L'IMMUNOTHÉRAPIE POUR LA MÉDECINE DE DEMAIN

transgene

INTERIM FINANCIAL REPORT AT JUNE 30, 2018

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1.

2018 INTERIM FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET, IFRS (in € thousands)

ASSETS	NOTE	06/30/2018	12/31/2017
CURRENT ASSETS			
Cash and cash equivalents	2	4,403	1,643
Other current financial assets	2	28,641	39,762
Cash, cash equivalents and other current financial assets	**2**	**33,044**	**41,405**
Trade receivables		1,813	2,564
Inventories		314	270
Other current assets	3	13,728	14,497
Assets available for sale	4	2,412	-
TOTAL CURRENT ASSETS		**51,311**	**58,736**
NON-CURRENT ASSETS			
Property, plant and equipment	5	13,921	13,604
Intangible assets	6	205	250
Non-current financial assets	7	4,078	3,971
Investments in associates	7	-	2,916
Other non-current assets	8	15,611	21,396
TOTAL NON-CURRENT ASSETS		**33,815**	**42,137**
TOTAL ASSETS		**85,126**	**100,873**

LIABILITIES AND EQUITY	NOTE	06/30/2018	12/31/2017
CURRENT LIABILITIES			
Trade payables		3,745	2,868
Current financial liabilities	9	11,145	10,283
Provisions for risks	10	18	356
Other current liabilities	11	3,662	3,359
TOTAL CURRENT LIABILITIES		**18,570**	**16,866**
NON-CURRENT LIABILITIES			
Non-current financial liabilities	9	48,727	51,717
Employee benefits	12	3,864	3,710
Other non-current liabilities	10	324	491
TOTAL NON-CURRENT LIABILITIES		**52,915**	**55,918**
TOTAL LIABILITIES		**71,485**	**72,784**
EQUITY			
Share capital	13	62,276	62,075
Share premiums et reserves		512,410	512,228
Retained Earnings		(545,468)	(513,194)
Profit/(loss) for the period		(14,874)	(32,274)
Other comprehensive income/(loss)		(703)	(746)
TOTAL EQUITY ATTRIBUTABLE TO COMPANY SHAREHOLDERS		**13,641**	**28,089**
TOTAL EQUITY AND LIABILITIES		**85,126**	**100,873**

CONSOLIDATED BALANCE SHEET, IFRS (in € thousands)

	NOTE	06/30/2018	6/30/2017
Revenue from collaborative and licensing agreements	14	605	472
Public funding for research expenses	14	2,837	3,028
Other income	15	106	398
OPERATING INCOME		**3,548**	**3,898**
Research and development expenses	1.3.1	(13,767)	(16,855)
General and administrative expenses	1.3.2	(2,963)	(3,066)
Other expenses	15	(82)	(107)
NET OPERATING EXPENSES		**(16,812)**	**(20,028)**
INCOME/(LOSS) FROM CONTINUING OPERATIONS		**(13,264)**	**(16,130)**
Net finance cost	16	(1,107)	(981)
Share of profit/(loss) of associates	7	(503)	(1,235)
INCOME TAX EXPENSE		**(14,874)**	**(18,346)**
Income tax expense	17	-	-
NET COMPREHENSIVE INCOME/ (LOSS)		**(14,874)**	**(18,346)**
Basic loss per share (€)	13	(0.24)	(0.33)
Diluted earnings per share (€)	13	(0.24)	(0.33)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, IFRS (in € thousands)

	06/30/2018	06/30/2017
NET INCOME/(LOSS)	**(14,874)**	**(18,346)**
Foreign exchange gains/(losses)	-	(2)
Revaluation of hedging instruments	43	79
OTHER COMPREHENSIVE INCOME RE-CLASSIFIABLE INTO PROFIT OR LOSS	**43**	**77**
NET COMPREHENSIVE INCOME/ (LOSS)	**(14,831)**	**(18,269)**
Of which, attributable to parent company	(14,831)	(18,269)
Of which, minority interests:	-	-

CASH FLOW STATEMENT, IFRS (in € thousands)

	NOTE	06/30/2018	06/30/2017
CASH FLOW FROM OPERATING ACTIVITIES			
Net income/(loss)		(14,874)	(18,346)
Cancellation of financial income		1,107	981
ELIMINATION OF NON-CASH ITEMS			
Income of associates		503	1,235
Provisions		(184)	(770)
Depreciation	5, 6, 7	866	747
Share-based payments	18.2	202	218
Other	15	11	18
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES BEFORE CHANGE IN WORKING CAPITAL AND OTHER OPERATING CASH FLOW		**(12,369)**	**(15,917)**
CHANGE IN OPERATING WORKING CAPITAL REQUIREMENTS			
Current receivables and prepaid expenses	22	1,046	(78)
Inventories and work in progress		(44)	27
Research tax credit (RTC)	14,2	(2,914)	(3,113)
Other current assets	3	289	1,119
Trade payables	22	996	(408)
Prepaid income	11	(179)	1,026
Employee benefits	12	79	(563)
Other current liabilities	11	236	(20)
NET CASH USED IN OPERATING ACTIVITIES		**(12,860)**	**(17,927)**
CASH FLOWS FROM INVESTING ACTIVITIES			
(Acquisitions)/disposals of property, plant and equipment	5	(1,243)	160
(Acquisitions)/disposals of intangible assets	6	(25)	(10)
Other (acquisitions)/disposals	7	891	10
NET CASH USED IN INVESTING ACTIVITIES		**(377)**	**160**
CASH FLOWS FROM FINANCING ACTIVITIES			
Net financial income/(loss) proceeds	16	(67)	(239)
Conditional subsidies	9.2	30	29
(Acquisition)/disposal of other financial assets	2	11,120	10,499
Net amounts received for financing of tax credits	9	4,669	6,294
Financial leases	9	244	(578)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		**15,996**	**16,005**
Exchange rate differences on cash and cash equivalents		1	(2)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**2,760**	**(1,764)**
Cash and cash equivalents at beginning of period		1,643	4,855
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**4,403**	**3,091**
Investments in other current financial assets		28,642	40,852
CASH, CASH EQUIVALENTS AND OTHER CURRENT FINANCIAL ASSETS		**33,045**	**43,943**

STATEMENT OF CHANGES IN EQUITY, IFRS (In € thousands or number of shares)

	COMMON SHARES		SHARE PREMIUMS AND RESERVES	RETAINED EARNINGS	OTHER COMPREHENSIVE INCOME/(LOSS)	PROFIT/(LOSS) FOR THE PERIOD	TOTAL ATTRIBUTABLE TO SHAREHOLDERS' BUSINESS ACTIVITY
	NUMBER OF SHARES	SHARE CAPITAL					
JUNE 30, 2017	**56,431,991**	**56,432**	**504,555**	**(513,194)**	**(906)**	**(18,346)**	**28,542**
Capital increase	5,643,199	5,643	7,847	-	-	-	13,489
Liquidity contract	-	-	(174)	-	-	-	(174)
Profit/(loss) for the period	-	-	-	-	-	(13,928)	(13,928)
Fair value gains on available-for-sale financial assets	-	-	-	-	(2)	-	(2)
Actuarial gains/losses on employee benefit provision	-	-	-	-	107	-	107
Interest rate swap	-	-	-	-	55	-	55
AS OF DECEMBER 31, 2017	**62,075,190**	**62,075**	**512,228**	**(513,194)**	**(746)**	**(32,274)**	**28,089**
Capital increase	200,733	201	1	-	-	-	202
Liquidity contract	-	-	181	-	-	-	181
Allocation of net income/(loss) 2017	-	-	-	(32,274)	-	32,274	-
Profit/(loss) for the period	-	-	-	-	-	*(14,874)*	*(14,874)*
Interest rate swap	-	-	-	-	*43*	-	*43*
Net comprehensive income/(loss)	-	-	-	-	43	(14,874)	(14,831)
JUNE 30, 2018	**62,275,923**	**62,276**	**512,410**	**(545,468)**	**(703)**	**(14,874)**	**13,641**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOREWORD

Transgene's (the "Company") consolidated financial statements as of June 30, 2018 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). They were prepared under the responsibility of the Chairman and Chief Executive Officer.

The interim 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 to the financial statements.

NOTE 1 ACCOUNTING PRINCIPLES

ACCOUNTING BASIS

The Company's interim consolidated financial statements for the six months ended June 30, 2018 were prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU. As interim financial statements, they do not include all the information required under IFRS and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2017, presented in the "Document de référence" submitted to the Autorité des Marchés Financiers (AMF) on April 6, 2018.

Accounting principles used to prepare the interim consolidated financial statements are in accordance with IFRS standards and interpretations as adopted by the EU as of June 30, 2018 and are available on the website http://ec.europa.eu/internal_market/accounting/ias_fr.htm#adopted-commission. The Company has not applied the published accounting principles, interpretations and amendments that are not yet in force.

NEW STANDARDS/AMENDMENTS APPLICABLE FOR FISCAL YEARS STARTING ON OR AFTER JANUARY 1, 2018 IN EUROPE:

STANDARD/INTERPRETATION	DATE OF APPLICATION PER IASB (periods beginning on or after)	EU DATE OF APPLICATION (no later than periods beginning on or after)
IFRS 9 – Financial Instruments	01/01/2018	01/01/2018
IFRS 15 Revenue from Contracts with Customers & effective date of amendments to IFRS 15	01/01/2018	01/01/2018
Clarifications made regarding IFRS 15	01/01/2018	01/01/2018
Amendments to IFRS 2: Classification and Measurement of Share-based Payment	01/01/2018	01/01/2018
Amendments to IFRS 4: Application of IFRS 9 Financial Instruments and IFRS 4 Insurance Contracts	01/01/2018	01/01/2018
Contracts Annual Improvements to IFRS (2014-2016 cycle)	01/01/2018	01/01/2018
Amendments to IAS 28: Exemption from applying the equity method – measuring an associate or JV at fair value		
IFRIC 22 – Foreign Currency Transactions and Advance Consideration	01/01/2018	01/01/2018
Amendments to IAS 40: Transfers of Investment Property	01/01/2018	01/01/2018

The Group has retroactively applied IFRS 15, including the amendments "Clarifications to IFRS 15 – Revenue from Contracts with Customers".

The standard sets the principles for revenue recognition based on a five-step analysis:

- identification of the contract;
- identification of the various performance obligations, i.e. the list of separate goods or services that the seller has undertaken to provide to the buyer;
- determination of the total contract price;
- allocation of the total price to each performance obligation;
- recognition of revenue and related costs whenever a performance obligation is satisfied.

The analysis performed by the Group did not have an impact on the Group's financial statements.

As from January 1, 2018, Transgene also applies IFRS 9 "Financial Instruments", which replaces IAS 39 "Financial Instruments", which includes the three aspects of recognition of financial instruments:

- classification and valuation;
- depreciation;
- hedge accounting;
- the standard was applied retroactively and had no impact on the Group's financial statements.

OTHER STANDARDS AND AMENDMENTS PUBLISHED AT JUNE 15, 2018

<table>
<tr><th>STANDARD/INTERPRETATION</th><th>DATE OF APPLICATION PER IASB
(periods beginning on or after)</th><th>EU DATE OF APPLICATION
(no later than periods beginning on or after)</th></tr>
<tr><td>Amendments to IFRS10 and IAS28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Effective date of amendments to IFRS 10 and IAS 28</td><td>Reportée sine die</td><td>Suspended</td></tr>
<tr><td>IFRS 16 Leases</td><td>01/01/2019</td><td>01/01/2019</td></tr>
<tr><td>IFRIC 23 – Uncertainty over Income Tax Treatments</td><td>01/01/2019</td><td>Endorsement expected in Q3 2018</td></tr>
<tr><td>IFRS 17 – Insurance contracts</td><td>01/01/2021</td><td>ND</td></tr>
<tr><td>Amendments to IFRS 9:
Prepayments with negative compensation features</td><td>01/01/2019</td><td>01/01/2019</td></tr>
<tr><td>Amendments to IAS 28:
Long-term Interests in Associates and Joint Ventures</td><td>01/01/2019</td><td>Endorsement expected in 2018</td></tr>
<tr><td>Annual Improvements to IFRS 2015-2017 cycle</td><td rowspan="4">01/01/2019</td><td rowspan="4">Endorsement expected in 2018</td></tr>
<tr><td>Amendments to IFRS 3 Business Combinations & IFRS 11 Joint Arrangements</td></tr>
<tr><td>Amendments to IAS 12 Income taxes</td></tr>
<tr><td>Amendments to IAS 23 Borrowing costs</td></tr>
<tr><td>Amendments to IAS 19:
Plan Amendment, Curtailment or Settlement</td><td>01/01/2019</td><td>Endorsement expected in 2018</td></tr>
<tr><td>Changes to references to Conceptual Framework in IFRS</td><td>01/01/2020</td><td>ND</td></tr>
</table>

Transgene continues to analyze the entry into force of IFRS 16 in the financial statements as of January 1, 2019 and considers it unlikely that the application of the standard would have a significant impact on the Company's consolidated financial statements.

1.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

To prepare financial statements in accordance with IFRS, Transgene's management made estimates and assumptions, particularly with respect to the valuation of equity investments, the price supplements payable by SillaJen and the valuation of advances repayable on ADNA, 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.

1.2 BASIS OF CONSOLIDATION

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

Equity consolidated affiliates consist of the stakes held by Transgene SA in ElsaLys Biotech SAS (15.22%).

Transgene SA's 50% stake in Transgene Tasly (Tianjin) Biopharmaceuticals Co. Ltd. was consolidated by the equity method until June 30, 2018. This entire stake was sold to Tasly Biopharmaceuticals Co. Ltd. on July 10, 2018. Due to the uncertainty surrounding the completion of the transaction until its final signature, the equity method was maintained until June 30, 2018 and the net value of the securities was reclassified as "Assets available for sale" in the balance sheet as of June 30, 2018. (see Note 4).

1.3 PRESENTATION OF THE CONSOLIDATED INCOME STATEMENT

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

1.3.1 RESEARCH AND DEVELOPMENT EXPENSES

IN € MILLIONS	06/30/2018	06/30/2017	CHANGE
Payroll costs	5.9	5.8	+3%
Share-based payments	0.1	0.1	+1%
Intellectual property expenses and licensing costs	0.4	4.3	-90%
External expenses for clinical projects	3.7	3.2	+16%
External costs on other projects	0.7	0.7	+4%
Operating costs	2.0	1.9	+4%
Depreciation, amortization and provisions	0.9	0.9	-3%
RESEARCH AND DEVELOPMENT EXPENSES	**13.8**	**16.9**	**-18%**

1.3.2 GENERAL AND ADMINISTRATIVE EXPENSES

IN € MILLIONS	06/30/2018	06/30/2017	CHANGE
Payroll costs	1.7	1.6	+3%
Share-based payments	0.1	0.1	-20%
Fees and administrative expenses	0.8	0.8	-3%
Other G&A expenses	0.4	0.5	-20%
Depreciation, amortization and provisions	0.0	0.0	-7%
GENERAL AND ADMINISTRATIVE EXPENSES	**3.0**	**3.1**	**-3%**

1.4 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 Company 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.

NOTE 2 CASH AND CASH EQUIVALENTS AND OTHER CURRENT FINANCIAL ASSETS

IN € THOUSANDS	06/30/2018	12/31/2017
Cash	3,384	627
Cash equivalents	1,019	1,016
CASH AND CASH EQUIVALENTS	**4,403**	**1,643**
OTHER CURRENT FINANCIAL ASSETS	**28,641**	**39,762**
TOTAL	**33,044**	**41,405**
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	06/30/2018	12/31/2017
Research tax credit, current portion	8,316	9,218
Government – recoverable VAT and tax receivables	108	140
Accrued credit notes	-	250
Employee benefits expense	20	29
Grant receivable	-	30
Prepaid expenses, current portion	3,364	3,005
Receivables from the sale of participating interests, current portion	1,920	1,825
TOTAL	**13,728**	**14,497**

The current portion of research tax credits represents the amount receivable for 2015 that is expected to be paid by the State in the first half of 2019 (see Note 8).

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. to Sillajen, Inc. (see Note 8).

NOTE 4 ASSETS AVAILABLE FOR SALE AND DISCONTINUED OPERATIONS

On July 10, 2018, Transgene signed several agreements with Tasly Biopharmaceuticals Co., Ltd. Transgene sold its entire 50% stake in the Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. joint venture. At the same time, Transgene sold T101's Greater China patent rights, which were already under option in the joint venture, directly to Tasly Biopharmaceuticals. In return, Transgene received a total of $48 million in the form of new Tasly Biopharmaceuticals shares.

Since the decision to sell was made in the first half of 2018, the net value of the shares in the Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. joint venture, which had previously been presented in "Equity investments in affiliates", was reclassified as "Assets available for sale" in the June 30, 2018 balance sheet.

Given the sale price of Transgene's 50% stake in the JV, no impairment of shares in the JV was necessary as of June 30, 2018.

NOTE 5 PROPERTY, PLANT AND EQUIPMENT

IN € THOUSANDS	12/31/2017	Increase	Decrease	06/30/2018
GROSS CARRYING VALUE				
Land	1,771	-	-	1,771
Buildings and fixtures	15,793	195	-	15,988
Laboratory equipment	9,751	995	(28)	10,718
Office and computer equipment	1,605	50	(45)	1,610
Assets in progress	357	400	(515)	242
TOTAL	**29,277**	**1,640**	**(588)**	**30,329**
DEPRECIATION AND PROVISIONS				
Buildings and fixtures	(8,073)	(456)	-	(8,529)
Laboratory equipment	(6,213)	(281)	20	(6,474)
Office and computer equipment	(1,387)	(59)	41	(1,405)
TOTAL	**(15,673)**	**(796)**	**61**	**(16,408)**
NET BOOK VALUE	**13,604**	**844**	**(527)**	**13,921**

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

IN € THOUSANDS	06/30/2018	06/30/2017
Research and development expenses	829	825
General and administrative expenses	33	36
TOTAL DEPRECIATION EXPENSES FOR PROPERTY, PLANT AND EQUIPMENT	**862**	**861**

NOTE 6 INTANGIBLES ASSETS

IN € THOUSANDS	12/31/2017	Increase	Decrease	06/30/2018
GROSS CARRYING VALUE				
Intangible assets	4,244	25	-	4,269
TOTAL	**4,244**	**25**	**-**	**4,269**
Depreciation and amortization of intangible assets	(3,994)	(70)	-	(4,064)
TOTAL	**(3,994)**	**(70)**	**-**	**(4,064)**
NET BOOK VALUE	**250**	**(45)**	**-**	**205**

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

IN € THOUSANDS	06/30/2018	06/30/2017
Research and development expenses	58	89
General and administrative expenses	13	14
TOTAL AMORTIZATION AND DEPRECIATION OF INTANGIBLE ASSETS	**71**	**103**

NOTE 7 FINANCIAL ASSETS

7.1 NON-CURRENT FINANCIAL ASSETS

IN € THOUSANDS	12/31/2017	Increase	Decrease	06/30/2018
GROSS CARRYING VALUE				
Financial assets	3,714	998	(891)	3,821
Equity interest receivables	257	-	-	257
Investments in non-consolidated companies	29	-	-	29
TOTAL	**4,000**	**998**	**(891)**	**4,107**
Provisions for impairment	(29)	-	-	(29)
NET BOOK VALUE	**3,971**	**998**	**(891)**	**4,078**

The increase in financial assets mainly stems from the retention of bank financing guarantees for the 2017 research tax credit (RTC) (see Note 9.2).

The decrease in financial assets relates to the repayment during the first half of 2018 of the guarantee retained for the 2014 research tax credit (€886 thousand).

7.2 INVESTMENTS IN ASSOCIATES

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

IN € THOUSANDS	12/31/2017	Increase	Decrease	06/30/2018
GROSS CARRYING VALUE				
Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd.	7,668	-	(7,668)	-
ElsaLys Biotech SAS	1,437	-	-	1,437
TOTAL	**9,105**	**-**	**(7,668)**	**1,437**
Share of profit/(loss) of Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd.	(4,752)	(504)	5,256	-
Share of profit/(loss) of ElsaLys Biotech SAS	(1,437)	-	-	(1,437)
TOTAL SHARE OF PROFIT/(LOSS) ATTRIBUTABLE TO TRANSGENE	**(6,189)**	**(504)**	**5,256**	**(1,437)**
Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd.	2,916	(504)	(2,412)	-
ElsaLys Biotech SAS	-	-	-	-
NET VALUE OF EQUITY INVESTMENTS IN AFFILIATES	**2,916**	**(504)**	**(2,412)**	**-**

On July 10, 2018, Transgene sold its entire 50% stake in the Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. joint venture to Tasly Biopharmaceuticals Co., Ltd. For that reason, the net value of the shares in the Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. joint venture, which had previously been presented in "Equity investments in affiliates", was reclassified as "Assets available for sale" in the June 30, 2018 balance sheet. (see Note 4)

At June 30, 2018, Transgene held 15.22% of ElsaLys Biotech SAS and the net valuation of its interest was zero. The Company also held a shareholder current account of €257 thousand and receivables of €1,407 thousand from the sale of rights for the TG3003 product and service provision invoices. These receivables are fully recoverable according to our analysis of the current position of this company.

NOTE 8 OTHER NON-CURRENT ASSETS

IN € THOUSANDS	06/30/2018	12/31/2017
RTC – Non-current portion	14,563	19,453
CICE, non-current portion	298	535
Prepaid expenses, non-current portion	162	876
Receivables from the sale of participating interests	588	532
OTHER NON-CURRENT ASSETS	**15,611**	**21,396**

RESEARCH TAX CREDIT AND TAX CREDIT FOR COMPETITIVENESS AND EMPLOYMENT

The Company has receivables amounting to €22,321 thousand in research tax credits for the period 2015-2018 and €856 thousand in CICE for the period 2014-2018. 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	06/30/2018	12/31/2017
RTC – CURRENT PORTION			
2014	2018	-	8,943
2015	2019	7,758	-
TOTAL CURRENT PORTION		**7,758**	**8 943**
RTC – NON-CURRENT PORTION			
2015	2019	-	7,758
2016	2020	6,298	6,298
2017	2021	5,397	5,397
June 2018	2022	2,868	-
TOTAL NON-CURRENT PORTION		**14,563**	**19,453**
TOTAL RTC		**22,321**	**28,396**
CICE – CURRENT PORTION			
2014	2018	275	275
2015	2019	282	-
TOTAL CURRENT PORTION		**557**	**275**
CICE – NON-CURRENT PORTION			
2015	2019	-	282
2016	2020	120	120
2017	2021	133	133
June 2018	2022	46	-
TOTAL PART NON COURANTE		**299**	**535**
TOTAL CICE		**856**	**810**

RECEIVABLES FROM THE SALE OF PARTICIPATING INTERESTS

Earn-outs due on the sale of our interest in Jennerex, Inc. are valued at amortized cost and revalued each year based on expected changes in cash flow. Future cash flows are re-estimated and discounted each year-end based on the progress of the clinical program and estimated success rates for each clinical phase. The impact of this re-estimate is recognized in net finance cost.

The receivable from the sale of participating interests of €2,505 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. €1,917 thousand (see Note 3), and other non-current assets for the portion due in over one year, i.e. €588 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 2024. 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. WACC was 14%.

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 10% on the value of the receivable. Since these milestones are payable in American dollars, the valuation of the debt is directly impacted by any change in the euro/dollar exchange rate.

Mediation is in progress to obtain the payment from SillaJen for a milestone reached in 2017 according to Transgene and the representative of the former Jennerex shareholders (including Transgene), but which is contested by SillaJen. This milestone was €1,048 thousand at June 30, 2018. The Company estimates that no impairment is to be recorded on this debt, in particular due to the analysis of the contract performed by the representative of the former shareholders.

NOTE 9 FINANCIAL LIABILITIES

The following table breaks down financial liabilities by maturity:

IN € THOUSANDS	06/30/2018	12/31/2017
Financial liabilities, current portion	11,145	10,283
Financial liabilities, non-current portion	48,727	51,717
FINANCIAL LIABILITIES	59,872	62,000

9.1 FINANCIAL LIABILITIES, CURRENT PORTION

IN € THOUSANDS	06/30/2018	12/31/2017
Property lease (see Note 9.2)	1,083	1,061
Equipment lease (see Note 9.2)	186	40
Interest on bank loan (see Note 9.2).	1,521	-
Financing of RTC and CICE (see Note 9.2).	8,355	9,182
FINANCIAL LIABILITIES – CURRENT PORTION	11,145	10,283

9.2 FINANCIAL LIABILITIES, NON-CURRENT PORTION

IN € THOUSANDS	06/30/2018	12/31/2017
Property leasing	5,652	6,199
Equipment leasing	627	4
Interest rate swap - fair value (see Note 23)	298	341
Conditional advances	20,245	19,485
Financing of the research tax credit	11,654	14,015
Financing of the competitiveness and employment tax credit	251	527
Bank loan	10,000	11,146
FINANCIAL LIABILITIES – NON-CURRENT PORTION	48,727	51,717

PROPERTY LEASING

	06/30/2018		12/31/2017	
	MINIMUM PAYMENTS	PRESENT VALUE OF THE PAYMENTS	MINIMUM PAYMENTS	PRESENT VALUE OF THE PAYMENTS
Due within one year	1,160	1,143	1,144	1,126
Due in one to five years	4,224	4,022	4,302	4,075
More than five years	1,611	1,477	2,116	1,906
Total future minimum lease payments	6,994	6,642	7,562	7,107
Finance costs included in the total	258	249	301	288
Outstanding principal:	*6,736*	6,393	7,261	6,819
- *of which current*	*1,083*	*1,068*	*1,061*	*1,044*
- *of which non-current*	*5,653*	*5,326*	*6,200*	*5,775*

EQUIPMENT LEASING

Since 2015, Transgene has acquired laboratory equipment under financial leases.

In 2018, Transgene acquired a new financial lease for a gross amount of €813 thousand payable over five years (of which €186 thousand due in the short term and €627 thousand due in more than one year and less than five years).

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.

Reimbursable advances received as part of the ADNA program are recorded according to the IAS 39.AG8 standard, based on discounted expected future reimbursements. The reimbursement of advances is subject to the fulfillment of a revenue threshold on TG4010 and TG4001 products predetermined for the following five years, and in proportion to the revenue from these products until a reimbursement ceiling is reached, or up until 2035.

The Company regularly evaluates direct and indirect revenue linked to each of the products to estimate future cash flows from the reimbursement of advances. This revenue is evaluated based on business plans that have been discounted for these two products and by a applying a comparable rate for this type of debt.

The impact of this regular re-estimate is recorded in net financial cost at the end of the fiscal year. The main assumptions reviewed in the product business plans are as follows:

- schedule for the development and marketing of the products;
- probability of success of the clinical phases;
- targeted market and market penetration rate, treatment price;
- schedule and financial terms of a development and marketing partnership (payment on signature, payment based on milestones, royalties); and
- discounted cash flow rate.

At June 30, 2018, 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 the development of the TG4010 and TG4001 products. This program ended on December 31, 2016 and the Company received the remaining sum of €1,667 thousand in July 2017. Transgene received a total of €15,942 thousand of repayable advances under this program.

On the closing date, the Company evaluated the annual direct and indirect revenue linked to the TG4010 and TG4001 products, to estimate the future cash flows from the reimbursement of advances. This revenue is evaluated based on business plans that have been discounted for these two products and by applying a discount rate of 7.5%.

As of June 30, 2018, the estimated value of future reimbursements totaled €20,245 thousand. Since the calculation assumptions were not modified during the year, the change in value observed results solely from the updating of the present value of future repayments. A 1 percentage point increase in the discount rate would have a negative impact of about 10% on the value of this debt. The product business plans are updated based on a WACC of 14%. An upward change of one point in the WACC would not have an impact on the valuation of the debt.

FINANCING OF RESEARCH TAX CREDIT AND CICE

The table below breaks down the components of the bank financing of receivables for the Company's RTC (Research tax credit) and CICE (Tax credit for competitiveness and employment):

			ASSETS				LIABILITIES		
			RECEIVABLES		SECURITY DEPOSIT	TOTAL	FINANCING		TOTAL
			OTHER ASSETS				*FINANCIAL LIABILITIES*		
Year	**Gross Amount**	Bank Financing	Current Portion	Non-current Portion	*Financial fixed assets*	**ASSETS**	Current Portion	Non-current Portion	**LIABILITIES**
RTC 2015	**7,758**	Yes	7,758	-	1,164	**8,922**	7,758	-	**7,758**
RTC 2016	**6,298**	Yes	-	6,298	939	**7,237**	-	6,256	**6,256**
RTC 2017	**5,397**	Yes	-	5,397	810	**6,207**	-	5,397	**5,397**
RTC 2018		No	-	2,868	-	**2,868**	-	-	**-**
TOTAL RTC	**19,453**	**-**	**7,758**	**14,563**	**2,913**	**25,234**	**7,758**	**11,653**	**19,411**
CICE 2014	**275**	Yes	275	-	48	**323**	320	-	**320**
CICE 2015	**282**	Yes	-	282	41	**323**	275	-	**275**
CICE 2016	**120**	Yes	-	120	21	**141**	-	141	**141**
CICE 2017	**133**	Yes	-	133	18	**151**	-	118	**118**
TOTAL CICE	**810**	**-**	**275**	**535**	**128**	**938**	**595**	**259**	**854**

EUROPEAN INVESTMENT BANK (EIB) LOAN

In 2016, the Company obtained a €20 million credit facility 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 second €10 million tranche, exercisable until December 31, 2017, was not drawn down by the Company.

This principal is repayable in full in a single bullet payment at the end of a five-year term, i.e. on June 20, 2021. Interest on the loan is not capitalized and is repayable as of June 2019, specifically for the interest accrued during the first three years. Interest due at June 30, 2018 is recognized in Current financial liabilities (€1,521 thousand).

No guarantee was provided by the Company for this loan.

NOTE 10 PROVISIONS FOR RISKS

IN € THOUSANDS	12/31/2017	PROVISIONS	RETAINED EARNINGS	REVERSALS NOT APPLICABLE	USE OF THE PROVISION	06/30/2018
Risk of charge	352	-	-	-	(334)	18
TOTAL PROVISIONS FOR RISKS	**352**	**-**	**-**	**-**	**(334)**	**18**

The provision for expense risks relates primarily to the restructuring provision amounting to €11 thousand at June 30, 2018, compared with €352 thousand at December 31, 2017. The remaining provision should be used in its entirety during 2018.

NOTE 11 OTHER LIABILITIES

OTHER CURRENT LIABILITIES

IN € THOUSANDS	06/30/2018	12/31/2017
Accrued taxes, employee benefit expense and other	3,052	2,973
Prepaid income, of which:	356	368
• *Manufacturing income*	*356*	*368*
• *Research and development grants*	-	-
Other short-term payables	254	18
TOTAL	**3,662**	**3,359**

NOTE 12 EMPLOYEE BENEFITS

12.1 PROVISIONS FOR RETIREMENT BENEFIT OBLIGATIONS

In accordance with French law, Transgene 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.

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 Transgene payroll at the time of retirement. The assumptions used to calculate these provisions for retirement are as follows:

	06/30/2018	12/31/2017
Discount rate	1.70%	1.70%
Rate of future salary increases	1.50%	1.50%
Retirement age:		
• *managers :*	age 65	age 65
• *non-managers:*	age 63	age 63
Provision (in € thousands)	3,864	3,710

Transgene agreed under the 2016 employment protection plan that employees reassigned to a Mérieux Group company could transfer their length of service in the company. Accordingly, the share of the pension obligations arising from their work at Transgene has been maintained in this provision.

NOTE 13 EQUITY

13.1 SHARE CAPITAL

As of June 30, 2018, the number of outstanding Transgene shares was 62,275,923, representing a share capital of €62,275,923.

13.2 EARNINGS PER SHARE

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

	06/30/2018	06/30/2017
BASIC EARNINGS PER SHARE		
Available net profit attributable to equity holders of the Group (in € thousands)	(14,874)	(18,346)
Average number of shares outstanding	62,275,923	56,431,991
BASIC EARNINGS PER SHARE (IN €)	**(0.24)**	**(0.33)**
DILUTED EARNINGS PER SHARE (IN €)	**(0.24)**	**(0.33)**

In the first half of 2017 and 2018, financial instruments granting the right to deferred capital (stock options and free shares) were considered anti-dilutive since they led to an increase in net earnings per share (decrease in the loss per share). Therefore, diluted earnings per share for the first half of 2017 and of 2018 were identical to basic earnings per share.

13.3 STOCK OPTION PLANS

Transgene did not grant any new stock options during the first half of 2018. The number of options outstanding at December 31, 2017 amounted to 504,329, of which 504,329 were exercisable. No change has occurred since this date.

The cost of services rendered is recognized as an expense over the vesting period. There was no expense in the first half of 2018, compared with €35 thousand in the first half of 2017.

13.4 FREE SHARE PLANS

On March 21, 2018, Transgene's Board of Directors voted to allocate 220,760 new free shares to Company employees. The total number of free shares allocated and being acquired was 383,733 shares at December 31, 2017.

The cost of services rendered is recognized as an expense over the vesting period. The expense was €202 thousand in the first half of 2018 and €183 thousand in the first half of 2017.

The award was decided on May 24, 2016 and became vested on May 24, 2018.

NOTE 14 OPERATING INCOME

14.1 REVENUE FROM COLLABORATIVE AND LICENSING AGREEMENTS

IN € THOUSANDS	06/30/2018	06/30/2017
Revenue from research and development collaboration	582	320
License fees and royalties	23	152
TOTAL	**605**	**472**

Under the collaboration agreement signed by the Company with Les Laboratoires Servier in June 2017, an initial payment of €1,000 thousand was invoiced. The income related to this initial payment is recognized over the term of the 3-year contract based on the transfer of services to the customer, which represents an income of €167 thousand recorded at June 30, 2018. The €658 thousand balance not recognized at this time was recorded in *Prepaid income* at June 30, 2018. (see Note 11).

Under the terms of the license, sublicence and collaborative research and development agreements entered into on June 30, 2018, the Group is eligible for milestone payments that depend on the achievement of milestones in product development up to the receipt of a marketing authorization, as well as for commercial milestone payments or royalties related to future sales of products marketed on the basis of those agreements. Since these milestones depend on the technological progress and completion of the events conditioning them, they are not recognized as income until those events are completed. As a result, the contracts signed on June 30, 2018 state that some milestones may reach a maximum total amount of €2,505 thousand should all product development conditions be met.

14.2 PUBLIC FUNDING FOR RESEARCH EXPENSES

IN € THOUSANDS	06/30/2018	06/30/2017
Research and development grants	-	3
Research tax credits, net	2,837	3,025
TOTAL	**2,837**	**3,028**

The gross research tax credit, excluding advisory fees, for the first half of 2018 was €2,868 thousand.

NOTE 15 OTHER INCOME AND EXPENSES FROM OPERATIONS

IN € THOUSANDS	06/30/2018	06/30/2017
Other income from sales of fixed assets	-	17
Other income	106	92
Impact of restructuring operation	-	289
TOTAL OTHER INCOME	**106**	**398**
Net carrying value of disposals of fixed assets	(11)	(18)
Other expenses	(71)	(89)
TOTAL OTHER EXPENSES	**(82)**	**(107)**
TOTAL OF OTHER INCOME AND EXPENSES	**24**	**291**

NOTE 16 NET FINANCE COST

IN € THOUSANDS	06/30/2018	06/30/2017
Investment income	48	63
Debt servicing costs	(527)	(531)
BORROWING COSTS NET OF INVESTMENTS	**(479)**	**(468)**
Other financial income/(expense)	(640)	(502)
Foreign exchange gains/(losses)	12	(11)
OTHER FINANCIAL INCOME AND EXPENSES	**(628)**	**(513)**
NET FINANCE COST	**(1,107)**	**(981)**

NOTE 17 INCOME TAX EXPENSES

17.1 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 2017 or 2018.

17.2 DEFERRED TAXES

No deferred tax assets were recognized at June 30, 2018, due to the uncertainty of taxable income being generated over the next three years.

NOTE 18 PERSONNEL

18.1 PERSONNEL

The Company's registered workforce totaled 146 employees at June 30, 2018, including one person with Transgene, Inc.

JUNE 30, 2018	MEN	WOMEN	TOTAL
Managers	41	71	112
Other grades	9	25	34
TOTAL	**50**	**96**	**146**

** Including 134 open-ended employment contracts at June 30, 2018*

The Company had 147 employees as of December 31, 2017.

18.2 ■ PAYROLL COSTS

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

IN € THOUSANDS	06/30/2018	06/30/2017
Research and development expenses	5,932	5,758
General and administrative expenses	1,668	1,624
TOTAL EMPLOYEE BENEFITS EXPENSES	7,600	7,382

Expenses relating to share-based payments amounted to:

IN € THOUSANDS	06/30/2018	06/30/2017
Research and development expenses	129	127
General and administrative expenses	73	91
TOTAL	202	218

NOTE 19 AFFILIATED COMPANIES

Transgene signed a cash pooling agreement with Institut Mérieux. The cash invested in Institut Mérieux's cash pooling agreement represented a receivable of €28,641 thousand at June 30, 2018. Interest income at June 30, 2018 was €41 thousand.

The table below does not include these cash items.

06/30/2018 - IN € THOUSANDS	RECEIVABLES	PAYABLES
ABL Europe SAS(1)	21	91
ABL Lyon	-	4
bioMérieux, Inc,(2)	-	35
bioMérieux SA	6	-
Elsalys Biotech SAS(3)	1,664	-
Institut Mérieux(4)	1	-
Thera conseil	-	-
Transgene Tasly(5)	29	-
TOTAL	1,721	130

06/30/2018 - IN € THOUSANDS	REVENUE	EXPENSES
ABL Europe SAS (1)	95	664
ABL Lyon	-	32
bioMérieux, Inc. (2)	-	293
bioMérieux SA	5	-
Elsalys Biotech SAS (3)	66	-
Institut Mérieux (4)	-	76
Théra Conseil	-	1
Transgene Tasly (5)	59	-
TOTAL	225	1,066

■ *(1) Expenses related to the agreements for production services provided by ABL Europe to Transgene SA.* ■ *(2) Expenses related to the agreement for services and re-invoicing of staff, signed between Transgene, Inc. and bioMérieux, Inc.* ■ *(3) Revenue related to the agreements for services provided by Transgene SA.* ■ *(4) Expenses related to the agreements for services provided by Institut Mérieux.* ■ *(5) Revenue related to agreements for services and re-invoicing of staff, signed between Transgene SA and Transgene Tasly BioPharmaceutical Co. Ltd.*

NOTE 20 OFF-BALANCE SHEET COMMITMENTS

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 three years. The commitment will end in February 2019.

Transgene is also bound by contracts with subcontractors. That could have an impact over several accounting periods. As of June 30, 2018, the Company estimated the current value of its financial commitments under these agreements to be approximately €17 million.

NOTE 21 SEGMENT INFORMATION

The Company conducts its business exclusively in the research and clinical development of therapeutic vaccines and immunotherapeutic products, none of which is currently on the market. The majority of its operations are located in France. The Company therefore uses only one segment for the preparation and presentation of its financial statements.

NOTE 22 BREAKDOWN OF ASSETS AND LIABILITIES BY MATURITY

JUNE 30, 2018 ASSETS (IN € THOUSANDS)	GROSS AMOUNT	ONE YEAR OR LESS	MORE THAN ONE YEAR
Financial fixed assets	3,821	1,742	2,079
Trade receivables	1,813	1,813	-
Research Tax Credit, Tax Credit for Competitiveness and Employment	23,177	8,316	14,861
Government, VAT and other local authorities	108	108	-
Personnel and related accounts	20	20	-
Prepaid expenses	3,526	3,364	162
Grant receivable	-	-	-
Receivables from the sale of equity investment	2,505	1,917	588
Assets available for sale	2,412	2,412	-
TOTAL ASSETS	37,382	19,692	17,690

JUNE 30, 2018 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	3,745	3,745	-	-
Property leasing	6,736	1,083	4,050	1,603
Equipment leasing	813	186	627	-
Conditional advances	20,245	-	-	20,245
Financing of RTC and CICE	20,259	8,355	11,905	-
Bank loan	11,521	1,521	10,000	-
Provisions for risks and liabilities	18	18	-	-
Provisions for retirement	3,864	207	1,391	2,266
Accrued employee benefits and tax expense	3,052	3,052	-	-
Prepaid income	680	355	324	-
Other liabilities	552	254	-	298
TOTAL LIABILITIES	71,485	18,776	28,297	24,412

NOTE 23 HEDGING OPERATIONS

Since the first half of 2009, the Group has partially hedged the interest rate risk related to the finance leasing of its administrative and research building located in Illkirch (See Note 9).

At June 30, 2018, the market value of this hedging instrument was -€298 thousand.

NOTE 24 FINANCIAL INSTRUMENTS

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

JUNE 30, 2018 IN € THOUSANDS	ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	ASSETS AVAILABLE FOR SALE	RECEIVABLES, PAYABLES, BORROWINGS, AT AMORTIZED COST	DERIVATIVE INSTRUMENTS	CARRYING AMOUNT	FAIR VALUE	LEVEL
FINANCIAL ASSETS							
Cash and cash equivalents	4,403	-	-	-	4,403	4,403	1
Other current financial assets	28,642	2,412	1,917	-	32,971	32,971	2
Trade receivables	-	-	1,813	-	1,813	1,813	-
Financial assets	-	-	3,821	-	3,821	3,821	-
Receivable on non-current financial assets	-	-	257	-	257	257	2
Other non-current assets	-	-	588	-	588	588	3
TOTAL FINANCIAL ASSETS	**33,045**	**2,412**	**8,396**	**-**	**43,853**	**43,853**	
FINANCIAL LIABILITIES							
Borrowings from credit institutions, long-term portion	-	-	21,905	-	21,905	21,905	2
Lease commitment, long-term portion	-	-	6,279	-	6,279	6,279	2
Conditional advances	-	-	20,245	-	20,245	20,245	3
Other non-current financial liabilities	-	-	-	298	298	298	2
NON-CURRENT FINANCIAL LIABILITIES	**-**	**-**	**48,429**	**298**	**48,727**	**48,727**	
Borrowings from credit institutions, short-term portion	-	-	9,875	-	9,875	9,875	2
Finance leasing, short-term portion	-	-	1,270	-	1,270	1,270	2
CURRENT FINANCIAL LIABILITIES	-	-	11,145	-	11,145	11,145	
TRADE PAYABLES	-	-	3,745	-	3,745	3,745	
TOTAL FINANCIAL LIABILITIES	-	-	63,319	298	63,617	63,617	

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

NOTE 25 EVENTS AFTER THE REPORTING PERIOD

On July 10, 2018, Transgene signed several agreements with Tasly Biopharmaceuticals Co., Ltd.

Transgene sold its entire 50% stake in the Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. joint venture. At the same time, Transgene sold T101's Greater China patent rights, which were already under option in the joint venture, directly to Tasly Biopharmaceuticals. Following these transactions, which are subject to the usual closing conditions, including the administrative transfer of the assets contributed by Transgene to Tasly Biopharmaceuticals, Tasly Biopharmaceuticals will hold all rights to research, develop and market T601 and T101 for Greater China. In return, Transgene receives a total of $48 million in the form of new Tasly Biopharmaceuticals shares representing 2.53% of the share capital after completion of a financing round for Tasly Biopharmaceuticals prior to its initial public offering, which took place concurrently with the transactions with Transgene. Tasly Biopharmaceuticals has already announced plans to list on the Hong Kong Stock Exchange. The transactions were finalized in August 2018.

2.

HALF-YEARLY MANAGEMENT REPORT

2.1 KEY EVENTS IN THE FIRST HALF OF 2018

In January 2018, a first patient was treated in the Phase 2 trial combining TG4010 with Opdivo® (nivolumab) and standard chemotherapy as first-line treatment for non-squamous non-small cell lung cancer (NSCLC) in patients whose tumors express low or undetectable levels of PD-L1. This study is part of the clinical collaboration with Bristol-Myers Squibb, which supplies nivolumab.

Also in January 2018, the first patient was treated in the Phase 1 clinical trial in China evaluating T101, a therapeutic vaccine incorporating the technology developed by Transgene for the treatment of chronic hepatitis B. This product is a viral vector expressing a patented sequence of the hepatitis B virus (HVB) antigens identical to TG1050, a product that Transgene is currently evaluating in a clinical trial in North America and Europe. T101 is developed in China by the joint venture between Transgene and Tasly Pharmaceutical Group Co, Ltd. This Chinese company was established in 2010 to develop Transgene's biotechnology products in China. This Tianjin-based company was jointly owned (50%/50%) by both companies until July 2018. Transgene's rights in the company were fully sold in July 2018 to Tasly Biopharmaceuticals. (see Note 25).

In June 2018, Transgene and the University of Leeds presented a poster at the annual conference of the ASCO (American Society for Clinical Oncology). New clinical data from Pexa-Vec confirm its antitumor activity after intravenous (IV) administration in a so-called "neo-adjuvant" clinical trial, which aimed to evaluate the biological effects of I.V.-type administration of Pexa-Vec prior to surgical resection of locally advanced tumors and tumors with an unfavorable or metastatic prognosis. These initial clinical results confirm that Pexa-Vec stimulates antitumor immunity and has oncolytic activity.

2.2 FINANCIAL INCOME/(LOSS)

OPERATING INCOME:

The table below breaks down revenue from continuing operations for the first half of 2018 compared to the same period in 2017:

IN € MILLIONS	06/30/2018	06/30/2017
Revenue from collaborative and licensing agreements	0.6	0.5
Public funding for research expenses	2.8	3.0
OPERATING INCOME	**3.4**	**3.5**

In the first half of 2018, revenue from collaborative and licensing agreements totaled €0.6 million compared to €0.5 million in the first half of 2017.

In the first half of 2018, public funding for research expenses mainly consisted of the research tax credit. It amounted to €2.8 million for the first half of 2018 compared to €3.0 million for the same period in 2017. The research tax credit for the first half of 2018 was calculated on the eligible expenses as of June 30, 2018.

OPERATING EXPENSES:

Research and development (R&D) expenses for continuing operations amounted to €13.8 million in the first half of 2018 compared to €16.9 million for the same period in 2017.

The following table details R&D expenses by type:

IN € MILLIONS	06/30/2018	06/30/2017	CHANGE
Payroll costs	5.9	5.8	+3%
Share-based payments	0.1	0.1	+1%
Intellectual property expenses and licensing costs	0.4	4.3	-90%
External expenses for clinical projects	3.7	3.2	+16%
External costs on other projects	0.7	0.7	+4%
Operating costs	2.0	1.9	+4%
Depreciation, amortization and provisions	0.9	0.9	-3%
RESEARCH AND DEVELOPMENT EXPENSES	**13.8**	**16.9**	**-18%**

Employee benefits expenses for R&D personnel (salaries and related charges and expenses) amounted to €5.9 million in the first half of 2018 compared to €5.8 million for the same period in 2017.

Intellectual property and licensing expenses amounted to €0.4 million versus €4.3 million for H1 2017. This decrease is explained by the payment in the first half of 2017 of a milestone payment of €3.8 million to SillaJen Biotherapeutics, Inc. for the inclusion of the first European patient in the context of the Phase 3 clinical trial (PHOCUS) with the product Pexa-Vec.

External expenses for clinical projects amounted to €3.7 million in the first half of 2018, compared to €3.2 million for the same period in 2017.

External expenses for other projects (research, preclinical and industrial projects) totaled €0.7 million in the first half of 2018, as was the case for the same period in 2017.

Operating expenses, including costs to operate research laboratories, amounted to €2.0 million in the first half of 2018 compared to €1.9 million for the same period in 2017.

General and administrative expenses amounted to €3.0 million in the first half of 2018 compared to €3.1 million for the same period in 2017.

The following table details G&A (general and administrative) expenses by type:

IN € MILLIONS	06/30/2018	06/30/2017	CHANGE
Payroll costs	1.7	1.6	+3%
Share-based payments	0.1	0.1	-20%
Fees and administrative expenses	0.8	0.8	-3%
Other G&A expenses	0.4	0.5	-20%
Depreciation, amortization and provisions	0.0	0.0	-7%
GENERAL AND ADMINISTRATIVE EXPENSES	**3.0**	**3.1**	**-3%**

Payroll costs amounted to €1.7 million in the first half of 2018, versus €1.6 million for the same period in 2017.

External expenses, including fees and management expenses, amounted to €0.8 million in the first half of 2018, as was the case for the same period in 2017.

OTHER INCOME

Other expenses amounted to €0.1 million in the first half of 2018, compared to €0.4 million for the first half of 2017.

OTHER EXPENSES

Other expenses amounted to €0.1 million in the first half of 2018, as was the case for the same period in 2017.

FINANCIAL INCOME/(LOSS)

Net interest expense amounted to €1.1 million in the first half of 2018 compared to an expense of €1.0 million for the same period in 2017.

Financial income (investment income) was €0.2 million in the first half of 2018 compared to €0.1 million for the same period in 2017.

Financial costs amounted to €1.3 million in the first half of 2018, compared to €1.1 million in the first half of 2017, and consisted mainly of:

- bank interest on the loan received from the EIB of €0.4 million (as was the case for the first half of 2017);
- the discounting of the debt owed to Bpifrance on the advances received under the ADNA program (€0.8 million in the first half of 2018 compared to €0.4 million in the first half of 2017).

NET COMPREHENSIVE INCOME/ (LOSS)

The net comprehensive loss amounted to €14.9 million for the first half of 2018 compared to €18.3 million for the same period in 2017.

Net loss per share was €0.24 for the first half of 2018, compared to €0.33 at the same period in 2017.

INVESTMENTS

Investments in tangible and intangible assets (net of disposals) amounted to €0.3 million for the first half of 2018, compared to €0.1 million for the first half of 2017.

REPAYABLE ADVANCES AND LOANS

No repayable advances were received by Transgene in the first half of 2018.

In the first half of 2018, the Company refinanced its 2017 research tax credit of €5.4 million. To this effect, Transgene took out a bank loan with Bpifrance that matures in mid-2021, 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 the first half of 2018 in the amount of €46 thousand through a loan from Bpifrance (which matures in mid-2021).

In June 2016, Transgene had drawn down the first tranche of a credit facility granted by the European Investment Bank (EIB) in January 2016. This €10 million tranche, out of a total of €20 million available, is payable in 2021. The interest accrued is payable starting in 2019. The Company decided to decline to draw the second tranche of €10 million of the bank facility.

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.

At June 30, 2018, Transgene had €33.1 million in cash and cash equivalents compared to €41.4 million at December 31, 2017.

NET CASH BURN

Transgene's cash burn amounted to €8.4 million in the first half of 2018, compared with €12.3 million for the same period in 2017.

Transgene confirms its target net cash burn of approximately €25million for 2018.

2.3 MAIN RELATED-PARTY TRANSACTIONS

This information is disclosed in Note 19 of the 2018 interim financial statements published herein.

2.4 EVENTS AFTER THE REPORTING PERIOD

On July 10, 2018, Transgene signed several agreements with Tasly Biopharmaceuticals Co., Ltd.

Transgene notably sold its entire 50% stake in the Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. joint venture. At the same time, Transgene sold T101's Greater China patent rights, which were already under option in the joint venture, directly to Tasly Biopharmaceuticals. Tasly Biopharmaceuticals now holds all rights to research, develop and market T601 and T101 for Greater China. In return, Transgene receives a total of 27.4 million new Tasly Biopharmaceuticals shares valued at $48 million, or 2.53% of the share capital after completion of a financing round for Tasly Biopharmaceuticals prior to its initial public offering, which took place concurrently with the transactions with Transgene. Tasly Biopharmaceuticals has already announced plans to list on the Hong Kong Stock Exchange. The transactions were finalized in August 2018.

STATUTORY AUDITORS' REPORT ON THE 2017 INTERIM FINANCIAL STATEMENTS

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Commissaire aux Comptes
Membre de la compagnie régionale de Versailles

Transgene S.A.
Period from January 1 to June 30, 2018

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

To the Shareholders of Transgene S.A.,

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

- the review of the accompanying condensed half-yearly consolidated financial statements of Transgene S.A. for the period from January 1 to June 30, 2018;
- the verification of the information presented in the half-yearly management report.

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

1. CONCLUSION ON THE FINANCIAL STATEMENTS

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

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

Without qualifying our conclusion, we draw your attention to the matter set out in note 1 "Accounting principles" to the condensed half-yearly consolidated financial statements regarding IFRS 9 and IFRS 15 accounting rules implemented as of January 1, 2018.

2. SPECIFIC VERIFICATION

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

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

Lyon and Paris-La Défense, September 19, 2018
The Statutory Auditors French original signed by

GRANT THORNTON
Membre français de Grant Thornton International

Françoise Mechin

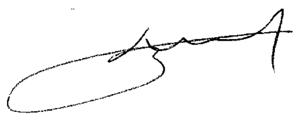
ERNST & YOUNG et Autres

Cédric Garcia

4.

DECLARATION BY THE PERSON RESPONSIBLE FOR THIS INTERIM FINANCIAL REPORT

J'atteste, à ma connaissance, que les comptes consolidés pour le semestre écoulé sont établis conformément aux normes comptables applicables et donnent une image fidèle du patrimoine, de la situation financière et du résultat de la société Transgene et de l'ensemble des entreprises comprises dans la consolidation, et que le rapport semestriel d'activité ci-joint présente un tableau fidèle des événements importants survenus pendant les six premiers mois de l'exercice, de leur incidence sur les comptes, des principales transactions entre parties liées ainsi qu'une description des principaux risques et des principales incertitudes pour les six mois restants de l'exercice.



Philippe Archinard
Chairman and Chief Executive Officer