VALNEVA SE
Consolidated Financial Statements
December 31, 2015

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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,	
		2015	2014
Product sales	5.5	61,545	28,124
Revenues from collaborations, licensing and services	5.5	16,814	8,799
Revenues		**78,360**	**36,922**
Grant income		4,975	5,506
Revenues and Grants		**83,335**	**42,429**
Cost of goods and services	5.6/5.7	(46,961)	(17,144)
Research & Development expenses	5.6/5.7	(25,367)	(22,242)
Distribution and marketing expenses	5.6/5.7	(9,121)	(2,065)
General and administrative expenses	5.6/5.7	(14,394)	(12,077)
Other income and expenses, net	5.8	(152)	(395)
Amortization and impairment of fixed assets/intangibles	5.6	(7,273)	(12,323)
OPERATING LOSS		**(19,934)**	**(23,817)**
Finance income	5.9	5,073	2,273
Finance expenses	5.9	(9,716)	(4,394)
Result from investments in affiliates	5.15	(8,999)	-
Gain on bargain purchase	5.31	13,183	-
LOSS BEFORE INCOME TAX		**(20,393)**	**(25,938)**
Income tax	5.10	(224)	(334)
LOSS FOR THE YEAR		**(20,617)**	**(26,272)**
Losses per share for loss from continuing operations attributable to the equity holders of the Company, expressed in € per share (basic and diluted)	5.11	**(0.28)**	**(0.47)**
EBITDA	5.12	**(8,492)**	**(7,364)**

Consolidated statement of comprehensive income

€ in thousand	Note	Year ended December 31,	
		2015	**2014**
Loss for the year		**(20,617)**	**(26,272)**
Other comprehensive income/(loss)			
Items that are or may be reclassified subsequently to profit or loss			
Currency translation differences	5.23	(2,584)	(2,626)
Total items that are or may be reclassified subsequently to profit or loss		(2,584)	(2,626)
Other comprehensive income/(loss) for the year, net of tax		**(2,584)**	**(2,626)**
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE COMPANY		**(23,200)**	**(28,897)**

2. CONSOLIDATED BALANCE SHEET

€ in thousand	Note	At December 31,	
		2015	2014
ASSETS			
Non-current assets		**158,804**	**166,567**
Intangible assets and goodwill	5.13	98,567	105,204
Property, plant and equipment	5.14	42,439	41,611
Other non-current assets	5.19	17,797	19,753
Current assets		**116,383**	**52,967**
Inventories	5.17	26,687	7,282
Trade receivables	5.18	15,754	6,850
Other current assets	5.19	31,374	9,366
Cash, cash equivalents, short-term deposits and current financial assets	5.20	42,567	29,468
Assets held for sale	5.21	**-**	**7,982**
TOTAL ASSETS		**275,187**	**227,517**
EQUITY			
Capital and reserves attributable to the Company's equity holders		**144,335**	**124,444**
Share capital	5.22	11,205	8,453
Share premium and other regulated reserves	5.22	245,965	206,707
Retained earnings and other reserves	5.22	(92,219)	(64,444)
Net result for the period		(20,617)	(26,272)
LIABILITIES			
Non-current liabilities		**84,489**	**75,704**
Borrowings	5.25	76,568	66,036
Deferred tax liability	5.10	112	103
Other non-current liabilities and provisions	5.28	7,810	9,564
Current liabilities		**46,363**	**26,387**
Borrowings	5.25	25,687	7,117
Trade payables and accruals	5.26	10,698	10,734
Current tax liability		425	275
Tax and employee-related liabilities	5.27	6,889	5,398
Other current liabilities and provisions	5.28	2,664	2,862
Liabilities held for sale	5.21	**-**	**982**
TOTAL LIABILITIES		**130,852**	**103,073**
TOTAL EQUITY AND LIABILITIES		**275,187**	**227,517**

3. CONSOLIDATED CASH FLOW STATEMENT

€ in thousand	Note	Year ended December 31,	
		2015	**2014**
Cash flows from operating activities			
Loss for the year		(20,617)	(26,272)
Depreciation and amortization	5.13, 5.14	11,442	12,359
Impairment fixed assets/intangibles	5.13, 5.14	-	4,095
Share-based payments	5.24	1,018	530
Income tax	5.10	238	334
Other adjustments for reconciliation to cash used in operations	5.29	2,829	(2,439)
Changes in working capital	5.29	(14,585)	(938)
Cash used in operations	5.29	**(19,674)**	**(12,332)**
Interest paid	5.9	(4,506)	(2,227)
Income tax paid	5.10	(153)	(385)
Net cash used in operating activities		**(24,334)**	**(14,944)**
Cash flows from investing activities			
Acquisition of other businesses, net of cash acquired	5.31	(22,181)	-
Purchases of property, plant and equipment	5.14	(1,854)	(946)
Proceeds from sale of fixed assets	5.29	128	1,712
Purchases of intangible assets	5.13	(792)	(2,792)
Purchases of financial assets		-	(13,616)
Proceeds from sale of financial assets		-	17,130
Investments in associated companies	5.15	(1,999)	-
Interest received		133	505
Net cash generated from/(used in) investing activities		**(26,565)**	**1,993**
Cash flows from financing activities			
Proceeds from issuance of common stock, net of costs of equity transactions	5.22	42,010	8,632
Disposal/(Purchase) of treasury shares		63	69
Proceeds from borrowings, net of transaction costs	5.25	26,472	1,656
Repayment of borrowings	5.25	(4,350)	(5,083)
Net cash generated from financing activities		**64,195**	**5,274**
Net change in cash and cash equivalents		**13,296**	**(7,677)**
Cash at beginning of the year		28,857	36,509
Exchange gains/(losses) on cash		(246)	25
Cash at end of the year	5.20	**41,907**	**28,857**
Cash, cash equivalents, and financial assets at end of the year		**42,567**	**29,468**

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, 2014		**8,206**	**198,322**	**(38,308)**	**(24,110)**	**144,111**
Total comprehensive loss		-	-	(2,626)	(26,272)	(28,897)
Income appropriation		-	-	(24,110)	24,110	-
Employee share option plan:						
+ value of employee services	5.23	-	-	530	-	530
+ exercise of share options	5.22 / 5.24	6	(6)	-	-	-
Treasury shares	5.23			69	-	69
Issuance of common stock, May and June 2014	5.22	240	8,716	-	-	8,956
Cost of equity transactions, net of tax	5.22	-	(325)	-	-	(325)
		246	8,385	(26,136)	(2,162)	(19,667)
Balance as of December 31, 2014		**8,453**	**206,707**	**(64,444)**	**(26,272)**	**124,444**
Balance at January 1, 2015		**8,453**	**206,707**	**(64,444)**	**(26,272)**	**124,444**
Total comprehensive loss		-	-	(2,584)	(20,617)	(23,200)
Income appropriation		-	-	(26,272)	26,272	-
Employee share option plan:						
+ value of employee services	5.23	-	-	1,018	-	1,018
+ exercise of share options	5.22 / 5.24	17	299	-	-	317
Treasury shares	5.23	-	-	63	-	63
Issuance of common stock, February 2015	5.22	2,735	42,297	-	-	45,032
Cost of equity transactions, net of tax	5.22	-	(3,338)	-	-	(3,338)
		2,752	39,258	(27,775)	5,655	19,891
Balance as of December 31, 2015		**11,205**	**245,965**	**(92,219)**	**(20,617)**	**144,335**

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.1 General information

Valneva SE – together with its subsidiaries – is a fully integrated vaccine company that specializes in the development, manufacture and commercialization of innovative vaccines with a mission to protect people from infectious diseases through preventative medicine.

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

Valneva's portfolio includes two commercial vaccines for travelers: one for the prevention of Japanese encephalitis (IXIARO®/JESPECT®) and the second (DUKORAL®) indicated for the prevention of Cholera and, in some countries, prevention of Diarrhea caused by LT- ETEC (*Enterotoxigenic escherichia coli*). The Group has proprietary vaccines in development including candidates against Pseudomonas aeruginosa, Clostridium difficile and Lyme Borreliosis. A variety of partnerships with leading pharmaceutical companies complement the Group's value proposition and include vaccines being developed using Valneva's innovative and validated technology platforms (EB66® vaccine production cell line, IC31® adjuvant).

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

5.1.1 Changes in the Group structure during the year

In January 2015, the Company co-founded BliNK Biomedical SAS with UK Company BliNK Therapeutics Ltd. Valneva SE contributed assets and liabilities related to its VIVA|Screen® technology to BliNK Biomedical SAS. Valneva SE holds 48.22% of the shares of BliNK Biomedical SAS and does not have control over the company which is run as an independent business by its own management team. The investment is therefore consolidated at equity and Valneva SE's share in the result is shown in the income statement under a new line item "Result from investments in affiliates".

In February 2015, the Company completed the acquisition of Crucell Sweden AB (subsequently renamed to Valneva Sweden AB), including a vaccine distribution business in the Nordic countries and all assets, licenses and privileges related to Dukoral®, a vaccine against cholera and traveler's diarrhea caused by certain types of ETEC ("Crucell Sweden"). The acquisition included the purchase of a manufacturing site in Solna (Sweden).

In March 2015, the Company founded Valneva Canada Inc. for the purpose of vaccine distribution in Canada.

In October 2015, the Company founded Valneva UK Ltd. for the purpose of vaccine distribution in the United Kingdom.

In September 2015, Valneva Austria GmbH resolved to dissolve its wholly owned subsidiary, Elatos GmbH, without liquidation via a universal transfer of its assets to Valneva Austria GmbH retroactively as of January 1, 2015. Removal of Elatos GmbH from the Commercial Register was effective on November 11, 2015.

5.1.2 List of direct or indirect interests

Name	Country of incorporation	Consolidation method	Interest held at December 31,	
			2015	2014
BliNK Biomedical SAS	FR	at equity	48.22%	-
Elatos GmbH	AT	full	-	100%
Intercell USA, Inc.	US	full	100%	100%
Vaccines Holdings Sweden AB	SE	full	100%	100%
Valneva Austria GmbH	AT	full	100%	100%
Valneva Canada Inc.	CA	full	100%	-
Valneva Scotland Ltd.	UK	full	100%	100%
Valneva Sweden AB	SE	full	100%	-
Valneva Toyama Japan KK	JP	full	100%	100%
Valneva UK Ltd.	UK	full	100%	-

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

The Company is incorporated in Lyon where it also maintained its core center for antibody discovery programs until the end of 2014. The Valneva SE site in Nantes includes both general and administrative functions and R&D facilities which are used for the development of the EB66® cell line and the vaccine programs. The antibody discovery based on the VIVAIScreen® platform was spun off into BliNK Biomedical SAS as of January 16, 2015. Valneva Austria GmbH, Vienna, Austria, focuses on vaccines and pre-clinical and clinical development activities. Valneva Scotland Ltd., Livingston, United Kingdom, operates a dedicated biologics manufacturing facility used for production of the Group's Japanese encephalitis vaccine. Valneva Toyama Japan KK, Toyama, Japan, was established in 2011 as part of the asset acquisition from the Japanese company SC World. Its R&D activities were stopped at the end of 2013. Vaccines Holdings Sweden AB (formerly "Goldcup 10618 AB") served mainly as the acquisition vehicle and holding company of Crucell Sweden AB, now Valneva Sweden AB in February 2015 (see Note 5.31). Valneva Sweden AB, Solna, Sweden operates a vaccine distribution business in the Nordic countries a manufacturing site related to Dukoral®, a vaccine against cholera and traveler's diarrhea caused by certain types of ETEC and R&D activities. Valneva USA Inc., Valneva Canada Inc. and Valneva UK Ltd. are focused on sales and marketing of vaccines in the respective countries.

These consolidated financial statements have been approved and authorized for issue by the Management Board on March 17, 2016.

5.2 Summary of significant accounting policies

On February 9, 2015, the Group completed its acquisition of Crucell Assets (see Note 5.31). As a result of the acquisition, Crucell's business has been included in the Group's full year consolidated financial statements under IFRS from the acquisition closing date. Therefore, 2014 and 2015 results under IFRS are not fully comparable. While the results of Valneva SE Group were fully included in the

income statement of the year 2015, the results from the ex-Crucell operations were only included starting from February 9, 2015.

Pro-forma comparative figures including the Crucell business for the full year 2015 and excluding one-time effects due to the acquisition were prepared for illustrative purposes only. For a detailed explanation of pro-forma assumptions and reconciliation to IFRS results, please refer to Note 5.33.

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 2015 Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), which comprise IFRS (International Financial Reporting Standards), IAS (International Accounting Standard), and their interpretations, SIC (Standards Interpretations Committee) and IFRIC (International financial Reporting Interpretations Committee) as adopted by the European Union.

The preparation of financial statements in conformity with IFRS as adopted by the European Union requires the use of certain critical accounting estimates. It also requires the Group's management to exercise its judgment in applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.4.

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

5.2.2 Impact of new, revised or amended Standards and Interpretations

(a) New and amended standards adopted by the Group

Standard/Interpretation/Amendment		Effective Date	Effects
IAS 19 - amendment	Annual improvements to IFRSs 2011-2013 Cycle	Jan 1, 2015	No material impact

There are no IFRSs or IFRIC interpretations effective for the first time for the financial year beginning on or after January 1, 2015 that would be expected to have a material impact on the Group.

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2015, and not early adopted.

Standard/Interpretation/Amendment		Effective Date	Expected Effects
IAS 19 - amendment	Defined Benefit Plans: Employee Contributions	Feb 1, 2015	None
	Annual improvements to IFRSs 2010-2012 Cycle	Feb 1, 2015	No material impact
IFRS 9	Financial instruments: Classification and Measurement	Jan 1, 2018	Change in the accounting treatment of fair value changes in financial instruments previously classified as available for sale
IFRS 14	Regulatory Deferral Accounts	Jan. 1, 2016	None

Standard/Interpretation/Amendment		Effective Date	Expected Effects
IFRS 15	Revenue from Contracts with Customers	Jan. 1, 2018	Impact to be assessed
IFRS 10 / IFRS 12 / IAS 28 amendment	Investment Entities: Applying the Consolidation Exception	Jan. 1, 2016	None
IAS 1 amendment	Disclosure Initiative	Jan. 1, 2016	No material impact
IAS 27 amendment	Equity Method in Separate Financial Statements	Jan. 1, 2016	None
IFRS 10 / IAS 28 amendment	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred indefinitely	None
IAS 16 / IAS 41 amendment	Bearer Plants	Jan. 1, 2016	None
IAS 16 / IAS 38 amendment	Clarification of Acceptable Methods of Depreciation and Amortization	Jan. 1, 2016	None
IFRS 11 amendment	Accounting for Acquisitions of Interests in Joint Operations	Jan. 1, 2016	None
	Annual improvements to IFRSs 2012-2014 Cycle	Jan. 1, 2016	No material impact

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

5.2.3 Consolidation

Subsidiaries

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

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

Intercompany transactions, balances, and unrealized gains on transactions between group companies are eliminated.

5.2.4 Segment reporting

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

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

For further disclosure, see Note 5.5.

5.2.5 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Change in the fair value of monetary securities denominated in foreign currency and classified as “available-for-sale” is analyzed by considering translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are accounted for in profit or loss. Other changes in the carrying amount are accounted for in other comprehensive income and are shown as other reserves.

(c) Subsidiaries

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

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

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

(iii) all resulting exchange differences are recognized as other comprehensive income and are shown as other reserves.

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

5.2.6 Revenue recognition

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

(a) Product sales

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually upon delivery of the goods. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred and the Group has objective evidence that all criteria for acceptance have been satisfied. In cases where the goods are sold via a distributor and where the consideration consists of a fixed part and a variable part that is only payable upon the distributor's sale of the product to the ultimate purchaser, the fixed consideration is recognized when the Group has delivered products to the distributor, the distributor has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the distributor's acceptance of the products. The variable part of such consideration is recognized as soon as the distributor has sold the product to the market and all conditions for the Group to receive the variable consideration have been met. The Group does not operate any loyalty programs. Revenue from sales is based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns.

(b) Revenues from collaborations, licensing and services

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

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

The Group recognizes initial fees for the granting of licenses under non-cancelable contracts, which permit the licensee to freely exploit the licensed intellectual property rights when such rights are assigned and associated know-how is delivered. Additional non-refundable license fees to be paid upon the achievement of certain milestones are recognized as revenue when such a milestone has been achieved.

Under certain arrangements, the Group receives non-refundable up-front fees for granting license options, which allow the licensee to obtain, upon execution of the option, a license for specific

intellectual property rights on pre-defined terms and conditions. Such option premiums are deferred and amortized over the option period and the arrangement is not considered to give rise to a financial asset or liability.

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

(c) Grant income

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

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

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

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

(d) Interest income

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

5.2.7 Leases

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

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

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

5.2.8 Intangible assets

(a) Computer software

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

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

(b) Acquired R&D technology and projects

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

(c) Development costs

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

(i) it is technically feasible to complete the intangible asset so that it will be available for use or sale;

(ii) management intends to complete the intangible asset and to utilize or sell it;

(iii) there is an ability to utilize or sell the intangible asset;

(iv) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(v) adequate technical, financial, and/or other resources to complete the development and to utilize or sell the intangible asset are available; and

(vi) the expenditure attributable to the intangible asset during its development can be reliably measured.

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

5.2.9 Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow

to the Group and that the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

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

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

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

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

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

5.2.10 Impairment of non-financial assets

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

5.2.11 Equity-accounted investees

An associate (or affiliate) 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 obligation s or made payments on behalf of the associate.

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

5.2.12 Non-current assets and liabilities (or disposal groups) held for sale

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

5.2.13 Loans and receivables

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

They are included in current assets, except those with maturities beyond 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "trade receivables and other assets" in the balance sheet (see Note 5.2.16).

5.2.14 Derivative financial instruments

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

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

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

5.2.15 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method, specifically the first-expiry first-out (FEFO) method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity) are stated at standard costs. The variances between the actual costs and the standard costs are calculated in every financial reporting period and allocated to the corresponding category of inventory, so there is no difference between actual and standard costs. It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Provisions for faulty products are included in the value of inventories.

5.2.16 Trade receivables and other assets

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

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

5.2.17 Cash, cash equivalents and short-term deposits

Cash includes cash in hand, and deposits held at call with banks. Cash equivalents include time deposits and medium-term notes that can be assigned or sold on very short notice and are subject to insignificant risk of changes in value in response to fluctuations in interest rates. Restrictions on the remittance of cash and cash equivalents are described, if any, in Note 5.20.

5.2.18 Share capital, share premium and other regulated reserves, retained earnings and other reserves, and net result

Ordinary shares are classified as equity.

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

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

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

5.2.19 Trade payables

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

5.2.20 Borrowings

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

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

5.2.21 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively. The current income tax is calculated on the basis of the tax laws enacted or

substantively enacted at the balance sheet date in the countries where the Group's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

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

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

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

5.2.22 Employee benefits

(a) Share-based payments

Equity-settled transactions

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

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

(b) Bonus plans

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

(c) Employee commitments

Some group companies provide retirement termination benefits to their retirees.

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

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

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

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

5.2.23 Provisions

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

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

Provisions are not recognized for future operating losses.

5.2.24 Deferred Revenues

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

5.3 Financial risk management

5.3.1 Financial risk factors

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

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

(a) Market risk

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. Dollar (“$”), the British Pound (“GBP”), the Swedish Krona (“SEK”), the Norwegian Krone (“NOK”), the Canadian Dollar (“CAD”), Australian Dollar (“AUD”), whereas the foreign exchange risk exposure to some other currencies, including the Danish Krone, the Swiss Franc, the New Zealand Dollar and the Japanese Yen is relatively limited. Foreign

exchange risk arises from future commercial transactions, recognized assets and liabilities, and net investments in foreign operations.

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

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

At December 31, 2015, if the $ had weakened by 10% against the €, with all other variables held constant, pre-tax comprehensive loss for the year would have been lower by €3,251 thousand (2014: €2,060 thousand), mainly as a result of foreign exchange gains on the translation of $-denominated borrowings and trade payables, partly offset by a negative effect from cash equivalents and trade receivables. Income was more sensitive to fluctuations in the €/$ exchange rate at the balance sheet date in 2015 than it was in 2014 mainly because of the increased $-denominated borrowings and trade payables.

At December 31, 2015, if the SEK had weakened by 10% against the €, with all other variables held constant, pre-tax comprehensive loss for the year would have been €1,516 thousand higher (2014: €0 thousand), mainly as a result of foreign exchange losses on the translation of SEK-denominated cash equivalents and trade receivables, partly offset by a positive effect from trade payables.

At December 31, 2015, if the GBP had weakened by 10% against the €, with all other variables held constant, pre-tax comprehensive loss for the year would have been €446 thousand higher (2014: € 261 thousand). Income was more sensitive to fluctuations in the €/GBP exchange rate at the balance sheet date in 2015 than it was in 2014 mainly because of the increased amount of GBP-denominated cash equivalents.

At December 31, 2015, if the CAD had weakened by 10% against the €, with all other variables held constant, pre-tax comprehensive loss for the year would have been €201 thousand higher (2014: €0 thousand), mainly as a result of foreign exchange losses on the translation of CAD-denominated cash equivalents and trade receivables.

At December 31, 2015, if the AUD had weakened by 10% against the €, with all other variables held constant, pre-tax comprehensive loss for the year would have been €67 thousand higher (2014: €0 thousand), mainly as a result of foreign exchange losses on the translation of AUD-denominated trade receivables.

At December 31, 2015, if the NOK had weakened by 10% against the €, with all other variables held constant, pre-tax comprehensive loss for the year would have been €36 thousand lower (2014: €0 thousand), mainly as a result of foreign exchange losses on the translation of NOK-denominated trade payables, partly offset by a negative effect from trade receivables.

Interest rate risk

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 rates expose the Group to cash flow interest rate risk, which is offset by cash and financial assets held at variable rates. During 2015 and 2014, the Group's investments at variable rate as well as the borrowings at variable rate were denominated in €, SEK, $ and in GBP.

The Group analyzes its interest rate exposure on a dynamic basis. Based on this analysis, the Group calculated the impact on profit and loss of a defined interest rate shift. The same interest rate shift 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 €5 thousand (2014: €36 thousand).

(b) Credit risk

The Group is exposed to credit risk. The Group holds bank accounts, cash balances, and securities at quality 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 risk 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, in the case that there is no independent rating, risk management assesses the credit quality of the customer, taking into account its financial position, past experience, and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The credit quality of financial assets is described in Note 5.16.3.

(c) Liquidity risk

The Group is exposed to liquidity risk resulting from the maturity of its financial liabilities. Furthermore, liquidity risk is resulting from the fact that the Group's operating cash flow is subject to fluctuations during accounting periods. Prudent liquidity risk management therefore implies maintaining sufficient cash, 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, 2014 € 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)[7]	6,282	25,572	9,544	1,701	43,099
Finance lease liabilities	836	1,693	1,722	25,804	30,054
Trade payables and accruals	10,734	-	-	-	10,734
Tax and employee-related liabilities[8]	3,278	-	-	-	3,278
Other liabilities and provisions[9]	23	-	178	9	210
	21,152	**27,265**	**11,444**	**27,514**	**87,375**

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

[8] 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.

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

At December 31, 2015 € in thousand	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	Over 5 years	Total
Borrowings (excluding finance lease liabilities)[10]	28,083	41,371	16,677	533	86,664
Finance lease liabilities	978	1,956	1,956	25,186	30,076
Trade payables and accruals	10,698	-	-	-	10,698
Tax and employee-related liabilities[11]	4,982	-	-	-	4,982
Other liabilities and provisions[12]	26	-	178	47	251
	44,766	**43,327**	**18,811**	**25,766**	**132,671**

The fair values as well as the book values of the Group's borrowings are disclosed in Note 5.25. To manage liquidity risk, the Group holds sufficient cash, cash equivalents and short-term deposit balances.

5.3.2 Accounting for hedging activities

At the balance sheet date, the Group does engage in hedging activities. For more information, see Note 5.16.2.

5.3.3 Capital risk management

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

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

5.3.4 Fair value estimation

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

5.4 Critical accounting estimates and judgments

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

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

[11] 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.

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

5.4.1 Critical accounting estimates and assumptions

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

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

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

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

5.4.2 Critical judgments in applying the entity's accounting policies

Revenue recognition

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

5.5 Segment information

The segments consist of following:

+ "Commercialized vaccines" (marketed vaccines, currently the Group's JEV and DUKORAL® vaccines as well as 3rd Party vaccines distributed through the acquired Nordics distribution business);
+ "Technologies and services" (services and inventions in commercialization stage, i.e. revenue-generating through collaboration, service and licensing agreements, including EB66® and IC31®);
+ "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).

5.5.1 Income statement aggregates by segment:

Income statement aggregates by segment for the year ended December 31, 2014:

€ in thousand	Commer-cialized vaccines	Techno-logies and services	Vaccine Candidates	Corporate Overhead	Total
Revenues and grants	28,289	5,067	9,072	-	**42,429**
Cost of goods and services	(15,565)	(1,578)	-	-	**(17,144)**
Research & Development expenses	(3,749)	(4,231)	(14,262)	-	**(22,242)**
Distribution and marketing expenses	(1,193)	(874)	-	-	**(2,067)**
General and administrative expenses	-	-	-	(12,074)	**(12,074)**
Other income and expenses, net	-	-	-	(395)	**(395)**
Amortization and impairment of fixed assets/intangibles	(6,637)	(5,686)	-	-	**(12,323)**
Operating profit / (loss)	**1,144**	**(7,302)**	**(5,190)**	**(12,469)**	**(23,817)**
Finance income/loss and income tax	-	-	-	(2,455)	**(2,455)**
Profit / (loss) from continuing operations	**1,144**	**(7,302)**	**(5,190)**	**(14,924)**	**(26,272)**

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

€ in thousand	Commer-cialized vaccines	Techno-logies and services	Vaccine Candidates	Corporate Overhead	Total
Revenues and grants	62,052	12,591	8,691	-	**83,335**
Cost of goods and services	(41,943)	(5,020)	-	-	**(46,963)**
Research & Development expenses	(3,273)	(2,299)	(19,794)	-	**(25,365)**
Distribution and marketing expenses	(8,390)	(629)	(102)	-	**(9,121)**
General and administrative expenses	-	-	-	(14,394)	**(14,394)**
Other income and expenses, net	-	-	-	(152)	**(152)**
Amortization and impairment of fixed assets/intangibles	(6,712)	(561)	-	-	**(7,273)**
Operating profit / (loss)	**1,735**	**4,081**	**(11,204)**	**(14,546)**	**(19,934)**
Finance income/loss, result from investments in affiliates, gain on bargain purchase, and income tax	-	-	-	(683)	**(683)**
Profit / (loss) from continuing operations	**1,735**	**4,081**	**(11,204)**	**(15,229)**	**(20,617)**

5.5.2 Geographical segments

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

Revenues per geographical segment

€ in thousand	Year ended December 31,	
	2015	**2014**
France	3,768	4,845
Europe – without France	39,147	16,844
North America	33,933	19,160
Other	6,486	1,580
Revenues	**83,335**	**42,429**

Non-current assets per geographical segment

€ in thousand	At December 31,	
	2015	**2014**
France	7,050	7,833
Europe – without France	133,194	138,269
North America	763	712
Other	-	-
Non-current assets	**141,007**	**146,814**

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

5.5.3 Information about major customers

Product sales to the largest customer amounted to €30,309 thousand (2014: €27,781 thousand). Collaboration and licensing revenue from the two largest customers amounted to €5,014 thousand (2014: €5,054 thousand) and €4,626 thousand (2014: €1,328 thousand), respectively.

5.6 Expenses by nature

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

€ in thousand	**Year ended December 31,**	
	2015	**2014**
Consulting and other purchased services	22,251	14,662
Employee benefit expense (Note 5.7)	33,651	21,864
Depreciation and amortization	11,442	12,359
Impairment	-	4,095
Building and energy costs	7,166	3,244
Raw materials and consumables used	2,036	2,060
Supply, office and IT-costs	1,434	677
Travel and transportation costs	1,120	762
Advertising costs	1,763	25
License fees and royalties	2,173	3,836
Other expenses	357	134
Amounts capitalized as development costs and changes in inventory	19,724	2,133
Cost of goods and services, Research & Development expenses, distribution and marketing expenses, general and administrative expenses, and amortization and impairment fixed assets/intangibles	**103,116**	**65,851**

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

€ in thousand excl. VAT	Year ended December 31, 2015		Year ended December 31, 2014	
	PwC	Deloitte & Associés	PwC	Deloitte & Associés
Audit				
Statutory audit				
+ Valneva SE	81	82	111	114
+ Fully consolidated subsidiaries	113	44	53	44
Audit procedures in relation with the issuance of common stock in February 2015	36	37	78	66
Other procedures and services direct related to the statutory auditor's engagement				
+ Valneva SE	21	8	-	4
+ Fully consolidated subsidiaries	19	-	17	16
Audit sub-total	**270**	**171**	**258**	**245**
Other services				
Legal, tax, labor issues				
+ Valneva SE	-	-	-	-
+ Fully consolidated subsidiaries	37	152	-	-
Other directly related procedures	-	-	-	-
Accessory missions	-	1	-	-
Other services sub-total	37	153	-	-
Fees charged by the statutory auditors and members of their network	**307**	**324**	**258**	**245**

5.7 Employee benefit expense

Employee benefit expenses include the following:

€ in thousand	Year ended December 31,	
	2015	2014
Salaries	23,705	16,483
Social security contributions	7,557	4,236
Training and education	542	292
Share options granted to management and employees	1,018	528
Other employee benefits	830	325
Employee benefit expense	**33,651**	**21,864**

During the year 2015, the Group had an average of 390 employees (2014: 275 employees).

5.8 Other income/(expenses), net

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

€ in thousand	Year ended December 31,	
	2015	**2014**
Taxes, duties, fees, charges, other than income tax	(116)	(258)
Gain/(loss) on disposal of fixed assets, net	29	(63)
Miscellaneous income/(expenses), net	(66)	(74)
Other income/(expenses), net	**(152)**	**(395)**

5.9 Finance income/(expenses), net

€ in thousand	Year ended December 31,	
	2015	**2014**
Finance income		
+ Interest income from bank deposits	43	132
+ Interest income from other parties	3,053	93
+ Gains on financial assets/liabilities	-	48
+ Foreign exchange gains	1,977	1,999
	5,073	**2,273**
Finance expense		
+ Interest expense to banks and government agencies	(148)	(190)
+ Interest expense on other loans	(9,569)	(4,204)
	(9,716)	**(4,394)**
Finance income/(expenses), net	**(4,643)**	**(2,121)**

The Group benefits from government assistance through arranging borrowing facilities that would have otherwise not been available to the Group. This assistance includes guarantees for the amount outstanding. For more information, see Note 5.25.

5.10 Income tax

5.10.1 Income tax

Income tax is comprised of current and deferred tax.

€ in thousand	Year ended December 31,	
	2015	**2014**
Current tax	(549)	(315)
Deferred tax	325	(19)
Income tax	**(224)**	**(334)**

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,**	
	2015	**2014**
Loss before tax	(20,393)	(25,938)
Tax calculated at domestic tax rates applicable to profits in the respective countries	6,919	7,650
Income not subject to tax	5,085	1,828
Expenses not deductible for tax purposes	(5,350)	(1,602)
Deferred tax asset not recognized	(6,721)	(8,163)
Deemed income	(117)	-
Adjustments in respect of prior years	6	(20)
Effect of change in applicable tax rate	5	2
Exchange differences	(21)	(4)
Income tax of prior years	(22)	-
Minimum income tax	(2)	(3)
Withholding tax	(7)	(23)
Income tax	**(224)**	**(334)**

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

5.10.2 Deferred tax

As of December 31, 2015 the deferred tax asset of €106,002 thousand (2014: €95,114 thousand) are not recognized as there was no sufficient evidence that adequate taxable profit will be available against which the unused tax losses can be utilize in the foreseeable future.

As of December 31, 2015 the Group has tax losses carried forward of €433,078 thousand (2014: €422,023 thousand), of which €91,469 thousand are related to Valneva SE in France (2014: €81,169 thousand), €318,135 thousand are related to Valneva Austria GmbH (2014: €322,984 thousand) and €20,180 thousand are related to Intercell USA, Inc in U.S. (2014: €17,871 thousand) and €1,970 thousand are related to Valneva Sweden AB..

Tax losses carried forward in Austria, France and Sweden have no expiry date, whereas the tax loss from U.S. entities will begin to expire in the year 2023 if unused.

The offset amounts are as follows:

€ in thousand	At December 31,	
	2015	**2014**
Deferred tax assets		
+ Deferred tax asset to be recovered after more than 12 months	18,275	21,774
+ Deferred tax asset to be recovered within 12 months	428	1,569
Total deferred tax assets	**18,703**	**23,343**
Deferred tax liabilities		
+ Deferred tax liability to be recovered after more than 12 months	(18,457)	(23,259)
+ Deferred tax liability to be recovered within 12 months	(357)	(187)
Total deferred tax liability	**(18,815)**	**(23,446)**
Deferred tax, net	**(112)**	**(103)**

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

€ in thousand	2015	2014
Beginning of year	(103)	(79)
Exchange differences	(6)	(6)
Income statement charge	(2)	(18)
End of year	**(112)**	**(103)**

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

€ in thousand	At December 31,	
	2015	**2014**
Deferred tax asset from		
Tax losses carried forward	118,888	115,015
Fixed assets	2,230	1,051
Borrowings	1,478	-
Other items	2,109	2,390
Non-recognition of deferred tax assets	(106,002)	(95,114)
Total deferred tax assets	**18,703**	**23,343**
Deferred tax liability from		
Fixed assets	(526)	(526)
Intangible assets	(18,130)	(22,780)
Other items	(159)	(140)
Total deferred tax liability	**(18,815)**	**(23,446)**
Deferred tax, net	**(112)**	**(103)**

The income tax rate in the United Kingdom has been reduced from 21% to 20% and will be 19% from starting April 1, 2017. The deferred tax assets and liabilities presented above as at December 31, 2015 and December 31, 2014 have been adjusted for this change in tax rates.

The resulting deferred tax assets were only recognized for entities where sufficient evidence has been provided that adequate taxable profit will be available against which the unused tax losses can be utilized in the foreseeable future.

5.11 Earnings/Losses per share

Basic earnings/losses per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of outstanding shares during the year, excluding shares purchased by the Company and held as treasury shares (Note 5.23).

	Year ended December 31,	
	2015	**2014**
Net loss from continuing operations attributable to equity holders of the Company (€ in thousand)	(20,617)	(26,272)
Weighted average number of outstanding shares	72,740,348	55,493,043
Basic earnings/(losses) from continuing operations per share (€ per share)	**(0,28)**	**(0.47)**

Diluted losses per share equal basic losses per share, because the conversion of all potentially dilutive shares (outstanding preferred shares, share options, free shares, and equity warrants) (see Notes 5.22 and 5.24) would result in a decrease in the loss per share and is therefore not to be treated as dilutive.

5.12 EBITDA

EBITDA (Earnings before interest, taxes, depreciation and amortization) was calculated by excluding depreciation, amortization and impairment fixed assets/intangibles from the operating loss.

€ in thousand	Year ended December 31,	
	2015	**2014**
Operating loss	(19,934)	(23,817)
Depreciation	4,437	3,861
Amortization	7,005	8,498
Impairment on intangibles and fixed assets	-	4,095
EBITDA	**(8,492)**	**(7,364)**

5.13 Intangible assets and Goodwill

€ in thousand	Software	Acquired R&D techno-logy and projects	Deve-lopment costs	Good-will	Advance payments	Total
January 1, 2014						
Cost	2,334	131,800	13,617	350	1	148,102
Accumulated amortization and impairment	(2,036)	(10,776)	(9,887)	-	-	(22,699)
Net book value	**299**	**121,023**	**3,730**	**350**	**1**	**125,403**
Year ended December 31, 2014						
Opening net book value	299	121,023	3,730	350	1	125,403
Exchange rate differences	8	340	20	-	-	367
Additions	228	198	1,649	-	95	2,170
Reclassification	-	194	-	-	9	202
Disposals	-	(23)	63	(350)	-	(310)
Amortization charge	(240)	(7,519)	(757)	-	-	(8,516)
Impairment charge	-	(7,263)	-	-	-	(7,263)
Transferred to Assets held for sale	-	(6,816)	(33)	-	-	(6,849)
Closing net book value	**294**	**100,134**	**4,672**	**-**	**105**	**105,204**
December 31, 2014						
Cost	2,420	113,608	16,698	-	105	132,831
Accumulated amortization and impairment	(2,127)	(13,474)	(12,026)	-	-	(27,627)
Net book value	**294**	**100,134**	**4,672**	**-**	**105**	**105,204**

€ in thousand	Software	Acquired R&D techno-logy and projects	Deve-lopment costs	Good-will	Advance payments	Total
Year ended December 31, 2015						
Opening net book value	294	100,134	4,672	-	105	105,204
Exchange rate differences	3	296	38	-	-	336
Acquisition of subsidiary (Note 5.31)	-	2	-	-	-	2
Additions	136	83	337	-	65	622
Reclassification	105	-	-	-	(105)	-
Disposals	(2)	-	(62)	-	-	(64)
Amortization charge	(220)	(6,494)	(818)	-	-	(7,532)
Impairment charge	-	-	-	-	-	-
Closing net book value	**315**	**94,021**	**4,167**	**-**	**65**	**98,567**
December 31, 2015						
Cost	2,591	117,811	10,511	-	65	130,979
Accumulated amortization and impairment	(2,277)	(23,791)	(6,344)	-	-	(32,412)
Net book value	**315**	**94,021**	**4,167**	**-**	**65**	**98,567**

5.13.1 Significant intangible assets

Intangible assets primarily relate to in-process R&D projects, the Japanese encephalitis vaccine, the Pseudomonas vaccine and in 2014 the VivalScreen® technology.

In 2014, the impairment charge of €7,263 thousand is related to the antibody technologies VivalScreen® and eMAB® and was netted in the profit and loss statements with the related changes from a financial liability, which was amended due to the change of the agreement in relation with the new structure of this technology.

5.13.2 Impairment testing

(a) Impairment testing of in-process Research & Development projects

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

The calculations use post tax risk-adjusted cash flow projections based on the Group's long-range business model including the Management's best estimate on probability of success of the respective projects (risk-adjustment) and a discount rate of 11.66% to 11.83% per annum (2014: 9.15% per annum).

The discount rate of 11.66% to 11.83% per annum (2014: 9.15% per annum) is based on 1.58% risk-free rate (2014: 1.59%), 7.00% market risk premium (2014: 6.50%), 0.93% to 1.16% country risk premium (2014: 0%), 0.49% to 0.52% currency risk (2014: 0%), a beta of 1.44 (2014: 1.16), and a peer group related equity-capital ratio.

The long range business model covers a period of 20 years and therefore accounts for all project related cash flows from the development stage over the market entry until the market phase-out (project life cycle) of the relevant projects.

There was no impairment of in-process Research & Development projects in the year 2014 and 2015.

(b) Impairment testing for Assets held for sale

In January 2015 BliNK Biomedical SAS, a private company specialized in the discovery of innovative monoclonal antibodies was created – see Note 5.15.

Therefore the Viva|Screen®-assets and liabilities have been recognized as assets and liabilities held for sale and valued at the fair value less cost to sell as of December 31, 2014.

In connection with the spin-off of the VivaIScreen® technology into BliNK Biomedical SAS in January 2015, management decided to stop the development of the eMAB® technology. As there is no internal use and no external market the technology was re-valued to zero.

Therefore, the value of intangible assets relating to Valneva's antibody technologies has been impaired by €4,095 thousand in 2014.

5.13.3 Sensitivity to changes in assumptions

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

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

The net present value calculation uses a discount rate of 11.66% to 11.83% (2014: 9.15%). An increase in the discount rate of 2.70% to 63.92% would trigger an impairment loss (2014: 0.08% to 9.23%). Furthermore, an increase in the discount rate of one percentage point would result in no additional impairment loss (2014: €1.0 million).

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

The net present value calculations are based upon assumptions regarding market size, expected sales volumes resulting in sales value expectations or expected royalty income. A reduction in revenues or royalty income of 10% would result in no additional impairment loss. A reduction of expected revenues / royalties of 25.50% to 48.47% would trigger an impairment loss

.

5.14 Property, plant and equipment

€ in thousand	Land, buildings and leasehold improve-ments	Manu-facturing and laboratory equipment	Computer hard-ware	Furniture, fittings and other	Assets in the course of con-struction	Total
January 1, 2014						
Cost	51,181	18,456	1,471	1,390	-	72,497
Accumulated depreciation and impairment	(10,941)	(14,379)	(1,327)	(782)	-	(27,430)
Net book value	**40,240**	**4,076**	**143**	**607**	**-**	**45,067**
Year ended December 31, 2014						
Opening net book value	40,240	4,076	143	607	-	45,067
Exchange rate differences	287	70	5	11	-	372
Additions	71	953	85	18	-	1,127
Reclassification	(9)	-	-	-	-	(9)
Disposals	-	(176)	(1)	(1)	-	(177)
Depreciation charge	(2,455)	(1,243)	(88)	(125)	-	(3,911)
Impairment charge	-	(235)	-	-	-	(235)
Transferred to Assets held for sale	-	(560)	(12)	(52)	-	(623)
Closing net book value	**38,134**	**2,886**	**132**	**458**	**-**	**41,611**
December 31, 2014						
Cost	51,899	18,072	1,386	1,305	-	72,661
Accumulated depreciation and impairment	(13,765)	(15,186)	(1,254)	(846)	-	(31,050)
Net book value	**38,134**	**2,886**	**132**	**458**	**-**	**41,611**
Year ended December 31, 2015						
Opening net book value	38,134	2,886	132	458	-	41,611
Exchange rate differences	215	106	4	10	34	369
Acquisition of subsidiary (Note 5.31)	202	1,254	50	32	1,130	2,669
Additions	56	985	93	106	540	1,780
Reclassification	38	655	-	2	(696)	-
Disposals	(19)	(23)	(1)	-	-	(43)
Depreciation charge	(2,297)	(1,412)	(96)	(140)	-	(3,945)
Impairment charge	-	-	-	-	-	-
Closing net book value	**36,329**	**4,452**	**182**	**469**	**1,009**	**42,439**
December 31, 2015						
Cost	52,821	20,069	1,523	1,461	1,009	76,883
Accumulated depreciation and impairment	(16,492)	(15,618)	(1,341)	(992)	-	(34,443)
Net book value	**36,329**	**4,452**	**182**	**469**	**1,009**	**42,439**

Depreciation and amortization expenses of €1,346 thousand (2014: €1,384 thousand) were charged to Research & Development expenses, €20 thousand (2014: €3 thousand) were charged to distribution and marketing expenses, and €110 thousand (2014: €25 thousand) were charged to general and administrative expenses.

Operating property leases amounting to €2,170 thousand (2014: €365 thousand) are included in the income statement.

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

€ in thousand	Buildings and leasehold improvements	Manufacturing and laboratory equipment	Computer hardware	Furniture, fittings and other	Assets in the course of construction	Total
December 31, 2015						
Cost	34,795	-	-	-	-	34,795
Accumulated depreciation	(5,919)	-	-	-	-	(5,919)
Net book value	**28,876**	**-**	**-**	**-**	**-**	**28,876**

5.15 Equity-accounted investees

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

Name of associate	Place of business	Measurement method	% of ownership interest at December 31,	
			2015	2014
BliNK Biomedical SAS	FR	Equity method	48.22%	-

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

The creation of BliNK Biomedical SAS gives Valneva's antibody business the necessary structure and prospects to expand into novel antibody discovery fields outside of infectious diseases while offering a new investment opportunity for future additional shareholders. 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.

5.15.1 Summarized financial information for material associate

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

€ in thousand	At December 31,	
	2015	**2014**
BliNK Biomedical SAS		
Non-current assets	12,469	-
Current assets	3,779	-
Non-current liabilities	1,999	-
Current liabilities	1,915	-
Revenue	992	-
Profit/(Loss) from continuing operations	(2,186)	-
Post-tax profit or loss from discontinued operations	-	-
Other comprehensive income	-	-
Total comprehensive income	(2,186)	-

5.15.2 Reconciliation to the carrying amount

€ in thousand	At December 31,	
	2015	**2014**
Net assets of associate	12,334	-
Proportion of the Company's ownership interest in BliNK Biomedical SAS	48.22%	-
Company's share in net assets	5,948	-
Additional investment – convertible bonds	1,999	-
Impairment	(7,946)	-
Balance at December 31	-	-

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

BliNK Biomedical is private company and its shares are not listed on a stock exchange. After the financing that followed its foundation, no shares of BliNK Biomedical have been sold or issued to third parties and no offers for a purchase of shares by independent parties have been received so far. Therefore, the initial fair market value used in the initial valuation of the BliNK Biomedical asset could not be confirmed by any recent fair market value and the investment has been impaired at the end of 2015.

5.16 Financial instruments

5.16.1 Financial instruments by category

December 31, 2014 € in thousand	Loans and receivables	Total
Assets as per balance sheet		
Trade receivables	6,850	6,850
Other assets[13]	12,950	12,950
Cash, cash equivalents, short-term deposits and current financial assets	29,468	29,468
Assets	**49,268**	**49,268**

	Liabilities at fair value through profit and loss	Other financial liabilities	Total
Liabilities as per balance sheet			
Borrowings (excluding finance lease liabilities)[14]	-	43,099	43,099
Finance lease liabilities	-	30,054	30,054
Trade payables and accruals	-	10,734	10,734
Tax and employee-related liabilities[15]	-	3,278	3,278
Other liabilities and provisions[16]	3	208	210
Liabilities held for sale	-	982	982
Liabilities	**3**	**88,355**	**88,358**

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

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

[15] 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.

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

December 31, 2015 € in thousand	Loans and receivables	Total
Assets as per balance sheet		
Trade receivables	15,754	15,754
Other assets[17]	31,073	31,073
Cash, cash equivalents, short-term deposits and current financial assets	42,567	42,567
Assets	**89,394**	**89,394**

	Liabilities at fair value through profit and loss	Other financial liabilities	Total
Liabilities as per balance sheet			
Borrowings (excluding finance lease liabilities)[18]	-	73,039	73,039
Finance lease liabilities	-	29,217	29,217
Trade payables and accruals	-	10,698	10,698
Tax and employee-related liabilities[19]	-	4,982	4,982
Other liabilities and provisions[20]	2	249	251
Liabilities held for sale	-	-	-
Liabilities	**2**	**118,183**	**118,185**

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).

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

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

[19] 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.

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

December 31, 2014 **€ in thousand**	**Level 2**	**Total**
Other liabilities and provisions		
Derivative financial instruments	3	3
Other liabilities and provisions	**3**	**3**

December 31, 2015 **€ in thousand**	**Level 2**	**Total**
Other liabilities and provisions		
Derivative financial instruments	2	2
Other liabilities and provisions	**2**	**2**

At December 31, 2015, the fair value of these swaps was not material.

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

In 2012, an interest rate hedging contract was set up for €394 thousand and reduced to €385 thousand at December 31, 2012 then to €325 thousand at December 31, 2013, to €270 thousand at December 31, 2014 and to €215 thousand at December 31, 2015. This contract was implemented on October 17, 2012 for a seven-year period. This interest rate swap agreement provides for a payment to Groupe Grimaud La Corbière each month at 1-month Euribor plus a fixed-rate amount of 0.58%.

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,	
	2015	**2014**
Trade receivables		
Receivables from governmental institutions	284	3
AAA	307	-
AA	-	6,324
A	5,280	-
Counterparties without external credit rating	9,884	522
Trade receivables	**15,754**	**6,850**
Other assets		
Receivables from governmental institutions	189	1,299
AAA	19,159	-
A	237	175
Counterparties without external credit rating or rating below A	11,488	11,477
Other assets	**31,073**	**12,950**
Cash, cash equivalents, short-term deposits and current financial assets		
AA	357	-
A	25,178	23,748
Counterparties without external credit rating or rating below A	17,032	5,720
Cash, cash equivalents, short-term deposits and current financial assets	**42,567**	**29,468**

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

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

5.17 Inventories

€ in thousand	At December 31,	
	2015	**2014**
Raw materials	1,715	582
Work in progress	17,322	5,891
Finished goods	7,651	811
Inventory	**26,687**	**7,283**

The cost of inventories recognized as an expense and included in "cost of sales" amounted to €40,890 thousand (2014: €12,481 thousand). The cost of inventories recognized as an expense includes €17,377 thousand (2014: €819 thousand write-ups) related to write-downs of inventory to net realizable value.

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

5.18 Trade receivables

Trade receivables and other assets include the following:

€ in thousand	**At December 31,**	
	2015	**2014**
Trade receivables	15,754	6,850
Less: provision for impairment of receivables	-	-
Trade receivables, net	**15,754**	**6,850**

During the years 2015 and 2014, no impairment losses have been recognized. The amount of trade receivables past due in 2015 amounted to €1,361 thousand (2014: €62 thousand).

The fair values of trade receivables equal their book values.

5.19 Other assets

Other assets include the following:

€ in thousand	**At December 31,**	
	2015	**2014**
Prepaid expenses	1,876	995
Non-current financial assets	403	333
Other receivables	46,892	27,791
	49,172	29,119
Less non-current portion	(17,797)	(19,753)
Current portion	**31,374**	**9,366**

The fair values of other assets equal their book values. Other receivables include various deposits and advances, R&D tax credit receivables, tax receivables and consumables and supplies on stock. The increase compared to the previous year mainly results from a receivable from Johnson & Johnson amounting to €18,279 thousand in connection with the acquisition of Crucell Sweden – see Note 5.31.

5.20 Cash, cash equivalents, short-term deposits and current financial assets

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

As of December 31, 2015, cash and cash equivalents include €660 thousand (December 31, 2014: €592 thousand) for which there are restrictions on remittances. Furthermore, according to a loan agreement, the Group needs to hold a minimum amount of cash of €2,000 thousand at any time until December 31, 2016.

€ in thousand	At December 31,	
	2015	**2014**
Cash in hand	7	2
Cash at bank	38,174	27,571
Short-term bank deposits (maturity less than 3 months)	3,726	1,284
Mutual funds	-	-
Restricted cash	660	592
Current financial assets	-	19
Cash, cash equivalents, short-term deposits and current financial assets	**42,567**	**29,468**

5.21 Assets and Liabilities held for sale

In January 2015 the Company contributed assets and liabilities relating to the VIVA|Screen® technology to BliNK Biomedical SAS (see Note 5.1 and 5.15), which are shown as held for sale as of December 2014.

As of December 31, 2015, there are no assets or liabilities held for sale or associated with discontinued operations.

5.21.1 Breakdown of Assets held for sale

€ in thousand	At December 31,	
	2015	**2014**
Intangible assets – gross amounts	-	17,430
Intangible assets – amortization	-	(4,971)
Intangible assets – impairment	-	(5,610)
Intangible assets – net amounts	**-**	**6,849**
Property, plant and equipment – gross amounts	-	967
Property, plant and equipment – depreciation	-	(343)
Property, plant and equipment – impairment	-	-
Property, plant and equipment – net amounts	**-**	**623**
Inventories	-	510
Inventories – net amounts	**-**	**510**
Total Assets held for sale & discontinued operations	**-**	**7,982**

5.21.2 Liabilities held for sale

Liabilities held for sale in connection with the founding of BliNK amounted to €982 thousand as of December 31, 2014.

5.22 Share capital, share premium and other regulated reserves

€ in thousand (except numbers of shares)	Number of shares	Share capital	Share premium	Other regulated reserves[21]	Total share capital, share premium and other regulated reserves
Balance at January 1, 2014	**54,709,000**	**8,206**	**145,502**	**52,820**	**206,529**
Employee share option plan:					
+ exercise of share options	42,833	6	(6)	-	-
+ Issuance of common stock, May and June 2014	1,600,000	240	8,716	-	8,956
+ Cost of equity transactions, net of tax	-	-	(325)	-	(325)
Balance at December 31, 2014	**56,351,833**	**8,453**	**153,887**	**52,820**	**215,160**
Balance at January 1, 2015	**56,351,833**	**8,453**	**153,887**	**52,820**	**215,160**
Employee share option plan:					
+ exercise of stock options and full vesting of free shares	115,874	17	299	-	317
+ Issuance of common stock, February 2015	18,231,466	2,735	42,297	-	45,032
+ Cost of equity transactions, net of tax	-	-	(3,338)	-	(3,338)
Balance at December 31, 2015	**74,699,173**	**11,205**	**193,145**	**52,820**	**257,170**

Increases of share capital

The acquisition of the Crucell Sweden (see Note 5.31) was financed in part through a public rights issue with shareholders' preferential subscription rights, which was launched on January 12, 2015 and closed on February 4, 2015. The final gross proceeds of the rights issue amounted to €45.0 million, corresponding to the issuance of 18,231,466 new ordinary shares, at a subscription price of €2.47 per new ordinary share.

In addition, the Company issued 115,874 (2014: 42,333) new ordinary shares in connection with the exercise of stock options and the full vesting of free shares during the reporting period, resulting in an increase in the share capital of €17 thousand (2014: €6 thousand).

Conditional and authorized capital

On December 31, 2015, the Company had 18,234,445 shares of conditional capital in connection with (see Note 5.24):

+ the possible exercise of existing stock options
+ the grant of free shares being vested
+ the possible exercise of existing equity warrants
+ the possible conversion of existing preferred shares
+ the possible conversion of existing convertible preferred shares or convertible preferred shares being vested

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

Pursuant to resolution No. 16 of the General Meeting held on June 25, 2015, the nominal amount of increases in Valneva's share capital which can be carried out by the Company, immediately or in the future, may not under any circumstances exceed a maximum overall amount €4,500 thousand or the equivalent value in a foreign currency, to which amount will be added, if applicable, the supplementary amount of shares or securities to be issued for the purposes of any adjustments to be made in accordance with applicable legislative or regulatory provisions and, if applicable, with contractual stipulations providing for other forms of adjustment, in order to preserve the rights of the holders of securities giving access, immediately or in the future, to the share capital of the Company.

5.23 Retained earnings and other reserves

€ in thousand	Currency translation	Treasury shares	Retained earnings	Total
Balance at January 1, 2014	**1,666**	**(1,141)**	**(38,833)**	**(38,308)**
Currency translation differences	(2,626)	-	-	(2,626)
Income appropriation	-	-	(24,110)	(24,110)
Employee share option plan:				
- value of employee services	-	-	530	530
Purchase/Sale of treasury shares	-	69	-	69
Balance at December 31, 2014	**(960)**	**(1,072)**	**(62,413)**	**(64,444)**
Balance at January 1, 2015	**(960)**	**(1,072)**	**(62,413)**	**(64,444)**
Currency translation differences	(2,584)	-	-	(2,584)
Income appropriation	-	-	(26,272)	(26,272)
Employee share option plan:				
- value of employee services	-	63	-	63
Purchase/Sale of treasury shares	-	-	1,018	1,018
Balance at December 31, 2015	**(3,544)**	**(1,009)**	**(87,667)**	**(92,219)**

The Company has not received a dividend and has not paid a dividend to its shareholders in the years ended December 31, 2015 and 2014.

5.24 Share-based payments

5.24.1 Stock option plans

Share options are granted to members of the Management Board and to employees (Employee Stock Option Plan – ESOP). Options granted in the years 2006 and 2010 may be exercised as soon as certain objectives - partly conditioned to entity financial performances - are achieved. Options granted from 2013 onwards are exercisable for the first time in two equal portions after being held for two and for four years (the vesting period). All options expire no later than ten years after being granted. Options are not transferable or negotiable and unvested options lapse without compensation upon termination of employment with the Group (cancelation). Options granted from 2013 onwards become exercisable with the effectiveness of the takeover of more than 50% of the outstanding voting rights of the Group.

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

	2015			2014		
	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	955,340	1,072,860	3.07	1,022,640	1,140,160	3.08
Granted	712,000	712,000	3.92	-	-	-
Adjusted	-	97,998	-	-	-	-
Forfeited	(78,940)	(95,504)	3.17	(67,300)	(67,300)	3.21
Exercised	(700)	(79,800)	1.80	-	-	-
Outstanding at year end	**1,587,700**	**1,707,554**	**3.48**	**955,340**	**1,072,860**	**3.07**
Exercisable at year end	448,725	524,439		8,040	125,560	

700 share options have been exercised in 2015 at a price of €1.80 per share (2014: no options have been exercised). The weighted average value per share at the time of option exercise was €3.75 in 2015.

As a consequence of the capital increase in February 2015 an adjustment to the number of shares available through existing share option plans had to be made in accordance with article L. 228-99 of the French Commercial Code, which resulted in an additional number of 97,998 of shares available.

Share 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**	**2015**	**2014**
2016	1.80	250	1,040
2020	5.19	7,000	7,000
2023	3.21	882,950	947,300
2025	3.92	697,500	-
		1,587,700	**955,340**

In 2015, 712,000 options were granted (2014: no options were granted). The weighted average grant date fair value of options granted during the year 2015 was €1.06. The fair value of the granted options was determined using the Black Scholes valuation model. The significant inputs into the models were:

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

5.24.2 Free shares

Over the years, the Company established free 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 and a holding period of two years.

Changes in the free shares outstanding are as follows:

	Number of free shares	
	2015	**2014**
Outstanding at January 1	39,000	97,333
Granted	-	-
Forfeited	(3,000)	(15,500)
Definitively granted	(35,000)	(42,833)
Outstanding at year end	**1,000**	**39,000**

5.24.3 Equity warrants

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

Changes in the equity warrants outstanding are as follows:

	Number of equity warrants	
	2015	**2014**
Outstanding at January 1	5,625	11,250
Granted	153,000	-
Forfeited	(5,625)	(5,625)
Outstanding at year end	**153,000**	**5,625**

5.24.4 Free convertible preferred share plan

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

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

	Number of payable convertible preferred shares subscribed for by the beneficiaries	Subscription amount (in €)
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 allotted to the beneficiaries
Management Board	18,600
Other Executive Committee members	8,250
	26,850

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

5.25 Borrowings

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

€ in thousand	**At December 31,**	
	2015	**2014**
Non-current		
Bank borrowings	2,812	3,536
Other loans	45,384	33,281
Finance lease liabilities	28,372	29,219
	76,568	**66,036**
Current		
Bank borrowings	2,885	3,339
Other loans	21,957	2,943
Finance lease liabilities	845	836
	25,687	**7,117**
Total borrowings	**102,255**	**73,153**

The maturity of non-current borrowings is as follows:

€ in thousand	At December 31,	
	2015	**2014**
Between 1 and 2 years	26,424	13,276
Between 2 and 3 years	21,803	13,989
Between 3 and 4 years	1,537	9,766
Between 4 and 5 years	1,345	1,500
Over 5 years	25,460	27,505
Non-current borrowings	**76,568**	**66,036**

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

€ in thousand	At December 31,	
	2015	**2014**
EUR	61,710	47,048
USD	40,546	26,105
Total borrowings	**102,255**	**73,153**

5.25.1 Finance lease liabilities

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

5.25.2 Bank borrowings and other loans secured

As at December 31, 2015, €14,123 thousand of the outstanding bank borrowings and other loans are guaranteed, secured, or pledged. These bank borrowings and other loans are related to financing of R&D expenses, fixed assets and CIR (R&D Tax credit France) mobilization and have various conditions (interest rates) and terms (maturities).

The following table presents the fair value of guaranteed bank borrowings and other loans without taking the interest subsidy into consideration, based on an estimated arms' length interest rate of 8.75% at year-end 2015:

€ in thousand	At December 31, 2015	
	Carrying amounts	**Fair values**
Bank borrowings	5,520	5,258
Other loans (excluding the other loans described in Note 5.25.3)	8,603	7,617
Guaranteed, secured, or pledged borrowings	**14,123**	**12,875**

5.25.3 Other loans

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

loan was increased by an additional financing of $11 million. From 2016 onwards, the Company will pay a royalty to Pharmakon Advisors ranging from 2.5% to 3.1% on its IXIARO®/JESPECT® sales during the term of the loan. The interest rate and the royalty payable in connection with the loan are both recognized as finance expenses. The finance expenses are calculated using the effective interest method and are therefore recognized pro rata to the outstanding principal in each accounting period until the loan is fully amortized. The foreign currency valuation is done at each balance sheet date and resulting exchange gains or losses are shown as finance income/expenses. The asset-based loan is guaranteed by Valneva SE and secured by a security interest on the incoming funds from Valneva's sales of IXIARO®/JESPECT® and on the shares of the Group's Austrian and Scottish subsidiaries, which hold the key IXIARO®/JESPECT® assets. At December 31, 2015 the book values of the assets pledged amounted to €267,019 thousand (2014: €275,328 thousand).

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

€ in thousand	2015	2014
Balance at January 1	**26,105**	**21,023**
Proceeds of issue	9,985	-
Transaction costs	(91)	-
Accrued interest and royalty expense	4,061	3,816
Payment of interest	(2,589)	(1,646)
Foreign exchange valuation	3,074	2,912
Balance at December 31	**40,546**	**26,105**
Less non-current portion	(39,691)	(25,514)
Current portion	**854**	**592**

In connection with the acquisition of Crucell Sweden AB and its related assets the Group entered into a €15 million term loan facility from funds managed by Athyrium Capital Management, LLC. The loan originally extended over a 5 year period and carried a fixed yearly interest rate of 11% payable in cash on a quarterly basis. The loan was secured by collateral on the assets acquired in the course of the above mentioned acquisition. In order to reflect the business changes resulting from the adjustments to the DUKORAL® label in Canada in December 2015, the parties agreed on an early repayment of the loan which was made in January 2016 (see Note 5.34).

At December 31, 2015 the loan is included in the balance sheet item "borrowings" as follows:

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

5.26 Trade payables and accruals

Trade payables and accruals include the following:

€ in thousand	At December 31,	
	2015	**2014**
Trade payables	6,325	5,192
Accrued expenses	4,372	5,542
	10,698	**10,734**
Less non-current portion	-	-
Current portion	**10,698**	**10,734**

5.27 Tax and employee-related liabilities

€ in thousand	At December 31,	
	2015	**2014**
Social security and other taxes	1,907	2,121
Employee-related liabilities	4,982	3,278
	6,889	**5,398**
Less non-current portion	-	-
Current portion	**6,889**	**5,398**

5.28 Other liabilities and provisions

€ in thousand	At December 31,	
	2015	**2014**
Deferred income	9,467	11,859
Other financial liabilities	251	210
Provisions for employee commitments	188	163
Other liabilities	53	58
Other provisions	514	135
	10,474	**12,426**
Less non-current portion	(7,810)	(9,564)
Current portion	**2,664**	**2,862**

5.28.1 Deferred Income

€ in thousand	At December 31,	
	2015	**2014**
Arising from collaboration and licensing agreements	8,681	10,812
Arising from government grants	785	1,047
	9,467	**11,859**
Less non-current portion	(7,379)	(9,197)
Current portion	**2,087**	**2,662**

5.28.2 Provisions for employee commitments

(a) Assumptions used

	At December 31,	
	2015	**2014**
Discount rate	1.90%	1.80%
Salary increase rate	2.00%	2.00%
Turnover rate	0%-45.90%	0%-45.90%
Social security rate	47.00%-48.00%	45.00%
Average remaining lifespan of employees (in years)	20	20

(b) Changes in defined benefit obligation

Present value of obligation development:

€ in thousand	2015	2014
Balance at January 1	**163**	**23**
Current service cost	2	-
Re-measurements	23	140
Benefit payments		-
Balance at December 31	**189**	**163**

5.28.3 Other provisions

€ in thousand	At December 31,	
	2015	**2014**
Non-current	-	-
Current	514	135
Provisions	**514**	**135**

	2015	2014
Balance at January 1	**135**	**371**
Charged to the income statement:		
+ Additional provision	502	113
+ Reversed provision	(113)	-
Used provisions	(11)	(350)
Exchange differences	1	1
Balance at December 31	**514**	**135**

Other liabilities and provisions include a provision of €312 thousand in connection with the right of return of sold goods by GSK in the course of the transition phase of the cancelled distribution agreement. In addition, a provision of €190 thousand relates to restructuring costs for the acquired production site in Solna, Sweden.

5.29 Cash used in operations

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

€ in thousand	Note	Year ended December 31,	
		2015	**2014**
Loss for the year		(20,617)	(26,272)
Adjustments for			
+ Depreciation and amortization	5.13 5.14	11,442	12,359
+ Impairment fixed assets/intangibles	5.13 5.14	-	4,095
+ Share-based payments	5.24	1,018	530
+ Income tax	5.10	238	334
+ (Profit)/Loss from disposal of fixed assets	5.8	(29)	63
+ Gain on bargain purchase	5.31	(13,183)	-
+ Share of (profit)/loss from associates	5.15	8,998	-
+ Other non-cash income/expense		1,651	(1,034)
+ Fair value gains/losses on derivative financial instruments	5.9	-	(48)
+ Interest income	5.9	(3,096)	(226)
+ Interest expense	5.9	9,716	4,394
+ Changes in other long-term assets and liabilities		(1,229)	(5,589)
Changes in working capital (excluding the effects of acquisition and exchange rate differences on consolidation):			
+ Inventory		7,537	(1,870)
+ Trade and other receivables		(3,235)	(279)
+ Trade and other payables and provisions		(18,887)	1,211
Cash used in operations		**(19,674)**	**(12,332)**

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

€ in thousand	At December 31,	
	2015	**2014**
Net book value	99	75
Profit/(Loss) on disposal of fixed assets	29	(63)
Proceeds from disposal of fixed assets	**128**	**12**

5.30 Commitments and contingencies

(a) Capital commitments

There were no capital expenditure contracted for at December 31, 2015, and December 31, 2014.

(b) Operating lease commitments

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

€ in thousand	At December 31,	
	2015	**2014**
Not later than 1 year	2,248	265
Later than 1 year and not later than 5 years	8,135	672
Later than 5 years	596	32
Operating lease commitments	**10,980**	**970**

The Group leases office space, cars and equipment.

(c) Other commitments and guarantees

The other commitments consisted of:

€ in thousand	At December 31,	
	2015	**2014**
Potential earn out payment on investment securities	-	4,954
Commitment with a supplier and subcontractors	-	619
Loans and grants	2,607	7,790
Other	34	47
Other commitments	**2,641**	**13,410**

The guarantees and pledges consisted of:

€ in thousand	At December 31,	
	2015	**2014**
Equipment pledge	429	600
Pledges on consolidate investments	324,292	285,426
Guarantees for non-consolidated investments	300	-
Guarantees and pledges	**325,021**	**286,026**

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

5.31 Business combination

On February 9, 2015, the Group completed the acquisition of Crucell Sweden AB, (subsequently renamed to Valneva Sweden AB), and all assets, licenses and privileges related to DUKORAL®, a vaccine against cholera and traveler's diarrhea caused by certain types of ETEC (including a

manufacturing site in Solna, Sweden) as well as a vaccine distribution business in the Nordic countries (together "**Crucell Sweden**"). After completion of the acquisition Valneva holds 100% of the voting rights of the acquired company.

The Company entered into the transaction anticipating that the acquisition will (i) complement its Japanese encephalitis vaccine by creating critical mass in traveler's vaccines and adding commercial infrastructure, (ii) add cash generating assets with long-term upside potential, (iii) unlock synergies to further support Valneva´s development towards financial sustainability, and (iv) create a fully-integrated vaccines player with scarcity value in an attractive pharmaceutical segment.

The carve-out consolidated revenue generated by Crucell Sweden amounted to €36.4 million in the year ended December 31, 2014.

The initial agreed aggregate acquisition price amounts to €45.0 million (the "**Acquisition Price**") and was comprised of €3.0 million of cash consideration paid on the signing date, €32.0 million paid on the completion date of the transaction and a packaging line milestone payment of €10.0 million. In order to reflect the business changes resulting from the adjustments to the DUKORAL® label in Canada in December 2015, the seller Crucell Holland BV and Valneva agreed on an adjustment to the purchase price. Crucell Holland BV waived the €10 million milestone payment and repaid €15 million from the acquisition price. Together, the €10 million milestone waiver and the €15 million cash repayment resulted in a €25 million reduction of the purchase consideration, bringing the original €45 million down to €20 million. The acquisition, the components of the acquisition consideration and its subsequent adjustment are viewed as a single transaction. The sale and purchase agreement also provided for a working capital adjustment mechanism of the acquisition price calculated as the difference between an agreed working capital level and the actual working capital at the completion date. The resulting adjustment to the acquisition price resulted in a payment received by the Company. In addition the seller assumed payment obligations for cash outflows under certain outstanding liabilities.

Purchase consideration **€ in thousand**	
Cash consideration paid as of Feb 9, 2015	35,000
Packaging line milestone	10,000
Reduction following label-change in Canada	(25,000)
Total cash consideration	**20,000**
Less: working capital adjustment payment by the seller	(5,550)
Less: other liabilities assumed by the seller	(4,592)
Total net purchase consideration	**9,858**
Fair value of net assets acquired	23,041
Gain on bargain purchase	13,183

The acquisition was financed through a combination of debt and equity. The latter was raised through a public rights issue with final gross proceeds of €45.0 million. The debt part of the acquisition financing was raised through a loan facility put in place with Athyrium in an amount of €15.0 million, which was repaid in January 2016 (see Notes 5.25 and 5.34).

The cash consideration paid as of December 31, 2015, net of cash acquired through the acquisition, is as follows:

€ in thousand	
Cash consideration paid	35,000
Cash and cash equivalents in acquired business	(2,795)

Payments received from J&J (WC adjustment, other liabilities)	(10,024)
Cash outflow through acquisition	22,181

The main acquired assets and liabilities remain located in Sweden. The acquired assets and liabilities have been included in the Company's assets and liabilities as of the acquisition closing date February 9, 2015 and were consolidated from this date onwards. From the acquisition closing date through December 31, 2015, the acquired business contributed revenues and grants of €36,427 thousand and a net profit of €9,038 thousand to the Group's consolidated income.

If the transaction had occurred on January 1, 2015, the Group's consolidated revenues and grants for the year ended December 31, 2015 would have been €89,235 thousand, and its net loss would have been €19,341 thousand, of which €497 thousand result from non-recurring acquisition costs.

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

€ in thousand	**Fair Value**	**Acquiree's carrying amount**
Cash, cash equivalents and financial assets	2,795	2,795
Property, plant and equipment, hardware	2,670	10,706
Intangible assets	-	4
Other non-current assets	-	369
Inventories	25,846	20,183
Trade receivables and other current assets	3,294	3,294
Deferred tax liability	-	-
Trade payables, accruals and other payables	(11,564)	(11,135)
Net assets acquired	**23,041**	**26,217**

The fair value of trade receivables and other current assets equals their book values (gross values). No receivables are expected to be uncollectable.

The initial accounting for the business combination was adjusted within twelve months from the acquisition date. The values reported as of December 31, 2015 are final.

5.32 Related-party transactions

5.32.1 Purchases of services

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

€ in thousand	**Year ended December 31,**	
	2015	**2014**
Purchases of services:		
+ Operating activities	7	35
+ Group management	-	-
Purchases of services	**7**	**35**

5.32.2 Key management compensation

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

€ in thousand	Year ended December 31,	
	2015	**2014**
Salaries and other short-term employee benefits	1,379	1,421
Other long-term benefits	24	14
Share-based payments (expense of the year)	498	131
Key management compensation	**1,901**	**1,566**

5.32.3 Supervisory Board compensation

The aggregate compensation of the members of the Company's Supervisory Board amounted to €250 thousand (2014: €243 thousand). In the years 2011 and 2015, the Company granted equity warrants to members of the Supervisory Board. For more information, see Note 5.24.3.

5.33 Pro Forma Information related to the acquisition of Crucell Sweden

5.33.1 Background to the preparation of the merger pro forma information

On January 5, 2015, Valneva entered into a Sale and Purchase Agreement with Crucell Holland BV, to acquire all shares of Crucell Sweden AB, DUKORAL® - related assets and privileges owned by other affiliates of the seller and assets and privileges of the Nordics Trade business. The closing date (defined as the date at which certain closing conditions were fulfilled, in particular the completion of an equity and debt fundraising such that the Company had sufficient immediately available funds to pay the purchase price at completion) was February 9, 2015. From that time onward the Crucell Assets have been consolidated in full. The carve-out consolidated revenue from Crucell Sweden, Dukoral® and Nordics Trade amounted to €36.4 million in the year ended December 31, 2014.

For more information, see Note 5.31.

The pro forma consolidated income statement for the year ended on December 31, 2015 reflects the consolidated results of the Valneva Group as if the acquisition of the Crucell Sweden had occurred on January 1, 2015. The pro forma adjustments are based on available information and on assumptions that are considered reasonable by Valneva Group.

The pro forma financial information (hereafter referred to as the "Pro Forma Financial Information") is presented exclusively for illustrative purposes and does not provide for an indication of the results of operating activities or the financial position of Valneva SE that would have been obtained for the period ending on December 31, 2015 if the acquisition had been completed at the date considered. Similarly, it does not provide for an indication of the future results of operating activities or financial position of Valneva SE.

5.33.2 Income statement for the year ended December 31, 2015 and pro forma income statement for the year ended December 31, 2015

Pro forma income statement (unaudited)

€ in thousand	**Full year ended December 31,**	
	2015	**Pro forma 2015**
Product sales	61,545	67,445
Revenues from collaborations, licensing and services	16,814	16,814
Revenues	**78,359**	**84,259**
Grant income	4,975	4,975
Revenues and Grants	**83,335**	**89,235**
Cost of goods and services	(46,961)	(49,861)
Research & Development expenses	(25,367)	(25,367)
Distribution and marketing expenses	(9,121)	(10,021)
General and administrative expenses	(14,394)	(14,297)
Other income and expenses, net	(152)	(652)
Amortization and impairment of fixed assets/intangibles	(7,273)	(7,273)
OPERATING PROFIT/(LOSS)	**(19,934)**	**(18,237)**
Finance income	5,073	5,073
Finance expenses	(9,716)	(9,716)
Result from investments in affiliates	(8,999)	(8,999)
Gain on bargain purchase	13,183	13,183
PROFIT/(LOSS) BEFORE INCOME TAX	**(20,393)**	**(18,696)**
Income tax	(224)	(645)
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	**(20,617)**	**(19,341)**

5.33.3 Reconciliation to the Group's consolidated financial statements under IFRS

	Full year ended December 31, 2015			
€ in thousand (unaudited)	**Valneva reported income statement (IFRS)**	**Crucell assets income statement for the period Jan 1– Feb 9, 2015**	**Pro forma adjustments - exclusion of acquisition-related costs**	**Adjusted pro forma income statement**
Product sales	61,545	5,900		67,445
Revenues from collaborations, licensing and services	16,814	-		16,814
Revenues	**78,359**	**5,900**		**84,259**
Grant income	4,975	-		4,975
Revenues and Grants	**83,335**	**5,900**		**89,235**
Cost of goods and services	(46,961)	(2,900)		(49,861)
Research & Development expenses	(25,367)	-		(25,367)
Distribution and marketing expenses	(9,121)	(900)		(10,021)
General and administrative expenses	(14,394)	(400)	*497*	(14,297)
Other income and expenses, net	(152)	(500)		(652)
Amortization and impairment of fixed assets/intangibles	(7,273)			(7,273)
OPERATING PROFIT/(LOSS)	**(19,934)**	**1,200**	***497***	**(18,237)**
Finance income	5,073	-		5,073
Finance expenses	(9,716)			(9,716)
Result from investments in affiliates	(8,999)			(8,999)
Gain on bargain purchase	13,183			13,183
PROFIT/(LOSS) BEFORE INCOME TAX	**(20,393)**	**1,200**	***497***	**(18,696)**
Income tax	(224)	(421)		(645)
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	**(20,617)**	**779**	***497***	**(19,341)**

The main adjustments in the year ended December 31, 2015 are the following:

Cancellation of the impact of acquisition costs of €0.5 million incurred by Valneva in order to perform the acquisition. These items represent significant charges that impact current results, but have been considered unrelated to the Group's ongoing operations and performance.

5.33.4 Basis of preparation

The Pro Forma Financial Information was prepared based on published data of Valneva SE and Johnson & Johnson pro forma management reporting, which was subject to a number of presentation reclassifications.

(a) Regulatory framework

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

(b) Acquisition

The acquisition has been treated in the Pro Forma Financial Information as an acquisition of Crucell Sweden by Valneva, if analyzed in terms of the criteria provided for by IFRS 3r, applicable as of December 31, 2013.

(c) Reclassifications and harmonization of accounting principles

The Pro Forma Financial Information has been prepared in accordance with the IFRS accounting standards that are applied in the financial statements for the year ended December 31, 2015 published by Valneva SE.

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

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

(d) Underlying assumptions

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

+ audited consolidated IFRS financial statements for the Valneva SE Group, at December 31, 2015
+ unaudited Johnson & Johnson pro forma management reporting for the period Jan 1, 2015 to Feb 9, 2015

The pro forma adjustments to the pro forma consolidated income statements for the years ended on December 31, 2015 were calculated on the assumption that the acquisition had been completed on January 1, 2015.

The Pro Forma Financial Information is presented exclusively for illustrative purposes and does not provide for an indication of the results of operating activities or the financial position of Valneva SE that would have been obtained for the period ending December 31, 2015 if the acquisition had been completed at the dates considered. Similarly, it does not provide for an indication of the future results of operating activities or financial position of Valneva SE.

All pro forma adjustments relate directly to the acquisition.

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

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

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

(e) Intragroup transactions

To the best of the two companies' knowledge, there were no intragroup transactions among companies in the consolidated Group that might have had a significant impact on the income statements of the acquired business for the period Jan 1, 2015 to Feb 9, 2015.

5.34 Events after the reporting period

In connection with the acquisition of Crucell Sweden AB and its related assets the Group entered into a €15 million term loan facility from funds managed by Athyrium Capital Management, LLC. Following changes to the DUKORAL® label in Canada in December 2015 the parties agreed on an early repayment of the loan. This voluntary prepayment triggered a 20% prepayment fee in the amount of €3,000 thousand. Alongside with 1% participation fee and the interest for the remaining period the repayment amounts to €18.340 thousand and was redeemed to the lender on January 26, 2016 (see Note 5.25.3).

No further events that are expected to have a material effect on the financial statements occurred after the reporting period until March 18, 2016.