Valneva

Half Year Financial Report

January 1 to June 30, 2014

VALNEVA
European Company with an Executive Board and a Supervisory Board
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GENERAL INTRODUCTORY COMMENTS

In this interim financial report, unless stated otherwise, the terms “Company”, “Valneva” and “Group” refer to Valneva SE and its subsidiaries.

This interim financial report contains forward-looking statements about the Group’s targets and forecasts, especially in chapter 4 – “Operational and strategic outlook FY 2014”. Such statements may in certain cases be identified by the use of the future or conditional tense or by forward-looking words including but not limited to “believes”, “targets”, “anticipates”, “intends”, “should”, “aims”, “estimates”, “expects”, “considers”, “wishes” and “may”. These statements are based on data, assumptions and estimates that the Company considers to be reasonable.

They are subject to change or adjustment owing to uncertainties arising from the vagaries inherent in all research and development activities, as well as in the economic, financial, competitive, regulatory and climatic environment. In addition, the Group’s business activities and its ability to meet its targets and forecasts may be affected if certain of the risk factors described in chapter 5 – “Risk factors” of this interim financial report arise.

Investors are urged to pay careful attention to the risk factors before making their investment decision. One or more of these risks may have an adverse effect on the Group’s activities, condition, the results of its operations or on its targets and forecasts. Furthermore, other risks not yet identified or considered as significant by the Group could have the same adverse effects, and investors may lose all or part of their investment.

Forward-looking statements, targets and forecasts shown in this interim financial report may be affected by risks, either known or unknown uncertainties and other factors that may lead to the Group’s future results of operations, performance and achievements differing significantly from the stated or implied targets and forecasts. These factors may include changes in economic or trading conditions and regulations, as well as the factors set forth in chapter 5 – “Risk factors” of this interim report.

A. GROUP MANAGEMENT REPORT

1. Overview

Valneva is a European biotech company focused on vaccine development and antibody discovery. It was formed in 2013 through the merger between Intercell AG and Vivalis SA. Valneva's mission is to excel in both antibody discovery, and vaccine development and commercialization, either through in-house programs or in collaboration with industrial partners using innovative technologies developed by the company.

Valneva generates diversified revenue from its marketed product, a vaccine for the prevention of Japanese encephalitis (IXIARO®), commercial partnerships around a portfolio of product candidates (in-house and partnered), and licensed technology platforms (EB66® cell line, IC31® and VIVA|Screen®) that are becoming widely adopted by the biopharmaceutical industry worldwide. Headquartered in Lyon, France, the company employs approximately 270 people in France, Austria, Scotland, the United States, and Japan. The internationally experienced management team has a proven track-record across research, development, manufacturing and commercialization.

Valneva's ordinary shares (ISIN code: FR0004056851) are traded on segment B of Euronext Paris (stock code: VLA.PA) and eligible to the "Service de Règlement Différé" ("SRD"). The Group is part of the SBF 120 index. Valneva's shares are also traded on the Prime Market of the Vienna Stock Exchange (stock code: VLA.VI)

2. Products and Programs

Valneva manufactures a vaccine for the prevention of Japanese encephalitis (IXIARO®/JESPECT®) and licenses three proprietary technology platforms (EB66® cell line, IC31® adjuvant and VIVA|Screen® antibody discovery platform) to leading pharmaceutical companies worldwide.

a) Product: vaccine against Japanese Encephalitis

Valneva´s first marketed product is a vaccine to protect travellers, military personnel, and residents in endemic regions against Japanese encephalitis (JE). The product is a next-generation vaccine against the most common vaccine-preventable cause of encephalitis in Asia, and is licensed in more than thirty countries. It is marketed under the trade names IXIARO® and JESPECT®. Novartis distributes the vaccine to North America, Europe, Hong Kong, and Singapore (IXIARO®), while bioCSL distributes the vaccine in Australia and New Zealand (JESPECT®).

Since the approval of IXIARO®/JESPECT® in 2009, the Company, together with its marketing & distribution partners, has been focusing on extending the label and increasing penetration through its sales and marketing activities and global expansion strategy:

+ In 2012, Valneva´s partner Biological E. Ltd. launched the JEEV® vaccine to protect small children and adults from Japanese encephalitis in India. The product, based on Valneva´s technology, is manufactured at Biological E.'s facility in Hyderabad, India. JEEV® was awarded prequalification by the World Health Organization (WHO). Valneva expects to receive the first revenues from royalties on Biological E.'s sales in 2014.

- In February and May 2013, IXIARO® was approved by the European Medical Agency (EMA) and the US Food and Drug Administration (FDA), respectively, for use in children from the age of 2 months.
- At the beginning of 2014, Valneva amended its distribution and marketing agreement with Novartis to include minimum sales growth targets in order to secure planned levels of sales for the coming years. Valneva also transferred the responsibility of supplying the product to the U.S. military to Novartis allowing the Company to reduce its own marketing and sales activities in the U.S. and to no longer pay royalties on the sales to the US military to Novartis.
- In April 2014, Valneva granted vaccine manufacturer Adimmune Corporation certain exclusive rights to its Japanese encephalitis (JE) vaccine in Taiwan. Adimmune will be entitled to register and commercialize Valneva´s JE vaccine under a local trade name and to develop, manufacture and commercialize the vaccine from bulk product delivered by Valneva. Japanese encephalitis is recognized as a major public health issue in Asia, as evidenced by its inclusion into the national vaccination schedules of many endemic countries in Asia, including Taiwan. Adimmune has worked with the Taiwanese Center for Disease Control and Prevention for decades to ensure supply of its mouse-brain derived JE vaccine, for which public tenders have historically reached a level of 600,000 doses per year. The Taiwanese Advisory Committee on Immunization Practices (ACIP) has recently recommended the introduction of a modern, cell culture-derived vaccine leading to Adimmune now replacing its mouse brain-derived JE vaccine with Valneva´s cell-based vaccine.

Revenues from IXIARO®/JESPECT® product sales increased slightly to EUR 9.8 million in the first half 2014 compared to EUR 9.3 million pro forma in the first half 2013, despite the transfer of the U.S military supply to Novartis which resulted in Valneva now recognizing only two thirds of the total sales revenues to the U.S military compared to 100% previously. On a like-for-like basis, IXIARO®/JESPECT® product sales would have increased by 28% in the first half 2014.

With further in-market sales growth, the newly signed agreement with Adimmune and the recent changes to the Company's main marketing & distribution agreement, Valneva expects a significant improvement in the profitability of its product.

The Company reiterates its product sales guidance for the full year 2014, which it expects to be in the same range as the full year 2013 (EUR 27.2 million pro forma), representing a solid double-digit year-on-year growth rate taking into account the change in revenue recognition resulting from the transition of the U.S. military sales responsibility to Novartis.

b) Technology and licensing business

- ***EB66® Cell Line:***

Derived from duck embryonic stem cells, Valneva's EB66® cell line is a highly efficient platform for vaccine production and today represents a validated alternative to chicken eggs for large scale manufacturing of human and veterinary vaccines. To date, the company has more than 35 research and commercial agreements with the world's largest pharmaceutical companies (GlaxoSmithKline, Sanofi-Pasteur, Zoetis, etc…) to license its EB66® technology. The first human vaccine using the EB66® technology received marketing approval in 2014 and the first veterinary vaccine in 2012.

Current licenses represent a potential total value of approximately EUR 80 million in milestone payments and potential royalties on sales of 3-6% for human vaccines and 1.5-5% for veterinary vaccines. To date, milestone payments already received by the Company for the licensing of its EB66® technology amount to

approximately EUR 30 million. A research license generally lasts between 12 and 24 months and generates payments of less than EUR 200,000. If successful it can lead to a commercial license with upfront payments, clinical milestones and royalties.

The most important ongoing EB66® clinical development programs in the field of human vaccines are linked to pandemic and seasonal influenza programs for which Valneva granted an exclusive EB66® license to GSK and GSK´s co-development partner Kaketsuken.

The EB66® cell line achieved significant milestones in the first half 2014, with the first marketing approval for a human vaccine in Japan and the first approval of a veterinary vaccine in Europe.

In May 2014, Valneva announced the first ever marketing approval in Europe for a vaccine produced in the EB66® cell line. The marketing authorization was granted by the European Medicines Agency (EMA) for the prevention of Muscovy Duck Parvovirus (MDPV). The approval represents an important milestone for Valneva as the European Medicines Agency has now validated the use of the EB66® cell line in vaccines.

In March 2014, Valneva also announced the first ever marketing approval for a human vaccine produced in the EB66® cell line. The approval was granted by the Japanese health authorities to the Chemo-Sero Therapeutic Research Institute (Kaketsuken), a co-development partner of GlaxoSmithKline (GSK), for a pandemic H5N1 influenza vaccine. The vaccine has been developed in accordance with the Japanese government's plan to rapidly respond to an influenza pandemic both before and during an outbreak. Kaketsuken has recently completed the construction of a state-of-the-art manufacturing facility in Kumamoto (Japan) with a pandemic production capacity of approximately 80 million doses. As part of a national stockpiling directive through the Japanese Ministry of Health, Labour and Welfare, Kaketsuken may produce and supply pandemic vaccine for stockpiling on which Valneva would get mid-single digit royalties equivalent to seasonal flu vaccine royalties.

GSK, which has an exclusive commercial license for worldwide marketing rights to pandemic and seasonal human influenza vaccines produced in Valneva's EB66® cell line, is developing its own EB66® cell based influenza vaccines in the US in partnership with the Texas A&M University System. After receiving approval from the U.S. Department of Health and Human Services (HHS) in 2013 to establish a USD 91 million manufacturing facility for influenza vaccines in Texas (USA), the HHS recently announced that the site could be on-line and able to supply under Emergency Use Authorization (EUA) in case of a pandemic from 2017 onwards.

Mid-March 2014, Valneva announced the approval and launch of a second veterinary vaccine produced in the EB66® cell line in South America. The vaccine for the prevention of inclusion body hepatitis virus (IBH) was developed by Lima (Peru) based biopharmaceutical company FARVET SAC (FARVET), and will also be available for sale in Peru and several other South American countries. Financial terms of the agreement were not disclosed but do include milestone payments and royalties on net sales of the product. Under the current commercial license, FARVET has the rights to develop two additional vaccines using Valneva's EB66® cell line.

At the beginning of March, Valneva also announced the signing of a new research license agreement and transferred an existing commercial agreement to Emergent BioSolutions Inc. (NYSE:EBS), to develop new vaccines using Valneva's EB66® cell line. The commercial license, which was initially granted to the Oxford-Emergent Tuberculosis Consortium (OETC) for the development of tuberculosis vaccines, will be transferred to Emergent. Financial terms of the agreements were not disclosed but do include upfront and annual maintenance payments. If successful, product candidates from these agreements may lead to additional cash payments for achieved milestones along with future royalties on net sales.

Valneva expects to sign new EB66® cell line license agreements in the second half of the year and has already announced at the beginning of August a clinical development license agreement with US firm GeoVax Labs, Inc. to develop MVA-based vaccines against HIV/AIDS. Financial terms of the agreement were not disclosed.

+ ***IC31® adjuvant / IC31® tuberculosis vaccine:***

The difficulties in eliciting meaningful responses to novel prophylactic and therapeutic vaccines for indications such as malaria, tuberculosis and cancer and the insufficient response to conventional vaccines in some population groups with impaired immune systems (e.g. the elderly) increase the need for adjuvants such as Valneva's IC31®.

Pre-clinical models have demonstrated that IC31® is a safe and potent adjuvant for prophylactic and therapeutic vaccines, stimulating strong T-cell immune responses along with protective efficacy.
Eight human clinical trials have shown IC31® to be a safe and immunogenic adjuvant in study volunteers. Those receiving IC31® have reported good local tolerance with no systemic adverse effects reported during clinical studies.

Valneva has granted multiple research licenses to evaluate IC31® in new vaccine formulations in infectious diseases and additional collaborations have been initiated in oncology.
Under a strategic alliance agreement signed in 2007, Novartis received an exclusive license for the use of IC31® in selected new vaccines.

Valneva is also collaborating with the Statens Serum Institut (SSI) in Denmark in the field of tuberculosis. Three clinical vaccine candidates, all formulated with Valneva´s IC31® adjuvant, are currently being tested in phase I and II clinical trials as part of the Company's agreement with SSI and their partners, including Aeras and Sanofi Pasteur.

In March 2014, Aeras announced the initiation of a Phase II randomized clinical trial for its tuberculosis (TB) vaccine candidate Aeras-404 using Valneva's IC31® proprietary adjuvant. Data from two of the trials is expected to be published by the fourth quarter of 2014.

+ ***VIVA\|Screen® antibody platform:***

Valneva's VIVA|Screen® technology is an innovative, microarray-based single cell screening proprietary technology that allows the rapid high-throughput analysis and discovery of fully human therapeutic antibodies directly from human donors. The VIVA|Screen® technology was successfully applied for a series of infectious and non-infectious targets and allowed the discovery of a large number of highly potent native human antibodies.

In 2010, Valneva signed a strategic collaborative & commercial agreement with Sanofi Pasteur, the vaccine division of Sanofi, to discover and develop fully human monoclonal antibodies against some selected infectious diseases.

In 2013, Valneva successfully completed antibody discovery work for Sanofi-Pasteur in three indications and delivered respective antibody candidates to Sanofi-Pasteur for further evaluation.
In February 2014, Sanofi-Pasteur decided to initiate a fourth antibody discovery program on Valneva's VIVA|Screen® platform.

Following a change in strategy, Sanofi has decided not to exercise certain options and to delay one of its programs on the VIVA|Screen® platform, leading to Valneva recognizing an impairment loss of EUR 1.3 million for its VIVA|Screen® business in the first half 2014.

Valneva recently announced the signing of a research collaboration and license agreement with a leading global animal health care company to discover antibodies from animal B-lymphocytes using the VIVA|Screen® technology. Financial details were not disclosed but do include upfront and milestone payments along with future royalties on net sales.

Valneva is currently reviewing its strategy for its VIVA|Screen® business and looking for new ways to maximize the value of its antibody platform.

c) Product candidates in development

The Company's current proprietary pipeline includes vaccine candidates against Pseudomonas aeruginosa (phase II/III with Novartis), Clostridium difficile (phase I), and a pre-IND stage program against Lyme borreliosis.

+ ***Pseudomonas aeruginosa: continuation of phase II/III clinical trial***

Pseudomonas aeruginosa is one of the leading causes of nosocomial infections (i.e. acquired or occurring during the course of hospitalization for other conditions). Of the 2 million nosocomial infections in the U.S. alone per year, 10% are caused by pseudomonas aeruginosa. The bacterium is the number one cause of ventilator-associated pneumonia, the number two cause of hospital-acquired pneumonia and the number four cause of surgical site infections. Currently, there is no vaccine against Pseudomonas aeruginosa available.

In March 2012, Valneva started a pivotal phase II/III efficacy trial with its investigational Pseudomonas aeruginosa vaccine. The trial follows an exploratory phase II study in which lower all-cause mortality rates were observed in the vaccine groups as compared to the control group. At the end of March 2014, Valneva announced the continuation of the current phase II/III clinical trial of its Pseudomonas aeruginosa vaccine candidate IC43 following an interim analysis and in the meantime resumed the recruitment of patients for the trial. Valneva and its co-development partner (Novartis) decided to continue the trial following different assessments including analyses conducted by a Data Monitoring Committee (DMC), consultation with two European regulatory agencies and experts in the field.

In addition to the 394 patients already enrolled in the study, the Company is planning to recruit another 400 ventilated intensive care patients in 40 different sites. Valneva is also considering the option to extend the study further if necessary. Preliminary results are expected at the end of 2015 / early 2016.

+ ***Clostridium difficile vaccine candidate - phase II initiation expected in Q4/2014***

Clostridium difficile (C. difficile) is the leading cause for nosocomial diarrhea in Europe and the U.S. It is estimated that annually up to 3 million people become infected while receiving hospital treatment in the U.S. Currently, no vaccine against C. difficile exists and antibiotic treatment of the established disease has significant limitations. Valneva aims to develop a vaccine for the prevention of recurring C. difficile diarrhea, for hospital prophylaxis, and eventually community-wide prophylaxis on an age- and risk-based vaccination strategy.

The toxins are known to be disease-causing and anti-toxin immunity can be protective. Valneva has been investigating its C. difficile vaccine candidate, a recombinant protein vaccine consisting of two truncated toxins A and B from C. difficile, in a phase I safety and immunogenicity study. After reporting positive phase I results for its C. difficile vaccine candidate at the end of 2013, Valneva is preparing the initiation of phase II studies, which the Company expects to initiate by the end of 2014.

The phase I study showed a favorable safety and tolerability profile in both study populations (elderly subjects and adults, with local tolerability being even better in elderly subjects). The vaccine candidate was also highly immunogenic in elderly subjects and was able to induce immune responses to C. difficile toxins A and B, similar to the ones observed in adults.

+ ***Borrelia (Lyme disease):***

Lyme borreliosis is a multi-systemic infection transmitted by ticks, which can affect the skin, nervous system, joints and heart. It is a danger to health for humans of every age and also causes an enormous economic burden, primarily because both the treatment and the diagnosis of chronic diseases are difficult. Symptoms of infection can easily be mistaken for other diseases, and in a significant number of cases the characteristic skin rash is not detectable. While antibiotic therapies can treat an existing infection, a prophylactic vaccine could prevent it.

To date, there is no vaccine available to protect humans against Lyme disease. Each year, according to the Centers for Disease Control and Prevention (CDC), 300,000 Americans are diagnosed with Lyme disease while the number of cases amounts to 180,000 to 200,000 in Europe. The disease continues to spread.

Valneva has developed a multivalent, protein subunit based vaccine candidate against Lyme disease. This candidate is nearing completion of pre-clinical development and entering the IND process.
Valneva expects to take a decision on next development steps by the end of 2014.

3. Financial Review

Note: As a result of the merger with Intercell AG, Intercell's business has been included in the Group's consolidated financial statements from the merger closing date May 28, 2013. Therefore, the first six months 2014 and 2013 IFRS results are not fully comparable as the ex-Intercell operations were only included for the period starting from June 2013. Pro-forma figures including Intercell Business for the first six months 2013 period and excluding one-time effects due to the merger were prepared for illustrative purposes only. For detailed explanation of pro-forma assumptions and reconciliation to IFRS results please refer to note 10 of the condensed consolidated interim financial report.

Second quarter 2014 financial review

+ ***Revenues and grants***

Valneva's second-quarter 2014 revenues and grants increased by EUR 1.6 million to EUR 9.4 million compared to EUR 7.8 million in the same period of the previous year. This increase was due to the inclusion of the ex-Intercell revenues for the whole second quarter 2014 while the comparative quarter in 2013 only includes the entire merged Valneva business starting from June.

Compared to the prior year on a pro-forma basis (i.e. including the ex-Intercell business for April and May 2013), revenues and grants decreased by 17.2% to EUR 9.4 million in the second quarter 2014, from EUR 11.3 million in the second quarter 2013. This decrease was mainly due to timing effects of IXIARO® product deliveries to the main distributor which had led to higher revenues in the first quarter. IXIARO® product sales were EUR 5.9 million in the second quarter 2014 and EUR 7.2 million in the comparable pro-forma period of 2013.

Revenues from collaborations, licensing and services decreased to EUR 2.1 million in the second quarter 2014 from EUR 3.3 million on a pro-forma basis in the second quarter 2013. Grant income increased from EUR 0.8 million on a pro forma basis in the second quarter 2013 to EUR 1.3 million in the second quarter 2014, primarily due to an increase in R&D tax credits.

+ ***Operating result and EBITDA***

Cost of goods and services sold in the second quarter 2014 amounted to EUR 1.6 million of which EUR 1.3 million related to IXIARO® sales and EUR 0.3 million related to cost of services. In the second quarter 2013, cost of goods was EUR 3.6 million for the reported period from June 2013 onwards and EUR 5.7 million for the entire second quarter 2013 on a pro forma basis.

Research and development expenses in the second quarter 2014 reached EUR 4.8 million compared to EUR 4.2 million in the second quarter 2013. On a pro-forma basis R&D expenses decreased to EUR 4.8 million in the second quarter 2014 from EUR 8.1 million in the second quarter 2013, mainly due to cost synergies and prioritization of R&D activities in connection with the merger.

Selling, General and Administrative expenses amounted to EUR 4.2 million in the second quarter 2014, compared to EUR 4.1 million in the second quarter 2013. On a pro-forma basis the SG&A expenses decreased to EUR 4.2 million in the second quarter 2014 from EUR 6.4 million in the second quarter 2013, primarily due to savings and to cost synergies from the merger.

Non-cash amortization and impairment expenses for intangible assets increased to EUR 3.3 million in the second quarter 2014 from EUR 0.9 million in the second quarter 2013. This increase was due to the amortization of intangible assets related to the merger and to a EUR 1.3 million impairment expense in the second quarter 2014 for the company's VivaIScreen® technology.

Valneva's operating loss decreased by EUR 0.5 million to EUR 4.5 million in the second quarter 2014 compared to EUR 5.0 million in the second quarter 2013. On a pro-forma basis the operating loss decreased by EUR 5.8 million to EUR 4.5 million in the second quarter 2014 from EUR 10.3 million in the second quarter 2013.

Valneva's EBITDA improved to minus EUR 0.3 million in the second quarter 2014 from minus EUR 3.3 million in the second quarter 2013. On a pro-forma basis, EBITDA improved from minus EUR 7.4 million in the second quarter 2013 to minus EUR 0.3 million in the second quarter 2014. EBITDA was calculated by excluding depreciation, amortization and impairment from the operating loss recorded in the condensed consolidated interim income statement under IFRS.

+ ***Net result***

Valneva's net loss in the second quarter 2014 was EUR 5.1 million compared to EUR 5.6 million for the same period of the previous year. On a pro-forma basis the net loss decreased to EUR 5.1 million in the second quarter 2014 from EUR 12.4 million in the second quarter 2013. The decrease reflects the progress made through cost savings and synergies from the merger.

First-half 2014 financial review

+ ***Revenues and grants***

Revenues and grants in the first six months of 2014 reached EUR 16.5 million. This compares to EUR 9.7 million in the same period of the previous year, which included ex-Intercell revenues only starting from June 2013.

On a pro-forma basis (i.e. including the ex-Intercell business from January to May 2013), revenues and grants in the comparable period were EUR 17.4 million. The year-on-year decrease in revenues on a pro-forma basis of 5.1 percent was due to lower revenues from collaborations and licensing which were only partly offset by an increase in product sales and grant income. IXIARO® product sales increased by 4.9 percent to EUR 9.8 million in the first half of 2014 from EUR 9.3 million in the first half of 2013.

+ ***Operating result and EBITDA***

Cost of goods and services sold in the first six months of 2014 amounted to EUR 3.9 million of which EUR 3.1 million related to sales of IXIARO® (yielding a product gross margin of 68.7 percent) and EUR 0.9 million related to cost of services. In the comparable period of 2013, the reported cost of goods was EUR 3.6 million. On a pro-forma basis cost of goods was EUR 7.1 million in the first six months of 2013 and significantly decreased in the first six months of 2014 mainly due to a variability in inventory accounting, which is expected to revert in the second half.

Research and development expenses in the first six months of 2014 reached EUR 10.6 million compared to EUR 7.0 million in the same period of the previous year. On a pro-forma basis R&D expenses decreased from EUR 16.4 million in the first six months of 2013 to EUR 10.6 million in the first six months of 2014, mainly due to cost synergies and prioritization of R&D activities in connection with the merger, including the disposal of the CMO business in the fourth quarter 2013.

Selling, general and administrative expenses amounted to EUR 7.4 million in the first six months of 2014, compared to EUR 5.1 million in the first six months of 2013. On a pro-forma basis the SG&A expenses decreased from EUR 10.3 million in the first six months of 2013 to EUR 7.4 million in the first six months of 2014 primarily due to savings and to cost synergies from the merger.

Non-cash amortization and impairment expenses for intangible assets increased to EUR 5.4 million in the first six months of 2014 from EUR 1.4 million in the first six months of 2013 and included an impairment of the VivaIScreen® technology of EUR 1.3 million. EUR 3.3 million of amortization and impairment expenses in the first six months of 2014 were related to intangibles acquired through the merger.

Valneva's operating loss increased by EUR 3.5 million, or by 47.3 percent, to EUR 11.0 million in the first six months of 2014 compared to EUR 7.4 million in the first six months of 2013. On a pro-forma basis the operating loss decreased by EUR 7.2 million, or by 39.7 percent, from EUR 18.2 million in the first six months of 2013 to EUR 11.0 million in the first six months of 2014.

Valneva's EBITDA improved to minus EUR 3.6 million in the first six months of 2014 from minus EUR 4.9 million in the first six months of 2013. On a pro-forma basis, EBITDA improved to minus EUR 3.6 million in the first six months of 2014 from minus EUR 12.7 million in the same period of the previous year.

In 2014, Valneva started to report a split of operating results for its three business segments “Products”, “Technologies and Services” and “Product R&D”. The Products segment, which includes marketed vaccines - currently the Group’s JEV vaccine, – showed an operating profit of EUR 4.8 million in the first six months of 2014, without taking into account the non-cash amortization charges on intangible assets. The Technologies and Services segment, which includes EB66®, VivaIScreen®, IC31® and other revenue-generating service and licensing activities showed a net loss of EUR 0.9 million in the first six months of 2014, without taking into account non-cash amortization charges on intangible assets. The Product R&D segment, which includes proprietary research and development programs aiming to generate new products with significant market potential such as the vaccine candidates against Pseudomonas aeruginosa and C. difficile, currently represents the Company’s main area of investment and showed an operating loss of EUR 3.0 million in the first six months of 2014.

+ ***Net result***

Valneva’s net loss in the first six months of 2014 was EUR 12.2 million compared to EUR 8.1 million for the same period of the previous year. This increase by 50.2% was due to the merger, which was only partially reflected in the comparative period of 2013. On a pro-forma basis, the net loss decreased by 44.6 percent to EUR 12.2 million in the first six months of 2014 from EUR 22.0 million in the first six months of 2013. The decrease reflects the progress made in both the consolidation and cost saving projects.

+ ***Cash flow and liquidity***

Net cash used in operating activities in the first six months of 2014 amounted to EUR 7.1 million and resulted primarily from the operating loss in connection with the Group’s R&D activities and from an increase in working capital which are mainly due to an increase in inventory at quarter-end.

Cash out-flows from investing activities reached EUR 6.5 million in the first six months of 2014 and resulted mainly from investments in financial assets (securities and deposits) and purchases of intangible assets (capitalized development costs).

Cash in-flows from financing activities in the first six months of 2014 amounted to EUR 6.5 million, resulting primarily from a capital increase through the newly established equity line. The net proceeds from this capital increase of EUR 8.6 million (after deduction of transaction costs of EUR 0.3 million) were partly offset by net repayments of borrowings of EUR 2.1 million.

Liquid funds stood at EUR 37.3 million at June 30, 2014, compared to EUR 23.1 million at June 30, 2013 and consisted of EUR 29.5 million in cash, EUR 0.5 million in restricted cash, EUR 1.2 million in short-term deposits, and EUR 6.0 million in securities.

4. Operational and Strategic Outlook FY 2014

Valneva’s stand-alone strategy is to grow revenues through marketed product(s) and through the signing of new licenses and deals for its proprietary technologies while at the same time investing in vaccine development and antibody discovery.
Valneva expects to achieve its goal of becoming a self-sustainable European biotech leader by:

+ Maximizing the value of its Japanese Encephalitis vaccine, IXIARO® (also known as JESPECT® in certain territories)

- Developing its portfolio of marketed products
- Developing in-house clinical candidates to their next value inflection points
- Leveraging the potential of its main technology platforms (EB66® cell line, IC31® adjuvant, VIVA|Screen® antibody discovery platform) internally or through commercial collaborations
- Improving its financial performance by focusing investments on R&D activities and by optimizing the use of resources with a view to reaching profitability for each business activity.

For the second half 2014, the Company expects some key milestones:

- The launch of the phase II trial for its C. difficile vaccine candidate
- Publication of first IC31® / Tuberculosis phase II data
- New EB66® licenses

Novartis and GlaxoSmithKline recently announced that they were planning to exchange assets, including the divestment of Novartis' vaccine business (excluding flu) to GSK, with a closing of the transaction planned in the first half of 2015.

Valneva sees its key R&D assets partnered with Novartis as potentially highly complementary to GSK. Valneva's late stage Pseudomonas and C. difficile vaccines may add significant value to the GSK R&D portfolio, which does not currently include clinical programs in these indications. The Company does not expect the transaction to impact its Flu/EB66® cell-culture partnership with GSK since the Novartis' flu business (including a cell-culture based flu vaccine) is not part of the contemplated transaction at this point in time.

With respect to financial performance, Valneva expects 2014 overall IFRS revenues and grants to grow to EUR 40 – 45 million and anticipates continued growth of in-market sales of IXIARO®/JESPECT® leading to a significant increase in the profitability of its JEV vaccine.

The Company also expects a significant improvement of its operational results (excluding any non-cash amortization and impairment charges) in 2014 compared to the pro-forma financial performance of the combined two businesses (Vivalis and Intercell) in 2013. This improvement will be mainly due to EUR 5 - 6 million merger synergies and savings in sales expenses following the amendment of the Company's main distribution contract for IXIARO® earlier this year.

Valneva will continue to report losses in 2014 in order to support the Company's strategy of focused spending in research and development and to create long-term value through innovation. The company confirms that it aims to achieve break-even in the mid-term.

5. Risk Factors

Pursuing biotech innovation includes the inherent risk of failure and the Company is therefore exposed to significant industry-specific risks. Valneva is subject to the additional risk that it has launched its first product, a Japanese encephalitis vaccine, which has not yet generated sufficient revenues to finance the Company's sustainable development. Moreover, the Company has incurred significant losses since its inception, is exposed to liquidity risk and may never reach sustainable profitability. Management has undertaken considerable efforts to establish a risk management system in order to monitor and mitigate the risks associated with its business. However, the Company remains exposed to significant risks, in particular the following:

The Company needs to gain further market acceptance for its first product in order to recover the significant development costs it has incurred. Valneva may be unable to successfully market and sell its Japanese Encephalitis (JE) vaccine and to develop and commercialize its product candidates as expected or at all. The ability to commercialize product candidates will depend upon the degree of market acceptance among Valneva's primary customers, the customers of Valneva's strategic partners and the medical community. The degree of market acceptance will depend upon many factors, including recommendations by global and local health organizations, reimbursements by health authorities and health insurers and payors, legislative efforts to control or reduce health care costs or reform government healthcare programs, and the ability of customers to pay or be reimbursed for treatment costs. Demand for Valneva's JE vaccine may be adversely affected by international, national or local events or economic conditions that affect consumers' willingness to travel, such as security concerns relating to threatened or actual terrorist attacks, armed conflicts or recent crises in the global economy.

The Company's manufacturing facility in Livingston, Scotland, is, and will continue to be, a significant factor in growing revenues from product sales and maintaining control over production costs. The manufacturing of biological materials is a complex undertaking and technical problems may occur. Valneva may experience delays, be unsuccessful in manufacturing or face difficulties in the ability to manufacture its JE vaccine according to market demands. Biological manufacturing is subject to government regulation and regular inspection. It is not possible to predict the changes that regulatory authorities may require during the life cycle of a novel vaccine. Such changes may be costly and may affect the Company's sales and marketing and product revenue expectations. The failure of the Company’s product manufacturing facility to comply with regulatory requirements, including current Good Manufacturing Practices, could give rise to regulatory actions or suspension or revocations of manufacturing licenses and result in failure to supply. The risk of suspension or revocation of a manufacturer's license also applies to third party manufacturers and contractors with whom the Company contracts for manufacturing and services.

The Company's manufacturing facility in Livingston, Scotland, is the sole source of commercial quantities of the JE vaccine. The destruction of this facility by fire or other disastrous events would prevent the Company from manufacturing this product and therefore cause considerable losses. Its business requires the use of hazardous materials, which increases the Company's exposure to dangerous and costly accidents that may result in accidental contamination or injury to people or the environment. In addition, the business is subject to stringent environmental health and safety and other laws, regulations and standards, which result in costs related to compliance and remediation efforts that may adversely affect the Company's performance and financial condition.

The development and success of the Company’s JE vaccine and several of its product candidates are dependent upon the performance of third-party manufacturers and contractors. Should these manufacturers and contractors fail to meet requirements, the development and commercialization of the Company’s product and product candidates may be limited or delayed, which would have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company's R&D activities, and in particular its late-stage clinical trial programs, are expensive and time-consuming. The result of these R&D activities is inherently uncertain and the Company may experience delays or failures in the development of its platforms (EB66® and Viva|Screen®) or in clinical trials. In order to continue to develop and commercialize its product candidates, the Company will require regulatory approvals from the U.S. Food and Drug Administration (FDA), the European Medicines Agency (EMA), and other relevant regulatory agencies, which may be delayed or denied if the Company cannot

establish the safety and efficacy of its product candidates. Adverse events or lack of efficacy in its clinical trials may force the Company to stop development of its product candidates, prevent regulatory approval of its product candidates, or impact its existing products which could materially harm its business.

The vaccine industry is highly competitive, and if the Company's competitors commercialize their products more quickly than Valneva or develop alternatives to Valneva's products or sell competing products at lower prices, the Company might lose a significant share of the expected market.

The Company's ability to commercialize its product candidates or to license its technologies partially depends on the ability to obtain and maintain adequate protection of its proprietary and intellectual property rights in the U.S., the EU, and elsewhere. If the Company's efforts to protect its intellectual property rights are not sufficient, competitors may use its technologies to create competing products, erode the Company's competitive advantage, and capture all or part of its expected market share. The Company's efforts to avoid infringing, or to defend itself against any claims of infringement of the intellectual property rights of third parties may be costly and, if unsuccessful, may result in limited or prohibited commercialization of its product candidates or licensing of its technologies, subject it to royalties or other fees, or force it to redesign its product candidates.

The Company may be unsuccessful in establishing additional or maintaining existing, strategic partnerships and collaborations, which could significantly limit or delay its ability to develop and commercialize discoveries and inventions and realize results from its R&D programs and technologies. The success of strategic partnerships depends, in part, on the performance of the strategic partners, over which the Company has little or no control. Partners may elect to delay or terminate one or more of these strategic partnerships, develop products independently or in collaboration with a third party that could compete with the Company's product candidates, fail to commit sufficient resources to the development or commercialization of the product candidates which are subject to these partnerships or collaborations, or otherwise fail to perform as Valneva expects. If any of these risks materialize, Valneva’s revenues from up-front license payments, milestone payments, and royalties generated from product candidates that are subject to these partnerships and collaborations may be substantially reduced, which would have a material adverse effect on Valneva’s business, financial condition, and results of operations.

Furthermore, announcements regarding changes in the achievement of expected value inflection points for Valneva’s existing development programs, delays in receiving regulatory approvals, obstacles hindering product commercialization or realignment of Valneva’s operations could be perceived negatively by investors, consumers, or others in the market and thus damage Valneva’s reputation, contribute towards a lower share price or otherwise adversely affect Valneva’s business, financial condition, results of operation, and prospects. Under certain conditions such an event could occur with one of Valneva’s major projects, such as its product candidate, a Pseudomonas vaccine, which is currently in a phase II/III clinical trial. Following a review of initial data, the Company and its development partner have decided to continue the trial. Preliminary data from the full trial are expected at the end of 2015 or the beginning of 2016.

Future business opportunities or a delay or failure in the development or commercialization of one or more of the Company's product candidates may result in requirements for additional funding, which may only be available, if at all, with unfavorable consequences or on unfavorable terms. If the Company is not able to fulfill investor or analyst expectations, its ability to raise financing may be adversely affected.

Any failure to appropriately monitor and manage the Company’s development as well as any failure to successfully integrate businesses acquired in the future may have a material adverse effect on the

Company's business, financial condition, and results of operations. If the Company undertakes a merger or acquisition, the process of integrating its existing operations with any newly acquired or merger partner business, technology, service or product could be expensive and time consuming and may result in unforeseen operating difficulties and expenditures. The development and commercialization of the Company's product candidates may be delayed if Valneva is unable to recruit and retain qualified personnel or if any of the key members of the Management or scientific staff discontinues his or her employment or consulting relationship with the Company.

Impairment of intangible assets may lead to substantial losses in Valneva's profit and loss statement. The Company's balance sheet includes substantial intangible assets from development stage projects and technologies, which have been gained through business combinations. If the Company is not able to successfully develop these products and technologies and to generate future cash flows from such products and technologies, it may never be able to recover the consideration paid to acquire such intangible assets and, as a consequence, will have to impair the corresponding intangible asset. Such impairment of intangible assets would result in substantial losses in the profit and loss statement.

The use of any of Valneva's product candidates in clinical trials and the sale of any of Valneva's current or future products will subject the Company to potential liability or product liability claims. The Company's clinical trial liability and product liability insurance coverage may not be sufficient to cover liability or product liability claims, which Valneva may incur as a result of the use of its product candidates in clinical trials or the sale of current and future products, or may cease to be available at a reasonable cost in the future.

Poor development in the credit markets and financial services industries, and a general deterioration in global economic conditions could decrease consumer discretionary spending and global growth rates, impair Valneva's ability to raise money to fund the expansion of its operations, adversely affect Valneva partners' ability or willingness to further develop and commercialize partnered products or impair the value of, or returns on, Valneva's investments. The Company is exposed to market risk, including price risk and cash flow and fair-value interest rate risk and it is exposed to credit risks.

In addition, operating results may be negatively affected by exposure to foreign exchange and other economic risk factors. Valneva may not be able to use tax loss carry-forwards to offset future taxable income and as a consequence may face higher future tax obligations than expected and/or may have to repay tax credits.

Further risk factors are set out in detail in the registration document of Valneva filed with the AMF on April 30, 2014 under number D.14-0444.

6. Related Parties' transactions

In the first six months of 2014, there was no transaction or change in transactions between related parties which materially affected Valneva's financial position or performance.

B. AUDITOR'S REPORT ON THE CONDENSED CONSOLIDATED HALF YEAR FINANCIAL REPORT

This is a free translation into English of the statutory auditors' review report on the half-yearly financial information issued in French and is provided solely for the convenience of English-speaking users. This report includes information relating to the specific verification of information given in the Group's half-yearly management report. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

To the Shareholders

In compliance with the assignment entrusted to us by your Annual General Meeting and in accordance with the requirements of article L. 451-1-2 of the French Monetary and Financial Code ("Code monétaire et financier"), we hereby report to you on:

- the review of the accompanying condensed half-yearly consolidated financial statements of Valneva SE, for the period from January 1 to June 30, 2014;
- the verification of the information presented in the half-yearly management report.

These condensed half-yearly consolidated financial statements are the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

1. Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-yearly consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 - standard of the IFRSs as adopted by the European Union applicable to interim financial information.

2. Specific verification

We have also verified the information presented in the half-yearly management report on the condensed half-yearly consolidated financial statements subject to our review.

We have no matters to report as to its fair presentation and consistency with the condensed half-yearly consolidated financial statements.

Neuilly-sur-Seine and Marseille, August 7, 2014

The Statutory Auditors

[French original signed by]

Deloitte & Associés	PricewaterhouseCoopers Audit
	
Vincent Gros	Thierry Charron

C. Condensed Consolidated Interim Financial Report as of June 30, 2014

Condensed consolidated interim income statement

EUR in thousands (except per share amounts)	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Product sales	5,941	5,332	9,764	5,332
Revenues from collaboration, licensing and services	2,132	1,673	4,591	2,409
Revenues	**8,074**	**7,004**	**14,354**	**7,741**
Grant income	1,302	789	2,117	1,930
Revenues and grants	**9,376**	**7,794**	**16,471**	**9,671**
Cost of goods and services	(1,566)	(3,556)	(3,925)	(3,556)
Research and development expenses	(4,814)	(4,202)	(10,590)	(7,026)
General, selling and administrative expenses	(4,188)	(4,126)	(7,368)	(5,122)
Other income and expenses, net	(63)	7	(136)	(63)
Amortization and impairment	(3,266)	(939)	(5,421)	(1,350)
OPERATING LOSS	**(4,521)**	**(5,022)**	**(10,969)**	**(7,446)**
Finance income	519	53	809	96
Finance expenses	(860)	(581)	(1,813)	(733)
LOSS BEFORE INCOME TAX	**(4,862)**	**(5,550)**	**(11,974)**	**(8,083)**
Income Tax	(210)	(15)	(210)	(31)
LOSS FROM CONTINUING OPERATIONS	**(5,071)**	**(5,565)**	**(12,184)**	**(8,114)**
Loss from discontinued operations	-	-	-	-
LOSS FOR THE PERIOD	**(5,071)**	**(5,565)**	**(12,184)**	**(8,114)**
Losses per share for loss from continuing operations attributable to the equity holders of the Company, expressed in EUR per share (basic and diluted)	**(0.09)**	**(0.20)**	**(0.22)**	**(0.33)**

Condensed consolidated interim statement of comprehensive income

EUR in thousands	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Loss for the period	**(5,071)**	**(5,565)**	**(12,184)**	**(8,114)**
Other comprehensive income/(loss)				
Items that are or may be reclassified subsequently to profit or loss				
Currency translation differences	111	132	175	78
Total items that are or may be reclassified subsequently to profit or loss	**111**	**132**	**175**	**78**
Other comprehensive income/(loss) for the period, net of tax	**111**	**132**	**175**	**78**
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO THE OWNERS OF THE COMPANY	**(4,960)**	**(5,433)**	**(12,009)**	**(8,036)**

Condensed consolidated interim balance sheet

EUR in thousands	June 30, 2014	December 31, 2013
ASSETS		
Non-current assets	**183,564**	**191,045**
Intangible assets and goodwill	121,139	125,403
Property, plant and equipment	43,686	45,067
Other non-current assets	18,739	20,575
Current assets	**59,824**	**63,346**
Inventories	9,195	4,819
Trade receivables	3,844	7,570
Other current assets	9,525	10,791
Current financial assets	6,000	3,658
Cash, cash equivalents and short-term deposits	31,260	36,509
Assets held for sale	**-**	**-**
TOTAL ASSETS	**243,388**	**254,391**
EQUITY		
Capital and reserves attributable to the Company's equity holders	**140,909**	**144,111**
Share capital	8,452	8,206
Share premium and other regulated reserves	206,696	198,322
Retained earnings and other reserves	(62,055)	(38,308)
Net result for the period	(12,184)	(24,110)
LIABILITIES		
Non-current liabilities	**77,857**	**82,181**
Borrowings	63,633	64,902
Other non-current liabilities and provisions	14,224	17,279
Current liabilities	**24,623**	**28,100**
Borrowings	6,957	6,381
Trade payables and accruals	9,101	11,388
Tax and employee-related liabilities	4,134	5,096
Other current liabilities and provisions	4,430	5,235
TOTAL LIABILITIES	**102,480**	**110,280**
TOTAL EQUITY AND LIABILITIES	**243,388**	**254,391**

Condensed consolidated interim cash flow statement

EUR in thousands	Six months ended June 30, 2014	Six months ended June 30, 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	(12,184)	(8,114)
Depreciation and amortization	6,086	2,533
Impairment	1,288	-
Share-based payments	288	48
Income tax	210	30
Other adjustments for reconciliation to cash used in operations	1,381	645
Changes in working capital	(3,328)	(1,809)
Cash used in operations	**(6,258)**	**(6,667)**
Interest paid	(848)	(338)
Income tax paid	(1)	(100)
Net cash used in operating activities	**(7,106)**	**(7,105)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of other businesses, net cash acquired	-	11,615
Purchases of property, plant and equipment	(359)	(957)
Proceeds from sale of property, plant and equipment	12	-
Purchases of intangible assets	(2,722)	(244)
Proceeds from sale of financial assets	4,805	7,507
Purchases of financial assets	(8,619)	-
Interest received	411	226
Net cash generated from/(used in) investing activities	**(6,472)**	**18,147**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock, net of costs of equity transactions	8,676	175
Disposal/(Purchase) of treasury shares	(101)	(647)
Proceeds from borrowings, net of transaction costs	1,656	6,254
Repayment of borrowings	(3,751)	(885)
Net cash generated from financing activities	**6,479**	**4,897**
Net change in cash and cash equivalents	**(7,099)**	**15,939**
Cash at beginning of the period	36,509	832
Exchange gains/(losses) on cash	82	148
Cash at end of the period	**29,492**	**16,919**
Cash, cash equivalents, short-term deposits and financial assets at end of the period	**37,260**	**23,108**

Condensed consolidated interim statement of changes in equity

EUR in thousands	Share capital	Share premium and other regulated reserves	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**
Total comprehensive loss	-	-	78	(8,114)	(8,036)
Income appropriation	-	-	(14,841)	14,841	-
Employee share option plan					
- value of employee services	-	-	48	-	48
- exercise of share options	20	155	-	-	175
Treasury shares	-	-	(625)	-	(625)
Issuance of common stock (merger with Intercell), May 2013	2,854	100,599	-	-	103,453
	2,873	100,754	(15,340)	6,727	95,015
Balance as of June 30, 2013	**6,093**	**163,168**	**(39,938)**	**(8,114)**	**121,209**
Balance as of January 1, 2014	**8,206**	**198,322**	**(38,308)**	**(24,110)**	**144,111**
Total comprehensive loss	-	-	175	(12,184)	(12,009)
Income appropriation	-	-	(24,110)	24,110	-
Employee share option plan					
- value of employee services	-	-	289	-	289
- exercise of share options	6	(6)	-	-	-
Treasury shares	-	-	(101)	-	(101)
Issuance of common stock May and June 2014	240	8,716	-	-	8,956
Cost of equity transactions, net of tax	-	(337)	-	-	(337)
	246	8,373	(23,747)	11,927	(3,202)
Balance as of June 30, 2014	**8,452**	**206,696**	**(62,055)**	**(12,184)**	**140,909**

Selected notes to the condensed consolidated interim financial report

1) Basis of preparation

This condensed consolidated interim financial report of Valneva SE (hereafter referred to as "Group") for the first six months ended June 30, 2014 has been prepared in accordance with International Financial Reporting Standards as adopted by the EU applicable to interim financial reporting (IAS 34) authorising the presentation of selected explanatory notes. In consequence, these condensed consolidated financial statements must be read in conjunction with the consolidated annual financial statements for the year ended December 31, 2013 (registration document filed with AMF under No. D.14-0444 on April 30th, 2014 available in French and in English at the company's website: www.valneva.com).

Due to the merger between Vivalis SA and Intercell AG the Group structure of consolidated operations at June 30, 2014 includes the following companies:

+ Valneva SE (formerly Vivalis SA)
+ Valneva Toyama Japan KK (formerly Vivalis Toyama Japan KK)
+ Valneva Austria GmbH with its fully owned subsidiaries:

  - Elatos GmbH
  - Intercell USA Inc.
  - Valneva Scotland Ltd

For ease of presentation, numbers have been rounded and, where indicated, are presented in thousands of euros. However, calculations 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.

2) Fluctuation of revenues

Revenues comprise grant income, revenues from collaborations and licensing and product sales. Revenues have fluctuated in the past and the Company expects that they will continue to fluctuate over different reporting periods in the future.

3) Other income and expenses, net

Other income and expenses, net included foreign exchange gains and losses in the prior year. According to the Company's updated accounting policies foreign exchange gains and losses are now included in finance income and expenses, respectively. Therefore EUR 253 thousand and EUR 265 thousand have been reclassified from other income and expenses to finance income and expenses for the second quarter 2013 and the first six months of 2013, respectively.

4) Segment reporting

As of Jan 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®, VivaIScreen®, 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 with these changes.

Income statement aggregates by segment for the six months ended June 30, 2014:

EUR in thousands	Products	Techno–logies and services	Product R&D	Unallo–cated	Total
Revenues and grants	9,891	2,632	3,948	-	**16,471**
Cost of goods and services	(3,059)	(866)	-	-	**(3,925)**
Research and development expenses	(1,441)	(2,186)	(6,964)	-	**(10,590)**
General, selling and administrative expenses	(584)	(497)	-	(6,287)	**(7,368)**
Other income and expenses, net	-	-	-	(136)	**(136)**
Amortization and impairment	(3,285)	(2,136)	-	-	**(5,421)**
Operating loss	**1,523**	**(3,053)**	**(3,016)**	**(6,423)**	**(10,969)**
Finance income/loss and income tax	-	-	-	(1,214)	**(1,214)**
Loss from continuing operations	**1,523**	**(3,053)**	**(3,016)**	**(7,637)**	**(12,184)**

Income statement aggregates by segment for the six months ended June 30, 2013:

EUR in thousands	Products	Techno–logies and services	Product R&D	Unallo–cated	Total
Revenues and grants	5,332	3,284	1,015	40	**9,671**
Cost of goods and services	(3,556)	-	-	-	**(3,556)**
Research and development expenses	(215)	(3,195)	(3,617)	-	**(7,026)**
General, selling and administrative expenses	(1,258)	(731)	-	(3,133)	**(5,122)**
Other income and expenses, net	-	-	-	(63)	**(63)**
Amortization and impairment	(523)	(826)	-	-	**(1,349)**
Operating loss	**(220)**	**(1,468)**	**(2,602)**	**(3,156)**	**(7,446)**
Finance income/loss and income tax	-	-	-	(668)	**(668)**
Loss from continuing operations	**(220)**	**(1,468)**	**(2,602)**	**(3,824)**	**(8,114)**

5) Intangible assets

+ ***Impairment testing of in-process research & development projects and goodwill***

Following a change in strategy from our partner Sanofi and the delays in different programs on the VIVAIScreen® plantform, the book values of this project have been assessed for impairment testing purposes using the risk-adjusted discounted cash flow method.

The value-in-use calculations use post tax project cash flow projections based on the updated 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 13.31% per annum.

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

The discount rate of 13.31% per annum is based on 2.31% risk-free rate, 6.00% market risk premium, and a beta of 1.8.

In the course of the impairment testing an earn-out liability relating to the VIVAIScreen® plantform was also adjusted taking into account the updated business model.

Whereas the impairment of the intangible assets (goodwill and in-process R&D) amounted to EUR 2,506 thousands, the change in the earn-out led to a decrease in the liability of EUR 1,217 thousands. These amounts have been netted and were recognized in the income statement as "Amortization and impairment".

+ ***Sensitivity to changes in assumptions***

The net present value calculations are most sensitive to the following assumptions:
Probability of project success
Discount rate

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

The net present value calculation uses a discount rate of 13.31%. An increase in the discount rate of one percentage point would result in an additional impairment loss of EUR 0.8 million.

The net present value calculation uses a probability of success rate of 10% to 50% per annum for 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 5.8 million.

6) Financial instruments

The fair values of the financial assets and financial liabilities correspond to the book values of such instruments except for the derivatives, consisting of rate SWAPs, which are measured at market fair value as at June 30, 2014.

7) Cash, cash equivalents and short-term deposits

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

EUR in thousands	June 30, 2014	December 31, 2013
Cash at bank and in hand.....	30,013	36,509
Other short-term deposits.....	1,248	-
Cash, cash equivalents and short-term deposits	**31,260**	**36,509**

As of June 30, 2014, cash and cash equivalents include EUR 520 thousand (December 31, 2013: EUR 0 thousand) for which there are restrictions on remittances.

8) Share capital, share premium and other regulated reserves

Increase of share capital

In April 2014 the Company had set up an equity line with Crédit Agricole CIB enabling the Company to issue 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 the next 24 months. To date, 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 a total gross proceeds amounting to EUR 8,956 thousands. 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 for the three trading days preceding the pricing date.

In addition, the Company issued 37,333 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.

9) Business combination

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

10) Pro Forma information

+ ***Introductory comments***

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

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

The pro forma consolidated income statements for the period ended on June June 30, 2013 reflect 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 an indication of the results of operating activities or the financial position of Valneva SE that would have been obtained for the periods ending on June 30, 2013 if the Merger had been completed at the dates considered. Similarly, it does not provide an indication of the future results of operating activities or financial position of Valneva SE.

+ ***Basis of preparation***

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

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.

Acquisition

The merger has been treated in the Pro Forma Financial Information as an acquisition of Intercell by Vivalis, as analysed in terms of the criteria provided for by IFRS 3r, applicable as of June 30, 2013. This reflects the legal treatment of the transaction pursuant to which Vivalis SA is the absorbing company and was the company issuing new shares to Intercell AG shareholders in consideration for the Merger.

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.

Underlying assumptions

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

- Unaudited interim consolidated IFRS financial statements for the Valneva SE, for the six months ended June 30, 2013
- Unaudited interim consolidated IFRS financial statements for the Intercell AG for the first five months of 2013

The pro forma adjustments to the pro forma consolidated income statements for the six months ended June 30, 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 an indication of the results of operating activities or the financial position of Valneva SE that would have been obtained for the periods ending June 30, 2013 if the Merger had been completed at the dates considered. Similarly, it does not provide an indication of the future results of operating activities or financial position of Valneva SE.

All pro forma adjustments related 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.

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 June 30, 2013.

+ ***Reconciliation to the Company's consolidated financial statements under IFRS***

EUR in thousands **(unaudited)**	**Six months ended June, 2013** **Valneva reported income statement (IFRS)**	**Intercell income for the period**	**Pro forma adjustments - exclusion of merger related costs**	**Adjusted pro forma income statement**
Product sales	5,332	3,973		9,305
Revenues from collaborations, licensing and services	2,409	3,608		6,018
Revenues	**7,741**	**7,582**		**15,322**
Grant income	1,930	112		2,042
Revenues and Grants	**9,671**	**7,694**		**17,365**
Cost of goods and services	(3,556)	(3,494)		(7,051)
Research and development expenses	(7,026)	(9,719)	*356*[1]	(16,388)
General, selling and administrative expenses	(5,122)	(11,397)	*6,258*[1,2]	(10,261)
Other income and expenses, net	(63)	663		601
Amortization and impairment	(1,350)	(1,117)		(2,467)
OPERATING PROFIT/(LOSS)	**(7,446)**	**(17,370)**		**(18,202)**
Finance income	96	89		185
Finance expenses	(733)	(12,128)	*8,937*[3]	(3,924)
PROFIT/(LOSS) BEFORE INCOME TAX	**(8,083)**	**(29,409)**		**(21,941)**
Income tax	(31)	(3)		(33)
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	**(8,114)**	**(29,412)**		**(21,975)**
Loss from assets held for sale or discontinued operations	-	-		-
PROFIT/(LOSS) FOR THE PERIOD	**(8,114)**	**(29,412)**		**(21,975)**

Pro forma adjustments in the six months ended June 30, 2013 are the following:

1. Cancellation of the impact of 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. Assuming the change in control date on Jan 1, 2013, no expense would have been recognized. The expense 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 5.7 million incurred 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 June 30, 2013, for re-measurement of borrowings (due to the merger a change in control premium was paid to the lender in regard to borrowings);

EUR in thousands **(unaudited)**	**Three months ended June, 2013** **Valneva reported income statement (IFRS)**	**Intercell income for the period April and May**	**Pro forma adjustments - exclusion of merger related costs**	**Adjusted pro forma income statement**
Product sales	5,332	1,885		7,217
Revenues from collaborations, licensing and services	1,673	1,643		3,315
Revenues	**7,004**	**3,528**		**10,532**
Grant income	789	-		789
Revenues and Grants	**7,794**	**3,528**		**11,322**
Cost of goods and services	(3,556)	(2,165)		(5,721)
Research and development expenses	(4,202)	(4,139)	*282*[4]	(8,060)
General, selling and administrative expenses	(4,126)	(6,990)	*4,688*[4,5]	(6,429)
Other income and expenses, net	7	(71)		(64)
Amortization and impairment	(939)	(453)		(1,392)
OPERATING PROFIT/(LOSS)	**(5,022)**	**(10,291)**		**(10,343)**
Finance income	53	53		106
Finance expenses	(581)	(10,472)	*8,937*[6]	(2,116)
PROFIT/(LOSS) BEFORE INCOME TAX	**(5,550)**	**(20,710)**		**(12,354)**
Income tax	(15)	(2)		(17)
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	**(5,565)**	**(20,712)**		**(12,371)**
Loss from assets held for sale or discontinued operations	-	-		-
PROFIT/(LOSS) FOR THE PERIOD	**(5,565)**	**(20,712)**		**(12,371)**

Pro forma adjustments in three months ended June 30, 2013 are the following:

4. Cancellation of the impact of 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. Assuming the change in control date on Jan 1, 2013, no expense would have been recognized. The expense of the vesting period of the stock options of EUR 0.7 million was cancelled.
5. Cancellation of the impact of merger costs of EUR 4.2 million incurred 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.
6. Cancellation of the finance expense of EUR 8.9 million recognized in the consolidated income statement at June 30, 2013, for re-measurement of borrowings (due to the merger a change in control premium was paid to the lender in regard to borrowings);

11) Events after the reporting period

No events that are expected to have a material effect on the financial statements occurred after the reporting period until August 7, 2014.

Translation disclaimer: *This is a free translation into English of the original French language version of the interim financial report provided solely for the convenience of English speaking. While all possible care has been taken to ensure that this translation is an accurate representation of the original French document, this English version has not been audited by the company's statutory auditors and in all matters of interpretation of information, views or opinions expressed therein, only the original language version of the document in French is legally binding. As such, the translation may not be relied upon to sustain any legal claim, nor be used as the basis of any legal opinion and the VALNEVA expressly disclaims all liability for any inaccuracy herein.*

D. Responsibility Statement

We hereby declare that to the best of our knowledge, the condensed consolidated financial statements for the half year ended June 30, 2014 have been prepared in accordance with applicable accounting standards and present a fair view of the assets, financial position and results of the company and all companies included in the scope of consolidation and that the management report fairly presents all major events during the first six months of the year, their impact on the accounts and the main transactions between related parties and provides a description of the main risks and uncertainties facing the Group in the remaining six months of the year.

Thomas Lingelbach,
Chairman of the Executive Board of the Company and co-president

Franck Grimaud
Managing Director of the Company and co-president