2016 REGISTRATION DOCUMENT

including the Annual Financial Report

IMMUNNOTHERAPY FOR CANCERS AND INFECTIOUS DISEASES

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REGISTRATION DOCUMENT 2016

Transgene SA is a French biotechnology company focused on designing and developing therapeutic vaccines and oncolytic viruses for the treatment of cancer and infectious diseases. Our immunotherapies stimulate the immune responses of the patients to specifically target infected or cancer cells. To achieve this goal, we integrate a comprehensive therapeutic arsenal within our viral vectors. Each part of these constructs plays a key role in the treatment of the disease by activating the immune system.

Our immunotherapies can be used as single agent or in combination with other approved or investigational treatments such as immune checkpoint inhibitors (ICIs).

The Company's two lead clinical-stage programs are: TG4010, a therapeutic vaccine against non-small cell lung cancer and Pexa-Vec, an oncolytic virus against liver cancer. The Company has several other viral-based immunotherapy programs, at the discovery stage and in preclinical and clinical development (including TG4001, TG1050 and TG6002 now at clinical-stage).

Transgene is based in Strasbourg, France, and has additional operations in Lyon, as well as a joint venture in China.

Transgene is listed on the regulated stock market in Paris (compartment B).

www.transgene.fr

This document is a non-binding "free" translation from French into English and has no legal value other than an informative one. Should there be any difference between the French and the English version, only the text in French language shall be deemed authentic and considered as expressing the exact information published by Transgene.

Pursuant to Article 28 of European Commission regulation No. 809/2004/EC, this Registration document includes the 2014 consolidated financial statements and related audit report as found on pages 77 to 136 of the 2014 Registration document filed with the AMF on April 28, 2015 under number D. 15-0423, as well as the 2015 consolidated financial statements and related audit report as found on pages 75 to 136 of the 2015 Registration document filed with the AMF on April 28, 2016 under number D. 16-0434.

AUTORITÉ DES MARCHÉS FINANCIERS
AMF

This Registration document was filed with the *Autorité des marchés financiers* on April 13, 2017, in accordance with Article 212-13 of the General regulation of the *Autorité des marchés financiers*. This Registration document can be used in connection with an offering of securities if accompanied by a *Note d'opération* approved by the *Autorité des marchés financiers*. This document was prepared by the issuer and its signees are responsible for its content.

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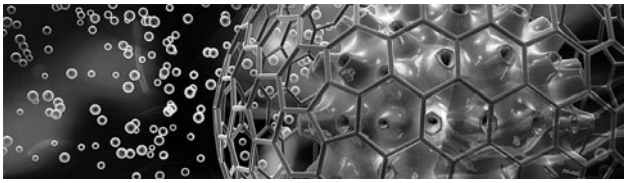
OUR STRATEGY

TRANSGENE, A KEY PLAYER IN VIRAL-BASED IMMUNE-TARGETED THERAPIES



Viral vectors central to Transgene's immunotherapies

Transgene utilizes viral vectors (viruses in which tailored gene sequences have been inserted) with the goal of restoring the capacity of the patient's immune system to deal with disease. Transgene products, based on these viral vectors, play a key role in triggering an immune response by attracting the T cells (or killer cells) into the diseased tissues.

Transgene uses highly attenuated viral strains with an established safety profile. These viruses cannot replicate within healthy cells. Transgene's viral vector technology is based on several decades of research and is now perfectly controlled.

A new approach of immunotherapy

Transgene designs and develops therapeutic vaccines and oncolytic viruses for the treatment of cancers and infectious diseases.

Our immunotherapies stimulate the immune responses of the patients to specifically target infected or cancer cells. To achieve this goal, we integrate a comprehensive therapeutic arsenal within our viral vectors (antigens cytokines, monoclonal antibodies, enzymes, etc.). Each part of these constructs plays a key role in the treatment of the disease by activating the immune system. Our immunotherapies can be used as single agent or in combination with other approved or investigational treatments such as immune checkpoint inhibitors (ICIs).

Two novel immunotherapeutic classes already in clinic

Therapeutic vaccines: induce innate and adaptive responses

Therapeutic vaccines indirectly destroy malignant cells. They induce a cascade of immune reactions that leads to the production of T cells that will only destroy specific tumor or infected cells.

Transgene currently uses vectors based on MVA (Modified Virus Ankara) and Adenovirus. Both have a good safety profile and an established track-record of safety. Transgene can integrate a variety of proteins within the viral genome, such as HBV associated antigens for TG1050 or human papilloma virus (HPV) antigens for TG4001.

Oncolytic viruses: directly target and destroy cancer cells

Oncolytic viruses are a highly innovative class of cancer therapeutics. They act directly by causing the breakdown of the cancer cell (oncolysis) and indirectly by inducing a specific immune response against abnormal cancer cells.

Oncolytic viruses can be armed with a comprehensive therapeutic arsenal, which comprises complimentary weapons: such armed viruses are called multifunctional viruses.

By harnessing these approaches Transgene aims to integrate all the factors needed to lead to a highly efficacious treatment against cancer.

A DIVERSIFIED IMMUNOTHERAPY PORTFOLIO

NON-SMALL CELL LUNG CANCER (NSCLC)

TG4010

Bristol-Myers Squibb

Development focused on Phase 2 trials in association with ICIs

TG4010 is a therapeutic vaccine that induces an immune response against MUC1 expressing tumors, such as non-squamous non-small cell lung cancer (NSCLC). TG4010's mechanism of action and excellent safety profile make it very suitable for use in combination with other therapies, including ICIs.

TG4010's development plan aims at positioning Transgene in all relevant settings of either first- or second-line treatment of NSCLC patients in combination with current and future standards of care. The development of TG4010 in first-line NSCLC is supported by Bristol-Myers Squibb.

LIVER CANCER/SOLID TUMORS

Pexa-Vec

SILLAJEN BioTherapeutics

Ongoing Phase 3 and Phase 2 trials

Pexa-Vec is an oncolytic virus armed with GM CSF gene. It has been designed to selectively destroy cancer cells and stimulate an immune response against tumors. Transgene acquired exclusive rights for the development and commercialization of Pexa-Vec from SillaJen. Its mechanism of action and its safety profile make it an appropriate candidate for combination use in solid tumors.

Pexa-Vec will be evaluated in two Phase 1/2 trials in combination with ICIs. It is currently being tested in a Phase 3 trial in the first-line of treatment of advanced liver cancer (hepatocellular carcinoma, HCC). This trial is being conducted by our partner SillaJen. It started early 2016; clinical centers are being opened and recruitment is ongoing.

HPV-POSITIVE HEAD AND NECK CANCERS

TG4001

Pfizer MERCK

Preparation of a Phase 2 clinical trial in combination with Avelumab, in collaboration with Merck KGaA and Pfizer

TG4001 is a therapeutic vaccine that targets human papilloma virus. It has already been administered to more than 300 patients with high grade cervical intra-epithelial neoplasia (CIN 2/3).

It has demonstrated good safety, a significant HPV clearance rate and promising efficacy results. Its mechanism of action and good safety profile make TG4001 an appropriate candidate for combinations with other therapies, such as ICIs. A clinical collaboration agreement has been signed with Merck KGaA and Pfizer for the Phase 1/2 trial in patients with HPV-positive head and neck cancer.

CHRONIC HEPATITIS B

TG1050

Ongoing Phase 1/1b trial

TG1050 is a therapeutic vaccine being developed for the treatment of chronic hepatitis B. In 2015, Transgene initiated a first-in-man study (NCT02428400) evaluating the safety and tolerability of TG1050 in patients who are currently being treated for chronic HBV infection with standard-of-care antiviral therapy. This therapeutic approach is also being developed in China, where Transgene operates a joint-venture with Tasly Biopharmaceutical Technology.

GLIOBLASTOMA

TG6002

ASSISTANCE PUBLIQUE HÔPITAUX DE PARIS

Preparation of first-in-human trial

TG6002 is the next generation of oncolytic immunotherapy. It has been designed to induce the breakdown of cancer cells (oncolysis) and express the FCU1 gene in the cancer cells it has infected. The expression of this gene causes these cancer cells to transform the non-cytotoxic pro-drug, flucytosine (5-FC), into 5-FU, a widely used chemotherapy. Because of this entirely novel mechanism of action, TG6002 could potentially be used both in combination or as monotherapy once a cancer becomes resistant to standard therapy.

STRATEGY FOCUSED ON COMBINATIONS WITH ICIs

Transgene is focusing its strategic efforts to achieve a step change in the treatment of cancer by combining Transgene's immunotherapies with other immunotherapy treatment approaches, in particular with immune checkpoint inhibitors (ICIs). The potential of these combinations has been the subject of great interest at several key major oncology congresses over the past two years.

There is a strong scientific rationale supporting the use of these combinations. Transgene's immunotherapies, such as therapeutic vaccines and oncolytic viruses, are designed to stimulate a specific immune response while the ICIs further enhance their therapeutic effects by blocking a pathway that acts as a brake on this immune response. Transgene has already demonstrated the positive effects of these combinations in several preclinical tumor models. Encouragingly, the power of combining two immunotherapies, with different modes of action, is now widely acknowledged in the medical community and has been reported in a growing number of scientific publications.

Combining these immunotherapies aims to both **improve the survival outcomes for individual patients and to increase the number of patients that will respond positively to these treatments.** Both clinicians and pharma companies have been impressed with the promising clinical results that we have generated with our products to-date. **First readouts from these combination clinical trials are expected as soon as 2017.**

A DIVERSIFIED IMMUNOTHERAPY PORTFOLIO

PRODUIT	INDICATION	PRECLINICAL / CLINICAL PHASE (1 · 2 · 3)
THERAPEUTIC VACCINES		
TG4010	Non-small cell lung cancer – 2nd line	+ nivolumab (ICI) — Collaboration with Bristol-Myers Squibb
	Non-small cell lung cancer – 1st line	+ ICI
	Non-small cell lung cancer	Neo-adjuvant (translational)
TG4001	HPV positive cancers*	+ Avelumab (ICI) — Collaboration with Merck KGaA and Pfizer
TG1050	Chronic hepatitis B	+ antiviral
ONCOLYTIC VIRUSES		
Pexa-Vec In Co-development with SillaJen	Hepatocellular carcinoma – 1st line (PHOCUS)	+ sorafenib
	Hepatocellular carcinoma – 1st line	+ nivolumab (ICI)
	Other solid tumors	+ ipilimumab (ICI)
	Sarcoma – Breast cancer	+ cyclophosphamide
	Solid tumors	Neo-adjuvant (translational)
TG6002	Glioblastoma	

* HPV: human papilloma virus

CHAIRMAN'S MESSAGE

PHILIPPE ARCHINARD

Dear Madam, Dear Sir,

Several major achievements in 2016 have validated our strategy. During the year, we implemented our clinical development plan, launched several trials, signed collaboration agreements, completed the Company's reorganization and strengthened our financial structure, providing us with funding through the end of 2018. Based on all these elements, we start the year 2017 with optimism as the acceleration of our clinical development plan will result in a dense news flow and will allow us to demonstrate the potential of our immunotherapy approaches.

Over the last few years, cancer treatments have evolved extremely fast, which is promising for the patients. Novel immunotherapies such as immune checkpoint inhibitors (ICIs) have become a new pillar among anticancer drugs. However, these treatments are only efficacious in 20% to 30% of the patients. In this environment, Transgene has focused its efforts on implementing its clinical strategy, which looks to combine Transgene's immunotherapies (therapeutic vaccines and oncolytic viruses, which boost the immune system), with immune checkpoint inhibitors (ICIs) that increase their efficacy. Our clinical development plan aims to confirm the synergies that are expected to result from the combination of our immunotherapies and ICIs. The expected clinical benefits are an increase in the response rate, in the quality and in the duration of the response.

> Major achievements in 2016 validate Transgene's strategy. Our products, our clinical collaborations and our cash position are key assets to implement our clinical strategy and materialize partnerships.

During the second half of 2016, Transgene signed two clinical collaboration agreements that allow clinical studies with: TG4010 in combination with Bristol Myers-Squibb's ICI nivolumab in lung cancer patients receiving a 2nd line of treatment and; TG4001 with Merck KGaA's and Pfizer's ICI avelumab in patients with HPV-positive head and neck cancer.

Several clinical trials have recently started or are being initiated to confirm the potential of Transgene's immunotherapeutics in combination with ICIs. The first results from these studies are expected around the end of 2017.

In parallel, Transgene advances the clinical development of several immunotherapies against cancers and infectious diseases, combined with standards of care, in order to deliver significant proofs of concept for the future development of these products.

During the 2016 fiscal year, the Company strengthened its financial structure which will provide it with the funding to execute its clinical development plan through the end of 2018. This improved financial situation was the result of: a loan of €20 million from the European Investment Bank (EIB), €10 million of which was drawn down in June 2016; a €46.4 million rights issue that was completed in November 2016.

In parallel with strengthening its financial position, Transgene completed its reorganization with the result it is now focused on research and clinical development (R&D). As part of the restructuring, Transgene sold its production facility to ABL Europe, a Mérieux Group Company, for €3.5 million. This resulted in the significant reduction of our net loss €25.2 million (approximately a 50% decrease compared to 2015).

Our achievements in 2016 have reinforced our position as a major player in immunotherapy. Our portfolio of immunotherapies, our clinical collaborations and our much-improved financial position have put us in a strong position to execute our clinical plan which is designed to deliver a rich news flow over the coming months. Positive results from these studies would allow us to conclude partnership agreements with pharmaceutical companies. We are looking forward to demonstrating the important clinical benefits that our immunotherapies in combination with ICIs can offer to patients with severe diseases.

Thank you for your interest in our Company and your confidence.

PHILIPPE ARCHINARD
Chairman and Chief Executive Officer

1

OVERVIEW OF TRANSGENE AND ITS BUSINESS

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1.1 SELECTED FINANCIAL DATA

(in € thousands, except for shares and per share data) **(Consolidated financial statements, IAS/IFRS)**	**12/31/2016 IAS/IFRS**	12/31/2015 IAS/IFRS	12/31/2014 IAS/IFRS
INCOME STATEMENT DATA			
Operating income	**10,311**	**9,949**	**11,099**
Research and development expenses	(26,419)	(32,138)	(41,731)
General and administrative expenses	(6,236)	(5,798)	(7,578)
Other revenue and expenses	(320)	(7,819)	(1,282)
Net operational expenses	**(32,975)**	**(45,755)**	**(50,591)**
Operating income (loss)	**(22,664)**	**(35,807)**	**(39,492)**
Finance cost	(602)	(930)	(801)
Share of income from equity affiliates	(917)	(1,172)	(823)
Loss before tax	**(24,182)**	**(37,909)**	**(41,116)**
Tax on profits	-	-	-
Net income from continuing operations	**(24,182)**	**(37,909)**	**(41,116)**
Net income from discontinued operations	**(1,024)**	**(8,465)**	**(7,440)**
Net loss	**(25,206)**	**(46,374)**	**(48,556)**
Diluted loss per share	(0.45)	(1.20)	(1.26)
Average number of shares outstanding	56,431,991	38,545,397	38,527,968
Cash, cash equivalents and other current financial assets	56,207	31,650	65,935
Total assets	122,950	100,869	140,953
Equity	46,503	26,547	71,839
Net cash flow generated by/(used in) operations	(33,585)	(45,152)	(54,236)

1.2 PRESENTATION OF THE COMPANY AND OVERALL ACTIVITES

1.2.1 Overview of operations

Transgene SA is a French biotechnology company focused on designing and developing therapeutic vaccines and oncolytic viruses for the treatment of cancer and infectious diseases. Our immunotherapies stimulate the immune responses of the patients to specifically target infected or cancer cells. To achieve this goal, we integrate a comprehensive therapeutic arsenal within our viral vectors. Each part of these constructs plays a key role in the treatment of the disease by activating the immune system.

Our immunotherapies can be used as single agent or in combination with other approved or investigational treatments such as immune checkpoint inhibitors (ICIs).

The Company's two lead clinical-stage programs are: TG4010, a therapeutic vaccine against non-small cell lung cancer and Pexa-Vec, an oncolytic virus against liver cancer. The Company has several other viral-based immunotherapy programs, at discovery stage and in preclinical and clinical development (including TG4001, TG1050 and TG6002 now at clinical-stage).

Transgene is based in Strasbourg, France, and has additional operations in Lyon, as well as a joint venture in China.

Transgene is listed on the regulated stock market in Paris (compartment B).

1.2.1.1 Nature of the business

As a biotechnology company, Transgene designs and develops immunotherapy products (drug candidates or investigational drugs) for the treatment of cancer and infectious diseases.

The Company has two technology platforms utilizing viral vectors engineering (therapeutic vaccines and oncolytic viruses). These viral vectors stimulate the patient's immune system to better deal with disease.

Viral vector technology and investigational drug design

Transgene utilizes viral vectors (viruses in which tailored gene sequences have been inserted).

The virus acts as a vector to bring these sequences in the tissues where the immune response is triggered and where the desired therapeutic modalities (antigens, antibodies, enzymes...) will be expressed.

Transgene uses highly attenuated viral strains with an established safety profile. Transgene's viral vector technology is based on several decades of research and is now perfectly controlled.

They are key proprietary competitive advantages.

This R&D process also allows the design of new drug candidates that have the potential to enter preclinical and clinical development.

In addition to these advantages, Transgene owns an extensive intellectual property portfolio, that protects research and development activities.

Integrated skills from research to development

Transgene has five products in clinical development, developed for advanced stage cancers or chronic infections, that represent an important medical need (see Section 1.2.2).

Transgene has all the capabilities needed to conduct the different steps of preclinical and clinical development of its drug candidates and respects regulation.

Preclinical tests aim at evaluating, *in vitro* and in animal models, the safety and the efficacy potential of the products. They are undertaken by Transgene or in collaboration with subcontractors. Clinical tests (or trials/studies) aim at evaluating the safety and the efficacy of the product in patients (phase 1, phase 2 and phase 3 trials).

Transgene's activity is highly regulated

Research and development, preclinical tests, clinical trials, facilities and equipment, and the manufacturing and marketing of therapeutic products are subject to very thorough regulations devised by numerous governmental authorities in France, Europe, the United States and other countries. The European Medicines Agency (EMA), the French *Agence nationale de sécurité du médicament et des produits de santé* (ANSM), the US Food and Drug Administration (FDA) and other regulators require compliance with strict conditions for the manufacturing, development and marketing of products such as those developed by Transgene, especially at the pre-clinical and clinical stages.

The information required for the authorization of a clinical trial or marketing is standard for all medications and must meet quality, safety and efficacy requirements.

In the European Union, there is a "centralized" procedure for obtaining marketing authorizations for biotechnology products, thereby avoiding a separate submission to each Member State.

In the United States and the European Union, the average time required to obtain this authorization is approximately one year from the date the request is submitted.

1.2.2 Product review

The following table summarizes the status of Transgene's portfolio of products at clinical stage as of the date of this Registration document.

A DIVERSIFIED IMMUNOTHERAPY PORTFOLIO

PRODUIT	INDICATION	PRECLINICAL / CLINICAL PHASE (1 – 2 – 3)
THERAPEUTIC VACCINES		
TG4010	Non-small cell lung cancer – 2nd line	+ nivolumab (ICI) — Collaboration with Bristol-Myers Squibb
	Non-small cell lung cancer – 1st line	+ ICI
	Non-small cell lung cancer	Neo-adjuvant (translational)
TG4001	HPV positive cancers*	+ Avelumab (ICI) — Collaboration with Merck KGaA and Pfizer
TG1050	Chronic hepatitis B	+ antiviral
ONCOLYTIC VIRUSES		
Pexa-Vec In Co-development with SillaJen	Hepatocellular carcinoma – 1st line (PHOCUS)	+ sorafenib
	Hepatocellular carcinoma – 1st line	+ nivolumab (ICI)
	Other solid tumors	+ ipilimumab (ICI)
	Sarcoma – Breast cancer	+ cyclophosphamide
	Solid tumors	Neo-adjuvant (translational)
TG6002	Glioblastoma	

* HPV: human papilloma virus

1.2.2.1 Products at clinical stage

Transgene's product portfolio includes therapeutic vaccines and oncolytic viruses.

Therapeutic vaccines: induce innate and adaptive responses

Therapeutic vaccines indirectly destroy abnormal cells by inducing a cascade of immune reactions that lead to the production of T cells or T lymphocytes that specifically target the tumor or infected cells.

Transgene currently uses MVA (Modified Vaccinia Ankara virus) and Adenoviruses as vectors. Both have a good safety profile and an established track record of safety. The Company has the capability to add proteins to the genome of its viral vectors, coding for tumor antigens (MUC1 for TG4010), or in combination with viruses (hepatitis B for TG1050).

Transgene have three therapeutic vaccines in clinical development: TG4010, TG4001 and TG1050.

TG4010: for advanced lung cancer

TG4010 is a therapeutic vaccine that induces the immune system against cancer cells expressing MUC1. TG4010 is being developed in the treatment of non-squamous NSCLC (non-small cell lung cancer), the most common form of lung cancer in both smokers and non-smokers. Its mechanism of action and excellent safety profile make it an ideal candidate for combinations with other therapies, including ICIs and chemotherapy.

Description and mechanism of action

TG4010 is a therapeutic vaccine consisting of a vector, the Modified Vaccinia Ankara (MVA) virus, which expresses the MUC1 antigen and interleukin 2 (IL-2), a cytokine that stimulates the immune system.

The MUC1 antigen is normally expressed in a large number of healthy cells in the human body. However, MUC1 is expressed in an abnormal biochemical form in cancerous cells, thereby making it a TAA (Tumor Associated Antigen), *i.e.* a prime target for immunotherapy.

TG4010's purpose is to potentiate (or strengthen) the body's immune system to create a more powerful response against the cells carrying the TAA MUC1 and help destroy them. The coding sequence for the cytokine interleukin 2 (IL-2) is also added into the MVA genome for its immunostimulation capacity. In addition to lung cancer, the TAA MUC1 is expressed in other types of solid tumors such as breast, kidney cancer, prostate and colorectal cancers.

The MUC1 gene was obtained under license from Imperial Cancer Technology Ltd., the technology transfer unit of the Imperial Cancer Research Fund. This license is global and exclusively for the use of the MUC1 gene in applications for the transfer of genes using viral vectors.

Lead therapeutic indication: metastatic non-small cell lung cancer (NSCLC) in combination with current and future standard treatments

Immunotherapy approaches are highly compatible with and potentially synergistic with approaches using immune checkpoint inhibitors. The next stages in the development of TG4010 are focused on positioning Transgene in all relevant configurations, for both first- and second-line treatment of NSCLC, and in combination with current and future standard treatments.

The efficacy of several immune checkpoint inhibitors (ICIs) as a first-line treatment was demonstrated in recent clinical trials. However, only around 30% of patients respond to these therapies. Therefore, better options are needed for first-line treatment, especially for patients with low or undetectable PD-L1 expression on tumor cells, *i.e.* PD-L1 negative patients, for whom chemotherapy remains the benchmark treatment. The challenge when it comes to second-line therapies – which now use ICIs – is to improve the prognosis for patients and increase the response rate of the treatments. Transgene's innovations may prove decisive in amplifying treatment response.

Key clinical results

The high level of tolerance to the product in combination with chemotherapy was confirmed during phase 1 and phase 2 trials: the main side effects connected with TG4010 were classic post-vaccination reactions (reactions at the injection site and fatigue).

In 2014 and 2015, Transgene announced the positive results from the phase 2b part of the TIME study, a randomized and controlled phase 2 b/3 trial to evaluate the targeted immunotherapy TG4010, compared with a placebo, in combination with first-line chemotherapy in patients with metastatic NSCLC. The primary objective of the phase 2b part of the TIME study was to validate the positive results obtained in an earlier study, TG4010.09, which were published in the clinical journal *Lancet Oncology,* in October 2011. The tolerance and efficacy of TG4010 in combination with standard chemotherapy were also evaluated.

The TIME study results were published in the December 2015 edition of the journal *Lancet Oncology*. They were first unveiled at renowned global medical conferences on lung cancer, such as the American Society of Clinical Oncology (ASCO) meeting in June 2015, the leading annual conference in this field.

The analysis of these results shows there was a clinically significant improvement in progression-free survival and overall survival. This improvement is measured by a significant reduction in the risk of progression or death in patients in this group having received a combination of TG4010 and chemotherapy, compared with the placebo group. The positive effect of the addition of TG4010 was even more noticeable in the subgroup of patients with non-squamous histology (88% of the patients in the study).

These results are consistent with the previously obtained results. They support the activity of TG4010 in this indication. Developments in other indications could be planned, should trials underway produce positive results.

Clinical trials under way or starting in 2017

Transgene is currently involved in two phase 2 trials:

- Second-line treatment for advanced lung cancer (NSCLC): trial of TG4010 in combination with Opdivo® (nivolumab), conducted by the UC Davis Medical Center (US), with the support of Bristol-Myers Squibb (supply of nivolumab). First patient treated (NCT02823990) in March 2017, and initial results expected from the end of 2017;
- First-line treatment for advanced lung cancer (NSCLC): preparation of a phase 2 clinical trial combining TG4010, an ICI and chemotherapy in patients with low or undetectable level of PD-L1 expression on tumor cells. Discussions are under way on a clinical collaboration with a partner. The first patient is expected to be enrolled at the end of 2017.

Next stages of development

The results of the phase 2 combination trial are expected at the end of 2017. The data from the trial will form the basis for discussions with potential partners aimed at signing a structuring agreement.

The Company plans to launch a so-called "neo-adjuvant" trial, notably making it possible to document the mechanism of action of TG4010 in more detail.

Marketing outlook

The Company has not set a possible date for commercial launch.

TG4001 : Human Papilloma Virus (HPV) positive head and neck cancers

The TG4001 therapeutic vaccine has already been administered to more than 300 patients presenting cervical intraepithelial neoplasia (CIN 2/3). Tolerance to the product was good, with significant clearance of the HPV virus and promising results on efficacy. Its mechanism of action and excellent safety profile make TG4001 a worthwhile candidate for combination with other therapies like avelumab, an anti-PD-L1 immune checkpoint inhibitor.

Description and mechanism of action

TG4001 immunotherapy is composed of a vector, the MVA vaccine virus expressing both antigens of the Human Papilloma Virus (HPV) of the 16 type (HPV16) and interleukin 2 (IL-2, cytokine also present in TG4010).

Lead therapeutic indication

TG4001 is currently being developed for use in HPV-positive advanced cancers of the head and neck.

Backed by the proof of concept obtained during a phase 1/2 clinical trial in pre-cancerous lesions of the cervix (cervical intraepithelial neoplasia CIN2/3), the Company shifted the focus of its development to patients with advanced cancers caused by the human papilloma virus (HPV) in combination with immune checkpoint inhibitors, particularly head and neck cancers.

In previous studies, TG4001 showed a good safety profile. No serious side effect associated with the vaccine was observed. More specifically, in the last phase 2b study in patients with CIN2/3, this data was obtained with only three injections of TG4001 in monotherapy. Therefore, this provides solid proof of the activity of the immunotherapy product in a pathology that is HPV-positive and, in this respect, these results are extremely encouraging for TG4001 and the entire MVA platform.

Preparation of clinical trials

Transgene is currently preparing a phase 1/2 clinical trial to evaluate the potential of the TG4001 therapeutic vaccine in combination with avelumab, a fully investigational human anti-PD-L1 monoclonal antibody, in the treatment of patients with HPV-positive squamous cell carcinoma of the head and neck (HNSCC), following the failure of standard treatments. Transgene is the trial sponsor and the principal investigator is Professor Christophe Le Tourneau of the Institut Curie. A collaboration agreement has been signed with the Merck KGaA and Pfizer Alliance for the supply of avelumab, their investigational ICI (avelumab), for a trial.

Next stages of development

This clinical trial should start in 2017.

Marketing outlook

The Company has not set a possible date for commercial launch.

TG1050: therapeutic vaccine for chronic hepatitis B

TG1050 is a therapeutic vaccine for the treatment of chronic hepatitis B. The Company moved ahead with the first in-human clinical trial of this product in 2015. The primary objectives of the study were to evaluate the safety and tolerability of TG1050 in patients with chronic HBV (chronic hepatitis B virus) who are currently being treated with standard antiviral therapy. TG1050 technology is also under development in China, through the joint venture between Transgene and Tasly BioPharmaceutical Technology.

Description and mechanism of action

TG1050 is an immunotherapy based on the human adenovirus serotype 5. This virus is non-replicative, meaning that it cannot proliferate in the patient's body. It expresses several antigens of the hepatitis B virus (HBV): the DNA polymerase enzyme, responsible for replication of the virus, the surface protein located outside the virus that allows HBV to enter the cells that it infects and finally the HBV capsid protein, *i.e.*, the protein comprising the structure that surrounds the viral genome. Once produced in the body *via* the adenovirus vector, these HBV proteins will activate the patient's immune system and induce HBV-specific T lymphocytes that can recognize infected cells and eliminate them.

Therapeutic indication

TG1050 is for treatment of chronic hepatitis B.

The introduction of new drugs in the last decade, nucleoside analogues (NAs) and pegylated interferon alpha (PEG-INF), to treat chronic hepatitis B succeeded in maintaining a low level viral load in patients with the disease. However, these treatments only rarely succeed in eliminating the infection (in less than 5% of patients), *i.e.* the disappearance of the HBV

surface antigen (HBsAg) at the same time as a measurable antibody response against the same antigen, or seroconversion against HBsAg. In addition, these treatments are for life, and pose a significant risk for patients of developing cirrhosis of the liver, which could progress to liver cancer.

In combination with standard treatment, TG1050 could increase the level of seroconversion against HBsAg, compared with current standard treatments alone, thus providing a new option for curing this disease.

Clinical trials and results

Based on the data establishing preclinical proof of concept (key findings were published in the scientific journal *Gut*), the Company moved ahead with a phase 1/1b study of TG1050 in patient with chronic hepatitis B in 2015.

In July 2016, Transgene reported positive safety results in patients following a single injection of TG1050. No serious side effects were reported. The Safety Review Committee issued a positive recommendation to continue the study.

The drug is also being developed in China and obtained an IND (Investigational New Drug approval, the stage prior to starting testing in humans).

Next stages of development

The phase 1/1b trial is continuing on patients with repeated doses of TG1050. The primary objectives of the study are to evaluate the safety and tolerability of TG1050, administered in a single dose or in multiple doses, and to determine the therapeutic dose that will be used subsequently. Secondary objectives include evaluating the antiviral activity of and immune responses to TG1050. Initial results are expected in mid-2017.

Marketing outlook

The Company has not set a possible date for commercial launch.

Oncolytic viruses: Destroy cancerous cells in a targeted manner

Oncolytic viruses are a particularly innovative therapeutic class that offer promise in the fight against cancer.

They replicate in a targeted manner in cancer cells and directly (the process is known as cell lysis) and indirectly trigger an immune system response against abnormal cells.

Oncolytic viruses can carry a therapeutic "arsenal" made up of a number of different and complementary "weapons": in this case, one talks about multifunction or "armed" oncolytic viruses.

These novel approaches aim to incorporate all factors that could lead to an effective therapy against cancer.

Pexa-Vec oncolytic immunotherapy: liver cancer and other solid tumors

Pexa-Vec (JX594/TG6006 – pexastimogene devacirepvec) is an oncolytic virus designed to selectively target and destroy cancer cells by intracellular replication of the virus cells (oncolysis) and stimulate the anti-tumor immune response. Its mechanism of action and safety profile make it an ideal candidate for combination with immune checkpoint inhibitors (ICIs). Pexa-Vec is primarily being tested in liver cancer (hepatocellular carcinoma, or HCC), and is also being evaluated in other solid tumors.

Description and mechanism of action

The modified poxvirus (the vaccine virus) from which Pexa-Vec is derived can selectively replicate in tumor cells. The safety profile and cancer cell selectivity were obtained by the deletion of the thymidine kinase (TK) gene, thus making it dependent on the constant high-level expression of the TK gene in cancer cells. To increase its efficacy even further, Pexa-Vec was also modified to express the GM-CSF gene, an addition that aims to increase the immune cascade caused by the product. Pexa-Vec uses three mechanisms to "attack" the tumors: cell lysis *via* the selective replication of the virus in tumor cells, blocking of tumor vascularization and stimulation of the immune response against the tumor (active immunotherapy).

Transgene acquired the development and commercial rights for Europe for Pexa-Vec. This agreement was amended in 2015 (See Section 1.2.5, Material Contracts).

Lead therapeutic indication: solid tumors

Most cancers carry the mutations and genetic alterations which Pexa-Vec needs to be active.

Phase 1 and 2 clinical trials in different types of tumors showed that, when injected into tumors or administered by infusion, Pexa-Vec is well tolerated by patients and has a biological activity. Pexa-Vec has an acceptable tolerance profile with known and tolerable secondary effects. The lead indication in the development plan for the product is liver cancer (hepatocellular carcinoma, or HCC). Pexa-Vec is also being developed for application in other solid tumors.

Key clinical results as a first-line treatment in advanced liver cancer

Phase 2 study results (published in the journal *Nature Medicine* in February 2013) of patients with advanced liver cancer revealed that patients receiving the high dose had a statistically significant clinical improvement in terms of overall survival compared to the Group receiving the low dose. The risk of death in patients receiving the high dose of Pexa-Vec dropped sharply compared to the patients in the control group receiving the low dose (1/10th of the high dose). Median overall survival was respectively 14.1 months in the high dose group and 6.7 months in the low dose group, which compares favorably with current treatments.

Clinical trials under way or in preparation

A phase 3 clinical trial of Pexa-Vec (PHOCUS) started in 2015 and is ongoing. It is evaluating Pexa-Vec in combination with sorafenib in the first-line treatment of patients with advanced hepatocellular carcinoma (HCC). This global study is being conducted in Europe, Asia and North America by our partner SillaJen and is expected to enroll approximately 600 patients. Patients will be randomized into two groups to receive Pexa-Vec immediately followed by sorafenib, or sorafenib only. Sorafenib (Nexavar®) is currently the only product approved for first-line treatment of advanced HCC.

For its part, Transgene is developing Pexa-Vec in combination with ICIs in these two phase 1/2 tests. Their objective is to confirm the synergies generated by combining an oncolytic virus and an ICI. The results expected are improved rates, quality and duration of response to current or future standard treatments.

- First-line treatment of advanced liver cancer (advanced hepatocellular carcinoma) Pexa-Vec will be combined with nivolumab (Opdivo®). It is expected that the first patient will be treated in the second quarter of 2017.
- Solid tumors: phase 1 trial to evaluate the tolerance and efficacy of Pexa-Vec combined with ipilimumab (Yervoy®) with intra-tumoral delivery. The first patient was treated in February 2017.

In addition to this clinical development program, a study evaluating Pexa-Vec in combination with cyclophosphamide administered in small doses ("metronomic"), in solid tumors, including breast cancer and soft-tissue sarcomas, is also ongoing. This study is part of a program funded by INCa (the French National Cancer Institute) and is sponsored by the Institut Bergonié (Bordeaux, France). Cyclophosphamide administered continuously in small doses is used in combination with immunotherapy treatments to potentiate their activity.

Moreover, a study using Pexa-Vec in solid tumors before surgical intervention (neo-adjuvant indication) has begun in England (Leeds University, principal investigator Professor Melcher). This study's objective is to better document Pexa-Vec's mechanism of action in the actual tumor environment.

Next stages of development

The initial results of the phase 1 trial of Pexa-Vec with ipilimumab are expected from the end of 2017.

The results of the phase 3 (PHOCUS) clinical study are expected in 2019.

Marketing outlook

An initial application could be filed for marketing approval of Pexa-Vec in 2019-2020 as a first-line treatment in advanced liver cancer as indicated in the product's current development plan.

TG6002: treatment of solid tumors

A new-generation oncolytic immunotherapy, optimized for greater selectivity and to bring the production of a chemotherapy directly into the tumor.

Description and mechanism of action

TG6002 was designed to induce the destruction of cancerous cells (oncolysis), stimulate the patient's immune response and to express the FCU1 gene in the tumoral cells it has infected. The expression of the FCU1 gene enables the production, in the tumor, of 5-FU (5-flourouracil), a widely used chemotherapy. TG6002 could potentially be used in combination with conventional treatments or as a monotherapy once a cancer becomes resistant to standard therapy. TG6002 is a viral vector from the virus of the vaccine that has kept its ability to replicate and propagate itself (a "replicating" virus).

TG6002 is able to strengthen conventional treatments and could be used in combination (with chemotherapy, monoclonal antibodies or radiation) or as monotherapy with cancers that resist these treatments.

Lead therapeutic indication

Transgene is developing TG6002 for the treatment of several solid tumors, such as glioblastoma and cancers of the stomach, colon, pancreas and bladder.

Key results

Transgene is relying on a robust set of preclinical data, having notably demonstrated in several animal models the ability of TG6002 to produce 5-FU within the tumor. In some models, partial responses and even complete ones were observed, as well as a "remote" effectiveness of the oncolytic virus on the metastases.

Next stages of development

TG6002 should enter clinical development with exploratory phase 1 trial in the first half of 2017, in patients with recurring glioblastoma. The principal investigator of this study is Professor Jean-Yves Delattre (Pitié-Salpêtrière, AP-HP).

Marketing outlook

The Company has not set a possible date for commercial launch.

1.2.2.2 Other programs

Transgene is making a major investment in its next generation of products. Our main research interests are notably oncolytic viruses for cancer and immunotherapeutic products for infectious diseases (tuberculosis in particular).

Tuberculosis program

The Transgene tuberculosis program focuses on the development of a targeted immunotherapy to treat active tuberculosis, including drug-resistant tuberculosis. It uses Transgene's viral vector technology, inserting into vectors

proteins that are expressed by mycobacterium during both the latent and active phases of infection.

In October 2013, the Company announced that its tuberculosis immunotherapy program would receive $5 million from the US National Institute of Allergy and Infectious Diseases (NIAID, an agency of the National Institutes of Health or NIH), which has awarded the funds to Emergent BioSolutions Inc. The Company has a collaboration agreement with Emergent BioSolutions Inc. to develop a cell line production process and manufacture the anti-tuberculosis immunotherapy product that the Company chooses to develop. The significant expertise of Emergent BioSolutions in this field will complement the capacity and know-how of the Company, which retains all the rights associated with the development and commercialization of the candidates generated as a result of this program.

Preclinical experiments are under way and the Company will define, as necessary, the next development stages based on their findings.

Marketing outlook

Transgene has not set a timeframe on the timing to file for marketing approval for this product.

New generation of oncolytic viruses

A new generation of armed oncolytic viruses is now being developed. They can be armed using ICIs and/or various features that alter the tumoral micro-environment. These new therapeutic approaches make it possible to alter the cellular interactions within the tumor to make treatments more effective.

For example, a poster was also presented in April 2016 at the annual conference of the American Association for Cancer Research. It presented an oncolytic virus vaccinia expressing an anti-PD1 antibody and thus provides pre-clinical concept proof of our ability to design advanced, multi-functional viruses.

1.2.3 Principal markets and competitors

Transgene is a R&D focused, biotechnology company. It does not market any products.

1.2.3.1 Oncology

Cancer Treatment

Accounting for one out of seven deaths, cancer is one of the leading causes of death in the world. It causes more deaths than Aids, tuberculosis and malaria combined. According to the estimates of the International Agency for Research on Cancer, 14.1 million new cancer cases and 8.2 million deaths worldwide were reported in 2012 (around 22,000 deaths per day). Out of this total, 2.9 million of these deaths occurred in developed countries and 5.3 million in developing countries. By 2030, new cancer cases are expected to reach 21.7 million with cancer deaths increasing to 13 million, simply due to the growth and the aging of the population (source: American Cancer Society's Global Cancer Facts and Figures, 3rd edition).

Surgery and radiotherapy are currently considered the best treatments available for most cancers. However, survival expectations for patients drop when the cancer metastasizes and spreads. Chemotherapy and hormone therapy are the main treatments for metastatic cancer. Nevertheless, except in the case of certain less common types of cancer such as acute childhood leukemia, Hodgkin's disease and testicular cancer, few patients are cured by these treatments and improving their chances of survival remains challenging. New anti-cancer treatments – called targeted therapies, which include ICIs – have emerged in recent years and several of them are already on the market. These therapies use agents that can specifically target and attack cancer cells without seriously harming healthy cells.

Immunotherapy is another new field in cancer treatment. Immunotherapy uses the patients' immune system by either activating it against the cancer cells or by giving it additional protection such as proteins produced in bio-molecular engineering. Transgene's cancer treatment programs mainly seek to stimulate the immune system to induce tumor rejection or to destroy cancer cells by special viruses called oncolytics.

The global anti-cancer treatment market was valued at $72.8 billion in 2014 and is expected to grow to $153.1 billion by 2020, assuming an annual average growth rate of 11.2% (source: EvaluatePharma).

1.2.3.1.1 Non-small cell lung cancer

According to the statistics and estimates of GLOBOCAN 2012, lung cancer is the most common cancer in the world, with 1.8 million new cases diagnosed every year and close

to 1.6 million deaths. Non-small cell lung cancer (NSCLC) accounts for approximately 85% of all lung cancers. More than 448,000 cases of lung cancer have been diagnosed and more than 388,000 deaths have been reported in Europe. The American Cancer Association estimated that lung cancer was the deadliest cancer in 2015, accounting for 27% of cancer-related deaths. In the United States, it is estimated that in 2015 there were more than 221,000 new cases of lung cancer and more than 158,000 related deaths. Lung cancer survival rates are among the worst (the five-year survival rate in the US is 21% for NSCLC), underscoring the importance of this unmet medical need.

Once lung cancer is diagnosed, most patients are already at an advanced stage in the disease (IIIB – locally advanced, or IV – metastatic). The classic treatments such as platinum salts chemotherapy together with radiation therapy are employed; but they are not likely to cure such patients, though they can prolong survival and improve quality of life. Some patients, whose tumors show specific genetic characteristics (a mutated EGFR gene or re-arranged ALK gene) can benefit from targeted therapies. For example, erlotinib (Tarceva®), afatinib (Gilotrif®), and gefitinib (Iressa®) are molecules that block the EGFR signal responsible for multiplying cancerous cells. As for rearranged ALK genes, the available treatments are crizotinib (Xalkori®) and ceritinib. Other therapies, like the monoclonal antibody Bevacizumab (Avastin®), target the growth factor of the vascular endothelium (VEGF), a protein that tends to increase the number of blood vessels. In this way the antibody deprives the tumor of the nutrients carried in the blood and slows down its growth.

For several years now, clinical research has focused on immunotherapy and demonstrated a distinct benefit, in terms of effectiveness and of fewer undesirable side effects from the treatment, with better tolerance than with chemotherapy. This research has changed the way physicians typically prescribe. Since 2015 several immunotherapy treatments targeting the interaction between PD-1 and its ligand PD-L1 (ICIs) have obtained marketing authorizations for lung cancer, either as a monotherapy after chemotherapy has failed (nivolumab (Opdivo®), pembrolizumab (Keytruda®) and atezolizumab (Tecentriq®)), or as a first-line treatment when this marker is over-expressed (pembrolizumab).

These ICIs, however, have proven to be insufficiently effective as monotherapies in many patients, whose tumors do not express PD-L1 strongly. They are therefore the object of intense clinical research. A great many combined treatments (combinations of immunotherapies, including vaccines and oncolytic viruses, or with chemotherapy or radiation therapy, for example) are currently being evaluated.

1.2.3.1.2 Advanced liver cancer

More than 780,000 new cases of liver cancer were diagnosed and more than 745,000 related-deaths were reported worldwide in 2012 (source: GLOBOCAN 2012), with 63,000 new cases and 62,000 deaths in Europe. According to the American Cancer Society, more than 35,000 liver cancer cases will have been diagnosed and 24,000 deaths from this disease reported in the US in 2015. Hepatocellular carcinomas (HCC) account for more than 80% of liver cancers.

At the early stages of the disease, liver cancer is operable if the patient's liver is sufficiently healthy. A liver transplant is another option. In the case of approximately 85% of all HCC, *i.e.*, some 450,000 cases worldwide, neither surgery nor transplant is possible. For non-operable tumors, other localized therapies may be used such as ablation (destruction of the tumor) or embolization (blocking the tumor's blood vessels). Very few treatments are available to treat advanced stage HCC. Sorafenib (Nexavar®) is the only medicine on the market authorized to treat the disease in non-operable patients or those who are not candidates for other loco-regional therapies. There is a crucial need to develop new treatment options given the very low five-year survival rate and the limited number of treatments available, especially for patients diagnosed at an advanced stage of the disease.

1.2.3.1.3 HPV positive head and neck cancers

Head and neck squamous cell carcinoma – HNSCC or ENT cancers – include a number of forms of cancer that affect the mouth cavity, pharynx and larynx. It is now widely accepted that the human papilloma virus (HPV-16) is implicated in a large number of these cancers. It is also related to several subclasses of head and neck cancers, especially the most common oropharyngeal form, where it is implicated in more than 80% cases, and laryngeal cancers (~70%).

A significant increase in the incidence of these cancers related to HPV-16 has been observed in recent years. Although there are more than 100 HPV sub-types, HPV-16 alone is responsible for 90% of ENT cancers related to HPV. The global economic burden of head and neck cancer indications was $1 billion in 2010.

The current treatment options are surgical resection with either radiotherapy or radio-chemotherapy. More efficient treatments need to be developed to treat these diseases, especially for advanced metastatic head and neck cancers which are HPV-positive. Combining immunotherapy with immune checkpoint inhibitors (ICIs) could be a promising therapeutic option to meet this major medical need.

1.2.3.2 Infectious diseases

Chronic Hepatitis B Virus (HBV) Infection

Hepatitis B (HBV) is a virus that infects the liver and can lead to death. HBV can cause chronic infection or disease of the liver. If left untreated, it can lead to cirrhosis or deadly liver cancers. Recent estimates have indicated that the number of patients treated for chronic hepatitis B totals approximately 200,000 in the U.S, Germany, France, Italy, Spain and the United Kingdom with approximately 100,000 patients in Japan. The total prevalence of treated chronic hepatitis B cases across these seven principal markets is expected to reach 450,000 patients

by 2020 (source: ECDC-Incidence of Hepatitis B, Decision Resources: expert opinions). The Chinese market is currently estimated at 500,000 patients. These figures are set to rise with the increase in the number of patients diagnosed and treated.

Several anti-viral treatments for chronic hepatitis B are currently on the market, including tenofovir (Viread®) from Gilead and entecavir (Baraclude®) by Bristol-Myers Squibb (BMS), which were mainly designed to prevent the virus from spreading. Nevertheless, these treatments only cure approximately 3% of patients (source: EASL HBV guidelines) and need to be taken over long periods of time (average of 15 years in developed countries) or even for the rest of the patients' lives. Therefore, the current challenge is the development of new therapeutic approaches, with a cure rate higher than today's.

1.2.3.3 Competition

The Company competes in a competitive environment in which many of the other companies have more substantial financial and human resources than it does. These competitors could roll out technologies similar to the Company's viral platforms or develop and market therapies for the same indications as the Company.

For example, Bavarian Nordic AS, Oncothyreon, Oxford BioMedica, NovaRX, Psioxus and Oncolytics Biotech are all aiming to develop viral immunotherapies. In the field of NSCLC, the lead indication for TG4010, companies such as Bristol-Myers-Squibb (BMS), Merck and Roche have received market authorizations for their immunotherapies. Companies such as Astra Zeneca are moving ahead with the development of their own immunotherapies to combat this disease.

In liver cancer, the lead indication for Pexa-Vec, certain immunotherapies are currently at the clinical trial stage, including BMS's immunotherapy product, nivolumab.

For the treatment of chronic hepatitis B (indication for TG1050), the standard treatment is a class of antivirals, the nucleosides. One of the treatments, entecavir, is now available as a generic medication and the other treatment, tenofovir (Viread®), is commercialized by Gilead. Other products at varying stages of development exist, including the Gilead, Arbutus and Alnylam programs.

Even though there is currently no effective treatment to cure all cancers, there are some recognized methods of treatment which may be able to extend the chances of survival, such as chemotherapy. The outlook for patients has improved over recent years with targeted therapeutic approaches, monoclonal antibodies, small chemical molecules and immunotherapies (including ICIs). These medications are therefore competing or complementary products, depending on their mechanism of action. Transgene's immunotherapies (therapeutic vaccines and oncolytic viruses) act to stimulate the patient's immune response and can be combined with ICIs or chemotherapies.

However, despite the advances made in cancer treatments, innovative therapies still need to be developed to extend patients' lives and improve their quality of life.

1.2.4 Research and development

All of the Company's activities relate to the research and development of innovative therapies.

The technology platform: vectors and gene transfer

Genes are segments of deoxyribonucleic acid (DNA) present in each cell that provide the information required to produce proteins. The production of proteins starts in the cell's nucleus when the gene is copied. The process that results in the cells producing a gene is called "gene expression".

The development of gene transfer methods that are safe, reliable and adaptable is a key element in the development of effective therapies. A therapeutic gene must be included in a delivery system (or "vector") that, associated with the gene, transports it into the patient's cells. Gene transfer therapies are currently divided into two distinct approaches:

- the *in vivo* (inside the body) approach consists of directly administering to the patient a pharmaceutical compound containing the therapeutic gene and a "vector" responsible for conveying the gene to the patient's target cells, either for gene therapy purposes or to induce an immune response. Transgene products fall into this category;
- cellular, or *ex vivo* (outside the body), therapy consists of removing cells from a patient, cultivating them in appropriate laboratory conditions and using a vector to introduce the functional gene in the cells, then re-implanting the modified cells into the patient. At present, Transgene does not develop cellular therapy products. It does, however, have all the required know-how and may contemplate developments in this field at some point in the future.

Transgene's research in molecular biology techniques for gene transfer has led to the development of various vector technologies. Efforts are now focused on the poxvirus family for *in vivo* administration: MVA (Modified Vaccinia Ankara virus) and oncolytic VV (Vaccinia Virus), as well as adenoviruses.

To be effective, a vector must be able to:

- transport the gene of interest;
- transfer the gene to a sufficient number of target cells; and
- allow gene expression to produce the therapeutic protein over a sufficiently long period to ensure the success of the treatment or stimulation of the immune system.

This type of vector must also be safe. The gene delivery approach most widely used until now is based on gene transfer by viral vectors in which modified viruses of various types are used to transfer the genetic material into the patients' cells.

Transgene's research programs on vector technology aim to provide vectors with features that will optimize their performance and safety through:

- the search for potential interactions by combining different vectors, for more effective vaccination protocols;
- the insertion capacity of the gene of interest in the most appropriate genome site;
- the generation of viral vectors able to multiply selectively in the tumors, thereby locally increasing the therapeutic protein level delivered by the gene, the ability to be administered more than once by a systemic path and no longer only intratumorally; and
- the ability to alter the micro-environment of the tumor in order to maximize the effectiveness of the immune response.

Poxviruses are a family of viruses that includes the vaccinia virus broadly used in smallpox vaccinations.

They meet the aforementioned criteria in a very satisfactory manner.

Vaccine immunotherapy

Transgene has developed a new generation of vectors based on a strain of MVA that does not propagate in the cells of humans or other mammals and is therefore incapable of causing an infection in humans. This strain is thus particularly safe, as demonstrated by its intensive use as a human smallpox vaccine. The MVA vector was tested in phase 2 clinical trials of anti-cancer vaccines (TG4010, TG4001). It showed high tolerability and the ability to induce a strong, widespread response.

Oncolytic immunotherapy

Transgene was a pioneer in the development of replicative viruses with, in particular, a vaccinia virus that carries a gene of the rabies virus able to orally vaccinate (distribution of vaccine-impregnated bait) wild animals, in particular foxes, to prevent rabies, sold by Mérial, one of the world leaders in animal health. Transgene's oncolytic vector program focuses on new generations of vaccinia viruses lacking certain genes, to increase tolerance while maintaining effectiveness and their capacity to stimulate the immune system.

Oncolytic immunotherapy is a new class of anti-cancer treatments. Unlike products using MVA, oncolytic products replicate in cancerous cells, leading to the destruction of these cells, and do not replicate in healthy cells. This mechanism is unlike that of conventional treatments such as chemotherapy, tyrosine kinase inhibitors, antibodies and radiotherapy, and therefore these oncolytic products could be used in combination with these other treatments or alone in the treatment of resistant cancers.

In addition, these viruses could be armed with multiple features whereby one might alter the effectiveness of the immune response in the tumor micro-environment.

1.2.5 Material Contracts

Collaboration agreement with Merck KGaA and Pfizer for a phase 2 study

In October 2016, Transgene, Merck KGaA and Pfizer entered into a collaboration agreement to evaluate the potential of the therapeutic vaccine candidate TG4001 in combination with avelumab for the treatment of human papilloma virus (HPV) positive head and neck squamous cell carcinoma (HNSCC), after failure of standard therapy in the framework of a phase 1/2 trial. Avelumab is an investigational fully human anti-PD-L1 IgG1 monoclonal antibody that is jointly owned by Merck KGaA and Pfizer. Merck KGaA and Pfizer are providing avelumab and certain technical services to the collobaration, with Transgene contributing TG4001 and playing the role of trial sponsor.

University of California Davis (UCD) collaboration agreements with Transgene and with BMS

In December 2016, Transgene and Bristol-Myers Squibb each entered into a collaboration agreement with the University of California to put in place a phase 2 clinical trial evaluating TG4010 in combination with Opdivo® (nivolumab) for the treatment of 2nd line metastatic non-small cell lung cancer (NSCLC). UC Davis Medical Center will act as sponsor of this clinical trial (a so-called independent investigator trial) financed by Transgene and supported by the supply of nivolumab by Bristol-Myers Squibb and TG4010 by Transgene. Opdivo is a product belonging to Bristol-Myers Squibb.

Licensing agreement with SillaJen

In August 2010, Transgene and Jennerex (acquired by the South Korean-based company SillaJen in 2014) signed an exclusive partnership agreement for the development and commercialization in Europe, the Commonwealth of Independent States (CIS) and the Middle East of SillaJen's oncolytic virus Pexa-Vec for the treatment of solid tumors. In November 2015, SillaJen and Transgene announced the amended partnership agreement to streamline the conduct of clinical studies reflecting the areas of interest of each partner and to redefine the territories. Transgene has returned rights to SillaJen for all Middle Eastern countries, Russia, Ukraine, Belarus and Turkey. SillaJen assumed the responsibility of conducting the phase 3 trial in hepatocellular carcinomas. Transgene remains responsible for submitting requests for marketing approval and retains commercialization rights in its territories. Transgene will pay SillaJen a global amount of $6 million as its support for the phase 3 study, whereas under the terms of the original agreement Transgene was responsible for all development costs in its territories. Under the amended agreement, Transgene has committed to independently initiate an exploratory trial evaluating Pexa-Vec in combination with nivolumab for the treatment of hepatocellular carcinomas. Transgene will be responsible for all costs related to this trial, as well as any other exploratory studies it launches independently. The data generated by this exploratory trial will belong to Transgene.

As part of the development activities, Transgene may have to pay SillaJen up to $112 million (including $13.25 million that have already been paid) in milestone and market authorization payments, as well as royalties from the sale of Pexa-Vec by Transgene and its sub-licensees. SillaJen also has an option to co-promote the product in the five major European countries in the exclusive territory of Transgene.

Agreements with ABL Europe for the manufacturing of clinical batches

On February 1, 2016, as part of the finalization of the Company's industrial strategy, the Company and ABL Europe announced ABL Europe's acquisition of Transgene's production assets, namely the real estate complex including a manufacturing building with a logistics annex and related facilities. Alongside this transaction, the two companies signed a 3-year agreement under which Transgene has secured the production of the necessary clinical batches for its clinical development plan.

Loan agreement with the European Investment Bank (EIB)

In early January 2016, the Company obtained a €20 million loan from the European Investment Bank (EIB) under the IDFF (Infectious Diseases Finance Facility). This is a five-year facility with principal and interest repayable only from the fourth year. A first tranche of €10 million was drawn down in June 2016 and a second tranche can be drawn down prior to the end of 2017. No guarantees were provided in connection with this credit facility.

Agreement with Sanofi

In March 2013, Transgene announced the signing of a collaboration agreement for the creation of a new advanced platform dedicated to the manufacturing of immunotherapy products, including Transgene therapeutic products. The platform was built on the Genzyme Polyclonals site in Lyon, and remains the exclusive property of Sanofi.

Sanofi and Genzyme will act as a bioproduction services company (Contract Manufacturing Organization or CMO) for Transgene and will manufacture clinical and commercial batches for Transgene's immunotherapy products, including the therapeutic MVA vaccines. Transgene will be a preferred customer of the commercial manufacturing platform for 15 years.

The construction of the manufacturing site started has been completed and its regulatory qualification is under way and should be completed in 2017.

Consortium agreement in the context of the ADNA (Advanced Diagnostics for New Therapeutic Approaches) project

Transgene is a partner in a research program coordinated by Institut Mérieux, which brings together bioMérieux, Transgene and Genosafe and the Genethon association. The program's goal is to develop a new generation of diagnostics and therapies focusing on cancers and infectious and genetic diseases. This

program is called "ADNA" (Advanced Diagnostics for New Therapeutic Approaches). It was supported by the Industrial Innovation Agency, which merged with OSEO in 2007 and became Bpifrance in 2013.

Under this program, Transgene receives grants and reimbursable advances of up to €8.3 million and €15.9 million, respectively, over the duration of the program, from 2008 to 2017. If the project is a success, which is defined as the marketing of a product for which a grant has been awarded and reaching a lower limit of revenue, Transgene must pay back, under certain conditions, the advances in installments and then, if applicable, pay interest (1.75% of revenue) over a certain length of time. The agreement was approved by the European authorities on October 22, 2008.

Licensing agreement with Ascend

In July 2013, Transgene granted Ascend BioPharmaceutical ("Ascend"), a biotechnology company based in Australia, a license for the immunotherapy product TG1042 to treat a common form of skin cancer, basal cell carcinoma (BCC), and two other cancer indications, with Transgene retaining rights to other potential indications.

Agreement with Emergent

In October 2013, Transgene announced that its new tuberculosis immunotherapy program would receive funding of $5 million from the US National Institute of Allergy and Infectious Diseases (NIAID, part of the US National Institute of Health or NIH), granted by the latter to Emergent BioSolutions Inc. (NYSE: EBS).

In relation to this funding, Transgene signed a collaboration agreement with Emergent BioSolutions to develop a cell line production process and to manufacture the antituberculosis immunotherapy product that Transgene selects for development.

Transgene retains all rights associated with the development and marketing of candidates generated by this program funded by the NIAID.

Collaboration and Licensing Agreement with Valneva (previously VIVALIS)

In July 2011, Transgene and Vivalis signed a collaboration and commercial licensing agreement for the development of a production process using the Vivalis EB66® cell line, suitable for the production of Transgene MVA therapeutic vaccines.

As part of this agreement, Transgene made an initial payment to Vivalis and could be required to make milestone payments at certain stages of clinical development and pay royalties related to sales of Transgene products made from Vivalis EB66®. Vivalis will also receive income related to GMP manufacturing of initial clinical batches.

1.2.6 Competitive advantages

The MVA vector technology platform

The MVA platform is one of Transgene's technology platforms and is designed to allow a maximum number of gene transfer applications. It makes available delivery techniques for differentiated genes, suited to distinct clinical situations, specifically in the field of cancer.

This technology platform has the following potential advantages:

- safety: MVA is a Modified Vaccinia virus obtained from a viral strain unable to propagate in human cells;
- easy administration: our technology is mainly focused on the development of ready-to-use products in ampules or vials, for direct administration to the patient; and
- manufacturing efficiency: production processes that allow for the application of practical cell culture and purification methods, ready for the production of commercial batches, have been developed.

Integrated skills from research to development

Transgene relies on its three decades of recognized scientific expertise. The Company has been working since 1992 in the field of gene transfer therapy and immunotherapy and has gained extensive know-how in key fields in relation to its development: virology, the conduct of clinical trials, and regulatory matters.

An extensive portfolio of patents

Transgene has applied for patents and will continue to do so to protect its products, vector technologies and related processes and other technologies. As of the date of this Registration document Transgene owns nearly 200 patents both in Europe and the US In addition to its patent portfolio, Transgene has licenses for third-party patents and the use of third-party processes and technologies.

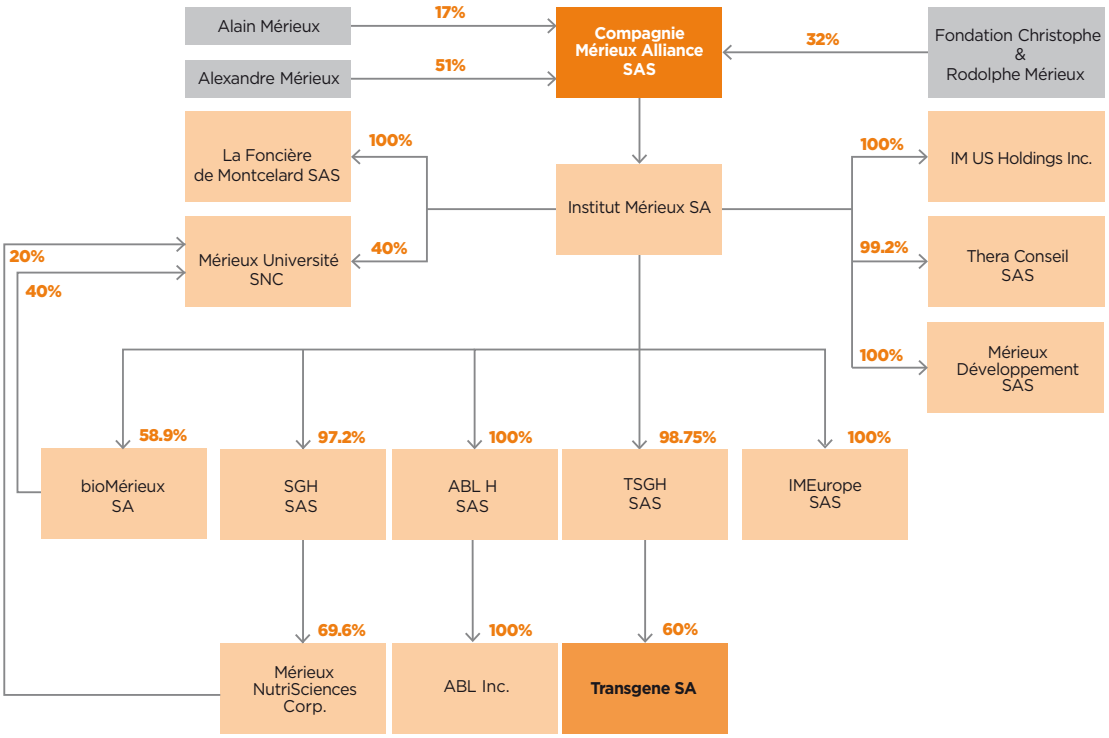
1.2.7 Organizational chart

1.2.7.1 Relationship with the Institut Mérieux group

Transgene is 60% owned by TSGH, a financial holding company, which in turn is 98.75% owned by Institut Mérieux (formerly Mérieux Alliance), itself 100% owned by Compagnie Mérieux Alliance, which is 68% owned by the Mérieux family and 32% owned by Fondation Christophe and Rodolphe Mérieux.

Philippe Archinard, Chairman and CEO of Transgene, is also the Chief Executive Officer of TSGH, in which he holds a 1.25% stake and a director at bioMérieux SA (a subsidiary of Institut Mérieux).

Within this group, Mérieux NutriSciences has a services business in food security and health, bioMérieux in clinical diagnostics and Transgene in immunotherapy research and development.



1.2.7.2 Subsidiaries and investments

Transgene, Inc.

The Company has a subsidiary in the U.S, Transgene, Inc., based in Cambridge, Massachusetts, in which it holds 100% of its capital and voting rights. This subsidiary represents Transgene SA before various organizations, regulatory authorities and study centers for its clinical trials in the US In this context, it comes under the operational control of Transgene SA, charges its costs to Transgene SA and has no significant assets. Philippe Archinard, Chairman and Chief Executive Officer of Transgene SA and Jean-Philippe Del, Vice-President, Finance, are directors of Transgene, Inc.

Transgene BioPharmaceutical Technology (Shanghai) Co. Ltd.

Transgene also has a subsidiary in China, Transgene BioPharmaceutical Technology (Shanghai) Co. Ltd., based in Shanghai, in which it holds 100% of the capital and voting rights. This company was established in 2012 to accommodate academic research collaborations conducted by Transgene in Chinese territory. In this context, it comes under the operational control of Transgene SA and has no significant assets. Philippe Archinard and Eric Quéméneur, Executive Vice-President of Transgene SA are directors of this company. Jean-Philippe Del is its supervisor. At the date of this Registration document the company was being wound up, as the academic collaboration programs had ended.

Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd.

Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. is a Chinese corporation created in 2010 to develop and ultimately sell biotechnology products, including Transgene products, in China. This company is jointly owned (50%/50%) with Tasly Pharmaceutical Group, which is based in Tianjin, China. Philippe Archinard and Thibaut du Fayet are directors of Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. Jean-Philippe Del is its supervisor.

ElsaLys Biotech SAS

In 2013, Transgene acquired a stake of around 37% in the capital of ElsaLys Biotech SAS. ElsaLys Biotech SAS was founded by former Transgene managers, alongside the Sofimac Partners investment fund, to develop monoclonal antibodies, a field of research still at a very early stage that Transgene did not wish to pursue at the moment, given its commitment to the development of viral vectors. As of December 31, 2016, Transgene's equity interest in ElsaLys Biotech was 14.4%. Transgene is represented on the Board of Directors by Éric Quéméneur.

1.2.8 Property, plant and equipment

The Company has a main site and a secondary site.

The main site is the registered headquarters located in the Illkirch innovation park, in the suburbs of Strasbourg, with one building and a vacant lot of land:

- the building, built in 2008, with an area of approximately 6,800 sq.m, houses the registered headquarters and the clinical R&D activities. It is held under a finance lease that was still in effect as of the date of this Registration document; and
- the vacant lot, with a surface area of around 9,000 sq.m, is adjacent to the main building; it was acquired in December 2014 through the exercise of a five-year option which was about to lapse. This acquisition gives the Company the possibility of extending its premises on a single site of adjacent lots.

The secondary site consists of around 300 sq.m, housing laboratories and offices within the Lyon Gerland Center for Infectious Diseases. This site is leased.

1.3 DESCRIPTION OF ACTIVITIES

1.3.1 Principal activities of 2016

In 2016, major achievements have validated the Company's strategy and provide Transgene with promising outlook for 2017.

Transgene has focused its efforts on implementing its strategy, which looks to combine Transgene's immunotherapies (therapeutic vaccines and oncolytic viruses, which boost the immune system), with immune checkpoint inhibitors (ICIs). Over the last twelve months, additional data from clinical studies combining active immunotherapies with ICIs have confirmed the strong rationale behind this strategy.

During the second half of 2016, Transgene signed two clinical collaboration agreements that allow clinical studies with:

- TG4010 in combination with Bristol Myers-Squibb's ICI nivolumab in lung cancer patients receiving a 2nd line of treatment and;
- TG4001 with Merck KGaA's and Pfizer's ICI avelumab in patients with HPV-positive head and neck cancer.

Several clinical trials have recently started or are being initiated to confirm the potential of Transgene's immunotherapeutics in combination with ICIs. The first results from these studies are expected around the end of 2017.

During the 2016 fiscal year, the Company strengthened its financial structure which will provide it with the funding to execute its clinical development plan through the end of 2018. This improved financial situation was the result of:

- a loan of €20 million from the European Investment Bank (EIB), €10 million of which was drawn down in June 2016;
- a €46.4 million rights issue that was completed in November 2016;
- as well as the significant reduction of our net loss €25.2 million compared to €46.4 million in 2015.

In parallel with strengthening its financial position, Transgene completed its reorganization with the result it is now focused on research and clinical development (R&D). As part of the restructuring, Transgene sold its production facility to ABL Europe, a Mérieux Group Company, for €3.5 million.

Our achievements in 2016 have reinforced our position as a major player in immunotherapy. All these assets will put Transgene in a position to conclude partnership agreements with pharmaceutical companies and bring important clinical benefits to patients with severe diseases.

1.3.2 Presentation of the financial statements

1.3.2.1 General information

The products developed by Transgene are immunotherapies based on viral vectors. They can represent peak sales of approximately 2 billion euros focusing solely on advanced lung cancer. For several years, immunotherapy, including Immune Control Point Inhibitors (ICIs), has been an important clinical progress. Transgene focuses on severe diseases (advanced cancers or cancers that have no satisfactory therapeutic options) or chronic diseases (chronic hepatitis B). The viral approaches used by Transgene have a favorable tolerability profile. The current clinical program aims to demonstrate that they can be used in combination with ICIs.

Transgene designs and develops drug candidates at preclinical and clinical development stages. The Company intends obtain the proof of concept of the clinical efficacy of its immunotherapies in humans, used as monotherapy and / or in combination, in particular with ICIs. Once proof of concept is established, Transgene intends to license its products to pharmaceutical industry players.

In order to better valuate its technology platform based on viral vectors, and with the aim of subsequently signing licensing contracts, Transgene also plans to sign collaborative development agreements with pharmaceutical industry and / or biotechnology companies. Transgene does not plan to produce or market its products.

1.3.2.2 Major accounting principles

Revenue recognition

At the date of this Registration document, with no products on the market, Transgene generates revenue from (i) collaboration and licensing agreements signed with other companies in its sector (see Section 1.4.2) and (ii) public funding of research expenses (grants and research tax credits).

Some collaboration and licensing agreements provide for research or manufacturing services by the Company, with obligations to customers. The Company invoices its services at a contractually defined price that is generally based on time spent, and billings are recorded in operating income as and when the services are performed. Some of these contracts provide for manufacturing services with a performance obligation. In these cases, the services are recorded in operating income in the income statement after satisfactory quality control and customer acceptance. Cash receipts corresponding to income not yet recognized as income in accordance with the principles outlined above are recorded as deferred income on the balance sheet until they meet the criteria for recognition as operating income. Income from patent licenses generally consists of an upfront non refundable payment on the signing of the agreement, milestone payments and other payments such as royalties on sales.

The Company may be required to grant an option right for a license. Income associated with the concession is recorded as *deferred income on the balance sheet* and recognized as income on a straight line basis until the estimated date of exercise of the option by the beneficiary. The expected date of exercise of the option is reviewed periodically.

In the event that the Company is not committed to perform work for the development of technology after signature, the non-refundable fees for technology usage rights paid when the license is signed are recognized as operating income upon the fulfillment of the contractual obligations. In the event that the Company should continue some development work in the technology after signature, or if it has a higher obligation to deliver the product, these rights are recognized in deferred operating income over the period of development or delivery of the product.

Milestone payments received under collaboration and licensing agreements are recognized as income when the operative event has occurred and there are no longer any conditions precedent to the payment by the third party. Operative events are usually the scientific or clinical results obtained by Transgene, the commencement of studies or external factors such as regulatory approvals.

Royalties on sales received under collaboration and licensing agreements are based on sales by licensees of products or technologies. They are recognized on the basis of the license terms, when the sales can be reliably measured and recovery of the related receivables is reasonably assured.

Certain research and development expenses in France are entitled to a research tax credit recognized at the end of the year in which the expense was recorded and the tax credit claimed. If it has not been used by allocation to a tax charge, the tax credit may be redeemed in accordance with the tax provisions. Research tax credits are recognized in the income statement under “Government grants”, in accordance with IAS 20.

Research and development expenses

Research and development expenses are recognized on the income statement in the period in which they are incurred. Development expenses are capitalized only when IAS 38

requirements are met. At the current development stage of its products, the Company believes that, at the date of this Registration document, these conditions were not met, and therefore, it did not capitalize its development expenses.

Payment in shares

The Company distributes stock options and bonus shares to its officers and employees. The charge for these distributions is evaluated and spread over time, according to the principles of IFRS 2.

Benefits at retirement

In accordance with the prevailing laws and practices in France, Transgene SA offers certain advantages that ensure eligible employees are paid a lump sum upon retirement (benefit plan at retirement). In accordance with the obligations and regulations, these defined benefit plans may be funded by investments in various instruments. The rights acquired by active staff are estimated using actuarial valuations based on the probability of death and continued employment by the Company, as well as expected future salaries. The benefit obligation is measured by the projected unit credit method. This provision does not apply to employees of entities located abroad.

1.3.3 Financial position and appropriation of net income/(loss)

The Company has incurred losses since 1993 and expects to continue to incur more losses over the next few years, due to costs incurred by its research and development programs and preclinical and clinical trials. In previous years, the main sources of Transgene revenue were the remuneration of research and bio-manufacturing contracts for third parties and government subsidies. Future revenue should be limited to payments related to existing and future strategic partnerships with pharmaceutical companies, third party research contracts, current license agreements, investment income from cash investment and public funding.

Comments on operating results (IFRS standards)

Fiscal years ended December 31, 2016 and 2015

CONSOLIDATED INCOME STATEMENT, IFRS

(in € thousands, except for per-share data)	December 31, 2016	December 31, 2015
Revenue from collaborative and licensing agreements	2,346	1,465
Government financing for research expenditure	6,382	8,100
Other income	1,583	384
Operating income	**10,311**	**9,949**
Research and development expenses	(26,419)	(32,138)
General and administrative expenses	(6,236)	(5,798)
Other expenses	(320)	(7,819)
Net operating expenses	**(32,975)**	**(45,755)**
Operating income from continuing operations	**(22,664)**	**(35,807)**
Finance cost	(602)	(930)
Share of profit (loss) of associates	(917)	(1,172)
Income (loss) before tax	**(24,183)**	**(37,909)**
Income tax expense	-	-
Net income/(loss) from continuing operations	**(24,183)**	**(37,909)**
Net income/(loss) from discontinued operations	**(1,024)**	**(8,465)**
NET INCOME	**(25,207)**	**(46,374)**
Basic loss per share (€)	(0.45)	(1.20)
Diluted earnings per share (€)	(0.45)	(1.20)

Operating income

During the periods under review, revenues from collaborative and licensing agreements mainly included:

- research and development services for third parties amounting to €0.5 million in 2016 (€0.8 million in 2015); and
- income related to commercial use of technologies or products provided under license by Transgene amounting to €1.8 million in 2016 (€0.7 million in 2015). This mainly comprised a non-recurrent compensation of €1.3 million paid by Sanofi Chimie under the terms of the 1991 cooperation agreement between the two companies.

As of December 31, 2016, government financing for research expenditures consisted of a research tax credit, as well as grants received and receivable:

- the research tax credit (CIR – *crédit impôt recherche*) amounted to €6.3 million in 2016 (€7.9 million in 2015). Related eligible expenses (net of grants received during the fiscal year) amounted to €21.3 million in 2016 and €25.8 million in 2015; and
- research grants amounted to €0.1 million in 2016 (€0.2 million in 2015).

Operating expenses

Research and development (R&D) expenses amounted to €26.4 million in 2016, compared to €32.1 million in 2015. This decrease of 18% was mainly due to the impact of the restructuring plan initiated in 2015, with a decrease in payroll costs and operating expenses.

The following table details R&D expenses by type:

(in € millions)	Dec. 31, 2016	Dec. 31, 2015	Change
Payroll costs	10.8	14.6	-26%
Share-based payments	0.1	0.3	-67%
Intellectual property expenses and licensing costs	1.1	1.5	-27%
External expenses for clinical projects	5.0	4.2	+19%
External expenses for other projects	3.8	4.4	-14%
Operating expenses	4.1	5.1	-20%
Depreciation and provisions	1.5	2.0	-25%
RESEARCH AND DEVELOPMENT EXPENSES	**26.4**	**32.1**	**-18%**

Employee costs allocated to R&D (salaries, employer contributions and related expenses) amounted to €10.8 million in 2016, compared to €14.6 million in 2015. This decrease of 26% was explained by the reduction in the headcount as results of the restructuring plan decided in 2015, especially in preindustrial development activities.

Intellectual property and licensing expenses amounted to €1.1 million in 2016 versus €1.5 million in 2015.

External expenses for clinical trials amounted to €5.0 million in 2016 versus €4.2 million in 2015. This increase was due to the acceleration of clinical trials with TG4010 (€1.6 million in 2016 vs. €1.0 million in 2015) and Pexa-Vec (€2.4 million in 2016 vs. 2.3 million in 2015).

Other external expenses, including expenses for research, preclinical and manufacturing projects, amounted to €3.8 million in 2016 versus €4.4 million in 2015. As results to the sale of the manufacturing unit, the Company now subcontracts the clinical lots manufacturing, notably to ABL Europe, the new owner of the Illkirch's unit since February 2016. This manufacturing subcontracting amounted to €1.2 million in 2016. Furthermore, the expenses for the commercial production unit with Sanofi/Genzyme decreased at 0.5 million in 2016 versus 2.0 million in 2015, due to the end of the construction part of the project, which enters into validation step. No expense related to regulatory toxicology studies was booked in 2016 (0.4 million in 2015 for TG1050 and TG6002).

Operating expenses, including the cost of operating research laboratories, amounted to €4.1 million in 2016 versus €5.1 million in 2015 (-20%), as expected as results of the restructuring.

General and administrative (G&A) expenses amounted to €6.2 million in 2016 versus €5.8 million in 2015.

The following table details G&A expenses by type:

(in € millions)	Dec. 31, 2016	Dec. 31, 2015	Change
Payroll costs	3.8	2.9	+31%
Share-based payments	0.1	0.1	N/S
Fees and administrative expenses	1.5	1.7	-12%
Other fixed costs	0.7	1.0	-30%
Depreciation and provisions	0.1	0.1	N/S
GENERAL AND ADMINISTRATIVE EXPENSES	**6.2**	**5.8**	**+7%**

Employee costs allocated to G&A amounted to €3.8 million in 2016 versus €2.9 million in 2015. This increase was mainly due the transfer of the Chairman and Chief Executive Officer's home entity.

Fees and administrative expenses amounted to €1.5 million in 2016 versus €1.7 million in 2015.

Other income and expenses

Other income amounted to €1.6 million in 2016 versus €0.4 million in 2015. In 2016, the Company participated to a capital increase of Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. This operation was performed half in kind and half in cash and generated an income of €1.2 million with the transfer of TG6002's rights in China to this joint-venture.

Other expenses amounted to €0.3 million in 2016 versus €7.8 million in 2015. The decision in 2015 to restructure the Company resulted in a net restructuring charge of €7.5 million in 2015.

Interest income (expense)

Net interest expense amounted to €0.6 million in 2016 versus €0.9 million in 2015.

Financial income (investment income) amounted to €0.9 million in 2016 versus €0.5 million in 2015.

This was mainly related to the appreciation of assets related to interest in SillaJen, Inc. subsequent to the disposal of Jennerex, Inc. shares in 2014.

Interest expense amounted to €1.5 million in 2016 versus €1.4 million in 2015. This mainly consisted of bank accrued interests on EIB loan (€0.4 million), discount of the advances received by Bpifrance under the ADNA (Advanced Diagnostics for New Therapeutic Approaches) program (€0.6 million) and interest on financing leases (€0.2 million).

Net loss from continuing operations

Net loss from continuing operations was €24.2 million in 2016, compared to €37.9 million in 2015, decreasing of 36%.

Net loss from discontinued operations

Net loss from discontinued manufacturing operations amounted to €1.0 million in 2016, compared to €8.5 million in 2015. The manufacturing assets were sold to ABL Europe for €3.5 million on February 1, 2016.

Total net loss

Total net loss for 2016 was €25.2 million, compared to €46.4 million in 2015, decreasing of 46%.

Net loss per share was €0.45 in 2016 (€1.20 in 2015).

Dividend policy

The Company has not distributed a dividend since its formation. In the coming years, it plans to use all available funds to finance the business and future growth.

Post-closing events

None.

1.3.4 Cash flow, financing and capital resources

To date, the Company has been funded by capital increases. Historically, the Company has mainly been financed by its majority shareholder, due to that shareholder's wish to maintain its level of control and interest (see 1.4.2.1.3 Financial liquidity risk related to cash requirements).

Investments

Investments in tangible and intangible assets (net of disposals) amounted to €0.1 million in 2016 (€1.4 million in 2015).

Repayable advances and loans

No repayable advances were received by the Company in 2016.

In 2016, the Company refinanced its 2015 research tax credit of €7.8 million. To this effect, it took out a bank loan with Bpifrance that matures in mid-2019, at which time the receivable is expected to be paid by the French government.

The tax credit for competitiveness and employment was also financed in 2016 in the amount of €0.1 million through a loan from Bpifrance (which matures in mid-2019).

In June 2016, Transgene drew down the first tranche of a loan granted by the European Investment Bank (EIB) in January 2016. This first €10 million tranche out of a total €20 million is payable in 2021. The interest accrued is payable starting in 2019.

Liquidity and capital resources

The Company's cash is invested in short-term money-market mutual funds or placed, at market conditions, in a cash pool managed by the majority shareholder of Transgene, Institut Mérieux.

As of December 31, 2016, the Company's available cash amounted to €56.2 million versus €31.7 million on December 31, 2015.

At the date of this document, the Company had no bank debt subject to covenants.

Cash flow

Excluding capital increases and EIB loan, the Company's net cash burn amounted to €30.6 million in 2016 versus €34.8 million in 2015.

1.3.5 Investments

The main investments in tangible and intangible assets made by the Company during the past two years are as follows:

2016	Thousand euros	Principal investments
Tangible	32	Maintenance and laboratory equipment
Intangible	20	Softwares
2015	**Thousand euros**	**Principal investments**
Tangible	1,527	Maintenance and laboratory equipment
Intangible	-	-

None of these investments had a unit value higher than 0.5 million euros.

The budget for tangible and intangible invetsments in 2017 amounts to around €0.3 million. This budget includes current operating capital investments and improvement of equipment and facilities.

Investment in financial assets made over the last three years consisted in capital increases of companies:

- In 2016, the Company participated to a capital increase of Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. This operation was performed half in cash (€2.47 million) and half in kind (€2.47 million) with the transfer of TG6002's rights in China to this joint-venture.

1.3.6 Foreseeable changes, outlook and significant events after the balance sheet date

1.3.6.1 Information on trends

At the date of the present Registration document, the Company expects cash outflow of around €30 million in 2017.

1.3.6.2 Profit forecasts or estimates

None.

1.3.6.3 Significant change in the Company's financial or trading position

None.

1.4 RISK FACTORS

The Company conducted a review of the risks that could have a material adverse effect on its activity, financial position or earnings (or its ability to achieve its goals) and believes that there are no significant risks other than those presented. Investors should carefully consider the following risk factors. They must also take note of the other information provided in this Registration document, in particular information related to the financial statements and notes thereto. In view of the Company's business sector and the fact that its products are still at a very early stage of development, it is generally not possible to assess and quantify the probability of the occurrence of a specific risk and its individual impact on the Company's outlook.

1.4.1 Specific risks related to the Company's business

1.4.1.1 Risks specific to the Company

1.4.1.1.1 Risks related to the therapeutic approaches selected by the Company

The Company is developing immunotherapy products to treat cancer and infectious diseases. These products are primarily therapeutic vaccines and oncolytic viruses. At the date of this Registration document, there are very few authorized immunotherapy products on the market. The most recently approved products belong to a new class of immunotherapies against cancer called immune checkpoint inhibitors. The best known of these are Opdivo® from Bristol-Myers-Squibb and Keytruda® from Merck. The products developed by the Company are medical technologies for which preclinical and clinical data on safety and efficacy remain limited. Furthermore, as is increasingly the case in oncology, the Company's products must be administered in combination with other treatments such as chemotherapy or other immunotherapies. As a result, there will still be a number of uncertainties relating to the prospects for development and profitability of products manufactured using this technology until their safety, efficacy and acceptance by patients, doctors and healthcare providers have been established.

As of the date of this Registration document, none of the Company's products has reached an advanced stage of development, with the sole exception of Pexa-Vec co-developed with SillaJen. The latter has just entered phase 3 of its clinical development (the final phase before filing). The Company's other products are in the research stage, in preclinical studies or in the first or second stages of clinical trials. Animal tests do not necessarily predict the results that will be obtained in humans. Moreover, positive results in early clinical stages obtained on a limited number of patients may not be borne out in later phases on a larger number of patients.

In such cases, the development of the product candidate would not be continued and this could have a material adverse effect on the Company's earnings, financial position and development.

1.4.1.1.2 Risks related to clinical trials

Before marketing in Europe or the United States, each product is subject to rigorous preclinical studies and clinical trials and an extended regulatory approval process by the European Medicines Agency (EMA), the French *Agence nationale de sécurité du médicament et des produits de santé* (ANSM) or the US Food and Drug Administration (FDA). These clinical trials are performed in three successive phases pursuant to specific regulations referred to as "Good Clinical Practices". In phase 1, clinical trials normally involve a smaller number of subjects to establish the preliminary safety profile, the dosing regimen and drug metabolism. In phase 2, clinical studies are conducted in a larger group of patients with a specific disease in order to confirm the safety of the product and determine the efficacy of the product by researching the optimum dosage and method of administration. In phase 3, comparative clinical trials on a larger scale are conducted in several medical centers, on patients with a specific disease, to obtain sufficient data to complete an acceptable statistical test on the efficacy and safety of the product.

The approval processes are long and expensive and the result is not certain. Approval granted by the regulatory authorities in one country does not guarantee that the product will be approved in another country. Factors that affect the uncertainty of obtaining these regulatory approvals include:

- immunotherapy as a treatment approach is still developing;
- the regulatory requirements governing immunotherapy, in particular therapeutic vaccines and oncolytic viruses, are uncertain and likely to be modified; and
- the data obtained from preclinical studies and clinical trials may give rise to different interpretations that could delay, limit or prevent approval.

Other risk factors affect the clinical trials themselves:

- the clinical protocols, which describe the objectives of the study and the parameters to be used to measure the safety and efficacy, must be approved by the regulatory authorities in the country in which the clinical studies are being conducted. Further, each clinical study must be approved by each study center's independent Ethics Committee. In particular, the Ethics Committee will assess the need for the study, the safety of the people involved in the trial and the potential liability of the medical center. The Ethics Committee is also responsible for monitoring the application of the protocols approved for the clinical trials in progress. The Ethics Committee could demand modifications to a protocol and there is no guarantee that it will authorize a study to commence or continue. This procedure can be conducted at the same time as the approval procedure by the national regulatory authorities however it could cause delays and considerable extra costs in addition to those relating to the regulatory examination procedure. The majority of countries have also put in place special committees that study the protocols using recombinant DNA products before authorizing them for marketing (the *Haut Conseil des biotechnologies* in France, the National Institutes of Health's Recombinant DNA advisory committee in the US and the Gene Therapy advisory committee in the United Kingdom);
- the recruitment of patients for inclusion in the trials: clinical trials with the Company's products in development are conducted with people suffering from the target diseases. The number of patients who can and want to participate in a clinical trial is limited and recruitment can be a difficult and slow process, especially when competing clinical trials are soliciting the same group of patients. The Company has already been faced with this risk and it could occur again, leading to excessive delays in the implementation of trials. In order to mitigate this problem, the Company may need to increase the number of clinical centers, which adds to the complexity of follow-up and increases the cost of the trial;
- access to appropriate clinical sites may be difficult, preventing the initiation or conduct of the trial within a reasonable timeframe;
- at each stage of a product's clinical trials, there is a significant risk of failure that could prevent development from continuing: the product may be poorly tolerated, or have little or no therapeutic benefit. The competent regulatory authorities can suspend the clinical trials at any time if they believe that the patients are exposed to unacceptable health risks or if they detect any deficiencies in the clinical trial process or as part of their inspections;
- in the field of immunotherapy to which the Company's products belong, it has become indispensable to find biomarkers (particular biological characteristics) in patients, in order to determine their response to treatment and identify the patients most likely to benefit from the product. The biomarkers identified in this way will be incorporated into diagnostic tests, called companion diagnostics, which will then accompany the treatment so that it can be administered to those most likely to benefit. Validation of companion diagnostic tests is an entirely separate clinical development process that happens concurrently with the clinical trials for a treatment and adds a level of complexity and additional costs. It may happen that a biomarker identified retrospectively in a clinical trial cannot be verified or cannot be confirmed as a predictive tool of the benefit of treatment for patients with this biomarker. In this case, it may be that the treatment under development does not achieve the quantitative criteria of positive clinical results necessary to obtain marketing authorizations;
- the cost per patient of clinical trials is particularly high, especially in immunotherapy, which makes the later clinical testing phases (phase 3) particularly costly in indications that require a large number of patients to prove a therapeutic benefit, such as lung cancer. These costs could exceed the Company's available cash resources and the Company would then need to seek financing, for example through partnerships with the pharmaceutical industry. There is no guarantee that the Company will be able to enter into such partnerships or that such alternative financing can be arranged.

If one or more of these risks were to occur, it could have a material adverse effect on the Company's business, earnings, financial position and development.

1.4.1.1.3 Risks related to manufacturing

Since February 1, 2016, the Company no longer has its own manufacturing unit and instead subcontracts the manufacturing of the product batches required for its clinical studies. The manufacturing unit of the sub-contractor, ABL Europe, does not have sufficient capacity to guarantee the commercial-scale production of these products beyond the initial phase. The Company recently secured its ability to sub-contract the commercial-scale manufacture of its products by entering into a partnership with Sanofi Genzyme. The Company would need to make substantial additional investment to have its products manufactured on a commercial scale by third parties or to manufacture the products internally again. In this case, the regulatory authorities may require new clinical studies due to the specificities linked to bioproduction. Therefore, the Company's ability to switch sub-contractors within a reasonable timeframe is limited, resulting in production delays. The Company may not be able to set competitive prices for its products, which would have a material adverse effect on its business, earnings, financial position and development.

The Company uses raw materials from different suppliers in its manufacturing processes; some of the suppliers are the sole source of the material in question. The Company certifies its suppliers pursuant to pharmaceutical best manufacturing practices. If one of the sole-source suppliers should default, the Company must find and certify another source. However, identifying and certifying such a supplier could take several months and their products could not be used in the Company's processes until certification is complete. Moreover, the current

volumes ordered by the Company do not allow it to negotiate agreements guaranteeing a supply of certain key raw materials from qualified critical suppliers. The Company therefore cannot ensure that it could be supplied by certain critical suppliers, that it could secure a second supplier or that it could do so in a timely manner.

This would have a material adverse effect on the Company's business, results, financial situation and development.

1.4.1.1.4 Risks related to product adverse side effects

The commercial success of the Company's products essentially depends on their acceptance by the public and medical professionals that use immunotherapy products to treat human diseases. This acceptance could be negatively affected by adverse side effects caused by the products developed by the Company and others. These adverse side effects may cause the regulatory authorities to limit or prohibit the use of these products or similar products and thereby limit the potential market for the Company's products.

This could have a material adverse effect on the Company's business, earnings, financial position and development.

1.4.1.1.5 Risks related to the funding of the Company's development and activities

The Company has and will have significant capital requirements to finance its research and development, particularly pre-clinical studies and clinical trials of its products under development, the subcontracting and production of its clinical products and commercial-scale production, and the expansion of its regulatory, commercial and administrative capabilities. It shall also require substantial funds to distribute any products approved for commercial sale. If the Company is unable to obtain funding on a timely basis, it may be required to significantly curtail one or more of its research and development programs or to cease operations altogether. Its future capital requirements will depend on many factors, including the following:

- the continued development of research & development programs and the extension of such programs;
- the extent and results of preclinical studies and clinical trials;
- the time and costs required to obtain regulatory authorizations;
- its ability to enter into partnership agreements to continue developing certain products;
- the necessity for large-scale manufacturing and distribution;
- the deadline, and amounts of payments under its collaboration agreements;
- the deadline, payment and amount of sales and royalties for future products;
- the costs of preparing, filing, prosecuting, maintaining and enforcing patent claims and other intellectual property rights; and
- the cost of obtaining and maintaining licensing rights to use patented technologies.

The Company has limited sources of funding. Financing is mainly through new share issuances, for example it raised €46 million from the capital increase conducted in November 2016. Historically, the financing of the Company was provided, for the most part, by its majority shareholder, due in particular to the shareholder's interest in maintaining its level of investment and control. The financing of the Company by future capital increases could be complicated by poor capital market conditions, and, even if financing transactions are successful, shareholders may be exposed to a dilution of their shareholdings.

This could have a material adverse effect on the Company's business, earnings, financial position and development.

To finance its activities, the Company notably receives a research tax credit (CIR). Typically, the research tax credit is paid out by the French Treasury in the year following the year for which the tax credit was received. During the last three fiscal years, Transgene recorded €6,297 thousand (2016), €7,758 thousand (2015) and €8,942 thousand (2014) in respect of the research tax credit. In view of the importance of this tax credit in funding the Company's activities, a change in French fiscal policy amending or withdrawing the tax credit could have an adverse effect on the Company's results, financial position, and outlook. Moreover, as with any tax benefit, the amounts received or claimed by the Company may be contested by the tax authorities, for example based on an assessment of eligibility of expenditure, sufficient supporting documents, or the calculation method.

The Company also drew down a €10 million loan as part of its facility with the European Investment Bank, with a second €10 million tranche available for drawdown by the end of 2017. This five-year interest-bearing loan is repayable as from its fourth year. If the Company had to reimburse this loan earlier than expected or was unable to reimburse it at maturity, this could have a material adverse effect on the Company's business, earnings, financial position and development.

1.4.1.1.6 Risks related to previous and future losses

The Company has reported operating losses for several years. At December 31, 2016, the accumulated deficit amounted to approximately €630 million under IAS/IFRS, as a result of significant investments in research and development programs and the absence of significant revenues (see consolidated statement of changes in equity, Section 4.1.1). Further substantial losses are expected to be incurred in the future as long as the Company continues its research & development activities and preclinical studies and clinical trials. None of its products has yet to generate sales or revenue. The only sources of revenue expected in the near future would not come from the commercialization of products but from payments made by partner companies under certain agreements (see Section 1.4.2) and, where applicable, public funding and financial revenue. The Company cannot guarantee that it will generate revenue in the short term from the sale of products and achieve profitability.

This could have a material adverse effect on the Company's business, earnings, financial position and development.

1.4.1.1.7 Specific risks related to development, manufacturing and marketing partnerships

The Company's strategy in terms of research and development and the commercialization of certain of its products is based on signing collaboration agreements with partner companies or third parties (see Section 1.2.5). At the date of this Registration document, the Company has signed the following agreements for the products it is developing:

- the agreement for the development and marketing of Pexa-Vec with SillaJen, Inc. signed in August 2010 and amended in December 2015: under the terms of this amended agreement, Transgene holds exclusive rights to develop and market Pexa-Vec in Europe, as well as manufacturing rights for its territories. Transgene and SillaJen will co-develop the product globally with SillaJen assuming responsibility of ongoing phase 3 trials of Pexa-Vec and Transgene taking on independently the Pexa-Vec combination studies with immune checkpoint inhibitors.

  The development and marketing of Pexa-Vec, including in Transgene's territories, could be affected if SillaJen were not to comply, or were unable to comply, with its regulatory obligations in its territories or with its contractual obligations with respect to Transgene and third parties.

  This would have a material adverse effect on the Company's business, results, financial position and development;
- the collaboration agreement signed in March 2013 with Sanofi for the creation of a new platform dedicated to the manufacture of immunotherapy products, including Transgene's therapeutic products. The construction phase is now complete. The platform will remain the exclusive property of Sanofi. if the qualification and validation phases of the unit and its teams were delayed, the platform might not be available for manufacturing the first market-stage Transgene product;
- the exclusive service agreement signed in February 2016 with the company ABL to have ABL Europe manufacture the clinical batches of Transgene products for its clinical studies subsequent to the Company's decision to outsource the manufacturing which up until then it had conducted in-house. While ABL Europe is operating in Transgene's former manufacturing facilities, staffed mainly by reassigned employees who had been laid off under the Transgene redundancy plan (*plan de sauvegarde de l'emploi*), ABL Europe might be unable to perform the requested services within the timeframes and specifications imposed by Transgene or keep the required authorizations for its operations. This could delay the Company in executing its clinical development plan.

  This would have a material adverse effect on the Company's business, results, financial position and development.

1.4.1.1.8 Dependence on qualified personnel

The Company is highly dependent on the quality of its scientific personnel and management. It faces stiff competition from other companies and academic institutions for the recruitment of qualified personnel. If it cannot attract and retain qualified personnel, its ability to market its products and processes could be impeded or delayed.

This could have a material adverse effect on the Company's business, earnings, financial position and development.

1.4.1.2 Risks related to the Company's business sector

1.4.1.2.1 Risks related to competition and technological development

The Company is in competition with various other companies, including large pharmaceutical and biotechnology companies that develop treatments and prevention methods for the same diseases, including more traditional therapies. It could also be in competition with companies that have acquired or could acquire technologies developed by universities or research institutes or other companies. These companies may have, due to the development of their own technology or technologies acquired from third parties, a portfolio of intellectual property rights that could prevent the Company from successfully marketing its products.

Other companies may develop products earlier, obtain approval more quickly or develop products that are more effective or less expensive than those of the Company. Although the Company endeavors to increase its technological capacities to remain competitive, the research and development activities conducted by its competitors could make the Company's products obsolete or not competitive, or they could offer better treatments. Moreover, consumers and professionals could prefer other existing therapies or therapies recently developed by the Company's competitors.

This could have a material adverse effect on the Company's business, earnings, financial position and development.

1.4.1.2.2 Specific risks related to patents and third-party intellectual property rights

The biotechnology industry is a growing industry that generates a large number of patents. The risk is higher when third parties consider that the Company's products or technologies infringe their intellectual property rights. Discoveries are only published or form part of a patent application months or even years later. The monitoring implemented by the Company to prevent counterfeit risk may be insufficient due to (i) delays in publishing patent applications (18 months after the filing or priority date), and (ii) failure to publish certain patent applications in the US This is why the Company cannot be sure that certain third parties have not been the first to invent products or to file patent applications relating to inventions

also covered by their own patent applications or those of their partners. Any dispute or claim against the Company, regardless of outcome, could result in substantial financial and reputational costs. Some of its competitors with greater resources could be better able to withstand the costs of a complex proceeding. Any litigation of this type could seriously affect the Company's ability to continue its business. More specifically, disputes over intellectual property could require it to:

- cease to sell or use any of its products that depend on the disputed intellectual property, which could reduce its revenues; or
- obtain a license from the holder of the intellectual property rights that could not be obtained under reasonable conditions, if at all.

This could have a material adverse effect on the Company's business, earnings, financial position and development.

1.4.1.3 Regulatory risks

The main regulatory risks are as follows:

1.4.1.3.1 Risks related to the Company's regulatory environment

At the date of this Registration document, none of the Company's products have yet to receive marketing authorization (NDA) from a regulatory agency. It cannot be certain that it will receive the authorizations necessary to market one of its products. Its products are subject to extensive and strict legislation, and regulatory requirements are complex, sometimes difficult to apply and subject to change. The *Agence nationale de sécurité du médicament et des produits de santé* (ANSM), the European Medicines Agency (EMA) and the Food and Drug Administration (FDA), as well as their counterparts in other countries, regulate, among other things, research and development, pre-clinical studies, clinical trials, manufacturing, safety, efficacy, archiving, labeling, commercialization and distribution of therapeutic products. In particular, without FDA approval, it would be impossible for the Company to access the US market, which is the largest pharmaceutical market in the world in value. The regulatory approval process for new pharmaceutical products requires the submission of detailed product, manufacturing process and control descriptions, as well as pre-clinical and clinical data and information to establish the safety and efficacy of the product for each indication. It may also require ongoing studies after marketing authorization, as well as controls on manufacturing quality. These regulatory actions are costly and can take many years, and the result is unpredictable.

Moreover, the authorities may conduct inspections in order to check that the drug candidate is being developed in accordance with the regulations in force. During an inspection, the authorities could find a significant regulatory deviation, which could delay or stop a development program and, in the worst case scenario, even cause the Company's business to be discontinued.

In Europe, the US and in other countries, regulation may:

- delay and/or significantly increase the cost of development, testing, manufacture and marketing of the Company's products;
- limit the indications for which the Company is authorized to market its products;
- impose strict new requirements, suspend the authorization of its products, or require the cessation of clinical trials or marketing, if unexpected results are obtained during testing by other researchers on products similar to the Company's;
- or impose burdensome labeling.

Finally, if the Company does not comply with the laws and regulations governing its activities, it could be subject to penalties, which could include a refusal to allow pending requests, product recalls, sales restrictions, temporary or permanent suspension of its operations as well as civil or criminal proceedings.

The occurrence of one or more of these risks could have a material adverse effect on the Company's business, prospects, financial condition, performance and development.

1.4.1.3.2 Risks related to obtaining marketing authorizations

To obtain a marketing authorization for one or more of its products, the Company or its partners must demonstrate to the competent regulatory authorities the pharmaceutical quality of their products, their safety in use and their effectiveness in the targeted indications. Although the Company is not immediately affected by a marketing authorization issue, a marketing authorization application is built for the entire duration of development of a drug candidate and the Company ensures its compliance with good practices to avoid jeopardizing its chances of obtaining future marketing authorization under good conditions.

The Company's ability to obtain a marketing authorization for its products will depend on several factors, including:

- the possibility of continuing the development of its products that are, as of the date of this Registration document, in early clinical phases or of getting its products, as of the date of this Registration document, in preclinical development to the clinical stage;
- if the Company or its partners were unable to carry out clinical trials in a timely manner and with the human, technical and financial resources originally planned;
- whether its products have previously received marketing authorization for another indication; and
- whether its competitors announce clinical results that may cause the competent regulatory authorities to modify their evaluation criteria.

If the Company does not obtain marketing authorizations, it will not be able to market its product. In addition, its product may not obtain a marketing authorization in a given geographic area, which could significantly restrict marketing. If the Company licences its rights to a third party, it remains exposed to these risks insofar as the main remuneration is typically a milestone payment when the product receives marketing authorization, followed by royalty payments based on product revenue.

The occurrence of one or more of these risks could have a material adverse effect on the Company's business, prospects, financial condition, performance and development.

1.4.1.3.3 Risks related to changes or announcements about drug reimbursement policies

The Company's ability to successfully market its products will depend in part on the setting by public authorities, private health insurers and other organizations in Europe and the United States of reimbursement rates sufficient for its medications and the treatments associated with them. Third-party payers increasingly challenge prices of pharmaceutical products and medical services. Measures to control costs that health care providers and reimbursement organizations establish and the effect of potential health system reforms could adversely affect the Company's operating profit. It could also not obtain satisfactory reimbursement for its products, which would adversely affect their acceptance by the market, in which case it would be unable to earn a sufficient return on its investment in research and development.

The occurrence of one or more of these risks could have a material adverse effect on the Company's business, prospects, financial condition, performance and development.

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1.4.2 Other risks

1.4.2.1 Financial risks

Financial risks are also mentioned in Note 23 to the consolidated financial statements.

1.4.2.1.1 Foreign exchange risks

The Company publishes its consolidated financial statements in euros. However, a portion of its revenue and expenses is recognized in US dollars. An increase or decrease in the euro exchange rate relative to the US dollar could impact operating results.

The Company has US dollar bank accounts. Net dollar disbursements totaled $2.2 million in 2016.

The following table shows the sensitivity of the Company's expenses at a 10% change in the US dollar rate during the years ended December 31, 2015 and 2016 (before tax and any hedging):

(in € thousands)	12/31/2016	12/31/2015
Expenditures denominated in US dollars	2,230	3,431
Equivalent in euros on the basis of an exchange rate of €1 = $1.0541	2,116	3,154
Equivalent in euros in the event of an increase of 10% USD vs. EUR	2,351	3,505
Equivalent in euros in the event of a decrease of 10% USD vs. EUR	1,923	2,868

The Group's foreign exchange position as at December 31, 2016 is as follows:

(in thousands)	USD
Assets	3,631
Liabilities	781
Net position	2,850
Adjusted	2,850
Off-balance sheet position	-

1.4.2.1.2 Interest rate risk

The Company is exposed to market risks related to interest rates on its finance lease liability and cash investment in mutual funds.

The Company holds a variable market-rate liability as part of a finance lease on its main building, a mixed-use property of offices and laboratories.

The 15-year and €16 million contract comprises 25% of reimbursable advances granted by local authorities at very low interest rates. The effective date was January 1, 2009. A 1% rise in the three-month Euribor would cause a yearly increase in financial expense of €120 thousand. In the first six months of 2009, the Group proceeded with partial coverage of the interest rate risk related to this financing according to the following terms:

Nominal value	€5.9 million (depreciable)
Hedging instrument	Interest rate (swap) contract
Residual maturity	7 years
Underlying interest rate	3 month Euribor
Fixed rate	3.46%

As the hedge is perfect, the variations in market value for the instrument are recognized at net value. At December 31, 2016, the market value for the hedging instrument totaled -€475 thousand.

The Company also has variable market rate liabilities under finance leases financing laboratory equipment. At December 31, 2016, the total obligation under these contracts was €147 thousand.

1.4.2.1.3 Liquidity risk

The Company undertook a special review of its liquidity risk and concluded that its liquidity reserves as of December 31, 2016 would enable it to finance its current operating costs for the next 24 months (see Note 2 to the consolidated financial statements).

Our financial visibility was improved by the €10 million loan from the European Investment Bank (EIB) in June 2016 and the €46 million capital increase in November 2016, together with the additional €10 million tranche available under the EIB credit facility.

The Group controls the risks related to cash management through centralized tracking and approval procedures. Cash assets are invested in highly rated marketable securities.

Cash, which was invested as at December 31, 2016 in very short-term money market funds or at market conditions in the cash pooling managed by the Institut Mérieux, stood at €51.3 million. The Company needs, and shall continue to require, substantial funds to continue its research and development activities, including preclinical and clinical testing of future products, further development of manufacturing processes and accessing industrial- and commercial-scale manufacturing, production costs, and enhancing its quality control and its regulatory, marketing and administrative capabilities.

Equity is the Company's main resource, as it has limited access to bank debt due to the Group's losses and the high-risk nature of the business sector (pharmaceutical research and development), with the exception of the EIB loan obtained under a program to fund innovation in health. The Company plans to finance operations mainly through equity until its profitability situation changes such that it has access to debt instruments.

1.4.2.1.4 Equity risk

Like many other biotechnology companies, the Company's share price is especially volatile. In addition to the risks described in this Chapter, the following factors among others could have a significant influence on the share price:

- reactions to reported performance and to the reports of financial analysts;
- and more broadly, market conditions affecting biotechnology shares.

The Company does not have any interests in listed companies and its cash is invested primarily in common shares of short-term money market funds not directly exposed to equity market risk.

1.4.2.2 Legal risks

Neither the Company nor the Group are currently party to a significant legal dispute. See also Section 1.5.2.3. "Legal and arbitration proceedings" of this Registration document.

1.4.2.2.1 Risk related to patents

The Company's success will depend largely on its ability to obtain patents for its products and processes in order to be able to benefit from the exclusive use of inventions. Its success will also depend upon its ability to prevent other parties from using its intellectual property. Furthermore, the Company must conduct on its business without infringing the intellectual property rights of others. Failing this, it might be unable to successfully commercialize its products.

Transgene has filed and plans to continue to file numerous patent applications for various aspects of its operations (such as viral vectors and methods for preparing and administering them, genes and gene combinations, monoclonal antibodies, biomarkers, etc.). The Company believes that, in some cases, these patent applications cover important technologies for the future marketing of its products and benefit from priority dates that precede those of competitors. However, due to the length of the application review process, particularly in the biotechnology area, when an application will be awarded or rejected cannot be foreseen. Neither can there be any certainty whether a given application will result in a patent, nor, if a patent is granted, whether owning it will give the Company a competitive advantage or will be contested or overturned. As the R&D process for its products is very long, the Company may face the risk that the granted patents expire prior to the market launch of its products.

The Company's situation with regard to patents, like that of all biotechnology and pharmaceutical companies, is especially uncertain. The standards used by the European Patent Office (EPO), the United States Patent and Trademarks Office (USPTO) or other patent offices to grant patents are not always applied in a predictable way and can change. In addition, there is no uniform worldwide policy as to these rights, to the extent of applications made or sought in terms of biotechnology patents or on the amount of protection offered to patent holders.

Transgene believes that several elements of its program involve technology, processes, know-how, data, including culturing and production processes, as well as purification technology, which cannot be patented.

With regard to technologies, know-how and data that are not patentable or are only potentially patentable, and to processes, other than production processes, for which patents would be difficult to enforce, Transgene has chosen to protect its interests by relying on non-disclosure agreements with its employees, consultants and certain contractors. All of its employment contracts include confidentiality clauses. These confidentiality clauses do not provide sufficient protection and may be terminated. In that event, the Company believes that there is no satisfactory remedy possible. Its manufacturing secrets could be revealed and used independently by its competitors.

The occurrence of one or more of these risks could have a material adverse effect on the Company's business, prospects, financial condition, performance and development.

1.4.2.2.2 Risk specifically related to patent proceedings

Obtaining and protecting intellectual property rights can be costly. After the United States adopted the "first to file, first to invent" rule, a challenge was brought and is ongoing, as was the case in Europe. These proceedings, though shorter and simpler than the previous interference proceeding, which determined who was the first to invent when patents claimed the same invention, still remain very expensive, particularly for the work of law firms specializing in US law.

In Europe a challenge before the European Patent Office (EPO) allows anyone to contest the validity of a patent awarded by the EPO, and that patent may be revoked or its scope restricted. The challenge is an administrative proceeding, not a legal one.

Following the EPO's final decision in December 2015 to revoke a Bavarian Nordic patent on an MVA production process, the Company, at the date of this Registration document, is a party to opposition proceedings against the third-party patent before the EPO, as described below:

- on January 23, 2009, with four other opponents against a European patent held by Bavarian Nordic, related to a culture medium for the production of MVA. The oral proceedings took place on January 26, 2011. The patent was maintained in a modified form. An appeal was filed in May 2011 by the patent holder as well as by two challengers, including Transgene.

An unfavorable outcome of an interference contest or of a challenge to one of the Company's patents or by the Company to the patent of another party (like those cited above) could strip the Company of protection of its own products or oblige it to cease using the technology in question or seeking licensing fees from other parties. Its business could be adversely affected if a third party having priority does not grant license rights or grants them under conditions the Company could not accept.

This could also oblige the Company to license the disputed rights from an outside party. The Company's business would be affected if it could not obtain the license or if the conditions in which it obtained the license were considered unacceptable. The same would hold if it were unable to redesign the products or processes so as to avoid being sued for infringement.

The occurrence of one or more of these risks could have a material adverse effect on the Company's business, prospects, financial condition, performance and development.

1.4.2.2.3 Product liability risks

The Company is exposed to product liability and to other claims if its processes are challenged. These risks are inherent in the control, manufacturing and marketing of human therapeutic products. If it were sued for damages on account of its products or processes, its liability might exceed the coverage provided by its insurance policies and threaten all of its assets.

This could have a material adverse effect on the Company's business, earnings, financial position and development.

1.4.2.2.4 Risks related to the use of products hazardous to health and the environment

The Company's research and development activities, preclinical studies and clinical trials require the controlled storage, use and disposal of hazardous materials, both chemical and biological. The Company is subject to laws and regulations relating to the use, manufacture, storage, handling and disposal of materials and waste. Even though it believes that its safety procedures for the handling and disposal of these hazardous materials comply with legal and regulatory standards, the risk of contamination or accidental injury caused by these hazardous materials cannot be completely ruled out. In the event of an accident, it could be held liable for all consequent harm, and its liability could exceed the limits of its insurance policies or not be covered. It might be unable to maintain its insurance coverage on acceptable terms or possibly at all. It might have to bear significant expenditures in order to comply with present or future provisions of environmental law. As of the date of this Registration document, the Company has made no specific provision for industrial and environmental risks.

The occurrence of one or more of these risks could have a material adverse effect on the Company's business, prospects, financial condition, performance and development.

1.4.2.3 Legal and arbitration proceedings

In the ordinary course of its business, the Company is involved or risks being involved in some number of administrative or legal proceedings. As part of some of these proceedings, financial claims are or may be made against the Company.

With the exception of proceedings brought by employees against the Company before the Arbitration Tribunal, there are to date, to the Company's knowledge, no exceptional event or governmental, legal or arbitration proceedings (including any proceedings, of which the Company is aware, which are pending or threatened) that may have or have had, in the last twelve months, a material effect on the financial position or profitability of the Company and/or the Group.

1.4.3 Insurance and risk hedging

The Company has adopted a policy of covering its main insurable risks with amounts of coverage it deems compatible with its cash usage requirements. Total premiums paid for all insurance policies in force in 2016 amounted to €234 thousand (versus €282 thousand in 2015 and €281 thousand in 2014). These policies have limited excesses. In the absence of a claim by the Company or indicators of claims made in the same business sector, the Company is not in a position to determine the rate of risk coverage offered by these insurance policies and the portion of risk carried by the Company, particularly as to civil liability.

The Company's main policies are as follows:

- a so-called "multi-risk" or comprehensive policy that covers the traditional hazards of fire, water damage, theft and machine breakdowns in its facilities. This policy also covers the Company's operating losses. Given the absence of significant revenues for the Company, this coverage is intended to enable it to resume work in progress that may have been destroyed by a hazard and to support its general and administrative and operating expenses for one year. The Company has implemented limited procedures to store its proprietary biological materials and computer data;
- a "civil liability" policy which insures the civil liability of the Company and its agents arising from its operations, along with its product liability. In addition, the Company's liability for clinical trials is covered by special contracts attached to the civil liability policy, the premiums and coverage of which depend on local regulations governing the clinical investigation site in question. In France, for example, the Public Health Code requires the sponsors of clinical trials to carry insurance and specifies the terms of such insurance. The total premiums paid and coverage taken out for trials therefore depends on the number of trials and where they occur.

The Company has also taken out insurance for the civil liability of its senior executives, in the event that a claim is brought against them in the performance of their duties.

Since coverage of risks cannot be perfect, the occurrence of any one of the risks covered by the insurance policies mentioned above could, despite the coverage purchased, have a material adverse effect on the Company's business, earnings, financial position and development.

2

CORPORATE GOVERNANCE

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2.1 ADMINISTRATIVE AND MANAGEMENT BODIES

2.1.1 Membership of administrative and management bodies

1. **Hemanshu Shah**
   Vice-President, Medical Affairs and International Development
2. **Christophe Ancel**
   Responsible Pharmacist – Vice-President, Quality and Deputy Chief Executive Officer
3. **Éric Quéméneur**
   Deputy CEO – R&D Director
4. **Jean-Philippe Del**
   Chief Financial Officer
5. **Philippe Archinard**
   Chairman – Chief Executive Officer
6. **Maud Brandely-Talbot**
   Vice-President, Clinical Development, Clinical Operations and Regulatory Affairs
7. **John Felitti**
   Vice-President, General Counsel and Corporate Secretary
8. **Thibaut du Fayet**
   Vice-President, Strategic Alliance, Project Management and Marketing

2.1.1.1 Composition

2.1.1.1.1 Board of Directors

Transgene is governed by a Board of Directors consisting of ten members as of the date of this Registration Document, six of whom qualify as independent directors. The directors' term of office is three years. Each independent director must own at least the number of shares equal in value to one half-year of directors' fees.

The table below summarizes the mandates and roles of the members of the Board of Directors:

PHILIPPE ARCHINARD

Chairman and Chief Executive Officer – Director

Age: **57**
First appointment: **2004**
Term expires [1]: **2017**
Number of Company shares held: **20,005**
Number of Company options held: **67,567**

Principal role outside of the Company:
Director of the Immunotherapy Unit at Institut Mérieux; Chief Executive Officer: TSGH [3]

Management experience and expertise:
Graduated from the Management Program at Harvard Business School
Director of bioMérieux Inc. [3][5]
Deputy CEO of bioMérieux SA [3][4]
CEO of Innogenetics BV [5]

Other offices held:
Permanent representative of TSGH [3] on Board of ABL, Inc. [3][5]
Representative of Lyon Biopôle on the Board of Directors of Synergie Lyon Cancer, a foundation
Representative of the FPUL on the Board of Directors of CPE Lyon
Director: bioMérieux SA [3][4]; ERYtech Pharma [4]
Chairman: Association Lyon Biopôle [6]
Chairman: Association BioAster [6]

JEAN-LUC BÉLINGARD

Director

Age: **68**
First appointment: **2013**
Term expires [1]: **2019**
Number of Company shares held: **0**
Number of Company options held: **0**

Principal role outside of the Company:
Chairman of bioMérieux SA [3][4]

Other offices held:
Director: LabCorp of America [5], Stallergenes Greer UK [4], Pierre Fabre SA, Institut Mérieux [3]

Offices expired during the last five years:
Director of NicOx (ended 2011), Celera Corporation (USA)(ended 2011), AES Laboratoire Groupe SA (ended 2012), AES Chemunex SA (ended 2013)

(1) Terms of office expire on the date of the Annual Shareholder Meeting of the year indicated.

(2) Independent director, under the standards of the MiddleNext Corporate Goveranance Code:

- *is not an employee or executive corporate officer of the Company or a company in its Group (the Company and its subsidiaries), and has not been in the last three years;*
- *is not the Company's majority shareholder;*
- *is not a customer, supplier or significant banker of the company or its group or for which the Company or Group represents a significant share of business;*
- *has no close family tie with a Corporate Officer or a leading shareholder;*
- *has not been an outside auditor of the Company during the last three years.*

(3) Institut Mérieux group company.

(4) Publicly traded French company.

(5) Foreign corporation.

(6) Association, foundation or other.

ANTOINE BERET

Independent director [2]

Age: **72**
First appointment: **2016**
Term expires [1]: **2019**
Number of Company shares held: **1,000**
Number of Company stock options held: **0**

Principal role outside of the Company:
CEO of Genoscience Pharma SAS
Chairman of Axenis

Management experience and expertise:
Co-founder of several biotechs (Trophos, Immunotech...)
Business Director at Crédit National, responsible for corporate finance of industrial sector companies.

Other offices held:
None

JEAN-PIERRE BIZZARI

Independent director [2]

Age: **62**
First appointment: **2008**
Term expires [1]: **2019**
Number of Company shares held: **5,000**
Number of Company stock options held: **0**

Principal role outside of the Company:
Independent director

Management experience and expertise:
Doctor of medicine
30 years clinical experience in oncology (held clinical development management positions)

Other offices held:
Director: Onxea (France), Halozyme Therapeutics (US), Pieris Pharmaceuticals (US), ITEOS Therapeutics (Belgium), Oxford Bio Therapeutics (UK), Nordic Nanovectors ASA (NO)
Member of the international scientific committee of the National Cancer Institute

Offices expired during the last five years:
Celator Pharmaceuticals (US) (ended 2016)

BENOÎT HABERT

Independent director [2]
Member of the Audit (Chairman) and Compensation Committees

Age: **52**
First appointment: **2000**
Term expires [1]: **2017**
Number of Company shares held: **74,403**
Number of Company stock options held: **0**

Principal role outside of the Company:
Deputy Chief Executive Officer and Director, Groupe Industriel Marcel Dassault (GIMD) (SAS)
Chairman of Dassault Développement (SAS)*

Management experience and expertise:
Holds an MBA from INSEAD and a masters degree in business law

Other offices held:
Chairman: Habert Dassault Finance; Dassault Développement (SAS)
Director: Groupe Figaro*; Dassault Medias*; Mérieux NutriScience Corp (USA); Figaro classifieds*; Éditions Dupuis [5]; Dargaud; ZEWAOW; Eclosion [5]; KTO TV [6]; Fondation KTO [6]
Non-voting observer: Relaxnews (SA); UNOWHY (SAS); HOWTO Media
Member of the Supervisory Board: John Paul SAS, Colombus Family Holding
Member of the Supervisory Committee: Cooltech applications*

Offices expired during the last five years:
As a permanent representative of GIMD: bioMérieux SA [3][4]; Silliker [3] ; Sport 24 (SA), Intigold [5]

* *Controlled by GIMD.*

(1) Terms of office expire on the date of the Annual Shareholder Meeting of the year indicated.

(2) Independent director per the following criteria (MiddleNext Code of Corporate Governance):

- *is not an employee or executive corporate officer of the Company or a company in its Group (the Company and its subsidiaries), and has not been in the last three years;*
- *is not the Company's majority shareholder;*

PIERRE-PATRICK HURTELOUP

Independent director [2]
Member of the Compensation Committee

Age: **67**
First appointment: **2005**
Term expires [1]: **2017**
Number of Company shares held: **390**
Number of Company stock options held: **0**

Management experience and expertise:
Chairman of various companies in the Pierre Fabre Group since 2000
Former Medical Director, Pierre Fabre Oncologie

Other offices held:
Chairman and director: Pierre Fabre Ltd;
Concept Pharmaceuticals International Ltd. [5]; Pierre Fabre Médicament Benelux [5]; Pierre Fabre Farmaka AE [5] – Greece; Pierre Fabre Pharma Norden AB [5] – Sweden; Tema Medical Pty Ltd. [5] South Africa

JEAN-FRANÇOIS LABBÉ

Independent director [2]

Age: **66**
First appointment: **2010**
Term expires [1]: **2019**
Number of Company shares held: **400**
Number of Company stock options held: **0**

Principal role outside of the Company:
Director and corporate officer

Management experience and expertise:
Graduate of HEC
38 years of experience in financial management of pharmaceutical companies both in France and abroad
Managing Director of SpePharm Holding BV (Netherlands)
Founder of specialty pharmaceutical companies (OTL and SpePharm)

Other offices held:
Director: NicOx SA [4]

Offices expired during the last five years:
None

ALAIN MÉRIEUX

Director

Age: **78**
First appointment: **1991**
Term expires [1]: **2017**
Number of Company shares held: **293**
(excluding 33,863,363 shares held by TSGH, a subsidiary of Institut Mérieux, ultimately controlled by the family of Mr. Mérieux)
Number of Company stock options held: **0**

Principal role outside of the Company:
Chairman of Institut Mérieux (SA)

Management experience and expertise:
Graduated from Harvard Business School (1968)
Chairman of bioMérieux from 1965 to 2011

Other offices held:
Director: bioMérieux [3][4], CIC Lyonnaise de banque, Cie Plastic Omnium SA [4], Mérieux NutriSciences [3][5] (United States), bioMérieux Italia SpA [3][5] (Italy)
Director and Honorary Chairman: Fondation Christophe et Rodolphe Mérieux
Institut de France [6], Fondation Mérieux (Chairman)
Director: the Pierre Fabre Foundation

Offices expired during the last five years:
Foundation for the Université de Lyon (Chairman) (ended in October 2015)
Institut de Recherche Techonologique BioAster (ended in March 2014)

- *is not a customer, supplier or significant banker of the company or its group or for which the Company or Group represents a significant share of business;*
- *has no close family tie with a Corporate Officer or a leading shareholder;*
- *has not been an outside auditor of the Company during the last three years.*

(3) Institut Mérieux group company.

(4) Publicly traded French company.

(5) Foreign corporation.

(6) Association, foundation or other.

TSGH

Director

17, rue Bourgelat 69002 Lyon
First appointment: **2002**
Term expires [1]: **2017**
Number of Company shares held: **33,863,363**
Number of Company stock options held: **0**

Principal role outside of the Company:
None

Represented by: DOMINIQUE TAKIZAWA

Permanent representative of TSGH [4]
Member of the Audit Committee

Age: **60**

Ms. Takizawa does not own any Company stock or options.

Principal role outside of the Company:
Corporate Secretary at the Institut Mérieux (since 2006)

Management experience and expertise:
Graduate of the École des Hautes Études Commerciales and degreed in accounting
Corporate Secretary of bioMérieux [3][4] (2004-2006) and ACCRA (2001-2004)
Prior to 2001, Group Controller of Aventis CropScience, CFO of Pasteur-Mérieux Connaught (now Sanofi Pasteur) and of Rhône-Mérieux

Other offices held:
Director: ABL, Inc. (United States), ADOCIA, April [4], Theradiag [4], ElsaLys Biotech [3], Platine [3], Mérieux NutriSciences Corporation [3][5] (United States), Lyon Pôle Bourse [6], Lyon Place Financière et Tertiaire [6]

Offices expired during the last five years:
None

LAURENCE ZITVOGEL

Independent director [2]

Age: **53**
First appointment: **2013**
Term expires [1]: **2019**
Number of Company shares held: **469**
Number of Company stock options held: **0**

Principal role outside of the Company:
Professor at the Université Paris Sud in Immunology Biology
and Oncologist-researcher-immunotherapist at the Institut Gustave Roussy
Director of Research at INSERN (U1015)
Co-Director of IGR/Curie/INSERM Clinical Investigations Center

Management experience and expertise:
Doctor of medicine
Director of Research and INSERM Unit (jointly approved by the Ligue contre le cancer) and Co-Director of the IGR/Curie/INSERM Biotherapy Clinical Investigations Center

Other offices held:
None

(1) Terms of office expire on the date of the Annual Shareholder Meeting of the year indicated.

(2) Independent director, under the standards of the MiddleNext Corporate Goveranance Code:

- *is not an employee or executive corporate officer of the Company or a company in its Group (the Company and its subsidiaries), and has not been in the last three years;*
- *is not the Company's majority shareholder;*
- *is not a customer, supplier or significant banker of the company or its group or for which the Company or Group represents a significant share of business;*
- *has no close family tie with a Corporate Officer or a leading shareholder;*
- *has not been an outside auditor of the Company during the last three years.*

(3) Institut Mérieux group company.

(4) Publicly traded French company.

(5) Foreign corporation.

(6) Association, foundation or other.

As far as the Company is aware:

- there are no family ties among the members of the Board;
- no conviction for fraud has been rendered over the past five years against any of the members of the Board of Directors;
- over the past five years, no member has been associated, as the member of a supervisory, executive or oversight body or as the Chief Executive Officer, with any insolvency, bankruptcy or liquidation proceedings;
- over the past five years, no member of the Board of Directors has been prohibited by a court from acting as a member of a supervisory, executive or oversight body or from being involved in the management of a Company or conducting its business; and
- no incrimination and/or official public penalty has been made against any of the members of the Company's Board of Directors by statutory or regulatory authorities (including designated professional bodies).

No member of the Board of Directors was elected by the employees. Two employees, one of whom represents managers, represent the Works Council and participate in the Board of Directors' meetings.

2.1.1.1.2 Executive Committee

The following table gives the names of those on the Transgene Executive Committee, their current positions in the Company and the date they assumed those duties.

Name	Age	Current position	Seniority in the post
Philippe Archinard	57	Chairman and Chief Executive Officer	2004
Éric Quéméneur	53	Deputy CEO – R&D Director	2014
Christophe Ancel	53	Responsible Pharmacist – Vice-President, Quality and Deputy Chief Executive Officer	2014
Maud Brandely	63	Vice-President, Clinical Development, Clinical Operations and Regulatory Affairs	2016
Jean-Philippe Del	37	Vice-President, Finance	2014
Thibaut du Fayet	49	Vice-President, Strategic Alliance, Project Management and Marketing	2008
John Felitti	47	Vice-President, General Counsel and Corporate Secretary	2016
Hemanshu Shah	56	Vice-President, Medical Affairs and International Development	2014

Philippe Archinard was appointed Chairman and Chief Executive Officer of Transgene on June 17, 2010; he had been CEO since December 6, 2004. Previously he had been CEO of Innogenetics from March 2000. From 1985 to 2000, he held various positions at bioMérieux, including management of bioMérieux, Inc. in the United States. He is a chemical engineer and has a PhD in biochemistry from the University of Lyon, and supplemented his education with a management program at the Harvard Business School. He is Chairman of the Lyon competitiveness cluster, Lyon Biopôle.

Eric Quéméneur joined Transgene in 2014 as Deputy CEO, in charge of Research and Development. Before joining Transgene he served as Director of Programs and Reclamation in the Life Sciences Department of the CEA, after a 20-year career in that organization. His responsibilities included managing the Research and Development programs and transferring them into applications, leading multi-disciplinary teams and developing national and international alliances. He is a biochemical engineer, INSA Lyon (1986), with a PhD in science, a D.U. degree in Industrial Pharmaceuticals from Université Claude Bernard Lyon 1 and a Certificate in Research Management from Université Pierre et Marie Curie – Paris VI. He is the author of some 80 publications in international scientific journals.

Christophe Ancel joined Transgene in 2008 as Head of Quality Assurance, and then as Director of Operational Quality. Previously he worked as a quality consultant to a variety of international pharmaceutical laboratories. From 2001 to 2005 he was Quality Manager, Deputy Pharmacist and acting Responsible Pharmacist at the French production plant of E. Lilly. In 2001 he was Quality Manager and acting Qualified Pharmacist at a Cardinal Health plant. From 1992 to 2000, he worked at Alcon Laboratories in the quality area and was Deputy Pharmacist at their production site. His various professional experiences have led him to work in an international settings of sterile product manufacturing and marketing. Christophe Ancel has a PhD in pharmacology.

Maud Brandely joined Transgene in March 2016 as Vice-President, Clinical Development, Clinical Operations and Regulatory Affairs. She was the Director of Oncology Clinical Development at Pierre Fabre until February 2016, where she oversaw all phase 1 – phase 3 clinical trials. She played a role in the registration of oral Navelbine products for the treatment of both breast and lung cancer and for vinflunine in bladder cancer. Prior to Pierre Fabre, she was Director of Taxotere Clinical Development at Rhône Poulenc (RPR, now Sanofi), where she was responsible for setting up clinical studies with the aim

of registration in the United States and Europe. As such, she divided her time between Collegeville and Paris to oversee her US and European teams. Prior to RPR, she worked for Hoechst-Roussel-Uclaf (now Sanofi) and was involved in the development of cytokines (Il2, IFN) and cytotoxics. She is an MD and has a PhD in immunology.

Jean-Philippe Del became Transgene's Vice-President, Finance and a member of the Executive Committee in 2014. Before that, he had been Director of Administration and Finance. He joined the Company in 2005 and oversaw the management control system, accounting and purchasing. Before joining Transgene, he was a financial auditor at Mazars and began his career in 2001 as a financial controller at Brasseries Kronenbourg. Mr. Del holds a DESCF degree and is a finance and accounting graduate of Université de Strasbourg.

Thibaut du Fayet joined Transgene in 2008. He is responsible for project management, strategic alliance management and marketing for the Company. From 2007 to 2008, he headed up marketing at Stallergenes after holding various Strategy and Business Development positions at bioMérieux from 2003 to 2007, and Rhodia/Rhône-Poulenc from 1999 to 2003. His diverse experience in industry was preceded by six years working as a consultant, at Bossard Consultant/Gemini Consulting. Thibaut du Fayet has an MBA from the ESSEC management school and an MA in International Finance from Brandeis University (Boston).

John Felitti joined Transgene in March 2016 as General Counsel and Corporate Secretary. Prior to his appointment, he was Associate Vice-President, Corporate law, Finance and Securities law at Sanofi and previously held other positions in the Sanofi and Aventis legal departments. From 1996 to 2003, he was an associate attorney at the Paris offices of the US law firm Shearman & Sterling. He is admitted to practice in New York and is a former member of the Paris Bar. After majoring in economics at Harvard University (AB 1991) and the College of Europe (MA 1993), John Felitti studied law at the University of Michigan (JD 1996) and the University of Paris II – Panthéon (LLM 1997). He also holds a business degree from INSEAD (GEMBA 2015).

Hemanshu Shah joined Transgene in May 2014 as Director of Medical Affairs. He has over 25 years of experience acquired in various functional and therapeutic fields in the pharmaceutical and biotechnology industries, particularly oncology. Before joining Transgene, he was Global Vice-President of Marketing and Head of the Infectious Diseases Therapeutic Area, Transplantation, Immunology and Dermatology at Astellas (2012-2014). Before Astellas, he was Head of Operations at AROG Pharmaceuticals (2010-2011), Business Director at Innate Pharma (2008-2010) and Vice-President for Commercial Operations at GPC Biotech (2003-2008). Mr. Shah was Global Sales Manager for oncology at Johnson & Johnson (2002-2003) and held various management jobs at Bristol-Myers Squibb (1988-2002). He holds a doctorate in pharmaceutical science from Rutgers University and a MBA from the State University of New York (Buffalo).

2.1.1.1.3 Dates and expiration of terms

See Section 2.1.1.1.1. Administrative, management and supervisory bodies (table of directors).

2.1.2 Functioning of administrative and management bodies and conflicts of interest

2.1.2.1 Service contracts between the issuer and the members of the Board of Directors

There are no service contracts linking any member of the Board of Directors to the Company or to any of its subsidiaries and providing benefits.

2.1.2.2 Conflicts of Interest in administrative and management bodies

No director has indicated the existence of an agreement with a major shareholder, client or supplier of the Company for which he is representative.

As of the date of this Registration Document, and to the Company's best knowledge, there is no current or potential conflict between the private interests of the members of the Board of Directors or of the Company's management and the interests of the Company.

Jean-Luc Bélingard, a director of the Company, is also Chairman of bioMérieux SA, of which the Institut Mérieux held 59% of the capital as of December 31, 2016. Institut Mérieux holds 98.75% of the capital and voting rights in TSGH SAS, which itself owns, as of the date of this Registration Document, 60% of the capital and 69% of the voting rights in the Company. Philippe Archinard, Chairman and CEO of the Company, is also a director of bioMérieux SA and owns 1.25% of the capital in TSGH.

2.1.2.3 Declaration concerning the administrative and management bodies

To the Company's knowledge as of the date of this Registration Document, there is no family connection between the members of the Board of Directors and the Company's senior management. Neither is there, as far as the Company is aware, as of the date of this Registration Document, any arrangement or agreement made between the major shareholders, customers, suppliers or others, apart from those listed in Note 17 to the consolidated financial statements in this Registration Document.

Moreover, to the Company's knowledge as of the date of this Registration Document, no member of the Board of Directors has been:

- convicted of fraud in at least the past five years;
- subject to a bankruptcy, receivership or liquidation as a director or corporate officer in at least the past five years;
- indicted and/or officially and publicly sanctioned by statutory or regulatory authorities in at least the last five years.

Finally, to the Company's knowledge as of the date of this Registration Document, no directors have been disqualified by a court from acting as a member of an administrative, management or Supervisory Board of an issuer or from acting in the management or conduct of the affairs of any issuer within at least the past five years.

2.1.3 Special committees

The Audit Committee, consisting of Messrs. Habert (Chairman of the committee), Bérét and Labbé, independent directors, and Ms. Takizawa, the working methods of which are described in Section 2.3, examined the following points among others during the 2016 fiscal year:

- review of the consolidated and corporate financial statements for fiscal year 2015;
- review of the consolidated financial statements of the first half of 2016;
- review of the 2017 budget;
- determination of the Statutory Auditors' fees;
- review of non-audit services proposed for the Statutory Auditors;
- initial review of the financial press releases;
- definition of the cash management and performance monitoring policy;
- review of financial risks and hedging policy;
- prior review of the conditions of the loan granted by the EIB;
- self-evaluation of committee effectiveness and review of the committee charter.

The Compensation Committee, consisting of Messrs. Bérét, Habert and Hurteloup, all independent directors, whose working methods are described in Section 2.3, examined, among other subjects, the compensation of senior management and the Executive Committee during 2016; reviewed the Company's general compensation policy, including yearly bonuses, advised on the collective objectives and their weighting as well as the design and implementation of an employee share grant program.

2.2 COMPENSATION AND BENEFITS TO SENIOR EXECUTIVES AND BOARD MEMBERS

2.2.1 Compensation paid to corporate officers

The tables below set out the information relating to the compensation of corporate officers in compliance with AMF recommendations.

Note that in 2016, the Company did not pay compensation to Messrs. Bélingard and Mérieux nor to TSGH and its permanent representative (Dominique Takizawa). Philippe Archinard received from Institut Mérieux gross compensation of €269 thousand (including €130 thousand in variable compensation and €8 thousand in benefits in kind – company car), which were not charged to the Company in 2016. Alain Mérieux received from Institut Mérieux gross compensation of €131 thousand (no variable compensation or payment in kind).

Table 1

SUMMARY OF THE COMPENSATION, STOCK OPTIONS AND SHARES GRANTED TO EACH CORPORATE OFFICER

(in € thousands)	FY 2015	FY 2016
PHILIPPE ARCHINARD, CHIEF EXECUTIVE OFFICER		
Compensation payable for the year *(details in Table 2)*	305	764
Valuation of options assigned during the year *(details in Table 4)*	None	None
Valuation of performance shares assigned during the year *(details in Table 6)*	None	79
TOTAL	**305**	**843**
CHRISTOPHE ANCEL, RESPONSIBLE PHARMACIST, DEPUTY CHIEF EXECUTIVE OFFICER (SINCE JANUARY 2014)		
Compensation payable for the year *(details in Table 2)*	115	128
Valuation of options assigned during the year *(details in Table 4)*	None	None
Valuation of performance shares assigned during the year *(details in Table 6)*	None	23
TOTAL	**115**	**151**

Table 2

SUMMARY OF COMPENSATION OF EACH EXECUTIVE CORPORTE OFFICER

(in € thousands)	FY 2015		FY 2016	
	Amount due	**Amount paid**	**Amount due**	**Amount paid**
PHILIPPE ARCHINARD, CHIEF EXECUTIVE OFFICER				
Fixed compensation[1]	305	305	382	382
Variable compensation[2]	-	-	382	382
Exceptional compensation	-	-	-	-
Director's fees	-	-	-	-
Payments in kind	-	-	-	-
Share of Institut Mérieux compensation charged to the Company[1]	*386*	*386*	-	-
TOTAL	**691**	**691**	**764**	**764**
CHRISTOPHE ANCEL, RESPONSIBLE PHARMACIST, DEPUTY CHIEF EXECUTIVE OFFICER				
Fixed compensation	94	94	102	102
Variable compensation[2]	15	15	20	20
Exceptional compensation	2	2	2	2
Director's fees			-	-
Payments in kind	4	4	4	4
TOTAL	**115**	**115**	**128**	**128**

(1) Since April 1, 2016, the Company directly pays all compensation due to Mr. Archinard as Chairman & CEO. Previously, this compensation was principally paid out by the Institut Mérieux and re-billed to the Company.

(2) With respect to the year N-1.

Table 3

SUMMARY OF DIRECTOR'S FEES AND OTHER COMPENSATION RECEIVED BY NON-EXECUTIVE DIRECTORS

Non-executive directors *(in € thousands)*	Amount paid in 2015	Amount paid in 2016
JEAN-PIERRE BIZZARI		
Director's fees	12.5	11.0
Other compensation	None	None
JEAN-LUC BÉLINGARD (1)		
Director's fees	None	None
Other compensation	None	None
ANTOINE BERET		
Director's fees	None	14.25
Other compensation	None	None
ARNAUD FAYET (2)		
Director's fees	9.5	1.25
Other compensation	None	None
BENOÎT HABERT		
Director's fees	20.5	20.5
Other compensation	None	None
PIERRE-PATRICK HURTELOUP		
Director's fees	14.5	17.5
Other compensation	None	None
JEAN-FRANÇOIS LABBÉ		
Director's fees	15.5	21.5
Other compensation	None	None
ALAIN MÉRIEUX (1)		
Director's fees	None	None
Other compensation	None	None
TSGH (DOMINIQUE TAKIZAWA (1)		
Director's fees	None	None
Other compensation	None	None
LAURENCE ZITVOGEL		
Director's fees	11.0	12.5
Other compensation	None	None
TOTAL	**83.5**	**98.5**

(1) Non-Independent director.

(2) Departure in May 2016.

Tables 4 and 5: see Section 2.2.3 below.

Table 6: performance shares allocated to each corporate officer:

Chairman & CEO: 29,333 unvested shares.

Deputy CEO: 8,400 unvested shares.

Table 7: performance stock that became available for sale during the period for each corporate officer:

Chairman & CEO: None.

Deputy CEO: 200 shares.

Tables 8 and 9: see Section 2.2.3 below.

Table 10

Executive corporate officers	Employment contract		Additional pension plan		Compensation due or that may become due as a result of termination or change in positions		Compensation related to a non-compete clause	
	YES	NO	YES	NO	YES	NO	YES	NO
Philippe Archinard, Chief Executive Officer Dates of term: 2004-2017		X		X		X		X

As far as the Company is aware:

- none of the directors benefit from an undertaking on the part of the Company or its subsidiaries in terms of elements related to compensation, indemnities or benefits of any kind which are or may be due in light of the employment, termination of employment or change in position, or afterwards;
- none of the directors have received compensation from TSGH, which directly controls Transgene, during the fiscal year.

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2.2.2 Total provisions for retirement

At December 31, 2016, retirement provisions set up by the Company for the corporate officers totaled €300,700 for Philippe Archinard and €37,400 for Christophe Ancel.

2.2.3 Stock options

2.2.3.1 History of option plans

As of the date of this Registration Document, three stock option plans are in existence. These plans were authorized by the General Shareholders' Meeting, in 2006, 2008, and 2010, respectively, and were implemented by the Board of Directors. No stock options have been awarded since 2012. The status of these plans at December 31, 2015 is summarized in the following table.

Grant date	Exercisable as of:	Expiration date:	Strike Price (euro per option):	Number granted	Number exercised in 2016	Number outstanding at December 31, 2016*
October 4, 2007	October 5, 2012	October 5, 2017	16.105	62,180	0	57,180
December 19, 2007	December 20, 2012	December 20, 2017	15.021	6,760	0	6,760
December 16, 2008	December 17, 2014	December 17, 2018	11.005	178,676	0	173,151
December 9, 2009	December 10, 2015	December 10, 2019	17.122	76,907	0	74,397
December 7, 2010	December 8, 2015	December 8, 2020	14.198	321,054	0	215,453
December 13, 2012	December 14, 2017	December 14, 2022	7.859	92,578	0	41,328

* *This amount takes into account adjustments to original grant values made as a matter of law following the share capital increases conducted in March 2014 and November 2016.*

Pursuant to Article L. 225-185, para. 4 of the French Commercial Code, the Board set at 10% the quantity of shares issued from the exercise of options granted starting in December 2007 that the corporate officer will be obliged to hold as registered shares until they leave their position.

Stock options granted to corporate officers or exercised by them during 2016: NONE

STOCK OR PURCHASE OPTIONS ALLOCATED DURING THE FISCAL YEAR TO EACH COMPANY EXECUTIVE CORPORATE OFFICIER BY THE ISSUER AND BY ANY COMPANY IN THE GROUP

Name of company executive corporate officer	Plan No. and date	Type of options	Valuation *(in euros per option)*	Number of options granted	Exercise price *(in euros)*	Exercise period
Philippe Archinard	-	-	-	None	-	-
Christophe Ancel	-	-	-	None	-	-
TOTAL	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**

STOCK OR PURCHASE OPTIONS EXERCISED DURING THE FISCAL YEAR BY EACH COMPANY EXECUTIVE CORPORATE OFFICER

Name of company executive corporate officer	Plan No. and date	Number of options exercised during the year	Exercise price
Philippe Archinard	-	None	-
Christophe Ancel	-	None	-
TOTAL	**N/A**	**N/A**	**N/A**

Summary information on stock subscription options granted to the 10 non-corporate officer employees who received the highest number of options and options they exercised during 2016: None.

Stock options granted to the 10 non-corporate officer employees who received the highest number of options and options they exercised	Total number of options granted or exercised	Weighted average price *(in euros)*	Plan No. and date
Options granted during the year by the issuer and by any company within the option plan scope, to the 10 non-corporate officer employees of the issuer and of any company within this scope, who received the highest number of options.	None	-	-
Options held on the issuer and the previously mentioned companies exercised during the year by the 10 employees of the issuer and these companies, who subscribed in this way the highest number of options.	None	-	-

Individual information on options granted by the issuer or any company within the option plan scope to the 10 non-corporate officer employees of the issuer and of any company within this scope, who received the highest number of options in this way and the number of shares subscribed by the 10 individuals who subscribed the most shares during the period: No options were granted in 2016 and no employees or corporate officers exercised options in 2016.

2.2.4 Awards of free shares

Three free share award plans were authorized and outstanding as of the date of this Registration Document by the General Shareholders' Meetings, in 2008, 2010 and 2016, and implemented by the Board of Directors.

No free shares were granted between 2013 and 2015.

On May 2016, the Board of Directors voted to make a general grant of a total 207,550 free shares for employees and corporate officers.

The status of free share grants at the end of 2016 is summarized in the following table:

	Plan 2016
Shareholders' Meeting date	05/24/2016
Total number of shares authorized by the general shareholder's meeting	600,000
Of which allocations granted to corporate officers during the year, whether by the issuer and by any company included in the scope of the allocation.	37,800
Of which, grants made during the year by the issuer and by any company in the scope of awards, to the 10 non-corporate officer employees of the issuer and of any company within this scope, whose number of free shares awarded is greatest.	73,000
Date of Board of Directors' meeting	05/24/2016
Total number of free shares allocated	207,550
Of which: number of shares allocated to corporate officers and members of the Executive Committee	92,800
Vesting date	- 05/24/2018
Expiration date of post-vesting holding period	05/24/2020
Share value on the date of allocation (opening price on the date of allocation)	€2.71

On December 13, 2016, 37,550 newly issued shares were definitively attributed to beneficiaries of the plan adopted by the Board of Directors on December 13, 2012, free and clear of any holding periods.

On March 17, 2017, the Board of Directors decided to grant 184,490 free shares in a general grant to employees and corporate officers, with a vesting period of two years followed by a mandatory holding period ending on March 17, 2021. Performance conditions apply to a portion of the grant to the Executive Committee, including 12,000 of the 24,000 shares granted to the Chairman & CEO and 1,500 of the 7,000 shares granted to the Deputy CEO.

As of the date of this Registration Document, potential dilution attributable to granted but unissued free shares amounted to 390,303 shares and potential dilution attributable to outstanding unexercised stock options amounted to 751,939 shares, or cumulatively approximately 1.5% of the Company's share capital.

2.3 CHAIRMAN'S REPORT ON CORPORATE GOVERNANCE AND INTERNAL CONTROL, AND STATUTORY AUDITORS' REPORT ON THE CHAIRMAN'S REPORT

The Company complies with the corporate governance recommendations contained in the MiddleNext Code of Corporate Governance for mid- and small-cap companies of September 2016 ("MiddleNext Code").

This paragraph restates in its entirety the Chairman's report required by Article L. 225-37 of the French Commercial Code, relating to the manner in which the Company's Board of Directors prepares and organizes its work and to the internal controls installed by the Company.

Report of the Chairman as required by Article L. 225-37 of the French Commercial Code

The Company complies with the corporate governance recommendations contained in the MiddleNext Code of Corporate Governance for mid- and small-cap companies of September 2016 ("MiddleNext Code"). The MiddleNext Code can be consulted on the MiddleNext website and on the Company's website.

This report was prepared by senior management and presented to the Board of Directors for approval at its meeting of March 17, 2017.

Conditions related to the preparation and organization of the tasks of the Board of Directors

Composition of the Board of Directors

The Company is governed by a Board of Directors currently consisting of ten members, of whom nine are individuals and the tenth is the majority shareholder, TSGH. Two women sit on the Board: Dominique Takizawa, as permanent representative of TSGH, and Laurence Zitvogel, an independent director.

The term of the directors' mandates is three years. The independent directors, who alone may collect directors' fees, must hold a number of shares in the Company. The table below indicates the number of shares or options providing future rights to shares (stock options) held by each individual director:

Director	Number of shares held	Number of options
Philippe Archinard	20,005	67,567
Jean-Luc Bélingard	-	None
Antoine Bérét (1)(4)(5)	1,000	None
Jean-Pierre Bizzari (1)	5,000	None
Benoît Habert (1)(2)	74,403	None
Pierre-Patrick Hurteloup (1)	350	None
Jean-François Labbé (1)(4)	400	None
Alain Mérieux*	293*	None
Dominique Takizawa (representing TSGH) (4)	-	-
Laurence Zitvogel (1)	469	None

* *Besides the shares held by TSGH, a 98.66% owned subsidiary of the Institut Mérieux, itself 100% owned by Compagnie Mérieux Alliance, controlled by the family of Mr. Mérieux.*

(1) Independent director.

(2) Chairman of the Audit Committee.

(3) Chairman of the Compensation Committee.

(4) Member of the Audit Committee.

(5) Member of the Compensation Committee.

In its current composition, the Board of Directors has six independent directors as defined by Recommendation R3 of the MiddleNext Corporate Governance Code. According to the MiddleNext Code, five criteria are used to determine the independence of Board members, characterized by the absence of any significant financial, contractual or family relationship likely to affect their independence of judgment:

- must not be a salaried employee or corporate officer of the company or of a company in its group, and must not have held such a position within the last five years;
- must not be a significant customer, supplier, competitor, provider, creditor or banker of the company or its group, or a customer, supplier, competitor, provider, creditor or banker for whom the company or its group represents a significant share of its business;
- must not be a reference shareholder of the company or hold a significant percentage of the voting rights;
- must not have a close family relationship with a corporate officer or reference shareholder;
- must not have been an auditor of the company in the course of the previous six years.

The complete list of directors and the dates and expiration of their terms appears in Section 2.1.1.1.1 of the Company's Registration document.

No member of the Board of Directors was elected by the employees. Two employees, one of whom represents managers, represent the Works Council and participate in the Board of Directors' meetings.

In addition to the Statutory Auditors, who participate in most Board meetings (all meetings in 2016), the representatives of the Works Council are also in attendance at the meetings, as is the Vice-President, Finance, the Deputy CEO and the Corporate Secretary, who acts as secretary to the Board. The Directors of the Board with scientific and medical backgrounds will from time to time hold *ad hoc* scientific or medical meetings with the Company's scientists and its medical, clinical and regulatory staff to discuss issues related to the products under development.

Operation of the Board of Directors

The Board of Directors met seven times in 2016, with an average attendance rate by the directors of 91%. At each of these meetings, the Board was informed in detail of the Company's situation in terms of the development of its business, the progress of its research projects, clinical programs and its financial position. In addition to performing its legal duties to approve the annual and interim financial statements and to arrange and convene General Shareholders' Meetings, the Board discussed the Company's strategic issues. Such issues included the outsourcing of the manufacturing of its clinical batches and the consequences of selling its production asset and related equipment, as well as the Company's restructuring and the redundancy plan (*plan de sauvegarde de l'emploi*) initiated in June 2015. The Board regularly speaks with the Audit Committee and Compensation Committee and deliberates on recommendations they make. The duties of the Chairmanship of the Board and the senior management of the Company are performed by the same individual.

In accordance with Recommendation R7 of the MiddleNext Code, the Board of Directors has adopted internal rules (available on the Company's website: www.transgene.fr).

In 2016, the Company also complied with Recommendation R11 of the MiddleNext Code dealing with the yearly assessment by Board members of the Board's operations and preparation of its work. In addition, the Board of Directors undertook a review of the MiddleNext Code's "Points of attention".

Committees

The Board of Directors is assisted by two committees:

- **the Audit Committee**, consisting of four directors, three of whom are independent. It is chaired by an independent director and the Chairman and Chief Executive Officer is not a member. The Vice-President, Finance is invited to each meeting to present the Company's financial data and answer questions from the committee. The Statutory Auditors attend all committee meetings. The committee is responsible for preparing the work of the Board of Directors on financial and accounting issues and advising it, in particular regarding financial statements, their audit and their compliance with accounting standards, the selection, renewal methods and fees for the Statutory Auditors, internal controls and the details of certain capital expenditures. It approves the internal audit and monitors its progress. Furthermore, the Audit Committee monitors the cash investment policy. The four committee members have financial accounting expertise by training or experience. Furthermore, Benoît Habert, Jean-François Labbé and Dominique Takizawa are considered to be financial experts under the meaning of Article L. 823-19 of the French Commercial Code. The Audit Committee members acquired relevant expertise during their academic training and professional experience, as can be seen in their biographies.

The Audit Committee met four times in FY 2016, with at least two members in attendance at each meeting. The work of the Audit Committee is governed by a charter that is reviewed and adapted as necessary to changes in corporate governance best practices. In 2016, the committee regularly reported on its work and provided recommendations to the Board of Directors after each of its meetings;

- **the Compensation Committee**, consisting of three independent directors. The committee reviews the proposed compensation (salary and bonus, proposed stock options) for the Company's senior managers and key people. It also reviews the overall compensation policy implemented by the Company with respect to share-based compensation plans. It also assesses and determines the achievement of the corporate objectives and their weighting in the amount of the annual bonuses granted to employees. The committee submits recommendations for approval on these items to the Board. It meets and deliberates, by telephone conference if necessary, and met once in 2016, with all its members present (in person or by telephone).

Limits on the powers of the Chief Executive Officer

No special limits have been set on the powers of the Chief Executive Officer, with the exception of the following points that require the CEO to refer the following matters to the Board:

- the strategic plan of the Company and its subsidiaries;
- the annual budget and, on a quarterly basis, its implementation and, if necessary, revision.

Participation by shareholders in the General Shareholders' Meeting

The Company has not established any special rules as to shareholder participation in General Shareholders' Meetings; the Statutes in this regard refer to the provisions of law in the French Commercial Code.

Information relating to the capital structure and elements that may influence a public offering

This information is presented and discussed in the Board's management report and in Chapter 5 of the Company's Registration document.

Climate change

The Company has not identified any material financial risks related to climate change. The Company's industrial activities were outsourced in February 2016. The low-carbon strategy for the remaining aspects of its business is focused on reducing energy consumption at its Illkirch and Lyon sites.

Compensation paid to corporate officers

In this report a distinction is drawn between the compensation of non-executive corporate officers (directors other than the Chairman) and executive corporate officers (the Chairman and Chief Executive Officer and the Deputy Chief Executive Officer (see Section 2.2 of the Registration document for further details on compensation paid in 2016).

Non-executive corporate officers: only independent directors received directors' fees. These consist of a set yearly lump sum of €5,000 to which is added an amount tied to the director's actual attendance at Board meetings of €1,500 per meeting, in accordance with Recommendation R10 of the MiddleNext Code. Additional compensation of members of the Audit Committee and the Compensation Committee are €1,500 and €1,000 per committee meeting, respectively. No other form of compensation, including deferred compensation, such as warrants or stock options, was paid by the Company to non-executive corporate officers.

The gross amount of directors' fees paid over the last two years to directors in office as of December 31, 2016 is shown in Section 2.2 of the Company's Registration document.

Executive corporate officers: the Chairman and CEO does not have an employment contract with the Company. He receives compensation from the Company on the basis of his responsibilities. The difference between 2016 and 2015 stems from the change in method for the payment of compensation to the Chairman and CEO. Before 2016, a portion of the Chairman and CEO's total compensation was paid by Institut Mérieux, which was billed back to the Company under an agreement between the Institut Mérieux and Transgene. This cost is paid in full by the Company as of 2016. The total expense is practically identical. The Chairman and CEO also receives compensation from the Institut Mérieux on the basis of his responsibilities as Director of the Immunotherapy Division in that company.

The Responsible Pharmacist, who was appointed Deputy Chief Executive Officer pursuant to the French Public Health Code, has an employment contract in his capacity as Director of Quality Assurance. The Board believes that the continuation of this employment contract is justified in this particular case, as the term of office of the Qualified Pharmacist is a regulatory requirement. He receives a salary pursuant to his employment contract and any change to his compensation is completely individualized to reflect his personal performance against the collective objectives. The salaries and bonuses of members of the Executive Committee are determined based on proposals by the Chairman and CEO and are submitted for review by the Compensation Committee, which also authorizes the proposals, if any, for deferred compensation in the form of stock options.

The Board believes that the terms for setting the salaries of these two executive corporate officers comply with the principles in Recommendations R13 and R18 of the MiddleNext Code of Corporate Governance. The Board decided not to make the exercise of options granted to corporate officers subject to multi-year performance conditions. The analysis by the Compensation Committee, with which the Board agrees, concluded that such a rule was inappropriate for the Company, whose development in the absence of ongoing revenues from business activities remains subject to great technological risk, the uncertainty of which is already factored into the lock-up period for stock options, which was extended from four years to five, and the continued employment condition. This four-year period subsequent to allocation is a medium-term horizon, in itself sufficient to represent an incentive for long-term performance.

Compensation policy – Principles and criteria for setting the compensation for executive corporate officers for 2017 (Say on Pay "Sapin II")

This section constitutes the report prepared in application of the provisions of Article L. 225-37-2 of the French Commercial Code and is attached to the report mentioned in Articles L. 225-100 and L. 225-102; it presents the income statement and activity of Transgene during the fiscal year ended December 31, 2016.

This report lays out the principles and criteria for the determination, distribution and allocation of the fixed, variable and exceptional items that comprise the total compensation and benefits of any kind of Transgene's executive corporate officers for the 2017 fiscal year. It was prepared by the Board of Directors of March 17, 2017, upon proposal by the Compensation Committee.

The Compensation Committee analyzes compensation as a whole, including all its components. Upon the Committee's recommendation, and based on the general principles described below, the Board of Directors approved the 2017 compensation policy for its executive corporate officers, whilst ensuring that the rules to determine this compensation are coherent with the annual assessment of the individual performance which it compares to Transgene's performance.

This policy defining the principles and criteria for the determination, distribution and allocation of the fixed, variable and exceptional items that comprise total compensation and benefits of any kind will be submitted to the General Shareholders' Meeting of June 8, 2017 for the Chairman and Chief Executive Officer and the Deputy Chief Executive Officer.

General principles

The Chairman and Chief Executive Officer does not hold an employment contract. Philippe Archinard, has never been an employee of Transgene SA or one of its subsidiaries. Before his appointment as Deputy Chief Executive Officer, Christophe Ancel was an employee of Transgene SA. His employment contract was suspended following his appointment.

For the Chairman and Chief Executive Officer, the Board of Directors approved the following nine general principles that form the basis for determining his compensation and benefits for the 2017 fiscal year.

- Compliance with the MiddleNext Code recommendations;
- No termination benefits or non-compete benefits in the event of departure;
- No additional supplementary pension plan;
- No director's fees in respect of his term of office as director;
- Taking into account the level and difficulty of the responsibilities of the executive corporate officers. Taking into account his experience and seniority in the Company and the Institut Mérieux group;
- Taking into account the practices in companies exercising comparable activities;

- A motivational and balanced compensation structure broken down as follows:
  - fixed compensation,
  - annual variable compensation;
- Taking into account possible allocations of options or free shares by Transgene. No deferred annual variable compensation. No multi-year variable compensation. No benefits in kind;
- No additional compensation paid by a Transgene subsidiary.

For the Deputy Chief Executive Officer, an executive corporate officer due to his regulatory status as Responsible Pharmacist of Transgene, the Board of Directors decided to follow the same compensation and benefits structure as that applied to Transgene's Executive Committee.

Criteria and methods selected in 2017 by the Board of Directors to determine, distribute and allocate the fixed, variable and exceptional items that comprise the total compensation and benefits of any kind for the Chairman and Chief Executive Officer (Philippe Archinard)

Fixed compensation

€387,730 for the 2017 fiscal year. Paid in 12 monthly payments.

Annual variable compensation

A maximum of 100% of the fixed compensation, *i.e.* a cap of €387,730. The variable compensation is determined according to the level of achievement of the collective and individual objectives, as noted by the Board of Directors on the advice of the Compensation Committee. These targets are both quantitative and qualitative, based on the achievement of the Company's strategic objectives, and notably: progress in the clinical trials and key research projects, increased value for the Company's platforms, as well as the Company's ability to prepare and implement external collaborations and partnerships. In the event of extraordinary circumstances, the Board of Directors, on the advice of the Compensation Committee, could propose an extraordinary bonus. Paid during the fiscal year following that in which the performance has been noted.

Pursuant to Article L. 225-37-2 of the French Commercial Code, the payment of the annual or exceptional variable compensation is subject to approval by an Annual General Shareholders' Meeting of the items of compensation of the Chairman and Chief Executive Officer under the conditions stipulated in Article L. 225-100 of the French Commercial Code.

Allocation of shares

The Board of Directors allocates 24,000 free shares subject to a condition of presence; half of these are subject to performance conditions based on the criteria used for the annual variable compensation.

Criteria and methods selected in 2017 by the Board of Directors to determine, distribute and allocate the fixed, variable and exceptional items that comprise the total compensation and benefits of any kind for the Deputy Chief Executive Officer (Christophe Ancel)

Fixed compensation

€110,508 for the 2017 fiscal year.

Annual variable compensation

A maximum of 25% of the fixed compensation, *i.e.* a cap of €27,627 The variable compensation is determined according to the level of achievement of the collective and individual objectives, as noted by the Board of Directors on the advice of the Compensation Committee. These targets are both quantitative and qualitative, based on the achievement of the Company's strategic objectives, and notably: progress in the clinical trials and key research projects, increased value for the Company's platforms, as well as the Company's ability to prepare and implement external collaborations and partnerships. In the event of extraordinary circumstances, the Board of Directors, on the proposal of the Chairman and Chief Executive Officer and on the advice of the Compensation Committee, could propose an extraordinary bonus.

Pursuant to Article L. 225-37-2 of the French Commercial Code, the payment of the annual or exceptional variable compensation is subject to approval by an Annual General Shareholders' Meeting of the items of compensation of the Deputy Chief Executive Officer under the conditions stipulated in Article L. 225-100 of the French Commercial Code.

Payments in kind

A company car is allocated to the Deputy Chief Executive Officer.

Allocation of shares

The Board of Directors allocates 7,000 free shares subject to a condition of presence; 1,500 of these are subject to performance conditions based on the criteria used for the annual variable compensation.

Internal control procedures

The Company has implemented operating procedures, in particular related to the control of the commitment of financial and human resources, thereby creating a control environment. As it has evolved, the Company has adjusted its control objectives and methods, in particular to control its cash assets, which are its main financial resource, its key performance risks associated with the management of its projects and strategic partnerships, and, more generally, its compliance with regulatory duties applicable to BioPharmaceutical companies and to listed companies. Therefore, in 2016, the Company continued to review and adapt its quality assurance system, in view of the new sub-contracting arrangement as part of its strategic decision made in 2015 to outsource the manufacturing of its clinical batches.

Internal control objective and definition

Internal control is a Company system, defined and implemented on its own responsibility, which aims to ensure:

- compliance with applicable regulations and laws;
- the application of instructions and guidelines fixed by senior management;
- the proper functioning of the Company's internal processes, particularly those designed to protect its assets; and
- the reliability of financial information.

Generally speaking, the Company's internal controls contribute to controlling its activities, the effectiveness of its operations and the efficient use of resources. By contributing to the prevention and control of risks of not achieving the Company's objectives, the internal control system plays a key role in the conduct and management of the Company's various activities. Accordingly, the Company introduced an enhanced control system on the key items of its main risks: liquidity risk and cash conservation, the risk of executing its clinical development plan through tight project management and quality risk through a quality assurance system. However, internal controls cannot provide an absolute guarantee that the Company's objectives will be achieved.

Transgene has adopted the internal control reference framework provided by the AMF for mid- and small-cap companies.

Control environment

Internal control bodies and contributors at Transgene

Board of Directors and its committees

The first part of the report describes the conditions under which the Board of Directors contributes to the optimization of the Company's activities. The Audit Committee reviews the internal control process, specifically with respect to validation of the internal control action plan and the Company's financial communications. In that connection, it familiarizes itself before every interim and annual reporting with the Group's financial statements and the accompanying notes. The independent directors who are physicians (Drs. Bizzari, Hurteloup and Zitvogel) take part in special meetings to monitor the Company's clinical development policy. They act as advisors to the Company's Medical and Regulatory Affairs Department.

Executive Committee

Under the leadership of the Chairman and CEO, every month the Executive Committee brings together the eight members representing each of the Company's functional and operating departments. Other than tasks related to project management, it considers the Company's operations, monitors all aspects of management in terms of the operating plan and objectives assigned by the Board of Directors, and deliberates on all organizational and operational strategy items placed on the agenda by its members. Twice a year the Executive Committee reviews Quality Management.

"Project" organization

Transgene's organization is based on functional departments, the coordination of which is ensured *via* a strong "project" strategy. Research programs, products under development and subcontracting are managed by project, headed by a project leader, and are the subject of reports. The project leader is responsible for coordinating, leading and optimizing the various cross-functional tasks required to ensure the project's success. The project leader prepares a development plan and schedule and provides monthly reports on the milestones achieved and unforeseen difficulties. A specialized project management committee meets at least monthly to track project management. The committee comprises primarily Executive Committee members and project managers, who present an overview of the projects that they oversee. The meetings are an opportunity to track all the research projects and preempt, where necessary, any conflicts regarding resources and priorities.

The Company uses collaborative project management software, which is shared by all departments and whose main functions are:

- consolidated management of the project portfolio;
- detailed project and resource planning;
- tracking the progress of tasks and time spent.

Finance Department

The Finance Department's role is to provide administrative and budgetary support to the line departments, to prepare management analyses for senior management, to enable effective financial decisions and the optimization of resources,

and to ensure compliance with financial and accounting regulations, particularly for a publicly-traded company. Within this Department, the Head of Administration and Finance is charged with implementing and improving accounting and financial procedures, along with overseeing the action plan established after the annual audit.

Corporate Secretary

The Corporate Secretary monitors the legality of the Company's and subsidiaries' activities and ensures compliance with the laws and regulations in effect and also supervises internal controls and risk management.

The control environment in the pharmaceutical industry

Research and development, preclinical tests, clinical trials, facilities and equipment and the manufacture and marketing of therapeutic products are subject to very thorough regulations devised by numerous governmental authorities in France, Europe, the United States and other countries. The European Medicines Agency (EMA), the French *Agence nationale de sécurité du médicament et des produits de santé* (ANSM), the Food and Drug Administration (FDA) in the United States and others, require compliance with stringent conditions for the manufacturing, development and commercialization of products such as those developed by Transgene. Pharmaceutical companies are subject to regular visits by these bodies to identify deficiencies and appropriate remedies.

Such an environment of rigorous controls calls for an internal control system capable of ensuring compliance with standards. This is why the Company has set up:

- a Quality Assurance Department, whose purpose is to meet regulatory requirements in terms of the quality and the safety of pharmaceutical products for human use. This Department's role and organization were amended in early 2016 to take into account the outsourcing arrangement for the manufacture of clinical batches. All new partnership agreements for outsourcing are subject to more stringent controls. Thus, the Quality Assurance Department comprises:
  - System Quality, which rolls out, manages and improves all Quality Assurance processes, handles the quality documentation system, in-house and third-party quality audits, clinical audits of suppliers' Quality Assurance, quality training, as well as checking IT systems and the Company's ongoing compliance with pharmaceutical standards. This entity is also in charge of managing regulatory inspections and partner audits and their follow-up,
  - a group overseeing the quality of clinical operations which audits the documents and checks that the procedures have been properly applied in clinical studies. Transgene complies with the rules described in the Good Clinical Practices of the International Conference on Harmonisation or national regulations, if the latter are stricter;
- a Quality Research team that includes initiating the quality system upstream of the product development process, as well as technological experts who liaise with subcontractors for technology transfers.

The control environment within the Institut Mérieux group

Since late 2010, member companies of the Institut Mérieux group have been participating in a comprehensive internal control program coordinated by the Institut Mérieux. Each group company analyzes its risks and approves its own audit program. The audit itself is performed by a cross-functional team of internal auditors from group companies who are specially trained in internal audit techniques. The activities of the joint venture Transgene Tasly (Tianjin) BioPharmaceuticals Co. Ltd. in China were covered by an internal Group audit in this country in 2016. No internal audit was conducted in France in 2016 due to the operations related to the restructuring.

Internal control and risk management procedures

Procedures have been developed and implemented within the Company to ensure that the principal risks are managed internally in compliance with the policies and objectives set by management.

Determination of priority risks and processes

Risk management procedure

The Company identifies the main risk factors that might significantly affect its operations and outlook, as described in Section 1.4 of its Registration document. It has established a formal review that surveys the risks and the procedures to be put in place to manage them.

Transgene believes that certain operational and financial risks are significant either due to the probability of their occurrence or by their impact on the Company. They are subject to the following procedures:

Protection of the integrity of strategic scientific, medical and computerized data; protection of strategic biological materials and equipment

Backup of the Company's strategic data takes place primarily through archiving, duplication and separate storage procedures. The data is stored with a specialized operator offering a high level of data protection. However, the Company maintained equipment for local backups of the most critical data.

Protection of cash and cash equivalents

Cash and cash equivalents are the Transgene's main financial assets. The controls in place are intended to ensure the proper use and safety of the funds invested, in particular:

- preparation of a detailed budget by Section and quarterly budgetary control;
- a cash balance statement;
- determination of the investment policy by the Audit Committee.

The Transgene's cash is currently invested in investment funds, either directly or in the Institut Mérieux group cash pool. This cash pool is placed under the supervision of a committee of the Group's liquidity managers (representing Transgene: the Vice-President, Finance), which meets once a month to study the cash position of the participants (both lenders and borrowers), the yields and the cash pool management decisions. The Audit Committee provides an update on the cash position at each of its meetings.

Reliability of financial and accounting information

To ensure the quality and reliability of the financial and accounting information it prepares, the Company uses a framework of accounting principles and standards as well as a management reporting system that analyzes accounting data along the following lines: by cost center, type of income and expense, and project.

Insurance policy

In order to outsource a portion of the financial expense of operational risks, the Company implements a policy of covering the main insurable risks, for itself and its subsidiaries, with coverage amounts that it believes are compatible with its cash usage requirements.

Managing relations with strategic partners

The Company has entered into licensing and development partnerships for the final development stages of its products, their manufacturing and their commercialization. In order to maintain the highest level of collaboration with its partners and thus ensure optimum development of the product, a dedicated project leader ensures that the program is run properly, under the supervision of a monitoring committee that meets monthly. In addition, strategic partnerships are under special governance, usually in the form of a joint steering committee that meets regularly, or on an *ad hoc* basis to make key decisions (new strategic directions, new commitments, management of differences, etc.) throughout the life of the agreement.

A progressive approach to the evaluation of internal controls

As a result of the restructuring at end-2015, the Company had to revise its internal control plan to reflect the operations that it no longer had to track internally (*i.e.*, production-related purchases and suppliers) along with new ones (sub-contracting related to these operations).

Internal controls related to the preparation of accounting and financial information

The Company prepares the annual consolidated financial statements under IAS/IFRS, as well as the parent company financial statements for Transgene SA. The Group prepares interim consolidated financial statements under IAS/IFRS that are given a limited review by the Statutory Auditors. The consolidation process is not especially complex as the 2016 scope of consolidation included Transgene SA, its wholly-owned subsidiary, Transgene, Inc., whose purpose is representing Transgene SA before the US health authorities (one employee in 2016), and Transgene BioPharmaceutical Technology (Shanghai) Co. Ltd., currently being liquidated (no employees as at December 31, 2016). The Company's interests in ElsaLys Biotech SAS (France), and Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. (China) are accounted for by the equity method.

The Registration documents filed every year with the French *Autorité des marchés financiers* are prepared jointly by the Finance Department and the Corporate Secretary. They are reviewed by the Group's legal counsel and auditors, under the responsibility of the Chairman and Chief Executive Officer.

The closing of the accounts is performed with the financial IT system (ERP). ERP manages procurement and supplies, warehouses, general and analytical accounting, as well as budgetary reporting. It allows for dividing up tasks by means of individual user profiles, while ensuring the integrity of the information. Computerized hierarchical approval procedures for purchases, travel authorizations and expense reports are in place.

ERP provides for the integration and traceability of restatement entries under IAS/IFRS standards, which limits the risk of error.

A list of tasks and controls to be effected by the Accounting Department for each closing ensures the appropriate rollout of closing procedures.

Quarterly reporting is prepared by the Finance Department and presented to the Executive Committee. This report is composed of the various Company and subsidiary activity financial and operational monitoring reports and notably analyzes actual and projected quantitative and qualitative accounting data.

The budgeting process is designed and coordinated during the fourth quarter by the Finance Department in close cooperation with the project managers and operating managers. A managing controller is fully dedicated to the collection and monitoring of financial information relating to projects.

The budget process is based on the validation of project priorities based on the annual portfolio review and on the project management software that ensures financial and human resources are adequate to meet project requirements and schedules. The budget is presented for validation by the Management Committee, which then submits it to the Board of Directors, after it has been reviewed by the Audit Committee. The budget is adjusted every half year and a re-estimate is presented to the Board of Directors during the third quarter.

STATUTORY AUDITOR'S REPORT, PREPARED IN ACCORDANCE WITH ARTICLE L. 225-235 OF THE FRENCH COMMERCIAL CODE (*CODE DE COMMERCE*), ON THE REPORT PREPARED BY THE CHAIRMAN OF THE BOARD OF DIRECTORS OF TRANSGENE S.A.

Year ended December 31, 2016

To the Shareholders,

In our capacity as statutory auditor of Transgene S.A. and in accordance with Article L. 225-235 of the French Commercial Code (*Code de commerce*), we hereby report on the report prepared by the Chairman of your Company in accordance with Article L. 225-37 of the French Commercial Code (*Code de commerce*) for the year ended December 31, 2016.

It is the Chairman's responsibility to prepare and submit for the Board of Directors' approval a report on the internal control and risk management procedures implemented by the Company and to provide the other information required by Article L. 225-37 of the French Commercial Code (*Code de commerce*) relating to matters such as corporate governance.

Our role is to:

- report on any matters as to the information contained in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information, and
- confirm that the report also includes the other information required by Article L. 225-37 of the French Commercial Code (*Code de commerce*). It should be noted that our role is not to verify the fairness of this other information.

We conducted our work in accordance with professional standards applicable in France.

Information on the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information

The professional standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information. These procedures consist mainly in:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman's report is based, and of the existing documentation;
- obtaining an understanding of the work involved in the preparation of this information and of the existing documentation;
- determining if any material weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our work are properly disclosed in the Chairman's report.

On the basis of our work, we have no matters to report on the information relating to the Company's internal control and risk management procedures relating to the preparation and processing of the accounting and financial information contained in the report prepared by the Chairman of the Board of Directors in accordance with Article L. 225-37 of the French Commercial Code (*Code de commerce*).

Other information

We confirm that the report prepared by the Chairman of the Board of Directors also contains the other information required by Article L. 225-37 of the French Commercial Code (*Code de commerce*).

Lyon, April 12, 2017

The Statutory Auditor

GRANT THORNTON
French member firm of Grant Thornton International
Françoise Méchin

ERNST & YOUNG et Autres
Marc-André Audisio

CORPORATE GOVERNANCE

3

INFORMATION REGARDING THE COMPANY'S SOCIAL, ENVIRONMENTAL AND SOCIETAL RESPONSIBILITY

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3.1 NOTE ON METHODOLOGY

It should be recalled that, in 2015, the Company announced its strategic restructuring which primarily entailed outsourcing the manufacturing of its clinical batches and shutting down its industrial development activities. The restructuring saw the introduction of a redundancy plan (PSE – *plan de sauvegarde de l'emploi*) making nearly half the staff redundant. This plan was completed in 2016 for the most part, although some employees are still reported as staff as at December 31, 2016 under their reclassification leave, but are no longer actively working for the Company. Given these circumstances, it is appropriate to retain the three-year historical comparison for indicators affected by the restructuring, namely (1) environment indicators, because of the disposal of the production asset and its equipment on February 1, 2016, and (2) social indicators for the workforce, as was done in the 2015 report. Workforce social indicators are reported from January 1, 2015 to March 1, 2016, excluding employees on reclassification leave. For the 2016 fiscal year, these employees are included from January 1, 2016 to December 31, 2016.

For the other social indicators (compensation, absenteeism, and disability), the calculations were made using the headcount as at December 31, 2016, namely 124 women and 51 men, including employees on reclassification leave.

Unless otherwise indicated, the items in the following report concern the Company (Transgene SA), located in France, where its business is primarily conducted in two facilities located in Illkirch-Graffenstaden and Lyon. Its two wholly-owned subsidiaries serve as a representation office (Transgene, Inc. in the United States, which only had one employee at December 31, 2016) and to collaborate on academic research (Transgene BioPharmaceuticals Technology (Shanghai) Co. Ltd. in China, which is in the process of liquidation and had no employees at December 31 2016). Neither of them conducts any commercial activities. These subsidiaries are not included in the indicators of this report. Figures are provided for the fiscal years 2014, 2015 and 2016 only when such figures are relevant.

Methodologies – details and limitations

Methodologies for reporting social, environmental and safety indicators are likely to have certain limitations inherent in the practicalities of collecting and consolidating such information.

The definitions and reporting methodologies are suitable for the following indicators:

Environment indicators

The indicators on water consumption only cover the Group's activities in the building housing the registered office, the administrative and regulatory activities and the R&D labs (the TUR building) at our facility in Illkirch-Graffenstaden (France). Activities of the production building (TUP) sold on February 1, 2016 were not taken into account. Electricity consumption relates to the two TUP and TUR buildings until 2015. The power supplies were separated in 2016. The Company is not in a position to present environmental indicators for the laboratory in Lyon, since no information has been provided by the landlord.

Social indicators

Total workforce

This indicator covers only the activities of the Group located in France. Employees on a permanent or temporary employment contract with Transgene SA at December 31, 2016 are counted in the total workforce. Employees on reclassification leave, trainees and temporary staff are excluded.

Hires and departures

This indicator covers only the activities of the Group located in France.

Temporary contracts are included in the reporting of this indicator. The following are excluded from the reported data on hires and departures: the conversion of temporary employment contracts to permanent ones when the end of the prior contract coincides with the start of the new contract.

Rate of absenteeism

The absenteeism rate is reported only for within France. It refers to the ratio of the number of working hours missed (illness and workplace accidents) to the number of hours worked. The 2013 and 2014 rates are no longer included in this report as they were calculated including parental leave and unpaid leave and are therefore not comparable to the 2016 and 2015 rates.

Number of hours worked

This indicator covers only the activities of the Group located in France for the period from January 1 to December 31, 2016.

The number of hours worked is taken from the payroll and is used to calculate the rate of absenteeism.

The hours used to calculate the frequency and severity rates are taken from the annual declaration of social data (abbreviated to DADS), in the specific workplace accidents section.

Safety indicators

Frequency rate and severity of accidents with work stoppage

These indicators cover only the activities of the Group located in France. The frequency rate of accidents with work stoppage equals the number of accidents with work stoppage of greater than or equal to one day occurring during a 12-month period per million hours worked. The severity rate of workplace accidents is equal to the number of days lost due to temporary disability, excluding commuting accidents, occurring during a period of 12 months per thousand hours worked. Commuting accidents from the home to the workplace are excluded from the calculation of these indicators.

Consolidation

The consolidation of the data is under the responsibility of the Corporate Secretary.

3.2 EMPLOYEE INFORMATION

3.2.1 Responsibility as an employer

3.2.1.1 Employment

TOTAL NUMBER AND BREAKDOWN OF EMPLOYEES BY GENDER, AGE, AND GEOGRAPHICAL REGION AT DECEMBER 31

Data specific to the Company: employees present at December 31, 2016, excluding employees on reclassification leave.

	Men	Women	Total
Geographical area and age distribution	12/31/2016	12/31/2016	12/31/2016
France	**48**	**101**	**149**
of whom: under 25 years old	4	7	11
25 to 39 years old	13	31	44
40 to 49 years old	18	22	40
over 50 years old	13	41	54

HIRES AND DEPARTURES

For the period January 1, 2016 to December 31, 2016
(Including apprenticeships, vocational contracts and CIFRE [Phd training])

Hires	22 (including two fixed-term contract replacements)
Departures	103 (including 86 related to the redundancy plan)

NB: the following indicators were established based on a headcount of 175 employees as of December 31, 2016.

COMPENSATION AND CHANGES OVER TIME

In 2016, the Company changed its method of grouping employees to present the breakdown of compensation, by basing it solely on classification rather than function. The following table shows the breakdown of average gross annual compensation (wages/salary and bonuses) for men and women for 2016, according to this new method:

Classification according to the Pharmaceutical Companies Collective Agreement		3	4-5	6 non-managers	6 managers	7	8	9**
2016	Men	0	33,559	NC*	40,519	50,767	67,625	104,760
	Women	NC*	31,969	40,429	38,271	47,950	61,687	NC*

* NC: data not provided for confidentiality reasons; only one employee is concerned by this classification.
** Excluding Senior Director.

An analysis of compensation shows no significant pay differences between men and women. Any differences observed are attributable to seniority in a small workforce or to specific jobs.

The following table shows the breakdown of average gross annual compensation (salary and bonuses) for men and women for 2014 and 2015, according to the previous method:

Businesses (Classification groups – Pharmaceutical Companies Collective Agreement)		Operator/ Employee (2-3)	Assistant/ Technician Responsible for... (4-5-6)	Businesses Clinical research assistant (CRA)/ Engineer/ Supervisor (6-7)	Project leader/ Physician/Med Tech/Researcher (7-8)	Senior Manager/ Director (8-9)
	Men	23,111	35,643	49,019	68,994	80,775
2014	Women	29,622	36,411	48,454	61,020	75,593
	Men	27,982	36,077	48,603	66,037	74,693
2015	Women	28,923	34,170	48,073	58,716	80,997

Total payroll for 2016 was €16.13 million (€20.1 million in 2015; €21 million in 2014).

Work organization

Organization of working time

The Company collective labor agreement in effect in the Company's sites located in France call for a reduction in the work week of non-managers to 37 hours, 40 minutes and a reduction of 9 working days per year; for managers, the annual workload is a fixed 215 days. In 2003, a corporate agreement on flexible time for non-managers completed this structure.

An agreement was signed in December 2003, which completed the Company agreement and was based on the collective agreement for the pharmaceutical industry relating to the treatment of overtime and exceptional overtime during nights, weekends and statutory holidays for non-manager employees.

Negotiations began at the end of 2016 on the right to not to check emails outside of work.

Absenteeism

The absenteeism rate was 2.30% in 2016, down from 3.92% in 2015.

The drop in absenteeism is partly due to the lower headcount in 2016 under the redundancy plan. The Company recorded a spike in lost time from work at the end of 2015 coinciding with layoff notifications.

Labor relations

Organization of social dialogue, including employee information and consultation procedures and negotiations with staff

Social dialog takes place in accordance with the French Labor Code, through the respective representative bodies, trade union delegation, Works Council and employee representatives based on the duties and tasks of each body. Due to the structure and size of the Company, it does not need to arrange specific procedures to inform, consult or negotiate with employees. Video- and teleconferencing equipment are available to employee representatives based in Lyon for active participation in meetings of bodies held at the registered office.

The economic and social database was finalized in 2016 and all data provided to personnel representatives is now centralized and accessible on the Company's intranet.

Collective bargaining agreements

The mutual insurance and benefits committee met with HR and senior management on several occasions to negotiate the agreement on reimbursing medical expenses to comply with the new obligations of "responsible" contracts. The agreement was signed in February 2016. The Company also joined a health network to reduce medical costs for employees and offer them broader cover, especially for optical and hospitalization costs.

Health and safety

Health and safety conditions in the workplace

The Company's policy regarding the safety and protection of individuals has the following main objectives:

- to ensure the safety of those who work at the Company; and
- and to ensure the protection of the Company's tangible and intangible assets.

The laboratories are designed and equipped both to protect the experiments being conducted from any outside contamination and to protect the employees as they do their work from accidental exposure to potentially hazardous products.

The Company's operations are subject to pharmaceutical standards (Laboratory and Clinical Best Practices) and to the provisions of the French Environmental Code that refer to the confined use of genetically modified organisms. In this regard, it is subject to administrative authority approval, given upon recommendation of the French High Council for Biotechnologies, for its viral vector constructions. Authorization includes the classification of these constructs and the confinement conditions for their handling. The Company's investments in the quality of its products have a safety and protection dimension, but are not necessarily recorded as specific costs related to this issue.

In its facilities, the Company applies high standards to its equipment and operations and is also committed to training its staff in the different safety requirements of their work station.

The Company has a Health, Safety and Environmental Officer to oversee workplace safety and prevention.

The Health, Safety and Working Conditions Committee operates within the Company pursuant to the regulations in force.

Review of agreements signed with trade unions or staff representatives on health and workplace safety

The Health, Safety and Working Conditions Committee (CHSCT) holds its ordinary meetings every quarter, makes periodic visits to the sites and facilities, and may choose to hold extraordinary meetings following a serious accident or incident, or in the case of specific relocations, or new organizational measures that impact on employee health and safety. The procedures for serious and imminent danger were not called upon in 2016, or in 2015 and 2014. No analysis was performed in 2016 (one in 2015 and three in 2014) in the wake of workplace accidents.

WORKPLACE ACCIDENTS, FREQUENCY AND SEVERITY; OCCUPATIONAL DISEASES

Number of accidents (including onsite aid in the infirmary)	2014	2015	2016
Total Company accidents resulting in an entry in the infirmary logs or a report	22	20	6
Number of accidents reported	6	4	1
• of which, commuting accidents (home-workplace)	1	-	-
• workplace accidents	5	3	1
• travel accidents (away from the workplace)	-	1	-
Number of accidents with work stoppage	2	1	1
Frequency rate (1)	4.10	2.16	3.39
Severity rate (2)	0.02	0.002	0.003

(1) Number of workplace accidents with stoppage (excluding during travel) multiplied by 1,000,000 and divided by the number of hours worked.

(2) Number of days lost due to temporary disability (excluding during travel) multiplied by 1,000 and divided by the number of hours worked.

No occupational illnesses were recognized in 2016 (none in 2015 and one in 2014). The employer did not file any reports indicating any processes that could cause occupational illnesses in 2016 or in 2015 and 2014.

Training

Training policies implemented

Employees enter the Company with a high level of prior training. Over 57% of them have an educational level of five or more years of post-secondary education. The continued training of employees in technology-based knowledge and skills of the highest level is necessary to maintain the Company's competitiveness. To preserve and develop this human capital, the Company devotes considerable effort to continuing training (3.39% of payroll in 2015, 3.36% in 2014 and 3.40% in 2013 – data not yet available for 2016) and to the development of knowledge and know-how, primarily through a policy of sending people to leading internationally recognized conferences and seminars and through numerous collaborations within the scientific community, and an extensive and constantly updated document base.

Total number of hours of training

4,929 hours were given to occupational training in 2016 (2,566 in 2015 and 5,038 in 2014). 87% of employees took at least one training course in 2016 (59% in 2015 and 76% in 2014).

Non-discrimination

Measures taken to promote equality between men and women

In accordance with the law of November 9, 2010, a company agreement on professional equality was signed on September 25, 2012 with the social partners. This agreement was renegotiated in 2016 and was being finalized on the date of preparation of this document to include the right to disconnect (work-life balance).

Based on findings about the comparative situation of men and women in Transgene in 2016, the following should be noted:

- while Transgene employs a high number women, nothing stands out in the 2015 and 2016 data to indicate inequality between men and women;
- the Company's workforce is more female than male across all employment categories and classifications; however, the opposite is true for the Executive Committee;
- the Board of Directors will comply with legislation concerning the number of women on Boards as of the next general shareholders' meeting on June 8, 2017. Two female Board members are proposed for appointment to replace two of the men on the Board;
- transgene has taken proactive steps to protect the balance between family life and professional life (for example: an inter-company daycare center).

Since it was founded, the Company has striven to adopt numerous measures that help balance its employees' work and private lives:

- the option to work part-time was taken up by 29 employees in 2016, excluding reclassification, including 4 male managers, 18 female managers, and 7 female non-managers, (compared with 47 employees, including 2 male managers, 45 women, 26 of them managers in 2015; 42 employees, including 1 male manager and 41 women, 24 of them managers in 2014);
- maternity and paternity leave at full pay;
- funding 8 places in the nearby daycare center (at an annual cost of €65,617 in 2016; €65,288 in 2015; and €64,090 in 2014).

Measures taken to promote employment and integration of disabled workers

Under the terms of the pharmaceutical companies collective agreement (Leem) of September 25, 2008 to promote the employment and retention of people with disabilities, as amended by the Protocol of September 24, 2009, Transgene has implemented a number of measures.

To encourage the hiring of disabled workers, the Company uses application management software on which it displays its non-discrimination policy, which allows disabled workers to identify themselves, if they wish, by checking a box. Their applications can be prioritized accordingly.

In 2016, the Company employed 14 people with reported disabilities (8 covered by the redundancy plan), compared with 13 in 2015 and 8 in 2014. The Company also used two social-support-through-work centers for various services (ESAT, ARSEA and HANDIRECT). Since the Company employed the recommended number of disabled people, it was exempt from the payment of a contribution to HANDI'EM in respect of the 2015 and 2016 fiscal years.

In 2016, the Company forged ahead with efforts to combat stereotypes on disabilities. It offered all employees the opportunity for outside consultations on health matters as well as on how companies accommodate illness and disabilities at the workplace for both themselves as well as their families. Assistance was also offered in having a disability formally recognized.

Transgene organized a disability day in November 2016 to raise awareness and counter prejudice as part of the Disability Employment Week.

Policy against discrimination

The Company ensures that its hiring and management practices are non-discriminatory.

A code of recruitment best practices will be adopted by the Company by early 2018.

Promotion and enforcement of the provisions of the fundamental conventions of the International Labour Organization

Respect for freedom of association and the right to collective bargaining

The Company declares that it strictly upholds the freedom of association of employees. The right to collective bargaining is exercised in its institutions within the framework defined by the Labor Code.

Elimination of discrimination in respect of employment and occupation

See above, Non-discrimination.

Elimination of forced or compulsory labor

The Company has no operations in countries where such practices occur.

Effective abolition of child labor

The Company has no operations in countries where such practices occur.

3.3 ENVIRONMENTAL INFORMATION

3.3.1 Environment

The products designed and developed by the Company result from biological sciences (specifically, molecular and cellular biology) and use biotechnology processes (cell culture, purification processes, etc.) to enable a transition from laboratory work to the production of quantities of products controlled and approved for human clinical trials.

The processes to realize these products are extremely complex and require materials that present potential risks to individuals and the environment in the case of accidental exposure. These processes occur within several levels of containment.

Thus, for example, the research laboratories are designed and equipped both to protect the product during its development from any outside contamination and to protect the employees as they do their work from accidental exposure to potentially hazardous products.

3.3.2 Environmental responsibility

3.3.2.1 General policy in environmental matters

Organization of the Company to take into account environmental issues and, where appropriate, approaches to environmental evaluation and certification

The Company believes that its research has very little impact on the environment, since operations relating to this activity take place in a confined environment.

At this stage, the Company has not taken any steps to obtain environmental certification.

The impact of this activity on the environment is controlled in two ways:

- by strictly applying pharmaceutical quality standards that permit monitoring and tracking at all stages of the activity (air testing and treatment, quality of materials used, controlled flow of materials and personnel, etc.); and
- by observing the environmental regulations in force with respect to aspects not directly imposed by those standards (classification of research in terms of the regulations on genetically modified organisms, confinement of operations, effluent and waste handling and treatment, etc.).

Training and information for employees regarding environmental protection

The Company has not taken special measures to train and inform employees concerning environmental protection.

Resources devoted to the prevention of environmental risks and pollution

The Company has a Health, Safety and Environmental Officer. In addition, research takes place in a confined environment and related resources and equipment (air treatment filters, microbiological safety cabinets, autoclaves, etc.) help prevent environmental risks.

Provisions and guarantees for environmental risks

The Company has made no provisions or guarantees of this kind.

3.3.2.2 Pollution and waste management

Prevention, reduction and repair measures for air, water and soil discharges that seriously affect the environment

The Company's research and development activity is conducted in a confined environment. This confinement is obtained through several levels of air treatment and controls including microbiological safety cabinets, air depressurization to prevent its exit, absolute filters on ventilation ducts, etc. Effluents from some areas are collected and subjected to heat treatment for decontamination before release into the sewage system.

Prevention, recycling and waste disposal measures

The Company's activity generates various types of waste that require sorting for special treatment. The Company has entered into agreements with qualified service providers for removal and treatment in accordance with the standards and rules that govern these various categories.

In addition, the Company conducts separate sorting and removal of non-hazardous waste and special waste requiring special precautions.

Consideration of noise and other forms of pollution specific to an activity

Neither the activity nor the facilities of the Company generate noise pollution.

3.3.2.3 Sustainable use of resources

Water use and water supply according to local restrictions

The Company's activities involve the use of water. This use is directly related to changes in R&D projects and does not trigger relevant indicators. The water used comes from the urban network; there are no specific supply constraints in the Grand Est region.

WATER *(M^3)*

Year	Volume	Change
2014	6,249	-
2015	5,502	-12%
2016	3,104	-44%

Consumption of raw materials and measures to improve efficiency of their use

The Company does not directly consume raw materials.

Energy consumption, measures to improve energy efficiency and use of renewable energy

The equipment in the research laboratories and the facilities for producing clinical batches run exclusively on electricity. There is a very strict equipment maintenance plan to ensure optimal energy consumption.

The laboratory and office building use heat pumps for heating and cooling and electricity for steam production.

ELECTRICITY *(KWH)*

Year	Total	Change
2014*	5,493,263	-
2015*	5,545,160	+0.09%
2016	3,902,541	-30%

** The reported data covers the TUR building and the former TUP building sold in February 2016, as the buildings were still connected to the same electric meter at the time of the sale.*

Land use

Not applicable to the Company's business.

Climate change

Greenhouse gas emissions

Conversion of the above energy consumption figures into CO_2 emission equivalents by applying the International Energy Agency's conversion factors, gives:

- 234 metric tons of CO_2 equivalent (IEA factors of 0.06 as of December 31, 2015) for electricity consumption.

Greenhouse gas emissions in the value chain

The Company estimates that the direct or indirect generation of greenhouse gases from its activity is limited. Emissions mainly come from: business travel, commuting to and from work, sending our research or clinical samples, and delivery of research materials and consumables.

Adaptation to the impacts of climate change

The Company has no activity requiring special measures to adapt to climate change impacts.

3.3.2.4 Protection of biodiversity

Measures to preserve or enhance biodiversity

Neither the activities nor the facilities of the Company have an impact on biodiversity.

3.4 SOCIETAL INFORMATION: SOCIETAL COMMITMENTS TO PROMOTE SUSTAINABLE DEVELOPMENT

3.4.1 Local, economic and social impact of the Company

In employment and regional development

Since its inception in 1979, the Company has located most of its activities in Strasbourg and in the suburbs of that city. As the first genetic engineering company founded in France, it had a strong local attraction, with professional opportunities for scientists, researchers and technicians in the life sciences. In 2015, the Company had to impose a redundancy plan (*plan de sauvegarde de l'emploi*), laying off half of its employees in France, primarily in the facility in Illkirch-Graffenstaden. Some employees are still on reclassification leave and receive assistance provided under the plan, whether they are looking for work, waiting to take their retirement or taking training to set up their own business project. ABL Europe, which bought the building and production unit equipment from the Company, hired 29 employees working at this site.

Local or neighboring populations

The principal office of the Company is located in an area dedicated to scientific and technical activities, the *Parc d'Innovation* in Illkirch-Graffenstaden. There are therefore no immediate neighboring populations that its business could impact.

3.4.2 Relationships with persons or organizations who have an interest in the Company's activities

Conditions for dialogue with such persons or organizations

The Company is active locally, albeit on an informal basis and through some of its employees, with various associations such as Alsace Biovalley, an association for the development of activities related to life sciences in the Alsace Region, *Strasbourg Sud Développement*, which conducts actions to promote employment in this sector, or the *Pôle Solidaire*, which collects funds for children in the *Parc d'Innovation*.

Partnerships or sponsorships

There are no formal partnerships or sponsorships.

3.4.3 Subcontractors and suppliers

Consideration of social and environmental issues in the procurement policy

The Company has not established specific procedures for consideration of these issues in its procurement policy.

Importance of subcontracting and consideration in relations with suppliers and subcontractors of their social and environmental responsibility

The Company makes significant use of the services of companies specializing in the conduct of clinical trials and related services, known as CROs (Contract Research Organizations) for most of its clinical trials. The Department of Medical and Regulatory Affairs oversees that these subcontractors perform the services properly. Control management ensures that subcontractors are within budget and the Quality Assurance Department checks for quality.

These providers operate within a strictly regulated framework that aims to ensure the quality of the clinical trials conducted and are audited by the Company's Quality Assurance group.

On February 1, 2016, the Company began subcontracting out the manufacturing of its clinical batches for clinical studies. ABL Europe, the subcontractor, belongs to the Institut Mérieux, as does the Company. It operates in the Company's old manufacturing premises and has hired former Transgene employees. The Responsible Pharmacist, who is the Director of Quality Assurance, closely oversees the services provided by this subcontractor.

Compliance of subcontractors working for and/or in the Company in relation to their social obligations to personnel involved in the Company is part of their specifications.

3.4.4 Fair commercial practices

Actions taken to prevent corruption

The Company has not initiated specific actions to prevent corruption. It considers the internal control procedures for expenditure commitments related to the protection of its cash, at this stage of its development, effective prevention measures.

Measures for consumer health and safety

The Company has no products on the market. Products in clinical development, or in research, are intended for the treatment of patients with cancer or chronic infectious diseases; they are the subject of clinical trials that fall within a strict regulatory framework whose purpose is to ensure the efficacy of therapeutic products. For the Company's products to be marketed, they must receive an authorization to market issued by the health authorities of the various countries in which they will be distributed.

Other actions undertaken in this part 3 to promote Human Rights

The clinical trials being conducted for the Company's products are conducted in strict compliance with the informed consent of the persons participating in biological research trials.

Commitments to promote the circular economy and the fight against food waste

Given the immaterial impact of its activities in this area, the Company does not have a specific commitment to promote the circular economy and the fight against food waste.

3.5 INDEPENDENT THIRD-PARTY REPORT

Report of independent third party on the consolidated social, environmental and societal information contained in the management report

Transgene

Fiscal year ended December 31, 2016

Dear Shareholders,

In our capacity as an independent third-party organization accredited by COFRAC [(1)] under number 3-1050 and member of the network of one of the Statutory Auditors of Transgene, we submit to you our report on the consolidated social, environmental and societal information pertaining to the fiscal year ended December 31, 2016 and presented in the management report (hereinafter the "CSR information") pursuant to Article L. 225-102-1 of the French Commercial Code.

Company responsibility

The Board of Directors is responsible for preparing a management report including CSR information in accordance with Article R. 225-105-1 of the French Commercial Code and the guidelines used by the Company (hereinafter the "Guidelines") which are summarized in the management report.

Independence and quality control

Our independence is defined in the regulations, the code of ethics of the profession, as well as the provisions of Article L. 822-11 of the French Commercial Code. In addition, we have implemented a quality control system that includes documented policies and procedures to ensure compliance with ethical standards, professional standards and applicable legal and regulatory texts.

Responsibility of the independent third party

It is our responsibility, based on our work, to:

- certify that the CSR information required is present in the management report or, if omitted, that an explanation is provided pursuant to paragraph 3 of Article R. 225-105 of the French Commercial Code ("Attestation of the presence of the CSR information");
- express a conclusion of moderate assurance that the CSR information taken as a whole is presented honestly and fairly in all material respects in accordance with the Guidelines (Substantiated opinion the truthfulness of the CSR information).

Our work called on the expertise of four people and took place between February and March 2017 over a total assignment period of around two weeks.

We conducted the work described below in accordance with professional standards applicable in France and the decision of May 13, 2013 determining the conditions under which the independent third party is to conduct its review and, concerning the substantiated opinion on the truthfulness of the information, in accordance with international standard ISAE 3000 [(2)].

1. Attestation of the presence of the CSR information

Nature and scope of work

We reviewed, based on interviews with officials of the relevant departments, the presentation of guidelines for sustainable development based on the social and environmental consequences of the activities of the Company and its social commitments and, where appropriate, actions or programs arising therefrom.

We compared the CSR Information presented in the management report with the list described in Article R. 225-105-1 of the French Commercial Code.

(1) Scope of accreditation available at www.cofrac.fr

(2) ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information.

In the absence of some consolidated information, we verified that the explanations were provided in accordance with Article R. 225-105, paragraph 3 of the French Commercial Code.

We verified that the CSR information covered the scope of consolidation, *i.e.*, the parent company and its subsidiaries within the meaning of Article L. 233-1 of the French Commercial Code and the companies that it controls within the meaning of Article L. 233-3 of that Code, within the limitations stated in the note on methodology given in Chapter 3 of this management report.

Conclusion

Based on this work and given the above-mentioned limitations, we attest to the presence in the management report of the required CSR information.

2. Substantiated opinion on the truthfulness of the CSR information

Nature and scope of work

We conducted five interviews with the persons responsible for preparing the CSR information in the departments in charge of the process of gathering the information and, when necessary, those responsible for the internal control and risk management procedures, in order to:

- assess the appropriateness of the Guidelines in terms of their relevance, completeness, reliability, neutrality and understandability, taking into account, where appropriate, industry best practices;
- verify the implementation of a process of collecting, compiling, processing and control for the completeness and consistency of the CSR information and obtaining an understanding of internal control and risk management procedures relating to the development of the CSR information.

We determined the nature and extent of our tests and controls depending on the nature and importance of the CSR information, in relation to the characteristics of the Company, social and environmental challenges of its business, its guidelines on sustainable development and good industry practices.

For the CSR information we considered to be most important [(1)]:

- for the entity, we consulted documentary sources and conducted interviews to corroborate the qualitative information (as to organization, policies, actions, etc.), employed analytical procedures on the quantitative information, and checked, by sampling, the calculations and the consolidation of the data, checking them for consistency and agreement with the other information given in the management report.

For other consolidated CSR information, we assessed its consistency in relation to our knowledge of the Company.

Finally, we assessed the relevance of the explanations, if any, for the total or partial absence of certain information.

We believe that the methods of sampling and sample sizes we used by exercising our professional judgment allow us to make a conclusion of moderate assurance; a higher level of assurance would have required a more extensive audit. Because of the use of sampling techniques, as well as other limits inherent in the operation of any information and internal control system, the risk of not detecting a material misstatement in the CSR information cannot be completely removed.

Conclusion

Based on this work, we did not identify any material anomalies likely to call into question the fact that the CSR information, taken as a whole, is presented in an accurate way, in accordance with the Guidelines.

Paris-La Défense, March 24, 2017

The independent third party

ERNST & YOUNG et Associés

Eric Duvaud
Sustainable Development Partner

Bruno Perrin
Partner

(1) **Employee information:** *employment (total workforce and distribution, hires and dismissals, compensation and its change over time), work schedules, absenteeism, workplace health and safety conditions, workplace accidents (notably their frequency rate and severity rate), training policies, total number of training hours, diversity and equal opportunity and treatment (measures in respect of gender equality, the hiring and inclusion of disabled people, the fight against discrimination).*

Environmental and societal information: *general environmental policy, energy consumption, water consumption, climate change (significant sources of greenhouse gas emissions generated by the Company's operations); regional, economic and social impact (jobs, regional development, impact on neighboring or local populations), relationships with stakeholders (basis for dialog, partnership initiatives).*

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4.1 CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

4.1.1 Consolidated financial statements

Consolidated balance sheet, IFRS

ASSETS

(in € thousands)	Notes	12/31/2016	12/31/2015
CURRENT ASSETS			
Cash and cash equivalents	2	4,855	3,285
Other current financial assets	2	51,352	28,365
Cash, cash equivalents and other current financial assets	**2**	**56,207**	**31,650**
Trade receivables		2,385	1,784
Inventories		221	1,164
Other current assets	3	15,242	12,930
Assets available for sale	4	-	3,500
Total current assets		**74,055**	**51,028**
NON-CURRENT ASSETS			
Property, plant and equipment	5	14,580	16,559
Intangible assets	6	423	485
Non-current financial assets	7	5,023	4,050
Investments in associates	7	3,923	1,148
Other non-current assets	8	24,946	27,599
Total non-current assets		**48,895**	**49,841**
TOTAL ASSETS		**122,950**	**100,869**

LIABILITIES AND EQUITY

(in € thousands)	Note	12/31/2016	12/31/2015
CURRENT LIABILITIES			
Trade payables		4,504	6,521
Financial Liabilities	9	10,198	9,396
Provisions for risks	10	1,456	7,038
Other current liabilities	11	3,761	3,770
Total current liabilities		**19,919**	**26,725**
NON-CURRENT LIABILITIES			
Financial Liabilities	9	52,803	44,401
Employee benefits	12	3,725	3,196
Other non-current liabilities		-	-
Total non-current liabilities		**56,528**	**47,597**
Total liabilities		**76,447**	**74,322**
EQUITY			
Share Capital	13	56,432	88,196
Share premiums et reserves		504,248	476,788
Retained earnings		(487,987)	(491,263)
Profit/(loss) for the period		(25,207)	(46,374)
Other comprehensive income/(loss)		(983)	(800)
Total equity attributable to Company shareholders		**46,503**	**26,547**
TOTAL EQUITY AND LIABILITIES		**122,950**	**100,869**

CONSOLIDATED INCOME STATEMENT, IFRS

(in € thousands, except for per-share data)	Notes	12/31/2016	12/31/2015
Revenue from collaborative and licensing agreements	14	2,346	1,465
Government financing for research expenditure	14	6,382	8,100
Other income	15	1,583	384
Operating income		**10,311**	**9,949**
Research and development expenses	1.4.1	(26,419)	(32,138)
General and administrative expenses	1.4.2	(6,236)	(5,798)
Other expenses	15	(320)	(7,819)
Operating expenses		**(32,975)**	**(45,755)**
Operating expenses from continuing operations		**(22,664)**	**(35,807)**
Interest income/(loss), net	16	(602)	(930)
Share of profit/(loss) of associates	7	(917)	(1,172)
Income/(loss) before tax		**(24,183)**	**(37,909)**
Income tax expense	17	-	-
Net income/(loss) from continuing operations		**(24,183)**	**(37,909)**
Net income/(loss) from discontinued operations	**4**	**(1,024)**	**(8,465)**
NET INCOME/(LOSS)		**(25,207)**	**(46,374)**
Basic earnings per share (€)	13	(0.45)	(1.20)
Diluted earnings per share (€)	13	(0.45)	(1.20)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, IFRS

(in € thousands)	12/31/2016	12/31/2015
Net income/(loss)	**(25,207)**	**(46,374)**
Foreign exchange gains/(losses)	-	28
Revaluation of hedging instruments	68	115
Other elements of comprehensive income/(loss) subsequently restated as income	**68**	**143**
Actuarial gains and losses on pension	(251)	366
Other elements of comprehensive income/(loss) subsequently non-recyclable as income, net of deferred taxes	**(251)**	**366**
Other comprehensive income/(loss)	**(183)**	**509**
NET COMPREHENSIVE INCOME/(LOSS)	**(25,390)**	**(45,865)**
Of which, attributable to parent company	*(25,390)*	*(45,865)*
Of which, non-controlling interests	-	-

CASH FLOW STATEMENT, IFRS

(in € thousands)	Notes	12/31/2016	12/31/2015
CASH FLOW FROM OPERATING ACTIVITIES			
Net income/(loss) from continuing operations		(24,183)	(37,909)
Net income/(loss) from discontinued operations		(1,024)	(8,465)
Cancellation of financial income		602	930
Elimination of non-cash items			
Income of associates		917	1,172
Provisions		(8,247)	8,697
Depreciation	5,6,7	2,267	2,636
Share-based payments	17.2	266	462
Other	14	5,038	11
Net cash generated from/(used in) operating activities before change in working capital and other operating cash flow		**(24,364)**	**(32,466)**
CHANGE IN OPERATING WORKING CAPITAL REQUIREMENTS			
Current receivables and prepaid expenses	21	(3,182)	73
Inventories and work in progress		942	(14)
Research tax credit (CIR)	13.2	(6,425)	(8,532)
Disposal of available-for-sale assets	4	2,000	-
Other current assets	3	(524)	(2,150)
Trade payables	21	(2,022)	(1,685)
Prepaid income/(loss)	10	(479)	461
Employee benefits	11	526	(841)
Other current liabilities	9	(57)	2
Net cash used in operating activities		**(33,585)**	**(45,152)**
CASH FLOWS FROM INVESTING ACTIVITIES			
(Acquisitions)/disposals of property, plant and equipment	5	(27)	(1,527)
(Acquisitions)/disposals of intangible assets	6	(20)	-
Other (acquisitions)/disposals	7	(2,020)	3,843
Net cash used in investing activities		**(2,067)**	**2,316**
CASH FLOWS FROM FINANCING ACTIVITIES			
Net financial income/(loss) proceeds	15	(283)	(165)
Gross proceeds from the issuance of shares	12	46,300	477
Share issue costs		(1,220)	-
Conditional subsidies	13.2	(180)	923
(Acquisitions)/disposal of other financial assets	2	(22,933)	34,176
Net amounts received for financing of tax credits	9	6,761	8,209
Bank borrowing	9	10,000	-
Financial leases	9	(1,223)	(1,040)
Net cash generated from/(used in) financing activities		**37,222**	**42,580**
Exchange rate differences on cash and cash equivalents		-	28
Net increase/(decrease) in cash and cash equivalents		**1,570**	**(228)**
Cash and cash equivalents at beginning of period		3,285	3,513
Cash and cash equivalents at end of period		**4,855**	**3,285**
Investments in other current financial assets		51,351	28,365
CASH, CASH EQUIVALENTS AND OTHER CURRENT FINANCIAL ASSETS		**56,206**	**31,650**

STATEMENT OF CHANGES IN EQUITY, IFRS

(in € thousands)	Common shares		Share premiums et reserves	Retained earnings	Other comprehensive income/(loss)	Profit/ (loss) for the period	Total attributable to shareholders' business activity
	Number of shares	Share Capital					
AS OF DECEMBER 31, 2014	**38,527,968**	**88,156**	**476,256**	**(442,707)**	**(1,309)**	**(48,556)**	**71,840**
Share-based payments	-	-	461	-	-	-	461
Increase of share capital	17,429	40	71	-	-	-	111
Allocation of net income/(loss) 2014	-	-	-	(48,556)	-	48,556	-
2015 net income/(loss)	-	-	-	-	-	(46,374)	(46,374)
Fair value gains on available-for-sale financial assets	-	-	-	-	28	-	28
Actuarial gains and losses on pension	-	-	-	-	366	-	366
Interest rate swap	-	-	-	-	115	-	115
Net comprehensive income/(loss)	-	-	-	-	509	(46,374)	(45,865)
As of December 31, 2015	**38,545,397**	**88,196**	**476,788**	**(491,263)**	**(800)**	**(46,374)**	**26,547**
Share-based payments	37,550	38	266	-	-	-	304
Capital reduction	-	(49,650)	-	49,650	-	-	0
Increase of share capital	17,849,044	17,849	27,301	-	-	-	45,150
Liquidity contract	-	-	(107)	-	-	-	(107)
Allocation of net income/(loss) 2015	-	-	-	(46,374)	-	46,374	-
2016 net income/(loss)	-	-	-	-	-	(25,207)	(25,207)
Fair value gains on available-for-sale financial assets	-	-	-	-	-	-	-
Actuarial gains and losses on pension	-	-	-	-	(251)	-	(251)
Interest rate swap	-	-	-	-	68	-	68
Net comprehensive income/(loss)	-	-	-	-	(183)	(25,207)	(25,390)
AS OF DECEMBER 31, 2016	**56,431,991**	**56,432**	**504,248**	**(487,987)**	**(983)**	**(50,414)**	**46,504**

4.1.2 Notes to the consolidated financial statements (in thousands of euros, unless otherwise indicated)

Foreword

The consolidated financial statements of Transgene (the "Company") at December 31, 2016 were prepared in accordance with the principles and methods defined by IFRS (International Financial Reporting Standards) as adopted by the European Union. They were approved by the Board of Directors on March 17, 2017.

The consolidated financial statements include:

- the balance sheet and statement of comprehensive income (including the income statement);
- the cash flow statement;
- the statement of changes in net position; and
- the notes.

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NOTE 1 ACCOUNTING PRINCIPLES

Accounting basis

The accounting principles used to prepare the consolidated financial statements comply with IFRS and interpretations as adopted by the European Union at December 31, 2016 and are available on the website:

http://ec.europa.eu/internal_market/accounting/ias_fr.htm#adopted-commission.

NEW STANDARDS/AMENDMENTS APPLICABLE FOR FISCAL YEARS STARTING ON OR AFTER JANUARY 1, 2016 IN EUROPE

Standard/Interpretation	Date of application per IASB (periods beginning on or after)	Application date in the European Union (fiscal years starting on or after)
Defined-benefit schemes: personnel contributions (IAS 19 amendments)	7/1/2014	2/1/2015
Annual improvements to IFRS (2010-2012)		2/1/2015
IFRS 2 – Definition of vesting conditions	Application to plans with a grant date as of 7/1/2014	2/1/2015
IFRS 3 – Recognition of a contingent consideration in a business combination and amendment to IAS 39/IFRS 9	Application to business combinations as of 7/1/2014	2/1/2015
IFRS 8 – Aggregation of operating segments	7/1/2014	2/1/2015
IFRS 8 – Reconciliation of the total of reported segment assets and the entity assets	7/1/2014	2/1/2015
IFRS 13 – Short-term receivables and payables	n/a	
IAS 16 – Revaluation method – proportionate restatement of accumulated depreciation	7/1/2014	2/1/2015
IAS 24 – Key management personnel	7/1/2014	2/1/2015
IAS 38 – Revaluation method – proportionate restatement of accumulated depreciation	7/1/2014	2/1/2015
Amendments to IFRS 11: Recognition of acquisitions of interests in joint ventures	1/1/2016	1/1/2016
Amendments to IAS 16 and IAS 38: Clarification of acceptable methods of depreciation and amortization	1/1/2016	1/1/2016
Amendments to IAS 16 and IAS 41 Agriculture: Bearer plants	1/1/2016	1/1/2016
Annual improvements to IFRS (2012-2014 cycle)		1/1/2016
IFRS 5 – Non-current assets held for sale and discontinued operations: changes in a plan to sell or a plan to distribute to owners	Changes occurring in fiscal years beginning after 1/1/2016	1/1/2016
IFRS 7 – Financial instruments: Disclosures – management contracts and applicability of the amendments to IFRS 7 to condensed interim financial statements	1/1/2016	1/1/2016
IAS 19 – Employee benefits: discount rate – problem of the regional market	1/1/2016	1/1/2016
IAS 34 – Interim financial information: disclosure of information 'elsewhere in the interim financial report'	1/1/2016	1/1/2016
Amendments to IAS 1: disclosure initiative	1/1/2016	1/1/2016

OTHER STANDARDS AND AMENDMENTS PUBLISHED AT DECEMBER 31, 2016

Standard/Interpretation	Date of application per IASB (periods beginning on or after)	Date of application in the European Union (fiscal years starting on or after)
IFRS 9 – Financial instruments	1/1/2018	1/1/2018
IFRS 15 – Revenue from contracts with customers & Amendment to IFRS 15 – effective date	1/1/2018	1/1/2018
Clarifications to IFRS 15	1/1/2018	Endorsement expected in Q2 2017
Amendments to IFRS 10 and IAS 28: Sale or contribution of Assets between an Investor and its Associate or Joint Venture Effective date of amendments to IFRS 10 and IAS 28	*Postponed indefinitely*	*Suspended*
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities – Applying the consolidation exception	1/1/2016	1/1/2016
IFRS 16 Leases	1/1/2019	Endorsement expected in H2 2017
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	1/1/2017	Endorsement expected in Q2 2017
Amendments to IAS 7: Disclosure Initiative	1/1/2017	Endorsement expected in Q2 2017
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	1/1/2018	Endorsement expected in H2 2017
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1/1/2018	Endorsement expected in 2017
Annual Improvements to IFRS (2014(2016) cycle)		Endorsement expected in H2 2017
Amendments to IFRS 12: clarification of the scope of the standard	1/1/2017	
Amendments to IAS 18: Exemption from applying the equity method – measuring an associate or JV at fair value	1/1/2018	
IFRIC 22 – Foreign Currency Transactions and Advance Consideration	1/1/2018	Endorsement expected in H2 2017
Amendments to IAS 40: Transfers of Investment Property	1/1/2018	Endorsement expected in H2 2017

The standards, interpretations, and amendments to standards applicable to fiscal years starting on or after January 1, 2017 have no material impact on the Company's financial statements. The Company is reviewing the potential impacts of IFRS 15 on revenue, applicable as of 2018.

Basis of preparation of financial statements

The consolidated financial statements were prepared in accordance with the general principles of the IFRS: fair presentation, going concern, accrual basis of accounting, consistency of presentation, materiality and business combinations. They are prepared according to the historic cost method, with the exception of available-for-sale financial assets, which are measured at fair value, and hedging derivatives (SWAP).

Transgene's management made estimates and assumptions in preparing the financial statements in accordance with IFRS, particularly with respect to provisional estimates and deferred tax assets, that may have an impact on the assets and liabilities, and the reported amounts of income and expenses for the financial period. Actual results may be significantly different from these estimates.

In view of the Group's business, management considers that the fixed assets form part of a single cash-generating unit. At each balance sheet date, the Company assesses whether there is any indication that an asset may be impaired. In the presence of such a presumption, or when annual impairment testing is required for an asset, the Company makes an estimate of the recoverable amount of the asset. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use. The recoverable amount is determined on an individual basis unless the asset generates cash inflows that are largely dependent on other assets or groups of assets. An impairment is recognized when the asset's carrying amount is higher than its recoverable amount. Its carrying amount is then written down to its recoverable amount. The value in use corresponds to the estimated future cash flows, discounted at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Basis of consolidation

The consolidated financial statements include the financial statements of Transgene SA, Transgene Inc., and Transgene BioPharmaceutical Technology (Shanghai) Co. Ltd. ("Transgene Shanghai"), wholly-owned subsidiaries whose headquarters are located respectively in Cambridge, Massachussetts (USA) and Shanghai (China). These companies are fully consolidated.

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

The following investee companies of Transgene SA are consolidated by the equity method:

Company	Percentage of ownership	Nature of control
Transgene Tasly BioPharmaceutical Co. Ltd.	50.00%	Joint control
ElsaLys Biotech SAS	14.41%	Significant influence

Transgene SA's significant influence over ElsaLys Biotech SAS as of December 31, 2016 was attributable to the continued role of Transgene as a member of said company's Board of Directors.

Presentation of the consolidated income statement

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

RESEARCH AND DEVELOPMENT EXPENSES

(in € millions)	12/31/2016	12/31/2015	Change
Payroll costs (1)	10.8	14.6	-26%
Share-based payments (2)	0.1	0.3	-67%
Expenses for intellectual property and licensing costs (3)	1.1	1.5	-27%
External expenses for clinical projects (4)	5	4.2	+19%
External expenses for other projects (5)	3.8	4.4	-14%
Operating expenses (6)	4.1	5.1	-20%
Depreciation, amortization and provisions (7)	1.5	2.0	-25%
RESEARCH AND DEVELOPMENT EXPENSES	**26.4**	**32.1**	**-18%**

(1) Represents salaries, wages and social security charges, retirement charges and other such costs.

(2) Represents expense for share-based payments offered to employees.

(3) Represents expenses for filing and maintaining patents as well as the costs of licenses acquired or granted.

(4) Represents expenses for services, subcontractors and consulting on clinical development projects.

(5) Represent expenses for services, subcontractors and consulting on other research or manufacturing projects.

(6) Represents operating expenses of research and production laboratories (energy, consumables and raw materials, maintenance, technical services, overheads, etc.).

(7) Represents the depreciation on the real estate and property allocated to R&D and to operating provisions.

GENERAL AND ADMINISTRATIVE EXPENSES

(in € millions)	12/31/2016	12/31/2015	Change
Payroll costs (1)	3.8	2.9	+31%
Share-based payments (2)	0.1	0.1	N/S
Professional and management fees (3)	1.5	1.7	-12%
Other general and administrative expenses (4)	0.7	1.0	-30%
Depreciation, amortization and provisions (5)	0.1	0.1	N/S
GENERAL AND ADMINISTRATIVE EXPENSES	**6.2**	**5.8**	**+7%**

(1) Represents salaries, wages and social security charges, retirement charges and other such costs.

(2) Represents expense for share-based payments offered to employees.

(3) Represents expenses for services, subcontracting and consulting for general and administrative departments.

(4) Represents operating expenses of general and administrative departments.

(5) Represents depreciation and operating provisions allocated to general and administrative activities.

Account conversions of foreign subsidiaries

The currency used by the Company for the preparation of the consolidated financial statements is the euro.

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

The financial statements of Transgene Shanghai are prepared in Yuan.

The balance sheets of Transgene, Inc. and Transgene Shanghai have been converted into euros using the exchange rate at the balance sheet date and in the income statement using the exchange rate of the month of accounting. Differences arising from conversion are recognized in equity.

Foreign currency transactions

Foreign currency transactions are converted into euros at the average exchange rate for the month preceding the transaction.

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

Transgene did not use any currency hedging instruments in 2016 and 2015.

Current assets

Cash and cash equivalents

Transgene's cash reserves are invested mainly in low volatility and highly liquid, highly rated mutual funds (net asset value known daily). They are classified in assets as cash equivalents and evaluated at fair value in the income statement if their sensitivity and volatility to changes in interest rates is less than 0.5 and 1.0 respectively. In all other cases, they are classified as available-for-sale financial assets and valued at their fair value under equity.

Receivables

Receivables are measured at nominal value. All receivables are exclusively short term.

Inventories

Inventories consisting mainly of laboratory products and supplies are measured at the lower of cost and net realizable value. Cost is determined by the weighted average cost method.

Other current financial assets

These are cash investments with the Institut Mérieux, the principal shareholder of Transgene, under a "Group" cash management agreement. Contractually, investments made by the Company as part of the centralized cash management are liquid within a maximum period of four business days and bear interest based on a rate equal to Euribor +0.15% when Institut Mérieux is in a net borrowing position at the Group level and to Euribor when Institut Mérieux is in a net surplus at the Group level.

Other current assets

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

Assets available for sale and discontinued operations

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* outlines how to account for non-current assets held for sale and the disclosures required for discontinued operations.

A non-current asset or group of assets and directly associated liabilities are considered to be held for sale when the carrying amount will largely be covered by a sale. In order for this to apply, the asset must be available for immediate sale and the sale must be highly probable. These available-for-sale assets or disposal groups are measured at the lower of their carrying amount and the estimated disposal price.

A discontinued operation represents a significant business line for the Group that either has been disposed of or is classified as held for sale. The income items related to these discontinued operations are presented on separate lines of the consolidated financial statements for all periods reported.

Non-current assets

Property, plant and equipment

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

Straight-line amortization is recognized based on the useful life of the asset by the Group, using the following periods:

Type of asset	Period of depreciation
Buildings	20-50 years
Fixtures and fittings	10-20 years
Machinery and equipment (machinery and laboratory equipment)	5-10 years
Office equipment and furniture	5-10 years
IT equipment	3-5 years

Fixed asset elements and their residual value are accounted for 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 held by finance leases are capitalized and amortized over the life of the asset. The corresponding amortization expense is recognized in the income statement under "Depreciation and amortization expenses".

Intangible assets

Straight-line amortization is recognized based on the useful life of the asset by the Group, using the following periods:

Type of intangible asset	Period of depreciation
Computer software and licenses	1-5 years
Patents acquired	5 years

Purchased intangible assets

Intangible assets consist of the acquisition costs of software and intellectual property licenses that are capitalized and amortized over their useful lives. The elements of intellectual property acquired are recognized as assets in accordance with IAS 38.

Internally developed intangible assets

Research expenses are expensed in the income statement in the period in which they are incurred.

Development costs incurred for the development of pharmaceutical products are capitalized when the requirements of IAS 38 are met. Given the nature of its products, the Company believes that the six criteria set out in IAS 38 *Intangible assets* are deemed to be met only at the time of the filing of an application for market authorization. The development expenses capitalized will be appropriately amortized over their useful life. No Company product received a market authorization in 2016.

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

Financial assets

Financial assets consist of deposits and guarantees concerning leased assets or debt from a financial institution, equity securities, and cash advances made to some non-consolidated equity investments. They are recorded at cost and depreciated, as needed, if their carrying value exceeds their recoverable amount as estimated by the Company.

The valuation of investments is based on an analysis using the fair value method. This valuation is periodically reviewed at each balance sheet date.

Investments in associates

Equity consolidated affiliates consist of the stakes held by Transgene SA in Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. and ElsaLys Biotech SAS (50% and 14.41%, respectively), which are accounted for using the equity method. These securities are recorded at cost less the share of losses attributable to Transgene SA.

Transgene Tasly BioPharmaceutical Co. Ltd.

The recoverable value of Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. is essentially related to its cash flow, as well as a project set to enter the clinical development stage. This value thus depends largely on the discounting assumptions adopted to value the products.

These estimates mainly concern the Probability of Technical and Regulatory Success ("PTRS") of the product and potential market. The market potential is regularly reviewed by the Company. The PTRS, which depends on the stage of development of the product, is calculated from reference publications in the field.

ElsaLys Biotech SAS

For the most part, the recoverable value of ElsaLys Biotech SAS is currently tied to the value of its programs, which are in pre-clinical stage, and the Company's market value. Therefore this value depends on the discounted cash flow assumptions used to value the products, or the value of the Company, based on recent capital transactions.

These assumptions mainly concern the probability of signing a license agreement for these products in the short or medium term, as well as agreement to the financial terms of such license agreements.

Deferred taxes

Transgene uses the balance sheet method for recognizing deferred taxes. Using this method, deferred taxes are calculated on the basis of the 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, on the basis of the tax provisions and tax rates applied when these differences invert.

Deferred tax assets are recognized for all deductible temporary differences, as well as for unused tax loss carry-forwards, carryback credits and other tax credits when it is probable that sufficient taxable profit shall be available against which the unused tax losses or unused tax credits can be used. Their posting is limited to the amount of deferred tax liabilities.

Deferred tax liabilities are recognized for all taxable temporary.

The carrying amount of deferred tax assets is reviewed at each period end and reduced to the extent that it is no longer probable that a taxable profit will be available to allow the deferred tax asset to be used. To assess the likelihood that taxable income will be available, consideration was given to the history of the results of previous years, forecasts of future results, non-recurring items not likely to recur in the future and the entity's fiscal policy. As a result, assessing the probability that unused tax losses or tax credits can be used involves a degree of judgment on the part of management. If the Group's future taxable results were considerably different from those anticipated, the Company would be obliged to revise the carrying value of deferred tax assets upward or downward, which could have a significant effect on the Group's balance sheet and results.

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

Current liabilities

Provisions for contingencies and charges

Provisions are made to cover liabilities and expenses related to the Group's operations.

Provision for restructuring

In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the criteria for recognition of provisions for restructuring are (i) the Company has an obligation to a third party on the balance sheet date, (ii) it is probable (more than probable) that a liability has been incurred, and that (iii) the liability can be reliably estimated.

To meet these criteria, the provision for restructuring is recognized when we estimate that the reorganization plan has been approved and announced to employees by senior management as of the balance sheet date, the measures to be implemented have been identified in detail (number of employees concerned, their job classification, position and location) and the financial compensation provided for. Moreover, the schedule for completion of the restructuring must be relatively short (under one year).

The provision for restructuring and the restructuring costs essentially comprise redundancy pay, the cost of failure to provide advance notice, training expenditure, and all other compensation related to support measures for the employees affected by the restructuring measures.

Non-current liabilities

Conditional advances

Conditional advances are only reimbursed if the research and development projects that they finance are successful, according to criteria set out in advance with the funding body. They are recognized under long-term financial debt in accordance with IAS 20.

Employee benefits

In accordance with the prevailing laws and practices in France, Transgene SA offers certain benefits to ensure eligible employees receive a lump sum payment at the time of retirement (severance 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 rights acquired by active staff are estimated using actuarial valuations based on the probability of death and continued employment by the Company, as well as expected future salaries. Commitments are valued using the projected credit unit method.

In 2014, the Company also introduced an incentive program linked to an increase in the Company's valuation. This program targets the Company's executive managers and foresees the payment of an additional bonus based on the five-year share price performance.

The obligations are estimated according to the actuarial valuations, which include among other factors the volatility of the stock price and the probability that the Company will stay in business.

Equity

Share issue costs

Capital increase expenses net of deferred tax where applicable are charged directly against the issue premium, once the increase is completed.

Liquidity contract

The Company set up a liquidity contract in 2016 with Kepler Cheuvreux, making €500 thousand available. On the balance sheet date, treasury shares are recorded as a deduction from equity. The result from the purchase and sale of treasury shares is recognized in equity, net of tax.

Operating income

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 for its services at a contractually defined price, which is generally based on time spent, and billings are recorded in operating income as and when the services are performed.

Revenue from these contracts is recognized when the services are performed. In these cases, the services are recorded in operating income in the income statement after satisfactory quality control and customer acceptance.

Cash receipts corresponding to income not yet recognized in income in accordance with the principles outlined above are recorded in *Deferred income* on the balance sheet liabilities, until they meet the criteria for recognition in operating income.

Income from patent licenses generally consists of fees for access to technology paid and non-refundable on the signing of the agreement, and financing by milestone payments and other payments such as royalties on sales.

Non-refundable fees for technology usage rights paid when the license is signed

In the event that Transgene is not committed to perform work for the development of technology after signature, these rights are recognized in operating income upon the fulfillment of the contractual obligations.

In the event that Transgene continues some technology development work after signature or Transgene has a higher obligation to deliver the product, these rights are recognized in operating income to be deferred over the period of development or delivery of the product.

Milestone payments

The Company may pay milestone payments under collaboration or scientific service contracts, or licensing agreements. These payments are recognized in income on the occurrence of the obligating event and when Transgene has no future performance obligations related to the payment. Operative events are usually the scientific or clinical results obtained by Transgene, the commencement of studies or external factors such as regulatory approvals.

Royalties on sales

Royalties on sales are based on sales by licensees of products or technologies. They are recognized on the basis of the license terms, when the sales can be reliably measured and recovery of the related receivables is reasonably assured.

Government financing for research expenditure

Research tax credit (CIR)

Certain research and development expenses in France are entitled to a research tax credit recognized at the end of the year in which the expense was recorded and the tax credit claimed. If it has not been used by allocation to a tax charge, the tax credit may be redeemed in accordance with the tax provisions.

Research tax credits are recognized in the income statement under *Government grants* in accordance with IAS 20.

Research and development grants

Transgene receives government subsidies from local, national or regional bodies that cover all or part of the research and development done on specific projects or topics. This assistance can take the form of subsidies or reimbursable advances.

In that case, the Company recognizes on the income statement at the line *Public financing of research expenses* the portion of subsidies due under the agreements based on the percentage of expenses incurred as of the reporting date.

Reimbursable advances (received or due) are not recognized on the income statement. They are recognized on the liabilities side of the balance sheet at the time they are received.

Research and development expenses

Research expenses are expensed in the income statement in the period in which they are incurred.

Development costs will be capitalized only when the requirements of IAS 38 are met.

Share-based payments

The Company has share-based compensation plans giving rise to equity instruments (stock options or bonus share grants). The fair value of services provided by directors and employees in exchange for the grant of these instruments is recognized in expenses with an offsetting entry in equity. The total recognized in expenses for the vesting period is determined relative to the fair value of the stock options or the bonus shares on the grant date. The amount of the expense is measured based on the estimated number of employees that will meet the vesting conditions under the terms of the plan.

Earnings per share

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

Contribution to Value Added Enterprises (CVAE)

The CVAE is recorded, if any, in operating expenses under *Overhead expenses*.

Tax credit for Competitiveness and Employment (CICE)

The CICE, if any, is recognized as a decrease under *Employee benefits expenses*.

NOTE 2 CASH, CASH EQUIVALENTS AND OTHER CURRENT FINANCIAL assets

(in € thousands)	12/31/2016	12/31/2015
Cash	3,841	747
Cash equivalents	1,014	2,538
Cash and cash equivalents	**4,855**	**3,285**
Other current financial assets	**51,352**	**28,365**
TOTAL	**56,207**	**31,650**
Impact of applying the fair value recognized in financial income to the income statement	-	-

Cash equivalents consist of a time deposit account.

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)	12/31/2016	12/31/2015
Research tax credit, current portion	9,061	8,288
State – recoverable VAT and tax receivables	496	386
Accrued credit notes	28	32
Employee benefits expense	28	33
Grant receivable	888	1,004
Prepaid expenses, current portion	1,887	513
Receivables from the sale of participating interests, current portion	2,043	2,674
Receivables from the sale of fixed assets, current portion	811	-
TOTAL	**15,242**	**12,930**

The current portion of research tax credits represents the amount receivable for 2013 that is expected to be paid by the State in the first half of 2017 (see Note 7). The receivable from the sale of equity interests is the current portion of the earn-out due on the sale of our interest in Jennerex Inc. (see Note 8). The receivable from the sale of fixed assets is the remainder due from ABL.

NOTE 4 ASSETS AVAILABLE FOR SALE AND DISCONTINUED OPERATIONS

As part of the Company's restructuring, which was presented to the Works Council in June 2015, Transgene decided to refocus on its core expertise and dispose of the production business line located at Illkirch-Graffenstaden. This production site was sold to ABL Europe on February 1, 2016, and will continue to produce clinical batches of products for Transgene's needs.

As of December 31, 2015, Assets held for sale are equated to the estimated market value of the Illkirch site property, plant and equipment and intangible assets in the amount of €3.5 million, in other words the sale price to ABL Europe. (see Notes 1.4, 5 and 6). The transaction generated an impairment of €2,943 thousand on the assets sold, which was recognized at December 31, 2015.

As of December 31, 2016, the share of income attributable to discontinued operations is as follows:

(in € thousands)	12/31/2016	12/31/2015	Change
Production revenue	**1,638**	**511**	**+221%**
Payroll costs	(49)	(2,740)	-98%
External costs on other projects	(1,547)	-	n.a.
Operating costs	(711)	(2,809)	-75%
Depreciation expense			
for property, plant and equipment	(406)	(451)	-10%
for intangible assets	(7)	(33)	-79%
Production expenses	**(2,721)**	**(6,033)**	**-55%**
Impairment of assets held for sale	-	(2,943)	n.a
Net income/(loss) on the disposal of assets	58	-	n.a
NET INCOME/(LOSS) FROM DISCONTINUED OPERATIONS	**(1,024)**	**(8,465)**	**-88%**

In 2016, income and expenditure comprised the expenses related to production until the date of sale of the assets on February 1, 2016. In addition, a production outsourcing contract between Transgene SA and SillaJen, Inc., concluded prior to the disposal of the assets, continued after the sale. Transgene outsourced the finalization of the production of clinical batches for this contract to ABL Europe, and the revenue from the production of these lots was received by Transgene, according to the terms of the contract with Sillajen, with no margin.

NOTE 5 PROPERTY, PLANT AND EQUIPMENT

(in € thousands)	12/31/2015	Increase	Decrease	12/31/2016
GROSS CARRYING VALUE				
Buildings under finance leases	19,653	-	(3,506)	16,147
Land, buildings and fixtures	871	543	-	1,414
Laboratory equipment	9,753	1,200	(1,030)	9,923
Vehicles, office and computer equipment	1,656	67	(76)	1,647
Assets in progress	965	116	(940)	141
Total	**32,898**	**1,926**	**(5,552)**	**29,272**
DEPRECIATION AND PROVISIONS				
Buildings under finance leases	(9,193)	(825)	3,244	(6,774)
Land, buildings and fixtures	(74)	(307)	-	(381)
Laboratory equipment	(5,848)	(957)	606	(6,199)
Vehicles, office and computer equipment	(1,224)	(181)	67	(1,338)
Total	**(16,339)**	**(2,270)**	**3,917**	**(14,692)**
NET BOOK VALUE	**16,559**	**(344)**	**(1,635)**	**14,580**

(in € thousands)	12/31/2014	Increase	Decrease	Reclassification	12/31/2015
GROSS CARRYING VALUE					
Buildings under finance leases	19,653	-	-	-	19,653
Land, buildings and fixtures	8,075	90	-	(7,294)	871
Laboratory equipment	17,605	999	(244)	(8,607)	9,753
Vehicles, office and computer equipment	2,244	23	(124)	(487)	1,656
Assets in progress	638	1,207	(880)	-	965
Total	**48,215**	**2,319**	**(1,248)**	**(16,388)**	**32,898**
DEPRECIATION AND PROVISIONS					
Buildings under finance leases	(8,739)	(915)	-	461	(9,193)
Land, buildings and fixtures	(3,196)	(180)	-	3,302	(74)
Laboratory equipment	(11,103)	(1,002)	235	6,022	(5,848)
Vehicles, office and computer equipment	(1,536)	(176)	120	368	(1,224)
Total	**(24,574)**	**(2,273)**	**355**	**10,153**	**(16,339)**
NET BOOK VALUE	**23,641**	**46**	**(893)**	**(6,235)**	**16,559**

Net property, plant and equipment reclassified to Assets held for sale amounted to €6,235 thousand at December 31, 2015 (see Note 4).

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

(in € thousands)	12/31/2016	12/31/2015
Research and development expenses	1,730	2,215
General and administrative expenses	75	58
TOTAL DEPRECIATION EXPENSES FOR PROPERTY, PLANT AND EQUIPMENT	**1,805**	**2,273**

Disbursements for acquisitions of property, plant and equipment totaled €32 thousand in 2016 (€1,437 thousand in 2015).

NOTE 6 INTANGIBLE ASSETS

(in € thousands)	12/31/2015	Increase	Decrease	12/31/2016
GROSS CARRYING VALUE				
Intangible assets	3,808	414	(7)	4,215
Intangible assets in progress	2	1	(3)	-
Total	**3,810**	**415**	**(10)**	**4,215**
DEPRECIATION AND PROVISIONS				
Intangible assets	(3,325)	(469)	2	(3,792)
Total	**(3,325)**	**(469)**	**2**	**(3,792)**
NET BOOK VALUE	**485**	**(54)**	**(8)**	**423**

(in € thousands)	12/31/2014	Increase	Decrease	Reclassification	12/31/2015
GROSS CARRYING VALUE					
Intangible assets	4,089	159	-	(440)	3,808
Intangible assets in progress	161	55	(214)	-	2
Total	**4,250**	**214**	**(214)**	**(440)**	**3,810**
DEPRECIATION AND PROVISIONS					
Intangible assets	(3,194)	(363)	-	232	(3,325)
Total	**(3,194)**	**(363)**	**-**	**232**	**(3,325)**
NET TOTAL	**1,056**	**(149)**	**(214)**	**(208)**	**485**

Net intangible assets reclassified to Assets held for sale amounted to €208 thousand at December 31, 2015 (see Note 4).

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

(in € thousands)	12/31/2016	12/31/2015
Research and development expenses	201	332
General and administrative expenses	31	31
TOTAL AMORTIZATION AND DEPRECIATION OF INTANGIBLE ASSETS	**232**	**363**

Disbursements for acquisitions of intangible assets totaled €20 thousand in 2016 (against zero in 2015).

NOTE 7 FINANCIAL ASSETS

FINANCIAL ASSETS

(in € thousands)	12/31/2015	Increase	Decrease	12/31/2016
GROSS CARRYING VALUE				
Financial assets	3,168	1,588	(926)	3,830
Equity interest receivables	1,177	216	-	1,393
Investments in non-consolidated companies	323	-	-	323
Total	**4,668**	**1,804**	**(926)**	**5,546**
Provisions for impairment	(618)	-	95	(523)
NET BOOK VALUE	**4,050**	**1,804**	**(831)**	**5,023**

(in € thousands)	12/31/2014	Increase	Decrease	12/31/2015
GROSS CARRYING VALUE				
Financial assets	3,029	934	(795)	3,168
Equity interest receivables	918	259	-	1,177
Investments in non-consolidated companies	29	294	-	323
Total	**3,976**	**1,487**	**(795)**	**4,668**
Provisions for impairment	(124)	(494)	-	(618)
NET BOOK VALUE	**3,852**	**993**	**(795)**	**4,050**

The €1,588 thousand increase in financial assets in 2016 relates mainly to:

- the holdback on the financing in the first half of 2016 of the 2015 research tax credit (CIR); and
- the setting-up of a liquidity contract in 2016, of which €389 thousand remained available at December 31, 2016.

Of the €926 thousand decrease in financial assets, €826 thousand relate to refunding, in 2016, the holdback in connection with the financing of the 2012 research tax credit.

The increase in equity interest receivables relates to a conversion of a receivable granted to ElsaLys Biotech SAS into a non-interest bearing current account, in the amount of €216 thousand.

INVESTMENTS IN ASSOCIATES

The table below shows the gross amounts (acquisition cost), provisions for impairment, and income for the above equity affiliates:

(in € thousands)	12/31/2015	Increase	Decrease	12/31/2016
GROSS CARRYING VALUE				
Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd.	3,976	3,692	-	7,668
ElsaLys Biotech SAS	501	-	-	501
Total	**4,477**	**3,692**	**-**	**8,169**
Share of profit/(loss) of Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd.	(2,828)	(917)	-	(3,745)
Share of profit/(loss) of ElsaLys Biotech SAS	(501)	-	-	(501)
Total share of profit/(loss) attributable to Transgene	**(3,329)**	**(917)**	**-**	**(4,246)**
Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd.	1,148	2,775	-	3,923
ElsaLys Biotech SAS	-	-	-	-
VALUE OF EQUITY INVESTMENTS IN AFFILIATES	**1,148**	**2,775**	**-**	**3,923**

(in € thousands)	12/31/2014	Increase	Decrease	12/31/2015
GROSS CARRYING VALUE				
Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd.	3,976	-	-	3,976
ElsaLys Biotech SAS	501	-	-	501
Total	**4,477**	**-**	**-**	**4,477**
Share of profit/(loss) of Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd.	(1,656)	(1,172)	-	(2,828)
Share of profit/(loss) of ElsaLys Biotech SAS	(501)	-	-	(501)
Total share of profit (loss) attributable to Transgene	**(2,451)**	**(1,172)**	**-**	**(3,329)**
Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd.	2,320	-	-	1,148
ElsaLys Biotech SAS	-	-	-	-
NET VALUE OF EQUITY INVESTMENTS IN AFFILIATES	**2,320**	**-**	**-**	**1,148**

In the second half of 2016, Transgene took part in a capital increase by Transgene Tasly (Tianjin) BioPharmaceuticals Co. Ltd. for €4.9 million. This operation was performed in cash (€2.46 million) and in kind (€2.46 million) with the transfer of exclusive rights to TG6002 in China to this joint venture.

Transgene Tasly (Tianjin) BioPharmaceutical Co Ltd.

At December 31, 2016, Transgene held 50% of Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. and the net valuation of its interest stood at €3,923 thousand.

This valuation was reviewed as of the December 31, 2016 balance sheet date. This review is based on an analysis using the Discounted Cash Flow (DCF) method described in Note 1.7.4.

The discounted cash flow of Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. is calculated from the weighted average cost of capital (WACC), which is in turn based on a so-called market-comparable approach. A 1 percentage point increase in the WACC would have a negative impact of about 15% on the valuation of Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd.

At December 31, 2016, the Company considered that the balance sheet value for its interest in Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. reflected its fair value and reasonably possible changes in key assumptions would not lead to a fair value lower than the balance sheet value.

ElsaLys Biotech SAS

At December 31, 2016, Transgene held 14.41% of ElsaLys Biotech SAS and the net valuation of its interest was zero. The Company also held a shareholder current account of €1,193 thousand and receivables of €71 thousand. These receivables are fully recoverable.

NOTE 8 OTHER NON-CURRENT ASSETS

(in € thousands)	12/31/2016	12/31/2015
Research tax credit, non-current portion	22,999	25,546
CICE, non-current portion	677	767
Prepaid expenses, non-current portion	181	26
Receivables from the sale of participating interests, non-current portion	1,089	1,260
OTHER NON-CURRENT ASSETS	**24,946**	**27,599**

Research tax credits and CICE

At December 31, 2016, the Company had a receivable of €31,942 thousand (the non-current portion of which was €23,090 thousand) for the research tax credits (RTC) from 2013 to 2016, and a receivable of €677 thousand on the competitiveness and employment tax credit (CICE) from 2014 to 2016. These receivables can be used to offset income tax payments. In the event of non-use, a refund in cash can be requested according to the following schedule, in accordance with the tax rules in force (in € thousands).

Reference year	Year of expected reimbursement	12/31/2016	12/31/2015
RTC – CURRENT PORTION			
2012	2016	-	8,289
2013	2017	8,852	-
Total current portion		**8,852**	**8,289**
RTC – NON-CURRENT PORTION			
2013	2017	-	8,852
2014	2018	8,943	8,943
2015	2019	7,758	7,751
2016	2020	6,298	-
Total non-current portion		**22,999**	**25,546**
TOTAL RTC		**31,851**	**33,835**
CICE – CURRENT PORTION			
2013	2017	210	-
Total current portion		**210**	**-**
CICE – NON-CURRENT PORTION			
2013	2017	-	210
2014	2018	275	275
2015	2019	282	282
2016	2020	120	-
Total non-current portion		**677**	**767**
TOTAL CICE		**887**	**767**

Receivables from the sale of participating interests

The receivable from the sale of participating interests of €3,132 thousand represents the estimated net present value of the balance of the price that Transgene expects to receive on the sale of its interest in Jennerex, Inc. the payment of which is spread over time and subject to certain conditions. This receivable is distributed between *other current assets* for the portion expected in under one year, *i.e.* €2,043 thousand (see Note 3), and *other non-current assets* for the portion due in over one year, or €1,089 thousand. This receivable was valued using the best possible estimate of the dates on which payment milestones would be achieved. Such dates could extend to 2020. These future cash flows have been discounted and their probability calculated. The discounted cash flow rate is calculated on the basis of the weighted average cost of capital (WACC), which is itself based on a so-called market-comparable approach. A 1 percentage point increase in the WACC would have a negative impact of about 1% 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 6% on the value of the receivable.

NOTE 9 FINANCIAL LIABILITIES

The following table breaks down financial liabilities by maturity:

(in € thousands)	12/31/2016	12/31/2015
Financial liabilities, current portion	10,198	9,396
Financial liabilities, non-current portion	52,803	44,401
FINANCIAL LIABILITIES	**63,001**	**53,797**

As of December 31, 2016, the main financial liabilities relate to the European Investment Bank (EIB) loan of €10 million, the financing of the research tax credits from 2013 to 2015 and the competitiveness and employment tax credit (CICE) from 2013 to 2016, the property leasing (headquarters and main research and development laboratories), and conditional Bpifrance advances under the ADNA subsidized program.

FINANCIAL LIABILITIES, CURRENT PORTION

(in € thousands)	12/31/2016	12/31/2015
Property leasing	1,019	979
Equipment leasing	117	174
Financing of the research tax credit and the competitiveness and employment tax credit	9,062	8,243
FINANCIAL LIABILITIES – CURRENT PORTION	**10,198**	**9,396**

FINANCIAL LIABILITIES, NON-CURRENT PORTION

(in € thousands)	12/31/2016	12/31/2015
Property leasing	7,261	8,280
Equipment leasing	30	216
Interest rate swaps – fair value (see Note 21)	475	544
Conditional advances	17,286	16,844
Financing of the research tax credit	16,619	17,712
Financing of the competitiveness and employment tax credit	736	805
Bank loan	10,396	-
FINANCIAL LIABILITIES – NON-CURRENT PORTION	**52,803**	**44,401**

European Investment Bank (EIB) loan

In early January 2016, the Company obtained a €20 million loan from the European Investment Bank (EIB) under the IDFF (Infectious Diseases Finance Facility). The first €10 million tranche was drawn down on June 20, 2016.

The loan is a bullet loan due at the end of a five-year term, *i.e.* on 6/20/2021. The interest due is not capitalized and its repayable as of June 2019, notably as regards the interest accumulated during the first three years. Interest due at December 31, 2016 is recognized in *Non-current financial liabilities* (€396 thousand).

The second €10 million tranche is available for drawdown by the Company until December 21, 2017.

No guarantee was provided by the Company for this loan.

Property leasing

In December 2008, Transgene invested in a new building housing labs and offices on the Illkirch site, in the suburbs of Strasbourg. Land and construction costs for the 6,900 sq.m. building totaled €15.6 million. This investment was financed by a 15-year finance lease, signed with a banking consortium in October 2007, with a residual value of €1.1 million. The first lease payment was made on January 1, 2009.

The balance of the principal amount at December 31, 2016 was €8,280 thousand, compared to €9,259 thousand at December 31, 2015. The following table shows the breakdown of this debt, based on the maturity, financial costs and present value of individual payments:

	12/31/2016		12/31/2015	
	Minimum payments	Present value of the payments	Minimum payments	Present value of the payments
Due within one year	1,114	1,098	1,085	1,065
Due in one to five years	4,468	4,248	4,646	4,349
More than five years	3,094	2,790	4,030	3,497
Total future minimum lease payments	**8,676**	**8,135**	**9,761**	**8,910**
Finance costs included in the total	396	379	502	471
Outstanding principal:	8,280	7,757	9,259	8,439
of which current	*1,019*	*1,004*	*979*	*961*
of which non-current	*7,261*	*6,753*	*8,280*	*7,478*

Equipment leasing

Transgene acquired equipment under a financial lease in 2013, in 2014 and in 2015.

Conditional advances

At December 31, 2016, conditional advances referred mainly to repayable advances received under the ADNA ("Advanced Diagnostics for New therapeutic Approaches") program, which receives public funding from Bpifrance, for €17,286 thousand. This amount represents the €13,531 thousand in advances received since the start of the program in 2007, plus €923 thousand in 2015, as well as the cumulative interest on this financing of €3,012 thousand. This program was completed on December 31, 2016. These advances are reimbursable provided our product TG4010 reaches a revenue threshold and in proportion to this revenue until a reimbursement ceiling is reached.

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 (RTC):

			ASSETS					LIABILITIES	
				Receivables Other assets	Security deposit	Prepaid Interest	TOTAL	Financing Financial Liabilities	
	Gross Amount	Bank Financing	Current Portion	Non-current Portion	Non-current financial assets	Current Portion	Assets	Current Portion	Non-current Portion
RTC 2013	8,852	Yes	8,852	-	885	-	9,737	8,852	-
RTC 2014	8,942	Yes	-	8,942	886	-	9,828	-	8,861
RTC 2015	7,758	Yes	-	7,758	1,164	-	8,922	-	7,758
RTC 2016	6,298	No	-	6,298	-	-	6,298	-	-
TOTAL RTC	**31,850**	**-**	**8,852**	**22,998**	**2,935**	**-**	**34,785**	**8,852**	**16,619**
CICE 2013	210	Yes	210	-	10	-	220	210	-
CICE 2014	275	Yes	-	275	48	-	323	-	320
CICE 2015	282	Yes	-	282	41	-	323	-	275
CICE 2016	120	Yes	-	120	21	-	141	-	141
TOTAL CICE	**887**	**-**	**210**	**677**	**120**	**-**	**1,007**	**210**	**736**

NOTE 10 PROVISIONS FOR RISKS

(in € thousands)	12/31/2015	Provisions	Retained earnings	Reversals unused	Use of the provision	12/31/2016
Risk of charge	7,038	1	-	(79)	(5,504)	1,456
TOTAL PROVISIONS FOR RISKS	**7,038**	**1**	**-**	**(79)**	**(5,504)**	**1,456**

The provision for risks relates primarily to the restructuring provision amounting to €1,452 thousand at December 31, 2016, compared with €6,910 thousand at December 31, 2015. The remaining provision should be entirely used during 2017.

NOTE 11 OTHER LIABILITIES

OTHER CURRENT LIABILITIES

(in € thousands)	12/31/2016	12/31/2015
Tax and social liabilities	3,636	3,110
Prepaid income	93	571
Of which:		
production revenue	*93*	*555*
subsidies	*-*	*16*
other	*-*	*-*
Other short-term payables	*32*	*89*
TOTAL	**3,761**	**3,770**

NOTE 12 EMPLOYEE BENEFITS

In accordance with French law, Transgene SA participates in the funding of pensions for employees in France through the payment of contributions calculated on the basis of wages to bodies that manage retirement programs. 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.

Provisions for retirement benefit obligations

Transgene is also liable for statutory length-of-service awards payable to employees in France upon retirement. The compensation benefits are due only to employees on the Company's payroll at the time of retirement. The assumptions used to calculate these provisions for retirement are as follows:

	12/31/2016	12/31/2015
Discount rate	1.70%	2.35%
Expected long-term inflation rate	1.75%	1.75%
Rate of future salary increases	1.50%	1.50%
Retirement age:		
• managers	age 65	age 65
• non-managers	age 63	age 63

The following table summarizes the conditions and amounts of actuarial pension obligations at December 31, 2016 and 2015 according to IAS 19 revised:

(in € thousands)	12/31/2016	12/31/2015
CHANGE IN THE VALUE OF COMMITMENTS		
Projected benefit obligation at January 1	3,196	4,176
Cost of services rendered for the year	202	316
Cost of discounting	75	94
Change in assumptions	260	(308)
Reductions/terminations	-	(994)
Actuarial (gain)/loss	(9)	(57)
Benefits paid during the year	-	(31)
Projected benefit obligation for retirement	**3,724**	**3,196**
DEFINED BENEFIT COST FOR THE YEAR		
Cost of services rendered for the year	202	316
Cost of discounting	75	94
Reductions/terminations	-	(994)
Cost of services and discounting	**277**	**(584)**
REVALUATIONS OF NET LIABILITIES/(ASSETS)		
Actuarial losses (gains) related to changes in demographic assumptions	2	4
Actuarial losses (gains) related to changes in financial assumptions	258	(312)
Actuarial losses (gains) related to experience	(9)	(57)
Total	**251**	**(365)**
CHANGE IN NET LIABILITIES/(ASSETS)		
Liability/(asset) at beginning of year	3,196	4,175
Amount recognized in the income statement	277	(584)
Disbursements	-	(31)
Amount recognized in other comprehensive income/(loss)	251	(365)
Liability/(asset) at end of year	**3,724**	**3,195**
ACCUMULATED AMOUNTS RECOGNIZED IN OTHER COMPREHENSIVE INCOME		
Accumulated amounts recognized at beginning of year	(172)	193
Revaluations of net liabilities/(assets) for the year	251	(365)
Accumulated amounts recognized at end of year	78	(173)
Deferred taxes	(27)	60
Net cumulative amounts recognized as income/(loss) at end of year	51	(113)

A sensitivity test of the discount rate quantified the impact on the value of the obligation and the cost of services:

- a discount rate of 1.45% would cause an increase in the obligation of 2.9% and in the cost of services of 3.2% for the year;
- a discount rate of 1.95% would cause a decrease in the obligation of 2.8% and in the cost of services of 3.1% for the year.

NOTE 13 EQUITY

Share capital

56,431,991 Transgene shares were in issue as of December 31, 2016, amounting to a share capital of €56,431,991.

Shareholders have preferential subscription rights during capital increases in proportion to their existing interests. This right may be waived in certain circumstances by a resolution voted in an Extraordinary General Meeting. Preferential subscription rights that have not been waived are negotiable during the subscription period.

In November 2016, the Company performed a capital increase with retention of preferential subscription rights for shareholders, through the issue of 17,849,044 new shares at €2.60 per share for a gross total amount of €46,407,514. The cost of the capital increase was €1,220,101.

Also in 2016, the final allocation of bonus shares resulted in issuing 37,550 new shares at a weighted average price of €1 per share.

Earnings per share

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

	12/31/2016	12/31/2015
BASIC EARNINGS PER SHARE		
Available net profit attributable to equity holders of the Group *(in € thousands)*	(25,207)	(46,374)
Average number of shares outstanding	56,431,991	38,545,397
Basic earnings per share *(in €)*	**(0.45)**	**(1.20)**
Diluted earnings per share *(in €)*	**(0.45)**	**(1.20)**

At December 31, 2016 and 2015, instruments granting rights to deferred capital (stock options and free shares) were considered anti-dilutive since they resulted in an increase in earnings per share from continuing operations. As a result, the diluted earnings per share in 2016 and 2015 were the same as basic earnings per share for the year concerned.

As of December 31, 2016, a total of 774,102 shares issued under stock option or bonus share plans theoretically remain to be exercised.

Stock option plans

As of the date of this Registration document, three stock option plans have been authorized by the General Shareholders' Meeting, in 2006, 2008, and 2010 respectively, and were implemented by the Board of Directors. No stock options have been awarded since 2012. The status of these plans at December 31, 2016 is summarized in the following table.

Grant date	Exercise start date	Expiration date	Exercise price	Number of options granted	Number of options exercised in 2016	Number of options remaining to be exercised at 12/31/2016*
10/4/2007	10/5/2012	10/5/2017	16,105	62,180	0	57,180
12/19/2007	12/20/2012	12/20/2017	15,021	6,760	0	6,760
12/16/2008	12/17/2014	12/17/2018	11,005	178,676	0	173,151
12/9/2009	12/10/2015	12/10/2019	17,122	76,907	0	74,397
12/7/2010	12/8/2015	12/8/2020	14,198	321,054	0	215,453
12/13/2012	12/14/2017	12/14/2022	7,859	92,578	0	41,328

* *This amounts includes adjustments, in terms of the number of options and the exercise price, in accordance with regulations, following the capital increases maintaining preferential subscription rights of shareholders conducted in March 2014 and November 2016.*

	Number of potential shares	Weighted average exercise price, per share
Outstanding options at January 1, 2015	**1,188,097**	**11.43**
Options granted in 2015	-	-
Options forfeited in 2015	169,842	6.80
Options exercised in 2015	17,429	6.38
Outstanding options at December 31, 2015	**1,000,826**	**12.30**
Options granted in 2016	-	-
Options forfeited in 2016	432,557	10.92
Options exercised in 2016	-	-
Outstanding options at December 31, 2016	**568,269**	**13.35**
Options exercisable at December 31, 2015	949,576	12.54
Options exercisable at December 31, 2016	526,941	13.78

Expenses calculated on stock option plans

The cost of services rendered is recognized as an expense over the vesting period. The expense amounted to €73 thousand in 2016, down from €392 thousand in 2015.

Free share plans

Three free share award plans were authorized as of the date of this Registration document by the General Shareholders' Meetings, in 2008, 2010 and 2016, and implemented by the Board of Directors.

No free shares were awarded in 2013, 2014 or 2015. In May 2016, the Board awarded 207,550 free shares to employees and executive corporate officers. The status of these plans at the end of 2016 is summarized in the following table:

	2016 plan
General Meeting date	5/24/2016
Total number of shares authorized by the Meeting	600,000
Of which allocations granted, during the year, by the issuer and by any company included in the scope of the allocation to corporate officers.	37,800
Of which, grants made during the year by the issuer and by any company in the scope of awards, to the ten non-corporate officer employees of the issuer and of any company within this scope, whose number of free shares awarded is greatest.	73,000
Board of Directors meeting date	5/24/2016
Total number of bonus shares allocated	207,550
Of which: number of shares allocated to corporate officers and members of the Executive Committee	92,800
Final grant date	5/24/2018
Expiration date of the lock-up period	5/24/2020
Share value on the date of allocation (opening price on the date of allocation)	€2.71

On December 13, 2016, 37,550 newly issued shares, free of any lock-up requirements, were awarded to the beneficiaries of Plan 2, approved by the Board of Directors on December 13, 2012.

As at the date of this report, the bonus shares awarded and not issued represent a potential dilution of 390,303 shares; the shares and options awarded and not exercised represent a potential dilution of 751,939 shares, giving a total of approximately 1% of the Company's share capital.

Expense calculated for share-based payments

The cost of services rendered is recognized as an expense over the vesting period. The expense amounted to €193 thousand in 2016 and €70 thousand in 2015.

NOTE 14 OPERATING INCOME

REVENUE FROM COLLABORATIVE AND LICENSING AGREEMENTS

(in € thousands)	12/31/2016	12/31/2015
Revenue from research and development collaboration	548	798
License fees and royalties	1,798	667
TOTAL	**2,346**	**1,465**

Revenue from research and development collaboration for third parties mainly concerned Emergent Biosolutions, Inc. for a candidate drug against tuberculosis.

Revenue from license fees comprises revenue from commercial use of technologies or products provided under license by Transgene SA, which amounted to €1,798 thousand in 2016 (€677 thousand in 2015), including €1,300 thousand from Sanofi Chimie under a 1991 collaboration agreement.

PUBLIC FUNDING FOR RESEARCH EXPENSES

(in € thousands)	12/31/2016	12/31/2015
Research and development grants	129	245
Research tax credit (RTC)	6,253	7,855
TOTAL	**6,382**	**8,100**

As of December 31, 2016, research and development subsidies came principally from the ADNA program ("Advanced Diagnostics for New Therapeutic Approaches") financed by Bpifrance.

NOTE 15 OTHER INCOME AND EXPENSES FROM OPERATIONS

(in € thousands)	12/31/2016	12/31/2015
Income from sale of fixed assets	76	-
Other income	1,507	384
Total income	**1,583**	**384**
Net carrying value of disposals of fixed assets	(171)	(11)
Restructuring costs	(148)	(7,536)
Other expenses	(1)	(272)
Total expenses	**(320)**	**(7,819)**
TOTAL	**1,263**	**(7,436)**

As of December 31, 2016, *Other operating income and expenses* mainly concerned €1,230 thousand in income from the contribution in kind to Transgene Tasly (Tianjin) BioPharmaceuticals Co. Ltd. comprising the exclusive rights to TG6002 in China.

As of December 31, 2015, *Other income and expenses from operations* related mainly to €7,536 thousand in restructuring costs.

NOTE 16 FINANCIAL INCOME/(LOSS)

(in € thousands)	12/31/2016	12/31/2015
Investment income	115	213
Debt servicing costs	(752)	(554)
Borrowing costs net of investments	**(637)**	**(341)**
Other financial income and expenses	73	(761)
Foreign exchange gains/(losses)	(38)	172
Total others	**35**	**(589)**
NET FINANCE COST	**(602)**	**(930)**

NOTE 17 INCOME TAX EXPENSE

Current taxes

Since the Company is in a tax loss position, its current tax charge is zero. The US and Chinese subsidiaries did not recognize any current tax income or expense in 2015 or 2016.

Deferred taxes

Net deferred tax assets were zero at December 31, 2016 due to non-recognition of deferred tax assets related to the uncertainty of taxable profits in the foreseeable future.

The difference between the standard corporate income tax rate in France and the Company's effective tax rate can be explained as follows:

	12/31/2016	12/31/2015
Standard income tax rate in France	34.43%	34.43%
Unrecognized deferred tax assets	-46.75%	-37.30%
Other	9.60%	3.60%
Effective tax rate	0%	0%
Income/(loss) before tax	(25,207)	(46,374)
Income tax expense	-	-

At December 31, 2016, Transgene SA had tax loss carry-forwards in France, which can be carried forward indefinitely, totaling €631,177 thousand. Transgene has no tax loss carryforwards from its US and Chinese subsidiaries.

Transgene's deferred tax assets broke down as follows:

	12/31/2016	12/31/2015
Tax loss carry-forwards	631,177	597,886
Capitalized licensing costs not yet deducted	(147)	17
Provision for restructuring	629	2,923
Provisions for pensions and other post-employment benefits	3,240	2,964
Provisions for contingencies and charges	194	194
Share of profit (loss) of associates	795	795
Transgene BioPharmaceutical Technology (Shanghai) Co. Ltd. and Platine	889	883
Contribution in kind to Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd.	2,465	1,234
Other	1	-
Total basis of deferred tax assets	**639,243**	**606,896**
Tax rate	34.43%	34.43%
Deferred tax assets	**220,091**	**208,954**
Unrecognized deferred tax assets	(219,704)	(208,608)
DEFERRED TAX ASSETS	**387**	**346**

Transgene's deferred tax liabilities broke down as follows:

	12/31/2016	12/31/2015
Finance leases	1,123	1,004
Other	-	-
Total tax base	**1,123**	**1,004**
Tax rate	34.43%	34.43%
DEFERRED TAX LIABILITIES	**387**	**346**

NOTE 18 PERSONNEL

Workforce

The Company's registered workforce totaled 176 employees at December 31, 2016, including one with Transgene Inc. The Company had 266 employees at December 31, 2015.

As of December 31, 2016	Men	Women	Total at 12/31/2016	Including reclassified personnel or internal transfers
Managers	41	76	117	7
Other grades	11	48	59	19
TOTAL	**52**	**124**	**176***	**26**

** Including 160 open-ended contracts at 12/31/2016*

The Company's workforce as of December 31, 2016 still included 26 employees in the process of reclassification or transfer within the Mérieux group, under the redundancy plan approved by DIRECCTTE in November 2015 (compared with 113 at December 31, 2015).

Payroll costs

Employee benefits expenses included in the Company's income statement (payroll taxes, pension costs, ancillary costs) were as follows:

(in € thousands)	12/31/2016	12/31/2015
Research and development expenses	10,807	17,252
General and administrative expenses	3,833	2,796
TOTAL EMPLOYEE BENEFITS EXPENSES	**14,640**	**20,048**

Expenses relating to share-based payments amounted to:

(in € thousands)	12/31/2016	12/31/2015
Research and development expenses	148	309
General and administrative expenses	107	152
TOTAL EMPLOYEE BENEFITS EXPENSES	**256**	**461**

NOTE 19 AFFILIATED COMPANIES

Transgene signed a cash pooling agreement with Institut Mérieux and the cash and cash equivalents placed in the Institut Mérieux cash pool amounted to a receivable of €51,351 thousand at December 31, 2016; the resulting interest income was €106 thousand at December 31, 2016.

The table below does not include these cash items.

		12/31/2016	
(in € thousands)	Type of related party	Receivables	Payables
ABL Europe SAS	Company in the Mérieux Group	1,708	133
Advance Bioscience Laboratories, Inc.	Company in the Mérieux Group	-	-
ABL Lyon	Company in the Mérieux Group	94	26
bioMérieux SA	Company in the Mérieux Group	6	-
bioMérieux Shanghai	Company in the Mérieux Group	-	-
bioMérieux, Inc.	Company in the Mérieux Group	-	103
ElsaLys Biotech SAS	Equity Method	1,270	-
Institut Mérieux	Company in the Mérieux Group	-	27
Mérieux Université	Company in the Mérieux Group	-	1
Thera Conseil	Company in the Mérieux Group	-	1
Transgene Tasly BioPharmaceutical Co. Ltd.	JV/Equity Method	35	-
TOTAL		**3,113**	**291**

		12/31/2016	
(in € thousands)	Type of related party	Revenue	Expenses
ABL Europe SAS (1)	Company in the Mérieux Group	4,829	4,278
Advance Bioscience Laboratories, Inc.	Company in the Mérieux Group	-	4
ABL Lyon (2)	Company in the Mérieux Group	-	308
bioMérieux SA	Company in the Mérieux Group	2	-
bioMérieux Shanghai (3)	Company in the Mérieux Group	-	119
bioMérieux, Inc. (4)	Company in the Mérieux Group	-	692
ElsaLys Biotech SAS (5)	Equity-Method	222	-
Institut Mérieux (6)	Company in the Mérieux Group	-	352
Mérieux Université	Company in the Mérieux Group	-	7
Thera Conseil	Company in the Mérieux Group	-	16
Transgene Tasly BioPharmaceutical Co. Ltd. (7)	JV/Equity-Method	188	-
TOTAL		**5,241**	**5,776**

(1) Revenue relates to the disposal of production assets on February 1, 2016, the sale of consumables and spare parts, and the rent reinvoicing contract for hosting the test labs. Expenses relate to the agreements for production services provided by ABL Europe to Transgene SA.

(2) Expenses relate to the agreement for services provided by ABL Lyon.

(3) Expenses relate to the agreement for re-invoicing of staff and rent between Transgene SA and bioMérieux Shanghai. These agreements expired in 2016.

(4) Costs correspond to the agreement for services, re-invoicing of staff and rent between Transgene, Inc. and bioMérieux, Inc.

(5) Revenue corresponds to the agreement for services provided by Transgene SA and the re-invoicing of rent, which expired in December 2016.

(6) Expenses relate to the agreement for services provided by Institut Mérieux.

(7) Revenue corresponds to the agreement for services and re-invoicing of staff concluded between Transgene SA and Transgene Tasly BioPharmaceutical Co. Ltd.

NOTE 20 OFF-BALANCE SHEET COMMITMENTS

On April 1, 2009, Transgene signed an occupancy agreement with Lyonbiopôle for its Lyon space. This agreement, which had an initial term of three years, was renewed in 2012. The annual rent was €332 thousand (including charges) in 2016 and the commitment up to the commitment date stood at approximately €670 thousand.

As part of the sale of the Company's production site to ABL Europe in February 2016, Transgene entered into an agreement with ABL Europe to secure supplies of clinical batches for three years. Under the agreement, Transgene undertakes to place an annual order worth €3 million for the next three years.

Transgene is also bound by contracts with subcontractors. That could have an impact over several accounting periods. At December 31, 2016, the Company considered its financial commitments under these contracts to be approximately €16 million in current value. These commitments equal in amount the cash still to be spent on contracts signed to date.

Under licensing or option agreements, third parties have promised to make milestone payments or pay royalties to the Company that are dependent upon future events whose probability remains uncertain as of the balance sheet date. The Company has promised, with respect to a number of third parties, to pay royalties or milestone payments under collaboration or licensing agreements that are dependent upon future events whose realization remains uncertain as of the balance sheet date.

In return for the financing of research tax credits for the period 2013 to 2015 and tax credits for competitiveness and employment for the period 2013 to 2016, the Company gave bank guarantees amounting to €3,055 thousand.

NOTE 21 SEGMENT INFORMATION

The Company conducts its business exclusively in the research and development of therapeutic vaccines and immunotherapeutic products, none of which is currently on the market. Its main partners, with whom it generates revenue, are SillaJen Inc. and Emergent, Inc. The majority of its operations are located in France. The Company therefore uses only one sector for the preparation and presentation of its financial statements.

NOTE 22 BREAKDOWN OF ASSETS AND LIABILITIES BY MATURITY

DECEMBER 31, 2016

Assets *(in € thousands)*	**Gross amount**	**One year or less**	**More than one year**
Financial fixed assets	3,830	1,418	2,412
Trade receivables	2,385	2,385	-
Research tax credits and CICE	32,738	9,062	23,676
Recoverable VAT and income tax receivables	496	496	-
Personnel and related accounts	28	28	-
Prepaid expenses	2,068	1,887	181
Grant receivable	887	887	-
Receivables from the sale of equity investment	3,943	2,854	1,089
Other receivables	28	28	-
TOTAL	**46,403**	**19,045**	**27,358**

Liabilities *(in € thousands)*	**Gross amount**	**One year or less**	**More than one year and less than or equal to five years**	**More than five years**
Trade payables	4,504	4,504	-	-
Property leasing	8,280	1,019	4,215	3,046
Equipment leasing	147	117	30	-
Conditional advances	17,286	-	-	17,286
Financing of research tax credit and CICE	26,417	9,062	17,355	-
Bank loan	10,397	-	10,397	-
Provisions for risks and liabilities	1,456	1,456	-	-
Provisions for retirement	3,725	129	756	2,840
Accrued employee benefits and tax expense	3,636	3,636	-	-
Deferred income	93	93	-	-
Other liabilities	507	32	-	475
TOTAL	**76,448**	**20,048**	**32,753**	**23,647**

NOTE 23 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Hedging operations

The Company is not engaged in any foreign exchange hedges.

In the first half of 2009, the Company partially hedged the interest rate risk related to the financial leasing of its administrative and research building in Illkirch (see Note 8), according to the following terms:

- nominal value: €5.9 million (depreciable);
- hedging instrument: interest rate swap contract;
- residual maturity: 7 years;
- underlying rate: 3-month Euribor;
- fixed rate: 3.46%.

As the hedge is perfect, the variations in market value for the instrument are recognized at net value. At December 31, 2016, the market value of this hedging instrument was €475 thousand. The market value is the amount that the Company would have had to pay if it decided to liquidate the hedge at December 31, 2016.

Exchange rate risk

The Company publishes its consolidated financial statements in euros. However, a portion of its revenue and expenses is recognized in US dollars. An increase or decrease in the euro exchange rate relative to the US dollar could impact operating results.

The Company has US dollar bank accounts. Net dollar disbursements totaled $2.2 million in 2016.

The following table shows the sensitivity of the Company's expenses at a 10% change in the US dollar rate during the years ended December 31, 2015 and 2016 (before tax and any hedging):

	12/31/2016	12/31/2015
Expenditures denominated in US dollars	2,230	3,431
Equivalent in euros on the basis of an exchange rate of €1 = $1.0541	2,116	3,154
Equivalent in euros in the event of an increase of 10% USD vs. EUR	2,351	3,505
Equivalent in euros in the event of a decrease of 10% USD vs. EUR	1,923	2,868

The Group's foreign exchange position as at December 31, 2016 is as follows:

(in thousands)	USD
Assets	3,631
Liabilities	781
Net position	2,850
Adjusted	2,850
Off-balance sheet position	-

Risks related to cash needs

The Group controls the risks related to cash management through centralized tracking and approval procedures. Cash assets are invested in highly rated marketable securities.

Cash invested at December 31, 2016 in mutual funds, directly or through the centralized management of the Institut Mérieux group, amounted to €51.3 million. The Company has and will have significant capital requirements to finance its research and development, particularly pre-clinical and clinical trials of its products under development.

Capital management

The Company has limited access to debt due to the Group's losses and the high-risk nature of the business sector (pharmaceutical research and development) under which it operates. The Company plans to finance operations mainly through equity until its profitability situation changes such that it has access to debt instruments.

Financial instruments

December 31, 2016 *(in € thousands)*	Financial assets at fair value through profit or loss	Receivables, payables, borrowings, at amortized cost	Derivative instruments	Carrying value	Fair value	Level
FINANCIAL ASSETS						
Cash and cash equivalents	4,855	-	-	4,855	4,855	1
Other current financial assets	51,352	-	-	51,352	51,352	2
Trade receivables	-	2,385	-	2,385	2,385	-
Financial assets	-	3,830	-	3,830	3,830	-
Receivable on non-current financial assets	-	1,193	-	1,193	1,193	2
Other non-current assets	3,943	-	-	3,943	3,943	3
TOTAL FINANCIAL ASSETS	**60,150**	**11,331**	**-**	**71,481**	**71,481**	
FINANCIAL LIABILITIES						
Borrowings from credit institutions, long-term portion	-	27,752	-	27,752	27,752	2
Lease commitment, long-term portion	-	7,290	-	7,290	7,290	2
Conditional advances	-	17,286	-	17,286	17,286	2
Other non-current financial liabilities	-	-	475	475	475	2
Non-current financial liabilities	-	*52,328*	*475*	*52,803*	*52,803*	
Borrowings from credit institutions, short-term portion	-	9,062	-	9,062	9,062	2
Finance leasing, short-term portion	-	1,136	-	1,136	1,136	2
Current financial liabilities	-	*10,198*	-	*10,198*	*10,198*	
Trade payables	-	4,504	-	4,504	4,504	-
TOTAL FINANCIAL LIABILITIES		**67,030**	**475**	**67,505**	**67,505**	

In accordance with IFRS 13, financial instruments are categorized in three levels according to a hierarchy of methods that determine 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 24 EVENTS AFTER THE REPORTING PERIOD

None

4.1.3 Date of latest financial information

December 31, 2015 and June 30, 2016.

4.2 STATUTORY AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2016

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31, 2016 on:

- the audit of the accompanying consolidated financial statements of Transgene S.A. ;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

I. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2016 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

I. Justification of our assessments

In accordance with the requirements of Article L. 823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

- Note 1 "Non-current assets - Intangible assets" in the notes to the consolidated financial statements describes the accounting rules and methods relating to intangible assets and, in particular, to research expenses. As part of our assessment of the accounting rules and principles applied by your group, we have verified the appropriateness of the accounting methods set out above and the information given in note 6 to the consolidated financial statements and have verified that they are properly applied.
- At each balance sheet date, your group performs some impairment testing on owned subsidiaries in accordance with the terms described in note 1 "Financial assets" and "Investments in associates" to the consolidated financial statements. We have examined the conditions of implementation of this impairment testing as well as the cash flow forecasts and the assumptions used and have verified that note 7 to the consolidated financial statements provides appropriate information.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III. Specific verification

As required by law we have also verified in accordance with professional standards applicable in France the information presented in the Group's management report.

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

Lyon, April 12, 2017

The Statutory Auditor

GRANT THORNTON French member firm of Grant Thornton International Françoise Méchin	**ERNST & YOUNG et Autres** Marc-André Audisio

4.3 COMPANY FINANCIAL STATEMENTS AND NOTES

4.3.1 Annual financial statements

BALANCE SHEET – ASSETS

(in € thousands)	Notes	12/31/2016	12/31/2015
Intangible assets, at cost		4,365	4,400
(accumulated depreciation and provisions)		(3,942)	(3,915)
Intangible assets – net	**11**	**423**	**485**
Property, plant and equipment:			
Land		584	1,234
Fixtures and fittings		829	7,192
Laboratory equipment		9,295	17,501
Vehicles, office and computer equipment		1,646	2,130
Assets in progress		141	965
Total property, plant and equipment, at cost		12,495	29,022
(accumulated depreciation and provisions)		(7,465)	(19,617)
Property, plant and equipment – net	**10**	**5,030**	**9,405**
Financial assets – net	**12**	**15,813**	**9,784**
Total fixed assets		**21,266**	**19,674**
Inventories	6	221	1,163
Trade receivables	7	2,385	1,763
Research tax credits and competitiveness and employment tax credits due	20	23,676	26,313
Recoverable VAT and income tax receivables and other tax receivables		9,558	8,674
Other receivables, including centralized treasury	8	53,108	29,453
Available cash, cash equivalents	5	4,807	3,226
Total current assets		**93,755**	**70,592**
Prepaid expenses	17	2,068	539
Currency translation difference		-	-
TOTAL ASSETS		**117,089**	**90,805**

BALANCE SHEET – LIABILITIES

(in € thousands)	Notes	12/31/2016	12/31/2015
Subscribed capital	13	56,432	88,196
Share premiums	26	499,760	472,564
Reserves	26	453	349
Retained Earnings		(485,400)	(490,044)
Profit (loss) for the period		(22,056)	(45,006)
Statutory provisions		-	-
Equity	**13**	**49,189**	**26,059**
Financial liabilities		36,814	26,761
Conditional advance		17,286	16,844
Other equity	**14**	**54,100**	**43,605**
Provisions for pensions		4,080	3,823
Other provisions for risks and charges		1,458	7,056
Provisions for risks and charges	**15**	**5,538**	**10,879**
Payables		4,504	6,499
Accrued employee benefits and tax expense		3,635	3,103
Other liabilities		30	89
Payables		**8,169**	**9,691**
Prepaid income	17	93	571
Currency translation difference		-	-
Liabilities		**67,900**	**64,746**
TOTAL LIABILITIES AND EQUITY		**117,089**	**90,805**

INCOME STATEMENT

(in € thousands)	Notes	12/31/2016	12/31/2015
OPERATING INCOME			
Revenue from collaborative and licensing agreements	2	3,984	1,975
Research and development grants	2	130	245
Other income	2	9,842	2,040
Total operating income		**13,956**	**4,260**
OPERATING EXPENSE			
Research and development expenses		(26,581)	(40,788)
General and administrative expenses		(6,143)	(5,680)
Other expenses		(9,873)	(9,571)
Total operating costs		**(42,597)**	**(56,039)**
Operating loss		**(28,641)**	**(51,778)**
Financial income	3	1,808	283
Financial expense	3	(1,396)	(1,660)
Exchange rate difference	3	(53)	199
Current income/(loss) before tax		**(28,282)**	**(52,956)**
Net extraordinary income/(loss)	4	(111)	7
Income tax expense	20	6,337	7,943
NET INCOME/(LOSS)		**(22,056)**	**(45,006)**

4.3.2 Notes to the annual financial statements

The notes and tables presented below are an integral part of the annual financial statements. The financial statements at December 31, 2016 show a balance sheet total of €117,089 thousand and a net loss of €22,056 thousand.

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NOTE 1 NATURE OF ACTIVITY AND SUMMARY OF ACCOUNTING PRINCIPLES

Nature of activity

Transgene ("the Company") is a French limited liability company (*société anonyme*) governed by the provisions of French law. It was created in 1979 to apply emerging techniques in genetic engineering in the context of contract research for industrial groups in the fields of molecular and cellular biology, virology, immunology and protein chemistry. The Company designs and develops immunotherapy products for treating cancer and infectious diseases.

Significant accounting policies and changes to methods

The financial statements are prepared according to generally accepted accounting principles in France, in compliance with ANC regulation No. 2014-03 relative to the national general chart of accounts (French GAAP).

The new regulations on assets (CRC 02-10) and 04-06) have been in application since January 1, 2005.

Recognition of revenue

Transgene's revenue is comprised of revenues from patent licenses and collaborations in research (including the reimbursement of costs incurred by Transgene), development and production.

Patent licenses

Revenue from patent licenses generally consists of rights to access technology, paid on signing of the agreement and which is not reimbursable, financing by milestone payments and other payments, such as royalties.

Non-refundable fees for technology usage rights paid when the license is signed

When Transgene is not committed to continuing to develop a technology after a license is signed, the fees are recognized as revenue when the Company's contractual obligations have been fulfilled.

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

Milestone payments

Milestone payments under collaborative agreements are recognized as revenue upon achievement of the incentive 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 external to Transgene, such as regulatory approvals, the commencement of clinical trials or selection of candidates for drug development.

Royalties

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

Service and manufacturing contracts

Transgene has entered into certain contracts for the provision of research or manufacturing services on a best-efforts basis.

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, and billings are recorded as revenue as and when the work is done.

Revenue from these contracts is recognized when the services are performed. Revenue from contracts for manufacturing services, where the Company has an obligation to achieve a specified result, is recognized as revenue on the income statement when a product has successfully undergone quality controls and has been accepted by the customer.

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

Research tax credits (CIR)

Research and development costs entitled the Company to a research tax credit, which is recognized at the end of the fiscal year in which the costs are recognized and the credit is claimed. Unused research tax credits are refundable from the fourth year. The 2013 to 2016 research tax credits will be reimbursed respectively from 2017 to 2020. Since 2011 (for the research tax credit in 2010), the Company has bank refinanced its research tax credit to optimize its cash management.

Research tax credits are recognized in the income statement under "Taxes".

Cash and cash equivalents

The Company considers as cash and cash equivalents its highly liquid investments, which can be bought or sold at any time based on prices that are determined on a daily basis, and which have no material interest or risk. They are in mutual funds mostly invested in underlying monetary assets, bonds and long-term government bonds. Marketable securities are valued at a cost, which is the lower of the first in/first out method or market value.

Inventories

Inventories consisting mainly of chemicals and laboratory supplies are measured at the lower of cost or market value. Cost is determined by the weighted average cost method. A provision for obsolescence or low rotation may be recognized.

Property, plant and equipment

Property, plant and equipment are measured at cost. Depreciation is recognized in the income statement according to the probable useful lives, as follows:

Type of asset	Depreciation Method	Period
Buildings	Straight-line	20-50 years
Fixtures and fittings	Straight-line	10-20 years
Machinery and equipment (machinery and laboratory equipment)	Straight-line	5-10 years
Office equipment and furniture	Straight-line	5-10 years
IT equipment	Straight-line	3-5 years

The application of the new regulations on assets (CRC 02-10) and 04-06) has had no impact on the financial statements. In fact, as with all of its fixed assets, their breakdown level has not resulted in changes in the values of the assets or amortization schedules.

Fixed asset components that have a useful life significantly different from the main asset, have their own depreciation schedule, provided the value of these components represents at least 15% of the value of the whole asset.

Share issue costs

Share issue costs are charged to share premiums.

Research and development costs

Expenses for applied research and development include the direct and indirect costs incurred on the projects, excluding any allocation of overhead. The direct and indirect costs refer primarily to the salaries of researchers and research technicians, the depreciation expense on assets used and on the cost of materials and other services used.

Research costs are recognized as an expense on the income statement for the period in which they are incurred. Development costs are capitalized when the required conditions are met.

The Company believes that the costs incurred in developing its pharmaceutical products are equivalent to research costs until a marketing authorization request is filed with regulatory authorities. After that, they are considered to be development costs. No Company product received a market authorization in 2016.

Other intangible assets

Intangible assets mainly comprise licenses, acquired patents and computer software.

Type of intangible asset	Depreciation method	Period of depreciation
Computer software and licenses	Straight-line	1-5 years
Patents acquired	Straight-line	5 years

Investments in non-consolidated companies

Investments in non-consolidated companies are recorded at cost and depreciated, as needed, if their carrying value exceeds their recoverable amount as estimated by the Company.

The valuation of equity investments is currently based on a discounted cash flow (DCF) analysis of future cash flows. This valuation is reviewed periodically.

For investments to develop immunotherapy products, the assumptions used for the DCF valuation mainly involve the Probability of Technical and Regulatory Success (PTRS) and the market potential of portfolio products. The market potential of the products is regularly reviewed by the Company. The PTRS, which depends on the stage of product development, is calculated from reference publications in the field.

The discounted cash flow rate of equity investments is calculated on the basis of the weighted average cost of capital (WACC), which is itself based on a so-called market-comparable approach.

Other financial assets

Other financial assets are comprised of deposits and guarantees regarding property rentals and the holdback related to the assignment of debt under the research tax credit and the competitiveness and job creation tax credit. Deposits and guarantees are measured at cost and depreciated as needed to reflect their net realizable value. The Company set up a liquidity contract in 2016 with Kepler Cheuvreux, making €500 thousand available. On the balance sheet date, treasury shares are restated as a deduction from equity. The profit/(loss) from the purchase and sale of treasury shares is transferred from income to equity, net of tax.

Prepaid expenses and other current assets

Prepaid expenses and the other current assets are measured at cost and may be impaired to reflect their net realizable value.

Provisions for contingencies and charges and provisions for pensions and other post-employment benefits

Provisions are recorded to cover contingencies and charges arising in the course of our business. With regard to provisions for pensions and other post-employment benefits, in particular, the rights acquired by serving employees are estimated according to actuarial evaluations, taking into account mortality rates, future salary levels and the probability of employees remaining with the Company until retirement.

The Company recognizes actuarial gains and losses using the corridor method. In line with first application of ANC recommendation No. 2003-02 as of December 31, 2014, actuarial gains or losses related to experience and changes in assumptions are amortized in future expenses over the remaining probable average active period for employees, after applying a corridor of 10% of the greater of the value of commitments and the value of the hedging asset.

Foreign exchange

Cash liquidity in foreign currencies is converted into euros at the exchange rate on the balance sheet date. The resulting conversion differences are recognized in the income statement.

Receivables and payables in foreign currencies are converted into euros at the exchange rate on the balance sheet date. The resulting conversion differences are recognized under “exchange rate gains/losses” on the balance sheet (under assets for unrealized losses, under liabilities for unrealized gains).

Unrealized losses are booked in a provision for risks under expenses for the year.

Income tax expense

Income tax expenses correspond to taxes due calculated at the standard rate in use at year end, taking into account the research tax credit.

The underlying tax position is calculated on the basis of the differences between the tax values and carrying amount of assets and liabilities presented in the balance sheet. These differences are determined according to the tax provisions and discounted tax rates when these differences are inverted.

Tax credit for Competitiveness and Employment (CICE)

The CICE, if any, is recognized as a decrease under Employee benefits expenses.

Since the tax situation of the Company does not make it possible to deduct the tax credit from any taxable profits for the period, this CICE receivable will not be paid by the State until the end of the following three fiscal years.

Transgene received bank pre-financing for this receivable, and the proceeds on this asset were used to extend the Company’s working capital.

NOTE 2 OPERATING INCOME

REVENUE FROM COLLABORATIVE AND LICENSING AGREEMENTS

(in € thousands)	12/31/2016	12/31/2015
Bioproduction and other collaborative projects	2,186	1,308
License fees and royalties	1,798	667
TOTAL	**3,984**	**1,975**

OTHER INCOME

(in € thousands)	12/31/2016	12/31/2015
Research and development grants	130	245
Other	9,842	2,040
TOTAL	**9,972**	**2,285**

NOTE 3 FINANCIAL INCOME/(LOSS)

(in € thousands)	12/31/2016	12/31/2015
REVENUE		
Revenues from marketable securities	6	17
Revenues from capitalized accounts receivable	7	7
Discounts received	-	-
Other interest income	1,795	259
Total financial interest income	**1,808**	**283**
EXPENSES		
Other financial expenses	(237)	(757)
Interest expense related to debt	(1,159)	(903)
Total financial expenses	**(1,396)**	**(1,660)**
EXCHANGE RATE DIFFERENCES		
Foreign exchange gains	5	185
Foreign exchange loss	(58)	14
Total foreign exchange differences	**(53)**	**199**
FINANCIAL INCOME/(LOSS)	**359**	**(1,178)**

NOTE 4 NON-RECURRING ITEMS

As of December 31, 2016, non-recurring items mainly comprised the sale of a production building to ABL Europe.

NOTE 5 CASH AND MARKETABLE SECURITIES

	12/31/2016	12/31/2015
Cash	3,793	688
Marketable securities	1,014	2,538
TOTAL	**4,807**	**3,226**
Unrecorded unrealized gains	-	-

In 2016, marketable securities were composed of short-term mutual fund units.

NOTE 6 STOCKS

	12/31/2016	12/31/2015
Raw materials	133	210
Laboratory supplies	88	953
Total cost	**221**	**1,163**
Provision for obsolescence	-	-
NET TOTAL	**221**	**1,163**

NOTE 7 TRADE RECEIVABLES

	12/31/2016	12/31/2015
Total gross	2,385	1,763
Provisions for impairment	-	-
NET TOTAL	**2,385**	**1,763**

NOTE 8 OTHER RECEIVABLES

	12/31/2016	12/31/2015
Institut Mérieux centralized cash (cash pool)	51,351	28,365
Accrued credit notes (trade credit)	28	32
Employee benefits expense	28	33
Grant receivable	887	1,004
Other receivables	814	18
TOTAL	**53,108**	**29,452**

Contractually, investments made by the Company as part of the centralized cash management at Institut Mérieux are liquid within a maximum period of four business days and bear interest based on a rate equal to Euribor +0.15% when Institut Mérieux is in a net borrowing position at the group level and to Euribor when Institut Mérieux is in a net surplus at the group level.

NOTE 9 ACCRUED INCOME

	12/31/2016	12/31/2015
Accrued income – customers	197	376
VAT credit	335	291
Trade receivables	25	29
VAT on accrued invoices	170	114
Social organizations – accrued revenue	3	-
TOTAL	**730**	**810**

NOTE 10 PROPERTY, PLANT AND EQUIPMENT

(in € thousands)	12/31/2015	Increase	Decrease	12/31/2016
ACQUISITION COSTS				
Land, buildings and fixtures	8,427	64	(7,077)	1,413
Laboratory equipment	17,501	995	(9,201)	9,295
Vehicles, office and computer equipment	2,130	27	(512)	1,646
Assets in progress	965	116	(940)	141
Total	**29,023**	**1,202**	**(17,730)**	**12,495**
DEPRECIATION AND PROVISIONS				
Land, buildings and fixtures	(4,859)	(98)	4,575	(382)
Laboratory equipment	(13,029)	(559)	7,842	(5,747)
Vehicles, office and computer equipment	(1,702)	(150)	514	(1,336)
Assets in progress	(29)	-	29	-
Total	**(19,618)**	**(807)**	**12,960**	**(7,465)**
NET TOTAL	**9,405**	**395**	**(4,770)**	**5,030**

NOTE 11 INTANGIBLE ASSETS

(in € thousands)	12/31/2015	Increase	Decrease	12/31/2016
ACQUISITION COSTS				
Licenses and acquired patents	1,788	-	-	1,788
Other intangible assets	2,609	23	(56)	2,577
Assets in progress	2	1	(3)	-
Total	**4,400**	**24**	**(59)**	**4,365**
DEPRECIATION AND PROVISIONS				
Licenses and acquired patents	(1,662)	(32)	2	(1,692)
Other intangible assets	(2,253)	(199)	202	(2,250)
Total	**(3,915)**	**(231)**	**204**	**(3,942)**
NET TOTAL	**485**	**(207)**	**145**	**423**

NOTE 12 FINANCIAL ASSETS

(in € thousands)	12/31/2015	Increase	Decrease	12/31/2016
Investments in non-consolidated companies				
• Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd.	5,211	4,922	-	10,133
• Platine Pharma Services SAS	294	-	-	294
• Transgene BioPharmaceutical Technology (Shanghai) Co. Ltd.	875	-	-	875
• ElsaLys Biotech SAS	501	-	-	501
• Transgene Inc.	23	-	-	23
• Access Investment, Inc.	29	-	-	29
Total	**6,933**	**4,922**	**-**	**11,855**
Guarantees and deposits	2,978	4,052	(3,162)	3,869
ABL Lyon current account and conditional loan	389	-	(94)	294
ElsaLys Biotech SAS current account	976	217	-	1,193
Depreciation	(1,492)	94		(1,398)
TOTAL (AT ACQUISITION COST)	**9,784**	**9,285**	**(3,256)**	**15,813**

ABL Lyon

As of December 31, 2016, Transgene held a 0.04% stake in the capital of ABL Lyon, formerly known as Platine Pharma Services SA.

Depreciation

As of December 31, 2016, the impairment booked was on stock in Access Investment, Inc. for €29 thousand, on stock in Transgene BioPharmaceutical Technology (Shanghai) Co. Ltd. for €875 thousand, on stock in ABL Lyon for €294 thousand, and on the Platine current account for €200 thousand.

During the 2016 fiscal year, impairment tests were carried out on our equity securities, and no further impairment was found.

NOTE 13 EQUITY

General

At December 31, 2016, the number of outstanding shares of Transgene was 56,431,991, representing share capital of €56,431,991.

Preferential subscription rights

Shareholders have preferential subscription rights during capital increases in proportion to their existing interests. This right may be waived in certain circumstances by a resolution voted in an Extraordinary General Meeting. Preferential subscription rights that have not been waived are negotiable during the subscription period.

Stock options

As of the date of this Registration document, three stock option plans have been authorized by the General Shareholders' Meeting, in 2006, 2008, and 2010 respectively, and were implemented by the Board of Directors. No stock options have been awarded since 2012. The status of these plans at December 31, 2016 is summarized in the following table.

Grant date	Exercise start date	Expiration date	Exercise price	Number of options granted	Number of options exercised in 2016	Number of options remaining to be exercised at 12/31/2016*
10/4/2007	10/5/2012	10/5/2017	16,105	62,180	0	57,180
12/19/2007	12/20/2012	12/20/2017	15,021	6,760	0	6,760
12/16/2008	12/17/2014	17/12/2018	11,005	178,676	0	173,151
09/12/2009	10/12/2015	10/12/2019	17,122	76,907	0	74,397
07/12/2010	08/12/2015	08/12/2020	14,198	321,054	0	215,453
12/13/2012	12/14/2017	12/14/2022	7,859	92,578	0	41,328

* *This amounts includes adjustments, in terms of the number of options and the exercise price, in accordance with regulations, following the capital increases maintaining preferential subscription rights of shareholders conducted in March 2017 and November 2016.*

Free share plans

Three free share award plans were authorized as of the date of this Registration document by the General Shareholders' Meetings, in 2008, 2010 and 2016, and implemented by the Board of Directors.

No free shares were awarded in 2013, 2014 or 2015. In May 2016, the Board of Directors awarded 207,550 free shares to employees and executive corporate officers. The status of these plans at the end of 2016 is summarized in the following table:

	2016 plan
Shareholders' Meeting date	5/24/2016
Total number of shares authorized by the meeting	600,000
Of which allocations granted, during the year, by the issuer and by any company included in the scope of the allocation to corporate officers.	37,800
Of which, grants made during the year by the issuer and by any company in the scope of awards, to the ten non-corporate officer employees of the issuer and of any company within this scope, whose number of free shares awarded is greatest.	73,000
Board of Directors meeting date	5/24/2016
Total number of bonus shares allocated	207,550
Of which: number of shares allocated to corporate officers and members of the Executive Committee	92,800
Final grant date	5/24/2018
Expiration date of the lock-up period	5/24/2020
Share value on the date of allocation (opening price on the date of allocation)	€2.71

On December 13, 2016, 37,550 newly issued shares, free of any lock-up requirements, were awarded to the beneficiaries of Plan 2, approved by the Board of Directors on December 13, 2012.

As at the date of this report, the bonus shares awarded and not issued represent a potential dilution of 390,303 shares; the shares and options awarded and not exercised represent a potential dilution of 751,939 shares, giving a total of approximately 1% of the Company's share capital.

Changes in equity

(in € thousands)	Share capital	Premiums and reserves	Retained earnings	Result	Statutory provisions	Equity
At 12/31/2015	**88,196**	**472,913**	**(490,044)**	**(45,006)**	**-**	**26,059**
Appropriation of loss						-
Net income/(loss) 2015			(45,006)	45,006		-
Pension obligations						-
Net income/(loss) 2016				(22,056)		(22,056)
Capital reduction	(49,650)		49,650			0
Increase in capital (exercise of stock options and final allocation of free shares)	17,886	27,300				45,186
At 12/31/2016	**56,432**	**500,213**	**(485,400)**	**(22,056)**	**-**	**49,189**

NOTE 14 OTHER EQUITY

Financial liabilities

Financial liabilities as of December 31, 2016 related to bank financing of the 2013 research tax credit (current liabilities), the 2014 and 2015 research tax credits (non-current liabilities), and the competitiveness and employment tax credit (CICE) for 2013 (current portion) and 2014 to 2016 (non-current portion). Transgene received the amount of the tax receivable, less a financing cost and a holdback of 10 to 15%.

Conditional advances

At December 31, 2016, conditional advances referred to repayable advances received under the ADNA ("Advanced Diagnostics for New therapeutic Approaches") program, which receives public funding from Bpifrance, for €17,286 thousand. This program was completed on December 31, 2016.

NOTE 15 PROVISIONS FOR RISKS AND CHARGES

(in € thousands)	12/31/2015	Provisions	Retained earnings	Reversals not applicable	Use of the provision	12/31/2016
Exchange rate differences	18	2	-	(18)	-	2
Risk of charge	7,038	1	-	(79)	(5,504)	1,456
Pension obligations	3,823	277	-	(20)	-	4,080
Total provisions for charges	**10,879**	**280**	**-**	**(117)**	**(5,504)**	**5,538**
Of which allocations and reversals:						
Operating	*6,289*	*278*	-	*(99)*	*(5,504)*	*964*
Financial	*143*	*2*	-	*(18)*	-	*127*
Extraordinary	-	-	-		-	-

The provision for expense risks relates primarily to the restructuring provision amounting to €1,452 thousand at December 31, 2016, compared with €6,910 thousand at December 31, 2015. The remaining provision should be used in its entirety during 2017.

The above provisions for pension obligations correspond to the estimated current value of the share capital equivalent to accrued future payments, depending on length of service and level of compensation when an employee retires, on the basis of the following actuarial calculation assumptions at December 31, 2016:

	12/31/2016	12/31/2015
Discount rate	1.70%	2.35%
Rate of future salary increases	1.50%	1.50%
Retirement age:		
• managers	age 65	age 65
• non-managers	age 63	age 63

The provision entered on the balance sheet concerns only retirement payments for serving employees.

The following table summarizes the conditions and amounts of actuarial pension obligations at December 31, 2016 and 2015:

	12/31/2016	12/31/2015
CHANGE IN THE VALUE OF COMMITMENTS		
Projected benefit obligation at January 1	3,196	4,176
Cost of services rendered for the year	202	316
Cost of discounting	75	94
Change in assumptions	260	(308)
Reductions/terminations	-	(994)
Actuarial (gain)/loss	(9)	(57)
Benefits paid during the year	-	(31)
Projected benefit obligation for retirement	**3,724**	**3,196**
Unrecognized actuarial losses	355	627
Unrecognized past service cost	-	-
Total unrecognized items	-	-
PROVISIONS FOR PENSIONS	**4,079**	**3,823**

Changes in actuarial commitments recognized on the liabilities side of the balance sheet for 2016 and 2015 break down as follows:

(in € thousands)	2016	2015
DEFINED BENEFIT COST FOR THE YEAR		
Cost of services rendered for the year	202	316
Cost of discounting	75	94
Net actuarial loss recognized in the year	(21)	(3)
Reductions/terminations	-	(1,189)
COST OF SERVICES AND DISCOUNTING	**256**	**(782)**

NOTE 16 EXPENSES PAYABLE

	12/31/2016	12/31/2015
Suppliers – accrued invoices	3,865	4,870
Accrued credit notes	-	-
Personnel and related accounts	900	1,343
Social organizations	1,056	1,103
VAT on accrued income	-	9
VAT on trade receivables	2	2
Other liabilities	41	105
TOTAL	**5,864**	**7,432**

NOTE 17 ACCRUED CHARGES AND DEFERRED INCOME

Deferred revenue and expenses relate exclusively to items recognized under operations.

NOTE 18 AFFILIATED COMPANIES

Transgene signed a cash pooling agreement with Institut Mérieux and the cash and cash equivalents placed in the Institut Mérieux cash pool amounted to a receivable of €51,351 thousand at December 31, 2016, and the resulting interest income was €106 thousand at December 31, 2016.

The table below does not include these cash items.

	2016	
(in € thousands)	Receivables	Payables
ABL Europe SAS	1,708	133
ABL Lyon	94	26
bioMérieux SA	6	-
bioMérieux Shanghai	-	-
ElsaLys Biotech SAS	1,270	-
Institut Mérieux	-	27
Mérieux Université	-	1
Thera Conseil	-	1
Transgene Inc.	-	103
Transgene Biomedical Technology (Shanghai) Co. Ltd	-	-
Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd.	35	-
TOTAL	**3,113**	**291**

	2016	
(in € thousands)	Revenue	Expenses
ABL Europe SAS (1)	4,829	4,278
ABL Lyon (2)	-	308
bioMérieux SA (1)	2	-
bioMérieux Shanghai (3)	-	119
ElsaLys Biotech SAS (5)	222	-
Institut Mérieux (6)	-	352
Mérieux Université	-	7
Thera Conseil	-	16
Transgene Inc. (4)	-	696
Transgene Biomedical Technology (Shanghai) Co. Ltd	-	147
Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. (7)	188	-
TOTAL	**5,241**	**5,923**

(1) Revenue relates to the disposal of production assets on February 1, 2016, the sale of consumables and spare parts, and the rent reinvoicing contract for hosting the test labs. Expenses relate to the agreements for production services provided by ABL Europe to Transgene SA.

(2) Expenses relate to the agreements for services provided by ABL Lyon.

(3) Expenses relate to the agreement for re-invoicing of staff and rent between Transgene SA and bioMérieux Shanghai. This agreement expired in 2016.

(4) Expenses relate to the re-invoicing of services, staff and rent of Transgene, Inc.

(5) Revenue corresponds to the agreements for services provided by Transgene SA and the re-invoicing of rent, which expired in December 2016.

(6) Expenses relate to the agreement for services provided by Institut Mérieux.

(7) Revenue corresponds to the agreement for services concluded between Transgene SA and Transgene Tasly BioPharmaceutical Co. Ltd.

NOTE 19 AGING OF RECEIVABLES AND PAYABLES

Receivables *(in € thousands)*	Gross amount	One year or less	More than one year
Other financial assets	3,869	1,418	2,451
Trade receivables	2,385	2,385	-
Research tax credit and tax credit for Competitiveness and Employment	32,738	9,062	23,676
Recoverable VAT and income tax receivables	496	496	-
Personnel and related accounts	28	28	-
Prepaid expenses	2,068	1,887	181
Research and development grants	887	887	-
Receivables from the sale of fixed assets	812	812	-
Other receivables	28	28	
TOTAL	**43,311**	**17,003**	**26,308**

Payables *(in € thousands)*	Gross amount	One year or less	More than one year and less than or equal to five years	More than five years
Conditional advances	17,286	-	-	17,286
Financing of tax credits	26,417	9,062	17,355	-
Bank loan	10,397	-	10,397	-
Trade payables	4,504	4,504	-	-
Pension obligations	4,080	4,080	-	-
Accrued employee benefits and tax expense	3,635	3,635	-	-
Prepaid income	93	93	-	-
Other liabilities	30	30	-	-
TOTAL	**66,442**	**21,404**	**27,752**	**17,286**

NOTE 20 INCOME TAX EXPENSE

Current taxes

The 2016 tax (€6,337 thousand) primarily comprises the research tax credit earned during the year (€6,298 thousand), a research tax credit refund (€8 thousand), and an apprenticeship and family tax credit (*crédit d'impôt apprentissage et famille*) (€32 thousand).

The Company had a credit with the French government of €32,738 thousand as of December 31, 2016 in respect of the research tax credit and the competitiveness and employment tax credit. This amount can be used to offset corporate income tax payments. The Company may be asked to repay it in cash, if it is not used, within four years of it being granted. The research tax credits can be reimbursed according to the schedule below:

	Competitiveness and employment tax credit, in € thousands		Research tax credit (CIR) in € thousands	
Year of expected reimbursement	2016	2015	2016	2015
2016	-	-	-	8,289
2017	210	210	8,852	8,852
2018	275	275	8,943	8,943
2019	282	282	7,758	7,751
2020	120	-	6,298	-
TOTAL	**887**	**767**	**31,851**	**33,835**

Deferred taxes

Deferred taxes indicate a potential reduction in future tax expenses of €219,052 thousand, which mainly represents tax loss carry-forwards.

Temporary differences between accounting and taxation:

	BASE			INCOME TAX		
(in € thousands)	At the beginning year	Net change in income for the year	At the end of the period	At January 1 – receivables (payables)	Net variations in income for the fiscal year – revenue (expense)	At December 31– receivables (payables)
Provision for exchange losses	18	(15)	3	6	(5)	1
Mutual aid social security contribution	-	-	-	-	-	-
Provisions for pensions and other post-employment benefits	2,915	256	3,171	1,004	88	1,092
Provision for restructuring	2,923	(2,294)	629	1,006	(789)	217
Cost of acquired patents not yet deducted	17	(164)	(147)	6	(57)	(51)
Allowance for impairment of intangible assets	162	-	162	56	(0)	56
Provision for impairment of equity security	1,198	-	1,198	412	0	412
Provisions for loss	3	-	3	1	0	1
Unrealized capital gains on marketable securities	-	-	-	-	-	-
Translation adjustment	(17)	15	(2)	(6)	5	(1)
Tax loss carryforwards	597,918	33,290	631,208	205,863	11,462	217,325
TOTAL	**605,137**	**31,088**	**636,225**	**208,348**	**10,704**	**219,052**

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NOTE 21 EXECUTIVE COMPENSATION AND OBLIGATIONS

Directors' fees paid to members of the administrative bodies amounted to €98.5 thousand.

Philippe Archinard, Chairman and Chief Executive Officer of Transgene, has been mainly employed by the Company since April 2015. As of December 31, 2016, he remained an employee of Institut Mérieux.

In 2016, the Company did not pay any compensation to TSGH and its permanent representative. In 2016, the Company paid its Chairman and Chief Executive Officer, Mr. Philippe Archinard, gross compensation of €764 thousand.

In 2015, Philippe Archinard received gross compensation of €269.2 thousand (including €130 thousand in variable compensation and €8 thousand in benefits in kind corresponding to the use of a Company car) from Institut Mérieux.

In 2016 the Company paid to the Responsible Pharmacist acting as Deputy Chief Executive Officer, Christophe Ancel, total compensation amounting to €128 thousand, including €22 thousand in variable compensation.

The Company paid a gross amount of €1,788 thousand in compensation to its Executive Committee in 2016.

No advances or credits were allocated to executives.

NOTE 22 OFF-BALANCE SHEET COMMITMENTS

In December 2008, Transgene invested in a new building housing labs and offices on the Illkirch site, in the suburbs of Strasbourg. Land and construction costs for the 6,900 sq.m. building totaled €15.6 million. This investment was financed by a 15-year finance lease, signed with a banking consortium in October 2007, with a residual value of €1.1 million. The first lease payment was made on January 1, 2009.

The table below summarizes the main residual obligations of the Company under this contract:

(in € thousands)	2016	2015
Property leasing:		
• outstanding charges	7,573	8,661
• residual purchase price	1,094	1,094

Under the terms of the real estate financing lease for the acquisition of its administrative and research building in Illkirch, Transgene has a pledge granted by Banque Populaire to Alsabail, one of the lessors, for an amount of €1.6 million. In the first six months of 2009, the Company proceeded with partial coverage of the interest rate risk related to this financing, according to the following terms:

- nominal value: €5.9 million (depreciable);
- hedging instrument: interest rate swap contract;
- residual maturity: 7 years;
- underlying rate: 3-month Euribor;
- fixed rate: 3.46%.

As the hedge is perfect, the variations in market value for the instrument are recognized at net value. At December 31, 2016, the market value of this hedging instrument was €475 thousand. The market value is the amount that the Company would have had to pay if it decided to liquidate the hedge at December 31, 2016.

On April 1, 2009, Transgene signed an occupancy agreement with Lyonbiopôle for its Lyon space. This agreement, which had an initial term of three years, was renewed in 2012. The annual rent was €332 thousand (including charges) in 2016.

The table below summarizes key financial commitments made by the Company:

		Payments due by period		
(in € thousands)	Gross amount	One year or less	From one to five years	More than five years
Finance lease obligations (real estate)	7,573	1,105	4,468	2,000
Finance lease obligations (non-real estate)	149	96	52	-
Other long-term obligations (reimbursable advances)	17,286	-	-	17,286
TOTAL	**25,008**	**1,201**	**4,520**	**19,286**

Transgene is also bound by contracts with subcontractors. That could have an impact over several accounting periods. At December 31, 2016, the Company considered its financial commitments under these contracts to be approximately €16 million in current value.

As part of the sale of the Company's production site to ABL Europe, Transgene entered into an agreement with ABL Europe to secure supplies of clinical batches for three years. Under the agreement, Transgene undertakes to place an annual order worth €3 million for the next three years.

Under licensing or option agreements, third parties have promised to make milestone payments or pay royalties to the Company that are dependent upon future events whose probability remains uncertain as of the balance sheet date. The Company has promised, with respect to a number of third parties, to pay royalties or milestone payments under collaboration or licensing agreements that are dependent upon future events whose realization remains uncertain as of the balance sheet date.

The Company has not made any material commitment (guarantees, collateral, etc.).

NOTE 23 WORKFORCE

At December 31, 2016, the Company had 175 employees, compared with 256 at December 31, 2015.

	Men	Women	Total	Including reclassified personnel or internal transfers
Managers	40	76	116	7
Other grades	11	48	59	19
TOTAL	**51**	**124**	**175***	**26**

* *Including 159 open-ended contracts at 12/31/2016.*

Employee benefits expense (salaries, payroll taxes, pension costs and related expenses) for 2015 and 2016 totaled €19,011 thousand and €18,906 thousand, respectively.

NOTE 24 IDENTITY OF THE CONSOLIDATING ENTITY

The Company's financial statements were fully consolidated by Compagnie Mérieux Alliance, 17 rue Bourgelat, 69002 Lyon.

NOTE 25 EVENTS AFTER THE REPORTING PERIOD

None.

NOTE 26 PREMIUMS AND RESERVES

The distribution options offered by the accumulated premiums and reserves were as follows:

(in € thousands)	Total	Reimbursable or available for distribution	Not available for distribution
Premiums	499,760	499,760	-
Legal reserve	248	-	248
Unavailable reserve	205	-	205
TOTAL	**500,213**	**499,760**	**453**

NOTE 27 SUBSIDIARIES AND EQUITY INTERESTS

Financial information *(in local currency)*	Share capital	Share capital other than capital	Proportion of capital held *(%)*	Carrying value of securities held *(in euros)* Gross	Carrying value of securities held *(in euros)* Net	Loans and advances granted by the Company not yet reimbursed	Amount of guarantee and undertakings given by the Company	Revenues excl. tax of the period just past	Income (profits or losses for the previous fiscal year)	Dividends received during the year	Comments
Transgene Inc. 5 Cambridge Center, Suite 0802 Cambridge, Massachusetts 02142 USA	$30,000	-	100%	23,114	23,114	None	None	None	-	None	-
Transgene BioPharmaceutical Technology (Shanghai) Co. Ltd. Rm 317,379 Bao Tun Lu, Shanghai 200011, China	RMB 7,206,186	RMB (7,026,694)	100%	875,000	-	None	None	None	RMB (43,776)	None	-
Transgene Tasly BioPharmaceutical Co. Ltd. Chenhuan Tower, Tianjin Medicine and Medical equipment indus. parc	RMB 138,670,000	RMB (54,438,583)	50%	10,132,823	10,132,823	None	None	None	RMB (13,461,994)	None	-
Sas ElsaLys Biotech* 321 avenue Jean Jaurès 69007 Lyon	€183,435	€(1,061,159)	14.41%	500,724	500,724	€1,193,327	None	€448,294	€(1,854,460)	None	-
ABL Lyon 321 avenue Jean Jaurès – Bâtiment Domilyon – Gerland 69007 Lyon	€904,050	€(808,817)	0.04%	294,423	-	€294,196	None	€1,885,934	€(515,814)	None	-

4.4 STATUTORY AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Year ended December 31, 2016

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31, 2016, on:

- the audit of the accompanying financial statements of Transgene S.A.;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at December 31, 2016 and of the results of its operations for the year then ended in accordance with French accounting principles.

II. Justification of our assessments

In accordance with the requirements of Article L. 823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

- Note 1 "Research and development costs" to the financial statements sets out the accounting rules and methods relating to the treatment of research and development costs. As part of our assessment of the accounting rules and principles applied by your company, we have verified the appropriateness of the accounting methods set out above and have verified that they are properly applied.
- The equity interests recorded in the assets of your company's balance sheet are valued according to the terms described in note 1 "Investments in non-consolidated companies" in the notes to the financial statements. Our work consisted in assessing the data and assumptions on which these estimates are based. We have verified that note 12 to the financial statements provides appropriate information.

These assessments were made as part of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III. Specific verifications and information

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of Article L. 225-102-1 of the French Commercial Code (*Code de commerce*) relating to remunerations and benefits received by the directors and any other commitments made in their favour, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your company from companies controlling your company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the identity of the shareholders and holders of the voting rights has been properly disclosed in the management report.

Lyon, April 12, 2017

The Statutory Auditor

GRANT THORNTON	**ERNST & YOUNG et Autres**
French member firm of Grant Thornton International	
Françoise Méchin	Marc-André Audisio

4.5 PRO FORMA FINANCIAL INFORMATION

None.

ANNUAL FINANCIAL STATEMENTS AT DECEMBER 31, 2016

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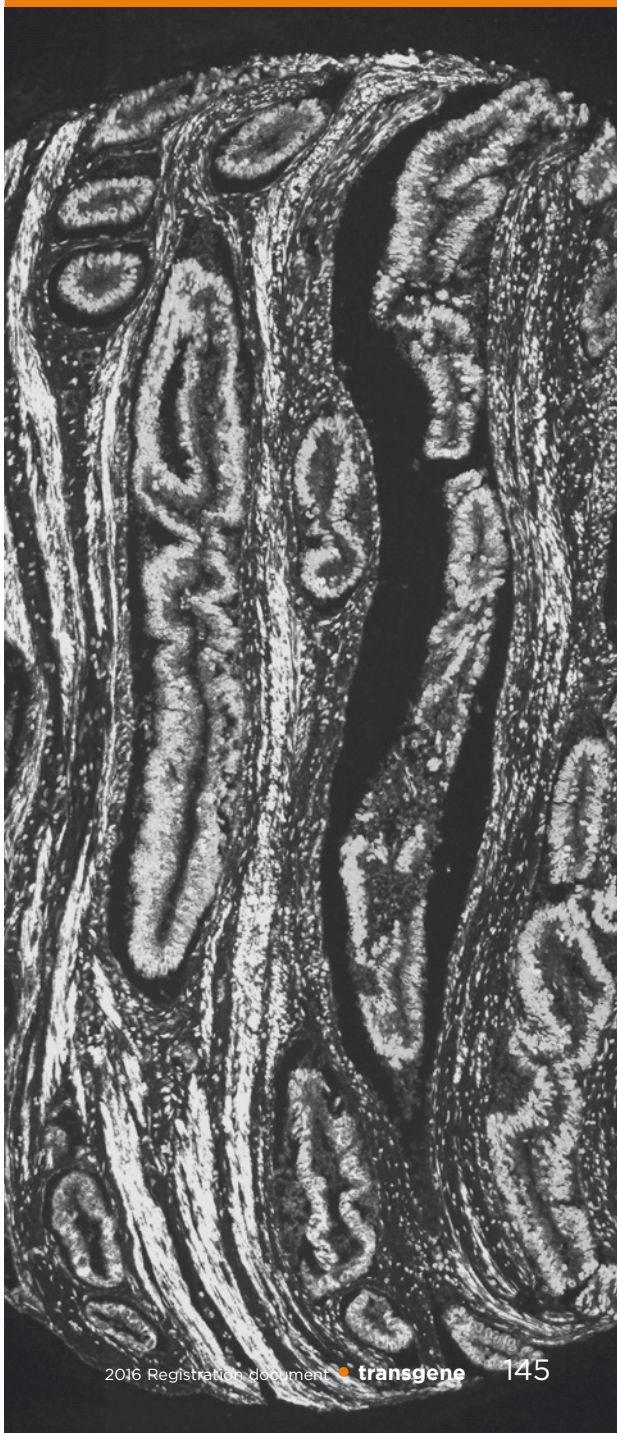
INFORMATION ABOUT THE COMPANY AND ITS CAPITAL



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5.1 SHARE CAPITAL

5.1.1 Paid-in capital

€56,431,991 fully paid in, recognized as of the date of this Registration Document.

5.1.1.1 Number of shares issued

56,431,991 shares all of the same class and all fully paid in. No unpaid shares have been issued. The share has no par value.

5.1.2 Unfunded shares

None.

The Company has no knowledge of pledges or other security interests related to its shares at March 31, 2017.

5.1.3 Shares held either by the Company itself, on its behalf or by its subsidiaries

In the framework of the liquidity contract, 49.438 shares were held on behalf of the Company (see Section 5.6).

5.1.4 Convertible securities, exchangeable securities or securities with warrants

None.

5.1.5 Conditions governing any right of acquisition and/or any obligation attached to the capital subscribed but not paid or an undertaking to increase the share capital

Capital authorized and not issued

At March 1, 2017 the number of shares that could be issued against outstanding stock options (568,269) and free share awards (205,833) was 774,102, or about 1% of the Company's share capital on a fully diluted basis (or 57,206,093 shares).

The Extraordinary General Shareholders' Meeting of May 24, 2016 delegated the following power to the Board of Directors, which the Board had not made use as of the date of this Registration Document:

Nature of the delegation granted	Maximum amount of delegation and effective date	Amount used by the Board
Award of free shares in the Company to Company and Group employees without preferential subscription rights	600,000 existing or new shares Expiration: July 24, 2019	207,550

The Extraordinary General Shareholders' Meeting of May 24, 2016 delegated the following powers to the Board of Directors, each having been the subject of a separate resolution, of which the Board had not made use as of the date of this Registration Document:

Nature of the delegation granted	Maximum amount of delegation and effective date	Amount used by the Board
Capital increase with preferential subscription rights for shareholders	19.3 million shares in one or more tranches Validity: July 24, 2018	17,849,044
Capital increase without preferential subscription rights for shareholders	15.4 million shares in one or more tranches (included in the ceiling of 19.3 million shares) Validity: July 24, 2018	None
Capital increase reserved for qualified investors or a restricted group of investors without preferential subscription rights in their favor	20% of share capital with a price not less than the average of the price of three trading sessions with a maximum discount of 5% Validity: July 24, 2018	None
Setting the price of issuance of shares in the event of the waiver of preferential subscription rights in accordance with Article L. 225-136 1° para. 2 of the French Commercial Code	10% of share capital per year Validity: July 24, 2018	None
Capital increase with cancellation of preemptive subscription rights to compensate the contribution of securities, in the case of an exchange offer or contribution in kind applicable to corporate securities	10% of share capital Validity: July 24, 2018	None

5.1.6 Information on the equity of any member of the Group subject to an option or a conditional or unconditional agreement to place it under option

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None.

5.1.7 Changes to share capital

CHANGE IN EQUITY OVER THE PAST THREE YEARS

Fiscal year	Type of transaction	Number of securities	Issue of shares (€)	Issue premium per share (€)	Total issue premiums (€)	Total capital (€)	Total number of shares
2014	Capital increase (2)	15,697	35,916.33	5.02	78,934.08	72,968,836.33	31,890,555
2014	Capital increase (3)	6,553,551	14,995,192.04	7.71189817	50,540,317.96	87,964,029.39	38,444,106
2014	Capital increase (1)	81,750	187,052.32	-	-	88,151,081.71	38,525,856
2014	Capital increase (2)	2,112	4,832.47	4.091898	8,642.09	88,155,914.18	38,527,968
2015	Capital increase (1)	17,249	39,879.33	4.09	71,317.69	88,195,793.51	38,545,397
2016	Capital reduction (4)	n/a	(49,650,396.51)	n/a	n/a	38,545,397	38,545,397
2016	Capital increase (3)	17,849,044	17,849,044	1.60	28,558,470	56,394,441	56,394,441
2016	Capital increase (1)	37,550	37,550	-	-	56,431,991	56,431,991

(1) Capital increase by awarding vested free shares to Company employees.

(2) Capital increase by exercising stock options during the year.

(3) Capital increase by issuing new shares.

(4) Reduction of share capital arising from accumulated losses via a reduction of the nominal value per share from 2,28810183 euro to 1 euro each.

Change in shareholdings over the past three years (see Section 5.2.1 "Name of any person not a member of an administrative or management body directly or indirectly holding more than 5% (statutory and legal reporting threshold) of the Company's capital or voting rights").

5.2 PRINCIPAL SHAREHOLDERS

5.2.1 Name of any person not a member of an administrative or management body directly or indirectly holding more than 5% (statutory and legal reporting threshold) of the Company's capital or voting rights

The following table shows the breakdown of capital and voting rights in the Company at December 31, 2016 based on an analysis of bearer share ownership conducted at the Company's request following the capital increases made at in November 2016 and the distribution as at December 31, 2015 and 2014. There is no shareholder apart from the majority shareholder TSGH that owns more than 5% of share capital.

	As at 12/31/2014			As at 12/31/2015			As at 12/31/2016		
Shareholder	**Number of shares**	**% of capital**	**% of voting rights (2)**	**Number of shares**	**% of capital**	**% of voting rights (2)**	**Number of shares**	**% of capital**	**% of voting rights (2)**
TSGH (1)	19,987,011	51.9	66.3	19,987,011	51.85	66.3	33,863,363	60.0	69.1
Dassault Belgique aviation	1,884,182	4.9	3.3	1,884,182	4.89	3.3	2,783,142	4.9	3.7
Other shareholders (3)	15,133,175	39.3	27.7	16,791,321	42.36	30.4	19,785,486	35.1	27.2
Total	**38,527,968**	**100**	**100**	**38,545,397**	**100**	**100**	**56,431,991**	**100**	**100**
Dilutive impact stock-options + free shares awarded (4)	1,228,687	3		1,087,334	2.7		774,102	1.3	
TOTAL DILUTED	**39,756,655**			**39,623,731**			**57,206,093**		

(1) On Novembert 23, 2016, TSGH made an amended shareholding threshold declaration that put its voting rights above the thresholds of 60% and 65%as a result its subscription of shares in a capital increase.

(2) Article 8 of the bylaws grants double voting rights to all fully paid registered shares, registered in the name of the same shareholder for at least three years. In accordance with the provisions of Article L. 233-8 of the French Commercial Code, Transgene publishes monthly (if the information has changed since the last monthly publication) the total number of shares and voting rights on the AMF website and on its own site www.transgene.fr. At December 31, 2016, the total number of shares was 56,431,991; the total theoretical number of voting rights was 74,334,523 and the number of exercisable voting rights was 74,285,175. No limitation has been placed on voting rights. The double voting rights attached to a share disappear the day the security is assigned or converted to the bearer.

(3) To the Company's knowledge, there are no other shareholders directly or indirectly owning, alone or in concert, over 5% of the equity or voting rights. As of December 31, 2016, the Company held 49,438 of its own shares through a liquidity program. The total percentage of employee ownership is less than 0.5%. Since it is insignificant, the Company does not monitor employee shareholdings. There are not, to the knowledge of the Company, any concert parties or agreements between shareholders.

(4) The stock options were granted to the employees of the Company and its subsidiary Transgene, Inc., including members of the Executive Committee and to the two executive corporate officers (Philippe Archinard, Chairman and Chief Executive Officer, and Christophe Ancel, Qualified Pharmacist and Deputy Chief Executive Officer.) Free shares were awarded to the employees of the Company and its wholly owned subsidiary Transgene, Inc.

5.2.2 Special voting rights of the principal shareholders

There are no different voting rights for major shareholders. Pursuant to Article 8 of the corporate bylaws, double voting rights are granted to all fully paid registered shares registered in the name of the same shareholder for at least three years, regardless of the number of shares held by the holder.

5.2.3 Controlling shareholder

The Company's capital is owned 60% (69.1% of voting rights) by TSGH SAS, which is in turn owned 98.75% by Institut Mérieux, which is owned by the Mérieux family. No specific measure limits the powers of the principal shareholder. The Company complies with the Code of Corporate Governance for small- and mid-cap companies. The Board of Directors includes a majority of whom who qualify as independent using the criteria defined in the MiddleNext Corporate governance code. One independent director, Mr. Habert, is connected with the Dassault Group, which holds 4.9% of the Company stock, through a family relationship and in his capacity as Chairman and member of the strategy committee of Dassault Développement. Moreover, a majority of the Audit Committee consists of independent directors (three out of four members) and the Compensation Committee is solely comprised of independent directors.

5.2.4 Agreement that may result in a subsequent change of control of the Company

To the Company's knowledge, at the date of this Registration Document there is no agreement that could at a later date, if enforced, bring about a change in the controlling interest of the Company, nor pact outside the Statutes, or any anti-takeover measure, or specific powers of representation or appointment to executive bodies.

5.3 ARTICLES OF INCORPORATION AND STATUTES

5.3.1 Corporate purpose (Article 2 of the Statutes)

The purpose of the Company, both in France and abroad, on its own behalf and on behalf of third parties:

- all activities of research, development, studies for the refinement of processes of production and marketing, preclinical and clinical development of production and marketing of all products and processes in the areas of bioindustry, biotechnology and more specifically genetic engineering, principally for the purpose of experimenting, developing and exploiting medications for human and veterinary medicine, and generally the application of all sciences and techniques that might add to the development of said products and processes;
- the creation, acquisition, by any means and the operation in any form of any company connected directly or indirectly with these activities, as well as the investment by any means in such companies;
- and more broadly, all commercial, industrial and financial operations involving any kind of asset that might relate directly or indirectly to the foregoing purpose or that might lead to its achievement, expansion or development.

5.3.2 Company management

Board of Directors (excerpts and summaries from the relevant Statute Articles and regulations)

The Company is managed by a Board of Directors composed of at least three members and at most fifteen members who are chosen from among the shareholders and elected by the General Shareholders' Meeting.

The directors are appointed for a period of three years. Their directorship ends at the end of the Ordinary General Shareholders' Meeting approving the financial statements for the prior year, which is held during the year in which their term expires. The Board ensures that the number of terms expiring is as regular as possible each year.

The directors may be re-elected and may be recalled by the General Shareholders' Meeting at any time. In the event of a vacancy of one or more seats, the Board may, in the manner prescribed by law, make provisional appointments. The directors so appointed do not serve longer than the remainder of their predecessor's term, and their appointment must be ratified by the next following Shareholders' Meeting.

Each director must, throughout his or her service, own at least one share of stock in the Company.

The Board of Directors elects from among its members who are individuals a Chairman and, possibly, one or more Vice-Chairmen, and sets their term of office that not exceed their term of office as a director, nor the time remaining from their appointment to the end of the Ordinary General Shareholders' Meeting called to approve the financial statements for the fiscal year in which the Chairman reaches 67 years of age.

However, the Board may under exceptional circumstances extend the period, fiscal year by fiscal year, as long as this extension does not exceed two fiscal years.

In the event of the absence or incapacity of the Chairman, the Board shall appoint a Chairman *pro tempore* from among the Vice-Chairs or, failing that, the directors.

The Board may also appoint a Secretary, who may or may not be a shareholder.

The Board of Directors proceeds with the controls and verifications it deems appropriate. Directors receive all of the information required to accomplish their mission and may request any document they consider useful.

The Chairman of the Board of Directors shall represent the Board of Directors. He organizes and directs its work and reports back to the General Shareholders' Meeting. He ensures the proper operations of the Company's bodies, and, specifically, that the directors are capable of fulfilling their duties.

Except for the powers that the law expressly confers on the Shareholders' Meetings, as well as the powers that it specially reserves to the Board of Directors, and within the limits of the corporate purpose, the Chairman is invested with the broadest powers to act in the Company's name under all circumstances.

No limitation placed on the Chairman's powers by the Board of Directors can be contested by third-parties.

Subject to the terms of the paragraphs above, the Board of Directors may delegate to one or more of its members or third parties, whether or not they are shareholders, any type of specific mandate for one or more specific objects, under conditions it defines, with or without potential substitution, to proceed with all studies and inquiries. When this occurs, the Board defines compensation, both fixed and proportional. If a director is given a paid term of office then the provisions of Articles L. 225-38 *et seq.* of the French Commercial Code shall apply.

If the Board of Directors decides to separate the positions of Chairman and Chief Executive Officer, subject to the powers that the law confers expressly on Shareholders' Meetings as well as the powers that are specially reserved to the Board of Directors and within the limitations of the corporate purpose, the Chief Executive is invested with the broadest powers to act in the Company's name under all circumstances and represent it in relations with third parties.

On a recommendation from the Chief Executive Officer, the Board of Directors may appoint one or more persons to assist the Chief Executive Officer with the title of Deputy Chief Executive Officer.

The number of Chief Operating Officers may not exceed five.

If they are directors of the Company, the Chief Executive Officer and Chief Operating Officers may not be appointed for longer than their term as directors.

The Board of Directors sets the compensation of the Chairman of the Board, the Chief Executive Officer and, as applicable, the Deputy Chief Executive Officers. This compensation may be fixed or a combination of fixed and variable.

In compliance with Article L. 225-9 of the French Commercial Code, the normal agreements between the Company and a director, the Chairman of the Board or the CEO must be given by the party in question to the Chairman of the Board of Directors. The list and purpose of said agreements are provided by the Chairman to the members of the Board and to the Statutory Auditors. Shareholders are entitled to be informed of the list and the object of these common agreements.

The directors are invited to the meetings of the Board by any means, including verbally. The Board's rules of procedure may provide for the adoption of resolutions by electronic means.

Deliberations take place in quorum and majority conditions set out by law. In the event of a tie vote, the vote of the session's Chairman shall prevail.

A director may give his or her proxy to another director to represent him or her at a Board meeting.

Minutes are prepared and copies and excerpts of deliberations are issued and certified as defined by law.

The Responsible Pharmacist, who shall be licensed to practice in France (Table B of the Order) and shall file his license on behalf of the Company, will be responsible for the Company's compliance with the rules imposed by law and regulation governing the profession of pharmacist.

In this regard, the Qualified Pharmacist is fully empowered by law with all powers to make direct contact with all authorities or organizations with jurisdiction, to make all applications, solicit all approvals or authorizations, verify raw materials and authorize their use, make frequent inspections of laboratories, oversee manufacturing, and alone authorize the use and marketing of the finished products. In addition, he or she shall approve the hiring of pharmacists and the heads of other technical departments before they start work at the Company.

In the event of a conflict between the Chairman and the Qualified Pharmacist, the Board of Directors will arbitrate without ever imposing a decision that runs counter to the law or regulations and that might incur the liability of the Pharmacist.

5.3.3 Share classes

Only one class of shares exists. Each share entitles the holder to one share proportional to the fraction of capital that it represents, in the Company's assets and earnings and in any liquidation surplus.

5.3.4 Shareholders' rights

Shareholders' rights may only be changed, and in the manner prescribed by law, by an extraordinary General Shareholders' Meeting that meets the conditions of quorum and majority set by the French Commercial Code. There is no more restrictive term in the statutes. The Company capital may be changed pursuant to the terms of the law.

5.3.5 General Shareholders' Meetings (Article 21 of the Statutes)

General Shareholders' Meetings are called and deliberate pursuant to the terms of the law. Meetings take place either at the corporate headquarters or at another place specified in the notice of meeting.

According to the Article R. 225-85 of the French Commercial Code, the right to participate in General Shareholders' Meeting is justified if shares have been recorded in the shareholder's name or that of a designated intermediary by midnight (Paris time) of the third business day preceding the meeting, in either the Company's record of registered shares or the authorized intermediary's record of bearer shares.

The registration of shares in the financial intermediary's register of bearer shares shall be documented by a certificate of participation delivered by the financial intermediary (or electronically pursuant to Article R. 225-61 of the French Commercial Code) attached hereto:

- the voting by correspondence form;
- the proxy vote;
- the request for an admission ticket in the shareholder's name or on behalf of a shareholder represented by a designated intermediary.

Any shareholder may be represented by another shareholder or by his or her spouse or by any other individual or legal entity they chose in the manner provided by Article L. 225-106 of the French Commercial Code. Shareholders' Meetings are chaired by the Chairman of the Board of Directors or, in his absence, by a Vice-Chairman or by a director appointed for that purpose by the Board of Directors. Failing this, the assembly itself will elect a Chairman. Minutes are prepared and copies certified and delivered pursuant to the terms of the law.

A double voting right attached to registered shares recorded in the name of the same person for at least three years was established by the Extraordinary General Shareholders' Meeting of June 9, 2004 and incorporated into the Statutes (Article 8).

5.3.6 Provisions having the effect of delaying, deferring or preventing a change of control

None.

5.3.7 Ownership thresholds (Article 7 of the Statutes)

Any individual or legal entity, acting alone or in concert with others, who in any way owns, as defined by Articles L. 233-14 and seq. of the French Commercial Code, a number of shares representing now or in the future a fraction equal to at least 5% of the equity and/or voting rights at Shareholders' Meetings, or any multiple of that percentage, even if this multiple exceeds the legal threshold of 5%, must inform the Company of the total number of shares it holds, by registered letter with confirmation of delivery sent to the Company's registered office within 15 days of the date on which the threshold was reached or exceeded or by any equivalent means, with respect to shareholders residing outside of France.

This information obligation shall apply in the same conditions as those specified above any time that the fraction of the share capital and/or voting rights held should fall below the threshold specified above.

In the event of failure to comply with the above provisions, voting rights will be stripped from the shares in excess of the threshold triggering the duty to notify if such is requested by one or more shareholders who together or separately own at least 5% of the equity and/or voting rights in the Company, as provided in Article L. 233-7, final paragraph, of the French Commercial Code. In the event such non-compliance is remedied, the voting rights in question cannot be exercised until the expiration of the time period prescribed by the applicable laws and regulations.

5.3.8 Conditions imposed in the Statutes, a charter or regulations governing changes to the capital, when such conditions are stricter than those provided by law

None: no such terms exist for the Company.

5.4 HISTORY AND INFORMATION ON THE COMPANY DURING THE PERIOD

5.4.1 History and development of the Company

5.4.1.1 Legal name and Commercial name

Transgene SA

5.4.1.2 Place of registration and registration number

The Company is registered in the Strasbourg Trade and Company Registry under identification No. RCS B 317 540 581. Its economic activity code (APE) is 7211Z (Biotechnology research and development).

5.4.1.3 Date of incorporation and duration

The Company was founded in December 1979 for a period of 99 years that expires on December 31, 2078.

5.4.1.4 Registered Office, legal form and applicable law

A French corporation (*société anonyme*) with a Board of Directors, governed by the French Commercial Code.

Transgene SA
400, boulevard Gonthier d'Andernach – Parc d'Innovation
67400 Illkirch-Graffenstaden
France
Tel. +33 3 88 27 91 00

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5.5 INFORMATION ON INVESTMENTS IN AFFILIATES

The table of subsidiaries and affiliates is presented in Note 27 to the Company's annual financial statements.

5.6 SHARE BUYBACK PROGRAM

5.6.1 Situation in 2016

The share buyback program in force in 2016 was authorized by the Shareholders' Meeting of May 24, 2016.

In accordance with Articles L. 225-209 et seq. of the French Commercial Code, the Shareholders' Meeting of May 24, 2016 authorized the Board of Directors to trade Transgene stock for a period of 18 months, except during a public offering period for the Company's shares, for the purposes and in the manner prescribed by the share buyback program. The purchases had to be made at a price no higher than €25 per share (or the foreign currency equivalent of this amount at the same date) and in an amount no greater than 10% of the share capital at any one time.

In 2016 the Company made use of the authorizations to buy the Company's shares on the stock market in order to execute a liquidity contract with Kepler Cheuvreux. The Company did not use any derivatives.

In 2016, under the liquidity contract, Kepler Cheuvreux:

- bought 336,569 shares for a total of €939,490, representing a weighted average value of €2.79 per share; and
- sold 289,221 shares for a total of €828,917, representing a weighted average value of €2.87 per share.

At December 31, 2016 the Company directly held 49,348 shares for the purposes of creating liquidity under the liquidity contract (which represented around 0.09% of the share capital, whose measured value at the purchase prices was €129,720). At that same date, none of the 49,348 treasury shares were allocated to covering stock option plans or held for cancellation.

5.6.2 Description of the share buyback program pursuant to Articles 241-1 et seq. of the General Regulations of the Autorité des Marchés Financiers (AMF)

Pursuant to Article 241-2 of the General Regulations of the AMF, this paragraph constitutes the description of the buyback program that will be submitted to the Shareholders' Meeting of June 8, 2017.

5.6.2.1 Number of securities and fraction of capital stock held by Transgene

At December 31, 2016 the total number of shares held by Transgene was 49,348, representing 0.09% of Transgene's share capital. All of these shares were allocated with a view to liquidity under the liquidity contract.

5.6.2.2 Breakdown by objective of the equity securities held at December 31, 2016

At December 31, 2016 Transgene's treasury shares were allocated as follows:

49,348 shares allocated with a view to liquidity.

In January 2016 the liquidity contract signed with Kepler Cheuvreux was renewed. The Company did not cancel or re-allocate any treasury shares. The Company did not use any derivatives and does not have any open positions.

5.6.2.3 Objectives of the buyback program

Transgene intends to use its authorization to trade in its own shares under the share buyback program for the following purposes:

- to stimulate the market through an investment service provider acting independently under a liquidity contract in compliance with a code of conduct recognized by the AMF;
- to hold its shares in order to allocate them at a later date in payment or exchange as part of external growth operations undertaken by the Company;
- to allocate its shares upon the exercise of rights attached to securities entitling their owner to the Company's stock through conversion, exercise of options, redemption or exchange, within the framework of stock exchange regulations;
- to cancel securities, notably in order to increase the return on equity and earnings per share and/or to offset the dilutive impact for the shareholders of capital increase transactions;
- to allocate shares to the employees or to the corporate officers of the Company and its subsidiaries according to the conditions and in the manner prescribed by law, notably in relation to the free allocation of shares, profit sharing, stock option plans or company savings plans; and

This program is also intended to allow any market practice accepted by the Autorité des Marchés Financiers subsequently to this Shareholders' Meeting and, more broadly, any transaction compliant with the regulations in force. In such a scenario, the Company will inform its shareholders by written communication.

5.6.2.4 Maximum percentage of share capital, maximum number and type of securities that Transgene proposes to acquire, and maximum purchase price

The securities Transgene proposes to acquire are only shares.

Excerpt of draft resolution submitted to the Shareholders' Meeting of June 8, 2017:

The Shareholders' Meeting, acting under the conditions of quorum and majority required for Ordinary Shareholders' Meetings, having reviewed the report of the Board of Directors, votes to adopt the share buyback program described hereinafter and to that end, in accordance with Articles L.225-209 et seq. of the French Commercial Code, authorizes the Board of Directors, or any representative of the Board empowered to act on the Board's behalf, to purchase the Company's shares,

- *resolves that the number of Company shares that may be repurchased shall be such that:*
  - *the maximum number of shares that can be purchased under this authorization may not exceed 10% of the total number of shares in the Company's share capital and, with regard to purchases made for subsequent use in payment or exchange in a merger, spinoff or asset contribution, 5% of the total number of shares in the Company's share capital, it being noted that (i) these limits apply to the Company's share capital which shall, were necessary, be adjusted to reflect any transactions subsequent to this Meeting that may affect the share capital and that (ii) if the shares are repurchased to increase the stock's liquidity as permitted by the AMF (Autorité des Marchés Financiers) General Regulations, the number of shares counted in the aforementioned 10% calculation shall equal to the number of shares bought less the number resold during the period of this authorization; and*
  - *the acquisitions made by the Company can in no case result in it directly or indirectly holding at any time more than 10% of the share capital; [...]*
- *sets the maximum purchase price at €25 per share, and resolves that the maximum amount of funds set aside for this share buyback program may not exceed fifteen million euros (€15,000,000);*
- *delegates to the Board of Directors, which may subdelegate under the conditions foreseen in Article L. 225-209 of the French Commercial Code, in the event of any change in the par value of the share, of a capital increase through the incorporation of reserves, of the allocation of free shares, of a share split or a reverse share split, of a distribution of reserves or any other assets, of the amortization of capital or any other transaction involving equity, the power to adjust the aforementioned purchase price so as to reflect the impact of said transactions on the value of a share;*
- *resolves that the purchase, sale, exchange or transfer of these shares may occur by any means, i.e. on a regulated market, on a multilateral trading facility, through systematic internalizers or over the counter, including by means of the acquisition or sale of blocks of shares, by using financial instruments, notably derivatives traded on a regulated market or multilateral trading facility, through systematic internalizers or over the counter, or by using warrants in the manner authorized by the laws and regulations in force at the time of the transactions in question and at such times as the Company's Board of Directors or a person acting on behalf of the Board shall choose; the maximum fraction of the share capital acquired or transferred in blocks may be the entire program [...]*

Taking into account:

- the 49,348 shares (or 0.09% of the share capital) already directly held by Transgene at December 31, 2016;
- the 56,431,991 shares in the share capital at December 31, 2016;
- the buyback at this time could only involve 5,593,851 shares (9.91% of the share capital), i.e. a maximum amount of €150,000,000 based on a maximum purchase price of €25 per share.

5.6.2.5 Terms and conditions of the buyback program

The purchase, sale, exchange or transfer of shares may occur by any means, i.e. on a regulated market, on a multilateral trading facility, through systematic internalizers or over the counter, including by means of the acquisition or sale of blocks of shares, by using financial instruments, notably derivatives traded on a regulated market or multilateral trading facility, through systematic internalizers or over the counter, or by using warrants in the manner authorized by the laws and regulations in force at the time of the transactions in question and at such times as the Company's Board of Directors or a person acting on behalf of the Board shall choose; the maximum fraction of the share capital acquired or transferred in blocks may be the entire program.

5.6.2.6 Duration of buyback program

Pursuant to Article L. 225-209 of the French Commercial Code and to the resolution that shall be submitted to the Shareholders' Meeting of June 8, 2017, this buyback program may be carried out during an 18-month period starting on the date of the Shareholders' Meeting of June 8, 2017, i.e. no later than December 8, 2018. Pursuant to Article L. 225-209 of the French Commercial Code, shares may only be canceled within the limit of 10% of the share capital (adjusted for any transactions affecting it after the Combined Shareholders' Meeting of May 24, 2016) over a 24-month period starting with the adoption of the twenty-sixth resolution proposed to the Combined Shareholders' Meeting of May 24, 2016, i.e. no later than May 24, 2018.

5.7 SPECIAL REPORT OF THE STATUTORY AUDITORS ON REGULATED AGREEMENTS AND COMMITMENTS

General Shareholders' Meeting to approve the financial statements

for the fiscal year ended December 31, 2016

Dear Shareholders,

In our capacity as Statutory Auditors of your Company, we hereby present our report on related party transactions and undertakings.

It is our duty to inform you, on the basis of the information provided to us, of the features and key terms as well as the reasons justifying their interest for the Company, of the agreements and commitments of which we have been advised or that we discovered during our assignment, without any comment on our part on their usefulness and appropriateness or identification of such other agreements and commitments. Pursuant to the terms of Article R. 225-31 of the French Commercial Code, you are responsible for evaluating the potential interest of entering into these agreements and undertakings with a view to their approval.

Our role is also to provide you with the information stipulated in Article R. 225-31 of the French Commercial Code relating to the implementation during the past year of agreements and commitments previously approved by the General Shareholders' Meeting, if any.

In this engagement we have made such investigations as we judged necessary in light of the professional Code of the French association of Statutory Auditors, the *Compagnie nationale des Commissaires aux comptes*. These diligences consisted of verifying the conformity of the information we received with the source documents from which said information arises.

Agreements and commitments submitted for approval to the General Shareholders' Meeting

Agreements and commitments authorized during the fiscal year

We hereby inform you that no notice was given to us of any agreement or commitment authorized during the past fiscal year to be submitted to the General Shareholders' Meeting for approval in accordance with article L. 225-38 of the French Commercial Code.

Agreements and commitments previously approved by the General Shareholders' Meeting

Agreements and commitments approved during previous fiscal years

Whose performance was continued during the fiscal year most recently ended

Pursuant to Article R. 225-30 of the French Commercial Code, we were informed that the performance of the following agreements and commitments already approved by the General Shareholders' Meeting during previous fiscal years continued during the financial year just ended.

With Institut Mérieux

Related parties: Alain Mérieux, Philippe Archinard and Jean-Luc Bélingard.

Contract for the provision of services

Nature and purpose: In 2014, your Company tacitly extended the services agreement signed with Institut Mérieux from January 1, 2002 (amended by two riders in 2007).

Terms:

- the first rider provides that compensation is based on the services rendered by the Institut Mérieux (costs and employee benefits expenses plus 8%) and is allocated among the companies of the Institut Mérieux group according to three allocation factors based on the respective size of fixed assets, revenue and total payroll;
- the second rider addresses with the manner of allocating the cost of free shares if the employee beneficiary was transferred within the Institut Mérieux group during the vesting period. The Institut Mérieux group company, that allocates bonus shares, rebills without margin costs related to the bonus shares in proportion to the time spent by the employee concerned in each company during the vesting period.

For the period ended December 31, 2016 your Company recognized a charge of €258,699. In addition, a €111,849 adjustment in respect of the 2015 fiscal year was recorded as a deduction from expenses in 2016.

The new contract authorized by the Board of Directors on December 10, 2014 replaced the previous services agreement and its riders. It amends the term of the contract to an indefinite term and restates the manner of compensation as follows:

In exchange for the performance of the services described in the contract (including both the services continuously provided to all the Group companies and other services that might be provided specially to your Company), the Institut Mérieux in its capacity as an active holding company will receive compensation calculated on the basis of the costs borne to perform said services (in particular personnel costs including salaries/wages and social security charges and any other direct costs of employees), to which an 8% markup will be applied. The allocation factors for the services shared by the Group entities will be based on the respective size of fixed assets, revenue and total payroll.

The travel expenses of the Institut Mérieux employees tasked with the services will be invoiced at cost, supported by receipts. The costs of consultants hired by the Institut Mérieux will be invoiced at cost, supported by the related receipts.

The services will be invoiced quarterly by the Institut Mérieux based on a projected budget adjusted annually no later than June 30 of the following year.

Not implemented during the year most recently ended

In addition, we were informed of the following agreements and commitments already approved by the General Shareholders' Meeting in previous years that were not implemented during the year most recently ended.

With Institut Mérieux, bioMérieux, Mérieux NutriSciences Corporation, Advanced Bioscience Laboratories Inc. and Mérieux Développement
Related parties: Alain Mérieux, Philippe Archinard and Jean-Luc Bélingard.

Agreement to share the cost of contract termination fees related to the departure of one of the Group's employees.

Nature and purpose: In 2014, your Company tacitly renewed the agreement of January 1, 2007 providing for the financial allocations consequent to a possible termination of the employment contracts of employees who have worked at more than one company in the Institut Mérieux group.

Terms: The company terminating the employee's contract pays all of the "contract termination expenses" to the employee in question and then allocates these "expenses" among the other companies in proportion to the compensation paid by each Group company since the employee first began working in the Group.

The new agreement authorized by the Board of Directors on December 10, 2014 amends the term of the open-ended contract, leaving the other features of the contract largely unchanged.

This agreement had no effect for the fiscal year ended December 31, 2016.

Agreements and commitments approved during the fiscal year

We have also been informed that the following agreements and commitments, which were approved by the Combined General Shareholders' Meeting of May 24, 2016 based on the Statutory Auditors' special report dated April 27, 2016, were implemented in the fiscal year just ended.

With ABL EUROPE SAS (wholly-owned subsidiary of ADVANCED BIOSCIENCE LABORATORIES Inc., wholly-owned by IMEUROPE SAS, in turn wholly-owned by the Institut Mérieux)
Related parties: Alain Mérieux, Philippe Archinard, Jean-Luc Bélingard and Dominique Takizawa.

Purchase agreement of a bio-production asset

Nature and purpose: As part of the sale of your Company's bio-production asset to ABL Europe SAS, your Company entered into an Asset Purchase Agreement, including the following related agreements:

- preliminary sales agreement for the land and manufacturing building in Illkirch-Graffenstaden;
- notarial deed on the land and manufacturing building in Illkirch-Graffenstaden;
- a Transition Services Agreement;
- agreement for subleasing a part of the QC laboratory at the Company's registered office.

Terms: The Asset Purchase Agreement sets forth the conditions for the sale by your Company to ABL Europe SAS of the bio-production asset, including the dedicated building and land, for a total of €3.5 million.

The Transition Services Agreement sets forth the terms and conditions for the transitional period between the start of your Company's reorganization and the effective sale of the bio-production asset.

Lastly, the sublease agreement stipulates the terms of use by ABL Europe SAS of a part of your Company's quality control laboratory.

For the year ended December 31, 2016 your Company recognized:

- a gain of €3,500,000 on the sale of the bio-production asset, including the dedicated building and land;
- income of €36,699 in respect of the Transition Services Agreement;
- income of €169,668 in respect of the agreement for subleasing a part of the QC laboratory at the Company's registered office.

With ABL EUROPE SAS (wholly-owned subsidiary of ADVANCED BIOSCIENCE LABORATORIES Inc., wholly-owned by IMEUROPE SAS, in turn wholly-owned by the Institut Mérieux)
Related parties: Alain Mérieux, Philippe Archinard, Jean-Luc Bélingard and Dominique Takizawa.

Employee reclassification agreement

Nature and purpose: As part of the sale of your Company's bio-production asset to ABL Europe SAS, your Company entered into an agreement to reclassify employees, called the Social Agreement.

Terms: This agreement stipulates the conditions of partially redeploying the employees assigned to bio-manufacturing.

Under this agreement, 29 employees were transferred on February 1, 2016. Mobility bonuses paid by your Company to transferred employees totaled €141,500 as of December 31, 2016. Your Company also paid €190,182 to ABL Europe SAS in respect of paid leave of transferred employees.

With ABL EUROPE SAS (wholly-owned subsidiary of ADVANCED BIOSCIENCE LABORATORIES Inc., wholly-owned by IMEUROPE SAS, in turn wholly-owned by the Institut Mérieux)
Related parties: Alain Mérieux, Philippe Archinard, Jean-Luc Bélingard and Dominique Takizawa.

Exclusive Services Agreement

Nature and purpose: As part of the sale of your Company's bio-production asset to ABL Europe SAS, your Company entered into an Exclusive Services Agreement.".

Terms: This agreement sets forth the terms for the exclusive sale of bio-manufacturing services by ABL Europe SAS to your Company. The amount under this agreement is €3 million per year for a three-year period.

For the period ended December 31, 2016 your Company recognized a charge of €2,566,298.

Lyon, April 12, 2017

Statutory Auditors

GRANT THORNTON	**ERNST & YOUNG et Autres**
French member firm of Grant Thornton International	
Françoise Méchin	Marc-André Audisio

5.8 EMPLOYEES

5.8.1 Workforce

See the headcount table at Section 3.2.1.1.

5.8.2 Profit-sharing agreement

A profit-sharing agreement has existed since 1993, pursuant to the regulations in effect. In light of the Company's deficit situation, no profit has been shared with employees under this agreement as of the date of this Registration Document.

INFORMATION ABOUT THE COMPANY AND ITS CAPITAL

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ADDITIONAL INFORMATION

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6.1 PERSONS RESPONSIBLE

6.1.1 Persons responsible for the information

Philippe Archinard
Chairman and Chief Executive Officer
Jean-Philippe Del
Vice President, Finance
John Felitti
Corporate Secretary

Phone: +33 (0)3 88 27 91 21
Fax: +33 (0)3 88 27 91 11
www.transgene.fr

6.1.2 Declaration by the person responsible

I, the undersigned, having taken all reasonable measures for the purpose, hereby certify that the information contained in this Registration Document gives, to the best of my knowledge, a true and fair view of facts and is free from material misstatements.

I hereby certify that, to my knowledge, the financial statements have been drawn up in accordance with applicable accounting standards and give a true and fair view of the assets, financial position and profits and losses of the Company and of all the companies within the scope of consolidation, and the management report on pages 164 to 168 includes a statement setting out a true and fair view of the business, profits and financial position of the Company and of all the companies within the scope of consolidation and a description of the principal risks and uncertainties they face.

I have received an audit completion letter from the Statutory Auditors, in which they state that they have verified the information regarding the financial position and financial statements presented in this document and have reviewed the entire document.

The historical financial information presented in this document is described in reports by the Statutory Auditors, which contain no matters to report, on pages 118 and 119, 141 and 142.

Philippe Archinard
Chairman and Chief Executive Officer

6.2 PERSONS RESPONSIBLE FOR AUDITING THE FINANCIAL STATEMENTS

6.2.1 Statutory Auditors

Statutory Auditors

ERNST & YOUNG et Autres 1/2 place des Saisons 92400 Courbevoie - Paris-La Défense Represented by Marc-André Audisio	**Grant Thornton** 44 quai Charles de Gaulle 69006 Lyon represented by Françoise Méchin

Ernst & Young et Autres is a member of the Compagnie Régionale des Commissaires aux Comptes de Versailles and of the Ernst & Young network.
Grant Thornton is a member of the Compagnie régionale des Commissaires aux comptes de Lyon and of the Grant Thornton International Ltd network.

DATES OF APPOINTMENT AND EXPIRATION OF TERM	
Appointed May 29, 1996 and renewed February 16, 1998, and again on June 9, 2004, on June 17, 2010 and on May 24, 2016 until the General Shareholders' Meeting called to approve the 2021 financial statements.	Appointed May 24, 2016, until the General Shareholders' Meeting called to approve the 2021 financial statements.

ALTERNATE STATUTORY AUDITORS	
Auditex Tour Ernst & Young 1/2, place des Saisons 92400 Courbevoie - Paris-La Défense 1	**IGEC** 3 rue Léon Jost 75017 PARIS

DATES OF APPOINTMENT AND EXPIRATION OF TERM	
Appointed June 17, 2010 and renewed May 24, 2016 until the General Shareholders' Meeting called to approve the 2021 financial statements.	Appointed May 24, 2016, until the General Shareholders' Meeting called to approve the 2021 financial statements.

6.2.2 Fees paid to the Statutory Auditors

	Ernst & Young et Autres				Grant Thornton				Cabinet C.C.A.			
	Amount (before tax)		%		Amount (before tax)		%		Amount (before tax)		%	
(in € thousands)	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Audit	-	-	-	-	-	NA	-	NA-	-	-	-	-
Statutory Auditors, certification, examination of individual and consolidated financial statements												
Issuer	50	60	35%	72 %	38		100%			21	-	100%
Fully consolidated subsidiaries	-	-	-	-	-		-		-	-	-	-
Other due diligence and services directly related to the audit												
Issuer	92	24	65%	28 %					3	-	100%	-
Fully consolidated subsidiaries	-	-	-	-	-		-		-	-	-	-
Sub-total	**142**	**84**	**100%**	**100 %**	38		100%		**3**	**21**	**100%**	**100%**
Other services provided by networks to fully consolidated subsidiaries	-	-	-	-	-		-		-	-	-	-
Legal, tax and social	-	-	-	-	-		-		-	-	-	-
Other (specify if > 10% of the audit fees)	-	-	-	-	-		-		-	-	-	-
Sub-total	**-**	**-**	**-**	**-**	-		-		**-**	**-**	**-**	**-**
TOTAL	**142**	**84**	**100%**	**100 %**	38		100%		**3**	**21**	**100%**	**100%**

6.3 THIRD PARTY INFORMATION, STATEMENTS BY EXPERTS AND DECLARATIONS OF INTEREST

None.

6.4 DOCUMENTS AVAILABLE TO THE PUBLIC

Throughout the validity period of this Registration Document, the following documents may be consulted:

- the corporate statutes;
- all the reports, correspondence and other documents, background financial information, evaluations and declarations prepared by experts at the Company's request, a portion of which is included or referred to in the registration document;
- the Company's background fi nancial information and that of its subsidiary for each of the two fi scal years preceding the publication of the registration;
- the Board's rules of procedure.

These documents may be viewed on the website: www.transgene.fr or obtained from Jean-Philippe Del, Vice President, Finance.

6.5 CROSS-REFERENCE TABLES

In order to facilitate the reading of the Registration Document, the following table identifi es the main information required by annex 1 of European regulation No. 809/2004/EC.

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6.6 GLOSSARY

Adenovirus: a member of a family of DNA viruses responsible for diseases of the respiratory tract, eye, and gastrointestinal tract. The forms of adenovirus used in immunotherapy, particularly the type 5 adenovirus for Transgene, are safe and cause no symptoms or pathology. Genes with an ability to boost the immune system or to repair genetic defects can be inserted into the genome of the virus.

Antibody: antibodies are proteins used by the immune system to identify and neutralize foreign bodies such as bacteria and viruses. The antibody binds itself to a specific location on its target, called the antigen. This binding activates several functions of the immune system, since antibodies have different modes of action depending on their type: some neutralize or disarm the antigens directly while others prepare them for destruction by white blood cells.

Monoclonal antibodies: antibodies produced by a given cell that can bind to only one substance. Monoclonal antibodies are used in the treatment of certain types of cancer, as well as other diseases. They may be used alone or to transport therapies such as toxins or radioactive substances directly into the cancerous cells. Immune Checkpoint Inhibitors (ICIs) are immunotherapies of the monoclonal antibodies family.

Antigen/tumor associated antigen (TAA): an antigen is a substance that causes the organism to mount an immune defense against it. Antigens can be produced by the organism itself (self antigens) or come from the environment (non-self antigens). The latter include toxins, chemicals, bacteria, viruses, parasites and other substances from outside the body. The characteristic antigen was of tumor cells or infected cells can be vectorized and integrated into our immunotherapies. Thus the surface antigen of the hepatitis B virus was integrated into TG1050; the MUC1 tumor associated antigens were integrated into TG4010, and HPV-16 E6 and E7 into TG4001, both therapeutic vaccines, to increase the immune response to the cells expressing these antigens.

T cells or T lymphocytes: type of white blood cells belonging to the immune system and developing from stem cells in bone marrow. They help protect the body from infections and can help fight cancer. Transgene immunotherapies are designed to increase the immune response primarily by activating these T-lymphocytes.

Cytokine: a large category of small proteins involved in the immune defense system. Some cytokines boost or inhibit the immune system, as needed.

Cytolysis – cytolytic: tending to dissolve (destroy) cells. The cytolysis may be caused by the T-lymphocytes (a specific immune response) or by an oncolytic virus like Pexa-Vec.

Orphan drug designation: a classification that regulatory authorities (the Food and Drug Administration in the USA, the European Medicines Agency in Europe) may apply to a drug or biological product for the treatment of a rare, fatal or chronically debilitating disease.

Gene: the functional and physical unit of heredity, transmitted from parent to child. Genes are components of DNA and most of them contain the information necessary to manufacture a specific protein.

GM-CSF: (CSF (Granulocyte-Macrophage Colony Stimulating Factor): a cytokine that acts as a growth factor on white corpuscles, especially granulocytes, macrophages and cells that become platelets. Pexa-Vec contains a sequence that codes for GM-CSF.

ICI, immune checkpoint inhibitor or blocker: new immunotherapy treatments based on monoclonal antibodies. Since 2015 several ICIs have been authorized. Their action mechanism primarily involves interactions between PD-1 and PD-L1 or CTLA4.

Interleukin-2 (IL2): a cytokine that stimulates the growth of certain cells in the immune system involved in the defense of the organism.

Lymphocytes: immune cells (white corpuscles) produced by bone marrow and found in blood and lymph. The two principal types of lymphocytes are B cells and T cells. B lymphocytes produce antibodies and T lymphocytes help destroy tumor cells and control the immune response.

Metastasis: the spread of cancer cells from one part of the body to another.

Metronomic: cancer treatment with regularly repeated low doses of drugs. This method acts not only on the tumor environment but also on the immune system by destroying blocking cells.

MUC1: protein found in certain epithelial cells, which line the internal surfaces of the organism (lungs, stomach, breasts, ovaries, intestines, etc.). The aberrant form of MUC1 is found in abnormal quantities in cancerous patients, known as a tumor associated antigen or TAA.

MVA (Modified Virus Ankara): a highly attenuated strain of the vaccine developed towards the end of the campaigns to eradicate smallpox, primarily for people sensitive to conventional vaccination. MVA is an attenuated virus often used to develop vaccines for antigen expression. The MVA virus is a desirable vaccine strain for clinical studies because of its outstanding safety. TG4010 and TG4001 resulted from MVA.

PD-1, PD-L1: On the surface of t-cells there is a molecule, PD-1, which is bound to another molecule, PD-L1, on the surface of certain cancerous cells. This interaction prevents the t-lymphocyte from acting on the abnormal cell and allows the tumor to grow. By inhibiting PD-1 or PD-L1, the ICIs help the immune system to once again be able to eliminate cancerous cells. These markers, however, are expressed in patients to varying degrees. When patients have a high level of PD-L1s, ICIs have shown genuine effectiveness with certain diagnoses. When the PD-L1 level is low or undetectable ("negative PD-L1" patients), ICIs have not, to date, shown sufficient effectiveness.

Phase 1 (clinical study): the first step in testing of a drug in humans, either in healthy volunteers or in patients with various diseases. The phase 1 study tests a medication or treatment on a small number of people in order to evaluate safety and the maximum dose tolerated.

Phase 2 (clinical study): phase 2 clinical studies include a greater number of patients than phase 1 and are designed to evaluate the safety, dosage and sometimes the effectiveness of the new drug or treatment.

Phase 3 (clinical study): phase 3 clinical studies can involve hundreds or thousands of patients depending on the disease, and are designed to evaluate the safety and effectiveness of a drug in a controlled setting.

Poxvirus: a large family of DNA viruses, the best known of which are the vaccine viruses that enabled the global eradication of smallpox in the late 1970s. Because it is so effective, this virus family is used today for other infectious diseases (HIV, tuberculosis, RSV, ebola) or in oncology (therapeutic vaccines, oncolytic agents).

Protein: a molecule made up of chains of units called amino acids. There are 21 of these amino acids, and some are known as essential amino acids since our bodies cannot synthesize them. These molecules play a number of roles: structural, as sensors, for repair, etc.

Protocol: the detailed plan of a scientific or medical experiment, a treatment or procedure. The protocol of a clinical study describes what is done, how and why.

Randomized: in a randomized clinical study the patients are assigned by chance to separate groups to compare different treatments.

Receptor: a molecule inside or on the surface of a cell that binds to a specific substance and causes a biological reaction in the cell.

Recombinant: a molecule (DNA or protein) is recombinant when a new combination is made of its genetic material. For example, when DNA segments from different sources are joined to produce an original sequence.

Refractory: a disease is said to be refractory or resistant if it does not respond to a treatment.

Objective tumor response: an objective tumor response is measurable. It is most often evaluated with medical imaging and is one of the major indicators in evaluating a cancer therapy.

Stage: the level of growth of a cancer. Stage is generally determined by the volume of the tumor, whether or not the lymph nodes have been affected and by the extent to which the cancer has spread from the original site to other areas of the body. Stages run from 0 to IV, with IV being the most advanced stage.

Targeted therapy: a treatment that uses drugs to specifically identify, block or destroy cancer cells, with less damage to normal cells.

Solid tumor: an abnormal mass of tissue that usually does not contain cysts or liquid areas. Solid tumors can be benign (non-cancerous) or malignant (cancerous).

Therapeutic vaccines: Their purpose is to induce innate and adaptive immune responses by triggering a cascade of immune reactions that result in the production of T-lymphocytes that specifically destroy the tumor/infected cells.

Vascularization: the formation of blood vessels in the human body or an organ.

Viral vaccine vector: an attenuated form of a virus transporting one or several antigens. The vector is used to produce one or more antigens in the organism and stimulate the immune system, forcing it to mount an immune response against the targeted antigen(s).

Oncolytic virus: a virus that selectively infects cancer cells and destroys them. When the infected cancer cells are destroyed by lysis, they liberate new infectious viral particles that in turn help destroy the surrounding tumor cells. When the infected cancer cells are destroyed by lysis, they liberate new infectious viral particles that in turn help destroy the surrounding tumor cells. Besides directly destroying tumor cells, oncolytic viruses stimulate tumor-fighting immune responses in the patient. Pexa-Vec and TG6002 are oncolytic viruses. A first oncolytic virus, Imlygic®, has been authorized for patients with metastatic melanomas.

Some definitions were adapted from the online dictionary of the National Cancer Institute at www.cancer.gov.

6.7 APPENDIX: MANAGEMENT REPORT FOR THE PERIOD ENDED DECEMBER 31, 2016

Ladies and Gentlemen,

We have called this Ordinary General Shareholders' Meeting to approve the financial statements for the fiscal year ended December 31, 2016 and to vote on several other resolutions.

This management report in addition to the topics it is legally obliged to cover, discusses the business and operations of our Company during the fiscal year ended, points out the key events, analyzes the financial statements and provides an outlook for 2017.

2016 saw us reaffirm our clinical development strategy, with clinical collaboration agreements and progress in managing or preparing for a number of clinical trials on five products. We also reinforced our financial resources and finalized our reorganization started in 2015, giving us financial visibility to the end of 2018.

Major steps forward in our strategy for and reinforcement of financial visibility

In 2016, Transgene was focused on implementing its strategy of combining its therapeutic vaccines and oncolytic viruses with other immunotherapy approaches, particularly immune checkpoint inhibitors (ICIs). The maturation of the clinical data obtained by the ICIs, which were presented during major meetings (ASCO, ESMO, etc.), validated the relevance and potential of Transgene's clinical positioning in combination studies. Several clinical trials have recently started or are being initiated to confirm the potential of combining Transgene's approaches with ICIs. The first results from these studies are expected from the end of 2017.

Two clinical collaboration agreements on TG4010 and TG4001

During 2016, we signed two clinical collaboration agreements combining our immunotherapies with immune checkpoint inhibitors.

October 2016 saw us announce the signature of a collaboration agreement with the alliance of Merck KGaA and Pfizer to assess the potential of the TG4001 therapeutic vaccine in combination with avelumab, a fully humanized anti-PD-L1 IgG1 monoclonal antibody under research, in the treatment of the head and neck squamous cell carcinoma (HNSCC) which are Human Papilloma Virus (HPV)-positive, following the failure of standard treatments, in a phase 1/2 clinical trial sponsored by Transgene. The trial's principal investigator is Professor Christophe Le Tourneau, a renowned expert in ENT cancers who heads up early-stage trials at the Institut Curie. The trial will take place in France and the first patients are expected to be enrolled in mid-2017.

In December 2016, Transgene announced a collaboration agreement with UC Davis (California, USA) to evaluate TG4010 in combination with Opdivo® (nivolumab) in the second-line treatment of metastatic non-small cell lung cancer (NSCLC). The trial (an "investigator-initiated" trial) is sponsored by UC Davis Medical Center. Transgene provides financial support and supplies of TG4010, while Bristol-Myers Squibb supplies nivolumab. Doctor Karen Kelly, a world-renowned lung cancer expert and Associate Director for Clinical Research at UC Davis Comprehensive Cancer Center, is the principal investigator of this phase 2 study. The first patients should be enrolled during the first half of 2017.

New funding offer financial visibility to the end of 2018

We strengthened our financial structure during the year to give visibility through the end of 2018 and successfully complete our clinical program.

A €20 million loan from the European Investment Bank (EIB) was granted in January 2016, of which €10 million were drawn down in June 2016.

A successful capital increase was conducted by the Company in November 2016, with retention of preferential subscription rights. The gross proceeds from the issue, including the issue premium, amounted to €46.4 million and 17,849,044 new shares were issued at €2.60 per share, while the issue was around 96.5% subscribed. TSGH took up 75% of the initial offering, bringing its stake in Transgene's capital to 60%, which represents 69.1% of the voting rights.

Finalization of the reorganization started in 2015

On June 29, 2015, the Company announced its restructuring plans in order to focus its resources on R&D, reposition its vertical integration strategy by outsourcing bio-manufacturing and pharmaceutical development activities, and redefine its organization to remain competitive and ensure a sustainable future. Its focus would now be on its core expertise: immuno-engineering of viral vectors and clinical developments.

In 2016, Transgene completed its reorganization, notably with the disposal in February 2016 of the assets of its bio-production site located at Illkirch-Graffenstaden to ABL Europe SAS, a research and production company wholly-owned by ABL, Inc. and a member of Institut Mérieux. Under this deal, the production assets were sold for a total of €3.5 million.

The redundancy plan introduced in 2015 continued in 2016 and employees on reclassification leave should no longer be part of the workforce as of mid-2017. The final cost of the plan is expected to be in line with the initial estimates of approximately €7.5 million. €6.1 million of this amount was disbursed by the Company as at December 31, 2016.

The total workforce was 149 people at December 31, 2016, excluding employees on reclassification leave.

The expected financial impacts of the restructuring plan were confirmed in 2016 as we saw a significant €14 million decrease in operating expenses compared with 2015 (€42 million in 2016, from €56 million in 2015).

Development of key products in 2016

The key events and operating results in 2016 of products in development are outlined below:

- **TG4010**:
  - a collaboration agreement with UC Davis (California, USA) to evaluate TG4010 in combination with nivolumab in a phase 2 clinical trial in the second-line treatment of metastatic non-small cell lung cancer (NSCLC); nivolumab is supplied by Bristol-Myers Squibb;
  - preparation of a phase 2 clinical trial of TG4010 as a first-line treatment for NSCLC.
- **Pexa-Vec**:
  - first patient treated in the phase 3 clinical trial of Pexa-Vec (PHOCUS) in the first-line treatment of advanced liver cancer;
  - poster presentation of the PHOCUS phase 3 clinical trial during the annual American Society of Clinical Oncology (ASCO) meeting in Chicago (USA);
  - preparation of two phase 1/ 2 trials to combine Pexa-Vec with ICIs in the treatment of solid tumors.
- **TG4001**:
  - clinical collaboration agreement with Merck KGaA and Pfizer to assess the potential of TG4001 combined with avelumab in a phase 1/2 clinical trial on HPV-positive head and neck squamous cell carcinoma (HNSCC);
  - preparation of the clinical trial.
- **TG1050**:
  - positive recommendation of the Safety Review Committee to continue the phase 1/1b study of TG1050 in chronic hepatitis B. No serious side effects reported in patients following a single injection of TG1050;
  - continuation of the phase 1/1b and randomization of the first patient receiving multiple TG1050 injections;
  - presentation of a poster on TG1050 clinical results at the 2016 Liver Meeting of the American Association for the Study of Liver Disease (AASLD) annual meeting in Boston (USA).
- **TG6002**:
  - preparation of the first trial on humans in the treatment of glioblastoma.

We pursued our strategy in 2016 giving priority to trials of its products combined with other immunotherapy products, including immune checkpoint inhibitors (ICIs), and made significant progress in preparing new trials due to start in 2017. These trial launches and collaborations demonstrate our capacity to become a major force in immunotherapy. These developments position the Company favorably to forge major partnerships with the pharmaceutical industry and deliver clinical benefits to patients with severe diseases hoping for better treatments.

The main forecasts for 2017 regarding products under development are as follows:

- **TG4010**:
  - start of the phase 2 trial of TG4010 in combination with nivolumab in the second-line treatment of non-small cell lung cancer, and initial results;
  - start of the phase 2 trial of TG4010 in combination with an ICI and standard chemotherapy in the first-line treatment of non-small cell lung cancer.
- **Pexa-Vec**:
  - first European patient enrolled in the phase 3 clinical trial (PHOCUS) of Pexa-Vec, in the first line treatment of advanced liver cancer;
  - first patient treated in the phase 1 ISI-JX clinical trial at Centre Léon Bérard (Lyon), evaluating intratumoral injection of Pexa-Vec combined with ipilimumab in solid tumors. The trial seeks to evaluate the efficacy of the combination therapy;
  - first patient treated in the phase 2 clinical trial of Pexa-Vec combined with nivolumab in the first-line treatment of advanced liver cancer.
- **TG1050**: initial results of the safety profile of all patients enrolled in phase 1/1b with chronic hepatitis B.
- **TG6002**: launch of first-in-humans trial in glioblastoma.

Review of research activities

2016 has also been active in terms of research and preclinical developments:

- the design of novel oncolytic viruses to modulate the tumor micro-environment and stimulate the body's anti-tumor response. These new oncolytic viruses are appropriate candidates for combinations with immune checkpoint inhibitors (ICIs), antibody fragments or degrading enzymes of immunosuppressive agents;
- the development of new and innovative preclinical selection approaches, and new methods for administering and characterizing new drug candidates.

A poster presentation at the most recent American Association for Cancer Research (AACR) meeting in April 2016 garnered much attention. The poster showed the characteristics of an oncolytic vaccinia virus expressing an anti-PD-1 antibody and demonstrated our ability to design advanced multifunction viruses in a "2-in-1" approach. The purpose of integrating complex therapeutic approaches in an oncolytic virus is to generate several new drug candidates.

Regulated Agreements

The following agreements and commitments previously approved by the General Shareholders' Meeting pursuant to Article R. 225-38 of the French Commercial Code continued during the FY 2016:

- asset Purchase Agreement and the following related agreements [(1)]:
  - preliminary sales agreement for the land and manufacturing building in Illkirch-Graffenstaden,
  - notarial deed on the land and manufacturing building in Illkirch-Graffenstaden,
  - Transition Services Agreement,
  - agreement for subleasing a part of the QC laboratory at the Company's headquarters;
- Social Agreement for reclassifying employees; and
- Exclusive Services Agreement;
- employee transfer and mobility agreement between Institut Mérieux, Mérieux NutriSciences, Transgene, Théra Conseil, Mérieux Développement, ABL Inc. and bioMérieux SA; and
- contract for the provision of services between Transgene and Institut Mérieux.

Change in financial position

At December 31, 2016, Transgene SA's available cash and available-for-sale financial assets totaled €56.2 million. Transgene forecasts net cash outflows of approximately €30 million for 2017.

The 2016 corporate financial statements, which will be put to your Ordinary General Shareholders' Meeting for approval, show a loss of €22 million and shareholders' equity of €49 million.

Significant events after the balance sheet date

None.

Other items

Transactions by senior executives and corporate officers in the Company's securities

None.

Factors that could have an impact in the event of a public offering

Shareholder structure: the majority shareholder is TSGH, as stated above. The Company is thus ultimately controlled by Alain and Alexandre Mérieux through Compagnie Mérieux Alliance that owns 100% of Institut Mérieux that itself owns 98,75% of TSGH.

Under the share buyback program authorized by the General Shareholders' Meeting of May 24, 2016, the Company set up a liquidity contract in 2016. As of December 31, 2016, we held 49,348 treasury shares under this contract.

Furthermore, the Company has not set up any measures, statutory or conventional, that may impact a public offering and has no knowledge of any agreements between shareholders likely to affect them.

(1) These agreements came into force on February 1, 2016 and were approved by the General Shareholders' Meeting of May 24, 2016.

Information on supplier payment terms

Article L. 441-6 paragraph 9 of the French Commercial Code provides that the time agreed upon between the parties for the payment of sums due may not exceed 45 days from the last day of the month or 60 days from the invoice date. Absent an agreement, the maximum period is 30 days from the date of receipt of the merchandise or performance of service.

With regard to Transgene's suppler invoices that were not paid at the end of the year, the breakdown by settlement date is as follows:

	At 12/31/2016		At 12/31/2015	
Maturity	**Euros**	**% of total**	**Euros**	**% of total**
Past due	307,517	50%	264,164	18%
Between 1 and 30 days	300,647	49%	993,707	68%
Between 31 and 45 days	3,023	1%	125,100	9%
Between 46 and 60 days	-	-	71,892	5%
Between 61 and 75 days	-	-	-	-
Between 76 and 90 days	-	-	-	-
Between 91 and 105 days	-	-	-	-
Between 106 and 120 days	-	-	-	-
More than 120 days	-	-	-	-
TOTAL	**611,187**	**100%**	**1,454,864**	**100%**

CROSS-REFERENCE TABLE, MANAGEMENT REPORT/REGISTRATION DOCUMENT

Other parts of the management report incorporated in this Registration document		Please refer to the Registration document
	2016 corporate financial statements	Section 4.3
Annual financial statements	2016 consolidated financial statements	Section 4.1
	List of corporate offices	Paragraph 2.1.1
Corporate officers	Compensation	Section 2.2
Subsidiaries and investments		Paragraph 4.3.2 Note 27
	Risk factors	Section 1.4.2
	Table of authorizations for the Board to increase the capital	Paragraph 5.1.5
	Shareholders structure	Section 5.2
Other information	Corporate Social Responsibility	Chapter 3
	Stock options report	Paragraph 2.2.3
Special reports	Report on free shares awards	Paragraph 2.2.4

TABLE OF TRANSGENE FINANCIAL INCOME OVER THE LAST FIVE FISCAL YEARS

(Articles R. 225-81, R. 225-83 and R. 225-102 of the French Commercial Code)

(in € thousands except for per share data)

Category	2012	2013	2014	2015	2016
1. Financial position at year-end					
a) Share capital	72,886	72,933	88,156	88,196	56,432
b) Number of shares issued	31,854,490	31,874,858	38,527,968	38,545,397	56,431,991
2. Comprehensive operating net income/(loss)					
a) Revenue excl. VAT	2,362	2,958	2,340	1,821	3,984
b) Profit before tax, depr., amort. & provisions	(46,635)	(47,782)	(56,685)	(41,646)	(35,378)
c) Income tax expense	8,463	8,901	8,463	7,943	6,337
d) Profit after tax, depreciation and provisions	(40,436)	(41,454)	(50,884)	(45,006)	(22,056)
e) Earnings distributed	-	-	-	-	-
3. Operating earnings per share					
a) Profit after tax but before amortization, depreciation and provisions	(1.20)	(1.22)	(1.25)	(1.08)	(0.63)
b) Profit after tax, amortization, depreciation and provisions	(1.27)	(1.30)	(1.32)	(1.17)	(0.39)
c) Dividend per share	-	-	-	-	-
4. Personnel					
a) Number of employees	299	287	284	256	176
b) Total payroll	13,882	14,149	14,055	12,341	13,502
c) Amount paid in social benefits (social security, welfare plans, etc.)	7,324	7,439	7,216	6,670	5,402

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