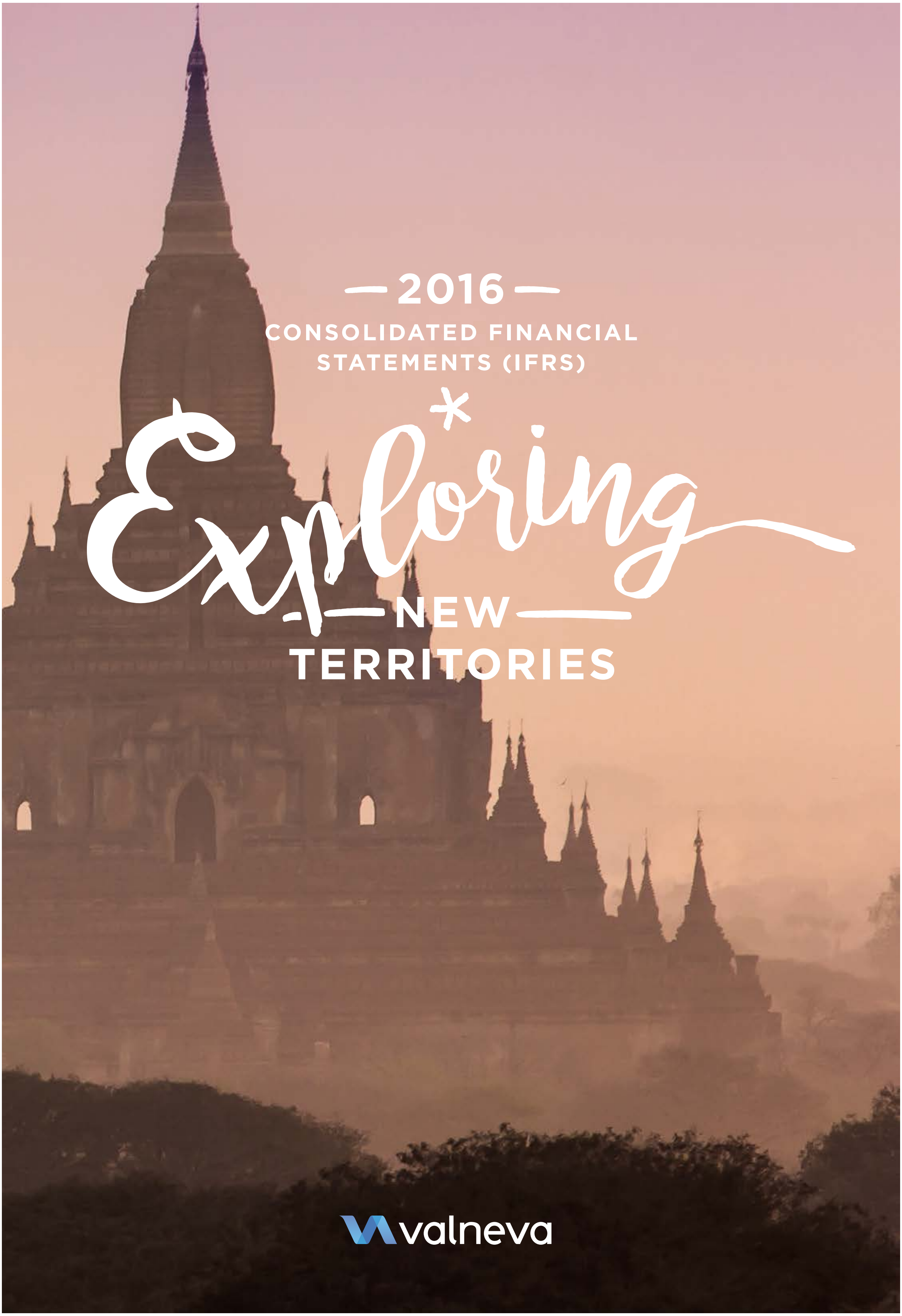

2016

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

Exploring NEW TERRITORIES

valneva

TABLE OF CONTENTS

A. CONSOLIDATED FINANCIAL STATEMENTS 2016

VALNEVA

A European Company (*Societas Europaea*) with a Management and a Supervisory Board
Registered offices: World Trade Center Lyon - Tour Oxygène
10-12 boulevard Marius Vivier Merle, 69003 Lyon - France
Lyon Companies Register (RCS) No. 422 497 560

Consolidated financial statements
at December 31, 2016

__Translation disclaimer__: This document is a free translation of the French language version of the French GAAP annual financial statements of Valneva SE for the twelve-month period ended December 31, 2016 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.

1. CONSOLIDATED INCOME STATEMENT AND COMPREHENSIVE INCOME STATEMENT

1.1. Consolidated income statement

€ in thousand (except per share amounts)	**Note**	**Year ended December 31,**	
		2016	**2015**
Product sales	5.5	80,428	61,545
Revenues from collaborations, licensing and services	5.5	13,634	16,814
Revenues		**94,062**	**78,360**
Grant income		3,830	4,975
Revenues and grants		**97,892**	**83,335**
Cost of goods and services	5.6/5.7	(43,076)	(46,961)
Research & Development expenses	5.6/5.7	(24,589)	(25,367)
Marketing and distribution expenses	5.6/5.7	(16,639)	(9,121)
General and administrative expenses	5.6/5.7	(14,412)	(14,394)
Other income and expenses, net	5.8	(498)	(152)
Amortization and impairment of fixed assets/intangibles	5.6	(41,246)	(7,273)
Bargain purchase gain (1)	5.30	-	13,183
OPERATING LOSS		**(42,568)**	**(6,751)**
Finance income	5.9	290	5,073
Finance expenses	5.9	(6,550)	(9,716)
Result from investments in associates	5.15	-	(8,999)
LOSS BEFORE INCOME TAX		**(48,828)**	**(20,393)**
Income tax	5.10	(356)	(224)
LOSS FOR THE YEAR		**(49,184)**	**(20,617)**
Losses per share for loss for the year attributable to the equity holders of the Company, expressed in € per share (basic and diluted)	5.11	**(0.66)**	**(0.28)**

(1) The presentation of the gain on bargain purchase is revised and now included in the operating result (see Note 5.2).

1.2. Consolidated statement of comprehensive income

€ in thousand	**Note**	**Year ended December 31,**	
		2016	**2015**
Loss for the year		**(49,184)**	**(20,617)**
Other comprehensive income/(loss)			
Items that may be reclassified to profit or loss			
Currency translation differences	5.22	(3,880)	(2,584)
Items that will not be reclassified to profit or loss			
Defined benefit plan actuarial losses	5.27.2	(55)	-
Other comprehensive income/(loss) for the year, net of tax		**(3,935)**	**(2,584)**
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE COMPANY		**(53,119)**	**(23,200)**

2. CONSOLIDATED BALANCE SHEET

€ in thousand	Note	At December 31,	
		2016	2015
ASSETS			
Non-current assets		**115,686**	**158,804**
Intangible assets	5.13	58,959	98,567
Property, plant and equipment	5.14	39,039	42,439
Other non-current assets	5.19	17,688	17,797
Current assets		**91,197**	**116,383**
Inventories	5.17	22,701	26,687
Trade receivables	5.18	16,912	15,754
Other current assets	5.19	9,404	31,374
Cash, cash equivalents and short-term deposits	5.20	42,180	42,567
TOTAL ASSETS		**206,883**	**275,187**
EQUITY			
Capital and reserves attributable to the Company's equity holders		**100,051**	**144,335**
Share capital	5.21	11,638	11,205
Share premium and other regulated reserves	5.21	252,937	245,965
Retained earnings and other reserves	5.21	(115,339)	(92,219)
Net result for the period		(49,184)	(20,617)
LIABILITIES			
Non-current liabilities		**67,941**	**84,489**
Borrowings	5.24	61,544	76,568
Deferred tax liability	5.10	65	112
Other non-current liabilities and provisions	5.27	6,333	7,810
Current liabilities		**38,891**	**46,363**
Borrowings	5.24	20,959	25,687
Trade payables and accruals	5.25	7,808	10,698
Current tax liability		561	425
Tax and employee-related liabilities	5.26	7,123	6,889
Other current liabilities and provisions	5.27	2,439	2,664
TOTAL LIABILITIES		**106,832**	**130,852**
TOTAL EQUITY AND LIABILITIES		**206,883**	**275,187**

3. CONSOLIDATED CASH FLOW STATEMENT

€ in thousand	Note	Year ended December 31, 2016	2015
Cash flows from operating activities			
Loss for the year		(49,184)	(20,617)
Depreciation and amortization	5.13/ 5.14	11,269	11,442
Impairment	5.13/ 5.14	34,109	-
Share-based payments	5.23	1,428	1,018
Income tax	5.10	357	238
Other adjustments for reconciliation to cash used in operations	5.28	6,026	2,829
Changes in working capital	5.28	3,032	(14,585)
Cash generated from/(used in) operations	5.28	**7,037**	**(19,674)**
Income tax paid	5.10	(532)	(153)
Net cash generated from/(used in) operating activities (1)		**6,505**	**(19,828)**
Cash flows from investing activities			
Acquisition of other businesses, net of cash acquired	5.30	15,279	(22,181)
Purchases of property, plant and equipment	5.14	(1,758)	(1,854)
Proceeds from sale of property, plant and equipment	5.28	1	128
Purchases of intangible assets	5.13	(1,924)	(792)
Investments in associated companies	5.15	-	(1,999)
Interest received		3,290	133
Net cash generated from/(used in) investing activities		**14,888**	**(26,565)**
Cash flows from financing activities			
Proceeds from issuance of ordinary shares, net of costs of equity transactions	5.21	7,471	42,010
Disposal of treasury shares		2	63
Proceeds from borrowings, net of transaction costs	5.24	1,481	26,472
Repayment of borrowings	5.24	(24,813)	(4,350)
Interest paid (1)	5.9	(10,932)	(4,506)
Net cash generated from/(used in) financing activities		**(26,792)**	**59,689**
Net change in cash and cash equivalents		**(5,399)**	**13,296**
Cash at beginning of the year		41,907	28,857
Exchange gains/(losses) on cash		(1,241)	(246)
Cash at end of the year	5.20	**35,267**	**41,907**
Cash, cash equivalents and short-term deposits at end of the year		**42,180**	**42,567**

(1) Presentation revised - See Note 5.2.

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, 2015		**8,453**	**206,707**	**(64,444)**	**(26,272)**	**124,444**
Total comprehensive loss		-	-	(2,584)	(20,617)	(23,200)
Income appropriation		-	-	(26,272)	26,272	-
Employee stock option plans:						
+ value of employee services	5.22	-	-	1,018	-	1,018
+ exercise of stock options	5.21/5.23	17	299	-	-	317
Treasury shares	5.22	-	-	63	-	63
Issuance of ordinary shares, February 2015	5.21	2,735	42,297	-	-	45,032
Cost of equity transactions, net of tax	5.21	-	(3,338)	-	-	(3,338)
		2,752	39,258	(27,775)	5,655	19,891
Balance as of December 31, 2015		**11,205**	**245,965**	**(92,219)**	**(20,617)**	**144,335**
Balance at 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 options plans:						
+ value of employee services	5.22	-	-	1,429	-	1,429
Treasury shares	5.22	-	-	2	-	2
Issuance of ordinary shares, December 2016	5.21	433	7,067	-	-	7,500
Cost of equity transactions, net of tax	5.21	-	(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**

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 seeks financial returns through focused Research & Development investments in promising product candidates and growing financial contributions from commercial products, striving towards financial self-sustainability.

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 Group has proprietary vaccines in development including candidates against *Clostridium difficile* and Lyme borreliosis.

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 is listed on Euronext-Paris and the Vienna stock exchange, and 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,	
			2016	2015
BliNK Biomedical SAS	FR	Equity method	43.29%	48.22%
Intercell USA, Inc.	US	Full	100%	100%
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%

The closing date for the consolidated financial statements is December 31 of each year. As Valneva Sweden AB has been acquired in February 2015, the subsidiary started to be included in the consolidated financial statements on February 9, 2015.

The Company is incorporated in Lyon, 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 preclinical research on vaccine programs.

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

Valneva Toyama Japan KK (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.

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 (see Note 5.30). Based in Solna (Sweden), Valneva Sweden AB 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 USA Inc. (based in Gaithersburg, United States) is focusing on marketing and sales of Valneva's Japanese encephalitis vaccine to the US military, the US private market, and on international sales through distribution partners.

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

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 & distribution agreement with GSK. Valneva UK Ltd. sells DUKORAL® and IXIARO® in the United Kingdom, as well as MOSKITO GUARD® products.

***

The "Brexit" vote had no significant impact other than FX rate implications on the Group's financial statements as of December 31, 2016. Future events following the vote and their implications on the Group's business will be monitored by Valneva's management.

These consolidated financial statements have been approved and authorized for issue by the Management Board on March 21, 2017.

5.2. Summary of significant accounting policies

FY 2016 and FY 2015 IFRS results are not fully comparable because of the acquisition of the Crucell Sweden AB business in February, 2015 (see Note 5.30). As a result of the acquisition, which included all assets, licenses and privileges related to DUKORAL®, as well as a vaccine distribution business in the Nordics, the comparator period of 2015 includes specific acquisition-related transaction effects, and the results of the acquired business are only included from the acquisition closing date on February 9, 2015.

Taking into consideration the increased importance of the group's financing structure on the cash flow statement in 2016 and going forward, and to provide more relevant information, interest payments are being presented within the cash flow from financing activities instead of the cash flow from operating activities in the condensed consolidated interim cash flow statement. The previous year comparative period was adjusted accordingly.

Upon the request of the French Financial Market Authority, the Company changed the presentation of the “Bargain purchase gain (BPG)” compared to the consolidated annual financial statements for the year ended December 31, 2015 and presents such gain within “Operating profit/(loss)”. Furthermore, EBITDA, as calculated by the Company, has been removed from the face of the income statement. A detailed reconciliation of EBITDA to operating profit/(loss) is presented in Note 5.12.

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 2016 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 5.4.

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 19 Amendment	Defined Benefit Plans: Employee Contributions	February 1, 2015	None.
	Annual improvements to IFRSs 2010-2012 Cycle	February 1, 2015	No material impact.
IFRS 14	Regulatory Deferral Accounts	January 1, 2016	None.
IFRS 10 / IFRS 12 / IAS 28 Amendment	Investment Entities: Applying the Consolidation Exception	January 1, 2016	None.
IAS 1 Amendment	Disclosure Initiative	January 1, 2016	No material impact.
IAS 27 Amendment	Equity Method in Separate Financial Statements	January 1, 2016	None.
IAS 16 / IAS 41 Amendment	Bearer Plants	January 1, 2016	None.
IAS 16 / IAS 38 Amendment	Clarification of Acceptable Methods of Depreciation and Amortization	January 1, 2016	None.
IFRS 11 Amendment	Accounting for Acquisitions of Interests in Joint Operations	January 1, 2016	None.
	Annual improvements to IFRSs 2012-2014 Cycle	January 1, 2016	No material impact.

There are no other IFRSs or IFRIC interpretations effective for the first time for the financial year beginning on or after January 1, 2016 that would be expected to have a material impact on the Group.

(b) New standards, amendments and interpretations issued, but not effective for the financial year beginning January 1, 2016 and not early adopted

Standard - Interpretation - Amendment		Effective Date	Expected Effects
IFRS 9	Financial instruments: Classification and Measurement	January 1, 2018	Change in the accounting treatment of fair value changes in financial instruments previously classified as available for sale.
IFRS 15 / IFRS 15 Clarification	Revenue from Contracts with Customers	January 1, 2018	While for the product sales no material impact is expected, the analysis on other revenue contracts is still ongoing and the impact to be assessed.
IFRS 16	Leases	January 1, 2019	While the building in Vienna is already treated as finance lease, the material impact of this standard will be the lease agreements for the buildings in Sweden and France.
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	The Group needs to give information on changes in liabilities arising from finance activities, including both changes from cash flows and non-cash changes.
IFRS 2 Amendment	Classification and Measurement of Share-based Payment Transactions	January 1, 2018	None.
IFRS 4 Amendment	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance contracts	January 1, 2018	None.
	Annual Improvements to IFRSs 2014-2016 Cycle	January 1, 2018 January 1, 2017	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.
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 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.

For further details, see Note 5.2.11.

5.2.4. Segment reporting

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 adjusted earnings before interest, tax, depreciation and amortization (EBITDA, see Note 5.12) to assess the performance of the operating segments. However, the Management Board also receives information about the segments' revenue on a monthly basis.

For further disclosure, see Note 5.5.

5.2.5. 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 at monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are converted on the dates of the transactions); 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.

5.2.6. 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 program. 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.

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 credit 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.

5.2.7. Leases

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.

5.2.8. Intangible assets

(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 five 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.

5.2.9. 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".

5.2.10. Impairment of non-financial assets

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.

5.2.11. 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.

5.2.12. Loans and receivables

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 (see Note 5.2.15).

5.2.13. Derivative 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.

5.2.14. 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) are stated at standard costs. The variances between the actual costs and the standard costs are calculated in every financial reporting period and allocated to the corresponding category of inventory, so there is no difference between actual and standard costs. It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Provisions for faulty products are included in the value of inventories.

5.2.15. Trade receivables and other assets

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.

5.2.16. Cash, cash equivalents and short-term deposits

Cash includes cash in hand and deposits held at call with banks. Cash equivalents include time 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. Restrictions on the remittance of cash and cash equivalents are described in Note 5.20.

5.2.17. Share capital, share premium and other regulated reserves - Retained earnings and other reserves and net result

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.

5.2.18. Trade payables

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.

5.2.19. 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.

5.2.20. Current and deferred 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.

5.2.21. Employee benefits

(a) Share-based payments

Equity-settled transactions

The Company operates various equity-settled, share-based compensation 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.

(b) Bonus plans

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.

(c) 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.

5.2.22. 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.

5.2.23. Deferred revenues

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.

5.3. Financial risks management

5.3.1. 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.

(a) 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 exposure to other currencies, including the Danish Krone, the Swiss Franc, the New Zealand Dollar and the Japanese Yen, is 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.

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

At December 31, 2016, 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 €475 thousand higher (2015: €446 thousand). Income was more sensitive to fluctuations in the €/GBP exchange rate at the balance sheet date in 2016 than it was in 2015 mainly because of the increased amount of GBP-denominated trade receivables.

At December 31, 2016, 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 €613 thousand higher (2015: €201 thousand). Income was more sensitive to fluctuations in €/CAD exchange rate at the balance sheet date in 2016 than it was in 2015 mainly because of the increased amount of CAD-denominated cash equivalents and trade receivables.

At December 31, 2016, 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 €767 thousand higher (2015: €1,516 thousand), mainly as a result of foreign exchange losses on the translation of SEK-denominated cash equivalents and trade receivables.

At December 31, 2016, 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 €1,986 thousand (2015: €3,251 thousand), 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 2016 than it was in 2015 mainly because of the increased $-denominated cash equivalents and trade receivables.

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 2015 and 2016, the Group's investments at variable rate, as well as the borrowings at variable rate, were denominated in €, SEK, $ 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 €1 thousand (2015: €5 thousand).

(b) 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 5.16.3.

(c) 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, 2015 € 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)	28,083	41,371	16,677	533	86,664
Finance lease liabilities	978	1,956	1,956	25,186	30,076
Trade payables and accruals	10,698	-	-	-	10,698
Tax and employee-related liabilities (2)	4,982	-	-	-	4,982
Other liabilities and provisions (3)	26	-	178	47	251
	44,766	**43,327**	**18,811**	**25,766**	**132,671**
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**

(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.

The fair values as well as the book values of the Group's borrowings are disclosed in Note 5.24. To manage liquidity risk, the Group holds sufficient cash, cash equivalents and short-term deposit balances.

5.3.2. Accounting for hedging activities

At the balance sheet date, the Group does engage in hedging activities.

For more information, see Note 5.16.2.

5.3.3. 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.

5.3.4. 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.

5.4. 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.

5.4.1. 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 (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), 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.

5.4.2. 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.

5.5. Segment information

The 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®).

5.5.1. Income statement aggregated by segment

Income statement aggregated by segment for the year ended December 31, 2015

€ in thousand	Commer-cialized vaccines	Vaccine candidates	Techno-logies and services	Corporate overhead	Total
Revenues and grants	62,052	8,691	12,591	-	83,335
Cost of goods and services	(41,943)	-	(5,020)	-	(46,963)
Research & Development expenses	(3,273)	(19,794)	(2,299)	-	(25,365)
Marketing and distribution expenses	(8,390)	(102)	(629)	-	(9,121)
General and administrative expenses	-	-	-	(14,394)	(14,394)
Other income and expenses, net	-	-	-	(152)	(152)
Amortization and impairment of fixed assets/intangibles	(6,712)	-	(561)	-	(7,273)
Bargain purchase gain	-	-	-	13,183	13,183
Operating profit/(loss)	**1,735**	**(11,204)**	**4,081**	**(1,363)**	**(6,751)**
Finance income/expenses, result from investments in affiliates and income tax	-	-	-	(13,866)	(13,866)
Profit/(loss) for the year	**1,735**	**(11,204)**	**4,081**	**(15,229)**	**(20,617)**

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

€ in thousand	**Commer-cialized vaccines**	**Vaccine candidates**	**Techno-logies 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 and development expenses	(4,675)	(18,815)	(1,100)	-	(24,589)
Marketing and distribution expenses	(15,866)	(48)	(725)	-	(16,639)
General and administrative expenses	-	-	-	(14,412)	(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)	**16,694**	**(46,005)**	**1,653**	**(14,910)**	**(42,568)**
Finance income/expenses, result from investments in affiliates and income tax	-	-	-	(6,616)	(6,616)
Profit/(loss) for the year	**16,694**	**(46,005)**	**1,653**	**(21,526)**	**(49,184)**

5.5.2. 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,**	
	2016	**2015**
France	3,722	3,768
Europe - Without France	40,908	39,147
North America	48,608	33,933
Other	4,654	6,486
Revenues and grants	**97,892**	**83,335**

Non-current assets per geographical segment

€ in thousand	**At December 31,**	
	2016	**2015**
France	6,249	7,050
Europe - Without France	90,946	133,194
North America	803	763
Other	-	-
Non-current assets	**97,998**	**141,007**

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

5.5.3. Information about major customers

Product sales to the largest customers amounted to €22,201 thousand (2015: €30,309 thousand). Collaboration and licensing revenue from the two largest customers amounted to €5,452 thousand (2015: €5,014 thousand) and €3,056 thousand (2015: €4,626 thousand), respectively.

5.6. 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,**	
	2016	**2015**
Impairment (Note 5.13.2)	34,109	-
Employee benefit expense (Note 5.7)	37,311	33,651
Consulting and other purchased services	20,981	22,251
Cost of sales from inventory produced in prior year	11,758	19,724
Depreciation and amortization	11,269	11,442
Building and energy costs	7,401	7,166
License fees and royalties	5,478	2,173
Raw materials and consumables used	3,973	2,036
Advertising costs	3,081	1,763
Supply, office and IT-costs	3,054	1,434
Travel and transportation costs	1,166	1,120
Other expenses	383	357
Cost of goods and services, Research & Development expenses, marketing and distribution expenses, general and administrative expenses and amortization and impairment of fixed assets/intangibles	**139,962**	**103,116**

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

€ in thousand excl. VAT	**Year ended December 31,**			
	2016		**2015**	
	PwC Audit	**Deloitte & Associés**	**PwC Audit**	**Deloitte & Associés**
Certification of accounts	253	165	270	171
Services other than certification of accounts (*)	14	11	37	153
TOTAL	**267**	**176**	**307**	**324**

(*) This line includes fees in connection with diligences directly linked to the audit mission (cancelled with effect as from June 17, 2016).

5.7. Employee benefit expense

Employee benefit expenses include the following:

€ in thousand	**Year ended December 31,**	
	2016	**2015**
Salaries	25,853	23,705
Social security contributions	8,602	7,557
Training and education	474	542
Stock options granted to management and employees	1,428	1,018
Other employee benefits	953	830
Employee benefit expense	**37,311**	**33,651**

During the year 2016, the Group had an average of 417 employees (2015: 390 employees).

5.8. Other income/(expenses), net

€ in thousand	Year ended December 31,	
	2016	2015
Taxes, duties, fees, charges, other than income tax	(145)	(116)
Profit/(loss) on disposal of fixed assets, net	(124)	29
Miscellaneous income/(expenses), net	(229)	(66)
Other income/(expenses), net	**(498)**	**(152)**

5.9. Finance income/(expenses), net

€ in thousand	Year ended December 31,	
	2016	2015
Finance income		
+ Interest income from bank deposits	31	43
+ Interest income from other parties	259	3,053
+ Foreign exchange gains, net	-	1,977
	290	**5,073**
Finance expense		
+ Interest expense to banks and government agencies	(144)	(148)
+ Interest expense on other loans	(5,943)	(9,569)
+ Foreign exchange losses, net	(463)	-
	(6,550)	**(9,716)**
Finance income/(expenses), net	**(6,260)**	**(4,643)**

The net finance result amounted to minus €6,260 thousand for the year 2016 compared to minus €4,643 thousand in the year 2015. This increase in net finance expenses was mainly due to negative exchange rate effects in 2016, as opposed to positive effects 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 outstanding. For more information, see Note 5.24.

5.10. Income tax

5.10.1. Income tax

Income tax is comprised of current and deferred tax.

€ in thousand	Year ended December 31,	
	2016	2015
Current tax	(387)	(549)
Deferred tax	32	325
Income tax	**(356)**	**(224)**

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,**	
	2016	**2015**
Loss before tax	(48,828)	(20,393)
Tax calculated at domestic tax rates applicable to profits in the respective countries	13,367	6,919
Income not subject to tax	1,216	5,085
Expenses not deductible for tax purposes	(644)	(5,350)
Deferred tax asset not recognized	(14,429)	(6,721)
Utilization of previously unrecognized tax losses	69	-
Deemed income	(119)	(117)
Adjustments in respect of prior years	224	6
Effect of change in applicable tax rate	10	5
Exchange differences	(17)	(21)
Income tax of prior years	-	(22)
Minimum income tax	(26)	(2)
Withholding tax	(7)	(7)
Income tax	**(356)**	**(224)**

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

5.10.2. Deferred tax

As of December 31, 2016 the deferred tax asset of €113,444 thousand (2015: €106,002 thousand) are not recognized, as there was no sufficient evidence that adequate taxable profit will be available against which the unused tax losses can be utilize in the foreseeable future.

As of December 31, 2016, the Group has tax losses carried forward of €434,298 thousand (2015: €433,078 thousand), of which €105,522 thousand are related to Valneva SE (2015: €91,469 thousand), €324,727 thousand are related to Valneva Austria GmbH (2015: €318,135 thousand), €3,568 thousand are related to Intercell USA, Inc. (2015: €20,180 thousand) and €481 thousand are related to Valneva Sweden AB (2015: €1,970 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,**	
	2016	**2015**
Deferred tax assets		
+ Deferred tax asset to be recovered after more than 12 months	7,674	18,275
+ Deferred tax asset to be recovered within 12 months	1,618	428
Total deferred tax assets	**9,292**	**18,703**
Deferred tax liabilities		
+ Deferred tax liability to be recovered after more than 12 months	(9,107)	(18,457)
+ Deferred tax liability to be recovered within 12 months	(250)	(357)
Total deferred tax liability	**(9,357)**	**(18,815)**
Deferred tax, net	**(65)**	**(112)**

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

€ in thousand	2016	2015
Beginning of year	(112)	(103)
Exchange differences	14	(6)
Income statement charge	33	(2)
End of year	**(65)**	**(112)**

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

€ in thousand	At December 31,	
	2015	2015
Deferred tax asset from		
Tax losses carried forward	117,902	118,888
Fixed assets	1,431	2,230
Borrowings	1,629	1,478
Other items	1,776	2,109
Non-recognition of deferred tax assets	(113,444)	(106,002)
Total deferred tax assets	**9,292**	**18,703**
Deferred tax liability from		
Fixed assets	(286)	(526)
Intangible assets	(8,870)	(18,130)
Other items	(201)	(159)
Total deferred tax liability	**(9,357)**	**(18,815)**
Deferred tax, net	**(65)**	**(112)**

The income tax rate in the United Kingdom will be 19% from starting April 1, 2017 (substantively enacted). The deferred tax assets and liabilities presented above as at December 31, 2016 have been adjusted for this change in tax rates.

The income tax rate in France will impact 2018 for a positive result under €500 thousand and still remain 33.33% for the positive result over €500 thousand. The new rate will impact full result in 2019. There is no impact for the change in tax rates for the deferred tax assets and liabilities presented as at December 31, 2016.

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.

5.11. 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 5.22).

	Year ended December 31,	
	2016	**2015**
Net loss from continuing operations attributable to equity holders of the Company (€ in thousand)	(49,184)	(20,617)
Weighted average number of outstanding shares	74,658,929	72,740,348
Basic earnings/(losses) from continuing operations per share (€ per share)	**(0.66)**	**(0.28)**

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 5.21 and 5.23) would result in a decrease in the loss per share and is therefore not to be treated as dilutive.

5.12. EBITDA

EBITDA (Earnings before interest, taxes, depreciation and amortization) was calculated by excluding depreciation, amortization and impairment of tangible and intangible assets as well as bargain purchase gain (negative goodwill) from the operating loss.

€ in thousand	**Year ended December 31,**	
	2016	**2015**
Operating loss	(42,568)	(6,751)
Depreciation	4,389	4,437
Amortization	6,880	7,005
Impairment on intangibles and fixed assets	34,109	-
Bargain purchase gain (negative goodwill)	-	(13,183)
EBITDA	**2,810**	**(8,492)**

5.13. Intangible assets and goodwill

€ in thousand	Software	Acquired R&D techno-logy and projects	Develop ment costs	Advance payments	Total
January 1, 2015					
Cost	2,420	113,608	16,698	105	132,831
Accumulated amortization and impairment	(2,127)	(13,474)	(12,026)	-	(27,627)
Net book value	**294**	**100,134**	**4,672**	**105**	**105,204**
December 31, 2015					
Opening net book value	294	100,134	4,672	105	105,204
Exchange rate differences	3	296	38	-	336
Acquisition of subsidiary (Note 5.30)	-	2	-	-	2
Additions	136	83	337	65	622
Reclassification	105	-	-	(105)	-
Disposals	(2)	-	(62)	-	(64)
Amortization charge	(220)	(6,494)	(818)	-	(7,532)
Impairment charge	-	-	-	-	-
Closing net book value	**315**	**94,021**	**4,167**	**65**	**98,567**
December 31, 2015					
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
Reclassification	-	-	-	-	-
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**

5.13.1. Significant intangible assets

Intangible assets primarily relate to in-process R&D projects, the Japanese encephalitis vaccine and in 2015 the *Pseudomonas* vaccine.

During the second quarter of the 2016, Valneva announced that the Phase II/III trial results of its *Pseudomonas aeruginosa* vaccine candidate did not confirm the all-cause mortality reduction observed in previous studies. While the trial confirmed good immunogenicity and an acceptable safety profile, all-cause mortality (primary endpoint) and overall survival (secondary endpoint) did not differ between the VLA43 treatment group and the placebo group. The Company has discontinued the program.

5.13.2. 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 11.53% to 11.73% (2015: 11.66% to 11.83% per annum).

The discount rate of 11.53% to 11.73% (2015: 11.66% to 11.83% per annum) is based on 1.04% risk-free rate (2015: 1.58%), 7.00% market risk premium (2015: 7.00%), 0.99% to 1.35% country risk premium (2015: 0.93% to 1.16%), 0.71% to 0.84% currency risk (2015: 0.49% to 0.52%), a beta of 1.44 (2015: 1.44) and a peer group related equity-capital ratio.

The long range business model covers a period of 19 years 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.

In 2016, the *Pseudomonas* intangible asset, amounting to €34,132 thousand, has been fully impaired as a result of negative Phase II study results of the *Pseudomonas aeruginosa* vaccine candidate. There was no impairment of in-process Research & Development projects in the year 2015.

5.13.3. 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 11.53% to 11.73% (2015: 11.66% to 11.83%). An increase in the discount rate of 0.61 basis points would trigger an impairment loss (2015: 2.70 basis points). Furthermore, an increase in the discount rate of one percentage point would result in an impairment loss of €2.2 million (2015: none).

The result of the acquired Research & Development projects 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 one of the acquired Research & Development projects 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 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 €2.9 million additional impairment loss

(2015: none). A reduction of expected revenues/royalties/milestone payments of 5.30% (2015: 25.50%) would trigger an impairment loss.

5.14. Property, plant and equipment

€ 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, 2015						
Cost	51,899	18,072	1,386	1,305	-	72,661
Accumulated depreciation and impairment	(13,765)	(15,186)	(1,254)	(846)	-	(31,050)
Net book value	**38,134**	**2,886**	**132**	**458**	**-**	**41,611**
December 31, 2015						
Opening net book value	38,134	2,886	132	458	-	41,611
Exchange rate differences	215	106	4	10	34	369
Acquisition of subsidiary (Note 5.30)	202	1,254	50	32	1,130	2,669
Additions	56	985	93	106	540	1,780
Reclassification	38	655	-	2	(696)	-
Disposals	(19)	(23)	(1)	-	-	(43)
Depreciation charge	(2,297)	(1,412)	(96)	(140)	-	(3,945)
Impairment charge	-	-	-	-	-	-
Closing net book value	**36,329**	**4,452**	**182**	**469**	**1,009**	**42,439**
December 31, 2015						
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)
Impairment charge	-	-	-	-	-	-
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)
Net book value	**34,162**	**3,967**	**229**	**536**	**146**	**39,039**

Depreciation and amortization expenses of €1,429 thousand (2015: €1,346 thousand) were charged to Research & Development expenses, €47 thousand (2015: €20 thousand) were charged to marketing and distribution expenses and €117 thousand (2015: €110 thousand) were charged to general and administrative expenses.

Operating property leases amounting to €2,497 thousand (2015: €2,170 thousand) 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, 2015		
Cost	34,795	34,795
Accumulated depreciation	(5,919)	(5,919)
Net book value	**28,876**	**28,876**

€ 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**

5.15. Equity-accounted investees

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

Name of associate	Place of business	Measurement method	% of ownership interest at December 31,	
			2016	**2015**
BliNK Biomedical SAS	FR	Equity method	43.29%	48.22%

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.

5.15.1. 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,	
	2016	2015
BliNK Biomedical SAS		
Non-current assets	6,478	12,469
Current assets	3,761	3,833
Non-current liabilities	1,999	1,999
Current liabilities	1,934	1,900
Revenue	1,482	1,054
Profit/(loss) from continuing operations	(9,232)	(3,172)
Total comprehensive income	(7,750)	(2,117)

5.15.2. Reconciliation to the carrying amount

€ in thousand	At December 31,	
	2016	2015
Net assets of associate	6,306	12,403
Proportion of the Company's ownership interest in BliNK Biomedical SAS	43.29%	48.22%
Company's share in net assets	2,730	5,948
Additional investment - Convertible bonds	-	1,999
	2,730	7,946
Impairment	(2,730)	(7,946)
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 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. BliNK Biomedical SAS is private company and its shares are not listed on a stock exchange.

5.16. Financial instruments

5.16.1. Financial instruments by category

December 31, 2015 € in thousand	Loans and receivables	Total
Assets as per balance sheet		
Trade receivables	15,754	15,754
Other assets (1)	31,073	31,073
Cash, cash equivalents and short-term deposits	42,567	42,567
Assets	**89,394**	**89,394**

(1) 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) (2)	-	73,039	73,039
Finance lease liabilities	-	29,217	29,217
Trade payables and accruals	-	10,698	10,698
Tax and employee-related liabilities (3)	-	4,982	4,982
Other liabilities and provisions (4)	2	249	251
Liabilities	**2**	**118,183**	**118,185**

(2) 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.
(3) 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.
(4) Deferred income and provisions are excluded from the other liabilities and provisions balance, as this analysis is required only for financial instruments.

December 31, 2016 € in thousand	Loans and receivables	Total
Assets as per balance sheet		
Trade receivables	16,912	16,912
Other assets (1)	12,223	12,017
Cash, cash equivalents and short-term deposits	42,180	42,180
Assets	**71,315**	**71,110**

(1) 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) (2)	-	54,131	54,131
Finance lease liabilities	-	28,372	28,372
Trade payables and accruals	-	7,808	7,808
Tax and employee-related liabilities (3)	-	5,229	5,229
Other liabilities and provisions (4)	2	262	264
Liabilities	**2**	**95,802**	**95,804**

(2) 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.
(3) 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.
(4) Deferred income and provisions are excluded from the other liabilities and provisions balance, as this analysis is required only for financial instruments.

5.16.2. 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.

- 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, 2015 **€ in thousand**	**Level 2**	**Total**
Other liabilities and provisions		
Derivative financial instruments	2	2
Other liabilities and provisions	**2**	**2**

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

At December 31, 2016, the fair value of these swaps was not material.

Since 2010, the Company has been covered by interest rate hedging contracts through Groupe Grimaud.

5.16.3. 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,**	
	2016	**2015**
Trade receivables		
Receivables from governmental institutions	5,214	284
AAA	-	307
A	1,799	5,280
Counterparties without external credit rating	9,899	9,884
Trade receivables	**16,912**	**15,754**
Other assets		
Receivables from governmental institutions	-	189
AAA	474	19,159
A	240	237
Counterparties without external credit rating or rating below A	11,509	11,488
Other assets	**12,223**	**31,073**
Cash, cash equivalents and short-term deposits		
AA	1,921	357
A	24,722	25,178
Counterparties without external credit rating or rating below A	15,538	17,032
Cash, cash equivalents and short-term deposits	**42,180**	**42,567**

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.

5.17. Inventories

€ in thousand	At December 31,	
	2016	2015
Raw materials	1,853	1,715
Work in progress	13,302	17,322
Finished goods	7,546	7,651
Inventory	**22,701**	**26,687**

The cost of inventories recognized as an expense and included in the position "Cost of goods and services" amounted to €32,821 thousand (2015: €40,890 thousand). Thereof an expense of €6,555 thousand (2015: €17,377 thousand) related to write-downs of inventory to the net realizable value.

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

5.18. Trade receivables

Trade receivables and other assets include the following:

€ in thousand	At December 31,	
	2016	2015
Trade receivables	16,912	15,754
Less: provision for impairment of receivables	-	-
Trade receivables, net	**16,912**	**15,754**

During the years 2016 and 2015, no material impairment losses have been recognized. The amount of trade receivables past due in 2016 amounted to €1,074 thousand (2015: €1,361 thousand).

The fair values of trade receivables equal their book values.

5.19. Other assets

"Other assets" include the following:

€ in thousand	At December 31,	
	2016	2015
Prepaid expenses	1,652	1,876
Non-current financial assets	426	403
Other receivables	25,013	46,892
	27,092	**49,172**
Less: non-current portion	(17,688)	(17,797)
Current portion	**9,404**	**31,374**

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. The decrease compared to the previous year mainly results from a receivable on balance in 2015 from Johnson & Johnson amounting to €18,279 thousand in connection with the acquisition of Crucell Sweden AB (see Note 5.30).

5.20. Cash, cash equivalents and short-term deposits

Cash and cash equivalents include cash-at-bank and in-hand, as well as short-term bank deposits with a maturity of less than 3 months.

As of December 31, 2016, cash and cash equivalents include €6,913 thousand (December 31, 2015: €660 thousand) for which there are restrictions on remittances. The increase in 2016 relates mainly to payments for a loan, which were due in January 2017.

€ in thousand	**At December 31,**	
	2016	**2015**
Cash in hand	4	7
Cash at bank	34,262	38,174
Short-term bank deposits (maturity less than 3 months)	1,002	3,726
Restricted cash	6,913	660
Cash, cash equivalents and short-term deposits	**42,180**	**42,567**

5.21. Share capital, share premium and other regulated reserves

€ in thousand (except numbers of shares)	**Number of shares**	**Share capital**	**Share premium**	**Other regulated reserves (1)**	**Total share capital, share premium and other regulated reserves**
Balance at January 1, 2015	**56,351,833**	**8,453**	**153,887**	**52,820**	**215,160**
Employee stock option plan:					
+ exercise of stock options and full vesting of free shares	115,874	17	299	-	317
+ issuance of ordinary shares, February 2015	18,231,466	2,735	42,297	-	45,032
+ cost of equity transactions, net of tax	-	-	(3,338)	-	(3,338)
Balance at December 31, 2015	**74,699,173**	**11,205**	**193,145**	**52,820**	**257,170**
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**

(1) Regulated non-distributable reserve relating to the merger with Intercell AG.

Increases of share capital

The Company issued 2,884,615 new ordinary shares in connection with the investment by two funds of MVM Life Science Partners LLP in the Company. The investment consists of a combined purchase of new shares together with a tranche of shares from existing undisclosed shareholders of the Company. The transaction was effective on December 14, 2016 and resulted in an increase of the share capital of €433 thousand and an increase of the share premium of €7,067 thousand.

Conditional and authorized capital

On December 31, 2016, the Company had 19,870,481 shares of conditional capital in connection with:

+ the possible exercise of existing stock options;
+ the final grant of free ordinary shares;
+ 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;

(see Note 5.23)

Pursuant to resolution No. 27 of the General Meeting held on June 30, 2016, 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 €4,500 thousand 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.

This program, which expands the Group's existing financing capabilities, represents an integral part of the financing tools available to the Company and will be used according to Valneva's needs.

The Equity Line has been implemented by way of issuance of 5,474,633 equity warrants subscribed by Crédit Agricole CIB, which are exercisable, upon Valneva's request, in several tranches over the next 24 months (or until June 2018). Should the Company trigger the exercise of the warrants, the newly issued shares would be subsequently sold on the market by Crédit Agricole CIB.

For each tranche, the subscription price of the shares issued upon exercise of the equity warrants will represent a 5% discount to the volume weighted average price of the ordinary Valneva SE share for the three trading days preceding the pricing date.

5.22. Retained earnings and other reserves

€ in thousand	Other comprehensive income	Treasury shares	Retained earnings	Total
Balance at January 1, 2015	**(960)**	**(1,072)**	**(62,413)**	**(64,444)**
Currency translation differences	(2,584)	-	-	(2,584)
Income appropriation	-	-	(26,272)	(26,272)
Employee stock option plan:				
+ value of employee services	-	-	1,018	1,018
Purchase/sale of treasury shares	-	63	-	63
Balance at December 31, 2015	**(3,544)**	**(1,009)**	**(87,667)**	**(92,219)**
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)**

The Company has not received or paid a dividend to its shareholders in the years ended December 31, 2016 and 2015.

5.23. Share-based payments

5.23.1. Stock option plans

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:

	2016			2015		
	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	1,587,700	1,707,554	3.48	955,340	1,072,860	3.07
Granted	584,250	584,250	2,71	712,000	712,000	3.92
Adjusted	-	-	-	-	97,998	-
Forfeited	(131,800)	(168,383)	3.02	(78,940)	(95,504)	3.17
Exercised	-	-	-	(700)	(79,800)	1.80
Outstanding at year end	**2,040,150**	**2,123,421**	**3.31**	**1,587,700**	**1,707,554**	**3.48**
Exercisable at year end	420,950	462,935		448,725	524,439	

No stock options have been exercised in 2016 (2015: 700).

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

Expiry date	Exercise price in € per share	Number of options at December 31, 2016	2015
2020	5.19	7,000	7,000
2023	2.919[(1)]	827,900	882,950
2025	3.92	655,750	697,500
2026	2.71	549,500	-
		2,040,150	**1,587,700**

(1) Adjusted in accordance with French law requirements.

In 2016, 584,250 stock options were granted (2015: 712,000). The weighted average grant date fair value of options granted during the year 2016 was €0.80 (2015: €1.06). The fair value of the granted options was determined using the Black Scholes valuation model. The significant inputs into the models were:

	2016	2015
Expected volatility (%)	49.18	41.76
Expected vesting period (term in years)	2.00 – 4.00	2.00 – 4.00
Risk-free interest rate (%)	(0.67) – (0.61)	(0.26) – (0.12)

5.23.2. 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	
	2016	**2015**
Outstanding at January 1	1,000	39,000
Granted	-	-
Forfeited	-	(3,000)
Definitively granted	-	(35,000)
Outstanding at year end	**1,000**	**1,000**

5.23.3. Equity warrants

In 2011 and 2015, the Company granted equity warrants to members of the Supervisory Board. The warrants granted in 2011 were exercisable in four equal portions after one, two, three and four years. The warrants granted in 2015 are exercisable in four equal portions after 2, 17, 31 and 45 months. The subscription price of the equity warrants granted in the year 2011 amounts to €5.17 per share. The subscription price of the equity warrants granted in the year 2015 amounts to €3.92 per share.

Changes in the equity warrants outstanding are as follows:

	Number of equity warrants	
	2016	**2015**
Outstanding at January 1	153,000	5,625
Granted	-	153,000
Forfeited	(38,250)	(5,625)
Outstanding at year end	**114,750**	**153,000**

5.23.4. 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, members of the Executive Committee. 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.

5.24. Borrowings

Borrowings of the Group at yearend include the following:

€ in thousand	**At December 31,**	
	2016	**2015**
Non-current		
Bank borrowings	1,586	2,812
Other loans	32,438	45,384
Finance lease liabilities	27,520	28,372
	61,544	**76,568**
Current		
Bank borrowings	1,274	2,885
Other loans	18,833	21,957
Finance lease liabilities	851	845
	20,959	**25,687**
Total borrowings	**82,503**	**102,255**

The maturity of non-current borrowings is as follows:

€ in thousand	**At December 31,**	
	2016	**2015**
Between 1 and 2 years	31,524	26,424
Between 2 and 3 years	3,018	21,803
Between 3 and 4 years	1,345	1,537
Between 4 and 5 years	1,608	1,345
Over 5 years	24,049	25,460
Non-current borrowings	**61,544**	**76,568**

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

€ in thousand	**At December 31,**	
	2016	**2015**
EUR	38,609	61,710
USD	43,894	40,546
Total borrowings	**82,503**	**102,255**

5.24.1. Finance lease liabilities

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

5.24.2. Bank borrowings and other loans secured

As at December 31, 2016, €10,155 thousand 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 and 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 8.57% at year-end 2016:

€ in thousand	At December 31, 2016	
	Carrying amounts	Fair values
Bank borrowings	2,784	2,657
Other loans (excluding the other loans described in Note 5.24.3)	7,371	6,251
Guaranteed, secured, or pledged borrowings	**10,155**	**8,908**

5.24.3. 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 will pay 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, 2016, the book values of the assets pledged amounted to €231,315 thousand (2015: €267,019 thousand).

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

€ in thousand	2016	2015
Balance at January 1	**40,546**	**26,105**
Proceeds of issue	-	9,985
Transaction costs	-	(91)
Accrued interest and royalty expense	5,351	4,061
Payment of interest, royalties and loan	(3,736)	(2,589)
Foreign exchange valuation	1,734	3,074
Balance at December 31	**43,894**	**40,546**
Less: non-current portion	(27,304)	(39,691)
Current portion	**16,591**	**854**

In connection with the acquisition of Crucell Sweden AB and its related assets the Group entered into a €15 million term loan facility from funds managed by Athyrium Capital Management, LLC. The loan originally extended over a 5 year period and carried a fixed yearly interest rate of 11% payable in cash on a quarterly basis. The loan was secured by collateral on the assets acquired in the course of the above mentioned acquisition. In order to reflect the business changes resulting from the adjustments to the DUKORAL® label in Canada in December 2015, the parties agreed on an early repayment of the loan which was made in January 2016.

At December 31, 2016 the loan is included in the balance sheet item "Borrowings" as follows:

€ in thousand	2016	2015
Balance at January 1	**18,184**	**-**
Proceeds of issue	-	15,000
Transaction costs	-	(390)
Accrued interests and prepayment fees	156	4,985
Payment of interest, prepayment fees and loan	(18,340)	(1,410)
Balance at December 31	**-**	**18,184**
Less: non-current portion	-	-
Current portion	**-**	**18,184**

In July 2016, Valneva entered into a finance contract with the European Investment Bank ("**EIB**") 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 Valneva's material subsidiaries, mainly ranking behind securities in connection with Valneva's existing indebtedness. Until December 31, 2016, no drawings have been made under the EIB loan facility, which has been granted at no commitment fee and will carry a favorable fixed interest rate on the amounts drawn. Transaction costs in connection with this finance contract amounted to € 232 thousands in 2016 and were recorded as prepaid expenses in order to be recognized pro rata to the outstanding principal when drawn.

5.25. Trade payables and accruals

Trade payables and accruals include the following:

€ in thousand	At December 31,	
	2016	**2015**
Trade payables	2,554	6,325
Accrued expenses	5,255	4,372
	7,808	**10,698**
Less: non-current portion	-	-
Current portion	**7,808**	**10,698**

5.26. Tax and employee-related liabilities

€ in thousand	At December 31,	
	2016	**2015**
Social security and other taxes	1,894	1,907
Employee-related liabilities	5,229	4,982
	7,123	**6,889**
Less: non-current portion	-	-
Current portion	**7,123**	**6,889**

5.27. Other liabilities and provisions

€ in thousand	At December 31,	
	2016	**2015**
Deferred income	7,382	9,467
Other financial liabilities	264	251
Provisions for employee commitments	278	188
Other liabilities	38	53
Other provisions	810	514
	8,772	**10,474**
Less: non-current portion	(6,333)	(7,810)
Current portion	**2,439**	**2,664**

5.27.1. Deferred Income

€ in thousand	At December 31,	
	2016	**2015**
Arising from collaboration and licensing agreements	6,879	8,681
Arising from government grants	502	785
	7,382	**9,467**
Less: non-current portion	(5,805)	(7,379)
Current portion	**1,577**	**2,087**

5.27.2. Provisions for employee commitments

(a) Assumptions used

	At December 31,	
	2016	**2015**
Discount rate	1.40%	1.90%
Salary increase rate	2.00%	2.00%
Turnover rate	0% - 33.24%	0% - 45.90%
Social security rate	47.00% - 48.00%	47.00% - 48.00%
Average remaining lifespan of employees (in years)	23	20

(b) Changes in defined benefit obligation

Present value of obligation development:

€ in thousand	2016	2015
Balance at January 1	**189**	**163**
Current service cost	35	2
Actuarial losses	55	23
Balance at December 31	**278**	**189**

5.27.3. Other provisions

€ in thousand	At December 31,	
	2016	**2015**
Non-current	-	-
Current	810	514
Provisions	**810**	**514**

	2016	2015
Balance at January 1	**514**	**135**
Charged to the income statement:		
+ Additional provision	608	502
+ Reversed provision	-	(113)
Used provisions	(312)	(11)
Exchange differences	-	1
Balance at December 31	**810**	**514**

The position includes a remaining amount of €226 thousand from a provision for restructuring costs recorded in 2015, in connection with the acquisition of the production site in Solna, Sweden. Furthermore, a provision for restructuring costs of €320 thousand was added in 2016 for the site in Nantes, France, in connection with an effort to reduce the Research & Development expenses of the Company. Finally, a provision of €250 thousand was recorded for expected legal and settlement costs under a court proceeding relating to the Intercell AG/Vivalis SA merger.

5.28. Cash used in operations

The following table shows the adjustments to reconcile net loss to net cash used in operations:

€ in thousand	**Note**	**Year ended at December 31,**	
		2016	**2015**
Loss for the year		(49,184)	(20,617)
Adjustments for			
+ Depreciation and amortization	5.13/5.14	11,269	11,442
+ Impairment fixed assets/intangibles	5.13	34,109	-
+ Share-based payments	5.14	1,428	1,018
+ Income tax	5.23	357	238
+ Profit/(loss) from disposal of fixed assets	5.10	124	(29)
+ Bargain purchase gain	5.8	-	(13,183)
+ Share of (profit)/loss from associates	5.30	-	8,998
+ Other non-cash income/expense	5.15	1,466	1,651
+ Interest income		(290)	(3,096)
+ Interest expense	5.9	6,087	9,716
+ Changes in other long-term assets and liabilities		(1,361)	(1,229)
Changes in working capital (excluding the effects of acquisition and exchange rate differences on consolidation):			
+ Inventory		2,950	7,537
+ Trade and other receivables		2,361	(3,235)
+ Trade and other payables and provisions		(2,280)	(18,887)
Cash used in operations		**(7,037)**	**(19,674)**

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,	
	2016	2015
Net book value	126	99
Profit/(loss) on disposal of fixed assets	(124)	29
Proceeds from disposal of fixed assets	**1**	**128**

5.29. Commitments and contingencies

(a) Capital commitments

There were no capital expenditure contracted for at December 31, 2016 and December 31, 2015.

(b) Operating lease commitments

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

€ in thousand	At December 31,	
	2016	2015
Not later than 1 year	2,226	2,248
Later than 1 year and not later than 5 years	7,012	8,135
Later than 5 years	539	596
Operating lease commitments	**9,778**	**10,980**

The Group leases office space, cars and equipment.

(c) Other commitments and guarantees

The other commitments consisted of:

€ in thousand	At December 31,	
	2016	2015
Loans and grants	1,984	2,607
Royalties	15,643	16,278
Other	21	34
Other commitments	**17,648**	**18,919**

The guarantees and pledges consisted of:

€ in thousand	At December 31,	
	2016	2015
Equipment pledge	257	429
Pledges on consolidate investments	231,315	324,292
Guarantees for non-consolidated investments	300	300
Guarantees and pledges	**231,872**	**325,021**

In connection with the foundation of BliNK Biomedical SAS, Valneva SE issued a Guarantee and Comfort Letter to SC World Inc. (Japan); in case BliNK Biomedical SAS fails to pay specific milestones under an Asset Sale and Purchase Agreement, the Company guarantees to pay up to an amount of €300 thousand.

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 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.

5.30. 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

5.31. Related-party transactions

5.31.1. 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,	
	2016	2015
Purchases of services:		
+ Operating activities	5	7
Purchases of services	**5**	**7**

5.31.2. Key management compensation

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

€ in thousand	Year ended December 31,	
	2016	2015
Salaries and other short-term employee benefits	1,530	1,379
Other long-term benefits	24	24
Share-based payments (expense of the year)	795	498
Key management compensation	**2,349**	**1,901**

5.31.3. Supervisory Board compensation

The aggregate compensation of the members of the Company's Supervisory Board amounted to €251 thousand (2015: €250 thousand). In the years 2011 and 2015, the Company granted equity warrants to members of the Supervisory Board.

For more information, see Note 5.23.3.

5.32. 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 21, 2017.

B. STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

PricewaterhouseCoopers Audit

63, rue de Villiers
92208 Neuilly-sur-Seine

Deloitte & Associés
Les Docks - Atrium 10.4
10, place de la Joliette
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

Year ended December 31, 2016

PricewaterhouseCoopers Audit

63, rue de Villiers
92208 Neuilly-sur-Seine

Deloitte & Associés
Les Docks - Atrium 10.4
10, place de la Joliette
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

Year ended December 31, 2016

This is a free translation into English of the statutory auditors' report on the consolidated financial statements issued in French and is provided solely for the convenience of English speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures.

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

To the Shareholders,

In accordance with our appointment as Statutory Auditors at your Annual General Meeting, we hereby report to you for the year ended December 31, 2016 on:

- the audit of the accompanying consolidated financial statements of VALNEVA,
- the justification of our assessments;
- the specific verification required by law.

The consolidated financial statements have been approved by the Management Board. Our role is to express an opinion on these financial statements, based on our audit.

I. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, using sample testing techniques or other selection methods, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 of December 31, 2016 and of the results of its operations for the year then ended in accordance with IFRSs as adopted by the European Union.

Without qualifying our opinion, we draw your attention to the matter set out in Note 5.2 “Summary of significant accounting policies” to the consolidated financial statements, which discloses the changes operated in the income statement as of December 31, 2015 from the previous version of the consolidated financial statements issued in the prior year and to the matter set out in Note 5.13 “Intangible assets and Goodwill” to the consolidated financial statements regarding the €34.1 million impairment charges related to the Pseudomonas development project.

II. Justification of our assessments

In accordance with Article L. 823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters.

Intangible assets, the net amounts of which total €59 million as of December 31, 2016, have been subject to impairment tests in accordance with the methods set forth in the Notes 5.2.8 “Intangible assets” and 5.2.10 “Impairment of non-financial assets” to the consolidated financial statements. We have examined the methods used to perform these tests based on value in use and reviewed the consistency of the assumptions used with forecasts taken from the strategic plans prepared for each of the activities or divisions under the Group’s control. We have also verified that the Note 5.13 “Intangible assets and Goodwill” to the consolidated financial statements provides appropriate disclosure.

These assessments were performed as part of our audit approach for the consolidated financial statements taken as a whole and contributed to the expression of our opinion in the first part of this report.

III. Specific verification

In accordance with professional standards applicable in France, we have also verified, pursuant to the law, the information relating to the Group given in the management report.

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

Neuilly-sur-Seine and Marseille, March 21, 2017

The Statutory Auditors

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