Consolidated Financial Statements (IFRS)

2018

RISING

valneva

VALNEVA

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

Consolidated financial statements
at December 31, 2018

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1. CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

Consolidated income statement

€ in thousand (except per share amounts)	Note	Year ended December 31,	
		2018	**2017**
Product sales	5.4/5.5	103,476	92,619
Revenues from collaboration, licensing and services	5.4/5.5	9,559	12,672
Revenues		**113,035**	**105,291**[1]
Cost of goods and services	5.6/5.7	(44,448)	(45,979)
Research and development expenses	5.6/5.7	(25,291)	(23,356)
Marketing and distribution expenses	5.6/5.7	(20,930)	(17,875)
General and administrative expenses	5.6/5.7	(16,932)	(15,545)
Other income and expenses, net	5.8	4,004	4,240[1]
Amortization and impairment of intangibles	5.13	(3,177)	(10,731)
OPERATING PROFIT/(LOSS)		**6,261**	**(3,954)**
Finance income	5.9	178	72
Finance expenses	5.9	(4,209)	(8,678)
Result from investments in associates	5.15	1,122	-
PROFIT/(LOSS) BEFORE INCOME TAX		**3,351**	**(12,560)**
Income tax	5.10	(88)	1,078
PROFIT/(LOSS) FOR THE PERIOD		**3,264**	**(11,482)**
Earnings/(Losses) per share for profit/loss for the period attributable to the equity holders of the Company, expressed in € per share	5.11		
- **basic**		**0.04**	**(0.15)**
- **diluted**		**0.04**	**(0.15)**

[1] "Grant income" was reclassified from the category "Revenue and Grants" and included in "Other income/expense" for periods starting Jan 1, 2018. The comparable period was adjusted accordingly to maintain the comparability.

Consolidated statement of comprehensive income

€ in thousand	Note	Year ended December 31,	
		2018	2017
Profit/(Loss) for the period		**3,264**	**(11,482)**
Other comprehensive income/(loss)			
Items that may be reclassified to profit or loss			
Currency translation differences	5.22	(1,385)	3,337
Items that will not be reclassified to profit or loss			
Defined benefit plan actuarial losses	5.27.2	13	35
Other comprehensive income/(loss) for the year, net of tax		**(1,372)**	**3,372**
TOTAL COMPREHENSIVE PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE COMPANY		**1,892**	**(8,109)**

2. CONSOLIDATED BALANCE SHEET

€ in thousand	Note	At December 31, 2018	2017
ASSETS			
Non-current assets		**103,934**	**105,895**
Intangible assets	5.13	44,891	48,468
Property, plant and equipment	5.14	37,997	38,374
Equity-accounted investees	5.15	1,122	-
Other non-current assets	5.19	17,236	17,368
Deferred tax assets	5.10.2	2,689	1,686
Current assets		**125,972**	**83,448**
Inventories	5.17	22,727	19,931
Trade receivables	5.18	11,259	17,622
Other current assets	5.19	10,261	7,840
Cash and cash equivalents	5.20	81,725	38,055
TOTAL ASSETS		**229,907**	**189,343**
EQUITY			
Capital and reserves attributable to the Company's equity holders		**143,186**	**92,669**
Share capital	5.21	13,638	11,638
Share premium and other regulated reserves	5.21	297,720	252,934
Retained earnings and other reserves	5.21	(171,435)	(160,421)
Net result for the period		3,264	(11,482)
LIABILITIES			
Non-current liabilities		**43,777**	**59,000**
Borrowings	5.24	40,070	54,097
Non-current contract liabilities, other liabilities and provisions	5.27	3,707	4,903
Current liabilities		**42,944**	**37,674**
Borrowings	5.24	17,529	17,399
Trade payables and accruals	5.25	13,325	9,527
Current tax liability		1,406	322
Tax and employee-related liabilities	5.26	8,643	7,531
Current contract liabilities, other liabilities and provisions	5.27	2,041	2,896
TOTAL LIABILITIES		**86,721**	**96,674**
TOTAL EQUITY AND LIABILITIES		**229,907**	**189,343**

3. CONSOLIDATED CASH FLOW STATEMENT

€ in thousand	Note	Year ended December 31, 2018	2017
Cash flows from operating activities			
Profit/(loss) for the year		3,264	(11,482)
Depreciation and amortization	5.13/5.14	6,828	11,141
Impairment	5.13	-	3,568
Share-based payments	5.23	1,887	811
Income tax	5.10	88	(1,078)
Other adjustments for reconciliation to cash used in operations	5.28	1,559	6,330
Changes in working capital	5.28	3,955	4,199
Cash generated from operations	5.28	**17,580**	**13,489**
Income tax paid	5.10	(1,273)	(660)
Net cash generated from operating activities		**16,306**	**12,829**
Cash flows from investing activities			
Purchases of property, plant and equipment	5.14	(2,874)	(2,890)
Proceeds from sale of property, plant and equipment	5.14	76	-
Purchases of intangible assets	5.13	(297)	(1,148)
Purchases of financial instruments	5.16	-	(94)
Interest received		178	72
Net cash used in investing activities		**(2,917)**	**(4,060)**
Cash flows from financing activities			
Proceeds from issuance of common stock, net of costs of equity transactions	5.21	49,286	(43)
Disposal/(Purchase) of treasury shares	5.21	(23)	(104)
Proceeds from borrowings, net of transaction costs	5.24	1,418	11,104
Repayment of borrowings	5.24	(15,571)	(16,415)
Interest paid	5.9	(4,165)	(4,980)
Net cash generated from/(used in) financing activities		**30,945**	**(10,438)**
Net change in cash and cash equivalents		**44,334**	**(1,670)**
Cash at beginning of the year		33,545	35,267
Exchange gains/(losses) on cash		(795)	(53)
Cash at end of the year	5.20	**77,084**	**33,545**
Cash and cash equivalents at end of the year		**81,725**	**38,055**

4. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

€ in thousand	Note	Share capital	Share premium and other regulated reserves	Retained earnings and other reserves	Net result	Total equity
Balance as of January 1, 2017		**11,638**	**252,937**	**(115,339)**	**(49,184)**	**100,051**
Total comprehensive loss		-	-	3,372	(11,482)	(8,109)
Income appropriation		-	-	(49,184)	49,184	-
Employee stock options plans:						
+ value of employee services	5.22	-	-	833	-	833
Treasury shares	5.22	-	-	(104)	-	(104)
Cost of equity transactions, net of tax	5.21	-	(3)	-	-	(3)
		-	(3)	(45,082)	37,702	(7,382)
Balance as of December 31, 2017		**11,638**	**252,934**	**(160,421)**	**(11,482)**	**92,669**

€ in thousand	Note	Share capital	Share premium and other regulated reserves	Retained earnings and other reserves	Net result	Total equity
Balance as of January 1, 2018		**11,638**	**252,934**	**(160,421)**	**(11,482)**	**92,669**
Total comprehensive profit		-	-	(1,372)	3,264	1,892
Income appropriation		-	-	(11,482)	11,482	-
Employee stock options plans:						
+ value of employee services	5.22	-	-	1,863	-	1,863
Treasury shares	5.22	-	-	(23)	-	(23)
Issuance of common stock		2,000	48,000	-	-	50,000
Cost of equity transactions, net of tax	5.21	-	(3,214)	-	-	(3,214)
		2,000	44,786	(11,014)	14,745	50,517
Balance as of December 31, 2018		**13,638**	**297,720**	**(171,435)**	**3,264**	**143,186**

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.1 General information

Valneva is a biotech company developing, manufacturing and commercializing vaccines for infectious diseases with major unmet needs.

Valneva's portfolio includes two commercial vaccines for travelers: IXIARO®/JESPECT® indicated for the prevention of Japanese encephalitis and DUKORAL® indicated for the prevention of cholera and, in some countries, prevention of diarrhea caused by *Enterotoxigenic escherichia coli*. The Group has various vaccines in development including a unique vaccine against Lyme disease. Valneva has operations in Austria, Sweden, the United Kingdom, France, Canada and the US with approximately 480 employees.

List of direct or indirect interests:

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

Name	Country of incorporation	Consolidation method	Interest held at December 31,	
			2018	**2017**
BliNK Biomedical SAS	FR	Equity method	43.3%	41.77%
Vaccines Holdings Sweden AB	SE	Full	100%	100%
Valneva Austria GmbH	AT	Full	100%	100%
Valneva Canada Inc.	CA	Full	100%	100%
Valneva Scotland Ltd.	UK	Full	100%	100%
Valneva Sweden AB	SE	Full	100%	100%
Valneva Toyama Japan K.K.	JP	Full	-	100%
Valneva UK Ltd.	UK	Full	100%	100%
Valneva USA, Inc. (formerly Intercell USA, Inc.)	US	Full	100%	100%

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

The Company is registered at 6 rue Alain Bombard, 44800 Saint-Herblain - France.

The Valneva SE site in Saint-Herblain (Nantes - France) includes both general and administrative functions and R&D facilities. The Valneva SE site in Lyon operates commercial activities.

Vaccines Holdings Sweden AB is the holding company of Valneva Sweden AB.

Valneva Austria GmbH (Vienna, Austria) focuses on pre-clinical and clinical development activities of vaccines. The facilities accommodate departments for pre-clinical R&D, (technical/clinical) product development, quality and regulatory affairs, as well as general and administrative as well as commercial functions.

Valneva Canada Inc. (Montreal, Quebec) performs marketing and sales activities in Canada in relation to the IXIARO®, DUKORAL® and VIVOTIF® vaccines.

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

Valneva Sweden AB (Solna, Sweden) manufactures the DUKORAL® vaccine and distributes this vaccine, as well as third-party vaccines, in the Nordic countries. In addition Valneva Sweden AB provides R&D services.

Valneva Toyama Japan K.K. (Toyama, Japan) was liquidated in December 2018.

Valneva UK Ltd. (based nearby London, United Kingdom) sells DUKORAL® and IXIARO® in the United Kingdom, as well as MOSKITO GUARD® products.

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

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The Company is of the opinion that the Brexit may increase its costs and adversely affect some of the main risks to which the Company is exposed, e.g. by increasing risks related to currency exchange fluctuations, manufacturing & supply, customs duties and tax. Future performance of the business may also be impacted, as the manufacturing of bulk material for the IXIARO® product is conducted in the United Kingdom. Furthermore Valneva uses a distribution site located in the UK to sell its products and some third party products on the local market. Valneva has prepared for a "Hard Brexit", notably by setting up some safety stocks, thus minimizing the impact of border crossing problems following Brexit, and by reviewing its product release processes for IXIARO®.

These consolidated financial statements were approved by the Management Board on February 20, 2019 (balance sheet and profit & loss account) and March 20, 2019 (full statements including notes).

5.2 Summary of significant accounting policies

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

5.2.1 Basis of presentation

These 2018 Consolidated Financial Statements have been prepared in accordance with the International financial reporting standards, which comprise IFRS (International Financial Reporting Standards), IAS (International Accounting Standard) and their interpretations, SIC (Standards Interpretations Committee) and IFRIC (International Financial Reporting Interpretations Committee) as adopted by the European Union.

The preparation of financial statements in conformity with IFRS as adopted by the European Union requires the use of certain critical accounting estimates. It also requires the Group's management to exercise its judgment in applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.3.

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

5.2.2 Impact of new, revised or amended Standards and Interpretations

(a) ***New and amended standards adopted by the Group***

Standard - Interpretation - Amendment		Effective Date	Effects
IFRS 9	Financial instruments: Classification and Measurement	January 1, 2018	See below.
IFRS 15 / IFRS 15 Clarification	Revenue from Contracts with Customers	January 1, 2018	See below.
IFRS 2 Amendment	Classification and Measurement of Share-based Payment Transactions	January 1, 2018	None.
IFRS 4 Amendment	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance contracts	January 1, 2018	None.
IFRS 1 Amendment	Deletion of short-term exemptions for first-time adopters	January 1, 2018	None.
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018	No material impact.
IAS 40 Amendment	Transfers of Investment Property	January 1, 2018	None.
IAS 28 Clarification	Investments in Associates and Joint Ventures	January 1, 2018	None.

There are no other IFRS or IFRIC interpretations effective for the first time for the financial year beginning on or after January 1, 2018 that had a material impact on the Group.

IFRS 15 Revenue from Contracts with customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at a level that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group adopted IFRS 15 using the modified retrospective method of adoption and applied this method to all contracts that were not completed at the date of initial application. Therefore, the comparative period of 2017 was not restated. The first-time adoption of IFRS 15 had no effect on the Group's retained earnings as at January 1, 2018. However, the new standard required some minor reclassifications within the balance sheet. The effect of adopting IFRS 15 on the opening balance as at January 1, 2018 is as follows:

€ in thousand	December 31, 2017	Adjustments IFRS 15	January 1, 2018
ASSETS			
Current assets			
Trade receivables	17,622	42	17,664
LIABILITIES			
Current liabilities			
Trade payables and accruals	9,527	(2)	9,525
Current contract liabilities, other liabilities and provisions	2,896	44	2,940

Revenue from product sales

The Group's product sales contracts generally include one performance obligation. Revenue is recognized at the point in time when the identified performance obligation is transferred to the customer, so when the customer obtains control over the goods. Therefore, with the exception of the principal versus agent considerations mentioned below, the adoption of IFRS 15 did not have any impact on the timing of revenue recognition.

Variable considerations

Some of the Group's product sales agreements include retrospective rebates, charge-back clauses or discounts, which give rise to variable consideration under IFRS 15. Due to the fact that the expected rebates and discounts have been deferred prior to the adoption of IFRS 15 there is no change in revenue recognition. Accrued rebates and discounts have been deducted from trade receivables and shown as accruals; the deferred balances are now shown as contract liabilities in the consolidated balance sheet.

Principal vs. agent considerations

In some cases, Valneva sells the products through distributors. While in most cases the treatment under IFRS 15 does not differ from the treatment used before, in one case a distributor has been reclassified as an agent rather than as principal given the distributor does not carry inventory risk and does not have the power to establish price for the sales to his customers. Consequently, revenue and cost of goods sold are only recognized at the time of sale from this distributor to the customer and not at the time of sale from Valneva to the distributor.

The following tables show the effects of these changes on the consolidated financial statements as at December 31, 2018. In the consolidated statement of cash flows as at December 31, 2018 the changes only lead to shifts within the cash flows of operating activities.

Year ended December 31, 2018 **€ in thousand**	**As reported**	**Adjustments IFRS 15**	**Without adoption of IFRS 15**
Product sales	103,476	297	103,773
Revenues	**113,035**	**297**	**113,332**
Cost of goods and services	(44,448)	(80)	(44,528)
OPERATING PROFIT	**6,261**	**216**	**6,478**
PROFIT BEFORE INCOME TAX	**3,351**	**216**	**3,568**
Income tax	(88)	(25)	(113)
PROFIT FOR THE PERIOD	**3,264**	**191**	**3,455**
TOTAL COMPREHENSIVE PROFIT FOR THE PERIOD ATTRIBUTABLE TO THE OWNERS OF THE COMPANY	**1,892**	**191**	**2,083**

At December 31, 2018 € in thousand	As reported	Adjustments IFRS 15	Without adoption of IFRS 15
ASSETS			
Current assets	**125,972**	**160**	**126,132**
Inventories	22,727	(80)	22,647
Trade receivables	11,259	240	11,500
TOTAL ASSETS	**229,907**	**160**	**230,067**
EQUITY			
Capital and reserves attributable to the Company's equity holders	**143,186**	**191**	**143,377**
Net result for the period	3,264	191	3,455
LIABILITIES			
Current liabilities	**42,944**	**(31)**	**42,913**
Trade payables and accruals	13,325	243	13,568
Current tax liability	1,406	25	1,431
Current contract liabilities, other liabilities and provisions	2,041	(300)	1,741
TOTAL LIABILITIES	**86,721**	**(31)**	**86,690**
TOTAL EQUITY AND LIABILITIES	**229,907**	**160**	**230,067**

The IFRS 15 adjustments shown for product sales relate to the operating segment "Commercialized vaccines", the adjustments for income tax relate to "Corporate overhead".

Revenue from licensing

The Group's licensing and services contracts in place often include several different services such as research licenses, commercial licenses and further research and development (R&D) services.

IFRS 15 provides application guidance specific to the recognition of revenue from licenses of intellectual property, which differs from the recognition model for other goods and services.

According to the new revenue recognition standard, a license will either provide a right of access to the entity's intellectual property throughout the license period; this results in revenue being recognized over time. A license may also be a right to use the entity's intellectual property as it exists at the point in time at which the license is granted, resulting in revenue beingrecognized at a point in time. The Group's license contracts in place provide right-to-use licenses.

Revenue from services

Revenue from services is recognized over time when one of the IFRS 15.35 criteria is met. Otherwise the revenue is recognized at a point in time. Revenue for R&D services within the Group's contracts currently in place is recognized over time. Any part of the transaction price that is constrained can only be recognized when the variable constraint is removed.

Revenue recognition for the license and service agreements follows the same principle under IFRS 15 as would have been the case under IAS 18. Therefore, the adoption of IFRS 15 had no effect on revenue from collaboration, licensing and services in the consolidated financial statements as at December 31, 2018.

IFRS 9 Financial instruments

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment, and hedge accounting.

The Group adopted IFRS 9 from January 1, 2018 onward. The comparative period of 2017 was not restated. The first-time adoption of IFRS 9 had no effect on the Group's retained earnings as at January 1, 2018. The impact of adopting IFRS 9 is as follows:

Classification / Measurement

The assessment of the characteristics of contractual cash flows of the financial assets (also known as "SPPI test") as well as of the business model for financial assets has shown that all financial assets continue to be recognized at amortized cost under IFRS 9. The classification for financial liabilities remains unchanged under IFRS 9 as well. With the exception of foreign currency derivatives and some interest rate hedging contracts, no assets or liabilities are recognized at fair value through profit or loss (FVTPL).

On January 1, 2018, the Group's financial assets comprised of the following classes:

€ in thousand	Measurement category		Carrying amount	
	IAS 39	IFRS 9	December 31, 2017 (IAS 39)	January 1, 2018 (IFRS 9)
Measured at fair value				
Derivatives: Foreign exchange options	Held for trading	At fair value through profit and loss	-	-
Measured at amortized cost				
Trade receivables	Loans and receivables	At amortized cost	17,622	17,664
Other assets	Loans and receivables	At amortized cost	11,693	11,693
Cash and cash equivalents	Loans and receivables	At amortized cost	38,055	38,055

The change in the trade receivables carrying amount relates to IFRS 15 adjustments. The adoption of IFRS 9 had no impact on the Group's financial assets as at January 1, 2018.

Impairment of financial assets

According to IFRS 9.5.5.15 the simplified approach (measure the loss allowance at an amount equal to lifetime expected credit losses) has to be used for trade receivables, which do not contain a significant financing component. This is the case for the Valneva group, as all trade receivables are considered short term, with a maturity below 12 months. Loss allowances for trade receivables had to be established at the time there were indications of possible default risks, including aged debtors whose due periods were

exceeded. Accordingly, at the end of each reporting period, trade receivables were adjusted through a loss allowance in accordance with the expected outcome. According to IFRS 9.5.5.17 default probabilities are to be determined on the basis of historical data, but must be adjusted on the balance sheet date on the basis of up-to-date information and expectations. Although a certain portion of trade receivables is overdue, losses incurred are immaterial, taking into account the limited number of customers as well as credit checks.

As the impairment to be made reflects past default events and current economic conditions (expected credit losses only play a subordinate role due to the short maturity of trade receivables), no material impact from the application of the simplified approach according to IFRS 9.5.5.15 was seen as of January 1, 2018.

Hedge Accounting

The Group entered into various foreign currency option contracts to mitigate the risk of foreign currency losses on expected future cash flows. However, these transactions do not qualify as hedge accounting transactions under IAS 39 or IFRS 9. Therefore there are no transition effects in this area.

(b) ***New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2018, and not early adopted.***

Standard - Interpretation – Amendment		Effective Date	Expected Effects
IFRS 16	Leases	January 1, 2019	Please see note (c) *IFRS 16 Leases*
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019	Impact to be assessed.
IAS 28 Amendment	Long-term interests in Associates and Joint Ventures	January 1, 2019	None.
IFRS 9 Amendment	Prepayment Features with Negative Compensation	January 1, 2019	None.
IAS 19 Amendment	Plan Amendment, Curtailment or Settlement	January 1, 2019	No material impact.
	Annual improvements to IFRSs 2015-2017 Cycle	January 1, 2019	None.
IFRS 3 Amendment	Definition of a Business	January 1, 2020	None.
IAS 1 and IAS 8 Amendments	Definition of Material	January 1, 2020	Impact to be assessed.
	The conceptual framework for financial reporting	January 1, 2020	Impact to be assessed.
IFRS 17	Insurance Contracts	January 1, 2021	None.
IFRS 10/ IAS 28 Amendment	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred indefinitely	None.

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

(c) ***IFRS 16 Leases***

From January 1, 2019, IFRS 16 (*Leases)* has to be applied. It will replace IAS 17 (*Leases*), IFRIC 4 *Determining whether an arrangement contains a Lease*, SIC 15 *Operating Leases Incentives* and SIC 27 *Evaluation the Substance of Transactions Involving the Legal Form of a Lease*. For the lessee it will result in the removal of the distinction between operating and finance lease, hence most of the leases will be recognized on the balance sheet.

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (Valneva SE intends to set a threshold of EUR 5.000) and short-term leases (i.e., leases with a lease term of 12 months or less), which Valneva is going to use for all classes of underlying assets. At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

Valneva chose to apply the modified retrospective approach as of the mandatory adoption date of January 1, 2019. Hence, the cumulative effect of initially applying IFRS 16 is recognized in opening equity at the date of initial application with no restatement of prior year figures required. Valneva chose not to apply IFRS 16 to leases of intangible assets according to IFRS 16.4.

Furthermore, the following practical expedients will be used:

- Using a single discount rate to a portfolio of leases with similar characteristics;
- Applying the recognition exemption for leases ending within 12 months of the date of initial application;
- excluding initial direct costs from the measurement of the RoU asset and
- using hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

Valneva has created a project team to review all of the group's leasing contracts over the last two years. To identify the potential IFRS 16 impact areas for Valneva SE, leasing contracts were identified and analyzed using a lease analysis tool. After the assessment of the contracts and the input of the data in the tool, the financial impact was calculated through a simulation of the initial application of IFRS 16 as of January 1, 2019.

As of December 31, 2018 Valneva has non-cancellable operating lease commitments of €43.5 million, see note 5.29.2. These commitments include short-term leases of €158 thousand, which will be recognized in profit or loss going forward.

Valneva expects a recognition of right-of-use assets amounting to €24.7 million and of lease liabilities amounting to €34.3 million. The difference amounting to €9.6 million will be recognized in retained earnings, due to the measurement of the right-of-use assets at its carrying amount as if IFRS 16 had been applied since the commencement date.

For year-end 2019, Valneva expects the net profit of the period to decrease by €71 thousand. EBITDA is expected to increase by €2.4 million, as the amortization and the interest on the lease liability are no longer part of EBITDA.

Due to the recognition of amortization and interest expense instead of operating expenses, operating cash flows will increase by €1.5 million and financing cash flows will decrease by €1.4 million.

There are no significant effects resulting from the new lease accounting rules for activities where the Company acts as lessor.

5.2.3 Consolidation

Subsidiaries

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

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

Associates

Associates are entities over which the Company has significant influence.

5.2.4 Foreign currency translation

(a) ***Functional and presentation currency***

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

(b) ***Transactions and balances***

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

(c) ***Subsidiaries***

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

- assets and liabilities presented for each balance sheet are converted according to the exchange rate valid on the balance sheet date;

+ income and expenses for each income statement are converted using exchange rates applicable on the dates of the transactions; and
+ all resulting exchange differences are recognized as other comprehensive income and are shown as other reserves.

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

5.2.5 Financial risks management

(a) *Financial risks factors*

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

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

(b) *Market risk*

Foreign exchange risk

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

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

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

At December 31, 2018, if the GBP had weakened by 10% against the €, with all other variables held constant, pre-tax comprehensive profit for the year would have been €142 thousand lower (2017: pre-tax loss would have been €307 thousand higher). Income was less sensitive to fluctuations in the €/GBP exchange rate at the balance sheet date in 2018 than it was in 2017 mainly because of the decreased amount of GBP-denominated cash equivalents.

At December 31, 2018, if the CAD had weakened by 10% against the €, with all other variables held constant, pre-tax comprehensive profit for the year would have been €293 thousand lower (2017: pre-tax loss would have been €395 thousand higher). Income was less sensitive to fluctuations in €/CAD exchange rate at the balance sheet date in 2018 than it was in 2017 mainly because of foreign currency options in place at December 31, 2018 which offset the effect of the increased amount of CAD-denominated cash equivalents.

At December 31, 2018, if the SEK had weakened by 10% against the €, with all other variables held constant, pre-tax comprehensive profit for the year would have been €332 thousand lower (2017: pre-tax loss would have been €348 thousand higher). Income was less sensitive to fluctuations in €/SEK exchange rate at the balance sheet date in 2018 than it was in 2017 mainly because of the decreased amount of SEK-denominated cash equivalents and trade receivables, partly offset by the increased amount of SEK-denominated trade payables.

At December 31, 2018, if the $ had weakened by 10% against the €, with all other variables held constant, pre-tax comprehensive profit for the year would have been lower by €243 thousand (2017: pre-tax loss would have been €1.5 million lower), mainly as a result of foreign exchange losses on the translation of $-denominated cash equivalents and trade receivables, partly offset by a positive effect from borrowings and trade payables and foreign currency options in place at December 31, 2018. Income was less sensitive to fluctuations in the €/$ exchange rate at the balance sheet date in 2018 than it was in 2017 mainly because of the decreased $-denominated trade payables and borrowings and decreased $-denominated trade receivables, partly offset by the increased $-denominated cash equivalents.

Interest rate risks

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

Borrowings issued at variable rate expose the Group to cash flow interest rate risks, which is offset by cash and financial assets held at variable rate. During 2017 and 2018, the Group's investments at variable rate, as well as the borrowings at variable rate, were denominated in €, SEK, $, CAD and in GBP.

The Group analyzes its interest rate exposure on a dynamic basis. Based on this analysis, the Group calculated the impact on profit and loss of a defined interest rate change. The same interest rate change was used for all currencies. The calculation only includes investments in financial instruments and cash in banks that represent major interest-bearing positions. As of the balance sheet date, the calculated impact on income before tax of a 0.25% shift would be an increase or decrease of €68 thousand (2017: €27 thousand).

(c) ***Credit risks***

The Group is exposed to credit risk. Valneva holds bank accounts, cash balances, and securities at sound financial institutions with high credit ratings. To monitor the credit quality of its counterparts, the Group relies on credit ratings as published by specialized rating agencies such as Standard & Poor's, Moody's, and Fitch. The Group has policies that limit the amount of credit exposure to any single financial institution. The Group is also exposed to credit risks from its trade debtors, as its collaborations, licensing and services income arises from a small number of transactions. The Group has policies in place to enter into such transactions only with highly reputable, financially sound counterparts. If customers are independently rated, these ratings are used. Otherwise, when there is no independent rating, a risk assessment of the credit quality of the customer is performed, taking into account its financial position, past payment experience and other relevant factors. Individual credit limits are set based on internal or external ratings in accordance with signature authority limits as set by the Management Board. The credit quality of financial assets is described in Note 5.16.3.

(d) ***Liquidity risks***

The Group is exposed to liquidity risk due to the maturity of its financial liabilities and the fluctuations of its operating cash-flow, and the potential implementation of early repayment clauses in loan or grant

agreements. Furthermore, fluctuations in the Group's operating cash flow during accounting periods also generate liquidity risks. Prudent liquidity risk management therefore implies maintaining sufficient cash resources, cash equivalents and short-term deposits in order to satisfy ongoing operating requirements and the ability to close out market positions. Extraordinary conditions on the financial markets may, however, temporarily restrict the possibility to liquidate certain financial assets.

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

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

At December 31, 2018 € in thousand	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	Over 5 years	Total
Borrowings (excluding finance lease liabilities)[2]	17,395	5,762	11,028	-	34,185
Finance lease liabilities	978	1,955	24,208	-	27,141
Trade payables and accruals	13,325	-	-	-	13,325
Tax and employee-related liabilities[3]	5,672	-	-	-	5,672
Contract liabilities, other liabilities and provisions[4]	45	200	25	-	270
	37,414	**7,918**	**35,261**	**-**	**80,593**

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

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

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

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

5.2.6 Capital risk management

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

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

5.2.7 Fair value estimation

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

5.3 Critical accounting estimates and judgments

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

5.3.1 Critical accounting estimates and assumptions

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

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

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

The main significant estimates made by the Group's management relate primarily to the valuation of intangible assets (impairment testing, amortization period of development expenditures and acquired technologies), revenue recognition (for licensing income recognized over the projected development period; for income from grants, measured according to cost incurred compared to the budget), valuation of share based payments, recognition of deferred tax assets as well as the assumptions taken for the contingencies related to the litigations.

5.3.2 Critical judgments in applying the entity's accounting policies

Revenue recognition

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

5.4 Segment information

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

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

The individual segments consist of following:

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

5.4.1 Income statement aggregated by segment

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

€ in thousand	Commer-cialized vaccines	Vaccine candidates	Techno-logies and services	Corporate overhead	Total
Revenues[5]	92,887	3,422	8,982	-	105,291
Cost of goods and services	(39,658)	(2)	(6,319)	-	(45,979)
Research and development expenses	(4,060)	(18,832)	(464)	-	(23,356)
Marketing and distribution expenses	(17,169)	(94)	(612)	-	(17,875)
General and administrative expenses	(4,393)	(1,505)	(780)	(8,867)	(15,545)
Other income and expenses, net[5]	22	4,074	366	(222)	4,240
Amortization and impairment of fixed assets/intangibles	(6,645)	(3,573)	(512)	-	(10,731)
Operating profit/(loss)	**20,984**	**(16,509)**	**662**	**(9,091)**	**(3,954)**
Finance income/expenses, result from investments in associates and income tax	-	-	-	(7,528)	(7,528)
Profit/(loss) for the year	**20,984**	**(16,509)**	**662**	**(16,619)**	**(11,482)**

[5] "Grant income" was reclassified from the category "Revenue and Grants" and included in "Other income/expense" for periods starting Jan 1, 2018. The comparable period was adjusted accordingly to maintain the comparability.

Income statement aggregated by segment for the year ended December 31, 2018

€ in thousand	Commer-cialized vaccines	Vaccine candidates	Techno-logies and services	Corporate overhead	Total
Revenues	103,650	2,633	6,752	-	113,035
Cost of goods and services	(39,675)	(1)	(4,772)	-	(44,448)
Research and development expenses	(5,867)	(18,654)	(769)	-	(25,291)
Marketing and distribution expenses	(20,339)	(12)	(579)	1	(20,930)
General and administrative expenses	(4,336)	(1,756)	(775)	(10,066)	(16,932)
Other income and expenses, net	-	3,899	374	(269)	4,004
Amortization and impairment of fixed assets/intangibles	(2,767)	(7)	(403)	-	(3,177)
Operating profit/(loss)	**30,666**	**(13,898)**	**(173)**	**(10,334)**	**6,261**
Finance income/expenses, result from investments in associates and income tax	-	-	-	(2,998)	(2,998)
Profit/(loss) for the year	**30,666**	**(13,898)**	**(173)**	**(13,332)**	**3,264**

5.4.2 Geographical segments

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

Revenues[6] per geographical segment

€ in thousand	Year ended at December 31,	
	2018	2017
US	42,458	35,816
Canada	22,375	20,488
UK	8,152	8,110
Nordics	11,616	10,573
Other Europe	22,786	23,865
Rest of World	5,647	6,438
Revenues	**113,035**	**105,291**

[6] "Grant income" was reclassified from the category "Revenue and Grants" and included in "Other income/expense" for periods starting Jan 1, 2018. The comparable period was adjusted accordingly to maintain the comparability.

Non-current assets per geographical segment

€ in thousand	At December 31,	
	2018	2017
US	24	25
Canada	13	17
UK	6,380	6,686
Nordics	3,299	2,731
Other Europe	73,172	77,382
Non-current assets	**82,888**	**86,841**

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

5.4.3 Information about major customers

Product sales to the largest customer amounted to €29.0 million (2017: €27.7 million). Collaboration and licensing revenue from the two largest customers amounted to €1.6 million (2017: €4.7 million) and €1.6 million (2017: €1.8 million), respectively. There are no further customers with a contribution exceeding 10% of the annual revenue.

5.5 Revenues from contracts with customers

IFRS 15 provide accounting requirements for all revenues arising from contracts with customers.

The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 are applied using the following five steps:

1. Identify the contract(s) with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract;
5. Recognise revenue when (or as) the entity satisfies a performance obligation.

Within the Valneva Group the following revenue streams were identified:

a. Revenue from Product Sales
b. Revenue from Licensing & Services

Product sales

The Group's product sales contracts generally include one performance obligation. Revenue is recognized at the point in time when the identified performance obligation is transferred to the customer, so when the customer obtains control over the goods.

Some of the Group's product sales agreements include retrospective rebates, charge-back clauses or discounts which give rise to variable consideration under IFRS 15. The expected rebates and discounts are deferred and shown as contract liabilities in the consolidated balance sheet.

In some cases, Valneva sells the products through distributors. When more than one party is involved in providing/distributing goods or services, the standard requires an entity to determine whether itself and its distributors are principals or agents in these transactions by evaluating the nature of its promises to the customer. An entity is a principal if it controls a promised good or service before transferring that good or

service to the customer. An entity is an agent if its role is to arrange for another entity to provide the goods or services. If a distributor is an agent, revenue and cost of goods sold are only recognized at the time of sale from this distributor to the customer. If the distributor is principal, revenue is recognized at the time of sale from Valneva to the distributor.

Revenues from licensing and services

The Group generates revenues from licensing and service agreements for its product candidates and proprietary technologies. The contracts in place often include several different promised services such as research licenses, commercial licenses and further research and development (R&D) services. The terms of such agreements include license fees payable as initial fees, annual license maintenance fees and fees to be paid upon achievement of milestones, as well as license option fees and fees for the performance of research services. In addition, the Group's licensing arrangements generally provide for royalties payable on the licensee's future sales of products developed within the scope of the license agreement.

IFRS 15 provides application guidance specific to the recognition of revenue from licenses of intellectual property, which differs from the recognition model for other goods and services. This application guidance provided on licenses is only applicable to licenses that are distinct or if the license is the primary or dominant component (i.e., the predominant item) of the combined performance obligation. To conclude that a license is distinct, the license must be both capable of being distinct and distinct in the context of the contract.

According to the new revenue recognition standard a license will either provide a right of access to the entity's intellectual property throughout the license period; this results in revenue being recognized over time. A license may also be a right to use the entity's intellectual property as it exists at the point in time at which the license is granted, resulting in revenue being recognized at a point in time. The Group's license contracts in place provide right-to-use licenses.

The consideration for licensing contracts may consist of fixed and variable parts. In case of right-to-use licenses the fixed part of the consideration is recognized at the point in time of the grant of the licenses. For any variable consideration revenue is recognized at the point in time when the variable constraint is removed. Additionally, the new standard requires the recognition of revenue for sales-based or usage-based royalties (or sales milestone payments) on licenses at the later of when the subsequent sale or usage occurs and the performance obligation is (partially) satisfied.

For the R&D services and for performance obligations that combine licenses that are not distinct and other services it needs to be analyzed whether one of the criteria mentioned in IFRS 15.35 is met. In this case, the revenue for these services is recognized over time in relation to the status of research, otherwise the revenue is recognized at a point in time. Revenue for R&D services within the Group's contracts currently in place is recognized over time. Any part of the transaction price that is constrained can only be recognized when the variable constraint is removed.

Revenues as presented in the Consolidated Income Statement and in the Segment Reporting (see Note 5.4) include both revenues from contracts with customers and other revenues, which are out of scope from IFRS 15:

Year ended December 31, 2017 € in thousand	Commer-cialized vaccines	Vaccine candidates	Techno-logies and services	Total
Revenues from contracts with customers	92,887	3,422	7,615	103,924
Other revenues	-	-	1,367	1,367
Revenues	**92,887**	**3,422**	**8,982**	**105,291**

Year ended December 31, 2018 € in thousand	Commer-cialized vaccines	Vaccine candidates	Techno-logies and services	Total
Revenues from contracts with customers	103,650	2,633	5,295	111,578
Other revenues	-	-	1,457	1,457
Revenues	**103,650**	**2,633**	**6,752**	**113,035**

5.5.1 Disaggregated revenue information

The Group's revenues from contracts with customers are disaggregated as follows:

Type of goods or service

Year ended December 31, 2017 € in thousand	Commer-cialized vaccines	Vaccine candidates	Techno-logies and services	Total
JEV® product	60,284	-	-	60,284
DUKORAL® product	28,545	-	-	28,545
Third party products	4,058	-	-	4,058
Others	-	3,422	7,615	11,036
Revenues from contracts with customers	**92,887**	**3,422**	**7,615**	**103,924**

Year ended December 31, 2018 € in thousand	Commer-cialized vaccines	Vaccine candidates	Techno-logies and services	Total
JEV® product	69,726	-	-	69,726
DUKORAL® product	30,401	-	-	30,401
Third party products	3,523	-	-	3,523
Others	-	2,633	5,295	7,928
Revenues from contracts with customers	**103,650**	**2,633**	**5,295**	**111,578**

Geographical markets

Year ended December 31, 2017 € in thousand	Commer-cialized vaccines	Vaccine candidates	Techno-logies and services	Total
United States	33,332	2,176	308	35,816
Canada	20,488	-	-	20,488
United Kingdom	8,100	-	10	8,110
Nordics	9,457	-	732	10,189
Other Europe	15,768	1,246	5,869	22,882
Other markets	5,743	-	695	6,438
Revenues from contracts with customers	**92,887**	**3,422**	**7,615**	**103,924**

Year ended December 31, 2018 € in thousand	Commer-cialized vaccines	Vaccine candidates	Techno-logies and services	Total
United States	40,844	1,411	203	42,458
Canada	22,365	-	10	22,375
United Kingdom	8,152	-	-	8,152
Nordics	10,716	-	619	11,335
Other Europe	16,477	1,221	3,912	21,610
Other markets	5,096	-	551	5,647
Revenues from contracts with customers	**103,650**	**2,633**	**5,295**	**111,578**

Sales channels

Year ended December 31, 2017 € in thousand	Commer-cialized vaccines	Vaccine candidates	Techno-logies and services	Total
Direct product sales	68,127	-	-	68,127
Sales through distributors and other revenues	24,761	3,422	7,615	35,797
Revenues from contracts with customers	**92,887**	**3,422**	**7,615**	**103,924**

Year ended December 31, 2018 € in thousand	Commer-cialized vaccines	Vaccine candidates	Techno-logies and services	Total
Direct product sales	84,077	-	-	84,077
Sales through distributors and other revenues	19,573	2,633	5,295	27,501
Revenues from contracts with customers	**103,650**	**2,633**	**5,295**	**111,578**

5.5.2 Contract balances

A contract liability has to be recognized, when the customer already provided the consideration (payment) or part of the consideration, before an entity has fulfilled its performance obligation (agreed goods or services which should be delivered or provided), resulting from the “contract”. Contract liabilities include deferrals relating to variable considerations like retrospective rebates and discounts as well as non-refundable upfront fees.

The following table provides information about receivables and contract liabilities from contracts with customers.

€ in thousand	At December 31, 2018	At January 1 2018
Receivables, which are included in “Trade receivables”	11,218	17,629
Contract liabilities	4,736	6,546

The amount of €2,228 thousand recognized in contract liabilities at the beginning of the period has been recognized as revenue in the year 2018.

5.6 Expenses by nature

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

€ in thousand	Year ended December 31,	
	2018	2017
Employee benefit expense (Note 5.7)	43,189	37,578
Consulting and other purchased services	20,338	19,635
Building and energy costs	8,331	7,801
Raw materials and consumables used	7,749	7,871
Depreciation and amortization	6,828	11,141
License fees and royalties	5,825	5,222
Advertising costs	5,737	5,027
Cost of sales from inventory produced in prior year	4,856	8,340
Warehousing and distribution costs	2,857	2,676
Supply, office and IT-costs	2,793	2,726
Travel and transportation costs	1,720	1,358
Other expenses	555	541
Impairment (Note 5.13.2)	-	3,568
Cost of goods and services, research and development expenses, marketing and distribution expenses, general and administrative expenses and amortization and impairment of fixed assets/intangibles	**110,777**	**113,486**

Fees charged by the Group Auditors:

€ in thousand	Year ended December 31,			
	2018		2017	
	PwC Audit	Deloitte & Associés	PwC Audit	Deloitte & Associés
Certification of accounts	113	116	107	98
Services other than certification of accounts	2	6	2	6
TOTAL	**115**	**122**	**109**	**104**

5.7 Employee benefit expense

Employee benefit expenses include the following:

€ in thousand	Year ended December 31,	
	2018	2017
Salaries	30,382	26,850
Social security contributions	9,432	8,541
Training and education	619	611
Stock options granted to management and employees	1,887	811
Other employee benefits	870	766
Employee benefit expense	**43,189**	**37,578**

During the year 2018, the Group had an average of 456 employees (2017: 433 employees).

5.8 Other income/(expenses), net

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

Grant monies received as reimbursement of approved Research & Development expenses are recognized as other income when the respective expenses have been incurred and there is reasonable assurance that funds will be received. Advance payments received under such grants are deferred and recognized when these conditions have been met.

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

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

€ in thousand	Year ended December 31,	
	2018	2017
Taxes, duties, fees, charges, other than income tax	(132)	(213)
Profit/(loss) on disposal of fixed assets, net	(7)	-
R&D tax credit and grant income	4,274	4,463[7]
Miscellaneous income/(expenses), net	(132)	(9)
Other income/(expenses), net	**4,004**	**4,240**

5.9 Finance income/(expenses), net

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

€ in thousand	Year ended December 31,	
	2018	2017
Finance income		
Interest income from bank deposits	-	-
Interest income from other parties	178	72
	178	**72**
Finance expense		
Interest expense to banks and government agencies	(382)	(198)
Interest expense on other loans	(3,407)	(4,862)
Fair value losses on derivative financial instruments	(29)	(93)
Foreign exchange losses, net	(392)	(3,526)
	(4,209)	**(8,678)**
Finance income/(expenses), net	**(4,032)**	**(8,606)**

The net finance result amounted to minus €4.0 million for the year 2018 compared to minus €8.6 million in the year 2017. This decrease in net finance expenses was mainly due to lower negative exchange rate effects in 2018 as in the previous year and reduced interest expense due to the decrease in borrowings.

The Group benefits from government assistance through arranging borrowing facilities that would have otherwise not been available to the Group. This assistance includes guarantees for the amount of €6.5 million (2017: €7.9 million).

5.10 Income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively. The current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group's subsidiaries operate

[7] "Grant income" was reclassified from the category "Revenue and Grants" and included in "Other income/expense" for periods starting Jan 1, 2018. The comparable period was adjusted accordingly to maintain the comparability.

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, based on amounts expected to be paid to the tax authorities.

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

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

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

5.10.1 Income tax

Income tax is comprised of current and deferred tax.

€ in thousand	Year ended December 31,	
	2018	**2017**
Current tax		
Current income tax charge	(1,512)	(607)
Adjustments in respect of current income tax of previous year	299	2
Deferred tax		
Relating to origination and reversal of temporary differences	1,125	1,684
Income tax income/(expense)	**(88)**	**1,078**

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

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

€ in thousand	Year ended December 31,	
	2018	2017
Profit/(Loss) before tax	3,351	(12,560)
Tax calculated at domestic tax rates applicable to profits in the respective countries	(336)	4,452
Income not subject to tax	2,012	1,217
Expenses not deductible for tax purposes	(697)	(369)
Deferred tax asset not recognized	(2,192)	(6,143)
Utilization of previously unrecognized tax losses	697	1,739
Income tax credit	139	-
Adjustments in respect of prior years	-	5
Effect of change in applicable tax rate	(4)	(22)
Exchange differences	(10)	72
Income tax of prior years	302	135
Minimum income tax	-	(7)
Income tax	**(88)**	**1,078**
	2018	**2017**
Effective income tax rate	2.6%	n.a.

5.10.2 Deferred tax

As of December 31, 2018 the deferred tax assets of €114.2 million (2017: €101.9 million) are not recognized as there was not sufficient evidence that adequate taxable profit will be available against which the unused tax losses can be utilized in the foreseeable future.

As of December 31, 2018 the Group has tax losses carried forward of €491.5 million (2017: €445.2 million), of which €189.0 million are related to Valneva SE (2017: €122.7 million), €297.5 million are related to Valneva Austria GmbH (2017: €318.0 million), €2.0 million are related to Valneva USA, Inc. (2017: €2.4 million), €1.6 million are related to Valneva Scotland, Ltd. (2017: €0.0 million) and €1.4 million are related to Valneva Sweden AB (2017: €2.1 million).

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

The offset amounts are as follows:

€ in thousand	**At December 31,**	
	2018	**2017**
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	10,495	11,908
Deferred tax asset to be recovered within 12 months	2,116	245
Total deferred tax assets	**12,611**	**12,153**
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(9,737)	(10,347)
Deferred tax liability to be recovered within 12 months	(185)	(185)
Total deferred tax liability	**(9,922)**	**(10,532)**
Deferred tax, net	**2,689**	**1,620**

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

€ in thousand	**2018**	**2017**
Beginning of year	1,620	(65)
Exchange differences	74	3
Other adjustments due to tax changes	(130)	-
Income statement charge	1,125	1,682
End of year	**2,689**	**1,620**

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

€ in thousand	**At December 31,**	
	2018	**2017**
Deferred tax asset from		
Tax losses carried forward	122,700	111,244
Fixed assets	617	1,011
Inventory	1,888	
Borrowings and accrued interest	1,282	842
Other items	288	923
Non-recognition of deferred tax assets	(114,164)	(101,867)
Total deferred tax assets	**12,611**	**12,153**
Deferred tax liability from		
Fixed assets	(160)	(185)
Intangible assets	(9,574)	(10,199)
Other items	(188)	(148)
Total deferred tax liability	**(9,922)**	**(10,532)**
Deferred tax, net	**2,689**	**1,620**

The corporate income tax rate in the United Kingdom will be 17% starting from April 1, 2020 (substantively enacted). The deferred tax assets and liabilities presented above as at December 31, 2018 have been adjusted for this change in tax rates in 2017.

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

Since 2018, the corporate income tax rate (federal and state tax together) in US is 25.06%.

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

5.11 Earnings/Losses per share

(a) Basic

Basic earnings/losses per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of outstanding shares during the year, excluding shares purchased by the Company and held as treasury shares (Note 5.22).

	Year ended December 31,	
	2018	**2017**
Net profit/ (loss) from continuing operations attributable to equity holders of the Company (€ in thousand)	3,264	(11,482)
Weighted average number of outstanding shares	80,529,315	77,449,219
Basic earnings/(losses) from continuing operations per share (€ per share)	**0.04**	**(0.15)**

(b) Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary outstanding shares to assume conversion of all dilutive potential ordinary shares. The Company has share options as dilutive potential ordinary shares. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Year ended December 31,	
	2018	2017
Profit used to determine diluted earnings per share (€ in thousand)	3,264	(11,482)
Weighted average number of outstanding shares	80,529,315	77,449,219
Adjustments for share options	1,070,843	-
Weighted average number of outstanding shares for diluted earnings per share	81,600,158	77,449,219
Diluted earnings/(losses) from continuing operations per share (€ per share)	**0.04**	**(0.15)**

5.12 EBITDA

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

€ in thousand	Year ended December 31,	
	2018	2017
Operating profit/(loss)	6,261	(3,954)
Depreciation	3,067	3,367
Amortization	3,760	7,774
Impairment on intangibles and fixed assets	-	3,568
EBITDA	**13,089**	**10,756**

5.13 Intangible assets and goodwill

(a) Computer software

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

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

(b) Acquired R&D technology and projects

Acquired R&D technology projects are capitalized. Amortization of the intangible asset over its useful life starts when the product has been fully developed and is ready for use. These costs are amortized on a straight-line basis over their useful lives. This useful life is determined on a case-by-case basis according to the nature and characteristics of the items included under this heading. As long as the useful life is indefinite, in-process Research & Development projects are tested annually for impairment and carried at cost less accumulated impairment losses. Furthermore, assets with an indefinite useful life and assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The current acquired R&D technology and projects are amortized over periods of between 5 and 24 years.

(c) Development costs

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

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

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

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

€ in thousand	Software	Acquired R&D techno-logy and projects	Develop ment costs	Intangible assets in the course of construction	Total
January 1, 2017					
Cost	3,571	117,058	10,060	1,498	132,186
Accumulated amortization and impairment	(2,488)	(63,982)	(6,758)	-	(73,228)
Net book value	**1,083**	**53,076**	**3,302**	**1,498**	**58,959**
December 31, 2017					
Opening net book value	1,083	53,076	3,302	1,498	58,959
Exchange rate differences	(18)	(195)	(17)	(40)	(271)
Additions	593	448	39	27	1,106
Reclassification	1,439	-	-	(1,439)	-
Disposals	-	-	-	-	-
Amortization charge	(608)	(6,356)	(803)	-	(7,767)
Impairment charge	-	(3,560)	-	-	(3,560)
Closing net book value	**2,489**	**43,412**	**2,520**	**46**	**48,468**
December 31, 2017					
Cost	5,514	83,087	10,075	46	98,722
Accumulated amortization and impairment	(3,025)	(39,675)	(7,555)	-	(50,254)
Net book value	**2,489**	**43,412**	**2,520**	**46**	**48,468**

€ in thousand	Software	Acquired R&D techno-logy and projects	Develop ment costs	Intangible assets in the course of construction	Total
December 31, 2018					
Opening net book value	2,489	43,412	2,520	46	48,468
Exchange rate differences	(64)	(35)	(6)	-	(106)
Additions	156	82	228	-	466
Reclassification	46	-	-	(46)	-
Disposals	-	-	(12)	-	(12)
Amortization charge	(582)	(2,671)	(672)	-	(3,925)
Impairment charge	-	-	-	-	-
Closing net book value	**2,045**	**40,788**	**2,058**	**-**	**44,891**
December 31, 2018					
Cost	5,642	83,120	9,789	-	98,551
Accumulated amortization and impairment	(3,597)	(42,332)	(7,731)	-	(53,660)
Net book value	**2,045**	**40,788**	**2,058**	**-**	**44,891**

5.13.1 Significant intangible assets

Significant intangible assets with an indefinite useful life comprise primarily the Borrelia vaccine candidate (VLA15) amounting to €3.3 million (2017: €3.3 million) and the Zika vaccine candidate (VLA1601) amounting to €75 thousand (2017: €75 thousand).

Significant intangible assets with definite useful life comprise primarily the already commercialized vaccine against Japanese encephalitis (IXIARO / JESPECT) with acquisition costs amounting to €78.1 million and a book value amounting to €38.5 million. The accumulated depreciation amounts to €39.6 million. The remaining life of the JEV intangible is extended by 9 years to remaining 14 years as of Dec 31, 2018. This useful life was reassessed in 2018 considering the valid patent period of patents used and the expected cash inflow period, taking into account that there is no indication that Valneva's vaccine will be replaced over that period. Due to this extension the yearly amortization decreased by €3.8 million.

5.13.2 Impairment testing

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

The calculations use post tax risk-adjusted cash flow projections based on the Group's long-range business model including probability-of-success assumptions derived from industry specific statistics on success rates of vaccines in the different development phases (risk-adjustment) and a discount rate of 12.09% (2017: 11.91% to 12.03% per annum).

The discount rate of 12.09% (2017: 11.91% to 12.03% per annum) is based on 0.95% risk-free rate (2017: 1.34%), 7.71% market risk premium (2017: 7.00%), 0.39% country risk premium (2017: 0.62%), 0.32% currency risk (2017: 0.43%), a beta of 1.45 (2017: 1.38), and a peer group related equity-capital ratio.

The long range business model covers a period of 19 years as well as an estimate on the perpetual annual growth rate beyond this horizon and therefore accounts for all project related cash flows from the development stage over the market entry until the market phase-out (project life cycle) of the relevant projects. These business models are updated on a regular basis and relevant changes in estimations done. During 2018 the most significant change in assumptions was the transition towards an independently calculated probability of success assumption instead of an approach based on internal management judgement.

In 2017, the Clostridium Difficile intangible asset amounting to €3.6 million has been fully impaired as a result of the opt-out by GSK as well as the unsuccessful attempts to find alternative co-development partners.

5.13.3 Sensitivity to changes in assumptions

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

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

The net present value calculation uses a discount rate of 12.09% (2017: 11.91% to 12.03%). An increase in the discount rate of 253 basis points would trigger an impairment loss (2017: 1,163 basis points). Furthermore, an increase in the discount rate of one percentage point would result in no impairment loss.

The result of the acquired Research and Development projects (see 5.13.1) is inherently uncertain and the Group may experience delays or failures in clinical trials. A failure to demonstrate safety and efficacy in clinical product development of the acquired Research and Development project would result in an impairment loss. The net present value calculation uses a probability of success rate of 24.4% (2017: 10% to 50%) for acquired products in the stage of Research and Development. The weighted risk is only applied on expected revenues, COGS and Sales and Marketing expenses while expected R&D costs to develop the program to licensure have been fully included (100%).

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

5.14 Property, plant and equipment

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

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

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

depreciated over the remaining life of the asset or the shorter period until the next validation is usually required.

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

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

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

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

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

€ in thousand	Land, buildings and leasehold improvements	Manufacturing and laboratory equipment	Computer hardware	Furniture, fittings and other	Assets in the course of construction	Total
January 1, 2017						
Cost	51,746	19,697	1,536	1,657	146	74,781
Accumulated depreciation and impairment	(17,583)	(15,730)	(1,307)	(1,122)	-	(35,742)
Net book value	**34,162**	**3,967**	**229**	**536**	**146**	**39,039**
December 31, 2017						
Opening net book value	34,162	3,967	229	536	146	39,039
Exchange rate differences	(67)	(72)	(4)	(12)	(2)	(157)
Additions	1,114	1,226	284	48	146	2,819
Reclassification	24	73	1	-	(98)	-
Disposals	-	-	-	-	-	-
Depreciation charge	(1,788)	(1,244)	(154)	(142)	-	(3,327)
Closing net book value	**33,445**	**3,951**	**356**	**430**	**192**	**38,374**
December 31, 2017						
Cost	52,469	16,581	1,723	1,681	192	72,647
Accumulated depreciation and impairment	(19,024)	(12,631)	(1,367)	(1,251)	-	(34,273)
Net book value	**33,445**	**3,951**	**356**	**430**	**192**	**38,374**

€ in thousand	Land, buildings and leasehold improvements	Manufacturing and laboratory equipment	Computer hardware	Furniture, fittings and other	Assets in the course of construction	Total
December 31, 2018						
Opening net book value	33,445	3,951	356	430	192	38,374
Exchange rate differences	(45)	(60)	(3)	(5)	(8)	(120)
Additions	98	1,907	229	36	599	2,869
Reclassification	-	89	-	44	(133)	-
Disposals	-	(70)	-	-	-	(70)
Depreciation charge	(1,491)	(1,255)	(172)	(137)	-	(3,055)
Closing net book value	**32,007**	**4,562**	**410**	**368**	**650**	**37,997**
December 31, 2018						
Cost	52,381	18,333	1,906	1,742	650	75,012
Accumulated depreciation and impairment	(20,374)	(13,771)	(1,496)	(1,374)	-	(37,015)
Net book value	**32,007**	**4,562**	**410**	**368**	**650**	**37,997**

Depreciation and amortization expenses of €486 thousand (2017: €335 thousand) were charged to cost of goods and services, €1.0 million (2017: €1.2 million) were charged to Research & Development expenses, €18 thousand (2017: €79 thousand) were charged to marketing and distribution expenses and €136 thousand (2017: €132 thousand) were charged to general and administrative expenses.

Operating property leases amounting to €2.4 million (2017: €2.5 million) are included in the income statement.

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

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

€ in thousand	Buildings and leasehold improvements	Total
December 31, 2018		
Cost	34,795	34,795
Accumulated depreciation	(8,381)	(8,381)
Net book value	**26,414**	**26,414**

5.15 Equity-accounted investees

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate. When the Company's share of losses of an associate exceeds the Company's interest in that associate (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate), the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

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

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

Name of associate	Place of business	Measurement method	% of ownership interest at December 31,	
			2018	**2017**
BliNK Biomedical SAS	FR	Equity method	43.3%	41.77%

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

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

BliNK Biomedical SAS was a loss-making development stage company in 2015 to 2017, therefore Valneva has fully impaired the book value of its shares in 2015. In 2018, BliNK reduced its research activities and has licensed out its technology. As a result it is not loss-making in 2018. Valneva recorded a profit of €1.1 million related to its share of equity in BliNK as of December 31, 2018, while Blink's accumulated losses (including the profit of 2018) still amounts to EUR 13.6 million as of December 31, 2018. The total equity amounts to €2.6 million as of December 31, 2018.

BliNK Biomedical SAS is a private company and its shares are not listed on a stock exchange.

5.15.1 Summarized financial information for material associate

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

€ in thousand	**At December 31,**	
	2018	**2017**
BliNK Biomedical SAS		
Non-current assets	5	379
Current assets	5,067	3,137
Non-current liabilities	1,999	1,999
Current liabilities	483	1,120
Revenue	4,907	3,079
Profit/(loss) from continuing operations	2,187	(8,989)
Total comprehensive income	2,187	(5,909)

5.15.2 Reconciliation to the carrying amount

€ in thousand	**At December 31,**	
	2018	**2017**
Net assets of associate	2,590	397
Proportion of the Company's ownership interest in BliNK Biomedical SAS	43.3%	41.77%
Company's share in net assets	1,122	166
Additional investment - Convertible bonds	-	-
	1,122	166
Impairment	-	(166)
Balance as of December 31,	**1,122**	**-**

5.16 Financial instruments

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

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

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

5.16.1 Financial instruments by category

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

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

December 31, 2018 € in thousand	Assets at fair value through profit and loss	Assets at amortized cost	Total
Assets as per balance sheet			
Trade receivables	-	11,259	11,259
Other assets[8]	177	11,617	11,794
Cash and cash equivalents	-	81,725	81,725
Assets	**177**	**104,602**	**104,778**

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

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

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

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

	Liabilities at fair value through profit and loss	Liabilities at amortized cost	Total
Liabilities as per balance sheet			
Borrowings (excluding finance lease liabilities)[12]	-	30,937	30,937
Finance lease liabilities	-	26,662	26,662
Trade payables and accruals	-	13,325	13,325
Tax and employee-related liabilities[13]	-	5,672	5,672
Contract liabilities, other liabilities and provisions[14]	-	270	270
Liabilities	**-**	**76,867**	**76,867**

5.16.2 Fair value measurements

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

+ level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
+ level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
+ level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

[13] 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.

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

December 31, 2017 € in thousand	Level 2	Total
Other assets		
Derivatives not designated as hedging instruments	-	-
Other assets	-	-
Contract liabilities, other liabilities and provisions		
Derivatives not designated as hedging instruments	1	1
Contract liabilities, other liabilities and provisions	**1**	**1**
December 31, 2018 **€ in thousand**	**Level 2**	**Total**
Other assets		
Derivatives not designated as hedging instruments	177	177
Other assets	**177**	**177**
Contract liabilities, other liabilities and provisions		
Derivatives not designated as hedging instruments	-	-
Contract liabilities, other liabilities and provisions	**-**	**-**

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

In 2017 and 2018, the Group entered into various foreign currency option contracts to limit the risk of foreign currency losses on expected future cash flows. The underlying currency amount and the duration of the options depend on the amount and timing of the expected future cash flows. At December 31, 2018 and at December 31, 2017 the Company had the following open foreign currency options:

December 31, 2017	Underlying currency amount	Duration	Fair Value (€ in thousand)
Foreign currency option	$3.0 million	61 days	-

December 31, 2018	Underlying currency amount	Duration	Fair Value (€ in thousand)
Foreign currency option	$4.8 million	89 days	-
Foreign currency option	CAD 5.0 million	113 days	177

5.16.3 Credit quality of financial assets

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

€ in thousand	At December 31,	
	2018	2017
Trade receivables		
Receivables from governmental institutions	-	7,663
A	1,562	122
Counterparties without external credit rating	9,698	9,836
Trade receivables	**11,259**	**17,622**
Other assets		
AAA	-	-
A	11,586	136
Counterparties without external credit rating or rating below A	208	11,557
Other assets	**11,794**	**11,693**
Cash and cash equivalents		
AA	3,486	2,587
A	60,761	22,940
Counterparties without external credit rating or rating below A	17,478	12,528
Cash and cash equivalents	**81,725**	**38,055**

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

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

5.16.4 Impairment of financial assets

Trade receivables

According to IFRS 9.5.5.15 the simplified approach (measure the loss allowance at an amount equal to lifetime expected credit losses) has to be used for trade receivables, which do not contain a significant financing component. This is the case for the Valneva group, as all trade receivables are short term with a maturity smaller than 12 months.

Loss allowances for trade receivables had to be established at the time there were indications of possible default risks, including aged debtors whose due periods were exceeded. Accordingly, at the end of each reporting period, trade receivables were adjusted through a loss allowance in accordance with the expected outcome.

According to IFRS 9.5.5.17 default probabilities are to be determined on the basis of historical data, but must be adjusted on the balance sheet date on the basis of up-to-date information and expectations. Although a certain portion of trade receivables is overdue, the analysis of the historical data showed on both December 31, 2017 and December 31, 2018 that losses incurred are immaterial, taking further into account the limited number of customers as well as credit checks mentioned in note 5.2.5 (c). Therefore, no loss allowance has been recorded on both December 31, 2017 and December 31, 2018.

Other assets and cash and cash equivalents

Historically, no losses have been incurred on other assets measured at amortized costs and on cash and cash equivalents. At December 31, 2018, the expected credit loss was calculated using the cumulative expected default rate based on the counterparties' ratings. Since the result was immaterial, no loss allowance has been recorded.

5.17 Inventories

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

€ in thousand	At December 31,	
	2018	2017
Raw materials	2,983	2,310
Work in progress	13,986	9,862
Finished goods	5,759	7,760
Inventory	**22,727**	**19,931**

The cost of inventories recognized as an expense and included in the position "Cost of goods and services" amounted to €31.4 million (2017: €33.0 million), of which €2.9 million (2017: €6.0 million) related to faulty products, which were written off.

5.18 Trade receivables

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

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

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

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

Trade receivables include the following:

€ in thousand	**At December 31,**	
	2018	**2017**
Trade receivables	11,259	17,622
Less: provision for impairment of receivables	-	-
Trade receivables, net	**11,259**	**17,622**

During the years 2018 and 2017, no material impairment losses have been recognized. The amount of trade receivables past due in 2018 amounted to €2.6 million (2017: €2.5 million). The fair values of trade receivables equal their book values.

5.19 Other assets

Other assets include the following:

€ in thousand	**At December 31,**	
	2018	**2017**
Prepaid expenses	1,950	1,309
Non-current financial assets	314	335
Current financial assets	177	-
Other receivables	25,056	23,564
	27,497	**25,207**
Less non-current portion	(17,236)	(17,368)
Current portion	**10,261**	**7,840**

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

5.20 Cash and cash equivalents

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

As of December 31, 2018, cash and cash equivalents include €4.6 million (December 31, 2017: €4.5 million) for which there are restrictions on remittances.

€ in thousand	**At December 31,**	
	2018	**2017**
Cash in hand	3	5
Cash at bank	57,082	32,536
Short-term bank deposits (maximum maturity of 3 months)	20,000	1,004
Restricted cash	4,641	4,510
Cash and cash equivalents	**81,725**	**38,055**

The restriction of the restricted cash expires as of January 2, 2019, as this was in connection of the Pharmakon loan, which was fully repaid then. For more information please see Note 5.24.3.

5.21 Share capital, share premium and other regulated reserves

Ordinary shares are classified as equity.

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

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

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

€ in thousand (except numbers of shares)	Number of shares	Share capital	Share premium	Other regulated reserves[15]	Total share capital, share premium and other regulated reserves
Balance at January 1, 2017	**77,583,788**	**11,638**	**200,117**	**52,820**	**264,574**
Employee stock option plan:					
+ value of employee services	715	-	-	-	-
Issuance of ordinary shares, December 2017					
Cost of equity transactions, net of tax	-	-	(3)	-	(3)
Balance at December 31, 2017	**77,584,503**	**11,638**	**200,114**	**52,820**	**264,572**
Balance at January 1, 2018	**77,584,503**	**11,638**	**200,114**	**52,820**	**264,572**
Employee stock option plan:	-	-	-	-	-
+ value of employee services					
Issuance of ordinary shares, October 2018	13,333,334	2,000	48,000	-	50,000
Cost of equity transactions, net of tax	-	-	(3,214)	-	(3,214)
Balance at December 31, 2018	**90,917,837**	**13,638**	**244,900**	**52,820**	**311,358**

Conditional and authorized capital

On December 31, 2018, the Company had 16,616,393 shares of conditional capital in connection with (see Note 5.23):

- the possible exercise of existing stock options;
- the possible exercise of existing equity warrants;
- the possible conversion of existing preferred shares;
- the possible conversion or final grant of existing convertible preferred shares;

Pursuant to resolution No. 22 of the General Meeting held on June 28, 2018, the nominal amount of increases in Valneva's share capital which can be carried out by the Company, immediately or in the future, may not under any circumstances exceed a maximum overall amount of €4.5 million or the equivalent value in a foreign currency, to which amount will be added, if applicable, the supplementary amount of shares or securities to be issued for the purposes of any adjustments to be made in accordance with applicable legislative or regulatory provisions and, if applicable, with contractual stipulations providing for other forms of adjustment, in order to preserve the rights of the holders of securities giving access, immediately or in the future, to the share capital of the Company.

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

5.22 Retained earnings and other reserves

€ in thousand	Other comprehensive income	Treasury shares	Retained earnings	Total
Balance at January 1, 2017	**(7,479)**	**(1,006)**	**(106,854)**	**(115,339)**
Currency translation differences	3,337	-	-	3,337
Defined benefit plan actuarial losses	35	-	-	35
Income appropriation	-	-	(49,184)	(49,184)
Employee stock option plan:				
+ value of employee services	-	-	833	833
Purchase/sale of treasury shares	-	(104)	-	(104)
Balance at December 31, 2017	**(4,107)**	**(1,110)**	**(155,205)**	**(160,421)**
Balance at January 1, 2018	**(4,107)**	**(1,110)**	**(155,205)**	**(160,421)**
Currency translation differences	(1,385)	-	-	(1,385)
Defined benefit plan actuarial losses	13	-	-	13
Income appropriation	-	-	(11,482)	(11,482)
Employee stock option plan:				
+ value of employee services	-	-	1,863	1,863
Purchase/sale of treasury shares	-	(23)	-	(23)
Balance at December 31, 2018	**(5,479)**	**(1,133)**	**(164,824)**	**(171,435)**

The Company has not received or paid a dividend to its shareholders in the years ended December 31, 2018 and 2017.

5.23 Share-based payments

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

€ in thousand	Year ended December 31,	
	2018	**2017**
Stock option plans	282	404
Free ordinary shares	-	-
Equity warrants	-	16
Free convertible preferred share plans	1,581	388
Phantom shares	26	3
Total expenses arising from share-based payments	**1,889**	**810**

5.23.1 Stock option plans

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

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

Stock options are generally granted to employees and until 2015 also to Management Board Members.

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

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

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

	2018			2017		
	Number of options	**Number of shares available**	**Average exercise price in € per share**	**Number of options**	**Number of shares available**	**Average exercise price in € per share**
Outstanding at January 1	3,020,400	3,088,892	3.13	2,040,150	2,123,421	3.31
Granted	-	-	-	1,269,500	1,269,500	2.85
Adjusted	-	-	-	-	-	-
Forfeited	(160,550)	(161,230)	3.01	(289,250)	(304,029)	3.20
Exercised	-	-	-	-	-	-
Outstanding at year end	**2,859,850**	**2,927,662**	**3.14**	**3,020,400**	**3,088,892**	**3.13**
Exercisable at year end	1,193,975	1,261,787		988,755	1,057,267	

No stock options have been exercised in 2018 and in 2017.

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

	Exercise price	Number of options at December 31,	
Expiry date	**in € per share**	**2018**	**2017**
2020	4.72[(1)]	7,000	7,000
2023	2.919[(1)]	672,850	679,650
2025	3.92	577,500	604,250
2026	2.71	450,750	493,750
2027	2.85	1,151,750	1,235,750
		2,859,850	**3,020,400**

(1) Adjusted in accordance with French law requirements.

In 2018, no stock options were granted (2017: 1,269,500). The weighted average grant date fair value of options granted during the year 2017 was €0.44. The fair value of the granted options was determined using the Black Scholes valuation model.

5.23.2 Free ordinary shares

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

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

Changes in the free ordinary shares outstanding are as follows:

	Number of free shares	
	2018	**2017**
Outstanding at January 1	-	1,000
Granted	-	-
Forfeited	-	-
Definitively granted	-	(1,000)
Outstanding at year end	**-**	**-**

5.23.3 Equity warrants

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

Changes in the equity warrants outstanding are as follows:

	Number of equity warrants	
	2018	**2017**
Outstanding at January 1	202,250	114,750
Granted	-	87,500
Forfeited	(38,250)	-
Outstanding at year end	**164,000**	**202,250**

5.23.4 Free convertible preferred share plan

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

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

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

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

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

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

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

On November 30, 2017, the Supervisory Board also authorized the Management Board to grant free convertible preferred shares to members of the Company's Management Board and Executive Committee, as well as to Manufacturing site Heads (collectively with the Management Board members,

the “**Executive Managers**”), on condition that the Executive Managers make a prior personal investment in the Company by purchasing Valneva SE ordinary shares.

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

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

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

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

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

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

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

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

Changes in the SPS and FCPS are as follows (information for both FCPS plan 2015 and FCPS plan 2017):

	Number of SPS		**Number of FCPS**	
	2018	**2017**	**2018**	**2017**
Outstanding at January 1	789	1,074	53,742	26,850
Granted	-	-	-	34,017
Forfeited	-	(285)	-	(7,125)
Outstanding at year end	**789**	**789**	**53,742**	**53,742**

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

5.23.5 Phantom shares

In 2017, a phantom share plan was issued for employees who are US citizens, with the same conditions as the stock options program (see 5.23.1) but which will not be settled in equity, but in cash. Therefore it is considered as a cash settled plan. The liability for the phantom shares is measured, initially and at the end of each reporting period until settled, at the fair value of the share options rights, by applying an option pricing model, taking into account the terms and conditions on which the phantom rights were granted, and the extent to which the employees have rendered services to date.

The carrying amount of the liability relating to the phantom shares at December 31, 2018 was €26 thousand. No phantom share had vested or forfeited at December 31, 2018.

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

	Exercise price	Number of options at December 31,	
Expiry date	**in € per share**	**2018**	**2017**
2023	2.919[(1)]	6,000	6,000
2025	3.92	10,000	10,000
2026	2.71	7,000	7,000
2027	2.85	138,000	138,000
		161,000	**161,000**

(1) Adjusted in accordance with French law requirements.

In 2018, no phantom shares were granted (2017: 161,000). The fair value of the granted options in 2017 was determined using the Black Scholes valuation model. The significant inputs into the models were:

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

5.24 Borrowings

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

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

Borrowings of the Group at yearend include the following:

€ in thousand	At December 31,	
	2018	2017
Non-current		
Bank borrowings	9,707	9,868
Other loans	4,565	17,566
Finance lease liabilities	25,798	26,662
	40,070	**54,097**
Current		
Bank borrowings	211	1,336
Other loans	16,454	15,205
Finance lease liabilities	865	858
	17,529	**17,399**
Total borrowings	**57,600**	**71,496**

The maturity of non-current borrowings is as follows:

€ in thousand	At December 31,	
	2018	2017
Between 1 and 2 years	2,866	15,751
Between 2 and 3 years	2,933	2,866
Between 3 and 4 years	11,003	1,508
Between 4 and 5 years	23,269	10,808
Over 5 years	-	23,164
Non-current borrowings	**40,070**	**54,097**

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

€ in thousand	At December 31,	
	2018	2017
EUR	43,054	45,589
USD	14,546	25,906
Total borrowings	**57,600**	**71,496**

5.24.1 Finance lease liabilities

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

5.24.2 Bank borrowings and other loans secured

As at December 31, 2018, €30.9 million of the outstanding bank borrowings and other loans are guaranteed, secured or pledged. These bank borrowings and other loans are related to financing of Research and Development expenses, fixed assets and CIR (R&D tax credit in France) and have various conditions (interest rates) and terms (maturities).

The following table presents the fair value of guaranteed bank borrowings and other loans without taking the interest subsidy into consideration, based on an estimated arms' length interest rate of 5.78% at year-end 2018:

€ in thousand	At December 31, 2018	
	Carrying amounts	Fair values
Bank borrowings (excluding bank borrowings described below)	120	117
Other loans (excluding the other loans described in Note 5.24.3)	6,564	5,932
Guaranteed, secured or pledged borrowings	**6,684**	**6,049**

In July 2016, Valneva SE entered into a loan agreement with the European Investment Bank by which the Company was granted a €25 million term loan facility as part of the European Horizon 2020 initiative. Subject to fulfillment of certain conditions precedent, the loan may be drawn in one or several tranches within a 24-month period from signing, which was extended to be a 36-month period from signing. Each tranche is repayable at the end of a five-year period starting from the drawing date. The loan is secured by collateral over the Company's material subsidiaries, mainly ranking behind securities linked to Valneva's existing indebtedness. Furthermore, the loan agreement contains covenants, including a positive Group EBITDA and a minimum cash balance of €3 million at all times. The Group does not expect these limitations to impact its ability to meet its cash obligations. In the year ended December 31, 2017, two €5 million tranches respectively were drawn under the loan facility that was granted with no commitment fee and subject to variable interest on amounts drawn.

At December 31, 2018 the loan is included in the balance sheet item "Borrowings" as follows:

€ in thousand	2018	2017
Balance at January 1	**9,618**	**-**
Proceeds of issue	-	10,000
Transaction costs	(7)	(417)
Accrued interests	913	368
Payment of interest and loan	(727)	(332)
Balance at December 31	**9,797**	**9,618**
Less: non-current portion	9,797	9,618
Current portion	**-**	**-**

5.24.3 Other loans

On December 20, 2013, the Group received a $30 million financing from an investment fund managed by Pharmakon Advisors for Valneva Austria GmbH. The loan extends over a five year period and carries an interest rate ranging from 9.5% to 10.5%. On November 18, 2015 the loan was increased by an additional

financing of $11 million. From 2016 onwards, the Company is paying a royalty to Pharmakon Advisors ranging from 2.5% to 3.1% on its IXIARO®/JESPECT® sales during the term of the loan. The interest rate and the royalty payable in connection with the loan are both recognized as finance expenses. The finance expenses are calculated using the effective interest method and are therefore recognized pro rata to the outstanding principal in each accounting period until the loan is fully amortized. The foreign currency valuation is done at each balance sheet date and resulting exchange gains or losses are shown as finance income/expenses. The asset-based loan is guaranteed by Valneva SE and secured by a security interest on the incoming funds from Valneva's sales of IXIARO®/JESPECT® and on the shares of the Group's Austrian and Scottish subsidiaries, which hold the key IXIARO®/JESPECT® assets. The loan agreement includes customary covenants for the Group's Austrian subsidiary, including limitations on indebtedness and new business activities as well as limitations for payments of dividends and other disbursements to its parent company Valneva SE. The Company does not expect these limitations to impact its ability to meet its cash obligation. The loan was fully repaid as of January 2, 2019. At December 31, 2018, the book values of the assets pledged amounted to €253.0 million (2017: €232.5 million).

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

€ in thousand	2018	2017
Balance at January 1	**25,906**	**43,894**
Accrued interest and royalty expense	2,458	4,218
Payment of interest, royalties and loan	(14,418)	(18,056)
Foreign exchange valuation	600	(4,150)
Balance at December 31	**14,546**	**25,906**
Less: non-current portion	-	(12,733)
Current portion	**14,546**	**13,173**

5.25 Trade payables and accruals

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

Trade payables and accruals include the following:

€ in thousand	At December 31,	
	2018	**2017**
Trade payables	9,175	5,258
Accrued expenses	4,150	4,268
	13,325	**9,527**
Less non-current portion	-	-
Current portion	**13,325**	**9,527**

5.26 Tax and employee-related liabilities

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

€ in thousand	At December 31,	
	2018	2017
Employee-related liabilities	5,672	4,586
Social security and other taxes	2,971	2,945
	8,643	**7,531**
Less non-current portion	-	-
Current portion	**8,643**	**7,531**

5.27 Contract liabilities, other liabilities and provisions

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

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

Provisions are not recognized for future operating losses.

€ in thousand	At December 31,	
	2018	2017
Deferred income	91	6,677
Other financial liabilities	270	458
Contract liabilities	4,735	-
Provisions for employee commitments	333	294
Other liabilities	30	71
Other provisions	288	300
	5,748	**7,799**
Less non-current portion	(3,707)	(4,903)
Current portion	**2,041**	**2,896**

For more information on contract liabilities please see Note 5.5.2.

5.27.1 Deferred Income

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

€ in thousand		**At December 31,**
	2018	**2017**
Arising from collaboration and licensing agreements	-	6,502
Arising from government grants	91	175
	91	**6,677**
Less non-current portion	(54)	(4,343)
Current portion	**37**	**2,334**

As of January 1, 2018 deferred income arising from collaboration and licensing agreements were classified to contract liabilities.

5.27.2 Provisions for employee commitments

Some group companies provide retirement termination benefits to their retirees.

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

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

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

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

Assumptions used

		At December 31,
	2018	**2017**
Discount rate	1.60%	1.50%
Salary increase rate	2.00%	2.00%
Turnover rate	0%-33.24%	0%-33.24%
Social security rate	47.00%-48.00%	47.00%-48.00%
Average remaining lifespan of employees (in years)	22	22

Changes in defined benefit obligation

Present value of obligation development:

€ in thousand	2018	2017
Balance at January 1	**294**	**278**
Current service cost	52	51
Actuarial losses/(gains)	(13)	(35)
Balance at December 31	**333**	**294**

5.27.3 Other provisions

€ in thousand	At December 31,	
	2018	2017
Non-current	24	1
Current	264	299
Provisions	**288**	**300**

	2018	2017
Balance at January 1	**300**	**810**
Charged to the income statement:		
Additional provision	190	185
Reversed provision	-	(19)
Used provisions	(195)	(670)
Exchange differences	(8)	(7)
Balance at December 31	**288**	**300**

The position comprises in 2018 a remaining amount of €94 thousand from a provision for expected legal and settlement costs under a court proceeding relating to the Intercell AG/Vivalis SA merger. Furthermore, a provision for restructuring costs of €167 thousand in 2018 for the site in France is included.

5.28 Cash flow information

5.28.1 Cash generated from operations

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

€ in thousand	Note	Year ended at December 31,	
		2018	**2017**
Profit/(Loss) for the year		3,264	(11,482)
Adjustments for			
• Depreciation and amortization	5.13/ 5.14	6,828	11,141
• Impairment fixed assets/intangibles	5.13/ 5.14	-	3,568
• Share-based payments	5.23	1,887	811
• Income tax	5.10	88	(1,078)
• (Profit)/loss from disposal of fixed assets	5.8	7	-
• Share of (profit)/loss from associates	5.15	(1,122)	-
• Fair value (gains)/losses on derivative financial instruments		(178)	93
• Other non-cash income/expense		203	2,390
• Interest income	5.9	(178)	(72)
• Interest expense	5.9	3,788	5,060
• Changes in other long-term assets and liabilities		(962)	(1,141)
Changes in working capital (excluding the effects of acquisition and exchange rate differences on consolidation):			
• Inventory		(2,790)	1,065
• Trade and other receivables		4,336	597
• Trade and other payables and provisions		2,410	2,537
Cash generated from operations		**17,580**	**13,489**

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

€ in thousand	At December 31,	
	2018	**2017**
Net book value	82	-
Profit/(loss) on disposal of fixed assets	(7)	-
Proceeds from disposal of fixed assets	**76**	**-**

5.28.2 Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows

were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

€ in thousand	Bank borrowings	Other loans	Finance lease liabilities	Total
Balance at January 1, 2017	2,860	51,271	28,372	82,503
Financing cash flows[16]	8,312	(12,772)	(851)	(5,311)
Foreign exchange movements	-	(4,150)	-	(4,150)
Other changes[17]	32	(1,578)	-	(1,547)
Balance at December 31, 2017	**11,204**	**32,771**	**27,520**	**71,496**
Balance at January 1, 2018	11,204	32,771	27,520	71,496
Financing cash flows	(1,473)	(11,822)	(858)	(14,153)
Foreign exchange movements	-	600	-	600
Other changes	187	(529)	-	(343)
Balance at December 31, 2018	**9,918**	**21,019**	**26,662**	**57,600**

5.29 Commitments and contingencies

5.29.1 Capital commitments

There were no capital expenditure contracted for at December 31, 2018, and December 31, 2017.

5.29.2 Operating lease commitments

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

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

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest component of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the

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

[17] Other changes include interest accruals and payments.

liability for each period ("Effective interest rate method"). The property, plant and equipment acquired under finance leases are depreciated over the useful life of the asset.

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

€ in thousand	**At December 31,**	
	2018	**2017**
Not later than 1 year	2,132	2,190
Later than 1 year and not later than 5 years	8,365	8,599
Later than 5 years	33,012	2,289
Operating lease commitments	**43,509**	**13,079**

The Group leases office space, cars and equipment. The significant increase of future aggregate minimum lease commitments is due to the new lease contract of premises in Solna, Sweden. This lease contract will be effective from 2021 onwards for 17 years and will replace the current contract.

5.29.3 Other commitments and guarantees

The other commitments consisted of:

€ in thousand	**At December 31,**	
	2018	**2017**
Loans and grants	1,227	1,743
Royalties	12,227	12,893
Other	-	12
Other commitments	**13,454**	**14,648**

The guarantees and pledges consisted of:

€ in thousand	**At December 31,**	
	2018	**2017**
Equipment pledge	-	86
Pledges on consolidated investments	252,991	232,528
Guarantees for non-consolidated investments	-	-
Guarantees and pledges	**252,991**	**232,614**

5.29.4 Contingencies

Following the merger between the companies Vivalis SA and Intercell AG in 2013, certain former Intercell shareholders initiated legal proceedings before the Commercial Court of Vienna to request a revision of the exchange ratio between Intercell and Valneva shares used in the merger. Valneva filed an extensive statement in response to the petitions in which it described the basis for the original exchange ratio, including the use of independent third parties. If the court decides to revise the exchange ratio, there is legal uncertainty as to whether the court could extend this revision to all former Intercell shareholders who exchanged their shares, even if they were not a party to the dispute (erga omnes effect). If the court so decides and this is confirmed after exhaustion of appeals, Valneva may be forced to compensate all former shareholders following the reevaluation of the exchange ratio. The outcome of the proceedings to review the exchange ratio cannot be predicted with certainty at the present time. It is, therefore, currently

not possible to estimate whether a specific shareholder group will be granted additional payments or what the amount of these payments might be. However, Valneva, after consultation with its external advisors, believes that these legal proceedings are unsubstantiated and are not likely to succeed in court. Detailed information on the potential specific financial consequences which might result from a successful claim could adversely affect Valneva's ability to defend its interests in this case, and therefore is not provided, in accordance with IAS 37.92.

In July 2016, a claim for additional payment was raised, and litigation was filed in December 2016, in connection with the 2009 acquisition of Humalys SAS, by which Vivalis (now Valneva) had acquired a technology,which was later combined with other antibody discovery technologies and spun off to Blink Biomedical SAS in early 2015. Former shareholders of Humalys claimed additional consideration as a result of the spin-off transaction. The first instance decision in the Humalys case is expected this year (2019). Valneva, after consultation with its external advisors, believes that this claim is unsubstantiated and the filed litigation is not likely to succeed in court. Detailed information on the potential specific financial consequences which might result from a successful claim could adversely affect Valneva's ability to defend its interests in this case, and therefore is not provided, in accordance with IAS 37.92.

5.30 Related-party transactions

5.30.1 Purchases of services

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

€ in thousand	**Year ended December 31,**	
	2018	**2017**
Purchases of services:		
Operating activities	1	2
Purchases of services	**1**	**2**

5.30.2 Rendering of services

Services provided by Valeva to Groupe Grimaud La Corbière SA are considered related party transactions and consist of services within a Collaboration and Reasearch License agreement and of the provision of premises and equipment.

€ in thousand	**Year ended December 31,**	
	2018	**2017**
Provision of services:		
Operating activities	117	-
Provision of services	**117**	**-**

5.30.3 Key management compensation

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

€ in thousand	Year ended December 31,	
	2018	**2017**
Salaries and other short-term employee benefits	1,900	1,677
Other long-term benefits	12	34
Share-based payments (expense of the year)	985	277[18]
Key management compensation	**2,898**	**1,988**

5.30.4 Supervisory Board compensation

The aggregate compensation of the members of the Company's Supervisory Board amounted to €285 thousand (2017: €268 thousand). In the years 2015, and 2017, the Company granted equity warrants to members of the Supervisory Board. For more information, see Note 5.23.3.

5.31 Events after the reporting period

No events that are expected to have a material effect on the financial statements occurred after the reporting period until March 20, 2019.

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

6. STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

PricewaterhouseCoopers Audit

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92208 Neuilly-sur-Seine

Deloitte & Associés
Les Docks - Atrium 10.4
10 place de la Joliette
13002 Marseille

VALNEVA

Société Européenne
6 Rue Alain Bombard
44800 Saint-Herblain

Statutory auditors' report on the consolidated financial statements

for the year ended December 31, 2018

To the Annual General Meeting of Valneva SE,

Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying consolidated financial statements of Valneva SE for the year ended December 31, 2018.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2018 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

Basis for Opinion

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2018 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 or in the French Code of ethics (*Code de Déontologie*) for statutory auditors.

The detail of services other than certification of accounts provided by us during the year 2018 to Valneva SE and which were not detailed in the Management Report or the notes to the consolidated financial statements were as follows:

PricewaterhouseCoopers Audit

Country	Nature of the services other than certification of accounts	Amount (€)
France	*Non-audit services required by law (reports on share capital transactions)*	*1 809€*

Deloitte & Associés

Country	Nature of the services other than certification of accounts	Amount (€)
France	*Non-audit services required by law (reports on share capital transactions)*	*5 236€*
France	*Other non-audit services (attestation on Atlanpole Biotherapies expenses)*	*1 139€*

Justification of Assessments - Key Audit Matters

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

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the consolidated financial statements.

Key Audit Matters	**How our audit addressed the key audit matters**
Valuation of acquired R&D technologies and projects, and development costs *(Note 5.13 "Intangible assets and goodwill" to the consolidated financial statements)*	
As a result of its activities dedicated to the development of innovative vaccines, the Group has recognized significant intangible assets related to acquired R&D technologies and projects and development costs (€42.8 million as of December 31, 2018). An impairment is recognized when the recoverable amount of these assets (corresponding to the higher of the asset's fair value less selling costs and value in use), is lower than their net carrying amount. These impairment tests require the Company to make assumptions and judgments at the clinical, technical and commercial levels (viability of new products). Given the inherent uncertainties related to the research and development processes, and in particular, Valneva's ability to achieve the expected results or to obtain clinical approvals or approvals from other regulatory bodies in a highly competitive therapeutic environment, we considered the valuation of acquired R&D technologies and projects, and development costs to be a key audit matter.	We gained an understanding of the procedures implemented by Valneva regarding the valuation of these intangible assets. We involved our valuation specialists to assist us in analyzing the assumptions and methods used by the Management. We assessed the reasonableness of the main assumptions used in the determination of the cash flow projections: periods used in the business plans, development costs, expected dates for the launch of the products on the market, , royalties derived from the utilization of these assets, , projected market shares, selling prices and associated margins, specific market risk premiums where applicable, probability of success and probability to obtain regulatory approvals. These assessments were based on our understanding of the expected business projections for each different products, inquiries with researchers in charge of major research and development projects, and the verification of the consistency of the assumptions used with the forecasts derived from the strategic plans presented to the Supervisory Board. We also verified that the Note 5.13 "Intangible assets and Goodwill" to the consolidated financial statements provided appropriate disclosure.

Revenues from collaborations, licensing and services

(Notes 5.5 " Revenues from contracts with customers", 5.3.2 "Critical judgments in applying the entity's accounting policies" to the consolidated financial statements)

The Group generates significant revenues through collaboration and licensing agreements (research, development, production and marketing) with biopharmaceutical and pharmaceutical companies and academic institutions for its vaccine candidates and its own technologies (proprietary technologies). These revenues represent a total of €9,385 thousand as of December 31, 2018 ("technologies and services" and "vaccine candidates" segments).

Terms of the agreements are complex include different types of payments: upfront payments, annual payments, milestone payments, payments for license options and for the performance of research services, royalties for which the amounts are determined based on the product sales, according to the license agreements.

The revenue recognition method ("over time" or "at a point in time") depends in particular on the nature of the rights granted and types of payments.

A misinterpretation of the contracts could lead to an inadequate method of recognition of the corresponding revenues.

The recognition of these revenues is a key point of the audit due to the variety of contractual clauses.

We performed procedures to assess the design and verify the operating effectiveness of the internal controls related to the recognition of revenues from collaborations, licensing and services.

We obtained Management's calculations for revenues from collaboration and license agreements and validated, by a sample, the data used by reference to internal and external sources (including the terms of the applicable contracts and supporting documentation for milestone achievements).

We ensured the proper application of these revenues' accounting according to the IFRS 15 rules.

We also verified that Notes 5.5" Revenues from contracts with customers", and 5.3.2 "Critical judgments in applying the entity's accounting policies", to the consolidated financial statements provided appropriate disclosure.

Contingencies

(Note 5.29.4 " Contingencies" to the consolidated financial statements)

Valneva is involved in two disputes. Firstly, the former shareholders of Humalys, a subsidiary acquired in the past by Valneva subsequently spun off to Blink Biomedical, have initiated legal proceedings questioning the amount of the earn-out payment. Secondly, the former shareholders of Intercell, entity merged with Valneva SE, have initiated legal proceedings with regards to the exchange ratio in order to obtain financial compensation following the merger.

To assess that it is unlikely that Valneva will be liable in these disputes and thus justifying the absence of any provision recorded in the financial statement for these two litigations:

- We discussed the status of these two disputes with the Company's Management and in-house legal counsel
- We analyzed the documentation supporting the positions of the parties in the framework of the legal procedure

Management considered these disputes as contingent liabilities, considering low the probability of an outflow of resources, and therefore did not recognize any provision in the financial statements. Given the uncertainties surrounding the outcomes of these litigations, we have considered the accounting treatment, the absence of provision, and disclosures to the financial statements to be a key audit matter.	- We obtained and analyzed the notes and responses from lawyers to our external confirmation requests. In addition, we verified that Note 5.29.4 "Contingencies" to the financial statements provided appropriate disclosure.

Specific verifications

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by laws and regulations of the Group's information given in the management report of of the Management Board.

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

Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

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

As at December 31, 2018, PricewaterhouseCoopers Audit and Deloitte & Associés were in the 7th year and 12th year of total uninterrupted engagement.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

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

The consolidated financial statements were approved by the Management Board.

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

Objectives and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As specified in Article L.823-10-1 of the French Commercial Code (*Code de commerce*), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.

- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements.

- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.

- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The statutory auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

Report to the Audit Committee and Governance

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

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

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

Neuilly-sur-Seine et Marseille, le 20 mars 2019

The Statutory Auditors

French original signed by

PricewaterhouseCoopers Audit	**Deloitte & Associés**
Thierry CHARRON	Christophe PERRAU

This is a free translation into English of the statutory auditors' report on the consolidated financial statements issued in French and is provided solely for the convenience of English speaking users. The statutory auditors' report includes information specifically required by European regulation and French such as information about the appointment of the statutory auditors or verification of the management report and other documents provided to shareholders. This information is presented below the audit opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.