transgene

INTERIM FINANCIAL REPORT

JUNE 30, 2013

CONTENTS

1

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INTERIM BALANCE SHEET, IFRS (in € thousands)

ASSETS	NOTE	30.06.2013	31.12.2012*
CURRENT ASSETS:			
Cash and cash equivalents	2	8,243	6,137
Other current financial assets	2	63,801	86,778
Cash, cash equivalents and other financial assets:	**2**	**72,044**	**92,915**
Receivables		898	2,012
Inventories		897	1,107
Other current assets	3	9,296	2,340
TOTAL CURRENT ASSETS		83,135	98,374
NON-CURRENT ASSETS:			
Property, plant and equipment	4	24,374	24,805
Intangible assets	5	1,468	1,497
Financial assets	6	10,171	7,382
Equity consolidated affiliates	6	4,307	3,932
Other non-current assets	7	20,243	24,474
TOTAL NON-CURRENT ASSETS		60,563	62,090
TOTAL ASSETS		**143,698**	**160,464**

EQUITY AND LIABILITIES	NOTE	30.06.2013	31.12.2012*
CURRENT LIABILITIES:			
Payables		10,279	9,587
Financial liabilities	8	8,848	961
Provisions for risks		1	2
Other current liabilities	9	6,045	8,853
TOTAL CURRENT LIABILITIES		25,173	19,402
NON-CURRENT LIABILITIES:			
Financial liabilities	8	38,101	38,006
Defined benefit obligations	10	4,828	4,584
Other non-current liabilities	9	-	252
TOTAL NON-CURRENT LIABILITIES		42,929	42,842
TOTAL LIABILITIES		**68,102**	**62,244**
EQUITY:			
Share capital	11	72,886	72,886
Share premiums		427,629	427,258
Retained earnings		(399,849)	(356,655)
Net loss for the period		(23,166)	(43,194)
Other comprehensive income		(1,904)	(2,075)
TOTAL EQUITY AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		75,596	98,220
TOTAL EQUITY AND LIABILITIES		**143,698**	**160,464**

** 2012 accounts as modified in accordance with the new IAS19, retroactively applicable (Note 1.8.3)*

CONSOLIDATED INTERIM INCOME STATEMENT, IFRS (in € thousands, except for per share data)

	NOTE	30.06.2013	30.06.2012*
Revenue from collaborative and licensing agreements	12	1,401	1,593
Government financing for research expenditures	12	5,313	4,481
REVENUE		6,714	6,074
Research and development expenses		(25,458)	(23,811)
General and administrative expenses		(3,265)	(3,313)
Other income and (expenses), net	13	(226)	(424)
NET OPERATING EXPENSES		(28,949)	(27,548)
OPERATING INCOME / (LOSS)		(22,235)	(21,474)
Interest income and (expenses), net	14	(805)	(81)
INCOME / (LOSS) BEFORE TAX		(23,040)	(21,555)
Income tax expense	15	-	-
Income from equity consolidated affiliates	6	(126)	(200)
NET INCOME/ (LOSS)		(23,166)	(21,755)
Net income per share (€)	11	(0.73)	(0.68)
Diluted earnings per share (€)	11	(0.73)	(0.68)

** 2012 accounts as modified in accordance with the new IAS19, retroactively applicable (Note 1.8.3)*

COMPREHENSIVE INCOME (IFRS) (in € thousands)

	30.06.2013	30.06.2012*
NET INCOME / (LOSS)	(23,166)	(21,755)
Foreign exchange gains / (losses)	3	24
Reevaluation of hedging instruments	168	(126)
OTHER COMPREHENSIVE INCOME	171	(102)
COMPREHENSIVE INCOME	(23,337)	(21,857)
Of which, equity holder of the parent	(23,337)	(21,857)
Of which, minority interests	-	-

** 2012 accounts as modified in accordance with the new IAS19, retroactively applicable (Note 1.8.3)*

CONSOLIDATED INTERIM CASH FLOW STATEMENT, IFRS (in € thousands)

	NOTE	30.06.2013	30.06.2012*
CASH FLOW FROM OPERATING ACTIVITIES			
Net income		(23,166)	(21,755)
Elimination of financial elements		1,121	83
ELIMINATION OF NON-CASH ELEMENTS			
Income from equity consolidated affiliates		126	200
Changes in provisions		461	130
Depreciation and amortization of tangible and intangible assets	4,5,6	1,386	1,368
Payments in shares	16.2	371	436
Others	13	182	-
NET CASH GENERATED FROM / (USED IN) OPERATING ACTIVITIES BEFORE CHANGE IN WORKING CAPITAL AND OTHER OPERATING CASH FLOW:		(19,796)	(19,538)
CHANGES IN OPERATING WORKING CAPITAL:			
Receivables	20	1,280	(416)
Inventories		210	(82)
Research tax credits	12.2	(3,688)	(3,992)
Other current assets	3	616	(190)
Payables	20	831	(2,081)
Prepaid income	9	(2,316)	(401)
Accrued employee benefits expense	10	(564)	(316)
Other current liabilities	9	(180)	(242)
NET CASH GENERATED FROM / (USED IN) OPERATING ACTIVITIES:		(23,607)	(27,068)
CASH FLOW FROM INVESTING ACTIVITIES :			
(Purchase) / disposal of property, plant and equipment	4	(1,122)	(827)
(Purchase) / disposal of intangible assets	5	(126)	(148)
Other (purchases) / disposals	6	(2,442)	-
NET CASH GENERATED FROM / (USED IN) INVESTING ACTIVITIES:		(3,690)	(975)
CASH FLOW FROM FINANCING ACTIVITIES:			
Net cash interest	14	(394)	240
Gross proceeds from issuance of share capital	14	-	110
Fees paid in relation to capital increase		-	-
Conditional subsidies	8.2	-	3,116
Acquisition) / disposal of current financial assets	2	22,678	26,878
Research tax credit financing	8	7,418	6,500
Repayment of finance lease liabilities	8	(301)	138
NET CASH GENERATED FROM / (USED IN) FINANCING ACTIVITIES:		29,401	36,982
Effect of changes in exchange rates on cash and cash equivalents		3	24
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:		2,107	8,963
Cash and cash equivalents at beginning of period		6,137	1,733
CASH AND CASH EQUIVALENTS AT END OF PERIOD:		8,244	10,696
Investments in other financial assets		63,800	110,726
CASH, CASH EQUIVALENTS AND OTHER FINANCIAL ASSETS:		72,044	121,422

** 2012 accounts as modified in accordance with the new IAS19, retroactively applicable (Note 1.8.3)*

STATEMENT OF CONSOLIDATED CHANGES IN EQUITY (IFRS) (in € thousands)

	COMMON SHARES		SHARE PREMIUM	RETAINED EARNINGS	OTHER COMPREHEN-SIVE INCOME	PROFIT AND LOSS	CLOSING BALANCE NET WORTH
	NUMBER OF SHARES	SHARE CAPITAL					
AS OF JUNE 30, 2012	31,782,940	72,723	427,003	(356,655)	(1,062)	(21,755)	120,254
Payments in shares	-	-	419	-	-	-	419
Issuance of shares	71,550	163	(164)	-	-	-	(1)
Net loss for the period	-	-	-	-	-	(21,439)	(21,439)
Change in Fair value of marketable securities available-for-sale	-	-	-	-	(13)	-	(13)
Actuarial gap on employee benefit provision	-	-	-	-	(899)	-	(899)
Cash flow hedging	-	-	-	-	(101)	-	(101)
AS OF DECEMBER 31, 2012 *	31,854,490	72,886	427,258	(356,655)	(2,075)	(43,194)	98,220
Payments in shares	-	-	371	-	-	-	371
Issuance of shares	-	-	-	-	-	-	-
Net loss appropriation 2012	-	-	-	(43,194)	-	43,194	-
Net loss for the period	-	-	-	-	-	(23,166)	(23,166)
Change in Fair value of marketable securities available-for-sale	-	-	-	-	3	-	3
Cash flow hedging	-	-	-	-	168	-	168
COMPREHENSIVE INCOME (LOSS)	**-**	**-**	**-**	**-**	**171**	**(23,166)**	**(22,995)**
AS OF JUNE 30, 2013	31,854,490	72,886	427,629	(399,849)	(1,904)	(23,166)	75,596

** Comptes 2012 modifiés conformement à la nouvelle norme IAS19 révisée applicable à compter du 1er janvier 2013 de façon rétroactive. (Note 1.8.3)*

transgene

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOREWORD

Transgene's (the "Group") consolidated financial statements as of June 30, 2013 have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). They were approved by the Board of Directors on September 11, 2013.

The financial information for the period ended June 30, 2013 includes:
- The balance sheet and income statement,
- The cashflow statement,
- 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 period ended June 30, 2013 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, 2012 prepared in accordance with IFRS as adopted by the European Union 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 9, 2013.

Accounting principles used for preparing the interim consolidated financial statements are in accordance with IFRS standards and interpretations as adopted by the EU as of June 30, 2013 and available at:
http://ec.europa.eu/internal_market/accounting/ias_fr.htm#adopted-commission.

NEW STANDARDS OR AMENDMENTS APPLICABLE FOR ACCOUNTING PERIOD STARTING JANUARY 1ST, 2013 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	1.07.2012	01.07.2012
IFRS 13 – Fair Value Measurement	01.01.2013	01.01.2013
IAS19 – Employee Benefits	01.01.2013	01.01.2013
Amendment IFRS 7 - Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS7)	01.01.2013	01.01.2013
Improvements to IFRSs (2009-2011)	01.01.2013	01.01.2013
IAS 1 – Presentation of Financial Statements	01.01.2013	01.01.2013
IAS 16 – Property, Plant and Equipment	01.01.2013	01.01.2013
IAS 32 – Financial Instruments : Presentation	01.01.2013	01.01.2013
IAS 34 – Interim Financial Reporting	01.01.2013	01.01.2013

OTHER STANDARDS OR AMENDMENTS ISSUED AS OF JUNE 30, 2013:

STANDARD / INTERPRETATION	PLANNED DATE OF APPLICATION BY IASB (open fiscal periods starting)	DATE OF EU APPLICATION (open fiscal periods starting)
IFRS 9 – Financial Instruments	01.01.2015	Not endorsed
IFRS 10 – Consolidated Financial Statements	01.01.2013	01.01.2014
IFRS 11 – Joint Arrangements	01.01.2013	01.01.2014
IFRS 12 – Disclosures of Interests in Other Entities	01.01.2013	01.01.2014
IAS 28 – Investments in Associates and Joint Ventures	01.01.2013	01.01.2014
Offsetting Financial Assets and Financial Liabilities (Amendments to IAS32)	01.01.2014	01.01.2014
Investment Entities – Amendments to IFRS10, IFRS12 and IAS27	01.01.2014	Not adopted
Transition Guidance (Amendments to IFRS10,11,12)	01.01.2014	Not adopted
Amendments to IAS36 – Recoverable Amount Disclosures for Non-Financial Assets	01.01.2014	Not adopted

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.

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

In view of the Group'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, Transgene, Inc., as well as Transgene Biopharmaceuticals Technology (Shanghai) Co. Ltd. ("Transgene Shanghai"), two wholly-owned subsidiaries based in Rockville, Maryland (United States) and Shanghai (China) respectively. They are fully consolidated.

The Company's ownership in Elsalys Biotech SAS, Platine Pharma Services SAS and Transgene Tasly (Tianjin) Biopharmaceutical Co. Ltd., were 40%, 49.5% and 50% respectively, as of June 30, 2013, and are consolidated through equity accounting.

Intragroup balances and transactions are eliminated in consolidation, together with intragroup profits 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 costs.

1.3.1 RESEARCH AND DEVELOPMENT EXPENSES

(IN MILLIONS OF EUROS)	30.06.2013	30.06.2012
Payroll costs	9.9	9.6
Share-based payments	0.3	0.3
Intellectual property expenses and license costs	1.0	0.9
Operating costs	4.8	4.7
External costs on clinical projects	6.4	5.6
External costs on other projects	1.8	1.4
Depreciation, amortization and provisions	1.3	1.3
RESEARCH AND DEVELOPMENT EXPENSES	25.5	23.8

1.3.2 GENERAL AND ADMINISTRATIVE EXPENSES

(IN MILLIONS OF EUROS)	30.06.2013	30.06.2012
Payroll costs	1.6	1.2
Share-based payments	0.1	0.1
Fees and administrative expenses	1.1	1.3
Other fixed costs	0.4	0.6
Depreciation, amortization and provisions	0.1	0.1
GENERAL AND ADMINISTRATIVE EXPENSES	3.3	3.3

1.4 ■ FOREIGN CURRENCY CONVERSIONS

Transgene's presentation currency for the consolidated financial statements is the euro.

The financial statements of Transgene, Inc. are prepared in U.S. dollars.

The financial statements of Transgene Shanghai are prepared in Yuan.

Transgene, Inc. and Transgene Shanghai balance sheets are converted to euros at the exchange rate on the balance sheet date and its income statement items at the average monthly exchange rate. Differences arising from foreign exchange transactions are recognized in equity.

1.5 ■ FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are converted into euros at the average exchange rate for the month in which the transaction takes place.

At the balance sheet date, foreign currency cash and cash equivalents, receivables and payables are converted to euros at the exchange rate on the balance sheet date. The resulting conversion differences are recognized in the income statement.

Transgene did not use any currency hedging instruments in 2013 and 2012.

1.6 ■ CURRENT ASSETS

1.6.1 ■ CASH AND CASH EQUIVALENTS

Transgene's cash reserves are invested mainly in low volatility and highly liquid mutual funds (the cash value of which is known on a daily basis). They are classified in assets as cash equivalents and evaluated at fair value in the income statement if their sensitivity to and volatility to changes in interest rates is less than 0.5 and 1, respectively. In all other cases, they are classified as available-for-sale financial assets and are valued at their fair value as other comprehensive income.

1.6.2 ■ RECEIVABLES

Receivables are reported at their nominal value and are mostly short term.

1.6.3 ■ INVENTORIES

Inventories consisting mainly of chemicals and laboratory supplies are valued at the lower of cost or market value. Cost is determined by the weighted average cost method.

1.6.4 ■ OTHER CURRENT FINANCIAL ASSETS

Other current financial assets are investments made for Transgene by Institut Mérieux, its parent in the context of a group cash pooling agreement.

1.6.5 ■ OTHER CURRENT ASSETS

Prepaid expenses and other current assets are initially recognized at cost and are subsequently measured at the lower of cost or net realizable value.

1.7 ■ NON-CURRENT ASSETS

1.7.1 ■ PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses, in accordance with IAS 16.

Depreciation is recognized in the income statement on a straight-line basis so as to write off the assets' carrying amount over their estimated useful lives, as outlined below:

NATURE OF THE TANGIBLE ASSET	AMORTIZATION PERIOD
Buildings	20 to 50 years
Fixtures and fittings	10 to 20 years
Equipment and tools (laboratory equipment)	5 to 10 years
Office furniture and equipment	5 to 10 years
IT equipment	3 to 5 years

Non-current asset components and their residual value are considered in the depreciation if the value thereof is deemed significant.

Property, plant and equipment are tested for impairment whenever there is an indication that their recoverable amount may be less than their carrying amount.

In accordance with IAS 17, assets under finance leases are recognized in property, plant and equipment and depreciated over the shorter of their estimated useful life and the lease term. The corresponding depreciation charges are recognized in the income statement under Depreciation and amortization expense.

1.7.2 ■ INTANGIBLE ASSETS

Depreciation is recognized in the income statement on a straight-line basis so as to write off the assets' carrying amount over their estimated useful lives, as outlined below:

NATURE OF THE INTANGIBLE ASSET	AMORTIZATION PERIOD
Softwares licences	1 to 5 years
Intellectual property rights	5 years

■ ACQUIRED INTANGIBLE ASSETS

Acquired intellectual property rights are recognized as intangible assets in accordance with IAS 38 and amortized over their useful life.

Acquired software licenses are recognized as intangible assets and amortized over their estimated period of use.

■ INTERNALLY DEVELOPED INTANGIBLE ASSETS

Research costs are recognized as an expense for the period in which they are incurred.

Development costs are recognized as intangible assets when they fulfill the criteria in IAS 38 - Intangible Assets. Due to the risks and uncertainties associated with research and development processes, the Group considers that the six criteria listed in IAS 38 Intangible Assets are met only when an application for a marketing authorization of a product has been filed. Capitalized development costs will then be amortized over their useful life.

Patents and licenses acquired in connection with internal R&D projects are recognized as an expense during the research phase and are capitalized during the development phase when the IAS 38 criteria are met.

1.7.3 NON-CURRENT FINANCIAL ASSETS

Non-current financial assets include deposits and bonds paid for leased assets as well as equity investments in affiliates. They are initially recognized at cost and are subsequently estimated at the lower of cost or recoverable amount.

The value of equity investments in affiliates is based on discounted cash flow analysis. This valuation is periodically reviewed.

Equity investments in affiliates consist mainly of a minority stake (below 10%) in Jennerex, Inc.

To date, the value of Jennerex, Inc. is mostly equivalent to the value of its lead product Pexa-Vec. Besides the discount rate used for discounting future cash flow, the value of Jennerex, Inc. is therefore mostly driven by (i) Pexa-Vec's probability of technical and regulatory success (PTRS) as well as (ii) the product's market potential.

1.7.4 EQUITY CONSOLIDATED AFFILIATES

Equity consolidated affiliates consist of the stakes held by Transgene SA in Elsalys Biotech SAS, Platine Pharma Services SAS and Transgene Tasly (Tianjin) Biopharmaceutical Co. Ltd. (40%, 49.5% and 50% as of June 30, 2013, respectively) which are accounted for using the equity method. The Company's holdings in these companies are recognized at cost, less the portion of losses attributable to Transgene SA.

1.7.5 DEFERRED TAXES

Transgene uses the balance sheet method to account for deferred taxes. According to this method, deferred taxes are calculated on the basis of temporary differences between the tax values and the carrying amount of assets and liabilities presented in the balance sheet.

Deferred taxes are evaluated using the liability method.

Deferred tax assets are recognized for all deductible temporary differences, as well as for unused tax loss carry-forwards, carry-back credits and other tax credits when it is probable that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilized.

The carrying amount of deferred tax assets is reviewed at each period-end and a valuation allowance is recorded when it is no longer probable that sufficient taxable profit will be available against which all or part of the unused tax losses or unused tax credits can be utilized. In assessing the probability that taxable profit will be available against which the unused tax losses or unused tax credits can be utilized, the Group considers the entity's historical earnings performance and earnings projections, any non-recurring items that are unlikely to recur and the entity's tax strategy. As a result, assessing the probability that unused tax losses or tax credits can be utilized involves a degree of judgment by management. If the Group's future taxable profits or losses were significantly different from management's expectations, it would be necessary to increase or reduce the carrying amount of deferred tax assets. Such an adjustment could have a material impact on the consolidated balance sheet and income statement.

Deferred taxes on items recognized directly in equity are also recorded in equity without affecting the income statement.

1.8 ■ NON-CURRENT LIABILITIES

1.8.1 ■ COSTS OF ISSUING NEW SHARES

Costs of issuing new shares are deducted from the share capital premium at the time of issuance of the shares.

1.8.2 ■ CONDITIONAL SUBSIDIES

Conditional subsidies are only repayable if the research and development projects they finance are successful. They are recognized under long-term liabilities in accordance with IAS 20.

1.8.3 ■ EMPLOYEE BENEFITS

In accordance with French laws and practices, the Group pays a length-of-service award to eligible employees upon retirement (retirement plan). The Group's obligation under these defined benefit plans may be funded by plan assets consisting of various instruments, in line with the relevant government regulations.

The vested rights of active employees are estimated on an actuarial basis, taking into account mortality rates, future salary levels and the probability of employees remaining with the Company until retirement. The benefit obligation is measured by the projected unit credit method.

The implementation of reissued IAS 19 is retroactive, so 2012 financial statements were modified as followed:

- Past actuarial gaps not covered by a provision at December 31, 2011 were recognized in consolidated reserves for their amount as of January 1, 2012,
- Actuarial gaps generated in 2012 were recognized in *Other comprehensive income* in the financial statements for the fiscal year 2012,
- Actuarial gaps generated in 2013 were recognized in *Other comprehensive income* in the financial statements for the six-months period ended June 30, 2013.

1.8.4 ■ PROVISIONS FOR RISKS

Provisions are recorded to cover contingencies and charges arising in the course of the Group's business.

1.9 ■ REVENUE

1.9.1 ■ REVENUE FROM COLLABORATIVE AND LICENSING AGREEMENTS

Transgene has entered into certain contracts for the provision of research or manufacturing services on a best-efforts basis. Transgene bills its services at a pre-agreed rate, generally on a time-spent basis. Revenue from these contracts is recognized when the services are performed.

Revenue from contracts for manufacturing services, where the Group has an obligation to achieve a specified result, is recognized in revenue when the products have successfully undergone quality controls and have been accepted by the customers or partners.

Revenue received but not yet recognized in the income statement based on the above principles is recorded as a liability under Deferred income in Other liabilities on the balance sheet and is reclassified to the income statement when the revenue recognition criteria are met.

Revenue generated through the licensing of the Group's intellectual property rights are composed of option fees, non-refundable fees to access the technology licensed ("upfront payments"), milestone payments and royalties on sales of technologies or products.

■ OPTION FEES

The Group may grant to third parties an option for the future licensing of technologies or products. Option fees are recognized through the option period, with the balance not yet recognized in revenue being recorded as *Deferred income* in *Other liabilities* on the balance sheet. The option period is reviewed periodically.

■ UPFRONT PAYMENTS

When Transgene does not have an obligation to continue to develop the technology or the product after the license is signed, the fees are recognized in revenue when the Company's contractual obligations have been fulfilled.

When Transgene is committed to continuing to develop the technology after the license is signed or has a future obligation to deliver products, the fees are recognized in revenue over the development period or the product delivery period.

■ MILESTONE PAYMENTS

Milestone payments under research and collaborative agreements are recognized in revenue upon achievement of milestone events and when Transgene has no future performance obligations related to the payment. Milestone payments are triggered either by the results of Transgene's research efforts or by events beyond its strict control, such as regulatory approvals.

■ ROYALTIES ON SALES

Royalties on sales are based on the licensee's sales of licensed products or technologies. Royalties are recognized on the basis of the license terms, when the sales can be reliably measured and recovery of the related receivables by the Group is reasonably assured. Provisional estimates of royalties' receivable are based on sales statistics and trends.

1.9.2 ■ PUBLIC FUNDING FOR RESEARCH EXPENDITURES

Certain research and development costs are eligible for research tax credit in France, which is recognized at the end of the fiscal year in which those costs are recognized and the credit is claimed. Unused research tax credits are refundable under terms and conditions set forth by law.

The research tax credits are recognized in the income statement under Government financing for research expenditures in accordance with IAS 20.

1.10 ■ RESEARCH AND DEVELOPMENT COSTS

Research costs are recognized as an expense in the period in which they are incurred. Development costs are only capitalized when the conditions required by IAS 38 have been met (see Note 1.7.2.).

1.11 ■ SHARE-BASED PAYMENTS

Transgene awards stock options and performance shares to its executives and employees. The fair value of these awards is assessed and expensed over the vesting period according to the principles of IFRS 2.

1.12 EARNINGS PER SHARE

Earnings per share are calculated using the weighted average number of outstanding shares during the period.

1.13 TAX ON ADDED VALUE ("CVAE")

The CVAE is accounted for under *operating expenses* in *general and administrative expenses*.

NOTE 2 CASH, CASH EQUIVALENTS AND OTHER CURRENT FINANCIAL ASSETS

THOUSANDS OF EUROS	30.06.2013	31.12.2012
Cash	438	469
Cash equivalents	7,805	5,668
CASH AND CASH EQUIVALENTS	8,243	6,137
Other current financial assets	63,801	86,778
TOTAL	72,044	92,915
Fair value adjustments:	N/S	0.8

Other current financial assets relate to investments made through a cash pooling managed by Institut Mérieux, the controlling shareholder of Transgene.

NOTE 3 OTHER CURRENT ASSETS

THOUSANDS OF EUROS	30.06.2013	31.12.2012
Research tax credit, current	7,871	-
Recoverable VAT and income tax receivables	492	822
Accrued credit notes	40	57
Employee benefits expenses	47	57
Accrued subsidies	110	370
Prepaid expenses, short term	736	1,034
Other receivables	-	-
TOTAL	9,296	2,340

The research tax credit of 2010 is expected to be reimbursed by the French government during the first six months of 2014. (see Note 7).

NOTE 4 PROPERTY, PLANT AND EQUIPMENT

THOUSANDS OF EUROS	31.12.2012	INCREASE	DECREASE	30.06.2013
COSTS				
Buildings under finance leases	19,653	-	-	19,653
Land, buildings and fixtures	6,869	205	-	7,074
Laboratory equipment	15,329	775	(234)	15,870
Vehicles, office and computer equipment	2,254	56	(37)	2,273
Assets under construction	580	-	(46)	534
TOTAL	44,685	1,036	(317)	45,404
DEPRECIATION AND PROVISIONS				
Buildings under finance leases	(6,562)	(551)	-	(7,113)
Land, buildings and fixtures	(2,611)	(159)	-	(2,769)
Laboratory equipment	(9,391)	(419)	51	(9,761)
Vehicles, office and IT equipment	(1,316)	(110)	38	(1,387)
TOTAL	(19,880)	(1,239)	89	(21,030)
NET	24,805	(203)	(228)	24,374

Depreciation expenses for property, plant and equipment were as follows:

THOUSANDS OF EUROS	30.06.2013	30.06.2012
Research and development expenses	1,211	1,164
General and administrative expenses	28	27
TOTAL DEPRECIATION EXPENSES	1,239	1,191

NOTE 5 INTANGIBLE ASSETS

THOUSANDS OF EUROS	31.12.2012	INCREASE	DECREASE	30.06.2013
COST				
Intangible assets	3,894	126	-	4,020
TOTAL	3,894	126	-	4,020
DEPRECIATION AND PROVISIONS				
Intangible assets	(2,397)	(155)	-	(2,552)
TOTAL	(2,397)	(155)	-	(2,552)
NET	1,497	(29)	-	1,468

Depreciation expenses for intangible assets were as follows:

THOUSANDS OF EUROS	30.06.2013	30.06.2012
Research and development expenses	146	170
General and administrative expenses	9	15
TOTAL DEPRECIATION EXPENSES	155	185

NOTE 6 FINANCIAL ASSETS

6.1 FINANCIAL ASSETS

THOUSANDS OF EUROS	31.12.2012	INCREASE	DECREASE	30.06.2013
Guarantees and deposits	2,275	1,135	(7)	3,403
Investments in non-consolidated companies	5,136	1,938	-	7,074
GROSS VALUE OF OTHER FINANCIAL ASSETS	7,411	3,073	(7)	10,477
Provisions for impairment	(29)	-	(277)	(306)
IMPAIRMENT	(29)	-	(277)	(306)
NET BOOK VALUE	7,382	3,073	(284)	10,171

The increase in financial assets in the first half of 2013 (€1,135 thousand) was due to (i) a 10% deposit on the amount of 2012 research tax credit refinanced in 2013 (€825 thousand) and to (ii) an increase in the Group's current account in Platine Pharma Services SAS (€300 thousand). The provision for impairment (€277 thousand) related to the depreciation of the fair value of the current account the Group has in Platine Pharma Services SAS.

In May 2013, Transgene invested €1,934 thousand in Jennerex, Inc. as part of a capital increase. In June 2013, Transgene exercised 577,976 Jennerex, Inc. warrants to acquire additional shares at $0.01 per share (a €4 thousand investment). These warrants were purchased by Transgene as part of Jennerex's last capital increase. After these transactions, Transgene held 3,184,453 Jennerex shares, or approximately 10% of its equity capital.

The book value of the Company's investment in Jennerex was €7,044 thousand as of June 30, 2013.

This value was reviewed as of December 31, 2012. This review was based on an analysis using updates of future cash flows (*Discounted Cash Flow*, or DCF), as described in Note 1.7.3.

As of June 30, 2013, the Company considered the fair value of its investment in Jennerex reflected its current value, and that variations which were reasonably possible in the main assumptions would not lead to a lower fair value to that shown on the balance sheet.

6.2 EQUITY CONSOLIDATED AFFILIATES

The table below shows the acquisition costs, impairment provisions and share of net income in relation to the Group's investments in equity consolidated affiliates:

THOUSANDS OF EUROS	31.12.2012	INCREASE	DECREASE	30.06.2013
ACQUISITION COSTS				
Transgene Tasly (Tianjin) Biopharmaceuticals Co. Ltd.	3,976	-	-	3,976
Platine Pharma Services SAS	655	-	-	655
Elsalys Biotech SAS	-	501	-	501
TOTAL ACQUISITION COSTS	4,631	501	-	5,132
Share of net income in Tasly (Tianjin) Biopharmaceuticals Co. Ltd.	(101)	-	(35)	(136)
Share of net income in Platine Pharma Services SAS	(598)	-	(56)	(654)
Share of net income in Elsalys Biotech SAS	-	-	(35)	(35)
TOTAL IMPAIRMENT AND SHARE OF NET INCOME OF ASSOCIATES ATTRIBUTABLE TO TRANSGENE	(699)	-	(126)	(825)
Transgene Tasly (Tianjin) Biopharmaceuticals Co. Ltd.	3,876	-	(35)	3,841
Platine Pharma Services SAS	56	-	(56)	-
Elsalys Biotech SAS	-	501	(35)	466
NET VALUE OF INVESTMENTS IN EQUITY CONSOLIDATED AFFILIATES	3,932	501	(126)	4,307

In May 2013, Transgene participated in the first private equity financing round of Elsalys Biotech SAS, a company created by former Transgene executives to develop monoclonal antibodies. Transgene owns 40% of Elsalys Biotech SAS.

NOTE 7 OTHER NON-CURRENT ASSETS

THOUSANDS OF EUROS	30.06.2013	30.12.2012
Tax credit, non-current	19,876	24,059
Prepaid expenses, non-current	367	415
TOTAL	20,243	24,474

As of June 30, 2013, the Group had government receivables of €27,652 thousand in research tax credit relating to 2010 (full fiscal year), 2011 (full fiscal year), 2012 (full fiscal year) and 2013 (first six months). This amount can be used to offset income tax payments or, in the absence of positive taxable income, the Group may ask for its repayment in cash within the fourth year of it being granted, as per the following schedule (in thousands of euros):

YEAR OF REFERENCE	YEAR OF REIMBURSEMENT	30.06.2013	31.12.2012
CURRENT PORTION			
2010	2014	7,871	-
CURRENT TOTAL		7,871	-
NON CURRENT PORTION			
2010	2014	-	7,871
2011	2015	7,894	7,894
2012	2016	8,289	8,294
June 30, 2013	2017	3,598	-
NON CURRENT TOTAL		19,781	24,059
	TOTAL	27,652	24,059

As of June 30, 2013, the Group had a government receivable of €95 thousand *Credit d'Impôt Compétitivité Emploi.*

NOTE 8 FINANCIAL LIABILITIES

The following table breaks down the financial liabilities per maturity:

THOUSANDS OF EUROS	30.06.2013	31.12.2012
Financial liabilities – current	8,849	961
Financial liabilities – non-current	38,101	38,006
FINANCIAL LIABILITIES	46,950	38,967

8.1 FINANCIAL LIABILITIES - CURRENT

THOUSANDS OF EUROS	30.06.2013	31.12.2012
Finance-lease – real estate (see Note 8.2)	978	961
Bank financing of research tax credit 2010 (see Note 3)	7,871	-
FINANCIAL LIABILITIES - CURRENT	8,849	961

8.2 FINANCIAL LIABILITIES – NON-CURRENT

THOUSANDS OF EUROS	30.06.2013	31.12.2012
Finance-lease - real estate	10,658	11,106
Finance-lease - equipment	131	-
Hedging instrument – fair value (see Note 21)	549	718
Conditional subsidies	10,625	10,417
Bank financing of research tax credit (2011 and 2012)	16,138	15,765
FINANCIAL LIABILITIES – NON-CURRENT	38,101	38,006

FINANCE-LEASE – REAL ESTATE

In December 2008, Transgene moved its headquarters and research laboratories to a new facility next to its manufacturing facilities, in Illkirch, in the vicinity of Strasbourg, France. The new building, approximately 6,900 m² of offices and laboratories, was built from a green-field. Construction and land costs totaled €15.6 million. This investment was financed through a 15 year lease finance agreement, signed with a banking consortium in October 2007, with a residual value of €1.1 million. The first payment was made on January 1, 2009.

THOUSANDS OF EUROS	30.06.2013		31.12.2012	
	MINIMUM PAYMENTS	PRESENT VALUE OF PAYMENTS	MINIMUM PAYMENTS	PRESENT VALUE OF PAYMENTS
Due within one year	1,067	954	1,098	1,068
Due in one to five years	4,345	3,578	4,289	3,887
Total future minimum lease payments	12,952	9,916	12,947	10,856
Finance costs included in the total	884	720	879	778
Outstanding principal:	11,592	8,764	12,067	10,079
- of which current	*934*	*835*	*961*	*934*
- of which non-current	*10,658*	*7,929*	*11,106*	*9,145*

CONDITIONAL SUBSIDIES

As of June 30, 2013, the conditional subsidies were related to reimbursable advances under the ADNA program ("*Advanced Diagnostics for New Therapeutic Approaches*"). Transgene received for this program a public funding from OSEO for €10,625 thousand.

The Company should receive up to €6.3 million in additional repayable advances over the duration of the ADNA program, i.e. until 2016.

NOTE 9 OTHER LIABILITIES

9.1 ■ OTHER LIABILITIES - CURRENT

THOUSANDS OF EUROS	30.06.2013	31.12.2012
Accrued taxes and employee benefits expenses, and other payables	4,534	5,098
Deferred income	1,453	3,517
Novartis option	*757*	*1,009*
Jennerex	*527*	*685*
Subsidies	*157*	*1,822*
Other	*12*	*1*
Other short-term payables	58	238
TOTAL	6,045	8,853

9.2 OTHER LIABILITIES – NON-CURRENT

THOUSANDS OF EUROS	30.06.2013	31.12.2012
Deferred income (Novartis option)	-	252
TOTAL	-	252

As of June 30, 2013, the expected date for Novartis to exercise its options on TG4010 was estimated at March 2014.

NOTE 10 EMPLOYEE BENEFITS

Pursuant to the provisions of French law, Transgene contributes to pension schemes for its personnel in France by paying contributions (calculated on the basis of employees' salaries) to public organizations that manage the retirement schemes. Transgene also contributes to additional pension schemes for some of its employees by paying contributions (also based on employees' salaries) to private pension organizations. There are no other obligations related to these contributions.

The total number of hours of training received under the statutory DIF (Droit Individuel à la Formation) totaled 25,076 hours as of June 30, 2013 (on the basis of hours validated as of July 1, 2013), with 377 hours of training accumulated in the first six months of 2013. The corresponding provision as of June 30, 2013 amounted to €102 thousand.

Transgene is also liable for statutory length-of-service awards payable to employees in France on retirement. The amount of the benefit is based on the employee's years of service and expected final (i.e. upon retirement) 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 the projected benefit obligation are as follows:

	30.06.2013	30.06.2012
Discount rate	2.75%	4.75%
Rate of future salary increases	2.50%	2.50%
Retirement age: • EXECUTIVES: 62 (voluntary retirement) • NON-EXECUTIVES: 62 (voluntary retirement)		

NOTE 11 EQUITY

11.1 CAPITAL

As of June 30, 2013, Transgene's share capital amounted to 72,886,316 euros comprised of 31,854,490 ordinary shares.

Shareholders have a pre-emptive right to subscribe to a new shares issuance, pro rata to their existing interests. This right may be waived in certain circumstances, by a resolution voted in an Extraordinary General Meeting. Pre-emptive subscription rights that have not been waived are negotiable during the subscription period.

11.2 EARNINGS PER SHARE

The following table reconciles basic and diluted earnings per share. The number of shares outstanding is weighted for the impact of shares issued during the year.

	30.06.2013	30.06.2012*
BASIC LOSS PER SHARE		
Loss attributable to equity holders of the parent company (in thousands of Euros)	(23,166)	(21,755)
Average number of shares outstanding	31,854,490	31,729,404
BASIC LOSS PER SHARE (IN EUROS)	(0.73)	(0.68)
DILUTED LOSS PER SHARE (IN EUROS)	(0.73)	(0.68)

** 2012 accounts as modified in accordance with the new IAS19, retroactively applicable (Note 1.8.3)*

Stock-options and free shares leading to a reduction in net loss per share from continuing operations are considered anti-dilutive and, as such, have no impact on loss per share. Therefore, the diluted loss per share for the first half of 2013 and of 2012 are identical to the basic loss per share for these periods.

11.3 STOCK OPTIONS

SUMMARY INFORMATION ON STOCK OPTION PLANS:

	PLAN No. 2	PLAN No. 3	PLAN No. 4	PLAN No. 5	PLAN No. 6
Date of Shareholders' Meeting	08.02.2001	09.06.2004	09.06.2006	09.06.2008	17.06.2010
Date of the Board of Directors meeting	24.04.2002 23.04.2003 02.03.2004	09.02.2005 18.05.2005 01.01.2006 06.12.2006	06.12.2006 04.10.2007 19.12.2007 16.12.2008	16.12.2008 09.12.2009 07.12.2010	07.12.2010 13.12.2012
Total no. of shares that may be subscribed or purchased	300,000	300,000	450,000	250,000	400,000
Start of option exercise period	2006 2007 2008	2009 2010	2010 2011 2012	2012 2013 2015	2015 2017
Expiration date	2012 2013 2014	2015 2016	2016 2017 2018	2018 2019 2020	2020 2022
Subscription price in € (average of the 20 trading days preceding the grant date, excl. discount) adjusted following the capital increase with pre-emptive rights in 2010, in accordance with the French Commercial Code	8.35	6.54 7.12 7.57 11.05	11.05 16.64 15.52 11.37	11.37 17.69 14.67	14.67 8.12

OPTIONS IN CIRCULATION AND EXERCISABLE OPTIONS AS OF JUNE 30, 2013:

	NUMBER OF SHARES
STOCK OPTIONS OUTSTANDING AS OF DECEMBER 31, 2012	1,287,976
Stock options exercisable at year-end	779,753
Stock options granted in 2013	-
Stock options exercised in 2013	-
Stock options cancelled/expired in 2013	2,466
STOCK OPTIONS OUTSTANDING AS OF JUNE 30, 2013	1,285,510
Stock options exercisable as of June 30, 2013	777,287

ACCOUNTING TREATMENT FOR PAYMENTS IN STOCK OPTIONS:

The current service cost is recognized as an expense over the vesting period. In the first half of 2013, this expense was €210 thousand (€287 thousand in the first half of 2012).

11.4 FREE SHARES

SUMMARY OF STOCK PLANS :

	PLAN No. 1	PLAN No. 2
Date of Shareholders' Meeting	09.06.2008	17.06.2010
Total no. of shares that may be subscribed or purchased	100,000	120,000
Date of the Board of Directors meeting	16.12.2008 09.12.2009 07.12.2010	07.12.2010 13.12.2012
Total no. of performance shares granted	73,800 11,100 15,100	74,900 44,320
Vesting date and date retention period ends (same date)	15.12.2012 08.12.2013 06.12.2014	06.12.2014 12.12.2016
Value per share at the day of grant (opening price on the day of grant)	€12.10 €19.67 €14.37	€14.37 €8.36

FREE SHARES GRANTED AND ACQUIRED AS OF JUNE 30, 2013:

	NUMBER OF SHARES
PERFORMANCE SHARES GRANTED AS OF DECEMBER 31, 2012	216,370
Free shares acquired by beneficiaries of grants in 2012	71,550
Performance shares canceled in 2013	-
Performance shares granted in 2013	-
PERFORMANCE SHARES GRANTED AS OF JUNE 30, 2013	216,370
Free shares acquired by grant beneficiaries in 2013	-

ACCOUNTING TREATMENT FOR PAYMENTS IN FREE SHARES:

The current service cost is recognized as an expense over the vesting period. In the first half of 2013, this expense was €160 thousand (€149 thousand in the first half of 2012).

NOTE 12 REVENUE

12.1 REVENUE FROM COLLABORATIVE AND LICENSING AGREEMENTS

THOUSANDS OF EUROS	30.06.2013	30.06.2012
Manufacturing and collaborations	653	404
Licensing fees and royalties	748	1,189
TOTAL	1,401	1,593

12.2 GOVERNMENT FINANCING FOR RESEARCH EXPENDITURES

THOUSANDS OF EUROS	30.06.2013	30.06.2012
Grants and subsidies	1,765	679
Research tax credits, net	3,548	3,802
TOTAL	5,313	4,481

The gross research tax credit for the first six months of 2013 was €3,598 thousand.

NOTE 13 OTHER INCOME AND (EXPENSES), NET

THOUSANDS OF EUROS	30.06.2013	30.06.2012
Investment subsidies	7	8
Asset disposals	175	-
Others	19	158
TOTAL OTHER INCOME	201	166
Net book value of assets disposed of	(184)	-
Others	(243)	(590)
TOTAL OTHER EXPENSES	(427)	(590)
TOTAL OTHER INCOME AND (EXPENSES), NET	(226)	(424)

As of June 30, 2013, asset disposals as well as the net book value of assets disposed of related to the refinancing of certain tangible assets.

As of June 30, 2013, other expenses related mostly to business development expenses.

NOTE 14 INTEREST INCOME AND (EXPENSES), NET

THOUSANDS OF EUROS	30.06.2013	30.06.2012*
Interest income and gains on sale of marketable securities	28	453
Interests paid on borrowings, including finance lease agreements	(331)	(293)
TOTAL INTEREST INCOME, NET	(303)	160
Other financial income and (expenses), net	(546)	(219)
Gains (losses) on foreign exchanges	44	(22)
TOTAL	(502)	(241)
INTEREST INCOME AND (EXPENSES), NET	(805)	(81)

** 2012 accounts as modified in accordance with the new IAS19, retroactively applicable (Note 1.8.3).*

NOTE 15 INCOME TAX

15.1 CURRENT TAXES

As the Group is in a tax loss position, it does not pay income tax. The US and Chinese affiliates did not recognize any current tax revenue or expenses in 2013 and 2012.

15.2 DEFERRED TAXES

No deferred tax assets were recognized 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, 2013, the Group had 300 employees, which included 262 permanent employees, compared to 306 employees at December 31, 2012, with the following breakdown by gender as of June 30, 2013:

EMPLOYEES	MALE	FEMALE	TOTAL
Executives	67	110	177
Others	27	96	123
TOTAL	94	206	300

16.2 EMPLOYEE BENEFITS EXPENSES

Employee benefits expenses (salaries, payroll taxes, pension costs and related expenses, provisions for the *Droit Individuel à la Formation*, related expenses) are recognized in the Group's income statement with the following "per function" breakdown:

THOUSANDS OF EUROS	30.06.2013	30.06.2012
Research and development expenses	9,873	9,576
General and administrative expenses	1,583	1,235
TOTAL	11,456	10,811

Payments in shares are recognized in the Group's income statement with the following "per function" breakdown:

THOUSANDS OF EUROS	30.06.2013	30.06.2012
Research and development expenses	280	327
General and administrative expenses	90	109
TOTAL	370	436

NOTE 17 RELATED PARTIES

	30.06.2013	
THOUSANDS OF EUROS	ASSETS	LIABILITIES
bioMérieux S.A.(1)	-	2
bioMérieux China	-	9
Institut Mérieux (2)	13	28
Advance Bioscience Laboratories, Inc. (3)	-	164
Transgene Tasly (4)	249	-
Elsalys Biotech SAS	57	-
Platine Pharma Services SAS	-	6
Platine Pharma Services SAS, current account advance	438	-
TOTAL	757	209

	30.06.2013	
THOUSANDS OF EUROS	REVENUE	EXPENSES
bioMérieux S.A.(1)	-	10
bioMérieux China	-	78
Institut Mérieux (2)	23	1 240
bioMérieux, Inc.	-	-
Advance Bioscience Laboratories, Inc. (3)	-	295
Transgene Tasly (4)	168	-
Elsalys Biotech SAS	48	-
Platine Pharma Services SAS	-	94
Thera Conseil	-	3
TOTAL	239	1 720

(1) Revenue relates to research operations and expenses relate to purchases of laboratory equipment and supplies.
(2) Expenses relate to the agreement for the provision of services rendered by Institut Mérieux.
(3) Expenses relate to costs for services, such as office lease, from ABL, Inc.
(4) Revenue relates to rebilling of services

NOTE 18 OFF-BALANCE SHEET COMMITMENTS

Transgene signed a lease agreement with Lyonbiopôle on April 1, 2009 for its laboratories in Lyon. This agreement, with an initial 3-year duration, was renewed in 2012. The annual lease payment is €355 thousand (including expenses).

Transgene rents office spaces near its headquarters. A commercial lease agreement was signed on May 1, 2010, with annual lease payments amounting to €61 thousand (including expenses).

Transgene is additionally obligated by contracts with subcontractors. These contracts can affect several fiscal years. As of June 30, 2013, the Group estimated that its financial liabilities under these contracts were approximately €20 million in current value.

Under license or licensing option agreements signed with third parties, the latter agree to make milestone or royalty payments to the Group that depend on future events for which the outcome is uncertain at the balance sheet date.

Conversely, the Group is committed to making milestone payments or paying royalties (under partnership or licensing agreements with a numbre of third parties) that depend on future events for which the outcome is uncertain at the balance sheet date.

Under an agreement for subcontracting the viral pharmaceutical substance, the Group is committed to invest up to €5 million in a commercial production unit to be built, operated and owned by Sanofi.

The Company has made no other off-balance commitments such as guarantees, pledges, etc.

NOTE 19 SEGMENT REPORTING

The Group operates in a single business segment, the research and development of therapeutic vaccines and other immunotherapy products. It does not currently have any products on the market. Its revenue from collaborative and licensing agreements is mostly generated through its partnership agreements with Novartis and Jennerex, Inc. Substantially all of its operations are conducted in France. Consequently, the financial statements have been prepared and presented on the basis of a single operating segment.

NOTE 20 BREAKDOWN OF ASSETS AND LIABILITIES BY MATURITY

JUNE 30, 2013:

RECEIVABLES (THOUSANDS OF EUROS)	GROSS AMOUNT	< 12 MONTHS	> 12 MONTHS
Other financial assets	10,171	-	10,171
Receivables	898	898	-
Research tax credits	27,652	7,871	19,781
VAT, income tax and other local taxes	492	492	-
Personnel	47	47	-
Prepaid expenses	1,103	767	336
Subsidies and grants	110	110	-
Other receivables	-	-	-
TOTAL	40,473	10,185	30,288

PAYABLES (THOUSANDS OF EUROS)	GROSS AMOUNT	< 12 MONTHS	> 12 MONTHS AND < 5 YEARS	> 5 YEARS
Conditional subsidies	10,625	-	-	10,625
Payables	10,279	10,279	-	-
Finance lease (real estate)	11,591	934	3,922	6,735
Finance lease (others)	175	44	131	-
Provisions for risks	1	1	-	-
Pension benefits	4,726	166	528	4,032
Employee benefits and tax expenses	4,534	4,534	-	-
Deferred income	1,453	1,403	50	-
TOTAL	43,384	17,361	4,631	21,392

NOTE 21 HEDGING

The Group does not hedge its foreign exchanges operations.

In 2009, the Group entered into a hedging agreement in relation to its lease finance agreement of its new facilities (see Note 8), with the following terms:

- Nominal value: €5.9 million (amortizable)
- Hedging instrument: interest rate contract
- Remaining duration: 10 years and 3 months
- Underlying rate: 3-month Euribor
- Fixed rate: 3.46%

As the hedging is efficient, the variations in market value for the instrument are recognized in net value. As of June 30, 2013, the market value for the instrument was minus €549 thousand.

NOTE 22 SUBSEQUENT EVENTS

In July 2013, Transgene increased the capital of Transgene Biopharmaceuticals Technology (Shangai), Ltd. by €500 thousand. This capital increase is intended to finance the operations of this affiliate for the next 2 years.

Platine Pharma Services SAS announced in June 2013 the acquisition of Indicia Biotechnology immuno-assays activities through an asset contribution transaction (payment in shares for certain assets of Indicia Biotechnology). This operation was approved by the shareholders of both companies on July 31, 2013 retroactive to April 1, 2013. As part of this transaction, Transgene converted into equity part of its current account in Platine Pharma Services SAS (€339 thousand) and wrote-off €206 thousand from this current account. After this transaction, Transgene's equity stake in Platine Pharma Services SAS was 33.26% and its current account amounted to €170 thousand.

In September 2013, Transgene announced that the TRAVERSE Phase 2b trial with Pexa-Vec in patients with advanced liver cancer did not meet its primary endpoint of overall survival. A detailed analysis of the final results of the TRAVERSE trial is ongoing. Based on that analysis and that of other ongoing studies, a decision regarding next development steps with Pexa-Vec will be made by year end 2013.

2

FINANCIAL HIGHLIGHTS AND MANAGEMENT DISCUSSION AND ANALYSIS

2.1 ■ KEY EVENTS SINCE JANUARY 1, 2013

In March 2013, Transgene entered into a collaboration agreement with Sanofi for the future commercial production of Transgene's immunotherapy products. This non-exclusive agreement, secures Transgene's commercial production needs until 2028. It also enables Transgene to avoid the need to make a more significant production investment prior to any commercial launch.

In April 2013, Transgene presented promising data for its immunotherapy products TG4040 and TG1050 in, respectively, chronic hepatitis C and hepatitis B. Given the highly competitive landscape in treatments for hepatitis C, with the rapid emergence of effective novel antiviral therapies, the Group is currently evaluating different options for TG4040. Transgene expects to enter TG1050 into clinical testing in 2014.

In May 2013, Transgene participated in the first private equity financing round of Elsalys Biotech SAS, a company created by former Transgene executives to develop monoclonal antibodies. Transgene owns 40% of Elsalys Biotech SAS.

In May 2013, Transgene invested €1,934 thousand in Jennerex as part of a capital increase. In June 2013, Transgene exercised 577,976 Jennerex warrants to acquire additional shares at $0.01 per share (a €4 thousand investment). These warrants were purchased by Transgene as part of Jennerex's last capital increase. After these transactions, Transgene held 3,184,453 Jennerex shares, or approximately 10% of its equity capital..

In June 2013, Platine Pharma Services SAS, a 49.5% affiliate of Transgene, announced the acquisition of Indicia Biotechnology immuno-assays activities through an asset contribution transaction (payment in shares for certain assets of Indicia Biotechnology). This transaction was approved by the shareholders of both companies in July 31, 2013.

In June 2013, Transgene granted Ascend Biopharmaceuticals, an emerging privately-held Australian company, an exclusive license for the development and commercialization of TG1042, an immunotherapy product, in three cancer indications, including basal cell carcinoma, a highly prevalent skin cancer in Australia.

In June 2013, Transgene announced the appointments of Pr. Laurence Zitvogel (MD) and Mr. Jean-Luc Bélingard to its Board of Directors.

In June 2013, patient recruitment reached 90% for the TIME study, a phase 2b clinical trial evaluating TG4010 in patients with non-small cells lung cancer. Topline data from this study are expected in the fourth quarter of 2013.

2.2 FINANCIAL RESULTS

REVENUE:

The following table summarizes the change in revenue in the first six months of 2013, compared to the same period in 2012:

IN MILLION EUROS	30.06.2013	30.06.2012
Revenue from collaborative and licensing agreements	1.4	1.6
Government financing for research expenditures	5.3	4.5
REVENUE	6.7	6.1

During the first half of 2013, revenue from collaborative and licensing agreements were composed principally of:

- Fees for manufacturing product batches or conducting research and development activities for third parties (such as Jennerex in connection with Pexa-Vec), amounting to €0.7 million for the six-month period ended June 30, 2013, compared to €0.4 million for the same period in 2012,
- Milestone or upfront payments on partnered products (such as the option payment from Novartis in connection with TG4010), amounting to €0.5 million for the six-month period ended June 30, 2013, compared to €1.0 million for the same period in 2012, and
- Royalties on sales of technology or products out-licensed by Transgene, amounting to €0.2 million for the six-month period ended June 30, 2013, unchanged compared to the same period in 2012.

The 10.0 million US dollars (€7.4 million) payment received from Novartis in March 2010 as an upfront fee for the exclusive option to license TG4010 was spread between signature date and March, 2014, the expected time for Novartis to exercise its option. Revenue recognized on this option amounted €0.5 million for the six-month period ended June 30, 2013, compared to €0.9 million for the six-month period ended June 30, 2012. The balance, €0.7 million, will be recognized in revenue up until March 2014.

For the six-month period ended June 30, 2013, government financing for research expenditures was composed of subsidies received or accrued, as well as a research tax credit.

Subsidies amounted to €1.8 million for the six-month period ended June 30, 2013, compared to €0.6 million for the six-month period ended June 30, 2012. In the first half of 2013, subsidies were mainly related to the ADNA (Advanced Diagnostics for New Therapeutic Approaches) program financed by the French innovation agency, OSEO. Transgene could collect up to €1.4 million in additional subsidies over the remainder of the program, until 2016.

The research tax credit was €3.5 million for the six-month period ended June 30, 2013, compared to €3.8 million for the six-month period ended June 30, 2012. The research tax credit for the first six months of 2013 was calculated as half of the research tax credit expected for the full year 2013.

OPERATING EXPENSES:

R&D expenses were €25.5 million for the six-month period ended June 30, 2013, compared to €23.8 million for the six-month period ended June 30, 2012.

The table below details research and development expenses:

IN MILLION EUROS	30.06.2013	30.06.2012	VARIATION
Payroll costs	9.9	9.6	+3%
Share-based payments	0.3	0.3	N/S
Intellectual property expenses and license costs	1.0	0.9	+11%
External costs on clinical projects	6.4	5.6	+14%
External costs on other projects	1.8	1.4	+28%
Operating costs	4.8	4.7	+2%
Depreciation, amortization and provisions	1.3	1.3	N/S
RESEARCH AND DEVELOPMENT EXPENSES	25.5	23.8	+7%

Payroll costs for employees allocated to R&D (salaries plus related charges and expenses) amounted to €10.2 million for the six-month period ended June 30, 2013, compared to €9.9 million for the six-month period ended June 30, 2012. This increase (3%) was mainly due to salary increases.

Intellectual property expenses and license costs were €1.0 million for the six-month period ended June 30, 2013, compared to €0.9 million for the six-month period ended June 30, 2012.

External costs for clinical projects were €6.4 million for the six-month period ended June 30, 2013 compared to €5.6 million for the six-month period ended June 30, 2012. This increase (14%) was attributable to increased patient enrollment in the Phase 2b part of the phase 2b/3 TIME trial evaluating TG4010 in non-small cell lung cancer and the Phase 2b TRAVERSE trial evaluating Pexa-Vec in liver cancer. External costs related to the TIME trial were €3.3 million for the six-month period ended June 30, 2013 versus €2.8 million for the six-month period ended June 30, 2012. External costs related to the TRAVERSE trial were €2.1 million for the six-month period ended June 30, 2013, versus €0.9 million in the six-month period ended June 30, 2012.

Other external expenses, including expenses related on research and pre-clinical programs as well as expenses related on industrial projects, were €1.8 million for the six-month period ended June 30, 2013, compared to €1.4 million for the six-month period ended June 30, 2012.

General and administrative expenses were €3.3 million for the six-month period ended June 30, 2013, unchanged, compared to the same period in 2012.

The table below details general and administrative expenses:

IN MILLION EUROS	30.06.2013	30.06.2012	VARIATION
Payroll costs	1.6	1.2	+33%
Share-based payments	0.1	0.1	N/S
Fees and administrative expenses	1.1	1.3	-15%
Other fixed costs	0.4	0.6	-33%
Depreciation, amortization and provisions	0.1	0.1	N/S
GENERAL & ADMINISTRATIVE EXPENSES	3.3	3.3	N/S

Payroll costs for employees (salaries plus related charges and expenses), were €1.7 million for the six-month period ended June 30, 2013, compared to €1.3 million for the six-month period ended June 30, 2012. The increase was mainly related to employees' severance payments.

OTHER EXPENSES AND INCOME, NET:

Other expenses, net were €0.2 million for the six-month period ended June 30, 2013, compared to €0.4 million for the six-month period ended June 30, 2012.

INTEREST INCOME AND (EXPENSES), NET:

Interest expenses, net of interest income, was €0.8 million for the six-month period ended June 30, 2013, compared to €0.4 million in interest income, net of interest expenses, for the six-month period ended June 30, 2012. Interest income on investments was €0.1 million for the six-month period ended June 30, 2013, compared to €0.4 million for the six-month period ended June 30, 2012. Interest expenses was principally related to lease financing interest for Transgene main premises, which was €0.1 million for the six-month period ended June 30, 2013, unchanged, compared to the same period in 2012.

NET LOSS:

Net loss was €23.2 million for the six-month period ended June 30, 2013, compared to €21.8 million for the six-month period ended June 30, 2012. Net loss per share was €0.73 for the six-month period ended June 30, 2013, compared to €0.69 for the six-month period ended June 30, 2012.

INVESTMENTS:

Investments in tangible and intangible assets (nets of disposals) were €0.8 and €1.2 million for the six-month periods ended respectively June 30, 2013 and 2012.

BORROWINGS AND CONDITIONAL SUBSIDIES:

In the first six months of 2013, the Group pre-financed its 2012 research credit amounting to €8.4 million through a bank loan maturing in mid-2016, the expected repayment period by the French government.

CASH, CASH EQUIVALENTS AND OTHER FINANCIAL ASSETS:

Cash is invested primarily in short term mutual funds or in a cash pooling managed by Institut Mérieux, Transgene's controlling shareholder.

As of June 30, 2013, the Group had €72.0 million in cash, cash equivalents and other financial assets, compared to €92.5 million at December 31, 2012.

ELEMENTS OF CASH-FLOW:

Exclusive of the investments made in Jennerex and Elsalys Biotech SAS, cash burn was €18.5 million for the first six months of 2013, compared to €18.1 million for the first six months of 2012.

Inclusive of the €1.9 million investment made in Jennerex and €0.5 million in Elsalys Biotech SAS, cash burn for the first six months of 2013 was €20.9 million.

Transgene expects net cash burn to be approximately €50 million for the full year 2013.

2.3 RELATED PARTY TRANSACTIONS

Transactions with related parties during periods under review are disclosed in Note 17 to this Interim Financial Report.

2.4 RISKS FACTORS

Risk factors identified by the Group are presented in paragraph 4 of "Document de Référence" submitted to French stock market regulator, "*Autorité des Marchés Financiers*", on April 9, 2013.

2.5 SUBSEQUENT EVENTS

In July 2013, Transgene increased the capital of Transgene Biopharmaceuticals Technology (Shangai), Ltd. by €500 thousand. This capital increase is intended to finance the operations of this affiliate for the next 2 years.

Platine Pharma Services SAS announced in June 2013 the acquisition of Indicia Biotechnology immuno-assays activities through an asset contribution transaction (payment in shares for certain assets of Indicia Biotechnology). This transaction was approved by the shareholders of both companies on July 31, 2013 retroactive to April 1, 2013. As part of this transaction, Transgene converted in equity part of its current account in Platine Pharma Services SAS (€339 thousand) and wrote-off €206 thousand from this current account. After this transaction, Transgene's equity stake in Platine Pharma Services SAS was 33.26% and its current account amounted to €170 thousand.

In September 2013, Transgene announced that the TRAVERSE Phase 2b trial with Pexa-Vec in patients with advanced liver cancer patients did not meet its primary endpoint of overall survival. A detailed analysis of the final results of the TRAVERSE trial is ongoing. Based on that analysis and that of other ongoing studies, a decision regarding next development steps with Pexa-Vec will be made by year end 2013.

3

STATUTORY AUDITORS' LIMITED REVIEW REPORT ON INTERIM CONSOLIDATED FINANCIAL STATEMENTS

COMMISSARIAT CONTROLE AUDIT
112, rue Garibaldi - 69006 Lyon

Commissaire aux Comptes
Membre de la compagnie régionale de Lyon

ERNST & YOUNG et Autres
1/2, place des Saisons
92400 Courbevoie - Paris-La Défense 1
S.A.S. à capital variable

Commissaire aux Comptes
Membre de la compagnie régionale de Versailles

Transgene
Period from January 1 to June 30, 2013

STATUTORY AUDITOR'S REVIEW REPORT ON THE FIRST HALF-YEARLY FINANCIAL INFORMATION FOR 2013

To the Shareholders,

In compliance with the assignment entrusted to us by your shareholders 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, for the period from January 1, 2013 to June 30, 2013, and
- the verification of the information contained in the interim 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 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 interim management report in respect of the condensed half-yearly financial statements subject to our review.

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

Lyon, September 12, 2013

Les Commissaires aux Comptes

COMMISSARIAT CONTROLE AUDIT
Hubert de Rocquigny du Fayel

ERNST & YOUNG et Autres
Marc-André Audisio

4

DECLARATION BY THE PERSON RESPONSIBLE FOR THIS INTERIM FINANCIAL REPORT

I hereby declare, to the best of my knowledge, that the financial statements have been prepared in accordance with generally accepted accounting principles and give a true image of the assets, financial position and results of the company, and that the interim financial report reflects the changes in the Group's turnover, results and financial position and of all of the entities included within the consolidation scope as well as a description of the principle risks and uncertainties for the six months to come.

Mr. Philippe Archinard
Chairman and Chief Executive Officer