# 2017 REGISTRATION DOCUMENT

Including the Annual Financial Report


IMMUNOTHERAPY AGAINST CANCERS AND INFECTIOUS DISEASES

# CONTENTS

# REGISTRATION DOCUMENT 2017

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 agents or in combination with other approved or investigational treatments such as Immune checkpoint inhibitors (ICIs).

Transgene's three lead clinical-stage programs are: TG4010, a therapeutic vaccine against non-small cell lung cancer; Pexa-Vec, an oncolytic virus against liver cancer and TG4001 a therapeutic vaccine against HPV-positive cancers. The Company has several other virus-based immunotherapy programs, at discovery stage and in preclinical and clinical development (including TG1050 and TG6002 now in clinical trials). With its Invir.IO™ platform, Transgene capitalizes on its expertise in engineering of viral vectors to design a new generation of oncolytic multifunctional viruses.

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 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, as well as the 2016 consolidated financial statements and related audit report as found on pages 81 to 143 of the 2016 Registration Document filed with the AMF on April 13, 2017 under number D. 17-0385.

AUTORITÉ DES MARCHÉS FINANCIERS
AMF

This Registration Document was filed with the Autorité des marchés financiers on Friday April 6, 2018, 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.

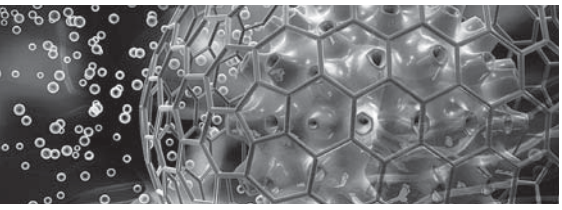
## LIST OF ABBREVIATIONS

| Abbreviation | Meaning |
|---|---|
| AML | Approval for market launch |
| ANSM | Agence nationale de sécurité du médicament et des produits de santé (French medicines agency) |
| BMS | Bristol-Myers Squibb |
| CRO | Contract Research Organization |
| DNA | Deoxyribonucleic Acid |
| EMA | European Medicines Agency |
| EPO | European Patent Office |
| FDA | Food and Drug Administration |
| HBsAg | HBV surface antigen |
| HCC | Hepatocellular carcinoma |
| HPV | Human Papilloma Virus |
| HVB | Hepatitis B virus |
| ICI | Immune Checkpoint Inhibitor |
| IL-2 | Interleukin 2 |
| IV | Intravenous |
| MAb | Monoclonal antibody |
| MVA | Modified Vaccinia Ankara |
| NSCLC | Non-small cell lung cancer |
| PD-L1 or PD-1 | Programmed death-ligand 1, Programmed cell death 1 |
| RTC | Research tax credit (RTC) |
| SC | Subcutaneous |
| SCCHN | Squamous cell carcinoma of the head and neck |
| SdAbs | Single-domain antibody |
| SPA | Special protocol assessment |
| TAA | Tumor associated antigen |
| TK | Thymidine kinase |



# OUR STRATEGY

## TRANSGENE, A KEY PLAYER IN VIRUS-BASED IMMUNE-TARGETED THERAPIES



### Did you know?

**As early as the nineteenth century, doctors noticed that patients with certain viral or bacterial infections saw their tumors stabilize or shrink. However it was not until the advent of modern genetic and protein engineering that these findings could be turned into therapeutics by optimizing viruses so that they can directly attack tumors to treat cancer.**

## 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 optimized viruses (also called viral vectors). Each part of these constructs plays a key role in the treatment of the disease by activating the immune system. Our treatment candidates use highly attenuated viral strains with an established safety profile. These viruses cannot replicate within healthy cells. Our immunotherapies can either be used as single agent or in combination with other approved or investigational treatments such as immune checkpoint inhibitors (ICIs) and chemotherapy.

## Two novel immunotherapeutic classes already in clinic

### Therapeutic vaccines: induce innate and adaptive responses

Therapeutic vaccines aim at restoring the capacity of the patient's immune system to deal with disease. They induce a cascade of immune reactions that lead to the production of T cells that will only destroy specific malignant cells. Our vaccines generate a robust and durable immune response throughout the body which is directed specifically against abnormal cells.

Transgene currently uses several vectors, including MVAs (Modified Virus Ankara) and poxviruses. Transgene can integrate a variety of proteins within the viral genome, such as tumor-associated antigens (MUC1 for TG4010) and virus-associated antigens (human papilloma virus/HPV for TG4001) depending on the cancers they have been designed to treat.

### Oncolytic viruses: directly target and destroy cancer cells

Oncolytic viruses are a highly innovative class of therapeutics that can destroy cancer cells. They multiply selectively in cancer cells (a process called cell lysis) and indirectly trigger the activation of the immune system against the tumor.

The effectiveness of oncolytic viruses can be enhanced by arming them with complimentary anti-cancer weapons from a therapeutic arsenal, including cytokines, antibodies, enzymes: such armed viruses are called multifunctional viruses.

Transgene's proprietary platform, Invir.IO™, is dedicated to the design and development of this new generation of oncolytic viruses. Transgene believes its Invir.IO™ viruses by integrating all of these factors can become the treatment of choice for multiple cancers.

# A DIVERSIFIED IMMUNOTHERAPY PORTFOLIO

## NON-SMALL CELL LUNG CANCER (NSCLC)

### TG4010

Bristol-Myers Squibb

**Two Phase 2 trials in combination with nivolumab**

**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 a very suitable for use in combination with other therapies, including ICIs (nivolumab) and chemotherapy.

Transgene's development plan has been designed to position TG4010 as an important new treatment for NSCLC.

Its development is supported by Bristol-Myers Squibb through clinical collaborations.

## HPV-POSITIVE HEAD AND NECK CANCERS

### TG4001

Pfizer MERCK

**Ongoing Phase 2 trial in combination with avelumab**

**TG4001 is a therapeutic vaccine that targets human papilloma virus. It has demonstrated good safety, a significant HPV clearance rate and promising efficacy results.**

It has already been administered to more than 300 subjects in a number of earlier clinical studies. 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 a Phase 1b/2 trial in patients with HPV-positive head and neck cancer.

## LIVER CANCER/SOLID TUMORS

### Pexa-Vec

SILLAJEN BioTherapeutics

**Phase 3 trial and Phase 2 combination trials ongoing**

**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.** Its mechanism of action and its safety profile make it an appropriate candidate for combination regimens with ICIs to treat solid tumors.

Pexa-Vec is being developed for the treatment of liver cancer (Phase 3 and Phase 2 trials) as well as other solid tumors (Phase 1/2 trials). Transgene has exclusive rights for the development and commercialization of Pexa-Vec in Europe. Our partner SillaJen is also conducting several trials with Pexa-Vec in North America and Asia.

## GLIOBLASTOMA / SOLID TUMORS

### TG6002

ASSISTANCE PUBLIQUE HÔPITAUX DE PARIS

**Ongoing first-in-human trial**

**TG6002 is the next generation of oncolytic immunotherapy. It has been designed to enhance its oncolytic properties with the local cancer chemotherapy by enabling the expression of the FCU1 gene in the cancer cells it has infected.** The expression of this gene allows the local production of 5-FU, a widely used chemotherapy. A first-in-human trial is ongoing in patients with recurrent glioblastoma. This trial is supported by the Greater Paris Hospitals, AP-HP.

## CHRONIC HEPATITIS B

### TG1050

**Confirmed safety in Phase 1/1b trial**

**TG1050 is a therapeutic vaccine being developed for the treatment of chronic hepatitis B.** A first-in-human clinical trial has confirmed TG1050's safety in patients currently being treated for chronic HBV infection with standard-of-care antiviral therapy. This therapeutic approach is also being developed in China.

# A DIVERSIFIED IMMUNOTHERAPY PORTFOLIO

| PRODUCT | INDICATION | PRECLINICAL / CLINICAL PHASE (1 · 2 · 3) |
|---|---|---|
| **THERAPEUTIC VACCINES** | | |
| TG4010 | Non-small cell lung cancer – 1st line | + nivolumab (ICI) + chemotherapy |
| | Non-small cell lung cancer – 2nd line | + nivolumab (ICI) |
| | Non-small cell lung cancer | Neo-adjuvant (translational) |
| | | Bristol-Myers Squibb Clinical Collaborations |
| TG4001 | HPV positive cancers* | + avelumab (ICI) |
| | | Pfizer MERCK Clinical Collaboration |
| TG1050 | Chronic hepatitis B | + antiviral |
| **ONCOLYTIC VIRUSES** | | |
| Pexa-Vec<br>In Co-development with SillaJen | Hepatocellular carcinoma – 1st line (PHOCUS) | + sorafenib |
| | | SILLAJEN BioTherapeutics |
| | Hepatocellular carcinoma – 1st line | + nivolumab (ICI) |
| | Other solid tumors | + ipilimumab (ICI) |
| | Sarcoma – Breast cancer | + cyclophosphamide |
| | Solid tumors | Neo-adjuvant (translational) |
| TG6002 | Glioblastoma | |
| | | ASSISTANCE PUBLIQUE HÔPITAUX DE PARIS |

* HPV : human papilloma virus

invir.io

## Invir.IO™, A NEW GENERATION OF ONCOLYTIC VIRUSES TO BETTER FIGHT AGAINST TUMORS

**With the Invir.IO™ technology platform, Transgene can design a new generation of virotherapies.** Transgene encodes several complementary anticancer weapons within the genome of its Invir.IO™ oncolytic viruses: these new therapeutics are called multifunctional or "multi-armed" oncolytic viruses. The encoded weapons allow these new viral therapeutics to attack the tumor on several fronts by combining complementary mechanisms of action.

By creating viruses that are able to broadly modulate the tumor micro-environment, Transgene is confident that it can develop more effective anticancer treatments. In 2017, Transgene signed two collaborative research agreements with BioInvent and Randox to gain access to its partners' "anti-cancer" transgene sequences so that they can be incorporated into a patented Invir.IO™ oncolytic virus owned by Transgene. The resulting oncolytic viruses have the potential to be significantly more effective than the combination of these agents administered separately.

Transgene is currently evaluating several preclinical candidates derived from this patented technology.

# CHAIRMAN'S MESSAGE

# PHILIPPE ARCHINARD

> We remain on track to communicate clinical data on our five products in 2018.

Dear Madam, Dear Sir,

Transgene made significant progress accross all aspects all of its business in 2017.

We also signed a clinical collaboration agreement with Bristol-Myers Squibb (BMS) securing access to nivolumab for a combination clinical trial with TG4010 in the first line treatment of lung cancer. This is in addition to the existing collaboration with BMS for TG4010, used in second line treatment of lung cancer, and the one signed with Merck KGaA/Pfizer for TG4001 for head and neck cancers. These clinical collaborations all confirm the potential of our immunotherapy approaches.

We have begun seven clinical trials, designed to demonstrate the potential of our therapeutic vaccines and oncolytic viruses in combination with immune checkpoint inhibitors (ICIs). As such, we remain on track to communicate clinical data on five products in 2018.

With the launch of the Invir.IO™ platform, we have also confirmed our position at the forefront of innovation in the field of oncolytic viruses, a particularly promising therapeutic field. With Invir.IO™, we are creating new cancer treatments which combine a number of complementary mechanisms of action to better control the tumor micro-environment and attack tumor more effectively. The signing of collaborative research agreements with BioInvent and Randox marks an initial step towards recognizing this potential. These collaborations are in addition to the research agreement signed with Servier and our current clinical development of Pexa-Vec and TG6002.

Our expertise in therapeutic vaccines and oncolytic viruses, confirmed by our recent advances, allows us to look at 2018 with confidence.

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

PHILIPPE ARCHINARD
Chairman and Chief Executive Officer

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# OVERVIEW OF TRANSGENE AND ITS BUSINESS

# 1.1 SELECTED FINANCIAL DATA

| *(in € thousands, except for shares and per share data)*<br>*(Consolidated financial statements, IAS/IFRS)* | 12/31/2017 IAS/IFRS | 12/31/2016 IAS/IFRS | 12/31/2015 IAS/IFRS |
|---|---|---|---|
| **INCOME STATEMENT DATA** | | | |
| **Operating income** | **8,144** | **10,311** | **9,949** |
| Research and development expenses | (30,359) | (26,419) | (32,138) |
| General and administrative expenses | (5,674) | (6,236) | (5,798) |
| Other expenses | (154) | (320) | (7,819) |
| **Net operating expenses** | **(36,187)** | **(32,975)** | **(45,755)** |
| **Operating income/(loss)** | **(28,043)** | **(22,664)** | **(35,807)** |
| Net finance cost | (2,287) | (602) | (930) |
| Share of profit/(loss) of associates | (1,944) | (917) | (1,172) |
| **Income/(loss) before tax** | **(32,274)** | **(24,182)** | **(37,909)** |
| Income tax expense | - | - | - |
| **Net income/(loss)** | **(32,274)** | **(24,182)** | **(37,909)** |
| **Net income/(loss) from discontinued operations** | **-** | **(1,024)** | **(8,465)** |
| **Total net income/(loss)** | **(32,274)** | **(25,206)** | **(46,374)** |
| Diluted earnings per share | (0.52) | (0.45) | (1.20) |
| Number of shares outstanding | 62,075,190 | 56,431,991 | 38,545,397 |
| Cash, cash equivalents and other current financial assets | 41,405 | 56,207 | 31,650 |
| Total assets | 101,837 | 122,950 | 100,869 |
| Equity | 28,089 | 46,503 | 26,547 |
| Net cash flow generated by/(used in) operations | (35,370) | (33,585) | (45,152) |

# 1.2 ABOUT THE COMPANY AND ITS ACTIVITIES

## 1.2.1 Overview of operations

Transgene 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 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 agents or in combination with other approved or investigational treatments such as Immune checkpoint inhibitors (ICIs).

The Company's three lead clinical-stage programs are: TG4010, a therapeutic vaccine against non-small cell lung cancer; Pexa-Vec, an oncolytic virus against liver cancer and TG4001 a therapeutic vaccine against HPV-positive cancers. The Company has several other viral-based immunotherapy programs, at discovery stage and in preclinical and clinical development (including TG1050 and TG6002 now in clinical trials). With its Invir.IO™ platform, Transgene capitalizes on its expertise in engineering of viral vectors to design a new generation of multifunctional oncolytic viruses.

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 (Euronext 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 vector 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 into the tissues where the immune response is triggered and where the desired therapeutic modalities (antigens, antibodies, enzymes, etc.) 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 this connection, Transgene introduced Invir.IO™ in 2017. This technology platform makes it possible to develop, internally or with partners, a new generation of multifunctional oncolytic viruses targeting a tumor micro-environment. This platform primarily makes use of a patented strain of Vaccinia virus ($VV_{COP}$ TK-RR-) with which multiple functional transgenes can be combined. The Invir.IO™ platform has already generated products which benefit from multifunctional weapons (enzymes, antibodies, cytokine, etc.) and are undergoing clinical evaluation.

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's portfolio consists of five products in clinical development. They are evaluated for the treatment of cancers in advanced stage or of chronic infectious diseases that constitute 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).

#### Open innovation and collaboration

Transgene participates in several collaborative programs with public and private partners, in France and internationally. The aim of these collaborations between our staff and the scientific and medical community is to develop our R&D expertise and our portfolio of products and processes, while making them better known. These collaboration agreements also serve as ways to validate our approaches and as such are crucial to increasing the attractiveness of the products to potential commercial partners.

### Transgene's activity is highly regulated

Both preclinical and clinical pharmaceutical development as well as pharmaceutical manufacturing, including plant and equipment, and marketing are all subject to very thorough regulations developed by many governmental authorities at the national level, as in France, and at the European level, and in the United States. 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 preclinical and clinical stages.

The degree of reporting required for the authorization of a clinical trial or for marketing has been standardized for all medications. The information 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 the clinical stage as of the date of this Registration Document:

| PRODUCT | INDICATION | PRECLINICAL / CLINICAL PHASE 1 | CLINICAL PHASE 2 | CLINICAL PHASE 3 |
|---|---|---|---|---|
| **THERAPEUTIC VACCINES** | | | | |
| TG4010 | Non-small cell lung cancer – 1st line | + nivolumab (ICI) + chemotherapy | | Bristol-Myers Squibb Clinical Collaborations |
| | Non-small cell lung cancer – 2nd line | + nivolumab (ICI) | | |
| | Non-small cell lung cancer | Neo-adjuvant (translational) | | |
| TG4001 | HPV positive cancers* | + avelumab (ICI) | | Pfizer MERCK Clinical Collaboration |
| TG1050 | Chronic hepatitis B | + antiviral | | |
| **ONCOLYTIC VIRUSES** | | | | |
| Pexa-Vec In Co-development with SillaJen | Hepatocellular carcinoma – 1st line (PHOCUS) | + sorafenib | | SILLAJEN |
| | Hepatocellular carcinoma – 1st line | + nivolumab (ICI) | | |
| | Other solid tumors | + ipilimumab (ICI) | | |
| | Sarcoma – Breast cancer | + cyclophosphamide | | |
| | Solid tumors | Neo-adjuvant (translational) | | |
| TG6002 | Glioblastoma | | | ASSISTANCE PUBLIQUE HÔPITAUX DE PARIS |

* HPV : human papilloma virus

### 1.2.2.1 Products in clinical development

Transgene's product portfolio includes therapeutic vaccines and oncolytic viruses. The primary target markets of these candidate products are detailed in Section 1.2.3 of this document.

#### Therapeutic vaccines: induce innate and adaptive responses

Therapeutic vaccines are active immunotherapies, which indirectly destroy the diseased cells. They induce a cascade of immune reactions and stimulate the production of T-killer lymphocytes that specifically destroy the tumorous or infected cells.

Transgene currently uses MVA (Modified Vaccinia Ankara) and adenoviruses as vectors. These are strains recognized for their good safety profile. The Company has the capability to add many genetic sequences to the genome of its viral vectors, coding for tumor-associated antigens (MUC1 for TG4010), or virus-associated antigens (hepatitis B for TG1050).

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

#### TG4010: therapeutic vaccine for advanced lung cancer – phase 2

*TG4010 is an active immunotherapy designed to induce 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. TG4010's mechanism of action and its excellent safety profile make it an ideal candidate for combination with other therapies, including ICIs and chemotherapy.*

Combining TG4010 immunotherapy with chemotherapy has shown significant effectiveness in terms of progression-free survival and overall survival in patients with NSCLC at an advanced stage (Quoix et al., *The Lancet Oncology*, 2015).

TG4010 is currently being developed in combination with nivolumab (ICI) as a first line of treatment for NSCLC in combination with chemotherapy in patients whose tumors express PD-L1 at low or undetectable levels, and as a second line treatment for NSCLC.

***Collaboration Agreements***

Clinical collaborations with Bristol-Myers Squibb and UC Davis Medical Center (see Section 1.2.5).

***Description and mechanism of action***

TG4010 is a therapeutic vaccine consisting of a vector, the non-replicative 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 cancer 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.

TG4010 is administered by subcutaneous injection (SC).

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

Transgene approaches are highly compatible with and potentially synergistic with other treatments, including Immune checkpoint inhibitors and chemotherapy. Transgene's development plan aims at positioning TG4010 as first- and second-line combination treatment.

The efficacy of several Immune checkpoint inhibitors, especially as a first-line treatment, was demonstrated in recent NSCLC clinical trials. However, the majority of patients do not respond to these therapies. Therefore, better options are needed for first-line treatment, especially for patients with low or undetectable PD-L1 expression in tumor cells, *i.e.* "PD-L1 negative" patients. A further challenge when it comes to second-line therapies is to improve the prognosis for patients and increase the response rate of the treatments. Transgene firmly believes that the addition of TG4010 to first- and second-line therapies may be decisive for patients.

***Key clinical results***

The high level of tolerance to the product in combination with chemotherapy was confirmed during several 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 positive results from the phase 2b part of the TIME study, a randomized and controlled phase 2b test to evaluate the targeted TG4010 immunotherapy, 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 which were published in the clinical journal *Lancet Oncology*, in October 2011.

The results of part 2b of the TIME study were published in the December 2015 edition of the journal *Lancet Oncology*. They were first unveiled at renowned global medical conferences on oncology, such as the American Society of Clinical Oncology (ASCO) meeting, the leading annual conference in this field, in June 2015.

They showed 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-plus-chemotherapy 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) associated with an over-expression of the antigen MUC1. This is the population that has been chosen for ongoing clinical trials in NSCLC.

These results are consistent with the previously obtained results. They support the activity of TG4010 in non-squamous, non-small cell lung cancer. Developments in other indications could be planned, should trials underway produce positive results.

***Clinical trials under way***

Two phase 2 clinical trials were initiated in 2017:

- first-line treatment of advanced lung cancer (NSCLC): clinical trial combining TG4010 with the Opdivo® (nivolumab) ICI and chemotherapy in patients whose tumor cells express PD-L1 at low or undetectable levels. In April 2017, Transgene signed a clinical collaboration agreement with Bristol-Myers Squibb, which supplies nivolumab for the trial. The first patient of this international (Europe, USA) clinical trial was treated in January 2018 (NCT03353675). Transgene is the sponsor of this trial and is particularly well positioned in this indication;
- second-line treatment of advanced lung cancer (NSCLC): trial of TG4010 in combination with the Opdivo® (nivolumab) ICI, conducted by trial promoter UC Davis Medical Center (US), with the support of Bristol-Myers Squibb (supply of nivolumab). First patient treated (NCT02823990) in March 2017.

***Next stages of development***

The results of the phase 2 combination trials are expected in the second half of 2018. The data from the trial will form the basis for discussions with potential partners aimed at signing a structuring agreement.

The Company is also preparing a "neo-adjuvant" (translational) trial, notably to further document TG4010 mechanism of action.

***Marketing outlook***

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

### TG4001: advanced-stage Human Papilloma Virus (HPV) positive head and neck cancers – phase 2

*TG4001 is a therapeutic vaccine designed to express the antigens of the HPV-16 (virus Human Papilloma Virus type-16), which furthers the development of a significant proportion of certain cancers. TG4001 has now been administered to more than 300 subjects. It has demonstrated good tolerability, a significant HPV clearance rate and promising efficacy results. TG4001's mechanism of action and good safety profile make it very suitable for use in combination with other therapies for solid tumors, including ICIs.*

TG4001 is developed in HPV-positive squamous oropharyngeal carcinomas (cancers of the head and neck).

***Collaboration Agreement***

Clinical collaboration with the Merck KGaA and Pfizer alliance for a phase 1b/2 trial (see Section 1.2.5).

***Description and mechanism of action***

TG4001 is a therapeutic vaccine designed from a highly attenuated and non-replicative Vaccinia virus (MVA) that expresses the antigens E6 and E7 of the HPV-16 virus and an adjuvant, interleukine 2 (IL-2, a cytokine also present in TG4010). TG4001 was developed to act against the HPV virus according to a double approach: to alert the immune system specifically against cells infected by HPV-16 and being transformed into pre-cancerous cells (presenting the HPV-16 antigens E6 and E7) and, through interleukine 2 (IL-2) stimulate the viral clearance action of the immune system.

***Lead therapeutic indication***

TG4001 is under development for HPV-positive squamous cell carcinomas of the head and neck (SCCHN) at an advanced stage.

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

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 CIN 2/3, this data was obtained with only three injections of TG4001 in monotherapy. Therefore, this provides solid proof of the activity of the product in a pathology that is HPV-positive and, in this respect, these results are extremely encouraging for TG4001 and the entire MVA platform.

***Clinical trial under way***

Transgene is conducting a phase 1b/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. The principal investigator is Professor Christophe Le Tourneau of the Institut Curie (Paris). The first patient of this multi-centered clinical trial was treated in September 2017 (NCT03260023).

This test benefits from a clinical collaboration agreement, signed in 2016, with the Merck KGaA and Pfizer alliance, which supply their ICI (avelumab).

***Next stages of development***

The first results of this trial are expected in 2018.

***Marketing outlook***

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

### TG1050: a therapeutic vaccine for chronic hepatitis B – phase 1/1b

*TG1050 is a therapeutic vaccine for the treatment of chronic hepatitis B. This product went into clinical trials in 2015 in patients with a chronic HBV (hepatitis B virus) infection who were undergoing standard antiviral treatment. This product has shown a good safety profile and immunogenicity in patients who received a single dose of TG1050.*

TG1050 technology is also under development in China, through the joint venture between Transgene and Tasly Pharmaceutical Group.

***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 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.

In combination with standard antiviral treatment, TG1050 is aimed at inducing an immune response against HBV antigens and increasing the level of seroconversion against HBsAg (a HBV surface antigen), compared with current standard treatments alone, thus providing a new option for curing this disease. Despite the introduction of new treatments, fewer than 5% of patients attain a complete cure, *i.e.* the disappearance of the HBsAg antigen together with a measurable antibody response against the same antigen, or seroconversion against HBsAg.

***Clinical trials and results***

Preclinical results have shown the ability of TG1050 to induce specific T cell responses. These responses were robust, broad and sustained over the time, with characteristics similar to those observed in patients who have eliminated the infection. Antiviral effects have also been shown for TG1050 at preclinical stage.

Based on these data (key findings were published in the scientific journal *Gut*), the Company moved ahead with a phase 1/1b study of TG1050 in patients with chronic hepatitis B in 2015. This multi-centered trial (Europe and North America) is randomized and double-blind against a placebo. It evaluates the safety and tolerability of TG1050 in single and multiple doses and will make it possible to determine the dose and schedule of administration for the continued development of the product.

In October 2017, during the presentation of a poster at the *AASLD* Liver Meeting, Transgene disclosed that the analyses carried out on patients who received a single dose of TG1050 in the phase 1/1b trial confirm its good safety profile. These analyses confirm the first findings communicated in 2016, namely the very satisfactory tolerance profile of TG1050.

T101 is an immunotherapy that incorporates TG1050 technology. This product is being developed in China in a joint-venture between Transgene and Tasly Pharmaceutical Group Co, Ltd.

The first patient was treated in January 2018 in a phase 1 clinical trial of T101 in China. This clinical study will primarily measure the tolerability and immunogenicity of this therapeutic vaccine in a population whose characteristics differ from European and North American patients, in particular by the modes of contamination, the haplotypes of patients and the viral genotypes.

***Next stages of development***

The phase 1/1b clinical trial of TG1050 has included all of its patients, and their follow-up continues. The full results (all patients) will be available in 2018.

The first results of the T101 phase 1 trial in China will be available in 2019.

***Marketing outlook***

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

## Oncolytic viruses: selectively destroy cancer cells

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

They selectively replicate in cancer cells and directly (the process is known as cell lysis or oncolysis) and indirectly trigger an immune system response against these cells.

Oncolytic viruses can be armed with a comprehensive therapeutic arsenal comprising complementary anti-cancer weapons embedded in their genome: in this case, we refer to multifunction or "armed" oncolytic viruses.

By attacking the tumor with several mechanisms of action, Transgene develops therapeutic approaches that can lead to an effective therapy against cancer.

## Pexa-Vec oncolytic immunotherapy: liver cancer and other solid tumors – phase 3

*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 other therapies, including 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 the virus 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 of action to "attack" 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 Pexa-Vec's development and commercial rights for Europe (see Section 1.2.5).

### *Principal therapeutic indication: liver cancer*

Phase 1 and 2 clinical trials in different types of tumors showed that Pexa-Vec is well tolerated by patients and has a biological activity when injected directly into tumors or administered by IV infusion. 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 (1/10$^{th}$ 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*

#### Liver cancer (HCC)

Pexa-Vec is being developed primarily for the treatment of liver cancer, as a first line of treatment. The clinical development plan aims to position the product in combination with the current leading treatment (sorafenib – Nexavar®), and in combination with nivolumab (ICI).

Two clinical trials are underway for the treatment of HCC:

- phase 3 clinical trial (PHOCUS). This trial evaluates Pexa-Vec in combination with sorafenib in the first-line treatment of patients with advanced hepatocellular carcinoma (HCC). This trial, launched in late 2015, is being conducted in Europe, Asia and North America by our partner SillaJen and is expected to enroll approximately 600 patients. Patients are randomized into two groups to receive Pexa-Vec followed by sorafenib, or sorafenib only. Sorafenib (Nexavar®) remains the only product approved for first-line treatment of advanced HCC. This study has received a Special Protocol Assessment (SPA) from the FDA, which will enable an accelerated review once the data are obtained;

- phase 1/2 clinical trial. This multi-center trial is conducted in Europe, and started in July 2017. It combines Pexa-Vec and nivolumab (Opdivo®) as a first line of treatment for advanced HCC. The principal investigator of the trial is Prof. Olivier Rosmorduc, of the Hôpital de La Pitié Salpêtrière, Paris. The objective of the trial 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. The results of this trial will help position Pexa-Vec in combination with nivolumab, developed by Bristol-Myers Squibb for this indication. Transgene is the promoter for this study.

Pexa-Vec has received orphan drug status for this indication, in Europe and the United States.

#### Other solid tumors

Transgene is also developing Pexa-Vec in combination with other therapies:

- solid tumors: phase 1 trial to evaluate the tolerance and efficacy of Pexa-Vec combined with ipilimumab (Yervoy®) with low-dose intra-tumoral delivery. The first patient was treated in February 2017. The Leon Berard Center in Lyon, France, is the sponsor of the research;

- HER 2-negative breast cancer and soft-tissue sarcoma: phase 2 trial assessing Pexa-Vec in combination with cyclophosphamide administered in low (metronomic) doses. 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. The phase 2 part of the trial began in April 2017. The results of phase 1 were presented to the 2017 ESMO Congress (European Society for Medical Oncology). They showed good tolerance and no dose-limiting toxicity for the combination, allowing the trial to continue;

- Neo-adjuvant (translational): study, with administration of Pexa-Vec in solid tumors before surgical intervention (neo-adjuvant indication). It aims to better document the mechanism of action of Pexa-Vec in the actual environment of tumors. Eight patients were treated. The University of Leeds is the sponsor of this trial, for which the principal investigator is Prof. Anthoney.

In parallel, SillaJen and Lee's Pharma are conducting phase 1 and 2 clinical trials in their respective geographic regions (North America and Asia/China). These tests principally combine Pexa-Vec with ICIs for the treatment of various solid tumors.

***Next stages of development***

The phase 1 and 2 studies, including the trial combining Pexa-Vec and nivolumab in the HCC, will produce its first results in the course of 2018.

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

***Marketing outlook***

An initial marketing approval application could be filed for Pexa-Vec in 2022 as a first-line treatment in advanced liver cancer as indicated in the product's current development plan.

### TG6002: solid tumors – phase 1/2a

*A new generation of multifunctional oncolytic virus, TG6002 has been designed to combine the mechanism of oncolysis (targeted destruction of the cancer cell) with the local production of chemotherapy (5-FU), directly in the tumor. The goal of this approach is to attack the solid tumors on several fronts while avoiding the side effects of chemotherapy.*

***Description and mechanism of action***

The genetically-modified poxvirus (the vaccine virus) from which TG6002 is derived can selectively replicate in tumor cells. This selectivity for cancer cells is obtained by removing the thymidine kinase (TK) and ribonucleotide reductase (RR) genes from it, thus making it dependent on the TK and the RR constantly expressed at high levels by the cancer cells. TG6002 also expresses the patented gene FCU1. Its expression in the infected tumor cell leads to conversion of the local pro-drug 5-FC (flucytosine) in 5-FU (fluouracile), a commonly used chemotherapy.

TG6002 combines several mechanisms of action to:

- directly and selectively destroy the cancer cells (oncolysis) by causing immunogenic cell death;
- induce an immune response, following the release of antigens during the oncolysis;
- allow the production of a chemotherapy (5-FU), directly in the tumor.

TG6002 is able to strengthen conventional treatments and could be used in combination (with chemotherapy, monoclonal antibodies or radiation and Immune checkpoint inhibitors) 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 adenocarcinoma (stomach, pancreas and colon).

***Key results***

Transgene relies on a set of robust preclinical data, having demonstrated inter alia its good tolerance and efficacy profile in several preclinical glioblastoma models *in vitro* (cell lines) and *in vivo* (xenografts on immunodeficient mice). In some models, partial responses and even complete ones were observed, as well as a "remote" effectiveness of the oncolytic virus on the metastases.

***Clinical trial under way***

A phase 1/2a trial was launched in October 2017 in patients with a recurring glioblastoma (NCT03294486). The principal investigator of this study is Dr. Ahmed Idbaih (Pitié-Salpêtrière, AP-HP, Paris, France).

***Next stages of development***

The first results of the phase 1/2a trial are expected in the second half of 2018.

Transgene is also preparing a clinical trial for other solid tumors, including gastrointestinal tumors.

***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).

### New generation of oncolytic viruses – Invir.IO™

The Invir.IO™ platform is based on a patented technology and aims to design a new generation of multifunctional oncolytic viruses able to modulate the tumor micro-environment and thus show improved anti-tumor activity. Transgene intends to sign partnership agreements and/or to license the drug candidates from the Invir.IO™ platform, including at stages of early development.

The significant capacity of the genome of the vaccine's viruses makes Invir.IO™ an ideal platform for the development of a portfolio of multifunctional oncolytic viruses.

The Invir.IO™ platform has already generated multifunctional candidates which integrate several weapons (enzymes, antibodies, cytokine, etc.). They are undergoing preclinical evaluation by Transgene.

***A platform to build a portfolio of immunotherapeutics combining complementary modes of action***

Thanks to Transgene's unique know-how, the Invir.IO™ platform can develop, produce and qualify numerous candidate products in a highly efficient way.

The aberrant proliferation of cancer cells is made possible by immunosuppression mechanisms which allow the tumor to escape the immune system. These complex cellular and metabolic mechanisms develop in the tumor micro-environment. Our oncolytic viruses are designed to directly and selectively destroy the cancer cells by the intracellular replication of the virus (oncolysis). On the one hand, this oncolysis induces an immune response against tumor cells (immunogenic lysis). On the other hand, the replication of the virus allows the expression of transgenes carried in its genome and therefore an expression of weapons (therapeutic agents) specifically in the tumor.

***Oncolytic viruses optimized to attack the tumor on several fronts and improve the cancer treatment***

Most of the effector molecules of the immune system are very effective locally, but they may be toxic when administered by a systemic route. The preferential replication of the virus within the tumor allows the local expression of such therapeutic modalities in addition to the oncolysis. This can effectively modulate the tumor micro-environment and increase the immuno-sensitivity of the tumor while limiting systemic exposure to these potentially toxic molecules.

Transgene has already demonstrated that the oncolytic viruses from the Invir.IO™ platform attack tumors on several fronts and can, in addition to the remarkable lytic properties Vaccinia viruses:

- induce the immunogenic death of cancerous cells; and
- allow the expression of several anti-cancer weapons such as cytokines, chemokines, enzymes, and/or monoclonal antibodies or mini-antibodies (SdAbs – single-domain antibodies) in the tumor.

***Collaboration Agreements***

In addition to its proprietary development work it does on its own, Transgene signed two collaborative research agreements in 2017 (see Section 1.2.5). They aim to vectorize, *via* Invir.IO™, sequences developed by a partner in one of Transgene's patented oncolytic viruses. The oncolytic viruses that will result from these collaborations have the potential to be significantly more effective than the combination of agents administered separately.

- Collaboration with Randox (October 2017): vectorization of one or more of Randox's SdAbs in order to combine the effects of oncolytic viruses with the properties of the vectorized SdAbs which will be expressed directly in the tumor micro-environment, so as to remove the immunosuppression of solid tumors.
- Collaboration with BioInvent (December 2017): Vectorization of one or more anti-CTLA-4 (ICI) antibodies. The local expression of ICIs in the tumor would reduce immunosuppression in the tumor and induce its destruction by the immune system.

***Next stages of development***

Some ten candidates are undergoing clinical evaluation to identify the oncolytic viruses resuting from Invir.IO™ that can proceed to clinical trials as well as their primary indications. The first drug candidate from this platform could go into clinical trials in 2019.

## Research agreement with Servier

In June 2017, Transgene and Servier announced a research agreement on the application of viral vectorization technologies for the production of allogeneic CAR-T cells therapies (see Section 1.2.5). The collaboration between the scientific teams of Servier and Transgene aims to evaluate and select innovative vectorizing technologies from Transgene's collection of viral vectors that can be applied to the engineering of CAR-T cells therapies.

Besides the development of simpler, faster and more effective technologies, the objective is also to gain a more precise control of the modified genome areas. Servier and Transgene thus aim to create an original allogeneic CAR-T preparation method with better transgene integration yields and fewer steps.

## 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.

Transgene continued its preclinical experiments in 2017. A partnership is being sought for the drug candidate that was generated through this research.

***Marketing outlook***

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

### Other programs

Finally, Transgene conducts other research programs, capitalizing on its recognized expertise in the engineering of viral vectors, and aimed in the long term at extending the Company's portfolio of preclinical and clinical drug candidates.

## 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

Cancer remains one of the main causes of death in the world (one death in seven). It causes more deaths than Aids, tuberculosis and malaria combined. According to estimates by the International Agency for Research on Cancer, 14.1 million new cases of cancer were identified worldwide in 2012. The number of deaths that same year was estimated at 8.2 million (approximately 22,000 deaths per day), including 2.9 million 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, as a result of population growth and aging (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, patients' chances of survival are reduced when the tumors are invasive and metastases appear. Chemotherapy and hormone therapy are the main treatments for cancers at these advanced stages. 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 by bio-molecular engineering. Transgene's cancer treatment programs mainly seek to stimulate the immune system to induce tumor rejection or to destroy cancer cells with 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 there were more than 221,000 new cases of lung cancer and more than 158,000 related deaths in 2015. Lung cancer is one of the cancers with the bleakest prognosis (the 5-year survival rate is less than 5% for advanced non-small cell lung cancer), which highlights the significant medical need in this indication.

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 cancer 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.

Clinical research has focused on immunotherapy for several years now. It has demonstrated a distinct benefit in terms of effectiveness and 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 by the tumor cells (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. Numerous combination regimens (combinations of immunotherapies, including vaccines and oncolytic viruses, or with chemotherapy or radiation therapy, for example) are 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 nearly 75% of advanced-stage 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.

In 2017, the FDA authorized the use of nivolumab (Opdivo®) for patients whose cancer has progressed after treatment with sorafenib. The authorization of this first ICI is an encouraging sign for patients. Several clinical trials are underway, including as a first line of treatment.

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 (Human Papilloma Virus) head and neck cancers

Squamous cell carcinomas of the head and neck (HNSCC) 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 SCCHN, especially the oropharyngeal form, where it is implicated in more than 80% cases.

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, radio-chemotherapy and/or ICIs. 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 ICIs could be a promising therapeutic option to meet this major medical need.

#### 1.2.3.1.4 Glioblastoma

Glioblastoma is the most common primitive cancer of the brain and the most aggressive in adults. Approximately 70,000 new cases are diagnosed each year in the European Union and the United States (GLOBOCAN 2012). Despite highly intensive treatments (surgery, radiation and several lines of chemotherapy) which induce severe adverse events, the prognosis for patients with glioblastoma remains extremely poor. It is urgent and necessary to develop more effective and less toxic therapies to prolong survival and improve the quality of life of patients with glioblastoma.

### 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 US, Germany, France, Italy, Spain and the United Kingdom with approximately 100,000 patients in Japan. The total prevalence of chronic hepatitis B cases treated 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.

New drugs have been introduced over the last ten years. They make it possible to maintain a low-level viral load in patients with chronic hepatitis B and include: nucleoside analogues ("NUCs") and pegylated alpha interferon (peg-IFN), including Gilead's Tenofovir (Viread®) and Bristol-Myers Squibb's Entecavir (Baraclude). 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) together with a measurable antibody response against the same antigen, or seroconversion against HBsAg. These drugs must be taken for life or over long periods of time (an average of fifteen years in developed countries), with a significant risk for the patients of eventually developing cirrhosis of the liver that can evolve into cancer of the liver. 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 and NovaRX, with respect to therapeutic vaccines, and Amgen, Psioxus and Oncolytics Biotech, with respect to oncolytic viruses, are all trying to develop viral immunotherapies.

With respect to NSCLC, the lead indication for TG4010, companies such as Bristol-Myers-Squibb (BMS), Merck and Roche have received market authorization for their ICI immunotherapies, as second-line and, more recently, as first-line therapies. Companies such as Astra Zeneca are moving ahead with the development of their own immunotherapies to combat this disease.

With respect to liver cancer, the lead indication for Pexa-Vec, certain immunotherapies are currently at the clinical trial stage, including Bristol-Myers Squibb's immunotherapy product, nivolumab, the most advanced (phase 3). The presentation of these first-line clinical results is expected in 2018 at the leading medical conferences.

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.

Although there is currently no effective treatment to cure all cancers, or solid tumors in particular, some treatments which are able to prolong survival, such as chemotherapy, are recognized. 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 using a vector to introduce the functional gene into 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. The research contract with Servier focuses on this type of therapy in particular and aims to improve the manufacturing process of these modified cells.

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 vaccine virus family (Poxvirus) for *in vivo* administration: MVA (Modified Vaccinia Ankara virus) and oncolytic VV (Vaccinia Virus), as well as adenoviruses. The large capacity of the genome of the vaccine's virus makes it an especially interesting platform, since it is possible to insert many transgenes into it while ensuring the stability of its genome.

To be effective, a vector must be able to:

- transport the transgene 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, and the ability to be administered more than once by a systemic path and no longer only intra-tumorally; and
- the ability to alter the tumor micro-environment 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 vectors based on a strain of the attenuated Ankara vaccine (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, broad response.

### Oncolytic immunotherapy

Oncolytic immunotherapy is a new class of anti-cancer treatments. Unlike products using MVA, oncolytic products replicate in cancer 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.

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. The Invir.IO™ platform (see Section 1.2.2.2) is part of this research.

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

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. It is sold by Mérial, one of the world leaders in animal health (acquired by Boehringer Ingelheim in 2017).

## 1.2.5 Material contracts

### Collaboration agreement with Bristol-Myers Squibb for a phase 2 study

In April 2017, Transgene and Bristol-Myers Squibb signed a collaboration agreement to assess the potential of the therapeutic vaccine TG4010 in combination with Opdivo® (nivolumab) and chemotherapy for the first-line treatment of advanced stage non-small cell lung cancer (NSCLC) in patients whose expression of PD-L1 by tumor cells is low or undetectable. Bristol-Myers Squibb is providing nivolumab and certain technical services to the collaboration, with Transgene contributing TG4010 and acting as sponsor of the research. The first patient was treated in January 2018.

## University of California Davis (UCD) collaboration agreements with Transgene and with Bristol-Myers Squibb for a phase 2 study

In December 2016, Transgene and Bristol-Myers Squibb each entered into a collaboration agreement with the University of California so that it could put in place a phase 2 clinical trial to evaluate TG4010 in combination with Opdivo® (nivolumab) for the treatment of second-line metastatic non-small cell lung cancer (NSCLC). UC Davis Medical Center will act as sponsor this of clinical trial (a so-called "investigator-initiated") financed by Transgene and supported by the supply of nivolumab by Bristol-Myers Squibb and TG4010 by Transgene. Opdivo® is a Bristol-Myers Squibb product. The first patient was treated in March 2017.

## Collaboration agreement with Merck KGaA and Pfizer for a phase 1/2 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 squamous cell carcinoma of the head and neck (SCCHN), 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. The first patient was treated in September 2017.

## Licensing agreement with SillaJen

In August 2010, Transgene and Jennerex, Inc. (acquired by the South Korean 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 carcinoma. Transgene remains responsible for submitting requests for marketing approval and retains commercialization rights in its territories. Transgene has committed 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. A last payment of $1.5 million will take place in September 2018. 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 and any other exploratory studies it launches independently. The data generated by these independent trials will belong to Transgene.

As part of the development activities, Transgene may have to pay SillaJen up to $112 million (including $13.25 million already paid) in milestone and market authorization payments for several indications, 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 to co-develop oncolytic vectors with Randox and BioInvent

In October 2017, Transgene and Randox announced a co-development agreement to develop viral vectors from Transgene's invir.IO™ platform, armed with single-domain monoclonal antibodies (SdAb) generated by Randox. In December 2017, Transgene and BioInvent announced a co-development agreement to develop viral vectors from Transgene's invir.IO™ platform, armed with an anti CTLA-4 monoclonal antibody developed by BioInvent. The immunotherapies resulting from these collaborations will combine the effects of oncolytic viruses with the properties of the vectorized antibodies, which will be expressed directly in the tumor micro-environment, so as to remove the immunosuppression of solid tumors.

The terms of each agreement provide for development conducted by the two companies with an equal share of the costs and revenues and royalties that result, with the possibility for each party to opt out of the ensuing steps of the collaboration in exchange for granting a license and an adjustment of the financial terms.

## Collaborative research agreement with Servier

In June 2017, Transgene and Servier signed a research collaboration agreement for the application of viral vectoring technologies for the production of CAR-T allogeneic cellular therapies. The objective is to create products which are increasingly effective for patients. Servier plans to exploit these new vectors to develop its portfolio of cellular immunotherapy. In the event of success, Transgene could receive payments totalling more than €30 million under this contract.

## 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). One tranche of €10 million was drawn in June 2016. Transgene declined to draw the second tranche. No guarantees were provided in connection with this credit facility. This is a five-year facility for which the principal will be repaid in June 2021 and interest paid starting in June 2019.

## 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 – 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.

Construction of the manufacturing site has been completed. Its regulatory qualification by the health authorities is under way and should be obtained in 2018.

## Consortium agreement for the ADNA (Advanced Diagnostics for New Therapeutic Approaches) project

Transgene is a partner in a research program coordinated by Institut Mérieux, which brings together, among others, bioMérieux, Transgene, 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 the ADNA program, Transgene received grants and reimbursable advances of €8.3 million and €15.9 million, respectively, over the duration of the program. If the project is a success, defined as the marketing of a product for which a grant has been awarded and attaining a minimum revenue level, Transgene must, under certain conditions, repay the advances in installments and then, if applicable, make additional repayments until 2035 or up to a defined minimum. These obligations relate to the candidates in development, TG4010 and TG4001.

## 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 immunotherapy program for tuberculosis would receive $5 million in funding from the US National Institute of Allergy and Infectious Diseases (NIAID, part of the U.S. 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 anti-tuberculosis 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

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 Valneva's Vivalis EB66® cell line. 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;
- ease of administration: Transgene's 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.

### Invir.IO™, a patented platform to generate a new generation of oncolytic viruses

Transgene has an innovative platform to develop a new generation of multifunctional oncolytic viruses, armed with several "anticancer weapons" (see Section 1.2.2.2). Multifunctional oncolytic viruses are particularly promising therapies, with the potential to significantly improve the treatment of patients.

This platform leverages Transgene's historical know-how in engineering viral vectors. It is intended to generate, including through collaboration agreements, a portfolio of particularly innovative drug candidates able to modulate the tumor micro-environment.

### Integrated skills from research to development

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

### An extensive portfolio of patents

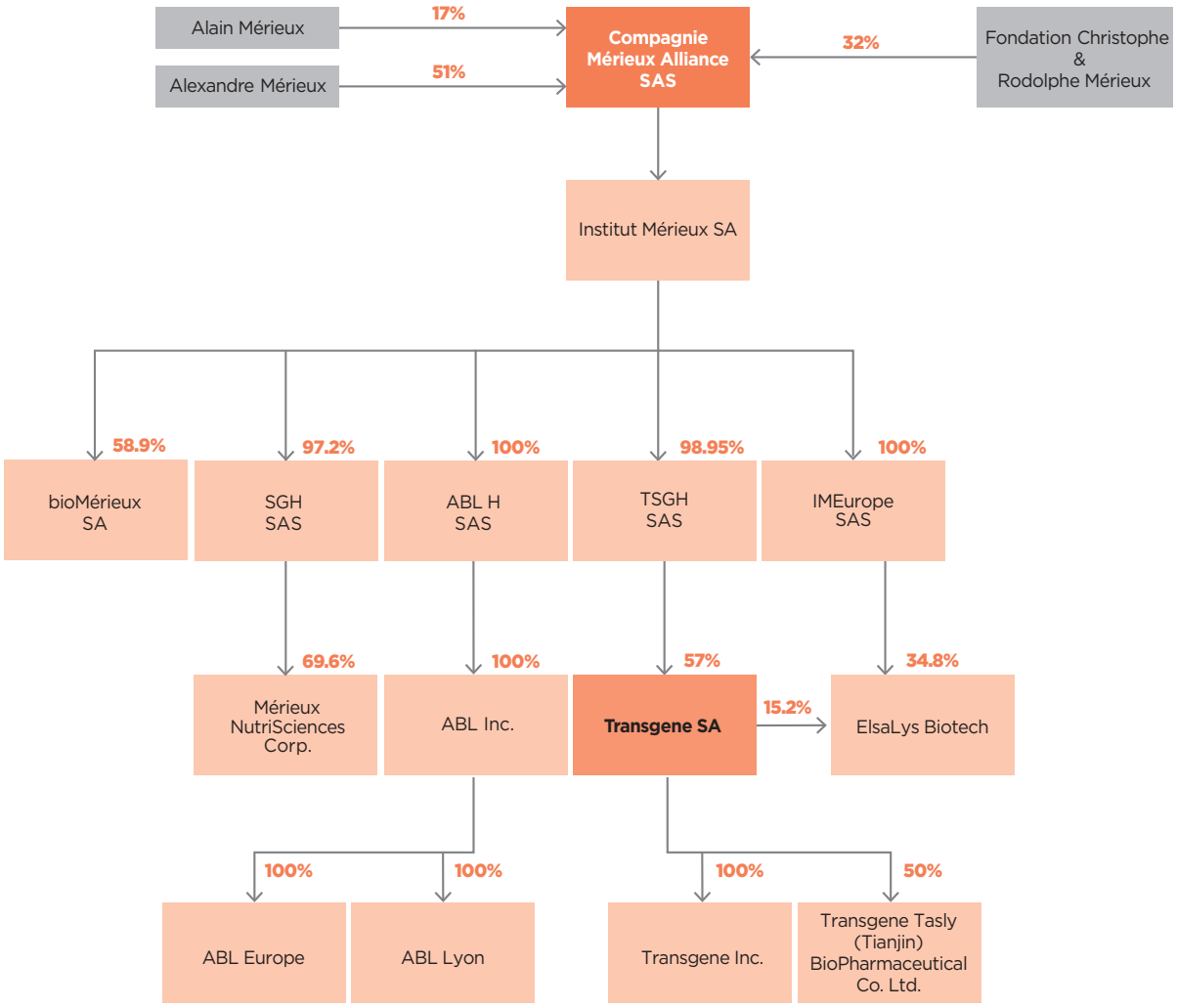
Transgene has applied for patents and will continue to do so to protect its products, vector technologies and related processes and other technologies. As of the date of this Registration Document, Transgene owns over 200 patents both in Europe and the United States. In addition to its patent portfolio, 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 57% owned by TSGH, a financial holding company, which in turn is 98.95% owned by Institut Mérieux, itself 99.7% 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 1.05% stake, the permanent representative of TSGH on the Board of Directors of ABL, Inc, a subsidiary of ABLH, 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 United States, 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 United States. 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. (in liquidation)

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 SA

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, 2017, Transgene's equity interest in ElsaLys Biotech was 15.22%. 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, 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

In 2017 Transgene continued its strategy, with the launch and the advancement of some ten clinical trials designed to demonstrate the potential of its immunotherapies. These efforts confirm that, in 2018, Transgene will be able to report its first results on its five products in clinical development for indications of high medical need.

The intense clinical activity has gone hand in hand with the signing of several collaboration agreements, validating the clinical approach of TG4010, the potential of the Invir.IO™ platform and Transgene's know-how in vectorology:

- with Bristol-Myers Squibb (BMS) for the clinical trial of TG4010 as a first line of treatment of lung cancer;
- with Randox and BioInvent for the vectorization of innovative targets in a new generation of oncolytic viruses from the Invir.IO™ platform;
- with Servier for the design of a process optimized for the manufacturing of allogeneic CAR-T cells using our viral vectorization technology.

These collaborations come in addition to the existing one with BMS for TG4010 (lung cancer -2nd line) and the one signed with Merck KGaA/Pfizer for TG4001 for head and neck cancers.

By launching the Invir.IO™ platform, Transgene has also confirmed its ability to design a new generation of multifunctional oncolytic viruses. These innovative treatments will attack the tumors on several fronts using weapons able to modulate the tumor micro-environment.

Finally, in November 2017, Transgene successfully concluded a private placement of €14 million, subscribed by international institutional investors. This transaction gives Transgene financial visibility until mid-2019.

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 focusing solely on advanced lung cancer. Immunotherapy, including immune checkpoint inhibitors (ICIs), has been an area of significant clinical progress for the past several years. Transgene focuses on severe diseases (advanced cancers or cancers that have no satisfactory therapeutic options) and 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 to obtain proof of concept of the clinical efficacy of its immunotherapies in humans, used as a monotherapy and/or in combinations, 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 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.

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. Government financing for research expenditure.

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.

### Share-based payments

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.

### Financial assets

Financial assets consist of deposits and guarantees for leased assets or debt from a financial institution, equity securities on earn-outs due on the sale of interests, and cash advances made to non-consolidated equity investments.

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

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.

Other financial assets are recorded at cost and depreciated, as needed, if their carrying value exceeds their recoverable amount as estimated by the Company.

### 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 15.22%, respectively), which are accounted for using the equity method. These securities are recorded at cost less the share of losses attributable to Transgene SA.

### 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.

## 1.3.3 Financial position and appropriation of net income

The Company has historically incurred losses 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, 2017 and 2016**

## INCOME STATEMENT

| *(in € thousands, except for per-share data)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Revenue from collaborative and licensing agreements | 2,099 | 2,346 |
| Public funding for research expenses | 5,358 | 6,382 |
| Other income | 687 | 1,583 |
| **Operating income** | **8,144** | **10,311** |
| Research and development expenses | (30,359) | (26,419) |
| General and administrative expenses | (5,674) | (6,236) |
| Other expenses | (154) | (320) |
| **Net operating expenses** | **(36,187)** | **(32,975)** |
| **Operating income/(loss)** | **(28,043)** | **(22,664)** |
| Net finance cost | (2,287) | (602) |
| Share of profit/(loss) of associates | (1,944) | (917) |
| **Income/(loss) before tax** | **(32,274)** | **(24,183)** |
| Income tax expense | - | - |
| **Net income/(loss)** | **(32,274)** | **(24,183)** |
| **Net income/(loss) from discontinued operations** | **-** | **(1,024)** |
| **NET INCOME/(LOSS)** | **(32,274)** | **(25,207)** |
| Basic earnings per share *(€)* | (0.52) | (0.45) |
| Diluted earnings per share *(€)* | (0.52) | (0.45) |

### Operating income

During the periods under review, income from the collaboration and licensing agreements, representing €2.1 million in 2017 versus €2.3 million in 2016, consisted primarily of the following items:

- research and development services for third parties amounting to €0.9 million in 2017 (€0.5 million in 2016); and
- income related to the commercial use of technologies or products provided under license by Transgene amounting to €1.2 million in 2017 (€1.8 million in 2016). In 2017, it primarily corresponded to the TG3003 product license granted to ElsaLys Biotech SA for €1.0 million.

Public funding for research expenses accounted for €5.4 million in 2017 versus €6.4 million in 2016, referring to the research tax credit and to grants received and receivable:

- the research tax credit (CIR – crédit impôt recherche) amounted to €5.4 million in 2017 (€6.3 million in 2016). Related eligible expenses (net of grants received during the fiscal year) amounted to €18.0 million in 2017 and €21.0 million in 2016. This decrease is related primarily to the receipt in 2017 of the balance of repayable subsidies and advances under the ADNA program of €2.5 million; and
- research grants were less than €0.1 million in 2017 (€0.1 million in 2016).

### Operating expenses

***Research and Development "R&D" expenses***

R&D expenses amounted to €30.4 million in 2017 versus €26.4 million in 2016.

The following table details R&D expenses by type:

| *(in € millions)* | 12/31/2017 | 12/31/2016 | Change |
|---|---|---|---|
| Payroll costs | 11.1 | 10.8 | +3% |
| Share-based payments | 0.3 | 0.2 | +58% |
| Intellectual property expenses and licensing costs | 4.8 | 1.1 | +325% |
| External expenses for clinical projects* | 7.0 | 7.0 | +1% |
| External costs on other projects | 1.5 | 1.8 | -14% |
| Operating costs | 3.9 | 4.1 | -5% |
| Depreciation and provisions | 1.8 | 1.5 | +19% |
| **RESEARCH AND DEVELOPMENT EXPENSES** | **30.4** | **26.4** | **+15%** |

* *Expenses related to outsourcing the production of clinical batches are presented on the line "External Expenditures on clinical projects".*

Employee costs allocated to R&D (salaries, employer contributions and related expenses) amounted to €11.1 million in 2017, compared to €10.8 million in 2016.

Intellectual property and licensing expenses amounted to €4.8 million in 2017 versus €1.1 million in 2016. This increase was mostly due to the €3.8 million installment payment made to SillaJen, Inc. in the first half of 2017 with the inclusion of the first PHOCUS study patient in Europe.

External expenses for clinical projects were €7.0 million in 2017, as in 2016.

External expenses for other projects (research and preclinical) were €1.5 million in 2017, compared to €1.8 million in 2016.

Operating expenses, including the cost of operating research laboratories, amounted to €3.9 million in 2017, compared to €4.1 million in 2016.

***Overhead expenses***

General and administrative (G&A) expenses amounted to €5.7 million in 2017 versus €6.2 million in 2016.

The following table details G&A expenses by type:

| *(in € millions)* | 12/31/2017 | 12/31/2016 | Change |
|---|---|---|---|
| Payroll costs | 3.0 | 3.8 | -21% |
| Share-based payments | 0.2 | 0.1 | +86% |
| Fees and administrative expenses | 1.6 | 1.5 | +5% |
| Other fixed costs | 0.8 | 0.7 | +21% |
| Depreciation and provisions | 0.1 | 0.1 | -6% |
| **GENERAL AND ADMINISTRATIVE EXPENSES** | **5.7** | **6.2** | **-8%** |

Employee costs amounted to €3.0 million in 2017 versus €3.8 million in 2016. In 2016 the Company recognized unprovisioned charges of €0.4 million following the attachment of the CEO to the entity.

Fees and administrative expenses amounted to €1.6 million in 2017 versus €1.5 million in 2016.

### Other income

Interest income amounted to €0.7 million in 2017 versus €1.6 million in 2016. In 2017 the Company recognized a positive impact of €0.4 million from restructuring costs finally paid as compared to the costs provisioned.

In December 2016, the Company participated in a capital increase of Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd., which generated extraordinary income of €1.2 million.

### Other expenses

Other expenses amounted to €0.2 million in 2017 versus €0.3 million in 2016.

### Financial income/(loss)

Financial income showed a net loss of €2.3 million in 2017 versus a loss of €0.6 million in 2016.

Financial income (investment income) amounted to €0.3 million in 2017 (€0.9 million in 2016).

Financial expense amounted to €2.6 million in 2017 (€1.5 million in 2016) and primarily involved:

- bank interest on the loan received from the EIB (€0.8 million in 2017 versus €0.4 million in 2016);
- the present discounting of the contingent proceeds on the sale of Jennerex, Inc. stock to SillaJen Inc. in 2014 (€0.8 million in 2017);
- the present discounting of the debt owed to Bpifrance on the advances received under the ADNA program (€0.5 million versus €0.6 million in 2016);
- the interest on financial leases (€0.2 million in 2017, the same as in 2016).

### Net income/(loss)

The net loss from operations was €32.3 million in 2017 versus €24.2 million in 2016.

### Net income/(loss) from discontinued operations

In 2017, the Company no longer recognized income on discontinued operations. The net loss on discontinued operations amounted to €1.0 million in 2016.

### Net comprehensive income/(loss)

The total net loss was €32.3 million in 2017 versus €25.2 million in 2016.

Net loss per share was €0.52 in 2017 (€0.45 in 2016).

### 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 €0.6 million in 2017 (€0.1 million in 2016).

### Repayable advances and loans

In 2017, the Company received €1.7 million of repayable advances from Bpifrance, equaling the remainder of the grants under the ADNA program.

In 2017, Transgene refinanced its 2016 research tax credit of €6.3 million. To this effect, it took out a bank loan with Bpifrance that matures in mid-2020, at which time the receivable is expected to be paid by the French government.

The tax credit for competitiveness and employment (CICE) was also financed in 2017 in the amount of €0.1 million through a loan from Bpifrance (which matures in mid-2021).

In 2017, Transgene did not use the second, €10 million tranche available on the loan from the European Investment Bank (EIB). In June 2016, Transgene drew down the first tranche of the loan granted by the European Investment Bank (EIB) in January of that year. This first €10 million tranche 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, 2017, the Company's available cash amounted to €41.4 million versus €56.2 million on December 31, 2016.

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

### Cash flow

The Company's use of cash amounted to €28.1 million in 2017 versus €30.6 million in 2016, excluding capital increases and receipt of the EIB loan (in 2016).

## 1.3.5 Investments

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

| 2017 | Thousand euros | Principal investments |
|---|---|---|
| Tangible | 943 | Maintenance and laboratory equipment |
| Intangible | 14 | Softwares |
| **2016** | **Thousand euros** | **Principal investments** |
| Tangible | 32 | Maintenance and laboratory equipment |
| Intangible | 20 | Softwares |

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

The forecast budget for tangible and intangible investments in 2018 amounts to around €0.5 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 December 2016, the Company participated in the capital increase of Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. The transaction 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 the joint venture.

## 1.3.6 Foreseeable changes, future prospects and significant events after the reporting period

### 1.3.6.1 Information on trends

At the date of the present Registration Document, the Company expects cash outflow in 2018 to be comparable to 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 viral vectors. 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. 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 (ICIs). The best known of these are Opdivo® (nivolumab) from Bristol-Myers Squibb, Keytruda® (pembrolizumab) from Merck and Bavencio® (avelumab) from Merck KGaA and Pfizer.

As of the date of this Registration Document, none of the Company's products has reached an advanced stage of development, with the exception of Pexa-Vec co-developed with SillaJen. The latter has 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. As a result, there will still be a number of uncertainties relating to the prospects for development and profitability of the Company's products until their safety, efficacy, positioning in comparison with other classes of immunotherapies and acceptance by patients, doctors and health care providers have been established.

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 schedule 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 is still being developed as a treatment approach;
- the regulatory requirements governing immunotherapy, in particular therapeutic vaccines and oncolytic viruses, may be modified;
- the clinical results obtained by other products in the same therapeutic indications may modify the assessment criteria used by the regulatory authorities; 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 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 United States 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, due to the competition for those patients with other products intended for the same population. The Company is exposed to this risk, which can lead to excessive time frames for the conduct 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 t he trial;

- access to appropriate clinical sites may be difficult, preventing the initiation or conduct of the trial within a reasonable time frame;

- 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 during 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 subcontract commercial-scale manufacturing of some 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 would have a material adverse effect on the Company's business, results, 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 expense required to obtain regulatory authorizations;
- the ability to enter into partnership agreements to continue developing certain products;
- the necessity for large-scale manufacturing and distribution;
- the deadline, collection and amounts of payments under its collaboration agreements;
- the deadline, collection and amounts of sales and royalties for future products;
- the cost of preparing, filing, defending, 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 has been mainly through new share issuances; for example, €14 million from the equity round in November 2017 and €46 million from the one 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.

The inability to finance itself through capital increases would have a material adverse effect on the Company's business, results, financial position and development.

The Company also receives a research tax credit (CIR) to finance its activities. 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 €5,397 thousand (2017), €6,297 thousand (2016) and €7,758 thousand (2015) 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 obtained a €10 million loan from the European Investment Bank in 2016. This loan has term of five years and bears interest. 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 past and future losses

The Company has reported operating losses for several years. At December 31, 2017, the accumulated deficit amounted to approximately €668 million (versus €630 million at end-2016), 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 sale of products, but from payments made by partner companies under certain agreements (see Section 1.4.2) and, where applicable, licensing agreements, 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 would have a material adverse effect on the Company's business, results, financial position and development.

#### 1.4.1.1.7 Specific risks related to product 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 share the development of the product, with SillaJen assuming responsibility for ongoing phase 3 trials of Pexa-Vec and Transgene taking on the Pexa-Vec combination studies with Immune checkpoint inhibitors independently.

  The development and commercialization of Pexa-Vec, including in Transgene's territory, are dependent on the conduct of the phase 3 research by SillaJen. They could also be affected if SillaJen were not to comply, or were unable to comply, with its regulatory obligations in its territory 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 ABL to have ABL Europe manufacture the clinical batches of Transgene products for its clinical studies subsequent to the Company's decision to outsource manufacturing which it had conducted in-house up until then. 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 would have a material adverse effect on the Company's business, results, 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 would have a material adverse effect on the Company's business, results, 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 would have a material adverse effect on the Company's business, results, 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 which are, as of the date of this Registration Document, in preclinical development to the clinical stage;
- the Company or its partners being able 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 the 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 development of therapies combining the Company's products with third-party products, such as Immune checkpoint inhibitors (blockers), could lead to treatment costs which will limit the use of these combined therapies.

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 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 $7.2 million in 2016.

The following table shows the sensitivity of the Company's expenses to a 10% change in the US dollar rate during the years ended December 31, 2016 and 2017 (before tax and any hedging):

| *(in € thousands)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Expenditures denominated in US dollars | 7,205 | 2,230 |
| Equivalent in euros on the basis of an exchange rate of €1 = $1.0541 | 6,008 | 2,116 |
| Equivalent in euros in the event of an increase of 10% USD vs. EUR | 6,675 | 2,351 |
| Equivalent in euros in the event of a decrease of 10% USD vs. EUR | 5,462 | 1,923 |

The Company's foreign exchange position as at December 31, 2017 is as follows:

| *(in thousands)* | USD |
|---|---|
| Assets | 3,320 |
| Liabilities | 249 |
| Net position | 3,071 |
| Adjusted | 3,071 |
| 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. 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 | 6 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, 2017, the market value of the hedging instrument totaled -€341 thousand.

The Company also has variable market rate liabilities under finance leases financing laboratory equipment. At December 31, 2017, the total obligation under these contracts was €44 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, 2017 would enable it to finance its current operating costs for the next 18 months (see Note 2 to the consolidated financial statements).

Financial predictability was improved by the €10 million loan from the European Investment Bank (EIB) in June 2016 and the capital increases of €14 million in 2017 and €46 million in November 2016.

The Company 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, 2017 in very short-term money market funds or at market conditions in the cash pooling managed by the Institut Mérieux, stood at €39.8 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 the Company's 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. For the same reasons, it is frequently difficult to determine if a patent application filed by a third party will be granted with a scope broad enough to interfere with the Company in the use of its technologies. As the R&D process for its products is very long, the Company may face the risk that the patents granted 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.

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 would have a material adverse effect on the Company's business, results, 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 becoming involved in a number of administrative or legal proceedings. As part of these proceedings, financial claims are or may be made against the Company. The Company is currently the defendant in a limited number of lawsuits brought by employees against the Company in the French court for employee claims. The representative of the former shareholders of Jennerex, including the Company, is considering a recovery action against SillaJen to obtain certain additional payments related to the latter's acquisition of Jennerex. (see Note 3 to the consolidated financial statements)

With the exception of these proceedings there are to date, to the Company's knowledge, no exceptional events 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 2017 amounted to €228 thousand (versus €234 thousand in 2016 and €282 thousand in 2015). 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 to cover the risks of cyberattack and 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.

# 1 OVERVIEW OF TRANSGENE AND ITS BUSINESS

2

# CORPORATE GOVERNANCE

# 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 composed 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. Terms of office expire on the date of the Annual Ordinary General Shareholders' Meeting of the year indicated. 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: **58**
First appointment: **2004**
Term expires: **2020**
Number of Company shares held: **20,005**
Number of Company options held: **36,382**

**Principal role outside of the Company:**

Chairman of the Technological Research Institute BIOASTER
Director of the Immunotherapy Unit at Institut Mérieux

**Management experience and expertise:**

Graduated from the Management Program at Harvard Business School

Chairman of bioMérieux Inc (United States) (1) (3)

Deputy CEO of bioMérieux SA (1) (2)

CEO of Innogenetics BV (3)

**Other offices held:**

Chief Executive Officer: TSGH (1), Permanent representative of TSGH (1) on the Board of ABL, Inc. (1) (3)

Representative of the FPUL on the Board of Directors of CPE Lyon

Director: bioMérieux SA (1) (2); ERYtech Pharma (2)

Chairman: Association BIOASTER (4)

**Offices expired during the last five years:**

Chairman of the Lyonbiopôle competitiveness cluster (ending: 2017); Representative of Lyon Biopôle on the Board of Directors of Synergie Lyon Cancer, a foundation (ending: 2017)

#### JEAN-LUC BÉLINGARD

**Director**
Age: **69**
First appointment: **2013**
Term expires: **2019**
Number of Company shares held: **0**
Number of Company options held: **0**

**Principal role outside of the Company:**

Vice-President Institut Mérieux (2)

**Other offices held:**

Director of bioMérieux SA (1) (2)

Director: LabCorp of America (4), Stallergenes Greer UK (3), Pierre Fabre SA

**Offices expired during the last five years:**

Chairman of bioMérieux (1) (2) (end: 2017), Director: AES Laboratoire Groupe SA (end: 2012), AES Chemunex SA (end: 2013)

*(1) Institut Mérieux group company.*
*(2) Publicly traded French company.*
*(3) Foreign corporation.*
*(4) Association, foundation or other.*

## ANTOINE BERET

**Independent director**

**Member of the Audit and Compensation (Chairman) Committees**

Age: **73**

First appointment: **2016**

Term expires: **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**

Age: **63**

First appointment: **2008**

Term expires: **2020**

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: Onxeo [1] (FR), Halozyme Therapeutics [1] [2] (US), Pieris Pharmaceuticals [1] [2] (US), ITEOS Therapeutics [1] [2] (Belgium); Oxford BioTherapeutics [1] [2] (UK); Nordic Nanovectors ASA [1] [2] (NO); IDDI (International Drug Development Institute) [2] (Belgium)

Member of the international scientific committee of the National Cancer Institute

President: Fondation Synergie Lyon Cancer

**Offices expired during the last five years:**

Celator Pharmaceuticals (US) (ended 2016)

*(1) Publicly traded company.*

*(2) Foreign corporation.*

## BENOÎT HABERT

**Independent director**

**Member of the Audit (Chairman) and Compensation Committees**

Age: **53**

First appointment: **2000**

Term expires**: 2020**

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 (SAS)*; Dassault Medias (SA)*; Mérieux NutriSciences Corp (USA); Figaro classifieds (SA)*; Éditions Dupuis (1); Dargaud (SA); ZEWAOW (SAS); Eclosion (1); KTO TV (2); Fondation KTO (2)

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 (1)

* *Controlled by GIMD.*

## MARIE YVONNE LANDEL

**Independent director**

Age: **65**

First appointment: **2017**

Term expires : **2020**

Number of Company shares held: **0**

Number of Company stock options held: **0**

**Principal role outside of the Company:**

Independent director

**Management experience and expertise:**

Chartered accountant; holds an M.B.A. from the European Business School (Paris, Frankfurt and London). Consultant for the set-up of French and European biotechnology firms in the United States

**Other offices held:**

Director: TxCell (4), Safe Orthopaedics (4), Cellnovo Group SA (4)

**Offices expired during the last five years:**

Founder and CEO of Axelia Partners (formerly Marie Landel & Associates) at the end of 2015; Treasurer of Hepatochem

*(1) Foreign corporation.*

*(2) Association, foundation or other.*

*(3) Institut Mérieux group company.*

*(4) Publicly traded French company.*

## ALAIN MÉRIEUX

**Director**

Age: **80**

First appointment: **1991**

Term expires**: 2020**

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) PMD

Chairman of bioMérieux from 1965 to 2011

**Other offices held:**

Director: CIC Lyonnaise de banque, Cie bioMérieux Italia SPA [(1) (4)] (Italy)

Director and Honorary Chairman: Fondation Christophe et Rodolphe Mérieux Institut de France [(2)], Chairman of Fondation Mérieux

Director: the Pierre Fabre Foundation

**Offices expired during the last five years:**

bioMérieux (SA) [(1) (3)] (end: 2017), Plastic Omnium SA [(3)] (end: 2018), Mérieux NutriSciences [(1) (4)] (US) (end: 2017), Fondation pour l'Université de Lyon (Chairman) (end: 2015)

Institut de Recherche Techonologique BIOASTER (ended in March 2014)

## MAYA SAÏD

**Independent director**

Age: **41**

First appointment: **2017**

Term expires: **2020**

Number of Company shares held: **0**

Number of Company stock options held: **0**

**Principal role outside of the Company:**

Founder and CEO: Outcomes4me Inc.

**Management experience and expertise:**

Senior Vice-President Global Head of Oncology Policy and Market Access at Novartis, and Vice-President, R&D Global, Strategy, External Scientific and Innovation Policy at Sanofi. Certificate in finance and health systems organization from Harvard Business School.

**Other offices held:**

CEO: Outcomes4me Inc. [(2)]

**Offices expired during the last five years:**

None

## TSGH

**Director**

17, rue Bourgelat 69002 Lyon

First appointment: **2002**

Term expires: **2020**

Number of Company shares held: **35,431,991**

Number of Company stock options held: **0**

**Principal role outside of the Company:**

None

*(1) Institut Mérieux group company.*

*(2) Association, foundation or other.*

*(3) Publicly traded French company.*

*(4) Foreign corporation.*

## REPRESENTED BY: DOMINIQUE TAKIZAWA

**Permanent representative of TSGH** [1]
**Member of the Audit Committee**
Age: **61**
Ms Takizawa does not hold any Company shares or options.

**Principal role outside of the Company:**

Corporate Secretary at the Institut Mérieux (since 2006)

**Management experience and expertise:**

Graduate of École des Hautes Études Commerciales (HEC) and degrees in chartered accountancy

Corporate Secretary of bioMérieux [1] [2] (2004-2006) and of ACCRA (2001-2004)

Before 2001, Group Controller of Aventis Cropscience, CFO of Pasteur-Mérieux Connaught (now Sanofi Pasteur) and of Rhône-Mérieux

**Other offices held:**

Within the Mérieux Group:

Institut Mérieux (Employee-Director), ABL Inc. (US), ElsaLys Biotech [1], Mérieux NutriSciences Corporation [1] [3] (US)

Outside the Mérieux Group:

ADOCIA [2], April, Lyon Place Financière et Tertiaire [4], Lyon Pôle Bourse [4], Theradiag [2]

**Offices expired during the last five years:**

Platine

## LAURENCE ZITVOGEL

**Independent director**
Age: **54**
First appointment: **2013**
Term expires: **2019**
Number of Company shares held: **469**
Number of Company stock options held: **0**

**Principal role outside of the Company:**

Professor of Immunology Biology at Université Paris Sud

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) Institut Mérieux group company.*
*(2) Publicly traded French company.*
*(3) Foreign corporation.*
*(4) 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 of the Board of Directors 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 indictment and/or official and public sanction 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 | Committee member since |
|---|---|---|---|
| Philippe Archinard | 58 | Chairman and Chief Executive Officer | 2004 |
| Éric Quéméneur | 54 | Deputy CEO – R&D Director | 2014 |
| Christophe Ancel | 54 | Responsible Pharmacist – Vice-President, Quality and Deputy Chief Executive Officer | 2014 |
| Maud Brandely | 64 | Vice-President, Clinical Development, Clinical Operations and Regulatory Affairs | 2016 |
| Jean-Philippe Del | 38 | Vice-President, Finance | 2014 |
| Thibaut du Fayet | 50 | Vice-President, Strategic Alliance, Project Management and Marketing | 2008 |
| John Felitti | 48 | Vice-President, General Counsel and Corporate Secretary | 2016 |
| Hemanshu Shah | 57 | 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 Institut des Recherches Technologiques (IRT) BIOASTER.

**Éric 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 Clinical Oncology Development at Pierre Fabre until February 2016. She was responsible for all phase 1 to 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 (IL-2, 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 Institut Mérieux held 58.9% of the capital as of December 31, 2017. Institut Mérieux holds 98.95% of the capital and voting rights of TSGH SAS, which itself owns, as of the date of this Registration Document, 57.1% of the capital and 67.2% of the voting rights of the Company. Philippe Archinard, Chairman and CEO of the Company, is also a director of bioMérieux SA and owns 1.05% 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 within the past five years at least;
- subject to a bankruptcy, receivership or liquidation as a director or corporate officer within the past five years at least;
- indicted and/or officially and publicly sanctioned by statutory or regulatory authorities within the last five years at least.

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, comprising Mr. Habert (Chairman of the Committee), Mr. Bérét and Mrs. Landel, independent directors, as well as the representative of TSGH, Mrs. Takizawa, whose functioning is outlined in Section 2.3, examined the following points in particular during fiscal year 2017:

- review of the consolidated and corporate financial statements for fiscal year 2016;
- review of the consolidated financial statements of the first half of 2017;
- review of the 2018 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;
- review of the Company's financing strategy;
- self-evaluation of committee effectiveness and review of the committee charter.

The Compensation Committee, consisting of Messrs. Bérét and Habert and Mrs. Saïd, 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 2017; 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. The Strategy Committee, comprising Mr. Archinard, Mr. Bélingard and Mrs. Saïd, independent director, was consulted from time to time in 2017.

# 2.2 COMPENSATION AND BENEFITS OF 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 2017, 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 €272 thousand (including €130 thousand in variable compensation and €9 thousand in benefits in kind – company car), which were not charged to the Company in 2017.



### Table 1

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

See paragraph 2.3.3 below

### Table 2

**SUMMARY OF COMPENSATION OF EACH EXECUTIVE CORPORATE OFFICER**

See paragraph 2.3.3 below

## Table 3

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

| Non-executive directors *(in € thousands)* | Amount paid in 2016 | Amount paid in 2017 |
|---|---|---|
| **JEAN-PIERRE BIZZARI** | | |
| Director's fees | 11.0 | 23.75 |
| Other compensation | None | None |
| **JEAN-LUC BÉLINGARD** (1) | | |
| Director's fees | None | None |
| Other compensation | None | None |
| **ANTOINE BERET** | | |
| Director's fees | 14.25 | 30.25 |
| Other compensation | None | None |
| **ARNAUD FAYET** (2) | | |
| Director's fees | 1.25 | None |
| Other compensation | None | None |
| **BENOÎT HABERT** | | |
| Director's fees | 20.5 | 30.25 |
| Other compensation | None | None |
| **PIERRE-PATRICK HURTELOUP** (3) | | |
| Director's fees | 17.5 | 4.75 |
| Other compensation | None | None |
| **JEAN-FRANÇOIS LABBÉ** (3) | | |
| Director's fees | 21.5 | 5.25 |
| 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 | 12.5 | 14.75 |
| Other compensation | None | None |
| **MARIE-YVONNE LANDEL** | | |
| Director's fees | N/A | 38.0 |
| Other compensation | N/A | None |
| **MAYA SAÏD** | | |
| Director's fees | N/A | 36.0 |
| Other compensation | N/A | None |
| **TOTAL** | **98.5** | **183.0** |

*(1) Non-independent director*
*(2) Through May 2016*
*(3) Through June 2017*

**Tables 4 and 5:** see Section 2.2.3 below.

**Table 6:** performance shares allocated to each corporate officer:
Chairman & CEO: 24,000 shares.
Deputy CEO: 7,000 shares.

***NB:*** *Due to the Company's performance criteria only being partially met for 2017, on March 21, 2018, the Board of Directors reduced the Chairman and Chief Executive Officer's allocation of performance shares by 3,000 shares and the Deputy Chairman and Chief Executive Officer's allocation by 375 shares.*

**Table 7:** performance stock that became available for sale during the period for each corporate officer:
Chairman & CEO: None.
Deputy CEO: None.

**Tables 8 and 9:** see Section 2.2.3 below.

**Table 10:** see Section 2.2.3 below.

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 employment, termination of employment or change in position, or afterwards;
- none of the directors received compensation from TSGH, which directly controls Transgene, during the fiscal year.

**Corporate Officer specificities:** The situation of the corporate officers is subject to specific regulations which are presented below in Sections 2.3.2 (compensation policy applicable in 2018) and 2.3.3 (compensation for 2017). The Chairman and Chief Executive Officer does not have an employment contract with the Company. He is compensated by the Company for his position. The Chairman and Chief Executive Officer is compensated by Société Institut Mérieux in his position as Director of the Immunotherapy Unit of that company. The Responsible Pharmacist, appointed Deputy Chief Executive Officer in application of the provisions of the Public Health Code holds an employment contract in his position as Director of Quality Assurance. The Board is of the opinion that maintaining this employment contract is justified in this case given that the Responsible Pharmacist's corporate office is a regulatory requirement. The Responsible Pharmacist receives a salary under his employment contract. Any changes are based entirely on the achievement of individual and collective objectives. The salary and bonuses paid to the members of the Executive Board are determined based on a proposal from the Chairman and Chief Executive Officer and submitted for review to the Compensation Committee which also approves proposals for deferred remuneration in the form of share or subscription option allocations.

## 2.2.2 Total provisions for retirement

At December 31, 2017, retirement provisions set up by the Company for the corporate officers totaled €315.4 thousand for Philippe Archinard and €42.3 thousand for Christophe Ancel.

## 2.2.3 Stock options

### 2.2.3.1 History of option plans

As of the date of this Registration Document, two stock option plans have been authorized by the Annual General Shareholders' Meeting, in 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, 2017 is summarized in the following table.

| Grant date | Exercise start date | Expiration date | Exercise price | Number of options granted | Number of options exercised in 2017 | Number of options remaining to be exercised at 12/31/2017* |
|---|---|---|---|---|---|---|
| 10/04/2007 | 10/05/2012 | 10/05/2017 | 16.105 | 62,180 | 0 | 0 |
| 12/19/2007 | 12/20/2012 | 12/20/2017 | 15.021 | 6,760 | 0 | 0 |
| 12/16/2008 | 12/17/2014 | 12/17/2018 | 11.005 | 178,676 | 0 | 173,151 |
| 12/09/2009 | 12/10/2015 | 12/10/2019 | 17.122 | 76,907 | 0 | 74,397 |
| 12/07/2010 | 12/08/2015 | 12/08/2020 | 14.198 | 321,054 | 0 | 215,453 |
| 12/13/2012 | 12/14/2017 | 12/14/2022 | 7.859 | 92,578 | 0 | 41,328 |
| **TOTAL** | **N/A** | **N/A** | **N/A** | **N/A** | **0** | **504,329** |

* *This amount 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.*

Pursuant to Article L. 225-185, paragraph 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 2017: 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** | **NONE** | **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** | **NONE** | **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 2017: 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 ten 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 ten individuals who subscribed the most shares during the period: no options were granted in 2017. No options were exercised during the fiscal year.

## 2.2.4 Free allocation of shares

Two free allocations of shares are outstanding as of December 31, 2017, adopted by the Board of Directors in 2016 and 2017 for all employees and executive corporate officers under a delegation granted by the Annual General Shareholders' Meeting of May 24, 2016 (the 2016 plan). 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. In total, 200,450 shares in the share capital of Transgene were issued under free allocations of shares.

The status of these plans at December 31, 2017 is summarized in the following table:

| | | 2016 PLAN |
|---|---|---|
| General Meeting date | | 05/24/2016 |
| Total number of shares authorized by the meeting | | 600,000 |
| | **2016 allocation** | **2017 allocation** |
| 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 | 31,000 |
| 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 | 49,400 |
| Board of Directors meeting date | 05/24/2016 | 03/17/2017 |
| Total number of bonus shares allocated | 207,550 | 183,000 |
| Balance at 12/31/2017 | 200,733 | 183,000 |
| Of which: number of shares allocated to corporate officers and members of the Executive Committee | 92,800 | 72,000 |
| Final grant date | 05/24/2018 | 03/17/2019 |
| Expiration date of the lock-up period | 05/24/2020 | 03/17/2021 |
| Share value on the date of allocation (opening price on the date of allocation) | €2.71 | €2.63 |

On March 21, 2018, the Board of Directors decided to grant 221,760 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 21, 2022. Performance conditions apply to half of the grant to the Executive Committee, including 13,000 of the 26,000 shares granted to the Chairman & CEO and the 4,300 of the 8,600 shares granted to the Deputy CEO.

As at the date of this report, given the shares granted on March 21, 2018, the free shares awarded and not issued represent a potential dilution of 599,515 shares; the shares and options awarded and not exercised represent a potential dilution of 504,329 shares, giving a total of approximately 1.8% of the Company's share capital.

# 2.3 CORPORATE GOVERNANCE REPORT

This paragraph restates in its entirety the 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 in accordance with Article L. 225-37-4 of the French Commercial Code.

## Report of the Chairman as required by Article L. 225-3 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 adopted by the Board of Directors in its meeting of March 21, 2018,



## 2.3.1 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. Four women sit on the Board: Mrs. Dominique Takizawa, as permanent representative of TSGH and Mrs. Marie-Yvonne Landel, Maya Saïd and Laurence Zitvogel, independent directors.

The term of the directors' mandates is three years. 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 (6) | 20,005* | 36,382 |
| Jean-Luc Bélingard (6) | - | None |
| Antoine Bérét (1) (4) (5) | 1,000 | None |
| Jean-Pierre Bizzari (1) | 5,000 | None |
| Benoît Habert (1) (2) (3) | 74,403 | None |
| Marie-Yvonne Landel (1) (4) | 0 | None |
| Maya Saïd (1) (5) (6) | 0 | None |
| Alain Mérieux | 293* | None |
| Dominique Takizawa (representing TSGH) (4) | - | - |
| Laurence Zitvogel (1) | 469 | None |

* *Not including the shares held by TSGH, a subsidiary 98.95% owned by Institut Mérieux, itself 100% owned by Compagnie Mérieux Alliance, controlled by the family of Mr. Mérieux. Mr. Archinard owns 1.05% of the capital of TSGH.*

*(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.*
*(6) Member of the Strategy 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 have had a significant business relationship with them within the last two years;
- must not be a reference shareholder of the Company or hold significant percentage of the voting rights;
- must not be close to or 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 2017), 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 five times in 2017, with an average attendance rate by the directors of 94%. 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. 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).

The Company also complies 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 three 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, Marie-Yvonne Landel 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 five times in FY 2017. 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 2017, the committee regularly reported on its work and recommendations to the Board of Directors after each of its meetings;

- **the Compensation Committee,** consisting of four directors, three of whom are independent. 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 Company's collective goals 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 twice in 2017;

- **the Strategy Committee,** consisting of three directors, one of whom is independent. The Strategy Committee met from time to time to discuss issues assigned by the Chairman & Chief Executive Officer.

## 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, significant 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 bylaws 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 main 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.

## Regulated Agreements

In 2017, and with the prior authorization of the Board of Directors, the Company adopted a mobility agreement for the benefit of employees of the signatory companies governing issues such as seniority and the management of any termination of the employment contract between Institut Mérieux, Mérieux NutriSciences, Transgene, Théra Conseil, Mérieux Développement, ABL Inc., SGH SAS and bioMérieux SA (entities controlled by Institut Mérieux) as well as Fondation Mérieux (an affiliate company not controlled by Institut Mérieux).

The following agreements and commitments previously approved by the Annual General Shareholders' Meeting pursuant to Article L. 225-38 of the French Commercial Code continued during 2017:

- Asset Purchase Agreement and 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,
  - Transition Services Agreement,
  - agreement for subleasing a part of the QC laboratory at the Company's headquarters;
- Social Agreement for reclassifying employees;
- Exclusive Services Agreement;
- 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.

## Directors' fees

Only independent directors received directors' fees. These consist of a yearly fixed fee of €4,000 to which is added an amount tied to the director's actual attendance at Board meetings of €3,000 per meeting, in accordance with Recommendation R10 of the MiddleNext Code. Additional compensation of independent members of the Audit Committee, the Compensation Committee and the Strategy Committee is €2,000 per committee meeting. These variable amounts are doubled for the physical participation of independent directors residing outside Europe. 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, 2017 is shown in Section 2.2 of the Company's Registration document.

## 2.3.2 2018 compensation policy – Principles and criteria for setting the compensation for executive corporate officers (Ex ante Say on Pay "Sapin II" law)

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.

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. It was prepared by the Board of Directors of March 21, 2018, 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 compensation policy for its executive corporate officers, while 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 Annual General Shareholders' Meeting of May 23, 2018 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 has remained in force since 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:

- 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 officer. 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 motivating 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.

The Board is of the opinion that the procedures for setting the compensation of these two corporate officers comply with the principles defined in recommendations R13 and R18 of the MiddleNext Corporate Governance Code. The Board decided to subject a portion only of the free shares granted to the corporate officers to performance conditions. An analysis by the Compensation Committee, followed by the Board, concluded that application of the rules to all of the free Company shares granted was not appropriate given that their evolution, in the absence of recurring revenue generated by business activity remains subject to a high technological risk whose hazards are already taken into account in the vesting period and the holding period of the shares, which was increased to four years, and in the presence condition. The four-year period after granting is medium-term and, in itself, sufficient to provide an incentive for long-term collective performance.

## Criteria and methods selected 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

Fixed compensation, paid in 12 monthly installments, reviewed and adjusted annually by the Board of Directors on the recommendation of the Compensation Committee taking into account in particular the best practices in the Company's industry. By way of illustration, fixed compensation is €393,548 for the 2018 fiscal year.

### Annual variable compensation

A maximum of 100% of fixed compensation. 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 free shares subject to a presence condition within the limits of the envelop authorized by the General Meeting. Half of the shares are subject to performance conditions based on the Company performance criteria used for setting annual variable compensation.

## Criteria and methods selected 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

Fixed compensation, paid in 12 monthly installments, reviewed and adjusted annually by the Board of Directors on the recommendation of the Compensation Committee and the Chairman and Chief Executive Officer, taking into account in particular the best practices in the Company's industry. By way of illustration, fixed compensation is €112,199 for the 2018 fiscal year.

### Annual variable compensation

A maximum of 25% of fixed compensation. 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 free shares subject to a presence condition within the limits of the envelop authorized by the General Meeting. Half of the shares are subject to performance conditions based on the Company performance criteria used for setting annual variable compensation.

## 2.3.3 Compensation for 2017 – Executive corporate officers compensation for 2017 (Say on Pay Ex-Post "Sapin II" law)

Following a proposal by the Compensation Committee, at its meeting on March 17, 2017, the Board of Directors agreed the compensation package for Philippe Archinard and Christophe Ancel for 2017. This package was proposed to the General Shareholders' Meeting on June 6, 2017 as a compensation policy as stipulated under Article L. 225-37-2 of the French Commercial Code.

In accordance with the Compensation Policy for the Chairman and Chief Executive Officer approved by the General Shareholders' Meeting on June 6, 2017, his annual compensation for 2017 was made up of annual fixed gross compensation of €387,730 and variable compensation of between 0 and 100% of his annual fixed compensation, conditional on both the Company's collective objectives and certain other individual objectives related to his duties being met. The Deputy Chief Executive Officer's annual compensation for 2017 was made up of annual fixed gross compensation of €110,508 and variable compensation of between 0 and 25% of his annual fixed compensation, conditional on both the Company's collective objectives and certain other individual objectives related to his duties as Quality Manager being met. Moreover, under a multi-year free share plan adopted at the 2016 General Shareholders' Meeting following a proposal by the Compensation Committee, the Board of Directors placed a requirement on the Executive Committee and, in particular on the CEO, that a portion of the free shares granted in March 2017 would be acquired on a proportionate basis according to the extent to which the aforementioned Company's collective objectives were met.

Following a proposal by the Compensation Committee, on March 21, 2018, the Board of Directors reviewed the extent to which the individual criteria had been met. The Company's 2017 objectives focused in particular on the progress of the clinical trial portfolio of certain key research projects as well as on promoting the Company's platforms and establishing collaborative relationships and external partnerships. For reasons of confidentiality, the details of collective and individual performance criteria, although predefined in detail, are not made public.

Given the relative weighting of the various performance criteria, the Board of Directors observed a 75% level of achievement of the Company's objectives for 2017. Applying this 75% level of achievement to the 2017 free share allocation results in a 25% reduction in the conditional portion of the allocation. For Philippe Archinard, the level of achievement of Company collective and individual objectives gives rise to variable compensation of 90% of his fixed annual compensation for 2017. For Christophe Ancel, the level of achievement of Company collective objectives and individual performance conditions gives rise to variable compensation of 90% of his fixed annual compensation for 2017.

The variable and exceptional compensation package for the Chairman and Chief Executive Officer and Deputy Chairman and Chief Executive Officer are conditional on the approval by the Annual General Shareholders' Meeting of such a package for the person in question under the conditions set out under Article L. 225-100. An overview of the compensation packages of executive corporate officers for Fiscal year 2017 is presented below.

### Table 1

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

| *(in € thousands)* | FY 2016 | FY 2017 |
|---|---|---|
| **Philippe Archinard, Chief Executive Officer** | | |
| Compensation payable for the year *(details in Table 2)* | 764 | 732 |
| 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)* | 79 | 63 |
| **Total** | **843** | **795** |
| **Christophe Ancel, responsible pharmacist, deputy Chief Executive Officer** | | |
| Compensation payable for the year *(details in Table 2)* | 128 | 129 |
| Valuation of options assigned during the year *(details in Table 4)* | None | None |
| Valuation of performance shares assigned during the year<br>Chief Executive Officer: 24,000 shares<br>Deputy Chief Executive Officer: 7,000 shares | 23 | 18 |
| **TOTAL** | **151** | **147** |

***NB:*** *Due to the Company's performance criteria only being partially met for 2017, on March 21, 2018, the Board of Directors reduced the Chairman and Chief Executive Officer's allocation of performance shares by 3,000 shares and the Deputy Chairman and Chief Executive Officer's allocation by 375 shares.*

## Table 2

### SUMMARY OF COMPENSATION OF EACH EXECUTIVE CORPORATE OFFICER

| | FY 2016 | | FY 2017 | |
|---|---|---|---|---|
| *(in € thousands)* | Amount due | Amount paid | Amount due | Amount paid |
| **Philippe Archinard, Chief Executive Officer** | | | | |
| Fixed compensation | 382 | 382 | 388 | 388 |
| Variable compensation (1) | 382 | 382 | 344 | 344 |
| Exceptional compensation | - | - | - | - |
| Director's fees | - | - | - | - |
| Payments in kind | - | - | - | - |
| **TOTAL** | **764** | **764** | **732** | **732** |
| **Christophe Ancel, responsible pharmacist, deputy Chief Executive Officer** | | | | |
| Fixed compensation | 102 | 102 | 98 | 98 |
| Variable compensation (1) | 20 | 20 | 25 | 25 |
| Exceptional compensation | 2 | 2 | 2 | 2 |
| Director's fees | - | - | - | - |
| Payments in kind | 4 | 4 | 4 | 4 |
| **TOTAL** | **128** | **128** | **129** | **129** |

*(1) For fiscal year N-1*

## Table 7

### PERFORMANCE STOCK THAT BECAME AVAILABLE FOR SALE DURING THE PERIOD FOR EACH CORPORATE OFFICER:

- Chairman & CEO: None.
- Deputy CEO: None.

## Table 10

| Executive corporate officers | Employment contract | | Additional pension | | Compensation due or that may become due as a result of termination or plan change in positions | | Compensation related to a non-compete clause | |
|---|---|---|---|---|---|---|---|---|
| | YES | NO | YES | NO | YES | NO | YES | NO |
| **Philippe Archinard,** Chief Executive Officer<br>Dates of term: 2004-2020 | | 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 received compensation from TSGH, which directly controls Transgene, during the fiscal year.

## Total amount of pension provisions

At December 31, 2017, retirement provisions set up by the Company for the corporate officers totaled €315,4 thousand for Philippe Archinard and €42,3 thousand for Christophe Ancel.

# 3

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

# 3.1 NOTE ON METHODOLOGY

For the social indicators, the calculations were made using the headcount as at 12/31/2017, namely 144 employees (95 women and 49 men) of Transgene SA, based in France. The Group only has one employee in its entity located in the United States, who was not included in this reporting.

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 was not considered relevant to retain the three-year historical comparison for indicators affected by the restructuring and the redundancy plan, namely:

(1) environmental 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. The choice was made for the 2015 financial year to report workforce social indicators from January 1, 2015 to March 1, 2016, excluding employees on reclassification leave. For FY 2016 and 2017, the latter were present from January 1 to December 31.

Transgene did not have any employees on reclassification leave as at 12/31/2017.

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 representation offices (Transgene, Inc. in the US, which only had one employee at December 31, 2017) or 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, 2017). Neither of the companies have any commercial activities. These subsidiaries are not included in the indicators of this report. Figures are provided for the fiscal years 2015, 2016 and 2017 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 the 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, 2017 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 for France only. It refers to the ratio of the number of working hours missed (illness, workplace accidents and commuting accidents) to the number of hours worked.

## 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, 2017.

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 twelve-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 twelve 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 12/31/2017*

| | Men | Women | Total |
|---|---|---|---|
| **Geographical area and age distribution** | **12/31/2017** | **12/31/2017** | **12/31/2017** |
| **France** | **49** | **95** | **144** |
| of whom: under 25 years old | 2 | 4 | 6 |
| 25 to 39 years old | 14 | 26 | 40 |
| 40 to 49 years old | 17 | 26 | 43 |
| over 50 years old | 16 | 39 | 55 |

#### HIRES AND DEPARTURES

| **For the period from January 1, 2017 to December 31, 2017 (Including apprenticeships, vocational contracts and CIFRE [Phd training])** | |
|---|---|
| Hires | 8 (including 1 fixed-term contract replacement) |
| Departures | 39 (including 26 related to the redundancy plan) |

NB: the following indicators were established based on a headcount of 144 employees as of December 31, 2017.

#### 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 (salary and bonuses) for men and women for 2016 and 2017, according to this new method:

| Classification according to the Pharmaceutical Companies | | 3 | 4-5 | 6 non-managers | 6 managers | 7 | 8 | 9** |
|---|---|---|---|---|---|---|---|---|
| | Men | 0 | 34,573 | NC* | 39,868 | 51,412 | 69,245 | 105,048 |
| 2017 | Women | NC* | 31,249 | 41,043 | 38,731 | 48,966 | 63,032 | NC* |

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

| Classification according to the Pharmaceutical Companies | | 3 | 4-5 | 6 non-managers | 6 managers | 7 | 8 | 9** |
|---|---|---|---|---|---|---|---|---|
| | Men | 0 | 33,559 | NC* | 40,519 | 50,767 | 67,625 | 104,760 |
| 2016 | 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 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) |
|---|---|---|---|---|---|---|
| 2015 | Men | 27,982 | 36,077 | 48,603 | 66,037 | 74,693 |
| | Women | 28,923 | 34,170 | 48,073 | 58,716 | 80,997 |

Total payroll for 2017 was €14.13 million (€16.13 million in 2016; €20.10 million in 2015).

## 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.

The Company opened negotiations on several subjects related to work organization in 2017:

- signature on May 4, 2017 of Amendment no. 2 to the Company Agreement on the reduction and organization of working time of June 21, 2001, applicable to employees working on a fixed working day basis:
  - implementation of work organization monitoring with a computerized self-declaration report on rest time, filled in on a monthly basis by employees with fixed working days and validated by the N+1 manager and HR in the event of anomalies;
  - implementation of measures to reduce anomalies (non-compliance with rest times): telework, recovery days, lighter workloads etc.;
  - reminder of the rules on compliance with rest times (11 hours per day and 35 hours per week);
  - workload and work-life balance monitoring interview.
- signature on March 30, 2017 of the agreement on the Right to Disconnect, adopting the following measures:
  - Code of best practices for the use of digital tools;
  - default configuration of electronic mail;
  - internal communication/awareness raising actions on work-life balance;
  - updating of the fixed working day interview to deal with the question of the use of digital technologies;
  - review of the single document and assessment of professional risks.
- signature on November 30, 2017 of the Travel Agreement, setting the rest compensation times for employees traveling outside of working hours:
  - separate definitions of rest compensation for employees depending on how their working time is counted: in hours or days;
  - reduction in the length of the working day or work from home possible exceptionally on the day after the return from a long trip.

### Absenteeism

The absenteeism rate was 1.54% in 2017, compared to 2.30% in 2016 and 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 upcoming 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 Company undertook a number of discussions with the social partners, resulting in the signature of four agreements in 2017:

- amendment no. 2 to the Company Agreement on the reduction and organization of working time of June 21, 2001, signed on May 4, 2017;
- the right to disconnect signed on March 30, 2017;
- agreement on professional travel signed on November 30, 2017, setting rest compensation for employees traveling outside of working hours;
- and the Gender Equality agreement signed on March 8, 2017.

The Works Council also issued a favorable opinion on the policy for welcoming young people into the Company, skills transmission and support for retirement departures, presented during the meeting of July 4, 2017.

## 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
- 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 Environment 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 2017, or in 2016 and 2015. Two analyses were carried out in 2017 (none in 2016 and only one in 2015) following a workplace accident and an incident.

### WORKPLACE ACCIDENTS, FREQUENCY AND SEVERITY; OCCUPATIONAL DISEASES

| Number of accidents (including onsite aid in the infirmary) | 2015 | 2016 | 2017 |
|---|---|---|---|
| Total Company accidents resulting in an entry in the infirmary logs or a report | 20 | 6 | 15 |
| Number of accidents reported | 4 | 1 | 5 |
| ▪ of which, commuting accidents (home-workplace) | - | - | 3 |
| ▪ workplace accidents | 3 | 1 | 1 |
| ▪ travel accidents (away from the workplace) | 1 | - | 1 |
| Number of accidents with work stoppage | 1 | 1 | - |
| Number of travel accidents with work stoppage | - | - | 1 |
| Frequency rate [1] | 2.16 | 3.39 | 0.00 |
| Severity rate [2] | 0.002 | 0.003 | 0.000 |

*(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 2017 (none in 2016 and 2015). The employer did not file any reports indicating any processes that could cause occupational illnesses in 2017 or in 2016 and 2015.

## 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 (6.47% of payroll in 2016, 3.39% in 2015 – data not yet available for 2017) 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.

The increase in the training effort rate is due, among other factors, to the reduction in the legal training requirement (1% instead of 1.6%) following the continuous professional training reform started in 2014.

In 2017, the Company implemented a policy to secure its skills *via* skills transmission through an internal training program. In addition to the implementation of technical and scientific modules, two training modules were provided internally to all employees (creation of the "common language" value). In parallel, 19 employees followed a certified trainer training course.

### Total number of hours of training

4,602.75 hours were dedicated to occupational training in 2017 (4,929 in 2016 and 2,566 in 2015). 94% of employees took at least one training course in 2017, including internal training (87% in 2016 and 59% in 2015).

## Non-discrimination

### Measures taken to promote equality between men and women

Transgene launched discussions with the Gender Equality Commission at the start of 2017. The parties wanted to compare the Company's data with national data, on the one hand, and sector data, on the other. It is difficult to extrapolate national data to Transgene, although it partly explains the difference between Men – Women in the workforce for the sector, which can also be found in biology training courses:

- "Despite a trend towards a better balance observable since the middle of the 1990s, there is still a very unequal breakdown of men and women in different jobs. Only 17% of activities, representing 16% of jobs can be considered as mixed, as they are occupied by at least 40% of each gender…";
- "However, girls are overrepresented in training leading to paramedical and social careers (83.5%), in human science university courses (70.1%) and in medical courses (63%)…" This overrepresentation of women in certain careers supports the situation noted at Transgene and partly explains the breakdown of personnel (32% Men/68% Women);
- the average age of employees in the pharmaceutical industry was 43 in 2014, and this is also the case at Transgene. 57% of sector personnel are women (68% at Transgene);
- one out of two employees in the pharmaceutical industry is a manager or equivalent (three out of four in R&D). The salary difference in the pharmaceutical branch is 4% on average between men and women; there is no such difference at Transgene.

Situation noted at Transgene:

- while Transgene employs a high number of women, nothing stands out in the 2015, 2016 and 2017 data to indicate inequality between men and women. Any differences observed are attributable to seniority/initial training in a small workforce;
- the Company's workforce is more female than male across most employment categories and classifications; however, the opposite is true for the Executive Committee;
- the Board of Directors complies with legislation concerning the number of women on Boards as of the General Shareholders' Meeting on June 8, 2017. Two new women directors were appointed;
- 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 2017, including three male managers, 19 female managers, and seven female non-managers, (29 employees, including four male managers and 25 women of which 18 women managers in 2016; 47 employees including two male managers, 45 women including 26 women managers in 2015);
- maternity and paternity leave at full pay;
- the granting of two paid half-hours per day for breast-feeding up to six months after maternity leave;
- the funding of eight places in the nearby daycare center (at an annual cost of €66,187 in 2017; €65,617 in 2016; €65,288 in 2015).

Based on this observation, an agreement on professional gender equality was signed on March 8, 2017. It defines four main action focuses:

- professional promotion: promote access for women to responsibilities, raise awareness and inform about the issue of professional gender equality, and more widely on social mixing and diversity (age, gender, disability…). Lastly, a measure to monitor equal opportunities between men and women in the professional promotion process;

- training: develop access to professional training for employees, taking into account the family constraints of employees registered for a training course;
- effective compensation: ensure wage equality between men and women throughout their careers;
- the balance between professional activity and family responsibility: search for ways of organizing working time, to find a better balance between professional activity and family obligations.

### Measures taken to promote employment and integration of disabled workers

Transgene has been committed to the issue of integrating and retaining disabled workers in employment for several years now. The Company benefits from measures defined in the pharmaceutical companies collective agreement (Leem) of September 25, 2008, to promote the employment and retention in employment of people with disabilities, as amended by the Protocol of September 24, 2009, and support from the branch organization, HandiEM, for the deployment of its disability policy. Within this framework, it has appointed a disability correspondent, to be a relay for HandiEM and a pilot for Transgene's disability policy.

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

In 2017, the Company forged ahead with communications efforts to combat stereotypes on disabilities:

- it renewed the provision of outside consultations for all employees on health matters, on how companies accommodate illness and disabilities in the workplace and support for the recognition of disabilities. This support service enables employees to freely deal with the issues of health at work and led to Recognition for the Qualification of Disabled Worker (RQTH) for four people in 2016/2017;
- Transgene has also continued its communication efforts by organizing its fifth annual disability day in November 2017, to raise awareness and counter prejudice, as part of the Disability Employment Week *(Semaine pour l'Emploi des Personnes Handicapées)*. Awareness-raising took place in the form of a show on Disabilities in the workplace.

In 2017, and for the third consecutive year, the Company is exempt from the payment of the Agefiph contribution (paid to HANDI'EM in the pharmaceutical sector). It employed nine RQTH-declared people in 2017 (14 employees including eight under reclassification in 2016, 13 in 2015). The Company also used several social-support-through-work centers for various services (HANDIRECT, etc.).

### Policy against discrimination

The Company has implemented HR processes enabling non-discriminatory and objective practices:

- recruitment:
  - the Company uses application management software, on which it displays its non-discrimination policy,
  - service providers with which Transgene works commit to non-discrimination through clauses in their contracts,
  - applications are assessed on the basis of applicant skills and transmitted to N+1 managers according to a pre-established specification of skills and experience,
  - applicants are received for interviews by HR, N+1 managers and all concerned managers and teams;
- employment/promotions:
  - all measures in the implemented HR development policy aim to make practices more objective: defined criteria, files based on implemented or observed skills, professional development committee and validation by an *ad hoc* commission,
  - in accordance with the Gender Equality agreement, the professional development commission is a structure with gender parity;
- access to professional training:
  - the training commission has access to all data and has not identified any discriminatory practices.

## 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 The 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 |
|---|---|---|
| 2015 | 5,502 | -12% |
| 2016 | 3,104 | -44% |
| 2017 | 3,229 | +5% |

### 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 others | Change |
|---|---|---|
| 2015* | 5,545,160 | +0.09% |
| 2016* | 3,902,541 | -30% |
| 2017 | 2,899,306 | -33% |

* *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. The meters were only separated in June 2016.*

### 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:

- 174 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. All employees concerned have received 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, also 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.

Since February 1, 2016, the Company has also used subcontracting for 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 ON CONSOLIDATED SOCIAL, ENVIRONMENTAL AND SOCIETAL INFORMATION PRESENTED IN THE MANAGEMENT REPORT

Year ended December 31, 2017

To the Shareholders,

In our quality as an independent verifier, accredited by the COFRAC [1] under the number n° 3-1050, and as a member of the network of one of the Statutory Auditors of the company Transgene, we present our report on the consolidated social, environmental and societal information established for the year ended on the 31 December 2017, presented in the management report, hereafter referred to as the "CSR Information," pursuant to the provisions of the article L.225-102-1 of the French Commercial code (*Code de commerce*).

## Responsibility of the company

It is the responsibility of the Board of Directors to establish a management report including CSR Information referred to in the article R. 225-105 of the French Commercial code (*Code de commerce*), in accordance with the criteria used by the company (hereafter referred to as the "Criteria"), and of which a summary is included in the management report.

## Independence and quality control

Our independence is defined by regulatory requirements, the Code of Ethics of our profession as well as the provisions in the article L. 822-11-3 of the French Commercial code (*Code de commerce*). In addition, we have implemented a quality control system, including documented policies and procedures to ensure compliance with ethical standards, professional standards and applicable laws and regulations.

## Responsibility of the independent verifier

It is our role, based on our work:

- to attest whether the required CSR Information is present in the management report or, in the case of its omission, that an appropriate explanation has been provided, in accordance with the third paragraph of R. 225-105 of the French Commercial code (*Code de commerce*) (Attestation of presence of CSR Information);
- to express a limited assurance conclusion, that the CSR Information, overall, is fairly presented, in all material aspects, in according with the Criteria.

Our verification work mobilized the skills of four people between February and March 2018 for an estimated duration of two weeks.

We conducted the work described below in accordance with the professional standards applicable in France and the Order of 13 May 2013 determining the conditions under which an independent third-party verifier conducts its mission, and in relation to the opinion of fairness and the reasonable assurance report, in accordance with the international standard ISAE 3000 [2].

### 1. Attestation of presence of CSR Information

#### Nature and scope of the work

We obtained an understanding of the company's CSR issues, based on interviews with the management of relevant departments, a presentation of the company's strategy on sustainable development based on the social and environmental consequences linked to the activities of the company and its societal commitments, as well as, where appropriate, resulting actions or programmes.

We have compared the information presented in the management report with the list as provided for in the Article R. 225-105-1 of the French Commercial code *(Code de commerce).*

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

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

In the absence of certain consolidated information, we have verified that the explanations were provided in accordance with the provisions in Article R. 225-105-1, paragraph 3, of the French Commercial code *(Code de commerce).*

We verified that the information covers the consolidated perimeter, namely the entity and its subsidiaries, as aligned with the meaning of the Article L.233-1 and the entities which it controls, as aligned with the meaning of the Article L.233-3 of the French Commercial code *(Code de commerce)* with the limitations specified in the Methodological Note in chapter 3 of the management report.

### Conclusion

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

## 2. Limited assurance on CSR Information

### Nature and scope of the work

We undertook four interviews with the people responsible for the preparation of the CSR Information in the different departments in charge of the data collection process and, if applicable, the people responsible for internal control processes and risk management, in order to:

- Assess the suitability of the Criteria for reporting, in relation to their relevance, completeness, reliability, neutrality, and understandability, taking into consideration, if relevant, industry standards;
- Verify the implementation of the process for the collection, compilation, processing and control for completeness and consistency of the CSR Information and identify the procedures for internal control and risk management related to the preparation of the CSR Information.

We determined the nature and extent of our tests and inspections based on the nature and importance of the CSR Information, in relation to the characteristics of the Company, its social and environmental issues, its strategy in relation to sustainable development and industry best practices.

For the CSR Information which we considered the most important [(1)], we undertook interviews to verify the correct application of the procedures, and undertook detailed tests on the basis of samples, consisting in verifying the calculations made and linking them with supporting documentation. We consulted documentary sources and conducted interviews to corroborate the qualitative information (organisation, policies, actions, etc.), we implemented analytical procedures on the quantitative information and verified, on a test basis, the calculations and the compilation of the information, and also verified their coherence and consistency with the other information presented in the management report.

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

Finally, we assessed the relevance of the explanations provided, if appropriate, in the partial or total absence of certain information.

We consider that the sample methods and sizes of the samples that we considered by exercising our professional judgment allow us to express a limited assurance conclusion; an assurance of a higher level would have required more extensive verification work. Due to the necessary use of sampling techniques and other limitations inherent in the functioning of any information and internal control system, the risk of non-detection of a significant anomaly in the CSR Information cannot be entirely eliminated.

### Conclusion

Based on our work, we have not identified any significant misstatement that causes us to believe that the CSR Information, taken together, has not been fairly presented, in compliance with the Criteria.

Paris-La Défense, March 21, 2018
The independent third party

**ERNST & YOUNG ET ASSOCIÉS**

Éric Duvaud
*Partner, Sustainable Development*

Bruno Perrin
*Partner*

*(1) Social 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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# ANNUAL FINANCIAL STATEMENTS AT DECEMBER 31, 2017

# 4.1 CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

## 4.1.1 Consolidated financial statements

### Consolidated balance sheet, IFRS

#### ASSETS

| *(in € thousands)* | *Notes* | 12/31/2017 | 12/31/2016 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | *2* | 1,643 | 4,855 |
| Other current financial assets | *2* | 39,762 | 51,352 |
| **Cash, cash equivalents and other current financial assets** | ***2*** | **41,405** | **56,207** |
| Trade receivables | | 2,564 | 2,385 |
| Inventories | | 270 | 221 |
| Other current assets | *3* | 14,497 | 15,242 |
| Assets available for sale | *4* | - | - |
| **Total current assets** | | **58,736** | **74,055** |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | *5* | 13,604 | 14,580 |
| Intangible assets | *6* | 250 | 423 |
| Non-current financial assets | *7* | 3,971 | 5,023 |
| Investments in associates | *7* | 2,916 | 3,923 |
| Other non-current assets | *8* | 21,396 | 24,946 |
| **Total non-current assets** | | **42,137** | **48,895** |
| **TOTAL ASSETS** | | **100,873** | **122,950** |

## LIABILITIES AND EQUITY

| *(in € thousands)* | *Note* | 12/31/2017 | 12/31/2016 |
|---|---|---|---|
| **CURRENT LIABILITIES** | | | |
| Trade payables | | 2,868 | 4,504 |
| Financial Liabilities | *9* | 10,283 | 10,198 |
| Provisions for risks | *10* | 356 | 1,456 |
| Other current liabilities | *11* | 3,359 | 3,761 |
| **Total current liabilities** | | **16,866** | **19,919** |
| **NON-CURRENT LIABILITIES** | | | |
| Financial Liabilities | *9* | 51,717 | 52,803 |
| Employee benefits | *12* | 3,710 | 3,725 |
| Other non-current liabilities | | 491 | - |
| **Total non-current liabilities** | | **55,918** | **56,528** |
| **Total liabilities** | | **72,784** | **76,447** |
| **EQUITY** | | | |
| Share capital | *13* | 62,075 | 56,432 |
| Share premiums and reserves | | 512,228 | 504,248 |
| Retained Earnings | | (513,194) | (487,987) |
| Profit/(loss) for the period | | (32,274) | (25,207) |
| Other comprehensive income/(loss) | | (746) | (983) |
| **Total equity attributable to Company shareholders** | | **28,089** | **46,503** |
| **TOTAL EQUITY AND LIABILITIES** | | **100,873** | **122,950** |

## CONSOLIDATED INCOME STATEMENT, IFRS

| *(in € thousands, except for per-share data)* | *Notes* | 12/31/2017 | 12/31/2016 |
|---|---|---|---|
| Revenue from collaborative and licensing agreements | *14* | 2,099 | 2,346 |
| Public funding for research expenses | *14* | 5,358 | 6,382 |
| Other income | *15* | 687 | 1,583 |
| **Operating income** | | **8,144** | **10,311** |
| Research and development expenses | *1,4,1* | (30,359) | (26,419) |
| General and administrative expenses | *1,4,2* | (5,674) | (6,236) |
| Other expenses | *15* | (154) | (320) |
| **Operating expenses** | | **(36,187)** | **(32,975)** |
| **Operating income/(loss)** | | **(28,043)** | **(22,664)** |
| Net finance cost | *16* | (2,287) | (602) |
| Share of profit/(loss) of associates | *7* | (1,944) | (917) |
| **Income/(loss) before tax** | | **(32,274)** | **(24,183)** |
| Income tax expense | *17* | - | - |
| **Net income/(loss)** | | **(32,274)** | **(24,183)** |
| **Net income/(loss) from discontinued operations** | ***4*** | **-** | **(1,024)** |
| **NET INCOME/(LOSS)** | | **(32,274)** | **(25,207)** |
| Basic earnings *per share (€)* | *13* | (0.52) | (0.45) |
| Diluted earnings *per share (€)* | *13* | (0.52) | (0.45) |
| Of which net income/(loss) from discontinued operations per share *(in euros)* | *4* | - | (0.02) |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, IFRS

| *(in € thousands)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| **Net income/(loss)** | **(32,274)** | **(25,207)** |
| Foreign exchange gains/(losses) | (4) | - |
| Revaluation of hedging instruments | 134 | 68 |
| **Other elements of comprehensive income/(loss) subsequently restated as income** | **130** | **68** |
| Actuarial gains/losses on employee benefit provision | 107 | (251) |
| **Other elements of comprehensive income/(loss) subsequently non-recyclable as income, net of deferred taxes** | **107** | **(251)** |
| **Other comprehensive income/(loss)** | **237** | **(183)** |
| **NET COMPREHENSIVE INCOME/(LOSS)** | **(32,037)** | **(25,390)** |
| *Of which, attributable to parent company* | *(32,037)* | *(25,390)* |
| *Of which, non-controlling interests* | - | - |

## CASH FLOW STATEMENT, IFRS

| *(in € thousands)* | *Notes* | 12/31/2017 | 12/31/2016 |
|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Net income/(loss) from continuing operations | | (32,274) | (24,183) |
| Net income/(loss) from discontinued operations | | - | (1,024) |
| Cancellation of financial income | | 2,287 | 602 |
| **Elimination of non-cash items** | | | |
| Income of associates | | 1,944 | 917 |
| Provisions | | (1,070) | (8,247) |
| Depreciation | *5,6,7* | 1,691 | 2,267 |
| Share-based payments | *18.2* | 436 | 266 |
| Other | *15* | 60 | 5,038 |
| **Net cash generated from/(used in) operating activities before change in working capital and other operating cash flow** | | **(26,926)** | **(24,364)** |
| **CHANGE IN OPERATING WORKING CAPITAL REQUIREMENTS** | | | |
| Current receivables and prepaid expenses | *22* | (2,117) | (3,182) |
| Inventories and work in progress | | (49) | 942 |
| Research tax credit (RTC) | *14.2* | (5,530) | (6,425) |
| Disposal of available-for-sale assets | *4* | - | 2,000 |
| Other current assets | *3* | 941 | (524) |
| Trade payables | *22* | (1,778) | (2,022) |
| Prepaid income | *11* | 766 | (479) |
| Employee benefits | *12* | (663) | 526 |
| Other current liabilities | *9* | (14) | (57) |
| **Net cash used in operating activities** | | **(35,370)** | **(33,585)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| (Acquisitions)/disposals of property, plant and equipment | *5* | (432) | (27) |
| (Acquisitions)/disposals of intangible assets | *6* | (30) | (20) |
| Other (acquisitions)/disposals | *7* | 100 | (2,020) |
| **Net cash used in investing activities** | | **(362)** | **(2,067)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Net financial income/(loss) proceeds | *16* | (113) | (283) |
| Gross proceeds from the issuance of shares | *13* | 14,390 | 46,300 |
| Share issue costs | | (1,118) | (1,220) |
| Conditional subsidies | *14.2* | 2,528 | (180) |
| (Acquisitions)/disposal of other financial assets | *2* | 11,651 | (22,933) |
| Net amounts received for financing of tax credits | *9* | 6,307 | 6,761 |
| Bank borrowing | *9* | - | 10,000 |
| Financial leases | *9* | (1,121) | (1,223) |
| **Net cash generated from/(used in) financing activities** | | **32,524** | **37,222** |
| Exchange rate differences on cash and cash equivalents | | (4) | - |
| **Net increase/(decrease) in cash and cash equivalents** | | **(3,212)** | **1,570** |
| Cash and cash equivalents at beginning of period | | 4,855 | 3,285 |
| **Cash and cash equivalents at end of period** | | **1,643** | **4,855** |
| Investments in other current financial assets | | 39,762 | 51,351 |
| **CASH, CASH EQUIVALENTS AND OTHER CURRENT FINANCIAL ASSETS** | | **41,405** | **56,206** |

## STATEMENT OF CHANGES IN EQUITY, IFRS

| *(in € thousands)* | 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 | | | | | |
| **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 | - | - | - |
| 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/losses on employee benefit provision | - | - | - | - | (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)** | **(25,207)** | **46,504** |
| Share-based payments | | | | | | | |
| Increase of share capital | 5,643,199 | 5,643 | 8,065 | - | - | - | 13,707 |
| Liquidity contract | - | - | (85) | - | - | - | (85) |
| Allocation of net income/(loss) 2016 | - | - | | (25,207) | - | 25,207 | - |
| Net income/(loss) 2017 | - | - | - | - | - | (32,274) | (32,274) |
| Fair value gains on available-for-sale financial assets | - | - | - | - | (4) | - | (4) |
| Actuarial gains/losses on employee benefit provision | - | - | - | - | 107 | - | 107 |
| Interest rate swap | - | - | - | - | 134 | - | 134 |
| Net comprehensive income/(loss) | - | - | - | - | 237 | (32,274) | (32,037) |
| **AS OF DECEMBER 31, 2017** | **62,075,190** | **62,075** | **512,228** | **(513,194)** | **(746)** | **(32,274)** | **28,089** |

# 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, 2017 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 21, 2018.

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 to the financial statements.

# 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, 2017 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, 2017 IN EUROPE

| Standard/Interpretation | Date of application per IASB (periods beginning on or after) | Date of application European Union (at the latest for the fiscal years beginning) |
|---|---|---|
| Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses | 01/01/2017 | 01/01/2017 |
| Amendments to IAS 7: Disclosure Initiative | 01/01/2017 | 01/01/2017 |
| Contracts Annual Improvements to IFRS (2014-2016 cycle) | - | 01/01/2017 |
| Amendments to IFRS 12: clarification of the scope of the standard | 01/01/2017 | - |

### OTHER STANDARDS AND PUBLISHED AT DECEMBER 31, 2017

| 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 | 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 |
| Endorsement Clarifications to IFRS 15 | 01/01/2018 | Endorsement expected in Q2 2017 |
| Amendments to IFRS 10, 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 | *Reportée sine die* | Suspended |
| IFRS 16 Leases | 01/01/2019 | Endorsement expected in Q4 2017 |
| Amendments to IFRS 2: Classification and Measurement of Share-based Payment | 01/01/2018 | Endorsement expected in Q3 2017 |
| Transactions Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance | 01/01/2018 | Endorsement expected in Q3 2017 |
| Contracts Annual Improvements to IFRS (2014-2016 cycle) | - | Endorsement expected in Q3 2017 |
| Amendments to IAS 28: Exemption from applying the equity method – measuring an associate or JV at fair value | 01/01/2018 | ND |
| IFRIC 22 – Foreign Currency Transactions and Advance Consideration | 01/01/2018 | Endorsement expected in Q3 2017 |
| Amendments to IAS 40: Transfers of Investment Property | 01/01/2018 | Endorsement expected in Q3 2017 |
| IFRIC 23 – Uncertainty over Income Tax Treatments | 01/01/2019 | Endorsement expected in 2018 |
| IFRS 17 – Insurance contracts | 01/01/2021 | ND |

The standards, interpretations, and amendments to standards applicable to fiscal years starting on or after January 1, 2018 have no significant impact on the Company's financial statements. The Company reviewed the potential impacts of IFRS 15 and 9, applicable as of 2018. The Company does not expect these standards to have any major impact on the presentation of its financial statements and has therefore not considered any early adoption.

## 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.

The principal assumptions and estimates that could impact the Company's financial statements are:

- valuation of investments in associates (see Note 7);
- earn-outs due by SillaJen (see Note 8);
- repayable advances for the ADNA program (see Note 9).

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, Massachusetts (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 (Tianjin) BioPharmaceutical Co Ltd. | 50.00% | Joint control |
| ElsaLys Biotech SA | 15.22% | Significant influence |

Transgene SA's significant influence over ElsaLys Biotech SA as of December 31, 2017 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)* | 12/31/2017 | 12/31/2016 | Change |
|---|---|---|---|
| Payroll costs (1) | 11.1 | 10.8 | +3% |
| Share-based payments (2) | 0.3 | 0.2 | +58% |
| Expenses for intellectual property and licensing costs (3) | 4.8 | 1.1 | +325% |
| External expenses for clinical projects (4)* | 7.0 | 7.0 | +1% |
| External expenses for other projects (5) | 1.5 | 1.8 | -14% |
| Operating expenses (6) | 3.9 | 4.1 | -5% |
| Depreciation, amortization and provisions (7) | 1.8 | 1.5 | +19% |
| **RESEARCH AND DEVELOPMENT EXPENSES** | **30.4** | **26.4** | **+15%** |

*(1) Represents wages and social security charges, taxes, retirement charges and other such costs.*
*(2) Represents the 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) Represents 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.*
* *Expenses related to outsourcing the production of clinical batches are presented on the line "External expenditures on clinical projects".*

## GENERAL AND ADMINISTRATIVE EXPENSES

| *(in € millions)* | 12/31/2017 | 12/31/2016 | Change |
|---|---|---|---|
| Payroll costs [1] | 3.0 | 3.8 | -21% |
| Share-based payments [2] | 0.2 | 0.1 | +86% |
| Professional and management fees [3] | 1.6 | 1.5 | +5% |
| Other general and administrative expenses [4] | 0.8 | 0.7 | +21% |
| Depreciation, amortization and provisions [5] | 0.1 | 0.1 | -6% |
| **GENERAL AND ADMINISTRATIVE EXPENSES** | **5.7** | **6.2** | **-8%** |

*(1) Represents wages and social security charges, taxes, retirement charges and other such costs.*
*(2) Represents the 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 2017 and 2016.

## 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. A provision is recognized when there is a risk of non-payment of the debt.

### 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. A provision for obsolescence or low rotation may be recognized.

### 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 2017.

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 for leased assets or debt from a financial institution, equity securities on earn-outs due on the sale of interests, and cash advances made to non-consolidated equity investments.

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

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.

Other financial assets are recorded at cost and depreciated, as needed, if their carrying value exceeds their recoverable amount as estimated by the Company.

### Investments in associates

Equity consolidated affiliates consist of the stakes held by Transgene SA in Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. and ElsaLys Biotech SA (50% and 15.22%, 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 (Tianjin) BioPharmaceutical Co. Ltd.

The recoverable value of Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd is essentially related to its cash flow, as well as projects for which the rights have been granted to the Company and which are still in the preclinical and clinical phases. 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.

The Company performs impairment testing at the end of each fiscal year to verify whether the recoverable value is greater than the net value of equity investments on the balance sheet.

#### ElsaLys Biotech SA

For the most part, the recoverable value of ElsaLys Biotech SA 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 risks 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.

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 which will be fixed for the next 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 or 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 updated to include these two products and by 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 the 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.

### 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. At closing 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.

## 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 receive milestone payments under collaboration or scientific service contracts and partnership and 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.

## Public funding for research expenses

### Research tax credit (RTC)

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 AND CASH EQUIVALENTS AND OTHER CURRENT FINANCIAL ASSETS

| *(in € thousands)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Cash | 627 | 3,841 |
| Cash equivalents | 1,016 | 1,014 |
| **Cash and cash equivalents** | **1,643** | **4,855** |
| **Other current financial assets** | **39,762** | **51,352** |
| **TOTAL** | **41,405** | **56,207** |
| 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)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Research tax credit, current portion | 9,218 | 9,061 |
| State – recoverable VAT and tax receivables | 140 | 496 |
| Accrued credit notes | 250 | 28 |
| Employee benefits expense | 29 | 28 |
| Grant receivable | 30 | 888 |
| Prepaid expenses, current portion | 3,005 | 1,887 |
| Receivables from the sale of participating interests, current portion | 1,825 | 2,043 |
| Receivables from the sale of fixed assets, current portion | - | 811 |
| **TOTAL** | **14,497** | **15,242** |

The current portion of research tax credits represents the amount receivable for 2014 that is expected to be paid by the State in the first half of 2018 (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). 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 €1,012 thousand at December 31, 2017. 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 4 ASSETS AVAILABLE FOR SALE AND DISCONTINUED OPERATIONS

As part of the Company's restructuring, Transgene decided in June 2015 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.

The restructuring had no other impact on the 2017 income (loss). In 2016, the net loss on discontinued operations was €1,024 thousand, *i.e.* a loss per share of €0.02.

# NOTE 5 PROPERTY, PLANT AND EQUIPMENT

| *(in € thousands)* | 12/31/2016 | Increase | Decrease | 12/31/2017 |
|---|---|---|---|---|
| **GROSS CARRYING VALUE** | | | | |
| Land | 1,771 | - | - | 1,771 |
| Buildings and fixtures | 15,790 | 7 | (4) | 15,793 |
| Laboratory equipment | 9,923 | 311 | (483) | 9,751 |
| Office and computer equipment | 1,647 | 39 | (81) | 1,605 |
| Assets in progress | 141 | 357 | (141) | 357 |
| **Total** | **29,272** | **714** | **(709)** | **29,277** |
| **DEPRECIATION AND PROVISIONS** | | | | |
| Buildings and fixtures | (7,155) | (920) | 2 | (8,073) |
| Laboratory equipment | (6,199) | (443) | 429 | (6,213) |
| Office and computer equipment | (1,338) | (125) | 76 | (1,387) |
| **Total** | **(14,692)** | **(1,488)** | **507** | **(15,673)** |
| **NET BOOK VALUE** | **14,580** | **(774)** | **(202)** | **13,604** |

| *(in € thousands)* | 12/31/2015 | Increase | Decrease | 12/31/2016 |
|---|---|---|---|---|
| **GROSS CARRYING VALUE** | | | | |
| Land | 1,771 | - | - | 1,771 |
| Buildings and fixtures | 18,753 | 543 | (3,506) | 15,790 |
| 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 and fixtures | (9,267) | (1,132) | 3,244 | (7,155) |
| 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** |

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

| *(in € thousands)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Research and development expenses | 1,636 | 1,730 |
| General and administrative expenses | 69 | 75 |
| **TOTAL DEPRECIATION EXPENSES FOR PROPERTY, PLANT AND EQUIPMENT** | **1,705** | **1,805** |

Disbursements for acquisitions of property, plant and equipment totaled €574 thousand in 2017 (€32 thousand in 2016).

# NOTE 6 INTANGIBLES ASSETS

| *(in € thousands)* | 12/31/2016 | Increase | Decrease | 12/31/2017 |
|---|---|---|---|---|
| **GROSS CARRYING VALUE** | | | | |
| Intangible assets | 4,215 | 29 | - | 4,244 |
| Intangible assets in progress | - | - | - | - |
| **Total** | **4,215** | **29** | **-** | **4,244** |
| **DEPRECIATION AND PROVISIONS** | | | | |
| Intangible assets | (3,792) | (202) | - | (3,994) |
| **Total** | **(3,792)** | **(202)** | **-** | **(3,994)** |
| **NET BOOK VALUE** | **423** | **(173)** | **-** | **250** |

| *(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** |

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

| *(in € thousands)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Research and development expenses | 176 | 201 |
| General and administrative expenses | 28 | 31 |
| **TOTAL AMORTIZATION AND DEPRECIATION OF INTANGIBLE ASSETS** | **204** | **232** |

Disbursements for acquisitions of intangible assets totaled €29 thousand in 2017 (against €20 thousand in 2016).

# NOTE 7 FINANCIAL ASSETS

## FINANCIAL FIXED ASSETS

| *(in € thousands)* | 12/31/2016 | Increase | Decrease | 12/31/2017 |
|---|---|---|---|---|
| **GROSS CARRYING VALUE** | | | | |
| Financial assets | 3,830 | 969 | (1,085) | 3,714 |
| Equity interest receivables | 1,393 | - | (1,136) | 257 |
| Investments in non-consolidated companies | 323 | - | (294) | 29 |
| **Total** | **5,546** | **969** | **(2,515)** | **4,000** |
| Provisions for impairment | (523) | - | 494 | (29) |
| **NET BOOK VALUE** | **5,023** | **969** | **(2,021)** | **3,971** |

| *(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** |

The €969 thousand increase in financial assets in 2017 relates mainly to the holdback on the financing in the first half of 2017 of the 2016 research tax credit (CIR) in the amount of €939 thousand.

Of the €1,085 thousand decrease in financial assets, €895 thousand relate to the repayment, in 2017, of the financing guarantees for the 2013 research tax credit and the tax credit for competitiveness and employment.

The decrease in equity interest receivables relates to the conversion of part of the non-interest bearing current account granted to ElsaLys, into shares in this company in the amount of €936 thousand and reclassification of the non-interest bearing current account granted to ABL Lyon into receivables in the amount of €200 thousand. Transgene no longer holds any equity interest in ABL Lyon. Divestment occurred in 2017 resulted in a €294 thousand decrease in equity securities. Reversals of provisions in 2017 relate to the equity securities and the ABL Lyon current account, whose recovery is certain.

## INVESTMENTS IN ASSOCIATES

The table below shows the gross amounts (acquisition cost), provisions for impairment, and income for the equity affiliates:

| *(in € thousands)* | 12/31/2016 | Increase | Decrease | 12/31/2017 |
|---|---|---|---|---|
| **GROSS CARRYING VALUE** | | | | |
| Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. | 7,668 | - | - | 7,668 |
| ElsaLys Biotech SA | 501 | 936 | - | 1,437 |
| **Total** | **8,169** | **936** | **-** | **9,105** |
| Share of profit/(loss) of Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. | (3,745) | (1,007) | - | (4,752) |
| Share of profit/(loss) of ElsaLys Biotech SA | (501) | (936) | - | (1,437) |
| **Total share of profit/(loss) attributable to Transgene** | **(4,246)** | **(1,943)** | **-** | **(6,189)** |
| Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. | 3,923 | (1,007) | - | 2,916 |
| ElsaLys Biotech SA | - | - | - | - |
| **NET VALUE OF EQUITY INVESTMENTS IN AFFILIATES** | **3,923** | **(1,007)** | **-** | **2,916** |

| *(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 SA | 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 SA | (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 SA | - | - | - | - |
| **NET VALUE OF EQUITY INVESTMENTS IN AFFILIATES** | **1,148** | **2,775** | **-** | **3,923** |

### Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd.

At December 31, 2017, Transgene held 50% of Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. and the net valuation of its interest stood at €2,916 thousand.

This valuation was reviewed as of the December 31, 2017 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.

The Company used a WACC of 14% to evaluate future cash flows linked to products currently in development in China and for which the commercial rights have been granted (TG6002 and TG3003). The future cash flows are reviewed annually based on the following principal assumptions in particular: development costs, date of launch on the market, market size, market penetration rate, treatment price, and probability of the success of the clinical trials. An increase of 1 point in the discount rate would have an impact of approximately 20% on the value of these projects.

At December 31, 2017, 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 SA

At December 31, 2017, Transgene held 15.22% of ElsaLys Biotech SA and the net valuation of its interest was zero. The Company also held a shareholder current account of €257 thousand and receivables of €1,328 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)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Research Tax Credit, non-current portion | 19,453 | 22,999 |
| CICE, non-current portion | 535 | 677 |
| Prepaid expenses, non-current portion | 876 | 181 |
| Receivables from the sale of participating interests, non-current portion | 532 | 1,089 |
| **OTHER NON-CURRENT ASSETS** | **21,396** | **24,946** |

## Research tax credits and CICE

At December 31, 2017, the Company had a receivable of €28,396 thousand (the non-current portion of which was €19,453 thousand) for the research tax credits (RTC) from 2014 to 2017, and a receivable of €535 thousand on the competitiveness and employment tax credit (CICE) from 2014 to 2017. 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 | 12/31/2017 | 12/31/2016 |
|---|---|---|---|
| **RTC—CURRENT PORTION** | | | |
| 2013 | 2017 | - | 8,852 |
| 2014 | 2018 | 8,943 | - |
| **Total current portion** | | **8,943** | **8,852** |
| **RTC—NON-CURRENT PORTION** | | | |
| 2014 | 2018 | - | 8,943 |
| 2015 | 2019 | 7,758 | 7,758 |
| 2016 | 2020 | 6,298 | 6,298 |
| 2017 | 2021 | 5,397 | - |
| **Total non-current portion** | | **19,453** | **22,999** |
| **TOTAL RTC** | | **28,396** | **31,851** |
| **CICE—CURRENT PORTION** | | | |
| 2013 | 2017 | - | 210 |
| 2014 | 2018 | 275 | - |
| **Total current portion** | | **275** | **210** |
| **CICE—NON-CURRENT PORTION** | | | |
| 2014 | 2018 | - | 275 |
| 2015 | 2019 | 282 | 282 |
| 2016 | 2020 | 120 | 120 |
| 2017 | 2021 | 133 | - |
| **Total non-current portion** | | **535** | **677** |
| **TOTAL CICE** | | **810** | **887** |

## Receivables from the sale of participating interests

The receivable from the sale of participating interests of €2,357 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.* €1,825 thousand (see Note 3), and other non-current assets for the portion due in over one year, or €532 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.

# NOTE 9 FINANCIAL LIABILITIES

The following table breaks down financial liabilities by maturity:

| *(in € thousands)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Financial liabilities, current portion | 10,283 | 10,198 |
| Financial liabilities, non-current portion | 51,717 | 52,803 |
| **FINANCIAL LIABILITIES** | **62,000** | **63,001** |

As of December 31, 2017, the main financial liabilities relate to the European Investment Bank (EIB) loan of €10 million, the financing of the research tax credits for 2014 to 2016 and the competitiveness and employment tax credits (CICE) for 2014 to 2017, property leasing (headquarters and main research and development laboratories), and conditional Bpifrance advances under the ADNA subsidized program.

## FINANCIAL LIABILITIES, CURRENT PORTION

| *(in € thousands)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Property leasing | 1,061 | 1,019 |
| Equipment leasing | 40 | 117 |
| Financing of RTC and CICE | 9,182 | 9,062 |
| **FINANCIAL LIABILITIES – CURRENT PORTION** | **10,283** | **10,198** |

## FINANCIAL LIABILITIES, NON-CURRENT PORTION

| *(in € thousands)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Property leasing | 6,199 | 7,261 |
| Equipment leasing | 4 | 30 |
| Interest rate swaps – fair value (see Note 21) | 341 | 475 |
| Conditional advances | 19,485 | 17,286 |
| Financing of RTC | 14,015 | 16,619 |
| Financing of CICE | 527 | 736 |
| Bank loan | 11,146 | 10,396 |
| **FINANCIAL LIABILITIES – NON-CURRENT PORTION** | **51,717** | **52,803** |

### 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.

The loan is a bullet loan due at the end of a five-year term, *i.e.* on June 20, 2021. The interest is repayable as of June 2019, notably as regards the interest accumulated during the first three years. Interest due at December 31, 2017 is recognized in *Non-current financial liabilities* (€1,146 thousand).

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, 2017 was €7,261 thousand compared to €8,280 thousand at December 31, 2016. The following table shows the breakdown of this debt, based on the maturity, financial costs and present value of individual payments:

| | 12/31/2017 | | 12/31/2016 | |
|---|---|---|---|---|
| | Minimum payments | Present value of the payments | Minimum payments | Present value of the payments |
| Due within one year | 1,144 | 1,126 | 1,114 | 1,098 |
| Due in one to five years | 4,302 | 4,075 | 4,468 | 4,248 |
| More than five years | 2,116 | 1,906 | 3,094 | 2,790 |
| Total future minimum lease payments | 7,562 | 7,107 | 8,676 | 8,135 |
| Finance costs included in the total | 301 | 288 | 396 | 379 |
| Outstanding principal: | 7,261 | 6,819 | 8,280 | 7,757 |
| of which current | 1,061 | 1,044 | 1,019 | 1,004 |
| of which non-current | 6,200 | 5,775 | 7,261 | 6,753 |

## Equipment leasing

Transgene acquired laboratory equipment under a financial lease, in 2015 and 2017 in particular. The outstanding financial obligation under these financial leases totaled €44 thousand at December 31, 2017.

## Conditional advances

At December 31, 2017, 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 December 31, 2017, the estimated value of future reimbursements totaled €19,485 thousand. 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.

## 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 2014 | 8,943 | Yes | 8,943 | - | 886 | - | 9,829 | 8,861 | - |
| RTC 2015 | 7,758 | Yes | - | 7,758 | 1,164 | - | 8,922 | - | 7,758 |
| RTC 2016 | 6,298 | Yes | - | 6,298 | 939 | - | 7,237 | - | 6,256 |
| RTC 2017 | 5,397 | No | - | 5,397 | - | - | 5,397 | - | - |
| **TOTAL RTC** | **28,396** | **-** | **8,943** | **19,453** | **2,989** | **-** | **31,385** | **8,861** | **14,014** |
| CICE 2014 | 275 | Yes | 275 | - | 48 | - | 323 | 320 | - |
| CICE 2015 | 282 | Yes | - | 282 | 41 | - | 323 | - | 275 |
| CICE 2016 | 120 | Yes | - | 120 | 21 | - | 141 | - | 141 |
| CICE 2017 | 133 | Yes | - | 133 | 18 | - | 151 | - | 118 |
| **TOTAL CICE** | **810** | **-** | **275** | **535** | **128** | **-** | **938** | **320** | **534** |

# NOTE 10 PROVISONS FOR RISKS

| *(in € thousands)* | 12/31/2016 | Provisions | Retained earnings | Reversals not applicable | Use of the provision | 12/31/2017 |
|---|---|---|---|---|---|---|
| Risk of charge | 1,456 | - | - | - | (1,104) | 352 |
| **TOTAL PROVISIONS FOR RISKS** | **1,456** | **-** | **-** | **-** | **(1,104)** | **352** |

The provision for risks relates primarily to the restructuring provision amounting to €352 thousand at December 31, 2017, compared with €1,452 thousand at December 31, 2016. The balance of this provision will be used during the first half of 2018.

# NOTE 11 OTHER LIABILITIES

## OTHER CURRENT LIABILITIES

| *(in € thousands)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Tax and social liabilities | 2,973 | 3,636 |
| Prepaid income | 368 | 93 |
| *Of which:* | | |
| Revenue from collaboration and licensing | 368 | 93 |
| Research and development grants | - | - |
| Other | - | - |
| Other short-term payables | 18 | 32 |
| **TOTAL** | **3,359** | **3,761** |

Prepaid income primarily corresponds to the payment on signature of the collaboration initiated in June 2017 with Les Laboratoires Servier for the amount of €1 million, spread over three years. At December 31, 2017, the current portion amounted to €333 thousand and the non-current portion to €491 thousand.

# NOTE 12 EMPLOYEE BENEFITS

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.

## 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:

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Discount rate | 1.70% | 1.70% |
| Expected long-term inflation rate | 1.75% | 1.75% |
| Rate of future salary increases | 1.50% | 1.50% |
| Retirement age: | | |
| ▪ management | age 65 | age 65 |
| ▪ non-management | age 63 | age 63 |

The following table summarizes the conditions and amounts of actuarial pension obligations at December 31, 2017 and 2016 according to IAS 19 revised:

| *(in € thousands)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| **CHANGE IN THE VALUE OF COMMITMENTS** | | |
| Projected benefit obligation at January 1 | 3,725 | 3,196 |
| Cost of services rendered for the year | 237 | 202 |
| Cost of discounting | 62 | 75 |
| Services paid | (136) | - |
| Change in assumptions | - | 260 |
| Reductions/terminations | (71) | - |
| Actuarial (gain)/loss | (107) | (9) |
| **Projected benefit obligation for retirement** | **3,710** | **3,724** |
| **DEFINED BENEFIT COST FOR THE YEAR** | | |
| Cost of services rendered for the year | 237 | 202 |
| Cost of discounting | 62 | 75 |
| Reductions/terminations | - | - |
| **Cost of services and discounting** | **299** | **277** |
| **REVALUATIONS OF NET LIABILITIES/(ASSETS)** | | |
| Actuarial losses (gains) related to changes in demographic assumptions | - | 2 |
| Actuarial losses (gains) related to changes in financial assumptions | - | 258 |
| Actuarial losses (gains) related to experience | (107) | (9) |
| **Total** | **(107)** | **251** |
| **CHANGES IN NET LIABILITIES/(ASSETS)** | | |
| Liability/(asset) at beginning of year | 3,724 | 3,196 |
| Changes in scope | (71) | - |
| Amount recognized in the income statement | 299 | 277 |
| Disbursements | (136) | - |
| Amount recognized in other comprehensive income/(loss) | (106) | 251 |
| **Liability/(asset) at end of year** | **3,710** | **3,724** |
| **ACCUMULATED AMOUNTS RECOGNIZED IN OTHER COMPREHENSIVE INCOME** | | |
| Accumulated amounts recognized at beginning of year | 78 | (172) |
| Revaluations of net liabilities/(assets) for the year | (106) | 251 |
| Accumulated amounts recognized at end of year | (28) | 78 |
| Deferred taxes | 10 | (27) |
| Net cumulative amounts recognized as income/(loss) at end of year | (18) | 51 |

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 2.8% and in the cost of services of 3.1% for the year;
- a discount rate of 1.95% would cause a decrease in the obligation of 2.6% and in the cost of services of 2.9% for the year.

# NOTE 13 EQUITY

## Share capital

62,075,190 Transgene shares were in issue as of December 31, 2017, amounting to a share capital of €62,075,190.

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 2017, the Company carried out a capital increase without preferential subscription rights for shareholders, through the issue of 5,643,199 new shares at €2.55 per share for a gross total amount of €14,390,157.45. The cost of the capital increase was €1,117,679.

## Earnings per share

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

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| **BASIC EARNINGS PER SHARE** | | |
| Available net profit attributable to equity holders of the Group *(in € thousands)* | (32,274) | (25,207) |
| Average number of shares outstanding | 62,075,190 | 56,431,991 |
| **Basic earnings per share *(in €)*** | **(0.52)** | **(0.45)** |
| **Diluted earnings per share *(in €)*** | **(0.52)** | **(0.45)** |

At December 31, 2017 and 2016, 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 2017 and 2016 were the same as basic earnings per share for the year concerned.

As of December 31, 2017, there was a potential dilution of 888,062 shares as a result of stock options that theoretically remain to be exercised or outstanding bonus shares.

## 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, 2017 is summarized in the following table.

| Grant date | Exercise start date | Expiration date | Exercise price | Number of options granted | Number of options exercised in 2017 | Number of options remaining to be exercised at 12/31/2017* |
|---|---|---|---|---|---|---|
| 10/04/2007 | 10/05/2012 | 10/05/2017 | 16.105 | 62,180 | 0 | 0 |
| 12/19/2007 | 12/20/2012 | 12/20/2017 | 15.021 | 6,760 | 0 | 0 |
| 12/16/2008 | 12/17/2014 | 12/17/2018 | 11.005 | 178,676 | 0 | 173,151 |
| 12/09/2009 | 12/10/2015 | 12/10/2019 | 17.122 | 76,907 | 0 | 74,397 |
| 12/07/2010 | 12/08/2015 | 12/08/2020 | 14.198 | 321,054 | 0 | 215,453 |
| 12/13/2012 | 12/14/2017 | 12/14/2022 | 7.859 | 92,578 | 0 | 41,328 |
| **TOTAL** | **N/A** | **N/A** | **N/A** | **N/A** | **0** | **504,329** |

* *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 granted in 2017 | - | - |
| Options forfeited in 2017 | 63,940 | 15.99 |
| Options exercised in 2017 | - | - |
| **Outstanding options at December 31, 2017** | **504,329** | **13.01** |
| Options exercisable at December 31, 2016 | 526,941 | 13.78 |
| Options exercisable at December 31, 2017 | 504,329 | 13.01 |
| **Outstanding options at December 31, 2017** | **504,329** | **13.01** |

### Expenses calculated on stock option plans

The cost of services rendered is recognized as an expense over the vesting period. The expense amounted to €69 thousand in 2017, down from €73 thousand in 2016.

## Free share plans

Two free allocations of shares were outstanding at the date of this Registration Document, adopted by the Board of Directors in 2016 and 2017 for all employees and executive corporate officers under a delegation granted by the Annual General Shareholders' Meeting of May 24, 2016 (the 2016 Plan). 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. In total, 200,450 shares in Transgene's share capital were issued under free allocations of shares.

The status of these plans at December 31, 2017 is summarized in the following table:

| | 2016 plan | |
|---|---|---|
| General Meeting date | 05/24/2016 | |
| Total number of shares authorized by the meeting | 600,000 | |
| | **2016 allocation** | **2017 allocation** |
| 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 | 31,000 |
| 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 | 49,400 |
| Board of Directors meeting date | 05/24/2016 | 03/17/2017 |
| Total number of bonus shares allocated | 207,550 | 183,000 |
| Balance at 12/31/2017 | 200,733 | 183,000 |
| Of which: number of shares allocated to corporate officers and members of the Executive Committee | 92,800 | 72,000 |
| Final grant date | 05/24/2018 | 03/17/2019 |
| Expiration date of the lock-up period | 05/24/2020 | 03/17/2021 |
| Share value on the date of allocation (opening price on the date of allocation) | €2.71 | €2.63 |

As at the date of this report, the bonus shares awarded and not issued represent a potential dilution of 383,733 shares; the shares and options awarded and not exercised represent a potential dilution of 504,329 shares, giving a total of approximately 1.4% 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 €366 thousand in 2017 and €193 thousand in 2016.

## NOTE 14 OPERATING INCOME

### REVENUE FROM COLLABORATIVE AND LICENSING AGREEMENTS

| *(in € thousands)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Revenue from research and development collaboration | 896 | 548 |
| License fees and royalties | 1,203 | 1,798 |
| **TOTAL** | **2,099** | **2,346** |

Revenue from research and development collaborations for third parties mainly concerned the collaboration initiated in 2017 with Les Laboratoires Servier.

License fees and royalties comprise income related to the commercial use of technologies or products provided under license by Transgene amounting to €1,151 thousand in 2017 (€1,798 thousand in 2016), including €1,000 thousand from ElsaLys Biotech SA for the sale of the rights of TG3003 product.

### PUBLIC FUNDING FOR RESEARCH EXPENSES

| *(in € thousands)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Research and development grants | 3 | 129 |
| Research tax credit (RTC) | 5,355 | 6,253 |
| **TOTAL** | **5,358** | **6,382** |

The net amount of the research tax credit was €5,355 thousand in 2017 compared to €6,253 thousand in 2016 (see Note 8).

Transgene recorded a marginal amount of research and development grants in 2017.

# NOTE 15 OTHER INCOME AND EXPENSES FROM OPERATIONS

| *(in € thousands)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Income from sale of fixed assets | 4 | 76 |
| Other income | 683 | 1,507 |
| **Total income** | **687** | **1,583** |
| Net carrying value of disposals of fixed assets | (61) | (171) |
| Restructuring costs | - | (148) |
| Other expenses | (93) | (1) |
| **Total expenses** | **(154)** | **(320)** |
| **TOTAL** | **533** | **1,263** |

## Other income

In 2017 the Company recognized a positive impact of €0.4 million from restructuring costs finally paid as compared to the costs provisioned.

In December 2016, the Company participated in a capital increase by Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd., which generated extraordinary income of €1.2 million.

## Other expenses

Other expenses amounted to €0.2 million in 2017 versus €0.3 million in 2016.

# NOTE 16 FINANCIAL INCOME/(LOSS)

| *(in € thousands)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Investment income | 177 | 115 |
| Cost of debt | (1,079) | (752) |
| **Borrowing costs net of investments** | **(902)** | **(637)** |
| Other financial income and expenses | (1,300) | 73 |
| Foreign exchange gains/(losses) | (85) | (38) |
| **Total others** | **(1,385)** | **35** |
| **NET FINANCE COST** | **(2,287)** | **(602)** |

€750 thousand of debt servicing costs correspond to the accrued interest on the EIB loan for 2017 and €126 thousand correspond to the hedging instrument.

Financial expenses primarily consist of:

- the discounting of the earn-out on the sale of Jennerex, Inc. stock to SillaJen Inc. in 2014 (€0.8 million in 2017);
- the discounting of the debt owed to Bpifrance on the advances received under the ADNA program (€0.5 million versus €0.6 million in 2016);
- the interest on financial leases (€0.2 million in 2017, the same as 2016).

# NOTE 17 INCOME TAX EXPENSES

## Current taxes

Since the Company is in a tax loss position, there is no current tax charge. The US and Chinese subsidiaries did not recognize any current tax income or expense in 2016 or 2017.

## Deferred taxes

Net deferred tax assets were zero at December 31, 2017 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:

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Standard income tax rate in France | 34.43% | 34.43% |
| Unrecognized deferred tax assets | -38.89% | -46.75% |
| Permanent differences | 4.40% | 9.60% |
| Effective tax rate | 0% | 0% |
| Income/(loss) before tax | (32,274) | (25,207) |
| Income tax expense | - | - |

At December 31, 2017, Transgene SA had tax loss carry-forwards in France, which can be carried forward indefinitely, totaling €667,577 thousand. Transgene has no tax loss carryforwards from its US and Chinese subsidiaries.

Transgene's deferred tax assets broke down as follows:

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Tax loss carry-forwards | 667,577 | 631,177 |
| Capitalized licensing costs not yet deducted | (147) | (147) |
| Provision for restructuring | - | 629 |
| Provisions for pensions and other post-employment benefits | 3,333 | 3,240 |
| Provisions for risks and charges | 192 | 194 |
| Share of profit/(loss) of associates | 1,436 | 795 |
| Transgene BioPharmaceutical Technology (Shanghai) Co. Ltd. and Platine | 898 | 889 |
| Contribution in kind to Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. | 2,465 | 2,465 |
| Other | 1 | 1 |
| **Total basis of deferred tax assets** | **675,755** | **639,243** |
| Tax rate | 34.43% | 34.43% |
| **Deferred tax assets** | **232,663** | **220,091** |
| Unrecognized deferred tax assets | (232,222) | (219,704) |
| **DEFERRED TAX ASSETS** | **441** | **387** |

Transgene's deferred tax liabilities broke down as follows:

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Finance leases | 1,280 | 1,123 |
| Other | - | - |
| **Total tax base** | **1,280** | **1,123** |
| Tax rate | 34.43% | 34.43% |
| **DEFERRED TAX LIABILITIES** | **441** | **387** |

# NOTE 18 PERSONNEL

## Personnel

The Company's registered workforce totaled 147 employees at December 31, 2017, including one with Transgene Inc. As of December 31, 2016, the Company had 150 employees, (excluding 26 on reclassification leave).

| As of December 31, 2017 | Men | Women | Total at 12/31/2017 |
|---|---|---|---|
| Managers | 41 | 70 | 111 |
| Other grades | 9 | 27 | 36 |
| **TOTAL** | **50** | **97** | **147** |

* *Including 134 open-ended contracts at 12/31/2017.*

## Payroll costs

Employee benefits expenses included in the Company's income statement (payroll taxes, pension costs, ancillary costs) were as follows:

| *(in € thousands)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Research and development expenses | 11,160 | 10,807 |
| General and administrative expenses | 2,980 | 3,833 |
| **TOTAL EMPLOYEE BENEFITS EXPENSES** | **14,140** | **14,640** |

Expenses relating to share-based payments amounted to:

| *(in € thousands)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Research and development expenses | 254 | 148 |
| General and administrative expenses | 181 | 107 |
| **TOTAL SHARE-BASED PAYMENTS** | **436** | **256** |

# NOTE 19 AFFILIATED COMPANIES

Transgene signed a cash pooling agreement with Institut Mérieux. The cash and cash equivalents placed in the Institut Mérieux cash pool amounted to a receivable of €39.7 thousand at December 31, 2017; the resulting interest income was €163 thousand at December 31, 2017.

The table below does not include these cash items.

| | | 12/31/2017 | |
|---|---|---|---|
| *(in € thousands)* | **Type of related party** | **Receivables** | **Payables** |
| ABL Europe SAS | Company in the Mérieux Group | 750 | 86 |
| ABL Lyon | Company in the Mérieux Group | - | 37 |
| bioMérieux SA | Company in the Mérieux Group | - | (15) |
| bioMérieux, Inc. | Company in the Mérieux Group | - | 114 |
| ElsaLys Biotech SA | Equity-Method | 1,328 | - |
| Institut Mérieux | Company in the Mérieux Group | - | 4 |
| Mérieux Université | Company in the Mérieux Group | - | - |
| Thera Conseil | Company in the Mérieux Group | - | - |
| Transgene Tasly (Tianjin) BioPharmaceutical Co Ltd. | JV/Equity-Method | 27 | - |
| **TOTAL** | | **2,105** | **226** |

| | | 12/31/2017 | |
|---|---|---|---|
| *(in € thousands)* | **Type of related party** | **Revenue** | **Expenses** |
| ABL Europe SAS (1) | Company in the Mérieux Group | 166 | 3,713 |
| ABL Lyon (2) | Company in the Mérieux Group | - | 284 |
| bioMérieux SA | Company in the Mérieux Group | - | (8) |
| bioMérieux, Inc. (3) | Company in the Mérieux Group | - | 630 |
| ElsaLys Biotech SA (4) | Equity-Method | 1,099 | - |
| Institut Mérieux (5) | Company in the Mérieux Group | - | 404 |
| Mérieux Université | Company in the Mérieux Group | - | 1 |
| Thera Conseil | Company in the Mérieux Group | - | 11 |
| Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. (6) | JV/Equity-Method | 108 | - |
| **TOTAL** | | **1,373** | **5,035** |

*(1) The revenue corresponding to the rent reinvoicing contract for hosting test labs. Expenses relate to the agreements for production services provided by ABL Europe to Transgene SA.*
*(2) Expenses related to the agreement for services provided by ABL Lyon.*
*(3) Expenses related to the agreement for services and re-invoicing of staff, signed between Transgene, Inc. and bioMérieux, Inc.*
*(4) Revenue from the agreement for the sale of the license for the TG3003 product to ElsaLsys Biotech SAS and agreements for the services provided by Transgene SA.*
*(5) Expenses related to the agreement for services provided by Institut Mérieux.*
*(6) Revenue corresponding to the agreement for services and re-invoicing of staff concluded between Transgene SA and Transgene Tasly (Tanjin) BioPharmaceutical Co. Ltd.*

## NOTE 20 OFF-BALANCE SHEET COMMITMENTS

On April 1, 2009, Transgene signed an occupancy agreement with Lyonbiopôle for its Lyon space.

Breakdown of the rental expense:

| *(in € thousands)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Lyonbiopôle rent (charges included) | 329 | 332 |
| **TOTAL RENTAL EXPENSE** | **329** | **332** |

Breakdown of lease commitments at December 31, 2017:

| *(in € thousands)* | Gross amount | One year or less | More than one year and less than or equal to five years | More than five years |
|---|---|---|---|---|
| Lyonbiopôle rent (charges included) | 670 | 335 | 335 | - |
| **TOTAL RENTAL COMMITMENTS** | **670** | **335** | **335** | **-** |

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 orders worth €3 million annually from February 2016 to March 2019.

Transgene is also bound by contracts with subcontractors. That could have an impact over several accounting periods. At December 31, 2017, 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.

## 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 segment for the preparation and presentation of its financial statements.

# NOTE 22 BREAKDOWN OF ASSETS AND LIABILITIES BY MATURITY

## DECEMBER 31, 2017

| **Assets** *(in € thousands)* | **Gross amount** | **One year or less** | **More than one year** |
|---|---|---|---|
| Financial fixed assets | 3,714 | 1,242 | 2,472 |
| Trade receivables | 2,564 | 2,564 | - |
| Research tax credits and CICE | 29,206 | 9,218 | 19,988 |
| Government, VAT and other local authorities | 140 | 140 | - |
| Personnel and related accounts | 29 | 29 | - |
| Prepaid expenses | 3,881 | 3,005 | 876 |
| Grant receivable | - | - | - |
| Receivables from the sale of equity investment | 2,357 | 1,825 | 532 |
| Other receivables | 480 | 480 | - |
| **TOTAL** | **42,371** | **18,503** | **23,868** |

| **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 | 2,868 | 2,868 | - | - |
| Property leasing | 7,260 | 1,061 | 4,101 | 2,098 |
| Equipment leasing | 44 | 40 | 4 | - |
| Conditional advances | 19,485 | - | - | 19,485 |
| Financing of research tax credit and CICE | 23,723 | 9,182 | 14,541 | - |
| Bank loan | 11,146 | - | 11,146 | - |
| Provisions for risks and liabilities | 356 | 356 | - | - |
| Provisions for retirement | 3,710 | 140 | 940 | 2,630 |
| Accrued employee benefits and tax expense | 2,973 | 2,973 | - | - |
| Prepaid income | 859 | 359 | 500 | - |
| Other liabilities | 359 | 18 | - | 341 |
| **TOTAL** | **72,783** | **16,997** | **31,232** | **24,554** |

# 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: 6 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, 2017, the market value of this hedging instrument was €341 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, 2017.

## 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 $7.2 million in 2017.

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, 2016 and 2017 (before tax and any hedging):

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Expenditures denominated in US dollars | 7,205 | 2,230 |
| Equivalent in euros on the basis of an exchange rate of €1 = $1.1993 | 6,008 | 2,116 |
| Equivalent in euros in the event of an increase of 10% USD vs. EUR | 6,675 | 2,351 |
| Equivalent in euros in the event of a decrease of 10% USD vs. EUR | 5,462 | 1,923 |

The Group's foreign exchange position as at December 31, 2017 is as follows:

| *(in thousands)* | USD |
|---|---|
| Assets | 3,320 |
| Liabilities | 249 |
| Net position | 3,071 |
| Adjusted | 3,071 |
| 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, 2017 in mutual funds, directly or through the centralized management of the Institut Mérieux group, amounted to €39.8 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, 2017<br>*(in € thousands)* | Assets and liabilities 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 | 1,643 | - | - | 1,643 | 1,643 | 1 |
| Other current financial assets | 39,762 | - | - | 39,762 | 39,762 | 2 |
| Trade receivables | - | 2,564 | - | 2,564 | 2,564 | - |
| Financial assets | - | 3,714 | - | 3,714 | 3,714 | - |
| Receivable on non-current financial assets | - | 257 | - | 257 | 257 | 2 |
| Other non-current assets | | 2,357 | - | 2,357 | 2,357 | 3 |
| **TOTAL FINANCIAL ASSETS** | **41,405** | **8,892** | **-** | **50,297** | **50,297** | |
| **FINANCIAL LIABILITIES** | | | | | | |
| Borrowings from credit institutions, long-term portion | - | 25,687 | - | 25,687 | 25,687 | 2 |
| Lease commitment, long-term portion | - | 6,204 | - | 6,204 | 6,204 | 2 |
| Conditional advances | - | 19,485 | - | 19,485 | 19,485 | 3 |
| Other non-current financial liabilities | - | - | 341 | 341 | 341 | 2 |
| Non-current financial liabilities | - | 51,376 | 341 | 51,717 | 51,717 | - |
| Borrowings from credit institutions, short-term portion | - | 9,182 | - | 9,182 | 9,182 | 2 |
| Finance leasing, short-term portion | - | 1,101 | - | 1,101 | 1,101 | 2 |
| Current financial liabilities | - | - | - | - | - | - |
| Trade payables | - | 2,868 | - | 2,868 | 2,868 | - |
| **TOTAL FINANCIAL LIABILITIES** | **-** | **64,527** | **341** | **64,868** | **64,868** | **-** |

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 24 STATUTORY AUDITORS FEES

| | Ernst & Young et Autres | | | | Grant Thornton | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount (pre-tax) | | % | | Amount (pre-tax) | | % | |
| *(in € thousands)* | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| Audit | - | - | - | - | - | - | - | - |
| **STATUTORY AUDITORS, CERTIFICATION, REVIEW OF THE CORPORATE AND CONSOLIDATED FINANCIAL STATEMENTS** | | | | | | | | |
| Issuer | 66 | 50 | 67% | 35% | 50 | 38 | 100% | 100% |
| Fully consolidated subsidiaries | - | - | - | - | - | - | - | - |
| **SERVICES OTHER THAN THE CERTIFICATION OF THE STATUTORY AUDITOR'S STATEMENTS** | | | | | | | | |
| Issuer | 32 | 92 | 33% | 65% | - | - | - | - |
| Fully consolidated subsidiaries | - | - | - | - | - | - | - | - |
| **Subtotal** | **98** | **142** | **100%** | **100%** | **50** | **38** | **100%** | **100%** |
| Other services provided by the networks to the fully consolidated subsidiaries | - | - | - | - | - | - | - | - |
| Legal, tax, corporate | - | - | - | - | - | - | - | - |
| Other (indicate if > 10% of audit fees) | - | - | - | - | - | - | - | - |
| **Subtotal** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **TOTAL** | **98** | **142** | **100%** | **100%** | **50** | **38** | **100%** | **100%** |

## NOTE 25 EVENTS AFTER THE REPORTING PERIOD

None

## 4.1.3 Date of latest financial information

December 31, 2016 and June 30, 2017.

# 4.2 STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

*This is a translation into English of the Statutory Auditors' report on the consolidated financial statements of the Company issued in French and it is provided solely for the convenience of English-speaking users. This Statutory Auditors' report includes information required by European regulation and French law, such as information about the appointment of the Statutory Auditors or verification of the information concerning the Group presented in the management report. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

Year ended December 31, 2017

To the Annual General Meeting of Transgene S.A.,

## Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying consolidated financial statements of Transgene S.A. for the year ended December 31, 2017.

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, 2017 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.

The audit opinion expressed above is consistent with our report to the Audit Committee.

## Basis for Opinion

### Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

### Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2017 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 or in the French Code of Ethics for Statutory Auditors *(Code de déontologie de la profession de commissaire aux comptes)*.

## Justification of Assessments - Key Audit Matters

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code *(Code de commerce)* relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the consolidated financial statements.

## EARN-OUT ASSET RELATING TO THE SALE OF THE JENNEREX, INC. SECURITIES

| Risk identified | Our response |
|---|---|
| In 2014, the group sold the equity securities that it held in Jennerex, Inc. to SillaJen. This sale resulted in a selling price composed of a fixed part payable upon the signature of the sale and a variable part consisting of future milestones based on events related to the stage of development of the product and subject to conditions, considered as a financial asset measured at amortized cost and re-valued annually according to variations in the expected flows. As at December 31, 2017, this receivable was valued at M€ 2.4 based on the estimation of the future completion dates and the probability of the milestone occurrence.<br><br>We considered the valuation of this receivable to be a key audit matter, given the following:<br><br>• The determination of the recoverable amount of this receivable requires the use of assumptions, estimates and assessments, as indicated in Note 8 to the consolidated financial statements;<br>• This receivable represents a material amount as at December 31, 2017;<br>• For the third milestone payment that should have been collected during the first term of 2017 and that is valued at M€ 1 in the consolidated financial statements as at December 31, 2017, a dispute has arisen between your Company and SillaJen. This dispute is described in Note 3 to the consolidated financial statements. | The group measures this receivable at each year-end. The methods and assumptions used are described in Notes 1, 3 and 8 to the consolidated financial statements.<br><br>In this context, we analysed the methods of implementation of the valuation model applied and we assessed the reasonableness of the main estimates/assumptions used. Our work consisted notably in:<br><br>• assessing the qualitative and quantitative criteria triggering the milestone payments used in the valuation model;<br>• comparing the valuation model used with that applied the previous year;<br>• assessing the dates of receipt of the milestone payments, which notably impact the classification of this receivable as a current or non-current asset, based on the data available at the level group concerning the progress of the various milestones;<br>• assessing the discount rate used by management, by comparing it with our own estimate of this rate, set with the assistance of our valuation specialists and through analysis of the various parameters;<br>• assessing the dollar to euro rate used for the valuation.<br><br>In addition, regarding the dispute with SillaJen concerning the third milestone payment, we obtained an understanding of the risk analysis performed by the group, the corresponding documentation and the proceedings conducted by the legal advisor representing the former shareholders of Jennerex, and we assessed the reasonableness of the position adopted by management.<br><br>Lastly, we also assessed the appropriateness of the information disclosed in the notes to the consolidated financial statements, in particular the sensitivity analyses presented. |

## IMPAIRMENT OF INVESTMENTS IN ASSOCIATES

| Risk identified | Our response |
|---|---|
| As at December 31, 2017, the net value of investments in associates amounts to M€ 2.9. Investments in associates correspond to the share of the consolidated shareholders' equity of Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd for M€ 2.9 and ElsaLys Biotech S.A.S. for M€ 0, accounted for according to the equity method.<br><br>These investments are tested for impairment whenever there is an indication of a loss value. In that case, the recoverable amount is based on the value in use assessed on the basis of the discounted future cash flows determined using assumptions, estimates and forecasts.<br><br>The main assumptions taken into account by management in the measurement of the value in use concern:<br>• The estimate of the future cash flows that will be generated by the associates and notably by the products being developed;<br>• The probable technical success of the products being developed and their approval by the regulatory authorities;<br>• The market potential for these products being developed;<br>• The discount rate used by management.<br><br>Impairment is recognized when the net carrying value of the investments exceeds their recoverable amount.<br><br>Any error in the assessment of the assumptions has an impact on the estimate of the recoverable amount. We considered the determination of the recoverable amount of associates to be a key audit matter as it involves important management's judgement. | The group measures the recoverable amount of these investments at each year-end. The methods and assumptions used are described in Notes 1 and 7 to the consolidated financial statements.<br><br>In this context, our work consisted in assessing the methods and assumptions used by the group to determine the recoverable amount, in particular:<br>• We compared the valuation model applied and the assumptions used with those used the previous year.<br>• We included a specialist in our audit team to assess the models and assumptions used by reviewing their consistency, first, with the budgets and forecasts established by management and presented to the Board of Directors, and second, with our knowledge of the sector, acquired notably during interviews with management and by comparison with similar projects conducted by other companies in the same sector of activity.<br>• We compared the discount rate with our own estimate of this rate, set with the assistance of our valuation specialists, and through analysis of the various parameters.<br><br>Lastly, we also assessed the appropriateness of the information disclosed in the notes to the consolidated financial statements, in particular the sensitivity analyses presented. |

## VALUATION OF ADNA CONDITIONAL ADVANCES

| Risk identified | Our response |
|---|---|
| As at December 31, 2017, the liability consisting of conditional advances in your Company's balance sheet amounts to €19.48m. At year-end, the company re-values its conditional advances liability to match the amount of the expected repayment, as described in Note 1 to the consolidated financial statements.<br><br>The fair value of the expected future repayments is estimated by management based on the estimated future direct and indirect revenue generated by the TG4001 and TG4010 products being developed by your Company.<br><br>The measurement of the fair value of the conditional advances liability requires of management to exercise its judgment in its choice of the elements to be taken into account, corresponding to forecast items.<br><br>The main assumptions used by management to measure the fair value of the repayable advances liability concern:<br>• The estimation of the revenue that will be generated by the market potential of TG4010 and TG4001 products;<br>• The probable success in terms of the technics and regulation of these same products being developed;<br>• The timing and conditions of a partnership concerning the development of these products;<br>• The discount rate used by management.<br><br>Any error in the assessment of these assumptions has an impact on the estimation of the debt to be repaid. We considered the determination of the fair value of the conditional advances to be a key audit matter as it involves important management's judgment. | Your Company measures the liability related to ADNA conditional advances as at December 31, 2017 at fair value. The methods and assumptions used are described in Notes 1 and 9 to the consolidated financial statements.<br><br>In this context, our work consisted in analyzing the methods and assumptions used by the Company to determine the fair value, in particular:<br>• We assessed the valuation model and the assumptions used, by considering their consistency with, on the one hand, the budgets and forecasts drawn up by management and presented to the Board of Directors, and on the other hand, with our knowledge of the sector, acquired notably during interviews with management.<br>• We compared the discount rate with our own estimate of this rate.<br>• We assessed the US dollar to euro rate used within the context of the valuation performed.<br><br>Finally, we assessed the appropriateness of the information disclosed in the notes to the consolidated financial statements. |

# Verification of the Information Pertaining to the Group Presented in the Management Report

As required by law we have also verified in accordance with professional standards applicable in France the information pertaining to the group presented in the management report of the Board of Directors.

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

# Report on Other Legal and Regulatory Requirements

## Appointment of the Statutory Auditors

We were appointed as Statutory Auditors of Transgene S.A. by your Annual General Meeting held on May 24, 2016 for GRANT THORNTON and on May 29, 1996 for ERNST & YOUNG et Autres.

As at December 31, 2017, GRANT THORNTON was in its second year of total uninterrupted engagement and ERNST & YOUNG et Autres was in its twenty-second year of total uninterrupted engagement (including twenty years since securities of the Company were admitted to trading on a regulated market).

# Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

# Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

## Objectives and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code (*Code de commerce*), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements.
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.
- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The Statutory Auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

## Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report significant deficiencies, if any, in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) N° 537/2014, confirming our independence within the meaning of the rules applicable in France as set out in particular in Articles L. 822-10 to L. 822-14 of the French Commercial Code *(Code de commerce)* and in the French Code of Ethics for Statutory Auditors (*Code de déontologie de la profession de commissaire aux comptes*). Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Lyon and Paris-La Défense, April 4, 2018

The Statutory Auditors
*French original signed by*

**GRANT THORNTON**
***FRENCH MEMBER OF GRANT THORNTON INTERNATIONAL***
Françoise Méchin

**ERNST & YOUNG ET AUTRES**
Cédric Garcia

# 4.3 COMPANIES FINANCIAL STATEMENTS AND NOTES

## 4.3.1 Annual financial statements

### BALANCE SHEET – ASSETS

| *(in € thousands)* | *Notes* | 12/31/2017 | 12/31/2016 |
|---|---|---|---|
| Intangible assets, at cost | | 4,394 | 4,365 |
| (accumulated depreciation and provisions) | | (4,144) | (3,942) |
| **Intangible assets – net** | *12* | **250** | **423** |
| Property, plant and equipment: | | | |
| Land | | 584 | 584 |
| Fixtures and fittings | | 832 | 829 |
| Laboratory equipment | | 9,358 | 9,295 |
| Office and computer equipment | | 1,606 | 1,646 |
| Assets in progress | | 357 | 141 |
| Total property, plant and equipment, at cost | | 12,737 | 12,495 |
| (accumulated depreciation and provisions) | | (7,718) | (7,465) |
| **Property, plant and equipment – net** | *11* | **5,019** | **5,030** |
| **Financial assets – net** | *13* | **14,581** | **15,813** |
| **Total fixed assets** | | **19,850** | **21,266** |
| Inventories | *7* | 270 | 221 |
| Trade receivables | *8* | 2,564 | 2,385 |
| Research tax credits and competitiveness and employment tax credits due | *22* | 19,988 | 23,676 |
| Recoverable VAT and income tax receivables and other tax receivables | | 9,358 | 9,558 |
| Other receivables, including centralized treasury | *9* | 40,071 | 53,108 |
| Available cash, cash equivalents | *6* | 1,610 | 4,807 |
| **Total current assets** | | **73,861** | **93,755** |
| Prepaid expenses | *19* | 3,880 | 2,068 |
| Currency translation difference | | - | - |
| **TOTAL ASSETS** | | **97,591** | **117,089** |

## BALANCE SHEET – LIABILITIES

| *(in € thousands)* | *Notes* | 31/12/2017 | 31/12/2016 |
|---|---|---|---|
| Subscribed capital | *14* | 62,075 | 56,432 |
| Share premiums | *28* | 507,206 | 499,760 |
| Reserves | *28* | 637 | 453 |
| Retained Earnings | | (507,456) | (485,400) |
| Profit/(loss) for the period | | (30 ,471) | (22,056) |
| Statutory provisions | | - | - |
| **Equity** | ***14*** | **31,991** | **49,189** |
| Conditional advance | *15* | 19,485 | 17,286 |
| Financial Liabilities | *16* | 34,869 | 36,814 |
| Provisions for pensions | | 4,172 | 4,080 |
| Other provisions for risks and charges | | 356 | 1,458 |
| **Provisions for risks and charges** | ***17*** | **4,528** | **5,538** |
| Payables | | 2,868 | 4,504 |
| Accrued employee benefits and tax expense | | 2,972 | 3,635 |
| Other liabilities | | 19 | 30 |
| **Payables** | | **5,859** | **8,169** |
| Prepaid income | *19* | 859 | 93 |
| Currency translation difference | | - | - |
| **Liabilities** | | **65,600** | **67,900** |
| **TOTAL LIABILITIES AND EQUITY** | | **97,591** | **117,089** |

## INCOME STATEMENT

| *(in € thousands)* | *Notes* | 12/31/2017 | 12/31/2016 |
|---|---|---|---|
| **OPERATING INCOME** | | | |
| Revenue from collaborative and licensing agreements | *3* | 2,099 | 3,984 |
| Research and development grants | *3* | 3 | 130 |
| Other income | *3* | 1,685 | 9,842 |
| **Total operating income** | | **3,787** | **13,956** |
| **OPERATING EXPENSE** | | | |
| Research and development expenses | | (30,437) | (26,581) |
| General and administrative expenses | | (5,512) | (6,143) |
| Other expenses | | (1,294) | (9,873) |
| **Total operating costs** | | **(37,243)** | **(42,597)** |
| **Operating loss** | | **(33,456)** | **(28,641)** |
| Financial income | *4* | 302 | 1,808 |
| Financial expense | *4* | (2,769) | (1,396) |
| Exchange rate difference | *4* | (24) | (53) |
| **Current income/(loss) before tax** | | **(35,947)** | **(28,282)** |
| Net extraordinary income/(loss) | *5* | 46 | (111) |
| Income tax expense | *22* | 5,430 | 6,337 |
| **NET INCOME/(LOSS)** | | **(30,471)** | **(22,056)** |

## 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, 2017 show a balance sheet total of €97,591 thousand and a net loss of €30,471 thousand.

# NOTE 1 NATURE OF THE BUSINESS ACTIVITY AND SUMMARY OF ACCOUNTING PRINCIPLES

## Nature of the business 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 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 (RTC) related to research and development costs

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 2014 to 2017 research tax credits will be reimbursed respectively from 2018 to 2021. 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 2017.

## 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 their 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.

## 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.

## 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. These advances are recognized in financial liabilities.

Reimbursable advances received under the ADNA program are recorded based on the discounted expected future reimbursements. The reimbursement of advances is subject to the fulfillment of a revenue threshold on TG4010 and TG4001 products which will be fixed for the next 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.

## 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 in provisions for risks and financial expenses.

## 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 CHANGE IN ACCOUNTING METHODOLOGY

At January 1, 2017, the new regulation 2015-05 on financial futures instruments and hedging operations was applied retrospectively.

The Company does not have a foreign currency hedging instrument.

In 2009 the Company partially hedged the interest rate risk related to the financial leasing of its administrative and research building in Illkirch according to the following terms:

- nominal value: €5.9 million (depreciable);
- hedging instrument: interest rate swap contract;
- residual maturity: 6 years;
- underlying rate: 3-month Euribor;
- fixed rate: 3.46%.

As the hedge is perfect, the fair value of the hedging instrument, which stands at €341 thousand at December 31, 2017, is presented as an off-balance sheet commitment at December 31, 2016 (fair value: €475 thousand).

The change in accounting method has resulted in the recategorization of the financial loss from this swap, *i.e.* €126 thousand, reported in 2017 as an operating loss, with the 2017 operating loss deducted from this amount.

In the financial statements at December 31, 2016, this new regulation appears to have had a similar effect, reducing the operating loss by €137 thousand, thus increasing the financial income by the same amount.

# NOTE 3 OPERATING INCOME

## REVENUE FROM COLLABORATIVE AND LICENSING AGREEMENTS

| *(in € thousands)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Bioproduction and other collaborative projects | 896 | 2,186 |
| License fees and royalties | 1,203 | 1,798 |
| **TOTAL** | **2,099** | **3,984** |

## OTHER INCOME

| *(in € thousands)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Research and development grants | 3 | 130 |
| Other | 1,685 | 9,842 |
| **TOTAL** | **1,688** | **9,972** |

## NOTE 4 FINANCIAL INCOME/(LOSS)

| *(in € thousands)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| **REVENUE** | | |
| Revenues from marketable securities | 2 | 6 |
| Revenues from capitalized accounts receivable | 3 | 7 |
| Discounts received | - | - |
| Other interest income | 297 | 1,795 |
| **Total financial interest income** | **302** | **1,808** |
| **EXPENSES** | | |
| Other financial expenses | (1,240) | (237) |
| Interest expense related to debt | (1,529) | (1,159) |
| **Total financial expenses** | **(2,769)** | **(1,396)** |
| **EXCHANGE RATE DIFFERENCES** | | |
| Foreign exchange gains | 2 | 5 |
| Foreign exchange loss | (26) | (58) |
| **Total foreign exchange differences** | **(24)** | **(53)** |
| **FINANCIAL INCOME/(LOSS)** | **(2,491)** | **359** |

## NOTE 5 NON-RECURRING ITEMS

As of December 31, 2017, non-recurring items mainly corresponds to a €43 thousand surplus on the liquidity contract.

## NOTE 6 CASH AND MARKETABLE SECURITIES

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Cash | 594 | 3,793 |
| Marketable securities | 1,016 | 1,014 |
| **TOTAL** | **1,610** | **4,807** |
| Unrecognized unrealized gains or losses | - | - |

In 2017, marketable securities were composed of short-term mutual fund units.

## NOTE 7 STOCKS

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Raw materials | 203 | 133 |
| Laboratory supplies | 67 | 88 |
| **Total gross** | **270** | **221** |
| Provision for obsolescence | - | - |
| **NET TOTAL** | **270** | **221** |

## NOTE 8 TRADE RECEIVABLES

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Total gross | 2,564 | 2,385 |
| Provisions for impairment | - | - |
| **NET TOTAL** | **2,564** | **2,385** |

## NOTE 9 OTHER RECEIVABLES

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Institut Mérieux centralized cash (cash pool) | 39,762 | 51,351 |
| Accrued credit notes (trade credit) | 251 | 28 |
| Employee benefits expense | 28 | 28 |
| Grant receivable | - | 887 |
| Other receivables | 30 | 814 |
| **TOTAL** | **40,071** | **53,108** |

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 10 ACCRUED INCOME

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Accrued income – customers | 1,242 | 197 |
| VAT credit | 265 | 335 |
| Trade receivables | 247 | 25 |
| VAT on accrued invoices | 136 | 170 |
| Social organizations – accrued revenue | 4 | 3 |
| **TOTAL** | **1,894** | **730** |

## NOTE 11 PROPERTY, PLANT AND EQUIPMENT

| *(in € thousands)* | 12/31/2016 | Increase | Decrease | 12/31/2017 |
|---|---|---|---|---|
| **ACQUISITION COSTS** | | | | |
| Land | 584 | - | - | 584 |
| Buildings and fixtures | 829 | 7 | 4 | 832 |
| Laboratory equipment | 9,295 | 546 | 483 | 9,358 |
| Office and computer equipment | 1,646 | 39 | 79 | 1,606 |
| Assets in progress | 141 | 357 | 141 | 357 |
| **Total** | **12,495** | **949** | **707** | **12,737** |
| **DEPRECIATION AND PROVISIONS** | | | | |
| Buildings and fixtures | (382) | (72) | 2 | (452) |
| Laboratory equipment | (5,747) | (581) | 449 | (5,879) |
| Office and computer equipment | (1,336) | (127) | 76 | (1,387) |
| Assets in progress | - | - | - | - |
| **Total** | **(7,465)** | **(780)** | **527** | **(7,718)** |
| **NET TOTAL** | **5,030** | **169** | **1,234** | **5,019** |

## NOTE 12 INTANGIBLES ASSETS

| *(in € thousands)* | 12/31/2016 | Increase | Decrease | 12/31/2017 |
|---|---|---|---|---|
| **ACQUISITION COSTS** | | | | |
| Licenses and acquired patents | 1,788 | - | - | 1,788 |
| Other intangible assets | 2,577 | 29 | - | 2,606 |
| Assets in progress | - | - | - | - |
| **Total** | **4,365** | **29** | **-** | **4,394** |
| **DEPRECIATION AND PROVISIONS** | | | | |
| Licenses and acquired patents | (1,692) | (17) | 2 | (1,707) |
| Other intangible assets | (2,250) | (187) | - | (2,437) |
| **Total** | **(3,942)** | **(204)** | **2** | **(4,144)** |
| **NET TOTAL** | **423** | **(175)** | **2** | **250** |

# NOTE 13 FINANCIAL ASSETS

| *(in € thousands)* | 12/31/2016 | Increase | Decrease | 12/31/2017 |
|---|---|---|---|---|
| Investments in non-consolidated companies | | | | |
| ▪ Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. | 10,133 | - | - | 10,133 |
| ▪ ABL Lyon SAS | 294 | - | (294) | - |
| ▪ Transgene BioPharmaceutical Technology (Shanghai) Co. Ltd. | 875 | - | - | 875 |
| ▪ ElsaLys Biotech SA | 501 | 936 | - | 1,437 |
| ▪ Transgene Inc. | 23 | - | - | 23 |
| ▪ Access Investment, Inc. | 29 | - | - | 29 |
| **Total (at acquisition cost)** | **11,855** | **936** | **(294)** | **12,497** |
| Guarantees and deposits | 3,869 | 4,394 | (4,292) | 3,971 |
| ABL Lyon current account and conditional loan | 294 | - | (294) | - |
| ElsaLys Biotech SA current account | 1,193 | - | (936) | 257 |
| Depreciation | (1,398) | 494 | 1,240 | (2,144) |
| **NET TOTAL** | **15,813** | **5,824** | **(4,576)** | **14,581** |

## ABL Lyon

In 2017, Transgene sold all of its stake in the capital of ABL Lyon, formerly known as Platine Pharma Services SA. The investment was wholly depreciated.

## Depreciation

As of December 31, 2017, the impairment booked was for Access Investment, Inc. stock for €29 thousand, Transgene BioPharmaceutical Technology (Shanghai) Co. Ltd. stock for €875 thousand, and the stock of joint venture Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. for €1,240 thousand.

The stake in the joint venture was reviewed as of the December 31, 2017 closing date. This review was based on the discounted cash flow (DCF) analysis method.

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.

The Company used a WACC of 14% to evaluate future cash flows linked to products currently in development in China and for which the commercial rights have been granted (TG6002 and TG3003). The future cash flows are reviewed annually based on the following principal assumptions in particular: development costs, date of launch on the market, market size, market penetration rate, treatment price, probability of the success of the clinical trials. An increase of 1 point in the discount rate would have an impact of approximately 20% on the value of these projects.

With respect to 2017, additional depreciation was recorded for the stock of Transgene JV Tasly for €1,240 thousand.

# NOTE 14 EQUITY

## General

At December 31, 2017, the number of outstanding shares of Transgene was 62,075,190, representing share capital of €62,075,190.

## 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 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, 2017 is summarized in the following table.

| Grant date | Exercise start date | Expiration date | Exercise price | Number of options granted | Number of options exercised in 2017 | Number of options remaining to be exercised at 12/31/2017* |
|---|---|---|---|---|---|---|
| 10/04/2007 | 10/05/2012 | 10/05/2017 | 16.105 | 62,180 | 0 | 0 |
| 12/19/2007 | 12/20/2012 | 12/20/2017 | 15.021 | 6,760 | 0 | 0 |
| 12/16/2008 | 12/17/2014 | 12/17/2018 | 11.005 | 178,676 | 0 | 173,151 |
| 12/09/2009 | 12/10/2015 | 12/17/2019 | 17.122 | 76,907 | 0 | 74,397 |
| 12/07/2010 | 12/08/2015 | 12/08/2020 | 14.198 | 321,054 | 0 | 215,453 |
| 12/13/2012 | 12/14/2017 | 12/14/2022 | 7.859 | 92,578 | 0 | 41,328 |
| **TOTAL** | **N/A** | **N/A** | **N/A** | **N/A** | **0** | **504,329** |

* *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.*

## Free share plans

Two free allocations of shares were outstanding at the date of this Registration Document, adopted by the Board of Directors in 2016 and 2017 for all employees and executive corporate officers under a delegation granted by the Annual General Shareholders' Meeting of May 24, 2016. 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. In total, 200,450 shares in Transgene's share capital were issued under free allocations of shares.

The status of these plans at December 31, 2017 is summarized in the following table:

| | 2016 plan | |
|---|---|---|
| General Meeting date | | 05/24/2016 |
| Total number of shares authorized by the meeting | | 600,000 |
| | **2016 allocation** | **2017 allocation** |
| 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 | 31,000 |
| 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 | 50,800 |
| Board of Directors meeting date | 05/24/2016 | 03/17/2017 |
| Total number of bonus shares allocated | 207,550 | 183,000 |
| Balance at 12/31/2017 | 200,733 | 183,000 |
| Of which: number of shares allocated to corporate officers and members of the Executive Committee | 92,800 | 77,000 |
| Final grant date | 05/24/2018 | 03/17/2019 |
| Expiration date of the lock-up period | 05/24/2020 | 03/17/2021 |
| Share value on the date of allocation (opening price on the date of allocation) | €2.71 | €2.63 |

As at the date of this report, the bonus shares awarded and not issued represent a potential dilution of 383,733 shares; the shares and options awarded and not exercised represent a potential dilution of 504,329 shares, giving a total of approximately 1.4% of the Company's share capital.

## Changes in equity

| *(in € thousands)* | Share capital | Premiums and reserves | Retained Earnings | Result | Statutory provisions | Equity |
|---|---|---|---|---|---|---|
| **At 12/31/2016** | **56,432** | **500,213** | **(485,400)** | **(22,056)** | **-** | **49,189** |
| Appropriation of loss | - | - | - | - | - | - |
| Net income/(loss) 2016 | - | - | (22,056) | 22,056 | - | - |
| Pension obligations | - | - | - | - | - | - |
| Net income/(loss) 2017 | - | - | - | (30,471) | - | (30,471) |
| Capital reduction | - | - | - | - | - | - |
| Increase in capital (exercise of stock options and final allocation of free shares) | 5,643 | 7,630 | - | - | - | 13,273 |
| **At 12/31/2017** | **62,075** | **507,843** | **(507,456)** | **(30,471)** | **-** | **31,991** |

## NOTE 15 CONDITIONAL ADVANCES

At December 31, 2017, conditional advances referred mainly to repayable advances received under the ADNA ("Advanced Diagnostics for New therapeutic Approaches") program, which receives public funding from Bpifrance. 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 December 31, 2017, the estimated value of future reimbursements totaled €19,485 thousand. A 1 percentage point increase in the discount rate would have a negative impact of about 10% on the value of this debt.

## NOTE 16 FINANCIAL LIABILITIES

### Financing of tax credits

Financial liabilities as of December 31, 2017 related to bank financing of the 2014 research tax credit (current liabilities), the 2015 and 2016 research tax credits (non-current liabilities), and the competitiveness and employment tax credit (CICE) for 2014 (current portion) and 2015 to 2017 (non-current portion). Transgene received the amount of the tax receivable, less a financing cost and a holdback of 10 to 5%.

### 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.

The loan is a bullet loan due at the end of a five-year term, *i.e.* on June 20, 2021. The interest is repayable as of June 2019, notably as regards the interest accumulated during the first three years. Interest due at December 31, 2017 is recognized in Non-current financial liabilities (€1,146 thousand).

No guarantee was provided by the Company for this loan.

# NOTE 17 PROVISIONS FOR RISKS AND CHARGES

| *(in € thousands)* | 12/31/2016 | Provisions | Retained earnings | Reversals not applicable | Use of the provision | 12/31/2017 |
|---|---|---|---|---|---|---|
| Exchange rate differences | 2 | - | - | (2) | - | - |
| Risk of charge | 1,456 | 1 | - | - | (1,101) | 356 |
| Pension obligations | 4,080 | 299 | - | (207) | - | 4,172 |
| **Total provisions for charges** | **5,538** | **300** | **-** | **(209)** | **(1,101)** | **4,528** |
| Of which allocations and reversals: | | | | | | |
| Operating | 964 | 300 | - | (207) | (1,101) | (44) |
| Financial | 127 | - | - | (2) | - | 125 |
| Extraordinary | - | - | - | - | - | - |

The provision for expense risks relates primarily to the restructuring provision amounting to €352 thousand at December 31, 2017, compared with €1,452 thousand at December 31, 2016. The remaining provision should be used in its entirety during 2018.

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, 2017:

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Discount rate | 1.70% | 1.70% |
| Rate of future salary increases | 1.50% | 1.50% |
| Retirement age: | | |
| ▪ managers | age 65 | age 65 |
| ▪ other grades | 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, 2017 and 2016:

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| **CHANGE IN THE VALUE OF COMMITMENTS** | | |
| Projected benefit obligation at January 1 | 3,725 | 3,196 |
| Cost of services rendered for the year | 237 | 202 |
| Cost of discounting | 62 | 75 |
| Change in assumptions | - | 260 |
| Reductions/terminations | (71) | - |
| Actuarial (gain)/loss | (107) | (9) |
| Benefits paid during the year | (136) | - |
| **Projected benefit obligation for retirement** | **3,710** | **3,724** |
| Unrecognized actuarial losses | 462 | 355 |
| Unrecognized past service cost | - | - |
| Total unrecognized items | - | - |
| **PROVISIONS FOR PENSIONS** | **4,172** | **4,079** |

Changes in actuarial commitments recognized on the liabilities side of the balance sheet for 2017 and 2016 break down as follows:

| *(in € thousands)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| **DEFINED BENEFIT COST FOR THE YEAR** | | |
| Cost of services rendered for the year | 237 | 202 |
| Cost of discounting | 62 | 75 |
| Net actuarial loss recognized in the year | - | (21) |
| Reductions/terminations | - | - |
| **COST OF SERVICES AND DISCOUNTING** | **299** | **256** |

## NOTE 18 EXPENSES PAYABLE

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Suppliers – accrued invoices | 2,214 | 3,865 |
| Accrued credit notes | - | - |
| Personnel and related accounts | 759 | 900 |
| Social organizations | 908 | 1,056 |
| VAT on accrued income | 203 | - |
| VAT on trade receivables | - | 2 |
| Other liabilities | 78 | 41 |
| **TOTAL** | **4,162** | **5,864** |

## NOTE 19 ACCRUED CHARGES AND DEFERRED INCOME

Deferred revenue and expenses relate exclusively to items recognized under operations.

# NOTE 20 AFFILIATED COMPANIES

Transgene signed a cash pooling agreement with Institut Mérieux. the cash and cash equivalents placed in the Institut Mérieux cash pool amounted to a receivable of €39.7 thousand at December 31, 2017; the resulting interest income was €163 thousand at December 31, 2017.

The table below does not include these cash items.

| | 2017 | |
|---|---|---|
| *(in € thousands)* | **Receivables** | **Payables** |
| ABL Europe SAS | 750 | 86 |
| ABL Lyon | - | 37 |
| bioMérieux SA | - | (15) |
| ElsaLys Biotech SA | 1,328 | - |
| Institut Mérieux | - | 4 |
| Mérieux Université | - | - |
| Thera Conseil | - | - |
| Transgene Inc. | - | 115 |
| Transgene Tasly (Tianjin) BioPharmaceutical Co Ltd. | 27 | - |
| **TOTAL** | **2,105** | **227** |

| | 2017 | |
|---|---|---|
| *(in € thousands)* | **Revenue** | **Expenses** |
| ABL Europe SAS [(1)] | 166 | 3,713 |
| ABL Lyon [(2)] | - | 284 |
| bioMérieux SA | - | (8) |
| ElsaLys Biotech SA [(3)] | 1,099 | - |
| Institut Mérieux [(4)] | - | 404 |
| Mérieux Université | - | 1 |
| Thera Conseil | - | 11 |
| Transgene Inc. [(5)] | - | 639 |
| Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. [(6)] | 108 | - |
| **TOTAL** | **1,373** | **5,044** |

*(1) The revenue corresponding to the rent reinvoicing contract for hosting test labs. Expenses related to the agreements for production services provided by ABL Europe to Transgene SA.*
*(2) Expenses related to the agreements for services provided by ABL Lyon.*
*(3) Revenue corresponding to the sale of rights to the TG3003 product and agreements for the services provided by Transgene SA.*
*(4) Expenses related to the agreement for services provided by Institut Mérieux.*
*(5) Expenses related to the re-invoicing of Transgene, Inc. services and staff.*
*(6) Revenue corresponding to the agreement for services concluded between Transgene SA and Transgene Tasly BioPharmaceutical (Tianjin) Co. Ltd.*

# NOTE 21 AGING OF RECEIVABLES AND PAYABLES

| **Receivables** *(in € thousands)* | **Gross amount** | **One year or less** | **More than one year** |
|---|---|---|---|
| Other financial assets | 3,971 | 1,500 | 2,471 |
| Trade receivables | 2,564 | 2,564 | - |
| Research tax credit and tax credit for Competitiveness and Employment | 29,206 | 9,218 | 19,988 |
| Government, VAT and other local authorities | 62 | 62 | - |
| Personnel and related accounts | 29 | 29 | - |
| Prepaid expenses | 3,881 | 3,005 | 876 |
| Research and development grants | - | - | - |
| Receivables from the sale of fixed assets | - | - | - |
| Other receivables | 480 | 480 | - |
| **TOTAL** | **40,193** | **16,858** | **23,335** |

| **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 | 19,485 | - | - | 19,485 |
| Financing of tax credits | 23,723 | 9,182 | 14,541 | - |
| Bank loan | 11,146 | - | 11,146 | - |
| Trade payables | 2,868 | 2,868 | - | - |
| Pension obligations | 4,172 | 140 | 939 | 3,094 |
| Accrued employee benefits and tax expense | 2,973 | 2,973 | - | - |
| Prepaid income | 859 | 359 | 500 | - |
| Other liabilities | 18 | 18 | - | - |
| **TOTAL** | **65,244** | **15,540** | **27,126** | **22,579** |

# NOTE 22 INCOME TAX EXPENSES

## Current taxes

The 2017 tax (€5,430 thousand) primarily comprises the research tax credit earned during the year (€5,397 thousand) and an apprenticeship and family tax credit *(crédit d'impôt apprentissage et famille)* (€133 thousand).

The Company had a credit with the French government of €29,206 thousand as of December 31, 2017 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** | **2017** | 2016 | **2017** | 2016 |
| 2017 | - | 210 | - | 8,852 |
| 2018 | 275 | 275 | 8,943 | 8,943 |
| 2019 | 282 | 282 | 7,758 | 7,758 |
| 2020 | 120 | 120 | 6,298 | 6,298 |
| 2021 | 133 | - | 5,397 | - |
| **TOTAL** | **810** | **887** | **28,396** | **31,851** |

## Deferred taxes

Deferred taxes indicate a potential reduction in future tax expenses of €231,782 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 | 3 | (1) | 2 | 1 | - | 1 |
| Mutual aid social security contribution | - | - | - | - | - | - |
| Provisions for pensions and other post-employment benefits | 3,171 | 92 | 3,263 | 1,092 | 31 | 1,123 |
| Provision for restructuring | 629 | (629) | - | 217 | (217) | - |
| Cost of acquired patents not yet deducted | (147) | - | (147) | (51) | - | (51) |
| Allowance for impairment of intangible assets | 162 | (2) | 160 | 56 | (1) | 55 |
| Provision for impairment of equity security | 1,198 | 946 | 2,144 | 412 | 326 | 738 |
| Provisions for loss | 3 | - | 3 | 1 | - | 1 |
| Unrealized capital gains on marketable securities | - | - | - | - | - | - |
| Translation adjustment | (2) | 2 | - | (1) | - | - |
| Tax loss carryforwards | 631,208 | 36,566 | 667,774 | 217,325 | 12,590 | 229,915 |
| **TOTAL** | **636,225** | **36,974** | **673,199** | **219,052** | **12,730** | **231,782** |

# NOTE 23 EXECUTIVE COMPENSATION AND OBLIGATIONS

Directors' fees paid to members of the administrative bodies amounted to €183 thousand.

Philippe Archinard, Chairman and Chief Executive Officer of Transgene, has been mainly employed by the Company since April 2015. As of December 31, 2017, he remained an employee of Institut Mérieux.

In 2017, the Company did not pay any compensation to TSGH and its permanent representative. In 2017, the Company paid its Chairman and Chief Executive Officer, Mr. Philippe Archinard, gross compensation of €732 thousand.

In 2017, Philippe Archinard received gross compensation of €271.9 thousand (including €130 thousand in variable compensation and €9 thousand in benefits in kind corresponding to the use of a Company car) from Institut Mérieux.

In 2017 the Company paid to the Responsible Pharmacist acting as Deputy Chief Executive Officer, Christophe Ancel, total compensation amounting to €129 thousand, including €25 thousand in variable compensation.

The Company paid a gross amount of €1,925 thousand in compensation to its Executive Committee in 2017.

No advances or credits were allocated to executives.

# NOTE 24 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)* | 2017 | 2016 |
|---|---|---|
| Property leasing: | | |
| ▪ outstanding charges | 6,460 | 7,573 |
| ▪ 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: 6 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, 2017, the market value of this hedging instrument was €341 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, 2017.

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 €329 thousand (including charges) in 2017.

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) | 6,460 | 1,136 | 4,302 | 1,022 |
| Finance lease obligations (non-real estate) | 44 | 40 | 4 | - |
| Other long-term obligations (reimbursable advances) | 19,485 | - | - | 19,485 |
| **TOTAL** | **25,989** | **1,176** | **4,306** | **20,507** |

Transgene is also bound by contracts with subcontractors. That could have an impact over several accounting periods. At December 31, 2017, 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 25 WORKFORCE

The Company's registered workforce totaled 146 employees at December 31, 2017 and 149 employees at December 31, 2016 (excluding the 26 employees on reclassification leave).

| | Men | Women | Total others | Including reclassified personnel or internal transfers |
|---|---|---|---|---|
| Managers | 40 | 70 | 110 | |
| Other grades | 9 | 27 | 36 | |
| **TOTAL** | **49** | **97** | **146*** | |

* *Including 133 open-ended contracts at 12/31/2017.*

Employee benefits expense (salaries, payroll taxes, pension costs and related expenses) for 2016 and 2017 totaled €18,906 thousand and €14,048 thousand, respectively.

## NOTE 26 IDENTITY OF THE CONSOLIDATING ENTITY

The Company's financial statements were fully consolidated by Compagnie Mérieux Alliance, 17, rue Bourgelat, 69002 Lyon.

## NOTE 27 EVENTS AFTER THE REPORTING PERIOD

None.

## NOTE 28 PREMIUMS AND RESERVES

The distribution options offered by the accumulated premiums and reserves were as follows:

| *(in € thousands)* | Total others | Reimbursable or available for distribution | Not available for distribution |
|---|---|---|---|
| Premiums | 507,206 | 507,206 | - |
| Legal reserve | 248 | - | 248 |
| Unavailable reserve | 389 | - | 389 |
| **TOTAL** | **507,843** | **507,206** | **637** |

# NOTE 29 SUBSIDIARIES AND EQUITY INTERESTS

| Financial information *(in local currency)* | | Transgene Inc.<br>5 Cambridge Center<br>Suite 0802<br>Cambridge<br>Massachusetts 02142<br>USA | Transgene BioPharmaceutical Technology (Shanghai) Co. Ltd.<br>Rm 317, 379 Bao Tun Lu<br>Shanghai 200011<br>China | Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd.<br>Chenhuan Tower<br>Tianjin Medicine and Medical equipment indus.parc | Sas ElsaLys Biotech*<br>321 avenue Jean-Jaurès<br>69007 Lyon |
|---|---|---|---|---|---|
| **Share capital** | | USD 30,000 | RMB 7,206,186 | RMB 156,560,000 | EUR 349,439 |
| **Share capital other than capital** | | - | RMB (7,070,471) | RMB (69,050,778) | EUR 490,111 |
| **Proportion of capital held** *(%)* | | 100% | 100% | 50% | 15,22% |
| **Carrying value of securities held** *(in euros)* | Gross | 23,114 | 875,000 | 10,132,823 | 1,436,974 |
| | Net | 23,114 | - | 8,892,823 | 1,436,974 |
| **Loans and advances granted by the Company not yet reimbursed** | | None | None | None | EUR 257,078 |
| **Amount of guarantee and undertakings given by the Company** | | None | None | None | None |
| **Revenues excl. tax of the period just past** | | None | None | None | EUR 19,273 |
| **Income (profits or losses for the previous fiscal)** | | - | RMB (65,675) | RMB (12,612,902) | EUR (3,645,841) |
| **Dividends received during the year** | | None | None | None | None |
| **Comments** | | - | - | - | - |

# NOTE 30 AUDITORS' FEES

| | Ernst & Young et Autres | | | | Grant Thornton | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount (pre-tax) | | % | | Amount (pre-tax) | | % | |
| *(in € thousands)* | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| Audit | - | - | - | - | - | - | - | - |
| **STATUTORY AUDITORS, CERTIFICATION, EXAMINATION OF INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS** | | | | | | | | |
| Issuer | 66 | 50 | 67% | 35% | 50 | 38 | 100% | 100% |
| Fully consolidated subsidiaries | - | - | - | - | - | - | - | - |
| **OTHER DUE DILIGENCE AND SERVICES DIRECTLY RELATED TO THE AUDIT** | | | | | | | | |
| Issuer | 32 | 92 | 33% | 65% | - | - | - | - |
| Fully consolidated subsidiaries | - | - | - | - | - | - | - | - |
| **Sub-total** | **98** | **142** | **100%** | **100%** | **50** | **38** | **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** | **98** | **142** | **100%** | **100%** | **50** | **38** | **100%** | **100%** |

# 4.4 STATUTORY AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Year ended December 31, 2017

To the Annual General Meeting of Transgene S.A.,

## Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying financial statements of Transgene S.A. for the year ended December 31, 2017.

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, 2017 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit Committee.

## Basis for Opinion

### Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the Statutory Auditors' Responsibilities for the Audit of the Financial Statements section of our report.

### Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2017 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 or in the French Code of Ethics for Statutory Auditors (*Code de déontologie de la profession de commissaire aux comptes*).

## Emphasis of Matter

We draw attention to the following matter described in Note 2 to the annual financial statements relating to the change in accounting policy resulting from the application, as at January 1, 2017, of ANC Regulation 2015-05 concerning financial futures and hedging. Our opinion is not modified in respect of this matter.

## Justification of Assessments - Key Audit Matters

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the financial statements.

## VALUATION OF ADNA CONDITIONAL ADVANCES

**Risk identified**

As at December 31, 2017, the liability consisting of conditional advances in your Company's balance sheet amounts to M€ 19,48. At year-end, the Company re-values its conditional advances liability to match the amount of the expected repayment, as described in Note 1 to the financial statements.

The fair value of the expected future repayments is estimated by management based on the estimated future direct and indirect revenue generated by TG4001 and TG4010 products being currently developed by your Company.

The measurement of the fair value of the conditional advances liability requires of management to exercise its judgment in its choice of the elements to be taken into account, corresponding to forecast items.

The main assumptions used by management to measure the fair value of the conditional advances liability concern:

- The estimation of the revenue that will be generated by the market potential of TG4010 and TG4001 products;
- The probable success, in terms of technics and regulation, of these same products being developed;
- The timing and conditions of a partnership concerning the development of these products;
- The discount rate used by management.

Any error in the assessment of these assumptions has an impact on the estimation of the debt to be repaid. We considered the determination of the fair value of the conditional advances to be a key audit matter as it involves important management's judgment.

**Our response**

The Company measures the liability related to ADNA conditional advances as at December 31, 2017 at fair value. The methods and assumptions used are described in Notes 1 and 15 to the annual financial statements.

In this context, our work consisted in analyzing the methods and assumptions used by the Company to determine the fair value, in particular:

- We assessed the valuation model and the assumptions used, by considering their consistency with, on the one hand, the budgets and forecasts drawn up by management and presented to the Board of Directors, and on the other hand, with our knowledge of the sector, notably acquired during interviews with management.
- We compared the discount rate with our own estimate of this rate.
- We assessed the US dollar to euro rate used within the context of the valuation performed.

Finally, we considered the appropriateness of the information disclosed in the notes to the annual financial statements.

## VALUATION OF INVESTMENTS

| Risk identified | Our response |
|---|---|
| As at December 31, 2017, the net value investments in your company's balance sheet is M€ 8,9 for Transgene Tasly (Tianjin) BioPharmaceutical and M€ 1,4 for Elsalys, representing 10% of the total balance sheet. As stated in Note 1 to the annual financial statements, the value in use is estimated by management based on the estimated future cash flows generated by products being developed by the subsidiaries. The estimation of the value in use of these securities requires of management to exercise its judgment in its choice of the elements to be taken into account, corresponding to forecast items. The main assumptions taken into account by management in the measurement of the value in use of the equity investments concern:<br>• The estimation of the future cash flows that will be generated by the companies held and notably by the products being developed;<br>• The probable technical success of the products being developed and their approval by the regulatory authorities;<br>The market potential for these products being developed;<br>• The value of the securities according to the latest capital transactions;<br>• The discount rate used by management. Impairment is recognized when the net carrying amount of these holdings exceeds their recoverable amount.<br>• Any error in the assessment of the assumptions has an impact on the estimate of the recoverable amount. We considered the determination of the recoverable amount of associated companies to be a key audit matter as it involves important management's judgment. | Your Company measures the recoverable amount of these investments at each year-end. The methods and assumptions used are described in Notes 1 and 13 to the annual financial statements.In this context, our work consisted in analyzing the methods and assumptions used by the company to determine the recoverable amount, in particular:<br>We compared the valuation model applied and the assumptions used with those used the previous year.<br>• We included a specialist in our audit team to assess the models and assumptions used, considering their consistency, on the one hand with the budgets and forecasts set by management and presented to the Board of Directors, and on the other hand, with our knowledge of the sector, acquired notably during interviews with management and by comparison with similar projects conducted by other companies in the same sector.<br>• We compared the discount rate with our own estimate of this rate, set with the assistance of our valuation specialists, and through analysis of the various parameters.<br>• Lastly, we also considered the appropriateness of the information disclosed in the notes to the financial statements, in particular the sensitivity analyses presented. |

# Verification of the Management Report and of the Other Documents Provided to the Shareholders

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

## Information provided in the Management Report and in the Other Documents Provided to the Shareholders with respect to the financial position and the financial statements

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the Board of Directors' management report and in the other documents provided to the Shareholders with respect to the financial position and the financial statements.

## Information relating to Corporate Governance

We confirm the existence of the information required by Articles L. 225-37-3 and L. 225-37-4 of the French Commercial Code (Code de commerce), in a section of the management report of the Board of Directors dedicated to Corporate Governance.

Concerning the information given in accordance with the requirements of Article L. 225-37-3 of the French Commercial Code (Code de commerce) relating to remunerations and benefits received by the directors and any other commitments made in their favor, 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 controlling and controlled companies. Based on these procedures, we attest the accuracy and fair presentation of this information.

With respect to the information relating to items that your Company considered likely to have an impact in the event of a public purchase offer or exchange, provided pursuant to Article L. 225-37-5 of the French Commercial Code (Code de commerce), we have agreed these to the source documents communicated to us. Based on our work, we have no observations to make on this information.

## Other information

In accordance with French law, we have verified that the required information concerning the identity of the shareholders or holders of the voting rights has been properly disclosed in the management report.



# Report on Other Legal and Regulatory Requirements

## Appointment of the Statutory Auditors

We were appointed as Statutory Auditors of Transgene S.A. by your Annual General Meeting held on May 24, 2016 for GRANT THORNTON and on May 29, 1996 for ERNST & YOUNG et Autres.

As at December 31, 2017, GRANT THORNTON was in its second year of total uninterrupted engagement and ERNST & YOUNG et Autres was in its twenty-second year of total uninterrupted engagement (including twenty years since securities of the Company were admitted to trading on a regulated market).

# Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The financial statements were approved by the Board of Directors.

# Statutory Auditors' Responsibilities for the Audit of the Financial Statements

## Objectives and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code (Code de commerce), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements.
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.
- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

## Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report significant deficiencies, if any, in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) No 537/2014, confirming our independence within the meaning of the rules applicable in France as set out in particular in Articles L. 822-10 to L. 822-14 of the French Commercial Code (Code de commerce) and in the French Code of Ethics for Statutory Auditors (Code de déontologie de la profession de commissaire aux comptes). Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Lyon and Paris-La Défense, April 4, 2018

The Statutory Auditors

**GRANT THORNTON**
***FRENCH MEMBER OF GRANT THORNTON INTERNATIONAL***
Françoise Méchin

**ERNST & YOUNG ET AUTRES**

Cédric Garcia

# 4.5 PRO FORMA FINANCIAL INFORMATION

None.

# 5

# INFORMATION ABOUT THE COMPANY AND ITS CAPITAL

# 5.1 SHARE CAPITAL

## 5.1.1 Amount of equity subscribed

€62,075,190 fully paid in, recognized as of the date of this Registration Document.

### 5.1.1.1 Number of shares issued

62,075,190 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 Shares not representing capital

None.

The Company has no knowledge of pledges or other security interests related to its shares at March 31, 2018.

## 5.1.3 Shares held either by the Company itself, on its behalf or by its subsidiaries

In the framework of the liquidity contract, at December 31, 2017, 93,038 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 all rights of acquisition and/or obligations attached to the capital subscribed but not paid-in, or any undertaking to increase the share capital

### Capital authorized and not issued

At March 31, 2018 the number of shares that could be issued against outstanding stock options (504,329) and free share awards (383,733) was 888,062, or around 1.4% of the Company's share capital on a fully diluted basis (or 62,963,252 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<br>Expiration: July 24, 2019 | 599,515 |

The following table shows the powers delegated to the Board of Directors by the Extraordinary General Shareholders' Meeting of June 8, 2017 and the use the Board made of them 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** | 29 million shares in one or more tranches<br>Expiration: August 8, 2019 | None. |
| **Capital increase without preferential subscription rights for shareholders** | 22.5 million shares in one or more tranches (included in the ceiling of 29 million shares)<br>Expiration: August 8, 2019 | 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%<br>Expiration: August 8, 2019 | 5,643,199 shares* |
| **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 paragraph 2 of the French Commercial Code** | 10% of share capital per year<br>Expiration: August 8, 2019 | 5,643,199 shares* |
| **Capital increase with cancellation of pre-emptive 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<br>Expiration: August 8, 2019 | None. |

* *One single transaction of 5,643,199 new shares was conducted in 2017, authorized under the two resolutions concerned.*

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## 5.1.6 Information on the stock of any member of the Group subject to an option or a conditional or unconditional agreement to place it under option

None.

## 5.1.7 Changes in 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 (in euros) | Total issue premiums (€) | Amount of equity subscribed (in euros) | Total number of shares |
|---|---|---|---|---|---|---|---|
| 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 | 46,407,514 | 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 |
| 2017 | Capital increase (3) | 5,643,199 | 14,390,175.45 | 1.55 | 8,746,958.45 | 62,075,190 | 62,075,190 |

*(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 euros to 1 euro each.*

**Change in shareholder structure 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% (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% (legal reporting threshold) of the Company's capital or voting rights

The following table shows the breakdown of capital and voting rights of the Company at December 31, 2017 based on an analysis of bearer share ownership conducted at the Company's request following the capital increases of November 2017 and November 2016 and the distribution as of the end of 2015. There is no shareholder apart from the majority shareholder TSGH that owns more than 5% of share capital.

| | As at 12/31/2015 | | | As at 12/31/2016 | | | As at 12/31/2017 | | |
|---|---|---|---|---|---|---|---|---|---|
| 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 | 51.85 | 66.3 | 33,863,363 | 60.0 | 69.1 | 35,431,991 | 57.1 | 67.2 |
| Dassault Belgique aviation | 1,884,182 | 4.89 | 3.3 | 2,783,142 | 4.9 | 3.7 | 2,924,221 | 4.7 | 3.6 |
| Other shareholders [3] | 16,791,321 | 42.36 | 30.4 | 19,785,486 | 35.1 | 27.2 | 23,718,978 | 38.2 | 29.2 |
| **Total** | **38,545,397** | **100** | **100** | **56,431,991** | **100** | **100** | **62,075,190** | **100** | **100** |
| Dilutive impact stock-options + free shares awarded [4] | 1,087,334 | 2.7 | | 774,102 | 1.3 | | 888,062 | 1.4 | |
| **TOTAL DILUTED** | **39,623,731** | | | **57,206,093** | | | **62,963,252** | | |

*(1) On November 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, 2017, the total number of shares was 62,075,190; the total theoretical number of voting rights was 82,548,677 and the number of exercisable voting rights was 82,455,629. 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, no other shareholders directly or indirectly own, alone or in concert, over 5% of the equity or voting rights. As of December 31, 2017, the Company held 93,038 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 and free shares were granted exclusively 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.)*

## 5.2.2 Special voting rights of major 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 57.1% (67.2% of voting rights) owned by TSGH SAS, which is in turn 98.95% owned 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 directors 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 4.7% of the Company's stock (3.6% of the voting rights) through a family relationship and in his capacity as Chairman and member of the Dassault Développement Strategy Committee. Moreover, a majority of the Audit Committee and Compensation Committee consists of independent directors (three out of four members).

## 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 bylaws, or any anti-takeover measure, or specific powers of representation or appointment to executive bodies.

# 5.3 ARTICLES OF INCORPORATION AND BYLAWS

## 5.3.1 Corporate purpose (Article 2 of the bylaws)

The purpose of the Company, both in France and abroad, on its own behalf and on behalf of third parties:

- consists of all research, development, studies for the refinement of production processes and marketing, preclinical and clinical development, 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 investment by any means in such companies;
- Group financing activities;
- the supply of all types of support to companies that belong to the Group of companies to which the Company belongs;
- and more broadly, all commercial, industrial, securities, property and financial transactions 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 elected by the General Shareholders' Meeting.

The directors are appointed for a period of three years. The renewal of the terms of office is carried out on a staggered basis, to ensure that the number of terms of Board members expiring is as regular as possible each year. Exceptionally, for the purpose of staggering, the Ordinary Annual General Shareholders' Meeting may appoint a director for a duration of one, two or four 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.

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.

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 approves 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 Shareholder 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 bylaws. The Company capital may be changed pursuant to the terms of the law.

## 5.3.5 General Shareholders' Meetings (Article 21 of the bylaws)

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.

The right to take part in General Shareholders' Meetings is defined and justified in accordance with the provisions of Article R. 225-85 of the French Commercial Code.

For the calculation of the quorum and majority, are deemed present, if applicable, shareholders taking part in the meeting by videoconference or by means of telecommunications under the applicable legal and regulatory conditions, and as stipulated below.

Each shareholder may vote by mail or give a letter of proxy subject to the conditions stipulated by current regulations, and notably using a form prepared and received by the Company under the conditions set by law and the regulations.

If the Board of Directors so decides at the time of the notice to attend for the Meeting, shareholders may also take part and vote in General Shareholders' Meetings by videoconference or by all means of telecommunications (including transmission by electronic means of a vote form) allowing his/her identification under the conditions and according to the modalities set by the current legal and regulatory provisions. The Board of Directors' decision to use telecommunications or videoconferencing technology will be published in the notice to attend or the notice of meeting.

The electronic form may be completed and signed directly on this site using an identification code and password. The letter of proxy or vote expressed before the General Shareholders' Meeting by electronic means, as well as the acknowledgment given, will be considered as irrevocable written instructions enforceable on all parties, it being stated that if a transfer of ownership of the shares takes place before the legal deadline for the registration of the securities, the Company shall invalidate or amend, as the case may be, proxies or votes expressed before such date and time.

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 of General Meetings are prepared and copies certified and delivered pursuant to the terms of the law. The Meeting Secretary is authorized to certify the copies and excerpts of General Meeting minutes.

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 bylaws (Article 8).

## 5.3.6 Provisions having the effect of delaying, deferring or preventing a change of control

None.

## 5.3.7 Ownership thresholds

None. The obligations prescribed by current laws and regulations apply.

## 5.3.8 Conditions imposed by the articles of incorporation and bylaws, a charter or regulation, that govern changes in capital when said conditions are stricter than legal provisions

None: no such terms exist for the Company.

# 5.4 HISTORY AND INFORMATION ABOUT THE COMPANY DURING THE FISCAL YEAR

## 5.4.1 History and development of the Company

### 5.4.1.1 Legal name and Commercial name

Transgene

### 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

# 5.5 INFORMATION ON INVESTMENTS IN AFFILIATES

The table of subsidiaries and affiliates is presented in Note 29 to the Company's annual financial statements.

# 5.6 SHARE BUYBACK PROGRAM

## 5.6.1 Situation in 2017

The share buyback program in force in 2017 was authorized by the Shareholders' Meeting of June 8, 2017.

In accordance with Articles L. 225-209 *et seq.* of the French Commercial Code, the Shareholders' Meeting of June 8, 2017 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 must be made at a unit price no higher than €25 per share, with an overall purchase price of €15 million (or the foreign currency equivalent of these amounts on the same date) and in an amount no greater than 10% of the share capital at any one time.

In 2017, 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 2017, under the liquidity contract, Kepler Cheuvreux:

- bought 588,472 shares for a total of €1,753,103, representing a weighted average value of €2.98 per share; and
- sold 544,772 shares for a total of €1,629,188, representing a weighted average value of €2.99 per share.

At December 31, 2017, the Company directly held 93,048 shares for the purposes of creating liquidity under the liquidity contract (which represented around 0.15% of the share capital, whose measured value at the purchase price was €244,301). At that same date, none of the 93,048 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 Regulation of the *Autorité des marchés financiers* (AMF)

Pursuant to Article 241-2 of the General regulation of the AMF, this paragraph constitutes the description of the buyback program that will be submitted to the Shareholders' Meeting of May 23, 2018.

### 5.6.2.1 Number of securities and fraction of capital stock held by Transgene

At December 31, 2017 the total number of shares held by Transgene was 93,048, representing 0.15% 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, 2017

At December 31, 2017 Transgene's treasury shares were allocated as follows:

93,048 shares allocated with a view to liquidity.

The liquidity contract signed with Kepler Cheuvreux was renewed in January 2018. 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 the draft resolution submitted to the Shareholders' Meeting of May 23, 2018:

*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, where 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 regulation, the number of shares counted in the aforementioned 10% calculation shall be 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 event 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 twenty million euros (€20,000,000);*
- *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 the 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 90,048 shares (or 0.15% of the share capital) already directly held by Transgene at December 31, 2017;
- the 62,075,190 shares in the share capital at December 31, 2017;
- that the buyback at this time could only involve 6,114,471 shares (9.85% of the share capital), based on a maximum share price of €25 per share for a maximum total amount of €15,000,000.

### 5.6.2.5 Modalities 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 May 23, 2018, this buyback program may be carried out during an 18-month period starting on the date of the Shareholders' Meeting of May 23, 2018, *i.e.* no later than November 23, 2019. 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 23, 2018) over a 24-month period starting with the adoption of the tenth resolution proposed to the Combined Shareholders' Meeting of May 23, 2018, *i.e.* no later than May 23, 2020.

# 5.7 STATUTORY AUDITORS' REPORT ON RELATED PARTY AGREEMENTS AND COMMITMENTS

*This is a translation into English of a report issued in French and it is provided solely for the convenience of English-speaking users.This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.*

Annual General Meeting held to approve the financial statements for the year ended December 31, 2017

To the Annual General Meeting of Transgene S.A.,

In our capacity as Statutory Auditors of your Company, we hereby present to you our report on related party agreements and commitments.

We are required to inform you, on the basis of the information provided to us, of the terms and conditions of those agreements and commitments indicated to us, or that we may have identified in the performance of our engagement, as well as the reasons justifying why they benefit the Company. We are not required to give our opinion as to whether they are beneficial or appropriate or to ascertain the existence of other agreements and commitments. It is your responsibility, in accordance with Article R. 225-31 of the French Commercial Code *(Code de commerce)*, to assess the relevance of these agreements and commitments prior to their approval.

We are also required, where applicable, to inform you in accordance with Article R. 225-31 of the French Commercial Code *(Code de commerce)* of the continuation of the implementation, during the year ended December 31, 2017, of the agreements and commitments previously approved by the Annual General Meeting.

We performed those procedures which we deemed necessary in compliance with professional guidance issued by the French Institute of Statutory Auditors *(Compagnie nationale des commissaires aux comptes)* relating to this type of engagement. These procedures consisted in verifying the consistency of the information provided to us with the relevant source documents.

## Agreements and commitments submitted for approval to the Annual General Meeting

In accordance with Article L. 225-40 of the French Commercial Code (*Code de commerce*), we have been notified of the following related party agreements and commitments which received prior authorization from your Board of Directors.

### With Institut Mérieux, bioMérieux, Mérieux NutriSciences Corporation, ABL Inc., Théra Conseil, Mérieux Développement, SGH S.A.S. and Fondation Mérieux

#### Persons concerned

Messrs Alain Mérieux, Jean-Luc Bélingard, Philippe Archinard, and Ms Dominique Takizawa.

#### Nature and purpose

Agreement relating to the management of the employees' mobility within the group Institut Mérieux or Fondation Mérieux.

#### Conditions

For the employees who have worked in the group's companies and whose seniority in these companies has been taken into account without compensation, the costs relating to the termination of those employees' employment contracts and/or retirement will be allocated to these companies according to an equitable economic allocation key. These costs will henceforth be allocated in proportion to the remuneration paid by each company of the group Mérieux that has benefited from the employees' services, excluding the remuneration having served as a base for the payment of a previous termination indemnity.

#### Amount for the year

For the year ended December 31, 2017, your Company recorded an expense amounting to € 11,121 with regard to with this agreement.

### Reasons justifying why the Company benefits from this agreement

Your Board of Directors gave the following reasons: "This agreement is justified due to the benefit for the Company in sharing the costs of termination of its employees' employment contracts with each of the companies in the Mérieux group (including Fondation Mérieux) that have also employed said employees, according to common rules and conditions". Your Board of Directors thus wishes to facilitate mobility opportunities for the Company's employees within the Mérieux group.

## Agreements and commitments previously approved by the Annual General Meeting

### Agreements and commitments approved in prior years, whose implementation continued during the year ended December 31, 2017

In accordance with Article R. 225-30 of the French Commercial Code (Code de commerce), we have been notified that the implementation of the following agreements and commitments, which were approved by the Annual General Meeting in prior years, continued during the year ended December 31, 2017.

#### 1. With Institut Mérieux

**Persons concerned**

Messrs Alain Mérieux, Philippe Archinard and Jean-Luc Bélingard.

**Nature and purpose**

In 2014, your Company tacitly renewed the services agreement entered into with Institut Mérieux on January 1, 2002 (modified by two amendments in 2007).

**Conditions**

According to the first amendment, the remuneration is based on the services provided by Institut Mérieux (costs and personnel expenses at 8%) and is allocated to the companies of the Institut Mérieux group according to three allocation keys based on the respective importance of fixed assets, revenue and total payroll.

The second amendment addresses the conditions of allocating the cost of free share awards if the employee benefiting was transferred within the Institut Mérieux group during the vesting period. The Institut Mérieux group's company that grants the free shares, rebills the costs related to the free share awards, without any profit margin, in proportion to the time spent by the employee concerned in each company during the vesting period.

**Amounts for the year**

For the year ended December 31, 2017, your Company recorded an expense amounting to € 211,805. In addition, a € 59,301 adjustment in respect of the year 2016 was recognized in financial year 2017.

#### 2. With ABL Europe S.A.S. (a wholly owned subsidiary of ABL Inc., wholly owned by IMEurope S.A.S., in turn wholly owned by Institut Mérieux)

**Persons concerned**

Messrs Alain Mérieux, Jean-Luc Bélingard, Philippe Archinard and Ms Dominique Takizawa.

**Nature and purpose**

Within the scope of the sale of your Company's bioproduction asset to ABL Europe S.A.S., your Company signed an "Asset Purchase Agreement" including the following related agreements:

- Preliminary sale agreement concerning the land and manufacturing building in Illkirch-Graffenstaden;
- Notarial deed concerning the land and manufacturing building in Illkirch-Graffenstaden;
- Transition Services Agreement;
- Sublease agreement concerning a part of the quality control laboratory located at the Company's head office.

***Conditions***

The Asset Purchase Agreement sets forth the conditions for the sale by your Company to ABL Europe S.A.S. of the bioproduction asset, including the dedicated building and land, for a total amount of M€ 3.5.

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 bioproduction asset.

Lastly, the sublease agreement stipulates the terms of use by ABL Europe S.A.S. of a part of your Company's quality control laboratory.

*Amount for the year*

For the year ended December 31, 2017, your Company recorded an income amounting to € 164,651 in respect of the sublease agreement concerning a part of the quality control laboratory located at the Company's head office.

### Nature and purpose

Within the scope of the sale of the bioproduction asset by your Company to ABL Europe S.A.S., your Company entered into an agreement concerning the redeployment of employees, entitled "Social Agreement".

*Conditions*

This agreement sets forth the terms for the partial takeover of the employees assigned to bioproduction.

*Amount for the year*

Under this agreement, 29 employees were transferred on February 1, 2016. The mobility bonus paid by your Company to 28 of these employees in respect of this transfer amounted to € 98,000 as at December 31, 2017.

### Nature and purpose

Within the scope of the sale of the bioproduction asset by your Company to ABL Europe S.A.S., your Company entered into "Exclusive Services Agreement".

*Conditions*

This agreement sets forth the terms for the exclusive sale of bioproduction services by ABL Europe S.A.S. to your Company. The amount under this agreement is M€ 3 per year for a three-year period.

*Amount for the year*

In respect of the financial year ended December 31, 2017, your Company recorded an expense amounting to € 2,234,264.

## Agreements and commitments approved in prior years, which were not implemented during the year ended December 31, 2017

In addition, we have been notified that the following agreements and commitments, which were approved by the Annual General Meeting in prior years, were not implemented during the year ended December 31, 2017.

### With Institut Mérieux, Biomérieux, Mérieux Nutrisciences Corporation, ABL Inc. and Mérieux Développement

### Persons concerned

Messrs Alain Mérieux, Philippe Archinard and Jean-Luc Bélingard.

### Nature and purpose

In 2014, your Company tacitly renewed the agreement dated January 1, 2007 providing for the financial allocations resulting from the potential termination of the employees' employment contracts who have worked in several companies of Institut Mérieux group.

### Conditions

The company terminating an employee's contract pays all of the "contract termination expenses" to the employee concerned, and then allocates these "expenses" to the other companies in proportion to the remuneration paid by each group company since the employee first began working for the group.

The term of the new agreement authorized by the Board of Directors on December 10, 2014 was modified making it an open-ended agreement, the other terms and conditions remained largely unchanged.

### Amount for the year

This agreement did not give raise to any effect in respect of the year ended December 31, 2017.

Lyon and Paris-La Défense, April 4, 2018

The Statutory Auditors
*French original signed by*

| GRANT THORNTON | ERNST & YOUNG ET AUTRES |
|---|---|
| *FRENCH MEMBER OF GRANT THORNTON INTERNATIONAL* | |
| Françoise Méchin | Cédric Garcia |

# 5.8 EMPLOYEES

## 5.8.1 Personnel

See the headcount table at Section 3.2.1.1.

## 5.8.2 Profit-sharing

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.

# 6

# ADDITIONAL INFORMATION

# 6.1 PERSONS RESPONSIBLE

## 6.1.1 Persons responsible for 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 responsible person

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 that the management report on pages 188 to 196 presents 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.

**Mr. 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**<br>1/2, place des Saisons<br>92400 Courbevoie – Paris-La Défense<br>represented by Cédric Garcia | **Grant Thornton**<br>44, quai Charles de Gaulle<br>69006 Lyon<br>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**<br>Tour Ernst & Young<br>1/2, place des Saisons<br>92400 Courbevoie – Paris-La Défense 1 | **IGEC**<br>3, rue Léon-Jost<br>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 Auditors' fees

| | Ernst & Young et Autres | | | | Grant Thornton | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount (pre-tax) | | % | | Amount (pre-tax) | | % | |
| *(in € thousands)* | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| Audit | - | - | - | - | - | - | - | - |
| STATUTORY AUDITORS, CERTIFICATION, EXAMINATION OF INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS | | | | | | | | |
| Issuer | 66 | 50 | 67% | 35% | 50 | 38 | 100% | 100% |
| Fully consolidated subsidiaries | - | - | - | - | - | - | - | - |
| Other due diligence and services directly related to the audit | | | | | | | | |
| Issuer | 32 | 92 | 33% | 65% | - | - | - | - |
| Fully consolidated subsidiaries | - | - | - | - | - | - | - | - |
| **Sub-total** | **98** | **142** | **100%** | **100%** | **50** | **38** | **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** | **98** | **142** | **100%** | **100%** | **50** | **38** | **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 bylaws;
- 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 financial information and that of its subsidiary for each of the two fiscal years preceding the publication of the Registration Document;
- 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 identifies the main information required by Annex 1 of European regulation No. 809/2004/EC.

| Headings required by Annex 1 of European regulation No. 809/2004/CE | | Sections |
|---|---|---|
| **1.** | **RESPONSIBLE PERSONS** | **6.1** |
| 1.1. | Persons responsible for information | 6.1.1 |
| 1.2. | Declaration by the responsible person | 6.1.1 |
| **2.** | **STATUTORY AUDITORS** | **6.2** |
| **3.** | **SELECTED FINANCIAL DATA** | **1.1** |
| **4.** | **RISK FACTORS** | **1.4** |
| 4.1. | Risks specific to the Company | 1.4.1.1 |
| 4.2. | Risks related to the Company's business sector | 1.4.1.2 |
| 4.3. | Financial risks | 1.4.2.1 |
| 4.4. | Legal risks | 1.4.2.2 |
| 4.5. | Insurance and risk hedging | 1.4.3 |
| 4.6. | Regulatory risks | 1.4.1.3 |
| **5.** | **INFORMATION ON THE ISSUER** | **5.4, 1.3** |
| 5.1. | History and development of the Company | 5.4.1 |
| 5.1.1. | Legal name and Commercial name | 5.4.1.1 |
| 5.1.2. | Place of registration and registration number | 5.4.1.2 |
| 5.1.3. | Date of incorporation and duration | 5.4.1.3 |
| 5.1.4. | Registered office, legal form and applicable law | 5.4.1.4 |
| 5.1.5. | Significant events in the development of the Company's business | 1.3.1 |
| 5.2. | Investments | 1.3.5 |
| **6.** | **BUSINESS OVERVIEW** | **1.2, 1.3** |
| 6.1. | Principal activities | 1.2.2 |
| 6.2. | Principal markets | 1.2.3 |
| 6.3. | Exceptional events | 1.3.6.3 |
| 6.4. | Dependence of the Company on patents, licenses and trade agreements | 1.2.5 |
| 6.5. | Competitive advantages | 1.2.6 |
| **7.** | **ORGANIZATIONAL CHART** | **1.2.7** |
| 7.1. | Relationship with the Institut Mérieux group | 1.2.7.1 |
| 7.2. | Subsidiaries and investments | 1.2.7.2 |
| **8.** | **PROPERTY, PLANT AND EQUIPMENT** | **1.2.8, 3.3** |
| 8.1. | Property and equipment | 1.2.8 |
| 8.2. | Environment | 3.3 |
| **9.** | **REVIEW OF FINANCIAL CONDITION AND RESULTS** | **1.3** |
| 9.1. | General | 1.3.2.1 |
| 9.2. | Major accounting principles | 1.3.2.2 |
| 9.3. | Financial position | 1.3.3 |
| **10.** | **CASH FLOW AND CAPITAL RESOURCES** | **1.3.4** |
| **11.** | **RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES** | **1.2.4** |

| Headings required by Annex 1 of European regulation No. 809/2004/CE | | Sections |
|---|---|---|
| **12.** | **TREND INFORMATION** | **1.3.6.1** |
| **13.** | **PROFIT FORECASTS OR ESTIMATES** | **1.3.6.2** |
| **14.** | **ADMINISTRATIVE AND MANAGEMENT BODIES** | **2.1** |
| 14.1. | Composition | 2.1.1 |
| 14.2. | Conflicts of interest in administrative and management bodies | 2.1.2.2 |
| 14.3. | Declaration concerning the administrative and management bodies | 2.1.2.3 |
| **15.** | **COMPENSATION AND BENEFITS** | **2.2** |
| 15.1. | Compensation paid to corporate officers | 2.2.1 |
| 15.2. | Total amount of pension provisions | 2.2.2 |
| **16.** | **ROLE OF ADMINISTRATIVE AND MANAGEMENT BODIES** | **2.1, 2.3** |
| 16.1. | Dates and expiration of term | 2.1.1.1.1 |
| 16.2. | Service contracts between the issuer and the members of the Board of Directors | 2.1.2.1 |
| 16.3. | Audit Committee and Nominations and Compensation Committee | 2.1.3 |
| 16.4. | Corporate Governance | |
| | Report of the Chairman as required by Article L. 225-37 of the French Commercial Code | |
| | Statutory Auditors' report, prepared pursuant to Article L. 225-235 of the French Commercial Code, on the report by the Chairman of the Board of Directors of Transgene SA | 2.3 |
| **17.** | **EMPLOYEES** | **3.2, 2.2, 5.8** |
| 17.1. | Personnel | 3.2.1.1 |
| 17.2. | Stock-options | 2.2.3 |
| 17.3. | Free allocation of shares | 2.2.4 |
| 17.4. | Profit sharing | 5.8.2 |
| **18.** | **PRINCIPAL SHAREHOLDERS** | **5.2** |
| 18.1. | Name of any person not a member of an administrative or management body directly or indirectly holding more than 5% (legal reporting threshold) of the Company's capital or voting rights | 5.2.1 |
| 18.2. | Special voting rights of major shareholders | 5.2.2 |
| 18.3. | Controlling shareholder | 5.2.3 |
| 18.4. | Agreement that may result in a subsequent change of control of the Company | 5.2.4 |
| **19.** | **RELATED PARTY TRANSACTIONS** | **5.5<br>5.7<br>4.3.2 – Notes 18 and 27** |
| **20.** | **FINANCIAL INFORMATION CONCERNING COMPANY ASSETS AND LIABILITIES, FINANCIAL POSITION AND EARNINGS** | **4** |
| 20.1. | Historical financial information | 4.1, 4.3 |
| 20.1.1. | Financial statements and notes | 4.1 |
| | Statutory Auditors' report on the consolidated financial statements | 4.2 |
| 20.1.2. | Transgene SA annual financial statements and notes | 4.3 |
| | Statutory Auditors' general report on the annual financial statements of Transgene SA | 4.4 |
| 20.2. | *Pro forma* financial information | 4.5 |
| 20.3. | Financial statements | 4.1, 4.3 |
| 20.4. | Verification of annual financial information | 4.2, 4.3 |
| 20.5. | Date of latest financial information | 4.1.3 |
| 20.6. | Interim financial information | 4.1.3 |
| 20.7. | Dividend policy | 1.3.3 |
| 20.8. | Legal and arbitration proceedings | 1.4.2.3 |
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| Headings required by Annex 1 of European regulation No. 809/2004/CE | | Sections |
|---|---|---|
| **21.** | **ADDITIONAL INFORMATION** | **5** |
| 21.1. | Share capital | 5.1 |
| 21.1.1. | Amount of equity subscribed | 5.1.1 |
| 21.1.2. | Shares not representing capital | 5.1.2 |
| 21.1.3. | Shares held either by the Company itself, on its behalf or by its subsidiaries | 5.1.3 |
| 21.1.4. | Convertible securities, exchangeable securities or securities with warrants | 5.1.4 |
| 21.1.5. | Conditions governing any right of acquisition and/or any obligation attached to the capital subscribed but not paid-in, or any undertaking to increase the share capital | 5.1.5 |
| 21.1.6. | Information on the stock of any member of the Group subject to an option or a conditional or unconditional agreement to place it under option | 5.1.6 |
| 21.1.7. | Changes to share capital | 5.1.7 |
| 21.2. | Articles of incorporation and bylaws | 5.3 |
| 21.2.1. | Corporate purpose (Article 2 of the bylaws) | 5.3.1 |
| 21.2.2. | Company management | 5.3.2 |
| 21.2.3. | Share classes | 5.3.3 |
| 21.2.4. | Shareholder rights | 5.3.4 |
| 21.2.5. | General Shareholders' Meetings (Article 21 of the bylaws) | 5.3.5 |
| 21.2.6. | Provisions having the effect of delaying, deferring or preventing a change of control | 5.3.6 |
| 21.2.7. | Ownership thresholds (Article 7 of the bylaws) | 5.3.7 |
| 21.2.8. | Conditions imposed by the articles of incorporation and bylaws, a charter or regulation, that govern changes in capital when said conditions are stricter than legal provisions | 5.3.8 |
| **22.** | **MATERIAL CONTRACTS** | **1.2.5** |
| **23.** | **THIRD PARTY INFORMATION, STATEMENTS BY EXPERTS AND DECLARATIONS OF INTEREST** | **6.3** |
| **24.** | **DOCUMENTS ON DISPLAY** | **6.4** |
| **25.** | **INFORMATION ON SHARE HOLDINGS** | **1.2.7.2** |
| **26.** | **ADDITIONAL INFORMATION** | **6** |
| 26.1. | Auditors' fees | 6.2.2 |
| **27.** | **BOARD OF DIRECTORS' MANAGEMENT REPORT FOR FISCAL YEAR 2016** | **6.7** |

## Cross-reference table between the Registration Document and the Annual Financial Report

The cross-reference table below enables the main information stipulated in Article L. 451-1-2 of the French Monetary and Financial Code and Article 222-3 of the General regulation of the Autorité des marchés financiers to be identified.

| Headings | Sections |
|---|---|
| Transgene annual financial statements | 4.3 |
| Transgene Group consolidated financial statements | 4.1 |
| Management report *(including at a minimum the information indicated in Articles L. 225-100, L. 225-100-2, L. 225-100-3 and L. 225-211 paragraph 2 of the French Commercial Code)* | 6.7 |
| Information contained in Articles L. 225-100 and L. 225-100-2 of the French Commercial Code | |
| ▪ Analysis and change in business, results and debt situation | 1.3 |
| ▪ Key financial and extra-financial performance indicators | 1.1 |
| ▪ Use of financial instruments by the Company | 1.4.2.1 |
| ▪ Main risks and uncertainties | 1.4 |
| ▪ Table of delegations on capital increases | 5.1.5 |
| Information contained in Article L. 225-100-3 of the French Commercial Code: Factors that could have an impact in the event of a public offering | 5.2.4 |
| Information contained in Article L. 225-211 of the French Commercial Code: share buyback programmes | 5.6 |
| Declaration by the person responsible for the Annual Financial Report | 6.1.2 |
| Statutory Auditors' report on the annual financial statements | 4.4 |
| Statutory Auditors' report on the consolidated financial statements | 4.2 |
| Auditors' fees | 6.2.2 |
| Report by the Chairman of the Board of Directors (Article L. 225-37 of the French Commercial Code) on corporate governance and internal control | 2.3 |
| Statutory Auditors' report on internal control | 2.3 |

## Cross-reference table between the Registration Document and the management report

This Registration Document includes all of the items of the management report required by legal and regulatory provisions. The table below identifies the pages of this Registration Document that comprise the main items of the management report.

| Headings | Sections |
|---|---|
| Group business and change in business | 1.2, 1.3 |
| Group business results | 4.1 |
| Amendments to the presentation of the annual financial statements or to the assessment methods followed in previous years | 1.3.2 |
| Recent events | 1.3.1 |
| Foreseeable changes in the Company and outlook | 1.3.6 |
| Supplier payment terms | 6.7 |
| Amount of dividends distributed over the last three fiscal years | 1.3.3 |
| Table of results over the last five fiscal years | 6.7 |
| Main risks, management and hedging | 1.4 |
| Research and development | 1.2.4 |
| Subsidiaries and investments | 1.2.7.2 |
| Social, environmental and societal information | 3 |
| Corporate officers and executive directors (terms of office, compensation, transactions in Company securities) | 2 |
| Share capital and employee shareholders | 5 |
| Share buybacks | 5.6 |
| Factors that could have an impact in the event of a public offering | 5.2.4 |
| Delegations granted by the Shareholders' Meeting | 5.1.5 |
| Report by the Chairman of the Board of Directors (Article L. 225-37 of the French Commercial Code) on corporate governance and internal control | 2.3 |
| Report on the compensation policy applicable to Executive Corporate Officers | 2.3 |

# 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, have a favorable tolerability profile.

**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.

**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.

**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 treatment 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 (IL-2):** 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 cancer patients, known as a tumor associated antigen or TAA.

**MVA (Modified Vaccinia 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. MVA is a desirable vaccine strain for clinical studies because of its outstanding safety. TG4010 and TG4001 resulted from MVA.

**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.

**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. 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.

**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.

**PD-1, PD-L1:** the PD-1 molecule, found on the surface of t-cells, binds to the PD-L1 molecule, on the surface of certain cancer 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 cancer 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 now used for other infectious diseases (HIV, tuberculosis, RSV) 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. 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.

**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).

**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.

**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.

**Targeted therapy:** a treatment that uses drugs to specifically identify, block or destroy cancer cells, with less damage to normal cells.

**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.

**Tumor associated antigen:** 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 antigens 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.

**Vascularization:** consists of the 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).

*Some definitions were adapted from the online dictionary of the National Cancer Institute at www.cancer.gov.*

# 6.7 APPENDIX: MANAGEMENT REPORT FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

Ladies and Gentlemen,

We have called this Ordinary General Shareholders' Meeting to approve the financial statements for the fiscal year ended December 31, 2017 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 2018.

2017 saw us reaffirm our clinical development strategy, with clinical collaboration agreements and the launch and progress of a number of clinical trials on five products. We also reinforced our financial resources, giving us financial visibility to mid-2019.

## Major steps forward in our strategy and reinforcement of financial visibility

In 2017, Transgene met its road map objectives, with the launch and progress in ten clinical trials, designed to demonstrate the potential of its immunotherapies. These efforts confirm that, in 2018, Transgene will be able to report its first results on its five products in clinical development for indications of high medical need.

The intense clinical activity has gone hand in hand with the signing of several collaboration agreements, validating its technological and clinical approaches, research and the potential of the Invir.IO™ platform and Transgene's know-how in vectorology:

- with Bristol-Myers Squibb (BMS) for the clinical trial of TG4010 as a first line of treatment of lung cancer;
- with Randox and BioInvent for the vectorization of innovative targets in a new generation of oncolytic viruses from the Invir.IO™ platform;
- with Servier for the design of an optimized process for the manufacturing of allogeneic CAR-T cells using our viral vectorization technology.

These collaborations come in addition to the one in place with BMS for TG4010 (lung cancer – second line) and the one signed with Merck KGaA/Pfizer for TG4001 for head and neck cancers.

By launching the Invir.IO™, platform Transgene has also confirmed its ability to design a new generation of multifunctional oncolytic viruses. These innovative treatments will attack the tumors on several fronts using weapons able to modulate the tumor micro-environment.

Finally, in November 2017, Transgene successfully concluded a private placement of €14 million, subscribed by international institutional investors. This transaction gives the Company financial visibility until mid-2019.

### New funding provides financial visibility to mid-2019

We strengthened our financial structure during the year to give visibility through to mid-2019 and successfully complete our clinical program. This refinancing raised €14.4 million as part of a private placement of new shares through an accelerated book building process. The operation announced on November 9, 2017, was oversubscribed at a price per share of €2.55, and represented 10% of the Company's share capital (5,643,199 new shares). American and European institutional investors, specializing in biotechnologies, took part in this private placement, strengthening the Company's shareholder structure on an international level.

### Products in clinical development

The key events and progress in 2017 of products in clinical development are outlined below:

- **TG4010:**

– signature of a collaboration agreement with Bristol-Myers Squibb, to evaluate TG4010 combined with nivolumab and standard chemotherapy in a phase 2 trial, for the first-line treatment of non-small cell lung cancer in patients in which the tumor cells' PD-L1 expression level is low or undetectable. Nivolumab is supplied by Bristol-Myers Squibb. The first patient of this trial, initiated in 2017, was treated in January 2018,

- launch of a phase 2 clinical trial of TG4010 as a second-line treatment of NSCLC, as part of a collaboration agreement with UC Davis (California, USA) to evaluate TG4010 in combination with nivolumab for the second-line treatment of non-small cell lung cancer. Nivolumab is supplied Bristol-Myers Squibb;

- **Pexa-Vec:**

- liver cancer – first-line treatment (HCC):

  - phase 3 trial comparing the effectiveness of Pexa-Vec + sorafenib compared to sorafenib alone. Continued recruitment; treatment of the first patient in Europe in April 2017. Authorization to launch the trial in China (July 2017),

  - phase 2 trial combining Pexa-Vec and nivolumab. First patient treated in July 2017;

- other solid tumors:

  - phase 1/2a trial combining Pexa-Vec with cyclophosphamide administered in metronomic doses. Positive results for phase 1, presented at the 2017 ESMO (Sept. 2017); launch of recruitment for phase 2a,

  - phase 1 trial combining Pexa-Vec with ipilimumab. Treatment of the first patient in February 2017, continued recruitment,

  - neo-adjuvant trial: completion of recruitment (eight patients);

- **TG4001:**

- recruitment of the first trial patient in September 2017 as part of a 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 Human Papilloma Virus (HPV) positive head and neck cancers;

- **TG6002:**

- recruitment of the first patient for the first-in-human trial of TG6002 for the treatment of glioblastoma;

- **TG1050:**

- continuation of the phase 1/1b clinical trial in Europe and North America, and treatment of all patients receiving repeated injections of TG1050,

- presentation to the AASLD (American Association for the Study of Liver Disease) of the first part of the results (patients who had received a single injection of TG1050),

- confirmation of the good safety profile,

- start of a clinical trial of TG101 (product including the sequences of TG1050) in China in January 2018.

In 2017, we pursued our strategy of launching trials of our products combined with other immunotherapy products, including Immune checkpoint inhibitors. These trial launches and associated collaborations demonstrate our capacity to become a major, recognized player in immunotherapy. These developments position the Company favorably to forge major partnerships with pharmaceutical companies and deliver clinical benefits to patients with severe diseases hoping for better treatments.

## The main forecasts for 2018 regarding products under development are as follows:

- **TG4010:**

- initial results from the trial as a first- and second-line treatment for lung cancer;

- **Pexa-Vec:**

- initial results from the trial combining Pexa-Vec and nivolumab as a first-line treatment for advanced liver cancer,

- initial results from the three clinical trials evaluating Pexa-Vec in different approaches against solid tumors;

- **TG4001:** first results from the trial in HPV-positive head and neck cancers;

- **TG6002:** initial results from the trial on the treatment of glioblastoma, start of a clinical trial for another indication (gastro-intestinal indication);

- **TG1050:** complete trial results.

## Launch of the Invir.IO™ platform

**In September 2017, Transgene announced the launch of Invir.IO™, a patented technological platform that makes it possible to develop a new generation of multifunctional oncolytic viruses** to improve the modulation of the tumor micro-environment. This new generation of oncolytics may include numerous transgenes coding for an arsenal of specific anticancer weapons. **By combining this approach with collaborations that provide access to transgenes with clinical potential, Transgene's goal is to develop oncolytic virus-based therapies that can transform the treatment of cancer.**

Transgene has already demonstrated that the oncolytic viruses from the Invir.IO™ platform attack tumors on several fronts and can, along with the remarkable lytic properties of the *Vaccinia* virus: (i) induce the immunogenic death of cancer cells; (ii) allow the expression of several anti-cancer weapons such as cytokines, chemokines, enzymes, monoclonal antibodies or mini-antibodies (SdAbs – single-domain antibody) in the tumor. **Around ten candidate products are currently undergoing preclinical evaluation, to identify the candidates that can enter clinical trials and the priority indications.**

**In addition to its proprietary developments, Transgene signed two collaborative research agreements in 2017.** They aim to offer access to sequences developed by a partner that Transgene will vectorize via Invir.IO™, in a patented oncolytic virus. The oncolytic viruses that will result from this collaboration have the potential to be significantly more effective than the combination of these agents administered separately:

- vectorization of one or more **anti-CTLA-4 (ICI) antibodies from BioInvent, alone or with other anticancer weapons.** The local expression of ICIs in the tumor would reduce Treg-mediated immunosuppression and increase antitumor activity. This approach should offer an optimized safety profile compared to the systemic administration of anti-CTLA-4 antibodies;

- vectorization of one or more of **Randox's SdAbs** in order to combine the effects of oncolytic viruses with the therapeutic properties of the SdAbs, which will be expressed directly in the tumor micro-environment, to directly or indirectly stimulate the effector cells.

In 2018, Transgene plans to invest about two thirds of its preclinical research budget on the Invir.IO™ platform and its oncolytic virus candidates. In 2018, Transgene intends to obtain preclinical proof of concept for its most advanced oncolytic virus candidates and thus be in a position to initiate the first clinical trials of Invir.IO™ virotherapies.

## Research agreement with Servier

In June 2017, Transgene signed a collaboration agreement with Servier with the aim of designing an original allogenic CAR-T cell preparation process, with better yields and fewer steps. The collaboration showcases Transgene's expertise and know-how in viral vectorization. Transgene received a payment of €1 million upon signing the agreement. In addition, the agreement generates revenue from R&D conducted and from potential milestone payments.

## Intellectual property

In 2017, Transgene filed several patent applications for new technologies, including developments to Invir.IO™. Over 20 patents ensuring the protection of innovative technologies were also obtained.

## Change in financial position

At December 31, 2017, Transgene SA's available cash and available-for-sale financial assets totaled €41.4 million. Transgene forecasts net cash outflows for 2018 to be comparable to those for 2017.

The 2017 corporate financial statements, which will be put to the Ordinary General Shareholders' Meeting for approval, show a loss of €30 million and shareholders' equity of €32 million.

## Significant events after the balance sheet date

None.

## Other items

### Transactions by senior executives and corporate officers in the Company's securities

None.

### Employee interests in the Company's share capital

Employee interests in the Company's share capital are not significant. There are no collective plans (e.g., Employee Savings Plans – PEE or Employee Shareholding Funds – FCPE). As at December 31, 2017, it is estimated that employees held 37,550 registered shares from share plans.

### 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, which owns 100% of Institut Mérieux which itself owns 98.95% of TSGH.

The Company has had access to a liquidity contract since 2016 under the share buyback program authorized by the General Shareholders' Meeting of June 8, 2017. As of December 31, 2017, the Company held 93,048 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.

## Information on supplier and client 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 12/31/2017 | | At 12/31/2016 | |
|---|---|---|---|---|
| Maturity | Euros | % of total | Euros | % of total |
| Past due | 294,224 | 61% | 307,517 | 50% |
| Between 1 and 30 days | 170,666 | 36% | 300,647 | 49% |
| Between 31 and 45 days | 15,112 | 3% | 3,023 | 1% |
| Between 46 and 60 days | - | - | - | - |
| 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** | **480,002** | **100%** | **611,187** | **100%** |

### SUMMARY OF UNPAID INVOICES RECEIVED AND ISSUED AT THE CLOSING DATE OF THE FINANCIAL YEAR WHICH ARE DUE:

| | SUPPLIERS: Unpaid invoices received at the closing date of the financial year which are due | | | | | CLIENTS: Unpaid invoices issued at the closing date of the financial year which are due | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1 to 30 days | 31 to 60 days | 61 to 90 days | 91 days and more | Total (1 day and more) | 1 to 30 days | 31 to 60 days | 61 to 90 days | 91 days and more | Total (1 day and more) |
| **(A) LATE PAYMENT TRANCHES** | | | | | | | | | | |
| Number of invoices | | | | | 71 | | | | | 27 |
| Total amount of invoices with tax | 288,875 | 13,166 | 7,248 | -15,064 | 294,224 | 3,129 | 8,397 | 5,033 | 79,913 | 96,471 |
| Percentage of the total amount of purchases for the financial year with tax | 9.8% | 0.4% | 0.2% | -0.5% | 10.0% | | | | | |
| Percentage of financial year revenue specify with tax | | | | | | 0.1% | 0.3% | 0.2% | 3.2% | 3.8% |
| **(B) INVOICES EXCLUDED FROM (A) RELATED TO DEBT AND RECEIVABLES IN DISPUTE OR NOT RECOGNIZED** | | | | | | | | | | |
| Number of invoices | - | - | - | - | - | - | - | - | - | - |
| **(C) REFERENCE PAYMENT TERMS USED (CONTRACTUAL OR LEGAL – ARTICLE L. 441-6 OR ARTICLE L. 443-1 OF THE FRENCH COMMERCIAL CODE)** | | | | | | | | | | |
| Payment terms used to calculate the late payment | Legal terms/sometimes contractual terms | | | | | | | | Contractual terms | |

# 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 biotechnology companies and to listed companies.

## 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, Saïd and Zitvogel) take part in special meetings to monitor the Company's clinical development policy. They act as advisers to the Company's Medical and Regulatory Affairs Department.

#### Executive Committee

Under the leadership of the Chairman and CEO, every week by teleconference and every month in person, 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. It provides an opportunity to track all the research and development projects, ensure correct allocation of resources for each project and define priorities where necessary.

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. He is notably responsible for the organization's compliance with the Sapin 2 law.

### 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. 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 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 Harmonization or national regulations, if the latter are stricter;
- a Quality Research team that integrates 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 2017.

### 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***

In 2017, the Company conducted an overall risk analysis to determine a new risk mapping. This mission involved all Company directors and managers, and the final mapping was submitted to the Audit Committee and the Board of Directors. Action plans were implemented to optimize the hedging of the identified risks.

This approach led to the identification of 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 and monitoring 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 Group 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 2017 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 2017), and Transgene BioPharmaceutical Technology (Shanghai) Co. Ltd., currently being liquidated (no employees as at December 31, 2017). The Company's interests in ElsaLys Biotech SA (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 restatemententries 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.

## CROSS-REFERENCE TABLE, MANAGEMENT REPORT/REGISTRATION DOCUMENT

| Other parts of the management report incorporated in this Registration document | | Please refer to the Registration document |
|---|---|---|
| **Annual financial statements** | 2017 corporate financial statements | Section 4.3 |
| | 2017 consolidated financial statements | Section 4.1 |
| **Corporate officers** | List of corporate offices | Paragraph 2.1.1 |
| | Compensation | Section 2.2 |
| **Subsidiaries and investments** | | Paragraph 4.3.2 Note 27 |
| **Other information** | 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 |
| | Corporate Social Responsibility | Chapter 3 6 |
| **Special reports** | Stock options report | Paragraph 2.2.3 |
| | 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 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| **1. FINANCIAL POSITION AT YEAR-END** | | | | | |
| a) Share capital | 72,933 | 88,156 | 88,196 | 56,432 | 62,075 |
| b) Number of shares issued | 31,874,858 | 38,527,968 | 38,545,397 | 56,431,991 | 62,075,190 |
| **2. COMPREHENSIVE OPERATING NET INCOME/(LOSS)** | | | | | |
| a) Revenue excl. VAT | 2,958 | 2,340 | 1,821 | 3,984 | 2,099 |
| b) Profit before tax, depr., amort. & provisions | (47,782) | (56,685) | (41,646) | (35,378) | (35,004) |
| c) Income tax expense | 8,901 | 8,463 | 7,943 | 6,337 | 5,430 |
| d) Profit after tax, depreciation, amortization and provisions | (41,454) | (50,884) | (45,006) | (22,056) | (30,471) |
| e) Earnings distributed | - | - | - | - | - |
| **3. OPERATING EARNINGS PER SHARE** | | | | | |
| a) Profit after tax but before amortization, depreciation and provisions | (1.22) | (1.25) | (1.08) | (0.63) | (0.56) |
| b) Profit after tax, amortization, depreciation and provisions | (1.30) | (1.32) | (1.17) | (0.39) | (0.49) |
| c) Dividend per share | - | - | - | - | - |
| **4. PERSONNEL** | | | | | |
| a) Number of employees | 287 | 284 | 256 | 176 | 146 |
| b) Total payroll | 14,149 | 14,055 | 12,341 | 13,502 | 9,497 |
| c) Amount paid in social benefits (social security, welfare plans, etc.) | 7,439 | 7,216 | 6,670 | 5,402 | 4,550 |

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