INTERIM FINANCIAL REPORT

31 December 2020

2020/21 interim financial report at 31 December 2020

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Interim activity report

1. Preliminary remarks and recent events

Over the past half-year, the Group, like many other groups, has had to deal with the COVID-19 health crisis, which has had a particularly negative impact on some of its activities, in particular "Mass Transit" and, to a lesser extent, "Eid".
The multiple lockdowns of populations across Europe and in the United States during the second quarter of the financial year (fourth calendar quarter) significantly slowed passenger traffic for public transport operators. In non-confined cities, passenger traffic on public transport remains at levels well below those that prevailed before the pandemic. In this context, ticket and transport card inventory levels remain high, which is delaying recovery in that activity. Nonetheless, as a positive consequence of the pandemic, interest in digital transport ticket solutions, is growing sharply. These solutions respond to the desire of local authorities and operators to offer users more and morecomplete ticketing systems on smartphones.

E-ID activity recorded a decline in sales in the first half of the year, which was penalised by border closures and international travel restrictions (business and tourism).

Thanks to the good performance of sales to the retail, health/pharmaceutical and more broadly industrial labelling sectors, the Track & Trace and Brand Protection division posted a more limited decline over the period. However, activity in the sectors most affected by the health crisis, notably aeronautics and air transport, continued to slow down, with no sign of recovery in the short term.

Lastly, the Payments division continued its steady growth, influenced by the consolidation of Thames Technology starting 1 November 2019 (six months of consolidation in the first half of 2020/21 compared to two months of consolidation last year).

During this period, the Group's strategy was both to ensure the continuity of its offerings to its customers while providing its employees with working conditions adapted to new health risks. The Group also attempted to minimise the impact of the crisis on its profitability by implementing the following measures:

- Use of all government support measures in terms of furlough schemes wherever they exist;
- Implementation of workforce reduction measures when deemed necessary;
- Negotiation with its main customers to obtain compensation when the minimum volumes stated in the commercial contracts were not achieved.

The Group also continued its external growth program during the first half of the year with the strengthening of its investment in its Airweb joint venture, acquiring an additional 30% of the company's share capital and thus obtaining control. The Airweb platform enables the rapid deployment of contactless and mobile ticketing solutions that minimise interactions between users and employees and simplify digital ticketing. Based in France, near Paris, Airweb's teams are specialized in iOS and Android applications based on flexible technology.

2. Position of the company and activity during the period from 1 July 2020 to 31 December 2020

During the period from 1 July to 31 December 2020, half-year revenues stood at €40.7m compared with €56.3m over the same period in 2019.

Revenues for the period are divided into €20.6m in the EMEA segment (Europe Middle East & Africa), €14.4m in the United Kingdom and €5.7m in the United States.

The EMEA segment*,* which brings together all of the activities of the Group's commercial and industrial teams located on the European continent (France and Romania) mainly but not exclusively for the Group's European, African and Middle Eastern customers, achieved revenues of €20.6m, a decrease of 32.4%.

The half-year decline observed in this segment is mainly due to the decline in "Mass Transit" activities (activities focused on the Group's offers facilitating the management of access to public transport) for the region. These activities were particularly affected by the health crisis which implies a reduction in passenger traffic in public transport. Moreover, these activities suffer from a strong basis of comparison due to the good performance of the activity during the previous period until the appearance of COVID-19. The Group believes that its positioning in this market has not deteriorated over the period and that its revenue is contingent on a recovery in public transport traffic.

The increase in the share capital of Airweb during the first half of the year enabled the Group to control one of the technological building blocks of the future in the world of public transport payments and thus strengthen its positioning.

It should be noted that "Track and Trace" activities (activities focused on the Group's offers facilitating the monitoring of products and goods) and "Eid" (activities focused on the Group's passport and electronic driving licence offerings) weathered the half-year crisis in the region.

The UK segment, which includes the activities generated by the Group's commercial and industrial teams located in that country (Hull, Essex) mainly but not exclusively for customers in Commonwealth member countries, generated revenues of €14.4m, down 15.9%.

This change is mainly due to the slowdown in passenger traffic on public transport networks (London Underground, British rail networks, etc.), which generated activity constituting 70% of revenues until the onset of the health crisis. It constituted only 28% of activity over the past half-year. However, payments activity held up well to the crisis and posted good performance and strong growth, also due to a scope effect, as the acquisition of Thames Card Technology Ltd took place in November 2020.

The USA segment includes the activities generated by the Group's commercial and industrial teams located in that country (Burlington, Vermont) for most, but not all, of the Group's US customers. In addition, AmaTech's technology licencing activities, which are mainly aimed at US customers, are also included in the US segment. This segment generated revenues of €5.7m, down 34.6%.

Once again, this change is mainly due to the impact of the health crisis, which has resulted in a slowdown in passenger traffic on public transport networks, which has a direct impact on "Mass Transit" activities. In addition, border closures and reduced international travel have had a direct impact on the number of passports issued, and the volumes of US passport covers have fallen significantly, impacting the region's Eid activity. Conversely, payments activity held up well against the crisis and posted growth of 58% compared to the same period the previous year.

The Group's operating income before depreciation, amortization and non-recurring items amounted to €3.3m, or 8.2% of revenues, in the first half of 2020/21, compared to €4.9m, or 8.6% of revenues, over the same period in 2019/2020. This reduction in volume is mainly due to the reduction in revenues. It should be noted, however, that the Group has maintained its profitability rate by carrying out a number of cost-cutting actions to counter the decline in revenues since the onset of the health crisis:

(i) use of all government support measures in terms of furlough schemes wherever they exist,

(ii) implementation of workforce reduction measures when deemed necessary,

(iii) negotiation with its main customers to obtain compensation when the minimum volumes stated in the commercial contracts were not achieved.

Thanks to the application of the above measures, the Group believes that it has reduced its costs as much as possible and thus believes that it has put itself in the best position to face the crisis and restart in the most effective way when the crisis ends.

3. Cash position

Net cash and cash equivalents (cash and cash equivalents net of bank overdrafts) amounted to €12.5m as at 31 December 2020, compared with €15.4m as at 30 June 2020. This movement is largely explained by the fact that the acquisition of Airweb SAS, debt repayments and ongoing investments in new equipment were financed from the Group's cash.

Financial debt (excluding bank overdrafts) amounted to €55m as at 31 December 2020, compared with €62.3m as at 30 June 2020. They include:

- bond debts owed to Grenadier Holdings Plc under the contribution agreement amounting to €10m;
- loans granted by Grenadier Holdings Plc to the Group to finance its reorganisation and external growth amounting to €14.9m, of which €10.3m consists of a long-term In Fine loan;
- debts resulting from leases amounting to €4m; and
- bank and government loans, of which €15m for a loan guaranteed by the State (PGE), amounting to €26m.

4. Condensed interim consolidated financial statements

a. Revenues:

Half-year revenues amounted to €40.7m over the period from 1 July to 31 December 2020, compared to €56.3m over the same period in 2019, for a decline of 27.8%, as explained above.

b. Operating income before depreciation, amortisation, impairment and non-recurring items:

Over the period from 1 July to 31 December 2020, operating income before depreciation, amortisation, impairment and non-recurring items for the first half of the year stood at €3.3m compared with €4.9m for the same period in 2019, a decline of 31.8%, as explained above.

c. Operating income:

Operating income after depreciation, amortisation, impairment and non-recurring items was a loss of €(2.5)m, compared to a profit of €1m over the same period in 2019.

Depreciation, amortisation and impairments were up slightly mainly due to scope effects: (i) the integration of Airweb within the scope of consolidation (ii) the presence of Thames in the scope of consolidation over the entire period compared to the previous year. Other non-recurring income and expenses increased compared to the previous financial year, mainly due to the cost and headcount reduction actions initiated during the half-year that resulted in the establishment of certain restructuring provisions.

d. Financial income:

The financial income of €(0.6)m, an improvement compared to the same period in 2019, mainly includes the interest owed by the Group on the bond issue granted by Grenadier Holdings Plc, which decreased compared to the previous year following the conversion in February 2020 of the Grenadier convertible bonds, thus reducing the interest expense on those bonds from the date of conversion.

e. Net income:

Net half-year income was a loss of €(2.6)m over the period from 1 July to 31 December 2020, compared to a loss of €(0.6)m over the same period in 2019, after taking into account losses related to discontinued operations.

5. Composition of the Board of Directors

As at 31 December 2020, the Board of Directors was composed of:

- John Rogers, Director and Chairman of the Board of Directors;
- Dominique Durant des Aulnois, Director;
- Laurent Salmon, Director;
- Valéry Huot, permanent representative of LBO France Gestion, Director;
- Lis Astall, Independent Director;
- Alyna Wnukowsky, Independent Director.

6. Breakdown of share capital

At 31 December 2020, the breakdown of share capital was as follows:

- Grenadier Holdings Plc	81%
- LBO France Gestion	3%
- Other investment funds	2%
- Free float	14%

Interim financial report at 31 December 2020

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 DECEMBER 2020

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Condensed interim consolidated financial statements at 31 December 2020

1. CONSOLIDATED INCOME STATEMENT

In thousands of euros	**Notes**	**6 months December 2020**	**6 months December 2019**
Revenues	**4**	**40,672**	**56,306**
Cost of sales	**5**	(19,555)	(29,700)
Employee costs	**6**	(11,622)	(14,044)
Other operating income and expenses	**7**	(6,157)	(7,665)
Operating income before depreciation, amortisation, impairment and non-recurring items		**3,338**	**4,897**
Amortisation and impairment of intangible assets	**12**	(1,581)	(1,287)
Depreciation of property, plant and equipment	**13**	(2,495)	(2,459)
Other non-current income and expenses	**8**	(1,715)	(193)
Operating income		**(2,453)**	**958**
Financial income/(expenses)	**9**	(609)	(1,319)
Pre-tax operating income		**(3,062)**	**(361)**
Share in the net income of joint ventures	**14.2**	408	(248)
Income tax	**10**	13	61
Net income – Continuing operations		**(2,641)**	**(548)**
Losses from discontinued operations	**-**	(14)	(22)
Net income – Discontinued operations		**(14)**	**(22)**
Net income		**(2,655)**	**(570)**
Attributable to:			
The owners of the Company			
- Continuing operations		(2,627)	(567)
- Discontinued operations		(14)	(22)
Non-controlling interests			
- Continuing operations		(14)	19
- Discontinued operations		-	-
Earnings per share			
Basic (euro-cents per share)	**11**	(134.38)	(28.85)
Diluted (euro-cents per share)	**11**	(134.38)	(28.85)
Additional Information			
Operating income		**(2,453)**	**958**
Non-recurring (income)/expenses	**8**	(1,715)	(193)
Operating income before non-recurring (income)/expenses		**(738)**	**1,151**

2. OTHER COMPREHENSIVE INCOME

		6 months	**6 months**

In thousands of euros	***Notes***	**December 2020**	**December 2019**
Net income		**(2,655)**	**(570)**
Items that may subsequently be reclassified to net income			
Currency translation adjustments of controlled investments	***12.1***	(408)	1,873
Items that may not subsequently be reclassified to net income			
Actuarial gains and losses on provisions for retirement benefits		47	88
Deferred taxes related to the provision for retirement indemnities		(10)	(25)
Total income		**(3,026)**	**1,366**
Attributable to:			
The owners of the Company		(3,012)	1,347
Non-controlling interests		(14)	19

3. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of euros	Notes	31/12/2020	30/06/2020
Goodwill	**12.1**	55,935	50,066
Intangible assets	**12.2**	13,921	12,645
Property, plant and equipment	**13.1**	10,599	10,528
Assets related to rights of use of leased assets	**13.2**	4,008	4,446
Deferred tax assets	**10**	3,801	3,855
Interests in joint ventures	**14**	274	2,034
Other financial assets		124	485
Non-current assets		**88,662**	**84,059**
Inventories	**15**	11,563	13,445
Trade receivables	**16**	6,214	9,812
Other receivables	**16.1**	6,369	6,677
Cash and cash equivalents	**17**	12,606	21,219
Current assets		**36,752**	**51,153**
Total Assets		**125,414**	**135,212**
Issued capital	**5**	68,787	68,787
Share premiums	**5**	60,887	60,887
Other Reserves	**5**	(80,771)	(80,951)
Treasury shares	**5**	(187)	(188)
Currency translation adjustment reserve	**5**	(2,197)	(1,789)
Employee securities revaluation reserve	**5**	(212)	(249)
Reserves attributable to owners of the Parent Company	**5**	(17,752)	(15,110)
Non-controlling interests	**5**	57	71
Equity		**28,612**	**31,458**
Financial debt – non-current portion	**19**	21,575	22,436
Financial debt – non-current portion, with related parties	**19**	20,532	20,262
Liabilities from rights of use – non-current portion	**13.2**	2,413	2,766
Deferred tax liabilities	**10**	1,354	1,449
Provisions for retirement commitments		1,989	1,760
Non-current liabilities		**47,863**	**48,673**
Liabilities from rights of use – current portion	**13.2**	1,619	1,628
Financial debt – current portion	**19**	4,492	9,341
Financial debt – current portion, with related parties	**19**	4,359	5,854
Trade and other payables	**20**	20,334	21,777
Other creditors	**20.1**	16,100	14,861
Provisions	**21**	2,035	1,620
Current liabilities		**48,939**	**55,081**
Total Liabilities		**125,414**	**135,212**

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4. CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of euros	Notes	6 months December 2020	6 months December 2019
Pre-tax operating income		**(3,061)**	**(361)**
Adjusted for:			
Losses from discontinued operations		(14)	(22)
Financial interest	**9**	609	1,319
Cost of share-based payments		180	354
Depreciation and amortisation of intangible assets and property, plant and equipment	**12/13**	4,076	3,746
Share of net income of joint ventures		408	(248)
(Reversal)/Charge to provisions		1,192	102
Amortisation of government grants		(9)	-
Cash flows from operations before working capital requirements		**3,381**	**4,890**
(Increase)/decrease in inventories		1,882	708
Increase/(decrease) in trade payables		(1,732)	4,938
(Increase)/decrease in trade receivables		3,970	(2,497)
(Increase)/decrease in other current assets and liabilities		(2,659)	(826)
Cash flows from operating activities		**4,842**	**7,213**
Repayment/(Payment) of taxes		-	-
Net cash flows generated by operating activities		**4,842**	**7,213**
Acquisitions of intangible assets	**12**	(2,179)	(2,017)
Acquisitions of property, plant and equipment	**13**	(1,751)	(888)
Proceeds from disposals of property, plant and equipment		1	79
Acquisition of subsidiaries, net of cash acquired	**1.2.2**	(124)	(1,412)
(Increase)/decrease in other financial assets		-	(35)
Cash flows from investing activities		**(4,053)**	**(4,273)**
Repayment of lease liabilities	**19**	(922)	(1,205)
Repayment of loans	**19**	(2,294)	(2,335)
Interest paid	**19**	(303)	(1,278)
Cash flows from financing activities		**(3,519)**	**(4,818)**
Increase/(decrease) in net cash and cash equivalents		**(2,730)**	**(1,878)**
Cash and cash equivalents, net of overdrafts – beginning of period		**15,376**	**3,781**
Increase/(decrease) in net cash and cash equivalents		(2,730)	(1,878)
Impact of exchange rate changes on net cash and cash equivalents		(115)	(51)
Cash and cash equivalents, net of overdrafts – end of period		**12,531**	**1,852**

5. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of euros	Share capital	Share premiums	Other Reserves	Treasury shares	Currency translation adjustment reserve	Employee securities revaluation reserve	Retained earnings	Total Equity Group share	Non-controlling interests	Total Equity
Opening position 01/07/2019	**58,287**	**60,853**	**(81,523)**	**(222)**	**(1,566)**	**(345)**	**(9,306)**	**26,178**	**32**	**26,210**
Income for the year							(589)	**(589)**	19	**(570)**
Other comprehensive income for the year, after income tax					1,873	63		**1,936**		**1,936**
Total income for the year					**1,873**	**63**	**(589)**	**1,347**	**19**	**1,366**
Payment in shares		74	354					**428**		**428**
Treasury shares				15				**15**		**15**
Closing position 31/12/2019	**58,287**	**60,927**	**(81,169)**	**(207)**	**307**	**(282)**	**(9,895)**	**27,968**	**51**	**28,019**
Income for the year							(5,215)	**(5,215)**	20	**(5,195)**
Other comprehensive income for the year, after income tax					(2,096)	33		**(2,063)**		**(2,063)**
Total income for the year					**(2,096)**	**33**	**(5,215)**	**(7,278)**	**20**	**(7,258)**
Capital Increase	10,500	(40)						**10,460**		**10,460**
Payment in shares			218					**218**		**218**
Treasury shares				19				**19**		**19**
Closing position 30/06/2020	**68,787**	**60,887**	**(80,951)**	**(188)**	**(1,789)**	**(249)**	**(15,110)**	**31,387**	**71**	**31,458**
Income for the year							(2,641)	**(2,641)**	(14)	**(2,655)**
Other comprehensive income for the year, after income tax					(408)	37		**(371)**		**(371)**
Total income for the year					**(408)**	**37**	**(2,641)**	**(3,012)**	**(14)**	**(3,026)**
Payment in shares			180					**180**		**180**
Closing position 31/12/2020	**68,787**	**60,887**	**(80,771)**	**(188)**	**(2,197)**	**(212)**	**(17,751)**	**28,555**	**57**	**28,612**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 31 DECEMBER 2020

1. PRELIMINARY REMARKS AND EVENTS DURING THE PERIOD

1.1. General information

Paragon ID SA (formerly ASK) ("the Company") was incorporated in October 1997 as a public limited company (*société anonyme*) under French law. Its registered office is located at Les Aubépins, 18410 Argent-Sur-Sauldre, France.

Since 1 July 2014, the Company's shares have been listed on Compartment C of the Euronext market.

In 2017, the scope of consolidation of ASK SA was modified after the reverse acquisition of the Paragon Identification Division. Consequently, control over the legal acquirer (ASK SA, the "former ASK Group") has passed to the legally acquired company (Paragon France SAS, "the Paragon Identification Division").

In terms of activity, the company and all of its subsidiaries after the merger with the Paragon Identification Division (the "Group") design, produce and market identification solutions dedicated to the e-ID (passports or driving licences), passenger transport, product traceability and brand protection markets, as well as contactless payment cards.

Business continuity:
The Group's business continuity over the next 12 months is dependent on the continued support of its main shareholder to finance its growth.
The main shareholder will, as it has done since its takeover, continue to support the Group financially and with respect to human resources over the next 12 months so that it can continue to grow.
As a result of the conditions listed above, the financial statements have been prepared on a going concern basis.

1.2. Events during the period

1.2.1 Increased shareholding in Airweb

On 4 November 2020, Paragon ID SA strengthened its investment in its Airweb joint venture, acquiring an additional 30% of the company's share capital to raise its percentage of ownership to 80% and thus obtain control of it.

Airweb is a leading French company in digital sales of transport tickets, and it publishes mobile and digital solutions. Airweb's teams are specialized in iOS and Android applications based on flexible technology.
Developed in 2015, the Airweb digital solution, which offers public transport users a complete solution for mobile ticketing and passenger information, has been successfully marketed since 2016 and chosen by over 70 local authorities.
In 2018, Airweb launched tixiPASS, a standardised and scalable ticketing solution derived from its original platform, for an interoperable public transport solution offering with minimal deployment cost.

This transaction is a major opportunity for the Group to strengthen its public transport offering for its customers in the form of a forward-looking product, which is the most comprehensive and scalable mobile ticketing platform on the market.

The purchase price based on the fair value of the assets and liabilities acquired must be temporarily allocated before the end of a period of twelve months following the effective date of the business combination. The purchase price was temporarily allocated by the Group with the assistance of an independent external valuer and is presented in the following table.

At 31 October 2020:

	Airweb In thousands of euros
Temporary allocation of purchase price	
Purchase price	**6,056**
Initial investment – 50% measured at fair value	2,361
New investment – 30%	1,667
Uncontrolled interest – 20% subject to a purchasing obligation in 2024	2,028
Valuation of assets and liabilities	
Intangible assets	731
Property, plant and equipment	392
Trade and other receivables	773
Cash and cash equivalents	574
Total assets acquired	**2,470**
Current trade and other payables	(1,170)
Borrowings and financial debt	(1,205)
Provisions	(157)
Total liabilities acquired	**(2,532)**
Fair value of assets and liabilities	**(62)**
Goodwill	**6,118**

The valuation techniques used to determine the fair value of the significant assets acquired are as follows:

Assets acquired	Valuation techniques
Intangible assets	*Royalties method, excess profit method:* The royalty method is based on an estimate of the discounted royalties that should be avoided following the acquisition of the software.

For the measurement of the fair value of the assets and liabilities acquired, the values of the software were analysed, based on the future income expected to be generated by those assets existing at the acquisition date. This caused the Group to recognise a value of €728k for the software developed and marketed by the company.
The value of the software will be amortised over a period of ten years, which corresponds to the average life remaining at the acquisition date.

The cash impact of the transaction is as follows:

	In thousands of euros
Analysis of cash flow on acquisition	
Cost of acquisition of the 30% portion	(1,667)
Deferred acquisition cost payments	970
Net cash acquired	573
Cash flow net of acquisition	**(124)**

The revenues generated by Airweb since 31 October 2020 are included in the consolidated income statement and amount to €224 thousand. Over the period from 1 July to 31 December 2020, these revenues amounted to €487 thousand.

The loss incurred by Airweb since 31 October 2020 is included in the consolidated income statement and amounted to €113 thousand. Over the period from 1 July to 31 December 2020, this loss amounted to €774 thousand.

1.2.2 Impact of the Covid-19 health crisis on activity

Transport & Smart Cities activity suffered from the multiple lockdowns of populations across Europe and in the United States during the second quarter of the financial year (fourth calendar quarter), which significantly slowed passenger traffic for public transport operators. In non-confined cities, passenger traffic on public transport remains at levels well below those that prevailed before the pandemic. In this context, ticket and transport card inventory levels remain high, which is delaying recovery in that activity.

Nonetheless, as a positive consequence of the pandemic, interest in electronic transport ticket solutions offered by Airweb, in which Paragon ID has held an 80% stake since November 2020, and respond to the desire of local authorities and operators to offer more and more users complete ticketing systems on smartphones is growing sharply. The Airweb platform enables the rapid deployment of contactless and mobile ticketing solutions that minimise interactions between users and employees and simplify digital ticketing. Marketed in SaaS (Software-as-a-Service) mode and based on revenue sharing, the contribution of this platform to revenues remains limited in the short term.

E-ID activity (8% of activity in the first half of 2020/21 vs. 8% last year) recorded a decline in sales in the first half of the year, penalised by border closures and international travel restrictions (business and tourism).

Thanks to the good performance of sales to the retail, health/pharmaceutical and, more broadly, industrial labelling sectors, Track & Trace and Brand Protection activity (31% of activity in the first half of 2020/21 vs. 25%) posted a more limited decline over the period. However, activity in the sectors most affected by the health crisis, notably aeronautics and air transport, continued to slow down, with no sign of recovery in the short term.
Finally, Payment activity continued its steady growth, with half -year revenues multiplied by 2.5 compared to the first half of 2019/20, as a result in particular of the consolidation of Thames Technology since starting 1 November 2019 (six months of consolidation in the first half of 2020/21 compared to two months of consolidation last year).

Excluding the scope effect, the *pro forma* growth of the Payment division was 21%, driven by the manufacture of contactless payment cards and the strong demand for metal cards using contactless technologies under licence from AmaTech. The Payment division now accounts for 29% of the Group's activity in the first half of 2020/21 compared to 8% a year earlier.

1.2.3 Cost structure and industrial capacities resized to face the Covid-19 health crisis

During the first half of the year, Paragon ID drastically adapted its cost structure and its industrial capacities.

The Group's headcount was reduced to around 500 people at the end of 2020, compared with over 750 before the crisis began a year earlier. Furlough scheme arrangements, with long-term agreements signed in France, are maintained in all countries and currently cover nearly 40% of the workforce (full-time equivalent).

The savings plan implemented in the fourth quarter of 2019/20 (which had generated savings of around €4m over the same period) and all the measures aimed at making the Group's fixed costs as variable as possible should limit the impact of the decline in activity on profitability and optimise cash generation during this period of crisis.

Given the lack of signs of a clear short-term recovery and the level of customer inventories, Paragon ID anticipates continued deterioration in activity in the second half of 2020/21.

2. ACCOUNTING RULES AND METHODS

2.1. Scope of consolidation

The scope of consolidation at 31 December 2020 includes the following subsidiaries for the entire period:

- Paragon ID SA, Parent Company;
- Paragon Identification SAS, 100% equity interest and voting rights held;
- Paragon Identification Tech SAS, 100% equity interest and voting rights held;
- Bemrose Booth Paragon Ltd, 100% equity interest and voting rights held;
- Paragon Magnadata Inc, 100% equity interest and voting rights held;
- Paragon Identification Pty Ltd, 100% equity interest and voting rights held;
- Paragon Identification Srl, 100% equity interest and voting rights held;
- Burral Infosmart Ltd, 100% equity interest and voting rights held;
- ASK Asia HK Ltd, 100% equity interest and voting rights held;
- Beijing ASK Smart Technologies, 100% equity interest and voting rights held;
- ASK IntTag Llc, 99% equity interest and voting rights held;
- Amatech Group Ltd, 98.59% equity interest and voting rights held;
- Amatech Feinics Teoranta, 98.59% equity interest and voting rights held;
- Amatech USA Inc, 98.59% equity interest and voting rights held;
- Thames Card Technologies Ltd, 100% equity interest and voting rights held.

The following subsidiary, which was acquired during the period, is included in the scope of consolidation as at 31 October 2020:

- Airweb SAS, 80% equity interest and voting rights held.

The Group also holds 56.30% of the share capital and voting rights of the I2PL joint venture (Noida, India), which no longer has any operational activity and is still in the process of liquidation.

2.2. Standard applied

These interim financial statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting*. The accounting principles applied for the preparation of the consolidated financial statements at 31 December 2020 comply with IFRS as adopted by the European Union and available on the website of the European Commission.

These accounting principles are identical to the ones used to prepare the annual consolidated financial statements for the financial year ended 30 June 2020, with the exception of the new adoptions mentioned below.

On 1 July 2020, the Group also adopted the following standards that entered into force:

- IFRS 3: On 22 October 2018, the IASB published amendments to IFRS 3 relating to the definition of a business that aim to resolve the difficulties experienced by companies in determining whether they have acquired a business or a group of assets. These amendments apply to business combinations for which the acquisition date is on or after the beginning of the first financial year beginning on or after 1 January 2020; The application of this interpretation does not have a material impact on the Group.
- IAS 1 & IAS 8: On 31 October 2018, the IASB published “Definition of Material (Amendment to IAS 1 and IAS 8)” to clarify the definition of “material” and harmonise the definitions given in the Conceptual Framework for Financial Reporting and the standards themselves. The amendments apply to financial years beginning on or after 1 January 2020; The application of this interpretation does not have a material impact on the Group.
- IFRS 9, IAS 39 & IFRS 7: On 26 September 2019, the IASB published amendments to IFRS 9, IAS 39 and IFRS 7 in the context of benchmark interest rate reform as a first step in addressing the potential impact of the reform of IBORs on financial reporting. The amendments apply to financial years beginning on or after 1 January 2020. The application of this interpretation does not have a material impact on the Group.

The Group has not elected for early application of the standards, amendments and interpretations published by the IASB and approved by the European Union at 31 December 2020, which mainly include:

- IFRS 17 & IFRS 4: On 25 June 2020, the IASB published "Amendments to IFRS 17" to address the concerns and implementation challenges that were identified after the publication of IFRS 17 "Insurance Contracts” in 2017. The changes are effective for annual periods beginning on or after 1 January 2023, with early application being allowed. The IASB also published "Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)" to extend the fixed expiry date of the amendment also to annual periods beginning on or after 1 January 2023. The application of this interpretation should not have a material impact on the Group.
- IFRS 9, IAS 39, IFRS 7, IFRS 4 & IFRS 16: On 27 August 2020, the IASB finalised the amendments of phase 2 and published the reform of the interest rate benchmark - phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) with amendments that address issues that may affect financial reporting after the reform of a benchmark interest rate, including its replacement by alternative benchmark rates. The changes are effective for annual periods beginning on or after 1 January 2021, with early application being allowed. The application of this interpretation should not have a material impact on the Group.

The internal process for determining the potential impacts of these standards and interpretations on the Group’s consolidated financial statements is in progress.

2.3. Critical accounting judgements and key sources of estimation uncertainty

The application of the Group’s accounting methods requires Management to exercise judgement and make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily available. These estimates and assumptions are based on past experience and other factors considered relevant. Actual results may differ from these estimates.

Estimates and assumptions are regularly reviewed. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects that period only, or in the period of the revision and in subsequent periods if the revision affects the current period and subsequent periods.

The main significant estimates made by the Group's management relate in particular to:
- The valuation of deferred tax assets (Note 10);
- Measurement of the recoverable amount of goodwill (Note 12).

3. SEGMENT INFORMATION

3.1. Activities to be presented

In accordance with IFRS 8, the activities to be presented *are "EMEA", "UK" and "US".*
- "EMEA" activity corresponds to all of the business generated by the Group's sales and industrial teams on the European continent (Argent-sur-Sauldre, Mougins, Bucharest) targeting mainly, but not exclusively, European, African and Middle-Eastern customers;
- "UK" activity corresponds to all of the business generated by the Group's sales and industrial teams located in the United Kingdom (Hull, Rayleigh) and targeting mainly, but not exclusively, customers in Commonwealth countries;
- "US" activity corresponds to all of the business generated by the Group's sales and industrial teams located in the United States (Vermont) targeting mainly, but not exclusively, the Group's American customers. In addition, AmaTech's technology licencing activities, which are mainly aimed at American customers, are also included in the US segment.

The information thus presented corresponds to the measurement that is communicated to the Group's main operational decision-makers (the Chief Executive Officer and the Board of Directors) for the purposes of allocating resources and assessing the performance of the segment. It does not include segment assets and liabilities. The accounting methods of the segments presented are the same as the Group's accounting methods.

3.2. Income from ordinary activities and segment results

The segment income presented below represents income from external customers. There were inter-segment sales during the years presented that have been eliminated in the information presented below.

	6 months	6 months
In thousands of euros	December 2020	December 2019
EMEA	20,611	30,523
UK	14,398	17,123
US	5,663	8,660
Revenues	**40,672**	**56,306**

Six-month period ended 31 December 2020, In thousands of euros	EMEA	UK	US	Total
Revenues	**20,611**	**14,398**	**5,663**	**40,672**
Cost of sales	(10,537)	(6,518)	(2,500)	(19,555)
Direct Workforce	(2,174)	(1,431)	(1,015)	(4,620)
Other direct production costs	(1,545)	(1,045)	(357)	(2,947)
Income after direct costs	**6,355**	**5,404**	**1,791**	**13,550**
Centralised production and R&D management costs	(2,270)	(1,310)	(185)	(3,765)
Commercial expenses	(1,321)	(1,589)	(251)	(3,161)
Administrative costs	(2,455)	(702)	(127)	(3,284)
Other income and expenses	(1,267)	(2,270)	(541)	(4,078)
Other non-current income and expenses	(1,610)	(105)	-	(1,715)
Operating income	**(2,568)**	**(572)**	**687**	**(2,453)**

Six-month period ended 31 December 2019, In thousands of euros	EMEA	UK	US	Total
Revenues	**30,523**	**17,123**	**8,660**	**56,306**
Cost of sales	(16,739)	(9,227)	(3,734)	(29,700)
Direct Workforce	(3,373)	(1,615)	(1,322)	(6,310)
Other direct production costs	(1,878)	(1,078)	(573)	(3,529)
Income after direct costs	**8,533**	**5,203**	**3,031**	**16,767**
Centralised production and R&D management costs	(3,199)	(1,348)	(196)	(4,743)
Commercial expenses	(1,591)	(1,496)	(86)	(3,173)
Administrative costs	(2,733)	(875)	(344)	(3,952)
Other income and expenses	(2,086)	(1,316)	(346)	(3,748)
Other non-current income and expenses	(65)	(128)	-	(193)
Operating income	**(1,141)**	**40**	**2,059**	**958**

3.3. Income from ordinary activities from major geographical areas

The Group operates in three major geographical regions: Continental Europe (where the head office is located), the United Kingdom and North America.
The following table presents income from continuing operations from the Group's external customers by geographic region:

In thousands of euros	**6 months December 2020**	**6 months December 2019**
France	15,287	23,566
United Kingdom	11,121	14,107
Other European countries	4,525	5,032
North America	6,581	7,748
Latin America	565	1,344
Middle East Africa	1,801	3,126
Others	792	1,383
Revenues	**40,672**	**56,306**

3.4. Information about the main customers

None of the Group's customers individually represents more than 10% of income from ordinary activities.

3.5. Information on non-current assets

The Group's non-current assets, excluding goodwill, are broken down by geographical area as follows: France: 48%, United Kingdom: 38%, United States: 3%, Romania: 2%, Ireland: 9%.

4. REVENUES

The following table shows the breakdown of the Group's revenues:

	6 months	6 months	6 months	6 months
In thousands of euros	EMEA	UK	US	December 2020
Eid	1,515	-	1,563	3,078
Mass Transit	7,553	4,134	1,273	12,960
Traceability and Brand Protection	10,453	2,264	-	12,717
Payment	1,090	8,000	2,827	11,917
Revenues	**20,611**	**14,398**	**5,663**	**40,672**

	6 months	6 months	6 months	6 months
In thousands of euros	EMEA	UK	US	December 2019
Eid	1,701	-	3,025	4,726
Mass Transit	16,740	11,992	3,852	32,584
Traceability and Brand Protection	12,082	2,204	-	14,286
Payment	-	2,927	1,783	4,710
Revenues	**30,523**	**17,123**	**8,660**	**56,306**

5. COST OF SALES

The following table breaks down the items presented in cost of sales:

	6 months	6 months
In thousands of euros	December 2020	December 2019
Purchase of materials & goods	16,311	23,475
Subcontracting and royalties	3,244	6,225
Cost of sales	**19,555**	**29,700**

The reduction in the cost of sales is related to the decline in activity caused by the health crisis. It should be noted that the margin rate on purchases of materials, goods and subcontracting achieved by the Group of 51.92% increased compared to the same period the previous year (2019: 47.25%). This is due to

(i) the Group's attention to the transfer of material price increases to its customers as early as possible; (ii) the modification of the product mix with the Group's continued focus on the sale of products and offers with higher added value such as Rfid Discovery offers and sales of Amatech technology licences; (iii) the fact that the traditional lower-margin urban transport markets are the most impacted by the health crisis.

6. EMPLOYEE COSTS

Employee costs of €11,622 thousand include (i) wages and salaries (ii) social security charges (iii) defined-benefit pension costs and (iv) share-based payments. Temporary labour costs contracted through temporary employment agencies are recognised under "other operating income and expenses".

The Group capitalises part of its development costs, which mainly consist of personnel costs. For the period from 1 July to 31 December 2020, the amount of capitalised personnel costs amounted to €1,261 thousand.

In addition, an expense of €180 thousand was recorded, which corresponds to the expense for the period of the BSA 2018-1, AGA 0720, AGA 0121 & AGA 0122. These equity warrants and free shares were issued during the first half of 2020 and include presence conditions in three-year tranches until 1 January 2022.

Finally, the Group is subject to a defined-benefit pension plan in France and obligations to its employees with respect to retirement benefits are limited to a lump-sum payment made on retirement based on compensation and length of service calculated for each employee.

At 31 December 2020, the Group's commitments for retirement benefits were valued at €1,886 thousand (30 June 2020: €1,760 thousand).

7. OTHER OPERATING COSTS

The Group's other operating expenses break down as follows:

	6 months	6 months
In thousands of euros	December 2020	December 2019
Transport	1,051	1,643
Fees	1,506	1,066
Leases	188	190
Maintenance	810	959
Insurance costs and charges	1,181	1,455
Travelling expenses	130	730
Others	1,290	1,622
Other operating costs	**6,157**	**7,665**

Fees include the cost of filing patents as well as the cost of certifying and qualifying the Group's sites.
Other operating costs consist mainly of general sub-contracting.

8. OTHER NON-CURRENT INCOME AND EXPENSES

The Group presented significant portion of its costs as non-current income and expenses subsequent to the ongoing changes within the Group, which will transform the Group over the coming financial years:

- items whose non-recurring nature makes their future occurrence unlikely;
- items resulting from an unforeseeable event;
- items that do not fall within the scope of the Company's current operations.

At 31 December 2020, the breakdown was as follows:

	6 months	6 months
In thousands of euros	December 2020	December 2019
Redundancy costs (excluding the Employment Protection Plan)	1,659	189
Employment Protection Plan – reversals not covered by provisions	(71)	(148)
Costs of unreplaced employees	103	-
Training of former employees	10	-
Expert cost of restructuring plan	14	-
Fees related to the closure and/or acquisition of subsidiaries	-	43
URSAAF-DGCCRF penalties	-	54
Interim management support	-	55
Non-current income and expenses	**1,715**	**193**

- Redundancy costs (excluding the Employment Protection Plan) mainly relate to redundancies announced during the half-year as part of cost reductions related to the health crisis;
- Income related to the Employment Protection Plan (*Plan Sauvegarde de l'emploi*) refers to the plans announced in June 2017, which were updated during the financial year following the clarification and implementation of the plan;
- The costs of employees not replaced relate to the cost of employees who left the Group during the period whose role ceases to exist and who will not be replaced;
- The costs of the expert appointed by the ESC to review the restructuring plan prepared within the Group's French entities that were provisioned following its announcement;

9. FINANCIAL INCOME AND EXPENSES

Financial income and expenses break down as follows:

	6 months	6 months
In thousands of euros	December 2020	December 2019
Interest on bank deposits	-	-
Other financial income	1	-
Financial income	**1**	**-**

Interest on finance leases	(47)	(61)
Interest on bank loans	(84)	(125)
Interest on bond debt	(200)	(600)
Interest on factoring agreements	(101)	(169)
Other financial expenses	(178)	(365)
Financial expenses	**(610)**	**(1,319)**
Total financial income/(expenses)	**(609)**	**(1,319)**

Other financial expenses consist of interest on loans received from Paragon Group, accounts receivable and bank charges.

10. INCOME TAX

The expected effective tax rates by country for the financial year are as follows: France: 28% (2020: 28%); UK: 19% (2020: 19%); United States: 29.5% (2020: 29.5%); China: 25% (2020: 25%); Ireland: 12.5% (2020: 12.5%).

The tax expense for the period breaks down as follows:

In thousands of euros	6 months December 2020	6 months December 2019
Current tax (income)/expense	49	10
Deferred tax (income)/expense	(62)	(71)
Income tax (income)/expense	**(13)**	**(61)**

As a result, the deferred taxes presented in the consolidated financial position are as follows:

In thousands of euros	31/12/2020
Deferred tax assets – balance at beginning of period	**3,855**
Result of acquisition	-
Capitalisation/(Reversal) of deferred tax assets – Temporary difference impacting net income	(44)
(Utilisation)/Capitalisation of deferred tax assets – Temporary difference impacting comprehensive income	(10)
Deferred tax assets – balance at end of period	**3,801**

Deferred tax liabilities – balance at beginning of period	**1,449**
Result of acquisition	20
Use of deferred tax liabilities – Temporary difference impacting net income	(106)
Foreign exchange impact	(9)
Deferred tax liabilities – balance at end of period	**1,354**

Net deferred taxes – balance at beginning of period	**2,406**
Deferred tax resulting from acquisition	(20)
Partial capitalisation of deferred taxes – Losses carried forward	-
Use of deferred taxes - Temporary difference impacting net income	62
(Utilisation)/Capitalisation of deferred tax assets – Temporary difference impacting comprehensive income	(10)
Foreign exchange impact	9
Net deferred taxes – balance at end of period	**2,447**

11. EARNINGS PER SHARE

	6 months	6 months
Earnings per share from continuing operations	**December 2020**	**December 2019**
Basic (euro-cents per share)	(134.38)	(28.85)
Diluted (euro-cents per share)	(134.38)	(28.85)
Earnings per share from discontinued operations		
Basic (euro-cents per share)	(0.71)	(1.12)
Diluted (euro-cents per share)	(0.71)	(1.12)

11.1. Basic earnings per share

The following table presents the earnings and the weighted average number of ordinary shares used in the calculation of basic earnings per share:

	6 months	6 months
Earnings per share from continuing operations	**December 2020**	**December 2019**
Earnings for the period attributed to the owners of the Company, in thousands of euros	(2,641)	(567)
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share, in thousands of shares	1,965	1,965
Earnings per share from discontinued operations		
Earnings for the period attributed to the owners of the Company, in thousands of euros	(14)	(22)
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share, in thousands of shares	1,965	1,965

11.2. Diluted earnings per share

The earnings used in the calculation of diluted earnings per share are the same as those used in the calculation of basic earnings per share, as the instruments are non-dilutive. Diluted earnings per share are not presented.

12. GOODWILL AND INTANGIBLE ASSETS

12.1. Goodwill

The table below presents a breakdown of Goodwill:

In thousands of euros	31/12/2020	30/06/2020
Goodwill related to the consolidation of BBP	30,836	31,079
Goodwill related to the entry of Paragon ID (formerly ASK) within the scope of consolidation	18,208	18,208
Goodwill related to the consolidation of Burall	210	212
Goodwill related to the consolidation of Thames	563	567
Temporary goodwill related to the entry of Airweb within the scope of consolidation	6,118	-
Goodwill – balance at end of period	**55,935**	**50,066**

The main changes over the period relate to (i) the acquisition of 30% of the shares of Airweb SAS by Paragon ID SA as described in Section 1.2.1 of this document and (ii) the change in the pound sterling exchange rate, creating a currency translation adjustment for the goodwill of BBP, Burall and Thames, which are monitored in that currency.

Except for the “Mass Transit” and “Eid” cash-generating units (CGUs), the Group did not identify any indication of impairment over the period, given the profitability of the other cash-generating units (CGUs) that are in line with or outperforming the strategic plans officially approved by the Board of Directors and formed the basis for the calculation of the recoverable amount of each of the CGUs during the last goodwill impairment test at 30 June 2020.

As regards the “Eid” and “Mass Transit” CGUs, performance was severely impacted by the health crisis and the recovery was slower than anticipated when the strategic plan was prepared. An updated calculation of the recoverable amount of these two CGUs was therefore prepared to reflect a delay in the recovery of activity.

The discount rates applied are 12.4%.
The operating income/revenue ratios applied vary from 8.5% to 14.2% depending on the CGU.
The perpetual growth rates are based on the average European growth rate over the last three years of 1.2%.
Key assumptions include Management’s estimates of sales growth, the operating income/revenue ratio and discount rates. Cash flow forecasts and key assumptions are generally determined on the basis of historical performance as well as Management’s expectations of future trends affecting the industry. No impairment was recognised at 31 December 2020.

No impairment of the goodwill tested would have to be recognised in the event of a reasonably possible change in each of the assumptions used at 31 December 2020.

In percentage points	Eid	Mass Transit
Increase in the discount rate	+3.7	+1.3
Deterioration in the operating income/revenue ratio	-2.3	-1.3

Decrease in budgeted revenue growth	-0.5	-1.4

12.2. Intangible assets

In thousands of euros	31/12/2020	30/06/2020
Net book values		
Development costs	2,279	1,608
Patents	1,727	1,863
Licences and Customer Contracts	5,948	6,015
Software	1,062	471
Others	2,905	2,688
Balance at end of period	**13,921**	**12,645**

In thousands of euros	Development costs	Patents	Licences and Customer Contracts	Software	Others	Total
Gross values						
Balance at 30 June 2020	**6,524**	**3,299**	**9,383**	**1,382**	**2,932**	**23,520**
Consolidated during the period				2,673	3	2,676
Acquisitions of fixed assets / capitalization	1,004		889	29	256	2,178
Internally-generated fixed assets						
Asset retirements	(3)					(3)
Foreign exchange impact	(4)		(73)	(8)		(85)
Balance at 31 December 2020	**7,521**	**3,299**	**10,199**	**4,076**	**3,191**	**28,286**
Cumulative depreciation and impairment losses						
Balance at 30 June 2020	**(4,916)**	**(1,436)**	**(3,368)**	**(911)**	**(244)**	**(10,875)**
Consolidated during the period				(1,945)		(1,945)
Acquisitions of fixed assets						
Depreciation	(329)	(136)	(911)	(163)	(42)	(1,581)
Asset retirements	3					3
Foreign exchange impact			28	5		33
Balance at 31 December 2020	**(5,242)**	**(1,572)**	**(4,251)**	**(3,014)**	**(286)**	**(14,365)**

At 31 December 2020, of the total capitalised development costs, €1,434 thousand were in assets in progress and not yet amortised, and of the total capitalised patents, €238 thousand were patent applications in progress and not yet amortised. All of its capitalised costs are included in the "Others" category above.
This category also includes the assets related to the acquired brands, mainly the brand capitalised when the fair value of the assets acquired from Thames Card Technologies Ltd was measured.

When the fair value of the assets and liabilities acquired from Airweb SAS was measured, the value of the software was analysed based on the future revenue to be generated by those existing assets at the acquisition date. This caused the Group to recognise a value of €728k on the software developed by the company and had an upward impact on the value of intangible assets at 31 December 2020.

At 31 December 2020, the Group had not identified any indication of impairment of intangible assets.

13. PROPERTY,PLANT AND EQUIPMENT AND RIGHTS OF USE OF LEASED ASSETS

13.1. Property, plant and equipment

In thousands of euros	31/12/2020	30/06/2020
Net book values		
Land and Buildings	312	323
Industrial Equipment	9,180	9,151
Furniture and Fittings	954	999
Computer Equipment	147	49
Others	6	6
Balance at end of period	**10,599**	**10,528**

	Assets held					
In thousands of euros	Land and Buildings	Industrial and Office Equipment	Furniture and Fittings	Computer Equipment	Others	Total
Gross values						
Balance at 30 June 2020	**1,843**	**58,622**	**2,274**	**1,698**	**14**	**64,451**
Consolidated during the period		73	13			86
Acquisitions of fixed assets	29	1,447	82	193		1,751
Disposals of fixed assets						-
Transfer of fixed assets		18	(18)			-
Effect of exchange rate impacts	(51)	(435)	(12)	(4)		(502)
Balance at 31 December 2020	**1,821**	**59,725**	**2,339**	**1,887**	**14**	**65,786**
Cumulative depreciation and impairment losses						
Balance at 30 June 2020	**(1,520)**	**(49,471)**	**(1,275)**	**(1,649)**	**(8)**	**(53,923)**
Consolidated during the period		(63)	(9)			(72)
Depreciation	(31)	(1,345)	(110)	(97)		(1,583)
Disposals of fixed assets						-
Asset retirements						-
Effect of exchange rate impacts	42	334	9	6		391
Balance at 31 December 2020	**(1,509)**	**(50,545)**	**(1,385)**	**(1,740)**	**(8)**	**(55,187)**

13.2. Right of use of leased assets

In thousands of euros	31/12/2020	30/06/2020
Net book values		
Land and Buildings	2,617	2,772
Industrial Equipment	992	1,264
Others	399	410
Balance at end of period	**4,008**	**4,446**

	Assets related to rights of use of leased assets					
In thousands of euros	Land and Buildings	Industrial and Office Equipment	Furniture and Fittings	Computer Equipment	Others	Total
Gross values						
Balance at 30 June 2020	**3,585**	**2,420**			**685**	**6,930**
Consolidated during the period	250				126	376
Acquisitions of fixed assets						
Resulting from the revaluation of assets	108					108
Asset retirements						
Effect of exchange rate impacts	(12)	(4)			(1)	(17)
Balance at 31 December 2020	**3,931**	**2,416**	**-**	**-**	**810**	**7,397**
Cumulative depreciation and impairment losses						
Balance at 30 June 2020	**(813)**	**(1,156)**			**(275)**	**(2,484)**
Consolidated during the period						
Depreciation	(505)	(269)			(138)	(912)
Resulting from the revaluation of assets						
Asset retirements						
Effect of exchange rate impacts	4	1			2	7
Balance at 31 December 2019	**(1,314)**	**(1,424)**	**-**	**-**	**(411)**	**(3,389)**

13.2.1 Liabilities related to rights of use of leased assets

							Of which	
In thousands of euros	30/06/20	New Borrowings / Revaluation	Accrued Interest	Repayment	Entry into the Scope of Consolidation	31/12/20	Current Share	Non-Current Share
Lease liabilities	**4,394**	**93**	**51**	**(922)**	**405**	**4,021**	**1,619**	**2,402**

The reduction in liabilities resulting from leases is the combination of (i) the amortisation of that debt during the period and (ii) the entry into the scope of consolidation of Airweb which, on the acquisition date, had signed leases for vehicles and for its office premises.

13.2.2 Reconciliation of assets and liabilities for rights of use

In thousands of euros	Balance at 31/12/2020	Balance at 30/06/2020
Net Value of assets related to rights of use of leased assets	**4,008**	**4,445**
Accrued interest	13	(52)
Lease liabilities	**4,021**	**4,394**

14. INTERESTS IN JOINT VENTURES

14.1. I2PL

At 31 December 2020, the Group retained its 56.32% stake in the I2PL joint venture (India, Noida, New Delhi). At the end of 2012, the Group and its partner in I2PL decided to dissolve the company. The operational closure of I2PL has been effective since October 2014.

The company is consolidated in the Group's financial statements using the equity method. As operations have ceased, no income has been generated over the period. During October 2020, the Group learned that I2PL had been put into liquidation. The Group was then in discussion with its partner to finalise the legal closure of the company which had been initiated following the operational closure of the company in October 2014. The Group still believes that a value close to the value of the securities recognised at 30 June 2020 should be recovered once the liquidation process has been completed given the remaining balances owed by the company. No new risk has been identified on the recoverable amount of the joint venture and the value of €308 thousand, taking into account the situation and the increased risk brought by the liquidation process that was present in the financial statements of the Group at 30 June 2020 has been maintained as at 31 December 2020.

15. INVENTORIES

In thousands of euros	31/12/2020	30/06/2020
Materials	7,810	8,534
In progress	646	800
Finished and semi-finished products	3,107	4,111
Inventories	**11,563**	**13,445**

The reduction in inventories is mainly due to the decline in activity related to the health crisis and lockdowns in place during the month of December in many jurisdictions.

16. TRADE RECEIVABLES

In thousands of euros	31/12/2020	30/06/2020
Trade receivables	6,842	10,445
Provision for expected credit loss	(628)	(634)
Trade receivables	**6,214**	**9,811**

The reduction in trade receivables is mainly due to the decline in activity related to the health crisis and lockdowns in place during the month of December in many jurisdictions.
Despite the health crisis, the Group has not encountered any major difficulties in collecting the receivables owed by its customers since the beginning of the crisis. The Group therefore did not consider it necessary to revise its method for calculating the provision for expected credit losses.

The Group continues to sell most of its receivables to factoring companies, and as a result:

- Paragon ID SA, Paragon Identification SAS, Bemrose Booth Paragon Ltd & Thames Card

Technologies still assign their receivables to the same factoring company as in June 2020. The contract governing disposals, which had been analysed in light of IFRS 9 criteria, enabled us to conclude that almost all relevant risks were transferred to the factor. The contract taken out by the Group can therefore be described as a "full factor" contract, with deconsolidation. This contract remained in force at 31 December 2020.

- ASK IntTag also joined the rest of the Group's companies by adhering to the same contract during the half-year.

16.1. Other receivables

In thousands of euros	31/12/2020	30/06/2020
Taxes receivable	1,461	1,471
Grants receivable	1,888	1,773
Advance payments	1,126	1,213
Others	1,894	2,220
Trade receivables	**6,369**	**6,677**

Grants receivable mainly represent Research Tax Credit receivables. These receivables are recoverable by offsetting them against the current tax liability in France. If the tax credit is higher than the tax or if the company is loss-making, the remainder is set off against the tax payable for the following three years and, if applicable, refunded at the end of that period.
Other receivables mainly represent receivables still to be collected by Paragon ID SA from its former partner in the ASK TongFang joint venture.

17. CASH AND CASH EQUIVALENTS

For the purposes of the consolidated statement of cash flows, cash and cash equivalents include cash on hand and deposits with banks. Bank overdrafts are classified as current debts. At 31 December 2020, cash and cash equivalents as presented in the consolidated statement of cash flows may be reconciled to the consolidated statement of financial position as follows:

In thousands of euros	31/12/2020	30/06/2020
Cash	12,606	21,219
Cash equivalents	-	-
Sub-total Cash and cash equivalents (balance sheet)	**12,606**	**21,219**
Bank overdrafts	(75)	(5,843)
Cash and cash equivalents, net of overdrafts (TFT)	**12,531**	**15,376**

The net cash flow is largely explained by the fact that the Group drew on its cash to finance its external growth (Airweb SAS) during the past half-year and continued to repay its debts, while investing in new equipment.

18. CAPITAL AND FINANCIAL INSTRUMENTS GIVING RIGHTS TO CAPITAL

In thousands of euros	31/12/2020	30/06/2020
Share capital	68,787	68,787
Share premium	60,887	60,887
Treasury shares	(187)	(188)
Share capital	**129,487**	**129,486**

18.1. Characteristics of financial instruments giving rights to capital

The financial instruments giving rights to Paragon ID's share capital consist of equity warrants (BSA).

At 31 December 2020, 213,400 equity warrants and free shares had been subscribed for and remained outstanding. They break down as follows:

		Number of rights		Conversion into number of shares	
Number of shares	Rate of conversion into shares	31/12/2020	30/06/2020	31/12/2020	30/06/2020
BSA 2015-1	35.00	151,000	151,000	4,311	4,311
BSA 2018-1	1.00	45,500	45,500	45,500	45,500
AGA 2018-1	1.00	16,900	16,900	16,900	16,900
Total		**213,400**	**213,400**	**66,711**	**66,711**

The change in outstanding equity warrants and free shares between 1 July 2020 and 31 December 2020 is as follows:

In shares	BSA 2015-1	BSA 2018-1	AGA 2018-1	Total
Balance at 1 July 2020	**151 000**	**45 500**	**16 900**	**213 400**
Subscribed	-	-	-	-
Converted	-	-	-	-
Lapsed	-	-	-	-
Balance at 31 December 2020	**151 000**	**45 500**	**16 900**	**213 400**

19. FINANCIAL DEBTS

In thousands of euros	31/12/2020	30/06/2020
Financial debt – current portion	10,469	16,822
Financial debt – non-current portion	44,509	45,464
Borrowings	**54,978**	**62,286**

Changes in financial debt can be explained as follows:

In thousands of euros	30/06/20	New Borrowings	Accrued Interest	Repayment	Entry into the Scope of Consolidation	31/12/20	Of which Current Share	Of which Non-Current Share
Bank overdrafts	5,843			(5,768)		75	75	
Borrowings from:								
- related parties (Grenadier Holdings Plc)	26,116		327	(1,552)		24,891	4,359	20,532
- government	1,064			(128)		936		936
Bank borrowings	24,857			(602)	800	25,055	4,416	20,639
Receivables sold to factoring	12			(12)		-		
Lease liabilities	4,394	93	51	(922)	405	4,021	1,619	2,402
Borrowings	**62,286**	**93**	**378**	**(8,984)**	**1,205**	**54,978**	**10,469**	**44,509**

Borrowings from related parties refer to the bonds issued by PID SA to Grenadier Holdings Plc in accordance with the terms of the contribution agreement between the two entities. They also include the cash advances made by Grenadier Holdings Plc to the division since the merger to finance the reorganisation plans and the ongoing external growth, of which €10.3m consists of a long-term In Fine loan.

Bank loans are mainly composed of a loan guaranteed by the State of €15 million created in May 2020 to cover the risks related to COVID-19. It should be noted that the loan “entered into the scope of consolidation” during the period also consists of a loan guaranteed by the State. In accordance with the contracts signed with banking partners, no repayment was made during the period on those loans. The rest of the loans are related to equipment and are subject to repayments in accordance with the instalments arranged with the Group’s banking partners.

20. TRADE AND OTHER PAYABLES

In thousands of euros	31/12/2020	30/06/2020
Trade payables	12,080	14,790
Related parties	8,256	6,987
Other Creditors	16,100	14,861
Trade and other payables	**36,436**	**36,638**

20.1. Other creditors

Other current liabilities break down as follows:

In thousands of euros	31/12/2020	30/06/2020
Social security contributions	3,034	3,846
Paid leave and other employee benefits	2,492	3,126
Miscellaneous taxes	2,666	1,323

Advances and deposits received	2,165	3,700
Deferred income	914	570
Deferred acquisition cost payments	4,736	2,130
Others	93	166
Other creditors	**16,100**	**14,861**

The reduction in social security contributions and paid holidays and other employee benefits is due to the reduction in the workforce undertaken by the Group.
The reduction in advances and down payments received is mainly due to the fact that Bemrose Booth Paragon had received significant advances from its customers at the end of June 2020.
The increase in miscellaneous taxes is mainly due to the timing of the repayments of Paragon Identification SAS VAT debts that had not taken place at the end of December even though they were fully repaid at the end of June. In addition, in the United Kingdom, the delays and staggering granted by the authorities to BBP and Thames, in the context of the COVID, on the reimbursement of those amounts explain the remainder of the growth since June.
The increase in deferred considerations is mainly due to the recognition during the period of deferred payments for the period of €3.0 million related to the acquisition of Airweb as detailed in Section 1.2.1 of this document.

21. PROVISIONS

The provisions created by the Group are as follows:

In thousands of euros	31/12/2020	30/06/2020
Other provisions for expenses	1,116	676
Provision for restructuring	1,022	936
Provisions	**2,138**	**1,612**

In thousands of euros	Provisions for Charges	Provision for Restructuring	Total
Balance at 30 June 2020	**676**	**936**	**1,612**
Entry into the Scope of Consolidation	35		35
Allowances	100	1,164	1,264
Utilisations	(45)	(657)	(702)
Reversals not applicable		(71)	(71)
Balance at 31 December 2020	**766**	**1,372**	**2,138**

The provision for restructuring includes:

- the estimated departure costs of employees not replaced for which the announcement of their departure has been made but has not yet given rise to a payment.

22. RELATED-PARTY TRANSACTIONS

Balances and transactions between the Group and its subsidiaries have been eliminated on consolidation and are not presented in this note. A breakdown of transactions between the Group and other related parties is presented below.

22.1. Related parties

The flows and balances for related parties are as follows:

22.1.1 Joint ventures

I2PL remains a joint venture as at 31 December 2020. As the company is in the process of closing, no transactions took place during the period.

The unpaid positions as at 31 December 2020 are as follows:

In thousands of euros	Trade payables to related parties		Trade receivables from related parties		Financial receivables from related parties	
In thousands of euros	31/12/2020	30/06/2019	31/12/2020	30/06/2019	31/12/2020	30/06/2019
I2PL	2,037	2,037	753	753	-	-
Amount due	**2,037**	**2,037**	**753**	**753**	**-**	**-**

22.1.2 Other related entities of the Paragon Group

The following table presents the significant transactions initiated during the period between the Group's entities and the entities of the Paragon Group as well as the balances outstanding at 31 December 2020.

In thousands of euros	Assets	Liabilities	Income	Expenses
Paragon Customer Communications UK				
Sales of various Bemrose Booth products	103	542	133	
Sales of various Thames products	154	177	63	
Purchases of materials and services		17		
Paragon Group UK				
Sales / purchases of various products Bemrose Booth	3	14	2	112
Sales of various Thames products	2		6	77
Paragon Transaction France				
Sales of PISAS products (customisation)	702		924	
Purchases of material and service (envelope stuffing)		91		44
Paragon Romania Srl				
Purchases of materials and services		9	9	
Immobilière Paragon France				
PISAS buildings leases		463		110
Grenadier Holdings				
Paragon trademark rights		880		
Dividends and Management Fees		4,486		
Interest on Borrowings and Bonds				270

Borrowings		14,127		
Obligations		10,000		
Total	**964**	**30,086**	**1,137**	**613**

22.1.3 Joint officers, current and former shareholders

During the period, there were no transactions with the current or former officers of Paragon ID (formerly ASK).

The Group has not entered into any new transactions with its current and former shareholders since 30 June 2020.

23. OFF-BALANCE SHEET COMMITMENTS

The Company's off-balance sheet commitments are summarised in the following table:

In thousands of euros	31/12/2020
Endorsements and guarantees, of which:	3,139
Bank guarantees	-
Market and performance guarantees	3,139
Pledge on industrial equipment to banking partners	2,550
Pledge for the amount of bonds	10,000
Pledge for the amount of the bullet loan	10,261
Total Off-balance sheet commitments	**25,950**

24. POST-CLOSING EVENTS

24.1. COVID-19

It should be noted that the Covid-19 crisis is ongoing and continues to affect the activity of the company and its subsidiaries in proportions close to those experienced during the first half of 2020.

Statement by the person responsible

To the best of my knowledge, I certify that the condensed interim consolidated financial statements for the period from 1 July to 31 December 2020 are prepared in accordance with applicable accounting standards and give a true and fair view of the assets, financial position and results of the Company and of all the companies included in the scope of consolidation, and that the interim activity report attached provides a true and fair view of the significant events that occurred during the period from 1 July to 31 December 2020, their impact on the financial statements, the main transactions between related parties and a description of the main risks and uncertainties for the remaining six months of the financial year, which will end on 30 June 2021.

Done at Argent-Sur-Sauldre, 30 March 2021

Clem Garvey

Chief Executive Officer of Paragon ID SA