# Consolidated Financial Statements

# VALNEVA SE, Lyon

*December 31, 2013*

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# *FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES, FINANCIAL POSITION, AND PROFIT & LOSSES*

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# *FY 2013 CONSOLIDATED FINANCIAL STATEMENTS*

## 1. CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

### CONSOLIDATED INCOME STATEMENT

| EUR IN THOUSANDS (EXCEPT PER SHARE AMOUNTS) | NOTE | YEAR ENDED DECEMBER 31, | |
|---|---|---|---|
| | | *2013* | *2012* |
| *Product sales* | 5 | 23,239 | - |
| *Revenues from collaborations and licensing* | 5 | 7,206 | 3,431 |
| **Revenues** | | **30,445** | **3,431** |
| *Grant income* | | 5,546 | 2,478 |
| **Revenues and Grants** | | **35,991** | **5,909** |
| *Cost of goods sold* | 6/7 | (16,508) | - |
| *Research and development expenses* | 6/7 | (21,423) | (11,095) |
| *General, selling and administrative expenses* | 6/7 | (14,720) | (5,565) |
| *Other income and expenses, net* | 8 | 1,157 | (292) |
| *Amortization of intangible assets* | 6/7 | (5,353) | (1,790) |
| **OPERATING LOSS** | | **(20,856)** | **(12,833)** |
| *Finance income* | 9 | 200 | 477 |
| *Finance expenses* | 9 | (2,969) | (533) |
| **LOSS BEFORE INCOME TAX** | | **(23,625)** | **(12,889)** |
| *Income tax* | 10 | (348) | (96) |
| **LOSS FROM CONTINUING OPERATIONS** | | **(23,973)** | **(12,985)** |
| *Loss from discontinued operations* | 20 | (137) | (1,856) |
| **LOSS FOR THE YEAR** | | **(24,110)** | **(14,841)** |
| **Losses per share** *for loss from continuing operations attributable to the equity holders of the Company, expressed in EUR per share (basic and diluted)* | 11 | (0.61) | (0.61) |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| EUR IN THOUSANDS | NOTE | YEAR ENDED DECEMBER 31, | |
|---|---|---|---|
| | | *2013* | *2012* |
| **Loss for the year** | | **(24,110)** | **(14,841)** |
| **Other comprehensive income/(loss)** | | | |
| **Items that are or may be reclassified subsequently to profit or loss** | | | |
| *Currency translation differences* | 22 | 1,636 | (22) |
| **Total items that are or may be reclassified subsequently to profit or loss** | | **1,636** | **(22)** |
| **Other comprehensive income/(loss) for the year, net of tax** | | **1,636** | **(22)** |
| **TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE COMPANY** | | **(22,474)** | **(14,863)** |

## 2. CONSOLIDATED BALANCE SHEET

| EUR IN THOUSANDS | NOTE | AT DECEMBER 31, | |
|---|---|---|---|
| | | *2013* | *2012* |
| **ASSETS** | | | |
| **Non-current assets** | | **191,045** | **38,446** |
| *Intangible assets and Goodwill* | 13 | 125,403 | 17,371 |
| *Property, plant and equipment* | 12 | 45,067 | 12,091 |
| *Other non-current assets* | 18 | 20,575 | 8,984 |
| **Current assets** | | **63,346** | **15,083** |
| *Inventories* | 16 | 4,819 | - |
| *Trade receivables* | 17 | 7,570 | 1,047 |
| *Other current assets* | 18 | 10,791 | 1,979 |
| *Current financial assets* | 15 | 3,658 | 11,225 |
| *Cash and cash equivalents* | 19 | 36,509 | 832 |
| **Assets held for sale** | | **-** | **137** |
| **TOTAL ASSETS** | | **254,391** | **53,667** |
| **EQUITY** | | | |
| **Capital and reserves attributable to the Company's equity holders** | | **144,111** | **26,194** |
| *Share capital* | 21 | 8,206 | 3,219 |
| *Share premium and other regulated reserves* | 21 | 198,322 | 62,414 |
| *Retained earnings and other reserves* | 22 | (38,308) | (24,598) |
| *Net result for the period* | | (24,110) | (14,841) |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | **82,181** | **17,664** |
| *Borrowings* | 24 | 64,902 | 5,073 |
| *Other non-current liabilities and provisions* | 27 | 17,279 | 12,592 |
| **Current liabilities** | | **28,100** | **9,808** |
| *Borrowings* | 24 | 6,381 | 1,641 |
| *Trade payables and accruals* | 25 | 11,388 | 1,896 |
| *Tax and employee-related liabilities* | 26 | 5,096 | 1,786 |
| *Other current liabilities and provisions* | 27 | 5,235 | 4,485 |
| **TOTAL LIABILITIES** | | **110,280** | **27,472** |
| **TOTAL EQUITY AND LIABILITIES** | | **254,391** | **53,667** |

## 3. CONSOLIDATED CASH FLOW STATEMENT

| EUR IN THOUSANDS | NOTE | YEAR ENDED DECEMBER 31, | |
|---|---|---|---|
| | | *2013* | *2012* |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| *Loss for the year* | | (24,110) | (14,841) |
| *Depreciation and amortization* | 12/13 | 9,056 | 4,784 |
| *Impairment fixed assets/intangibles* | 12/13 | 92 | - |
| *Share-based payments* | 21 | 179 | 234 |
| *Income tax* | 10 | 348 | - |
| *Other adjustments for reconciliation to cash used in operations* | 28 | (1,739) | (3,430) |
| *Changes in working capital* | 28 | (3,311) | (144) |
| **Cash used in operations** | **28** | **(19,485)** | **(13,397)** |
| *Interest paid* | 9 | (1,121) | - |
| *Income tax paid* | 10 | (296) | (47) |
| **Net cash used in operating activities** | | **(20,903)** | **(13,444)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| *Acquisition of other businesses, net cash acquired* | 30 | 11,615 | (2,761) |
| *Purchases of property, plant and equipment* | 12/28 | (1,375) | (2,485) |
| *Proceeds from sale of property, plant and equipment* | 28 | 3,144 | 6 |
| *Purchases of intangible assets* | 13 | (1,899) | (13) |
| *Proceeds from sale of financial assets* | 15 | 10,037 | 9,423 |
| *Purchases of financial assets* | | - | (60) |
| *Interest received* | | 332 | 224 |
| **Net cash generated from investing activities** | | **21,855** | **4,334** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| *Proceeds from issuance of common stock, net of costs of equity transactions* | 21 | 37,621 | 133 |
| *Purchase of treasury shares* | | (684) | - |
| *Proceeds from borrowings* | 24 | 27,646 | 1,500 |
| *Repayment of borrowings* | 24 | (29,893) | (1,461) |
| **Net cash generated from financing activities** | | **34,689** | **172** |
| **Net change in cash and cash equivalents** | | **35,641** | **(8,938)** |
| *Cash at beginning of the year* | | 832 | 9,792 |
| *Exchange gains/(losses) on cash* | | 36 | (23) |
| **Cash at end of the year** | **19** | **36,509** | **832** |
| **Cash, cash equivalents, and financial assets at end of the year** | | **40,167** | **12,056** |

## 4. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| EUR IN THOUSANDS | NOTE | SHARE CAPITAL | SHARE PREMIUM AND OTHER REGULATED RESERVES | RETAINED EARNINGS AND OTHER RESERVES | NET RESULT | TOTAL EQUITY |
|---|---|---|---|---|---|---|
| **Balance as of January 1, 2012** | | **3,168** | **62,117** | **(20,420)** | **(4,419)** | **40,446** |
| *Total comprehensive loss* | | - | - | (22) | (14,841) | (14,863) |
| *Income appropriation* | | - | - | (4,419) | 4,419 | - |
| *Employee share option plan:* | | | | | | |
| *- value of employee services* | 21/23 | - | - | 234 | - | 234 |
| *- exercise of share options* | 21/23 | 51 | 297 | - | - | 348 |
| *Treasury shares* | 22 | - | - | 29 | - | 29 |
| | | 51 | 297 | (4,178) | (10,422) | (14,252) |
| **Balance as of December 31, 2012** | | **3,219** | **62,414** | **(24,598)** | **(14,841)** | **26,194** |
| **Balance as of January 1, 2013** | | **3,219** | **62,414** | **(24,598)** | **(14,841)** | **26,194** |
| *Total comprehensive loss* | | - | - | 1,636 | (24,110) | (22,474) |
| *Income appropriation* | | - | - | (14,841) | 14,841 | - |
| *Employee share option plan:* | | | | | | |
| *- value of employee services* | 21/23 | - | - | 179 | - | 179 |
| *- exercise of share options* | 21/23 | 37 | 307 | - | - | 343 |
| *Treasury shares* | 22 | | | (684) | - | (684) |
| *Issuance of common stock (merger with Intercell see note 30, May 2013)* | 21 | 2,676 | 100,599 | - | - | 103,275 |
| *Issuance of common stock, July 2013* | 21 | 2,275 | 37,913 | - | - | 40,188 |
| *Cost of equity transactions, net of tax* | 21 | - | (2,910) | - | - | (2,910) |
| | | 4,987 | 135,909 | (13,710) | (9,269) | 117,917 |
| **Balance as of December 31, 2013** | | **8,206** | **198,322** | **(38,308)** | **(24,110)** | **144,111** |

## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### *Note 1: General information*

Valneva SE – together with its subsidiaries – (hereafter named "Group" or "Company") is a European biotech company focused on vaccine development and antibody discovery. It was created in 2013 through the merger between Intercell AG and Vivalis SA. Valneva's mission is to excel in both antibody discovery, and vaccine development and commercialization, either through in-house programs or in collaboration with industrial partners using innovative technologies developed by the Company.

Valneva generates diversified revenue from both its marketed product, a vaccine for the prevention of Japanese encephalitis (IXIARO®/JESPECT®), commercial partnerships around a portfolio of product candidates (in-house and partnered), and licensed technology platforms (EB66® cell line, VIVA|Screen antibody discovery technology, and the IC31® adjuvant) developed by Valneva.

The Company's vaccine to prevent Japanese Encephalitis (JE) – IXIARO®/JESPECT® is the Company's first product on the market. This is a next-generation vaccine against most common forms of vaccine-preventable cause of encephalitis in Asia licensed in more than thirty countries. A comparable vaccine for endemic markets based on Intercell's technology was launched in 2012 by Biological E. Ltd. under the trade name JEEV® in India and is currently under review for WHO prequalification.

Related business activities include product research and development, regulatory and clinical activities, manufacturing of commercial product and advanced clinical product candidates, as well as administrative, corporate development, and marketing and sales activities.

Valenva SE is a European Company (Societas Europaea) under French law with an Executive Board and Supervisory Board having its registered headquarters located in 69007 Lyon, 70 Rue Saint-Jean de Dieu. Valneva shares are primary listing on the NYSE Euronext Paris and are traded on the Vienna Stock Exchange.

Valneva SE directly or indirectly holds interests in the following subsidiaries:

| NAME | COUNTRY OF INCORPORATION | INTEREST HELD AT DECEMBER 31, | |
|---|---|---|---|
| | | *2013* | *2012* |
| **Smol Therapeutics SAS** | FR | 100% | 100% |
| **Vivalis Toyama Japan KK** | JP | 100% | 100% |
| **Valneva Austria GmbH** | AT | 100% | - |
| **Valneva Scotland Ltd.** | UK | 100% | - |
| **Intercell USA, Inc.** | USA | 100% | - |
| **Elatos GmbH** | AT | 100% | - |

The closing date for the consolidated financial statements is December 31 of each year. As Valneva Austria GmbH (former Intercell AG), Valneva Scotland Ltd. (former Intercell Biomedical, Ldt), Intercell USA and Elatos have been acquired by the end of May, these companies started to be included in the consolidated financial statements 2013 on June 1, 2013.

The Company's headquarters in Lyon is also its core center for its antibody discovery programs. The Valneva SE site in Nantes includes both general and administrative functions and R&D facilities which are used for the development of the EB66® cell line and the vaccine programs as well as antibody discovery based on the VIVAIScreen® platform. Valneva Austria GmbH, Vienna, Austria, focuses on vaccines and pre-clinical and clinical development activities. Valneva Scotland Ltd., Livingston, United Kingdom, operates a dedicated biologics manufacturing facility used for production of the Company's Japanese Encephalitis vaccine. The workforce of Intercell USA, Inc. focuses on maximizing the value of IXIARO®/JESPECT®. Elatos GmbH, Vienna, Austria, performs research on the antibody platform eMAB. Vivlalis Toyama Japan KK, Toyam, Japan, performs research on the antibody discovery platform VivaScreen.

These consolidated financial statements have been approved and authorized for issue by the Management Board on March 20, 2014. ■

### *Note 2: Summary of significant accounting policies*

On May 28, 2013, the Company completed its merger with Intercell AG. As a result of the merger, Intercell's business has been included in the Group's full year consolidated financial statements under IFRS from the merger closing date. Therefore, 2012 and 2013 results under IFRS are not fully comparable. While the results of Vivalis SA (now Valneva SE) were fully included in the income statement of the full year 2013 and the comparator period in 2012, the results from the ex-Intercell operations were only included starting from June 2013 and are not part of the results for the comparator period of the previous year.

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

#### + *Note 2.1 – Basis of presentation*

These 2013 Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), 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.

These consolidated financial statements have been prepared using the historical cost convention, as modified by the fair value valuation of available-for-sale financial assets.

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 Company's management to exercise its judgment in applying the Company'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 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. ■

## + *Note 2.2 – Impact of new, revised or amended Standards and Interpretations*

### a) New and amended standards adopted by the Company

There are no IFRSs or IFRIC interpretations effective for the first time for the financial year beginning on or after January 1, 2013 that would be expected to have a material impact on the Company.

IAS 1, (Amendment), Financial statement presentation; Requirement for entities to group items presented in "other comprehensive income" on the basis of whether they are potentially re-classifiable to profit or loss subsequently (effective on January 1, 2013). The Group applied this standard since January 1, 2013.

### b) New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2013, and not early adopted.

| STANDARD/INTERPRETATION/AMENDMENT | | EFFECTIVE DATE | EXPECTED EFFECTS |
|---|---|---|---|
| **IAS 32 – amendment** | Financial instruments: Presentation – offsetting financial assets and financial liabilities | Jan 1, 2014 | None |
| **IAS 36 – amendment** | Impairment of assets – disclosures on recoverable amount | Jan 1, 2014 | None |
| **IAS 39 – amendment** | Financial instruments: recognition and measurement – relief from discontinuing hedge accounting | Jan 1, 2014 | None |
| **IFRS 9** | Financial instruments: Classification and Measurement | pending | Change in the accounting treatment of fair value changes in financial instruments previously classified as available for sale |
| **IFRS 10** | Consolidated financial statements | Jan. 1, 2014 | None |
| **IFRS 12** | Disclosures of interests in other entities | Jan. 1, 2014 | None |
| **IFRS 13** | Fair value measurement | Jan. 1, 2014 | Full impact is yet to be assessed |
| **IFRIC 21** | "Levies" – interpretation of IAS 37 "Provisions, contingent liabilities and contingent assets" | | 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 Company. ■

## + *Note 2.3 – Consolidation*

### Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group 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 Group. They are deconsolidated from the date that control ceases.

The Company 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 this is less than the fair value of the net assets of the subsidiary acquired the difference is recognized directly in the income statement.

Inter-company transactions, balances, and unrealized gains on transactions between group companies are eliminated. ■

## + *Note 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 the "chief operating decision maker". The Management Board reviews the consolidated operating results regularly to make decisions about resources and to assess overall performance.
For further disclosure see note 5. ■

## + *Note 2.5 – Foreign currency translation*

### a) Functional and presentation currency

Items included in the financial statements of each of the Company'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 reporting Company'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.

Change in the fair value of monetary securities denominated in foreign currency and classified as "available-for-sale" is analyzed by considering translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are

accounted for in profit or loss. Other changes in the carrying amount are accounted for in other comprehensive income and are shown as other reserves.

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:

- (i) Assets and liabilities presented for each balance sheet are converted according to the exchange rate valid on the balance sheet date;
- (ii) Income and expenses for each income statement are converted at 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
- (iii) All resulting exchange differences are recognized as other comprehensive income and are shown as other reserves.

Upon consolidation, exchange differences arising from the conversion of the net investment in foreign entities and of borrowings and other currency instruments designated as hedges of such investments are taken into shareholders' equity. 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. ■

### + *Note 2.6 – Revenue recognition*

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company 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 Company'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, and discounts, and after eliminating sales within the Company.

The Company 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) Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually upon delivery of the goods. 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 Company 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 Company to receive the variable consid-

eration have been met. The Company does not operate any loyalty programs.

b) Revenues from collaborations and licensing

The Company 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 Company'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 Company 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 element is considerably more significant than any other element, then revenue is recognized on a straight-line basis over the life of the agreement.

The Company 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 Company 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 Company will comply with all conditions.

Grant monies received as reimbursement of approved research and 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 and 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 ex-

penses is recognized in the income statement under "Grants" in "Revenues and Grants" and the portion covering capitalized development expenditures under "Intangible fixed 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. ■

## + *Note 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 Company leases certain property, plant and equipment. Leases of property, plant and equipment where the Company 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 element 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. The property, plant and equipment acquired under finance leases are depreciated over the useful life of the asset. ■

## + *Note 2.8 – 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 Company 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
  8–40 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.

### + *Note 2.9 – 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 and 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 a period between five and 17 years.

#### c) Development costs

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

- (a) It is technically feasible to complete the intangible asset so that it will be available for use or sale;
- (b) Management intends to complete the intangible asset and to utilize or sell it;
- (c)There is an ability to utilize or sell the intangible asset;
- (d) It can be demonstrated how the intangible asset will generate probable future economic benefits;
- (e) Adequate technical, financial, and/or other resources to complete the development and to utilize or sell the intangible asset are available; and
- (f) 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 expense when they have been incurred. Development costs that have been 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 10-17 years.

### d) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Company's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquire and the fair value of the non-controlling interest in the acquire. ■

## + *Note 2.10 – Impairment of non-financial assets*

Assets that have an indefinite useful life, for example goodwill and capitalized in-process research and 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. ■

## + *2.11 Non-current assets and liabilities (or disposal groups) held for sale*

Non-current assets or liabilities (or disposal groups) are classified as assets or liabilities held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell. ■

## + *Note 2.12 – Financial assets*

The Company classifies its financial assets into the following categories: a) loans and receivables, and b) available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired.

### a) 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 Company 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 (note 2.15).

### b) Available-for-sale financial assets

Available-for-sale financial assets are those intended to be held for an indefinite period of time and which may be sold in respect to needs for liquidity or changes in interest rates, exchange rates or equity prices. Assets in this category are classified as current assets if they are expected to be realized within 12 months of the balance sheet date.

Purchases and sales of financial assets are recognized on the trade date - the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs and available-for-sale financial assets are subsequently carried at fair value. Financial assets are derecognized when such a financial asset has been transferred or substantially all risks and rewards of ownership have been transferred, or when the rights to receive cash flows from the financial asset have expired.

Changes in the fair value of financial assets denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in profit or loss. Changes in the fair value of monetary securities classified as available-for-sale are recognized in other comprehensive income and are shown as other reserves.

When financial assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as "realized fair value gains or losses". The fair value of shares in an investment fund is determined by the daily redemption price at which such shares can be sold, as quoted by the fund, based on the fund's net asset value.

Interest on available-for-sale financial assets calculated using the effective interest method is recognized in the income statement as part of financial income. ■

### + *Note 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. ■

### + *Note 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) 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 fault products are included in the value of inventories. ■

### + *Note 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 the use of an allowance account. When a trade receivable is unconsidered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited agains the allowance account. Changes in the carrying amount of the allowance account are recognized in the profit or loss. ■

### + *Note 2.16 – Cash and cash equivalents*

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. ■

### + *Note 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 canceled, 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. ■

### + *Note 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.

The debt incurred under the Humalys financing arrangement is measured at fair value taking into account the best estimate of earn out based on revenue expected from the acquired Humalex® technology platform, and a discount rate applicable both to the earn out and the guaranteed purchase price recognized up until 2013. The expense for reversing the present value measurement of debt is recognized under financial income and expense of the period.

As a portion of the acquisition price for the Isaac technology from SC World is recognized on a deferred basis until 2017, the corresponding date is measured at fair value taking into account our best estimate of the payment dates of the price and a discount rate. ■

### + *Note 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 Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. ■

### + *Note 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 Company'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 Company and it is probable that the temporary difference will not be reversed within the foreseeable future. ■

## + *Note 2.21 – Employee benefits*

### a) Share-based payments

*Equity-settled transactions*

The Company operates an equity-settled, share-based compensation plan. 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 Company 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 Company recognizes a liability and an expense for bonuses. The Company 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 Company recognizes the contributions as expenses when payable, as it has no obligations over and above the amount of contributions paid. ■

### + *Note 2.22 – Provisions*

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that the Company 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. ■

### + *2.23 Deferred Revenues*

Deferred Revenues comprised advanced payments from collaboration partners (especially option fees), and conditional advances from subordinated grants. These are recognized under “other non-current liabilities” and “other current liabilities” according to their maturity. In the event of a failure to complete the work, the debt waiver is recognized in “other net income and expense” for grants used to finance projects recognized under “development expenditure”, and in “Operating grants” for grants used for research or development projects not capitalized in the balance sheet. For more detail see note 2.6c). ■

### *Note 3: Financial risk management*

+ *Note 3.1 – Financial risk factors*

The Company'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 Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Financial risk management is carried out by the CFO under the close supervision of the Management Board. The CFO identifies, evaluates, and manages 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 Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. Dollar ("USD"), the British Pound ("GBP"), whereas the exchange risk exposure to the Swiss Franc and the Japanese Yen is relatively limited. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities, and net investments in foreign operations.

The objective of the Company is to limit the potential negative impact of the foreign exchange rate changes.

The Company has certain investments in foreign operations whose net assets are exposed to foreign currency translation risk.

At December 31, 2013, if the USD had weakened by 10% against the Euro, with all other variables held constant, pre-tax loss for the year would have been higher by EUR 587 thousand (2012: EUR 1 thousand lower), mainly as a result of foreign exchange losses on the translation of USD-denominated cash equivalents and trade receivables, partly offset by a positive effect from borrowings and trade payables. Income was more sensitive to fluctuations in the Euro/USD exchange rate at the balance sheet date in 2013 than it was in 2012 mainly because of the increased amount of USD-denominated trade receivables and cash equivalents.

At December 31, 2013, if the GBP had weakened by 10% against the Euro with all other variables held constant, pre-tax loss for the year would have been EUR 57 thousand higher (2012: EUR 0 thousand). Income was more sensitive to fluctuations in the Euro/GBP exchange rate at the balance sheet date in 2013 than it was in 2012 mainly because of the increased amount of GBP-denominated cash equivalents.

*Interest rate risk*

The Company 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 rates expose the Company to cash flow interest rate risk, which is offset by cash and financial assets held at variable rates. During 2013 and 2012, the Company's investments at variable rate as well as the borrowings at variable rate were denominated in EUR and in USD.

The Company analyzes its interest rate exposure on a dynamic basis. Based on this analysis, the Company calculated the impact on profit and loss of a defined interest rate shift. The same interest rate shift was used for all currencies. The calculation only includes in-

vestments 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 EUR 27 thousand (2012: EUR 12 thousand).

b) Credit risk

The Company is exposed to concentrations of credit risk. The Company holds bank accounts, cash balances, and securities at quality financial institutions with high credit ratings. To monitor the credit quality of its counterparts, the Company relies on credit ratings as published by specialized rating agencies such as Standard & Poor's, Moody's, and Fitch. The Company has policies that limit the amount of credit exposure to any single financial institution. The Company is also exposed to credit risk from its trade debtors, as its collaborations and licensing income arises from a small number of transactions. The Company 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, in the case that there is no independent rating, risk management assesses the credit quality of the customer, taking into account its financial position, past experience, and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The credit quality of financial assets is described in note 14.3.

c) Liquidity risk

The Company is exposed to liquidity risk resulting from the maturity of its financial liabilities. Furthermore, liquidity risk results from the fact that the Company's operating cash flow is subject to fluctuations during accounting periods. Prudent liquidity risk management therefore implies maintaining sufficient cash and marketable securities 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 Company'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, 2012<br>EUR IN THOUSANDS | LESS THAN<br>1 YEAR | BETWEEN 1<br>AND 3 YEARS | BETWEEN 3<br>AND 5 YEARS | OVER<br>5 YEARS |
|---|---|---|---|---|
| *Borrowings* | 1,641 | 2,925 | 1,750 | 593 |
| *Trade payables and accruals* | 1,896 | - | - | - |
| *Tax and employee-related liabilities*[1] | 1,133 | - | - | - |
| *Other liabilities and provisions*[2] | 2,890 | 1,668 | 4,325 | 4,438 |
| | **7,560** | **4,593** | **6,075** | **5,031** |

[1]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.
[2]Deferred income and provisions are excluded from the other liabilities and provisions balance, as this analysis is required only for financial instruments

| AT DECEMBER 31, 2013<br>EUR IN THOUSANDS | LESS THAN<br>1 YEAR | BETWEEN 1<br>AND 3 YEARS | BETWEEN 3<br>AND 5 YEARS | OVER<br>5 YEARS |
|---|---|---|---|---|
| *Borrowings (excluding finance lease liabilities)*[3] | 5,401 | 17,845 | 26,128 | 2,333 |
| *Finance lease liabilities*[3] | 980 | 2,045 | 2,045 | 27,353 |
| *Trade payables and accruals*[4] | 11,030 | - | - | - |
| *Tax and employee-related liabilities*[1] | 3,044 | - | - | - |
| *Other liabilities and provisions*[2] | 203 | 2,942 | 1,259 | 1,925 |
| | **20,658** | **22,832** | **29,432** | **31,611** |

[1]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.
[2]Deferred income and provisions are excluded from the other liabilities and provisions balance, as this analysis is required only for financial instruments
[3]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.
[4]Accruals for taxes are excluded from the trade payables and accruals balance, as this analysis is required only for financial instruments.

The fair values as well as the book values of the Company's borrowings are disclosed in note 24.

To manage liquidity risk, the Company holds sufficient cash balances and generally invests in securities that can be promptly converted into cash. ■

### + *Note 3.2 – Accounting for hedging activities*

At the balance sheet date, the Company does engage in hedging activities. For more information see note 14.2. ■

### + *Note 3.3 – Capital risk management*

The Company's objectives when managing capital are to safeguard the Company'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 Company actively manages its funds to primarily ensure liquidity and principal preservation while seeking to maximize returns. The Company's cash and short-term investments are located at several different banks and financial investments are made in liquid, highly diversified investment instruments in balanced risk categories. In order to maintain or adjust the capital structure, the Company may issue new shares or sell assets to reduce debt.

Consistent with its stage of development as a biotech company with lower cash flows from product sales than R&D expenses, the Company principally relies on equity financing. Capital consists of "equity" as shown in the consolidated balance sheet. ■

### + *Note 3.4 – Fair value estimation*

The fair value of financial instruments traded on active markets (such as available-for-sale securities) is based on market prices or dealer quotes at the balance sheet date.

The fair value of financial instruments not traded on an active market is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing upon each balance sheet date,

such as estimated discounted cash flows and market prices or dealer quotes for similar instruments.

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. The fair value of investment funds held as available-for-sale financial assets is based on current bid rates offered by the investment fund manager based on the current market price of the fund's assets on the balance sheet date. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments. ■

## *Note 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.

### + *Note 4.1 – Critical accounting estimates and assumptions*

To produce this financial information, the Company's management has to make estimates and assuptions 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 Company's management relate primarily to the valuation of goodwill, other intangible assets (amortization period of development expenditures and acquired technologies), other liabilities for amounts owed to the sellers with respect to earn out payments as well as revenue recognition (for licensing income recognized over the projected development period; for income from grants, measured according to cost incurred compared to the budget) . ■

### + *Note 4.2 – Critical judgments in applying the entity's accounting policies*

#### Revenue recognition

The Company 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 elements 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. ■

### *Note 5: Segment information*

The Group has identified the following operating segments for purpose of analyzing its business and results:

+ Cell line platform (EB66®)

+ Antibody discovery platform (VivalScreen®)

+ Ex-Intercell operations

In light of the decision to dispose the Drug Discovery business by the end of 2012, the segment "Platform for the development of small molecules (3DScreen)" no longer exists and the relevant items have been consequently reclassified to "discontinued operations" in accordance with IFRS 5.

Following its merger with Intercell AG to form Valneva SE, the Group has added "Ex-Intercell operations" as a new operating segment. The Group is currently performing a comprehensive business integration project which includes the introduction of new financial business reporting structures. As a result of this project, the Group expects further changes in its segment reporting in future financial statements. These new segments are expected to distinguish between marketed vaccines (currently the Group's JEV vaccine), revenue-generating technologies (currently EB66®, Viva|Screen and IC31®) and proprietary development programs.

+ *Note 5.1 – Income statement aggregates by segment:*

| EUR IN THOUSANDS | YEAR ENDED DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| **Revenues and grants by business sector*** | **35,991** | **5,909** |
| *EB66® cell line* | 3,668 | 3,455 |
| *VivalScreen® technology* | 2,884 | 2,440 |
| *Ex-Intercell operations* | 29,362 | - |
| *Income not attributed to an operating segment* | 77 | 14 |
| **Net income/(loss) from continuing operations by business sector** | **(23,973)** | **(12,985)** |
| *EB66® cell line* | (2,132) | (4,523) |
| *VivalScreen® technology* | (4,272) | (2,563) |
| *Ex-Intercell operations* | (15,102) | - |
| *Income not attributed to an operating segment* | (2,467) | (5,899) |

* no intersegment revenues occurred

+ *Note 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 PER GEOGRAPHICAL SEGMENT EUR IN THOUSANDS | YEAR ENDED DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| *France* | 5,338 | 4,709 |
| *Europe – without France* | 12,157 | 613 |
| *North America* | 18,055 | 335 |
| *Other* | 440 | 252 |
| **Revenues** | **35,991** | **5,909** |

| NON-CURRENT ASSETS PER GEOGRAPHICAL SEGMENT EUR IN THOUSANDS | AT DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| *France* | 23,059 | 29,206 |
| *Europe – without France* | 146,590 | - |
| *North America* | 662 | - |
| *Other* | 159 | 256 |
| **Non-current assets** | **170,470** | **29,462** |

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

+ *Note 5.3 – Information about major customers*

Collaboration and licensing revenue from the two largest customers amounted to EUR 3,539 thousand (2012: EUR 0 thousand) and EUR 1,151 thousand (2012: EUR 1,994 thousand) respectively. Product sales to the largest customer amounted to EUR 12,709 thousand (2012: EUR 0 thousand).

■

***Note 6: Expenses by nature***

Cost of goods sold, research and development expenses, general, selling, and administrative expenses, and amortization of intangible assets include the following items by nature of cost:

| EUR IN THOUSANDS | YEAR ENDED DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| *Consulting and other purchased services* | 11,325 | 3,936 |
| *Employee benefit expense (note 7)* | 17,781 | 7,673 |
| *Depreciation, amortization and write-off* | 9,148 | 4,752 |
| *Building and energy costs* | 2,556 | 1,149 |
| *Raw materials and consumables used* | 3,320 | 2,346 |
| *Supply, office and IT-costs* | 864 | 201 |
| *Travel and transportation costs* | 827 | 324 |
| *Advertising costs* | 3,174 | 108 |
| *License fees and royalties* | 2,472 | 53 |
| *Other expenses* | 143 | 336 |
| *Amounts capitalized as development costs and changes in inventory* | 6,532 | (51) |
| **Total** | **58,141** | **20,827** |
| *Reclassification of business disposal* | (137) | (2,377) |
| **Cost of goods sold, research and development expenses, general, selling, and administrative expenses, and amortization of intangible assets** | **58,004** | **18,450** |

Fees charged by the statutory auditors and members of their network to the Group:

| EUR IN THOUSANDS EXCL. VAT | YEAR ENDED DECEMBER 31, 2013 | | YEAR ENDED DECEMBER 31, 2012 | |
|---|---|---|---|---|
| | *PwC* | *Deloitte & Associés* | *Chesneau* | *Deloitte & Associés* |
| **Audit** | | | | |
| *Statutory audit* | | | | |
| *- Valneva SE* | 44 | 46 | 15 | 130 |
| *- Fully consolidated subsidiaries* | 50 | 32 | - | - |
| *Audit procedures in relation with the merger with Intercell AG* | 78 | 41 | - | - |
| *Audit procedures in relation with the issuance of common stock in July 2013* | - | 95 | - | - |
| *Other procedures and services direct related to the statutory auditor's engagement* | | | | |
| *- Valneva SE* | - | 2 | 2 | 1 |
| *- Fully consolidated subsidiaries* | 28 | - | - | - |
| **Audit sub-total** | **200** | **217** | **17** | **130** |
| **Other services** | | | | |
| *Legal, tax, labor issues* | | | | |
| *- Valneva SE* | - | - | - | - |
| *- Fully consolidated subsidiaries* | - | 2 | - | - |
| *Other directly related procedures* | - | - | - | - |
| *Accessory missions* | - | - | - | - |
| **Other services sub-total** | **-** | **2** | **-** | **-** |
| **Fees charged by the statutory auditors and members of their network** | **200** | **219** | **17** | **130** |

### *Note 7: Employee benefit expense*

Employee benefit expenses include the following:

| EUR IN THOUSANDS | YEAR ENDED DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| *Salaries* | 13,335 | 5,137 |
| *Social security contributions* | 3,666 | 2,144 |
| *Training and education* | 317 | 139 |
| *Share options granted to management and employees* | 173 | 221 |
| *Other employee benefits* | 290 | 32 |
| **Total** | **17,781** | **7,673** |
| *Reclassification of business disposal* | - | (514) |
| **Employee benefit expense** | **17,781** | **7,159** |

During the year 2013, the Group had an average of 193 employees (2012: 99 employees). ■

### *Note 8: Other income/(expenses), net*

Other income, net of other expenses, includes the following:

| EUR IN THOUSANDS | YEAR ENDED DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| *Taxes, duties, fees, charges, other than income tax* | (282) | (321) |
| *Gain/(loss) on disposal of fixed assets, net* | 1,260 | - |
| *Miscellaneous income/(expenses), net* | 180 | - |
| **Total** | **1,157** | **(321)** |
| *Reclassification of business disposal* | - | 28 |
| **Other income/(expenses), net** | **1,157** | **(292)** |

The gain on disposal of fixed assets, net includes a gain of EUR 1,312 thousand resulting from the sale of the Group's Clinical Manufacturing Operations (CMO) in Nantes to Biological E, a leading Indian biopharmaceutical company, which was finalized in November 2013. ■

### *Note 9: Finance income/(expenses), net*

| EUR IN THOUSANDS | YEAR ENDED DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| **Finance income** | | |
| *- Interest income from bank deposits* | 177 | 435 |
| *- Interest income from other parties* | 14 | - |
| *- Realized gain from the sale of current financial assets* | 9 | 29 |
| *- Foreign exchange gains* | - | 13 |
| | 200 | 477 |
| **Finance expense** | | |
| *- Interest expense to banks and government agencies* | (115) | (152) |
| *- Interest expense on other loans* | (1,097) | (267) |
| *- Fair value losses on financial assets/liabilities* | (50) | - |
| *- Foreign exchange losses* | (1,707) | (114) |
| | (2,969) | (533) |
| **Finance income/(expenses), net** | **(2,769)** | **(56)** |

The Group benefits from government assistance through arranging borrowing facilities that would have otherwise not been available to the Company. This assistance includes guarantees for the amount outstanding. ■

### *Note 10: Income tax*

\+ *Note 10.1 – Tax income/(expense)*

Income tax is comprised of current and deferred tax.

| EUR IN THOUSANDS | YEAR ENDED DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| *Current tax* | (386) | (96) |
| *Deferred tax* | 38 | - |
| **Income tax** | **(348)** | **(96)** |

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:

| EUR IN THOUSANDS | YEAR ENDED DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| *Loss before tax* | (23,762) | (14,745) |
| *Tax calculated at domestic tax rates applicable to profits in the respective countries* | 6,675 | 4,915 |
| *Income not subject to tax* | 156 | - |
| *Expenses not deductible for tax purposes* | (533) | - |
| *Deferred tax asset not recognized* | (7,957) | (5,010) |
| *Adjustments in respect of prior years* | 226 | - |
| *Effect of change in applicable tax rate* | 11 | - |
| *Exchange differences* | 1,073 | - |
| **Income tax** | **(348)** | **(96)** |

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

+ *Note 10.2 – Deferred tax*

The tax losses of EUR 374,363 thousand (2012: EUR 37,477 thousand) that were carried forward are not recognized as it is not considered probable that future taxable profits will be available against the unused tax losses. EUR 305,000 thousand are coming from Ex-Intercell operations. ■

### *Note 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 22).

| | YEAR ENDED DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| *Net loss from continuing operations attributable to equity holders of the Company (EUR in thousands)* | (23,973) | (12,985) |
| *Weighted average number of outstanding shares* | 39,343,185 | 21,268,377 |
| **Basic earnings/(losses) from continuing operations per share (EUR per share)** | **(0.61)** | **(0.61)** |

Diluted losses per share equal basic losses per share because the conversion of all potentially dilutive shares (outstanding preferred shares, share options, bonus shares, and equity warrants, notes 21 and 23) would result in a decrease in the loss per share and is therefore not to be treated as dilutive. ■

### *Note 12: Property, plant and equipment*

| EUR IN THOUSANDS | LAND, BUILDINGS AND LEASE-HOLD IMPROVEMENTS | MANUFACTURING AND LABORATORY EQUIPMENT | COMPUTER HARDWARE | FURNITURE, FITTINGS AND OTHER | ASSETS IN THE COURSE OF CONSTRUCTION | TOTAL |
|---|---|---|---|---|---|---|
| **January 1, 2012** | | | | | | |
| *Cost* | 10,713 | 7,854 | 484 | 431 | 44 | 19,526 |
| *Accumulated depreciation and impairment* | (2,044) | (3,700) | (285) | (182) | - | (6,211) |
| **Net book value** | **8,669** | **4,154** | **199** | **249** | **44** | **13,315** |
| **Year ended December 31, 2012** | | | | | | |
| *Opening net book value* | 8,669 | 4,154 | 199 | 249 | 44 | 13,315 |
| *Exchange rate differences* | - | - | - | - | - | - |
| *Additions* | 27 | 729 | 26 | 12 | - | 794 |
| *Reclassification* | 15 | - | - | - | (15) | - |
| *Disposals* | (2) | - | - | - | - | (2) |
| *Depreciation charge* | (643) | (1,092) | (86) | (52) | - | (1,873) |
| *Impairment charge* | - | - | - | - | - | - |
| *Transferred to disposal group classified as held for sale* | - | (137) | - | - | (6) | (143) |
| **Closing net book value** | **8,066** | **3,654** | **140** | **208** | **23** | **12,091** |
| **December 31, 2012** | | | | | | |
| *Cost* | 10,745 | 8,193 | 510 | 440 | 23 | 19,911 |
| *Accumulated depreciation and impairment* | (2,679) | (4,539) | (371) | (232) | - | (7,820) |
| **Net book value** | **8,066** | **3,654** | **140** | **208** | **23** | **12,091** |

| EUR IN THOUSANDS | LAND, BUILDINGS AND LEASE-HOLD IMPROVEMENTS | MANUFACTURING AND LABORATORY EQUIPMENT | COMPUTER HARDWARE | FURNITURE, FITTINGS AND OTHER | ASSETS IN THE COURSE OF CONSTRUCTION | TOTAL |
|---|---|---|---|---|---|---|
| **Year ended December 31, 2013** | | | | | | |
| *Opening net book value* | 8,066 | 3,654 | 140 | 208 | 23 | 12,091 |
| *Exchange rate differences* | 106 | 24 | - | - | - | 130 |
| *Acquisition of subsidiary (Note 30)* | 35,698 | 2,817 | 119 | 516 | - | 39,150 |
| *Additions* | 153 | 567 | 58 | 20 | - | 798 |
| *Reclassification* | 23 | - | - | - | (23) | - |
| *Disposals* | (2,179) | (1,483) | (48) | (28) | - | (3,738) |
| *Depreciation charge* | (1,627) | (1,454) | (125) | (110) | - | (3,316) |
| *Impairment charge* | - | (48) | - | - | - | (48) |
| **Closing net book value** | **40,240** | **4,076** | **143** | **607** | **-** | **45,067** |
| **December 31, 2013** | | | | | | |
| *Cost* | 51,181 | 18,456 | 1,471 | 1,390 | - | 72,497 |
| *Accumulated depreciation and impairment* | (10,941) | (14,379) | (1,327) | (782) | - | (27,430) |
| **Net book value** | **40,240** | **4,076** | **143** | **607** | **-** | **45,067** |

Depreciation and amortization expenses of EUR 2,344 thousand (2012: EUR 1,583 thousand) were charged to research and development expenses and EUR 86 thousand (2012: EUR 200 thousand) to general, selling, and administrative expenses.

Operating property leases amounting to EUR 303 thousand (2012: EUR 201 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:

| EUR IN THOUSANDS | BUILDINGS AND LEASE-HOLD IMPROVEMENTS | MANUFACTURING AND LABORATORY EQUIPMENT | COMPUTER HARDWARE | FURNITURE, FITTINGS AND OTHER | ASSETS IN THE COURSE OF CONSTRUCTION | TOTAL |
|---|---|---|---|---|---|---|
| **December 31, 2013** | | | | | | |
| *Cost* | 34,795 | 2,128 | 126 | 598 | - | 37,647 |
| *Accumulated depreciation* | (4,277) | (1,575) | (126) | (365) | - | (6,343) |
| **Net book value** | **30,517** | **553** | **-** | **234** | **-** | **31,304** |

### *Note 13: Intangible assets and Goodwill*

| EUR IN THOUSANDS | SOFT-WARE | ACQUI-RED R&D TECHNO-LOGY AND PROJECTS | DEVELOP-MENT COSTS | GOOD-WILL | ADVANCE PAYMENTS | TOTAL |
|---|---|---|---|---|---|---|
| **January 1, 2012** | | | | | | |
| *Cost* | 305 | 17,413 | 7,003 | 341 | - | 25,062 |
| *Accumulated amortization and impairment* | (227) | (1,874) | (2,800) | - | - | (4,901) |
| **Net book value** | **78** | **15,539** | **4,203** | **341** | **-** | **20,161** |
| **Year ended December 31, 2012** | | | | | | |
| *Opening net book value* | 78 | 15,539 | 4,203 | 341 | - | 20,161 |
| *Exchange rate differences* | - | - | - | - | - | - |
| *Additions* | 8 | 20 | 54 | - | - | 82 |
| *Reclassification* | - | - | - | - | - | - |
| *Disposals* | - | (13) | - | - | - | (13) |
| *Amortization charge* | (58) | (1,163) | (566) | - | - | (1,787) |
| *Impairment charge* | - | - | (1,072) | - | - | (1,072) |
| **Closing net book value** | **29** | **14,383** | **2,618** | **341** | **-** | **17,371** |
| **December 31, 2012** | | | | | | |
| *Cost* | 313 | 17,333 | 5,959 | 341 | - | 23,946 |
| *Accumulated amortization and impairment* | (285) | (2,950) | (3,340) | - | - | (6,575) |
| **Net book value** | **29** | **14,383** | **2,618** | **341** | **-** | **17,371** |
| **Year ended December 31, 2013** | | | | | | |
| *Opening net book value* | 29 | 14,383 | 2,618 | 341 | - | 17,371 |
| *Exchange rate differences* | - | (35) | 92 | - | - | 57 |
| *Acquisition of subsidiary (note 30)* | 476 | 85,095 | 26,261 | - | - | 111,832 |
| *Additions* | 23 | 90 | 1,681 | 9 | 1 | 1,804 |
| *Reclassification* | - | - | - | - | - | - |
| *Disposals* | - | - | - | - | - | - |
| *Amortization charge* | (229) | (3,442) | (1,988) | - | - | (5,660) |
| **Closing net book value** | **299** | **96,090** | **28,663** | **350** | **1** | **125,403** |
| **December 31, 2013** | | | | | | |
| *Cost* | 2,334 | 105,423 | 39,993 | 350 | 1 | 148,102 |
| *Accumulated amortization and impairment* | (2,036) | (9,334) | (11,330) | - | - | (22,699) |
| **Net book value** | **299** | **96,090** | **28,663** | **350** | **1** | **125,403** |

### + *Note 13.1 – Significant intangible assets*

Intangible assets relate primarily to in-process R&D projects, the Japanese Encephalitis vaccine, the Pseudomonas vaccine and the Viva|Screen technology. The Japanese Encephalities and Pseudomonas vaccine were acquired through the Business combination with Intercell, see note 30. ■

### + *Note 13.2 – Impairment testing of in-process research & development projects*

The book values of capitalized in-process research and development projects have been assessed annually for impairment testing purposes using the risk-adjusted discounted cash flow method.

The value-in-use calculations use post tax project cash flow projections based on the Company'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 14.44% per annum.

The long range business model covers a period of 20 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.

The discount rate of 14.44% per annum is based on 2.86% risk-free rate, 6.00% market risk premium, and a beta of 1.90.

There was no impairment of in-process research & development projects in the year 2013. ■

### + *Note 13.3 – Sensitivity to changes in assumptions*

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

- Probability of project success
- Discount rate

The result of research and development projects is inherently uncertain and the Company 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 and development projects would result in an impairment loss.

The net present value calculation uses a discount rate of 14.44%. An increase in the discount rate of one percentage point would result in no impairment loss.

The net present value calculation uses a probability of success rate of 50% per annum for products in the stage of pivotal regulatory studies. A decrease in the probability of success rate of ten percentage points would result in no impairment loss. ■

### *Note 14: Financial instruments*

+ *Note 14.1 – Financial instruments by category*

| DECEMBER 31, 2012<br>EUR IN THOUSANDS | LOANS AND RECEIVABLES | TOTAL |
|---|---|---|
| **Assets as per balance sheet** | | |
| *Trade receivables* | 1,047 | 1,047 |
| *Other assets*[1] | 2,234 | 2,234 |
| *Financial assets* | 11,225 | 11,225 |
| *Cash and cash equivalents* | 832 | 832 |
| **Assets** | **15,338** | **15,338** |

| DECEMBER 31, 2012<br>EUR IN THOUSANDS | OTHER FINANCI-AL LIABILITIES | TOTAL |
|---|---|---|
| **Liabilities as per balance sheet** | | |
| *Borrowings* | 6,714 | 6,714 |
| *Trade payables and accruals* | 1,896 | 1,896 |
| *Tax and employee-related liabilities*[2] | 1,133 | 1,133 |
| *Other liabilities and provisions*[3] | 11,932 | 11,932 |
| **Liabilities** | **21,675** | **21,675** |

| DECEMBER 31, 2013<br>EUR IN THOUSANDS | LOANS AND RECEIVABLES | TOTAL |
|---|---|---|
| **Assets as per balance sheet** | | |
| *Trade receivables* | 7,570 | 7,570 |
| *Other assets*[1] | 15,823 | 15,823 |
| *Financial assets* | 3,658 | 3,658 |
| *Cash and cash equivalents* | 36,509 | 36,509 |
| **Assets** | **63,560** | **63,560** |

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

| DECEMBER 31, 2013<br>EUR IN THOUSANDS | LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS | OTHER FINANCIAL LIABILITIES | TOTAL |
|---|---|---|---|
| **Liabilities as per balance sheet** | | | |
| *Borrowings (excluding finance lease liabilities)*[1] | - | 40,246 | 40,246 |
| *Finance lease liabilities*[1] | - | 31,037 | 31,037 |
| *Trade payables and accruals*[2] | - | 11,030 | 11,030 |
| *Tax and employee-related liabilities*[3] | - | 3,044 | 3,044 |
| *Other liabilities and provisions*[4] | 50 | 5,139 | 5,190 |
| **Liabilities** | **50** | **90,496** | **90,547** |

[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]Accruals for taxes are excluded from the trade payables and accruals balance, as this analysis is required only for financial instruments.
[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.

## + *Note 14.2 – 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, 2013<br>EUR IN THOUSANDS | LEVEL 3 | TOTAL |
|---|---|---|
| **Other liabilities and provisions** | | |
| *Derivative financial instruments* | 50 | 50 |
| **Other liabilities and provisions** | **50** | **50** |

At December 31, 2012, the fair value of these swaps was not material.

Since 2010, the Company has been covered by an interest rate hedging contract through the parent company Grimaud La Corbière SA (GLC) for EUR 2,204 thousand that ended by June 2013. This contract was implemented on June 11, 2010 for a three-year period. This interest rate swap agreement provides for payment to GLC each quarter of 3-month Euribor plus a fixed-rate amount of 1.31%.

In 2011, an additional interest rate hedging contract was set up for EUR 800 thousand which increased to EUR 1,500 thousand at December 31, 2012 then to EUR 2,300 thousand at December 31, 2013. This second contract was implemented on September 1, 2011 for a four-year period. This interest rate swap agreement provides for payment to GLC each quarter of 3-month Euribor plus a fixed-rate amount of 1.82%.

In 2012, a third interest rate hedging contract was set up for EUR 394 thousand and reduced to EUR 385 thousand at December 31, 2012 then to EUR 325 thousand at December 31, 2013. This last contract was implemented on October 17, 2012 for a seven-year period. This interest rate swap agreement provides for a payment to GLC each month at 1-month Euribor plus a fixed-rate amount of 0.58%. ■

### + *Note 14.3 – 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:

| EUR IN THOUSANDS | AT DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| **Trade receivables, unimpaired[1]** | | |
| *Receivables from governmental institutions* | 2 | - |
| *AA* | 7,315 | 598 |
| *A* | 47 | - |
| *Counterparties without external credit rating* | 205 | 450 |
| **Trade receivables, unimpaired** | **7,570** | **1,047** |
| **Other assets** | | |
| *Receivables from governmental institutions* | 2,598 | 1,983 |
| *A* | 105 | 143 |
| *Counterparties without external credit rating or rating below A* | 13,120 | 108 |
| **Other assets** | **15,823** | **2,234** |
| **Financial assets** | | |
| *A* | 3,658 | 11,225 |
| **Financial assets** | **3,658** | **11,225** |
| **Cash and cash equivalents** | | |
| *A* | 36,506 | 831 |
| *Counterparties without external credit rating or rating below A* | 3 | 1 |
| **Cash and cash equivalents** | **36,509** | **832** |

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

The rating information refers to long-term credit rating as published by Standard & Poor's.

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

### *Note 15: Financial assets*

| EUR IN THOUSANDS | AT DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| *Non-current* | 226 | 253 |
| *Current* | 3,658 | 11,225 |
| **Financial assets** | **3,884** | **11,478** |

Non-current financial assets are included in other non-current assets.

### *Note 16: Inventories*

| EUR IN THOUSANDS | AT DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| *Raw materials* | 672 | - |
| *Work in progress* | 4,147 | - |
| **Inventory** | **4,819** | **-** |

The cost of inventories recognized as an expense and included in “cost of sales” amounted to EUR 14,469 thousand (2012: EUR 0 thousand). The cost of inventories recognized as an expense includes EUR 4,273 thousand (2012: EUR 0 thousand) in respect of write-downs of inventory to net realizable value.

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

### *Note 17: Trade receivables*

Trade receivables and other assets include the following:

| EUR IN THOUSANDS | AT DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| *Trade receivables* | 7,590 | 1,068 |
| *Less: provision for impairment of receivables* | (21) | (21) |
| **Trade receivables, net** | **7,570** | **1,047** |

At December 31, 2011, trade receivables subject to a repayment plan in 2010 amounting to EUR 21 thousand were reclassified as bad debt, following default and with provisions recorded for their full amount. During the years 2013 and 2012, no impairment losses have been recognized.

The fair values of trade receivables equal their book values. ■

### *Note 18: Other assets*

Other assets include the following:

| EUR IN THOUSANDS | AT DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| *Prepaid expenses* | 1,047 | 175 |
| *Non-current financial assets* | 226 | 253 |
| *Other receivables* | 30,092 | 10,535 |
| | 31,365 | 10,963 |
| *Less non-current portion* | (20,575) | (8,984) |
| **Current portion** | **10,791** | **1,979** |

The fair values of trade and other receivables equal their book values. ■

### *Note 19: Cash and cash equivalents*

At December 31, 2013 and at December 31, 2012, cash and cash equivalents include cash-at-bank and in-hand, mutual funds, open-ended investment funds, as well as short-term bank deposits with a maturity of less than 3 months. ■

***Note 20: Discontinued operations***

In 2012, the Company decided to sell and subsequently discontinue its drug discovery business.

+ *Note 20.1 – Breakdown of discontinued operations*

| EUR IN THOUSANDS | AT DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| *Intangible assets – gross amounts* | 1,101 | 1,098 |
| *Intangible assets – amortization* | (26) | (26) |
| *Intangible assets – impairment* | (1,075) | (1,072) |
| **Intangible assets – net amounts** | **-** | **-** |
| *Property, plant and equipment – gross amounts* | 102 | 390 |
| *Property, plant and equipment – depreciation* | (62) | (253) |
| *Property, plant and equipment – impairment* | (40) | - |
| **Property, plant and equipment – net amounts** | **-** | **137** |
| **Total discontinued operations** | **-** | **137** |

+ *Note 20.2 – Liabilities associated with discontinued operations*

As at December 31, 2013 and December 31, 2012, there are no liabilities associated with discontinued operations. ■

+ *Note 20.3 – Income/(Loss) from discontinued operations*

| EUR IN THOUSANDS | YEAR ENDED DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| *Grant income* | - | 550 |
| *Consulting and other purchased services* | - | (598) |
| *Employee benefit expense* | - | (514) |
| *Depreciation, amortization and write-off* | (137) | (1,179) |
| *Raw materials and consumables used* | - | (29) |
| *Amounts capitalized as development costs and changes in inventory* | - | (38) |
| *Other expenses* | - | (19) |
| *Taxes, duties, fees, charges, other than income tax* | - | (28) |
| **Income/(Loss) from discontinued operations** | **(137)** | **(1,856)** |

### + *Note 20.4 – Cash flows from discontinued operations*

| EUR IN THOUSANDS | YEAR ENDED DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| *Net cash used in operating activities* | - | (1,227) |
| *Net cash generated from/(used in) investing activities* | - | - |
| *Net cash generated from/(used in) financing activities* | - | - |
| **Net change in cash and cash equivalents** | **-** | **(1,227)** |

## *Note 21: Share capital, share premium and other regulated reserves*

| EUR IN THOUSANDS (EXCEPT NUMBERS OF SHARES) | *NUMBER OF SHARES* | SHARE CAPITAL | SHARE PREMIUM | OTHER REGULATED RESERVES | TOTAL SHARE CAPITAL, SHARE PREMIUM AND OTHER REGULATED RESERVES |
|---|---|---|---|---|---|
| **Balance at January 1, 2012** | *21,117,443* | **3,168** | **62,117** | **-** | **65,285** |
| *Employee share option plan:* | | | | | |
| *- exercise of share options* | *345,086* | 51 | 297 | - | 348 |
| **Balance at December 31, 2012** | *21,462,529* | **3,219** | **62,414** | **-** | **65,633** |
| **Balance at January 1, 2013** | *21,462,529* | **3,219** | **62,414** | **-** | **65,633** |
| *Employee share option plan:* | | | | | |
| *- exercise of share options* | *244,537* | 37 | 307 | - | 343 |
| *Issuance of common stock (merger with Intercell see note 30, May 2013)* | *17,836,719* | 2,676 | 47,779 | 52,820 | 103,275 |
| *Issuance of common stock, July 2013* | *15,165,215* | 2,275 | 37,913 | - | 40,188 |
| *Cost of equity transactions, net of tax* | - | - | (2,910) | - | (2,910) |
| **Balance at December 31, 2013** | *54,709,000* | **8,206** | **145,502** | **52,820** | **206,529** |

*Regulated non-distributable reserve relating to the merger with Intercell AG

## Increases of share capital

In connection with its merger with Intercell AG to form Valneva SE (see note 30), the Company issued 17,836,719 new ordinary shares and 17,836,719 new preferred shares, resulting in an overall increase in the share capital of the Company of EUR 2,676 thousand. At the same time, the Company adopted the legal form of a European company (SE), incorporated in Lyon, France.

The new ordinary shares carry the same rights as the existing ordinary shares, including dividend rights as of January 1, 2013. Each preferred share will convert into 0.4810 new ordinary shares upon the issuance before the end of a 7-year period starting on the day of completion of the merger (and subject to certain financial requirements) of a marketing authorization for the Group's Pseudomonas vaccine in the U.S. or in Europe. If the condition is not met within the 7-year period the preferred shares will be cancelled and redeemed at their nominal value of EUR 0.01 per share.

On July 4, 2013 Valneva SE completed a capital increase with pre-emptive subscription rights launched in June 2013. The gross proceeds from this financing amounted to EUR 40,188 thousand and resulted from the issuance of 15,165,215 new ordinary shares at an offering price of EUR 2.65 per share. The settlement-delivery and the listing of the new ordinary shares occurred on July 5, 2013. The new ordinary shares carry full rights ("jouissance courante").

In addition, the Company issued 244,537 (2012: 345,086) new ordinary shares in connection with the exercise of stock options during the reporting period, resulting in an increase in the share capital of EUR 37 thousand (2012: EUR 358 thousand).

## Conditional and authorized capital

The Company has 1,142,360 shares of conditional capital to service the exercise of existing stock options (note 23).

In addition, the Management Board has been authorized, to allot and authorize an increase in the registered share capital of the Company by issuing up to 1,052,950 new shares of common stock for granting of additional stock options.

The Management Board has been authorized by the General Meeting, to increase the ordinary shares or any securities giving access to the capital with preferential subscription rights by issuing up to 1,500,000 new shares of common stock.

The Management Board has been authorized by the General Meeting, to increase the ordinary shares or any securities giving access to the capital with cancellation of preferential subscription rights by public offering by issuing up to 1,500,000 new shares of common stock.

In addition, the Management Board has been authorized by the General Meeting to capitalize premiums, reserves, earnings etc. in the form of free shares or by increasing the par value of existing shares, or a combination of the two. The overall nominal amount of increased in share capital carried out immediately or in the future pursuant to this resolution may not exceed a total of EUR 1,500 thousand.

For more information see registration document 2013 section 3.2.2.3.5. Authorised capital for fiscal year 2013.

### *Note 22: Retained earnings and other reserves*

| EUR IN THOUSANDS | CURRENCY TRANSLATION | TREASURY SHARES | RETAINED EARNINGS | TOTAL |
|---|---|---|---|---|
| **Balance at January 1, 2012** | **51** | **(486)** | **(19,986)** | **(20,420)** |
| *Currency translation differences* | (22) | - | - | (22) |
| *Income appropriation* | - | - | (4,419) | (4,419) |
| *Employee share option plan:* | | | | |
| *- value of employee services* | - | - | 234 | 234 |
| *Purchase/Sale of treasury shares* | - | 29 | - | 29 |
| **Balance at December 31, 2012** | **29** | **(457)** | **(24,171)** | **(24,598)** |
| | | | | |
| **Balance at January 1, 2013** | **29** | **(457)** | **(24,171)** | **(24,598)** |
| *Currency translation differences* | 1,636 | - | - | 1,636 |
| *Income appropriation* | - | - | (14,841) | (14,841) |
| *Employee share option plan:* | | | | |
| *- value of employee services* | - | - | 179 | 179 |
| *Purchase/Sale of treasury shares* | - | (684) | - | (684) |
| **Balance at December 31, 2013** | **1,666** | **(1,141)** | **(38,833)** | **(38,308)** |

The Company has not received a dividend and has not paid a dividend to their shareholders in the years ended December 31, 2013 and 2012. ■

### *Note 23: Share-based payments*

#### + *Note 23.1 – Stock option plans*

Share options are granted to members of the Management Board, the Supervisory Board, and to employees (Employee Stock Option Plan – ESOP). Options granted in the years 2003 and 2005 are exercisable after a vesting period of four years and on achievement of objectives. Options granted in the years 2006 and 2010 may be exercised as soon as certain objectives are achieved. 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 period). All options expire no later than ten years after being granted. Options are not transferable or negotiable and unvested options lapse without compensation upon termination of employment with the Company (cancelation). Options granted from 2013 onwards become exercisable with the effectiveness of the takeover of more than 50% of the outstanding voting rights of the Company.

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

| | NUMBER OF OPTIONS | NUMBER OF SHARES AVAILABLE | AVERAGE EXERCISE PRICE IN EUR PER SHARE | NUMBER OF OP-TIONS | NUMBER OF SHARES AVAILABLE | AVERAGE EXERCISE PRICE IN EUR PER SHARE |
|---|---|---|---|---|---|---|
| | | | *2013* | | | *2012* |
| *Outstanding at January 1* | 9,768 | 305,944 | 1.88 | 11,937 | 569,818 | 1.71 |
| *Granted* | 1,049,250 | 1,049,250 | 3.21 | - | - | - |
| *Forfeited* | (34,650) | 34,650 | 3.21 | - | - | - |
| *Exercised* | (1,728) | 190,704 | 1.80 | (2,169) | 234,252 | 1.49 |
| **Outstanding at year end** | **1,022,640** | **1,140,160** | **3.08** | **9,768** | **305,944** | **1.88** |
| *Exercisable at year end* | 8,040 | 125,560 | | 9,768 | 305,944 | 1.88 |

Options exercised in 2013 resulted in 190,704 shares being issued (2012: 234,252 shares) at a price of EUR 1.80 per share (2012: price between EUR 0.45 and EUR 1.80 per share). The weighted average value per share at the time of option exercise was EUR 4.88 in 2013 (2012: EUR 6.62).

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

| EXPIRY DATE | EXERCISE PRICE IN EUR PER SHARE | NUMBER OF OPTIONS AT DECEMBER 31, | |
|---|---|---|---|
| | | *2013* | *2012* |
| *2013–2016* | 1.80 | 1,040 | 2,768 |
| *2020* | 5.19 | 7,000 | 7,000 |
| *2023* | 3.21 | 1,014,600 | - |
| | | **1,022,640** | **9,768** |

In 2012, no options were granted. The weighted average grant-date fair value of options granted during the year 2013 was EUR 1.61. The fair value of the granted options was determined using the Black Scholes valuation model. The significant inputs into the models were:

| | 2013 |
|---|---|
| *Expected volatility (%)* | 43.3 |
| *Expected vesting period (term in years)* | 2.00 – 4.00 |
| *Risk-free interest rate (%)* | 0.17 – 0.54 |

## + *Note 23.2 – Bonus shares*

In 2007, 2009 and 2010, the Company established three free share plans for employees and Company officers that are divided into several tranches.

The definitive grant of these shares takes place after a vesting period of two or four years and a holding period of two years for salaried employees. The grant to Company officers is subject to a vesting period of 2 years and a holding period of 2 years for 75% or 80% of the grant and an obligation to hold the remaining 25% or 20% of their grant until they cease to exercise their functions.

Changes in the bonus shares outstanding are as follows:

| | NUMBER OF BONUS SHARES | |
|---|---|---|
| | *2013* | *2012* |
| *Outstanding at January 1* | 108,166 | 240,500 |
| *Granted* | 52,000 | - |
| *Forfeited* | (9,000) | (21,500) |
| *Definitively granted* | (53,833) | (110,834) |
| **Outstanding at year end** | **97,333** | **108,166** |

## + *Note 23.3 – Equity warrants*

In 2007 and 2011, the Company granted equity warrants to members of the Supervisory Board. The warrants vest in four equal portions after one, two, three and four years. The subscription price of the equity warrants granted in the year 2011 amounts to EUR 5.17 per share.

Changes in the equity warrants outstanding are as follows:

| | NUMBER OF EQUITY WARRANTS | |
|---|---|---|
| | *2013* | *2012* |
| *Outstanding at January 1* | 16,875 | 33,750 |
| *Forfeited* | (5,625) | (16,875) |
| **Outstanding at year end** | **11,250** | **16,875** |

### *Note 24: Borrowings*

Borrowings of the Company at year-end include the following:

| EUR IN THOUSANDS | AT DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| **Non-current** | | |
| *Bank borrowings* | 5,656 | 5,073 |
| *Other loans* | 29,189 | - |
| *Finance lease liabilities* | 30,057 | - |
| | 64,902 | 5,073 |
| **Current** | | |
| *Bank borrowings* | 3,158 | 1,641 |
| *Other loans* | 2,242 | - |
| *Finance lease liabilities* | 980 | - |
| | 6,381 | 1,641 |
| **Total borrowings** | **71,283** | **6,714** |

The maturity of non-current borrowings is as follows:

| EUR IN THOUSANDS | AT DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| *Between 1 and 2 years* | 8,820 | 1,563 |
| *Between 2 and 3 years* | 9,623 | 1,212 |
| *Between 3 and 4 years* | 9,686 | 938 |
| *Between 4 and 5 years* | 7,754 | 773 |
| *Over 5 years* | 29,018 | 586 |
| **Non-current borrowings** | **64,902** | **5,073** |

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

| EUR IN THOUSANDS | AT DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| *EUR* | 50,307 | 6,714 |
| *USD* | 20,976 | - |
| **Total borrowings** | **71,283** | **6,714** |

### + *Note 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. ■

### + *Note 24.2 – Bank borrowings and other loans secured*

As at December 31, 2013, EUR 18,777 thousand of the outstanding bank borrowings and other loans are guaranteed, secured, or pledged.

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 5.33% at year-end 2013:

| EUR IN THOUSANDS | AT DECEMBER 31, 2013 | |
|---|---|---|
| | *Carrying amounts* | *Fair values* |
| *Bank borrowings* | 8,321 | 7,815 |
| *Other loans (excluding the other loan described in note 24.3)* | 10,456 | 9,044 |
| **Guaranteed, secured, or pledged borrowings** | **18,777** | **16,859** |

For all other borrowings the carrying amounts equal their fair values. ■

### + *Note 24.3 – Other loans*

On December 9, 2013, the Group announced that it had secured a USD 30 million financing from an investment fund managed by Pharmakon Advisors for its Austrian subsidiary Valneva Austria GmbH. The loan extends over a five year period and carries a fixed interest rate of 9.5%. As from 2016, Valneva will pay a 2.6% royalty to Pharmakon on its IXIARO®/JESPECT® sales during the term of the loan. The financing closed on December 20, 2013. The fixed 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 marketing partner relating to IXIARO®/JESPECT® and on the shares of the Group's Austrian and Scottish subsidiaries, which hold the key IXIARO®/JESPECT® assets. At December 31, 2013 the book values of the assets pledged amounted to EUR 277,224 thousand.

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

| EUR IN THOUSANDS | LOAN |
|---|---|
| *Proceeds of issue* | 22,041 |
| *Transaction costs* | (877) |
| *Net proceeds of issue* | 21,164 |
| *Accrued interest and royalty expense* | 91 |
| *Foreign exchange valuation* | (280) |
| **Value at December 31, 2013** | **20,976** |
| *Less non-current portion* | (20,913) |
| *Current portion* | 62 |

### *Note 25: Trade payables and accruals*

Trade payables and accruals include the following:

| EUR IN THOUSANDS | AT DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| *Trade payables* | 6,487 | 757 |
| *Accrued expenses* | 4,901 | 1,139 |
| | 11,388 | 1,896 |
| *Less non-current portion* | - | - |
| **Current portion** | **11,388** | **1,896** |

### *Note 26: Tax and employee-related liabilities*

| EUR IN THOUSANDS | AT DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| *Social security and other taxes* | 2,052 | 653 |
| *Employee-related liabilities* | 3,044 | 1,133 |
| | 5,096 | 1,786 |
| *Less non-current portion* | - | - |
| **Current portion** | **5,096** | **1,786** |

### *Note 27: Other liabilities and provisions*

| EUR IN THOUSANDS | AT DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| *Deferred income* | 16,820 | 5,003 |
| *Other financial liabilities* | 5,190 | 11,932 |
| *Deferred tax liabilities* | 79 | - |
| *Provisions for employee commitments* | 23 | 130 |
| *Other liabilities* | 32 | - |
| *Other provisions* | 371 | 12 |
| | 22,514 | 17,077 |
| *Less non-current portion* | (17,279) | (12,592) |
| **Current portion** | **5,235** | **4,485** |

#### + *Note 27.1 – Deferred Income*

| EUR IN THOUSANDS | AT DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| *Arising from collaboration and licensing agreements* | 15,906 | 3,538 |
| *Arising from government grants* | 914 | 1,465 |
| | 16,820 | 5,003 |
| *Less non-current portion* | (12,172) | (3,408) |
| **Current portion** | **4,648** | **1,595** |

#### + *Note 27.2 – Provisions for employee commitments*

a) Assumptions used

| | AT DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| *Discount rate* | 3.17% | 2.7% |
| *Salary increase rate* | 2.5% | 2.5% |
| *Turnover rate* | 12.45% | 9.5% |
| *Social security rate* | 47.99% | 47.9% |
| *Average remaining lifespan of employees (in years)* | 29 | 29.9 |

b) Changes in defined benefit obligation

| EUR IN THOUSANDS | PRESENT VALUE OF OBLIGATION |
|---|---|
| **Balance at January 1, 2012** | **98** |
| *Current service cost* | 32 |
| *Remeasurements* | - |
| *Benefit payments* | - |
| **Balance at December 31, 2012** | **130** |
| **Balance at January 1, 2013** | **130** |
| *Current service cost* | 4 |
| *Remeasurements* | (110) |
| *Benefit payments* | - |
| **Balance at December 31, 2013** | **23** |

+ *Note 27.3 – Other provisions*

| EUR IN THOUSANDS | AT DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| *Non-current* | - | 12 |
| *Current* | 371 | - |
| **Provisions** | **371** | **12** |
| **Balance at January 1, 2013** | **12** | |
| *Acquisition of subsidiary (note 30)* | 18 | |
| *Charged to the income statement:* | | |
| *- Additional provision* | 350 | |
| *- Reversed provision* | - | |
| *Used provisions* | (9) | |
| *Exchange differences* | (1) | |
| **Balance at December 31, 2013** | **371** | |

a) Legal obligations

Other liabilities and provisions include a provision of EUR 350 thousands for claims raised in a legal dispute by one of the Group's suppliers in connection with an alleged breach of contractual obligations by the Group.

### *Note 28: Cash used in operations*

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

| EUR IN THOUSANDS | NOTE | YEAR ENDED DECEMBER 31, | |
|---|---|---|---|
| | | *2013* | *2012* |
| *Loss for the year* | | (24,110) | (14,841) |
| *Adjustments for* | | | |
| *- Depreciation and amortization* | 12/ 13 | 9,056 | 4,784 |
| *- Impairment fixed assets/intangibles* | 12/ 13 | 92 | - |
| *- Share-based payments* | 23 | 179 | 234 |
| *- Income tax* | 10 | 348 | - |
| *- (Profit)/Loss from disposal of property, plant and equipment* | 8 | (1,260) | - |
| *- Other non-cash income/expense* | | 1,321 | (176) |
| *- Fair value gains on derivative financial instruments* | 9 | 50 | - |
| *- Gain on disposal of financial assets* | 9 | (9) | - |
| *- Interest income* | 9 | (191) | - |
| *- Interest expense* | 9 | 1,212 | 85 |
| *- Changes in other long-term assets and liabilities* | | (2,862) | (3,339) |
| *Changes in working capital (excluding the effects of acquisition and exchange rate differences on consolidation):* | | | |
| *- Inventory* | | 5,646 | - |
| *- Trade and other receivables* | | (3,381) | (57) |
| *- Trade and other payables and provisions* | | (5,576) | (87) |
| **Cash used in operations** | | **(19,485)** | **(13,397)** |

The following table shows the adjustments to reconcile net profit/loss from the disposal of property, plant and equipment to proceeds from the disposal of property, plant and equipment:

| EUR IN THOUSANDS | | |
|---|---|---|
| | *2013* | *2012* |
| *Net book value* | 3,740 | 6 |
| *Profit/(Loss) on disposal of property, plant and equipment* | 1,260 | - |
| **Proceeds from disposal of property, plant and equipment** | **5,000** | **6** |

The proceeds from the disposal of property, plant and equipment relate to the sale of the Group's Clinical Manufacturing Operations (CMO) in Nantes to Biological E., which was finalized in November 2013. ■

***Note 29: Commitments and contingencies***

a) Capital commitments

There were no capital expenditure contracted for at December 31, 2013, and December 31, 2012.

b) Operating lease commitments

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

| EUR IN THOUSANDS | AT DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| *Not later than 1 year* | 191 | - |
| *Later than 1 year and not later than 5 years* | 634 | - |
| *Later than 5 years* | 162 | - |
| **Operating lease commitments** | **986** | **-** |

In addition, the Company leases parking space, employee living accommodations, cars, and equipment under cancelable operating lease agreements. These leases have varying termination clauses.

c) Other commitments and guarantees

The other commitments consisted of:

| EUR IN THOUSANDS | AT DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| *Potential earn out payment on investment securities* | 3,781 | 3,781 |
| *Commitment with a supplier and subcontractors* | 490 | 1,023 |
| *Loans and grants* | 8,124 | 9,771 |
| *Other* | 1 | 3 |
| **Other commitments** | **12,396** | **14,578** |

The guarantees and pledges consisted of:

| EUR IN THOUSANDS | AT DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| *Equipment pledge* | 771 | 973 |
| *Pledges on consolidate investments* | 286,446 | 2,000 |
| *Pledges on non-consolidated investments* | - | - |
| **Guarantees and pledges** | **287,217** | **2,973** |

### *Note 30: Business combination*

On May 28, 2013, the Company completed its merger with Intercell AG. Intercell AG, with its fully owned subsidiaries Intercell Austria AG, Intercell Biomedical Ltd, Intercell USA, Inc. and Elatos GmbH (together “Intercell”) was a biotechnology company engaged in the research, development and commercialization of vaccines and monoclonal antibodies against a variety of infectious diseases to tackle high unmet medical needs and reduce suffering across the world.

Intercell’s marketed vaccine to prevent Japanese Encephalitis (JE) – IXIARO®/JESPECT® was a next generation vaccine against the most common vaccine-preventable cause of encephalitis in Asia licensed for use in adults and children in more than thirty countries. A comparable vaccine for endemic markets based on Intercell’s technology was launched in 2012 by Biological E. Ltd. under the trade name JEEV® in India. Intercell’s technology base included novel platforms, such as the IC31® adjuvant technology and the proprietary human monoclonal antibody discovery system eMAB®, upon which Intercell had entered into strategic partnerships with a number of leading pharmaceutical companies, including Merck & Co., Inc., and Sanofi. Intercell’s pipeline of investigational products included a Pseudomonas aeruginosa vaccine candidate (Phase II/III), a vaccine candidate against infections with C. difficile (Phase I) as well as numerous investigative vaccine programs using Intercell’s IC31® adjuvant, e.g. in a Tuberculosis vaccine candidate (Phase II). Intercell had in-house cGMP capability to manufacture both clinical and commercial biologicals at its fully owned site in Livingston, Scotland. The manufacturing site was currently dedicated to the production of Intercell’s novel Japanese Encephalitis vaccine. It was licensed and operated under a Manufacturing Authorisation granted by the Medicines and Healthcare products Regulatory Agency (MHRA) and it was also registered by the FDA.

The merger was accomplished through a stock-for-stock exchange of 17,836,719 newly issued ordinary Valneva shares, totalling a fair value of EUR 101.0m, and 17,836,719 newly issued preferred Valneva shares, totalling a fair value of EUR 2.3m.

The acquired assets and liabilities remain located in Austria, UK and USA, and have been included in the Company’s assets and liabilities as of June 1, 2013. Intercell was consolidated from June 1, 2013 onwards.

From the merger completion date through December 31, 2013, the acquired business contributed revenue and grants of EUR 29,362 thousand and a net loss of EUR 14,658 thousand to the Group’s consolidated income. If the transaction had occurred on January 1, 2013, the Group’s consolidated revenues and grants would have been EUR 43,684 thousand, and its net loss would have been EUR 54,062 thousand, of which EUR 14,932 thousand result from non-recurring merger transaction costs and costs related to the repayment of Intercell debt in connection with the merger.

Details of net assets acquired are as follows:

| PURCHASE CONSIDERATION | EUR IN THOUSANDS |
|---|---|
| *- Fair value of exchange shares issued as ordinary shares* | 100,956 |
| *- Fair value of exchange shares issued as preferred shares* | 2,319 |
| **Total purchase consideration** | **103,275** |
| *Fair value of net assets acquired* | 103,275 |
| *Goodwill* | 0 |

The fair value of the Valneva ordinary and preferred shares issued as consideration for the acquisition of Intercell shares was determined using the opening stock exchange price on the merger completion date.

The fair value of the assets and liabilities acquired through the business combination are as follows:

| EUR IN THOUSANDS | FAIR VALUE | ACQUIREE'S CARRYING AMOUNT |
|---|---|---|
| *Cash, cash equivalents and financial assets* | 16,220 | 16,220 |
| *Property, plant and equipment, hardware* | 39,150 | 39,150 |
| *Intangible assets* | 111,832 | 62,080 |
| *Other non-current assets* | 11,299 | 11,299 |
| *Inventories* | 10,354 | 10,354 |
| *Trade and other receivables* | 10,381 | 10,381 |
| *Non-current liabilities* | (45,950) | (45,950) |
| *Trade and other payables* | (18,592) | (18,592) |
| *Other current liabilities* | (31,419) | (25,866) |
| **Net assets acquired** | **103,275** | **59,076** |

In the initial accounting for the business combination, the fair values assigned to the identifiable assets and liabilities have been determined on a provisional basis. Any adjustments to those provisional values as a result of completing the initial accounting shall be recognized within twelve months of the acquisition date.

The cash consideration paid, net of cash acquired through the acquisition, is as follows:

| EUR IN THOUSANDS | |
|---|---|
| *Cash consideration* | 0 |
| *Cash and cash equivalents in acquired business* | 13,619 |
| **Cash inflow through acquisition** | **13,619** |

### *Note 31: Related-party transactions*

+ *Note 31.1 – Purchases of services*

Related parties concerned relations with companies of the Grimaud Group. These concerned both a group management agreement and the provision of services and miscellaneous items by the Grimaud Group to Valneva SE. These services consist of either normal operating activities (accounting, payroll, cash management, health analyses, interest rate swap allocation agreement, insurance coverage, human resources, and IT servies) or regulated activities (guarantees).

Furthermore, on March 28, 2007, the Supervisory Board authorized Valneva SE's Executive Board to conclude a group management agreement with Grimaud Group. Under the terms of this agreement, the latter ensures a role of coordinating Group management and ensuring a consistent performances and profitability. This agreement was concluded for one year subject to tacit renewal. This agreement has been terminated with Grimaud Group as of October 31, 2013.

| EUR IN THOUSANDS | YEAR ENDED DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| *Purchases of services:* | | |
| *- Operating activities* | 283 | 209 |
| *- Group management* | 189 | 198 |
| **Purchases of services** | **471** | **407** |

+ *Note 31.2 – Key management compensation*

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

| EUR IN THOUSANDS | YEAR ENDED DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| *Salaries and other short-term employee benefits* | 2,010 | 466 |
| *Other long-term benefits* | 14 | - |
| *Share-based payments (stock compensation expense/income)* | 33 | 124 |
| **Key management compensation** | **2,057** | **590** |

+ *Note 31.3– Supervisory Board compensation*

The aggregate compensation of the members of the Company's Supervisory Board amounted to EUR 163 thousand (2012: EUR 53 thousand). In the year 2011, the Company granted equity warrants to certain members of the Supervisory Board. For more information see note 23.3. ■

### *Note 32: Pro Forma Information*

#### + *Note 32.1 – Introductory comments*

On May 28, 2013, Valneva SE ("Valneva" or the Company) completed its merger with Intercell AG. Intercell AG, with its fully owned subsidiaries Intercell Austria AG, Intercell Biomedical Ltd, Intercell USA, Inc. and Elatos GmbH (together "Intercell") was a biotechnology company engaged in the research, development and commercialization of vaccines and monoclonal antibodies against a variety of infectious diseases to tackle high unmet medical needs and reduce suffering across the world.

The merger was accomplished through a stock-for-stock exchange of 17,836,719 newly issued ordinary Valneva shares, totalling a fair value of EUR 101.0m, and 17,836,719 newly issued preferred Valneva shares, totalling a fair value of EUR 2.3m.

The pro forma consolidated income statements for the years ended on December 31, 2013 and on December 31, 2012 reflect the consolidated results of the Valneva Group as if the merger between Vivalis and Intercell had occurred on January 1 of each relevant period. The pro forma adjustments are based on available information and on assumptions that are considered reasonable by Valneva Group.

The pro forma financial information (hereafter referred to as the "Pro Forma Financial Information") is presented exclusively for illustrative purposes and does not provide for an indication of the results of operating activities or the financial position of Valneva SE that would have been obtained for the periods ending on December 31, 2013 and on December 31, 2012 if the Merger had been completed at the dates considered. Similarly, it does not provide for an indication of the future results of operating activities or financial position of Valneva SE. ■

### + *Note 32.2 – Presentation of Pro Forma Financial Information for the years ended December 31, 2013 and December 31, 2012*

Pro forma income statement (unaudited)

| EUR IN THOUSANDS | FULL YEAR ENDED DECEMBER 31, | |
|---|---|---|
| | *2013* | *2012* |
| *Product sales* | 27,212 | 26,772 |
| *Revenues from collaborations and licensing* | 10,814 | 11,889 |
| **Revenues** | **38,026** | **38,661** |
| *Grant income* | 5,658 | 4,255 |
| **Revenues and Grants** | **43,684** | **42,916** |
| *Cost of goods sold* | (20,003) | (19,730) |
| *Research and development expenses* | (30,786) | (30,865) |
| *General, selling and administrative expenses* | (20,790) | (18,610) |
| *Other income and expenses, net* | 1,820 | 837 |
| *Amortization of intangible assets* | (6,469) | (4,271) |
| **OPERATING PROFIT/(LOSS)** | **(32,543)** | **(29,722)** |
| *Finance income* | 288 | 939 |
| *Finance expenses* | (6,159) | (6,212) |
| **PROFIT/(LOSS) BEFORE INCOME TAX** | **(38,414)** | **(34,995)** |
| *Income tax* | (351) | (572) |
| **PROFIT/(LOSS) FROM CONTINUING OPERATIONS** | **(38,765)** | **(35,568)** |
| *Loss from assets held for sale or discontinued operations* | (137) | (1,856) |
| **PROFIT/(LOSS) FOR THE PERIOD** | **(38,902)** | **(37,424)** |

## + *Note 32.3 – Reconciliation to the Company's consolidated financial statements under IFRS*

| EUR IN THOUSANDS | FULL YEAR ENDED DECEMBER 31, 2012 | | | |
|---|---|---|---|---|
| *(unaudited)* | *Vivalis reported income statement (IFRS)* | *Intercell reported income statement (IFRS)* | *Pro forma adjustments: Merger transaction costs* | *Adjusted pro forma income statement* |
| *Product sales* | - | 26,772 | | 26,772 |
| *Revenues from collaborations and licensing* | 3,431 | 8,458 | | 11,889 |
| **Revenues** | **3,431** | **35,230** | | **38,661** |
| *Grant income* | 2,478 | 1,777 | | 4,255 |
| **Revenues and Grants** | **5,909** | **37,007** | | **42,916** |
| *Cost of goods sold* | - | (19,730) | | (19,730) |
| *Research and development expenses* | (11,095) | (19,770) | | (30,865) |
| *General, selling and administrative expenses* | (5,565) | (15,799) | *2,755* | (18,610) |
| *Other income and expenses, net* | (292) | 1,129 | | 837 |
| *Amortization of intangible assets* | (1,790) | (2,481) | | (4,271) |
| **OPERATING PROFIT/(LOSS)** | **(12,833)** | **(19,644)** | | **(29,722)** |
| *Finance income* | 477 | 462 | | 939 |
| *Finance expenses* | (533) | (5,679) | | (6,212) |
| **PROFIT/(LOSS) BEFORE INCOME TAX** | **(12,889)** | **(24,861)** | | **(34,995)** |
| *Income tax* | (96) | (476) | | (572) |
| **PROFIT/(LOSS) FROM CONTINUING OPERATIONS** | **(12,985)** | **(25,337)** | | **(35,568)** |
| *Loss from assets held for sale or discontinued operations* | (1,856) | - | | (1,856) |
| **PROFIT/(LOSS) FOR THE PERIOD** | **(14,841)** | **(25,337)** | | **(37,424)** |

The main adjustments in the year ended December 31, 2012 are the following:

- Cancellation of the impact of merger costs of EUR 2.8 million incurred by Intercell and Vivalis in order to perform the merger. These items represent significant charges that impact current results, but have been considered unrelated to the Company's ongoing operations and performance.

| EUR IN THOUSANDS | FULL YEAR ENDED DECEMBER 31, 2013 | | | |
|---|---|---|---|---|
| *(unaudited)* | *Valneva reported income statement (IFRS)* | *Intercell income for the period Jan – May 2013* | *Pro forma adjustments - exclusion of Merger related costs* | *Adjusted pro forma income statement* |
| *Product sales* | 23,239 | 3,973 | | 27,212 |
| *Revenues from collaborations and licensing* | 7,206 | 3,608 | | 10,814 |
| **Revenues** | **30,445** | **7,582** | | **38,026** |
| *Grant income* | 5,546 | 112 | | 5,658 |
| **Revenues and Grants** | **35,991** | **7,694** | | **43,684** |
| *Cost of goods sold* | (16,508) | (3,494) | | (20,003) |
| *Research and development expenses* | (21,423) | (9,719) | *356* | (30,786) |
| *General, selling and administrative expenses* | (14,720) | (11,397) | *5,327* | (20,790) |
| *Other income and expenses, net* | 1,157 | 663 | | 1,820 |
| *Amortization of intangible assets* | (5,353) | (1,117) | | (6,469) |
| **OPERATING PROFIT/(LOSS)** | **(20,856)** | **(17,370)** | | **(32,543)** |
| *Finance income* | 200 | 89 | | 288 |
| *Finance expenses* | (2,969) | (12,128) | *8,937* | (6,159) |
| **PROFIT/(LOSS) BEFORE INCOME TAX** | **(23,625)** | **(29,409)** | | **(38,414)** |
| *Income tax* | (348) | (3) | | (351) |
| **PROFIT/(LOSS) FROM CONTINUING OPERATIONS** | **(23,973)** | **(29,412)** | | **(38,765)** |
| *Loss from assets held for sale or discontinued operations* | (137) | - | | (137) |
| **PROFIT/(LOSS) FOR THE PERIOD** | **(24,110)** | **(29,412)** | | **(38,902)** |

The main adjustments in the year ended December 31, 2013 are the following:

- Cancellation of the finance expense of EUR 8.9 million recognized in the consolidated income statement at December 31, 2013, for remeasurement of borrowings (due to the merger a change in control premium was paid to the lender in regard to borrowings);
- Cancellation of the impact of merger costs of EUR 4.7 million incurred by Intercell in order to perform the merger. These items represent significant charges that impact current results, but have been considered unrelated to the Company's ongoing operations and performance.
- Cancellation of the impact of the accelerated vesting as the Intercell AG stock option plans provided for a change of control provision. Pursuant to this provision, all existing options become exercisable when more than 50% of Intercell AG voting rights are transferred. The acceleration of the vesting period of the stock options of EUR 0.9 million was cancelled. ■

+ *Note 32.4 – Basis of preparation*

The Pro Forma Financial Information was prepared based on published historical data of Vivalis SA, Intercell AG and Valneva SE, which was subject to a number of presentation reclassifications.

a) Regulatory framework

The Pro Forma Financial Information has been prepared in accordance with AMF Instruction 2007-05 of October 2, 2007 and article 222-2 of the AMF General Regulation.

b) Acquisition

The merger has been treated in the Pro Forma Financial Information as an acquisition of Intercell by Vivalis, if analysed in terms of the criteria provided for by IFRS 3r, applicable as of December 31, 2013.

c) Reclassifications and harmonization of accounting principles

The Pro Forma Financial Information has been prepared in accordance with the IFRS accounting standards that are applied in the financial statements for the year ended December 31, 2013 published by Valneva SE.

The merger has been treated in the pro forma consolidated financial information as an acquisition of Intercell AG by Vivalis SA. This reflects the legal treatment of the transaction pursuant to which Vivalis SA is the absorbing company and will be the company issuing new shares to Intercell AG shareholders in consideration for the Merger.

Some items have been reclassified in the pro forma consolidated financial information drawn up in accordance with IFRS, in order to account for differences in the presentation of the balance sheets and income statements of the two groups and to align their financial statements with the provisional presentation chosen by the consolidated group.

An analysis has also been completed in order to identify any pro forma adjustments to be recognized, in order to harmonize the accounting principles applied to similar transactions. No significant difference was identified in this analysis.

d) Underlying assumptions

The Pro Forma Financial Information was prepared on the basis of:

- Audited consolidated IFRS financial statements for Vivalis SA and Intercell AG at December 31, 2012
- Audited consolidated IFRS financial statements for the Valneva SE Group merged, at December 31, 2013
- Unaudited consolidated IFRS financial statements for Intercell AG for the first five months of 2013

The pro forma adjustments to the pro forma consolidated income statements for the years ended on December 31, 2013 and on December 31, 2012 were calculated on the assumption that the merger had been completed on January 1 of each relevant financial year presented (i.e., January 1, 2013 and January 1, 2012).

The Pro Forma Financial Information is presented exclusively for illustrative purposes and does not provide for an indication of the results of operating activities or the financial position of Valneva SE that would have been obtained for the periods ending December 31, 2013 and December 31, 2012 if the Merger had been completed at the dates considered. Similarly, it does not provide for an indication of the future results of operating activities or financial position of Valneva SE.

All pro forma adjustments relate directly to the merger.

Only those adjustments that can be documented and for which reliable estimates can be made are taken into account.

For example, the pro forma consolidated financial information does not reflect:

- cost savings, other synergies and value creation that may result from the merger;
- specific factors that could result from clauses in the merger agreement, or from restructuring or consolidation costs that may be incurred because of the merger;
- Potential impact of the asset-disposal program planned for after the merger;
- Any tax expense or tax income potentially resulting from the new group structure;
- The potential impact resulting from changes in the financial structure of Valneva SE.

e) Intragroup transactions

To the best of the two companies' knowledge, there were no intragroup transactions among companies in the consolidated Group that might have had a significant impact on the income statements of the merged group at December 31, 2013, or December 31, 2012.

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