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

						Other Group reserves					
Amounts in £'000	Notes	Share capital	Share premium	Own shares	Equity reserves	Acquisition of the shares of Primerdesign	Translation reserve	OCI on retirement benefits	**Total**	Retained earnings	**Total equity**
Balance at 1 January 2020		**3,311**	**46,999**	**(141)**	**336**	**(2,407)**	**491**	**(8)**	**(1,924)**	**(36,119)**	**12,462**
Translation differences		–	–	–	–	–	(112)	–	**(112)**	–	**(112)**
Profit for the period		–	–	–	–	–	–	–	**–**	132,423	**132,423**
Total comprehensive income/(loss) for the period		**–**	**–**	**–**	**–**	**–**	**(112)**	**–**	**(112)**	**132,423**	**132,311**
Issue of share capital	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).

Financial assets/ financial liabilities	Fair value as at 31/12/21	Fair value as at 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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Company website	www.novacyt.com
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(Joint Broker)	**Numis Securities Limited** The London Stock Exchange Building 10 Paternoster Square London EC4M 7LT United Kingdom
French Listing Sponsor	**Allegra Finance** 213 Boulevard Saint-Germain 75007 Paris France
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