacyt's existing range of PCR COVID-19 assays.

Our SNPsig® kits use our own proprietary genotyping method to identify SARS-CoV-2 variants of concern. The assays can be used on Novacyt's selected genesig® family of instruments or other real-time PCR machines with the ability to test across fluorescent channels, providing a rapid on-site alternative or complementary ability to next-generation sequencing. SNPsig®'s fast-paced innovation programme is facilitated by the company's ability to match the rapid evolution of the virus with real-time bioinformatics surveillance and accelerated product development. The R&D programme can pivot quickly, and tailor assay development to real-world needs.

The markets that we serve



Customer Testimonials



As soon as we started to see that there was a need for COVID-19 testing, we thought of Novacyt immediately. We wanted to collaborate as soon as we could, as we have a long working relationship.

Novacyt were very good; they had one of the first recognised products on the market which is the genesig® COVID-19 1G. First validation with the assay was good, and we didn't see any problem. It is a nice assay that you can run a variety of different ways and it works on open platforms."

Tony Cooke, CEO @ Cambridge Clinical Labs

Last year, we were heavily involved in COVID-19 testing particularly in the Oil & Gas industry. The problem that we faced in the early days was the 24–48-hour delay in getting the results back. If we could test and send people onto the helicopter an hour later, it makes a huge difference.

We had spoken to a few different companies when we started off, before we discovered the Novacyt's genesig® assays. Novacyt's staff were extremely responsible and responsive to all the questions we were firing at them. We formed a good relationship and trust with the employees there. And when Novacyt launched PROmate®, it was an easy decision for us to make and continue that relationship."

Ken Park, Clinical Director @ TAC Healthcare

We have a long-standing relationship with Novacyt, based on the excellent service and products they provide us. Their infectious disease kits are vital to our pathogen reporting, and in a time-critical industry, Novacyt have never let us or our clients down with their availability or quality. This is a testimony to each account manager and the customer service team's hard work and understanding. The technical support is always on hand with any other queries."

Glyn Reynolds, Diagnostic Manager @ Microsearch Laboratories Ltd.

Accuscience had a great journey over the past number of years with the Novacyt Group. Accuscience has been a key supplier to the Irish Government during the pandemic, and the Novacyt's SARS-CoV-2 kits have been key products used in Ireland in the fight against COVID-19.

The partnership Accuscience has with Novacyt's sales and technical teams has been paramount in the success we have seen in the Irish COVID-19 testing market. In many cases, the team in Novacyt has gone over and above to help us support the Irish customer base."

Niamh Foley, Commercial Director @ Accuscience

Strategic report

Novacyt is committed to becoming a leading, global clinical diagnostics company."

James Wakefield
Chairman

Chairman's Statement

James Wakefield
Chairman

2021 highlights

- The Company remains debt free with a cash position at 31 December 2021 of £101.7 million.
- David Allmond appointed as Chief Executive Officer and strengthened Executive team and commercial operations to support future growth.

During 2021, we continued to respond to the ever-changing COVID-19 pandemic requirements with speed and agility. At the start of the year, it was extremely difficult to predict exactly what the requirements and the levels of demand would be, but we were aware that relative to 2020, we would need to gradually diversify away from UK contracts supplying COVID -19 products and seek to service a wider geographic area with a broader range of related products, whilst continuing to develop our COVID-19 product portfolio. This journey has started well and the financial results support this.

Our rapid response to the COVID-19 virus is a testament to the Group's core competency of in-vitro diagnostic design, development, manufacturing and commercialisation, and being able to act quickly. I am extremely proud of the Novacyt team who were able to respond in this manner.

Our highly experienced staff developed further products in our test portfolio keeping up with new strains of the COVID-19 virus as these materialised during the year. At the same time, a number of other R&D projects were ongoing to ensure that we develop a product portfolio which is fit for purpose in the post COVID-19 period. This is obviously a dynamic and ongoing exercise.

On behalf of the Board, I would like to thank Graham Mullis for his significant commitment and contribution to the Group over the last 14 years. I would also like to welcome the newly appointed CEO David Allmond who joined us on 18 October 2021. A number of new senior hires were made during the year to ensure the necessary expertise is in place to take the business to the next level on a maintainable basis.

We remain committed and focused on becoming a leading, global clinical diagnostics company in the fight against infectious diseases, as we build towards the next phase of growth. We will continue to make a significant contribution to global health, whilst seeking to continually deliver value to our Shareholders. We are investing in non-COVID-19 product development to tackle high unmet needs and bolster our business development efforts, with a strengthened organisation and a clear strategic focus.

Novacyt has a track record of speed and agility in delivering critical products, as demonstrated in its response to the COVID-19 pandemic, and previous outbreaks including Zika, H1N1 (swine flu), and Ebola.

During the 2021 period under review, we generated revenues of £95.8 million excluding £40.8 million of DHSC revenues which are under contractual dispute, which is explained in the financial section of this report. The Company remains debt free with a cash position at 31 December 2021 of £101.7 million.

We are delighted to be working with Allegra Finance

as our French listing sponsor, SP Angel Corporate Finance LLP as our Nominated Advisor/Broker, together with Numis as our joint broker.

The Board continues to review its strategy to focus on its core strengths of in-vitro diagnostic product development, commercialisation and contract manufacturing by driving value from its profitable Primerdesign business. The Company commenced a review of its Lab21 and Microgen businesses at the start of 2022 to consider the merits of maintaining multiple corporate entities versus a simplified business model and brand. Following conclusion of the review, Novacyt is proposing to discontinue both businesses, which is anticipated to be cash neutral. We intend to continue to grow both organically and through selective acquisition.

We are not proposing to pay a dividend for the financial year ended 2021 and our ongoing dividend policy will form part of a wider review of capital allocation, which will be formulated in conjunction with the requirements for continued investment in the business for future business growth to maximise Shareholder value as well as the prevailing financial conditions in the markets in which the business operates.

> Our rapid response to the COVID-19 virus outbreak is a testament to the Group's core competency of in-vitro diagnostic design, development, manufacturing and commercialisation, and being able to act quickly. I am extremely proud of the Novacyt team who were able to respond in this manner."

James Wakefield
Chairman

The Company is listed on two stock exchanges: Euronext Growth Paris and AIM London. As such, the Board remains committed to maintaining the highest standards of transparency, ethics and corporate governance, whilst also providing leadership, controls and strategic oversight to ensure that we deliver value to all our stakeholders.

Finally, I would like to take this opportunity of thanking you, the Shareholders, for your continued support, and also to thank the Board, the Executive management team and all of our staff for their commitment and contribution to the business and, in particular, to the role that Novacyt has and continues to have in testing during this global pandemic.

James Wakefield
Chairman

Development and Manufacturing Capability

1

Innovation

History of introducing de novo technologies as diagnostic products (e.g. Novacyt SNPsig technology)

Track record of development of innovative near-patient platform solutions for the health care industry (e.g. PROmate® and exsig® platforms)

Innovations team includes specialists in biochemistry, chemistry and biomedical science

2

Design

Over 10 years' experience of producing assays designed to meet the highest levels of sensitivity and specificity

In-house developed genomic surveillance tools built to ensure state of the art in assay performance throughout the life cycle of our products

Internal bioinformatics expertise enabling the identification of unique genomic regions to target in novel diagnostic applications

3

Speed to develop products

The Novacyt product development team has a proven track record of rapidly responding to disease outbreaks (Swine Flu, Ebola, COVID-19, etc.)

To maintain our position as a global 1st responder for emerging health threats we:

- Interface with non-public disease surveillance channels (e.g. KOLs, NGOs) to identify unmet needs in the diagnostics space
- Co-ordinate purpose-built developmental processes to support rapid deployment of high-quality assays in < 3 weeks
- Maintain a team of molecular technologists, chemists & clinical specialists
- Design proprietary PCR algorithms capable of integrating assays onto any platform, including the q16 and q32

4

Prototype and optimise

Proven capacity to develop diagnostic prototypes ready for technical transfer and manufacturing at scale

Our applied research team works with industry partners to optimise and commercialise diagnostic solutions

5

Manufacturing Scale-Up

After product design, validation batches are created in manufacturing. A dedicated technical team translates the R&D product into the manufacturing requirements for documentation and scale-up. Validation batches are manufactured at scale and an improvement cycle ensures that ideas are captured and actioned to create the best quality, robust, efficient processes. A team of manufacturing process experts review the processes to optimise the workflow and where practical, scope out automation options. When required, we have multi-skilled flexible labour and a strong network of sub-contractors which can be rapidly mobilised for large scale production

6

Manufacture and Supply

Our end-to-end process is captured within our ERP system which manages sales orders, procurement, manufacture and shipment. Using forecasts, we manufacture to a demand plan which enables quick turnaround on top products for our customers whilst managing inventory levels. The manufacturing processes are split across multiple laboratories to ensure strict contamination control. Many of our sub-components are the same across different product ranges, which allows for more efficient bulk manufacture and rapid response to increases in demand. Investment in new equipment is leading to an increased capability to manufacture in-house which has quality and cost saving improvements. All of our products go through stringent QC tests

7

Validate

Accurately measuring and reporting the performance of diagnostics devices

Subject matter experts on the regulatory compliance requirements for performance evaluation studies

Designing and executing validation studies that are compliant with international regulatory standards and aligned with industry best practices

Clinical trial design capabilities enabling the improvement of patient care pathways

Our Strategy

Our purpose

We protect lives from invisible threats by providing actionable health information in the right place, at the right time

Our vision

Global leaders in the fight against infectious diseases

By the end of 2026, Novacyt aspires to have the following profile:

Patients

Aim

To increase our direct commercial footprint and bring our solutions closer to patients across the globe.

Current position

Commercial sales into >150 countries, supported by Commercial Partners who deliver our solutions to end users.

Products

Aim

To move from a product-driven organisation to a patient led partner focused on improving healthcare outcomes at the point of need.

Current position

One of the broadest CE-IVD COVID-19 menu offerings on the market complemented by a comprehensive lateral flow and life science portfolio.

Pipeline

Aim

To have patients' unmet clinical diagnostic needs in infectious diseases drive our innovation and solutions.

Current position

Organic and inorganic pipeline development to broaden our clinical offering beyond COVID-19 and lateral flow.

Performance

Aim

£100 million Revenue from existing portfolio plus new product development within five years.

Current position

Identified the key diagnostic segments supported by external research where Novacyt can add most value and benefit from unmet needs. Mobilising resources to develop and commercialise a competitive portfolio of products.

Profitability

Aim

Delivering profit margins comparable to its peer group as part of the five-year plan.

Current position

Re-shaping the business to focus on molecular diagnostics, whilst managing the rapid shift away from COVID-19 revenues. Carefully managing cost base through this process.

People

Aim

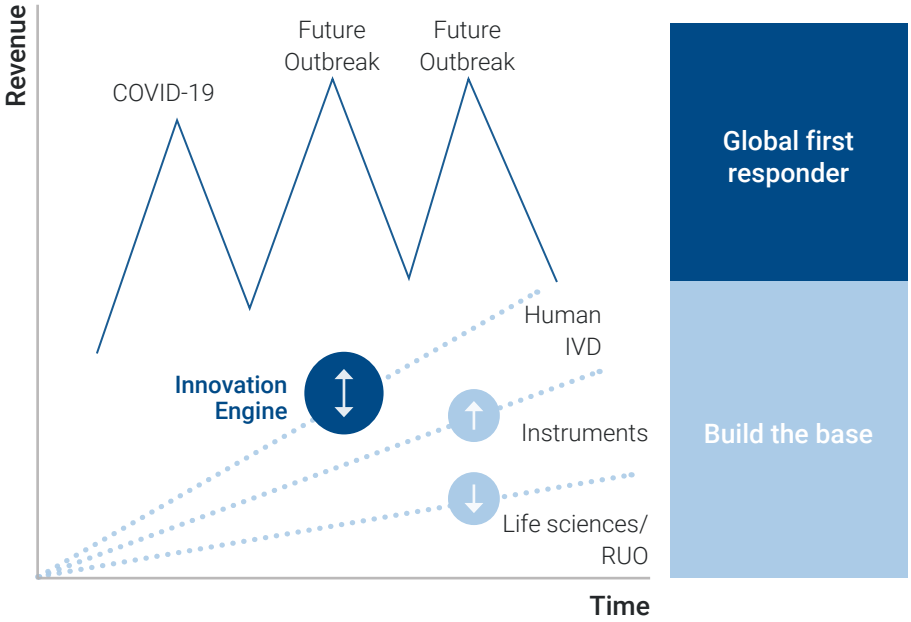
To create an inclusive environment where our people feel connected to our purpose, and are enabled to thrive.

Current position

Skilled and capable workforce, maturing our ways of working to ensure our people are engaged, and have the right tools to do their jobs effectively and deliver on our vision.

Core focus

- Pathogens impacting Human health
- Focused on clinical diagnostics providing actionable health information
- Providing near patient solutions
- Leaders in molecular and immunological technology platforms
- Direct presence in selected markets with optimised WW distributor network



Prior to the COVID-19 pandemic, Novacyt was a £10-£15 million life sciences/RUO business

Strategic pillars	Objectives
Build the base Build a sustainable base business across in vitro diagnostics in human health, life sciences research portfolio serving veterinary, food, water and human health with integrated instrumentation to enable semi-automated, scalable, near patient testing	• Maximise COVID portfolio internationally "NOW" • Develop innovative future "non-COVID menu" for underserved market segments • Prioritise key markets and define go-to market strategies • Develop integrated instrument strategy • Leverage life sciences legacy business • Build e-commerce capability • Innovation engine enabling "global first response"
Global first responder Our base business with breadth and depth of portfolio acts as the innovation engine to enable Novacyt to respond rapidly to disease outbreaks and to also serve neglected diseases. With enhanced surveillance mechanism and our agility, Novacyt continues to be a global first responder	• Global surveillance capability • Latent resource capacity • Install "COBRA-like" internal response team • Address customer complexity • Agile resource deployment • Appoint global scientific expert panel

Market Spotlight

Infectious diseases are a growing global challenge. This is not limited to COVID-19 as we see other infectious pathogens becoming more prevalent in multiple countries due to climate change and increased global travel. As the COVID-19 pandemic becomes endemic in many countries, particularly those with high vaccination levels, virus surges are expected to continue and the emergence of new variants remains a major concern.[1]

Surge of Innovation

COVID-19 fuelled several trends in diagnostic testing – spurring innovation for rapid testing, shifting testing from centralised laboratories closer to the patient and in recent months developments of multiplexed assays to help distinguish other respiratory pathogens from SARS-CoV-2 or its variants of concern.[2] This diagnostic innovation for COVID-19, mainly built on Polymerase Chain Reaction (PCR) technology, can now be utilised for other infections which need rapid diagnosis. This will assist in making informed decisions about patient management, such as correct pharmaceutical invervention[3], or to activate the correct public health protocols.[4]

Point-of-care testing

The COVID-19 pandemic has driven increased acceptance and capability to diagnose patients at the point-of-care. This has reduced reliance on centralised laboratory testing where you may have to wait days for a result and thus make appropriate decisions about patient management. Whilst this trend affects all kinds of laboratory testing, it is moving faster and more decisively in the field of nucleic acid based infectious disease testing. This approach can now be mirrored in diagnosing and treating other infectious diseases.[5] Making testing more accessible is also important for patients in rural areas of low-income countries, where clinics are sparse and travel difficult.[6]

Speed, ease of use & walkaway time

The need for rapid and precise diagnosis of patients presenting with respiratory symptoms became paramount during the COVID-19 pandemic as healthcare professionals needed to make rapid decisions on patient management. These decisions are economically important to healthcare institutions as patients in isolated care have a higher cost than those in traditional ward-based care.

Innovation in instrumentation has delivered smaller machines which are easier to use. This has enabled lower grade staff to process patient samples and improved walkaway time once patient samples have been loaded.

Regulation

The regulatory industry faced a growing demand to approve submissions rapidly during the pandemic, which it was able to do under the IVD Directive (IVDD). However, with changes in the regulatory landscape in terms of the IVD Regulation (IVDR), there will be increased pressure on notified bodies as submissions will contain significantly more data and proof points. This could in turn cause delays to approvals moving forward.

Market Growth and Opportunity

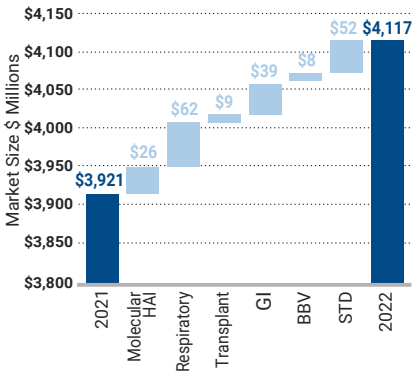
Clinical Infectious Disease Molecular Diagnostic Market

The global clinical infectious disease diagnostics (excluding COVID-19) Total Addressable Market (TAM) was valued at an estimated $3,921 million in 2021 and is projected to grow 5% to $4,117 million by 2022.

Market Drivers:

- Rising prevalence of infectious diseases
- The rise in funding for R&D in infectious disease diagnostics
- Rising technological advancements
- Increased demand for POC (Point of Care) diagnostic tests
- Increases in seasonal respiratory testing

Global Clinical ID TAM by Portfolio



Key Trends and Opportunities

The global prevalence of infectious diseases such as TB (Tuberculosis), HIV (Human Immunodeficiency Virus), hepatitis, and influenza has risen considerably. In the tropics and subtropics, Dengue, a mosquito-borne viral infection, is a leading cause of illness and death, affecting up to 400 million people annually. Labs are consolidating tests where possible and reducing total cost of ownership.

With the continued trend away from traditional microbiology techniques, diagnostic labs want to maximise the share of wallet on their instrumentation. This strategy presents a huge opportunity for Novacyt to expand its installed base of instruments.

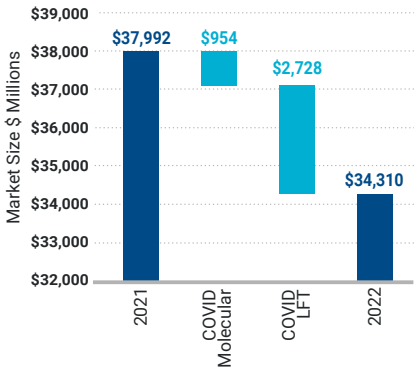
COVID-19 Diagnostic Market

The global COVID-19 (Molecular and LFT) market was worth $37,992 million in 2021 and is expected to be $34,310 million in 2022. The market is expected to decline by 10% overall during 2022 due to the global vaccination initiative, acquired immunity and the removal of testing regimes.

Market Drivers:

- Shift to point of care testing with lower cost immunoassays, such as lateral flow tests (LFTs), which can be used for early, rapid and large-scale detection of SARS-CoV-2 infection
- Global vaccination initiatives and acquired immunity
- Removal of state funded and travel testing regimes

Global COVID TAM by Portfolio



Key Trends and Opportunities

Although the COVID-19 PCR and Lateral Flow market is reducing, it is still significant, and we need to maintain COVID-19 relevance with innovative solutions both in PCR and LFT formats. We offer an excellent portfolio of products with the PathFlow range; PathFlow SARS-CoV-2 IgG, Pathflow COVID-19 Rapid Antigen Pro and the PathFlow COVID-19 Rapid Antigen Self-Test. As the pandemic is still not over and with other COVID-19 variants still on the horizon, we will expand our portfolio if required, in line with our first responder strategy.

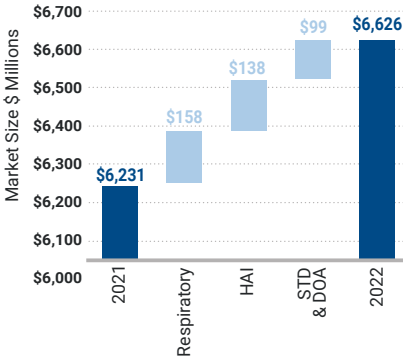
LFT (Lateral Flow Testing) Diagnostic Market

The global Lateral Flow Test market is expected to grow 6% from $6,231 million in 2021 to $6,626 million in 2022.

Market Drivers:

- Increasing public awareness of LFT testing capabilities
- Reach into underdeveloped healthcare settings
- Increasing prevalence of infectious diseases
- Increased demand for testing within individual LFT markets such as respiratory, HAI (Human Acquired Infection), STD (Sexually Transmitted Diseases) and DOA (Drugs of Abuse) testing

Global LFT TAM by Portfolio



Key Trends and Opportunities

LFT can bring testing closer to the "point of need" improving the patient pathway. With increasing prevalence of infectious diseases, rising demand in various end use settings like hospitals, clinics, diagnostics laboratories, care homes, cruise ships and prisons we see an opportunity to expand our Lateral Flow Test portfolio to cater for a wider menu of infectious disease testing.

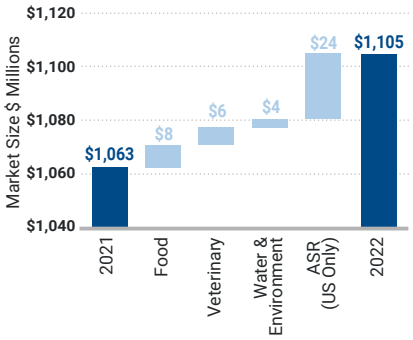
RUO (Research Use Only)/ LS (Life Sciences) Market

The global RUO/LS TAM is valued at an estimated $1,063 million in 2021 and is projected to grow 5% to $1,105 million by 2022.

Market Drivers:

- Increased demand for food, veterinary, environment and water testing
- Growing demand for Analyte Specific Reagents (ASR) in the US

Global RUO TAM by Portfolio



Key Trends and Opportunities

The ASR market is largely driven by routine translational research which has returned to pre-pandemic levels. Increases in use of biotechnology-based diagnostic tests for detection of diseases is expected to present lucrative opportunities in the ASR market, particularly in the field of in-vitro diagnostics where FDA regulated tests are not available. With the increased demand for food, veterinary, environmental and water testing, along with potential geographical expansion with the ASRs, there is an attractive opportunity within the RUO/LS segment.

1 Live Q&A on COVID-19 variants of concern – 16 February 2022. World Health Organization
2 Global Multiplex Assay Market Opportunities & Forecasts2021-2030. Allied Market Research.
3 BioTechniques Volume 69, Issue 6, December 2020, Pages 404-405 https://doi.org/10.2144/btn-2020-0156
4 Global Multiplex Assay Market Report 2021-2030. Allied Market Research
5 Point-of-care Diagnostics Market Size, Share and COVID-19 Impact Analysis, 2021-2028. Fortune Business Insights.
6 Diagnostics for COVID-19: A case for field-deployable, rapid molecular tests for community surveillance. Frimpong M et al. Ghana Med J 2020; 54(4) supplement: 71-76 doi: http://dx.doi.org/10.4314/gmj.v54i4s.11
7 The International Coalition of Medicines Regulatory Authorities (ICMRA) has pledged its collective support in countering the global COVID-19 pandemic. ICMRA April 28 2020.
8 Global lateral flow assays market, 2021 by BrandEssence (Jan 2022)
9 Global health sector strategy on sexually transmitted infections 2016-2021, World Health Organization. (June 2016)
10 ASR's and RUO's market, U.S. Industry Analysis, size, share, trends and forecast, 2017-2031, by Transparency Market Research. (December 2021)

Shaping the future with the right portfolio

With a heritage of diagnostic testing in the food and veterinary industries for the Life Sciences and Clinical Diagnostics areas, Novacyt will continue to develop into a global leader in infectious diseases. The COVID-19 pandemic has carved out a new segment for simple, scalable molecular diagnostics in decentralised settings with a targeted multi-panel approach.

Pre-pandemic, molecular testing was mainly confined to medium to large-size laboratories, where testing was centralised in high volumes on established high-output instruments. There is a shift to acute, near-patient settings where syndromic testing was being adopted with the pandemic.

Scalable near patient testing

Our PROmate® technology on our genesig® real-time PCR Instruments has proven to compete and beat competitors in these near-to-patient and decentralised settings. PROmate® is Novacyt's proprietary innovation that enables real-time PCR accessible to everyone, everywhere.

At the height of the COVID-19 pandemic, PROmate® was innovated to provide total viral inactivation, with a ready-prepared master mix containing internal control for run validity. This means there is no need for a category 2 laboratory to handle the live virus, so the risk in handling is nullified, and tests can be nearer to patients. With the success of accurate detection of SARS-CoV-2, PROmate® is being explored with other pathogens to continue the application of Novacyt's innovation and expertise to support other healthcare threats.

Seasonal Respiratory Diagnostics

The COVID-19 pandemic has taught us that identifying the right seasonal respiratory testing solutions and ensuring healthcare providers have the right tools to support optimal treatment is more critical than ever.

Prioritisation of seasonal respiratory diagnostics, especially where winter diseases are prevalent, remains essential to governmental policies and health economies worldwide. The global addressable market of seasonal respiratory diagnostics is estimated to be $1,372 million for 2022 growing at a CAGR of 4% to 2026.

Viral and Bacterial Gastrointestinal Diagnostics

Diagnostics offer valuable insights when a patient is suspected of suffering from a gastrointestinal (GI) disease or disorder; or if a patient reports unexplained symptoms in their gut. Diagnostic tests and procedures can range from invasive to non-invasive and can help healthcare professionals learn more about the causes, symptoms, and severity of different health conditions. Providing simple and easy-to-use test solutions saves time to diagnose and provide vital information on patients' health, eventually saving lives. Global GI diagnostics (including viral and bacterial) total addressable market is estimated to be $632 million for 2022 growing at a CAGR of 5% to 2026.

Insect-Borne Diagnostics, connecting to clinical and first responder strategy

Insect-borne or vector-borne diseases are emerging or re-emerging in many geographical areas, especially in tropical and subtropical regions, and they disproportionately affect the poorest populations. The emergence of these diseases is starting to raise alarms on new health threats and economic losses. Besides vector control, the WHO has urged other medical organisations to provide technical support to manage cases and outbreaks. With our established relationships with aid agencies, it remains an opportunity for us to provide diagnostics tools that can rapidly give results. The total addressable market of insect-borne diagnostics globally is estimated to be $156 million for 2022 growing at a CAGR of 5% to 2026.

Viral and Bacterial Meningitis Diagnostics

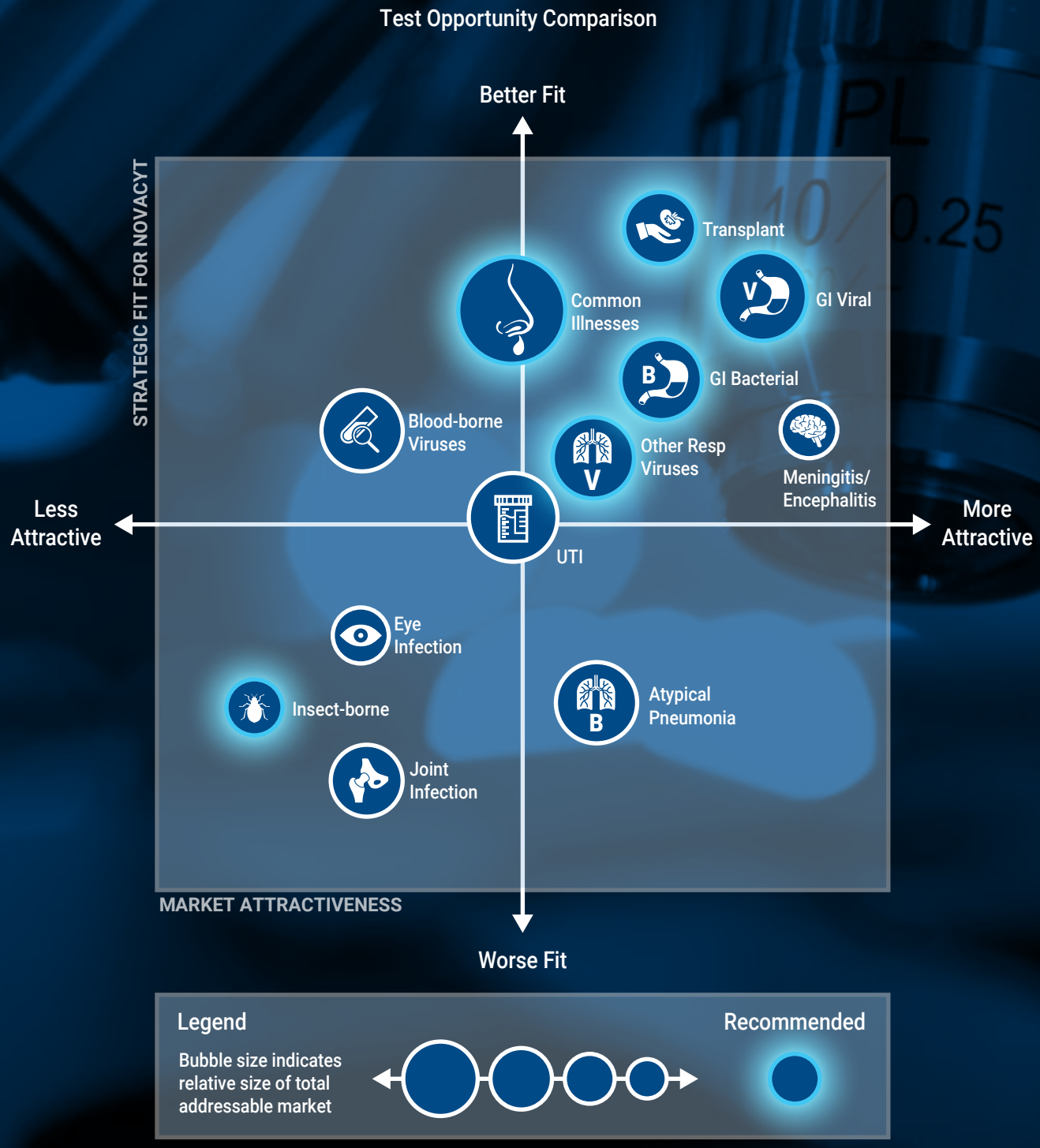
Meningitis can be caused by a bacterial or viral infection of the fluid surrounding the brain and spinal cord and usually causes swelling; it is crucial to know the specific cause of meningitis because the treatment differs depending on the cause. Viral meningitis is the most common type of meningitis, while bacterial meningitis is very dangerous to patients. Those who do not recover can have permanent disabilities, such as brain damage. Therefore, diagnostics tests are essential to determine the pathogen that is causing meningitis. Global meningitis diagnostics' total addressable market is estimated to be $74 million for 2022 growing at a CAGR of 7% to 2026.

Transplant

There are two distinct markets for transplantation: pre-transplant screening and post-transplant monitoring. The total market value of both segments was estimated in 2017 at $3,600 million and is expected to grow at a CAGR of 7.6% to almost $5,000 million in 2024. The market is made up of PCR and other molecular assays, sequencing, and a variety of non-molecular assays including HLA tissue typing and cross matching. Molecular technologies account for the most significant share of the market.

The post-transplant screening market is based upon determination of the donor recipients viral load for several infectious disease agents and other critical markers. Viral load monitoring of common viral infections is critical as increased viral loads is associated with organ/graft rejection and morbidity. There are three main targets which cover 60% of viral load monitoring these are CMV, EBV, BKV with the remaining 40% being HSV1/2, HHV6, HHV8, Adenovirus, Parvovirus and JCV.

With the help of Health Advances Research, 6 key areas are identified for future development and growth



Meningitis / Encephalitis opportunities are still under review

Q&A with CEO

1. What attracted you to join Novacyt?

I joined Novacyt because there are exciting times ahead. The company has developed strong foundations with a talented team, research and development, manufacturing and supply at scale, global commercial reach and significant capital. These capabilities are hard to come by and it's an inspiring business challenge to put this machinery to work, in the right direction to take the company to the next level and significantly contribute to global health.

2. What strengths do you feel you bring to the company and how will these enhance future success?

I have worked all over the world in leadership roles in healthcare, largely pharmaceuticals. This global experience of building early to mid-stage companies is precisely what Novacyt needs. I come with a strength of leadership to attract and develop talent and build a strong company culture. I have a particular interest and skill set in defining strategy, choosing where to play and how to win in the future, and seeing this through to execution. As the diagnostic industry becomes more regulated I can use my strong pharmaceutical background to ensure we can be successful.

3. What motivates you to succeed?

I am motivated by three primary things. Firstly, I am motivated by success, which comes in many forms and I feel there is huge opportunity to be successful in Novacyt from the jump off point I have inherited. Secondly, I am motivated by making a difference and leaving a legacy. The company has clearly demonstrated this during the pandemic but will continue to add value to global health in the future across a whole range of infectious diseases where there is high unmet need and thirdly by a sense of belonging, working with talented, like-minded people in a progressive, diverse company culture.

4. Can you summarise the vision and growth strategy for Novacyt over the coming years?

Novacyt's vision is to become a leading clinical diagnostics company in the fight against infectious diseases. We are passionate about protecting lives from invisible threats by enabling informed clinical decision making in the right place at the right time. We plan to build a strong, sustainable base business across human in vitro diagnostics, life sciences research and integrated instrumentation. We will continue to be a global first responder for disease outbreaks and neglected diseases where our base business serves as the innovation engine enabling us to act with speed and agility. We will continue to identify areas of high unmet need in infectious diseases and bring the right solutions to our customers.

5. Why are you focused on infectious diseases?

Infectious diseases are the core strength of the company and when defining strategy it is important to leverage one's strengths. Infectious diseases pose a significant burden to populations around the world. Recent examples include the COVID-19 and influenza outbreaks, where viruses cross the animal-human divide to infect people and easily spread from person to person. These are considered novel to humans and have the potential to become global pandemics. Pathogens are also subject to genetic mutations leading to the emergence of new variants, as we have experienced with the COVID-19 pandemic. In addition, the emergence of antimicrobial resistance, where bacteria, viruses, fungi and parasites change over time and no longer respond to medicines, leaves us at significant risk from being unable to treat diseases, leading to significant morbidity and mortality. Climate change also continues to accelerate the spread of vector borne diseases such as Zika, Yellow Fever and Dengue as mosquitoes expand their habitats. On a macro level, these issues drive Novacyt to work towards finding solutions and to materially contribute to global health.

6. What have been Novacyt's key learnings from its track record in COVID-19 responsiveness, and how can these be leveraged in the future?

The company has learned how to design IVD products for human health, conduct clinical research, gain regulatory approvals and manufacture at scale while ensuring quality. This puts us in good stead for our future strategy. The company has also shown great flexibility moving from government contracts to a diversified customer base both in the UK and aboard. Our ability to capitalise on new opportunities will be of great value as we diversify the company beyond COVID-19. We have a talented committed team who have hands on experience, shown great tenacity and worked tirelessly to respond to the pandemic and we are well placed to put our energy into new areas of high unmet need.

7. Novacyt has traditionally developed through UK business. What more can you do to drive business growth internationally?

Novacyt has already established global commercial reach. Beyond the UK we have a growing team overseeing Europe, Middle East, Africa, employees deployed in the US and Latin America managing our distributor networks and we manage Asia Pacific and NGOs through our global key accounts team. In 2021 over half of the revenues were from international markets and while we continue to develop our business in the UK, we expect this trend to continue as we serve customers across the world.

8. What do you see as the main challenges facing the company in the year ahead and beyond?

As we transition away from COVID-19 we will see an initial decline in revenue from the peak experienced in the pandemic therefore we need to judiciously manage our operating costs whilst maintaining our core capabilities to develop and launch the post-COVID-19 portfolio. This is always a fine balance, but I believe we are well placed to do this and we will have a stronger business as we implement our future strategy. The implementation of IVDR poses a higher regulatory hurdle for the future and will likely lead to consolidation in the diagnostics sector but I feel Novacyt has the capability to be successful and ultimately this will be a competitive advantage for the company. Lastly, we will be entering new markets and serving different unmet medical needs and new customers. We will need to remain focused, disciplined and agile ensure future success.

9. How does Novacyt intend to retain the skills and experience in its current workforce, and what does the company do to ensure talent development?

People are our greatest asset. With the executive leadership team, we plan to engage with the whole company face to face to seek feedback on future strategy, build strong relationships and provide answers to questions people raise. We will build a strong culture based on a clear set of values we identify together and the behaviours we want to encourage in the company. We will develop a performance culture through coaching and leadership development so that our team can individually and collectively become the best they can be.

Chief Executive Officer's Review

David Allmond
Chief Executive Officer

2021 highlights

- Established an international scientific advisory board, and in-country and therapeutic area advisory boards to assist with market surveillance and directing future innovation
- Significant investment in new product development programmes
- Continued geographic expansion and built marketing, direct sales, and distribution channels with hand-selected partners, leveraging adjacent markets across Europe

In 2021, Novacyt achieved revenues of £95.8 million in line with market expectations, excluding £40.8 million of DHSC revenues under contractual dispute, with a gross margin of 68% and an EBITDA margin of 39% in the underlying business, excluding the DHSC dispute. Revenue derived from COVID products accounted for 86% compared to 95% in 2020, with the UK representing 45% of total revenue compared to 79% in 2020. The Company remains debt free with a cash position of £101.7 million on 31 December 2021.

The Company's vision is to become a leading global clinical diagnostics company in the fight against infectious diseases by enabling informed clinical decision-making through quality diagnostics delivered in the right place at the right time.

Having undergone a period of internal review, Novacyt's management remains focused on the previously announced strategic development pillars of portfolio development, geographic expansion, and business development. This will support the development of a substantive, sustainable base business and will serve to provide financial stability for the Company moving forward. It will also act as an innovation engine so Novacyt can continue to be a global first responder, tackling disease outbreaks and neglected tropical diseases, working with a global leading health organisation, other NGOs and philanthropic organisations.

During 2021, the Company demonstrated its flexibility and agility to rapidly respond to customer needs for COVID-19 testing, moving from a largely government contract base, to supplying a highly diversified set of customers in the private sector focusing on film and media, events, employee, and travel testing. Taking testing to the front line with highly sensitive, medium throughput, scalable, molecular testing solutions with exceptional customer service and technical support puts Novacyt in a strong position as it looks to continue diversifying beyond COVID-19.

Novacyt is adapting and maturing its offering to become market and customer-led, as outlined in our strategy update in January 2022, focusing on solutions to serve high unmet needs in infectious diseases. The integrated near-patient workflow the Company has developed, with its proprietary q16 and q32 PCR instruments and user-friendly direct-to-PCR assays, has been further enhanced with semi-automation through the recent launch of CO-Prep™. This product automates liquid handling, reducing hands-on time and risk of contamination, whilst providing robust sample stewardship to reduce the chance of human error. This workflow platform can, in the future, be used where currently decentralised sample-to-result solutions are not easily scalable, slow and very costly.

In 2021, the Company continued to diversify its revenue streams beyond the UK, with over half its revenues from international markets. This trend is expected to continue as the Company strengthens its focus in Europe, where CE Mark accreditation applies across the European Economic Area largely without additional regulatory hurdles, and in the Americas and Asia Pacific where Novacyt's distributor network is being refined and enhanced.

With the impending implementation of the European IVDR in late May 2022, the Company is well-placed to manage this increased clinical and regulatory complexity where other smaller organisations may struggle. It is anticipated this change will ultimately be a competitive advantage for a mid-size, established clinical diagnostics company which can take advantage of opportunities with lower competition.

In addition to the clinical diagnostics and instrument portfolio, Novacyt has an extensive life sciences portfolio of research-use-only ("RUO") products developed before the pandemic. In 2021 and early 2022, the portfolio has been refreshed and refined to ensure the primers and probes are up to date to reliably target given pathogens. The portfolio will be relaunched in the second half of 2022 to deliver near-term growth to underpin the base business. This portfolio will also act as an innovation engine for future IVD products for use in human health.

To support the Company's growth, the Executive team has been reorganised and strengthened and we continue to enhance capability across key areas of the business, including R&D, regulatory and manufacturing/supply.

Most notably, in 2021, the Company invested significantly to strengthen the commercial organisation, recruiting commercial leaders with significant diagnostic industry experience to execute on the international growth strategy.

Whilst we note COVID-19 remains with us, and we continue to offer one of the market's best diagnostic portfolios for SARS-CoV-2 enabling our customers to continue tackling the virus on the front line, we are excited by the future of Novacyt as we evolve the business beyond the pandemic.

Looking ahead, Novacyt's management believes it can achieve annual revenue in excess of £100 million in five years, whilst also delivering profit margins comparable to its peer group. This projection is based on the successful implementation of the strategy to deliver material growth in non-COVID-19 revenues.

The Lab21 Products business continued to be impacted in 2021 by its core customers diverting testing from veterinary and food testing to COVID-19 testing and as communicated in January 2022, the Company commenced a strategic review of the business. As outlined in the review, the costs associated with updating the existing portfolios in these businesses to comply with IVDR and ISO regulations are prohibitive versus the sales opportunity it presents.

Ongoing dispute with the DHSC

As previously disclosed, the business remains in dispute with the DHSC in relation to a supply contract entered into in Q4 2020, which has now become a legal claim. The 2021 accounts show the underlying performance of the business by excluding any financial impact of the disputed revenue. The Company is disappointed a satisfactory resolution has not yet been found and continues to believe it has strong grounds to assert its contractual rights in the claim. The Board is determined to carry on with the core business and to use the Company's balance sheet to invest in both continued organic growth and M&A opportunities to support its strategic aims.

> I am excited for what we can achieve in 2022 and beyond. I truly believe we can deliver great success in the future and leave a legacy by applying our science and innovation, ensuring integrity in everything we do to create long-term Shareholder value."

David Allmond
Chief Executive Officer

Section 172(1) Statement

The Directors acknowledge their duty under s172 of the Companies Act 2006 and consider that they have, both individually and together, acted in the way that, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. In doing so, they have had particular regard to:

- **the likely consequences of any decision in the long term**
  The Group's long-term strategic objectives, including progress made during the year, and principal risks to these objectives, are set out in the Chief Executive Officer's Report on pages 24 to 25, and in the Principal Risks and Risk Management section on pages 64 to 70 respectively.
- **the interests of the Company's employees**
  Our employees are fundamental to the Group achieving its long-term strategic objectives, and further disclosure on how we look after the interests of our employees is contained in Principle 3 of the Corporate Governance Statement on pages 48 to 49.
- **the need to foster the Company's business relationships with suppliers, customer and others**
  A consideration of our relationship with wider stakeholders and their impact on our long-term strategic objectives is disclosed in Principles 2 and 3 of the Corporate Governance Statement on pages 48 and 49.
- **the impact of the Company's operations on the community and the environment**
  The Group operates honestly and transparently. We consider the impact of our day-to-day operations on the community and the environment, and how this can be minimised, as more fully explained in Principle 3 of the Corporate Governance Statement on pages 48 and 49. Further disclosure on how we promote a corporate culture based on ethical values and behaviours is included in Principle 8 of the Corporate Governance Statement on page 55.
- **the desirability of the Company maintaining a reputation for high standards of business conduct**
  Our intention is to behave in a responsible manner, operating within a high standard of business conduct and good corporate governance. This is explained more fully in our Corporate Governance Statement on pages 48 to 56, and is also encapsulated in our risk management framework on pages 64 to 70.
- **the need to act fairly as between members of the Company**
  Our intention is to behave responsibly towards our Shareholders and to treat them fairly and equally so that they may also benefit from the successful delivery of our strategic objectives.

Financial Review

James McCarthy
Chief Financial Officer

2021 highlights

- The business finished 2021 debt free with a cash balance in excess of £100 million.
- Successful integration of IT-IS business
- Underlying EBITDA margin 39%

Financial performance

Novacyt Group's underlying business performed well in a challenging and diverse COVID-19 market in 2021, generating revenue of £95.8 million, of which COVID-19 products accounted for 86% of revenue, compared with 95% of revenue in 2020. Revenue to private laboratories increased by 98% year-on-year to £55.9 million, compared with £28.3 million in 2020 including £10.5 million from NGOs.

Primerdesign delivered revenue of £89.9 million (2020: £272.8 million) and remains the main generator of revenue for the Group, of which £84.0 million (93%) related to COVID-19 revenue and £5.0 million non-COVID-19 revenue (7%). Following the launch of one of the world's first approved polymerase chain reaction (PCR) tests in Q1 2020, the business launched 15 new assays since the beginning of 2021 to support laboratories, clinicians, and private testing of COVID-19. In addition, the business launched VersaLab™ mobile processing laboratories and VersaLab™ Portable to expand near-patient testing opportunities in private sector testing.

Core distributor and reseller business across UK and international markets delivered £32.2 million revenue, with sales to over 80 countries. Despite price erosion and market competition, the distributor business retains a strong global footprint and has increased its contribution from 18% of total revenue in 2020 to 36% in 2021.

The private sector testing market delivered £55.9 million revenue in 2021, equating to 62% of total revenue, compared with £32.1 million revenue and 12% of total revenue in 2020. 2021 includes £10.5 million revenue from NGOs, such as UNICEF, and saw a large shift in market demand, principally in the travel and media sectors.

The Asia-Pacific region saw growth of 37%, taking revenue to £7.3 million for 2021 driven by strong distributor sales. The European region maintained strong revenue of £31.0 million in 2021, in line with the prior year. Strong revenue of q16/q32 instruments continued in 2021, helping to grow the installed base with over 300 instruments placed during the year.

UK revenues fell significantly in 2021 as a result of significantly lower revenue with DHSC/UK Health and Security Agency compared with 2020.

IT-IS International delivered revenue of £9.3 million in 2021 compared with £6.9 million of post-acquisition revenue in 2020. The £9.3 million included £6.5 million intercompany sales that are eliminated in the Group's consolidated accounts. The business placed over 500 instruments in its MyGo product range in over 35 countries.

Financial Review continued

Lab21 Products sales fell by £0.6 million in 2021 to £4.6 million, compared with sales of £5.2 million in 2020. The £4.6 million included £1.4 million intercompany sales that are eliminated in the Group's consolidated accounts. This intercompany revenue relates to services that Microgen Bioproducts® provided to Primerdesign in support of manufacturing COVID-19 kits, rather than outsourcing to a third party and thus diluting the gross profit. The Lab21 Products business continued to be impacted in 2021 by its core customers diverting testing from veterinary and food testing to COVID-19 testing.

The Group delivered an underlying gross profit of 68% or £65.4 million which is below the 2020 gross profit of 76%. This is due to two main factors: i) a higher stock provision based on obsolescence of COVID-19 products as variants drove product proliferation; and ii) margin dilution as result of increased instrument placements as the Group builds its installed base.

Due to the ongoing commercial dispute with the DHSC, £35.8 million of exceptional costs of sales have been incurred in 2021 that are one-off and non-recurring. The two largest items making up the £35.8 million are a £26.1 million stock provision, as a result of the Group buying stock to fulfil expected future DHSC orders that did not materialise, and the expensing of £6.9 million of stock delivered to the DHSC which has not been paid for as it is now part of the ongoing contract dispute. This reduces the overall Group gross profit to 31% or £29.7 million.

Group operating costs fell by £7.0 million year-on-year to £28.4 million in 2021, compared with £35.4 million in 2020. This is mainly due to the £19.0 million Long-Term Incentive Plan ("LTIP") expense in 2020 that was not repeated in 2021 offset by higher investment in R&D and sales and distribution resources. Headcount increased from 237 at the end of December 2020 to 283 at the end of December 2021.

The Group delivered an EBITDA before cost of sales exceptional items of £37.1 million (39%) in 2021 compared with £176.1 million in 2020, driven mainly by significantly reduced sales. After cost of sales exceptional items, the Group EBITDA was £1.3 million (1%).

The Group generated a recurring operating profit before cost of sales exceptional items of £35.1 million compared with £174.8 million in 2020, due to lower year-on-year revenue. Amortisation and depreciation increased to £2.0 million from £1.3 million in 2020. Depreciation charges increased to £1.3 million (2020: £0.6 million) as a result of increased capital expenditure, as we have in-sourced more manufacturing work and reduced our reliance on sub-contractors, whilst amortisation charges remained flat year-on-year at £0.7 million. The 2021 depreciation charge included £0.4 million IFRS 16 leasing costs, predominantly covering the rental charges for Novacyt premises. After cost of sales exceptional items, the Group moved to a recurring operating loss of £0.7 million.

> Novacyt's underlying business performed well in a challenging and diverse COVID-19 market in 2021."

James McCarthy
Chief Financial Officer

The Group delivered an operating profit before cost of sales exceptional items of £28.0 million including non-recurring charges of £7.1 million compared with £167.4 million in 2020. The 2021 non-recurring charges comprise a £5.8 million impairment charge in relation to the goodwill associated with the Lab21 Products and IT-IS International businesses, £0.8 million legal and professional costs in relation to the ongoing Department of Health and Social Care contract dispute and £0.5 million restructuring costs, predominantly covering redundancy payments. After cost of sales exceptional items, the Group moved to an operating loss of £7.8 million.

The Group generated a profit after tax before cost of sales exceptional items of £19.2 million compared with £132.4 million in 2020. After cost of sales exceptional items the Group moved to a loss after tax of £9.7 million, stated after charging other financial expenses of £2.0 million (2020: £0.9 million) and a tax credit of £0.1 million (2020: charge of £32.7 million). Other financial expenses in 2021 are primarily comprised of foreign exchanges losses which are mainly driven by revaluations of the 2017 to 2020 LTIP scheme and bank and intercompany accounts held in foreign currencies. The tax charge, that mainly represents corporation tax due in the UK, has significantly decreased, moving to a credit position as the Group has swung from a profit before tax position in 2020 to a loss before tax position in 2021. Gross borrowing costs fell to £nil in 2021 from £1.4 million as a result of settling all outstanding debt during 2020.

2021 reported a £0.14 loss per share versus a £1.94 profit per share in 2020.

Balance Sheet

Goodwill has fallen from £17.9 million in 2020 to £11.5 million in 2021. Following the 2021 impairment review, goodwill associated with the acquisition of IT-IS International Ltd has been impaired by £4.0 million. The key drivers for this are reduced COVID-19 demand and not receiving further DHSC orders, which reduces the future expected cash flow. In addition, the remaining goodwill associated with the Lab21 Products acquisition has been fully impaired resulting in a £1.8 million charge to the income statement. The remaining £0.6 million goodwill decrease is due to exchange revaluations on balances held in Euros.

A deferred tax asset of £3.1 million has been recorded in 2021 compared with £3.0 million in 2020. £2.1 million of the balance relates to the portion of the Long-Term Incentive Plan charge that was recognised in the accounts in 2020, but that will not be deducted for taxation until the remaining payments are made in 2022. £0.3 million 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 year end. The remaining £0.7 million relates to UK losses that can be carried forward to offset future tax liabilities.

Other non-current assets (excluding right-of-use assets) have increased to £8.5 million from £6.1 million in 2020. Other intangible assets have fallen by £0.6 million, but include £0.3 million additions predominantly relating to patent filling costs due to the launch of new products, offset by amortisation and foreign exchange revaluations totalling £0.9 million. Property, plant and equipment has increased by £3.0 million, and includes £3.8 million of capital expenditure offset by depreciation totalling £0.8 million.

Total inventories and work in progress has fallen significantly to £11.5 million at December 2021, predominantly due to the booking of a large stock provision. Inventory levels were built up as a result of 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 future material contracts were not secured with the DHSC in 2021, a large stock provision was booked. The Group continues to explore opportunities to drive value from this inventory.

Trade and other receivables have fallen to £38.5 million from £79.6 million in 2020, mainly due to receiving £47.9 million from the DHSC in 2021 to clear a 2020 invoice. The closing 2021 trade receivable balance includes a £24.0 million DHSC invoice raised in December 2020, in respect of products delivered during 2020, that remains unpaid at the date of signing the accounts. Recovery of the invoice is dependent on the outcome of the contract dispute. Also included in trade and other receivables is a £8.2 million VAT receivable balance (2020: £0.3 million), that mainly relates to UK VAT paid on sales invoices in dispute with the DHSC. As the associated 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. An expected credit loss provision of only £0.1 million (2020: £0.2 million) was booked at year-end demonstrating a robust credit control process.

A tax receivables balance of £5.0 million existed at the end of 2021 versus a £nil balance in 2020. The main item making up the tax receivable balance is a £4.2 million overpayment of 2020 UK corporation tax. The Group received a refund of the overpayment from HMRC in March 2022. The remaining balance predominantly relates to 2021 losses that can be offset against 2020 taxable profits.

Other current assets have fallen to £2.0 million from £3.7 million in 2020, driven by a £1.7 million reduction in prepayments. The key balances at 31 December 2021 include prepayments for the annual Group commercial insurance, rent, rates and prepaid support costs. The balance at 31 December 2020 included a large amount of prepaid stock that was delivered in 2021, which was not repeated in 2021.

Financial Review continued

All outstanding debt was fully repaid during 2020 using cash generated in the year and as at 31 December 2021 the Group remained debt free.

Contingent consideration fell from £1.8 million to £0.8 million in 2021 as a result of settling the first of two earnout milestones associated with the IT-IS International acquisition. The final tranche is expected to be paid in late 2022 upon the achievement of certain deliverables.

Short-term provisions remained flat year-on-year at £20.0 million (2020: £19.9 million). A product warranty provision for £19.8 million booked in 2020 to cover Management's view of the maximum cost of replacing products in relation to the ongoing commercial dispute with the DHSC remained unchanged in 2021.

Trade and other liabilities fell to £17.2 million from £36.8 million in 2020. Trade payables and accrued invoices have fallen by £8.3 million in line with reduced fourth quarter sales. The UK VAT liability has fallen by £16.7 million to £0.1 million in 2021 due to sales in November and December 2020 being substantially higher than sales in the corresponding months of 2021. These reductions have been offset by the increase in other liabilities, moving from £5.6 million to £11.2 million, as the balance now includes the two remaining tranches of the LTIP, which are forecast to be paid during 2022.

No corporation tax was due at the end of 2021 as the Group was in a loss-making position, compared with a £15.1 million liability in 2020.

Other long-term liabilities is £nil in 2021, the £5.6 million 2020 balance related to the third tranche of the LTIP payment that is due to be paid in November 2022 and has therefore been reclassified to short-term liabilities.

Cash held at the end of 2021 increased to £101.7 million from £91.8 million in 2020, driven by the strong underlying trading performance of the business when excluding cost of sales exceptional items. Net cash generated from operating activities was £15.7 million compared with £103.0 million in 2020 driven by the EBITDA profitability of the business after cost of sales exceptional items of £1.3 million combined with a working capital inflow of £14.4 million.

Net cash used in investing activities fell to £5.0 million from £8.0 million in 2020. Capital expenditure increased by £3.0 million to £4.1 million in 2021, as more manufacturing work has been brought in-house to reduce our reliance on sub-contractor manufacturing. This was offset by a £6.0 million reduction in acquisition-related cash outflows in 2021. During 2021, £1.0 million was paid to settle the first IT-IS International contingent milestone, whereas the net cash outflow for the IT-IS International acquisition in 2020 totalled £6.9 million; the remaining £0.1 million variance was as a result of receiving an earnout milestone payment in 2021 associated with the sale of Lab21 Ltd.

Net cash used in financing activities in 2021 totalled £0.6 million verses £5.0 million in 2020. The main financing cash outflow in 2021 related to lease payments and the associated interest payments. The year-on-year decrease is due to Novacyt clearing all outstanding debt in 2020. In addition, all warrants had been converted in 2020.

Post Balance Sheet Events

In March 2022, Novacyt received confirmation that the UK Intellectual Property Office had granted the key patent (ORF1a/b), with patent number GB2593010. This means that subject to a number of adjustments, the effective rate of tax on profits derived from the sale of products covered by this patent is close to 10% rather than the current UK corporation tax rate of 19% (due to increase to 25% in 2023) and will be claimed from the time the patent application was made in October 2020. This will be treated as a corporation tax credit against future profits rather than a refund for prior periods.

In April 2022, the Company concluded a review of its Lab21 Healthcare and Microgen Bioproducts® businesses. The review confirmed that the costs associated with updating the existing portfolios in these businesses to comply with IVDR and ISO regulations are prohibitive versus the sales opportunity it presents. Therefore, Novacyt is proposing to discontinue both businesses, which will be treated as discontinued under IFRS 5 for 2022 accounting. The estimated sales impact of this decision is circa £2.9 million in 2022, with a gross margin reduction of £1.45 million, which is expected to be fully offset by cost savings. A cash restructuring charge of circa £0.5 million is expected; however, this should be fully financed from in-year savings and the release of working capital to make the closure of the businesses cash neutral in 2022.

The Company remains in dispute with the DHSC in relation to a supply contract entered into in Q4 2020, which became a legal claim in April 2022. The Company is disappointed a satisfactory resolution has not yet been found and continues to believe it has strong grounds to assert its contractual rights in the claim. The Board is determined to carry on with the core business and to use the Company's balance sheet to invest in both continued organic growth and M&A opportunities to support its strategic aims.

James McCarthy
Chief Financial Officer

Sustainability

As Novacyt has grown, we have also increased our focus on Environment, Social and Governance ("ESG") matters. We are pleased to share ESG data in this Annual Report and will continue to develop our approach over time. Environment and Social information is covered in this section, while our overall approach to Governance is addressed on page 46.

Environment: Measuring our impact

Streamlined Energy & Carbon Reporting

This report is Novacyt's second year of reporting under the new Streamlined Energy & Carbon Reporting requirements.

The reporting period is the same as the Company's financial year, 1 January 2021 to 31 December 2021.

Organisation boundary and scope of emissions

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2018. These sources fall within Novacyt's consolidated financial statement.

An operational control approach has been used in order to define the organisational boundary. This is the basis for determining the Scope 1, 2 and 3 emissions for which Novacyt is responsible, and includes emissions from Novacyt's three operational facilities:

- Microgen Bioproducts Ltd and Lab 21 Healthcare Ltd ("Microgen"), based in Camberley, UK;
- Primerdesign, based in Southampton, UK; and
- IT-IS International, based in Stokesley, Middlesbrough.*

* The IT-IS International business was acquired in October 2020 and excluded from the 2020 reported numbers. For 2021, we have included IT-IS for the full year and restated 2020 numbers as if IT-IS had been part of the Group for the whole year to create a comparable baseline.

Methodology

The following methodology was applied in the preparation and presentation of this data:

- the Greenhouse Gas Protocol published by the World Business Council for Sustainable Development and the World Resources Institute (the "WBCSD/WRI GHG Protocol");
- application of appropriate emission factors to Novacyt's activities to calculate GHG emissions;
- Scope 2 reporting methods – application of location-based emission factors for electricity supplies;
- inclusion of all the applicable Kyoto gases, expressed in carbon dioxide equivalents, or CO_2e; and
- presentation of gross emissions as Novacyt does not purchase carbon credits (or equivalents).

Sustainability continued

Total energy use

The total energy use for Novacyt for the year ending 31 December 2021 was 995.302 kWh.

This represents a 52% increase in total energy use compared to the year ending 31 December 2020 (654,753 kWh). The increase in total energy use in 2021 relative to 2020 can largely be attributed to the continued scale-up of operations and production in response to the COVID-19 pandemic. This included in-sourcing of manufacturing that was previously done by third parties and therefore outside the scope of 2020 numbers.

Figure 1.1 Total energy use

	2020				2021			
	Microgen & Lab21	Primerdesign	IT-IS	Total	**Microgen & Lab21**	**Primerdesign**	**IT-IS**	**Total**
Gas[1]	18,653	42,144	36,468	**97,265**	19,266	98,689	107,077	**225,031**
Electricity[2]	296,498	224,863	36,126	**557,487**	275,703	392,045	102,523	**770,271**
Transport[3]	–	–	–	**–**	–	–	–	**–**
Total	**315,151**	**267,007**	**72,595**	**654,753**	**294,968**	**490,734**	**209,600**	**995,302**

Absolute emissions

The total Scope 1, 2 and 3 GHG emissions from Novacyt's operations in the year ending 31 December 2021 were 204.8 tonnes of CO_2 equivalent (tCO_2e), using a "location-based" emission factor methodology for Scope 2 emissions.

This represents a 38% increase in total emissions compared to the year ending 31 December 2020 (147.9 tCO_2e). As with total energy use, the increase in total emissions in 2021 relative to 2020 can largely be attributed to the continued scale-up of operations and production in response to the COVID-19 pandemic.

Figure 1.2 Absolute emissions (tCO_2e)

	2020				2021			
	Microgen & Lab21	Primerdesign	IT-IS	Total	**Microgen & Lab21**	**Primerdesign**	**IT-IS**	**Total**
Scope 1[4]	3.4	7.7	6.7	**17.9**	3.5	18.1	19.6	**41.2**
Scope 2[5]	69.1	52.4	8.4	**130.0**	58.5	83.2	21.8	**163.6**
Scope 3	–	–	–	**–**	–	–	–	**–**
Total	**72.6**	**60.2**	**15.1**	**147.9**	**62.1**	**101.3**	**41.4**	**204.8**

Intensity ratios

As well as reporting the absolute emissions, Novacyt's GHG emissions are reported below on the metrics of kg of CO2 equivalent per full-time employee ("FTE") and kg of CO_2 equivalent per square foot of occupied areas. These are the most appropriate metrics given that the majority of emissions result from the operation of Novacyt's offices and the day-to-day activities of the employees. All of the intensity ratios have been calculated using Scope 1 and Scope 2 emissions only.

The intensity metrics based on floor area in the year ending 31 December 2021 was 37.1 kg CO_2e per m^2 which is a reduction of 12% versus last year. The employee number metric in the year ending 31 December 2020 was 741.9 kg CO_2e per FTE using the location-based method which is a reduction of 13% versus prior year.

Table 1.3 Intensity ratios

	2020		2021	
	kg CO_2e/FTE[6]	kg CO_2e/m^2 [8]	**kg CO_2e/FTE[7]**	**kg CO_2e/m^2 [9]**
Scope 1	102.8	5.1	149.3	7.5
Scope 2	747.0	37.0	592.6	29.6
Scope 3	–	–	–	–
Total GHG emissions	**849.8**	**42.0**	**741.9**	**37.1**

Energy efficiency actions undertaken

Novacyt has taken a number of actions to increase the business's energy efficiency in the year ending 31 December 2021, focused on:

i. Reducing absolute energy consumption through capital investment projects; and

ii. Reducing energy consumption per unit output through scaling up production (economies of scale), increasing asset utilisation, and increasing automation.

Principal actions reported have had a direct impact on the energy efficiency related to Scope 1 and Scope 2 emissions, as defined by the Company's operational boundary for the year ending on 31 December 2021. For increased transparency in emissions disclosure reporting, additional information has been provided on actions impacting the energy efficiency related to Scope 3 emissions despite falling outside the Company's operational boundary.

Table 1.4 Energy efficiency actions

Principal actions

Scope 1 (Gas Consumption) and Scope 2 (Electricity Usage)

Reduced energy consumption (per unit output)

- **Increased asset utilisation**
  Novacyt has improved asset utilisation efficiency by optimising manufacturing batch size, adopting more efficient practices, and scaling up asset size commensurate with the ramp up in operations.
- **Improved processes** from high energy consumption methods to more energy efficient processes.

Additional information Scope 3 (Transport)

Reduced transportation across the value chain

- **Reduced global transportation**
  RNase-free water production has been brought in-house, displacing the need for RNase-free water procurement from North America.
- **Reduced road transportation**
  Increased manufacturing in-house rather than at external sub-contractors and consolidation of all storage at the same site has reduced the transport of products.

Reducing packaging

- **Improved product design**
  New PROmate® design features less plasticware, pipettes, PPE, and laboratory decontamination materials to reduce end-to-end consumables.

  New laser-etched barcodes have replaced standard labels to reduce material usage.
- **Reduced waste**
  Novacyt has continued to take action to reduce single-use waste by increasing the materials reused and recycled through the Company's operation.

Managing waste

Novacyt's manufacturing process generates very low levels of non-hazardous and hazardous waste.

Sustainability continued

The importance of talent to Novacyt

Novacyt prides itself in the talented people we employ, who are critical to our vision to become global leaders in the fight against infectious diseases, and ensure we retain our competitive advantage in a challenging market. Our success is truly down to their passion, commitment, and continued successful performance. Our employees rapidly respond to opportunities with innovation, drive and agility.

How we attract and retain talent

We use several methods to attract talent from the market. We have very successful partnerships with a select number of recruitment consultancies that represent us internationally. Our "Refer A Friend" programme rewards existing employees that recommend their friends and family to apply to and join Novacyt, and vacancies are advertised internally across our sites. We maximise the use of the Novacyt career webpage, social media sites and job boards to promote our brand and advertise our career opportunities.

Novacyt's workforce expanded in 2021 due to continued growth of the business. The number of full-time equivalents rose from 237 in 2020 to 284 in 2021.

During 2021, we hired 199 employees on permanent or fixed-term contracts, and brought in a further 134 temporary staff in order to support peaks in customer demand. 90% of our roles were filled externally, and the average time it took to fill a role was 35 working days.

Due to the rapidly changing business landscape, and following the scale-up during the pandemic, we experienced an unplanned turnover rate of 30% for 2021, averaging around 3% of headcount per month. Reducing voluntary turnover and enhancing engagement and retention is an area of focus for our leaders.

How we support our employees

We provide an Employee Assistance Programme in order to help all our employees and their families when faced with adversity in their lives. They offer confidential assessments, short-term counselling, referrals, and follow-up services to employees who have personal and/or work-related issues.

We also partner with a specialist organisation that provide advice to Novacyt on how we re-engage with people who have been absent due to health issues or extenuating circumstances that have occurred in their lives. They help our people with how they can best settle back into their job and career.

We offer a comprehensive and competitive range of employment benefits for our people. We also hold regular "townhall" meetings to support communication and engagement.

Novacyt has a set of Coronavirus policies, designed to ensure the safety and wellbeing of our employees as well as the continuity of our business. These include regular testing of employees coming into our workplaces, as well as good hygiene practices. These are reviewed regularly in response to evolving legislation.

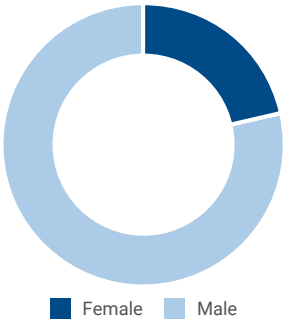
Social diversity and inclusion

Novacyt actively supports diversity and inclusion and seeks to create a culture where everyone feels comfortable to be themselves at work and have their contribution valued, and where individual differences can be celebrated. This approach is captured in our Equality, Inclusion and Diversity policy.

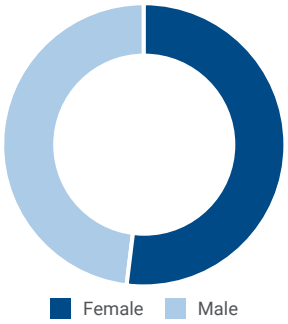
Sustainability continued

A summary of the gender split at the management level in the organisation in 2021 is below.

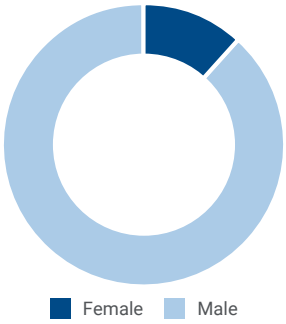
Non-Executives



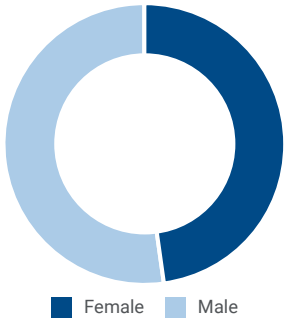
Total Employees



Executive Leaders



People Managers



Social – training and development

The Manager Development Programme continued to support and develop our people managers through 2021, ensuring they have the requisite skills and capabilities required to lead, coach and develop their teams. We have 43 managers progressing through the programme which includes modules on Developing and Coaching your Team; Motivating your Team; Understanding your Leadership Style and Handling Conflict, to name a few. We anticipate that all participants will hold certifications by the end of 2022. Typically, each participant attending the programme spends a day per month in the formal programme, and further time reflecting on and consolidating the content in their roles, supported by their manager.

In addition to internal training on product launches, we also invest in upskilling our external partners. During 2021, we ran over 150 training events covering all segments from Non-Governmental Organisations to Distributors and direct end users.

Novacyt also provides individuals with ad hoc training courses as and when required to meet their role requirements and career aspirations. We also support employees who wish to undertake professional qualifications.

Health and Safety

At Novacyt, we have a clear policy on health and safety. Employees are provided with health and safety training, and protective clothing and other equipment if required. Novacyt complies with the OHSAS 18001 standard.

In 2021, no injuries were reported at work.

Supporting communities and wider society

Charitable giving

At Novacyt, we believe in contributing to communities where we operate, and we have made donations to various charities and schools in the Camberley, Southampton and Middlesbrough areas.

Following the transformational financial performance of Novacyt in 2020, a Charity Committee was created from a number of key employees within the Group tasked with identifying schools and charities in need of support particularly following the COVID-19 pandemic. A sum of £500,000 was dedicated to supporting a total of 25 schools and 50 charities throughout 2021. We contributed to projects supporting critically ill children and adults, the homeless, old age pensioners and war veterans.

The Novacyt Group is proud to have played a part in supporting local communities and is truly humbled by the impact our charitable donations have made to so many people in 2021.

Since May 2021, Novacyt has supported UNICEF with the donation of one million COVID-19 polymerase chain reaction (PCR) tests that have been sent to the Maldives, South Sudan, Democratic Republic of Congo, Palestine, Bosnia, Herzegovina, Montenegro and Nigeria.

References:

1 Scope 1 covers direct emissions from sources owned or controlled by the Company, including emissions from fuel combustion (e.g. emissions from combustion in owned or controlled boilers, furnaces, vehicles, etc.), process emissions (e.g. emissions from chemical production in owned or controlled process equipment), and fugitive emissions (e.g. intentional and unintentional). Of the aforementioned facilities or assets, only natural gas combustion within boilers is applicable to Novacyt's operations.

2 Scope 2 covers energy use and related emissions from electricity purchased for Novacyt's own use.

3 Scope 3 covers energy use and related emissions from business travel in rental cars or employee owned vehicles where Novacyt is responsible for purchasing the fuel. Novacyt does not purchase fuel for business travel or employee-owned vehicles, as such Scope 3 emissions are not applicable based on the defined organisational boundary.

4 Scope 1 data calculated by multiplying total fuel consumption (gas – kWh) by the UK Government GHG Conversion Factor for natural gas defined for the given year (2020: 0.18387 kg 2021: 0.18316 kg CO2e/kWh).

5 Scope 2 data calculated by multiplying total electricity consumption (kWh) by the UK Government GHG Conversion Factor for electricity generated defined for the given year (2020: 0.23314 kg CO2e/kWh; 2021: 0.21233 kg CO2e/kWh).

6 Number of FTE equivalents in 2020 was 174. this has been re-stated to include IT-IS for the full calendar year.

7 Number of FTE equivalents in 2021 was 276. This increase can be attributed to the significant scale-up of the organisation during the COVID-19 pandemic, including the insourcing of manufacturing and warehousing activities during the course of 2021.

8 Building area in 2020 was 3,517 m2. This has been restated to include IT-IS premises for the full year.

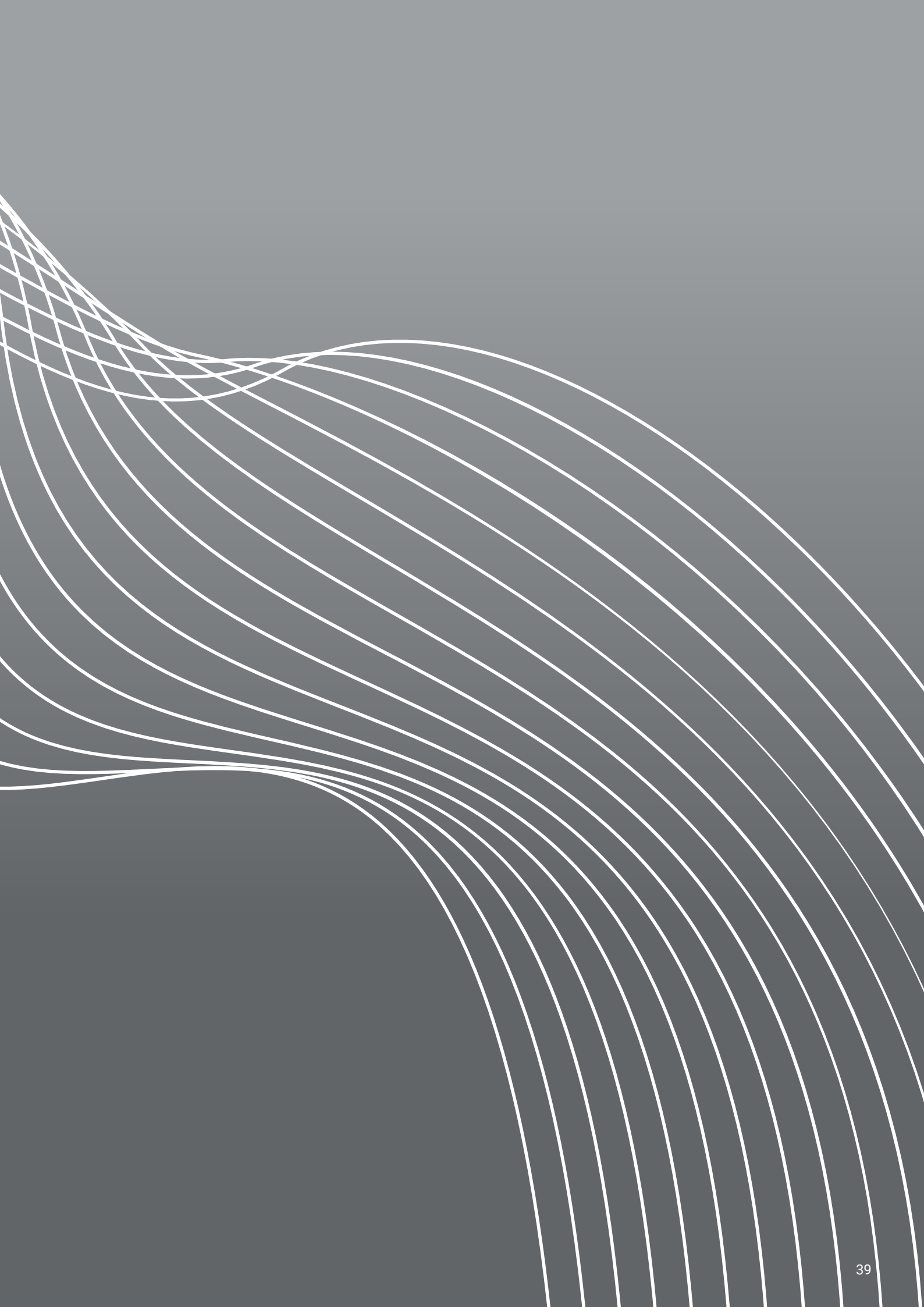
9 Building area in 2021 was 5.516 m2. This reflects the expansion in production in both IT-IS and Primerdesign and the shift from 3rd party warehousing to using our own managed facilities.

An internationally diversified **Board**

The Directors present their Report together with the audited financial statements for the year ended 31 December 2021. The Corporate Governance Statement on pages 46 to 56 also form part of the Directors' Report.

It is my pleasure to present our Corporate Governance Statement for the year ended 31 December 2021."

James Wakefield
Chairman



The Board of Directors

James Wakefield

Non-Executive Director and Chairman of the Board

James is an experienced private equity investor, having spent over 30 years in the finance industry. He has been involved with over 50 businesses of varying sizes and stages of development across a wide range of sectors, including Board representation as Chairman or non-executive director in a number of these. He is Chairman of WestBridge Capital LLP of which he was a founder partner in 2008. He previously spent 18 years at Bridgepoint (previously NatWest Equity Partners) and, prior to that, spent 4 years at NatWest Markets/ NatWest Investment Bank. He is also Chairman of the Nomination Committee and a graduate of Harvard Business School (AMP).

David Allmond

Chief Executive Officer

David was appointed as CEO of Novacyt in October 2021.

He has over 25 years of experience in international pharmaceuticals and biopharmaceutical companies, and he is a strategic business leader with a strong track record in global commercialisation. David has built and led multiple diverse, successful teams in dynamic growth companies including Amgen, Celgene & Amryt Pharma.

James McCarthy

Chief Financial Officer

James joined the Group as Chief Financial Officer in January 2021 and was appointed as a member of the Board in October 2021. He has over 30 years of finance experience in international businesses in both consumer and B2B and in both private equity and publicly listed companies. During his career, he has led large-scale transformation initiatives both organic and supported by M&A. He has also held general management roles, which gives him broad commercial experience and a strong appreciation for effective business partnership. He is a Fellow of the Association of Chartered Certified Accountants.

Juliet Thompson

Independent Non-Executive Director

Juliet has 20 years of experience working as an investment banker and strategic advisor to healthcare companies in Europe. She has built a strong track record of advising companies on corporate strategy, equity and debt fundraisings and international M&A. Her experience includes senior roles (managing director, head of corporate finance and partner) at Stifel Financial Corp, Nomura Code Securities and WestLB Panmure. Juliet sits on the Board of Indivior PLC, a UK listed global pharmaceutical company working to develop medicines to treat addiction and Organox Ltd, a private company that was spun out of Oxford University.

Juliet is also a trustee of Leadership through Sport & Business, a social mobility-focused charity, and trustee of the De Hann family trusts and Director of their associated investment companies.

She is a member of the Institute of Chartered Accountants in England and Wales (ACA) and holds a BSc degree in Economics from the University of Bristol, UK.

Juliet is Chair of the Audit Committee and is a member of the Remuneration and Nomination Committees.

Andrew Heath MD, PhD

Independent Senior Non-Executive Director

Andrew is a healthcare and biopharmaceutical Executive with in-depth knowledge of the US and UK capital markets, with international experience in marketing, sales, R&D and business development. In addition to his role as Senior Independent Director for Novacyt since 2015, he is also currently Chairman of TauC3 Biologics Ltd. He served as Chairman of Shield Therapeutics plc from 2016–2018 and as a Non-Executive Director of Oxford Biomedica plc from 2010-2021.

From 1999–2008, Andrew was the Chief Executive Officer of Protherics plc, taking the company from 30 to 350 members of staff and managing its eventual acquisition by BTG plc for £220 million. Prior to this, he served as vice president of marketing and sales for Astra Inc in the US, and worked within clinical and academic medicine at Vanderbilt University. He is also a former Director of The BioIndustry Association.

He graduated in medicine from the University of Gothenburg, Sweden, where he also completed his doctoral thesis in human toxicology. He is a fellow of the American Academy of Clinical Toxicology and a fellow of the UK Institute of Directors.

Andrew is Chairman of the Remuneration Committee, and a member of the Audit and Nomination Committees.

Edwin Snape, PhD

Independent Non-Executive Director

Ed has over 40 years of experience in founding, investing in and guiding the development of many public and private healthcare and specialty materials companies. He was a founder of NMT Capital (a successor of Nexus) and continues to serve as one of its senior advisors. He is also a senior advisor to Maruho Co., Ltd. Prior to NMT Capital, Ed was managing general partner of The Vista Group, at the time a leading east coast venture capital firm; Chairman of Orien Ventures, a private equity firm with Pacific Rim affiliations, and a Director of the Cygnus Funds, two UK-based private equity firms that specialised in investments throughout Europe. He was also a founder of Indonesia Growth Fund, a private equity fund based in Indonesia. Early in his career, he founded the Liposome Company, which listed and was later sold to Elan Corporation. Over the years, he has been a recipient of several awards in the material sciences industry, including the AB Campbell Award and the Hunt Silver Medal. He also holds several patents in the advanced materials field where he has pioneered various technological innovations and authored numerous technical papers.

He holds BSc and PhD degrees in Metallurgy from Leeds University, UK. Ed is a member of the Remuneration Committee.

Jean-Pierre Crinelli

Independent Non-Executive Director

Jean-Pierre is one of Novacyt's founders, having established the business in July 2006. He has some 30 years of experience in the car and electrical components industry, with various roles in M&A and business restructuring. During this period, he was located for 10 years in Singapore, North America, Belgium and Italy.

He holds a Diplôme from ESC Le Havre (business school, France) and a DECS (Diplôme d'Études Comptable Supérieures, national diploma).

Jean-Pierre is a member of the Audit Committee.


NOVACYT
GROUP

Directors' Report

General information and principal activity

Novacyt S.A. is a public limited company incorporated and registered in France with registered number 491 062 527.

Review of business

The Chairman's Statement on page 12, the Chief Executive Officer's Report on page 24 and the Strategic Report on pages 12 to 37, provide a review of the business, the Group's trading for the year ended 31 December 2021, key performance indicators and an indication of future developments and risks, and form part of this Directors' Report.

The Company is listed on both Euronext Growth Paris and on the Alternative Investment Market ("AIM") of the London Stock Exchange. Its principal activities in the year under review were specialising in infectious disease diagnostics.

Future developments

Likely future developments in the business of the Group are discussed in the Strategic Report.

Results and dividend

The results for the period and financial position of the Company and the Group are as shown in the financial statements and are reviewed in the Strategic Report.

Since its inception, the Company has not paid any dividends and the Directors do not intend to recommend a dividend at present. In the future, the Company's dividend policy will form part of a wider review of capital allocation, which will be formulated in conjunction with the requirements of the business.

The Directors will only recommend dividends when appropriate, and they may, from time to time, revise the Company's dividend policy. No dividends will be proposed for the financial year ended 31 December 2021 so we can continue to invest in R&D, manufacturing and commercial aspects of the business.

Directors

The Directors of the Company who served during the year ended 31 December 2021, and up to the date of this Report are listed below.

The brief biographical details of the currently serving Directors are set out on pages 40 to 41.

Director	Capacity
James Wakefield	Non-Executive Director and Chairman of the Board
Graham Mullis	Chief Executive Officer (until 18th October)
David Allmond	Chief Executive Officer (from 18th October)
Anthony Dyer	Chief Corporate Development Officer (until 29th September)
James McCarthy	Chief Financial Officer (from 18th October)
James McCarthy	Company Secretary
Juliet Thompson	Independent Non-Executive Director
Dr Andrew Heath	Independent Senior Non-Executive Director
Dr Edwin Snape	Independent Non-Executive Director
Jean-Pierre Crinelli	Independent Non-Executive Director

Directors' interests

The Directors' interests in the Company's shares and the Novacyt LTIP are shown in the Directors' Remuneration Report on pages 57 to 60.

No Director has any beneficial interest in the share capital of any subsidiary or associate undertaking.

Directors' indemnity provisions

The Directors have the benefit of an indemnity, which is a qualifying third-party indemnity provision as defined by s236 of the Companies Act 2006. The indemnity was in force throughout the financial period and at the date of approval of the financial statements. In addition, the Group has purchased and maintains Directors' and Officers' liability insurance in respect of itself and its Directors.

Political and charitable donations

The Company created a Charity Committee who were responsible for organising a number of charitable donations and activities during the reporting period, as explained further on page 37.

Financial instruments – risk management

The Group's financial risk management policy is set out in note 44 to the financial statements.

Share capital structure

The Company's share capital, traded on Euronext Growth Paris and AIM, comprises a single class of ordinary shares each having a nominal value of 1/15th of one Euro. Except as otherwise provided by law, every Shareholder has one vote for every fully paid up share of which they are the holder. Each ordinary share creates a share in the Company's assets, profits and in any liquidation surplus. In the event of a liquidation

Directors' Report continued

of the Company, any outstanding cash would be distributed to each Shareholder in proportion to their holdings in the Company.

The share rights follow the ordinary shares from owner to owner and any transfers of the shares include all dividends due and unpaid, and those due and, where applicable, the share of the reserves (following payment of any outstanding liabilities) of the Company.

Movements in the Company's issued share capital during the year under review are set out in note 36 to the financial statements.

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.

Major interests

As at 31 March 2022, the Company had been notified of the following significant shareholdings of 5.54% of the issued share capital of the Company:

Shareholder	Number of shares held	Percentage of issued shares
Biosynex SA	3,915,350	5.54%

UK Bribery Act 2010

The Group is committed to complying with the UK Bribery Act 2010, both within its UK and overseas business activities.

As such, the Group has implemented an anti-bribery policy, which has been adopted by the Board, designed to ensure that the Group operates in an open, transparent and ethical manner. This policy applies to the Board and employees of the Group, and to temporary workers, consultants, contractors and agents acting for, or on behalf of, the Group (both in the UK and overseas). The policy generally sets out their responsibilities in observing and upholding a "zero tolerance" position on bribery in all jurisdictions in which the Group operates, as well as providing guidance to those working within the Group on how to recognise and deal with bribery issues and the potential consequences.

Management at all levels of the Group is responsible for ensuring that those reporting to them, internally and externally, are made aware of and understand this policy.

Significant agreements

The Company is not party to any significant agreement that takes effect, alters or terminates upon a change of control of the Company other than the Directors' service contracts, details of which are set out in the Remuneration Report.

Statement of engagement with suppliers, customers and others in a business relationship with the Group

The Directors are mindful of their statutory duty to act in a way they each consider, in good faith, would be most likely to promote the success of the Group for the benefit of its members as a whole, as set out in the s172(1) statement on page 26. A review of the Group's approach to developing and maintaining relationships with its wider stakeholders, and the impact on the Group's long-term strategic objectives, is set out under Principle 3 of the Corporate Governance Statement on pages 46 and 56.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company 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 April 2023. In making this assessment, the Directors have considered the following elements:

- the working capital requirements of the business;
- a positive cash balance at 31 December 2021 of £101,746,000;
- 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 notes 49 and 50.

In the event the current dispute is fully settled in favour of the counterparty, the forecast prepared by the Group shows that it is able to cover its cash needs during the financial year 2022 and up to April 2023 without raising any banking or other financing facility.

Independent auditor

Deloitte LLP has indicated that they are willing to continue in office as the Group's auditor. Under French law the company were required to appoint a second auditor and Alberis Audit were appointed for a period of 6 years to approve the financial statements up to the year ended 31 December 2026.

Disclosure of information to the auditor

As far as the Directors are aware, there is no relevant audit information (that is, information needed by the Group's auditor in connection with preparing their report) of which the Group's auditor is unaware, and each Director has taken all reasonable steps that they ought to have taken as a Director in order to make themself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Annual General Meeting

The Annual General Meeting of the Company will be held on 21st June, further information can be found on the companies website at www.novacyt.com.

By order of the Board

James McCarthy
Chief Financial Officer

An introduction from the Chairman

James Wakefield
Chairman

Dear Shareholders,

As Chairman of Novacyt S.A., it is my responsibility to lead the Board to ensure that the Group has in place the strategy, people, structure and culture to deliver value to Shareholders and other stakeholders of the Group over the medium to long term. During another transitional year for the Group, there continued to be a number of staff changes at all levels to reflect the requirements of the current business. This has included the reshaping of the Executive team following the retirement of Graham Mullis after 14 years with the enlarged Group. I would again like to thank Graham for his considerable commitment and contribution to the business during his tenure. In particular the changes of the Executive team have included the appointment of David Allmond as Chief Executive Officer and a member of the Board of Directors and the appointment of James McCarthy as Chief Financial Officer and a member of the Board of Directors.

Good governance dictates that Non-Executive Directors can only serve for a finite term. Therefore, in the next 12 months, we will need to find a replacement for Edwin Snape who has been involved with the company (in its various guises) for over 11 years. This will also ensure compliance with the original Articles/French regulation concerning the proportion of Directors over the age of 70. I would like to thank Ed for his significant contribution and the support he has provided over the years.

A number of new internal control procedures and positive actions have been implemented and finalised, whilst other areas for improvement continue to be identified.
On behalf of the Board, I am, therefore, pleased to present our Corporate Governance Statement for the year ended 31 December 2021.

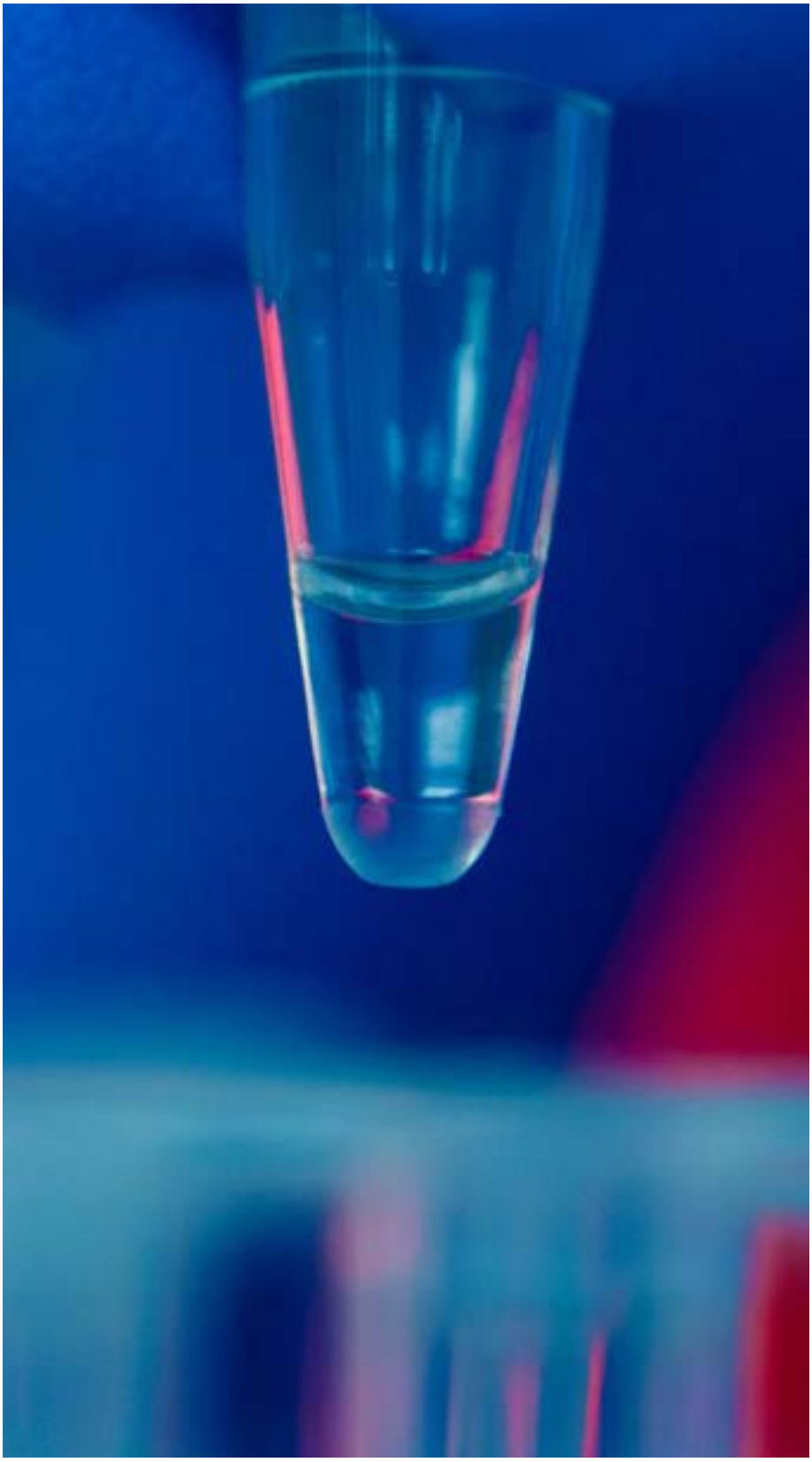
Novacyt S.A. is incorporated in France and is listed on Euronext Growth Paris and AIM. The Directors recognise the value and importance of high standards of corporate governance. As the Company is traded on AIM, it is not required to comply with the UK Corporate Governance Code. However, the Board has adopted the 2018 Quoted Companies Alliance Corporate Governance Code (the "QCA Code") as the basis of the Group's governance framework. The Company complies with the provisions of the QCA Code as far as is practicable for a company of Novacyt S.A.'s size, nature and stage of development, and in accordance with the regulatory framework that applies to companies admitted to trading on AIM.

The Company also continues to comply with all the requirements of being listed on Euronext Growth Paris.

It is the responsibility of the Board to ensure that the Group is managed for the long-term benefit of all Shareholders and stakeholders, with effective and efficient decision-making. Corporate governance is an important aspect of this, reducing risk and adding value to our business. As individual Directors, we are mindful of our statutory duty to act in the way each of us considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, as set out in our s172(1) statement on page 26.

The QCA Code sets out ten principles, in three broad categories, and in this Corporate Governance Statement, I have set out the Group's application of the QCA Code, including, where appropriate, cross references to other sections of the Annual Report and to our website.

James Wakefield
Non-Executive Director and
Chairman of the Board



QCA Principles

Deliver growth

1. Establish a strategy and business model that promote long-term value for Shareholders

The Board is responsible to Shareholders for setting the Group's strategy by: maintaining the policy and decision-making process around which the strategy is implemented; ensuring that necessary financial and human resources are in place to meet strategic aims; monitoring performance against key financial and non-financial indicators; providing leadership whilst maintaining the controls for managing risk; overseeing the system of risk management; and setting values and standards in corporate governance matters.

The Board has established a strategy and business model which seek to promote long-term value for Shareholders and the business is focused on two strategic pillars of growth:

- Global first responder
- Build a base

A fuller explanation of how the strategy and business model are executed is set out on pages 16 and 17 of the Strategic Report.

2. Seek to understand and meet Shareholder needs and expectations

The Company has a strong commitment to market communication, with the Directors seeking to be accountable against the stated strategic objectives of the Group. The Company maintains regular contact with Shareholders through publications such as the Annual Report and Accounts, operational updates, regular press announcements made via a regulatory information service and the Company's website.

The Company is responsive to Shareholder telephone and email enquiries throughout the year and the Board regards the AGM as a particularly important opportunity for Shareholders and members of the Board to meet and exchange views.

The Company receives occasional feedback direct from investors, which is carefully considered by the Board, with appropriate action being taken where the Board believes it is in the interests of Shareholders to do so.

3. Take into account wider stakeholder and social responsibilities and their implications for long-term success

In addition to its Shareholders, the Company believes its main stakeholder groups are its employees, clients, suppliers and relevant statutory authorities in its areas of operation.

The Group is committed to maintaining the highest standards of corporate social responsibility in its business activities by: aiming to comply with all applicable laws and regulations, wherever the Group operates; achieve and comply with relevant quality and people management standards; consult with and respond to the concerns of its stakeholders; work towards realising the Group's mission and vision statements; and behave with honesty and integrity in all the Group's activities and relationships with others and reject bribery and corruption in all its forms.

The Board recognises the benefits of a diverse workforce, which enables the Group to make better decisions about how to optimise resources and work by eliminating structural and cultural barriers and bias. It allows us to: protect and enhance our reputation by recognising and respecting the needs and interests of diverse stakeholders; deliver strong performance and growth by attracting, engaging and retaining diverse talent; and innovate by drawing on the diversity of perspectives, skills, styles and experience of our employees and stakeholders.

The Group is committed to ensuring that it treats its employees fairly and with dignity. This includes being free from any direct or indirect discrimination, harassment, bullying or other form of victimisation. The Group has policies in place to encourage employees to speak up about any inappropriate practices or behaviour.

It was important for us to continue looking after our employees during 2021 as they are keyworkers and the majority had to come into work whilst many were encouraged to work from home. We continued to pay employees who had to shield, self-isolate or take time off for childcare. At the end of 2020, we introduced a COVID-19 screening programme, using our tests, to prevent the spread of Coronavirus amongst the workforce, which we continued to enforce throughout 2021. During this time, we reminded our employees of the Employee Assistance Programme, which provides 24/7 support for any issues they were facing, particularly with mental health challenges, relationship issues, etc.

The Group believes that having empowered and responsible employees who display sound judgement and awareness of the consequences of their decisions or actions, and who act in an ethical and responsible way, is key to the success of the business.

The operation of a profitable business is a priority and that means investing for growth as well as providing returns to its

Shareholders. To achieve this, the Group recognises that it needs to operate in a sustainable manner and therefore has adopted core principles to its business operations, which provide a framework for both managing risk and maintaining its position as a good "corporate citizen", and also to facilitate the setting of goals to achieve continuous improvement.

The Group encourages feedback from its clients through engagement with individual customers. As a consequence of such feedback, the Group has collaborated with multiple existing and prospective clients to develop and validate new products, work flows and know-how to improve accuracy, testing turnaround times, cost per test, and ultimately deliver improved clinical outcomes for millions of individual patients globally.

The Board is aware of the need to maintain good working relationships with the Group's key suppliers and receives regular updates from the Executive team on key supply agreements.

Health and safety

The Group is committed to complying with all relevant health and safety regulations in its operations. As such, the Group has adopted a Health & Safety Policy, which forms part of the Employee Handbook, issued to all employees upon commencement of employment within the Group. The policy sets out arrangements and responsibilities across the Group and includes aspects such as: emergency procedures; security recommendations; accidents/incidences and first aid; manual handling/lifting and moving; work-related upper limbs disorders (including strains to hands and arms); display screen equipment/visual display equipment; alcohol and drugs policy; smoking policy; and COVID-19 in the workplace.

The Group is not aware of any orders made in respect of a breach of health and safety regulation during the period.

Environment

The Directors consider that the nature of the Group's activities is not detrimental to the environment. The Group adopts a systematic approach to its environmental responsibility and has good knowledge of the environmental impacts caused by its operations. The Group aims to meet all relevant environmental standards in its production and products. The Group aims to establish, implement and maintain a risk-based programme to reduce or minimise any negative environmental impact caused by its operations, taking precautionary measures as soon as there is reason to believe that an action could harm the environment.

4. Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Board has overall responsibility for the Group's system of internal control and for reviewing the effectiveness of internal control to safeguard Shareholders' investment and the Group's assets. There is an ongoing process for identifying, evaluating and managing the significant risks the Group faces.

The Board delegates to the Executive team the responsibility for designing, operating and monitoring both the risk management and internal control systems, and the maintenance of effective internal controls within the Group. The Company also has a whistleblowing policy.

The systems and controls in place include policies and procedures, which relate to the maintenance of records that fairly and accurately reflect transactions, correctly evidence and control the Group's assets, provide reasonable assurance that transactions are recorded as necessary to enable the preparation of financial statements in accordance with International Financial Reporting Standards ("IFRS"), and review and reconcile reported results.

The Group's key internal controls are:

- establishing a comprehensive risk register for the Group;
- a regular review of the Group's insurance policies with its insurance broker to ensure that the policies are appropriate for the Group's activities and exposures;
- a comprehensive system for consolidating financial results from Group companies and reporting these financial results to the Board;
- reviewing cash flow, annual revenue and capital forecasts regularly during the year, along with regular monitoring of management accounts and capital expenditure reported to the Board and comparisons with forecasts;
- financial controls and procedures, including in respect of bank payments, bank reconciliations and petty cash;
- monthly review of outstanding debtors;
- regular meetings of the Executive team;
- an Audit Committee that approves audit plans and published financial information and reviews reports from the external auditor arising from the audit and deals with significant control matters raised;
- an independent review on whether the Group's tax processes and controls are appropriate to manage tax risk and compliance for Senior Accounting Officer ('SAO') purposes.

QCA Principles continued

The Board monitors the activities of the Group through regular Board meetings and it retains responsibility for approving any significant financial expenditure or commitment of resources.

Risk management is focused around the operational areas of the Group. The Group has a dedicated Regulatory Affairs and Quality Assurance Director, who has extensive operational experience at senior management and board levels, and particularly strong experience in quality system development and regulatory compliance. He is responsible for a Regulatory team operating across the Group, working at identifying and prioritising operational risks and working with the operational teams to mitigate the identified risks. This work is supported by the risk assessment procedure in place across the Group, with the objective to ensure that risk assessment of the Group's equipment, procedures and processes is approached consistently across the Group.

With the assistance of the Audit Committee, the Board's review process is principally based on reviewing regular reports from the Executive team to consider whether significant risks are identified, evaluated, managed and controlled effectively, and whether any significant weaknesses are promptly remedied. The system is designed to manage rather than eliminate the risk of failure to achieve the Company's objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. In assessing what constitutes reasonable assurance, the Board considers the materiality of financial and non-financial risks and the relationship between the cost of, and benefit from, internal control systems.

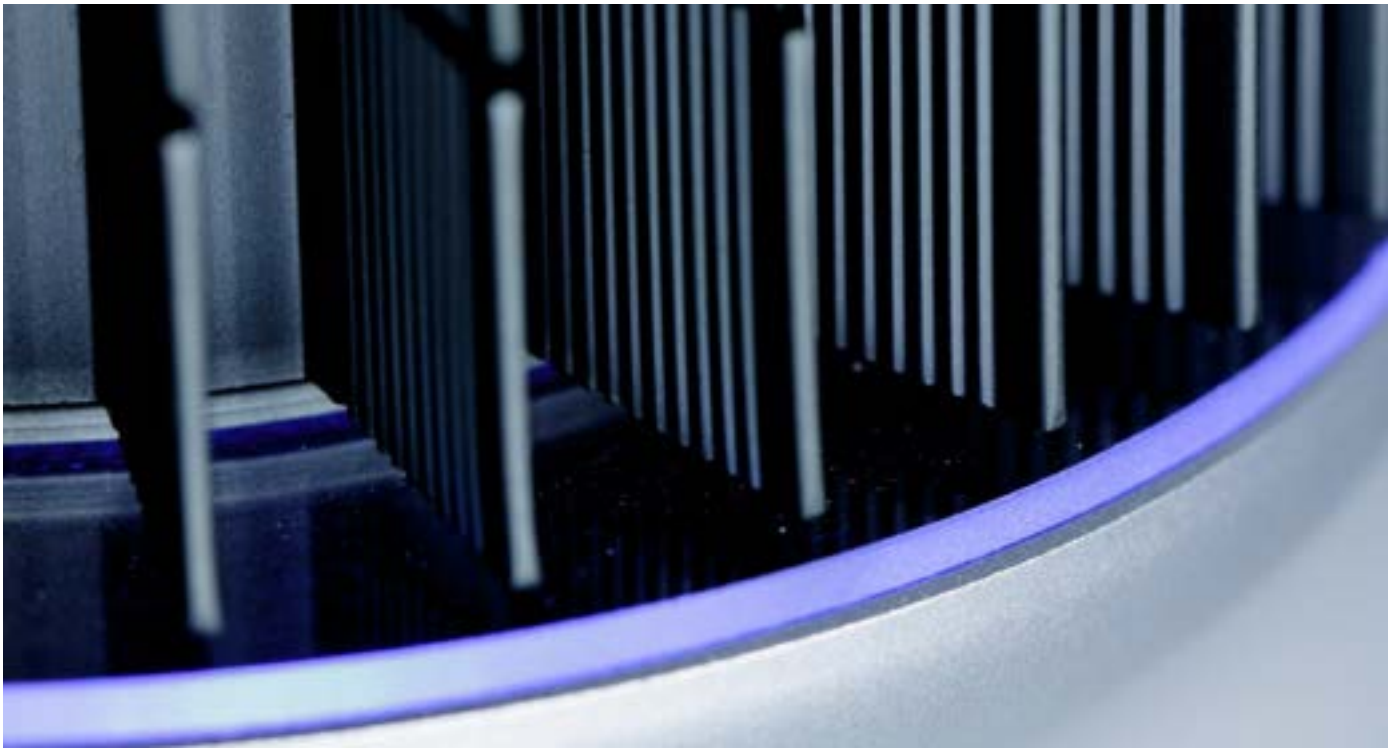
Details of the principal risks currently facing the Group and how they are mitigated are set out on pages 64 to 70.

The Board confirms that it has, during the reporting period, reviewed on an ongoing basis the effectiveness of the Company's system of internal controls including financial, operational and compliance controls and risk management systems and has reviewed insurance provisions. No significant failing or weaknesses have been identified.

Maintain a dynamic management framework

5. Maintain the Board as a well-functioning, balanced team led by the Chair

The Chairman, James Wakefield, is responsible for leadership of the Board, ensuring its effectiveness in all aspects of its role. The Company is satisfied that the current Board is sufficiently resourced to discharge its governance obligations on behalf of all stakeholders.



To enable the Board to discharge its duties, all Directors receive appropriate and timely information. Briefing papers are distributed to all Directors in advance of Board and Committee meetings. All Directors have access to the advice and services of the Chief Financial Officer / Company Secretary, who is responsible for ensuring that the Board procedures are followed, and that applicable rules and regulations are complied with. In addition, procedures are in place to enable the Directors to obtain independent professional advice in the furtherance of their duties, if necessary, at the Company's expense.

In between Board meetings, the Executive Directors maintain regular informal contact with the Non-Executive Directors. Whilst the Board retains overall responsibility for, and control of, the Group, day-to-day management of the business is conducted by the Executive Directors, who meet with the senior management team on a weekly basis.

Board of Directors

The composition of the Board during the period is summarised in the table on page 43 of the Directors' Report. As at the date of this Report, the Board comprises seven members, of which five are Non-Executive Directors, all of whom are independent, namely James Wakefield, Andrew Heath, Dr Ed Snape, Juliet Thompson and Jean-Pierre Crinelli.

Independence of Directors

The Directors acknowledge the importance of the principles of the QCA Code that recommend that a company should have at least two independent Non-Executive directors. The Board has, therefore, considered and determined that, all Directors are independent of the Executive management and free from any relationship that could materially affect the exercise of their independent judgement.

None have beneficial or non-beneficial shareholdings in the Company exceeding 3%. Dr Ed Snape was previously co-owner of Nexus Medical, LLC, the general partner of Nexus Medical Partners II, L.P., which has a current shareholding in the Company of less than 3%. Accordingly, Dr Ed Snape is considered by the Directors to be independent for the purposes of the QCA Code.

All the Non-Executive Directors constructively challenge and help develop proposals on strategy and bring strong, independent judgement, knowledge and experience to the Board's deliberations. The Non-Executive Directors are of sufficient experience and competence that their views carry significant weight in the Board's decision-making and when relevant, would record their concerns about the running of the Company. At each meeting, the Board considers Directors' conflicts of interest.

The Non-Executive Directors have regular opportunities to meet without Executive Directors being present (including time after Board and Committee meetings).

Time commitments

Non-Executive Directors receive a formal appointment letter on joining the Board, which identifies the terms and conditions of their appointment.

A potential director candidate (whether an Executive Director or Non-Executive Director) is required to disclose all significant outside commitments prior to their appointment.

The Board is satisfied that both the Chairman and the Non-Executive Directors are able to devote sufficient time to the Company's business.

If considered appropriate, the Board may authorise Executive Directors to take Non-Executive positions in other companies and organisations, provided the time commitment does not conflict with the Director's duties to the Company, since such appointments should broaden their experience. The acceptance of appointment to such positions is subject to the approval of the Chairman.

Attendance at Board and Committee meetings

The Directors meet at least ten times per year for formal Board meetings to discuss and decide the Group's business, financial performance and strategic decisions. In addition, and as required, the Board meets more frequently by conference call to discuss and decide on matters considered more urgent, such as those relating to acquisitive growth.

During the reporting period, the Board met in person or via conference calls 12 times.

In advance of each meeting of the Directors, the Board is provided with relevant information to ensure that it can properly carry out its role. For each meeting, the Directors generally consider the minutes of the previous meeting and any action points, recent forecast and operations, cash flows and progress on any particular projects.

QCA Principles continued

The attendance of each Director at Board and Committee meetings during the period is set out in the table below. Attendance is expressed as the number of meetings attended/number eligible to attend. Directors' attendance by invitation at meetings of Committees of which they are not a member is not reflected in the following table.

Director	Board	Audit Committee	Nomination Committee	Remuneration Committee
James Wakefield	11/12	–	4/4	–
Graham Mullis*	10/10	–	–	–
Anthony Dyer*	10/10	–	–	–
Dr Andrew Heath	12/12	4/4	4/4	4/4
Dr Edwin Snape	11/12	–	–	4/4
Jean-Pierre Crinelli	12/12	4/4	–	–
Juliet Thompson	12/12	4/4	4/4	4/4
James McCarthy*	2/2	–	–	–
David Allmond*	2/2	–	–	–

* Anthony Dyer resigned as Director on 29 September 2021and Graham Mullis resigned as Director on the 18 October 2021. James McCarthy and David Allmond were elected as Directors during the AGM held on 18 October 2021.

6. Ensure that, between them, the Directors have the necessary up-to-date experience, skills and capabilities

The Board currently comprises two Executive and five Non-Executive Directors with an appropriate balance of sector, financial and public market skills and experience to deliver the Group's strategy for the benefit of Shareholders over the medium to long term. The Board considers that the Non-Executive Directors bring a wide experience at a senior level of business operations and strategy and have an expanse of knowledge and expertise gained from other areas of business.

The skills and experience of the Board are set out in their biographical details on pages 40 to 41. The experience and knowledge of each of the Directors gives them the ability to constructively challenge the strategy and to scrutinise performance. The Board also has access to external advisors where necessary.

New Directors are presented with appropriate levels of background information on the Company, meet the management, visit sites and spend time with the Chairman and other Directors as required. The induction is tailored to meet each new Director's specific needs.

Throughout their period in office, the Directors are continually updated on the Group's business, the industry and competitive environment in which it operates, corporate social responsibility matters and other changes affecting the Group by written briefings and meetings with senior Executives.

Each Director takes responsibility for maintaining their skill set, which includes roles and experience with other boards and organisations as well as attending formal training and seminars.

The Executive Directors receive regular and ongoing updates from their professional advisors covering financial, legal, tax and the Euronext Growth Paris and AIM Rules.

The Company Secretary provides information and advice on corporate governance and individual support to Directors on any aspect of their role, particularly supporting the Chairman and those who chair Board Committees. The Company Secretary is also responsible for ensuring that Board procedures are followed, that the Company complies with company law and with the Euronext Growth Paris and AIM Rules.

The Company is a strong supporter of diversity in the boardroom and, during the reporting period, the Board comprised one female and six male Directors. The Company remains of the opinion that appointments to the Board should be made relative to a number of different criteria including diversity of gender, background and personal attributes, alongside the appropriate skill set, experience and expertise.

7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

Board evaluation

The Board is mindful that it needs to continually monitor and identify ways in which it might improve its performance. The Chairman routinely assesses the performance of the Board and its members and discusses any issues, problems, or shortcomings with the relevant Director(s). Likewise, the Senior Independent Director reviews the performance of the Chairman.

Although it is not an AIM requirement for an external Board appraisal to be undertaken, the Board believes that gaining independent input on a regular basis is best practice. It therefore intends to implement an external Board appraisal on a three-year rolling basis.

The current intention is to conduct the first of these in mid-2023, once any required Board changes in line with the Articles have been made. The exact terms of reference of the report have yet to be finalised, but is likely to seek input from all Board members both in the form of a questionnaire and one-to-one interviews covering:

- the themes from the questionnaire;
- the assessment of the Director's individual performance; and
- feedback on Board colleague's individual performance.

In addition, the independent review will have access to certain historic non-confidential/price sensitive Board packs and other information.

Final feedback is likely to be in the form of a full report for internal use. It is intended that this includes an Executive summary and key findings, together with a detailed analysis of the responses to the questionnaire and anonymised comments made in response to

QCA Principles continued

the questionnaire and during the interviews. The report will also include recommendations for consideration together with benchmarking against best practice.

The aim of the review will be to ensure that the Board contains the necessary skills to enable it to be satisfied that:

- the Board continues to meet its regulatory requirements and ensures that appropriate processes are in place for setting the strategic direction of the Group;
- each Committee continues to be effective and that all members were considered to have made valuable contributions, and individual Directors continue to perform effectively; and
- feedback will be provided through the Chairman to individual Board members.

8. Promote a corporate culture that is based on ethical values and behaviours

The Company recognises the importance of investing in its employees to provide foundations and leadership to drive performance further regardless of age, race, religion, gender or sexual orientation or disability. Our core Company values are the building blocks for developing our dynamic and challenging culture within the Group.

These values represent our philosophy, which, through our people and organisation, will help the business deliver our Company goals. The values represent how each of us can contribute to the success of the Company both now and in the future as an individual and also as part of the wider team.

- To treat each other with trust, dignity and respect.
- Enabling, empowering and energising others to make things happen.
- Work as a team with colleagues and across functions.
- Innovation, inspiration and motivation, creating an open culture where people are valued for their contribution.
- Novacyt endeavours to deliver the best quality service to all of our internal and external customers.

The Group recognises the importance of investing in its employees and, as such, the Group provides opportunities for training and personal development and encourages the involvement of employees in the planning and direction of their work. These values are applied regardless of age, race, religion, gender, sexual orientation or disability.

The Group believes that it has robust policies and procedures for combating bribery and corruption. A copy of the Group's Anti-Corruption and Bribery Policy can be found on the Group's website www.novacyt.com.

The Group recognises that commercial success depends on the full commitment of all its employees and commits to respecting their human rights, to provide them with favourable working conditions that are free from unnecessary risk and to maintain fair and competitive terms and conditions of service at all times.

The performance and reward system endorses the desired ethical behaviours across all levels of the Group.

9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

The Chairman, James Wakefield, is responsible for leading the Board, facilitating the effective contribution of all members and ensuring that it operates effectively in the interests of the Shareholders. David Allmond, the Chief Executive Officer, is responsible for the leadership of the business and implementation of the strategy. By dividing responsibilities in this way, no one individual has unfettered powers of decision-making.

The Board reserves for itself a range of key decisions to ensure that it retains proper direction and control of the Group, and a formal schedule of matters reserved for decision by the Board has been adopted by the Board since admission to AIM; a copy of which can be found at www.novacyt.com. Such matters include business strategy and management, financial reporting (including the approval of the annual budget), Group policies, corporate governance matters, major capital expenditure projects, material acquisitions and divestments and the establishment and monitoring of internal controls. This schedule may be updated by the Board and approved by the Board only. The day-to-day management of the business has been delegated to the Chief Executive Officer and the wider Executive team.

The appropriateness of the Board's composition and corporate governance structures are reviewed through the ongoing Board evaluation process and on an ad hoc basis by the Chairman together with the other Directors, and these will evolve in parallel with the Group's objectives, strategy and business model as the Group develops.

Board Committees

The Board has established an Audit Committee, a Remuneration Committee and a Nomination Committee; the terms of these Committees reflect market practice on AIM. These Committees of the Board have formally delegated responsibilities.

Copies of each Committee's terms of reference are available on the Company's website at www.novacyt.com.

Audit Committee

The Audit Committee is chaired by Juliet Thompson, and has primary responsibility for monitoring the quality of internal controls, ensuring that the financial performance of the Group is properly measured and reported on, and for reviewing reports from the Group's auditor relating to the Group's accounting and internal controls, in all cases having due regard to the interests of Shareholders. The Audit Committee meets at least twice a year. Dr Andrew Heath and Jean-Pierre Crinelli are the other members of the Audit Committee.

A report on the duties of the Audit Committee and how it discharges its responsibilities is provided on pages 61 to 63.

Remuneration Committee

The Remuneration Committee is chaired by Dr Andrew Heath, and reviews the performance of the Executive Directors, and determines their terms and conditions of service, including their remuneration, having due regard to the interests of Shareholders. The Remuneration Committee meets at least twice a year. Dr Ed Snape and Juliet Thompson are the other members of the Remuneration Committee.

The Directors' Remuneration Report and details of the activities and responsibilities of the Remuneration Committee are set out on pages 57 to 60.

Nomination Committee

The Nomination Committee is chaired by James Wakefield, and identifies and nominates, for the approval of the Board, candidates to fill Board vacancies as and when they arise. The Nomination Committee meets at least once a year. Dr Andrew Heath and Juliet Thompson are the other members of the Nomination Committee.

Details of the activities and responsibilities of the Nomination Committee are set out on page 56.

Build trust

10. Communicate how the Company is governed and is performing

As explained earlier in this Corporate Governance Statement, the Board has established a Nomination Committee, an Audit Committee and a Remuneration Committee. The work of each of the Board Committees undertaken during the year ended 31 December 2021 is detailed on pages 56 to 63.

The Board places its responsibility to the Company's Shareholders and setting the Group's strategy for achieving long-term success as a high priority. The Group's website is regularly updated with all press releases, AGM and EGM results and investor presentations.

The results of the votes received in relation to the 2021 AGM and EGM are available on the Company's website. All resolutions were passed at the 2021 General Assembly and no resolution had a significant proportion (>20%) of votes cast against them at that meeting.

The Board maintains a healthy dialogue with all of its stakeholders. Throughout the course of the year, the Board communicates with Shareholders directly on any views, concerns and expectations they may wish to express.

Nomination Committee Report

The Company established a Nomination Committee during 2017 prior to its admission onto the AIM market.

James Wakefield acts as Chairman of the Nomination Committee and its other members are Juliet Thompson and Dr Andrew Heath. All members of the Nomination Committee are considered independent.

The Nomination Committee is responsible for identifying and nominating for the approval of the Board candidates to fill Board vacancies as and when they arise, and to ensure that the Board consists of members with the range of skills and qualities needed to meet its principal responsibilities in a way that promotes the protection of the interests of stakeholders and compliance with the requirements of the AIM Rules.

The Nomination Committee will meet at least once a year and at such other times as the Chairman or any other member of the Nomination Committee requires.

2021 was a particularly busy year for the Nomination Committee in view of the retirement of Graham Mullis as CEO. This meant that the Nomination Committee met significantly more often than would usually be the case as it went about finding a new CEO. Initially the Committee met to decide who it wished to appoint to assist the search and thereafter a number of meetings were held with the chosen search firm to determine the exact specification and skill requirements of the new CEO. All members of the Nomination Committee were then involved with the recruitment process, which involved a number of interviews of potential parties. This was then narrowed down in a structured process and additional interviews undertaken until a final candidate was selected and an offer made.

Directors' Remuneration Report

Dr Andrew Heath
Chairman of the Remuneration Committee

Key responsibilities

The Remuneration Committee determines performance-related targets for the members of the Executive team, reviews their performance and makes recommendations to the Board on matters relating to their remuneration and terms of employment.

The Remuneration Committee also makes recommendations to the Board on proposals relating to all long-term incentive scheme structures and any future option schemes, and the granting of any share options under such schemes. The remuneration and terms and conditions of appointment of the Non-Executive Directors are set by the Board.

As Chairman of the Remuneration Committee, I am pleased to present our Directors' Remuneration Report for the year ended 31 December 2021.

This report does not constitute a Directors' Remuneration Report in accordance with the Companies Act 2006. As a Company whose shares are admitted to trading on AIM, the Company is not required by the Companies Act to prepare such a report. We do, however, have regard to the principles of the QCA Code, which we consider to be appropriate for an AIM company of our size. The report provides a general statement of policy on Directors' remuneration as it is currently applied, and details the remuneration for all Directors during the year. It also provides a summary of the Novacyt LTIP, which has established during 2022.

Composition and meetings

The Remuneration Committee comprises at least two members, and all members are Non-Executive Directors considered independent. Dr Andrew Heath acts as Chairman of the Remuneration Committee, and Dr Edwin Snape and Juliet Thompson are the other members.

Only members of the Remuneration Committee have the right to attend meetings, but other Directors and external advisors may be invited to attend all or part of any meeting as and when appropriate. No Director may be involved in discussions relating to their own remuneration.

The Remuneration Committee meets as appropriate but not less than twice a year. During the period, the Remuneration Committee met four times. Details of meeting attendance are shown in the table in the Corporate Governance Statement on page 52.

Policy on Executive remuneration

The Remuneration Committee is responsible for determining and agreeing with the Board the framework or broad policy for the remuneration of the Executive team. In determining such policy, the Remuneration Committee takes into account all factors that it deems necessary including the relevant legal and regulatory requirements and corporate governance guidelines. The Remuneration Committee also takes into account emerging best practice and guidance from major institutional Shareholders. The objective of the Company's remuneration policy is to attract, retain and motivate individuals of the quality required to run the Company successfully without paying more than is necessary, having regard to views of Shareholders and other stakeholders.

Directors' Remuneration Report continued

The Remuneration Committee recognises that the remuneration policy should have regard to the risk appetite of the Company and alignment to the Company's long-term strategic goals, with a significant proportion of remuneration being structured to link rewards to corporate and individual performance, designed to promote the long-term success of the Company.

The Remuneration Committee, when setting the remuneration policy for Executive Directors, also has regard to the pay and employment conditions across the Group, particularly when conducting salary reviews.

The main elements of the remuneration packages of the Executive Directors are as follows.

Basic annual salary and pension

Basic salary is reviewed annually by the Remuneration Committee, usually in February, and takes into account a number of factors, including the current position and progress of the Group, individual contribution and market salaries for comparable organisations.

The Company makes contributions into the private pension schemes of the Executive Directors.

Discretionary bonus

At the discretion of the Remuneration Committee, taking into account performance against certain financial and individual targets, an Executive Director may be entitled to an annual discretionary cash bonus on such terms and subject to such conditions as may be decided from time to time by the Remuneration Committee.

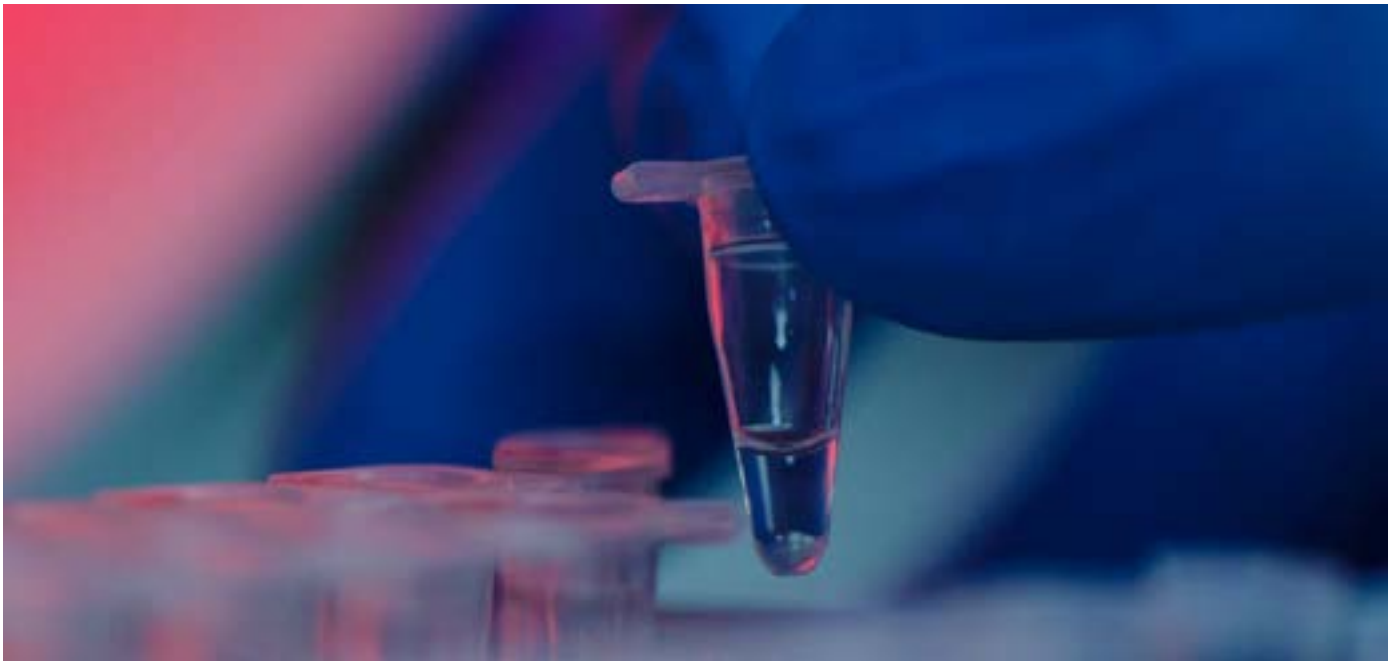
The Novacyt 2022 Performance Share Awards Scheme

This new LTIP replaces the previous phantom share award scheme which ended in November 2020.

The 2022 Performance Share Awards (structured as nil-cost options[1]) will apply to the Executive management team only, which currently comprises seven members. The performance shares will vest ("Vest") after three financial years (the "Performance Period") subject to the Company achieving Total Shareholder Return ("TSR") Growth conditions as follows:

TSR Growth	% of the Award that may Vest
Less than 10% p.a.	Nil
Equal to 10% p.a.	25%
Greater than 10% p.a. but less than 30% p.a.	Pro-rata between 25% and 100% on a straight-line basis
Equal to or greater than 30% p.a.	100%

1 Executive team salaries and short-term bonuses were reviewed and agreed.



The baseline for TSR is based on the average closing price of the Company's shares in December 2021, which was £3.54. This will then be compared to the equivalent figure in December 2024.

Once vested, a Performance Share Award shall normally remain exercisable up until the tenth anniversary of the date of grant (3 February 2022 for these awards).

The Chief Executive Officer and Chief Financial Officer will be required to hold 50% of vested shares, or such other percentage determined by the Board from time to time, (less any shares sold to pay any tax liability) for a minimum period of one year after the vesting date.

Benefits in kind

Executive Directors are entitled to benefits in kind commensurate with their position, including company car allowance, private medical and death in service insurance.

Directors' remuneration

The remuneration of the Directors who served on the Company's Board during the year to 31 December 2021 was as follows:

	Year ended 31 December 2021					Year ended 31 December 2020				
	Basic salary and fees	**Bonus**	**Pension**	**LTIP**	**Total**	Basic salary and fees	Bonus	Pension	LTIP	Total
Executive Directors										
Graham Mullis[4]	**349,758**	**–**	**2,533**	**–**	**352,291**	322,263	264,341	20,327	8,204,196[3]	8,811,127
Anthony Dyer[4]	**165,000**	**–**	**8,383**	**–**	**173,383**	175,868	65,922	8,873	2,905,650[3]	3,156,313
David Allmond[4]	**85,744**	**200,000[5]**	**–**	**–**	**285,744**	–	–	–	–	–
James McCarthy[4]	**73,883**	**–**	**–**	**150,000[6]**	**223,883**	–	–	–	–	–
Non-Executive Directors										
James Wakefield	**95,000**	**–**	**–**	**–**	**95,000**	90,000	–	–	–	90,000
Juliet Thompson	**47,500**	**–**	**–**	**–**	**47,500**	43,875	–	–	–	43,875
Andrew Heath	**47,500**	**–**	**–**	**–**	**47,500**	43,875	–	–	–	43,875
Jean-Pierre Crinelli[1]	**32,672**	**–**	**–**	**–**	**32,672**	35,767	–	–	–	35,767
Edwin Snape[2]	**31,802**	**–**	**–**	**–**	**31,802**	28,053	–	–	–	28,053

1 Salaries paid in Euros and disclosed in GBP, translated at the average exchange rate of 1.163068 in 2021 (2020: 1.125107).

2 Salary paid in USD and disclosed in GBP, translated at the average exchange rate of 1.375659 in 2021 (2020: 1.283601).

3 1/3 received in 2020, the following two payments are deferred and due to be paid in 2022.

4 Anthony Dyer resigned as Director on 29 September 2021 and Graham Mullis resigned as Director on the 18 October 2021. James McCarthy and David Allmond were elected as Directors during the AGM held on 18 October 2021.

5 Payment received by way of a signing on bonus.

6 Cash payment received in lieu of 2021 LTIP entitlement.

Directors' Remuneration Report continued

Directors' shareholdings and share interests

The interests of the Directors who served during the year in the share capital of the Company as of 31 December 2021, 31 December 2020 and the date of this report were as follows:

	As at the date of report	31 December 2021	31 December 2020
Graham Mullis and family	122,506	122,506	122,506
Anthony Dyer	16,839	16,839	16,839
James McCarthy	49,670	10,000	10,000
David Allmond	43,500	–	–
James Wakefield	36,839	36,839	36,839
Dr Andrew Heath and family	20,000	20,000	20,000
Dr Edwin Snape	17,919	17,919	17,919
Jean-Pierre Crinelli	33,981	30,773	30,773
Juliet Thompson	–	–	–

All interests are beneficially held. There is no requirement for Directors to hold shares in the Company.

Directors' share interests under the 2022 Performance Share Awards Scheme

The Performance Share Awards allocated to the Executive team under the 2022 Performance Share Awards scheme, which represent 1.41% of the current issued share capital, are as follows:

Participants		LTIP Award # Shares
David Allmond	Chief Executive Officer *	358,262
James McCarthy	Chief Financial Officer *	228,333
Guillermo Raimondo	Chief Commercial Officer	128,161
David Franks	Chief Human Resources Officer	83,968
Bryan Close	Chief Operations Officer	83,968
Navin Nauth-Misir	Group QA/RA Director	58,335
Paul Oladimeji	Group Head of R&D	57,452
	Total	998,479

* David Allmond and James McCarthy are members of the Novacyt Board.

Conclusion

This report is intended to explain clearly the remuneration approach adopted by the Company and to enable Shareholders to appreciate how it underpins the Group's business growth and strategic objectives. The Board considers that the current remuneration policy is fair and is fully aligned with the interests of Shareholders.

Dr Andrew Heath
Chairman of the Remuneration Committee

Audit Committee Report

Juliet Thompson
Chair of the Audit Committee

Key responsibilities

The audit committee administers the financial reporting of the company and related risks, internal controls, compliances, and ethics.

It must coordinate with management and the auditors to come up with financial reporting for the Group results that is compliant with International Financial Reporting Standards, as adopted by the EU, and French GAAP for the parent Company.

Ensuring the financial reports are accurate, the audit committee should be aware of the processes and internal controls put in place by the company's management.

The audit committee is responsible for appointing individual auditors, along with evaluating their performance and compensation. In some organisations, they may oversee the internal auditors as well.

The Audit Committee comprises at least two members, with at least one Non-Executive Director considered independent, including the Chairman.

In addition, the Chief Financial Officer and other members of the Company may be invited to attend as required.

Independent Non-Executive Director, Juliet Thompson, being a chartered accountant, acts as Chair of the Audit Committee, and its other members are Jean-Pierre Crinelli and Dr Andrew Heath.

Summary of the role of the Audit Committee

The Audit Committee's primary responsibility is to monitor the quality of internal controls and ensure that the financial performance of the Group is properly measured and reported on.

It receives and reviews reports from the Executive team and external auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Group.

The Audit Committee meets as appropriate, but not less than twice a year, and minutes are recorded for each meeting by the Chief Financial Officer. The Audit Committee is able to call for information from the Executive team and has unrestricted access to the Company's external auditors.

The Audit Committee operates within specific terms of reference that include:

- Reviewing management procedures to monitor the effectiveness of the accounting systems, accounting policies and internal controls;
- Conducting a regular and ongoing process of risk assessment;
- Reviewing the scope and planning of the external audit;
- Reviewing the findings of the external auditor's and management's response;
- Reviewing the annual financial statements before their submission to the Board for approval;
- Making recommendations to the Board concerning the appointment and remuneration of the external auditor;
- Reviewing any profit forecasts or working capital statements published in any bid document or listing particulars as investigated and verified by the Company's auditor and/or reporting accountant;
- Reviewing from time to time the cost effectiveness of the audit including a review of the performance of the external auditor;

Audit Committee Report continued

- Monitoring the fees paid to the external auditor and where the external auditor supplies a substantial volume of non-audit services to the Company, to keep the nature and extent of such services under review, in order to achieve a balance between objectivity and value for money; and
- Having the right to obtain outside legal help and any professional advice, at the Company's expense, which might be necessary for the fulfilment of its duties.

The Audit Committee is responsible for ensuring the "right tone at the top" and that the ethical and compliance commitments of the Executive team and other employees are understood throughout the Group.

External auditors

The Audit Committee is responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor and assesses annually the qualifications, expertise, resources, remuneration and independence of the external auditor. The Audit Committee receives reports on the external audit firm's own internal quality control procedures and confirmation of the auditor's independence. The Audit Committee ensures that appropriate plans are in place for the external auditor each annual cycle.

The Group's external auditors are Deloitte LLP and Alberis Audit. Under French law, the mandatory term for auditors is six years. Deloitte LLP was reappointed as external auditor during the AGM held in 2018 and has now been the auditor for ten years at the end of the audit of the annual accounts for the year ended 31 December 2021, in additon, Alberis Audit were appointed in 2021 for a period of 6 years to approve the financial statements up to the year ended 31 December 2026.

The Audit Committee annually reviews the effectiveness of the external auditor. This process involves overseeing the relationship with the Group's external auditor, including reporting to the Board each year whether it considers the audit contract should be put out to tender, adhering to any legal requirements for tendering or rotation of the audit services contract as appropriate, reviewing and monitoring the external auditor's objectivity and independence, agreeing the scope of their work and fees paid to them for audit, and assessing the effectiveness of the audit process. The external auditor presents to the Audit Committee the output of its detailed year-end work and the Audit Committee challenges significant judgements (if any). In making its assessment of external auditor effectiveness, the Audit Committee reviews the audit engagement letters before signature, reviews the external auditor's summary of Company issues, and conducts an overall review of the effectiveness of the external audit process and the external auditor. The Audit Committee reports its findings to the Board.

The Audit Committee and the Board have been satisfied with the performance of the external auditors during the year and with the policies and procedures they have in place to maintain their objectivity and independence.

The Audit Committee also approves in advance any non-audit services to be performed by the auditor such as tax compliance and advisory work, audit-related assurance services (e.g. reviews of internal controls and reviewing the Group's interim financial statements).

Any non-audit services that are to be provided by the external auditor are reviewed in order to safeguard auditor objectivity and independence. Accordingly, the Board can confirm that, during the reporting period, there have been no non-audit services that

are considered to have impaired the objectivity and independence of the external auditor. A full breakdown of payments made to the external auditor during the financial year is disclosed within note 47 to the financial statements.

Work undertaken by the Audit Committee during the period

The Audit Committee met four times during the period. Details of meeting attendance are shown in the Corporate Governance Statement on page 52.

Deloitte LLP and Alberis Audit, as the auditors, were also present at one of the meetings.

The key matters considered by the Audit Committee whilst discharging its duties and responsibilities are set out below:

- Review of the Annual Report and Accounts for the year ended 31 December 2020;
- Consideration and approval of the unaudited interim financial statements for the period ended 30 June 2021;
- Review of the financial integrity of the Group's financial statements including relevant corporate governance statements;
- Review of the Company's interim report for the six months ended 30 June 2021;
- Approval of the audit fees for the financial year ended 31 December 2021;
- Approval of non-audit work to be carried out by the auditor;
- Consideration of the independence and objectivity of the external auditor;
- Review of the internal controls and risk management systems within the Group;
- Consideration of the requirement for the Group to have an internal audit function;
- Review of the effectiveness of the external auditor, as more fully described above;
- Discussions with the auditor on the audit approach and strategy, the audit process, significant audit risks and key issues of focus for the annual audit;
- Review and approval of the continuing appointment of Deloitte LLP as the Group's auditor; and
- Appointment of Alberis Audit as 2nd auditor.

The ultimate responsibility for reviewing and approving the financial statements in the interim and annual reports remains with the Board.

The Audit Committee, in conjunction with the auditor, has considered there are no significant issues relating to the preparation of the financial statements contained in this Annual Report.

Risk management and internal control

The Board has overall responsibility for the Group's system of internal control and for reviewing the effectiveness of internal control to safeguard Shareholders' investment and the Group's assets. There is an ongoing process for identifying, evaluating and managing the significant risks the Group faces. The Board regularly reviews the process, which has been in place throughout the period and up to the date of approval of the Annual Report and Accounts.

The Board's internal control and risk management review process (conducted with the assistance of the Audit Committee), is outlined on pages 61 to 63.

Internal audit

The Board has reviewed the need for a separate internal audit function and concluded that such a function is not currently appropriate for a size of company such as the Group, and because the internal audit principles already fall under the remit of the Audit Committee.

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 April 2023. In making this assessment, the Directors have considered the following elements:

- The working capital requirements of the business;
- A positive cash balance at 31 December 2021 of £101,746,000;
- 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 notes 49 and 50.

In the event the current dispute is fully settled in favour of the counterparty, the forecast prepared by the Group shows that it is able to cover its cash needs during the financial year 2022 and up to April 2023 without raising any banking or other financing facility.

Approved by on behalf of the Board.

Juliet Thompson
Chair of the Audit Committee

Principal Risks and Risk Management

The Group's risk management strategy is a key responsibility of the Board of Directors. The Board ensures that all major risks are understood and appropriately managed in light of the Group's strategy and objectives and is satisfied that the Group's risk management and internal control systems are adequate.

The Group's risk management framework supports the risk assessment procedure across the Group, with the objective of ensuring that the assessment of the strategic, operational, financial and external risks of the Group is approached consistently Group-wide.

At this stage of the Company's development, the Board does not consider it to be appropriate to establish an internal audit function, but this will be kept under review.

The principal risks faced by the Group are set out below.

The pace of development in the healthcare industry	The Group operates within the biotechnology sector, a complex area of the healthcare industry. Rapid scientific and technological change within the biotechnology sector could lead to other market participants creating approaches, products and services equivalent or superior to the diagnostic testing products and services offered by the Group, which could adversely affect the Group's performance and success. If the Group is unable to keep pace with these changes in the biotechnology sector and in the wider healthcare industry, the demand for its technological platforms and associated products and services could fall.
Competitive pressures	Companies operating within the biotechnology sector are subject to competitive forces that may result in price discounting and product obsolescence. Better resourced competitors may be able to devote more time and capital towards the R&D process, which, in turn, could lead to scientific and/or technological breakthroughs that may materially alter the outlook or focus for markets in which the Group operates. In addition, a certain number of the Group's competitors may have significantly greater financial and human resource capacity and, as such, better manufacturing capability or sales and marketing expertise. Competitors could also resort to price discounting or other sales and marketing strategies. Equally, new companies with alternative technologies and products may also emerge.
Geographic markets	The Group is largely based in the UK, and its products are distributed to and sold across multiple jurisdictions. In each of these jurisdictions, there may be a number of associated risks in respect of which the Group will have no, or limited, control. These may include: contract renegotiation, contract cancellation, economic, social or political instability or change, hyperinflation, currency non-convertibility or instability, and changes of laws affecting foreign ownership, taxation, working conditions, rates of exchange, exchange control and licensing.
Product development	Additional products and services developed through the element of the Group's strategy focused on R&D transformation will be required to drive the Group's growth, such as Primerdesign's focus on transferring assays from RUO to clinical CE-IVD products. The development of such additional diagnostic testing products and services may take longer than expected or not be successful at all, which may adversely impact the Group's ability to generate revenues and achieve sustainable profitability. In addition, the value of additional diagnostics tests and products may not prove as robust as currently envisaged by the Group. Any delays or unbudgeted expenditures incurred by the Group could postpone or halt the commercialisation of particular diagnostics tests and products.

Product liability claims	The Group faces an inherent risk of product liability and associated adverse publicity as a result of the sales of its products. Criminal or civil proceedings might be filed against the Group by patients, the regulatory authorities, pharmaceutical companies and any other third party using or marketing its products. Any such product liability claims may include allegations of defects in manufacturing, defects in design, negligence, strict liability, a breach of warranties and a failure to warn of dangers inherent in the product. If the Group cannot successfully defend itself against product liability claims, it may incur substantial liabilities or be required to limit commercialisation of its products, if approved. Even successful defence could require significant financial and management resources. Although the Group maintains a level of insurance that is customary for its industry to cover its current business, any claim that may be brought against the Group could result in a court judgement or settlement in an amount that is not covered, in whole or in part, by its insurance or that is in excess of the limits of its insurance coverage. Its insurance policies also have various exclusions and the Group may be subject to a product liability claim for which the Group has no coverage.
Reliance on sole suppliers	Due to the specific and innovative nature of some of the Group's products, there may only be a single supplier of goods or services to the Group in respect of those products or services, which may or may not be pursuant to the terms of exclusive supplier agreements. The Group's purchases may be delayed if that single supplier, in respect of any one product or service, has its own manufacturing difficulties or is not able to meet the purchase requirements of the Group within a reasonable time frame. Further, any exclusive supplier arrangements may be terminated by either the supplier or the Company on notice. In the event of serious delays or non-performance by such suppliers, or upon such arrangements being terminated, the Group's own stock levels could diminish or be exhausted. The Group may consider expanding its current supplier base to reduce the reliance on certain suppliers. However, there is no guarantee that they will be successful in doing so in a manner that complies with regulatory requirements.
Reliance on third-party distributors	The Group uses third-party distributors in a number of its business areas. Although the Group enters into agreements with such distributors, it cannot ultimately control their actions and they may underperform or not act in the best interests of the Group. Furthermore, the distribution agreements may be terminated by the distributors or the Group. If so, and if appropriate from the Group's strategy at that time, the Group may seek to find a replacement distributor but there can be no guarantee that they will be successful in doing so.
Acquisition strategy	A core part of the Group's strategy is to undertake acquisitions that are strategically complementary to its existing businesses. The success of such a strategy will depend on the Group's ability to identify potential targets, complete the acquisition of such targets on favourable terms, including securing appropriate financing, and to generate value from the acquired targets. This strategy may not be successful under all or any market conditions. The Group may not be able to acquire targets on attractive terms or to generate resulting returns for Shareholders and prospective investors.

Principal Risks and Risk Management continued

Litigation and arbitration	From time to time, the Group may be subject to litigation arising from its operations, distribution and sales. Damages claimed, awarded, settled or paid under any litigation or arbitration may be material or may be indeterminate, and the outcome of such litigation or arbitration may have a material adverse effect on the Group's business, financial condition, capital resources, results and or future operations. Please refer to Notes 49 and 50 of the accounts regarding the ongoing DHSC dispute.
Key personnel	The Group depends on the services of its key personnel, which includes a number of individuals some of whom are currently on a short notice period of three months or less. The Group's ability to manage its R&D and product development activities, wider operations and financing will depend in large part on the efforts of its key personnel. The loss of services of key personnel, the inability to attract, retain and integrate suitably qualified personnel or delays in hiring required personnel, could delay the achievement of the Group's objectives and strategy.
Tenders	A proportion of the Group's revenues stem from tenders awarded to the Group and it is not possible to control and/or predict the outcomes of these tender processes. The success of such tender awards is based upon the ability of the organisation or country to finance tenders, and then it is based upon the historical performance, price and quality of the competitors who have been invited to participate in the tender process. The Group may not be successful in future tender processes. The failure to gain new business through the award of tender contracts may have a material adverse effect on the Group's business, financial condition, capital resources, results and/or future operations.
Regulatory environment	The Group's products are subject to various laws, regulations and standards in each of the jurisdictions in which products are manufactured and distributed. These laws, regulations and standards may change and, if the Group fails to meet those regulatory or other requirements, it could face delays or prohibitions on the operation of its business. The Group's ability to conduct business is predicated on being in compliance with all licence requirements as specified by each relevant jurisdiction. The Group may not continue to hold all of the necessary consents, approvals and licences required to conduct its business, and where new permissions are required, these may be delayed or not forthcoming. If any new approvals or licences are required in order for the Group to carry on its business, the Group could face delays or prohibitions on the development, manufacture, sale or distribution of its products, which may have a material adverse effect on the Group's business, financial condition, capital resources, results and/or future operations.

New IVDR regulations	The entire IVD industry within the EU is currently undergoing a significant regulatory transition from the existing In Vitro Diagnostic Directive ("IVDD") (98/79/EC) to a new In Vitro Diagnostic Regulation ("IVDR") (2017/746). There are a limited number of notified bodies available to IVDD manufacturers, which reflects a risk that the industry may not be ready when the new IVDR regulations to come into force. In recognition of this, the European Commission has now delayed the full implementation of IVDR for existing products until 2025, 2026 or 2027 depending on the risk classification of the device (COVID tests must meet the requirements by 2025). Whilst there is now more time to meet requirements for existing tests, any new products launched after May 2022 must meet IVDR requirements. The cumulative effect of the introduction of the new regulation will be a significantly increased burden on the resources of IVD manufacturers to maintain regulatory compliance, and this could result in older products being deleted due to cost of compliance or the up-classification of products and the increased scrutiny by notified bodies. The IVDR will apply to any products sold in Europe even though the UK has left the EU. The UK, in turn, is applying its own regulatory regime to IVDDs, which will involve applying a UK certification mark for any products sold in the UK and this increases the regulatory burden.
Employment laws	The Group is also subject to various UK, US, French and EU regulations governing the Group's relationship with employees, including such matters as the treatment of part-time or agency workers, employers' National Insurance contributions (or equivalent in France), overtime and other working conditions. A failure to comply with one or more regulations could result in the imposition of sanctions, including the closing of facilities for an indeterminate period of time or third-party litigation.
European General Data Protection Regulation	The Group is committed to ensuring compliance with European General Data Protection Regulation ("GDPR"). Failure to demonstrate appropriate actions to comply with GDPR could result in a one-off discretionary caution or can escalate to a fine of up to 4% of annual global turnover.
Information technology	The Group is heavily reliant upon its information technology systems to enable it to manage a growing business and to service its customers online. Information systems are used across all aspects of the Group's business, including R&D, product development, sales, production, stock control, distribution, and accounting and finance. The Group's business would be adversely affected by a material or sustained breakdown in its key computer and communication systems. In addition, the Group may face online security breaches, including hacking and vandalism. The Group cannot guarantee absolute protection against unauthorised attempts to access its information technology and communication systems, including malicious third-party applications that may interfere with or exploit security flaws in its products and services.

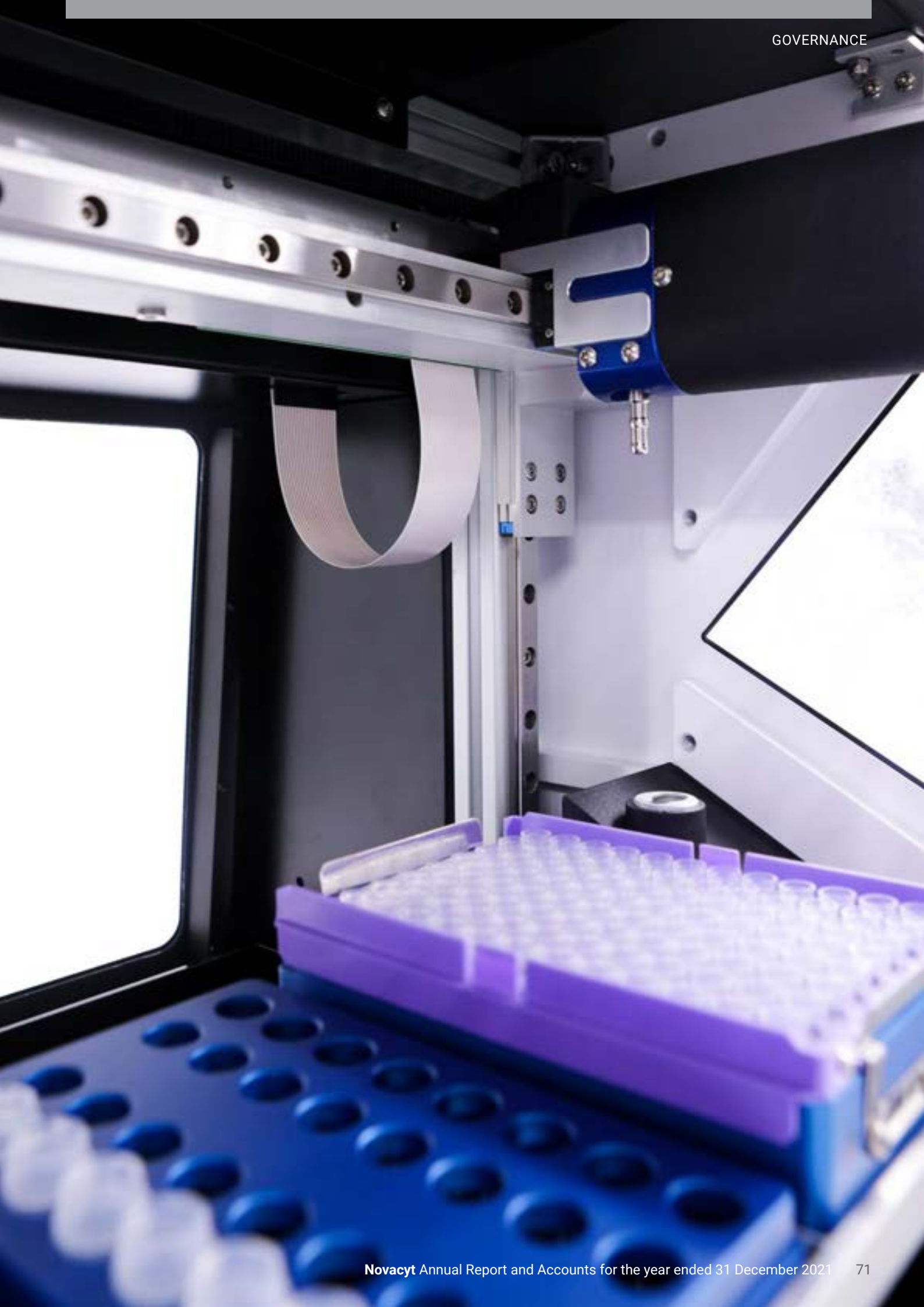
Principal Risks and Risk Management continued

Brexit	On 23 June 2016, the UK held a referendum on the UK's continuing membership of the EU, the outcome of which was a decision for the UK to leave the EU (Brexit). Following Royal Assent of the European Union (Withdrawal Agreement) Act on 23 January 2020 and ratification of the Withdrawal Agreement by the European Parliament on 24 January 2020, the UK left the EU on 31 January 2020 and became a third country with a transition period running to 31 December 2020. As the IVDD regulations apply to all products placed on the market, we still need to comply with IVDD and IVDR but as we are now considered a non-EU manufacturer, we have to appoint a European Authorised Representative based in the EU, make labelling changes and register our products with an EU Competent authority. This adds cost and complexity to selling in Europe. In addition, the UK Government has decided not to recognise CE marking after 2023 and will require IVDDs placed on the UK market to undergo a regulatory process that duplicates the CE marking process, with a separate registration in the UK and the application of a UKCA mark adding further cost and complexity.
Protection of intellectual property rights	The Group's ability to compete depends, in part, upon the successful protection of its intellectual property, in particular its patents, trademarks, know-how and trade secrets. The Group seeks to protect its intellectual property through the filing of worldwide patent and trademark applications, as well as robust confidentiality obligations on its employees (and any contractors). Despite these precautions that may be taken by the Group to protect its intellectual technology and products, unauthorised third parties may attempt to copy, or obtain and use, its technology and products. A third party may infringe upon the Group's intellectual property, release information considered confidential about the Group's intellectual property and/or claim technology that is registered to the Group. In addition, the Group may fail to discover infringement of its intellectual property, and/or any steps taken or that will be taken by it may not be sufficient to protect its intellectual property rights or prevent others from seeking to invalidate its intellectual property, or block sales of its products by alleging a breach of their intellectual property. Applications filed by the Group in respect of new patents and trademarks may also not be granted. The Directors intend to defend the Group's intellectual property vigorously through litigation and other means.

Infringement of third-party patents and other intellectual property rights	The Group's products may infringe or may be alleged to infringe existing patents or patents that may be granted in the future, which may result in costly litigation and could result in the Group having to pay substantial damages or limit the Group's ability to commercialise its products. If the Group is sued for patent infringement, the Group would need to demonstrate that its products or methods either do not infringe the patent claims of the relevant patent or that the patent claims are invalid, and the Group may not be able to do this. If the Group is found to have infringed a third-party's patent, the Group could be required to obtain a licence from such third party to continue developing and marketing its products and technology or the Group may elect to enter into such a licence in order to settle litigation or in order to resolve disputes prior to litigation. However, the Group may not be able to obtain any required licence on commercially reasonable terms or at all. Even if the Group is able to obtain a licence, it could be non-exclusive, thereby giving its competitors access to the same technologies licensed to the Group, and could require the Group to make substantial royalty payments. The Group could also be forced, including by court order, to cease commercialising the infringing technology or products. A finding of infringement could prevent the Group from commercialising its products or force the Group to cease some of its business operations, which could materially harm its business. Claims that the Group has misappropriated the confidential information or trade secrets of third parties could have a similarly negative impact on its business.
Protection of trademarks	The Group owns certain trademarks that are important to its business and competitive position. Third parties may infringe or misappropriate these rights by, for example, imitating the Group's products, asserting rights in, or ownership of, the Group's trademarks or other intellectual property rights or in trademarks that are similar to trademarks that the Group owns. In addition, the Group may fail to discover infringement of its intellectual property, and/or any steps taken or that will be taken by it may not be sufficient to protect its intellectual property rights or prevent others from seeking to invalidate its trademarks by alleging a breach of their trademarks and intellectual property. Applications filed by the Group in respect of new trademarks may not be granted. In addition, some of the Group's intellectual property may not be capable of being registered as belonging to the Group in all types of trademarks and all classes and the Group may, therefore, have difficulty protecting such intellectual property. Further, the Group may not be able to prevent others from using its brands (or other intellectual property that is not registered as belonging to the Group) at all or in a particular market. If the Group is unable to protect its intellectual property rights against infringement or misappropriation, or if others assert rights in or seek to invalidate its intellectual property rights, this could have a material adverse effect on the Group's business, financial condition, capital resources, results and/or future operations.

Principal Risks and Risk Management continued

Customer concentration	The Group's 2021 revenue includes approximately £9,702,000 from sales to the Group's largest customer. No other customers contributed 10% or more to the Group's revenue in 2021.
Bad debtors	The Group sells to companies of all sizes from small to medium-sized enterprises to blue-chip institutions, and operates in emerging markets, such as the Middle East, Asia-Pacific, Africa and South America. Whilst the Group has, to date, successfully managed the risk of being paid for products and services sold into these companies and regions, as the Group grows and its customer base and distribution channels expands, there could be a higher risk that new customers do not pay in a timely manner and that bad debt increases.
Foreign exchange rates	The Group operates on a global basis and it has exposure to foreign exchange risk on purchases and sales that are denominated in currencies other than the Pound Sterling, Euro and US Dollar, which are the currencies of most of its receivables, expenditures, cash reserves and borrowings. The Pound Sterling, Euro and US Dollar exchange rates have fluctuated significantly in the past and may do so in the future. Consequently, revenue, expenditure, cash and borrowings may be higher or lower than anticipated by the Group. In addition, the financial statements of the Group are denominated in Pounds Sterling which, therefore, give further exposure to foreign exchange rate fluctuations and may impact the financial results reported to its Shareholders, particularly as profits and losses arising from foreign currency transactions and on settlement of amounts receivable and payable in foreign currency are dealt with through the profit and loss statement.
SARS-CoV-2 Pandemic	The global pandemic has caused significant disruption and volatility to the entire diagnostics market. As clinical laboratories tried to meet the demand for COVID-19 testing, all other diagnostic testing has been impacted and reduced as testing capacity has been insufficient to meet all clinical demands. This balance of supply and demand has improved considerably in some parts of the world but continues to be challenging for all testing service providers as the pandemic evolves in waves across the globe and as the specific requirements for testing changes with the evolution of new virus mutations and the need for near patient testing alongside central testing. This makes the diagnostics market as a whole and COVID-19 testing specifically very difficult to predict and so diagnostic manufacturers are unable to plan or forecast their business requirements with any degree of accuracy.



Financial Statements

Statement of Directors' responsibilities in respect of the Annual Report and financial statements.

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law, they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards, as adopted by the EU, and applicable law, and have elected to prepare the parent company financial statements under French GAAP.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period.

In preparing each of the Group and parent company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- Prepare the financial statement on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that the Group's financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- The Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Statutory Auditor's report on the consolidated financial statements

for the year ended 31 December 2021

This is a translation into English of the statutory auditor's report on the consolidated financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users.

This statutory auditor's report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the management report and other documents provided to Shareholders.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the NOVACYT Shareholders' Meeting

Opinion

In compliance with the engagement entrusted to us by your annual general meeting, we have audited the accompanying consolidated financial statements of NOVACYT for the year ended 31 December 2021.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at 31 December 2021 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the "Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements" section of our report.

Independence

We conducted our audit engagement in compliance with independence requirements of the French Commercial Code (code de commerce) and the French Code of Ethics (code de déontologie) for statutory auditors, for the period from 1 January 2021 to the date of our report.

Emphasis of Matter

We draw attention to the following matter:

- Notes 49. Contingent Liabilities and 50. Subsequent Events, identifying an ongoing commercial dispute and disclosing the underlying assumptions and the potential impacts in the consolidated financial statements.

Our opinion is not modified in respect of this matter.

Justification of Assessments

Due to the global crisis related to the COVID-19 pandemic, the consolidated financial statements of this period have been prepared and audited under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of sanitary emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Those measures, such as travel restrictions and remote working, have also had an impact on the companies' internal organisation and the performance of the audits.

It is in this complex and evolving context that, in accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code relating to the justification of our assessments, we inform you of the following assessments that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the consolidated financial statements.

Goodwill

Goodwill was subject to impairment tests according to the procedures describes in the "Impairment testing" note to the consolidated financial statements. We reviewed the procedures used to implement these tests as well as the cash flow forecasts and assumptions used for this purpose, and we verified that the "Impairment testing" and "Goodwill" notes provided appropriate disclosures.

Specific Verifications

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by law and regulations of the information pertaining to the Group presented in the Board of Directors' management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The consolidated financial statements were approved by the Board of Directors.

Statutory Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code, our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements.
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.
- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The statutory auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

Cergy and Paris-La Défense,
27 April 2022

The Statutory Auditors
French original signed by
Alberis Audit
Deloitte & Associés
Guillaume TURCHI
Benoit PIMONT

Consolidated income statement

for the years ended 31 December 2021 and 31 December 2020

Amounts in £'000	Notes	Year ended 31 December 2021	Year ended 31 December 2020
Continuing Operations			
Revenue	5	**95,780**	277,204
Cost of sales	7	**(30,332)**	(65,704)
Cost of sales – exceptional	8	**(35,770)**	–
Gross profit	**9**	**29,678**	**211,500**
Sales, marketing and distribution expenses	10	**(7,025)**	(4,492)
Research and development expenses	11	**(4,815)**	(1,630)
General and administrative expenses	12	**(18,833)**	(30,532)
Governmental subsidies		**308**	(3)
Operating (loss)/profit before exceptional items		**(687)**	**174,843**
Other operating income	13	**65**	–
Other operating expenses	13	**(7,173)**	(7,402)
Operating (loss)/profit after exceptional items		**(7,795)**	**167,441**
Financial income	14	**466**	83
Financial expense	14	**(2,500)**	(2,353)
(Loss)/profit before tax		**(9,829)**	**165,171**
Tax income/(expense)	15	**101**	(32,748)
(Loss)/profit after tax attributable to owners of the Company (*)		**(9,728)**	**132,423**
(Loss)/profit per share (£)	16	**(0.14)**	1.94
Diluted (loss)/profit per share (£)	16	**(0.14)**	1.94

(*) There are no non-controlling interests.

Consolidated statement of comprehensive income

for the years ended 31 December 2021 and 31 December 2020

Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 2020
(Loss)/profit for the period recognised in the income statement	**(9,728)**	**132,423**
Items that may be subsequently reclassified to profit or loss:		
Translation reserves	**862**	290
Total comprehensive (loss)/income	**(8,866)**	**132,713**
Comprehensive (loss)/income attributable to:		
Owners of the Company (*)	**(8,866)**	132,713

(*) There are no non-controlling interests.

Statement of financial position

for the years ended 31 December 2021 and 31 December 2020

Amounts in £'000	Notes	Year ended 31 December 2021	Year ended 31 December 2020
Goodwill	17	**11,471**	17,877
Other intangible assets	18	**3,710**	4,255
Property, plant and equipment	19	**4,594**	1,643
Right-of-use assets	20	**1,788**	2,259
Non-current financial assets		**144**	138
Deferred tax assets	21	**3,143**	3,023
Other long-term assets		**64**	96
Total non-current assets		**24,914**	**29,291**
Inventories and work in progress	22	**11,461**	29,888
Trade and other receivables	23	**38,499**	79,592
Tax receivables	30	**5,034**	–
Prepayments and short-term deposits	24	**2,034**	3,731
Investments short-term		**9**	9
Cash and cash equivalents	25	**101,746**	91,765
Total current assets		**158,783**	**204,985**
Total assets		**183,697**	**234,276**
Lease liabilities short-term	27	**424**	414
Contingent consideration short-term	29	**836**	1,022
Provisions short-term	31	**19,956**	19,856
Trade and other liabilities	32	**17,190**	36,784
Tax liabilities	33	**–**	15,116
Other current liabilities	34	**498**	950
Total current liabilities		**38,904**	**74,142**
Net current assets		**119,879**	**130,843**
Lease liabilities long-term	27	**1,446**	1,964
Contingent consideration long-term	29	**–**	812
Provisions long-term	31	**308**	242
Deferred tax liabilities	21	**1,224**	800
Other liabilities long-term	35	**–**	5,606
Total non-current liabilities		**2,978**	**9,424**
Total liabilities		**41,882**	**83,566**
Net assets		**141,815**	**150,710**
Share capital	36	**4,053**	4,053
Share premium account	37	**50,671**	50,671
Own shares		**(78)**	(49)
Other reserves	38	**(1,174)**	(2,036)
Equity reserve	39	**1,155**	1,155
Retained earnings	40	**87,188**	96,916
Total equity – owners of the Company		**141,815**	**150,710**
Total equity		**141,815**	**150,710**

Statement of changes in equity

for the years ended 31 December 2021 and 31 December 2020

Amounts in £'000	Notes	Share capital	Share premium	Own shares	Equity reserves	Other Group reserves: Acquisition of the shares of Primerdesign	Other Group reserves: Translation reserve	Other Group reserves: OCI on retirement benefits	Other Group reserves: 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	36, 37	567	2,011	–	–	–	–	–	**–**	–	**2,578**
Own shares acquired/ sold in the period		–	–	92	–	–	–	–	**–**	–	**92**
Conversion of warrants and debts	36, 37	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		–	–	–	–	–	862	–	**862**	–	**862**
Loss for the period		–	–	–	–	–	–	–	**–**	(9,728)	**(9,728)**
Total comprehensive (loss)/income 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**

Statement of cash flows

for the years ended 31 December 2020 and 31 December 2020

Amounts in £'000	Notes	Year ended 31 December 2021	Year ended 31 December 2020
Net cash from operating activities	**42**	**15,689**	**102,976**
Investing activities			
Purchases of patents and trademarks		**(330)**	(168)
Purchases of property, plant and equipment		**(3,770)**	(1,013)
Variation of deposits		**16**	74
Acquisition of subsidiary net of cash acquired		**(943)**	(6,858)
Net cash used in investing activities		**(5,027)**	**(7,965)**
Financing activities			
Repayments of borrowings		**–**	(4,592)
Repayment of lease liabilities		**(432)**	(303)
Proceeds from issue of shares		**–**	2,577
Disposal/(purchase) of own shares – net		**(29)**	92
Repayment of other short-term financing facilities		**–**	(720)
Negma phantom awards settlement		**–**	(439)
Interest paid		**(138)**	(1,655)
Net cash used in financing activities		**(599)**	**(5,040)**
Net increase in cash and cash equivalents		**10,063**	**89,971**
Cash and cash equivalents at beginning of year		**91,765**	**1,542**
Effect of foreign exchange rate changes		**(82)**	252
Cash and cash equivalents at end of year		**101,746**	**91,765**

Notes to the Annual Accounts

1. Applicable accounting standards

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 IT-IS International, supplying 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 Company 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").

The 2021 consolidated financial statements were approved by the Board of Directors on 27 April 2022.

2. Adoption of new standards and amendments to existing standards

- Standards, interpretations and amendments to standards with mandatory application for the period beginning on or after 1 January 2021 had no material impact on Novacyt's consolidated financial statements at 31 December 2021. These are:
  - Amendment to IFRS 4 to extend the temporary exemption from applying IFRS 9;
  - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2.
- There are no standards or interpretations not mandatorily applicable in 2021 that would be available for an early application.

The texts adopted by the European Union are available on the website of the European Commission.

3. 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), the carrying amounts and useful lives of the other intangible assets (see note 18), deferred taxes (see note 21), trade receivables (see note 23) and provisions for risks and other provisions related to the operating activities (see note 31).

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

Change of presentation currency

The Group opted to change its presentation currency to GBP in 2020 to better reflect the Group's trading activities, which are mainly conducted in GBP.

The functional currency of the Parent Company, Novacyt SA, remains the Euro. Translation differences arising from the Parent Company are presented in "Other reserves".

Notes to the Annual Accounts continued

3. Summary of accounting policies applied by the Group continued

Basis of consolidation

The financial information includes all companies under control. The Group does not exercise joint control or have significant influence over other companies. Subsidiaries are consolidated from the date on which the Group obtains effective control.

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

When the Group has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous Shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group losses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Group and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

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 31 December 2021		At 31 December 2020	
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
Primerdesign Ltd	100%	FC	100%	FC

Legend: FC: Full consolidation

3. Summary of accounting policies applied by the Group continued

Consolidation methods

The consolidated historical financial information is prepared using uniform accounting policies for transactions and other similar events in similar circumstances.

Elimination of intercompany transactions

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

Translation of accounts denominated in foreign currency

The historical financial information is presented in £'000 GBP. The financial statements of companies whose functional currency is not GBP are translated into GBP as follows:

- Items in the statement of financial position are translated at the closing exchange rate, excluding equity items, which are stated at historical rates; and
- Transactions in the income statement and statement of cash flows are translated at the average annual exchange rate.

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

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

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 April 2023. In making this assessment, the Directors have considered the following elements:

- The working capital requirements of the business;
- A positive cash balance at 31 December 2021 of £101,746,000;
- 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 notes 49 and 50.

In the event the current dispute is fully settled in favour of the counterparty, the forecast prepared by the Group shows that it is able to cover its cash needs during the financial year 2022 and up to April 2023 without raising any banking or other financing facility.

Notes to the Annual Accounts continued

3. Summary of accounting policies applied by the Group continued

Business combinations and measurement of goodwill

Business combinations

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

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

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

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

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

Measurement of goodwill

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

Impairment testing

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

Such testing consists of comparing the carrying amount of an asset to its recoverable amount. The recoverable amount of an asset, 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.

Intangible fixed assets

Customer relationships

In accordance with IFRS 3, the Group's acquisition of Primerdesign, the Omega Infectious Diseases business and IT-IS International resulted in the recognition of the value of the acquired customer base on the statement of financial position. The value of these assets was determined by discounting the additional margin generated by customers after remuneration of the contributing assets.

Customer relationships are amortised on a straight-line basis over nine years, unless they are deemed to be impaired.

3. Summary of accounting policies applied by the Group continued

Trademark

The acquisition price of Primerdesign, the Omega Infectious Diseases business and IT-IS International by the Group has led to the recognition of a number of trademarks. The value of these assets has been determined by discounting the cash flows that could be generated by licensing the trademark, estimated as a percentage of revenue derived from information available on comparable assets.

Trademarks are amortised on a straight-line basis over nine years, unless they are deemed to be impaired.

Other intangible assets

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

Property, plant and equipment

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

Depreciation and amortisation

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

- Leasehold improvements: Straight-line basis – 2 to 15 years
- Trademarks: Straight-line basis – 9 years
- Customer relationships: Straight-line basis – 9 years
- Plant and machinery: Straight-line basis – 3 to 6 years
- General fittings, improvements: Straight-line basis – 3 to 5 years
- Transport equipment: Straight-line basis – 5 years
- Office equipment: Straight-line basis – 3 years
- Computer equipment: Straight-line basis – 2 to 3 years

Any leased buildings, equipment or other leases that fall under the scope of IFRS 16 have been capitalised as a right-of-use asset and will be depreciated on a straight-line basis over the term of the lease.

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

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

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

Asset impairment

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

External indicators:

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

Notes to the Annual Accounts continued

3. Summary of accounting policies applied by the Group continued

Internal indicators:

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

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

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

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

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

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

Leases

The Group assesses whether a contract is or contains a lease, at the inception of the contract. The Group recognises a right-of-use asset and a lease liability at lease commencement for all lease arrangements in which it is the lessee, except for short-term leases and leases of low-value assets.

- The Group records right-of-use assets at cost at the commencement date of the lease, which is the date the underlying asset is available for use, less any accumulated depreciation and impairment losses, and adjusted for subsequent remeasurement of lease liabilities. Cost includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date, less any lease incentives received. The Group charges depreciation to the income statement on a straight-line basis over the shorter of the estimated useful life and the lease term.
- The lease liability is initially measured at the present value of the future lease payments discounted using the discount rate implicit in the lease (or if that rate cannot be readily determined, the lessee's incremental borrowing rate). Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

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.

3. Summary of accounting policies applied by the Group continued

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.

Financial liabilities

The Group records bank and other borrowings initially at fair value, which equals the proceeds received, net of direct issue costs, and subsequently at amortised cost. The Group accounts for finance charges, including premiums payable on settlement or redemption and direct issue costs, using the effective interest rate method.

Compound financial instruments

Some financial instruments contain both a debt at amortised cost and derivative recognised as a financial liability through the income statement. This is notably the case of the convertible bonds with warrants attached (Obligations Convertibles en Actions avec Bons de Souscription d'Actions ("OCABSAs")), which are bonds convertible into shares with warrants. The various components of these instruments are accounted for and presented separately according to their substance, as defined in IAS 32 "Financial Instruments: Disclosure and Presentation". The amortised cost is calculated on the basis of the liability only once the embedded derivatives have been separated.

IT-IS International Ltd contingent consideration

The Group negotiated a contingent consideration for the acquisition of the IT-IS International securities with its former Shareholders in 2020, subject to the achievement of a production volume target.

In accordance with IFRS 9, the financial liability has been remeasured at its fair value as of the balance sheet date.

Notes to the Annual Accounts continued

3. Summary of accounting policies applied by the Group continued

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 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, 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 in the statement of financial position. Payment of the second tranche was not made in November 2021 and has been delayed until 2022.

In December 2021, Novacyt implemented a cash long-term incentive plan 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 be settled in cash.

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.

3. Summary of accounting policies applied by the Group continued

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.

The activity of Primerdesign

Primerdesign Ltd is a designer, manufacturer and marketer of molecular "real-time" qPCR testing devices and reagents in the area of infectious diseases.

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

The activity of Lab21 Products

Lab21 Healthcare Ltd and Microgen Bioproducts Ltd is a developer, manufacturer and distributor of a large range of protein-based infectious disease IVD products.

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

The activity of IT-IS International

IT-IS International Ltd is a diagnostic instrument development and manufacturing company specialising in the development of PCR devices for the life sciences and food testing industry.

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

Taxation

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

Notes to the Annual Accounts continued

3. Summary of accounting policies applied by the Group continued

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. 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.

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.

Research and development expenditure credits

Novacyt UK Holdings Ltd subsidiary companies and Primerdesign Ltd benefit from an R&D expenditure credit in respect of some of their research activities. The tax credit is calculated per calendar year as 13% of the actual expenditure and is shown in the income statement against governmental subsidies. The credit is taxable and therefore the tax charge on this credit is included in the tax line of the income statement.

3. Summary of accounting policies applied by the Group continued

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 or credited in arriving at operating profit on the face of the consolidated income statement.

4. Critical accounting judgements and key sources of estimate uncertainty

In the application of the Group's accounting policies, which are described in note 3, 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.

Measurement and useful lives of intangible assets

Other intangible assets (except for goodwill) are considered to have a finite economic useful life. They are amortised over their estimated useful lives that are reviewed at each reporting date. In the event of impairment, an estimate of the asset's recoverable amount is made.

The main intangible assets requiring estimates and assumptions are the trademarks and the customer relationships identified as a result of the acquisition of Primerdesign, and IT-IS International. The intangible assets associated with the Omega Infectious Diseases business acquisition were fully written down in 2020.

The value of the intangible assets 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.

Trademarks

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

Trademarks are amortised on a straight-line basis over a period of nine years, estimated as their useful life. They are also tested for impairment at least annually. Their recoverable amount is determined using forecasts of future cash flows. The total amount of anticipated cash flows reflects management's best estimate of the future benefits and liabilities expected from the operation of the trademark. The resulting estimates are subject to discount rate, percentage of revenue and useful life assumptions.

The carrying amount of trademarks at 31 December 2021 is £938,000 (2020: £1,114,000). The amortisation charge for the period is £157,000 (2020: £94,000) and the cumulative amortisation is £458,000 (2020: £372,000).

Notes to the Annual Accounts continued

4. Critical accounting judgements and key sources of estimate uncertainty continued

Customer relationships

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

Customer relationships are amortised on a straight-line basis over a period of nine years, estimated as their useful life. They are also tested for impairment at least annually. Their recoverable amount is determined using forecasts of future cash flows over an estimated period of time. The total amount of anticipated cash flows reflects management's best estimate of the future benefits and liabilities expected from customer relationships. The resulting estimates are subject to assumptions in respect of the discount rate, additional margin generated by customers after remuneration of contributing assets and useful lives.

The carrying amount of customer relationships at 31 December 2021 is £2,339,000 (2020: £2,950,000). The amortisation charge for the period is £502,000 (2020: £513,000) and the cumulative amortisation is £2,113,000 (2020: £2,055,000).

Deferred taxes

Deferred tax assets are only recognised to the extent that it is considered probable that the Group will have future taxable profits against which the corresponding temporary difference can be offset. Deferred tax assets are reviewed at each reporting date and derecognised if it is no longer probable there will be taxable profits against which the deductible temporary differences can be utilised.

For deferred tax assets on tax loss carry forwards, the Group uses a multi-criteria approach that takes into account the recovery time frame based on the strategic plan, but which also factors in the strategy for the long-term recovery of tax losses in each country.

The Group has recognised a deferred tax asset on the LTIP charge that can be deducted from a tax perspective only when the related payments are made. The LTIP charge was recognised in 2020. The corresponding tax deduction was partly recorded as a reduction of the tax liability and partly as a deferred tax asset in 2020.

Deferred tax liabilities on temporary differences relate to the assets acquired as part of the IT-IS International acquisition in October 2020 and accelerated capital allowances.

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 the year end, the Group had trade receivables of £30,279,000 against which a credit loss provision of £89,000 has been applied. At the date of signing the financial statements, £23,957,000 of the 31 December 2021 receivables were overdue due to the contract dispute with the Department of Health and Social Care "DHSC" (see notes 49 and 50). Management considers it to be more likely than not that the 31 December 2021 balances are recoverable; this is a significant judgement.

Provisions

The carrying value of provisions at 31 December 2021 and 2020 are as per the table below:

Amounts in £'000	**Year ended 31 December 2021**	Year ended 31 December 2020
Provisions for restoration of premises	**308**	242
Provisions for litigation	**157**	68
Provisions for product warranty	**19,799**	19,788
Total provisions	**20,264**	**20,098**

Provisions for restoration of premises

The value of provision required is determined by management on the basis of available information, experience and, in some cases, expert estimates. When these obligations are settled, the amount of the costs or penalties that are ultimately incurred or paid may differ significantly from the amounts initially provisioned. Therefore, these provisions are regularly reviewed and may have an effect on the Group's future results.

4. Critical accounting judgements and key sources of estimate uncertainty continued

To the Group's knowledge, there is no indication to date that the parameters adopted as a whole are not appropriate, and there are no known developments that could significantly affect the amount of provision.

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 notes 49 and 50.

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 (see note 17) 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.

The carrying amount of goodwill in the statement of financial position and related impairment loss over the periods is shown below:

Amounts in £'000	**Year ended 31 December 2021**	Year ended 31 December 2020
Goodwill Lab21 Products	**14,868**	16,022
Cumulative impairment of goodwill	**(14,868)**	(14,105)
Net value	**–**	1,917
Goodwill Primerdesign	**6,053**	6,523
Cumulative impairment of goodwill	**–**	–
Net value	**6,053**	6,523
Goodwill Omega Infectious Diseases	**–**	85
Cumulative impairment of goodwill	**–**	(85)
Net value	**–**	–
Goodwill IT-IS International	**9,437**	9,437
Cumulative impairment of goodwill	**(4,019)**	–
Net value	**5,418**	9,437
Total goodwill	**11,471**	**17,877**

Sensitivity analysis has been performed on the goodwill balance and there is significant headroom associated with the Primerdesign balance, but there is limited headroom on the IT-IS International goodwill balances, which could result in future impairments. The goodwill sensitivity analysis is presented in note 17.

Notes to the Annual Accounts continued

4. Critical accounting judgements and key sources of estimate uncertainty continued

Litigations

The Group may be party to regulatory, judicial or arbitration proceedings that, in view of the relating uncertainties, may have an impact on the Group's financial position.

The Group's management regularly reviews current proceedings, their progress and assesses the need to establish appropriate provisions or to change their amount if the occurrence of events during the course of the proceedings necessitates a reassessment of the risk. Internal or external advisors are involved in determining the costs that may be incurred.

The decision to set aside provisions to cover a risk and the amount of such provisions are based on the risk assessment on a case-by-case basis, management's assessment of the unfavourable nature of the outcome of the proceeding in question (probability) and the ability to reliably estimate the associated amount.

5. Revenue

The table below shows revenue from ordinary operations on a geographical basis:

Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 2020
Geographical area		
United Kingdom	**42,732**	219,389
Europe (excluding UK)	**32,477**	32,031
America	**9,099**	10,311
Asia-Pacific	**9,494**	6,678
Middle East	**718**	5,742
Africa	**1,260**	3,053
Total revenue	**95,780**	**277,204**

During 2021, £40,861,000 (excluding VAT) of product and services were delivered and invoiced to the DHSC, which has now been included as part of the ongoing dispute. Management have made the judgement that per IFRS 15 "Revenue from Contracts with Customers", it is not appropriate at this stage to recognise as revenue, any sales invoices raised to the customer in 2021 that are in dispute. However, management remains committed to obtaining payment for these products and services.

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, Primerdesign Ltd.

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 is presented in note 6.

6. 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 and the managers of the various entities 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 Primerdesign 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 is 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.

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 is not a discrete segment.

The Chief Operating Decision Maker is the Chief Executive Officer.

Headcount

The average headcount by segment is presented in the table below:

Segment	2021	2020
Primerdesign	**169**	81
Lab21 Products	**45**	47
IT-IS International	**38**	36
Corporate	**24**	10
Total headcount	**276**	**174**

Notes to the Annual Accounts continued

6. Operating segments continued

Breakdown of revenue by operating segment and geographic area

At 31 December 2021

Amounts in £'000	Primerdesign	Lab21 Products	IT-IS International	Total
Geographical area				
United Kingdom	41,944	624	164	42,732
Europe (excluding UK)	31,045	1,077	355	32,477
America	8,047	270	782	9,099
Asia-Pacific	7,262	856	1,376	9,494
Middle East	501	200	17	718
Africa	1,053	151	56	1,260
Total revenue	**89,852**	**3,178**	**2,750**	**95,780**

At 31 December 2020

Amounts in £'000	Primerdesign	Lab21 Products	IT-IS International	Total
Geographical area				
United Kingdom	218,552	591	246	219,389
Europe (excluding UK)	30,917	1,058	56	32,031
America	9,655	340	316	10,311
Asia-Pacific	5,305	920	453	6,678
Middle East	5,492	250	–	5,742
Africa	2,896	151	6	3,053
Total revenue	**272,817**	**3,310**	**1,077**	**277,204**

Breakdown of result by operating segment

Year ended 31 December 2021

Amounts in £'000	Primerdesign	Lab21 Products	IT-IS International	Corporate	Intercompany eliminations	Total
Revenue	89,856	4,621	9,270	–	(7,967)	95,780
Cost of sales	(27,582)	(3,169)	(5,131)	–	5,550	(30,332)
Cost of sales – exceptional	(37,192)	–	(3,984)	–	5,406	(35,770)
Sales and marketing costs	(5,659)	(800)	(228)	(338)	–	(7,025)
Research and development	(4,148)	(170)	(497)	–	–	(4,815)
General and administrative	(12,448)	(2,259)	(1,494)	(637)	10	(16,828)
Governmental subsidies	254	–	54	–	–	308
ADJUSTED Earnings before interest, tax, depreciation, amortisation and cost of sales – exceptional, as per management reporting	**40,273**	**(1,777)**	**1,974**	**(975)**	**(2,407)**	**37,088**
Earnings before interest, tax, depreciation and amortisation as per management reporting	**3,081**	**(1,777)**	**(2,010)**	**(975)**	**2,999**	**1,318**
Depreciation and amortisation	(1,362)	(215)	(404)	(24)	–	(2,005)
Operating (loss)/profit before exceptional items	**1,719**	**(1,992)**	**(2,414)**	**(999)**	**2,999**	**(687)**

6. Operating segments continued

Year ended 31 December 2020

Amounts in £'000	Primerdesign	Lab21 Products	IT-IS International	Corporate	Intercompany eliminations	Total
Revenue	272,817	5,203	6,905	–	(7,721)	277,204
Cost of sales	(63,987)	(3,088)	(1,627)	–	2,998	(65,704)
Sales and marketing costs	(3,550)	(929)	9	(22)	–	(4,492)
Research and development	(1,515)	(3)	(112)	–	–	(1,630)
General and administrative	(25,133)	(2,138)	(245)	(1,725)	11	(29,230)
Governmental subsidies	–	(3)	–	–	–	(3)
Earnings before interest, tax, depreciation and amortisation as per management reporting	**178,632**	**(958)**	**4,930**	**(1,747)**	**(4,712)**	**176,145**
Depreciation and amortisation	(795)	(416)	(70)	(21)	–	(1,302)
Operating profit/(loss) before exceptional items	**177,837**	**(1,374)**	**4,860**	**(1,768)**	**(4,712)**	**174,843**

Assets and liabilities are not reported to the Chief Operating Decision Maker on a segmental basis and are therefore not disclosed.

7. Cost of sales

Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 2020
Cost of inventories recognised as an expense	**20,697**	20,113
Change in stock provision	**(10,063)**	2,978
Non-stock items and supplies	**203**	2,088
Freight costs	**462**	284
Direct labour	**18,423**	20,243
Product warranty	**11**	19,753
Other	**599**	245
Total cost of sales	**30,332**	**65,704**

Total cost of sales has fallen significantly year on year in line with reduced revenue.

After making a full stock provision against "Cost of sales – exceptional" for stock bought to fulfil expected future DHSC orders that did not materialise (see note 8), all other stock provision movements are part of the normal course of business.

A large amount of stock, which had previously been provided for, was written off and disposed of during late 2021, with the cost being charged to "Cost of inventories recognised as an expense" and a corresponding release of the stock provision being made.

A product warranty provision was booked in 2020 in relation to the ongoing commercial dispute with the DHSC (see notes 49 and 50). This has been reviewed by management in 2021 with no change to the provision being made.

Notes to the Annual Accounts continued

8. Cost of sales – exceptional

Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 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 notes 49 and 50, management have booked a number of one-off, non-recurring cost of sales charges. The two largest items are 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 (split across direct labour costs and cost of inventories recognised as an expense) of stock delivered to the DHSC which has not been paid for as it is now part of the ongoing contract dispute.

9. 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	Year ended 31 December 2021	Year ended 31 December 2020
Revenue	95,780	277,204
Cost of sales	(30,332)	(65,704)
Cost of sales – exceptional	(35,770)	–
Gross profit	**29,678**	211,500
Add back cost of sales – exceptional	35,770	–
Underlying business gross profit	**65,448**	211,500
Underlying business gross profit percentage	**68%**	**76%**

The 2021 underlying business gross profit of 68% is below the Group's historic margin. This is due to two main factors: i) a higher stock provision based on obsolescence of COVID-19 products as variants drove product proliferation; and ii) margin dilution as a result of significantly higher instrument sales as the Group builds its installed base.

10. Sales, marketing and distribution expenses

Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 2020
Advertising expenses	875	314
Distribution expenses	784	495
Employee compensation and social security contributions	4,839	3,238
Travel and entertainment expenses	144	103
Other sales and marketing expenses	383	342
Total sales, marketing and distribution expenses	**7,025**	**4,492**

A significant number of new sales and marketing employees were hired during 2021 to support and deliver the 2021 revenue, increasing the costs year on year.

11. Research and development expenses

Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 2020
Employee compensation and social security contributions	**2,784**	939
Other expenses	**2,031**	691
Total research and development expenses	**4,815**	**1,630**

A significant number of new research and development employees were hired during 2021 to support the development of new products. Other expenses, including consumables, non-capitalised development costs and quality control/assurance expenses, have increased as additional products have been developed and launched.

12. General and administrative expenses

Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 2020
Purchases of non-stored raw materials and supplies	**451**	373
Lease and similar payments	**445**	337
Maintenance and repairs	**576**	278
Insurance premiums	**1,453**	574
Legal and professional fees	**2,484**	2,350
Banking services	**100**	231
Employee compensation and social security contributions	**8,896**	23,904
Depreciation and amortisation of property, plant and equipment, and intangible assets	**2,006**	1,302
Other general and administrative expenses	**2,422**	1,183
Total general and administrative expenses	**18,833**	**30,532**

2020 employee compensation and social security contributions include a significant charge for the 2017 to 2020 LTIP scheme for senior management that is not repeated to the same extent in 2021, reducing the costs substantially.

Legal and professional fees include advisors' fees, auditor fees and legal fees.

Other general and administrative expenses include costs such as building rates, regulatory fees, IT expenses and approximately £500,000 charitable donations in 2021.

Notes to the Annual Accounts continued

13. Other operating income and expenses

Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 2020
Other operating income	65	–
Total other operating income	**65**	**–**
Impairment of IT-IS International goodwill	(4,019)	–
Impairment of Lab21 Products goodwill	(1,822)	(5,768)
DHSC contract dispute costs	(802)	–
Impairment of Omega Infectious Diseases business intangible assets	–	(1,111)
Restructuring expenses	(487)	(106)
Business sale expenses	–	(79)
Acquisition related expenses	–	(187)
Other expenses	(43)	(151)
Total other operating expenses	**(7,173)**	**(7,402)**

Operating income

Other operating income predominantly relates to the settlement of a legal claim against a third party.

Operating expenses

Goodwill associated with the IT-IS International Ltd acquisition has been impaired in 2021 due to reduced future expected cash flow generation.

The remaining goodwill associated with Lab21 Products has been fully impaired in 2021, following a large impairment in 2020, due to reduced future expected cash flow generation.

DHSC contract dispute costs relate to legal and professional fees incurred in the ongoing commercial dispute.

The remaining intangible assets associated with the Omega Infectious Diseases business were fully written down in 2020.

Restructuring expenses in 2021 include redundancy payments.

Acquisition-related expenses relate to the October 2020 purchase of IT-IS International Ltd.

14. Financial income and expense

Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 2020
Financial foreign exchange gains	379	32
Discount of financial instruments	33	46
Other financial income	54	5
Total financial income	**466**	**83**
Interest on IFRS 16 liabilities	(178)	(184)
Interest on loans	–	(1,417)
Financial foreign exchange losses	(2,214)	(353)
Discount of financial instruments	(61)	(12)
Other financial expense	(47)	(387)
Total financial expense	**(2,500)**	**(2,353)**

14. Financial income and expense continued

Interest on loans

The decrease in loan interest in 2021 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 2020.

Financial foreign exchange losses

Financial foreign exchanges losses in 2021 are mainly driven by revaluations of the 2017 to 2020 LTIP scheme and bank and intercompany accounts held in foreign currencies.

Other financial expense

In November 2019, Novacyt SA granted Negma 1,300,000 phantom warrants, i.e. warrants that do not give access to the share capital of the Company, in exchange for the cancellation of 1,300,000 warrants giving access to the share capital of Novacyt SA. The phantom warrants guaranteed to pay Negma the profit from the difference between the €0.20 exercise price and the share price on the day before the exercise date. This instrument was recognised as a derivative financial liability at 31 December 2019 for a value of £77,000. Negma exercised the phantom warrants in February 2020, which resulted in a payment to Negma of £439,000. The charge at 31 December 2020 is the difference between these two amounts.

15. Income tax

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 2021. It was 19% for the year 2020.

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

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

Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 2020
Current tax expense		
Current year income/(expense)	**411**	(35,605)
Deferred tax expense		
Deferred tax	**(310)**	2,857
Total tax income/(expense) in the income statement	**101**	**(32,748)**

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

Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 2020
(Loss)/profit before taxation	**(9,829)**	165,171
Tax at the UK corporation tax rate (2021 and 2020: 19%)	**1,868**	(31,382)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**115**	727
Effect of non-deductible expenses and non-taxable income	**(1,179)**	(1,696)
Change in unrecognised deferred tax assets	**(712)**	(669)
Research tax expenditure enhancement	**–**	169
Other adjustments	**9**	103
Total tax income/(expense) for the year	**101**	**(32,748)**

At 31 December 2021, the Group has unused tax losses of £9,432,000 (2020: £8,148,000) available for offset against future relevant profits and their period of use is unlimited.

The key item making up the non-deductible expenses in 2020 and 2021 is the impairment of goodwill.

Notes to the Annual Accounts continued

15. Income tax continued

Matters affecting the tax charge

During 2020 and 2021, Novacyt applied for a number of patents for technology it developed during the two periods. Patents can take several years to be granted, if at all, and at the 2021 year end all the patents were still going through the process for approval. At the time of signing these accounts, a patent had been granted and to the extent there are qualifying profits the Group expects to apply for UK Patent Box relief in the 2022 accounts.

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. 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 2021 accounts.

16. (Loss)/profit per share

The loss or profit 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 31 December 2021, there are no outstanding dilutive instruments.

Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 2020
Net (loss)/profit attributable to owners of the Company	**(9,728)**	132,423
Impact of dilutive instruments	**–**	–
Net diluted (loss)/profit attributable to owners of the Company	**(9,728)**	132,423
Weighted average number of shares	**70,626,248**	68,187,101
Impact of dilutive instruments	**–**	–
Weighted average number of diluted shares	**70,626,248**	68,187,101
(Loss)/profit per share (£)	**(0.14)**	**1.94**
Diluted (loss)/profit per share (£)	**(0.14)**	**1.94**

16. (Loss)/profit per share continued

The table below presents the movements of stock options during 2020. They were not taken into account in the calculation of diluted earnings because they were anti-dilutive for the year ending 31 December 2019, and were all exercised or elapsed at 31 December 2020.

Beneficiary	Kreos	Primerdesign	Yorkville	Negma	Harbert	Total
Grant date	12 May 2016	12 May 2016	31 July 2015 to 18 July 2017	25 April 2019	5 November 2019	
Number of warrants	353,536	1,000,000	1,501,427	2,979,544	6,017,192	
Exercise price	€1.45	€1.16	From €5.511 to €0.946	€0.20	€0.0698	
Exercise deadline	1 November 2022	12 May 2021	3 years after issuance	25 April 2024	5 November 2026	
Accounting	Equity	Derivative financial liability	Equity	Derivative financial liability	Derivative financial liability	
Number of warrants on 1 January 2020	353,536	1,000,000	853,216	1,679,544	6,017,192	9,903,488
Warrants exercised in 2020	(353,536)	(1,000,000)	(528,541)	(1,679,544)	(6,017,192)	(9,578,813)
Number of additional shares	*353,536*	*1,000,000*	*528,541*	*1,679,544*	*6,017,192*	*9,578,813*
Share capital increase	*€512,627*	*€1,160,000*	*€500,000*	*€335,909*	*€420,000*	*€2,928,536*
Warrants cancelled in 2020	–	–	(324,675)	–	–	(324,675)
Warrants outstanding on 31 December 2020	–	–	–	–	–	–

Notes to the Annual Accounts continued

17. Goodwill

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

Cost	£'000
At 1 January 2020	21,364
Write-off of the Omega Infectious Diseases goodwill	(85)
Recognition of goodwill on acquisition of IT-IS International	9,437
Exchange differences	1,266
At 31 December 2020	31,982
Exchange differences	(1,624)
At 31 December 2021	**30,358**
Accumulated impairment losses	
At 1 January 2020	7,772
Impairment of the Lab21 Products goodwill	5,767
Exchange differences	566
At 31 December 2020	14,105
Impairment of the IT-IS International goodwill	4,019
Impairment of the Lab21 Products goodwill	1,822
Exchange differences	(1,059)
At 31 December 2021	**18,887**
Carrying value at 31 December 2019	**13,592**
Carrying value at 31 December 2020	**17,877**
Carrying value at 31 December 2021	**11,471**

Lab21 Products

The remaining goodwill associated with the acquisition of the Lab21 Products business, totalling £1,917,000 at 31 December 2020 has been fully impaired in 2021 as the discounted cash flow ("DCF") model prepared does not provide sufficient coverage.

Omega Infectious Diseases

The goodwill associated with the acquisition of the Omega Infectious Diseases business was fully written off in 2020.

Primerdesign

The impairment testing of the CGU as at 31 December 2021 was carried out using the DCF method, with the key assumptions as follows:

- Five-year business plan;
- Extrapolation of cash flows beyond five years based on a growth rate of 1.5%; and
- Discount rate corresponding to the expected rate of return on the market for a similar investment, regardless of funding sources, equal to 12.1%.

17. Goodwill continued

The implementation of this approach demonstrated that the value of the Enterprise Value amounted to £178,529,000, which is greater than the carrying amount of this asset. As such, no impairment was recognised in the year ended 31 December 2021.

Sensitivity of the value derived from the discounted cash flow model to changes to the assumptions used for the Primerdesign acquisition

		Terminal growth rates						
	178,529	0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%
WACC rates	8.0%	246,317	258,988	273,468	290,176	309,669	332,707	360,351
	9.0%	218,905	228,527	239,352	251,620	265,641	281,819	300,693
	10.0%	197,015	204,519	212,858	222,177	232,661	244,544	258,124
	11.0%	179,138	185,119	191,697	198,967	207,046	216,075	226,232
	12.0%	164,271	169,122	174,413	180,209	186,584	193,630	201,458
	12.1%	162,921	167,676	172,858	178,529	184,762	191,644	199,282
	13.0%	151,718	155,711	160,037	164,739	169,868	175,486	181,665
	14.0%	140,981	144,310	147,895	151,767	155,961	160,520	165,494
	15.0%	131,696	134,502	137,508	140,737	144,214	147,969	152,037

This sensitivity table shows the difference in the recoverable amounts of the Enterprise Value depending on changes in the discount rate (WACC) and the terminal growth rate. The sensitivity analysis shows that an increase of 1% in the WACC would not result in the need to impair the Primerdesign goodwill.

IT-IS International

The impairment testing of the CGU as at 31 December 2021 was carried out using the DCF method, with the key assumptions as follows:

- Five-year business plan;
- Extrapolation of cash flows beyond five years based on a growth rate of 1.5%; and
- Discount rate corresponding to the expected rate of return on the market for a similar investment, regardless of funding sources, equal to 12.1%.

The implementation of this approach demonstrated that the value of the Enterprise Value amounted to £5,418,000, which is lower than the carrying amount of this asset. As such, an impairment charge has been recognised in the year ended 31 December 2021.

Sensitivity of the value derived from the discounted cash flow model to changes to the assumptions used for the IT-IS International acquisition

		Terminal growth rates						
	5,418	0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%
WACC rates	8.0%	7,870	8,871	9,167	9,487	9,831	10,205	12,073
	9.0%	6,871	7,625	7,844	8,077	8,327	8,594	9,886
	10.0%	6,076	6,660	6,827	7,003	7,191	7,390	8,328
	11.0%	5,428	5,891	6,022	6,159	6,304	6,457	7,164
	12.0%	4,891	5,265	5,369	5,478	5,593	5,713	6,262
	12.1%	4,842	5,209	5,311	5,418	5,530	5,647	6,182
	13.0%	4,439	4,745	4,830	4,919	5,011	5,108	5,543
	14.0%	4,054	4,308	4,378	4,451	4,527	4,606	4,957
	15.0%	3,721	3,936	3,994	4,055	4,118	4,183	4,471

Notes to the Annual Accounts continued

17. Goodwill continued

This sensitivity table shows the difference in the recoverable amounts of the Enterprise Value depending on changes in the discount rate (WACC) and the terminal growth rate. The sensitivity analysis shows that an increase of 1% in the WACC would result in the need to further impair the IT-IS International goodwill.

18. Other intangible assets

Amounts in £'000	Customer relationships	Trademarks	Development costs	Patents	Other	Total
Cost						
At 1 January 2020	4,303	785	451	62	230	5,831
Acquisitions	–	–	111	30	27	168
Acquisition of businesses	1,366	843	–	–	–	2,209
Other disposals	(851)	(175)	(285)	(2)	–	(1,313)
Reclassifications	–	–	–	(1)	–	(1)
Foreign exchange impact	187	33	–	–	3	223
At 31 December 2020	5,005	1,486	277	89	260	7,117
Acquisitions	–	–	–	300	30	330
Other disposals	(313)	(47)	–	(5)	(59)	(424)
Foreign exchange impact	(240)	(43)	–	–	(4)	(287)
At 31 December 2021	**4,452**	**1,396**	**277**	**384**	**227**	**6,736**
Amortisation						
At 1 January 2020	(1,460)	(263)	(190)	(47)	(188)	(2,148)
Amortisation for the year	(513)	(94)	(67)	(7)	(37)	(718)
Other disposals	–	–	104	–	–	104
Foreign exchange impact	(82)	(15)	–	–	(3)	(100)
At 31 December 2020	(2,055)	(372)	(153)	(54)	(228)	(2,862)
Amortisation for the year	(502)	(157)	(55)	(3)	(21)	(738)
Other disposals	313	47	–	–	55	415
Foreign exchange impact	131	24	–	–	4	159
At 31 December 2021	**(2,113)**	**(458)**	**(208)**	**(57)**	**(190)**	**(3,026)**
Net book value						
At 1 January 2020	2,843	522	261	15	42	3,683
At 31 December 2020	2,950	1,114	124	35	32	4,255
At 31 December 2021	**2,339**	**938**	**69**	**327**	**37**	**3,710**

19. Property, plant and equipment

Amounts in £'000	Leasehold improvements	Plant and machinery	Fixtures and fittings	Total
Cost				
At 1 January 2020	922	1,011	267	2,200
Acquisitions	34	686	253	973
Acquisition of businesses	–	46	143	189
Other disposals	–	(6)	(16)	(22)
Reclassifications	(79)	56	115	92
At 31 December 2020	877	1,793	762	3,432
Acquisitions	375	3,104	291	3,770
Other disposals	(85)	(270)	(65)	(420)
Reclassifications	127	–	(127)	–
At 31 December 2021	**1,294**	**4,627**	**861**	**6,782**
Depreciation				
At 1 January 2020	(332)	(809)	(213)	(1,354)
Depreciation for the year	(89)	(139)	(67	(295)
Acquisitions of businesses	–	(29)	(131)	(160)
Other disposals	–	6	14	20
At 31 December 2020	(421)	(971)	(397)	(1,789)
Depreciation for the year	(135)	(518)	(159)	(812)
Other disposals	81	270	62	413
Reclassifications	(9)	–	9	–
At 31 December 2021	**(484)**	**(1,219)**	**(485)**	**(2,188)**
Net book value				
At 1 January 2020	590	202	54	846
At 31 December 2020	456	822	365	1,643
At 31 December 2021	**810**	**3,408**	**376**	**4,594**

Notes to the Annual Accounts continued

20. Right-of-use assets

Amounts in £'000	Land and buildings	Plant and machinery	Total
Cost			
At 1 January 2020	2,252	136	2,388
Additions	396	41	437
Acquisition of businesses	97	–	97
Reclassifications	–	(123)	(123)
At 31 December 2020	2,745	54	2,799
Additions	148	–	148
Disposals	(225)	(15)	(240)
Policy adjustment	(3)	–	(3)
At 31 December 2021	**2,665**	**39**	**2,704**
Depreciation			
At 1 January 2020	(233)	(30)	(263)
Depreciation for the year	(256)	(32)	(288)
Acquisition of businesses	(18)	–	(18)
Reclassifications	–	29	29
At 31 December 2020	(507)	(33)	(540)
Depreciation for the year	(443)	(10)	(453)
Disposals	67	12	79
Policy adjustment	(2)	–	(2)
At 31 December 2021	**(885)**	**(31)**	**(916)**
Net book value			
At 1 January 2020	2,019	106	2,125
At 31 December 2020	2,238	21	2,259
At 31 December 2021	**1,780**	**8**	**1,788**

21. 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	(42)	–	–	–	–	–	(42)
Credit/(charge) to income statement	(194)	10	897	2,125	–	19	2,857
Acquisition of IT-IS International	(2)	(499)	–	–	–	(92)	(593)
At 31 December 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**

At 31 December 2021, deferred tax liabilities amounting to £442,000 (2020: £489,000) result from the recognition of brand and customer relationships intangible assets as part of the October 2020 IT-IS International acquisition.

At 31 December 2021, deferred tax liabilities amounting to £780,000 (2020: £238,000) reflect the tax advantage from investments in fixed assets, that is obtained in advance of the depreciation in future financial years.

A £2,125,000 deferred tax asset relates to the portion of the Long-Term Incentive Plan charge that was recognised by Novacyt UK Holdings Ltd in 2020, but will not be deducted for taxation until payments are made in 2022. This deferred tax asset is still on the balance sheet at 31 December 2021.

At 31 December 2021, a £328,000 deferred tax asset results from the elimination of the internal margin on intercompany stock, provision or assets held.

At 31 December 2020, a £897,000 deferred tax asset arises from the elimination of the internal margin on intercompany stock held.

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

Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 2020
Deferred tax assets	**3,143**	3,022
Deferred tax liabilities	**(1,224)**	(800)
Net deferred tax assets/(liabilities)	**1,919**	**2,222**

Novacyt SA and Lab21 Healthcare Ltd have historic tax losses carried forward for use against future relevant taxable profits. However, no deferred tax assets have been recognised for these losses as there is insufficient evidence that there will be future profits in these companies to use the losses against.

Notes to the Annual Accounts continued

21. Deferred tax assets and liabilities continued

The following table shows the deferred tax assets not presented in the statement of financial position:

Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 2020
Novacyt SA	990	661
Lab21 Healthcare Ltd	1,368	1,045
Total unrecognised deferred tax assets	**2,358**	**1,706**

22. Inventories and work in progress

Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 2020
Raw materials	19,382	14,406
Work in progress	3,350	8,999
Finished goods	7,831	9,550
Stock provisions	(19,102)	(3,067)
Total inventories and work in progress	**11,461**	**29,888**

Total inventories and work in progress has decreased significantly since December 2020 predominantly due to the booking of a large stock provision. Inventory levels were built up as a result of 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 future material contracts were not secured with the DHSC in 2021, a large stock provision was booked in 2021.

The Group continues to look for ways to utilise any value from stock that has been provided for.

23. Trade and other receivables

Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 2020
Trade and other receivables	30,279	79,341
Expected credit loss provision	(89)	(160)
Tax receivables – Value Added Tax	8,213	343
Receivables on sale of businesses	66	67
Other receivables	30	1
Total trade and other receivables	**38,499**	**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 December 2020, in respect of products delivered during 2020, that remains unpaid at the date of signing the accounts. Recovery of the invoice is dependent on the outcome of the contract dispute.

During 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.

23. Trade and other receivables continued

The "Tax receivables – Value Added Tax" balance of £8,213,000 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.

The movement in the expected credit loss provision is shown below:

Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 2020
Balance at the beginning of the period	**160**	397
Impairment losses recognised	**100**	163
Amounts written off during the year as uncollectible	**(44)**	(400)
Amounts recovered during the year	**(127)**	–
Balance at the end of the period	**89**	**160**

The split by maturity of the clients' receivables is presented below:

Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 2020
Less than one month	**5,818**	77,944
Between one and three months	**217**	1,364
Between three months and one year	**24,200**	6
More than one year	**44**	27
Balance at the end of the period	**30,279**	**79,341**

24. Prepayments and short-term deposits

Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 2020
Liquidity contract	**61**	103
Short-term deposits	**12**	–
Prepaid expenses	**1,961**	3,628
Total prepayments and short-term deposits	**2,034**	**3,731**

The key balances at 31 December 2021 include prepayments for the annual Group commercial insurance, rent, rates and prepaid support costs.

The balance at 31 December 2020 included a large amount of prepaid stock that was delivered in 2021.

Notes to the Annual Accounts continued

25. Cash and cash equivalents

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

Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 2020
Available cash	**101,746**	91,765
Total cash and cash equivalents	**101,746**	**91,765**

Cash and cash equivalents comprise bank and cash balances, call deposits and short-term notice accounts with original maturities of three months or less, with a number of them earning interest.

The carrying amount of cash and cash equivalents approximates fair value.

26. Borrowings

As at 31 December 2021, the Group was debt free. As of 31 December 2020, the Group had repaid or converted all bond notes outstanding at 31 December 2019.

27. Lease liabilities

The following tables show lease liabilities carried at amortised cost.

Maturities

Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 2020
Lease liabilities short-term	**424**	414
Lease liabilities long-term	**1,446**	1,964
Total lease liabilities	**1,870**	**2,378**

Change in lease liabilities in 2021 and 2020

Amounts in £'000	Opening	Business combinations impact	Repayment	Non-cash movements	Closing
Changes in 2020	2,241	73	(303)	367	2,378
Changes in 2021	**2,378**	**–**	**(432)**	**(76)**	**1,870**

28. Reconciliation of the movements of the borrowings and lease liabilities with the statement of cash flows

Repayment of borrowings and lease liabilities in 2021

Note 26 – Borrowings and note 27 – Lease liabilities	£'000
Change in lease liabilities in 2021: repayment	(432)
Total repayments in 2021 as per notes 26 and 27	(432)

Statement of cash flows for the year 2021	
Cash used in financing activities: repayment of lease liabilities	(432)
Total repayments as per the statement of cash flows	**(432)**

Repayment of borrowings and lease liabilities in 2020

Note 26 – Borrowings and note 27 – Lease liabilities	£'000
Change in borrowings in 2020: repayment of bond notes	(4,592)
Change in borrowings in 2020: repayment of short-term financing facilities	(720)
Change in lease liabilities in 2020: repayment	(303)
Total repayments in 2020 as per notes 26 and 27	**(5,615)**

Statement of cash flows for the year 2020	
Cash used in financing activities: repayment of borrowings	(4,592)
Cash used in financing activities: repayment of lease liabilities	(303)
Cash used in financing activities: repayment of other short-term financing facilities	(720)
Total repayments as per the statement of cash flows	**(5,615)**

29. Contingent consideration

Amounts in £'000	**Year ended 31 December 2021**	Year ended 31 December 2020
Contingent consideration short-term	**836**	1,022
Contingent consideration long-term	**–**	812
Total contingent consideration	**836**	**1,834**

At 31 December 2021, the remaining contingent consideration relates to the acquisition of IT-IS International by Novacyt UK Holdings Ltd in October 2020. The first tranche was paid in late 2021 and the final tranche is due for payment in September 2022.

30. Tax receivables

The main item that makes up the corporation tax receivable balance of £5,034,000 relates to an overpayment of corporation tax in relation to 2020 totalling approximately £4,225,000. The Group has now received the overpayment back from HMRC in March 2022.

Notes to the Annual Accounts continued

31. Provisions

The table below shows the nature of and changes in provisions for risks and charges for the period from 1 January 2021 to 31 December 2021:

Amounts in £'000	At 1 January 2021	Increase	Reduction	Other movements	Change in exchange rates	At 31 December 2021
Provisions for restoration of premises	242	117	(67)	16	–	**308**
Provisions long-term	**242**	**117**	**(67)**	**16**	**–**	**308**
Provision for litigation	68	157	(65)	–	(3)	**157**
Provisions for product warranty	19,788	11	–	–	–	**19,799**
Provisions short-term	**19,856**	**168**	**(65)**	**–**	**(3)**	**19,956**

The nature of and changes in provisions for risks and charges for the period from 1 January 2020 to 31 December 2020 are as follows:

Amounts in £'000	At 1 January 2020	Increase	Reduction	Business combinations impact	Change in exchange rates	At 31 December 2020
Provisions for restoration of premises	192	37	–	13	–	242
Long-term management incentive plan	13	19,006	(19,018)	–	(1)	–
Provisions long-term	**205**	**19,043**	**(19,018)**	**13**	**(1)**	**242**
Provision for litigation	43	22	–	–	3	68
Provisions for product warranty	–	19,753	–	35	–	19,788
Provisions short-term	**43**	**19,775**	**–**	**35**	**3**	**19,856**

Provisions chiefly cover:

- Risks related to litigations;
- The restoration expenses of the premises as per the lease agreements; and
- Product assurance warranties.

The provisions for the restoration of the premises are an estimation of the cash payable to cover dilapidations at the end of the rental periods, thus at the following dates:

- Microgen Bioproducts Ltd: May 2032
- Primerdesign Ltd: November 2025
- IT-IS International Ltd: September 2022 and December 2023, as there are two sites that do not have co-terminus leases.

The provision for product assurance warranties predominantly relates to the notification of a product warranty claim with the DHSC (see notes 49 and 50).

The details for the long-term management incentive plan are shown in note 3, and the liability for the 2017 to 2020 scheme crystallised in November 2020 with the remaining costs associated with that scheme shown against other liabilities.

32. Trade and other liabilities

Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 2020
Trade payables	**1,363**	5,228
Accrued invoices	**3,534**	8,016
Social security liabilities	**954**	1,082
Tax liabilities – Value Added Tax	**115**	16,831
Other liabilities	**11,224**	5,627
Total trade and other liabilities	**17,190**	**36,784**

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

The closing 2020 "Tax liabilities – Value Added Tax" balance predominantly related to UK VAT payable to HMRC covering the months of November and December 2020. This was paid in January and February 2021.

The other liabilities balance relates to the second and third tranches of the 2017 to 2020 LTIP scheme, which are forecast to be paid during 2022.

33. Tax liabilities

The balance of £nil at 31 December 2021 (2020: £15,116,000) reflects that no UK corporation tax is due by the Group as a result of the loss for the year. The amount reflects the tax due at the full UK rate (19%) on taxable profits, although in due course, as patents are granted and a Patent Box claim is made, future taxable profits should be taxable at a much lower rate, to the extent there are qualifying profits.

34. Other current liabilities

Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 2020
Deferred income and advance payments received from customers	**498**	950
Total other current liabilities	**498**	**950**

The balances above predominantly relate to customer payments in advance of receiving the products.

35. Other liabilities long-term

Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 2020
Share-based payment benefits – LTIP, long-term	**–**	5,606
Total other liabilities long-term	**–**	**5,606**

The 2020 "other liabilities long-term" balance related to the third tranche of the 2017 to 2020 LTIP scheme that is due to be paid in November 2022 and has now moved to short-term liabilities as shown in note 32.

Notes to the Annual Accounts continued

36. Share capital

As of 1 January 2020, the Company's share capital of €3,872,983.59 was divided into 58,094,754 shares with a par value of 1/15th of a Euro each.

The transactions on share capital from this date are summarised below:

- On 31 January 2020, the Company completed a capital increase resulting from the exercise of 1,679,544 Negma warrants from €3,872,983.59 to €3,984,953.20, through the issue of 1,679,544 shares at a price of €0.070 per share with a share premium of €223,939.20.
- On 17 February 2020, the Company completed a capital increase resulting from the exercise of 228,541 Yorkville warrants from €3,984,953.20 to €4,000,189.27, through the issue of 228,541 shares at a price of €0.070 per share with a share premium of €200,963.72.
- On 17 February 2020, the Company completed a capital increase resulting from the exercise of 886,632 Primerdesign warrants from €4,000,189.27 to €4,059,298.07, through the issue of 886,632 shares at a price of €0.070 per share with a share premium of €969,384.32.
- On 18 February 2020, the Company completed a capital increase resulting from the exercise of 113,368 Primerdesign warrants from €4,059,298.07 to €4,066,855.94, through the issue of 113,368 shares at a price of €0.070 per share with a share premium of €123,949.01.
- On 18 February 2020, the Company completed a capital increase resulting from the exercise of 6,017,192 Harbert warrants from €4,066,855.94 to €4,468,002.06, through the issue of 6,017,192 shares at a price of €0.070 per share with a share premium of €18,853.87.
- On 18 February 2020, the Company completed a capital increase resulting from the exercise of 300,000 Yorkville warrants from €4,468,002.06 to €4,488,002.06, through the issue of 300,000 shares at a price of €0.070 per share with a share premium of €263,800.00.
- On 18 February 2020, the Company completed a capital increase resulting from the exercise of 353,536 Kreos warrants from €4,488,002.06 to €4,511,571.13, through the issue of 353,536 shares at a price of €0.070 per share with a share premium of €489,058.13.
- On 3 June 2020, the Company completed a capital increase by conversion of 2,066,257 Vatel convertible bonds from €4,511,571.13 to €4,708,416.54 through the issue of 2,952,681 shares at a price of €0.070 per share, with a share premium of €1,869,411.09.

	Amount of share capital £'000	Amount of share capital €'000	Unit value per share €	Number of shares issued
At 1 January 2020	**3,311**	**3,873**	**0.07**	**58,094,754**
Capital increase by exercise of warrants	567	638	0.07	9,578,813
Capital increase by conversion of bonds	175	197	0.07	2,952,681
At 31 December 2020	**4,053**	**4,708**	**0.07**	**70,626,248**
At 31 December 2021	**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.

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

37. Share premium account

Amounts in £'000	
Balance at 1 January 2020	**46,999**
Premium arising on issue of equity shares	3,697
Expenses of issue of equity shares	(25)
Balance at 31 December 2020	**50,671**
Balance at 31 December 2021	**50,671**

38. Other reserves

Amounts in £'000	
Balance at 1 January 2020	**(1,924)**
Translation differences	(112)
Balance at 31 December 2020	**(2,036)**
Translation differences	862
Balance at 31 December 2021	**(1,174)**

39. Equity reserve

Amounts in £'000	
Balance at 1 January 2020	**336**
Conversion of Vatel bonds	19
Exercise Negma warrants	103
Exercise Harbert European Growth Capital warrants	693
Exercise Primerdesign warrants	4
Balance at 31 December 2020	**1,155**
Balance at 31 December 2021	**1,155**

This reserve represents the equity component of warrants and loans.

Notes to the Annual Accounts continued

40. Retained earnings/losses

Amounts in £'000	
Balance at 1 January 2020	**(36,119)**
Profit for the year	132,423
Other variations	612
Balance at 31 December 2020	**96,916**
Loss for the year	(9,728)
Balance at 31 December 2021	**87,188**

41. Business combinations

Acquisition of IT-IS International Ltd

On 15 October 2020, Novacyt UK Holdings Ltd completed the purchase of the entire share capital of IT-IS International Ltd, a company incorporated in England and Wales. The company specialises in the development and manufacturing of PCR diagnostic instruments for the life sciences and food testing industry.

The purchase price was £13,387,000, broken down as follows:

Cash disbursed	£11,564,000
Deferred consideration for reaching a target turnover in year one	£1,016,000
Deferred consideration for reaching a target turnover in year two	£807,000
Total purchase price	£13,387,000

The fair value of the assets acquired and the liabilities assumed are as follows:

Net property, plant and equipment	£108,000
Trademark	£843,000
Customer relationships	£1,366,000
Inventory	£1,774,000
Clients and other receivables	£424,000
Suppliers and other creditors	(£4,680,000)
Deferred tax on assets acquired	(£591,000)
Cash acquired	£4,706,000
Fair value of assets acquired and liabilities assumed	**£3,950,000**
Goodwill	**£9,437,000**

The table above shows how the opening goodwill figure of £9,437,000 was arrived at after allocating the purchase price across all the assets and liabilities acquired. The residual goodwill arising from the acquisition reflected the future growth expected to be driven by new and existing customers, the value of the workforce, patents and know-how.

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

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

IFRS 3 provides for a period of 12 months from acquisition to complete the identification and measurement of the fair value of assets acquired and liabilities assumed. The acquisition accounting has been finalised and no adjustments were made to the opening gross amount of goodwill.

41. Business combinations continued

Goodwill is a residual component calculated as the difference between the purchase price for the acquisition of control and the fair value of the assets acquired and liabilities assumed. It includes unrecognised assets such as the value of the personnel and know-how of the acquiree.

The acquisition costs amounted to £187,000. They are included on the statement of comprehensive income in the year ended 31 December 2020 as "acquisition related expenses" (see note 13).

IT-IS International contributed £1,077,000 to consolidated revenue in the year ended 31 December 2020 between its consolidation on 15 October 2020 and 31 December 2020.

If the acquisition of the IT-IS International shares were deemed to have been completed on 1 January 2020, the opening date of the Group's 2020 financial year, consolidated Group revenue would have amounted to £279,781,000 and net profit attributable to owners of the Company would have amounted to £132,219,000.

The table below presents the Group income statement for the 12-month period ended on 31 December 2020 as if the acquisition of IT-IS International had been completed on 1 January 2020.

Amounts in £'000	Year ended 31 December 2020 Pro forma
Revenue	279,781
Cost of sales	(66,961)
Gross profit	**212,820**
Sales, marketing and distribution expenses	(4,867)
Research and development expenses	(1,929)
General and administrative expenses	(31,484)
Governmental subsidies	(3)
Operating profit before exceptional items	**174,537**
Costs related to acquisitions	(187)
Other operating expenses	(7,215)
Operating profit after exceptional items	**167,135**
Financial income	85
Financial expenses	(2,357)
Profit before tax	**164,863**
Tax expense	(32,644)
Profit after tax	**132,219**
Profit after tax attributable to owners of the Company	132,219

Notes to the Annual Accounts continued

42. Notes to the cash flow statement

Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 2020
(Loss)/profit for the year	**(9,728)**	**132,423**
Adjustments for:		
Depreciation, amortisation, impairment loss and provisions	**7,882**	8,196
Product warranty provision	**–**	19,753
Unwinding of discount on contingent consideration	**(17)**	(114)
Losses on disposal of assets	**75**	407
Income tax charge (credit)/charge	**(101)**	32,751
Operating cash flows before movements of working capital	**(1,889)**	**193,416**
Decrease/(increase) in inventories (*)	**18,427**	(25,966)
Decrease/(increase) in receivables	**42,754**	(80,773)
(Decrease)/increase in payables	**(23,996)**	34,838
Cash used in operations	**35,296**	**121,515**
Income taxes paid	**(19,745)**	(20,574)
Finance costs	**138**	2,035
Net cash from operating activities	**15,689**	**102,976**

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

Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 2020
Decrease/(increase) in the gross value of inventories	**2,392**	(28,941)
Variation of the stock provision	**16,035**	2,975
Total variation of the net value of inventories	**18,427**	**(25,966)**

The details for the increase in the stock provision are covered in notes 7, 8 and 22.

43. Leases

In application of IFRS 16 as from 1 January 2019, the Group has recognised on the statement of financial position some "right-of-use" assets and lease liabilities.

Novacyt SA

Novacyt SA rents a small office in Vélizy, on a rolling 12-month basis.

Primerdesign Ltd

A lease exists for the York House site, which is used for office, storage and laboratory purposes. The annual charge for the site (with service charges) is now £183,795 per annum, with all leases running to November 2025.

In November 2020, the company took out a new lease at a nearby site called Unit A, primarily for storage purposes. The annual charge for the site (with service charges) is now £146,750 per annum, with the lease running to November 2022.

43. Leases continued

Microgen Bioproducts Ltd

A lease exists at Watchmoor Park, which has a mixed use for office, storage and laboratory purposes. This commenced in May 2017 and will run until May 2032. There are rent review clauses in May 2022 and 2027. The annual charge for the site is £175,643 per annum (including service charges).

IT-IS International Ltd

A lease exists at units 1, 3 and 4 Wainstones Court, which has a mixed use for office, storage and production purposes. This commenced in October 2019 and will run until September 2022. The annual charge for the site is £31,500 per annum (including service charges).

In September 2020, the company took out a 12-month lease at a nearby site called Pulrose House for production purposes. The annual charge for the site is £17,000 per annum. The lease was not renewed after the initial 12-month period.

In December 2020, the company took out a new lease at a nearby site called MMC House, for mixed use of office, storage and production purposes. The lease runs to December 2023 with an annual charge of £75,000 (including service charges).

The table below presents the impacts of the leases in the consolidated income and cash flow statements of the financial years 2021 and 2020:

Amounts in £'000	At 31 December 2021	At 31 December 2020
Interest expense on lease liabilities	**178**	184
Cash outflows for leases accounted for as per IFRS 16	**432**	487
Expenses related to short-term and low-value leases	**445**	252
Total cash outflows for leases	**877**	**739**

44. Financial instruments

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern whilst maximising the return to Shareholders through the optimisation of debt and equity balances. The Group's overall strategy is to ensure there is sufficient working capital to optimise the performance of the business.

The capital structure of the Group consists of net debt (borrowings disclosed in note 26 after deducting cash and cash equivalents) and equity of the Group (comprising issued capital, reserves and retained earnings in notes 36 to 40).

The Group is not subject to any externally imposed capital requirements.

The Group is focused on cash management and this is reviewed on a regular basis by the Group Finance Director and the Chief Financial Officer. The funding mix of the business is reviewed and managed regularly by the Chief Financial Officer and the Chief Executive Officer.

Gearing ratio

The gearing ratio at the year end is as follows:

Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 2020
Debt (lease liabilities)	**1,870**	2,378
Cash and cash equivalents	**101,746**	91,765
Net (cash)/debt	**(99,876)**	**(89,387)**
Equity	**141,815**	**150,710**
Net (cash)/debt to equity ratio	**(70%)**	**(59%)**

Notes to the Annual Accounts continued

44. Financial instruments continued

Debt is defined as long-term and short-term borrowings and lease liabilities (excluding derivatives and financial guarantee contracts) as detailed in notes 26 and 27.

For both years, 2020 and 2021, debt in the table above relates to the leases' liability as per IFRS 16.

Equity includes all capital, premiums and reserves of the Group that are managed as capital.

Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in note 3.

Categories of financial instruments

Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 2020
Financial assets		
Cash and cash equivalents	**101,746**	91,765
Loans and receivables	**30,439**	79,396
Financial liabilities		
Fair value through profit and loss	**836**	1,834
Amortised cost	**17,991**	21,249

Financial risk management objectives

The Group's finance function is responsible for managing the financial risks relating to the running of the business. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

If a material risk is identified, then the Group would look to mitigate that risk through the appropriate measure, such as hedging against currency fluctuations.

The Group does not use complex derivative financial instruments to reduce its economic risk exposures.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates.

There has been no change to the Group's exposure to market risks or the way these risks are managed and measured.

Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are not managed utilising forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets and liabilities denominated in EUR		Assets and liabilities denominated in USD	
Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 2020	Year ended 31 December 2021	Year ended 31 December 2020
Assets	**15,028**	5,419	**9,100**	6,068
Liabilities	**(1,419)**	(1,995)	**(39)**	(5)
Net Exposure	**13,609**	3,424	**9,061**	6,063

44. Financial instruments continued

Foreign currency sensitivity analysis

The Group is mainly exposed to the Euro and US Dollar currencies, used in all segments.

The following table details the Group's sensitivity to a 5% increase and decrease in GBP against the relevant foreign currencies. 5% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity.

	Net exposure	
Amounts in £'000	**Year ended 31 December 2021**	Year ended 31 December 2020
EUR	**13,608**	3,424
Conversion rate	**1.19107**	1.10531
Impact GBP strengthening: FX + 5%	**(648)**	171
Impact GBP weakening: FX - 5%	**716**	(171)
USD	**9,061**	6,063
Conversion rate	**1.34894**	1.35772
Impact GBP strengthening: FX + 5%	**(431)**	(289)
Impact GBP weakening: FX - 5%	**477**	319

Interest rate risk management

The Group borrows funds at fixed interest rates and therefore it is not exposed to significant interest rate risk.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group uses publicly available financial information and its own trading records to rate its major customers' risk levels. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group uses debt collection agencies and government-backed schemes to collect difficult aged debts as a last resort.

Trade receivables consist of a large number of customers, spread across diverse geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The carrying amount of the financial assets recorded in the historical financial information, which is net of impairment losses, represents the Group's maximum exposure to credit risk as no collateral or other credit enhancements are held.

Notes to the Annual Accounts continued

44. Financial instruments continued

Reliance on major customers and concentration risk

Primerdesign's revenue includes approximately £9,702,000 (2020: £190,000,000. This was a different customer) from sales to the Group's largest customer. No other customers contributed 10% or more to the Group's revenue in 2021.

79% of trade receivables are with one counterparty, with whom there is a contract dispute as disclosed in notes 49 and 50. Management considers it to be more likely than not that the 31 December 2021 balances are recoverable.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Effective interest rate %	Less than 1 month £'000	1–3 months £'000	3 months to 1 year £'000	1–5 years £'000	5+ years £'000	Total £'000
31 December 2021							
Variable interest rate instruments		–	–	–	–	–	–
Fixed interest rate instruments	**1.2**	**1,408**	**91**	**11,638**	**1,086**	**859**	**15,082**
31 December 2020							
Variable interest rate instruments		–	–	–	–	–	–
Fixed interest rate instruments	1.3	5,286	103	6,035	7,172	1,224	19,820

The following table details the Group's expected maturity for its non-derivative financial assets. The table below has been drawn up based on the undiscounted contractual maturities of the financial assets including any interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

	Effective interest rate %	Less than 1 month £'000	1–3 months £'000	3 months to 1 year £'000	1–5 years £'000	Total £'000
31 December 2021						
Non-interest bearing	**–**	**107,483**	**278**	**24,296**	**188**	**132,245**
31 December 2020						
Non-interest bearing	–	169,558	1,467	74	234	171,333

44. Financial instruments continued

Fair value measurements

The information set out below provides information about how the Group determines fair values of various financial assets and financial liabilities.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

	Fair value as at					
Financial assets/ financial liabilities	31/12/21	31/12/20	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
1) Contingent consideration (current and non-current portion)	**836**	1,834	2	Payment made in September 2021 and remaining payment due in September 2022, estimated according to the probability of payment		

Fair value measurements recognised in the statement of financial position

	Year ended 31 December 2021			
Amounts in £'000	Level 1	Level 2	Level 3	Total
Financial liabilities at FVTPL				
Debts from the acquisition of shares	–	836	–	836
Total liabilities at FVTPL	**–**	**836**	**–**	**836**

	Year ended 31 December 2020			
Amounts in £'000	Level 1	Level 2	Level 3	Total
Financial liabilities at FVTPL				
Debts from the acquisition of shares	–	1,834	–	1,834
Total liabilities at FVTPL	**–**	**1,834**	**–**	**1,834**

There were no transfers between Levels during the current or prior year.

The table above only shows the fair value of the financial liabilities as the fair value of the applicable financial assets are not materially different from their carrying value.

Fair value of financial liabilities that are not measured at fair value (but fair value disclosures are required)

There are no financial liabilities in the statement of financial position at 31 December 2021 or 31 December 2020 that are not measured at fair value but for which fair value must be disclosed.

Notes to the Annual Accounts continued

45. Commitments given and received

As the Group repaid all borrowings in 2020, excluding lease liabilities, any related guarantees granted to the lenders no longer exist as at 31 December 2021.

46. Related parties

Parties related to Novacyt SA are:

- the managers, whose compensation is disclosed below; and
- the Directors of Novacyt SA.

Remuneration of key management personnel

Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 2020
Fixed compensation and company cars	2,176	867
Variable compensation	590	495
Social security contributions	412	899
Contributions to supplementary pension plans	48	40
Termination benefits	371	–
Share-based payment benefits – LTIP	–	14,233
Total remuneration	**3,597**	**16,534**

Aggregate Directors' remuneration

Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 2020
Fixed compensation and company cars	897	705
Variable compensation	350	330
Social security contributions	181	658
Contributions to supplementary pension plans	11	29
Fees	32	33
Share-based payments – LTIP	–	11,110
Total remuneration	**1,471**	**12,865**

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

47. Audit fees

Amounts in £'000	Year ended 31 December 2021	Year ended 31 December 2020
Fees payable to the Company's Auditor and its associates in respect of the audit		
Group audit of these financial statements	**103**	144
Audit of the Company's subsidiaries' financial statements	**260**	232
Total audit remuneration	**363**	**376**
Fees payable to the Company's Auditor and its associates in respect of non-audit-related services		
Audit-related assurance services	**–**	–
All other services	**5**	14
Total non-audit-related remuneration	**5**	**14**

48. Impact of Brexit on the Group's activity

Novacyt was well prepared for the end of the Brexit transition period and the Group has seen no directly related material disruption to its supply chain.

49. Contingent liabilities

During 2021, the Group received notification of a contract dispute between its subsidiary, Primerdesign 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. Following the issuance of legal proceedings on 25 April 2022 by the DHSC, this figure has now increased by £1,517,000 due to the inclusion of q16 instruments, taking the total 2020 revenue in dispute to £130,642,000. Payment for £23,957,000 of invoices in respect of products delivered during 2020 remains outstanding at the date of signing the financial statements and recovery of the invoice is dependent on the outcome of the dispute.

Management have reviewed the position at 31 December 2021 and deem this to still be an appropriate reflection of the current commercial dispute.

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

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 31 December 2021.

50. Subsequent events

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 in note 49) plus £1,821,000 (£1,517,000 excluding VAT) of q16 instruments, which have been added to the dispute.

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

Glossary of terms

BKV	BK Virus
CAGR	compound annual growth rate
CE mark	Conformitè Europëenne
CMV	Cytomegalovirus
COVID-19	coronavirus disease of 2019
DHSC	department of health and social care
EBV	Epstein-Barr Virus
FDA	US food and drug administration
HLA	human leukocyte antigen
HSV1	Herpes Simplex Virus 1
HSV2	Herpes Simplex Virus 2
HHV6	Human Herpes Virus 6
HHV8	Human Herpes Virus 7
IFRS	international financial reporting standards
ISO	international standards organization
IVD	in vitro diagnostic
IVDR	in vitro diagnostic regulation
JVC	John Cunningham Virus
LFT	lateral flow tests
PCR	polymerase chain reaction
POC	point of care
qPCR	quantitative polymerase chain reaction
RNA	ribonucleic acid
RUO	research use only
SNPs	single nucleotide polymorphisms
TSR	total shareholder return
UNICEF	United Nations Children's Fund
WHO	World Health Organisation

Company Information

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Company Secretary	James McCarthy
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(Joint Broker)	**Numis Securities Limited** The London Stock Exchange Building 10 Paternoster Square London EC4M 7LT United Kingdom
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