

Consolidated Financial Statements

VALNEVA SE, Lyon

December 31, 2014

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

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1. CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED INCOME STATEMENT

EUR IN THOUSANDS (EXCEPT PER SHARE AMOUNTS)	NOTE	YEAR ENDED DECEMBER 31,	
		2014	2013
<i>Product sales</i>	5	28,124	23,239
<i>Revenues from collaborations, licensing and services</i>	5	8,799	7,206
Revenues		36,922	30,445
<i>Grant income</i>		5,506	5,546
Revenues and Grants		42,429	35,991
<i>Cost of goods and services</i>	6/7	(17,144)	(16,508)
<i>Research and development expenses</i>	6/7	(22,242)	(21,423)
<i>General, selling and administrative expenses</i>	6/7	(14,142)	(14,720)
<i>Other income and expenses, net</i>	8	(395)	1,157
<i>Amortization and impairment</i>	6/7	(12,323)	(5,353)
OPERATING LOSS		(23,817)	(20,856)
<i>Finance income</i>	9	2,273	200
<i>Finance expenses</i>	9	(4,394)	(2,969)
LOSS BEFORE INCOME TAX		(25,938)	(23,625)
<i>Income tax</i>	10	(334)	(348)
LOSS FROM CONTINUING OPERATIONS		(26,272)	(23,973)
<i>Loss from discontinued operations</i>	20	-	(137)
LOSS FOR THE YEAR		(26,272)	(24,110)
Losses per share			
<i>for loss from continuing operations attributable to the equity holders of the Company, expressed in EUR per share (basic and diluted)</i>	11	(0.47)	(0.61)



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR IN THOUSANDS	NOTE	YEAR ENDED DECEMBER 31,	
		2014	2013
Loss for the year		(26,272)	(24,110)
Other comprehensive income/(loss)			
- Items that are or may be reclassified subsequently to profit or loss			
- Currency translation differences	22	(2,626)	1,636
- Total items that are or may be reclassified subsequently to profit or loss		(2,626)	1,636
Other comprehensive income/(loss) for the year, net of tax		(2,626)	1,636
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE COMPANY		(28,897)	(22,474)



2. CONSOLIDATED BALANCE SHEET

EUR IN THOUSANDS	NOTE	AT DECEMBER 31,	
		2014	2013
ASSETS			
Non-current assets		166,567	191,045
Intangible assets and goodwill	13	105,204	125,403
Property, plant and equipment	12	41,611	45,067
Other non-current assets	18	19,753	20,575
Current assets		52,967	63,346
Inventories	16	7,282	4,819
Trade receivables	17	6,850	7,570
Other current assets	18	9,366	10,791
Current financial assets	15	19	3,658
Cash, cash equivalents and short-term deposits	19	29,449	36,509
Assets held for sale	20	7,982	-
TOTAL ASSETS		227,517	254,391
EQUITY			
Capital and reserves attributable to the Company's equity holders		124,444	144,111
Share capital	21	8,453	8,206
Share premium and other regulated reserves	21	206,707	198,322
Retained earnings and other reserves	22	(64,444)	(38,308)
Net result for the period		(26,272)	(24,110)
LIABILITIES			
Non-current liabilities		75,704	82,181
Borrowings	24	66,036	64,902
Other non-current liabilities and provisions	27	9,668	17,279
Current liabilities		26,387	28,100
Borrowings	24	7,117	6,381
Trade payables and accruals	25	11,009	11,388
Tax and employee-related liabilities	26	5,398	5,096
Other current liabilities and provisions	27	2,862	5,235
Liabilities held for sale	20	982	-
TOTAL LIABILITIES		103,073	110,280
TOTAL EQUITY AND LIABILITIES		227,517	254,391



3. CONSOLIDATED CASH FLOW STATEMENT

EUR IN THOUSANDS	NOTE	YEAR ENDED DECEMBER 31,	
		2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year		(26,272)	(24,110)
Depreciation and amortization	12/13	12,359	9,056
Impairment	12/13	4,095	92
Share-based payments	21	530	179
Income tax	10	334	348
Other adjustments for reconciliation to cash used in operations	28	(2,439)	(1,739)
Changes in working capital	28	(938)	(3,311)
Cash used in operations	28	(12,332)	(19,485)
Interest paid	9	(2,227)	(1,121)
Income tax paid	10	(385)	(296)
Net cash used in operating activities		(14,944)	(20,903)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of other businesses, net cash acquired	30	-	11,615
Purchases of property, plant and equipment	12/28	(946)	(1,375)
Proceeds from sale of property, plant and equipment	28	1,712	3,144
Purchases of intangible assets	13	(2,792)	(1,899)
Purchases of financial assets		(13,616)	-
Proceeds from sale of financial assets		17,130	10,037
Interest received		505	332
Net cash generated from investing activities		1,993	21,855
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of common stock, net of costs of equity transactions	21	8,632	37,621
Disposal/(Purchase) of treasury shares		69	(684)
Proceeds from borrowings	24	1,656	27,646
Repayment of borrowings	24	(5,083)	(29,893)
Net cash generated from financing activities		5,274	34,689
Net change in cash and cash equivalents		(7,677)	35,641
Cash at beginning of the year		36,509	832
Exchange gains/(losses) on cash		25	36
Cash at end of the year	19	28,857	36,509
Cash, cash equivalents, and financial assets at end of the year		29,468	40,167



4. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR IN THOUSANDS	NOTE	SHARE CAPITAL	SHARE PREMI- UM AND OTHER REGU- LATED RE- SERVES	RETAINED EARNINGS AND OTHER RESERVES	NET RESULT	TOTAL EQUITY
Balance as of January 1, 2013		3,219	62,414	(24,598)	(14,841)	26,194
<i>Total comprehensive loss</i>		-	-	1,636	(24,110)	(22,474)
<i>Income appropriation</i>		-	-	(14,841)	14,841	-
<i>Employee share option plan:</i>						
- <i>value of employee services</i>	23	-	-	179	-	179
- <i>exercise of share options</i>	21/23	37	307	-	-	343
<i>Treasury shares</i>	22	-	-	(684)	-	(684)
<i>Issuance of common stock (merger with Intercell see note 30, May 2013)</i>	21	2,676	100,599	-	-	103,275
<i>Issuance of common stock, July 2013</i>	21	2,275	37,913	-	-	40,188
<i>Cost of equity transactions, net of tax</i>	21	-	(2,910)	-	-	(2,910)
		4,987	135,909	(13,710)	(9,269)	117,917
Balance as of December 31, 2013		8,206	198,322	(38,308)	(24,110)	144,111
Balance as of January 1, 2014		8,206	198,322	(38,308)	(24,110)	144,111
<i>Total comprehensive loss</i>		-	-	(2,626)	(26,272)	(28,897)
<i>Income appropriation</i>		-	-	(24,110)	24,110	-
<i>Employee share option plan:</i>						
- <i>value of employee services</i>	23	-	-	530	-	530
- <i>exercise of share options</i>	21/23	6	(6)	-	-	-
<i>Treasury shares</i>	22	-	-	69	-	69
<i>Issuance of common stock, May and June 2014</i>	21	240	8,716	-	-	8,956
<i>Cost of equity transactions, net of tax</i>	21	-	(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



5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1: General information

Valneva SE – together with its subsidiaries – (hereafter named “Group” or “Company”) is a European biotech company focusing on vaccines. It was created in 2013 through the merger between Intercell AG and Vivalis SA. Valneva’s mission is to develop, manufacture and commercialize innovative vaccines with a vision to protect people from infectious diseases. The Company makes focused R&D investments in promising product candidates either through in-house programs or in collaboration with industrial external partners and achieves growing financial contributions from commercial products, striving towards financial self-sustainability.

Valneva generates diversified revenue from its marketed product, commercial partnerships around a portfolio of product candidates (in-house and partnered), and licensed technology platforms (EB66® cell line, VIVA|Screen® antibody discovery technology until end of 2014 – see note 13, and the IC31® adjuvant) developed by Valneva. Related business activities include product research and development, regulatory and clinical activities, manufacturing of commercial product and advanced clinical product candidates, as well as administrative, corporate development, and marketing and sales activities.

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

In February 2015, the Company completed the acquisition of Crucell 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 ETEC. The acquisition included the purchase of a manufacturing site in Solna (Sweden).

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.

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

NAME	COUNTRY OF INCORPORATION	INTEREST HELD AT DECEMBER 31,	
		2014	2013
Smol Therapeutics SAS	FR	0%	100%
Vivalis Toyama Japan KK	JP	100%	100%
Valneva Austria GmbH	AT	100%	100%
Valneva Scotland Ltd.	UK	100%	100%
Intercell USA, Inc.	USA	100%	100%
Elatos GmbH	AT	100%	100%
Vaccines Holdings Sweden AB	SE	100%	-



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

On December 30, 2013, Valneva SE resolved to dissolve its wholly owned subsidiary, Smol Therapeutics SAS, without liquidation via a universal transfer of its assets to Valneva SE. Removal of Smol Therapeutics SAS from the Trade and Companies Registry was effective on January 23, 2014.

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 as well as antibody discovery based on the VIVAIScreen[®] platform. Valneva Austria GmbH, Vienna, Austria, focuses on vaccines and pre-clinical and clinical development activities. Valneva Scotland Ltd., Livingston, United Kingdom, operates a dedicated biologics manufacturing facility used for production of the Company's Japanese Encephalitis vaccine. The workforce of Intercell USA, Inc. focused on maximizing the value of IXIARO[®]/JESPECT[®] until the end of 2013. Beginning in 2014 Intercell USA now supports legal functions and the sales team. Elatos GmbH, Vienna, Austria, performed research on the antibody platform eMAB in 2013. Valneva Toyama Japan KK, Toyama, Japan, performed research on the antibody platform VIVAIScreen[®] in 2013.

In December 2014 the Swedish subsidiary Goldcup 10618 AB was formed, which was subsequently renamed to Vaccines Holdings Sweden AB, and served as the vehicle for the acquisition of Crucell 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 ETEC in February 2015 (see note 33).

These consolidated financial statements have been approved and authorized for issue by the Management Board on March 18, 2015.

Note 2: Summary of significant accounting policies

On May 28, 2013, the Company completed its merger with Intercell AG. As a result of the merger, Intercell's business has been included in the Group's full year consolidated financial statements under IFRS from the merger closing date. Therefore, 2013 and 2014 results under IFRS are not fully comparable. While the results of Vivalis SA (now Valneva SE) were fully included in the income statement of the full year 2013, the results from the ex-Intercell operations were only included starting from June 2013.

Pro-forma comparator figures including the Intercell business for the full year 2013 and excluding one-time effects due to the merger were prepared for illustrative purposes only. For a detailed explanation of pro-forma assumptions and reconciliation to IFRS results, please refer to note 32.

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

**+ Note 2.1 – Basis of presentation**

These 2014 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 crit-

ical accounting estimates. It also requires the Company's management to exercise its judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas, where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

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

+ Note 2.2 – Impact of new, revised or amended Standards and Interpretations**a) New and amended standards adopted by the Company**

STANDARD/INTERPRETATION/AMENDMENT		EFFECTIVE DATE	EXPECTED EFFECTS
IFRS 10 / IFRS 12 / IAS 27 amendment	Investment Entities	Jan 1, 2014	None
IAS 32 - amendment	Financial instruments: Presentation – offsetting financial assets and financial liabilities	Jan 1, 2014	None
IAS 36 - amendment	Impairment of assets – disclosures on recoverable amount	Jan 1, 2014	None
IAS 39 - amendment	Financial instruments: recognition and measurement – relief from discontinuing hedge accounting	Jan 1, 2014	None
IFRS 10	Consolidated financial statements	Jan 1, 2014	None
IFRS 11	Joint Arrangements	Jan 1, 2014	None
IFRS 12	Disclosures of interests in other entities	Jan 1, 2014	None
IFRIC 21	“Levies” – interpretation of IAS 37 “Provisions, contingent liabilities and contingent assets”	Jan 1, 2014	None

There are no IFRSs or IFRIC interpretations effective for the first time for the financial year beginning on or after January 1, 2014 that would be expected to have a material impact on the Company. ■



b) New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2014, and not early adopted.

STANDARD/INTERPRETATION/AMENDMENT		EFFECTIVE DATE	EXPECTED EFFECTS
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
IFRS 15	Revenue from Contracts with Customers	Jan 1, 2017	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	Impact to be assessed
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	Jan 1, 2016	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	July 1, 2016	Impact to be assessed
IAS 19 amendment	Defined Benefit Plans: Employee Contributions	July 1, 2014	Impact to be assessed
	Annual improvements to IFRSs 2011-2013 Cycle	July 1, 2014	Impact to be assessed
	Annual improvements to IFRSs 2010-2012 Cycle	July 1, 2014	Impact to be assessed

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



+ Note 2.3 – Consolidation

Subsidiaries

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

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

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

+ Note 2.4 – Segment reporting

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

For further disclosure see note 5. ■

+ Note 2.5 – Foreign currency translation

a) Functional and presentation currency

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

b) Transactions and balances

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

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



es 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.

Upon consolidation, exchange differences arising from the conversion of the net investment in foreign entities and of borrowings and other currency instruments designated as hedges of such investments are taken into shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that had been recorded in equity are recognized in the income statement as part of the gain or loss on sale. ■

+ Note 2.6 – Revenue recognition

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

a) 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. In cases where the goods are sold via a distributor and where the consideration consists of a fixed part and a variable part that is only payable upon the distributor's sale of the product to the ultimate purchaser, the fixed consideration is recognized when the Company has delivered products to the distributor, the distributor has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the distributor's acceptance of the products. The variable part of such consideration is recognized as soon as the distributor has sold the product to the market and all conditions for the Company to receive the variable consideration have been met. The Company does not operate any loyalty programs.



b) Revenues from collaborations and licensing and Services

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

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

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

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

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

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

c) Grant income

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

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

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

Research and development tax credit granted by tax authorities are accounted for as grants under IAS20. In consequence, the portion of the research tax credit covering operating 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. ■

+ Note 2.7 - Leases

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

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

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

+ Note 2.8 - Property, plant and equipment

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

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

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

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

- › Buildings, leasehold improvements
8 - 40 years
- › Machinery, laboratory equipment
2 - 15 years
- › Furniture, fittings and office equipment
4 - 10 years
- › Hardware
3 - 5 years



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

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

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

+ Note 2.9 – Intangible assets

a) Computer software

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

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

b) Acquired R&D technology and projects

Acquired R&D technology projects are capitalized. Amortization of the intangible asset over its useful life starts when the product has been fully developed and is ready for use. These costs are amortized on a straight-line basis over their useful lives. This useful life is determined on a case-by-case basis according to the nature and characteristics of the items included under this heading. As long as the useful life is indefinite, in-process research and development projects are tested annually for impairment and carried at cost less accumulated impairment losses. Furthermore, assets with an indefinite useful life and assets that are subject to amortization are reviewed for impairment whenever events or changes

in circumstances indicate that the carrying amount may not be recoverable. The current acquired R&D technology and projects are amortized over a period between five and 17 years.

c) Development costs

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

- › (a) It is technically feasible to complete the intangible asset so that it will be available for use or sale;
- › (b) Management intends to complete the intangible asset and to utilize or sell it;
- › (c) There is an ability to utilize or sell the intangible asset;
- › (d) It can be demonstrated how the intangible asset will generate probable future economic benefits;
- › (e) Adequate technical, financial, and/or other resources to complete the development and to utilize or sell the intangible asset are available; and
- › (f) The expenditure attributable to the intangible asset during its development can be reliably measured.

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

d) Goodwill

Goodwill, which is a residual element, is determined as the difference between (IFRS 3.32):

- 1. First, the sum of the following items:
 - a. the purchase price under the takeover, generally measured at fair value at the acquisition date;
 - b. the amount of minority interests in the acquiree determined in accordance with IFRS 3; and
 - c. for step acquisitions, fair value at the acquisition date of the share interest held by the acquirer in the acquiree before the takeover;
- 2. Secondly, the net assets acquired and liabilities assumed, valued in accordance with IFRS.

The buyer has a choice for each business combination to recognize either a partial goodwill (corresponding to its percentage holding only) or a full goodwill (also including goodwill for minority interests) (IFRS 3.19). ■

+ Note 2.10 – Impairment of non-financial assets

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

other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. ■

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

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

+ Note 2.12 – Financial assets

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

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods, or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except those with maturities beyond 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "trade receivables and other assets" in the balance sheet (see note 2.15).

b) Available-for-sale financial assets

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



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

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

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

+ Note 2.13 – Derivative financial instruments

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

The valuation techniques utilized for establishing the fair values of assets and liabilities are based on observable and unobserva-

ble 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 company uses valuation techniques to establish the fair value of instruments where prices, quoted in active markets, are not available. ■

+ Note 2.14 – Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method, specifically the first-expiry first-out (FEFO) method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity) 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. ■

+ Note 2.15 – Trade receivables and other assets

Trade receivables and other assets are initially recognized at fair value. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is 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. ■



+ *Note 2.16 – Cash, cash equivalents and short-term deposits*

Cash includes cash in hand, and deposits held at call with banks. Cash equivalents include time deposits and medium-term notes that can be assigned or sold on very short notice and are subject to insignificant risk of changes in value in response to fluctuations in interest rates. Restrictions on the remittance of cash and cash equivalents are described, if any, in note 19. ■

+ *Note 2.17 – Share capital, share premium and other regulated reserves, retained earnings and other reserves, and net result*

Ordinary shares are classified as equity.

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

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

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

+ *Note 2.18 – Trade payables*

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

+ *Note 2.19 – Borrowings*

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

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

+ *Note 2.20 – Current and deferred income tax*

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively. The current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regula-



tion is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

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

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

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

+ Note 2.21 – Employee benefits

a) Share-based payments

Equity-settled transactions

The Company operates an equity-settled, share-based compensation plan. The fair value of such share-based compensation is recognized as an expense for employee services received in exchange for the grant of the op-

tions. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Annually, the Company revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, and makes a corresponding adjustment to equity.

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

b) Bonus plans

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

c) Employee commitments

Some group companies provide retirement termination benefits to their retirees.

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

- › a discount rate;
- › a salary increase rate;
- › an employee turnover rate.



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

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

+ Note 2.22 – Provisions

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

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

Provisions are not recognized for future operating losses. ■

+ 2.23 Deferred Revenues

Deferred Revenues 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 “other current liabilities” according to their maturity. In the event of a failure to complete the work, the debt waiver is recognized in “other net income and expense” for grants used to finance projects recognized under “development expenditure”, and in “Operating grants” for grants used for research or development projects not capitalized in the balance sheet. ■

Note 3: Financial risk management**+ Note 3.1 – Financial risk factors**

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

Financial risk management is carried out by the CFO under the close supervision of the Management Board. The CFO identifies, evaluates, and manages financial risks. The Management Board submits regular reports on its risk management systems, including the management of financial risks, to the audit committee of the Supervisory Board.

a) Market risk**Foreign exchange risk**

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. Dollar ("USD"), the British Pound ("GBP"), whereas the foreign exchange risk exposure to some other currencies, including the Australian and the Canadian Dollar, the Swiss Franc and the Japanese Yen is relatively limited. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities, and net investments in foreign operations.

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

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

At December 31, 2014, if the USD had weakened by 10% against the EUR, with all other variables held constant, pre-tax loss for the year would have been lower by EUR 2,060 thousand (2013: EUR 587 thousand higher), mainly as a result of foreign exchange gains on the translation of USD-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 EUR/USD exchange rate at the balance sheet date in 2014 than it was in 2013 mainly because of the decreased amount of USD-denominated trade receivables and cash equivalents and the increased USD-denominated borrowings and trade payables.

At December 31, 2014, if the GBP had weakened by 10% against the EUR, with all other variables held constant, pre-tax loss for the year would have been EUR 261 thousand higher (2013: EUR 57 thousand). Income was more sensitive to fluctuations in the EUR/GBP exchange rate at the balance sheet date in 2014 than it was in 2013 mainly because of the increased amount of GBP-denominated cash equivalents.

Interest rate risk

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

Borrowings issued at variable rates expose the Company to cash flow interest rate risk, which is offset by cash and financial assets held at variable rates. During 2014 and 2013, the Company's investments at variable rate as well as the borrowings at variable rate were denominated in EUR and in USD.

The Company analyzes its interest rate exposure on a dynamic basis. Based on this analysis, the Company calculated the impact on



profit and loss of a defined interest rate shift. The same interest rate shift was used for all currencies. The calculation only includes 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 EUR 36 thousand (2013: EUR 27 thousand).

b) Credit risk

The Company is exposed to credit risk. The Company holds bank accounts, cash balances, and securities at quality financial institutions with high credit ratings. To monitor the credit quality of its counterparts, the Company relies on credit ratings as published by specialized rating agencies such as Standard & Poor's, Moody's, and Fitch. The Company has policies that limit the amount of credit exposure to any single financial institution. The Company is also exposed to credit risk from its trade debtors, as its collaborations, licensing and services income arises from a small number of transactions. The Company has policies in place to enter into such transactions only

with highly reputable, financially sound counterparts. If customers are independently rated, these ratings are used. Otherwise, in the case that there is no independent rating, risk management assesses the credit quality of the customer, taking into account its financial position, past experience, and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The credit quality of financial assets is described in note 14.3.

c) Liquidity risk

The Company is exposed to liquidity risk resulting from the maturity of its financial liabilities. Furthermore, liquidity risk is resulting from the fact that the Company's operating cash flow is subject to fluctuations during accounting periods. Prudent liquidity risk management therefore implies maintaining sufficient cash and marketable securities in order to satisfy ongoing operating requirements and the ability to close out market positions. Extraordinary conditions on the financial markets may, however, temporarily restrict the possibility to liquidate certain financial assets.



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

AT DECEMBER 31, 2013 EUR IN THOUSANDS	LESS THAN 1 YEAR	BET- WEEN 1 AND 3 YEARS	BET- WEEN 3 AND 5 YEARS	OVER 5 YEARS	TOTAL
<i>Borrowings (excluding finance lease liabilities)¹</i>	5,401	17,849	26,128	2,333	51,711
<i>Finance lease liabilities</i>	980	2,045	2,045	27,353	32,423
<i>Trade payables and accruals²</i>	11,030	-	-	-	11,030
<i>Tax and employee-related liabilities³</i>	3,044	-	-	-	3,044
<i>Other liabilities and provisions⁴</i>	203	2,942	1,259	1,925	6,330
	20,658	22,836	29,432	31,611	104,537

AT DECEMBER 31, 2014 EUR IN THOUSANDS	LESS THAN 1 YEAR	BET- WEEN 1 AND 3 YEARS	BET- WEEN 3 AND 5 YEARS	OVER 5 YEARS	TOTAL
<i>Borrowings (excluding finance lease liabilities)¹</i>	6,282	25,572	9,544	1,701	43,099
<i>Finance lease liabilities</i>	836	1,693	1,722	25,804	30,054
<i>Trade payables and accruals²</i>	10,734	-	-	-	10,734
<i>Tax and employee-related liabilities³</i>	3,278	-	-	-	3,278
<i>Other liabilities and provisions⁴</i>	23	-	178	9	210
	21,152	27,265	11,444	27,514	87,375

¹The 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.

²Accruals for taxes are excluded from the trade payables and accruals balance, as this analysis is required only for financial instruments.

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

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

The fair values as well as the book values of the Company's borrowings are disclosed in note 24. To manage liquidity risk, the Company holds sufficient cash balances and generally invests in securities that can be promptly converted into cash. ■

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

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

+ Note 3.3 – Capital risk management

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

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

+ Note 3.4 – Fair value estimation

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

The fair value of financial instruments not traded on an active market is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing upon each balance sheet date, such as estimated discounted cash flows and market prices or dealer quotes for similar instruments.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to the relatively short maturity of the respective instruments. The fair value of investment funds held as available-for-sale financial assets is based on current bid rates offered by the investment fund manager based on the current market price of the fund's assets on the balance sheet date. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments. ■

Note 4: Critical accounting estimates and judgments

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

+ Note 4.1 – Critical accounting estimates and assumptions

To produce this financial information, the Company's management has to make estimates and assumptions that affect the carry-

ing amount of the assets and liabilities, income and expenses, and the information disclosed in the notes.

The Management makes these estimates and assessments continuously based on its past



experience and various other factors considered reasonable that form the basis of these assessments.

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

The main significant estimates made by the Company's management relate primarily to the valuation of goodwill, other intangible assets (amortization period of development expenditures and acquired technologies), other liabilities for amounts owed 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. ■

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

Revenue recognition

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

Note 5: Segment information

As of January 1, 2014 the Group changed its internal reporting process in the course of the comprehensive business integration project following the merger of Vivalis and Intercell in May 2013, which included the introduction of new financial business reporting structures. Therefore the segments consist of following:

- + "Products" (marketed vaccines, currently the Group's JEV vaccine);
- + "Technologies and services" (services and inventions in commercialization stage, i.e. revenue-generating through collaboration, service and licensing agreements, including EB66®, VivalScreen®, and IC31®);
- + "Product R&D" (proprietary research and development programs aiming to generate new approvable products in order to generate future cash flows from product sales or from commercialization through partnering with pharmaceutical companies).

Segment reporting information for earlier periods has been restated to conform to these changes.



Note 5.1 – Income statement aggregates by segment:

Income statement aggregates by segment for the year ended December 31, 2013:

EUR IN THOUSANDS	PRO- DUCTS	TECHNO- LOGIES AND SER- VICES	PRODUCT R&D	CORPE- RATE OVER- HEAD	TOTAL
<i>Revenues and grants</i>	23,239	6,974	5,778	-	35,991
<i>Cost of goods and services</i>	(16,508)	-	-	-	(16,508)
<i>Research and development expenses</i>	(1,508)	(11,416)	(8,500)	-	(21,423)
<i>General, selling and administrative expenses</i>	(4,344)	(1,269)	-	(9,107)	(14,720)
<i>Other income and expenses, net</i>	-	-	-	1,157	1,157
<i>Amortization and impairment</i>	(3,697)	(1,655)	-	-	(5,353)
Operating loss	(2,819)	(7,366)	(2,722)	(7,950)	(20,856)
<i>Finance income/loss and income tax</i>	-	-	-	(3,117)	(3,117)
Loss from continuing operations	(2,819)	(7,366)	(2,722)	(11,067)	(23,973)

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

EUR IN THOUSANDS	PRO- DUCTS	TECHNO- LOGIES AND SER- VICES	PRODUCT R&D	CORPE- RATE OVER- HEAD	TOTAL
<i>Revenues and grants</i>	28,289	5,067	9,072	-	42,429
<i>Cost of goods and services</i>	(15,565)	(1,578)	-	-	(17,144)
<i>Research and development expenses</i>	(3,749)	(4,231)	(14,262)	-	(22,242)
<i>General, selling and administrative expenses</i>	(1,193)	(874)	-	(12,074)	(14,142)
<i>Other income and expenses, net</i>	-	-	-	(395)	(395)
<i>Amortization and impairment</i>	(6,637)	(5,686)	-	-	(12,323)
Operating loss	1,144	(7,302)	(5,190)	(12,469)	(23,817)
<i>Finance income/loss and income tax</i>	-	-	-	(2,455)	(2,455)
Loss from continuing operations	1,144	(7,302)	(5,190)	(14,924)	(26,272)



+ Note 5.2 – Geographical segments:

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

Revenues per geographical segment

EUR IN THOUSANDS	YEAR ENDED DECEMBER 31,	
	2014	2013
France	4,845	5,338
Europe – without France	16,844	12,157
North America	19,160	18,055
Other	1,580	440
Revenues	42,429	35,991

Non-current assets per geographical segment

EUR IN THOUSANDS	AT DECEMBER 31,	
	2014	2013
France	7,833	23,059
Europe – without France	138,269	146,590
North America	712	662
Other	-	159
Non-current assets	146,814	170,470

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

+ Note 5.3 – Information about major customers

Collaboration and licensing revenue from the two largest customers amounted to EUR 5,054 thousand (2013: EUR 3,539 thousand) and EUR 1,328 thousand (2013: EUR 1,151 thousand), respectively. Product sales to the largest customer amounted to EUR 27,781 thousand (2013: EUR 12,709 thousand). ■

**Note 6: Expenses by nature**

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

EUR IN THOUSANDS	YEAR ENDED DECEMBER 31,	
	2014	2013
<i>Consulting and other purchased services</i>	14,662	11,325
<i>Employee benefit expense (note 7)</i>	21,864	17,781
<i>Depreciation and amortization</i>	12,359	9,055
<i>Impairment</i>	4,095	92
<i>Building and energy costs</i>	3,244	2,556
<i>Raw materials and consumables used</i>	2,060	3,320
<i>Supply, office and IT-costs</i>	677	864
<i>Travel and transportation costs</i>	762	827
<i>Advertising costs</i>	25	3,174
<i>License fees and royalties</i>	3,836	2,472
<i>Other expenses</i>	134	143
<i>Amounts capitalized as development costs and changes in inventory</i>	2,133	6,532
Total	65,851	58,141
<i>Reclassification of business disposal</i>	-	(137)
Cost of goods and services, research and development expenses, general, selling, and administrative expenses, and amortization and impairment	65,851	58,004



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

EUR IN THOUSANDS EXCL. VAT	YEAR ENDED DECEMBER 31, 2014		YEAR ENDED DECEMBER 31, 2013	
	<i>PwC</i>	<i>Deloitte & Associés</i>	<i>PwC</i>	<i>Deloitte & Associés</i>
Audit				
<i>Statutory audit</i>				
- Valneva SE	111	114	44	46
- Fully consolidated subsidiaries	53	44	50	32
<i>Audit procedures in relation with the merger with Intercell AG</i>	-	-	78	41
<i>Audit procedures in relation with the issuance of common stock in July 2013</i>	-	-	-	95
<i>Audit procedures in relation with the issuance of common stock in February 2015</i>	78	66	-	-
<i>Other procedures and services direct related to the statutory auditor's engagement</i>				
- Valneva SE	-	4	-	2
- Fully consolidated subsidiaries	17	16	28	-
Audit sub-total	258	245	200	217
Other services				
<i>Legal, tax, labor issues</i>				
- Valneva SE	-	-	-	-
- Fully consolidated subsidiaries	-	-	-	2
<i>Other directly related procedures</i>	-	-	-	-
<i>Accessory missions</i>	-	-	-	-
Other services sub-total	-	-	-	2
Fees charged by the statutory auditors and members of their network	258	245	200	219

**Note 7: Employee benefit expense**

Employee benefit expenses include the following:

EUR IN THOUSANDS	YEAR ENDED DECEMBER 31,	
	2014	2013
<i>Salaries</i>	16,483	13,335
<i>Social security contributions</i>	4,236	3,666
<i>Training and education</i>	292	317
<i>Share options granted to management and employees</i>	528	173
<i>Other employee benefits</i>	325	290
Employee benefit expense	21,864	17,781

During the year 2014, the Group had an average of 275 employees (2013: 193 employees). ■

Note 8: Other income/(expenses), net

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

EUR IN THOUSANDS	YEAR ENDED DECEMBER 31,	
	2014	2013
<i>Taxes, duties, fees, charges, other than income tax</i>	(258)	(282)
<i>Gain/(loss) on disposal of fixed assets, net</i>	(63)	1,260
<i>Miscellaneous income/(expenses), net</i>	(74)	180
Other income/(expenses), net	(395)	1,157

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

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

EUR IN THOUSANDS	YEAR ENDED DECEMBER 31,	
	2014	2013
Finance income		
- Interest income from bank deposits	132	177
- Interest income from other parties	93	14
- Realized gain from the sale of current financial assets	-	9
- Gains on financial assets/liabilities	48	-
- Foreign exchange gains	1,999	-
	2,273	200
Finance expense		
- Interest expense to banks and government agencies	(190)	(115)
- Interest expense on other loans	(4,204)	(1,097)
- Losses on financial assets/liabilities	-	(50)
- Foreign exchange losses	-	(1,707)
	(4,394)	(2,969)
Finance income/(expenses), net	(2,121)	(2,769)

The Group benefits from government assistance through arranging borrowing facilities that would have otherwise not been available to the Company. This assistance includes guarantees for the amount outstanding. For more information see note 24. ■

**Note 10: Income tax****+ Note 10.1 – Tax income/(expense)**

Income tax is comprised of current and deferred tax.

EUR IN THOUSANDS	YEAR ENDED DECEMBER 31,	
	2014	2013
<i>Current tax</i>	(315)	(386)
<i>Deferred tax</i>	(19)	38
Income tax	(334)	(348)

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

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

EUR IN THOUSANDS	YEAR ENDED DECEMBER 31,	
	2014	2013
Loss before tax	(25,938)	(23,762)
<i>Tax calculated at domestic tax rates applicable to profits in the respective countries</i>	7,650	6,675
<i>Income not subject to tax</i>	1,828	156
<i>Expenses not deductible for tax purposes</i>	(1,602)	(533)
<i>Deferred tax asset not recognized</i>	(8,163)	(7,957)
<i>Adjustments in respect of prior years</i>	(20)	226
<i>Effect of change in applicable tax rate</i>	2	11
<i>Exchange differences</i>	(4)	1,073
<i>Minimum income tax</i>	(3)	-
<i>Withholding tax</i>	(23)	-
Income tax	(334)	(348)

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

*Note 10.2 – Deferred tax*

As of December 31, 2014 the deferred tax asset of EUR 338,797 thousand (2013: EUR 374,363 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, 2014 the Group has tax losses carried forward of EUR 422,023 thousand (2013: EUR 392,033 thousand), of which EUR 81,169 thousands are related to Valneva SE in France (2013: EUR 67,421 thousand), EUR 322,984 are related to Valneva Austria GmbH and Elatos GmbH in Austria (2013: EUR 306,789 thousand) and EUR 17,871 thousand are related to Intercell USA, Inc in U.S. (2013: EUR 17,824 thousand).

Tax losses carried forward in Austria and France 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:

EUR IN THOUSANDS	YEAR ENDED DECEMBER 31,	
	2014	2013
Deferred tax assets		
- Deferred tax asset to be recovered after more than 12 months	21,774	21,893
- Deferred tax asset to be recovered within 12 months	1,569	1,604
Total deferred tax assets	23,343	23,496
Deferred tax liabilities		
- Deferred tax liability to be recovered after more than 12 months	(23,259)	(23,422)
- Deferred tax liability to be recovered within 12 months	(187)	(153)
Total deferred tax liability	(23,446)	(23,575)
Deferred tax, net	(103)	(79)

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

EUR IN THOUSANDS	YEAR ENDED DECEMBER 31,	
	2014	2013
Beginning of year	(79)	-
Exchange differences	(6)	3
Acquisition of subsidiary / PPA adjustment	-	(119)
Income statement charge	(18)	37
End of year	(103)	(79)



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

EUR IN THOUSANDS	YEAR ENDED DECEMBER 31,	
	2014	2013
Deferred tax asset from		
<i>Tax losses carried forward</i>	115,015	106,365
<i>Fixed assets</i>	1,051	1,532
<i>Other items</i>	2,390	2,547
<i>Non-recognition of deferred tax assets</i>	(95,114)	(86,948)
Total deferred tax assets	23,343	23,496
Deferred tax liability from		
<i>Accelerated tax depreciation</i>	(300)	(439)
<i>Fixed assets</i>	(226)	(234)
<i>Intangible assets</i>	(22,780)	(22,748)
<i>Other items</i>	(140)	(154)
Total deferred tax liability	(23,446)	(23,575)
Deferred tax, net	(103)	(79)

The income tax rate in the United Kingdom has been reduced from 23% to 21%. The deferred tax assets and liabilities presented above as at 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. ■

**Note 11: Earnings/Losses per share**

Basic earnings/losses per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of outstanding shares during the year, excluding shares purchased by the Company and held as treasury shares (note 22).

	YEAR ENDED DECEMBER 31,	
	2014	2013
<i>Net loss from continuing operations attributable to equity holders of the Company (EUR in thousands)</i>	(26,272)	(23,973)
<i>Weighted average number of outstanding shares</i>	55,493,043	39,343,185
Basic earnings/(losses) from continuing operations per share (EUR per share)	(0.47)	(0.61)

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



Note 12: Property, plant and equipment

EUR IN THOUSANDS	LAND, BUILDINGS AND LEASE-HOLD IMPROVEMENTS	MANUFACTURING AND LABORATORY EQUIPMENT	COMPUTER HARDWARE	FURNITURE, FITTINGS AND OTHER	ASSETS IN THE COURSE OF CONSTRUCTION	TOTAL
January 1, 2013						
<i>Cost</i>	10,745	8,193	510	440	23	19,911
<i>Accumulated depreciation and impairment</i>	(2,679)	(4,539)	(371)	(232)	-	(7,820)
Net book value	8,066	3,654	140	208	23	12,091
Year ended December 31, 2013						
<i>Opening net book value</i>	8,066	3,654	140	208	23	12,091
<i>Exchange rate differences</i>	106	24	-	-	-	130
<i>Acquisition of subsidiary (note 30)</i>	35,698	2,817	119	516	-	39,150
<i>Additions</i>	153	567	58	20	-	798
<i>Reclassification</i>	23	-	-	-	(23)	-
<i>Disposals</i>	(2,179)	(1,483)	(48)	(28)	-	(3,738)
<i>Depreciation charge</i>	(1,627)	(1,454)	(125)	(110)	-	(3,316)
<i>Impairment charge</i>	-	(48)	-	-	-	(48)
Closing net book value	40,240	4,076	143	607	-	45,067
December 31, 2013						
<i>Cost</i>	51,181	18,456	1,471	1,390	-	72,497
<i>Accumulated depreciation and impairment</i>	(10,941)	(14,379)	(1,327)	(782)	-	(27,430)
Net book value	40,240	4,076	143	607	-	45,067



EUR IN THOUSANDS	LAND, BUILDINGS AND LEASE-HOLD IMPROVEMENTS	MANUFACTURING AND LABORATORY EQUIPMENT	COMPUTER HARDWARE	FURNITURE, FITTINGS AND OTHER	ASSETS IN THE COURSE OF CONSTRUCTION	TOTAL
Year ended December 31, 2014						
<i>Opening net book value</i>	40,240	4,076	143	607	-	45,067
<i>Exchange rate differences</i>	287	70	5	11	-	372
<i>Additions</i>	71	953	85	18	-	1,127
<i>Reclassification</i>	(9)	-	-	-	-	(9)
<i>Disposals</i>	-	(176)	(1)	(1)	-	(177)
<i>Depreciation charge</i>	(2,455)	(1,243)	(88)	(125)	-	(3,911)
<i>Impairment charge</i>	-	(235)	-	-	-	(235)
<i>Transferred to Assets held for sale</i>	-	(560)	(12)	(52)	-	(623)
Closing net book value	38,134	2,886	132	458	-	41,611
December 31, 2014						
<i>Cost</i>	51,899	18,072	1,386	1,305	-	72,661
<i>Accumulated depreciation and impairment</i>	(13,765)	(15,186)	(1,254)	(846)	-	(31,050)
Net book value	38,134	2,886	132	458	-	41,611

Depreciation and amortization expenses of EUR 1,384 thousand (2013: EUR 2,344 thousand) were charged to research and development expenses and EUR 28 thousand (2013: EUR 86 thousand) to general, selling, and administrative expenses.

Operating property leases amounting to EUR 365 thousand (2013: EUR 303 thousand) are included in the income statement.

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

EUR IN THOUSANDS	BUILDINGS AND LEASE-HOLD IMPROVEMENTS	MANUFACTURING AND LABORATORY EQUIPMENT	COMPUTER HARDWARE	FURNITURE, FITTINGS AND OTHER	ASSETS IN THE COURSE OF CONSTRUCTION	TOTAL
December 31, 2014						
<i>Cost</i>	34,795	-	-	-	-	34,795
<i>Accumulated depreciation</i>	(5,098)	-	-	-	-	(5,098)
Net book value	29,697	-	-	-	-	29,697



Note 13: Intangible assets and Goodwill

EUR IN THOUSANDS	SOFT-WARE	ACQUI-RED R&D TECHNO-LOGY AND PROJECTS	DEVELOP-MENT COSTS	GOOD-WILL	ADVANCE PAYMENTS	TOTAL
January 1, 2013						
<i>Cost</i>	313	17,333	5,959	341	-	23,946
<i>Accumulated amortizati-on and impairment</i>	(285)	(2,950)	(3,340)	-	-	(6,575)
Net book value	29	14,383	2,618	341	-	17,371
Year ended December 31, 2013						
<i>Opening net book value</i>	29	14,383	2,618	341	-	17,371
<i>Exchange rate differences</i>	-	57	-	-	-	57
<i>Acquisition of subsidiary (note 30)</i>	476	111,356	-	-	-	111,832
<i>Additions</i>	23	90	1,681	9	1	1,804
<i>Reclassification</i>	-	-	-	-	-	-
<i>Disposals</i>	-	-	-	-	-	-
<i>Amortization charge</i>	(229)	(4,861)	(569)	-	-	(5,660)
Closing net book value	299	121,023	3,730	350	1	125,403
December 31, 2013						
<i>Cost</i>	2,334	131,800	13,617	350	1	148,102
<i>Accumulated amortizati-on and impairment</i>	(2,036)	(10,776)	(9,887)	-	-	(22,699)
Net book value	299	121,023	3,730	350	1	125,403



EUR IN THOUSANDS	SOFT-WARE	ACQUI-RED R&D TECHNO-LOGY AND PROJECTS	DEVELOP-MENT COSTS	GOOD-WILL	ADVANCE PAYMENTS	TOTAL
Year ended December 31, 2014						
<i>Opening net book value</i>	299	121,023	3,730	350	1	125,403
<i>Exchange rate differences</i>	8	340	20	-	-	367
<i>Additions</i>	228	198	1,649	-	95	2,170
<i>Reclassification</i>	-	194	-	-	9	202
<i>Disposals</i>	-	(23)	63	(350)	-	(310)
<i>Amortization charge</i>	(240)	(7,519)	(757)	-	-	(8,516)
<i>Impairment charge</i>	-	(7,263)	-	-	-	(7,263)
<i>Transferred to Assets held for sale</i>	-	(6,816)	(33)	-	-	(6,849)
Closing net book value	294	100,134	4,672	-	105	105,204
December 31, 2014						
<i>Cost</i>	2,420	113,608	16,698	-	105	132,831
<i>Accumulated amortization and impairment</i>	(2,127)	(13,474)	(12,026)	-	-	(27,627)
Net book value	294	100,134	4,672	-	105	105,204

+ Note 13.1 – Significant intangible assets

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

The impairment charge of EUR 7,263 thousand is related to the antibody technologies as VivalScreen® and eMAB® and was netted in the profit and loss statements with the related changes from the a financial liability, which was amended due to the change of the agreement in relation with the new structure of this technology. For more information see note 20 and note 34.2. ■

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

a) Impairment testing of in-process research & Development projects

The book values of capitalized in-process research and development projects have been assessed annually for impairment testing purposes using the risk-adjusted discounted cash flow method. 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 Company's long-range business model including the Management's best estimate on probability of

success of the respective projects (risk-adjustment) and a discount rate of 9.15% per annum.

The discount rate of 9.15% per annum is based on 1.59% risk-free rate, 6.50% market risk premium, and a beta of 1.16.

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 2013 and 2014.

b) Impairment testing for Assets held for sale

VivalScreen® is a proprietary platform for monoclonal antibody discovery, which combines the two acquired technologies Humalex and ISAAC. Humalex was acquired in 2010 through the acquisition of Humalys and ISAAC was acquired from the Japanese company SC WORLD in 2011. Valneva used the technologies to generate partnering revenues from collaboration with Sanofi and for proprietary antibody projects which might be partnered at a later stage.

In late 2014 Valneva announced the creation of BLINK Biomedical SAS, a private company specialized in the discovery of innovative monoclonal antibodies – see note 34.2. As a consideration for the in-kind contribution of its antibody assets, Valneva SE received 3,012 shares in BLINK Therapeutics SAS. Following its creation by contributions in kind from Valneva and Kurma, BLINK conducted a Round A financing in which an independent new investor, subscribed for new shares in BLINK. The consideration paid for these new shares was EUR 2,324 per share. Because no other transactions in BLINK shares have since occurred the market value of a BLINK share is deemed to be EUR 2,324 (fair value category level 3). This results in a total market value of EUR 7,000 thousand for Valneva's 3,012 shares in BLINK. As liabilities held for sale in

the amount of EUR 982 thousand were also identified, the gross amount of the respective intangible assets held for sale amounts to EUR 7,982 thousand, representing the value based on the selling price determined on a third party market base.

In connection with the spin-off of the VivalScreen® technology 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 EUR 4,095 thousand in 2014. ■

+ Note 13.3 – Sensitivity to changes in assumptions

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

- › Probability of project success
- › Discount rate

The result of the acquired research and development projects is inherently uncertain and the Company may experience delays or failures in clinical trials. A failure to demonstrate safety and efficacy in clinical product development of one of the acquired research and development projects would result in an impairment loss.

The net present value calculation uses a discount rate of 9.15%. An increase in the discount rate of 0.08% to 9.23% would trigger an impairment loss. Furthermore, an increase in the discount rate of one percentage point would result in an additional impairment loss of EUR 1.0 million.

The net present value calculation uses a probability of success rate of 10% to 50% for acquired products in the stage of research and development. A decrease in the probability of success rate of five percentage points would result in an additional impairment loss of EUR 3.3 million. ■

**Note 14: Financial instruments****+ Note 14.1 – Financial instruments by category**

DECEMBER 31, 2013 EUR IN THOUSANDS	LOANS AND RECEIVABLES	TOTAL
Assets as per balance sheet		
<i>Trade receivables</i>	7,570	7,570
<i>Other assets¹</i>	15,823	15,823
<i>Financial assets</i>	3,658	3,658
<i>Cash and cash equivalents</i>	36,509	36,509
Assets	63,560	63,560

DECEMBER 31, 2013 EUR IN THOUSANDS	LIABILITIES AT FAIR VALUE THROUGH PRO- FIT AND LOSS	OTHER FINANCIAL LIABILITIES	TOTAL
Liabilities as per balance sheet			
<i>Borrowings (excluding finance lease liabilities)²</i>	-	40,246	40,246
<i>Finance lease liabilities</i>	-	31,037	31,037
<i>Trade payables and accruals³</i>	-	11,030	11,030
<i>Tax and employee-related liabilities⁴</i>	-	3,044	3,044
<i>Other liabilities and provisions⁵</i>	50	5,139	5,190
Liabilities	50	90,496	90,547

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

²The 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.

³Accruals for taxes are excluded from the trade payables and accruals balance, as this analysis is required only for financial instruments.

⁴Social security and other tax payables are excluded from the tax and employee-related liabilities balance, as this analysis is required only for financial instruments.

⁵Deferred income and provisions are excluded from the other liabilities and provisions balance, as this analysis is required only for financial instruments.



DECEMBER 31, 2014 EUR IN THOUSANDS	LOANS AND RECEIVABLES	TOTAL
Assets as per balance sheet		
<i>Trade receivables</i>	6,850	6,850
<i>Other assets¹</i>	12,950	12,950
<i>Financial assets</i>	19	19
<i>Cash and cash equivalents</i>	29,449	29,449
Assets	49,268	49,268

DECEMBER 31, 2014 EUR IN THOUSANDS	LIABILITIES AT FAIR VALUE THROUGH PRO- FIT AND LOSS	OTHER FINANCIAL LIABILITIES	TOTAL
Liabilities as per balance sheet			
<i>Borrowings (excluding finance lease liabilities)²</i>	-	43,099	43,099
<i>Finance lease liabilities</i>	-	30,054	30,054
<i>Trade payables and accruals³</i>	-	10,734	10,734
<i>Tax and employee-related liabilities⁴</i>	-	3,278	3,278
<i>Other liabilities and provisions⁵</i>	3	208	210
<i>Liabilities held for sale</i>	-	982	982
Liabilities	3	88,355	88,358

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

²The 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.

³Accruals for taxes are excluded from the trade payables and accruals balance, as this analysis is required only for financial instruments.

⁴Social security and other tax payables are excluded from the tax and employee-related liabilities balance, as this analysis is required only for financial instruments.

⁵Deferred income and provisions are excluded from the other liabilities and provisions balance, as this analysis is required only for financial instruments.

+ Note 14.2 – Fair value measurements

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

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

DECEMBER 31, 2013 EUR IN THOUSANDS	LEVEL 3	TOTAL
Other liabilities and provisions		
<i>Derivative financial instruments</i>	50	50
Other liabilities and provisions	50	50

DECEMBER 31, 2014 EUR IN THOUSANDS	LEVEL 2	TOTAL
Other liabilities and provisions		
<i>Derivative financial instruments</i>	3	3
Other liabilities and provisions	3	3

At December 31, 2014, the fair value of these swaps was not material. The categorization was amended to Level 2 due to updated measurement information.

Since 2010, the Company has been covered by an interest rate hedging contract through the parent company Grimaud La Corbière SA (GLC).

In 2011, an interest rate hedging contract was set up for EUR 800 thousand which increased to EUR 1,500 thousand at December 31, 2012 then to EUR 2,300 thousand at December 31, 2013. This contract was implemented on September 1, 2011 for a four-year period. This interest rate swap agreement provides for payment to GLC each quarter of 3-month Euribor plus a fixed-rate amount of 1.82%. This contract has been cancelled as of December 31, 2014.

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



+ Note 14.3 – Credit quality of financial assets

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

EUR IN THOUSANDS	AT DECEMBER 31,	
	2014	2013
Trade receivables		
<i>Receivables from governmental institutions</i>	3	2
<i>AA</i>	6,324	7,315
<i>A</i>	-	47
<i>Counterparties without external credit rating</i>	522	205
Trade receivables	6,850	7,570
Other assets		
<i>Receivables from governmental institutions</i>	1,299	2,598
<i>A</i>	175	105
<i>Counterparties without external credit rating or rating below A</i>	11,477	13,120
Other assets	12,950	15,823
Financial assets		
<i>A</i>	19	3,658
Financial assets	19	3,658
Cash and cash equivalents		
<i>A</i>	23,729	36,506
<i>Counterparties without external credit rating or rating below A</i>	5,720	3
Cash and cash equivalents	29,449	36,509

The rating information refers to long-term credit rating as published by Standard & Poor's or another rating organisation (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. ■

**Note 15: Financial assets**

EUR IN THOUSANDS	AT DECEMBER 31,	
	2014	2013
<i>Non-current</i>	333	226
<i>Current</i>	19	3,658
Financial assets	352	3,884

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

Note 16: Inventories

EUR IN THOUSANDS	AT DECEMBER 31,	
	2014	2013
<i>Raw materials</i>	582	672
<i>Work in progress</i>	5,891	4,147
<i>Finished goods</i>	811	-
Inventory	7,283	4,819

The cost of inventories recognized as an expense and included in “cost of sales” amounted to EUR 12,481 thousand (2013: EUR 14,469 thousand). The cost of inventories recognized as an expense includes EUR 819 thousand (2013: EUR 4,273 thousand) in respect of write-ups of inventory to net realizable value.

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

**Note 17: Trade receivables**

Trade receivables and other assets include the following:

EUR IN THOUSANDS	AT DECEMBER 31,	
	2014	2013
<i>Trade receivables</i>	6,850	7,590
<i>Less: provision for impairment of receivables</i>	-	(21)
Trade receivables, net	6,850	7,570

At December 31, 2011, trade receivables subject to a repayment plan in 2010 amounting to EUR 21 thousand were reclassified as bad debt, following default and with provisions recorded for their full amount. During the years 2014 and 2013, no impairment losses have been recognized. The amount of trade receivables past due in 2014 amounted to EUR 62 thousand.

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

Note 18: Other assets

Other assets include the following:

EUR IN THOUSANDS	AT DECEMBER 31,	
	2014	2013
<i>Prepaid expenses</i>	995	1,047
<i>Non-current financial assets</i>	333	226
<i>Other receivables</i>	27,791	30,092
	29,119	31,365
<i>Less non-current portion</i>	(19,753)	(20,575)
Current portion	9,366	10,791

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

**Note 19: Cash, cash equivalents and short-term deposits**

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, 2014, cash and cash equivalents include EUR 592 thousand (December 31, 2013: EUR 0 thousand) for which there are restrictions on remittances.

EUR IN THOUSANDS	AT DECEMBER 31,	
	2014	2013
<i>Cash in hand</i>	2	3
<i>Cash at bank</i>	27,571	14,944
<i>Short-term bank deposits (maturity less than 3 months)</i>	1,284	21,173
<i>Mutual funds</i>	-	390
<i>Restricted cash</i>	592	-
Cash, cash equivalents and short-term deposits	29,449	36,509

Note 20: Assets and Liabilities held for sale and discontinued operations

In 2012, the Company decided to sell and subsequently discontinue its drug discovery business. The respective financials are shown below as of December 31, 2013.

In January 2015 the Company founded BliNK Biomedical SAS – see note 34.2. Valneva SE contributed assets and liabilities in conjunction with the VIVA|Screen* technology, which are subsequently shown as held for sale as of December 2014.

+ Note 20.1 – Breakdown of Assets held for sale and discontinued operations

EUR IN THOUSANDS	AT DECEMBER 31,	
	2014	2013
<i>Intangible assets – gross amounts</i>	17,430	1,101
<i>Intangible assets – amortization</i>	(4,971)	(26)
<i>Intangible assets – impairment</i>	(5,610)	(1,075)
Intangible assets – net amounts	6,849	-
<i>Property, plant and equipment – gross amounts</i>	967	102
<i>Property, plant and equipment – depreciation</i>	(343)	(62)
<i>Property, plant and equipment – impairment</i>	-	(40)
Property, plant and equipment – net amounts	623	-
<i>Inventories</i>	510	-
Inventories – net amounts	510	-
Total Assets held for sale & discontinued operations	7,982	-



+ Note 20.2 – Liabilities associated with discontinued operations

As of December 31, 2013, there are no liabilities associated with discontinued operations.

Liabilities held for sale in conjunction with the founding of BLiNK Biomedical SAS amounted to EUR 982 thousand as of December 31, 2014. ■

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

EUR IN THOUSANDS	YEAR ENDED DECEMBER 31,	
	2014	2013
<i>Grant income</i>	-	-
<i>Consulting and other purchased services</i>	-	-
<i>Employee benefit expense</i>	-	-
<i>Depreciation, amortization and write-off</i>	-	(137)
<i>Raw materials and consumables used</i>	-	-
<i>Amounts capitalized as development costs and changes in inventory</i>	-	-
<i>Other expenses</i>	-	-
<i>Taxes, duties, fees, charges, other than income tax</i>	-	-
Income/(Loss) from discontinued operations	-	(137)

■

+ Note 20.4 – Cash flows from discontinued operations

EUR IN THOUSANDS	YEAR ENDED DECEMBER 31,	
	2014	2013
<i>Net cash used in operating activities</i>	-	-
<i>Net cash generated from/(used in) investing activities</i>	-	-
<i>Net cash generated from/(used in) financing activities</i>	-	-
Net change in cash and cash equivalents	-	-

■


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

EUR IN THOUSANDS (EXCEPT NUMBERS OF SHARES)	NUMBER OF SHARES	SHARE CAPITAL	SHARE PREMIUM	OTHER REGULATED RESERVES*	TOTAL SHARE CAPI- TAL, SHARE PREMIUM AND OTHER REGULATED RESERVES
Balance at January 1, 2013	21,462,529	3,219	62,414	-	65,633
<i>Employee share option plan:</i>					
- exercise of share options	244,537	37	307	-	343
<i>Issuance of common stock (merger with Intercell see note 30, May 2013)</i>	17,836,719	2,676	47,779	52,820	103,275
<i>Issuance of common stock, July 2013</i>	15,165,215	2,275	37,913	-	40,188
<i>Cost of equity transactions, net of tax</i>	-	-	(2,910)	-	(2,910)
Balance at December 31, 2013	54,709,000	8,206	145,502	52,820	206,529
Balance at January 1, 2014	54,709,000	8,206	145,502	52,820	206,529
<i>Employee share option plan:</i>					
- exercise of share options	42,333	6	(6)	-	-
<i>Issuance of common stock, May and June 2014</i>	1,600,000	240	8,716	-	8,956
<i>Cost of equity transactions, net of tax</i>	-	-	(325)	-	(325)
Balance at December 31, 2014	56,351,333	8,453	153,887	52,820	215,160

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

Increases of share capital

In April 2014 the Company set up an equity line with Crédit Agricole CIB enabling the Company to place newly issued shares of up to 10 percent of its ordinary share capital. The equity line has been implemented by way of issuance of 5,474,633 equity warrants subscribed by Crédit Agricole CIB which are exercisable exclusively upon Valneva's request in several tranches within 24 months from the issue date of the warrants. The Company has exercised three tranches, one at the end of May and two at the end of June leading to the creation of 1.6 million new shares for total gross proceeds amounting to EUR 8,956 thousand. The new shares have subsequently been sold on the market by Crédit Agricole CIB. For each tranche, the subscription price of the shares issued upon exercise of the equity warrants represented a 5% discount to the volume weighted average price of Valneva's shares during the three trading days preceding the pricing date.



In addition, the Company issued 42,333 (2013: 244,537) new ordinary shares in connection with the exercise of stock options during the reporting period, resulting in an increase in the share capital of EUR 6 thousand (2013: EUR 37 thousand).

Conditional and authorized capital

The Company has 1,072,860 shares of conditional capital to service the exercise of existing stock options (note 23).

The General Meeting decided on June 26, 2014 that the nominal amount of increases in share capital which can be carried out, immediately or in the future, may not under any circumstances exceed a maximum overall amount of three million (3,000,000) euros 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 to capital. ■

Note 22: Retained earnings and other reserves

EUR IN THOUSANDS	CURRENCY TRANSLATION	TREASURY SHARES	RETAINED EARNINGS	TOTAL
Balance at January 1, 2013	29	(457)	(24,171)	(24,598)
<i>Currency translation differences</i>	1,636	-	-	1,636
<i>Income appropriation</i>	-	-	(14,841)	(14,841)
<i>Employee share option plan:</i>				
- value of employee services	-	-	179	179
<i>Purchase/Sale of treasury shares</i>	-	(684)	-	(684)
Balance at December 31, 2013	1,666	(1,141)	(38,833)	(38,308)
Balance at January 1, 2014	1,666	(1,141)	(38,833)	(38,308)
<i>Currency translation differences</i>	(2,626)	-	-	(2,626)
<i>Income appropriation</i>	-	-	(24,110)	(24,110)
<i>Employee share option plan:</i>				
- value of employee services	-	-	530	530
<i>Purchase/Sale of treasury shares</i>	-	69	-	69
Balance at December 31, 2014	(960)	(1,072)	(62,413)	(64,444)

The Company has not received a dividend and has not paid a dividend to its shareholders in the years ended December 31, 2014 and 2013. ■

Note 23: Share-based payments

+ Note 23.1 – 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 year 2005 are exercisable after a vesting period of four years and on achievement of objectives. Options granted in the years 2006 and 2010 may be exercised as soon as certain objectives – 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 Company (cancellation). Options granted from 2013 onwards become exercisable with the effectiveness of the takeover of more than 50% of the outstanding voting rights of the Company.

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

	2014			2013		
	<i>Number of options</i>	<i>Number of shares available</i>	<i>Average exercise price in EUR per share</i>	<i>Number of options</i>	<i>Number of shares available</i>	<i>Average exercise price in EUR per share</i>
<i>Outstanding at January 1</i>	1,022,640	1,140,160	3.08	9,768	305,944	1.88
<i>Granted</i>	-	-	-	1,049,250	1,049,250	3.21
<i>Forfeited</i>	(67,300)	67,300	3.21	(34,650)	34,650	3.21
<i>Exercised</i>	-	-	-	(1,728)	190,704	1.80
Outstanding at year end	955,340	1,072,860	3.07	1,022,640	1,140,160	3.08
<i>Exercisable at year end</i>	8,040	125,560		8,040	125,560	

No Options have been exercised in 2014 (2013: 190,704 shares exercised at a price of EUR 1.80 per share). The weighted average value per share at the time of option exercise was EUR 4.88 in 2013.



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

EXPIRY DATE	EXERCISE PRICE IN EUR PER SHARE	NUMBER OF OPTIONS AT DECEMBER 31,	
		2014	2013
2015 - 2016	1.80	1,040	1,040
2020	5.19	7,000	7,000
2023	3.21	947,300	1,014,600
		955,340	1,022,640

In 2014, no options were granted. The weighted average grant-date fair value of options granted during the year 2013 was EUR 1.61. The fair value of the granted options was determined using the Black Scholes valuation model. The significant inputs into the models were:

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

**+ Note 23.2 – Bonus shares**

In 2011 and 2013, 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 bonus shares outstanding are as follows:

NUMBER OF BONUS SHARES		
	2014	2013
<i>Outstanding at January 1</i>	97,333	108,166
<i>Granted</i>	0	52,000
<i>Forfeited</i>	(15,500)	(9,000)
<i>Definitively granted</i>	(42,833)	(53,833)
Outstanding at year end	39,000	97,333

+ Note 23.3 – Equity warrants

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

Changes in the equity warrants outstanding are as follows:

NUMBER OF EQUITY WARRANTS		
	2014	2013
<i>Outstanding at January 1</i>	11,250	16,875
<i>Forfeited</i>	(5,625)	(5,625)
Outstanding at year end	5,625	11,250

**Note 24: Borrowings**

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

EUR IN THOUSANDS	AT DECEMBER 31,	
	2014	2013
Non-current		
<i>Bank borrowings</i>	3,536	5,656
<i>Other loans</i>	33,281	29,189
<i>Finance lease liabilities</i>	29,219	30,057
	66,036	64,902
Current		
<i>Bank borrowings</i>	3,339	3,158
<i>Other loans</i>	2,943	2,242
<i>Finance lease liabilities</i>	836	980
	7,117	6,381
Total borrowings	73,153	71,283

The maturity of non-current borrowings is as follows:

EUR IN THOUSANDS	AT DECEMBER 31,	
	2014	2013
<i>Between 1 and 2 years</i>	13,276	8,820
<i>Between 2 and 3 years</i>	13,989	9,623
<i>Between 3 and 4 years</i>	9,766	9,686
<i>Between 4 and 5 years</i>	1,500	7,754
<i>Over 5 years</i>	27,505	29,018
Non-current borrowings	66,036	64,902

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

EUR IN THOUSANDS	AT DECEMBER 31,	
	2014	2013
<i>EUR</i>	47,048	50,307
<i>USD</i>	26,105	20,976
Total borrowings	73,153	71,283

+ Note 24.1 – Finance lease liabilities

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

+ Note 24.2 – Bank borrowings and other loans secured

As at December 31, 2014, EUR 16,653 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 6.17% at year-end 2014:

EUR IN THOUSANDS	AT DECEMBER 31, 2013	
	Carrying amounts	Fair values
Bank borrowings	6,543	6,003
Other loans (excluding the other loan described in note 24.3)	10,110	8,133
Guaranteed, secured, or pledged borrowings	16,653	14,137

+ Note 24.3 – Other loans

On December 20, 2013 the Group received a USD 30 million financing from an investment fund managed by Pharmakon Advisors for its Austrian subsidiary Valneva Austria GmbH. The loan extends over a five year period and carries a fixed interest rate of 9.5%. As from 2016, the company will pay a 2.6% royalty to Pharmakon on its IXIARO®/JESPECT® sales during the term of the loan. The fixed interest rate and the royalty payable in connection with the loan are both recognized as finance expenses. The finance expenses are calculated using the effective interest method and are therefore recognized pro rata to the outstanding principal in each accounting period until the loan is fully amortized. The foreign currency valuation is done at each balance sheet date and resulting exchange gains or losses are shown as finance income/expenses. The asset-based loan is guaranteed by Valneva SE and secured by a security interest on the incoming funds from Valneva's marketing partner relating to IXIARO®/JESPECT® and on the shares of the Group's Austrian and Scottish subsidiaries, which hold the key IXIARO®/JESPECT® assets. At December 31, 2014 the book values of the assets pledged amounted to EUR 275,328 thousand (2013: EUR 277,224 thousand).



The loan is included in the balance sheet item “borrowings”.

EUR IN THOUSANDS	2013	2014
Balance at January 1	-	21,023
<i>Proceeds of issue</i>	22,041	-
<i>Transaction costs</i>	(829)	-
<i>Net proceeds of issue</i>	21,212	-
<i>Accrued interest and royalty expense</i>	91	3,816
<i>Payment of interest</i>	-	(1,646)
<i>Foreign exchange valuation</i>	(280)	2,912
Balance at December 31	21,023	26,105
<i>Less non-current portion</i>	(20,961)	(25,514)
Current portion	62	592

Note 25: Trade payables and accruals

Trade payables and accruals include the following:

EUR IN THOUSANDS	AT DECEMBER 31,	
	2014	2013
<i>Trade payables</i>	5,192	6,487
<i>Accrued expenses</i>	5,817	4,901
	11,009	11,388
<i>Less non-current portion</i>	-	-
Current portion	11,009	11,388

Note 26: Tax and employee-related liabilities

EUR IN THOUSANDS	AT DECEMBER 31,	
	2014	2013
<i>Social security and other taxes</i>	2,121	2,052
<i>Employee-related liabilities</i>	3,278	3,044
	5,398	5,096
<i>Less non-current portion</i>	-	-
Current portion	5,398	5,096

**Note 27: Other liabilities and provisions**

EUR IN THOUSANDS	AT DECEMBER 31,	
	2014	2013
<i>Deferred income</i>	11,859	16,820
<i>Other financial liabilities</i>	210	5,190
<i>Deferred tax liabilities</i>	103	79
<i>Provisions for employee commitments</i>	163	23
<i>Other liabilities</i>	58	32
<i>Other provisions</i>	135	371
	12,529	22,514
<i>Less non-current portion</i>	(9,668)	(17,279)
Current portion	2,862	5,235

+ Note 27.1 – Deferred Income

EUR IN THOUSANDS	AT DECEMBER 31,	
	2014	2013
<i>Arising from collaboration and licensing agreements</i>	10,812	15,906
<i>Arising from government grants</i>	1,047	914
	11,859	16,820
<i>Less non-current portion</i>	(9,197)	(12,172)
Current portion	2,662	4,648

+ Note 27.2 – Provisions for employee commitments**a) Assumptions used**

AT DECEMBER 31,		
	2014	2013
<i>Discount rate</i>	1.80%	3.17%
<i>Salary increase rate</i>	2.0%	2.5%
<i>Turnover rate</i>	0%-45.90%	12.45%
<i>Social security rate</i>	45.00%	47.99%
<i>Average remaining lifespan of employees (in years)</i>	20	29

b) Changes in defined benefit obligation

Present value of obligation development:

EUR IN THOUSANDS	2014	2013
Balance at January 1	23	130
<i>Current service cost</i>	-	4
<i>Remeasurements</i>	140	(110)
<i>Benefit payments</i>	-	-
Balance at December 31	163	23

+ Note 27.3 – Other provisions

EUR IN THOUSANDS	2014	2013
<i>Non-current</i>	-	-
<i>Current</i>	135	371
Provisions	135	371
Balance at January 1	371	12
<i>Acquisition of subsidiary (note 30)</i>	-	18
<i>Charged to the income statement:</i>		
- <i>Additional provision</i>	113	350
- <i>Reversed provision</i>	-	-
<i>Used provisions</i>	(350)	(9)
<i>Exchange differences</i>	1	(1)
Balance at December 31	135	371

Legal obligations

Other liabilities and provisions include a provision of EUR 135 thousands in connection with the repayment of a received R&D grant. The raised claim by the grantor is presently in negotiation. ■



Note 28: Cash used in operations

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

EUR IN THOUSANDS	NOTE	YEAR ENDED DECEMBER 31,	
		2014	2013
Loss for the year		(26,272)	(24,110)
Adjustments for			
- Depreciation and amortization	12/13	12,359	9,056
- Impairment fixed assets/intangibles	12/13	4,095	92
- Share-based payments	23	530	179
- Income tax	10	334	348
- (Profit)/Loss from disposal of property, plant and equipment	8	63	(1,260)
- Other non-cash income/expense		(1,034)	1,321
- Fair value gains/losses on derivative financial instruments	9	(48)	50
- Gain on disposal of financial assets	9	-	(9)
- Interest income	9	(226)	(191)
- Interest expense	9	4,394	1,212
- Changes in other long-term assets and liabilities		(5,589)	(2,862)
Changes in working capital (excluding the effects of acquisition and exchange rate differences on consolidation):			
- Inventory		(1,870)	5,646
- Trade and other receivables		(279)	(3,381)
- Trade and other payables and provisions		1,211	(5,576)
Cash used in operations		(12,332)	(19,485)

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

EUR IN THOUSANDS	AT DECEMBER 31,	
	2014	2013
Net book value	75	3,740
Profit/(Loss) on disposal of property, plant and equipment	(63)	1,260
Proceeds from disposal of property, plant and equipment	12	5,000

In the previous year, the proceeds from the disposal of property, plant and equipment related to the sale of the Group's Clinical Manufacturing Operations (CMO) in Nantes to Biological E., which was finalized in November 2013. The final payment amounting to EUR 1.700 thousand was received in October 2014. ■

**Note 29: Commitments and contingencies****a) Capital commitments**

There were no capital expenditure contracted for at December 31, 2014, and December 31, 2013.

b) Operating lease commitments

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

EUR IN THOUSANDS	AT DECEMBER 31,	
	2014	2013
<i>Not later than 1 year</i>	265	191
<i>Later than 1 year and not later than 5 years</i>	672	634
<i>Later than 5 years</i>	32	162
Operating lease commitments	970	986

The Company leases office space, cars and equipment.

c) Other commitments and guarantees

The other commitments consisted of:

EUR IN THOUSANDS	AT DECEMBER 31,	
	2014	2013
<i>Potential earn out payment on investment securities</i>	4,954	3,781
<i>Commitment with a supplier and subcontractors</i>	619	490
<i>Loans and grants</i>	7,790	8,124
<i>Other</i>	47	1
Other commitments	13,410	12,396

The guarantees and pledges consisted of:

EUR IN THOUSANDS	AT DECEMBER 31,	
	2014	2013
<i>Equipment pledge</i>	600	771
<i>Pledges on consolidate investments</i>	285,426	286,446
<i>Pledges on non-consolidated investments</i>	-	-
Guarantees and pledges	286,026	287,217

**Note 30: Business combination**

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

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

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

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

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



Details of net assets acquired are as follows:

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

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

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

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

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

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

No adjustments have been made in the twelve months period following the initial accounting for the business combination. Therefore the values reported as of December 31, 2013 are final.

Note 31: Related-party transactions

+ Note 31.1 – Purchases of services

Related parties concerned relations with companies of the Grimaud Group. These concerned both a group management agreement and the provision of services and miscellaneous items by the Grimaud Group to Valneva SE. These services consist of either normal operating activities (interest rate swap allocation agreement) or regulated activities (guarantees).

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

EUR IN THOUSANDS	YEAR ENDED DECEMBER 31,	
	2014	2013
<i>Purchases of services:</i>		
- Operating activities	35	283
- Group management	-	189
Purchases of services	35	471

+ Note 31.2 – Key management compensation

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

EUR IN THOUSANDS	YEAR ENDED DECEMBER 31,	
	2014	2013
<i>Salaries and other short-term employee benefits</i>	1,421	2,010
<i>Other long-term benefits</i>	14	14
<i>Share-based payments (stock compensation expense)</i>	131	33
Key management compensation	1,566	2,057

+ Note 31.3– Supervisory Board compensation

The aggregate compensation of the members of the Company's Supervisory Board amounted to EUR 243 thousand (2013: EUR 163 thousand). In the year 2011, the Company granted equity warrants to certain members of the Supervisory Board. For more information see note 23.3.

**Note 32: Pro Forma Information related to the merger with Intercell****+ Note 32.1 – Background to the preparation of the merger pro forma information**

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

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

The pro forma consolidated income statement for the year ended on December 31, 2013 reflects the consolidated results of the Valneva Group as if the merger between Vivalis and Intercell had occurred on January 1, 2013. The pro forma adjustments are based on available information and on assumptions that are considered reasonable by Valneva Group.

The prior-year 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, 2013 if the Merger 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. ■



+ Note 32.2 – Income statement for the year ended December 31, 2014 and pro forma income statement for the year ended December 31, 2013

Pro forma income statement (unaudited)

EUR IN THOUSANDS	FULL YEAR ENDED DECEMBER 31,	
	2014	Pro forma 2013
<i>Product sales</i>	28,124	27,212
<i>Revenues from collaborations, licensing and services</i>	8,799	10,814
Revenues	36,922	38,026
<i>Grant income</i>	5,506	5,658
Revenues and Grants	42,429	43,684
<i>Cost of goods and services</i>	(17,144)	(20,003)
<i>Research and development expenses</i>	(22,242)	(30,786)
<i>General, selling and administrative expenses</i>	(14,142)	(20,790)
<i>Other income and expenses, net</i>	(395)	1,820
<i>Amortization and impairment</i>	(12,323)	(6,469)
OPERATING PROFIT/(LOSS)	(23,817)	(32,543)
<i>Finance income</i>	2,273	288
<i>Finance expenses</i>	(4,394)	(6,159)
PROFIT/(LOSS) BEFORE INCOME TAX	(25,938)	(38,414)
<i>Income tax</i>	(334)	(351)
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	(26,272)	(38,765)
<i>Loss from discontinued operations</i>	-	(137)
PROFIT/(LOSS) FOR THE PERIOD	(26,272)	(38,902)



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

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

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

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



+ Note 32.4 – Basis of preparation

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

a) Regulatory framework

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

b) Acquisition

The merger has been treated in the Pro Forma Financial Information as an acquisition of Intercell by Vivalis, if analysed in terms of the criteria provided for by IFRS 3r, applicable as of December 31, 2013. This reflects the legal treatment of the transaction pursuant to which Vivalis SA is the absorbing company and will be the company issuing new shares to Intercell AG shareholders in consideration for the Merger.

c) Reclassifications and harmonization of accounting principles

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

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 merged, at December 31, 2013
- › Unaudited consolidated IFRS financial statements for Intercell AG for the first five months of 2013

The pro forma adjustments to the pro forma consolidated income statements for the years ended on December 31, 2013 were calculated on the assumption that the merger had been completed on January 1, 2013.

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, 2013 if the Merger had been completed at the dates considered. Similarly, it does not provide for an indication of the future results of operating activities or financial position of Valneva SE.

All pro forma adjustments relate directly to the merger.

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



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

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

Note 33: Events after the reporting period

+ Note 33.1 – Crucell Sweden

On January 5, 2015, Valneva entered into a Sale and Purchase Agreement with Crucell Holland BV, by which we envisaged to acquire the Crucell Assets. The parties to the Sale and Purchase Agreement agreed to close the transaction once certain closing conditions are fulfilled, in particular the completion of an equity and/or debt fundraising such that the Company had sufficient immediately available funds to pay the purchase price at completion. The Sale and Purchase Agreement provides for a working capital adjustment mechanism to the Acquisition price which will be calculated as the difference between an agreed working capital level and the actual working capital as on the completion date. The resulting adjustment to the Acquisition price will result in a payment to be either made or received by the Company depending on the shortfall or surplus, respectively, to the agreed working capital level. The Acquisition is expected to add cash generating assets to the Company's business. The carve-out consolidated revenue from Crucell Sweden, Dukoral® and Nordics Trade amounted to EUR 36.4 million in the year ended December 31, 2014.

e) Intragroup transactions

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

The agreed aggregate Acquisition price amounts to EUR 45 million (the "Acquisition Price") and is split into three payments: EUR 3 million of cash consideration as on the signing date, EUR 32 million to be paid upon the completion of the transaction and EUR 10 million to be paid upon completion of the transfer, installation and qualification of certain assets related to a packaging line for the Dukoral® product. The Acquisition and the three components of the acquisition consideration are viewed as a single transaction.

The Company anticipates 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 Acquisition was financed through a combination of debt and equity. The latter was raised 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 EUR 45.0 million, corresponding to the issuance of 18,231,466 new ordinary shares, at a subscription price of EUR 2.47 per new ordinary share. The debt part of the acquisition financing was raised through a loan facility put in place with Athyrium in an amount of EUR 15 million.

The Acquisition closed on February 9, 2015. As of the date of these consolidated financial statements the purchase price allocation is still to be done ■

+ *Note 34.2 – BliNK Biomedical*

In late 2014 Valneva announced the creation of BliNK Biomedical SAS, a private company specialized in the discovery of innovative monoclonal antibodies. The new company was founded together with UK Company BliNK Therapeutics Ltd in January 2015. Valneva contributed assets and liabilities in conjunction with the VIVA|Screen® technology, which are subsequently shown as held for sale as of December 31, 2014. The new company, which will benefit from the combination of two validated antibody discovery platforms, has already secured its first round of financing.

The creation of BliNK Biomedical SAS will give 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 will be run as an independent business by its own management team. ■

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