JUNE 30, 2014

INTERIM FINANCIAL REPORT

1. Interim consolidated financial statements
2. Financial highlights and management discussion and analysis
3. Statutory auditors' limited review report on interim consolidated financial statements
4. Declaration by the person responsible for this Interim Financial Report

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INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INTERIM BALANCE SHEET, IFRS (in thousands of euros)

ASSETS	NOTE	JUNE 30, 2014	DECEMBER 31, 2013
CURRENT ASSETS:			
Cash and cash equivalents	2	8,348	5,138
Other current financial assets	2	87,818	42,724
Cash, cash equivalents and other current financial assets:	**2**	**96,166**	**47,862**
Receivables		1,206	1,896
Inventories		1,176	975
Other current assets	3	18,439	10,616
TOTAL CURRENT ASSETS		116,987	61,349
NON-CURRENT ASSETS:			
Property, plant and equipment	4	23,520	23,988
Intangible assets	5	1,224	1,329
Financial assets	6	4,502	9,937
Equity consolidated affiliates	6	3,086	3,841
Other non-current assets	7	27,105	25,406
TOTAL NON-CURRENT ASSETS		59,437	64,501
TOTAL ASSETS		176,424	125,850

LIABILITIES AND EQUITY	NOTE	JUNE 30, 2014	DECEMBER 31, 2013
CURRENT LIABILITIES:			
Payables		12,854	9,364
Financial liabilities	8	16,796	8,830
Provisions for risks		182	103
Other current liabilities	9	4,844	5,699
TOTAL CURRENT LIABILITIES		34,676	23,996
NON-CURRENT LIABILITIES:			
Financial liabilities	8	42,583	40,788
Defined benefit obligations	10	4,681	4,444
Other non-current liabilities	9	-	-
TOTAL NON-CURRENT LIABILITIES		47,264	45,232
TOTAL LIABILITIES		81,940	69,228
EQUITY:			
Share capital	11	87,965	72,933
Share premiums		476,083	428,023
Retained earning		(442,707)	(399,849)
Net loss for the period		(25,113)	(42,858)
Other comprehensive income		(1,744)	(1,627)
TOTAL EQUITY AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		94,484	56,622
TOTAL LIABILITIES AND EQUITY		176,424	125,850

CONSOLIDATED INTERIM INCOME STATEMENT, IFRS (in thousands of euros, except per share data)

	NOTE	JUNE 30, 2014	JUNE 30, 2013
Revenue from collaborative and licensing agreements	12	1,291	1,401
Government financing for research expenditures	12	4,988	5,313
REVENUE		6,279	6,714
Research and development expenses		(26,024)	(25,458)
General and administrative expenses		(3,850)	(3,265)
Other revenue and (expenses), net	13	(197)	(226)
NET OPERATING EXPENSES		(30,071)	(28,949)
OPERATING INCOME / (LOSS)		(23,792)	(22,235)
Interest income and (expense), net	14	(566)	(805)
INCOME / (LOSS) BEFORE TAX		(24,358)	(23,040)
Income tax expense	15	-	-
Income from equity consolidated affiliates	6	(755)	(126)
NET INCOME/ (LOSS)		(25,113)	(23,166)
Net income per share (€)	11	(0.65)	(0.73)
Diluted earnings per share (€)	11	(0.65)	(0.73)

COMPREHENSIVE INCOME (IFRS) (in thousands of euros)

	JUNE 30, 2014	JUNE 30, 2013
NET INCOME / (LOSS)	(25,113)	(23,166)
Foreign exchange gains / (losses)	(1)	3
Re-evaluation hedging instruments	(116)	168
OTHER COMPREHENSIVE INCOME	(117)	171
COMPREHENSIVE INCOME	(25,230)	(22,995)
Of which, equity holder of the parent	(25,230)	(22,995)
Of which, minority interests	-	-

CONSOLIDATED INTERIM CASH FLOW STATEMENT, IFRS (in thousands of euros)

	NOTES	JUNE 30, 2014	JUNE 30, 2013
CASH FLOW FROM OPERATING ACTIVITIES:			
Net income		(25,113)	(23,166)
Elimination of financial elements		566	1,121
ELIMINATION OF NON-CASH ITEMS:			
Income from equity consolidated affiliates		755	126
Changes in provisions		252	184
Depreciation and amortization of tangible and intangible assets	4,5,6	1,499	1,386
Payments in shares	16.2	360	371
Others	13	2	182
NET CASH GENERATED FROM / (USED IN) OPERATING ACTIVITIES BEFORE CHANGE IN WORKING CAPITAL AND OTHER OPERATING CASH FLOW:		**(21,679)**	**(19,796)**
CHANGE IN OPERATING WORKING CAPITAL REQUIREMENTS:			
Receivables	20	60	1,280
Inventories		(201)	210
Research tax credits	12.2	(4,959)	(3,688)
Other current assets	3	324	616
Payables	20	3,489	831
Prepaid income	9	(439)	(2,316)
Accrued employee benefits expense	10	(423)	(564)
Other current liabilities	9	7	(180)
NET CASH GENERATED FROM /(USED IN) OPERATING ACTIVITIES:		**(23,821)**	**(23,607)**
CASH FLOW FROM INVESTING ACTIVITIES :			
(Acquisition) / disposal of property, plant and equipment	4	(831)	(1,122)
(Acquisition) / disposal of intangible assets	5	(97)	(126)
Other (Acquisitions) / disposals	6	2,553	(2,442)
NET CASH GENERATED FROM / (USED IN) INVESTING ACTIVITIES:		**1,625**	**(3,690)**
CASH FLOW FROM FINANCING ACTIVITIES			
Net cash interest	14	-	(394)
Gross proceeds from issuance of share capital	14	65,654	-
Fees paid in relation to capital increase		(2,922)	-
Conditional subsidies	8.2	775	-
(Acquisitions) / disposal of other financial assets	2	(45,813)	22,678
Research tax credit financing	8	7,967	7,418
Repayment of finance lease liabilities	8	(254)	(301)
NET CASH GENERATED FROM /(USED IN) FINANCING ACTIVITIES:		**25,407**	**29,401**
Effect of changes in exchange rates on cash and cash equivalents		(1)	3
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:		**3,210**	**2,107**
Cash and cash equivalents at beginning of period		5,138	6,137
CASH AND CASH EQUIVALENTS AT END OF PERIOD:		**8,348**	**8,244**
Investments in other financial assets		87,818	63,800
CASH, CASH EQUIVALENTS AND OTHER FINANCIAL ASSETS:		**96,166**	**72,044**

STATEMENT OF CONSOLIDATED CHANGES IN EQUITY (IFRS) (in thousands of euros)

	COMMON SHARES						
	NUMBER OF SHARES	SHARE CAPITAL	SHARE PREMIUM	RETAINED EARNINGS	OTHER COMPREHEN-SIVE INCOME	PROFIT AND LOSS	CLOSING BALANCE NET WORTH
AS OF JUNE 30, 2013	31,854,490	72,886	427,629	(399 ,849)	(1,904)	(23,166)	75,596
Payments in shares	9,600	22	394	-	-	-	416
Issue of shares	10,768	25	-	-	-	-	25
Net loss for the period	-	-	-	-	-	(19,692)	(19,692)
Change in Fair value of marketable securities available-for-sale	-	-	-	-	(19)	-	(19)
Actuarial gap on employee benefit provision	-	-	-	-	247	-	247
Cash flow hedging	-	-	-	-	49	-	49
AS OF DECEMBER 31, 2013	31,874,858	72,933	428,023	(399,849)	(1,627)	(42,858)	56,622
Payments in shares	16,261	37	360	-	-	-	397
Issue of shares	6,553,551	14,995	47,700	-	-	-	62,695
Net loss appropriation 2013	-	-	-	(42,858)	-	42,858	-
Net loss for the period	-	-	-	-	-	(25,113)	(25,113)
Change in Fair value of marketable securities available-for-sale	-	-	-	-	(1)	-	(1)
Cash flow hedging	-	-	-	-	(116)	-	(116)
COMPREHENSIVE INCOME (LOSS)	-	-	-	-	**(117)**	**(25,113)**	**(25,230)**
AS OF JUNE 30, 2014	38,444,670	87,965	476,083	(442,707)	(1,744)	(25,113)	94,484

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOREWORD

Transgene's (the "Group") consolidated financial statements as of June 30, 2014 have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). They were prepared under the responsibility of the Chairman and Chief Executive Officer.

The financial information for the period ended June 30, 2014 includes:
- The balance sheet and statement of comprehensive income (including the income statement),
- The statement of cash flows,
- The statement of changes in equity, and
- The notes to the financial statements.

NOTE 1 ACCOUNTING PRINCIPLES

ACCOUNTING STANDARDS

The interim financial statements for the six months ended June 30, 2014 were prepared in accordance with IAS 34, *Interim Financial Reporting*. They should be read in conjunction with the annual consolidated financial statements as of December 31, 2013 prepared in accordance with IFRS as adopted by the EU and presented in section 20 of the "Document de Référence" submitted to the French stock market regulator (*Autorités* des *Marchés Financiers*, or AMF) on April 17, 2014.

Accounting principles used to prepare the interim consolidated financial statements are in accordance with IFRS standards and interpretations as adopted by the EU as of June 30, 2014 and are available on the website: http://ec.europa.eu/internal_market/accounting/ias_en.htm#adopted-commission.

NEW STANDARDS/AMENDMENTS APPLICABLE FOR ACCOUNTING PERIOD STARTING JANUARY 1, 2014 OR AFTER:

STANDARD/INTERPRETATION	PLANNED DATE OF APPLICATION BY IASB (open fiscal periods starting)	DATE OF EU APPLICATION (open fiscal periods starting)
IAS 1 amendment – Presentation of Financial Results – Presentation of Items in Total Income	July 1, 2012	July 1, 2012
IFRS 13 – Fair Value Measurement	January 1, 2013	January 1, 2013
IAS 19 – Employee Benefits	January 1, 2013	January 1, 2013
Amendment IFRS 7 - Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS7)	January 1, 2013	January 1, 2013
Improvements to IFRSs (2009-2011)	January 1, 2013	January 1, 2013
IAS 1 – Presentation of Financial Statements	January 1, 2013	January 1, 2013
IAS 16 – Property, Plant and Equipment	January 1, 2013	January 1, 2013
IAS 32 – Financial Instruments: Presentation	January 1, 2013	January 1, 2013
IAS 34 – Interim Financial Reporting	January 1, 2013	January 1, 2013
IFRS 10 – Consolidated Financial Statements	January 1, 2013	January 1, 2014

IFRS 11 – Joint arrangements	January 1, 2013	January 1, 2014
IFRS 12 – Disclosures of Interests in Other Entities	January 1, 2013	January 1, 2014
IAS 28 – Investments in Associates and Joint Ventures	January 1, 2013	January 1, 2014
Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities	January 1, 2014	January 1, 2014
Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities	January 1, 2014	January 1, 2014
Amendments to IFRS 10, IFRS 11 and IFRS 12 – Transition Guidance	January 1, 2013	January 1, 2014
Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets	January 1, 2014	January 1, 2014
Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting	January 1, 2014	January 1, 2014

OTHER STANDARDS / AMENDMENTS ISSUED AT JUNE 30, 2014:

STANDARD/INTERPRETATION	PLANNED DATE OF APPLICATION BY IASB (open fiscal periods starting)	DATE OF EU APPLICATION (open fiscal periods starting)
IFRS 9 – Financial Instruments	January 1, 2018	Not yet endorsed
Amendments to IFRS 11: Accounting for Acquisition of Interests in Joint Operations	January 1, 2016	Endorsement effective Q1 2015
Annual Improvements to IFRS (2010-2012)		Endorsement effective Q4 2014
IFRIC 21 – levies	January 1, 2014	Endorsement effective Q2 2014
Defined Benefit Plans: Employee Contributions (Amendments to IAS19)	July 1, 2014	Endorsement effective Q4 2014
Annual Improvements to IFRS (2011-2013)		Endorsement effective Q3 2014
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	January 1, 2016	Endorsement effective Q1 2015
IFRS 15: Revenue from Contracts with Customers	January 1, 2017	Endorsement effective Q2 2015

The impact of the application of these standards and amendments after January 1, 2014 is not significant.

1.1 ■ BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The interim financial statements were prepared according to the general IFRS principles: a fair presentation, operational continuity, the commitment accounting method, permanence of presentation, relative importance and aggregation. They were prepared using the historical cost convention, except for available-for-sale financial assets, which are measured at fair value.

As condensed interim financial statements, they do not incorporate all of the disclosures required in full financial statements and should thus be read in conjunction with the consolidated financial statements for the year ended December 31, 2013, as described in Chapter 20.1 of the French language Reference Document submitted to the French stock market regulator (*Autorités des Marchés Financiers*, or AMF) on April 17, 2014.

To prepare interim financial statements in accordance with IFRS, Transgene's management has made estimates and assumptions concerning, in particular, provisional estimates and deferred tax assets, which may affect reported amounts of assets, liabilities, income and expenses. Actual results may differ significantly from these estimates.

In view of the Company's business, management considers that all property, plant and equipment and intangible assets form part of a single cash-generating unit. At each period end, these assets are reviewed to determine whether there is any indication that they may be impaired. If any such indication exists, an asset recoverable amount is calculated. The same process applies to assets that are required to be tested for impairment each year.

The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset generates cash inflows that are largely independent of other assets or groups of assets. If this is the case, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If the carrying amount of an asset exceeds its recoverable amount, it is considered to be impaired and is written down to its recoverable amount. The value in use corresponds to the estimated future cash flows expected to be derived from the asset, discounted at a pre-tax rate that reflects current market expectations of the time value of money and the specific risks associated with the asset.

1.2 ■ BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of Transgene SA, as well as Transgene, Inc. and Transgene Biopharmaceuticals Technology (Shanghai) Co. Ltd. ("Transgene Shanghai"), wholly owned subsidiaries whose headquarters are located respectively in Cambridge, Massachusetts (United States) and Shanghai (China). These companies are fully consolidated.

Transgene SA owned 27%, 33.3% and 50% of Elsalys Biotech SAS, Platine Pharma Services SAS and Transgene Tasly (Tianjin) Biopharmaceutical Co. Ltd., respectively, as of June 30, 2014 and these equity investments are consolidated through equity accounting.

Intragroup balances and transactions are eliminated in consolidation and, together with intragroup profits, are included in the carrying amount of assets.

1.3 ■ PRESENTATION OF THE CONSOLIDATED INCOME STATEMENT

The consolidated income statement is presented by function (research and development expenses and general and administrative expenses). The following tables detail these expenses by type.

1.3.1 ■ RESEARCH AND DEVELOPMENT EXPENSES

IN MILLIONS OF EUROS	JUNE 30, 2014	JUNE 30, 2013	CHANGE
Payroll costs	9.9	9.9	NS
Share-based payments	0.3	0.3	NS
Intellectual property expenses and license costs	0.8	1.0	-20%
External expenses for clinical projects	4.8	6.4	-25%
External expenses for other projects	3.7	1.8	+205%
Operating expenses	5.0	4.8	+4%
Depreciation, amortization and provisions	1.5	1.3	+15%
RESEARCH AND DEVELOPMENT EXPENSES	26.0	25.5	+2%

1.3.2 ■ GENERAL AND ADMINISTRATIVE EXPENSES

IN MILLIONS OF EUROS	JUNE 30, 2014	JUNE 30, 2013	CHANGE
Payroll costs	1.8	1.6	+12%
Share-based payments	0.1	0.1	NS
Fees and administrative expenses	1.2	1.1	+9%
Other fixed costs	0.6	0.4	+50%
Depreciation, amortization and provisions	0.1	0.1	NS
GENERAL AND ADMINISTRATIVE EXPENSES	3.8	3.3	+15%

NOTE 2 CASH, CASH EQUIVALENTS AND OTHER CURRENT FINANCIAL ASSETS

IN THOUSANDS OF EUROS	JUNE 30, 2014	DECEMBER 31, 2013
Cash	1,039	852
Marketable securities	7,309	4,286
CASH AND CASH EQUIVALENTS	**8,348**	**5,138**
Other current financial assets	87,818	42,724
TOTAL	96,166	47,862
Impact recognized in financial income/(expense) of applying the fair value option:	0.5	0.5

Marketable securities consist of shares of short-term mutual funds.

Other current financial assets consist of investments made through a cash pool set up by the Institut Mérieux group.

NOTE 3 OTHER CURRENT ASSETS

IN THOUSANDS OF EUROS	JUNE 30, 2014	DECEMBER 31, 2013
Research tax credit, current portion	15,765	7,871
Government – recoverable VAT and tax receivables	683	562
Accrued credit notes	121	200
Employee benefits expense	4	53
Accrued subsidies	787	1,103
Prepaid expenses, current portion	1,174	827
Other receivables	(95)	-
TOTAL	18,439	10,616

The current portion of the research tax credits relates to the 2010 and 2011 receivables (see Note 7). It is expected that the French State will reimburse the 2010 research tax credit (€7,871 thousand) during the second half of 2014.

NOTE 4 PROPERTY, PLANT AND EQUIPMENT

IN THOUSANDS OF EUROS	DECEMBER 31, 2013	INCREASE	DECREASE	JUNE 30, 2014
ACQUISITION COSTS				
Buildings under finance leases	19,653	-	-	19,653
Land, buildings and fixtures	7,346	78	-	7,424
Laboratory equipment	16,294	705	(66)	16,933
Vehicles, office and computer equipment	2,168	52	(4)	2,216
Assets in progress	652	428	(423)	657
TOTAL	46,113	1,263	(493)	46,883
DEPRECIATION AND PROVISIONS				
Buildings under finance leases	(7,671)	(551)	-	(8,222)
Land, buildings and fixtures	(2,917)	(162)	-	(3,079)
Laboratory equipment	(10,168)	(492)	64	(10,596)
Vehicles, office and computer equipment	(1,369)	(100)	3	(1,466)
TOTAL	(22,125)	(1,305)	67	(23,363)
NET TOTAL	23,988	(42)	(426)	23,520

The depreciation expense for the property, plant and equipment reported in Transgene's income statement is as follows:

IN THOUSANDS OF EUROS	JUNE 30, 2014	JUNE 30, 2013
Research and development expenses	1,276	1,211
General and administrative expenses	29	28
TOTAL DEPRECIATION EXPENSES FOR PROPERTY, PLANT AND EQUIPMENT	1,305	1,239

NOTE 5 INTANGIBLE ASSETS

IN THOUSANDS OF EUROS	DECEMBER 31, 2013	INCREASE	DECREASE	JUNE 30, 2014
ACQUISITION COSTS				
Intangible assets	3,945	80	-	4,025
Intangible assets in process	166	97	(80)	183
TOTAL	4,111	177	(80)	4,208
DEPRECIATION AND PROVISIONS				
Other intangible assets	(2,782)	(204)	1	(2,985)
TOTAL	(2,782)	(204)	1	(2,985)
NET TOTAL	1,329	(27)	(79)	1,223

The depreciation expense for the intangible assets reported in Transgene's income statement is as follows:

IN THOUSANDS OF EUROS	JUNE 30, 2014	JUNE 30, 2013
Research and development expenses	192	146
General and administrative expenses	12	9
TOTAL AMORTIZATION AND DEPRECIATION OF INTANGIBLE ASSETS	204	155

NOTE 6 FINANCIAL ASSETS

6.1 ■ NON-CURRENT FINANCIAL ASSETS

IN THOUSANDS OF EUROS	DECEMBER 31, 2013	INCREASE	DECREASE	JUNE 30, 2014
Non-current financial assets	2,692	897	(5)	3,584
Advances to affiliates	200	718	-	918
Participating interests	7,074	-	(7,045)	29
GROSS TOTAL	9,966	1,615	(7,051)	4,531
Provisions for impairment	(29)	-	-	(29)
TOTAL	(29)	-	-	(29)
NET TOTAL	9,937	1,615	(7,051)	4,502

The increase in non-current financial assets relates mainly to the retention of the bank financing guarantee for the 2013 research tax credit (€885 thousand). (See Note 8.2)

The increase in advances to affiliates corresponds to an advance on the current account granted to Elsalys Biotech SAS (€718 thousand).

The disposal of participating interests relates to the Company's sale of its interest in Jennerex Inc., for which it received €2,331 thousand in the first half of 2014 (See Note 13).

6.2 ■ EQUITY CONSOLIDATED AFFILIATES

The table below shows the gross amounts (acquisition costs), the impairment provisions and the share of profit (loss) of associates:

IN THOUSANDS OF EUROS	DECEMBER 31, 2013	INCREASE	DECREASE	JUNE 30, 2014
Transgene Tasly (Tianjin) Biopharmaceuticals Co. Ltd.	3,976	-	-	3,976
Platine Pharma Services SAS	993	-	-	993
Elsalys Biotech SAS	501	-	-	501
TOTAL ACQUISITION COSTS	5,470	-	-	5,470
Share of income of Transgene Tasly (Tianjin) Biopharmaceuticals Co. Ltd	(458)	-	(511)	**(969)**
Share of profit (loss) of Platine Pharma Services SAS	(911)	-	(82)	**(993)**
Share of profit (loss) of Elsalys Biotech SAS	(260)	-	(162)	**(422)**
TOTAL IMPAIRMENT AND SHARE OF PROFIT (LOSS) ATTRIBUTABLE TO TRANSGENE	(1,629)	-	(755)	(2,384)
Transgene Tasly (Tianjin) Biopharmaceuticals Co. Ltd.	3,518	-	(511)	3,007
Platine Pharma Services SAS	82	-	(82)	-
Elsalys Biotech SAS	241	-	(162)	79
NET VALUE OF INVESTMENTS IN EQUITY CONSOLIDATED AFFILIATES	3,841	-	(755)	3,086

At June 30, 2014, Transgene owned 27% of Elsalys Biotech SAS versus 37% at December 31, 2013, as a result of a private capital increase on June 23, 2014.

NOTE 7 OTHER NON-CURRENT ASSETS

IN THOUSANDS OF EUROS	JUNE 30, 2014	DECEMBER 31, 2013
Research tax credit, non-current portion	21,991	25,051
Competitiveness and employment tax credit, non-current portion	335	210
Prepaid expenses, non-current portion	294	145
Receivables from the sale of participating interests	4,485	-
OTHER NON-CURRENT ASSETS	27,105	25,406

■ RESEARCH TAX CREDIT

The Company has receivables amounting to €37,755 thousand in research tax credits for 2010, 2011, 2012, 2013 and the first half of 2014. This amount can be used to offset corporate income tax payments. If it is not used for such purpose, the Group may ask to be reimbursed in cash per the schedule below, in accordance with the tax regulations in effect (in € thousands).

REFERENCE YEAR	YEAR OF EXPECTED REIMBURSEMENT	JUNE 30, 2014	DECEMBER 31, 2013
CURRENT PORTION			
2010	2014	7,871	7,871
2011	2015	7,894	-
TOTAL CURRENT PORTION		15,765	7,871
NON-CURRENT PORTION			
2011	2015	-	7,894
2012	2016	8,288	8,288
2013	2017	8,852	8,869
June 30, 2014	2018	4,850	-
TOTAL NON-CURRENT PORTION		21,990	25,051
	TOTAL	37,755	32,922

TAX CREDIT FOR COMPETITIVENESS AND EMPLOYMENT

At June 30, 2014, the Company had receivables from the French government in the amount of €335 thousand related to the tax credit for competitiveness and employment for 2013 and the first half of 2014.

RECEIVABLES FROM THE SALE OF PARTICIPATING INTERESTS

The receivable from the sale of participating interests of €4,485 thousand corresponds to the estimated net present value of the balance of the price that Transgene expects to receive on the sale of its interest in Jennerex, the payment of which is spread over time and subject to certain conditions. This receivable was valued using the best possible estimate of the dates on which payment milestones would be achieved. Such dates could extend to 2019. These future cash flows were discounted and the probabilities of their occurrence estimated. The discount rate for future cash flow is calculated from the weighted average cost of capital (WACC), which is itself based on a so-called market-comparable approach. A 1-point increase in the WACC would have a negative impact of approximately 2% on the value of the receivable. A 10% decrease in the probability used for the occurrence of future payments would have a negative impact of approximately 12% on the value of the receivable.

NOTE 8 FINANCIAL LIABILITIES

The following table breaks down financial liabilities by maturity:

IN THOUSANDS OF EUROS	JUNE 30, 2014	DECEMBER 31, 2013
Financial liabilities, current portion	16,796	8,830
Financial liabilities, non-current portion	42,583	40,788
FINANCIAL LIABILITIES	59,379	49,618

8.1 FINANCIAL LIABILITIES, CURRENT PORTION

IN THOUSANDS OF EUROS	JUNE 30, 2014	DECEMBER 31, 2013
Property leasing (see Note 8.2)	923	906
Equipment leasing	108	53
Funding of research tax credit in 2010 and 2011 (see Note 8.2)	15,765	7,871
FINANCIAL LIABILITIES – CURRENT PORTION	16,796	8,830

8.2 FINANCIAL LIABILITIES, NON-CURRENT PORTION

IN THOUSANDS OF EUROS	JUNE 30, 2014	DECEMBER 31, 2013
Property leasing	9,734	10,200
Equipment leasing	287	147
Interest rate swap - fair value (see Note 21)	617	501
Conditional advances	14,850	13,802
Funding of research tax credit in 2012 and 2013	17,095	16,138
FINANCIAL LIABILITIES – NON-CURRENT PORTION	42,583	40,788

PROPERTY LEASING

	JUNE 30, 2014		DECEMBER 31, 2013	
	MINIMUM PAYMENTS	PRESENT VALUE OF PAYMENTS	MINIMUM PAYMENTS	PRESENT VALUE OF PAYMENTS
Due within one year	1,045	1,013	1,033	1,002
Due in one to five years	4,459	4,001	4,401	3,949
Total future minimum lease payments	11,338	9,557	11,852	9,904
Finance costs included in total	680	604	745	658
Outstanding capital:	10,658	8,953	11,107	9,246
- of which current	*923*	*895*	*906*	*878*
- of which non-current	*9,735*	*8,058*	*10,201*	*8,368*

CONDITIONAL ADVANCES

At June 30, 2014, conditional advances of €14,850 thousand related to the repayable advances received under the ADNA (Advanced Diagnostics for New Therapeutic Approaches) program, which receives public funding from the BPI.

The group may receive up to €3.4 million in additional repayable advances over the remaining term of the ADNA program, i.e., up to 2016.

FUNDING OF THE RESEARCH TAX CREDIT

The table below breaks down the components of the bank financing of receivables for the Company's research tax credit:

			ASSETS						LIABILITIES	
			RECEIVABLES *OTHER ASSETS*		SECURITY DEPOSIT	PRE-PAID INTEREST *OTHER ASSETS*		TOTAL	FUNDING *FINANCIAL LIABILITIES*	
RTC Year	**Gross Amount**	Bank financing	Current portion	Non-current portion	*Non-current financial assets*	Current portion	Non-current portion	**Assets**	Current portion	Non-current portion
2010	**7,871**	Yes	7,871	-	787		-	**8,658**	7,871	-
2011	**7,894**	Yes	7,894	-	789	155	39	**8,877**	7,894	-
2012	**8,288**	Yes	-	8,288	824	-	-	**9,112**	-	8,243
2013	**8,852**	Yes	-	8,852	885	-	-	**9,737**	-	8,852
2014	**4,850**	-	-	4,850	-	-	-	**4,850**	-	-
TOTAL	37,755		15,765	21,990	3,285	155	39	41,234	15,765	17,095

NOTE 9 OTHER LIABILITIES

OTHER CURRENT LIABILITIES

IN THOUSANDS OF EUROS	JUNE 30, 2014	DECEMBER 31, 2013
Accrued taxes and employee benefit expense and other short-term payables	4,564	4,987
Prepaid income of which:	204	643
Novartis option right	-	*252*
Grants	*188*	*338*
Other	*16*	*53*
Other short-term payables	*76*	*69*
TOTAL	4,844	5,699

NOTE 10 EMPLOYEE BENEFITS

10.1 PENSIONS AND POST-EMPLOYMENT BENEFITS

In accordance with French law, Transgene participates in funding the pension of its employees in France through contributions, calculated on the basis of wages, to the relevant entities that manage the pension plans. For certain of its employees in France, Transgene also makes contributions, again based on wages, to private supplementary pension entities. There are no other obligations related to these contributions.

Transgene is also liable for a statutory lump-sum retirement benefit payment made to employees in France. The amount of the benefit is based on the employee's years of service and final salary, and is due only if the employee is still on the Group's payroll at the time of retirement. The assumptions used to calculate these provisions for retirement are as follows:

	JUNE 30, 2014	JUNE 30, 2013
Discount rate	3.00%	2.75%
Rate of future salary increases	2.50%	2.50%
Retirement age: • Managers: 62 (voluntary retirement) • Non-managers: 62 (voluntary retirement)		

10.2 INCENTIVE PROGRAM LINKED TO THE INCREASE IN THE COMPANY'S VALUATION

In 2014, Transgene introduced an incentive program for its executive managers that provides for an additional bonus based on the Company's five-year share price performance.

At June 30, 2014, the Company did not consider this future obligation as material.

NOTE 11 EQUITY

11.1 CAPITAL

In March 2014, the Company issued 6,553,551 new shares under two separate capital increases.

At June 30, 2014, Transgene had 38,444,670 outstanding shares representing share capital of €87,965,318.60.

11.2 EARNINGS PER SHARE

The following table reconciles basic and diluted earnings per share. The number of shares is calculated on a prorated basis.

	JUNE 30, 2014	JUNE 30, 2013
BASIC LOSS PER SHARE		
Available net profit attributable to equity holders of the Group (in € thousands)	(25,113)	(23,166)
Average number of shares outstanding	38,444,670	31,854,490
BASIC EARNINGS PER SHARE (IN €)	**(0.65)**	**(0.73)**
DILUTED EARNINGS PER SHARE (IN €)	**(0.65)**	**(0.73)**

In the first half of 2013 and 2014, financial instruments granting right to deferred capital (stock options and free shares) were considered anti-dilutive since they led to an increase in net earnings per share (decrease in the loss per share) from continuing operations. Therefore, the diluted earnings per share for the first half of 2013 and of 2014 are identical to the basic earnings per share.

11.3 STOCK OPTION PLANS

Transgene did not grant any new stock options during the first half of 2014. The number of options outstanding at December 31, 2013 amounted to 1,262,242, of which 882,242 were exercisable. No material change has occurred since this date.

The cost of services rendered is recognized as an expense over the option vesting period. The expense was €210 thousand in the first half of 2014, unchanged from the first half of 2013.

11.4 FREE SHARE PLANS

Transgene did not grant any new free shares during the first half of 2014.
As of December 31, 2013, there were 138,850 allotted free shares and 9,600 were vested by the beneficiaries. No material change has occurred since this date.

The cost of services rendered is recognized as an expense over the vesting period. The expense was €150 thousand in the first half of 2014 and €160 thousand in the first half of 2013.

NOTE 12 REVENUE

12.1 REVENUE FROM COLLABORATIVE AND LICENSING AGREEMENTS

IN THOUSANDS OF EUROS	JUNE 30, 2014	JUNE 30, 2013
Revenue from manufacturing and research and development collaborations	797	653
License fees and royalties	494	748
TOTAL	1,291	1,401

12.2 GOVERNMENT FINANCING FOR RESEARCH EXPENDITURE

IN THOUSANDS OF EUROS	JUNE 30, 2014	JUNE 30, 2013
Research and development grants	195	1,765
Research tax credits, net	4,793	3,548
TOTAL	4,988	5,313

The gross research tax credit, excluding advisory fees, for the first half of 2014 was €4,850 thousand.

NOTE 13 OTHER OPERATING INCOME AND EXPENSES

IN THOUSANDS OF EUROS	JUNE 30, 2014	JUNE 30, 2013
Investment subsidies	8	7
Income from sale of fixed assets	6,817	175
Other income	120	19
TOTAL INCOME	6,945	201
Net carrying value of disposals of fixed assets	(7,048)	(184)
Other expenses	(94)	(243)
TOTAL EXPENSES	(7,142)	(427)
TOTAL	(197)	(226)

In the first half of 2014, the income of €6,817 thousand from the sale of fixed assets related to the sale of Jennerex, Inc. At the time of the transaction, a partial cash payment of €2,332 thousand was made. The difference between the total income and the portion paid at the time of sale corresponds to the present net value of the future contingent payments.

As of June 30, 2014, the net carrying value of sales of fixed assets mainly related to the sale of the Jennerex securities.

NOTE 14 INTEREST INCOME (EXPENSES), NET

IN THOUSANDS OF EUROS	JUNE 30, 2014	JUNE 30, 2013
Investment income	105	28
Debt servicing costs	(370)	(331)
NET INTEREST INCOME	(265)	(303)
Other financial income and expenses	(338)	(546)
Foreign exchange gains/(losses)	37	44
TOTAL OTHER	(301)	(502)
INTEREST INCOME/(EXPENSE), NET	(566)	(805)

NOTE 15 CORPORATE INCOME TAX

15.1 ■ CURRENT TAXES

Since the Group is in a tax loss position, it does not pay corporate income tax. The US and Chinese subsidiaries did not recognize any current tax income or expense in 2013 or 2014.

15.2 ■ DEFERRED TAXES

No deferred tax assets were recognized at June 30, 2014, due to the uncertainty of taxable income being generated over the next three years.

NOTE 16 EMPLOYEE INFORMATION

16.1 ■ PERSONNEL

As of June 30, 2014, the Group had 298 employees, including six employees at Transgene, Inc. and four at Transgene Shanghai. The Group had 295 employees at December 31, 2013.

AT JUNE 30, 2014	MEN	WOMEN	TOTAL
Managers	70	108	178
Other grades	27	93	120
TOTAL	97	201	298*

** Including 265 open-ended employment contracts at June 30, 2014*

16.2 ■ PAYROLL COSTS

Employee benefits expenses included in the Group's income statement (salaries, payroll taxes, pension costs and related expenses) were as follows:

IN THOUSANDS OF EUROS	JUNE 30, 2014	JUNE 30, 2013
Research and development expenses	9,941	9,873
General and administrative expenses	1,827	1,583
TOTAL EMPLOYEE BENEFITS EXPENSES	11,768	11,456

The expense related to share-based payment was:

IN THOUSANDS OF EUROS	JUNE 30, 2014	JUNE 30, 2013
Research and development expenses	271	280
General and administrative expenses	89	90
TOTAL	360	370

NOTE 17 RELATED PARTIES

Transgene signed a cash pooling agreement with Institut Mérieux and the cash invested in it represents a receivable of €87,818 thousand at June 30, 2014. The interest income at June 30, 2014 was €95 thousand.

The table below does not include these cash items.

	JUNE 30, 2014	
IN THOUSANDS OF EUROS	RECEIVABLES	?
bioMérieux S.A.(1)	-	7
bioMérieux China	-	13
Institut Mérieux (2)	-	420
Advance Bioscience Laboratories, Inc. (3)	-	458
Transgene Tasly(4)	137	-
Elsalys Biotech SAS(5)	961	2
Platine Pharma Services SAS	700	-
TOTAL	1,798	900

IN THOUSANDS OF EUROS	REVENUE	EXPENSES
bioMérieux S.A.(1)	-	52
bioMérieux China	-	80
Institut Mérieux (2)	-	1, 043
bioMérieux, Inc.	-	-
Advance Bioscience Laboratories, Inc. (3)	-	697
Transgene Tasly (4)	266	-
Elsalys Biotech SAS (5)	359	16
Platine Pharma Services SAS	-	44
Thera conseil	-	9
TOTAL	625	1,941

(1) Revenue corresponds to the research activities and the expenses for the purchases of laboratory equipment and supplies.
(2) Expenses relate to the agreement for services provided by Institut Mérieux.
(3) Expenses relate to the agreement for services, reinvoicing of personnel and rent entered into between Transgene, Inc. and Advance Bioscience Laboratories, Inc.
(4) Revenue corresponds to the agreement for services and reinvoicing of personnel entered into between Transgene SA and Transgene Tasly BioPharmaceutical Co. ltd.
(5) Revenue relates to the agreement for services provided by Transgene SA. Expenses consist of an agency contract between Elsalys Biotech and Transgene SA.

NOTE 18 OFF-BALANCE SHEET COMMITMENTS

Transgene did not enter into any material new off-balance sheet commitments during the first half of 2014.

However, Transgene has entered into agreements with subcontractors that could have an impact over several accounting periods. As of June 30, 2014, the Company estimates its financial commitments under these agreements to be approximately €16 million in current value.

The Group no longer has a commitment with Novartis following the latter's decision in April 2014 to not exercise its option over the TG4010 development and commercialization rights.

Pursuant to a subcontracting agreement for the production of pharmaceutical ingredients of viral vectors, the Group has made a commitment to participate in the financing of a commercial production unit being installed by the Sanofi group. Transgene's financial commitments under this contract could amount to a maximum of €5 million.

The Group did not make any other material off-balance sheet commitments such as guarantees, pledges, etc..

NOTE 19 SEGMENT INFORMATION

The Group operates exclusively in the pharmaceutical research and development of therapeutic vaccines and immunotherapy products, none of which are currently on the market. It generated revenue in the first half of 2014 with its main partners, the Swiss group Novartis and the US company Jennerex, Inc. The majority of its operations are located in France. The Group has therefore decided to prepare and present its financial statements on the basis of a single operating segment.

NOTE 20 BREAKDOWN OF ASSETS AND LIABILITIES BY MATURITY

JUNE 30, 2014

RECEIVABLES (IN THOUSANDS OF EUROS)	GROSS AMOUNT	ONE YEAR OR LESS	MORE THAN ONE YEAR
Non-current financial assets	3,583	1,576	2,007
Trade receivables	1,206	1,206	-
Research tax credits, tax credit for competitiveness and employment	38,090	15,765	22,325
Government, VAT and other local authorities	683	683	-
Personnel and related accounts	4	4	-
Prepaid expenses	1,468	1,174	294
Accrued subsidies	787	787	-
Other receivables	121	121	-
TOTAL ASSETS	45,942	21,316	24,626

transgene

IN THOUSANDS OF EUROS	GROSS AMOUNT	ONE YEAR OR LESS	MORE THAN ONE YEAR AND LESS THAN OR EQUAL TO 5 YEARS	MORE THAN 5 YEARS
Conditional advances	14,850	-	-	14,850
Trade payables	12,854	12,854	-	-
Property leasing	10,658	924	4,082	5,652
Equipment leasing	394	108	286	-
Funding of the research tax credit	32,860	15,765	17,095	-
Provisions for risks and liabilities	182	182	-	-
Provisions for retirement	4,581	229	1,624	2,728
Provision for the DIF (employee training entitlement)	100	100	-	-
Accrued employee benefits and tax expense	4,564	4,564	-	-
Prepaid income	204	204	-	-
Other liabilities	693	76	-	617
TOTAL LIABILITIES	81,940	35,006	23,087	23,847

NOTE 21 EXCHANGE RATE HEDGING

Since the first half of 2009, the Group has partially hedged the interest rate risk related to the finance leasing of its administrative and research building located in Illkirch (See Note 8).

At June 30, 2014, the market value of this hedging instrument was less than €617 thousand.

NOTE 22 FINANCIAL INSTRUMENTS

The table below breaks down financial assets and liabilities according to the categories set out in IAS 39 (excluding receivables and accrued taxes and employee benefits) and compares the carrying values and fair values:

JUNE 30, 2014 (IN € THOUSANDS)	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE-FOR-SALE ASSETS	RECEIVABLES, PAYABLES, BORROWINGS, AT AMORTIZED COST	DERIVATIVE INSTRUMENTS	CARRYING VALUE	FAIR VALUE	LEVEL
FINANCIAL ASSETS							
Cash and cash equivalents	8,348	-	-	-	8,348	8,348	1
Other current financial assets	87,818	-	-	-	87,818	87,818	2
Trade receivables	-	-	1,206	-	1,206	1,206	-
Non-current financial assets	-	-	4,501	-	4,501	4,501	2
Investments in associates	-	-	3,086	-	3,086	3,086	2
Other non-current assets	4,485	-	-	-	4,485	4,485	3
TOTAL FINANCIAL ASSETS	100,652	-	8,794	-	109,446	109,446	

JUNE 30, 2014 (IN € THOUSANDS)	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE-FOR-SALE ASSETS	RECEIVABLES, PAYABLES, BORROWINGS, AT AMORTIZED COST	DERIVATIVE INSTRUMENTS	CARRYING VALUE	FAIR VALUE	LEVEL
FINANCIAL LIABILITIES							
Borrowings from credit institutions, long-term portion	-	-	17,095	-	17,095	17,095	2
Lease commitment, long-term portion	-	-	10,021	-	10,021	10,021	2
Conditional advances	-	-	14,850	-	14,850	14,850	2
Other non-current financial liabilities	-	-	-	617	617	617	2
NON-CURRENT FINANCIAL LIABILITIES	**-**	**-**	**41,966**	**617**	**42,583**	**42,583**	**-**
Borrowings from credit institutions, short-term portion	-	-	15,765	-	15,765	15,765	2
Finance leasing, short-term portion	-	-	1,031	-	1,031	1,031	2
CURRENT FINANCIAL LIABILITIES	**-**	**-**	**16,796**	**-**	**16,796**	**16,796**	**-**
TRADE PAYABLES	**-**	**-**	**12,854**	**-**	**12,854**	**12,854**	**-**
TOTAL FINANCIAL LIABILITIES	-	-	71,617	617	72,234	72,234	

In accordance with IFRS 13, financial instruments are categorized in three levels according to a hierarchy of methods determining the fair value:

- Level 1 inputs are calculated with reference to quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 inputs are calculated with reference to observable market data for the asset or liability, either directly or indirectly (i.e., derived from prices);
- Level 3 inputs are calculated with reference to unobservable inputs.

NOTE 23 EVENTS AFTER THE REPORTING PERIOD

In July 2014, the US Company ABL, Inc. acquired a majority interest in Platine Pharma Services SAS through a private placement. Following this transaction, as well as the subsequent trsanfers of securities by the three principal shareholders, ABL, Inc. now owns around 70% of Platine Pharma Services. Transgene's holding in Platine Pharma Services decreased from 33% to less than 10%. At June 30, 2014, this transaction did not have a material impact on the value of Transgene's assets.

FINANCIAL HIGHLIGHTS AND MANAGEMENT DISCUSSION AND ANALYSIS

2.1 KEY EVENTS SINCE JANUARY 1, 2014

In early January 2014, Transgene announced promising preliminary results from the phase 2b part of the phase 2b/3 TIME trial evaluating TG4010 in combination with chemotherapy in the treatment of non-small cell lung cancer.

At the end of January 2014, Transgene and Sanofi announced they had launched the construction phase of the bio-manufacturing platform dedicated to the production of viral vectors, such as Transgene's TG4010, on GenzymePolyclonals' site in Lyon.

In March 2014, Jennerex, Inc., Transgene's partner in the development of Pexa-Vec, was acquired by Sillajen. Transgene sold its shares in Jennerex, Inc. within the framework of the acquisition.

At the end of March 2014, Transgene and its partners Sillajen and Lee's Pharmaceutical confirmed the clinical development plan for Pexa-Vec. This plan includes the enrollment of the first patients in the Phase 3 study to be launched in mid-2015 for the treatment of advanced hepatocellular carcinoma (HCC, liver cancer). Several additional Phase 1/2 trials are scheduled to be launched starting in 2014.

At the end of March 2014, Transgene announced the successful completion of a two-step capital increase comprised of a rights issue and a private placement for a total gross amount of €65.5 million (net amount of €62.6 million).

In April 2014, Transgene was informed that Novartis would not exercise its option on TG4010 at the close of the exclusivity period signed in 2010. The Company is looking for a new partner for the clinical development and commercialization of TG4010.

In May 2014, Transgene reported that progress had been made in its proprietary oncolytic immunotherapy TG6002. This product is in pre-clinical testing and demonstrated activity in several in vitro and in vivo models. The Company expects to start an initial clinical study for this product in 2015.

At the end of May 2014, Transgene announced promising results from the Phase 2b part of the TIME clinical trial with TG4010 in non-small cell lung cancer. Based on an analysis conducted with a more mature data set than that of January 2014, the primary objective of the trial was achieved in the group of patients having a normal TrPAL. Moreover, a statistically significant and clinically meaningful improvement in the survival rate without progression was observed in patients with non-squamous lung cancer histologies. Detailed results of the TIME clinical trial, including overall survival, are expected to be presented at a major medical conference later in the year.

2.2 FINANCIAL RESULTS

REVENUE:

The table below breaks down the operating income for the first half of 2014 compared to the same period in 2013:

	FIRST HALF	
IN MILLIONS OF EUROS	2014	2013
Revenue from collaborative and licensing agreements	1.3	1.4
Government financing for research expenditure	5.0	5.3
REVENUE	6.3	6.7

During the periods under review, the revenue from collaborative and licensing agreements were composed principally of:

- Fees for manufacturing or conducting research and development activities for third parties (for example, in 2014, Jennerex, Inc. for the Pexa-Vec product and Emergent Biosolutions, Inc, for the tuberculosis product-candidate) amounting to €0.8 million in the first half of 2014 compared to €0.7 million for the same period in 2013;
- Upfront or milestone payments for products under development, amounting to €0.3 million in the first half of 2014 compared to €0.5 million for the same period in 2013. At June 30, 2014, this revenue consists of the partial payment received from Novartis in March 2010 pursuant to the option agreement. The revenue was recognized in operating income in a staggered and linear manner from the signing of the agreement and until March 31, 2014;
- Revenue on sales of technology or products licensed to others by Transgene amounting to €0.2 million in the first half of 2014, unchanged compared to the same period in 2013.

For the first half of 2014, government financing for research expenditures was composed of subsidies received or accrued as well a research tax credit. Research subsidies amounted to €0.2 million in the first half of 2014 compared to €1.8 million for the same period in 2013. The research tax credit was €4.8 million in the first half of 2014 compared to €3.5 million for the same period in 2013. The research tax credit for the first half of 2014 was calculated as half of the research tax credit expected for the full year 2014, as recalculated on June 30, 2014.

OPERATING EXPENSES:

Research and development expenses amounted to €26.0 million in the first half of 2014 compared to €25.5 million for the same period in 2013.

The table below breaks down the research and development expenses by type:

IN MILLIONS OF EUROS	JUNE 30, 2014	JUNE 30, 2013	CHANGE
Employee benefits expenses	9.9	9.9	NS
Payment in shares	0.3	0.3	NS
Expenses for intellectual property and licensing	0.8	1.0	-20%
External expenses for clinical projects	4.8	6.4	-25%
External expenses for other projects	3.7	1.8	+205%
Operating expenses	5.0	4.8	+4%
Depreciation and provisions	1.5	1.3	+15%
RESEARCH AND DEVELOPMENT EXPENSES	26.0	25.5	+2%

Payroll costs for employees assigned to R&D (salaries and related charges and expenses as well as share-based payments) amounted to €10.2 million in the first half of 2014, unchanged compared to the same period in 2013. Intellectual property expenses and license costs amounted to €0.8 million in the first half of 2014 compared to €1.0 million for the same period in 2013.

External costs for clinical trials amounted to €4.8 million for the first half of 2014 compared to €6.4 million for the same period in 2013. This decrease of 25% can be mainly attributed to:

- the end of the TRAVERSE study in 2014, a phase 2b clinical trial with Pexa-Vec in second-line treatment of advanced liver cancer, which was still enrolling patients in the first half of 2013 (€1.1 million in external costs for this product in the first half of 2014 compared to €1.5 million in for the same period in 2013);
- the decrease in 2014 in the number of patients treated with TG4010 in the 2b part of the 2b/3 TIME trial for the treatment of lung cancer following the closing of this study (€2.3 million of external costs for this product in the first half of 2014 compared to €3.3 million for the same period in 2013);
- the end of the HCVac study with TG4040 for the treatment of hepatitis C (no external costs for this product in the first half of 2014 compared to €0.7 million for the same period in 2013).

Other external costs, including expenditures for research and pre-clinical projects as well as for industrial projects, amounted to €3.7 million for the first half of 2014 compared to €1.8 million for the same period in 2013. This sharp increase can be attributed to the decision at the beginning of the year to begin construction of a commercial production unit in collaboration with Sanofi/Genzyme (€0.8 million in external costs in the first half of 2014 with none recorded for the first half of 2013) and the launch of the regulatory toxicology studies on the immunotherapy products TG1050 and TG6002 (€0.7 million in external costs for the first half of 2014 with none recorded for the first half of 2013).

Operating costs, including costs to operate research laboratories and the internal production unit, amounted to €5.0 million in the first half of 2014 compared to €4.8 million for the same period in 2013.

General and administrative expenses amounted to €3.8 million in the first half of 2014 compared to €3.3 million for the same period in 2013.

The following table provides details on general and administrative expenses by type:

IN MILLIONS OF EUROS	JUNE 30, 2014	JUNE 30, 2013	CHANGE
Employee benefits expenses	1.8	1.6	+12%
Payment in shares	0.1	0.1	NS
Professional and management fees	1.2	1.1	+9%
Other overhead costs	0.6	0.4	+50%
Depreciation, amortization and provisions	0.1	0.1	NS
GENERAL AND ADMINISTRATIVE EXPENSES	3.8	3.3	+15%

Payroll costs were €1.8 million in the first half of 2014 compared to €1.6 million for the same period in 2013. This increase relates mainly to expanding our headcount in business development and investor relations in the United States.

External costs and, particularly, fees and management expenses amounted to €1.2 million in the first half of 2014 compared to €1.1 million for the same period in 2013.

OTHER INCOME AND (EXPENSES), NET

Other net expenses were €0.1 million in the first half of 2014 compared to €0.2 million for the same period in 2013. In particular, the disposal of the Jennerex, Inc. securities generated a net expense of €0.2 million in the first half of 2014.

INTEREST INCOME (EXPENSES)

Net interest expenses amounted to €0.6 million in the first half of 2014 compared to expenses of €0.8 million for the same period in 2013.

Financial income (investment income) was €0.1 million in the first half of 2014, unchanged compared to the same period in 2013.

Interest expenses were mainly composed of bank interest on the refinancing of the research tax credit for €0.2 million, the cost of the financial discounting of the advances received by BPI under the ADNA program for €0.3 million and the lease financing interest for €0.1 million.

NET LOSS:

Net loss was €25.1 million for the first half of 2014 compared to €23.2 for the same period in 2013. Net loss per share was €0.65 for the first half of 2014 compared to €0.73 for the same period in 2013.

INVESTMENTS:

Investments in tangible and intangible assets (net of disposals) amounted to €0.9 million for the six-month period ended June 30, 2014, compared to €0.8 million for the same period in 2013.

REPAYABLE LOANS AND ADVANCES:

In the first half of 2014, Transgene received €0.8 million in repayable advances under the ADNA program, which receives public funding from BPI. A payment of €2.9 million in aid was received in the second half of 2013.

In the first half of 2014, the Group refinanced its 2013 research tax credit in the amount of €8.8 million through a bank loan (with BPI) maturing in mid-2017, the expected date of repayment by the French government.

LIQUIDITY AND CAPITAL RESOURCES:

The cash is invested in very short-term mutual funds or according to market conditions in the cash pooling managed by Institut Mérieux, the majority shareholder of Transgene.

At June 30, 2014, Transgene had €96.2 million in cash compared to €47.9 million at December 31, 2013.

NET CASH OUTFLOW:

Transgene's cash outflow was €14.8 million in the first half of 2014 (excluding capital increase fees) compared to €18.5 million for the same period in 2013.

Cash outflow is expected to increase in the second half of 2014, primarily due to the exceptional inflows that occurred in the first half. Transgene continues to expect net cash outflows of approximately €50-55 million for 2014.

2.3 RELATED PARTY TRANSACTIONS

This information is disclosed in Note 17 of the 2014 interim financial statements published in this Report.

2.4 RISK FACTORS

Transgene has begun looking for new partners as Novartis did not exercise its option to continue with the development of TG4010. With the exception of this event, there were no other material changes in the type or level of risk factors as described in the Registration Document filed with the AMF on April 17, 2014.

2.5 EVENTS AFTER THE REPORTING PERIOD

In July 2014, the US company ABL, Inc. acquired control of Platine Pharma Services SAS through a private placement. Following this transaction, as well as the subsequent transfers of securities by the three principal shareholders, ABL, Inc. now owns around 70% of Platine Pharma Services. Transgene's holding in Platine Pharma Services decreased from 33% to less than 10%. At June 30, 2014, this transaction did not have a material impact on the value of Transgene's assets.

STATUTORY AUDITORS' LIMITED REVIEW REPORT ON INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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S.A.S. à capital variable

Commissaire aux Comptes
Membre de la compagnie régionale de Versailles

Transgene
For the period from January 1 to June 30, 2014

STATUTORY AUDITORS' REVIEW REPORT ON THE HALF-YEARLY FINANCIAL INFORMATION

Statutory auditors' review report on the half-yearly financial information

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 III 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 Transgene S.A., 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 chief executive officer. 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.

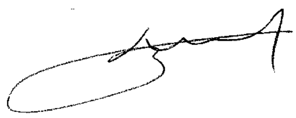
Lyon, September 4, 2014
The statutory auditors - *French original signed by*

COMMISSARIAT CONTROLE AUDIT
Hubert de Rocquigny du Fayel

ERNST & YOUNG et Autres
Marc-André Audisio

DECLARATION BY THE PERSON RESPONSIBLE FOR THIS INFORMATION

I hereby declare, to the best of my knowledge, that the consolidated financial statements for the six-month period have been prepared in accordance with generally accepted accounting principles and give a true image of the assets, financial position and results of Transgene and all of the entities within its scope of consolidation, and that the interim management report attached hereto fairly reflects the significant events that have occurred in the first half of the financial year, their impact on the financial statements, the principal related-party transactions as well as a description of the principal risks and uncertainties for the six months to come.



Mr. Philippe Archinard
Chairman and Chief Executive Officer