

Q3 2017

QUARTERLY REPORT VALNEVA SE

November 9, 2017

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**VALNEVA SE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT
AS OF SEPTEMBER 30, 2017**

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**CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT**

€ in thousand (except per share amounts)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Product sales	19,809	15,740	67,883	56,648
Revenues from collaboration, licensing and services	2,674	2,655	8,459	11,384
Revenues	22,483	18,395	76,342	68,032
Grant income	1,904	959	3,415	2,709
Revenues and grants	24,387	19,354	79,757	70,741
Cost of goods and services	(7,702)	(8,291)	(32,142)	(29,981)
Research and development expenses	(5,390)	(6,262)	(15,121)	(18,719)
Distribution and marketing expenses	(3,809)	(3,929)	(11,996)	(11,285)
General and administrative expenses	(3,731)	(3,080)	(11,142)	(10,403)
Other income and expenses, net	(21)	(20)	(213)	23
Amortization and impairment of fixed assets/intangibles	(5,358)	(1,795)	(8,950)	(39,453)
OPERATING PROFIT/(LOSS)	(1,624)	(4,023)	192	(39,077)
Finance income	32	11	62	200
Finance expenses	(1,935)	(2,891)	(7,027)	(7,160)
Result from investments in associates	-	-	-	-
LOSS BEFORE INCOME TAX	(3,527)	(6,903)	(6,772)	(46,038)
Income tax	84	(104)	(1,032)	(429)
LOSS FOR THE PERIOD	(3,442)	(7,007)	(7,804)	(46,467)
Losses per share for profit/loss for the period attributable to the equity holders of the Company, expressed in € per share (basic and diluted)	(0.04)	(0.09)	(0.10)	(0.62)

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME**

€ in thousand	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Loss for the period	(3,442)	(7,007)	(7,804)	(46,467)
Other comprehensive income/(loss)				
Items that may be reclassified to profit or loss				
Currency translation differences	1,275	(119)	3,595	(1,239)
Items that will not be reclassified to profit or loss				
Defined benefit plan actuarial losses	-	-	-	-
Other comprehensive income/(loss) for the period, net of tax	1,275	(119)	3,595	(1,239)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO THE OWNERS OF THE COMPANY	(2,167)	(7,125)	(4,209)	(47,706)

**CONDENSED CONSOLIDATED INTERIM BALANCE SHEET**

€ in thousand	September 30, 2017	December 31, 2016
ASSETS		
Non-current assets	105,491	115,686
Intangible assets	50,382	58,959
Property, plant and equipment	38,303	39,039
Other non-current assets	16,806	17,688
Current assets	86,239	91,197
Inventories	23,440	22,701
Trade receivables	9,945	16,912
Other current assets	9,058	9,404
Cash, cash equivalents and short-term deposits	43,797	42,180
TOTAL ASSETS	191,730	206,883
EQUITY		
Capital and reserves attributable to the Company's equity holders	96,210	100,051
Share capital	11,638	11,638
Share premium and other regulated reserves	252,934	252,937
Retained earnings and other reserves	(160,558)	(115,339)
Net result for the period	(7,804)	(49,184)
LIABILITIES		
Non-current liabilities	57,458	67,941
Borrowings	51,974	61,544
Deferred tax liability	63	65
Other non-current liabilities and provisions	5,421	6,333
Current liabilities	38,062	38,891
Borrowings	17,937	20,959
Trade payables and accruals	9,406	7,808
Current tax liability	555	561
Tax and employee-related liabilities	6,941	7,123
Other current liabilities and provisions	3,222	2,439
TOTAL LIABILITIES	95,520	106,832
TOTAL EQUITY AND LIABILITIES	191,730	206,883

**CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT**

€ in thousand	Nine months ended September 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	(7,804)	(46,467)
Depreciation and amortization	8,490	8,431
Impairment	3,568	34,109
Share-based payments	510	1,048
Income tax	1,032	430
Other adjustments for reconciliation to cash used in operations	5,933	6,533
Changes in working capital	7,070	4,362
Cash generated from/(used in) operations	18,799	8,447
Income tax paid	(549)	(457)
Net cash generated from/(used in) operating activities	18,250	7,990
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of other businesses, net of cash acquired	-	15,279
Purchases of property, plant and equipment	(1,944)	(1,448)
Proceeds from sale of property, plant and equipment	-	1
Purchases of intangible assets	(1,102)	(336)
Interest received	62	3,200
Net cash generated from/(used in) investing activities	(2,984)	16,697
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock, net of costs of equity transactions	(68)	-
Disposal/(Purchase) of treasury shares	(140)	(101)
Proceeds from borrowings, net of transaction costs	6,124	1,481
Repayment of borrowings	(13,023)	(20,857)
Interest paid	(2,935)	(6,420)
Net cash generated from/(used in) financing activities	(10,042)	(25,897)
Net change in cash and cash equivalents	5,223	(1,210)
Cash at beginning of the period	35,267	41,907
Exchange gains/(losses) on cash	70	(1,048)
Cash at end of the period	40,560	39,649
Cash, cash equivalents and short-term deposits at end of the period	43,797	40,293

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY**

€ in thousand	Share capital	Share premium and other regulated reserves	Retained earnings and other reserves	Net result	Total equity
Balance as of January 1, 2016	11,205	245,965	(92,219)	(20,617)	144,335
Total comprehensive loss	-	-	(1,239)	(46,467)	(47,706)
Income appropriation	-	-	(20,617)	20,617	-
Employee share option plan					
- value of employee services	-	-	1,049	-	1,049
- exercise of share options	-	-	-	-	-
Treasury shares	-	-	(101)	-	(101)
	-	-	(20,908)	(25,850)	(46,758)
Balance as of September 30, 2016	11,205	245,965	(113,127)	(46,467)	97,577
Balance as of January 1, 2017	11,638	252,937	(115,339)	(49,184)	100,051
Total comprehensive loss	-	-	3,595	(7,804)	(4,209)
Income appropriation	-	-	(49,184)	49,184	-
Employee share option plan					
- value of employee services	-	-	510	-	510
- exercise of share options	-	-	-	-	-
Treasury shares	-	-	(140)	-	(140)
Cost of equity transactions, net of tax	-	(3)	-	-	(3)
	-	(3)	(45,218)	41,380	(3,841)
Balance as of September 30, 2017	11,638	252,934	(160,558)	(7,804)	96,210



SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

1. Basis of preparation

This condensed consolidated interim financial report of Valneva SE (hereafter referred to as the “Group” or “Company”) for the first nine months ended September 30, 2017 has been prepared in accordance with International Financial Reporting Standards as adopted by the EU applicable to interim financial reporting (IAS 34) authorizing the presentation of selected explanatory notes. In consequence, these condensed consolidated financial statements must be read in conjunction with the consolidated annual financial statements for the year ended December 31, 2016 available in French and in English at the company’s website: www.valneva.com.

In this interim financial reporting the same accounting policies and methods of computation as in the most recent annual financial statements for the year ended December 31, 2016, have been applied.

No standards or interpretations were early adopted, if they are not mandatorily applicable in 2017.

The following standards may in future have an effect on the Groups financial statements, but are not yet applicable:

- IFRS 9 “Financial Instruments” applicable as of January 1, 2018
- IFRS 15 “Revenue from Contracts with Customers” applicable as of January 1, 2018
- IFRS 16 “Leases” applicable as of January 1, 2019

Standards and amendments to standards published and effective as of January 1, 2017 have no material effect on the financial statements of the Group.

For presentation clarity, figures herein have been rounded and, where indicated, are presented in thousands of euros. However, calculations are based on exact figures. For this reason, the sum of the numbers in a column of a table may not conform to the total figure displayed in the column.

The “Brexit” vote had no significant impact other than FX rate implications on the Group’s financial statements as of September 30, 2017. Future events following the vote and their implications on the Group’s business will be monitored by Valneva’s management.

This interim report of Valneva SE has not been audited or reviewed.

2. Group structure

List of direct or indirect interests:

Name	Country of incorporation	Consolidation method	September 30, 2017	December 31, 2016
BliNK Biomedical SAS	FR	equity method	41.77%	43.29%
Intercell USA, Inc.	US	full	100%	100%
Vaccines Holdings Sweden AB	SE	full	100%	100%
Valneva Austria GmbH	AT	full	100%	100%
Valneva Canada Inc.	CA	full	100%	100%
Valneva Scotland Ltd.	UK	full	100%	100%
Valneva Sweden AB	SE	full	100%	100%
Valneva Toyama Japan KK	JP	full	100%	100%
Valneva UK Ltd.	UK	full	100%	100%



3. Revenues

Revenues comprise product sales, revenues from collaborations and licensing and grant income. The main part relates to product sales from commercialized vaccines as broken down in the following table:

€ in thousand	Nine months ended September 30,	
	2017	2016
JEV	45,939	39,899
DUKORAL	19,941	14,879
Third-party products	2,212	1,870
Product sales	68,092	56,648

In general, revenues have fluctuated in the past and the Company expects that they will continue to do so over different reporting periods in the future.

4. Segment reporting

The segments consist of the following:

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

As of January 1, 2017 the Group changed its internal reporting process and amended the various allocations rules for research and development expenses, distribution and marketing expenses as well as general and administrative expenses.

Income statement aggregates by segment for the nine months ended September 30, 2017:

€ in thousand	Commer- cialized vaccines	Vaccine candi- dates	Techno- logies and services	Corporate Overhead	Total
Revenues and grants	68,092	5,715	5,950	-	79,757
Cost of goods and services	(27,557)	(9)	(4,576)	-	(32,142)
Research and development expenses	(2,416)	(12,411)	(294)	-	(15,121)
Distribution and marketing expenses	(11,473)	(94)	(429)	-	(11,996)
General and administrative expenses	(2,991)	(1,057)	(573)	(6,521)	(11,142)
Other income and expenses, net	-	-	-	(213)	(213)
Amortization and impairment of fixed assets/intangibles	(4,985)	(3,573)	(392)	-	(8,950)
Operating profit/(loss)	18,671	(11,429)	(314)	(6,735)	192
Finance income/loss and income tax	-	-	-	(7,996)	(7,996)
Income/(Loss) for the period	18,671	(11,429)	(314)	(14,733)	(7,804)



Income statement aggregates by segment for the nine months ended September 30, 2016:

€ in thousand	Commer- cialized vaccines	Vaccine candi- dates	Techno- logies and services	Corporate Overhead	Total
Revenues and grants	56,836	5,355	8,550	-	70,741
Cost of goods and services	(25,341)	-	(4,640)	-	(29,981)
Research and development expenses	(3,513)	(14,421)	(786)	-	(18,719)
Distribution and marketing expenses	(10,761)	-	(523)	-	(11,285)
General and administrative expenses	(2,797)	(1,006)	(641)	(5,960)	(10,403)
Other income and expenses, net	-	-	-	23	23
Amortization and impairment of fixed assets/intangibles	(5,012)	(34,109)	(331)		(39,453)
Operating profit/(loss)	9,412	(44,181)	1,629	(5,937)	(39,077)
Finance income/loss and income tax	-	-	-	(7,389)	(7,389)
Income/(Loss) for the period	9,412	(44,181)	1,629	(13,326)	(46,467)

5. Intangible Assets

Impairment testing

In case of triggering events, the book values of capitalized in-process research & development projects have been assessed for impairment testing purposes using the risk-adjusted discounted cash flow method. Management reviews the business performance based on in-process Research & Development projects. The recoverable amounts of these projects are determined based on value-in-use calculations.

The calculations use post tax risk-adjusted cash flow projections based on the Group's long-range business model including the Management's best estimate on probability of success of the respective projects (risk-adjustment) and a discount rate.

Potential partners are hesitant about the level of investment required to fund a Phase III *Clostridium difficile* clinical trial. Noting this feedback, Valneva has reviewed its development and partnering approach. This review has triggered a revision in Q3 2017 of the existing business model resulting in a reduction of future cash-flows and therefore, an impairment of €3,568 thousand.

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.



6. EBITDA

EBITDA (Earnings before interest, taxes, depreciation and amortization) is calculated by excluding depreciation, amortization and impairment of tangible and intangible assets from the operating loss.

€ in thousand	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Operating profit/(loss)	(1,624)	(4,023)	192	(39,077)
Depreciation	785	964	2,580	3,279
Amortization	1,966	1,850	5,910	5,153
Impairment of intangibles and fixed assets	3,568	-	3,568	34,109
EBITDA	4,695	(1,209)	12,250	3,463

7. Financial instruments

The Company's only derivatives measured at fair market value are interest rate SWAPs with a negative fair market value of €1 thousand and FX options with a market value of zero as of September 30, 2017.

Other financial assets and financial liabilities accounted at their carrying amount which corresponds to their approximate fair value.

8. Cash, cash equivalents and short-term deposits

Cash, cash equivalents and short-term deposits include the following:

€ in thousand	September 30,	December 31,
	2017	2016
Cash at bank and in hand	39,557	34,266
Short-term bank deposits (maturity less than 3 months)	1,003	1,002
Restricted cash	3,237	6,913
Cash, cash equivalents and short-term deposits	43,797	42,180

As of September 30, 2017, cash and cash equivalents include €3,237 thousand (December 31, 2016: €6,913 thousand) with restrictions on remittances.

9. Contingencies

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

Following the merger between the companies Vivalis SA and Intercell AG in 2013, certain former Intercell shareholders initiated legal proceedings before the Commercial Court of Vienna to request a revision of the exchange ratio between Intercell and Valneva shares used in the merger. Valneva has filed an extensive statement in response to the petitions in which it describes the basis for the original exchange ratio, including the use of independent third parties. If the court decides to revise the exchange ratio, the court could extend this revision to all former Intercell shareholders who exchanged



their shares, even if they were not a party to the dispute (*erga omnes effect*), in which case Valneva may be forced to compensate all former shareholders following the reevaluation of the exchange ratio. The outcome of the proceedings to review the exchange ratio cannot be predicted with certainty at the present time. It is, therefore, currently not possible to estimate whether a specific shareholder group will be granted additional payments or what the amount of these payments might be. However, Valneva, after consultation with its external advisors, believes that these legal proceedings are unsubstantiated and are not likely to succeed in court.

10. Events after the reporting period

There are no events occurring between the reporting period and the time of publication that are expected to have a material effect on the financial statements.

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