Consolidated Financial Statements (IFRS)
2017

STRIVING FOR NEW HEIGHTS

valneva

VALNEVA

A European Company (*Societas Europaea*) with a Management and a Supervisory Board
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Lyon Companies Register (RCS) No. 422 497 560

Consolidated financial statements
at December 31, 2017

Translation disclaimer: This document is a free translation of the French language version of the IFRS annual financial statements of Valneva SE for the twelve-month period ended December 31, 2017 produced for the convenience of English speaking readers. In the event of any ambiguity or conflict between statements or other items contained herein and the original French version, the relevant statement or item of the French version shall prevail. While all possible care has been taken to ensure that this translation is an accurate representation of the original French document, this English version has not been audited by the Company's Statutory Auditors and in all matters of interpretation of information, views or opinions expressed therein, only the original language version of the document in French is legally binding. As such, this translation may not be relied upon to sustain any legal claim, nor be used as the basis of any legal opinion and Valneva SE expressly disclaims all liability for any inaccuracy herein.

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1. CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

Consolidated income statement

€in thousand (except per share amounts)	Note	Year ended December 31,	
		2017	2016
Product sales	5.4	92,619	80,428
Revenues from collaborations, licensing and services	5.4	12,672	13,634
Revenues		**105,291**	**94,062**
Grant income		4,463	3,830
Revenues and grants		**109,754**	**97,892**
Cost of goods and services	5.5/5.6	(45,979)	(43,076)
Research & Development expenses	5.5/5.6	(23,356)	(24,589)
Marketing and distribution expenses	5.5/5.6	(17,875)	(16,639)
General and administrative expenses	5.5/5.6	(15,545)	(14,412)
Other income and expenses, net	5.7	(222)	(498)
Amortization and impairment of fixed assets/intangibles	5.12/ 5.13	(10,731)	(41,246)
OPERATING LOSS		**(3,954)**	**(42,568)**
Finance income	5.8	72	290
Finance expenses	5.8	(8,678)	(6,550)
Result from investments in associates	5.14	-	-
LOSS BEFORE INCOME TAX		**(12,560)**	**(48,828)**
Income tax	5.9	1,078	(356)
LOSS FOR THE YEAR		**(11,482)**	**(49,184)**
Losses per share for loss for the year attributable to the equity holders of the Company, expressed in € per share (basic and diluted)	5.10	**(0.15)**	**(0.66)**

Consolidated statement of comprehensive income

€in thousand	Note	Year ended December 31,	
		2017	2016
Loss for the year		**(11,482)**	**(49,184)**
Other comprehensive income/(loss)			
Items that may be reclassified to profit or loss			
Currency translation differences	5.21	3,337	(3,880)
Items that will not be reclassified to profit or loss			
Defined benefit plan actuarial losses	5.26.2	35	(55)
Other comprehensive income/(loss) for the year, net of tax		**3,372**	**(3,935)**
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE COMPANY		**(8,109)**	**(53,119)**

2. CONSOLIDATED BALANCE SHEET

€ in thousand	Note	At December 31,	
		2017	**2016**
ASSETS			
Non-current assets		**105,895**	**115,686**
Intangible assets	5.12	48,468	58,959
Property, plant and equipment	5.13	38,374	39,039
Other non-current assets	5.18	17,368	17,688
Deferred tax assets	5.9.2	1,686	-
Current assets		**83,448**	**91,197**
Inventories	5.16	19,931	22,701
Trade receivables	5.17	17,622	16,912
Other current assets	5.18	7,840	9,404
Cash and cash equivalents	5.19	38,055	42,180
TOTAL ASSETS		**189,343**	**206,883**
EQUITY			
Capital and reserves attributable to the Company's equity holders		**92,669**	**100,051**
Share capital	5.20	11,638	11,638
Share premium and other regulated reserves	5.20	252,934	252,937
Retained earnings and other reserves	5.20	(160,421)	(115,339)
Net result for the period		(11,482)	(49,184)
LIABILITIES			
Non-current liabilities		**59,000**	**67,941**
Borrowings	5.23	54,097	61,544
Deferred tax liability	5.9.2	65	65
Other non-current liabilities and provisions	5.26	4,838	6,333
Current liabilities		**37,674**	**38,891**
Borrowings	5.23	17,399	20,959
Trade payables and accruals	5.24	9,527	7,808
Current tax liability		322	561
Tax and employee-related liabilities	5.25	7,531	7,123
Other current liabilities and provisions	5.26	2,896	2,439
TOTAL LIABILITIES		**96,674**	**106,832**
TOTAL EQUITY AND LIABILITIES		**189,343**	**206,883**

3. CONSOLIDATED CASH FLOW STATEMENT

€in thousand	Note	Year ended December 31,	
		2017	**2016**
Cash flows from operating activities			
Loss for the year		(11,482)	(49,184)
Depreciation and amortization	5.12/5.13	11,141	11,269
Impairment	5.12/ 5.13	3,568	34,109
Share-based payments	5.22	811	1,428
Income tax	5.9	(1,078)	357
Other adjustments for reconciliation to cash used in operations	5.27	6,330	6,026
Changes in working capital	5.27	4,199	3,032
Cash generated from operations	5.27	**13,489**	**7,037**
Income tax paid	5.9	(660)	(532)
Net cash generated from operating activities		**12,829**	**6,505**
Cash flows from investing activities			
Acquisition of other businesses, net of cash acquired	5.29	-	15,279
Purchases of property, plant and equipment	5.13	(2,890)	(1,758)
Purchases of intangible assets	5.12	(1,148)	(1,924)
Purchases of financial instruments		(94)	-
Interest received		72	3,290
Net cash generated from/(used in) investing activities		**(4,060)**	**14,888**
Cash flows from financing activities			
Proceeds from issuance of common stock, net of costs of equity transactions	5.20	(43)	7,471
Disposal/(Purchase) of treasury shares		(104)	2
Proceeds from borrowings, net of transaction costs	5.23	11,104	1,481
Repayment of borrowings	5.23	(16,415)	(24,813)
Interest paid	5.8	(4,980)	(10,932)
Net cash used in financing activities		**(10,438)**	**(26,792)**
Net change in cash and cash equivalents		**(1,670)**	**(5,399)**
Cash at beginning of the year		35,267	41,907
Exchange gains/(losses) on cash		(53)	(1,241)
Cash at end of the year	5.19	**33,545**	**35,267**
Cash and cash equivalents at end of the year		**38,055**	**42,180**

4. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

€ in thousand	Note	Share capital	Share premium and other regulated reserves	Retained earnings and other reserves	Net result	Total equity
Balance as of January 1, 2016		**11,205**	**245,965**	**(92,219)**	**(20,617)**	**144,335**
Total comprehensive loss		-	-	(3,935)	(49,184)	(53,119)
Income appropriation		-	-	(20,617)	20,617	-
Employee stock option plans:						
value of employee services	5.21	-	-	1,429	-	1,429
Treasury shares	5.21	-	-	2	-	2
Issuance of ordinary shares, December 2016	5.20	433	7,067	-	-	7,500
Cost of equity transactions, net of tax	5.20	-	(96)	-	-	(96)
		433	6,971	(23,120)	(28,567)	(44,284)
Balance as of December 31, 2016		**11,638**	**252,937**	**(115,339)**	**(49,184)**	**100,051**
Balance as of January 1, 2017		**11,638**	**252,937**	**(115,339)**	**(49,184)**	**100,051**
Total comprehensive loss		-	-	3,372	(11,482)	(8,109)
Income appropriation		-	-	(49,184)	49,184	-
Employee stock options plans:						
+ value of employee services	5.21	-	-	833	-	833
Treasury shares	5.21	-	-	(104)	-	(104)
Cost of equity transactions, net of tax	5.20	-	(3)	-	-	(3)
		-	(3)	(45,082)	37,702	(7,382)
Balance as of December 31, 2017		**11,638**	**252,934**	**(160,421)**	**(11,482)**	**92,669**

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.1 General information

Valneva is a fully integrated, commercial stage biotech company focused on developing innovative lifesaving vaccines.

Valneva's portfolio includes two commercial vaccines for travelers:

- IXIARO®/JESPECT®, indicated for the prevention of Japanese encephalitis; and
- DUKORAL®, indicated for the prevention of cholera and, in some countries, prevention of diarrhea caused by *Enterotoxigenic escherichia coli.*

The Company has proprietary vaccines in development including a unique vaccine candidate against Lyme disease.

A variety of partnerships with leading pharmaceutical companies complement the Group's value proposition and include vaccines being developed using Valneva's innovative and validated technology platforms (EB66® vaccine production cell line, IC31® adjuvant).

Valneva shares are tradable on Euronext-Paris, the Vienna stock exchange and Deutsche Börse's electronic platform Xetra®. The Company has operations in France, Austria, Great Britain, Sweden, Canada and the US, with over 400 employees.

List of direct or indirect interests:

No changes to the Group structure were made during the year.

Name	Country of incorporation	Consolidation method	Interest held at December 31,	
			2017	2016
BliNK Biomedical SAS	FR	Equity method	41.77%	43.29%
Vaccines Holdings Sweden AB	SE	Full	100%	100%
Valneva Austria GmbH	AT	Full	100%	100%
Valneva Canada Inc.	CA	Full	100%	100%
Valneva Scotland Ltd.	UK	Full	100%	100%
Valneva Sweden AB	SE	Full	100%	100%
Valneva Toyama Japan K.K.	JP	Full	100%	100%
Valneva UK Ltd.	UK	Full	100%	100%
Valneva USA, Inc. (formerly Intercell USA, Inc.)	US	Full	100%	100%

The closing date for the consolidated financial statements is December 31 of each year.

The Company is registered at10-12 boulevard Marius Vivier Merle, 69003 Lyon - France, where it also operates commercial activities.

The Valneva SE site in Nantes (France) includes both general and administrative functions and R&D facilities which are used for the development of the EB66® cell line and research and preclinical development of vaccine programs.

Vaccines Holdings Sweden AB (formerly Goldcup 10618 AB) served mainly as the acquisition vehicle and holding company of Crucell Sweden AB (now Valneva Sweden AB) in February 2015.

Valneva Austria GmbH (Vienna, Austria) focuses on vaccines and pre-clinical and clinical development activities. The facilities accommodate departments for vaccine research,

(technical/clinical) product development, quality and regulatory affairs, as well as general and administrative functions.

Valneva Canada Inc. (Montreal, Quebec) was created in January 2015 following the acquisition of the DUKORAL® vaccine. Valneva Canada, Inc. performs marketing and sales activities in Canada in relation to the VIVOTIF®, IXIARO® and DUKORAL® vaccines.

Valneva Scotland Ltd. (Livingston, United Kingdom) is primarily involved in the production of Valneva's Japanese encephalitis vaccine, IXIARO®/JESPECT®.

Valneva Sweden AB (Solna, Sweden) manufactures the DUKORAL® vaccine and distributes this vaccine, as well as third-party vaccines, in the Nordic countries. In addition, Valneva Sweden AB provides R&D services to Crucell Holland BV (a Johnson & Johnson company), in relation to a vaccine against poliomyelitis.

Valneva Toyama Japan K.K. (Toyama, Japan) was established on April 18, 2011 as part of the asset acquisition from the Japanese company SC World. This subsidiary, whose R&D activities have been stopped at the end of December 2013, worked closely with Valneva SE's Lyon site to develop the VIVA│Screen® technology platform for the discovery of new antibodies (spun off into BliNK Biomedical SAS as of January 2015). Today, few business development activities remain in the Japanese site.

Valneva UK Ltd. (based nearby London, United Kingdom) was created in October 2015 following the Company's decision to take direct control over the marketing and distribution of the IXIARO® vaccine, and to terminate the marketing and distribution agreement with GSK. Valneva UK Ltd. sells DUKORAL® and IXIARO® in the United Kingdom, as well as MOSKITO GUARD® products.

Valneva USA, Inc. (formerly Intercell USA, Inc.; based in Gaithersburg, United States) is focusing on marketing and sales of Valneva's Japanese encephalitis vaccine to the US military and the US private market.

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To date, the "Brexit" vote has had no significant impact on the Group's financial statements, except as regards foreign exchange rate fluctuations. The Company is of the opinion that the Brexit may adversely affect some of the main risks to which the Company is exposed, e.g. by increasing risks related to currency exchange fluctuations, manufacturing & supply, and tax. Future performance of the business may also be impacted, as the manufacturing of bulk material for the IXIARO® product is conducted in the UK. Further, Valneva uses a distribution site located in the UK to sell its products and some third party products there. The possible occurrence of future events following the vote and their potential consequences on the Group's business is being monitored by Valneva's management.

These consolidated financial statements have been approved and authorized for issue by the Management Board on March 20, 2018.

5.2 Summary of significant accounting policies

The principal accounting policies applied in preparing these consolidated financial statements are outlined below. These policies have been consistently applied to all years presented.

5.2.1. Basis of presentation

These 2017 Consolidated Financial Statements have been prepared in accordance with the International financial reporting standards, which comprise IFRS (International Financial Reporting Standards), IAS (International Accounting Standard) and their interpretations, SIC (Standards Interpretations Committee) and IFRIC (International financial Reporting Interpretations Committee) as adopted by the European Union.

The preparation of financial statements in conformity with IFRS as adopted by the European Union requires the use of certain critical accounting estimates. It also requires the Group's management to

exercise its judgment in applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.3.

For ease of presentation, numbers have been rounded and, where indicated, are presented in thousands of Euros. Calculations, however, are based on exact figures. Therefore, the sum of the numbers in a column of a table may not conform to the total figure displayed in the column.

5.2.2. Impact of new, revised or amended Standards and Interpretations

(a) New and amended standards adopted by the Group

Standard - Interpretation - Amendment		Effective Date	Effects
IAS 12 Amendment	Recognition of Deferred Tax Assets for Unrealized Losses	January 1, 2017	No material impact.
IAS 7 Amendment	Disclosure Initiative	January 1, 2017	Information on changes in liabilities arising from finance activities included; see 5.27.2
IFRS 12 Amendment	Clarification of the scope of the standard	January 1, 2017	None

There are no other IFRSs or IFRIC interpretations effective for the first time for the financial year beginning on or after January 1, 2017 that have a material impact on the Group.

(a) New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2017, and not early adopted.

Standard - Interpretation - Amendment		Effective Date	Expected Effects
IFRS 9	Financial instruments: Classification and Measurement	January 1, 2018	In case the Group intends to hedge, hedge accounting under IFRS 9 will be applied. The expected credit losses approach will be recognized on all trade receivables. The application of IFRS 9 is not expected to lead to any major changes.
IFRS 15 - IFRS 15 Clarification	Revenue from Contracts with Customers	January 1, 2018	As of January 1, 2018, no effect from the transition to IFRS 15 is expected for both the product sales and the revenue from licensing and services revenue stream. There will only be immaterial changes due to the future application of IFRS 15 within the product sales revenue stream. The Group intends to use the modified retrospective method of transition to IFRS 15.
IFRS 16	Leases	January 1, 2019	A preliminary impact analysis showed that if Valneva SE had applied IFRS 16 as of 1 January 2018, total assets would increase by €15m-25m. The major part of this preliminary impact is coming from the lease agreements for buildings in Sweden and France. Valneva will apply the modified retrospective transition approach (as if IFRS 16 had always been applied) as at January 1, 2019.
IFRS 2 Amendment	Classification and Measurement of Share-based Payment Transactions	January 1, 2018	None.

Standard - Interpretation - Amendment		Effective Date	Expected Effects
IFRS 4 Amendment	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance contracts	January 1, 2018	None.
IFRS 1 Amendment	Deletion of short-term exemptions for first-time adopters	January 1, 2018	None.
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018	No material impact.
IAS 40 Amendment	Transfers of Investment Property	January 1, 2018	None.
	Annual improvements to IFRSs 2015-2017 Cycle	January 1, 2019	Impact to be assessed.
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019	Impact to be assessed.
IAS 28 Amendment	Long-term interests in Associates and Joint Ventures	January 1, 2019	None.
IFRS 17	Insurance Contracts	January 1, 2021	None.
IFRS 10 - IAS 28 Amendment	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred indefinitely	None.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

5.2.3. Consolidation

Subsidiaries

Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of assets transferred, the liabilities incurred and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs, other than those associated with the issue of debt or equity securities, are expensed as incurred. Identifiable assets acquired, liabilities, and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred over the fair value of the Company’s share of the identifiable net assets acquired is recorded as goodwill. If the fair value of the net assets of the acquired subsidiary exceeds the consideration the difference is recognized directly in the income statement as a bargain purchase gain. Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated.

Associates

Associates are entities over which the Company has significant influence.

5.2.4. Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Euros, which is the Group's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are converted into the functional currency using exchange rates applicable on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognized in the income statement.

(c) Subsidiaries

The results and financial position of all subsidiaries (none of which having the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are converted into the presentation currency as follows:

+ assets and liabilities presented for each balance sheet are converted according to the exchange rate valid on the balance sheet date;
+ income and expenses for each income statement are converted using exchange rates applicable on the dates of the transactions, while for the year 2016 the monthly average exchange rates have been used; and
+ all resulting exchange differences are recognized as other comprehensive income and are shown as other reserves.

When a foreign operation is partially disposed of or sold, exchange differences that had been recorded in equity are recognized in the income statement as part of the gain or loss on sale.

5.2.5. Revenue recognition

Revenue is recognized when it is probable that future economic benefits will flow to the Group and the amount of revenue and the costs incurred in the transaction can be reliably measured. Revenue comprises the fair value of the consideration received or receivable in the course of the Group's ordinary activities for product sales, the grant of licenses, license options, or commercialization rights, royalties and for services performed in collaboration with, or on behalf of, licensees, partners or customers under the commercial agreements, as well as grants from governmental and non-governmental organizations designated to remunerate approved scientific research activities. Revenue is shown net of value-added tax, rebates, discounts and payments to customers, and after eliminating sales within the Group. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenue is recognized as follows:

(a) Product sales

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have transferred to the buyer, usually upon delivery of the goods. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred and the Group has objective evidence that all criteria for acceptance have been satisfied. In cases where the goods are sold via a distributor and where the consideration consists of a fixed part and a variable part that is only payable upon the distributor's sale of the product to the ultimate

purchaser, the fixed consideration is recognized when the Group has delivered products to the distributor, the distributor has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the distributor's acceptance of the products. The variable part of such consideration is recognized as soon as the distributor has sold the product to the market and all conditions for the Group to receive the variable consideration have been met. The Group does not operate any material loyalty programs. Revenue from sales is based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. Payments to customers are a reduction of the transaction price, and therefore revenue, unless the payment is in exchange for a distinct good or service and the payment does not exceed fair value of that good or service. Accumulated experience is used to estimate and provide for the discounts and returns.

(b) Revenues from collaborations, licensing and services

The Group generates revenues from collaboration and license agreements for its product candidates and proprietary technologies. The terms of such agreements include license fees payable as initial fees, annual license maintenance fees and fees to be paid upon achievement of milestones, as well as license option fees and fees for the performance of research services. In addition, the Group's collaboration and licensing arrangements generally provide for royalties payable on the licensee's future sales of products developed within the scope of the license agreement.

Under certain arrangements, the Group assumes multiple performance obligations, such as granting licenses and commercialization rights, supplying products or materials and/or providing research services. If the fair value of the components of such an arrangement can be reliably determined, then revenue is recorded separately for each component. If it is not possible to determine the fair value of each element of an arrangement and no specific component is considerably more significant than any other component, then revenue is recognized on a straight-line basis over the life of the agreement.

The Group recognizes initial fees for the granting of licenses under non-cancelable contracts, which permit the licensee to freely exploit the licensed intellectual property rights when such rights are assigned and associated know-how is delivered. Additional non-refundable license fees to be paid upon the achievement of certain milestones are recognized as revenue when such a milestone has been achieved. In the case where anniversary payments are agreed, these revenues are recognized as soon as the outcome can be estimated reliably. This is the case as soon as the contract was not terminated before the anniversary.

Under certain arrangements, the Group receives non-refundable up-front fees for granting license options, which allow the licensee to obtain, upon execution of the option, a license for specific intellectual property rights on pre-defined terms and conditions. Such option premiums are deferred and amortized over the option period and the arrangement is not considered to give rise to a financial asset or liability.

Fees received for the performance of research services are recognized as revenue when the service has been rendered and the collectability of the receivable is deemed probable. Up-front and milestone payments received for the future performance of research services are deferred and recognized when the research has been performed. Non-refundable milestone payments received for research services already rendered are recognized as revenue when received.

(c) Grant income

Grants from governmental agencies and non-governmental organizations are recognized at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all conditions.

Grant monies received as reimbursement of approved Research & Development expenses are recognized as revenue when the respective expenses have been incurred and there is reasonable

assurance that funds will be received. Advance payments received under such grants are deferred and recognized when these conditions have been met.

Government grant monies received to support the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

Research & Development tax credits granted by tax authorities are accounted for as grants under IAS20. In consequence, the portion of the research tax credit covering operating expenses is recognized in the income statement under “Grants” in “Revenues and grants” and the portion covering capitalized development expenditures under “Intangible assets” is recorded as deduction from the assets relating to.

(d) Interest income

Interest income is recognized on a time-proportion basis using the effective interest method.

5.2.6. Financial risks management

(a) Financial risks factors

The Group’s activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk, and liquidity risk. The Group’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group’s financial performance.

Financial risk management is carried out under the CFO’s responsibility and is closely supervised by the Management Board. The Company’s risk management systems identify, evaluate and manage financial risks. The Management Board submits regular reports on its risk management systems, including the management of financial risks, to the audit committee of the Supervisory Board.

(b) Market risk

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risks arising from various currencies, primarily with respect to the British Pound (GBP), the Canadian Dollar (CAD), the Swedish Krona (SEK) and the US Dollar ($). The foreign exchange risks from the exposure to other currencies, including the Danish Krone, the Swiss Franc, the Norwegian Krone and the Japanese Yen, are relatively limited. Foreign exchange risks arise from future commercial transactions, recognized assets and liabilities, and net investments in foreign operations.

The objective of the Group is to limit the potential negative impact of the foreign exchange rate changes, for example by currency conversion of cash and cash equivalents denominated in foreign currency and by using foreign currency options.

The Group has certain investments in foreign operations, the net assets of which are exposed to foreign currency translation risk.

At December 31, 2017, if the GBP had weakened by 10% against the €, with all other variables held constant, pre-tax comprehensive loss for the year would have been €307 thousand higher (2016: €475 thousand). Income was less sensitive to fluctuations in the €/GBP exchange rate at the balance sheet date in 2017 than it was in 2016 mainly because of the decreased amount of GBP-denominated cash equivalents.

At December 31, 2017, if the CAD had weakened by 10% against the €, with all other variables held constant, pre-tax comprehensive loss for the year would have been €395 thousand higher (2016: €613 thousand). Income was less sensitive to fluctuations in €/CAD exchange rate at the

balance sheet date in 2017 than it was in 2016 mainly because of the decreased amount of CAD-denominated cash equivalents.

At December 31, 2017, if the SEK had weakened by 10% against the €, with all other variables held constant, pre-tax comprehensive loss for the year would have been €348 thousand higher (2016: €767 thousand). Income was less sensitive to fluctuations in €/SEK exchange rate at the balance sheet date in 2017 than it was in 2016 mainly because of the decreased amount of SEK-denominated cash equivalents and the increased amount of SEK-denominated trade payables.

At December 31, 2017, if the $ had weakened by 10% against the €, with all other variables held constant, pre-tax comprehensive loss for the year would have been lower by €1.5 million (2016: €2.0 million), mainly as a result of foreign exchange gains on the translation of $-denominated borrowings and trade payables, partly offset by a negative effect from cash equivalents and trade receivables. Income was less sensitive to fluctuations in the €/$ exchange rate at the balance sheet date in 2017 than it was in 2016 mainly because of the decreased $-denominated trade payables and borrowings and increased $-denominated trade receivables, partly offset by the decreased $-denominated cash equivalents.

Interest rate risks

The Group is exposed to market risks in connection with hedging both of its liquid assets and of its medium and long-term indebtedness and borrowings subject to variable interest rates.

Borrowings issued at variable rate expose the Group to cash flow interest rate risks, which is offset by cash and financial assets held at variable rate. During 2016 and 2017, the Group's investments at variable rate, as well as the borrowings at variable rate, were denominated in €, SEK, $, CAD and in GBP.

The Group analyzes its interest rate exposure on a dynamic basis. Based on this analysis, the Group calculated the impact on profit and loss of a defined interest rate change. The same interest rate change was used for all currencies. The calculation only includes investments in financial instruments and cash in banks that represent major interest-bearing positions. As of the balance sheet date, the calculated impact on income before tax of a 0.25% shift would be an increase or decrease of €27 thousand (2016: €1 thousand).

(c) Credit risks

The Group is exposed to credit risk. Valneva holds bank accounts, cash balances, and securities at sound financial institutions with high credit ratings. To monitor the credit quality of its counterparts, the Group relies on credit ratings as published by specialized rating agencies such as Standard & Poor's, Moody's, and Fitch. The Group has policies that limit the amount of credit exposure to any single financial institution. The Group is also exposed to credit risks from its trade debtors, as its collaborations, licensing and services income arises from a small number of transactions. The Group has policies in place to enter into such transactions only with highly reputable, financially sound counterparts. If customers are independently rated, these ratings are used. Otherwise, when there is no independent rating, a risk assessment of the credit quality of the customer is performed, taking into account its financial position, past payment experience and other relevant factors. Individual credit limits are set based on internal or external ratings in accordance with signature authority limits as set by the Management Board. The credit quality of financial assets is described in Note 5.15.3.

(d) Liquidity risks

The Group is exposed to liquidity risk due to the maturity of its financial liabilities and the fluctuations of its operating cash-flow, and the potential implementation of early repayment clauses in loan or grant agreements. Furthermore, fluctuations in the Group's operating cash flow during accounting periods also generate liquidity risks. Prudent liquidity risk management therefore implies maintaining sufficient

cash resources, cash equivalents and short-term deposits in order to satisfy ongoing operating requirements and the ability to close out market positions. Extraordinary conditions on the financial markets may, however, temporarily restrict the possibility to liquidate certain financial assets.

The table below analyzes the Group's financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At December 31, 2016 € in thousand	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	Over 5 years	Total
Borrowings (excluding finance lease liabilities)[1]	22,505	38,163	1,204	-	61,872
Finance lease liabilities	978	1,955	1,955	24,208	29,096
Trade payables and accruals	7,808	-	-	-	7,808
Tax and employee-related liabilities[2]	5,229	-	-	-	5,229
Other liabilities and provisions[3]	17	-	178	69	264
	36,537	**40,118**	**3,338**	**24,276**	**104,270**

At December 31, 2017 € in thousand	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	Over 5 years	Total
Borrowings (excluding finance lease liabilities)[1]	18,643	19,819	12,147	-	50,609
Finance lease liabilities	978	1,955	1,955	23,230	28,119
Trade payables and accruals	9,527	-	-	-	9,527
Tax and employee-related liabilities[2]	4,586	-	-	-	4,586
Other liabilities and provisions[3]	258	178	-	22	458
	33,992	**21,953**	**14,102**	**23,252**	**93,298**

The fair values as well as the book values of the Group's borrowings are disclosed in Note 5.23. To manage liquidity risk, the Group holds sufficient cash, cash equivalents and short-term deposit balances.

5.2.7. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide benefits for shareholders and for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group actively manages its funds to primarily ensure liquidity and principal preservation while seeking to maximize returns. The Group's cash and short-term deposits are located at several different banks. In order to maintain or adjust the capital structure, the Group may issue new shares or sell assets to reduce debt.

In order to pursue its business strategy to grow into a major, self-sustainable vaccine company through organic growth and opportunistic mergers & acquisitions, the Group may rely on additional equity and debt financing. Capital consists of "Equity" as shown in the consolidated balance sheet.

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[1] The categories in this disclosure are determined by IAS 39. Finance leases are mostly outside the scope of IAS 39 but they remain within the scope of IFRS 7. Therefore, finance leases have been shown separately.

[2] Social security and other tax payables are excluded from the tax and employee-related liabilities balance, as this analysis is required only for financial instruments.

[3] Deferred income and provisions are excluded from the other liabilities and provisions balance, as this analysis is required only for financial instruments.

5.2.8. Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to the relatively short maturity of the respective instruments.

5.3. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

5.3.1. Critical accounting estimates and assumptions

To produce this financial information, the Group’s management makes estimates and assumptions that affect the carrying amount of the assets and liabilities, income and expenses and the information disclosed in the Notes.

The Management makes these estimates and assessments continuously based on its past experience and various other factors considered reasonable that form the basis of these assessments.

The figures that appear in its future financial statements are likely to differ from these estimates should the assumptions change or the conditions differ.

The main significant estimates made by the Group’s management relate primarily to the valuation of intangible assets (impairment testing, amortization period of development expenditures and acquired technologies), other liabilities for amounts owed as earn-out payments to the sellers of certain acquired assets, revenue recognition (for licensing income recognized over the projected development period; for income from grants, measured according to cost incurred compared to the budget), valuation of share based payments, recognition of deferred tax assets as well as the variable component of a loan from a fund managed by Pharmakon Advisors, which is accounted for based on budgeted future sales figures. In addition, significant estimates and assumptions made by the Group relate to the Purchase Price Accounting for property, plant and equipment, inventory, and other liabilities (for more details see 5.29).

5.3.2. Critical judgments in applying the entity’s accounting policies

Revenue recognition

The Group generates revenues from collaboration and license agreements for its product candidates and proprietary technologies. Such agreements usually provide for multiple performance obligations and multiple fee components. Management’s judgment is required to determine whether such different components of an agreement are, from the partner’s perspective, viewed as one transaction or as separately identifiable components, and, where revenue recognition criteria are applied separately to multiple components of an agreement, to determine the fair value of each component of an arrangement.

5.4. Segment information

Operating segments are reported in a manner consistent with the internal reporting, provided to the chief operating decision maker. The Group identified the Management Board as “Chief operating decision maker”. The Management Board reviews the consolidated operating results regularly to make decisions about resources and to assess overall performance.

The Management Board primarily uses a measure of operating profit/(loss) to assess the performance of the operating segments. However, the Management Board also receives information about the segments’ revenue on a monthly basis.

The individual segments consist of following:

+ “Commercialized vaccines” (marketed vaccines, currently the Group’s vaccines IXIARO®/JESPECT®, DUKORAL®, as well as third-party products)
+ “Vaccine candidates” (proprietary Research & Development programs aiming to generate new approvable products in order to generate future cash flows from product sales or from commercialization through partnering with pharmaceutical companies)
+ “Technologies and services” (services and inventions at a commercialization stage, i.e. revenue generating through collaborations, service and licensing agreements, including EB66® and IC31®)

As of January 1, 2017 the Group changed its internal reporting process and amended the various allocations rules for Research & Development expenses, Distribution and marketing expenses as well as General and administrative expenses.

Segment reporting information for earlier periods has been restated to conform to these changes.

5.4.1. Income statement aggregated by segment

Income statement aggregated by segment for the year ended December 31, 2016

€ in thousand	Commercialized vaccines	Vaccine candidates	Technologies and services	Corporate overhead	Total
Revenues and grants	80,815	6,991	10,086	-	97,892
Cost of goods and services	(36,906)	-	(6,169)	-	(43,076)
Research & Development expenses	(4,675)	(18,815)	(1,100)	-	(24,589)
Marketing and distribution expenses	(15,866)	(48)	(725)	-	(16,639)
General and administrative expenses	(3,933)	(1,400)	(919)	(8,160)	(14,412)
Other income and expenses, net	-	-	-	(498)	(498)
Amortization and impairment of fixed assets/intangibles	(6,674)	(34,133)	(439)	-	(41,246)
Operating profit/(loss)	**12,761**	**(47,405)**	**734**	**(8,658)**	**(42,568)**
Finance income/expenses, result from investments in associates and income tax	-	-	-	(6,616)	(6,616)
Profit/(loss) for the year	**12,761**	**(47,405)**	**734**	**(15,274)**	**(49,184)**

Income statement aggregated by segment for the year ended December 31, 2017

€in thousand	Commercialized vaccines	Vaccine candidates	Technologies and services	Corporate overhead	Total
Revenues and grants	92,909	7,496	9,349	-	109,754
Cost of goods and services	(39,658)	(2)	(6,319)	-	(45,979)
Research & Development expenses	(4,060)	(18,832)	(464)	-	(23,356)
Marketing and distribution expenses	(17,169)	(94)	(612)	-	(17,875)
General and administrative expenses	(4,393)	(1,505)	(780)	(8,867)	(15,545)
Other income and expenses, net	-	-	-	(222)	(222)
Amortization and impairment of fixed assets/intangibles	(6,645)	(3,573)	(512)	-	(10,731)
Operating profit/(loss)	**20,984**	**(16,509)**	**662**	**(9,091)**	**(3,954)**
Finance income/expenses, result from investments in associates and income tax	-	-	-	(7,528)	(7,528)
Profit/(loss) for the year	**20,984**	**(16,509)**	**662**	**(16,619)**	**(11,482)**

5.4.2. Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the final location where our distribution partner sells the product or the customer/partner is located. Segment assets are based on the geographical location of the assets.

Revenues and grants per geographical segment

€in thousand	Year ended at December 31,	
	2017	2016
France	3,942	3,722
Europe - Without France	43,070	40,908
North America	56,304	48,608
Other	6,438	4,654
Revenues and grants	**109,754**	**97,892**

Non-current assets per geographical segment

€in thousand	At December 31,	
	2017	2016
France	5,400	6,249
Europe - Without France	81,399	90,946
North America	42	803
Non-current assets	**86,841**	**97,998**

Non-current assets consist of property, plant and equipment and intangible assets.

5.4.3. Information about major customers

Product sales to the largest customer amounted to €27.7 million (2016: €22.2 million). Collaboration and licensing revenue from the two largest customers amounted to €4.7 million (2016: €5.5 million) and €1.8 million (2016: €3.1 million), respectively. There are no further customers with a contribution exceeding 10% of the annual revenue.

5.5. Expenses by nature

The consolidated income statement line items cost of goods and services, Research & Development expenses, marketing and distribution expenses, general and administrative expenses and amortization and impairment of fixed assets/intangibles include the following items by nature of cost:

€in thousand	Year ended December 31,	
	2017	2016
Employee benefit expense (Note 5.6)	37,578	37,311
Consulting and other purchased services	19,635	20,065
Depreciation and amortization	11,141	11,269
Cost of sales from inventory produced in prior year	8,340	11,758
Raw materials and consumables used	7,871	3,973
Building and energy costs	7,801	7,401
License fees and royalties	5,222	5,478
Advertising costs	5,027	3,081
Impairment (Note 5.12.2)	3,568	34,109
Supply, office and IT-costs	2,726	2,463
Warehousing and distribution costs	2,676	1,506
Travel and transportation costs	1,358	1,166
Other expenses	541	383
Cost of goods and services, Research & Development expenses, marketing and distribution expenses, general and administrative expenses and amortization and impairment of fixed assets/intangibles	**113,486**	**139,962**

Fees charged to the Group by the Statutory Auditors and members of their network:

€in thousand excl. VAT	Year ended December 31,			
	2017		2016	
	PwC Audit	Deloitte & Associés	PwC Audit	Deloitte & Associés
Certification of accounts	207	181	253	165
Services other than certification of accounts	14	8	14	11
TOTAL	**221**	**189**	**267**	**176**

5.6. Employee benefit expense

Employee benefit expenses include the following:

€in thousand	Year ended December 31,	
	2017	2016
Salaries	26,850	25,853
Social security contributions	8,541	8,602
Training and education	611	474
Stock options granted to management and employees	811	1,428
Other employee benefits	766	953
Employee benefit expense	**37,578**	**37,311**

During the year 2017, the Group had an average of 433 employees (2016: 417 employees).

5.7. Other income/(expenses), net

€in thousand	Year ended December 31,	
	2017	**2016**
Taxes, duties, fees, charges, other than income tax	(213)	(145)
Profit/(loss) on disposal of fixed assets, net	-	(124)
Miscellaneous income/(expenses), net	(9)	(229)
Other income/(expenses), net	**(222)**	**(498)**

5.8. Finance income/(expenses), net

€in thousand	Year ended December 31,	
	2017	**2016**
Finance income		
Interest income from bank deposits	-	31
Interest income from other parties	72	259
	72	**290**
Finance expense		
Interest expense to banks and government agencies	(198)	(144)
Interest expense on other loans	(4,862)	(5,943)
Fair value losses on derivative financial instruments	(93)	-
Foreign exchange losses, net	(3,526)	(463)
	(8,678)	**(6,550)**
Finance income/(expenses), net	**(8,606)**	**(6,260)**

The net finance result amounted to minus €8.6 million for the year 2017 compared to minus €6.3 million in the year 2016. This increase in net finance expenses was mainly due to higher negative exchange rate effects in 2017 as in the previous year and reduced interest expense due to the decrease in borrowings.

The Group benefits from government assistance through arranging borrowing facilities that would have otherwise not been available to the Group. This assistance includes guarantees for the amount of €7.9 million (2016: €7.0 million).

5.9. Income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively. The current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit/loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are

expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not be reversed within the foreseeable future.

5.9.1. Income tax

Income tax is comprised of current and deferred tax.

€ in thousand	**Year ended December 31,**	
	2017	**2016**
Current tax	(605)	(387)
Deferred tax	1,684	32
Income tax	**1,078**	**(356)**

The individual entities' reconciliations – prepared on the basis of the tax rates applicable in each country and while taking consolidation procedures into account – have been summarized in the reconciliation below. The estimated tax charge is reconciled to the effective tax charge disclosed.

The tax on the Company's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

€ in thousand	**Year ended December 31,**	
	2017	**2016**
Loss before tax	(12,560)	(48,828)
Tax calculated at domestic tax rates applicable to profits in the respective countries	4,452	13,367
Income not subject to tax	1,217	1,216
Expenses not deductible for tax purposes	(369)	(644)
Deferred tax asset not recognized	(6,143)	(14,429)
Utilization of previously unrecognized tax losses	1,739	69
Deemed income	-	(119)
Adjustments in respect of prior years	5	224
Effect of change in applicable tax rate	(22)	10
Exchange differences	72	(17)
Income tax of prior years	135	-
Minimum income tax	(7)	(26)
Withholding tax	-	(7)
Income tax	**1,078**	**(356)**

In light of losses incurred, the effective tax rate is not presented.

5.9.2. Deferred tax

As of December 31, 2017 the deferred tax assets of €101.9 million (2016: €113.4 million) are not recognized as there was not sufficient evidence that adequate taxable profit will be available against which the unused tax losses can be utilized in the foreseeable future.

As of December 31, 2017 the Group has tax losses carried forward of €445.2 million (2016: €434.3 million), of which €122.7 million are related to Valneva SE (2016: €105.5 million),

€318.0 million are related to Valneva Austria GmbH (2016: €324.7 million), €2.4 million are related to Intercell USA, Inc. (2016: €3.6 million) and €2.1 million are related to Valneva Sweden AB (2016: €481 thousand).

Tax losses carried forward in France, Austria and Sweden have no expiry date, whereas the tax loss from US entities will begin to expire in the year 2033 if unused.

The offset amounts are as follows:

€ in thousand	**At December 31,**	
	2017	**2016**
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	11,908	7,674
Deferred tax asset to be recovered within 12 months	245	1,618
Total deferred tax assets	**12,153**	**9,292**
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(10,347)	(9,107)
Deferred tax liability to be recovered within 12 months	(185)	(250)
Total deferred tax liability	**(10,532)**	**(9,357)**
Deferred tax, net	**1,620**	**(65)**

The gross movement on the deferred income tax account is as follows:

€ in thousand	**2017**	**2016**
Beginning of year	(65)	(112)
Exchange differences	3	14
Income statement charge	1,682	33
End of year	**1,620**	**(65)**

The deferred tax assets and liabilities are allocable to the various balance sheet items as follows:

€ in thousand	**At December 31,**	
	2017	**2016**
Deferred tax asset from		
Tax losses carried forward	111,244	117,902
Fixed assets	1,011	1,431
Borrowings	842	1,629
Other items	923	1,776
Non-recognition of deferred tax assets	(101,867)	(113,444)
Total deferred tax assets	**12,153**	**9,292**
Deferred tax liability from		
Fixed assets	(185)	(286)
Intangible assets	(10,199)	(8,870)
Other items	(148)	(201)
Total deferred tax liability	**(10,532)**	**(9,357)**
Deferred tax, net	**1,620**	**(65)**

The corporate income tax rate in the United Kingdom will be 17% starting from April 1, 2020 (substantively enacted). The deferred tax assets and liabilities presented above as at December 31, 2017 have been adjusted for this change in tax rates.

The corporate income tax rate in France will be gradually reduced over the next 5 years to 25%. A 28% rate will apply for the first €500 thousand of profit in 2018 and 2019 (with the remaining profits subject to the 33.33% standard rate in 2018 and 31% in 2019). The standard rate will be reduced to 28% in 2020 on the full amount of taxable profits, 26.5% in 2021 and 25% from 2022 onward. The deferred tax assets and liabilities presented above as at December 31, 2017 have been adjusted for this change in tax rates.

The corporate income tax rate (federal and state tax together) in US will be 25.14% in future years. The deferred tax assets and liabilities presented above as at December 31, 2017 are already presented with this change in tax rates.

The resulting deferred tax assets were only recognized for entities where sufficient evidence has been provided that adequate taxable profit will be available against which the unused tax losses can be utilized in the foreseeable future. This was the case for the US entity and therefor a deferred tax asset amouting to € 1.7 million was recognized by Dec 31, 2017.

5.10. Earnings/Losses per share

Basic earnings/losses per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of outstanding shares during the year, excluding shares purchased by the Company and held as treasury shares (Note 5.21).

	Year ended December 31,	
	2017	**2016**
Net loss from continuing operations attributable to equity holders of the Company (€ in thousand)	(11,482)	(49,184)
Weighted average number of outstanding shares	77,449,219	74,658,929
Basic earnings/(losses) from continuing operations per share (€ per share)	**(0.15)**	**(0.66)**

Diluted losses per share equal basic losses per share, because the conversion of all potentially dilutive shares (outstanding preferred shares, stock options, free shares, and equity warrants) (see Notes 5.20 and 5.22) would result in a decrease in the loss per share and is therefore not to be treated as dilutive.

5.11. EBITDA

The Management Board primarily uses EBITDA (Earnings before interest, taxes, depreciation and amortization) to assess the performance of the Company. EBITDA was calculated by excluding depreciation, amortization and impairment of tangible and intangible assets from the operating loss.

€ in thousand	**Year ended December 31,**	
	2017	**2016**
Operating loss	(3,954)	(42,568)
Depreciation	3,367	4,389
Amortization	7,774	6,880
Impairment on intangibles and fixed assets	3,568	34,109
EBITDA	**10,756**	**2,810**

5.12. Intangible assets and goodwill

(a) Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and implement the specific software. These costs are amortized on a straight-line basis over their estimated useful lives, generally three to six years.

Costs associated with developing or maintaining computer software programs are recognized as expenses when they have been incurred.

(b) Acquired R&D technology and projects

Acquired R&D technology projects are capitalized. Amortization of the intangible asset over its useful life starts when the product has been fully developed and is ready for use. These costs are amortized on a straight-line basis over their useful lives. This useful life is determined on a case-by-case basis according to the nature and characteristics of the items included under this heading. As long as the useful life is indefinite, in-process Research & Development projects are tested annually for impairment and carried at cost less accumulated impairment losses. Furthermore, assets with an indefinite useful life and assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The current acquired R&D technology and projects are amortized over periods of between 5 and 18 years.

(c) Development costs

Research expenses are recognized as expenses when incurred. Development expenses incurred on clinical projects (related to the design and testing of new or significantly improved products) are recognized as intangible assets when the following criteria have been fulfilled:

+ it is technically feasible to complete the intangible asset so that it will be available for use or sale;
+ management intends to complete the intangible asset and to utilize or sell it;
+ there is an ability to utilize or sell the intangible asset;
+ it can be demonstrated how the intangible asset will generate probable future economic benefits;
+ adequate technical, financial, and/or other resources to complete the development and to utilize or sell the intangible asset are available; and
+ the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as expenses when they incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use on a straight-line basis over its useful life, generally 10-15 years.

Assets that have an indefinite useful life, such as acquired R&D technology and projects, and capitalized development projects not ready for use are not subject to amortization and are tested annually for impairment. Furthermore, assets that have an indefinite useful life and assets that are subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less selling costs and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

€in thousand	Software	Acquired R&D technology and projects	Development costs	Intangible assets in the course of construction	Total
January 1, 2016					
Cost	2,591	117,811	10,511	65	130,979
Accumulated amortization and impairment	(2,277)	(23,791)	(6,344)	-	(32,412)
Net book value	**315**	**94,021**	**4,167**	**65**	**98,567**
December 31, 2016					
Opening net book value	315	94,021	4,167	65	98,567
Exchange rate differences	(2)	(443)	(82)	-	(528)
Additions	1,000	-	27	1,433	2,460
Disposals	-	-	(59)	-	(59)
Amortization charge	(229)	(6,370)	(751)	-	(7,350)
Impairment charge	-	(34,132)	-	-	(34,132)
Closing net book value	**1,083**	**53,076**	**3,302**	**1,498**	**58,959**
December 31, 2016					
Cost	3,571	117,058	10,060	1,498	132,186
Accumulated amortization and impairment	(2,488)	(63,982)	(6,758)	-	(73,228)
Net book value	**1,083**	**53,076**	**3,302**	**1,498**	**58,959**
December 31, 2017					
Opening net book value	1,083	53,076	3,302	1,498	58,959
Exchange rate differences	(18)	(195)	(17)	(40)	(271)
Additions	593	448	39	27	1,106
Reclassification	1,439	-	-	(1,439)	-
Disposals	-	-	-	-	-
Amortization charge	(608)	(6,356)	(803)	-	(7,767)
Impairment charge	-	(3,560)	-	-	(3,560)
Closing net book value	**2,489**	**43,412**	**2,520**	**46**	**48,468**
December 31, 2017					
Cost	5,514	83,087	10,075	46	98,722
Accumulated amortization and impairment	(3,025)	(39,675)	(7,555)	-	(50,254)
Net book value	**2,489**	**43,412**	**2,520**	**46**	**48,468**

5.12.1. Significant intangible assets

Significant intangible assets with an indefinite useful life comprise primarily the Borrelia vaccine candidate (VLA15) amounting to €3.3 million (2016: €3.3 million), the Zika vaccine candidate (VLA1601) amounting to €75 thousand (2016: €0) and the Clostridium Difficile vaccine candidate (VLA84) amounting to €0 (2016: €3.3 million) which was impaired in 2017. Significant intangible assets with definite useful life comprise primarily the EB66® platform and the already commercialized vaccine against Japanese encephalitis (IXIARO / JESPECT).

Potential partners are hesitant about the level of investment required to fund a Phase III Clostridium difficile clinical trial. Noting this feedback, Valneva reviewed its development and partnering approach. This review triggered a revision in Q3 2017 of the existing business model resulting in a reduction of future cash flows and therefore, an impairment of €3.6 million.

5.12.2. Impairment testing

The book values of capitalized in-process Research & Development projects have been assessed annually for impairment testing purposes using the risk-adjusted discounted cash flow method. Management reviews the business performance based on in-process Research & Development

projects. The recoverable amounts of these projects have been determined based on value-in-use calculations.

The calculations use post tax risk-adjusted cash flow projections based on the Group's long-range business model including the Management's best estimate on probability of success of the respective projects (risk-adjustment) and a discount rate of 11.91% to 12.03% (2016: 11.53% to 11.73% per annum).

The discount rate of 11.91% to 12.03% (2016: 11.53% to 11.73% per annum) is based on 1.34% risk-free rate (2016: 1.04%), 7.00% market risk premium (2016: 7.00%), 0.62% country risk premium (2016: 0.99% to 1.35%), 0.43% currency risk (2016: 0.71% to 0.84%), a beta of 1.38 (2016: 1.44), and a peer group related equity-capital ratio.

The long range business model covers a period of 18 years as well as an estimate on the perpetual annual growth rate beyond this horizon and therefore accounts for all project related cash flows from the development stage over the market entry until the market phase-out (project life cycle) of the relevant projects. These business models are updated on a regular basis and relevant changes in estimations done. During 2017 the most significant change in estimation was the FDA Fast Track designation granted for the Lyme vaccine program in July 2017.

In 2017, the Clostridium Difficile intangible asset amounting to €3.6 million has been fully impaired as a result of the opt-out by GSK as well as the unsuccessful attempts to find alternative co-development partners. In 2016, an impairment loss of €34.1 million was recognized following negative Phase II/III study results for the Pseudomonas vaccine candidate and discontinuation of the program.

5.12.3. Sensitivity to changes in assumptions

The net present value calculations are most sensitive to the following assumptions:

+ discount rate
+ probability of project success
+ reduction in expected revenues/royalties.

The net present value calculation uses a discount rate of 11.91% to 12.03% (2016: 11.53% to 11.73%). An increase in the discount rate of 1,163 basis points would trigger an impairment loss (2016: 61 basis points). Furthermore, an increase in the discount rate of one percentage point would result in no impairment loss (2016: €2.2 million).

The result of the acquired Research & Development projects (see 5.12.1) is inherently uncertain and the Group may experience delays or failures in clinical trials. A failure to demonstrate safety and efficacy in clinical product development of the acquired Research & Development project would result in an impairment loss. The net present value calculation uses a probability of success rate of 10% to 50% for acquired products in the stage of Research & Development. Applying the Industry standard for the likelihood of successfully passing clinical Phase II/ Phase III or final filing stages, results in no additional impairment. Assumptions used were a 10% likelihood of failure in final filing stage (2.5% weighted risk), a 50% chance to fail in Phase III after having successfully passed Phase II (22.5% weighted risk) and a risk of 50% for failing in Phase II after successful finalization of Phase I (50% weighted risk). The weighted risk is only applied on expected revenues while expected cost to develop the program to licensure has been fully included (100%).

The net present value calculations are based upon assumptions regarding market size, expected sales volumes resulting in sales value expectations, expected royalty income or expected milestone payments. A reduction in revenues of 10% would result in no additional impairment loss (2016: €2.9 million).

5.13. Property, plant and equipment

Property, plant and equipment mainly comprise a manufacturing facility and leasehold improvements in rented office and laboratory space. All property, plants and equipment are stated at historical cost less depreciation and less impairment losses when necessary. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and that the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Property, plant and equipment include machinery, for which validation is required to bring the asset to its working condition. The costs of such validation activities are capitalized together with the cost of the asset. Validation costs beyond the normal validation costs, which are usually required to bring an asset to its working condition, are expensed immediately. The usual validation costs are capitalized on the asset and depreciated over the remaining life of the asset or the shorter period until the next validation is usually required.

Depreciation of assets is calculated using the straight-line method to allocate their cost amounts to their residual values over their estimated useful lives, as follows:

+ Buildings, leasehold improvements 5 - 40 years
+ Machinery, laboratory equipment 2 - 15 years
+ Furniture, fittings and office equipment 4 - 10 years
+ Hardware 3 - 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is immediately written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement "other income and expenses, net".

€ in thousand	**Land, buildings and leasehold improvements**	**Manufacturing and laboratory equipment**	**Computer hardware**	**Furniture, fittings and other**	**Assets in the course of construction**	**Total**
January 1, 2016						
Cost	52,821	20,069	1,523	1,461	1,009	76,883
Accumulated depreciation and impairment	(16,492)	(15,618)	(1,341)	(992)	-	(34,443)
Net book value	**36,329**	**4,452**	**182**	**469**	**1,009**	**42,439**
December 31, 2016						
Opening net book value	36,329	4,452	182	469	1,009	42,439
Exchange rate differences	(369)	(206)	(5)	(18)	(59)	(657)
Additions	155	1,235	148	103	166	1,806
Reclassification	260	(94)	5	132	(303)	-
Disposals	-	(39)	-	(1)	(667)	(708)
Depreciation charge	(2,212)	(1,380)	(100)	(149)	-	(3,841)
Closing net book value	**34,162**	**3,967**	**229**	**536**	**146**	**39,039**
December 31, 2016						
Cost	51,746	19,697	1,536	1,657	146	74,781
Accumulated depreciation and impairment	(17,583)	(15,730)	(1,307)	(1,122)	-	(35,742)

€ in thousand	Land, buildings and leasehold improvements	Manufacturing and laboratory equipment	Computer hardware	Furniture, fittings and other	Assets in the course of construction	Total
Net book value	**34,162**	**3,967**	**229**	**536**	**146**	**39,039**
December 31, 2017						
Opening net book value	34,162	3,967	229	536	146	39,039
Exchange rate differences	(67)	(72)	(4)	(12)	(2)	(157)
Additions	1,114	1,226	284	48	146	2,819
Reclassification	24	73	1	-	(98)	-
Disposals	-	-	-	-	-	-
Depreciation charge	(1,788)	(1,244)	(154)	(142)	-	(3,327)
Closing net book value	**33,445**	**3,951**	**356**	**430**	**192**	**38,374**
December 31, 2017						
Cost	52,469	16,581	1,723	1,681	192	72,647
Accumulated depreciation and impairment	(19,024)	(12,631)	(1,367)	(1,251)	-	(34,273)
Net book value	**33,445**	**3,951**	**356**	**430**	**192**	**38,374**

Depreciation and amortization expenses of €335 thousand (2016: € 0 thousand) were charged to cost of goods and services, €1.2 million (2016: €1.4 million) were charged to Research & Development expenses, €79 thousand (2016: €47 thousand) were charged to marketing and distribution expenses and €132 thousand (2016: €117 thousand) were charged to general and administrative expenses.

Operating property leases amounting to €2.5 million (2016: €2.5 million) are included in the income statement.

Property, plant and equipment contain the following amounts where the Group is a lessee under a finance lease agreement for the office and research laboratory building in Vienna, including a waiver of termination right for 15 years as well as a purchase option:

€ in thousand	Buildings and leasehold improvements	Total
December 31, 2016		
Cost	34,795	34,795
Accumulated depreciation	(6,739)	(6,739)
Net book value	**28,056**	**28,056**

€ in thousand	Buildings and leasehold improvements	Total
December 31, 2017		
Cost	34,795	34,795
Accumulated depreciation	(7,560)	(7,560)
Net book value	**27,235**	**27,235**

5.14. Equity-accounted investees

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Company's share of the profit or loss

and other comprehensive income of the associate. When the Company's share of losses of an associate exceeds the Company's interest in that associate (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate), the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Company's investment in an associate. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Details of the Group's material associate are as follows:

Name of associate	Place of business	Measurement method	% of ownership interest at December 31,	
			2017	2016
BliNK Biomedical SAS	FR	Equity method	41.77%	43.29%

In January 2015, Valneva and the UK company BliNK Therapeutics Ltd founded BliNK Biomedical SAS, a private company specialized in the discovery of innovative monoclonal antibodies. Valneva contributed assets and liabilities in conjunction with the VIVA|Screen® technology.

While Valneva intends to retain a substantial ownership interest in the new entity, BliNK Biomedical SAS is run as an independent business by its own management team. Valneva does not have control over the company in the regards of IFRS 10, but rather holds a significant influence in BliNK Biomedical SAS in accordance with IAS 28.3, and therefore the investment is consolidated at equity according to IAS 28.16.

BliNK Biomedical SAS is a loss-making development stage company and Valneva has fully impaired the book value of its shares in 2015. As a result, no share in losses has been recorded in 2016 and 2017.

5.14.1. Summarized financial information for material associate

The summarized financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRSs (adjusted by the Group for equity accounting purposes).

€in thousand	At December 31,	
	2017	2016
BliNK Biomedical SAS		
Non-current assets	379	6,478
Current assets	3,137	3,761
Non-current liabilities	1,999	1,999
Current liabilities	1,120	1,934
Revenue	3,079	1,482
Profit/(loss) from continuing operations	(8,989)	(9,232)
Total comprehensive income	(5,909)	(7,750)

5.14.2. Reconciliation to the carrying amount

€in thousand	At December 31,	
	2017	2016
Net assets of associate	397	6,306
Proportion of the Company's ownership interest in BliNK Biomedical SAS	41.77%	43.29%
Company's share in net assets	166	2,730
Additional investment - Convertible bonds	-	-
	166	2,730
Impairment	(166)	(2,730)
Balance as of December 31	**-**	**-**

The book values of equity-accounted investees have been assessed annually for impairment testing purposes using the risk-adjusted discounted cash flow method (value in use approach). The resulting net present value of cash flows using this valuation methodology did not show a positive value. BliNK Biomedical SAS's business strategy is to use its technologies to develop its own products, as opposed to Valneva's previous strategy of generating early revenues from services, upfront license fees and milestone revenues from out-licensing. The long-term nature and development risks inherent to own product development, together with the significant cost of capital of an early stage company explain the valuation result based on BliNK Biomedical SAS's business plan. The investment has therefore been impaired at the end of 2015 and remains at zero in 2016 and 2017. BliNK Biomedical SAS is private company and its shares are not listed on a stock exchange.

5.15. Financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each balance sheet date.

The valuation techniques utilized for measuring the fair values of assets and liabilities are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect management's market assumptions.

The fair value of instruments that are quoted in active markets are determined using the quoted prices where they represent those at which regularly and recently occurring transactions take place. Furthermore the Group uses valuation techniques to establish the fair value of instruments where prices, quoted in active markets, are not available.

5.15.1. Financial instruments by category

December 31, 2016 €in thousand	Loans and receivables	Total
Assets as per balance sheet		
Trade receivables	16,912	16,912
Other assets[4]	12,223	12,223
Cash and cash equivalents	42,180	42,180
Assets	**71,315**	**71,315**

[4] Prepayments and tax receivables are excluded from the other assets balance, as this analysis is required only for financial instruments.

	Liabilities at fair value through profit and loss	Other financial liabilities	Total
Liabilities as per balance sheet			
Borrowings (excluding finance lease liabilities)[5]	-	54,131	54,131
Finance lease liabilities	-	28,372	28,372
Trade payables and accruals	-	7,808	7,808
Tax and employee-related liabilities[6]	-	5,229	5,229
Other liabilities and provisions[7]	2	262	264
Liabilities	**2**	**95,802**	**95,804**

December 31, 2017 **€ in thousand**	**Loans and receivables**	**Total**
Assets as per balance sheet		
Trade receivables	17,622	17,622
Other assets[8]	11,693	11,693
Current financial assets	-	-
Cash and cash equivalents	38,055	38,055
Assets	**67,370**	**67,370**

	Liabilities at fair value through profit and loss	Other financial liabilities	Total
Liabilities as per balance sheet			
Borrowings (excluding finance lease liabilities)[9]	-	43,975	43,975
Finance lease liabilities	-	27,520	27,520
Trade payables and accruals	-	9,527	9,527
Tax and employee-related liabilities[10]	-	4,586	4,586
Other liabilities and provisions[11]	1	457	458
Liabilities	**1**	**86,065**	**86,066**

5.15.2. Fair value measurements

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.

[5] The categories in this disclosure are determined by IAS 39. Finance leases are mostly outside the scope of IAS 39 but they remain within the scope of IFRS 7. Therefore, finance leases have been shown separately.

[6] Social security and other tax payables are excluded from the tax and employee-related liabilities balance, as this analysis is required only for financial instruments.

[7] Deferred income and provisions are excluded from the other liabilities and provisions balance, as this analysis is required only for financial instruments.

[8] Prepayments and tax receivables are excluded from the other assets balance, as this analysis is required only for financial instruments.

[9] The categories in this disclosure are determined by IAS 39. Finance leases are mostly outside the scope of IAS 39 but they remain within the scope of IFRS 7. Therefore, finance leases have been shown separately.

[10] Social security and other tax payables are excluded from the tax and employee-related liabilities balance, as this analysis is required only for financial instruments.

[11] Deferred income and provisions are excluded from the other liabilities and provisions balance, as this analysis is required only for financial instruments.

- 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);
- 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).

December 31, 2016 € in thousand	Level 2	Total
Other liabilities and provisions		
Derivative financial instruments	2	2
Other liabilities and provisions	**2**	**2**

December 31, 2017 € in thousand	Level 2	Total
Current financial assets		
Derivative financial instruments	-	-
Current financial assets	-	-
Other liabilities and provisions		
Derivative financial instruments	1	1
Other liabilities and provisions	**1**	**1**

Since 2010, the Company has been covered by interest rate hedging contracts through Groupe Grimaud which are included in other liabilities and provisions.

In 2017, the Group entered into various foreign currency option contracts to limit the risk of foreign currency losses on expected future cash flows. The underlying currency amount and the duration of the options depend on the amount and timing of the expected future cash flows. At December 31, 2017, the fair value of the open foreign currency option with an underlying currency amount of $3 million and a duration of 61 days was €0 thousand.

5.15.3. Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates as follows:

€ in thousand	At December 31,	
	2017	2016
Trade receivables		
Receivables from governmental institutions	7,663	5,214
A	122	1,799
Counterparties without external credit rating	9,836	9,899
Trade receivables	**17,622**	**16,912**
Other assets		
AAA	-	474
A	136	240
Counterparties without external credit rating or rating below A	11,557	11,509
Other assets	**11,693**	**12,223**

Cash and cash equivalents		
AA	2,587	1,921
A	22,940	24,722
Counterparties without external credit rating or rating below A	12,528	15,538
Cash and cash equivalents	**38,055**	**42,180**

The rating information refers to long-term credit ratings as published by Standard & Poor's or another rating organization (equivalent to the Standard & Poor's rating).

The maximum exposure to credit risk at the reporting date is the fair value of the financial assets.

5.16. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method, specifically the first-expiry first-out (FEFO) method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity) at standard costs. The variances between the actual costs and the standard costs are calculated monthly and allocated to the inventory, so there is no difference between actual and standard costs. It excludes borrowing costs. Provisions for faulty products are included in the value of inventories.

€ in thousand	**At December 31,**	
	2017	**2016**
Raw materials	2,310	1,853
Work in progress	9,862	13,302
Finished goods	7,760	7,546
Inventory	**19,931**	**22,701**

The cost of inventories recognized as an expense and included in the position "Cost of goods and services" amounted to €33.0 million (2016: €32.8 million), of which €6.0 million (2016: €6.6 million) related to faulty products, which were written off.

The Group uses standard costs to calculate the inventory cost of finished goods and work in progress.

5.17. Trade receivables

Trade receivables and other assets are initially recognized at fair value.

The carrying amount of trade receivables is reduced through an allowance for doubtful account. When a trade receivable is considered uncollectible, it is written off against this allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods, or services directly to a debtor with no intention of trading the receivable.

They are included in current assets, except those with maturities beyond 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "trade receivables and other assets" in the balance sheet.

Trade receivables include the following:

€ in thousand	**At December 31,**	
	2017	**2016**
Trade receivables	17,622	16,912
Less: provision for impairment of receivables	-	-
Trade receivables, net	**17,622**	**16,912**

During the years 2017 and 2016, no material impairment losses have been recognized. The amount of trade receivables past due in 2017 amounted to €2.5 million (2016: €1.1 million).

The fair values of trade receivables equal their book values.

5.18. Other assets

Other assets include the following:

€ in thousand	**At December 31,**	
	2017	**2016**
Prepaid expenses	1,309	1,652
Non-current financial assets	335	426
Other receivables	23,564	25,013
	25,207	**27,092**
Less non-current portion	(17,368)	(17,688)
Current portion	**7,840**	**9,404**

The fair values of other assets equal their book values. Other receivables include various deposits and advances, R&D tax credit receivables, tax receivables and consumables and supplies on stock.

5.19. Cash and cash equivalents

Cash includes cash-at-bank, cash in hand, and deposits held at call with banks. Cash equivalents include short-term bank deposits and medium-term notes that can be assigned or sold on very short notice and are subject to insignificant risk of changes in value in response to fluctuations in interest rates with a maximum maturity of less than 3 months.

As of December 31, 2017, cash and cash equivalents include €4.5 million (December 31, 2016: €6.9 million) for which there are restrictions on remittances.

€ in thousand	**At December 31,**	
	2017	**2016**
Cash in hand	5	4
Cash at bank	32,536	34,262
Short-term bank deposits (maturity less than 3 months)	1,004	1,002
Restricted cash	4,510	6,913
Cash and cash equivalents	**38,055**	**42,180**

5.20. Share capital, share premium and other regulated reserves

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, if any, from the proceeds.

When the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly-attributable incremental costs (net of income taxes, if any) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or otherwise disposed of. In cases where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and related income tax effects, is included in equity attributable to the Company's equity holders.

The profit or loss for the year is fully included in net result while other comprehensive income solely affects retained earnings and other reserves.

€in thousand (except numbers of shares)	Number of shares	Share capital	Share premium	Other regulated reserves[12]	Total share capital, share premium and other regulated reserves
Balance at January 1, 2016	**74,699,173**	**11,205**	**193,145**	**52,820**	**257,170**
Employee stock option plan:					
+ issuance of ordinary shares, December 2016	2,884,615	433	7,067	-	7,500
+ cost of equity transactions, net of tax	-	-	(96)	-	(96)
Balance at December 31, 2016	**77,583,788**	**11,638**	**200,117**	**52,820**	**264,574**
Balance at January 1, 2017	**77,583,788**	**11,638**	**200,117**	**52,820**	**264,574**
Employee stock option plan:					
+ issuance of ordinary shares, December 2017	-	-	-	-	-
+ cost of equity transactions, net of tax	-	-	(3)	-	(3)
+ value of employee services	715	-	-	-	-
Balance at December 31, 2017	**77,584,503**	**11,638**	**200,114**	**52,820**	**264,572**

Conditional and authorized capital

On December 31, 2017, the Company had 22,290,506 shares of conditional capital in connection with (see Note 5.22):

+ the possible exercise of existing stock options;
+ the possible exercise of existing equity warrants;
+ the possible conversion of existing preferred shares;
+ the possible conversion or final grant of existing convertible preferred shares;
+ the possible draw of equity warrants (BEA);

Pursuant to resolution No. 25 of the General Meeting held on June 29, 2017, the nominal amount of increases in Valneva's share capital which can be carried out by the Company, immediately or in the future, may not under any circumstances exceed a maximum overall amount of €4.5 million or the equivalent value in a foreign currency, to which amount will be added, if applicable, the supplementary amount of shares or securities to be issued for the purposes of any adjustments to be made in accordance with applicable legislative or regulatory provisions and, if applicable, with contractual stipulations providing for other forms of adjustment, in order to preserve the rights of the holders of securities giving access, immediately or in the future, to the share capital of the Company.

Besides, in accordance with the authorization given by Valneva's shareholders at the Combined the General Meeting of June 30, 2016 and in order to maintain the Company's financial flexibility, Valneva SE renewed its Equity Line with Crédit Agricole CIB. The new Equity Line, which replaces a previous instrument expired in May 2016, will enable Valneva to issue up to 5,474,633 new ordinary shares.

[12] Regulated non-distributable reserve relating to the merger with Intercell AG

5.21. Retained earnings and other reserves

€in thousand	Other comprehensive income	Treasury shares	Retained earnings	Total
Balance at January 1, 2016	**(3,544)**	**(1,009)**	**(87,667)**	**(92,219)**
Currency translation differences	(3,880)	-	-	(3,880)
Defined benefit plan actuarial losses	(55)	-	-	(55)
Income appropriation	-	-	(20,617)	(20,617)
Employee stock option plan:				
+ value of employee services	-	-	1,429	1,429
Purchase/sale of treasury shares	-	2	-	2
Balance at December 31, 2016	**(7,479)**	**(1,006)**	**(106,854)**	**(115,339)**
Balance at January 1, 2017	**(7,479)**	**(1,006)**	**(106,854)**	**(115,339)**
Currency translation differences	3,337	-	-	3,337
Defined benefit plan actuarial losses	35	-	-	35
Income appropriation	-	-	(49,184)	(49,184)
Employee stock option plan:				
+ value of employee services	-	-	833	833
Purchase/sale of treasury shares	-	(104)	-	(104)
Balance at December 31, 2017	**(4,107)**	**(1,110)**	**(155,205)**	**(160,421)**

The Company has not received or paid a dividend to its shareholders in the years ended December 31, 2017 and 2016.

5.22. Share-based payments

The Company operates various share-based compensation plans, both equity-settled and cash-settled plans. The profit and loss statement includes the following expenses arising from share-based payments:

€in thousand	Year ended December 31,	
	2017	**2016**
Stock option plans	404	385
Free ordinary shares	-	-
Equity warrants	16	-
Free convertible preferred share plans	388	1044
Phantom shares	3	-
Total expenses arising from share-based payments	**810**	**1,428**

5.22.1. Stock option plans

The fair value of such share-based compensation is recognized as an expense for employee services received in exchange for the grant of the options. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Annually, the Group revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, and makes a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to nominal capital (nominal value) and share premium (amount exceeding nominal value) when the options are exercised.

Stock options are granted to members of the Management Board and to employees.

Part of the stock options granted in the year 2010 can be exercised as long as certain objectives conditioned to entity stock market performances have been achieved.

Stock options granted from 2013 onwards are exercisable for the first time in two equal portions after being held for two and for four years (the vesting periods). All options expire no later than ten years after being granted. Stock options are not transferable or negotiable and unvested options lapse without compensation upon termination of employment with the Group (cancelation). Stock options granted from 2013 onwards become exercisable with the effectiveness of the takeover of more than 50% of the outstanding voting rights of the Group.

Changes in the number of stock options outstanding and their related weighted average exercise prices are as follows:

	2017			2016		
	Number of options	Number of shares available	Average exercise price in € per share	Number of options	Number of shares available	Average exercise price in € per share
Outstanding at January 1	2,040,150	2,123,421	3.31	1,587,700	1,707,554	3.48
Granted	1,269,500	1,269,500	2.85	584,250	584,250	2.71
Adjusted	-	-	-	-	-	-
Forfeited	(289,250)	(304,029)	3.20	(131,800)	(168,383)	3.02
Exercised	-	-	-	-	-	-
Outstanding at year end	**3,020,400**	**3,088,892**	**3,13**	**2,040,150**	**2,123,421**	**3.31**
Exercisable at year end	988,755	1,057,267		420,950	462,935	

No stock options have been exercised in 2017 and in 2016.

Stock options outstanding at the end of the period have the following expiry dates and exercise prices:

	Exercise price	Number of options at December 31,	
Expiry date	**in € per share**	**2017**	**2016**
2020	4.72[(1)]	7,000	7,000
2023	2.919[(1)]	679,650	827,900
2025	3.92	604,250	655,750
2026	2.71	493,750	549,500
2027	2.85	1,235,750	-
		3,020,400	**2,040,150**

(1) Adjusted in accordance with French law requirements.

In 2017, 1,269,500 stock options were granted (2016: 584,250). The weighted average grant date fair value of options granted during the year 2017 was €0.44 (2016: €0.80). The fair value of the granted options was determined using the Black Scholes valuation model. The significant inputs into the models were:

	2017	2016
Expected volatility (%)	24.32	49.18
Expected vesting period (term in years)	2.00 – 4.00	2.00 – 4.00
Risk-free interest rate (%)	(0.78) – (0.52)	(0.67) – (0.61)

5.22.2. Free ordinary shares

Over the years, the Company established free ordinary share plans for employees that are divided into several tranches.

The definitive grant of these shares takes place after a vesting period of two or four years. Then a subsequent holding period of two years follows.

Changes in the free ordinary shares outstanding are as follows:

	Number of free shares	
	2017	**2016**
Outstanding at January 1	1,000	1,000
Granted	-	-
Forfeited	-	-
Definitively granted	(1,000)	-
Outstanding at year end	**-**	**1,000**

5.22.3. Equity warrants

In 2015, and 2017 the Company granted equity warrants to members of the Supervisory Board. The warrants granted in 2015 (BSA 25) are exercisable in four equal portions after 2, 17, 31 and 45 months. The warrants granted in 2017 (BSA 27) are exercisable in four equal portions after 12, 24, 36 and 48 months. The subscription price for one new ordinary share under the 2015 plan (BSA 25) amounts to €3.92 per share. The subscription price for one new ordinary share under the 2017 plan (BSA 27) amounts to €2.574.

Changes in the equity warrants outstanding are as follows:

	Number of equity warrants	
	2017	**2016**
Outstanding at January 1	114,750	153,000
Granted	87,500	-
Forfeited	-	(38,250)
Outstanding at year end	**202,250**	**114,750**

5.22.4. Free convertible preferred share plan

On June 25, 2015, the General Meeting of Valneva SE decided to create convertible preferred shares for the benefit of the Management Board members, but also for the benefit of key employees. Consequently, on July 28, 2015, the Management Board implemented the free convertible preferred share plan 2015-2019, a long-term incentive program for the Company's executive management.

The granted payable convertible preferred shares ("**SPS**") are as follows:

	Number of payable convertible preferred shares subscribed for by the beneficiaries	**Subscription amount (in euros)**
Management Board	744	119,784
Other Executive Committee members	330	53,130
	1,074	**172,914**

Following the subscription of SPS the Management Board conditionally granted the Program beneficiaries a number of free convertible preferred shares ("**FCPS**") corresponding to a ratio of 25 FCPS to 1 SPS, as follows:

	Number of free convertible preferred shares granted to the beneficiaries
Management Board	18,600
Other Executive Committee members	8,250
	26,850

SPS and FCPS will be convertible into Valneva's ordinary shares 4 years after their issuance (with respect to the SPS) or their initial granting (with respect to the FCPS), if the conversion conditions are met.

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On June 29, 2017, the General Meeting of Valneva SE's shareholders had decided to grant the Company's Management Board all powers necessary to decide the granting and issuance of new free convertible preferred shares for the benefit of corporate officers or employees of the Company or its subsidiaries.

On November 30, 2017, the Supervisory Board also authorized the Management Board to grant free convertible preferred shares to members of the Company's Management Board and Executive Committee, as well as to Manufacturing site Heads (collectively with the Management Board members, the "**Executive Managers**"), on condition that the Executive Managers make a prior personal investment in the Company by purchasing Valneva SE ordinary shares.

Consequently, on December 7, 2017, the Management Board implemented the Free Convertible Preferred Share Program 2017-2021, a long-term incentive plan for the Group's Executive Managers. As a prerequisite to the possibility of participating in the program, each potential beneficiary was required to make a cash investment in the Company, by purchasing Valneva SE ordinary shares.

The free convertible preferred shares will be convertible into Valneva SE ordinary shares 4 years after their initial granting, if the conversion conditions set out below are met.

Upon expiration of the above-mentioned 4-year period (the "**Conversion Date**"), the Management Board will determine the conversion ratio, on the basis of (a) the Final Share Price (as hereinafter defined) and (b) the conversion table below.

The "**Final Share Price**" will be the volume-weighted average stock market price of the Company's ordinary shares over a period of 6 months immediately preceding the Conversion Date, as rounded to the second decimal place (*e.g.* 6.2450 to be rounded to 6.25).

No conversion will occur if the Final Share Price is lower than €4.50. If the Final Share Price is higher than €8, the conversion ratio will be such that the beneficiaries' gross gain will not exceed the gross gain they would have realized if the Final Share Price was €8.

The free convertible preferred shares cannot give rights to more than 2,363,000 ordinary shares of the Company.

Following the full payment of the amount of personal investment required, the Management Board conditionally granted the Program beneficiaries a number of free convertible preferred shares:

	Number of FCPS 2017 granted to the beneficiaries
Management Board	24,200
Other Executive Managers	9,817
	34,017

Changes in the FCPS are as follows (including FCPS 2015 and FCPS 2017):

	Number of FCPS	
	2017	**2016**
Outstanding at January 1	26,850	26,850
Granted	34,017	-
Forfeited	(7,125)	-
Outstanding at year end	**53,742**	**26,850**

The fair value of FCPS 2015 was determined using the Black Scholes model, whereas the fair value of FCPS 2017 was determined using the Monte Carlo valuation model.

5.22.5. Phantom shares

In 2017, a phantom share plan was issued for employees who are US citizens, with the same conditions as the stock options program (see 5.22.1) but which will not be settled in equity, but in cash. Therefore it is considered as a cash settled plan. The liability for the phantom shares is measured, initially and at the end of each reporting period until settled, at the fair value of the share options rights, by applying an option pricing model, taking into account the terms and conditions on which the phantom rights were granted, and the extent to which the employees have rendered services to date.

The carrying amount of the liability relating to the phantom shares at December 31, 2017 was €3 thousand. No phantom share had vested or forfeited at December 31, 2017.

Phantom shares outstanding at the end of the period have the following expiry dates and exercise prices:

	Exercise price	Number of options at December 31,	
Expiry date	**in € per share**	**2017**	**2016**
2023	2.919[(1)]	6,000	-
2025	3.92	10,000	-
2026	2.71	7,000	
2027	2.85	138,000	-
		161,000	**-**

(1) Adjusted in accordance with French law requirements.

In 2017, 161,000 phantom shares were granted (2016: nil). The fair value of the granted options was determined using the Black Scholes valuation model. The significant inputs into the models were:

	2017	**2016**
Expected volatility (%)	21.81	-
Expected vesting period (term in years)	0.25 – 3.93	-
Risk-free interest rate (%)	(0.89) – (0.35)	-

5.23. Borrowings

Borrowings are initially recognized at fair value if determinable, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowings of the Group at yearend include the following:

€in thousand	At December 31,	
	2017	2016
Non-current		
Bank borrowings	9,868	1,586
Other loans	17,566	32,438
Finance lease liabilities	26,662	27,520
	54,097	**61,544**
Current		
Bank borrowings	1,336	1,274
Other loans	15,205	18,833
Finance lease liabilities	858	851
	17,399	**20,959**
Total borrowings	**71,496**	**82,503**

The maturity of non-current borrowings is as follows:

€in thousand	At December 31,	
	2017	2016
Between 1 and 2 years	15,751	31,524
Between 2 and 3 years	2,866	3,018
Between 3 and 4 years	1,508	1,345
Between 4 and 5 years	10,808	1,608
Over 5 years	23,164	24,049
Non-current borrowings	**54,097**	**61,544**

The carrying amounts of the Group's borrowings are denominated in the following currencies:

€in thousand	At December 31,	
	2017	2016
EUR	45,589	38,609
USD	25,906	43,894
Total borrowings	**71,496**	**82,503**

5.23.1. Finance lease liabilities

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

5.23.2. Bank borrowings and other loans secured

As at December 31, 2017, €44.0 million of the outstanding bank borrowings and other loans are guaranteed, secured or pledged. These bank borrowings and other loans are related to financing of Research & Development expenses, fixed assets and CIR (R&D tax credit in France) and have various conditions (interest rates) and terms (maturities).

The following table presents the fair value of guaranteed bank borrowings and other loans without taking the interest subsidy into consideration, based on an estimated arms' length interest rate of 7.10% at year-end 2017:

€in thousand	At December 31, 2017	
	Carrying amounts	**Fair values**
Bank borrowings (excluding bank borrowings described below)	1,586	1,531
Other loans (excluding the other loans described in Note 5.23.3)	6,865	6,039
Guaranteed, secured, or pledged borrowings	**8,451**	**7,571**

In July 2016, Valneva SE entered into a loan agreement with the European Investment Bank by which the Company was granted a €25 million term loan facility as part of the European Horizon 2020 initiative. Subject to fulfillment of certain conditions precedent, the loan may be drawn in one or several tranches within a 24-month period from signing. Each tranche is repayable at the end of a five-year period starting from the drawing date. The loan is secured by collateral over the Company's material subsidiaries, mainly ranking behind securities linked to Valneva's existing indebtedness. Furthermore, the loan agreement contains covenants, including a positive Group EBITDA and a minimum cash balance of €3 million at all times. The Group does not expect these limitations to impact its ability to meet its cash obligations. In the year ended December 31, 2017, two €5 million tranches respectively were drawn under the loan facility that was granted with no commitment fee and subject to variable interest on amounts drawn.

At December 31, 2017 the loan is included in the balance sheet item "Borrowings" as follows:

€in thousand	2017	2016
Balance at January 1	**-**	**-**
Proceeds of issue	10,000	-
Transaction costs	(417)	-
Accrued interests	368	-
Payment of interest and loan	(332)	-
Balance at December 31	**9,618**	**-**
Less: non-current portion	9,618	-
Current portion	**-**	**-**

5.23.3. Other loans

On December 20, 2013, the Group received a $30 million financing from an investment fund managed by Pharmakon Advisors for Valneva Austria GmbH. The loan extends over a five year period and carries an interest rate ranging from 9.5% to 10.5%. On November 18, 2015 the loan was increased by an additional financing of $11 million. From 2016 onwards, the Company is paying a royalty to Pharmakon Advisors ranging from 2.5% to 3.1% on its IXIARO®/JESPECT® sales during the term of the loan. The interest rate and the royalty payable in connection with the loan are both recognized as finance expenses. The finance expenses are calculated using the effective interest method and are therefore recognized pro rata to the outstanding principal in each accounting period until the loan is fully amortized. The foreign currency valuation is done at each balance sheet date and resulting exchange gains or losses are shown as finance income/expenses. The asset-based loan is guaranteed by Valneva SE and secured by a security interest on the incoming funds from Valneva's sales of IXIARO®/JESPECT® and on the shares of the Group's Austrian and Scottish subsidiaries, which hold the key IXIARO®/JESPECT® assets. The loan agreement includes customary covenants for the Group's Austrian subsidiary, including limitations on indebtedness and new business activities as well as limitations for payments of dividends and other disbursements to its parent company Valneva SE. The Company does not expect these limitations to impact its ability to meet its cash obligation. At December 31, 2017, the book values of the assets pledged amounted to €232.5 million (2016: €231.3 million).

The loan is included in the balance sheet item "Borrowings".

€in thousand	2017	2016
Balance at January 1	**43,894**	**40,546**
Proceeds of issue	-	-
Transaction costs	-	-
Accrued interest and royalty expense	4,218	5,351
Payment of interest, royalties and loan	(18,056)	(3,736)
Foreign exchange valuation	(4,150)	1,734
Balance at December 31	**25,906**	**43,894**
Less: non-current portion	(12,733)	(27,304)
Current portion	**13,173**	**16,591**

5.24. Trade payables and accruals

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. Trade payables are recognized initially at fair value. Short-term trade payables are subsequently measured at the repayment amount.

Trade payables and accruals include the following:

€in thousand	At December 31,	
	2017	**2016**
Trade payables	5,258	2,554
Accrued expenses	4,268	5,255
	9,527	**7,808**
Less non-current portion	-	-
Current portion	**9,527**	**7,808**

5.25. Tax and employee-related liabilities

The Group recognizes a liability and an expense for bonuses. The Group recognizes a liability when it has assumed a contractual obligation or where there is a past practice that has created a constructive obligation.

€in thousand	At December 31,	
	2017	**2016**
Employee-related liabilities	4,586	5,229
Social security and other taxes	2,945	1,894
	7,531	**7,123**
Less non-current portion	-	-
Current portion	**7,531**	**7,123**

5.26. Other liabilities and provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties concerning the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Provisions are not recognized for future operating losses.

€in thousand	At December 31,	
	2017	**2016**
Deferred income	6,677	7,382
Other financial liabilities	458	264
Provisions for employee commitments	294	278
Other liabilities	5	38
Other provisions	300	810
	7,734	**8,772**
Less non-current portion	(4,838)	(6,333)
Current portion	**2,896**	**2,439**

5.26.1. Deferred Income

Deferred revenues are comprised of advanced payments from collaboration partners (especially option fees) and conditional advances from subordinated grants. These are recognized under “Other non-current liabilities and provisions” and “Other current liabilities and provisions” according to their maturity.

€in thousand	At December 31,	
	2017	**2016**
Arising from collaboration and licensing agreements	6,502	6,879
Arising from government grants	175	502
	6,677	**7,382**
Less non-current portion	(4,343)	(5,805)
Current portion	**2,334**	**1,577**

5.26.2. Provisions for employee commitments

Some group companies provide retirement termination benefits to their retirees.

For defined benefit plans, retirement costs are determined once a year using the projected unit credit method. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to determine the final obligation. The final obligation is then discounted. These calculations mainly use the following assumptions:

+ a discount rate;
+ a salary increase rate;
+ an employee turnover rate.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

For basic schemes and defined contribution plans, the Group recognizes the contributions as expenses when payable, as it has no obligations over and above the amount of contributions paid.

Assumptions used

	At December 31,	
	2017	**2016**
Discount rate	1.50%	1.40%
Salary increase rate	2.00%	2.00%
Turnover rate	0%-33.24%	0%-33.24%
Social security rate	47.00%-48.00%	47.00%-48.00%
Average remaining lifespan of employees (in years)	22	23

Changes in defined benefit obligation

Present value of obligation development:

€in thousand	2017	2016
Balance at January 1	**278**	**189**
Current service cost	51	35
Actuarial losses/(gains)	(35)	55
Balance at December 31	**294**	**278**

5.26.3. Other provisions

€in thousand	At December 31,	
	2017	2016
Non-current	1	-
Current	299	810
Provisions	**300**	**810**

	2017	2016
Balance at January 1	**810**	**514**
Charged to the income statement:		
+ Additional provision	185	608
+ Reversed provision	(19)	-
Used provisions	(670)	(312)
Exchange differences	(7)	-
Balance at December 31	**300**	**810**

The position comprises in 2017 a remaining amount of €96 thousand from a provision for expected legal and settlement costs under a court proceeding relating to the Intercell AG/Vivalis SA merger. Furthermore, a provision for restructuring costs of €181 thousand in 2017 for the site in Solna, Sweden, in connection with an effort to reduce the marketing and distribution and general and administrative expenses of the Company is included.

5.27. Cash-flow information

5.27.1. Cash generated from operations

The following table shows the adjustments to reconcile net loss to net cash generated from operations:

€in thousand		Note	Year ended at December 31, 2017	2016
Loss for the year			(11,482)	(49,184)
Adjustments for				
+	Depreciation and amortization	5.12/ 5.13	11,141	11,269
+	Impairment fixed assets/intangibles	5.12/ 5.13	3,568	34,109
+	Share-based payments	5.22	811	1,428
+	Income tax	5.9	(1,078)	357
+	Profit/(loss) from disposal of fixed assets	5.7	-	124
+	Share of (profit)/loss from associates	5.14	-	-
+	Fair value (gains)/losses on derivative financial instruments		93	-
+	Other non-cash income/expense		2,390	1,466
+	Interest income	5.8	(72)	(290)
+	Interest expense	5.8	5,060	6,087
+	Changes in other long-term assets and liabilities		(1,141)	(1,361)
Changes in working capital (excluding the effects of acquisition and exchange rate differences on consolidation):				
+	Inventory		1,065	2,950
+	Trade and other receivables		597	2,361
+	Trade and other payables and provisions		2,537	(2,280)
Cash generated from operations			**13,489**	**7,037**

The following table shows the adjustments to reconcile profit/loss from the disposal of fixed assets to proceeds from the disposal of fixed assets:

€in thousand	At December 31, 2017	2016
Net book value	-	126
Profit/(loss) on disposal of fixed assets	-	(124)
Proceeds from disposal of fixed assets	**-**	**1**

5.27.2. Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

€in thousand	Bank borrowings	Other loans	Finance lease liabilities	Total
Balance at January 1, 2017	2,860	51,271	28,372	82,503
Financing cash flows[13]	8,312	(12,772)	(851)	(5,311)

[13] The financing cashflows make up the net amount of proceeds from borrowings and repayments of borrowings in the consolidated cash flow statement.

€in thousand	Bank borrowings	Other loans	Finance lease liabilities	Total
Foreign exchange movements	-	(4,150)	-	(4,150)
Other changes[14]	32	(1,578)	-	(1,547)
Balance at December 31, 2017	**11,204**	**32,771**	**27,520**	**71,496**

5.28. Commitments and contingencies

5.28.1. Capital commitments

There were no capital expenditure contracted for at December 31, 2017, and December 31, 2016.

5.28.2. Operating lease commitments

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest component of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period ("Effective interest rate method"). The property, plant and equipment acquired under finance leases are depreciated over the useful life of the asset.

Future aggregate minimum lease commitments under non-cancelable operating leases are as follows:

€in thousand	At December 31,	
	2017	2016
Not later than 1 year	2,190	2,226
Later than 1 year and not later than 5 years	8,599	7,012
Later than 5 years	2,289	539
Operating lease commitments	**13,079**	**9,778**

The Group leases office space, cars and equipment.

5.28.3. Other commitments and guarantees

The other commitments consisted of:

€in thousand	At December 31,	
	2017	2016
Loans and grants	1,743	1,984
Royalties	12,893	15,643
Other	12	21
Other commitments	**14,648**	**17,648**

[14] Other changes include interest accruals and payments.

The guarantees and pledges consisted of:

€ in thousand	**At December 31,**	
	2017	**2016**
Equipment pledge	86	257
Pledges on consolidated investments	232,528	231,315
Guarantees for non-consolidated investments	-	300
Guarantees and pledges	**232,614**	**231,872**

5.28.4. Contingencies

Following the merger between the companies Vivalis SA and Intercell AG in 2013, certain former Intercell shareholders initiated legal proceedings before the Commercial Court of Vienna to request a revision of the exchange ratio between Intercell and Valneva shares used in the merger. Valneva has filed an extensive statement in response to the petitions in which it describes the basis for the original exchange ratio, including the use of independent third parties. If the court decides to revise the exchange ratio, there is legal uncertainty as to whether the court could extend this revision to all former Intercell shareholders who exchanged their shares, even if they were not a party to the dispute (erga omnes effect). If the court so decides and this is confirmed after exhaustion of appeals, Valneva may be forced to compensate all former shareholders following the reevaluation of the exchange ratio. The outcome of the proceedings to review the exchange ratio cannot be predicted with certainty at the present time. It is, therefore, currently not possible to estimate whether a specific shareholder group will be granted additional payments or what the amount of these payments might be. However, Valneva, after consultation with its external advisors, believes that these legal proceedings are unsubstantiated and are not likely to succeed in court. Detailed information on the potential specific financial consequences which might result from a successful claim could adversely affect Valneva's ability to defend its interests in this case, and therefore is not provided, in accordance with IAS 37.92.

In July 2016, a claim for additional payment was raised, and litigation was filed in December 2016, in connection with the 2009 acquisition of Humalys SAS, by which Vivalis (now Valneva) had acquired a technology which was later combined with other antibody discovery technologies and spun off to Blink Biomedical in early 2015. Former shareholders of Humalys claimed additional consideration as a result of the spin-off transaction. Valneva, after consultation with its external advisors, believes that this claim is unsubstantiated and the filed litigation is not likely to succeed in court. Detailed information on the potential specific financial consequences which might result from a successful claim could adversely affect Valneva's ability to defend its interests in this case, and therefore is not provided, in accordance with IAS 37.92.

5.29. Business combination

On February 9, 2015, the Group completed the acquisition of the company Crucell Sweden AB, (subsequently renamed Valneva Sweden AB), including all assets, licenses and privileges related to the vaccine DUKORAL®. Valneva Sweden AB is now an indirect wholly-owned subsidiary of Valneva SE.

The acquisition was financed through a combination of debt and equity. The latter was raised through a public rights issue with final gross proceeds of €45.0 million. The debt part of the acquisition financing was raised through a loan facility put in place with Athyrium in an amount of €15.0 million, which was repaid in January 2016.

In December 2015 changes to the Canadian DUKORAL® product monograph that Health Canada had requested became effective. The updated product monograph and subsequent labeling may negatively impact DUKORAL® sales in Canada going forward. In order to reflect these business changes Valneva and the seller agreed on amendments to the purchase agreement which led to a

€25 million reduction of the purchase consideration, bringing it from originally €45 million down to €20 million.

Therefore, the Company adjusted the preliminary purchase price accounting retrospectively in December 2015 in accordance with IFRS 3.45. The purchase price, intangible assets, fixed assets, inventories and deferred taxes were adjusted accordingly. The resulting €13.2 million bargain purchase gain related to the acquisition was retrospectively included in the income statement of Q1 2015. Adjustments to asset values also led to changes in the income statements of the subsequent quarters, in particular affecting costs of goods sold through changes in depreciation and amortization relating to the revalued assets.

The final allocation of the purchase price was presented in the consolidated annual financial statements for the year ended December 31, 2015.

The cash consideration paid, net of cash acquired through the acquisition includes the final payment from Johnson & Johnson of €15 million in January 2016 due to the label-change in Canada and is as follows:

€ in thousand	
Cash consideration paid	35,000
Cash and cash equivalents in acquired business	(2,795)
Payments received from Johnson & Johnson (WC adjustment, label-change Canada, other liabilities)	(25,303)
Cash outflow through acquisition	6,902

5.30. Related-party transactions

5.30.1. Purchases of services

Services provided by companies of Groupe Grimaud La Corbière SA are considered related party transactions and included the provision of services and miscellaneous items to Valneva SE. These services were rendered by Group Grimaud La Corbière in connection with operating activities (interest rate swap allocation agreement) or with regulated activities (guarantees).

€ in thousand	**Year ended December 31,**	
	2017	**2016**
Purchases of services:		
+ Operating activities	2	5
Purchases of services	**2**	**5**

5.30.2. Key management compensation

The aggregate compensation of the members of the Company's Management Board includes the following:

€ in thousand	**Year ended December 31,**	
	2017	**2016**
Salaries and other short-term employee benefits	1,677	1,530
Other long-term benefits	34	24
Share-based payments (expense of the year)	277[15]	795
Key management compensation	**1,988**	**2,349**

[15] This amount is deducted by EUR 318k due to the reversal of the IFRS expense from prior years for a share based program which lapsed due to termination of the agreement from one Management Board member.

5.30.3. Supervisory Board compensation

The aggregate compensation of the members of the Company's Supervisory Board amounted to €268 thousand (2016: €251 thousand). In the years 2015, and 2017, the Company granted equity warrants to members of the Supervisory Board. For more information, see Note 5.22.3.

5.31. Events after the reporting period

No events that are expected to have a material effect on the financial statements occurred after the reporting period until March 20, 2018.

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

PricewaterhouseCoopers Audit

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92208 Neuilly-sur-Seine

Deloitte & Associés
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13002 Marseille

VALNEVA

Société Européenne

World Trade Center Lyon, Tour Oxygène
10-12, boulevard Marius Vivier Merle
69003 Lyon

Statutory auditors' report on the consolidated financial statements

For the year ended December 31, 2017

This is a translation into English of the statutory auditors' 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 auditors' report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the information concerning the Group presented in the management report.

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Statutory auditors' report on the consolidated financial statements

For the year ended December 31, 2017

To the Annual General Meeting of Valneva SE

Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying consolidated financial statements of Valneva SE for the year ended December 31, 2017.

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 December 31, 2017 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.

The audit opinion expressed above is consistent with our report to the Audit Committee.

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 rules applicable to us, for the period from January 1, 2017 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 or in the French Code of ethics (*Code de Déontologie*) for statutory auditors.

Furthermore, the non-audit services that we provided to your Company and its controlled undertakings during the financial year that are not disclosed in the management report or in the notes to the financial statements are as follows:

PricewaterhouseCoopers Audit

Country	Nature of non-audit services provided	Amount (€)
France	*Non-audit services required by law (reports on share capital transactions)*	*€2,211€*
Austria	*Other non-audit services (attestation on the research and development tax credit)*	*€11,471*

Deloitte & Associés

Country	Nature of non-audit services provided	Amount (€)
France	*Non-audit services required by law (reports on share capital transactions)*	*€6,492*
Scotland	*Other non-audit services (data conversion to iXBRL format for filing tax returns purposes)*	*€1,482*

Justification of Assessments - Key Audit Matters

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period, as well as how we addressed those risks.

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.

Key Audit Matters	How our audit addressed the key audit matters
Valuation of acquired R&D technologies and projects, and development costs *(Note 5.12 "Intangible assets and goodwill" to the consolidated financial statements)* As a result of its activities dedicated to the development of innovative vaccines, the Group has recognized significant intangible assets related to acquired R&D technologies and projects and development costs (€45.9 million as of December 31, 2017). An impairment is recognized when the recoverable amount of these assets (corresponding to their value in use determined using the risk-adjusted discounted cash flow method, determined as part of the mandatory annual impairment test or as part of the ad hoc test in the event of an indication of impairment), is lower than their net carrying amount. These impairment tests require the Company to make assumptions and judgments at the clinical, technical and commercial levels (viability of new products). Given the inherent uncertainties related to the research and development processes, and in particular, Valneva's ability to achieve the expected results or to obtain clinical approvals or approvals from other regulatory bodies in a highly competitive therapeutic environment, we considered the valuation of acquired R&D technologies and projects, and development costs to be a key audit matter.	We gained an understanding of the procedures implemented by the Group regarding the valuation of these intangible assets. We involved our valuation specialists to assist us in analyzing the assumptions and methods used by the Management, particularly those related to actuarial data (for example, the discount rate). We assessed the reasonableness of the main assumptions used in the determination of the cash flow projections: periods used in the business plans, expected dates for the launch of the products on the market, development costs, royalties derived from the utilization of these assets, market data, projected market shares, selling prices and associated margins, specific market risk premiums where applicable, and probability to obtain regulatory approvals. These assessments were based on our understanding of the expected business projections for each different products, inquiries with researchers in charge of major research and development projects, to corroborate the information collected throughout our audit and to assess the consistency of the assumptions made by the Management, and the verification of the consistency of the assumptions used with the forecasts derived from the strategic plans presented to the Supervisory Board. We also made our own assessments based on key assumptions such as prices and projected volumes, market shares and other growth assumptions based on industry market data obtained independently, and by comparing prior year's projections from the Company's business plans with the actual results for the past year-ended. We also verified that the Note 5.12 "Intangible assets and Goodwill" to the consolidated financial statements provided appropriate disclosure.

Revenues from collaborations, licensing and services *(Notes 5.2.5 b "Revenues from collaborations, licensing and services", 5.3.2 "Critical judgments in applying the entity's accounting policies" to the consolidated financial statements)* The Group generates significant revenues through collaboration and licensing agreements (research, development, production and marketing) with biopharmaceutical and pharmaceutical companies and academic institutions for its vaccine candidates and its own technologies. These revenues represent a total of €9,349 thousand as of December 31, 2017 ("technologies and services" segment). Terms of the agreements include different types of payments: upfront payments, annual payments, milestone payments, payments for license options and for the performance of research services, royalties for which the amounts are determined based on the product sales, according to the license agreements. The revenue recognition method depends in particular on the nature of the rights granted and types of payments. A misinterpretation of the contracts could lead to an inadequate method of recognition of the corresponding revenues. The recognition of these revenues is a key point of the audit due to the variety of contractual clauses and estimates that are necessary to determine the achievement of certain objectives or conditions (example: license revenues may be recognized over the project development period).	We performed procedures to assess the design and verify the operating effectiveness of the internal controls related to the recognition of revenues from collaborations, licensing and services. We obtained Management's calculations for revenues from collaboration and license agreements and validated the assumptions used by reference to internal and external sources (including the terms of the applicable contracts and supporting documentation for milestone achievements). We also verified that Notes 5.2.5 b) "Revenue Recognition", 5.3.2 "Critical judgments in applying the entity's accounting policies", and "5.4.1 Income Statement aggregated by segment" to the consolidated financial statements provided appropriate disclosure.

Contingencies *(Note 5.28.4 " Contingencies" to the consolidated financial statements)* Valneva is involved in two disputes. Firstly, the former shareholders of Humalys, a subsidiary acquired in the past by Valneva subsequently spun off to Blink Biomedical, have initiated legal proceedings questioning the amount of the earn-out payment. Secondly, the former shareholders of Intercell, entity merged with Valneva SE, have initiated legal proceedings with regards to the exchange ratio in order to obtain financial compensation following the merger. Management considered these disputes as contingent liabilities and therefore did not recognize any provision in the financial statements. Given the uncertainties surrounding the outcomes of these litigations, we have considered the accounting treatment, the absence of provision, and disclosures to the financial statements to be a key audit matter.	To assess that it is unlikely that Valneva will be liable in these disputes and thus justifying the absence of any provision recorded in the financial statement for these two litigations: - We discussed the status of these two disputes with the Company's Management and in-house legal counsel. We obtained and analyzed the notes and responses from lawyers to our external confirmation requests. In addition, we verified that Note 5.28.4 "Contingencies" to the financial statements provided appropriate disclosure.

Verification of the Information Pertaining to the Group Presented in the Management Report

As required by law we have also verified in accordance with professional standards applicable in France the information pertaining to the Group presented in the management report of the Management Board.

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

Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

We were appointed as statutory auditors of Valneva SE by the annual general meeting held on June 29, 2012 for PricewaterhouseCoopers Audit and on February 22, 2007 for Deloitte & Associés.

As at December 31, 2017, PricewaterhouseCoopers Audit and Deloitte & Associés were in the 6th year and 11th year of total uninterrupted engagement.

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 Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements were approved by the Management Board.

Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Objectives and audit approach

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 consolidated financial statements.

As specified in Article L.823-10-1 of the French Commercial Code (*Code de commerce*), 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.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters. We describe these matters in this audit report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) N° 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L.822-10 to L.822-14 of the French Commercial Code (*Code de commerce*) and in the French Code of Ethics (*Code de déontologie*) for statutory auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Neuilly-sur-Seine and Marseille, March 21, 2018

The Statutory Auditors

PricewaterhouseCoopers Audit	**Deloitte & Associés**
French original signed by	French original signed by
Thierry CHARRON	Vincent GROS